Sid Klein Global Strategy
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

Gold Up $70...Now:
The Dow Jones Last Rally

July 1, 2012

This website has undergone a major overhaul, one that has been designed to provide investors with the most streamlined navigation, in determining whatever one would need to know as part of their investment decision-making process (www.sidklein.com).

I strongly urge and invite all readers to investigate the new site's format, including what it now has to offer investors!

Separately, due in no small part to today's Canada Day holiday, with respect to which I am a heart-felt celebrant, this month's report is shortened.

A series of interim reports will be published, as is my tendency when several markets are at critical junctures, each thereby requiring and are paid greater attention. This was was the case in June when these reports identified a bottoming process and eruption, in three successive letters.

NB: Over an extended period of time (http://www.sidklein.com/past_reports.html), these reports detailed the fundamentals of this époque's currency debasement and equity implosion, as I wrote of the great wealth destruction that is presently unfolding.

Notwithstanding today's abbreviated letter, my reports became increasing technical, dealing more directly with the bottom line, as my reader base had already come to appreciate my thesis, which is why they had become readers in the first place.

Over these most recent years, the fundamentals of which I had already written extensively became more widely followed as causes for generational concern. The fear is building today and, with it, the concerns as to what to do with the unfolding crisis.

NEW YORK

June 5, 2012

"The ECB, Bank of England and the greatest insider traders of all, the US Fed, all will weigh in with their magic (or not) this week. So, there is great risk to the bears, and I have a gnawing feeling that the Dow is going to have a 250-point up-day this week."

On June 5th, the Dow closed at 12,147. The next day, the index closed at 12,412 and by June 19, the Dow rallied to a level 2 points shy of 12,900.

Since then, the Dow suffered a sharp wave-B correction which set up Friday's explosive 278-point rally, as can be seen from the 1-year Dow chart on the next page.

As with all of the violent moves on Friday, bears and their wrong-way short positions were caught off-guard by Germany's "blink", and blink they did.

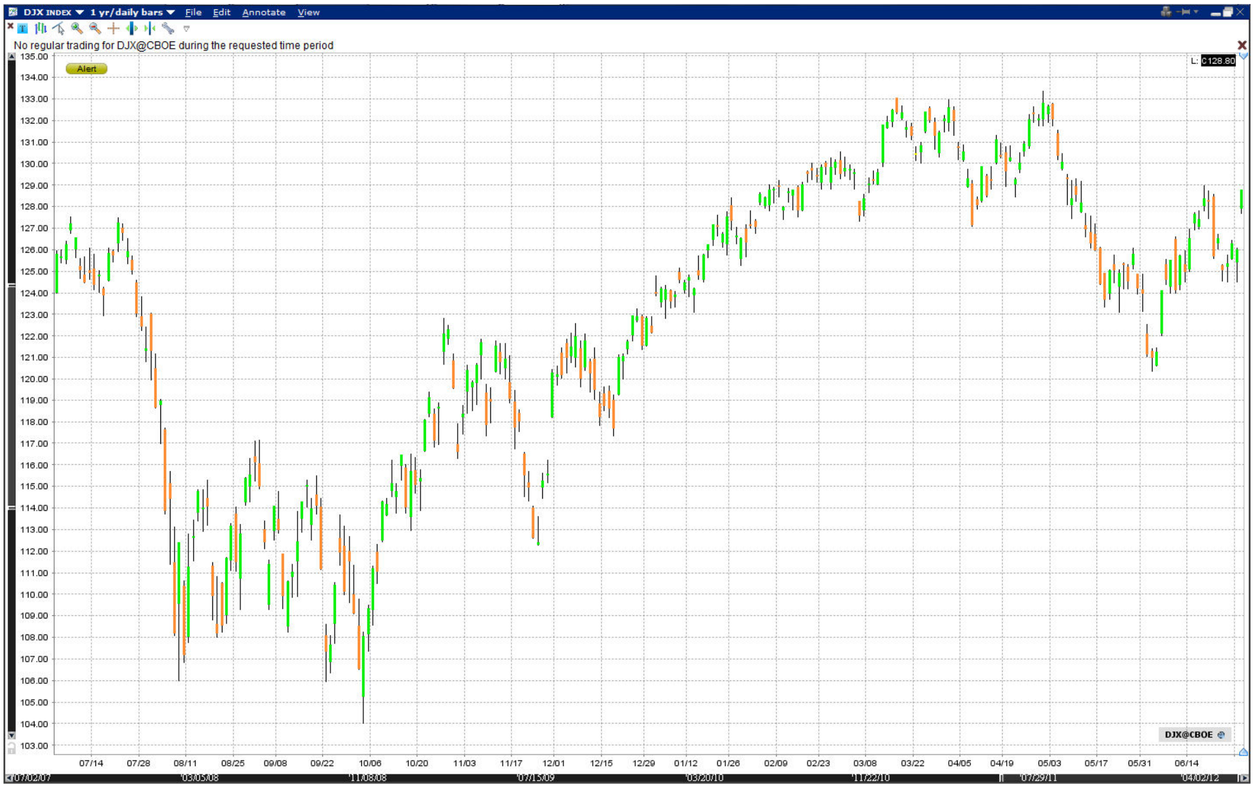
Last week, I had advised clients that, on this occasion, there were no positive expectations for the meetings in Europe and that the markets were therefore susceptible to favourably explosive outcomes.

In particular, I expressed concern for a $70 gold blast-off. (See GOLD below.)

What is most dangerous about this move up is that it has created a sense that the rally will last longer than it will, causing most to miss the historic reversal.

While the Dow may rally to an approximate double-top, European indices already only have about 3.5% left in them, depending on which index one is looking at.

The Dow may have 6 weeks left, while Europe may have only 3 - 4 to go. Hence, the coming expanded interim coverage promised above.



JAPAN/CHINA

June 4, 2012

"I abandon all and any bullish stances on either index, and only add the advice that one may easily correct any position on the Nikkei after a strong bounce.

"While I foresee the latter, I am mindful of the fact that the Shanghai Composite is off-cycle and that it should therefore be treated otherwise."

The Nikkei has rallied 500 points off of the low, while the Shanghai index has yet to get going. It now will, following the weekend's economic numbers, I suspect.

In the short term, the Nikkei may extend its gains from 9019 to the recently forecasted 9300 - 9400 zone.* (Please see GOLD and YEN sections below.)

I suspect that the CAF (the Morgan Stanley China A Shares) will now rally 15%.

SKGS will return to treating these sections separately next month, replete with their respective chart illustrations.

GOLD

May 31, 2012

"Wherever the Nikkei ends up, this is a Yen currency crisis, and one that will have been a contributing factor in the PM crisis that the "authorities" have been working so hard to mask with massive gold futures sales."

*Apart from being integral to the eruption in gold, the Yen's collapse will be a major driver in the Nikkei's assault on higher levels.

My greater interest, however, is the role that will have been played by the Yen in gold's advance. The latter is always discussed in relation to the Fed's printing press, and even Europe's photocopier, but no one talks about Japan.

A half-trillion dollars worth of Yen from now, that may all change.

In any event, take a good look at the 1-year gold chart below (GLD) on the next page, and even more so that of silver (SLV), as I describe the following technical argument:

When looking at these patterns, almost ALL precious metals participants have viewed them as reverse (bullish) shoulder-head-shoulder patterns...including me (head in December).

My mentor taught me 30 years ago that a right shoulder could even be lower than the head and that one should be intuitive, and not rigidly adherent to intellectual rules.

He merely pointed out that such an unusual pattern would mean a particularly weak reverse S-H-S pattern (the preceding holds true for bearish S-H-S patterns).

In any event, this past Thursday, as the SLV was breaking December's low, my "intuitive eye" *saw* the pattern differently.

Namely, we were not looking at a weak reverse S-H-S pattern but, rather, a POWERFUL descending wedge, where central bank buying was stopping gold from falling to a level that would more ordinarily be associated with the low within a descending wedge!

With that epiphany, knowing that wedge patterns are both reliable as well as powerful once they reverse, I believed that we were on the precipice of a dramatic upside reversal, one that would run the stops and turn the standard technicians bullish, primed to cover their massive shorts and adjust their extremely under-weight PM books.

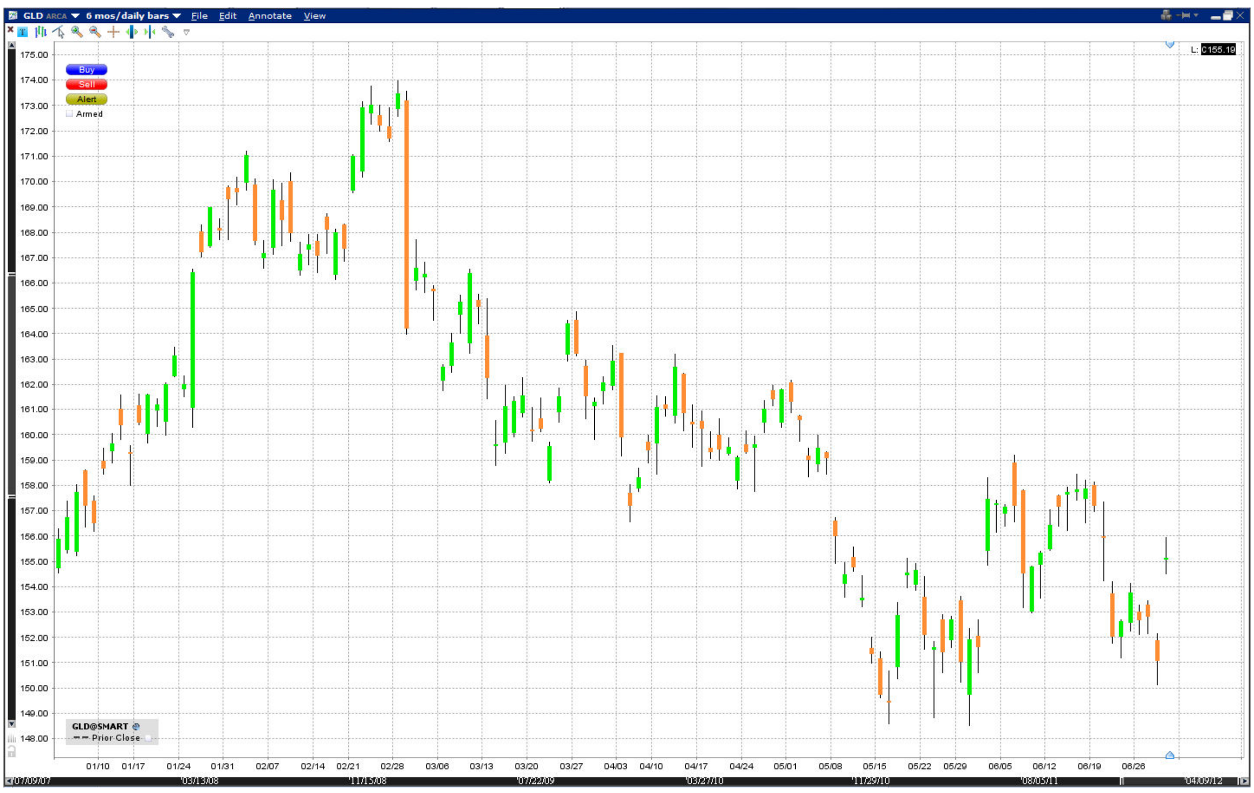
The focus was not on the PMs on Friday, so a mild and brief pullback *could* actually occur tomorrow, to help the bears adjust a bit. Option premiums stayed low, and all is now set for a $70 run that could even occur in a single day.

Call premiums would explode! Having stayed low would be typical of a fooler pullback.

The GLD has support at $153 - $153.50, a level that one should jump all over, as bears would return to the market, assuming that Friday was just another false start.

The correct interpretation would be that the bears need a chance to cover and adjust, and that players can jump all over still-low call premiums, which a decline would certainly not be augmenting!

With a dangerous backdrop for a single-day $70 run to the upside, there is an unusual opportunity to take a shot at short term (1 - 2 month) calls with a minor amount of capital. If tomorrow is strong, then the end of the day or Tuesday would offer a chance to enter.



SILVER

The discussion of the descending wedge pattern in the gold section above is actually more appropriate for the SLV, as this was the metal that broke December's low.

Look at the pattern of the 1-year SLV chart on this page in this fashion:

Imagine that gold had not found such central bank buying intervention and that the SLV had fallen to $22, as a result. One would have a powerful and potentially explosive descending wedge pattern, as opposed to a weak, reverse (or nullified) shoulder-head-shoulder pattern.

Support is at 26.25, with 26.00 also fine. The market could be stunned to discover how quickly the SLV rallies to $39.

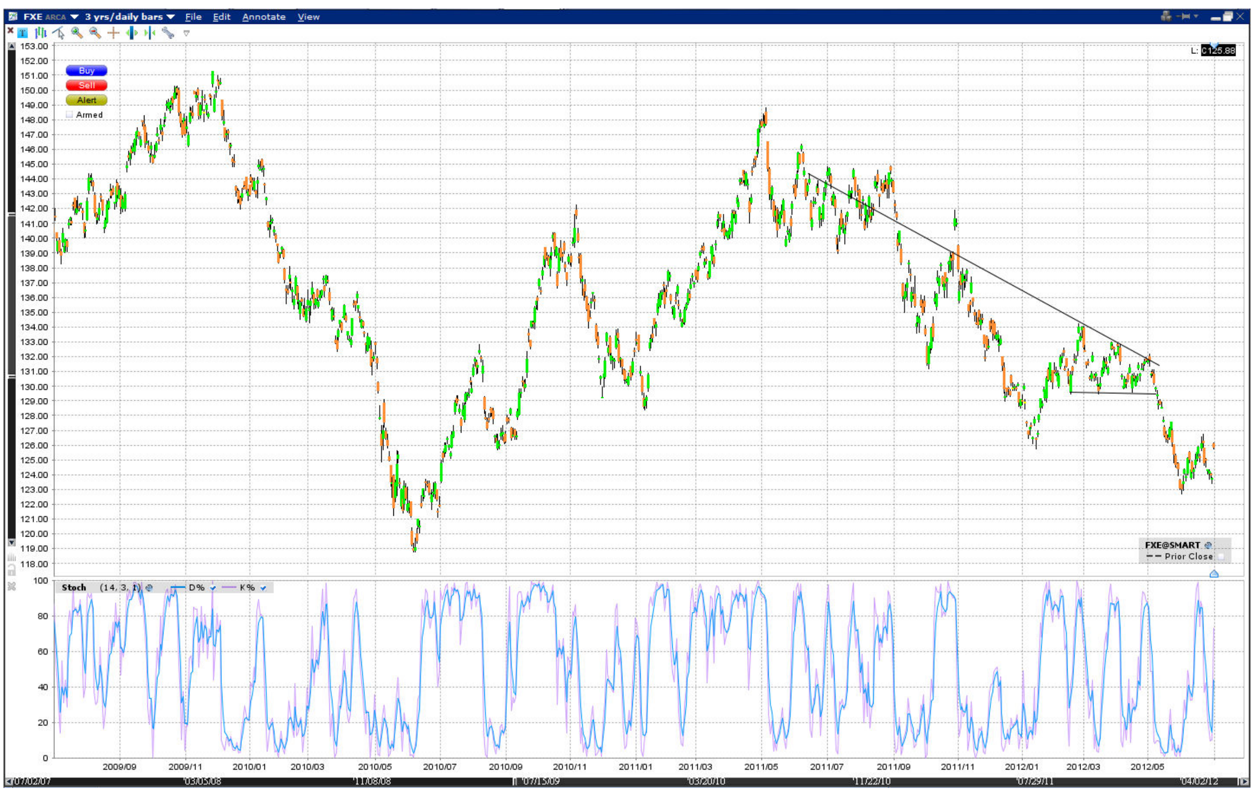
CURRENCIES

The Dollar Index has obvious support at 80, but a break to 78 would catch the precious metals bears off-guard completely.

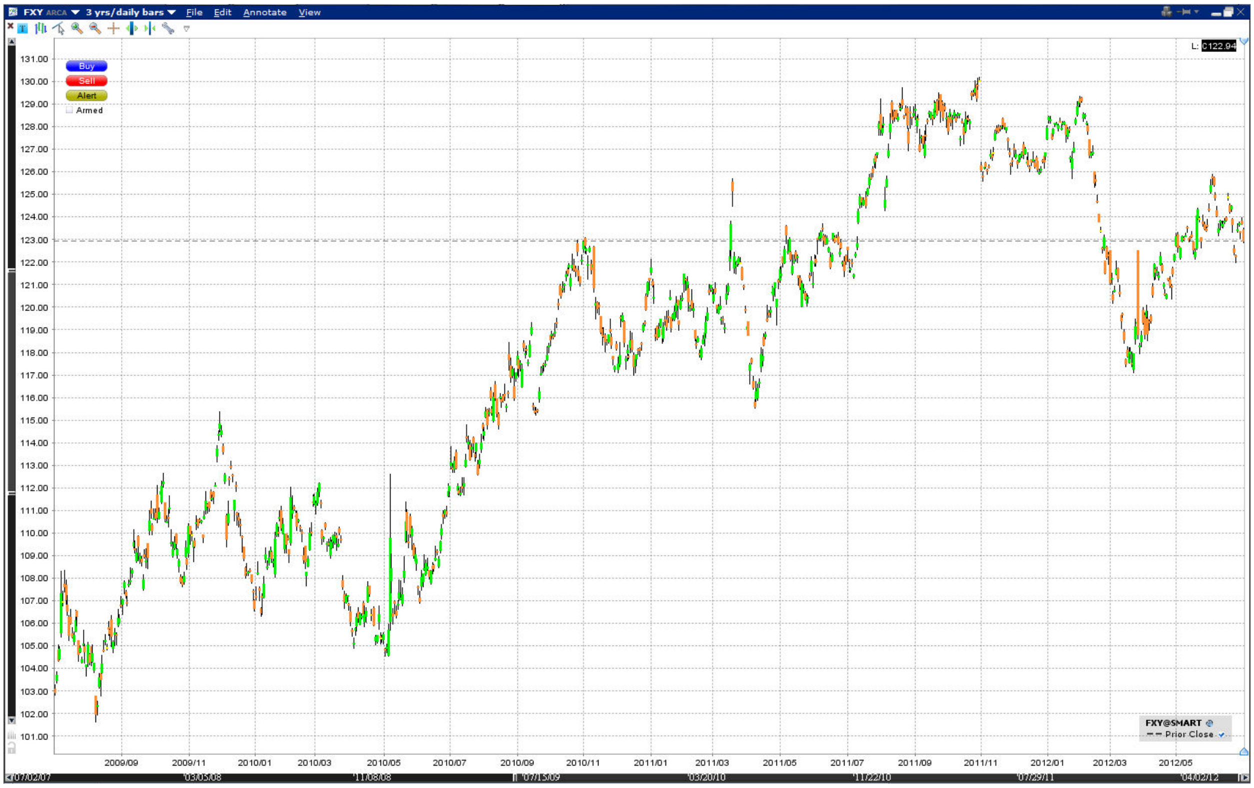
The 3-year Dollar Index chart follows on the next page.

Please scroll down to page-7.

The 3-year Euro Trust chart below illustrates Friday's hair-raising 2.08-point rally and, with momentum potential to 31 (from 26), equity and PM bulls may continue to party in the short term.



*The 3-year Japanese Yen chart (Yen ETF, FXY) immediately below will collapse to 113, I believe, and such a 10-point train wreck will rally the Nikkei, and more assuredly and importantly be associated with a gold-positive scenario of grand proportions.



Historically, and without any sensible explanation, Canadian holidays have been inexplicably related to wild moves in the US stock market, whether up or down. Monday, markets and businesses are closed throughout the Land.

HAPPY CANADA DAY!

Sid Klein

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.