

EXTREME DOUBT: BEWARE



July 11, 2009

SUMMARY:

"MANAGERS! IT IS VERY LATE." That was last month's title. Now, it's "Beware." The message of doubt in the title above correlates to the end of a b-wave within a B-wave.

Simply, this means the end of a corrective decline within a larger bear market. That is a recipe for possible disaster in investing because the larger trend can resume at any time. That's the rule. That's experience.

In other words, the end of the period of advance to-date could very reasonably be seen as the end of a LONG term wave-4 up, which would mean that a final 5th wave collapse around the world to new lows is entirely possible.

Of course, as is logical, the preferred and initial interpretations of and forecasts for markets remain unchanged. But with extreme doubt. Anyway, such is the view for all of our regularly covered equity markets.

Remember, the nature of a countertrend wave-b (down, in this case) is that it catches the more knowledgeable traders and investors. So, if we are indeed of

that category, these past 27 years have taught me that I should doubt my doubt, in such situations.

So, ready we are for continued rally. Because our chosen strategies were and are chosen to be as impervious as possible, by sacrificing exposure or leverage...or... whatever it takes, to ensure that we are investing according to or long term views only. **Regardless of timing.**

Especially after eliminating a lot of risk, for me, this is the correct approach, because there's more than enough leverage to go around, just by not losing money, even as Kondratieff wipes out the vast majority over these coming years.

NIKKEI

The 10-year weekly chart immediately below most clearly illustrates how the advance from 7000 could be seen a wave-4 (within bigger downtrend), as opposed to a B-wave. And these equity markets all go the same way.

Regarding whether we are still within a countertrend rally, I'm merely showing respect to the view of very reasonable doubt, as implied by last month's title.

I continue to think that the first major rally off of the Great Bear Market's bottom has yet to complete, from the correctly forecast the lows. However, it is indeed very possible that said rally must await the end of the collapse (wave-A down), as declines to new lows await everywhere.

Either way, the hour is late, so there are no important changes to already selected, appropriate strategies. In other words, for SKGS long term asset allocators, the point is moot.

The second chart on the next page is a 2-year daily look at the Nikkei and, yes, the last year's pattern and fundamentals are consistent with a wave-4, which would therefore be followed by a break of 7000.

My views are influenced by what I see when I look at all global indicators, whether technical or fundamental, whether equity, currency or precious metal. Different markets behave differently, however, to more clearly illustrate which are the leaders and which are the laggards

There is no change in strategy or preferred interpretation of the equity markets, for short-to-intermediate traders. But, more than is ordinarily the case, the 1st alternate is very reasonably considered.



CHINA

The 10-year weekly chart of the Shanghai index immediately below reflects the “acceleration” which I had discussed and that did ultimately lead to a 100% advance off of late last year’s lows.

The 2-year daily chart at the top of the next page allows for a better look at the doubling of this index, while reflecting its leading global superior strength at both the lows and highs. Hedge funds and asset allocators, please note.



As the Shanghai index was bottoming during the 4th quarter of last year, I wrote that 2008’s favourite short was, this time, my favourite long of 2009. It was to be a leader on the way up, so, I felt, one shouldn’t wait for the other markets to turn. The prior year, Shanghai led down to create the overshoot from which to benefit (under 2000). There was no point in risking not being invested.

Once again this decade I remind that the very big picture is one of transference of wealth and power from West to East. Japan was always my focus as it represented over 60% of Asia’s market cap and GDP. But Asia’s relative (and, later, absolute) wealth will increase versus the West, and this is certain. Asia’s a big place; opportunities are to be explored, precisely during global tumult. Hedge managers and asset allocators, do note.



DOW

I told you so. (I said it, but at least I waited.)

After having identified the peaks and lows within days in 2000, 2002, forecasting a rally to 10,400 before making new lows again, I was vilified by some for "missing the advance to 14,000."

I realized I was wrong when the market broke over 11,400 and I only and accurately probed intermediate term peaks thereafter, while maintaining a gold-instead-of-equities stance (and more gold than that).

It is very important to note of how often I reported that most of the money is trapped in the market at round 11,200. Given that, most portfolios are doomed. [Difficult to compare the risk assumed and the relative performance of gold versus the Dow, eh? (Okay, it's over.)]

This is an index of which I wrote soon after this year's lows as perhaps not being able to make it to my own rally target.

I always felt much easier about the 11,000 target for the Nikkei. Why? After The Yen's highs last year, I wrote that the next level down for the Dollar versus the Yen will be 80 after completing any upward correction. Japanese assets would

benefit in relative terms from this, while US investments are devalued as the "insiders" sold at the peaks. US assets, that is. Dollar, stocks, the whole thing.

This devalues the Dow's price numbers (market levels), as higher prices are traded in for more paper money, or less debt on the books, however you choose to look at it. Always look at the bigger picture...or the whole financial pie, if you prefer.



The above 10-year weekly chart is scary to look at, but intermediate topping may take a little more time. The Americans again revert to stimulus talk. Meanwhile, the money hasn't been spent. It's about printing money. (See Dollar below.)

Obama is the likeable salesman, to complete what predecessors started.

Please scroll down to 2-year daily chart.

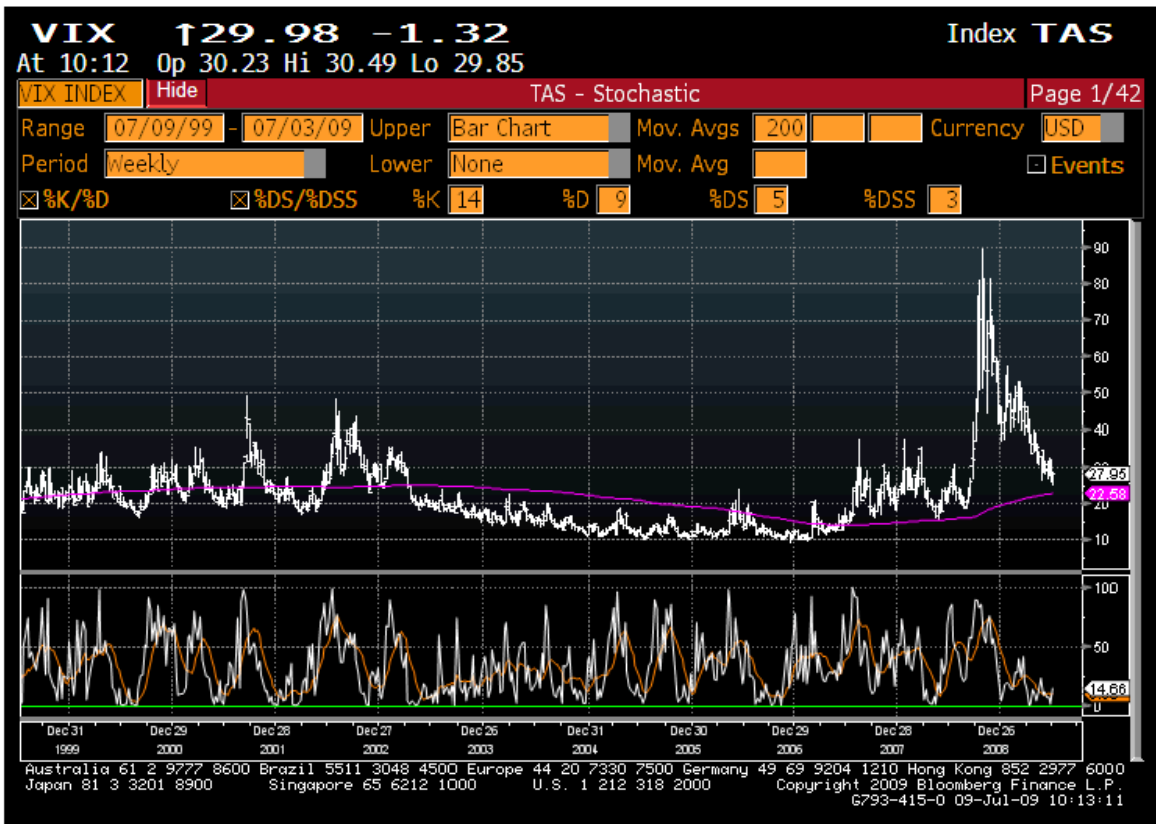


VIX

The charts on the next page include the 10-year weekly and the 2-year daily, respectively.

I reported on a number of occasions that the 200-week (3-year) moving average has been able to define this index's uptrend, since the low was made. The weekly chart also illustrates strong support at a long term neckline. As for the down side over-shoot, it is more plainly viewable in the pursuant 2-year daily.

A low in the VIX is consistent with high in the market. As for traders, it is best to wait for such over-shoots down (or any re-tests) to go long, via any of the new products out there now for doing so. This index is always the most likely for overshoots (floor traders must eat it up.)



PRECIOUS METALS

The charts below, respectively, include the 10-year weekly gold graph, the 2-year picture of same, followed by the same duration charts of silver.

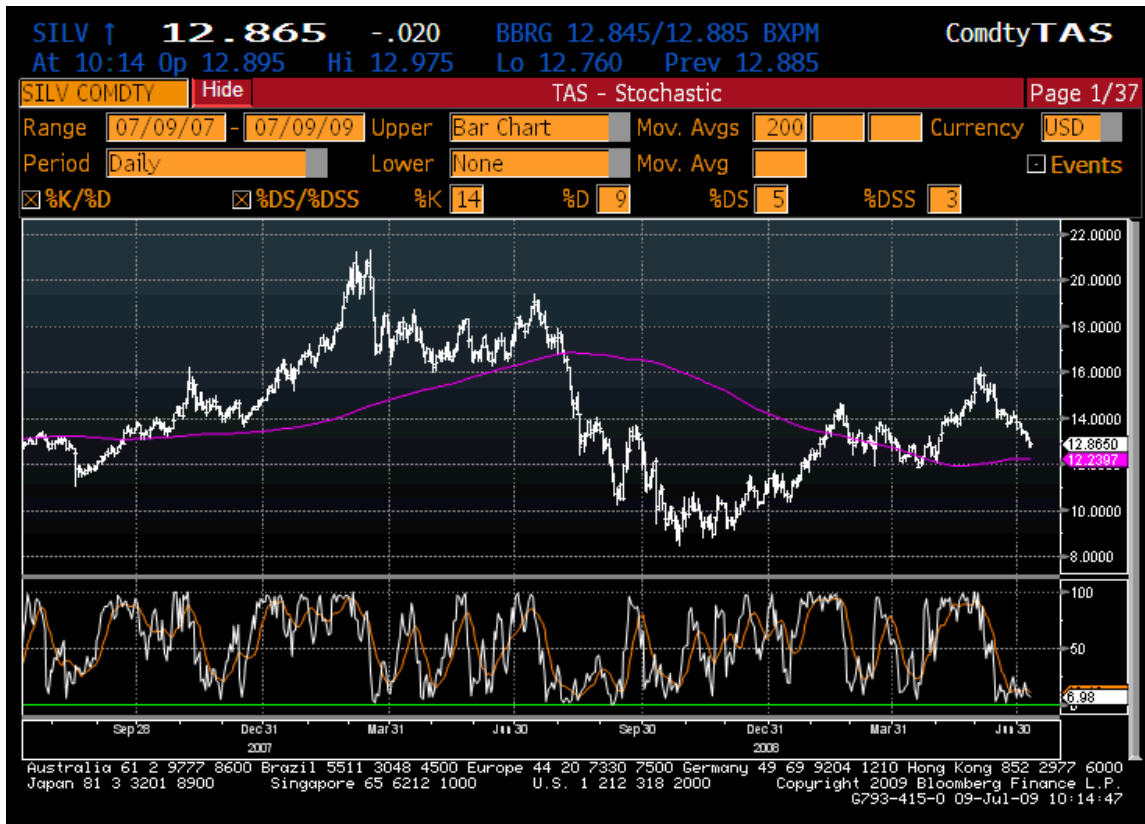
The long term gold chart shows a dangerous triangle...for the bears. And the pursuant 2-year gold chart reflects a tendency the bottom "relatively" soon (I believe), before fireworks.



As for silver, it continues to be a very easy chart to read.

Anyway, I will write in greater detail about the currency and precious metals, where the basic theme is the acceleration (again) of the US printing press.





YEN, DOLLAR

The Americans have printed money at will, while strong-arming the Japanese to not do so (among others?). How much proof do we need that existing paper assets' values do not matter for US authorities, except to enjoy its lower values. This includes a political "will", which coverage is not for a market letter.

This political will to devalue, includes what appears to be a peak in short rates. What will keep the Dollar declining is the Bund's own peak in short rates. And the peaks in rates is, like the VIX, consistent with a peak in the equity markets.

Just how perfectly they align remains to be seen. We can say now, though, that it was correct to believe that a rally in the Dow would coincide with a Dollar rally. (That wasn't much of a leap.)

10-and 2-year Dollar/Yen charts follow, respectively.



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