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Unprecedented Factors & the Perfect Time-and-Price Top:
Dow $6000 Lower, Gold $70 1-Day Rally

August 26, 2012

September's report comes a week early due to market events. Please read carefully!

All cited and blue-highlighted excerpts in this report are from the August 5, 2012 letter.

NEW YORK

The August 5, 2012 report clearly stated that, in the ultimate expression of contrarianism, the market initially disbelieved that Mario Draghi had come through.

"Moreover, he added that he would manipulate the shorter term bond market, so as to bring in the spreads between Spanish and German yields. For this month, the Spaniards do not need to issue debt but, once August passes, they will ask Mario to come through as promised."

"This not yet recognized game-changer by the public will become evident by the end of the month, I suspect; Mario Draghi's political skating ability will have become evident."

I explained that Drahgi had merely said that one would need to wait a "few weeks" for the "bazooka", to give time to the former WW2 allies to agree, and that once the Spaniards, Italians and Germans were in harmony, the international printing party would be able to begin in earnest.

Once the German court gets on board, the potentially coordinated global and therefore explosive effects of monetary printing could skyrocket precious metal prices (see PRECIOUS METALS below), while keeping a certain equilibrium for major currency levels, precisely since the US Q3 will have occurred at the same time.

I also explained that Barrack Obama would not publicize his involvement in "influencing" Europeans to get their house in order, unless he knew that he held the winning hand.

"Meanwhile, the Dow has but a final rally left to run, as described in the most recent reports.

"The logic is simple: Everyone knows that the printing will only have delayed the inevitable collapse of equity prices, since the real economy can only be hindered longer term by these reckless monetary policies. **<u>Therefore, such a rally will be used to sell into by the major players."</u>**

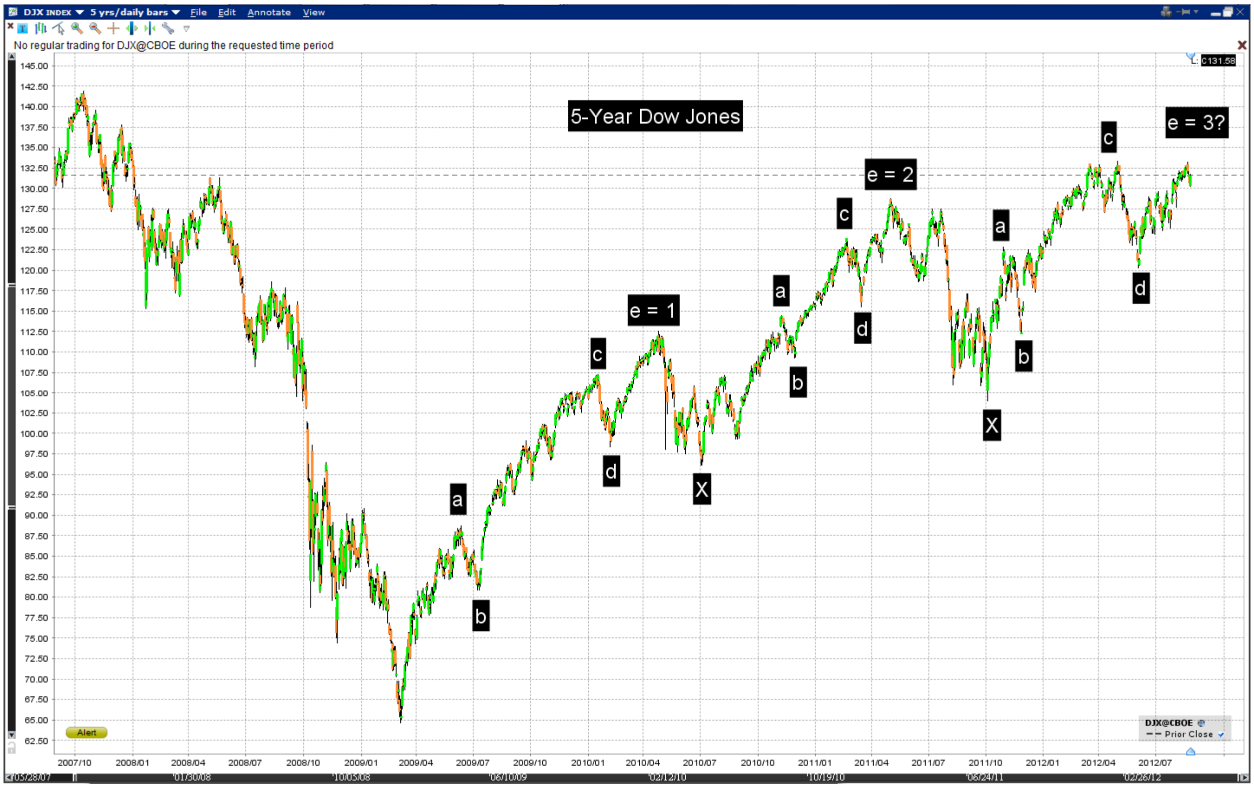
Investors an readers are strongly advised to revisit the previous letter, wherein I explained that a few hundred points and an additional month would likely be required to complete the post-2009 advance. This would help make sense of follows here:

"The following *5-year chart of the Dow Jones* labels the 3 major moves up since the 2009 low. Each move is subdivided by 5 waves, as indicated below. To emulate the previous two moves, there would need to be a final thrust higher into the end of the 4th quarter to complete the 3rd wave. (The Dow chart below updates the pattern from last month, while the S&P counterpart is added below it.)

"<u>NOTE</u>: *The labeling below does not reflect the rules of the Elliott Wave and is merely intended to show the pattern since 2009 and how this move would end if consistent*."

"(<u>Please note the major declines into the waves marked "X" on page-3, and realize that the end of this 3rd move since 2009 will have been the conclusion to the entire phase, suggesting that the ensuing debacle MUST NECESSARILY BE the greatest of all.</u>)"

Based on my chart markings below, the Dow, as I have so often forecast, will decline 6000 points from top-to-bottom in the period through the end of, say, the 1st quarter of 2013 (or sooner), commencing in late September early October (<u>before changing stances and preceding the recent move to new highs, I had thought that the top would be a month sooner</u>).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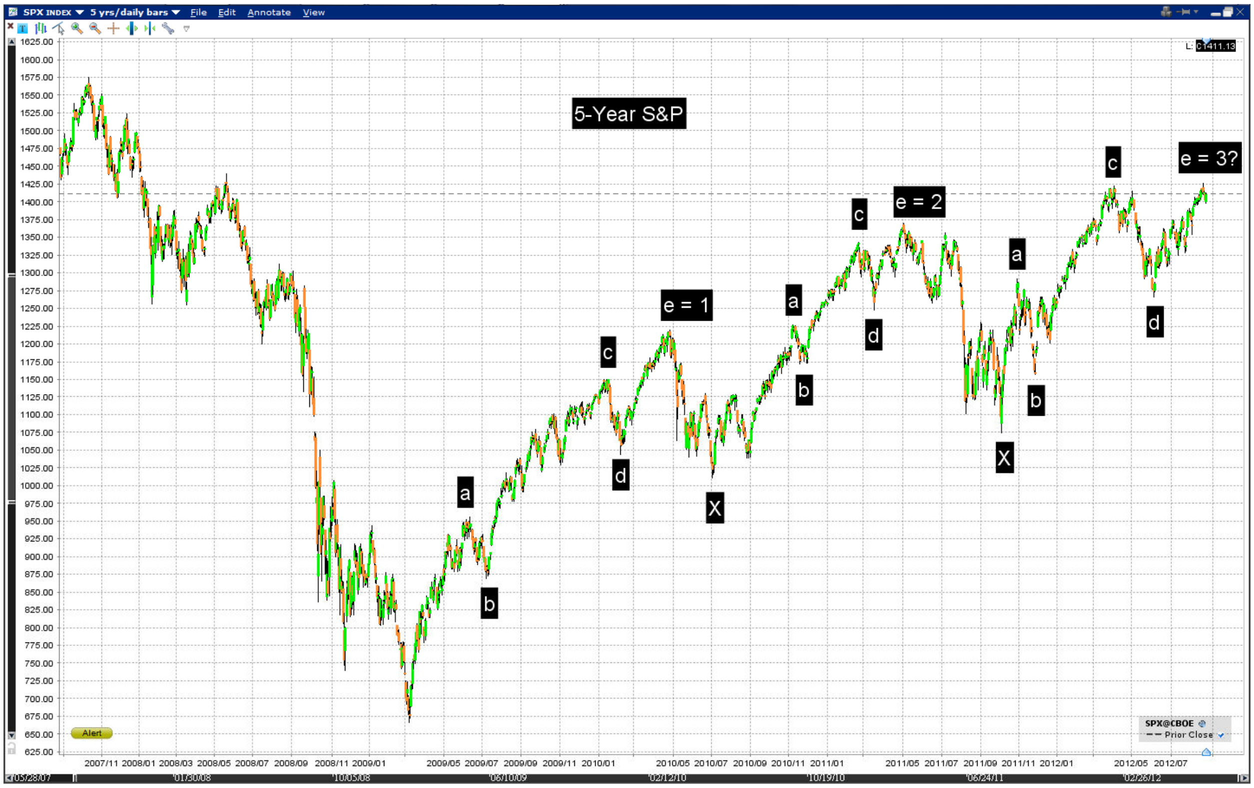
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"As for the Dow, this will have meant an "all-at-once-debacle" (as I have called such occurrences in the past), as opposed to a more gradual decline, like the more kind and modest smash of 2008."

The August 5, 2012 report also illustrated a completed pattern in the TLT (Barclay's US 20-year ETF), which underscored why the PRECIOUS METALS will be the huge beneficiaries of future global misery, since bonds offer NO alternative to equities, as had been the case during past equity bear markets.

Fundamental and unprecedented threats:

An investor and reader discussed 3 major fundamental threats with me that he sees on the horizon that are not receiving mainstream attention, and to which I would add a third, ANY AND/OR ALL OF WHICH WILL IMPLODE GLOBAL MARKETS.

1. The Japanese and American need to refinance 4 trillion of debt through yearend: unprecedented.
2. While there is no shortage of folks who discuss China's economic and stock market woes, there is NO mainstream discussion of several budding AIG-style calamities in that country that, this fund manager explains, "...will make Japan's real estate crisis of the nineties appear as a tiny bubble."
3. Finally, the lag between a run-up in oil and the CRB and violent equity declines can be 3-6 months; the clock ticks.
4. I add a 4th factor that has been in the news, though military invasions as smoke cover for financial calamities has been *relatively* unprecedented, historically speaking. Nothing could be better for re-election is the US. Benjamin Netenyahu has been *described by former Israeli* ***generals*** *as a 'warmongering madman without the knowledge or capacity to deal with such matters,* - and a man who could cause unnecessary calamity beyond anyone's grasp.' Like Sharon, the 1st ever known Jewish war criminal before him, he is truly a humiliation to his people - a major threat to world peace.

"The end of the year will then mark a global calamity of *epic proportions*, as countries exit the eurozone, an eventuality upon which this forecast is NOT dependent. There are "fiscal cliffs", Dollar-related earnings miseries for the US multi-nationals, etc."

CONCLUSION

As the charts on the previous page indicate, we are perhaps within 4-5 weeks of the post-2009 rally, which will usher in the GREATEST GLOBAL EQUITY MARKET CALAMITIES IN THE HISTORY OF THE WORLD. (The PRECIOUS METALS section below contains equity forecasts, as well.)

JAPAN/CHINA

The August 5, 2012 report decided to include the Yen {as represented by its ETF (FXY) below}, in lieu of a Nikkei chart in analyzing the broad Japanese stock market, since the latter would only rise as a result of BoJ printing.

The chart below is a **6-month FXY,** despite the annotation which was left untouched to illustrate the accuracy of the forecast, thereby indicating that we may be in-tune with the Yen's turn at this time. Since, August 5 2012, the FXY hit a low just under 123.50!

"The *Yen ETF* will collapse 10 whole points, I believe."

The Japanese CANNOT tolerate the Euro at these levels and the Japanese actually said so several weeks ago to the head of the IMF in their parliament.

Now then, the Japanese cannot print until the Europeans do, and when the latter print, one would think that the Yen would again advance if all else were equal. But they won't be (as the IMF chief was indirectly warned).

A massive Japanese printing awaits, and the logic is similar for the Americans, though it is always possible that the latter hold off a few months. Potato, potattow.

Personally, with US internationally-driven corporate profits getting whacked, I suspect that the actions may be coordinated, such that when the Brits chime in as well, one could get a 1-day $70+ rally in gold.

This will have been the most perverse way of maintaining currency equilibrium EVER. Who suffers?

The poor countries that will need to close mines to get paid higher prices to maintain "real" revenue levels, and most around the globe, such as my own country which sovereignty is being absorbed by such politically insidious and cowardly forms of sovereignty integration, and natural resource expropriation.

"In Japan, Westerners are not at all discounting any monetary shock and awe,..."

As for China, the Shanghai index is getting flushed, never having rallied with the rest.

Sitting at its low, it is IMPOSSIBLE that the world's new economic powerhouse have the Shanghai equity index trading in the toilet, unless there were something other than economic factors.

Income statement items would not suffice. This is a balance sheet tragedy that is unfolding, more than an economic crisis - a financial one! (SEE POINT#2 ON PAGE-3.)

GOLD

"There are so many possible sources for *precious metals* eruption, that one should realize that if they were to ALL occur, as I believe will have been the case, the scenario of risk of *gold and silver* explosion is inordinately huge."

As per the above, the precious metals commentary in this month's issue is spread throughout the letter.

"However, today's report contemplates game-changing events. They would cause the Dow to rally back toward its all-time highs, while assuring the *precious metals'* outperformance of the equity markets."

"Therefore, under this scenario, there would be no issue regarding directional performance during Dow declines. This conclusion is based on the printing discussed today, coupled with the continued advance of the Dow.

"Printing assures outperformance, while a Dow advance provides a positive trend for gold and silver prices, even if co-directionality is the best for which the metals can hope."

The preceding 2 paragraphs require clarification and augmentation:

While co-directionality will not be broken, the relative strength's dramatic shift will have caused confusion for precious metal investor, consistent with the type of scenario we saw back in 2007-08, when gold and silver peaked about 5-6 months AFTER the Dow and S&P.

I believe that the Dow may decline 2,000+ points or so from the coming final peak, at the same time that gold and silver correct from, say, 170 and 32.5, on the GLD and SLV, respectively. Then, during the countertrend rally from (we will assume) Dow 11,200 to 12,000, gold and silver could erupt into the 3rd week of November.

Thereafter, the decimation in equities could cause a more serious precious metals correction, though the latter could still hold up for 2-3 more months, as investors panic and managers window dress to try to create the appearance of having reallocated into the more appropriate asset classes; after all, they are fighting to save their jobs.

"The global wealth decimation will be of EPIC proportions, and will come with shocking speed that will bring back the memories of 1987 horror, which was far worse than the ugly memories of 2008, which is about as far back as most investors' memories go."

In virtually ALL asset classes THROUGHOUT the whole world, volatility premiums have entirely collapsed. Despite this month's forecasted breakout in the precious metals, the GVZ (gold volatility index) remains mired at historically low levels, something that will be corrected once the here-contemplated $70 1-day spike transpires.

Before the updated **1-year GLD** chart on page-8, let us again revisit this month's regular issue which was published on August 5:

"The GVZ chart is at 3-year low levels, while the GLD is at neckline support and trading above an apex, which would typically suggest an imminent explosion. Bears beware!"

Please scroll down to page-8.

SILVER

"For *silver,* this will have meant a dramatic spike in price and volatility, after having suffered a virtual death in volatility."

"As the *6-month SLV* chart below indicates, same as gold, this metal has come into a right shoulder apex that would be consistent with an acceleration to the upside."

As with any of the charts, to understand the accelerating processes underway in these markets, please note the changes since the August 5, 2012 report.

Please scroll down to page-9 for updated **6-month SLV** chart.

Whether with respect to gold or silver, and despite my emotions-driven nervosa (because I'm only human), SKGS remained clear and consistent in remarking that the patterns were obvious in identifying major intermediate term lows - at the lows - even as seasoned veteran writers and traders turned or remained bearish at the respective lows.

Such has been the history of SKGS since gold-$280, in 2002.

July 1, 2012

"The market could be stunned to discover how quickly the SLV rallies to $39."

Silver underperformed gold, as the latter benefitted from central bank buying support. Still, having peaked months earlier, and as silver's relative weakness was creating a different pattern, silver had come to create a far more predictable and superior pattern.

Having said that, silver has indeed gone on to post far superior returns since the lows. One must bear in mind, though, that, as implied above, it was playing some catch-up to the other precious metal.

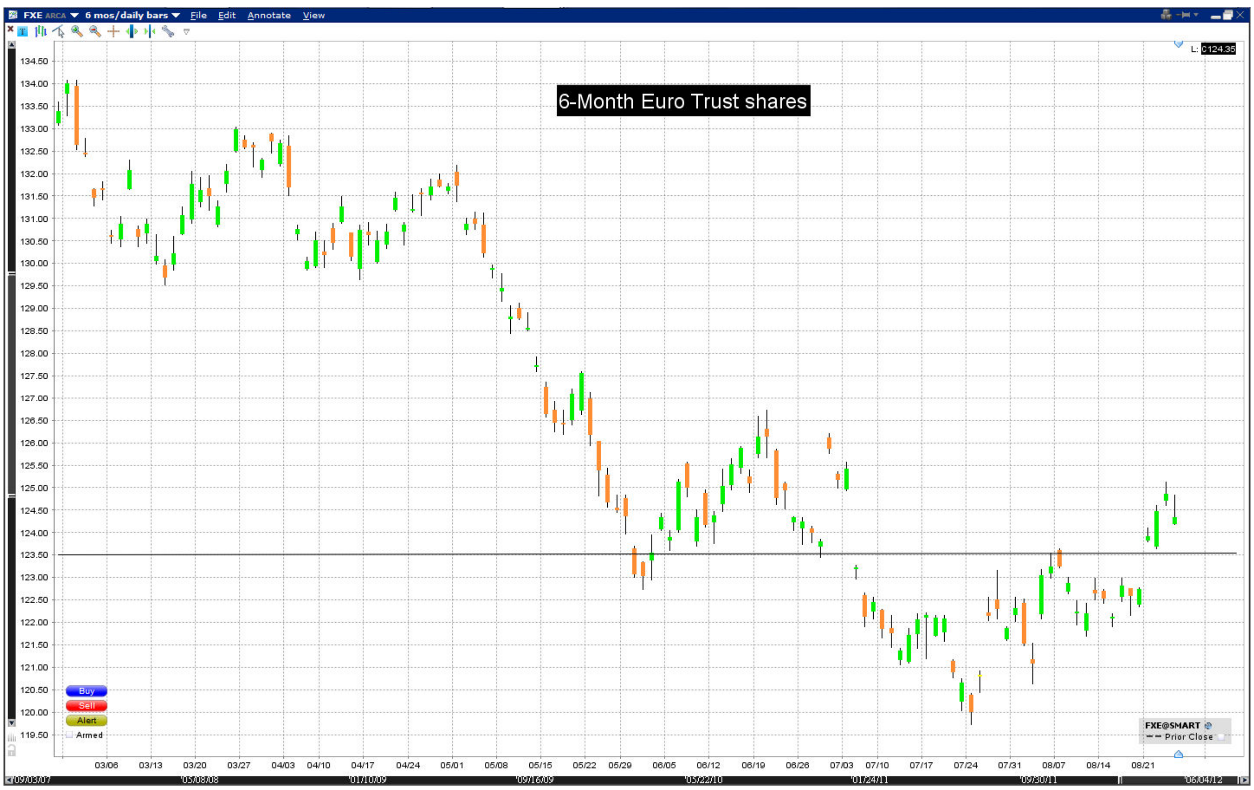
As gold and silver move toward their targets for this initial move up, gold will have been the leader, nonetheless.

When the metals move into wave-3 through the pursuant advance (after the correction that follows the end of this initial move up), silver will truly shine more brightly.

CURRENCIES

"The Dollar Index......trend and neckline supports are in the 80.50 - 81.00 zone." The DXY has thus far declined to 81.25.

With prior issues having forecast 123.50, the **6-month Euro Trust ETF** chart below illustrates how that level was hit to a tee before pulling back, since which time I have written that major resistance comes in at the 126-129 area (see chart below).



Referring to the pegged Swiss Franc:

"....illustrates Friday's hair-raising rally, which also tacked 1.95 to the Euro Trust shares. The latter enjoys momentum potential to the 126 - 129 zone (from 123.05); equity and PM bulls may continue to party in the short term."

CONCLUSION

Whether referring to the global equity indices, precious metals or currencies, considering past performance at precise secular and cyclical peaks and troughs (Major

Tuning Points page at www.sidklein.com), and given the crucial and historic nature of these forecasts, without discussing the effect on wealth, whether to appreciably augment or decimate it,...

Do you really want to bet that I'm wrong?

Please visit the new site, http://www.sidklein.com/investment.html, to review commentary and charts of past major global market turning points.

Sid Klein