

Dow: No
Silver: Yes
Nikkei: Yes



January 25, 2012

The December 27, 2011 report cited extremely high confidence that the stock market would decline under 10,000 by mid-April, with the possibility of a deluge actually commencing in January.

That report also expressed a very high confidence reading that a major cycle was bottoming on that day in **silver. The low was the next day.**

SKGS has written more than once during the last quarter (and through the past year) that a longer term long SLV diagonal call spread makes for a good portfolio mix, along with a Dow diagonal put spread of a duration shorter than that used for the SLV.

Since the SLV is longer dated, one might invest more cash in that strategy (60% - 40%?), particularly since the use of options provides greater leverage anyway (I didn't brooch this point in that particular, however).

Finally, I reiterated the point often made in the past that the Nikkei bottoms at the end of our calendar year, with the low occasionally being made at the Japanese yearend. Such are my findings regarding the past 30 years in Tokyo.

DOW

Yesterday, a CNBC guest pointed out that the last times over the past 15 years when market sentiment (Market Vane) and momentum indicators were this bullish and overbought were March 2000, October 2007, and May 2011.

These first two dates ushered in dramatic bear market moves, while 2011 concluded with severe volatility en route to what remains to yet be seen.

That's the good news for the bears, but closer analysis indicates that it is one thing to make a top, while it is another to actually collapse. It took months to roll over into oblivion, having shaken what remains of now impatient bears, despite the absence of new highs.

There is also good news for the bears in that those dates (March 2000, October 2007) preceded 1000 point drops over 1-month periods. Additionally, there was the 2000-pint smash last year, after the May extreme in the indicators cited above.

Regarding the short term, apart from the above, short term indicators are negatively divergent (no longer so regarding several intermediate ones) and **the coming decline measures down to 11,800 by the third week of February.**

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SILVER

Silver has lifted off from the just passed December cycle low with a breakout.

Meanwhile, today's Fed comments, along with what the Europeans have been doing and need to do, all but guarantee **silver over \$50 over the coming 12 months, and during perhaps this calendar year, in fact!**

Typical of past rallies, this move up may be exhausted and one would be wise to exit today (see SUMMARY).



NIKKEI

The Nikkei also bottomed on schedule and has broken out of a triangle, though, again, I recommend having no short term positions, given the short term technical indicators and risks in the New York and European indices.

SUMMARY

Investors are advised to maintain their long Dow diagonal put positions, while taking profits on the long silver call spreads. Simply, the Dow position should be all that remains.

Depending on how the mix of positions was structured, there might not even be any losses. This augers well for readers should the Dow indeed now decline 1000 points, so that repositioning after that decline would leave one in a strongly positive position for having managed volatility well by way the mix.

ASSET ALLOCATION

As a percent of all liquid wealth, the best overall mix remains:

50% gold
25% Swiss Franc
25% Dollar

Sid Klein

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