

PRECISE TIMING, IDEAL ASSET ALLOCATION



May 26, 2010

DOW JONES & VIX

From the April 21, 2010 letter:

"I'm now on record as having identified another major market peak. We have achieved "1931!" PERIOD."

"When the American powers-that-be (shareholders of the Federal Reserve, the investment banks, ruling class, etc.) finally let this thing go (market collapse) – after having distributed their own stock – they will pin it on an extraneous event.

"In this way, "the crowd" (masses) that reads the daily press or watches state television such as CNN for their news will believe that if not for the extraneous event, markets would still be going up."

The extraneous event was not paramilitary (not yet, anyway), rather, it was Greece. Curiously, a Geneva manager asked me a couple of months ago what would trigger the collapse. I replied that it didn't matter, but the fact that there

were/are several problems, not the least of which being overvaluation, the market was exposed to ANY trigger.

Still, I offered, "What about Greece?" It was a fluke, or akin to a magician's trick. He provides different possibilities and turns over the phrase that matches the "forecast." Well, I wasn't that bad, but you get the idea.

Again from the April 21 report:

"Well, look at the charts. Are the subdivisions complete? Perhaps a tick or two are left, but there is no further advance in the cards. Just a stall, at best. But until when?....."

"Okay, I've been informed that Saturn and Uranus are in opposition on the 26th of this month....."

"I have forecast and identified another peak from which volatility will spike (again),...."

And, of course, there was the April 27 letter that had confirmed the preceding by declaring that the top was in.

Most instructive of all report titles (if not the report itself) was that of May 6, **"UNDER 9000."** The report explained why that title was selected. It serves investors well to note why the strategies contemplated in this letter are what they are. So, please review recent missives, and do continue.....

VIX

Early this month, I recommended selling our VIX position at **40**, which was established at the perfect lows just under **16**.

The recommendation was based on a simple strategic aspect of asset allocation, on which some CNBC'ers have since indirectly picked up.

Please scroll to next page.



The strategic reason for putting on the position in the first place was the same, except from the other end:

It was too risky to not have any short position in the market, so we went long the VIX. This month, to take money off of the market-short table, we sold the VIX at another major profit, thereby affording us the opportunity to remain short the equity market, despite my best guess that it has bottomed in the short term.

I feel easier for having managed the VIX strategy thus, because I would be as nervous as heck if I could not be afforded the opportunity to remain short!

Regarding the latter, some basic review of these past months and years is in order, **to clarify what are my basic strategies:**

My preferred shorts are simple long/short plays which drastically **diminish** risk, while **augmenting** profit potential. This is particularly so if the long/shorts are themselves synthetic.

Otherwise – or in addition – I have solely advised long term puts, so as to avoid being whipsawed, as is all too often the case in the futures markets.

Moreover, an experienced trader who is good at playing the numbers game can increase his/her positions via spreading, as the market trends lower (periodically collapses)....and, indeed, this has already been occurring in grand style.

Even market pros can't play the game, which appears to be the sole dominion of the exchange Specialists. Too bad.

Anyway, it therefore appears appropriate to recall the following passage from the April 14, 2010 interim report:

“Following-up on recent discussion of whether the perfect Dow peak would end around the 200-week moving average, and discussion of the fact that the public is generally invested around Dow 11,200 (the “I’ll-get-out-when-I-break-even” attitude), please note that today’s close nearly represented a precise .618 retracement of the Dow’s 2008 collapse, along with an almost precise kiss of the 200-week MA. (.618 represents a key Fibonacci retracement level.)

“The Dow’s 200-week MA is at 11,133, which, for all intents and purposes is where we closed today (see 10-year weekly Dow chart immediately below).

“On shorter term charts, it appears that the Dow’s 5th-wave is breaking down into a 5th-wave extension subdivision. Futures traders may try to catch a spear or, as I prefer, simply use premium flush-outs to purchase long term puts (leveraged but defined risk).

“You’re not a bear if you’re not fully short now!”

DOLLAR/YEN

In the 4th quarter, the low in the Dollar was effectively identified. (I advise reviewing the link below for context.)

Since the trend forecasted was one that I believed would be maintained for a good part of the year, I suggested that there would likely be little review of our asset allocation model, which would now (and still does) include a Dollar position.

Previously, all liquid wealth was distributed according to a model of 50% gold, along with 25% in the Yen and Swiss Franc, each.

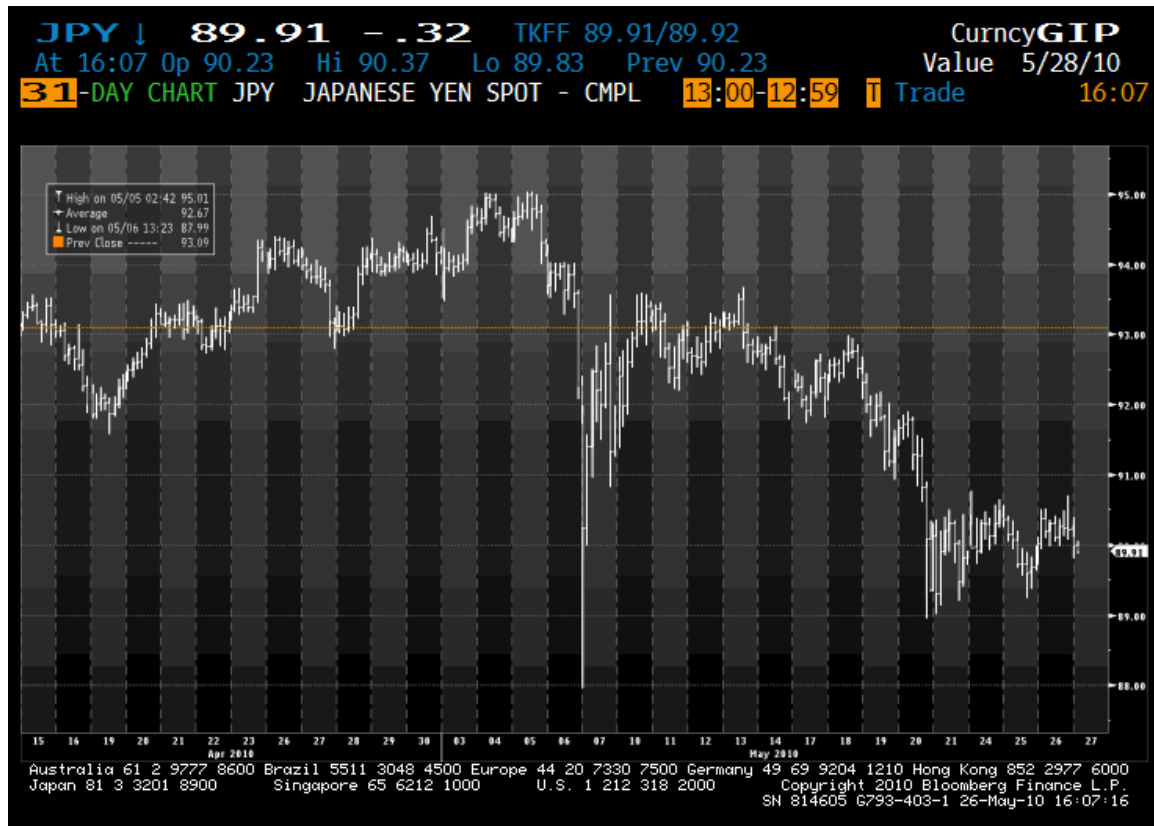
In the here-linked report, [USD](#), the fiat currency portion was equally split between the three currencies mentioned in the previous paragraph; this remains our asset allocation model.

SKGS’s asset allocation breakdown has been unsurpassed throughout this decade, making rare and very selective alterations.

The charts on pages 5 & 6 include the 31-day, daily 2-year and weekly 10-year Dollar/Yen charts. Clearly, the Greenback is peaking, against the silly notion that it is a safe haven, by merely being "liquid."

The Hudson and St. Lawrence rivers are liquid, but they're as polluted as hell.

The next issue will take a closer look at the paper stuff, but I wanted to kick off any asset allocation revision in this minimalist manner. A look at pictures that tell a greater story, before really getting into it, one may say.



Please scroll to page 6.



To better understand how we got here, perusal of the following link may be worthwhile ([Yen](#)).

Like the famous little bald ref used to say, "Take care of yourself and protect yourselves at all times. Let's get it on!!!"

SPORTS SPECIAL

Chicago will kill the Flyers.

Both are suited to win the US National Roller Derby League Championship, but Chicago is more "talented."

My, oh my. With the number of children playing hockey in Quebec (the home of speed) spiraling toward 50% due to the goonery, Reaganism even found its way into our sports culture. The figure was -33% a few years ago, from 60,000 to 40,000.

But you may as well profit from it. Of course, I do not suggest illegal activity. Just the friendly in-the-family stuff.

This has been my twice yearly foray into sports predictions. Football is my main love now. Not only due to the preceding, but as a result of the phenomenon that Robert Prechter discussed a long time ago, namely, that football is the bear market sport.

Meanwhile, baseball flourishes during bull markets. Figures.

Sid Klein

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