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# DANGER, NOW



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## **SUMMARY:**

The October report comes a weekend early, due to the urgency of the report.

The standard sections that follow the summary need to be understood in the context of the following:

At their respective lows over the past year, I reported that these bottoms would then be followed by rallies, potentially to the 3000 – 4000 range for Shanghai, 11,000 basis Nikkei, and 10,400 on the Dow, and that these may at least be used as signposts for identifying red-zone territory in each case.

*These signposts have been most useful, in monitoring these 2009 countertrend rallies, which I have repeatedly likened to 1931.*

With Shanghai again as the first (and only?) warning shot across the bow, all markets stand at dangerous precipices, having already achieved very key symptoms (in no specific order):

1. minimum upside targets achieved everywhere, for all intents and purposes,
2. behavior of market is consistent with psychological background for the last gyrations up,
3. minimum sentiment readings achieved {much wishful thinking for higher levels, which never come (I have often reported my sense that the market is "in" at approximately Dow 11,200 )},
4. economic prospects favourable at most through 1<sup>st</sup>-quarter 2010,
5. cross-charts, including inter-asset classes have bottomed on long and lesser term graphs; these charts make tops or bottoms within 3 months of the individual markets,
6. extreme financial risks can erupt at any time, to disrupt the economies
7. very disruptively, extreme political/(para-) military risks can erupt at any time,
8. these events immediately spike volatility; the VIX is forming critical lows now,
9. traders are dropping put prices in anticipation of the next day's continued trend.

The major lows in cross charts and the relatively cheap option premiums right now signal a major sentiment reading, and, further, again create a rare money making opportunity, of the sort we have profited from over these past 20 years.

But the number of possibilities is decreasing.

Mr. Nice Guy, Barrack Obama will default on the national debt, AFTER having absorbed the debts of different segments of society, thereby having gotten the rest of the world to pay US public as well as private bills.

\* This is important for fashioners of tailor made structured products. If there is less availability of a certain paper, then that is a factor in the design of a financial product.

**Canada** is an important annexation for the empire, since the access to resources of all types will be necessary. The US has already given up on the fiat currency system, and aims to profit a final time in spades, with the renunciation of debt, and control over other sovereign Federal banks' right to create money (see JAPAN). Annexation defuses the need to be the international currency. The Americans will seek to create an Americas currency.

Canada is the only country to have not printed money. Paying down debt, instead.

We understand better how to proceed if we are aware that what is happening is transpiring according to the will of the very ones investors may think are suffering the consequences. We must understand objectives and intentions to consistently be ahead of the curve.

The following sections are in the context of the above.

## JAPAN

Japanese authorities were threatened by the US soon after Obama was elected to not print money. It now follows that the Japanese will employ all measures in attempting to keep the Yen down.

This includes measures with sundry consequences for hedge traders and asset allocators. But, either way, the secular trend will remain down for the Dollar...because that is what the Americans have decided, anyway.

The following 10-year chart of the Nikkei shows the resistance referred to by my target potential of 11,000.



The 1-year Nikkei chart on the next page reflects dangerously waning health, after having gotten up within a stone's throw of 11,000 just before the end of August.

The waning health is reflected by a developing dome shape, with August's peak perhaps providing the head, with the dangerous right shoulder being formed right now. [Friday's 275-point hit should not be taken lightly at all!](#)

[Certainly not after Shanghai's drubbing from the mid-3000's to the lower 2000's.](#)



All global indices have the capacity to subdivide into final moves up, but 2 things may be concluded:

Firstly, there is too much risk.

Secondly, cross trades have certainly hit red-flag extremes, especially as we are this close in time and price to final peaks in the individual world markets.

## NEW YORK

The 5-year Dow chart on page 5 clearly illustrates the profound resistance level that 10,000 represents on the Dow, along with the [gap-closing \(with the 2008 collapse\)](#), at which level the Dow now hovers, against an extremely precarious technical backdrop (momentum indicators, moving averages, etc).

Trades now settle for the new quarter.

[Option premiums and the underlying assets to which they are associated may suffer eruptions of "volatility" at any time, \*now\*.](#)



## VIX

The 5-year VIX chart immediately below includes the spike to 90 (that we caught at 75-80), as well as this year's decline into massive multi-year support. This level also is supported by the 3-year moving average (not shown), which has perfectly defined the supportive end of the trend, since the bull market began.



The 1-year VIX chart on this page illustrates what may be the final flush-out, as well as its huge upside potential.

[This has serious ramifications relating to the stock market, but there are serious VIX relationships to bond markets, including spreads within them, as well.](#)

SKGS is officially long the VIX as of now, with a stop at 18 on a closing basis, so govern cash allocations accordingly.

My reasoning is that the VIX tends to overshoot (but which I feel may have already happened), and I wouldn't want large profits missed due to a non-event (spike, "technical noise"). Further, I am considering the probabilities of the various market scenarios and find them to be most favourable, on balance



## PRECIOUS METALS

As forecast months ago, gold broke out of its triangle, but I recently added as well that the move may end as soon as \$1,050, or travel as far as \$1,150. In either case, I wrote, gold will correct \$150 from wherever it chooses to correct (wherever it tops).

So, I concluded and here reiterate, before commencing the next major wave up, gold should have corrected to where it began its last short-intermediate term move up, whether that's \$900 or \$1,000.

The end of week smacks in the precious metals, combined with the hit in Japan, may be signalling that the next leg of the secular bear market has begun.

In any event, we are 100% long gold for all eternity, with the metal representing 50% of all liquid assets.

The following 2-year charts of gold and silver illustrate the short term shakeout possibility referenced above, while leaving no doubt as to the long term trends for the precious metals.



## YEN, DOLLAR

Please note the Yen-related comments earlier in this letter.

Technically, the trend is a one-way drubbing. When the Yen took off to 100 from 124, I warned that yet another shocker was coming: the collapse to 80...and so on.

Be prepared to believe "differently" over these coming years.



## CONCLUSION

Volatilities are set to change everywhere, while market reversals precipitate them, all causing dramatic changes in investors' long-awaited prices. Long/short investments by far offer the very best risk/reward profiles, with far simpler and more obvious investment timing.

Sid Klein

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