The Sid Klein Comment
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WARRANTS ATTENTION:

Points of Recognition (Dow Jones & Shanghai Composite):

The Relentless Bull (Gold):

The Overdue Bull (Yen)

January 24, 2008

As a result of global market activity, the February report comes early this month. Due to that same market activity, an interim report will likely come out sooner rather than later.

"THE OPPORTUNITY"

To revisit the December and January reports (pages 1 – 9 and pages 1 – 5, respectively), the multi-year Japan versus China and Japan versus US out-performance warrants have increased 200% - 300%, depending on the preferred variables. Intrinsically, these investments contain long/short aspects and are globally strategic as well, for asset (re-)allocation purposes, leveraged profit potential notwithstanding.

A key portion pertaining to the warrants is reprinted immediately below. <u>Precisely due to the fact that even Japan has gotten bombed</u>, I have highlighted certain lines in red, so please take note.
From the January report:

"The key to profiting from a major international out-performance play stems from knowing:

- **What region will be strong**
- **What offers the best value within that region, relative to the volatility of that index, which in turn determines the long-term premiums that one must pay for that index**
- **That engineering which further maximizes leverage AND diminishes risk**

"Taken together, these three points spell enormous risk-adjusted long-term profit potential.

"The last bullet point reflects why little opportunity has been lost, for now, in acquiring what I have engineered, with regard to the special opportunity that the December 2, 2007 report discussed.

"For now, it simply seems as if everything is continuing according to the same inter and intra-market relationships. To the trained eye, however, this is not the case. The first quarter will bear this out, as indices start off in new and different inter and intra-market trends (note the Dow and gold today). To truly benefit from that, again, I have structured that which insulates against this recent kind of forecasted turbulence, but the greater feat will have been to profit mightily by way of this same structuring/strategy. For now, as things get going, its first benefit will have been the insulation against pain. Soon it will have been a matter of extreme profit leverage, even as others suffer sorely. And, with that,…."

Engineering, therefore and within the context of the above, refers not only to which indices are selected, but to the ratios in which they are combined. In any event, I have wildly under-estimated profit potential.

I estimated 500% - 1500% potential over the first 2 years, but given that recent action has already taken us so close to initial objectives lower-end projections with what are mere blips on the charts, I recall my experiences with the Nikkei put warrants all the way down in 1990, from 39,280 to 19,781.

There were multiple trading opportunities and the game of geometry was on. Personally engineering product puts one in the position of master over one's fate, given supportive markets. And the latter is now a very clear story, for those for whom it was not before.

The warrants indeed are serving an <u>efficient</u> major global strategic asset (re-)allocation purpose, but also as major leverage story, with such incredible risk aversion.

A key hint within what I have been writing is that one of the two aspects of the warrants is being bought for almost nothing or actually nothing, as the case may be (there are long AND short sides). This, I have been writing, is what caused so much leverage. Yes, 200% - 300%, and we've just started.

The timing of the trades plays a key role in running up the gains, even if trading partial positions. For every aspect of the expertise there is a honorouble price. For profit, intelligence ranks higher than ego. There will be no further coverage of the warrants. But a final comment:

Bear in mind, gains have been with everything falling…including Japan! Wait till they diverge.

<u>JAPAN</u>
Nikkei:

The index has broken 14,000 and last year's lows on a gap. 12,000 lay ahead. The low this week was indeed 12,572. When has the Nikkei NOT overshot? I called a top at 17,500, and it went 800 points higher. And it has always been this way.

Of course, the history of the Nikkei is to overshoot and, in doing so, break a critical support level, while not achieving the next (12,000?). Traders are then stopped-out and the fears about the next support level do not materialize. Supporting that notion here are the values of and action in the domestic stocks to which I briefly refer immediately below.

Domestic Stocks:

A major lead indicator is the Japan out-performance warrants. Yes, that's right. While Japanese domestic stocks were sinking, they were, as a group clobbering everything out there. This is a major lead indicator.

As described, the warrants act as a hedge against EVERYTHING bearish, <u>and that's because one side is being bought for free or almost free</u> (depending on the country against which the out-performance is related to, and further enhanced by other aspects of the structuring).

Again, the warrants intrinsically have a long AND a short side, yet only one side costs money, due to the engineering.

Because of the Nikkei's activity, high quality low valuation stocks have recently declined as much as 20% in just days or weeks. Not only have they fallen to ridiculous <u>long-term (multi-year) neckline support levels</u> but, aside from that and having more cash than debt in many cases, many have even fallen to price-earnings (PE's) level between 8 and 13!!! <u>This includes companies at the BEGINNING of earnings cycles; and this is how stocks triple, as opposed to mere 80% mark-ups to more normalized valuations</u>.

As I said in 2003 of the Nikkei stocks and in 2002 of the domestic stocks, 2 years of bad news has been discounted and if good news materializes there won't be 80% mark—ups to more normalized valuations, but dramatically higher gains than that lie ahead.

The ancillary evidence is to be found in the out-performance of the non-big-cap Japanese indices versus China and the US.

In recent days, we've seen domestic Japanese stocks spike off of lows 5% - 10% is a single day (September 2001, in the MIDDLE of a major US bear market).

Many managers have bell-weathers. For me it's a stock that will remain nameless, save to say that it is 30% off of the lows…of days ago! This stock moves ahead of the other domestics, is stronger than the vast majority and fell to - that's right - major multi-year neckline support!

In any event, bear this in mind as well: I was bullish the Yen at 117. It went to 123-124. I was told the carry trade would never be unwound because the US authorities were in control.

What will they say when the Yen gets to 80?

Anyway, the Yen bull market recommenced, as will have the bull market for the domestic equities. And don't forget that the lag between the Yen and the equities is already at the outer edge (the latter lags the former in turning, whether up or down…this time, up) .

The Nikkei is already almost 1,100 off of the lows and en route to 14,500 short-term, just to get the ball rolling. A new cyclical bull market has begun, which will be way out-performed by other Japanese indices.

By the way, a headline tonight was: "Japan, China Becoming Less Dependent On U.S. As Trading Partner"

You may also click on the above as a link.

Further, note that a major headline has been that stocks are rallying BECAUSE of a stronger Yen. The headlines used to read that stocks were strong because of a weaker Yen. How many times did I write that one?! Ho, hum. It's all about the domestic stocks now!

Conclusion & strategy:

100% long the Yen (see Yen section below), investors hold Japanese domestic demand oriented value stocks, as well as the out-performance long-term warrants for qualified accounts.

NEW YORK

From the January report:

"I warned that Christmas was bad and that Thanksgiving sales tipped off the smart money. I joked about how the easily manipulated

business news shows ran stories of how Christmas would be saved by Europeans traveling to the US to save money on a cheap dollar (since airfare is free for those European shoppers).

"Many times I have warned that a collapse in consumer spending leads to a Dow collapse within a month. And this is not theory. This is chartable and empirically knowable, therefore. Well, forebodings about the retailers have been among the headlines shaking the markets. When the Christmas sales numbers come out in a few months, the smart money will have dumped their shares onto the guys who watch the backward looking news shows."

Technical:

The January report illustrated a completed 5-wave Elliott wave count, to complete the final sub-division of the bull market from 1932. This spells: Oy vey!

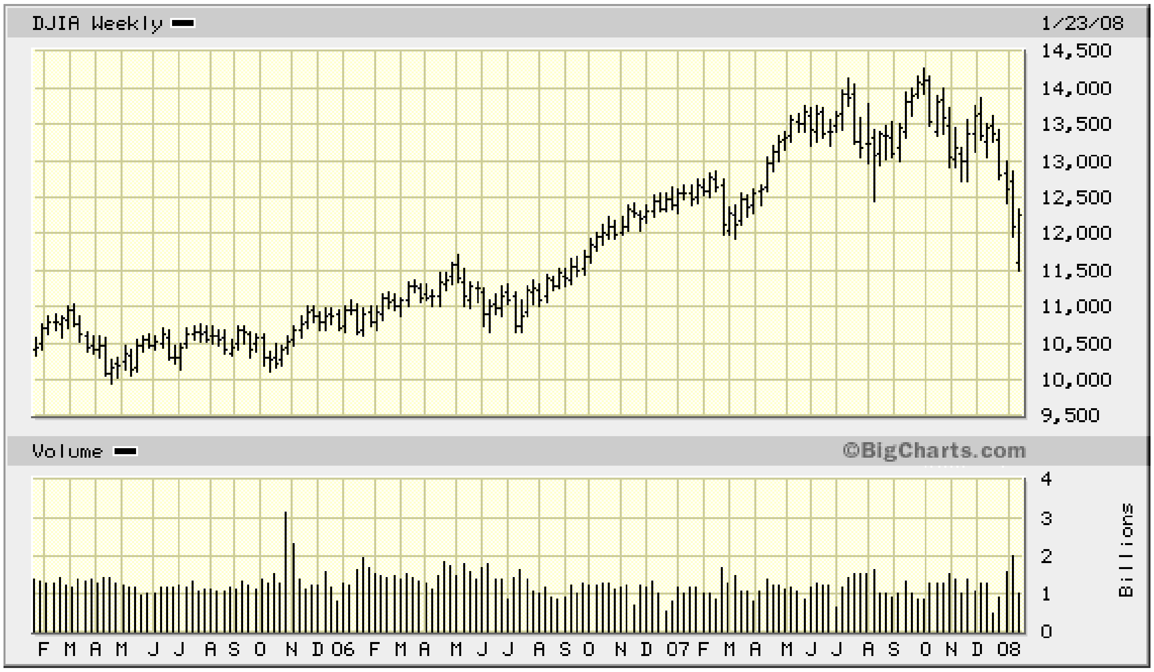
By the way, the Dow is presently at a neckline support (see chart below), but its only the beginning and can't be compared to the domestic Japanese equity experience, where multi-year declines are terminating with very low valuations. The opposite is true in New York.

Anyway, the first stop forecast was for 11,200, en route to 8,800. We got to 11,500. Close enough. In any event, the Dow should pull back after this 1000 point spike up, before rallying to still higher levels as I warned the panicked at the beginning of the week. Thereafter, hell.

"Warrants' attention", especially regarding how to hedge against ANY global outcome. The solution has been provided in these pages. I am harping on it…in this last issue on that matter.

From the December report:
"The moving average (weekly chart) shows support to be in the Dow 11,200 area, while the 1-year daily chart that follows it illustrates 200-day moving average resistance achieved. Still, it can be surpassed with a move to 13,600, but it would change nothing, in the context of the discussion above."

From the January report:
This analysis could not have been more accurate. Therefore, we can get to 12,000 imminently, but the multiple starts and stops (downtrend sub-divisions) means that the likelihood of a decline toward 11,000 as I've contemplated before (see previous paragraph) has become that much more likely.



And again from the December report:
"Hitting 2700 (NASDAQ) is dangerous enough. Will they actually cut ¾ of a point?"

The facetiously expressed value of the preceding was merely that the Fed was and would be helpless. And now that the lame duck can't murder for further profit anymore, it seems no one can save the day, eh?!

VIX:

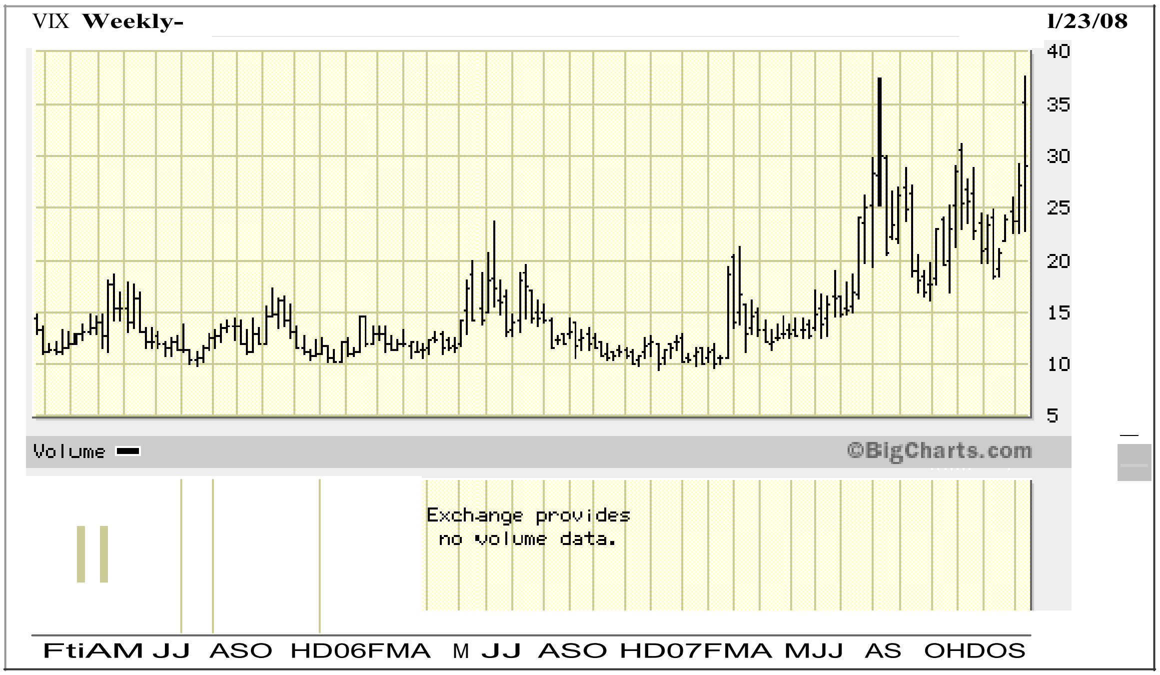
From the January report:

"I have commented and maintain that this new bull market in volatility is defined by the 200-day moving average and this is most obvious by the chart immediately below." The VIX never broke the 200-day moving average.

Anyway, at the recent lows in the market, the VIX got up to but did not break last August's highs at 38, and then collapsed back to 23. The low end will be tested by the time this upward correction is complete, with continuing volatility in this range in the interim.

It was precisely forecast that the Dow's lows would be made alongside a peak in the VIX. Therefore, one could have timed market exit/entry thus.

The 3-year chart immediately below of the VIX illustrates the pecks' comparisons,while the pursuant 3-month chart highlights the lows.



Conclusjon & strategv:

Again,from the December report(!):

"The Dow in 2008 has an appointment with 8800, and even the first quarter may well get the job done. I've learned this over the last 25 years: When the Street realizes that something is going to happen, they just make it happen and don't wait for others to sell ahead of them. Remember, the Fed has already forecast a weaker 2008. HEAR THE BELL!!! It's ringing so loud, it's drowning out the fat lady."

Reporting on New York over the past months has been the best anywhere I suspect, though that's not an informed opinion. Still, it doesn't get better and, for that to be obvious, simply note the Dow chart published last month, which even showed the precise technical interpretation. As long as long term warrants are held, profits will be huge and eclipse any penny ever lost via any investment vehicle(s) over any period of time. Remember this!

But, while focusing on the reprint 2 paragraphs above, I remind you of what I wrote so often this decade of gold. Even though there is a plain long-term trend in force, investors will find a way of screwing themselves. Have conviction, and have time instruments that allow the psychology to maintain that conviction and clarity.

PRECIOUS METALS & DOLLAR (YEN):

Once again, why add anything? Hold 100% long forever.

No market report anywhere could possibly have done better versus SKC's consistently accurate forecasts on gold since January 2002, without having used leveraged. The turning point identifications have resulted in huge gains, the most recent one having been for more than $100. Anyway, we're 100% long.

As for silver, we're only 100% long after last month, as we doubled capital (and hence took some capital off the table) with our 200% long position, on a forecasted spike to $11.00 on the button.

The silver chart follows the gold graph on page 10.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YEN:

Once again, why add anything? Hold 100% long (within our asset allocation). This is the best fiat currency in the world. Period. The Chinese are increasing their weighting as forecast long ago! The Yen is tomorrow. The USD is yesterday.

The Swiss Franc is the safety currency, so we're 25% there. Gold = 50% (or 40% + silver 10%), while the Yen represents 25% of all wealth. There's your wealth breakdown…still. Leave it alone.

No one has had a better asset allocation breakdown since 2002 anywhere on a risk-adjusted basis, in terms of currency denomination. And through the period, there have been only two or three modifications (relating to the Euro, gold and, most recently, silver).

Good fortune to all,

Sid Klein