

# Bull Markets Abound & Accelerate (And the Path to No Stress)



March 1, 2009

## **SUMMARY**

February 8, 2009:

"Financial markets have seen their extremes, insofar as peak negative momentum and cross relationships are concerned. Remember, I have found that the turns in the relative strengths of key markets, tend to occur a few months before the individual markets themselves in fact reverse (with peak negative momentum)."

Last September, I wrote that cross relationships turn ahead of the individual markets, often by around 3 months, and that this knowledge can be used in a multiple of ways. I further expressed that these turns would include all asset classes and that hedge managers should therefore remain alert, rather than be overly focused on the fund withdrawals. Why?

The reason was that yearend was shaping up to be the turning points for the individual markets, when analyzing those cross relationships. This has been proven **correct**.

Then, at the end of the year, I wrote that the US market could pull in the wrong direction (down, since the intermediate trend shaping up is bullish) for the US

inauguration. I wrote last week that that was proved **incorrect**. But maybe that pull was for the US State of the Union. Either way, it doesn't matter. What does matter is that new bull markets abound...in what truly matters, certainly to hedge managers, as well as those following the bear market counsel of SKGS.

Precious metals have taken off against treasuries and equities, respectively. Asia is bullish. Shanghai has erupted against New York (see SHANGHAI), while Japan has long since bottomed versus the West, as well (surely in Yen).

The only reason why investors have lost money instead of making a ton of it without stress and greed is that they have been unable to adopt a simple prescription:

Precious metals, Yen, Swiss Franc (equals 4 currencies) – YES. Long term Treasuries (as of 2009) and Western equities – NO. Japan – YES. Shanghai in 2008 – NO. Shanghai in 2009 – YES.

**Straight long investments (except the 4 currencies) – NO. Hedge investments – YES!**

I don't do the investment bankers' work for them anymore...at least not entirely. So, the appropriate indices, combinations, ratios and timing are withheld from these pages, post-2008.

## **JAPAN**

February 8, 2009:

*"At the beginning of this week, such purchases (bank held shares) (1 trillion Yen) were announced to recommence, amid cynical and disbelieving commentary, as regards to just how far reaching the effects would be on the economy. The timing is perfect and that's what I care about. The lead time to a low of about a month makes perfect sense, as yearend in Japan gets out of the way.*

*"Domestics are buyers of their shares, foreigners have head for their domestic hills and the BoJ is buying bank-held public shares. A recipe for a dynamic low, very soon, *n'est-ce pas?* Most Japanese stocks and indices have long since bottomed against foreign indices (as well as the Nikkei). They are pounding the foreign indices in Yen terms since over a year, as I have been reporting through 2008."*

When a country has 40% of the world's savings and represents over 60% of Asia's GDP and market capitalization, many things are going to be true that onlookers would not simply otherwise guess, when merely aware of the obvious that plagues everyone.

Yes, Pioneer is cutting 10,000 jobs worldwide as part of the "recession", and auto manufacturers are closing for days at a time, but the here long-since and oft-reported shift of wealth and power from the West to the East has created dynamic fundamentals that could not be fully appreciated without actually going to Japan, India and China. I have done all three, but that wouldn't be necessary, to come up with the same analytic conclusions.

I've stood on Asian street corners and was therefore not surprised to read six weeks ago that Hino plans to open its first truck plant in a half-century. In terms of developed economies, there are the Americas and Europe...and then there's the "real" world – Asia. Hino trucks will continue to drive by every street corner for decades to come, or longer.

Off the Wall:

The Nikkei News reported today that the...

**"The H7 bird flu virus has been detected at a quail farm in Toyohashi, Aichi Prefecture, the farm ministry said Friday.**

**"As the infected quails have not died, the virus "may be of attenuated virulence," the Agriculture, Forestry and Fisheries Ministry said."**

I mention this because it serves as a reminder of a few things...or it certainly will have been said reminder after this type of thing is dredged up after a rally to over 11,000, and before collapsing again (but only in terms of directionality, as the West proves contagious, though not necessarily infectious of new lows).

During this secular bear market, which will include global war, other global catastrophes will have been included, not the least of which will have been bio-terrorism such as we saw with SARS, and other calamities that destroy "strategic population." Remember, Kissinger expressed the need to win war via non-military means. Who refused to sign the bio arms treaty...in the whole wide world...who? Yes, you know his name.

In any event, my point is that when markets are at a low, this type of item above is ignored. When it is at a peak, the journalists run to cover it, as an expression of their psychology...which their own and the public sentiment that they reflect do not understand. The same piece will be used to cause hysteria. It will be on the journalists' menu (they have bullish and bearish menus from which to choose, according to the season).

10 and 1-year Nikkei charts follow, respectively:



## Strategy

February 8, 2009:

*“Japanese stocks will continue to outperform most anything, except perhaps China. In 2009, they are both relative superstars.”*

Nothing to add. Note the gaining momentum versus New York since the 4<sup>th</sup>-quarter...and this is the lousy Japanese index.

## SHANGHAI

This index has rallied 40% top to bottom (though pulling back slightly now), and showed itself to be the most resilient at its low (note charts in this section), as well as the most robust off its bottom – clearly the global outperformer, as forecast in these pages through the 4<sup>th</sup>-quarter. During the same time period, New York and, to a much lesser degree Japan have been under serious pressure.

There is no question that SKGS has again identified the extremes and lows in the global inter-market relationships. 2008 was easy was for hedge fund and other managers who followed SKGS, and 2009 has shaped up in like fashion.

February 8, 2009:

“Furthermore, the following chart reflects a nice uptrend and a healthy basing pattern that is well ahead of any global market. My 2008 dog of the year is my 2009 darling of the year. A pullback will create the final 2009 entry opportunity.”

Will the last month of the quarter provide us what we seek?

10 and 1-year Shanghai charts follow, respectively:





## NEW YORK

February 8, 2008:

"...with a dragged out bottoming phase, where there is no real additional damage to the downside, but, rather, an accumulating frustration in the marketplace that coincides with fund managers' 1<sup>st</sup>-quarter-ending disappointments."

Yep, this is what's happening and the convoluted logic and proof that I present to you is that everyone is beating up on New York. That the hedge plays are all doing great is a lead indicator to the reversal after yet another 1<sup>st</sup>-quarter low (like last year), in this index that has fallen the magical 50%.

This is not the first time that the USD has been devalued to save the banks, and while the long term consequence is disastrous, the intermediate term one is favourable, in dollar terms, that is.

## UPSHOT:

A low this month, 10,400 thereafter (1931 parallel)...and, then, hell.

10 and 1-year Dow charts follow, respectively:



Is Bank of America the next super bailout news-piece? 10-year chart immediately below, followed by 1-year VIX chart:



## VIX

The 1-year VIX chart immediately above (at the bottom of page 8 and following the 10-year Bank of America chart) is published along with my reiterated comment that the next VIX up-move may finally coincide – quite logically – with the rally in the market, as opposed to continued decline. Again, imagine that the managers screw up the use of these different “hedging” vehicles, now that they exist for their amusement.

The VIX is a gage of option time premiums (implied volatility). As a stock or market collapses, there is the law of diminishing returns at play (for the puts, which are downside plays), whereas an index being far off its highs speaks of large and potentially volatile upside potential (calls).

And this is also what you pay me for.

## GOLD

February 8, 2009:

“We are 100% long gold forever because gold’s next cycle is going to \$3000 - \$3500, as already reported here. At the recent Davos conference, the chairman of Barrick shared the same forecast, based on the possibility of the Chinese turning their paper into gold. (That beats walking on water, no?)”

“For now, the metal has peaked. The stochastic are overbought on both the 5-year weekly and 2-year daily charts below, respectively.

“Downside is to \$800. Who cares?”

There is nothing to change or add, insofar as strategy is concerned. We are straight-long forever, and long against indices and what-not in varying ratios.

I will add a side comment: a friend wrote to me that Newsweek reported that our banks are leveraged 18:1, and the US banks are at 26:1, while the European banks weigh in at 61:1. His conclusion is that the Europeans will buy gold like crazy.

For me, a shift of wealth and power from West to East included the sale of gold reserves to the East by the West. So, Tony, what are the Europeans going to be buying gold with? Hmmm? (Somebody told me once that the bible wrote that ‘no one shall have money’, but I’m no scholar.)

10 and 1-year gold charts follow, respectively:



**SILVER** 10 and 1-year silver charts follow, respectively:



We were 200% long and then cut that position in half after a 40% run-up. Now we're long forever, or until otherwise notified, whichever comes first.

Silver may continue with what could be a shallow correction to \$12.00, before advancing to \$16.00. It is moot, in any event. Either way, a major cycle low was made and we caught it perfectly, again. As I express in the preceding paragraph, if it ain't broke, don't fix it.

## YEN

Apart from the Swiss Franc, the Yen is the only fiat currency SKGS readers hold.

SKGS called it the best currency to hold, from a capital gains standpoint. I had written that a bit early, at 117 en route to 124, and after what seemed to be an eternity. Then, everyone parroted that the carry trade would never be unwound, because 'the Americans would not let it happen.' But, my friends, when they say that, "this time is different", it's just another time to bet that it isn't.

10 and 1-year Yen charts follow, respectively:





It's not hard to unwind a carry trade when all you have to do is print stuff. Anyway,...

**UPSHOT:**

This very sharp short term Dollar/Yen rally is coming to an end.

ASSET ALLOCATION (The Song Remains the Same)

25% Yen and Swiss Franc each, 50% gold (or 40% gold + 10% silver).

Sid Klein

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