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Japan: Topix Small & Nikkei
Gold: XAU & GDX

January 17, 2010

SUMMARY
This month's regular report discussed upcoming analyses of the indices included herein, and I have decided that sooner would be better than later, given the extremes to which markets have gone and the need for investors to consider the best means by which to invest, according to our forecasts.

JAPAN
At the perfect lows just about 12 months ago, I forecast a rally to the 11,000 level and, as the following charts reflect, the Nikkei is now only 18 points away, posting an approximate 57% rally and hefty gains for the large caps. I should add that I recommended not waiting for higher prices, once 10,000 was attained.

However, here we look at why foreigners ought to consider shorting the large caps, right when the ever-Japan-ignorant foreign investor is putting in the index's peak, as the principal purchasers, right at this top. Such was the case at 18,000 as well, when I last called a top.

The following 10-year weekly chart of the Nikkei illustrates a 200-week (3-year) moving average (MA) (purple curve) that is about 1500 points away; this represents some leftover upside potential to what could be the index's final resistance level at 12,000, I previously commented.

I had also commented that the Nikkei's lag to the Dow was currency-related, hence the need for the analysis that follows here.

Unlike the standard Yen-denominated Nikkei chart, then, the pursuant 10-year weekly Nikkei graph on page 3 is denominated in USD, and here we see an almost perfect kiss with the MA and the dreaded neckline resistance which looms overhead.

The upshot for foreign investors, particularly those who are Dollar-based participants, is that now is not a time to buy but, rather, run for the hills.

The 2nd chart on page 3 and the 1st on page 4 are 2-year graphs of the Nikkei, in both regular Yen and then Dollar-denominated terms, respectively.

The Dollar-denominated Nikkei shows the index already having bumped its head up against its neckline resistance (the latter dates back to 2006).

Needless to say, all stochastics are overbought, though no divergences have as yet developed.


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NKY INDEX Hide TAS - Stochastic Page 1/42
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Period Weekly Lower None Mov. Avg Events
%K/%D %DS/%DSS %K 14 %D 9 %DS 5 %DSS 3
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Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2010 Bloomberg Finance L.P.
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NKY INDEX Hide TAS - Stochastic Page 1/37
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The charts on page 5 are 10-year weekly and 2-year daily graphs of the Topix Small index, respectively.

The weekly graph reflects a 200-week moving average which is nearly 33% higher, while the 2-year chart illustrates an unusually bullish shoulder-head-shoulder pattern, as the head (end of 1st quarter of 2009) is higher than the left shoulder (4th quarter of 2008). The daily MA has been crossed, as well!

The head was actually the orthodox low of the preceding and concluding decline, though it was not the print low (Elliott Wave Theory).

The 2 charts on page 6 are 10-year weekly and 2-year daily graphs of the ratio of the Topix Small index versus (divided by) the Nikkei (small caps versus large caps). (The right side of each chart concludes with a horizontal line, as I wished for the reader's eye to be able to imagine 2010 playing out.)

The weekly chart (1st on page 6) illustrates the historical outperformance by the small caps, and the ratio's new high which preceded the Nikkei's 2009 rally, while the small caps declined in typical and continued countertrend fashion last year.

Meanwhile, the pursuant 2-year graph on the same page provides a closer look at the relationship which, for a variety of reasons, should not correct further, to maintain its bullish pattern. The Nikkei and small-cap charts suggest it won't.


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PRECIOUS METALS

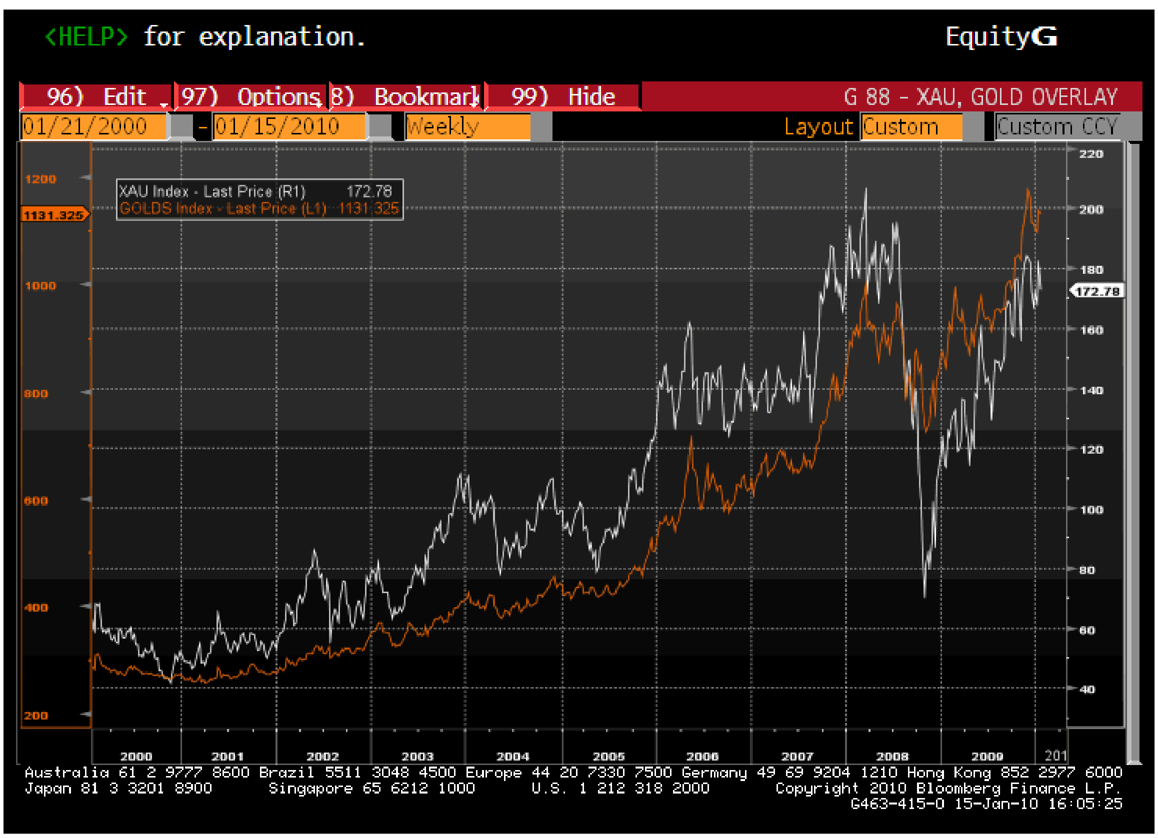
The following 2 charts on this page and page 8, respectively, are 10 and 2-year overlay comparisons of gold versus the Philly Gold & Silver index (XAU), respectively. The **red** line is gold, while the white one is the XAU.

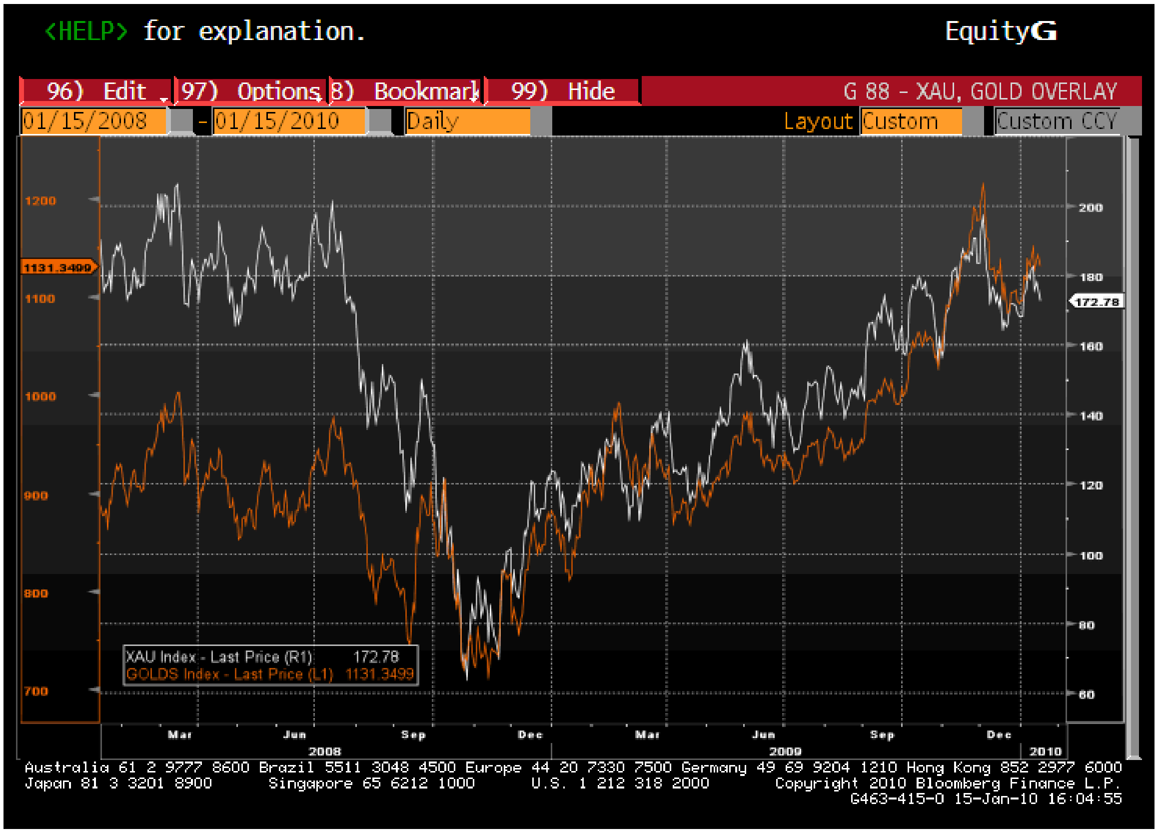
We see that the XAU historically outperforms gold, with the gap being widest at gold's peaks. Today, however, and due to the equity markets' own travails, the XAU has not followed gold to new highs, aside from actually underperforming.

This suggests a double-whammy of bullish potential, as gold's secular bull market advances over time. It is the 2-year daily chart which more closely illustrates the XAU's underperformance since the 4th quarter of 2008, in harmony with the equity market's woes.

The 2 charts, at the bottom of page 8 and on page 9, respectively, are overlay comparisons of the GDX and the XAU. Here, the GDX line is white, while it is the XAU pattern that is in **red.** (Note: The GDX commenced trading in 2006.)

As discussed previously, the GDX is an optionabe closed-end fund that mirrors the XAU, with an ever-so-slight outperformance, when these indices are advancing (page 9). Of course, this point serves the investor's purposes.

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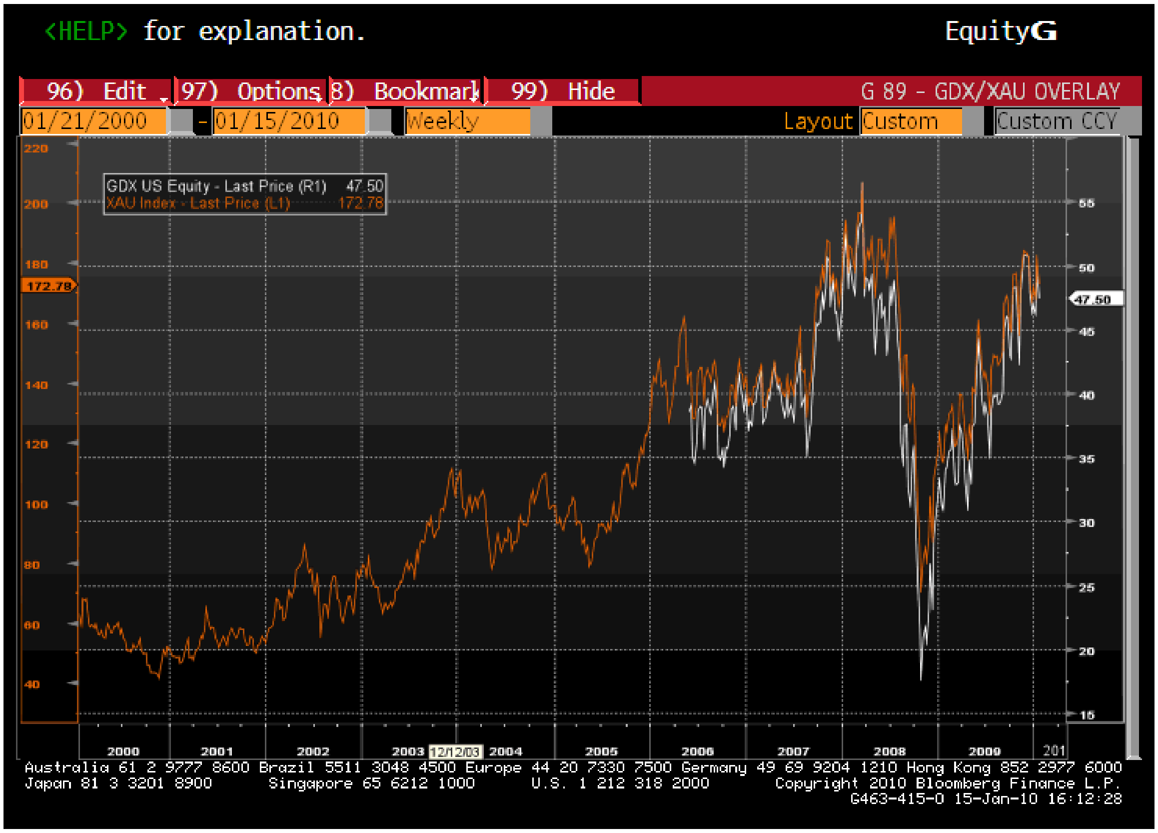
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Invest well, but live better. If health and happiness will depend on market activity, then get out the old blues albums.

Sid Klein

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