The Sid Klein Comment
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Dow Jones Peak Nailed: Oil Perfect, Too

June 09, 2007

NEW YORK
Dow Jones:

It takes a certain measure of chutzpah to entitle and print, "nailed" in red, after so many failed attempts over the past 3 years. Still, one requires clarity and unprejudiced confidence to proceed and make money off the greatest bear opportunity in New York, perhaps ever. I have the clarity. Please have the confidence. And please examine the blue-highlighted quotes in this letter from previous reports, with the benefit of time and events now passed.

"In any event, today we see a completed advance. To reiterate the comments from the previous 2 reports, the decline to 12000 was based on the correct interpretation that a five-wave advance had completed, where each leg

consisted of only 3 waves (legs). This very rare pattern only occurs when a 5-wave pattern is concluding (see following chart on this page) and it further holds that such an advance, while marking a peak, also returns to the point of origin with speed, hence my ability to identify a swift decline to 12000. But as I've already reported, as a fund manager reminded me, such a pattern occurs in the 4th wave of the even larger 5-wave structure.

"Simply, this means that, while indeed marking the conclusion of an advance, it marks the end of <u>the next-to-last advance</u>. In other words, the ensuing collapse would be and was the last correction, <u>before the entire bull market completes and the bear market commences for real</u>.

"Therefore, this advance IS the last one, and all one is to do is time this rally's conclusion to again achieve identifying the bull market's peak. And this one is more glorious than 2000!"

The first quoted paragraph above (3 paragraphs higher) is why I can be so very confident about this peak, despite having correctly called so many other peaks that were ultimately surpassed.

Below is the chart that was sent out on Monday. Replace the question mark with an exclamation point, please. The market immediately commenced a 400-point decline, before starting a countertrend rally today. I will call the countertrend peak later, but not publish the number that I anticipate here.

As I wrote last weekend, I would delay this month's report's transmission until Monday, because I wanted confirmation from a certain short-term indicator. And I got it. Then, the report was sent largely unmodified from the initial draft.

Hint: I track premium sensitivity, and this goes beyond the VIX, which tracks historical volatility, but not implied

volatility. The latter reflects crowd psychology. There is a measure of “feel”, as well as mathematics involved.

Richard Russell once wrote that the best way to identify a long-term peak is to keep probing what one believes is an <u>intermediate-term</u> peak. That’s what I did in 2000, and it worked within a day. As I re-wrote above, “…all one is to do is time this rally’s conclusion to again achieve identifying the bull market’s peak.” It’s been done, based on the reiterated argument above.

Monday’s letter also wrote:

“In the face all that lies below and put option profits above, as someone who was there in 1987 and 1990 (Japan) and 2000 (New York again), I can warn with a very straight face that one should not complacently theorize about a boy crying wolf.”

The straight line up in the VIX (S&P Volatility Index) this week, quite naturally, coincided with the Dow's 400-point spike down. When the VIX reversed Friday morning, it was only after making a higher short term high that would predict the Dow's bounce, presently underway.

The Dow's spike down, coupled with the VIX's spike up, indeed meant a strong rally in the puts. As I told clients Thursday night, the VIX should follow through to the morning (Friday) to complete a pattern, while traders cover shorts before the weekend. But this is all the beginning in a year of political upheaval.

The following is from Monday's June report, so, again, have confidence!

"The pattern of the VIX (above) indicates a higher low, while also reflecting a dead stop at, and pullback to, the 200-day

moving average, up-trend buy-point, and neckline support level.

"This isn't just a contrary indicator that refines the timing for entering a Dow short position, it also helps time the entry into put option premium levels. Having closely tracked the activity of the latter, I can attest that activity in very recent days and hours indicates the capitulation that one hopes to see against a backdrop of little upward index progress *relative* to the size of put premium decline, the occurrence of which invites the seasoned speculator and hedger with open arms."

The conclusion to this interim report is a copy of this month's principal letter. But please note what I've left in red, as regard strategy.

"Conclusion and strategy:
Everything points to a spring/summer peak NOW, right when dozing-off traders are preparing for the summer doldrums. Meanwhile, the pattern of the VIX screams buying December puts to start, trading after doubling capital, say, en route to building - and lengthening the time duration of – put positions, that will make fortunes for those who ride this bear market into the 8000's."

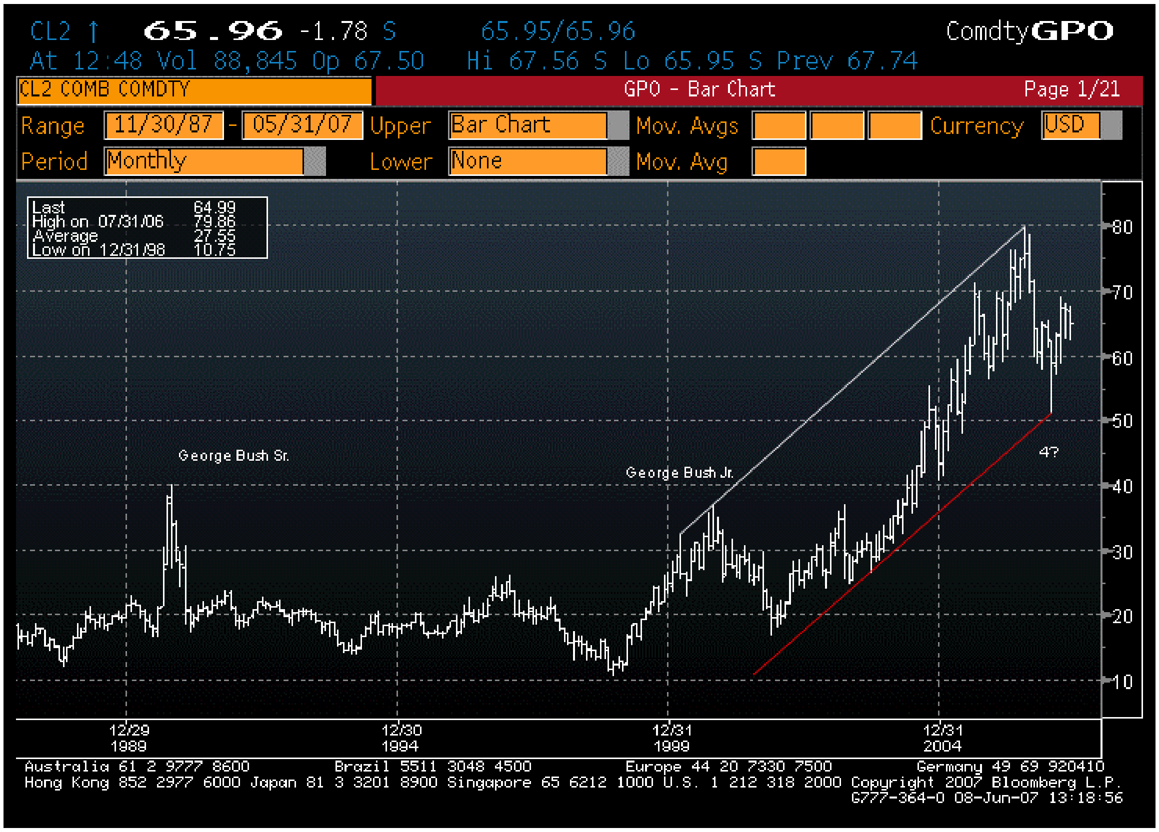
OIL:
Since calling for an intermediate-term low in oil that would precede a final 5th-wave rally to complete its bull market, oil has indeed exploded in a fashion that is consistent with such a market call. There is struggle, but it advances, nonetheless.

Cyclical stocks will remain strong for a while, but will then give way to defensive issues. Frankly, I couldn't care less. The safest way to invest is to focus on rotation, and not what the brokerages would sell you on.

In other words, think: "sector rotation!"

Therefore, buy Japanese mid-cap value stocks and isolated precious metals issues. Oil is always the last great thing and it is now concluding its bull (pun intended), which is a sign of a top in itself. Then, before the defensive issues kick in, the metals are most sought. This is textbook.

So, observe with delight the following 20-year oil chart and its clean up-trend channel. In it, I've indicated where I believed and believe wave-4 ended, and it has a question mark (?) after it. 5 Follows 4, and that is the Elliott kiss of death.



<u>Strategy & conclusion</u>:

Stay long, with the finger on the sell button, where it must always be, when in a concluding advance, which is what this is. As I've maintained since this bottom was being approached, the most likely conclusion is a double top in the $80 area.

Continued good fortune to all,

Sid Klein

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