The Sid Klein Comment
1001 BOUL. DE MAISONNEUVE O., BUREAU 950, MONTREAL, CANADA H3A 3C8
TEL: (514) 939-2221 FAX: (309) 417-0942
e-mail: sidklein@sidklein.com
www.sidklein.com

Hefty Gains in Precious Metals: A Warning

November 04, 2007

JAPAN

Nikkei:

Succinctly, the July spike low marked the bottom of an initial 3-wave decline. This recent rally may have been the intervening period that precedes another 3-wave decline toward 14,000, give or take. That decline may have already begun.

This preferred view is unchanged from before and fits with:

- **the resumption of the Yen advance, which is bad for multi-nationals;**
- **the seasonal low at calendar yearend;**
- **a severe decline in world markets by the New Year**

The weekly chart of the Nikkei is not included this month, as it simply reflects an extended period of correction, which is continuing within its own correction. The focus is on the daily 1-year chart, which remains consistent with the bearish viewpoint. It appears on the next page.

The Nikkei's approach toward the 200-day moving average would be a logical place from which to turn down, and it has already fallen 350 points since the chart below.

As interest rates fall in the US and cannot go up for the foreseeable future, there is real risk of the carry trade reversal getting going for real. The very day after the Fed cut, the market reversed. Please refer to the YEN and DOW sections below, but I can add here that it is the Bank of Japan's actions that determine the fate of asset values, not the Fed. Get used to it. And that refers to and includes equity prices both in Japan and the US.

Domestic Stocks:

There are no chart updates of either the mid-caps or their relationship to the big-caps, this month. Regarding the ratio charts (intra and inter-market relationships), there is an unfolding confirmation and acceleration of the bullish trend that will likely be more plain and obvious by next month, given this past month's activity. Still, quality mid-cap prices are drifting toward their long-term support and up-trend support levels on low volume, for yearend.

The weakness in the Nikkei creates a negative atmosphere for new investment into Japanese stocks. But remember this very key point: The Nikkei is about 25% foreign-traded. Foreigners don't own Japanese mid-cap domestic stocks, however. Their decline is coincidental, on very low volume, amid this atmosphere, for yearend.

The domestics haven't even begun to reflect the substantial Yen gains this 2-3 year cycle will have had. In 2004, Japanese domestic stocks peaked about 4-5 months after the Yen made its own peak. Now, the domestic stocks will have bottomed by yearend, after about a 4-5 month lag from the Yen's own bottom.

Conclusion & strategy:

Last December, I published the 7 recommended stocks for 2007. Their gains and relative performance were reviewed in the recent interim report. I again see the coming weeks as time to prepare to be 100 % long Japanese mid-caps.

Special investment: I'll put my 18-year track record of never having been wrong about a cyclical market call on the Nikkei on the line again: Prepare to go long long-term calls on the Nikkei, without warning (everything's on speed now). Feel free to request being kept up-to-date.

NEW YORK

Dow Jones:

A day after the Fed cut rates and spiked the market higher, a downgrade of Citigroup by CIBC World Markets - due to it need too raise $30 billion - brought everyone back to reality.

There is a viral financial problem. That's the big picture.

When the Fed came up with the unexpected half-point cut, the market took-off in a manner that created a bullish short-term pattern. Indeed, the momentum followed through over the coming days. This week, however, the announcement was followed by a concluding move and was entirely different in nature. The patterns, indicators, etc.

A simple way of thinking about it is that the first cut contained surprise as a focus, while this week's focus was, "well, that's got to be last thing we can hope for, for Christmas."

A couple of years ago I showed you a perfect overlay chart of consumer confidence versus consumer spending and the latter's incredibly short lead to the Dow. Simply, if sentiment remains negative for a quarter, spending is trailing down within a month. The Dow's own lag to the collapse in spending is very short. The Dow's decline's size is linked closely to and dependent on the changes in spending, and has proven deadly in the past.

I warned after the last cut that perhaps the Fed is worried about whatever yearend has in store (or not sold from it). Well, US Thanksgiving is thought of as the gauge for Christmas. Two years ago, Thanksgiving turned out to be positive and reversed a consumer sentiment trend that had begun a month earlier. The Fed must also be aware of how almost instantaneously – within a month – sales follow sentiment. Now again the Fed is pulling out all stops to ensure that sentiment is good for Thanksgiving as it approaches.

But what if it doesn't on this occasion? Two years ago, oil dropped just in time. Now, the idea is to drop rates just in time. $85 Oil affects the pocketbook for Christmas, while lower credit card rates do not create money to spend to offset that. And the sub-prime story/homeowner equity story is not creating borrowing wealth anymore.

Because the Japanese have turned off the spigot.

Technical:

The Dow is the index of choice for me for several reasons. Among them, I believe that the Dow has the best premium-adjusted bang for the buck on the downside, while it has the most to fall from here (see page 6). I'll call it an "adjustment" or, say, "unwinding."

The daily chart immediately below shows a pattern that has perfectly fulfilled the requisites for a completed pattern, and the next key level for traders is the 2—day moving average nearby. So, a break under 13,200 could prove ugly and, as the rest of this report writes, it is wise to be prepared and positioned for drastic changes in markets for yearend. Whatever happens.

The 8-year weekly chart is not reprinted here as the long term topping process matured, and has left nothing more to watch, regarding the completion of a bull pattern.

The daily chart immediately below includes the position of the 200-day moving average (purplish).

Nasdaq/Dow

The 8-year chart immediately below is a cross (ratio) of the Nasdaq versus the Dow. As the Dow made its peak this week, the Nasdaq was particularly strong and making new highs. In fact, when the Dow fell 350 points, the Nasdaq's pullback appeared like nothing on the charts. This can be taken to mean a few things.

One can say that when the decline starts for real, the size of the waves down in the Dow will surely reflect the broad up-trend in the Volatility Index (charts on page 7). The recent market decline may have only been a minor beginning to something bigger, now. Why? Because it will happen and now seems as good a time as any.

As far as options are concerned, higher put premiums for the Nasdaq are not merited compared to the Dow. One must look at volatilities and intra-market relationships, if one does not use the Dow, which this report covers.

In any event, the next page reflects an 8-year pattern from which the Nasdaq is breaking out versus the Dow…or the Dow is breaking down versus the Nasdaq, I should say.

VIX:

The first chart below is an 8-year weekly, including weekly stochastic and 200-week moving average. The pattern has long since bottomed and is in a firm up-trend. The pattern is consistent with acceleration to the upside and a break above recent highs, which would suggest to me a Dow in the 12,000's, based on experience (though I'm not really going out on a limb here).

Regarding the momentum indicators, note how the stochastic returned to oversold and is fresh for a new leg up, which would coincide with falling New York equity markets.

The pursuant chart is a 1-year daily with 200-day moving average and stochastic. Note that here too the 200-period moving average has maintained and defined the pattern perfectly, while rising support levels have also performed consistently, right up to today.

The Volatilty Index is lined up alongside a Dow smash, should the latter wish to begin one immediately. The pattern is accelerating on a longer-term basis and, like so many things (see GOLD), the shorter and longer term patterns are in harmony. This is a potent recipe for tidal shifts in trends and their progressions' magnitudes.

VIX ↓23.92 +.71
Index TAS
At 15:40 Op 22.56 Hi 25.17 Lo 22.56
VIX INDEX
Hide
TAS - Stochastic
Page 1/30
Range 11/03/00 - 11/02/07
Upper Bar Chart
Mov. Avgs 200
Currency USD
Period Weekly
Lower None
Mov. Avg
%K/%D
%DS/%DSS
%K 14
%D 9
%DS 5
%DSS 3
50
45
40
35
30
25
20
15
10
100
50
2000
Dec 28 2001
Dec 27 2002
Dec 26 2003
Dec 31 2004
Dec 30 2005
Dec 29 2006
Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2007 Bloomberg L.P.
G275-364-0 02-Nov-07 15:40:48

VIX ↑ 24.00 +.79
Index TAS
At 15:40 Op 22.56 Hi 25.17 Lo 22.56 Prev 23.21
VIX INDEX
Hide
TAS - Stochastic
Page 1/19
Range 11/02/06 - 11/02/07
Upper Bar Chart
Mov. Avgs 200
Currency USD
Period Daily
Lower None
Mov. Avg
%K/%D
%DS/%DSS
%K 14
%D 9
%DS 5
%DSS 3
30
20
10
100
50
0
Nov 30
Dec 29 2006
Jan 31
Feb 28
Mar 30
Apr 30
May 31
Jun 29
Jul 31
Aug 31
Sep 28
Oct 31
Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2007 Bloomberg L.P.
G275-364-0 02-Nov-07 15:40:14

Conclusion and strategy:

The end of October resulted in a rally, which further took the countertrend VIX lower. With a dam that can break at any time, know that prices can lose meaning overnight. Stay short or stay out. No currency or valuation risk. If you wish the volatility risk as an item for tactical speculation, then appropriately distanced (in time and strike) puts are appropriate.

PRECIOUS METALS & DOLLAR (YEN):

In the mid-$650 areas for gold, I had identified the exit point for the intermediate term, as well as the recent re-entry. Over these months, the traders were only those who braved being anything less than 100% long (50%), as I've primarily advised.

Still, albeit at marginally better prices ($20, or so), I returned to 100% long only for investors (including any trading portions). We have just caught another $150 move.

I have repeatedly written that the recently completed correction could well prove to be sideways, and it was indeed that. I will stress again here the significance of this:

A protracted sideways correction would imply and be consistent with massive accumulation by strong holders (then not potential sellers anytime soon), which further yields to an upside acceleration, as the sellers become absorbed and overwhelmed.

The latter refers to that part of the bull market when the strong and improving fundamentals of the underlying asset become widely recognized, and everyone panics aboard in increasing waves.

For many years, long before commonly fashionable, I wrote of the massive shift of wealth and power to the East. What people don't by-and-large get is that we may be at the "recognition point" - now. Maybe, maybe not. But are you positioned for it, and is there any reason for not being so?

Is history unfolding before our eyes? Well, readers and investors are and have been 100% long gold and 200% long silver, so let the market choose its timing. It is going to anyway so, when well positioned, just enjoy the ride.

I have also written through the years of the importance of being 100% long after and since $500/ounce. All this is why I find the "gold bulls" as being insufficiently bullish and have also been shook from the tree, in varying degrees.

In the mid-700's, many of the bulls said that there was probably a short-term top. But what if this long term bowling formation is indeed the acceleration point of which I wrote above?

Falling interest rates in the US, money printing and a Yen that carries too much explosives around with it - there is more that enough accelerant for the precious metals to do whatever they want.

Technical (gold):

Since January 2002 ($280), I have identified virtually every intermediate peak or trough. The weekly 8-year chart immediately below shows why investors and analysts are or have been calling a short-term peak.

It also looks like a pattern that accelerates dramatically, however.

At the beginning of the year, I forecast that gold would cross and sail past $700, perhaps this year, en route to $1000 with speed. The upside risk is too much to exit without a re-entry plan, and no quality re-entry plan can possibly exist this time.

We have benefited from another $150 move up, and the daily chart (immediately below), like the weekly, shows an overbought stochastic (joining other momentum indicators). Note how this thing can take off to $1000 now, with so much selling pressure gone (institutions needed money). Does the crowd expect it? Are the longs fully long?

Remember, when a security accelerates, stochastic tend to be overbought!

GOLDS 806.45 +19.15 UBZK 806.1/806.8 ANON
Comdty TAS
At 15:44 Op 787.4 Hi 808.0 Lo 787.3 Prev 787.3
GOLDS COMDTY
Hide
TAS - Stochastic
Page 1/19
Range 11/02/06 - 11/02/07
Upper Bar Chart
Mov. Avgs 200
Currency USD
Period Daily
Lower None
Mov. Avg
%K/%D
%DS/%DSS
%K 14
%D 9
%DS 5
%DSS 3
800
750
700
650
600
100
50
Nov 30
Dec 29
2006
Jan 31
Feb 28
Mar 30
Apr 30
May 31
Jun 29
Jul 31
Aug 31
Sep 28
Oct 31
Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2007 Bloomberg L.P.
G275-364-0 02-Nov-07 15:44:15

GOLDS 788.80 -7.79 UBZK 788.40/789.20 UBZK
Comdty TAS
At 15:27 Op 796.90 Hi 799.54 Lo 784.45
GOLDS COMDTY
Hide
TAS - Stochastic
Page 1/29
Range 11/03/00 - 10/26/07
Upper Bar Chart
Mov. Avgs 200
Currency USD
Period Weekly
Lower None
Mov. Avg
%K/%D
%DS/%DSS
%K 14
%D 9
%DS 5
%DSS 3
800
600
400
100
50
0
2000
Dec 28
2001
Dec 27
2002
Dec 26
2003
Dec 31
2004
Dec 30
2005
Dec 29
2006
Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2007 Bloomberg L.P.
G275-364-1 01-Nov-07 15:28:57

Technical (silver):

Maybe silver pulls back to $13.00, but if you missed what I had called the last major buying opportunity in silver, don't miss this, if it were to even pull back to $13.50. This is especially important for those who choose the silver-included option in my asset allocation (bottom).

Forecasting that silver could make a low at $11.00 (since most investors would wait for $10.00 after a break of $12.00), I wrote that the last decline should be used to go 200% long. My reasoning was that silver has and had no reasonable physical chance of dropping to $5.50-$6.00.

I further reasoned that one's investment year is largely made by such a trade that includes a subsequent move to $20.00, which is where we will be much faster that thought. Indeed, however, that a mere move back to $15.00 would go a long way toward providing a banner year, too. If 200% long since $11.50, what are returns even today at $14.00?

The long term weekly chart immediately below (1-year daily chart follows), better shows how this move up in the metals may simply have been an initial move that merely requires a short term correction, before a yearend eruption to $1000.

In fact, this recent short-term top may have been counter-trend, which would imply great power that is consistent with a historic move.

Please don't be shocked. Just remain positioned.

SILV 14.1450 -.3500 BBLC 14.1199/14.1701 BBLC
Comdty TAS
At 15:29 Op 14.4900 Hi 14.5487 Lo 13.9350
SILV COMDTY
Hide
TAS - Stochastic
Page 1/29
Range 11/03/00 - 10/26/07
Upper Bar Chart
Mov. Avgs 200
Currency USD
Period Weekly
Lower None
Mov. Avg
%K/%D
%DS/%DSS
%K 14
%D 9
%DS 5
%DSS 3
15
10
5
100
50
0
2000
Dec 28 2001
Dec 27 2002
Dec 26 2003
Dec 31 2004
Dec 30 2005
Dec 29 2006
Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2007 Bloomberg L.P.
G275-364-1 01-Nov-07 15:29:56

SILV 14.6150 +.5100 BBLC 14.5900/14.6400 UBZK
Comdty TAS
At 15:44 Op 14.1150 Hi 14.6875 Lo 14.0400
SILV COMDTY
Hide
TAS - Stochastic
Page 1/19
Range 11/02/06 - 11/02/07
Upper Bar Chart
Mov. Avgs 200
Currency USD
Period Daily
Lower None
Mov. Avg
%K/%D
%DS/%DSS
%K 14
%D 9
%DS 5
%DSS 3
14.50
14.00
13.50
13.00
12.50
12.00
11.50
11.00
100
50
Nov 30
Dec 29 2006
Jan 31
Feb 28
Mar 30
Apr 30
May 31
Jun 29
Jul 31
Aug 31
Sep 28
Oct 31
Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2007 Bloomberg L.P.
G275-364-0 02-Nov-07 15:44:55

YEN:

Everybody's spooked…still.

After a stunning 9% shot off the bottom (which was consistent with Yen bear market reversals), the Yen had an understandable bounce. I described that bounce as the result of the crosscurrents of short and intermediate term indicators being worked off. I wrote that once the short term oversold condition was relieved, everything would roll down again for the Dollar/Yen (see weekly 8-year and daily 1-year charts below).

I have tied the reversal in all asset classes of concern to us in these reports to the Yen's delayed reversal, which has finally come to pass. Amazingly (but it actually isn't), I must constantly remind investors that a new bull market has already begun. As in, "already" underway.

This is the reason for the demise of US assets (I have explained in previous issues that the sub-prime story comes second to the Yen, logically). It is the reason why Japanese domestic securities will soar for two years (see Japan). And it is the reason why the multi-national-laden Nikkei has a lot of yearend risk that is more than usual (see Japan).

Consider the following when fretting about the Yen. We already know that securities don't generally go from buy to sell. "Buy" turns into "hold", and then "sell" follows. In the context of the Yen, I interpret like so:

The Japanese government announced the obvious a long time ago. It was known then that a secular trend of higher rates had begun. I immediately wrote that if hikes were to increase only gradually, it would be so as to allow more orderly unwinding of the carry trade (from which insiders would be benefiting).

I consider this as "buying" turning to "hold." Today's gradual activity has caused the carry trade to not be added to. So what? That's consistent with the "hold period", suppose. The Yen has turned back down, as you can see. The frustrated point up that the carry trade is not yet being unwound.

Precisely.

Asset Allocation:

- **50% Gold (or 40% gold and 10% silver)**
- **25% Yen**
- **25% Swiss Franc**

From the September report: "This is a wonderful time to own the Yen, gold…and silver!"

Good fortune to all,

Sid Klein

LEGAL NOTICE: This market letter is the work product and intellectual property of Mr. Sidney Klein. It arises out of his training and profession as an international expert on financial equities. It is a private correspondence from Mr. Klein to his subscribers. Any person who copies or otherwise disseminates this letter becomes subject to international criminal and/or civil prosecution under the Universal Copyright Convention and the Berne Convention for the Protection of Literary and Artistic Works. Nearly all countries in the world have signed both of these Conventions and have pledged to enforce them through their own legal systems. In addition,

Interpol may be called upon to assist in the international enforcement of these Conventions through its processes of arrest and extradition. If you are the *recipient* of a copy of this market letter, whether through the internet or by facsimile, you should immediately report to Mr. Klein the name of the person or entity who sent it to you. Send your email to sidklein@sidklein.com.

DISCLAIMER: This market letter is intended to assist in the dissemination of information to private subscribers. The information contained herein represents Mr. Klein's best efforts in good faith to advance knowledge to his clientele, but there can be no implied guarantee as to its accuracy or completeness. The information is given as of the date appearing on this market letter, and Mr. Klein assumes no obligation to update the information or advise on further developments relating to the information provided herein. No solicitation to buy or sell securities is intended, and none should be inferred. Investments are inherently risky, but investment risk itself is a function of individual preferences. Thus any opinions, recommendations, or judgments expressed in this market letter are of necessity abstract and general. They must be modified, accepted, or rejected by individual subscriber/investors whose risk averseness cannot be known to Mr. Klein.