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

THE VEXING VIX & THE DOW BLOW-OFF'S BLOW-OFF



April 14, 2010

VIX

From prior reports, including the regular March, 2010 letter: "We bought the VIX on the day of the low, going long at 16.93."

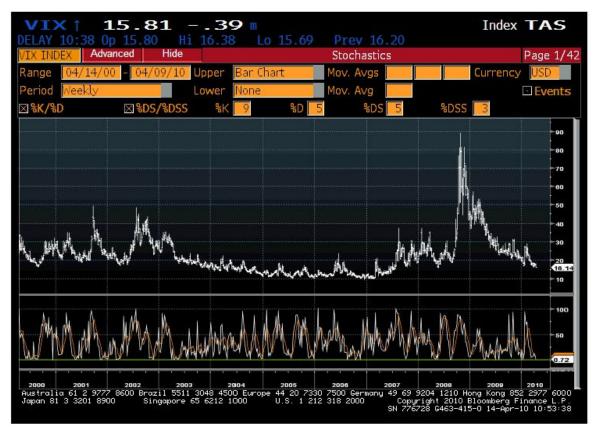
"The stop remains a close-only of 15.75. Why not close the position, given the Dow analysis above?

"Simply, it is dangerous to be out of any bearish theme altogether...."

Prior letters have also noted that the failure of the VIX to make new lows, even as the S&P continually made new highs since we went long the VIX, did auger well for the bearish theme. It also supported the last line of the excerpt above.

Monday, however, we were finally stopped out with a minor loss. Since the stop was on a close-only basis, I calculate the loss using Monday's close (15.58). Based on the latter, the loss was merely 1.35 points.

Commentary continues on page 3.





The previous page includes the 10-year weekly VIX chart, followed by a 1-year daily graph of same. Please note the similarity of the patterns, which reflects a particular psychology.

From 2002 through 2006, the VIX trended down until volatility appeared to be as dead as the notion that the market would ever fall apart. Meanwhile, the daily chart reflects a similar pattern on a shorter term basis.

Remember, the thing about volatility is that when it turns around, it becomes, well, very volatile.

From the March 7, 2010 report:

"Let the month go by and benefit from premiums being crushed further...."

The April 2, 2010 letter was entitled:

"OF BLOW-OFFS & LAGGARD'S LIMITS"

Therefore, one might already own long term Dow puts, if not being long calls on preferred global long/short investments, which, as often explained, contain far less risk, despite the intrinsic leverage.

Strategy

As we see on page 1, we took a minor loss, made all the more minor when compared to the huge profits available by this index's huge swings, as what we enjoyed by shorting just short of the peak and then covering at around half the shorted level around 40. Since then, including this trade, SKGS has taken two minor losses.

Now, a similar thought remains in my mind. Simply, being long the VIX can be seen as a short position on the market, after this extensive "upside drubbing." (The relentless advance has left a clear 5-wave advance in its wake, in the S&P.) Therefore,.....

Short the VIX at Thursday's open and use a stop 2 points lower. After noting the open's price, I might publish an update to refine the stop (in case the open includes an upward spike).

Yes, shorting again so close to where we were just stopped basically means a continuation of the same trade, but a stop was required so that an investor could be able to approximate the risk involved. Therefore, an investor can decide if he/she wishes to assume the risk of another such transaction.

DOW JONES

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 Fibinacci 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!

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 sidklein@sidklein.com entity that sent it to Send email to you. your

<u>DISCLAIMER:</u> 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.