

TURNING POINTS, WHIPSAWED



June 20, 2010

DOW JONES

I had initially felt that the Dow would get to its present level, before suffering what will have been a terrible 2010, with this year marking the resumption of the secular bear market resumption.

Subsequently, though the Dow had flushed to its recent short term low, that I felt would precede the aforementioned rally. I never expressed anything to this point; they were my own ponderings.

Finally, at the recent low, I prioritized the view that the Dow is heading down fast...soon. With that as the strategic preference, I only saw the short term charts within that perspective.

It was also then that I warned of a 2-week collapse of 1,000 points; I was seeing the bearish interim analysis/interpretation from a sense of priority and asset allocation.

Still, and more than ever, I advise full investment of one's budget for such investments into long term Dow put strategies (as a preferred/well known and good index measure), including strategic combinations of them.

Since identifying the Dow peak: the key for option positions of longer durations has been and is, in 3 parts: that the Dow is (a) down 500 – 700 points, (b) has lost 3 months, (c) the latter time loss is more than offset by the VIX, which is about 10 points higher.

VIX

The week ended with the VIX falling worse than the market, by a degree that is consistent with a market low.

For 25 years, I have often been able to identify market lows, by following put time premiums; they discount the lows by its time premium expansion (VIX).

Institutional or pro orders sell in advance of their own peak bearishness or, alternatively, their own conclusion of an equity sale programme, which includes put delta hedges {the latter benefits from deepening losses on the hedged positions (in-the-money puts that were purchased when they were out-of-the money)}.

The VIX just flushed-out, with the customary overshoot (of 25).

Moreover, I see this level as consistent with what I call "in-between levels."

While the 25 level was breached, if 20 were not achieved as buyers are looking to buy there, then the in-between level bet is correct. VIX purchase is mostly to hedge portfolios but, generally speaking, the in-between level refers to the zone wherein the longs are stopped-out (while still frustrating the bulls).

The VIX was sold strategically, as we were now short the Dow, just as was the case on its buy-side, when we were not yet short the market.

CONCLUSION:

Investors who own long term Dow puts should hold and, if so inclined and appropriate, move to a 200%, by using [strategically combined long-dated Dow put 'time and price' spreads, in addition to straight long puts](#).

Buy the **VIX** at the open Monday.

Korea has hit the dreamed of peak for shorting. Its strength, in my view, stems from 2008 having been a 4th wave decline. In other words, it was the last major correction, before concluding its bull market.

Its off-cycle nature may be profited from in a variety of ways. It will have been a great bearish bet, and perhaps will have even outperformed on the downside.

Japan and China have played key roles in Korea's success. Financial events precede economic ones, so China's stock market drubbing may not have done the damage that it will yet do, by being a lesser stimulus to the Korean economy.

There is no change in the intermediate or secular views for **gold, silver, or their related stocks**.

The quality of our asset allocation mixes since 2002 have illustrated the very best risk-adjusted returns, and our present has again been vindicated by the inclusion of the Swiss Franc, to the exclusion of the Euro.

However, to round out today's report we look at matters that would have a dramatic effect on exchange rates, among other things.

The **Dollar and Yen** will be seriously impacted by the latter's monetization, the topic I discuss in my report for Gold-Eagle. ([I will follow this letter with the link to that piece.](#))

The monetization of the Yen will have dramatic and potentially calamitous effects in the political, financial and economic worlds (*including both good and bad outcomes*).

Earlier this decade, after sizeable returns, I left the last Euro returns to others, as the latter was entirely replaced by the Swiss Franc in my recommended asset allocation.

For risk-adjust capital gains, I (re-)added the Yen at about 117, to bring us to where we are today.

Since 2002, the management of the gold percentage (of liquid assets, within the currency group) was managed with conservative and impeccable timing.

Now we ready ourselves to drop our favourite currency, the almost impervious **Yen** and, perhaps, at the same time as the **Dollar**. (Temporarily, that currency was added into the mix at the 2009 4th-quarter lows.)

So, asset allocation will be more difficult, perhaps concluding with even greater simplicity in one's portfolio, as the viable currencies' disappearance gains steam.

This plainly expresses why I have maintained a 50% position in gold (of liquid wealth), since \$500. {From \$285 - \$500, the currency complex was more actively managed, adding to gains in the metal, as well as the fiat currency portion (when it also included the Pound.)}

See any prior (2010) letters, as there remains no change in **asset allocation**.

Sid Klein

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