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RIDING THE DOW'S CADAVER DOWN THE RIVER

(UNTO THE SAFER SHORES OF GOLD AND FAMILY PROPERTY, REMOVED FROM VIOLENT PLACES)

December 21, 2010

Yesterday's letter was designed to draw attention to the urgency of being out of or short markets which are turning now, but, above all, to recognize that the long/short plays for 2011 must be established without any further delay, since their lows was have already been seen!

The **1-year Dow** chart on the next page illustrates the top trend-line referred to yesterday, as well as the uptrend line, which, together create a wedge formation. This is of particular interest to those who are concerned about a possible Elliott Wave 5-wave completion of the most recent move (this autumn).

As I have often written, the market chooses that scenario which screws most of the people most of the time, while having done so in a manner that is the same on a net basis, meaning that, on a trade-weighted basis, nothing is different, regardless the scenario unfolded by the markets.

As example, I contemplated a peak in October with a yearend rally that typically extends into early January to trap the crowd, while being as convincing as possible that the coming year will be positive.

The scenario *du jour,* as I explained yesterday, was an unabated advance until now. So, looking for a move into early January could be a wild gamble, given that all the price risk is to the downside.

Simpler still, waiting means little for better prices for recommended positions, while those premiums and price levels have little improvement possibilities going forward. Waiting would simply reflect an investor's fear, which investors are typically known for at market extremes.

At extremes, one prefers to act with others. This is simply called fear, or "waiting for confirmation." I call it a lack of self-confidence. For managers, it is the need to lose money at the sesame time as others, so that they just might enjoy the outperformance of their peers, with a lesser concern for absolute returns for their clients.

The free individual investor is therefore luckier, if he/she has the psychological stamina. For those lacking same, please focus on what I have always referred to as my preferred approach, namely the long/short plays, since those strategies enjoy the very lowest risk, as market direction is not necessarily a problem.

This decade, I invite any reader to provide an example where I have advised incorrectly on that basis. The question is not for bragging rights but, rather, to lend confidence at these historic turning points.

Christmas will have been bad, whatever anyone says (and Chanukah sales will have helped little either!). Do you really want to wait for a collapse at the end of the next quarter when the sales figures are confirmed? Do you want to gamble that the market won't discount them at all, either?

Yes, the market in recent years has been acting with relative simultaneity to bad news, as opposed to leading it like the good old days when I was a younger fellow (as often described in these pages), but, again, why play with fire, where at least long/short plays are concerned?

At least that much is OBVIOUS, and, yes, the Dow may very well peak right now too, as I described yesterday.

As for Christmas, Seth MacFarlane's message is accurate. Last week's Family Guy showed us that even with a bad Christmas we can all be happy, not by forgetting commercialism (since he knows that that's asking for too much), but by at least expecting to give or receive only one gift, or at least less expensive ones.

As for American Dad, all the reindeer and Santa Claus got slaughtered, so I don't really know how to incorporate that one. At the least the Family Guy message is clearer. Saint Nick was restored replete with vengeance in MacFarlane's American Dad, so whatever one makes of it, it can't be good anyway.

Finally, at the major peaks, we heard the mantra that the US Fed will print enough money to take the Dow to 100,000 because "This time is different", or, "This is a new paradigm", etc. But Argentina, Mexico and Germany were not the world's reserve currency.

The fact that the US Dollar is the world's reserve currency is why planetary monetary policy is made in Washington, to the benefit of imperialist and colonialist efforts. But it is also why there could come a reaction borne of self-defense (against Kissinger's "Winning war by non-military means).

It is such a reaction by the Chinese (as I have written in these pages and reports written for Gold-Eagle), which may prove to be the cause of the next war, without anyone having intimated as much, of course.

Hence, for example, my unwavering conviction that the Japanese will now turn on the printing press for real, to spare themselves from a bankruptcy which would be borne of their deficits. This is why both banks agreed last month to "let" the Japanese join the printing party. (See this quarter's reports.)

So, does that mean that everybody could just start printing? Well, what happens if EVERYONE would be allowed to do so?

Without getting into the ramifications for precious metals and their stocks, let us realize that those who really need to print away their overwhelming and unmanageable debt burdens will not be "allowed" to do so.

There are those who benefit when debts cannot be paid. What do creditors ordinarily do? They take a pound of flesh, one way or another, no?

In any event, for those wondering how the US market can crumble on news without having enjoyed any old fashioned discounting mechanism, please consider the power of **delta hedging.**

Simply, the latter refers to the purchase of put options, especially out-of-the-money ones, whereby the amount of stock held is hedged at an accelerated rate, the faster the market falls.

The reporters don't know about this, and neither do most managers. **But the Fed certainly does, I assure you!**

I don't write this to say suggest that the market may wait for the Christmas numbers to come out next quarter, but merely to explain the "phenomenon", as I have in the past. One could also say that news can also hit at **any time.**

Perhaps there will be a WSJ headline explaining that the eclipse on this winter's solstice is a rare thing, and that the next one won't be until 2040, as a knowledgeable reader replied to me today.

Now THAT would have been an event, to have enjoyed watching *the George Washington look-alike (*as Prechter called him) poo-pooing, this astrological argument, I mean. (Personally, I just don't *go there,* as you all know.)

Of course, it would have been truly amusing, if he had had to argue the point in a few months, if the market were to indeed peak to the astrologically forecasted day.

As for the astrologers out there, to each his own. The greatest and most successful trader in the history of markets was the astronomer W.D. Gann, so who am I to argue, eh?

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