

Silver, Nikkei Are Indeed Gold: Euro Currency/Equities & Dow Peak?



February 29, 2012

NEW YORK

December 27, 2011

"At 4%, the bull scenario includes a reverse-shoulder-head-shoulder breakout and acceleration from levels just overhead (see charts). The Dow would trade essentially flat around 13,000 through the year."

At yearend, I believed that there was a great chance that the stock market had peaked, even though my fervent bullishness on silver and the Nikkei contradicted that argument (a wise Bache commodity trader of yesteryear taught his daily squawk-box listeners to never correlate markets) (see below).

Still, one must always entertain alternate scenarios. Representing my cynicism, I gave my alternate scenario a "4%" probability. Fortunately, I had the rest right, even regarding New York, but only insofar as the alternate scenario is concerned, that is.

While the Dow's reverse shoulder-head-shoulder did break out over 12,400 and move to 13,000, silver and the Nikkei have completely reversed and erupted.

So, let us look at the Dow's overwhelming technical evidence, which support a correction that is in the context of the alternate scenario's trading range through the next 6 months, before the unavoidable disaster later on, when the can will no longer be kickable.

{A timely aside, then, did anyone care this week about the S&P's downgrade of Greece (when we thought that that was no longer possible), stating that Greece had already introduced measures that contradicted the terms of the agreement upon which the bailout had been agreed?}

Before continuing, allow me to underscore a few technical points, particularly since they pertains to charts that appear throughout this report:

Expanding triangles are patterns that signify increasing volatility to come. These patterns comprise 7 points, which include 4 new highs that are then followed by a decline below point-3. Point-6 is a rally to a level that approximates the midpoint of the range; point-7 is the volatile smash.

These reports repeatedly discuss **divergences**. The latter indicate waning momentum that accompanies the market advances (as opposed to declines, as in today's case). The greater the number of divergences, the quicker and/or deeper the ensuing declines.

Confirmations of divergences take place when the stochastic crosses below the 80-line; truer confirmation occurs when both the momentum line and 200-day moving average of momentum cross below 80 (there are 2 lines that move together).

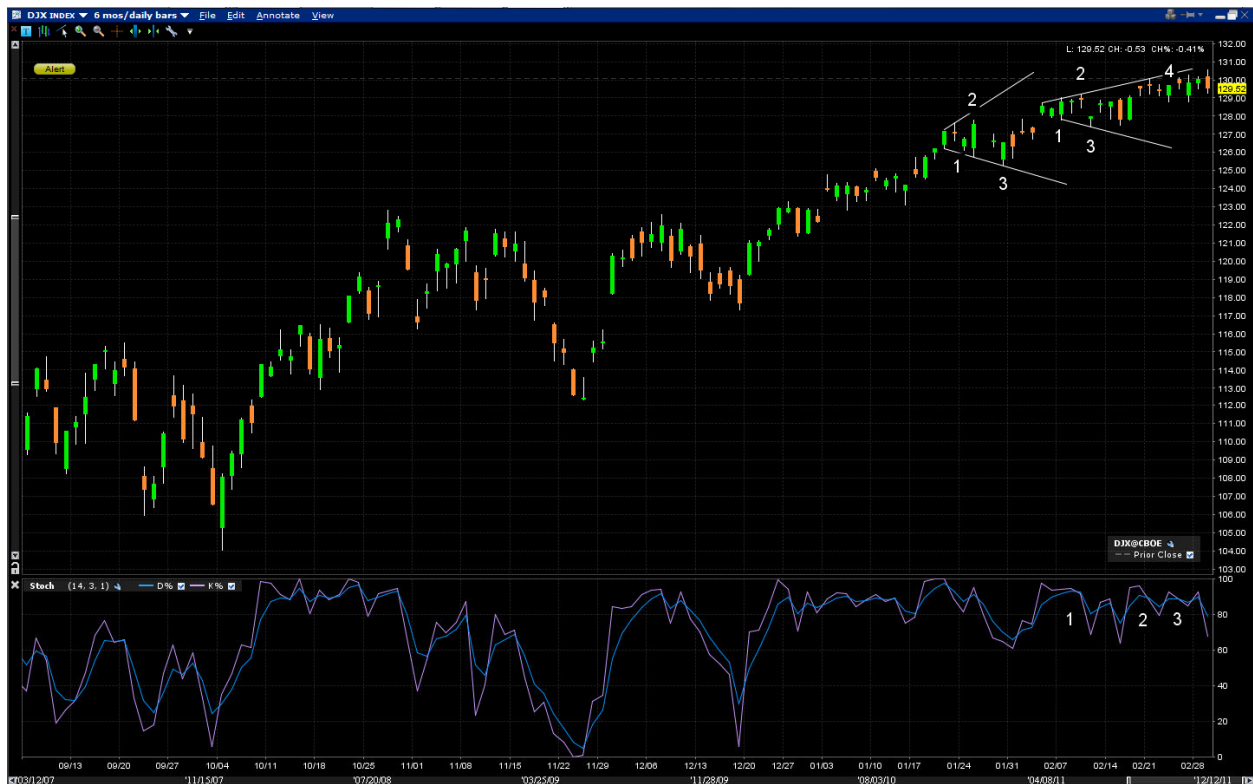
The **MACD** momentum indicator is the most popular among technicians, while my own preference is the **stochastic**. Below, in the case of the StockCharts graph, both are illustrated, with the **MACD** above the price chart, while the **stochastic** is shown beneath it.

Outside days occur when there is a high and low that go outside the previous day's extremes. Outside days indicate increasing volatility, very often indicating reversal days.

For the second time in three days, the Dow Jones has put in outside days, only today concluded with a candlestick sell signal to confirm!

The Dow Jones is also sporting a dangerous **stochastic triple**-divergence sell signal (and an **expanding triangle** within an expanding triangle?)!

Daily 1-year Dow Jones:



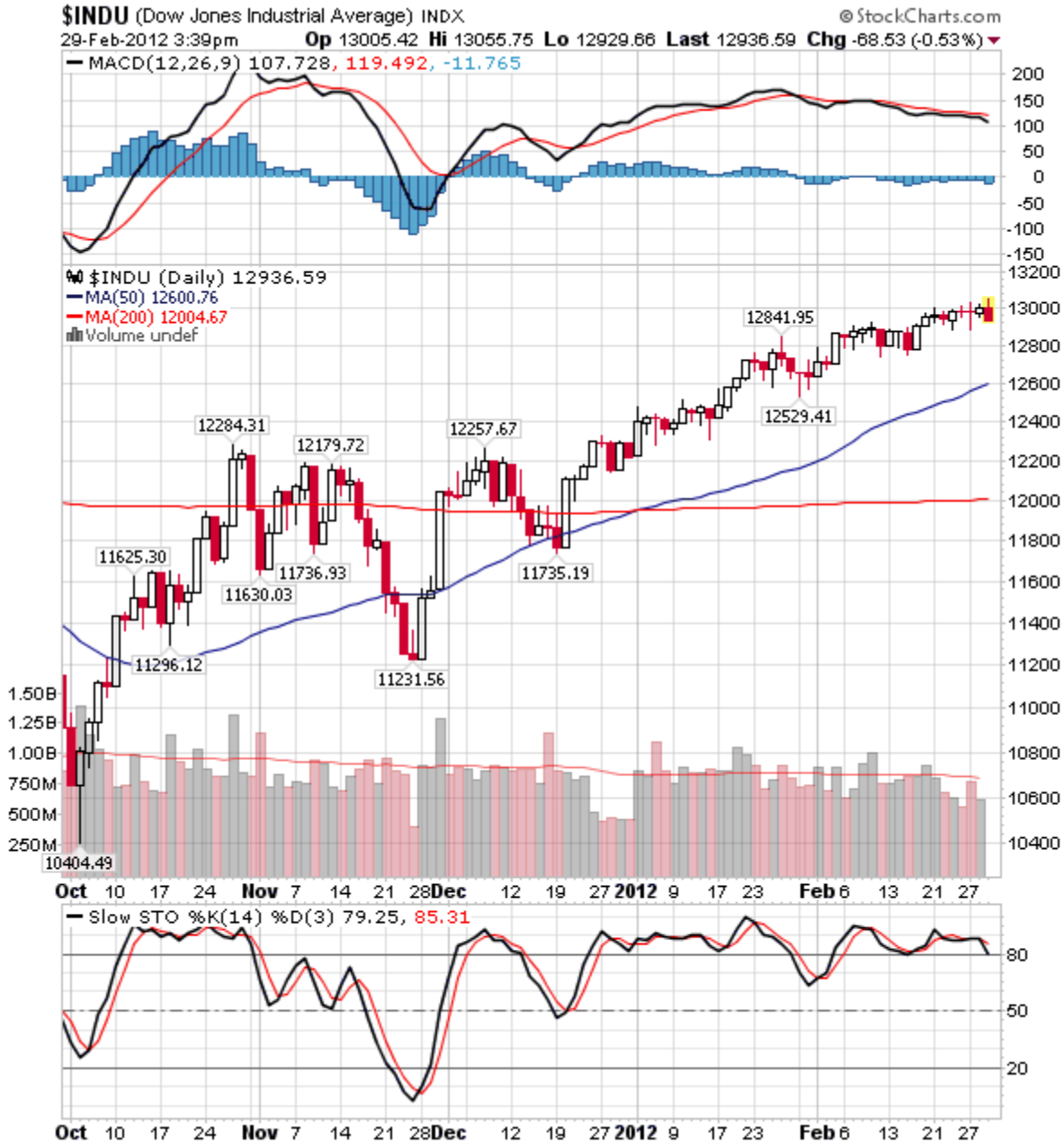
The StockCharts representation of the **Dow Jones 6-month graph** on page-4 illustrates a **MACD** sell signal, which, despite continued advances in the index, has been in sell mode since the 11th or 12th of February!

In the following version, the **stochastic** is a day away, I suspect, from a confirmation of the sell signal (break below 80), which is confirmed in the Interactive Brokers chart above. (The small difference is caused by slightly altered choices for stochastic parameters.)

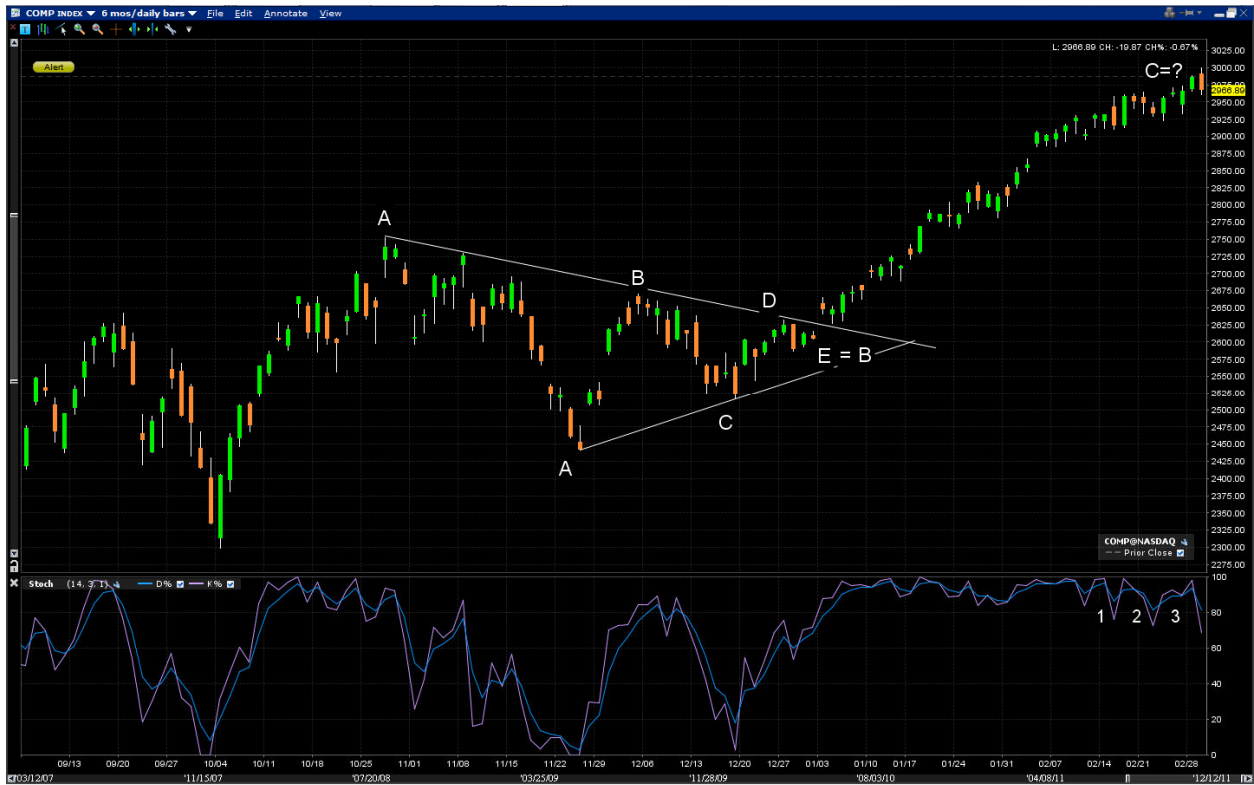
The triple divergence in the stochastic, candlestick sell signal, and double-divergence in the MACD are also evident, not to mention the outside day, of course.

There is a high probability entry point for a bearish position right now.

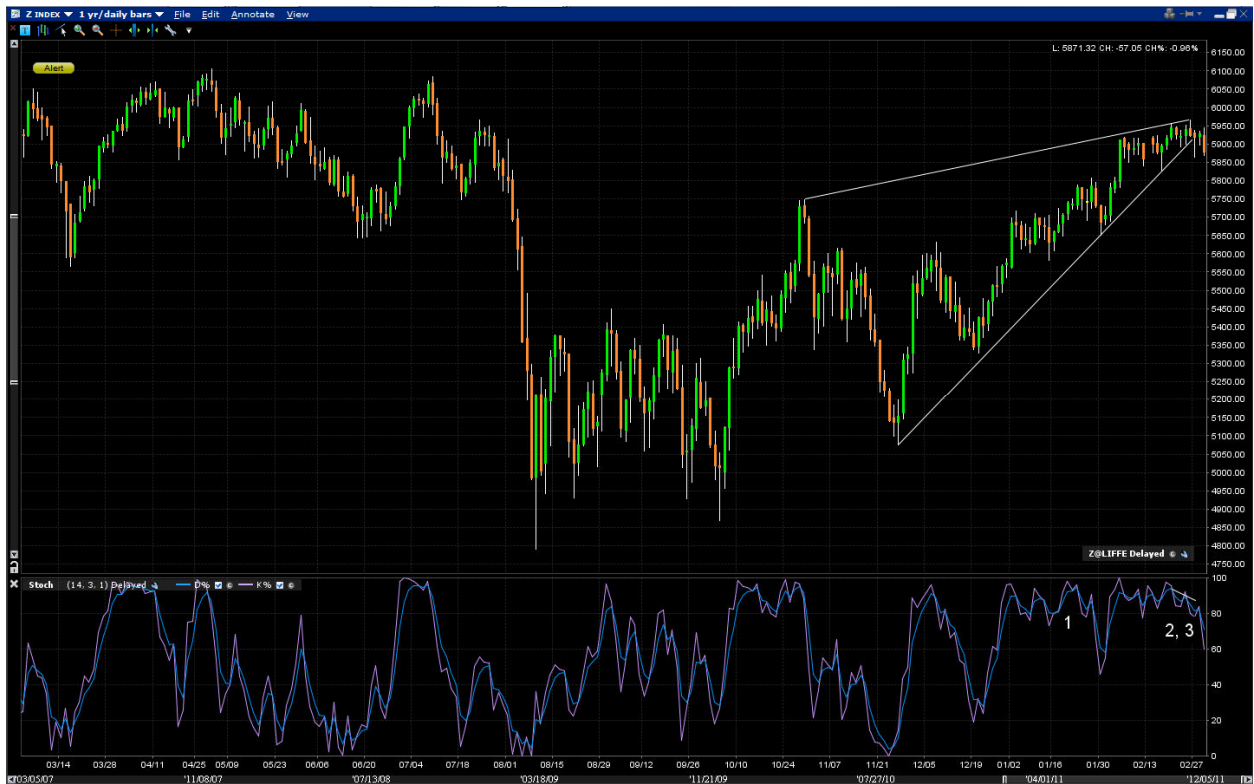
(Please scroll down to page-4.)



As with the Dow Jones, the 6-month Nasdaq Composite chart on the next page reflects a triple-divergence in the stochastic, and a candlestick sell signal, while the StockCharts graph (not shown) illustrates a MACD sell signal that has been in force since February 21.



1-Year FTSE chart (London).



The indicators have been disastrous since mid-month everywhere, and what follows in this European section calls into question just how much Bernanke's comments today actually had to do with the declines in the metals (see PRECIOUS METALS below) and equities in New York.

Replete with a wedge (which is a **highly** reliable pattern), the chart at the bottom of page 5 also reflects a double-divergence in the stochastic (#1 is merely to mark the high point in the stochastic, whereby what follows are divergences), an outside day, and a candlestick sell signal; London has been Europe's strongest market.

Arguably, it has completed a massive right shoulder from which it will recover no more, regardless the activity in the Dow following the coming hit in New York.

6-Month daily CAC chart (France)



The chart immediately above is yet another graph that some would say has an expanding triangle within an expanding triangle, along with a not-previously-seen-by-me **sextuple stochastic divergence!**

The coming correction may yet be something bigger than what I have come to expect, perhaps?

1-Year daily DAX chart (Germany)



Sporting a single stochastic divergence, one could argue that it is Germany that has been Europe's strongest stock market (immediately above).

Right now, however, the DAX's candlestick sell signal is an additional bearish indicator, which is further embellished by bearish technical indicators (such as those seen here) on Deutsche Bank (not shown).

VIX

The **6-month daily VIX chart** on the next page illustrates a bullish double-divergence in the stochastic, a candlestick buy signal (poor indicator performance in the case of the VIX), a **wedge** (highly reliable indicator, as described above), and a bullish MACD since the end of **December (!), save for 2 days since**.

Further, since point-2, there is a reverse shoulder-head-shoulder.

As well, while slightly less so, the premiums in the VIX futures contracts are unusually large. Such contango is very bullish for the countertrend VIX (see February 5, 2012 report).

As regards the MACD indicator, the StockCharts graph is not shown, though the previous report (February 5, 2012) reflects the identification of the perfect low in the VIX chart.



CONCLUSION

The Dow Jones should drop to ~12,450, before rallying to around 12,750, then followed by a decline to 12,200, or so.

NIKKEI

The December 27, 2011 report described 8100 as the retested level that the market "knew" was the appropriate support, amid the March mayhem when the earthquake hit that nation.

December 27, 2011

"Once again: The best time to buy or sell Japan is at our yearend or, less often, theirs, in March. Historically, if and when March exceeds the previous level, it can be marginal break or, as is often the case, a failed attempt at a new high or new low.

"This is my lead index right now for ANY global long/short trade. This trade (i.e. – Nikkei–Dow), put on today, will yield extremely high risk-adjusted returns through 2012. This trade is recommended at today's prices."

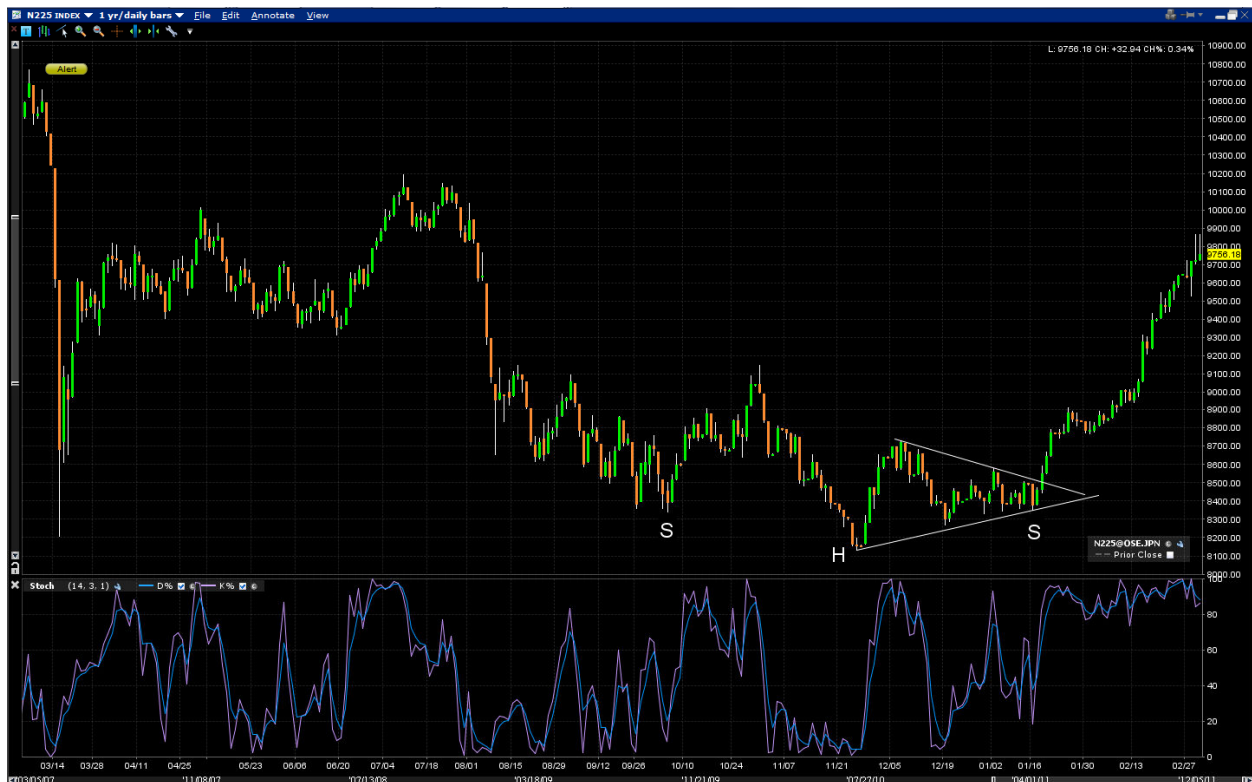
The Nikkei has rallied from 8100 to 9900. March tends to mark extremes (as indicated immediately above), so we are very likely making an intermediate top soon.

Momentum indicators are very stretched, though not divergent, and so the Nikkei will likely continue to reflect its superiority versus New York, which, interestingly, has been called the best major global market by most commentators, 'amid a lousy pool of indices, due to action in Europe.'

Meanwhile, the Nikkei story is only now catching on (I think)!

Support is now at 9100. Boy, who believed that possible at yearend?! (What a difference a New Year makes.)

Apart from the fantastic retest of the 8100 earthquake low, from the technical side, my arguments included the reverse shoulder-head-shoulder pattern and, above all, yes, that's right, THE wedge formation (**SEE 1-YEAR NIKKEI CHART IMMEDIATELY BELOW**).



CHINA

The **daily 1-year chart** on the next page of the **Morgan Stanley China A Share** includes an expanding triangle, as well as a stochastic triple-divergence, both of which

are bearish (a break to ~\$21 would confirm a larger hit to come, upon a subsequent rally to about \$22.75).



However, the **December 27, 2011** report offered the following bullish commentary:

"The Shanghai index is in a serious and ongoing decline, the worst of which will be over by their New Year."

"The Shanghai index is a long/short candidate versus Western markets later, particularly as 2012 enjoys a newly begun cycle of lower rates. (Chinese monetary policy shifted the night before New York exploded 500 points.)"

STRATEGY

Therefore, I conclude that a spike lower toward the bottom, in the index above, will mark a right-shoulder-low that may be used to go long Shanghai-related indices versus European (Western) ones, as is the case with the Nikkei, as well, of course.

PRECIOUS METALS

The following excerpts are critical in understanding the conclusions that I draw from today's action, as well as the activity that transpired since the referenced precise entry at yearend and premature exit at the end of January.

Please examine carefully, particularly given today's market action.

December 27, 2011

"Silver is a screaming buy on my time cycle low, TODAY. Gold has caused enough oh-my-God-panic among the clued-out Westerners, who sell their gold to the insatiable Easterners. The latter are unencumbered by any thought that inflation and deflation still have something to do with anything.

"As I have been writing for 10 years regarding this period, whether considering asset allocation, downgrades, ANYTHING, this is a balance sheet story, not any income statement diversion."

February 5, 2012

"It would seem that the causes for a bull move in equities are the same ones that would drive the precious metals dramatically higher, certainly silver.

"The precious metals have been co-directional with equities, and now we are probably looking at a scenario where one is blessed if one does, and blessed if one doesn't.

"Simply, if Europe and the US are printing money, silver over \$50 is a matter of course, probably over the next 12 months!"

"Look at the 8-dollar rally off of the major December 27, 2011 time cycle low. This is just the beginning."

February 5, 2012

"The **6-month silver** chart annotates this sharp 8-point move off the December low. This move concludes the end of wave-1, within a much larger pattern, as discussed in previous letters.

"The following excerpt from the January interim report includes the chart printed from that day. Therefore, we caught the perfect low within a day and subsequently all but nailed down the peak of the ensuing rally, as well."

January 25, 2012

"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)."

Throughout the past decades, I have repeatedly commented two key points, among other themes:

Gold's corrections are part of up-trends, as, in Elliott Wave parlance, B-waves exceed the peaks that occurred before the initial corrective leg down; B-waves in corrective trends within a bull market do move up, but very rarely actually exceed the peaks from which they were correcting.

To identify that B-waves to new highs are actually corrective is not a mere academic point!

As so often instructed in these pages, the correct identification of this wave count allows the investor to know when a correction is actually ending, as opposed to beginning, or being in the midst of a correction that has some way to go.

This phenomenon continues in gold and has now spread to include silver!!!

1-Year daily SLV (silver ETF) chart



The chart above includes an outside day, a candlestick sell signal, and multiple negative stochastic divergences to boot.

But nothing could actually be more bullish!

As reproduced above for strategic examination, the January 25, 2012 letter recommended exiting at what indeed was the peak for MOMENTUM.

It is precisely that fact which made today's smash possible. This move \$3 higher than where I recommended taking (albeit) substantial quick profits was actually corrective on waning momentum.

Therefore, I conclude that the next leg down {which has already begun (today)} will barely cross where I recommended selling, if even getting there. From here on in, the correction will mostly be one of time, dragging through the month of March.

If one understands that the end of January was indeed the end of Wave-1, as I wrote at the time (see reprinting above), then one can see how easily and quickly silver may fly to and above \$50 this year(!), also as described in recent weeks (above). After all, if a B-wave of Wave-2 can carry to \$36, then, one could easily see the mid-40's this summer.

February 5, 2012

"Simply, silver offers the best risk/reward scenario of all of the asset classes with which these reports concern themselves."

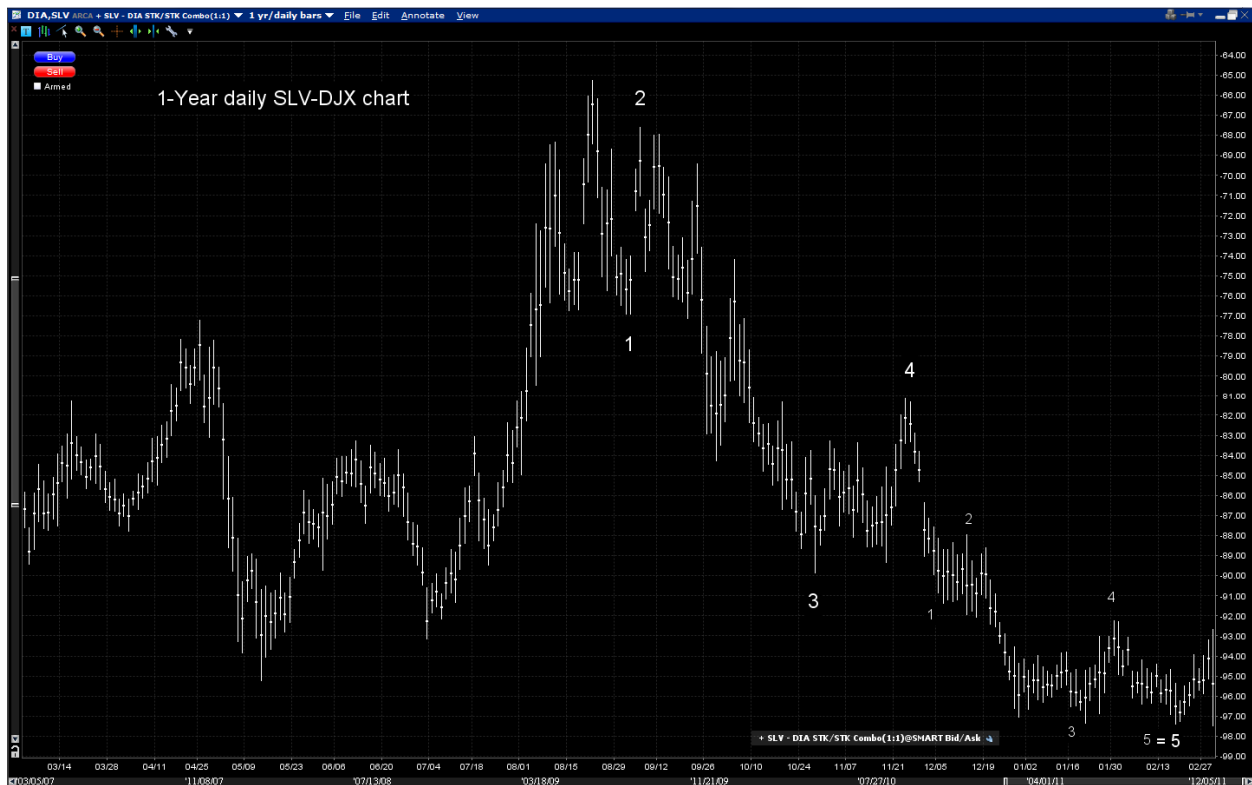
1-Year daily GLD (gold ETF) chart



The GLD is similar in that it is now in the throes of working on creating a right shoulder in the month of March. However, silver has assumed dominance over both gold and the Dow Jones, in my opinion.

As I have written before, and since my accurate projection of "GOLD 1500" in a special report written for Gold-Eagle ([GOLD 1500](#)), gold is in a major Wave-3 advance, en route toward \$3500, which will itself neither be the end of gold's bull market, nor the financial calamity causing it.

1-Year daily SLV-DIA (silver - Dow ETFs) spread chart



After having been early, I believe that the February 5, 2012 report illustrated the correct wave count, as depicted in the reproduced graph above, which includes today's activity.

The latter depicts a wild outside day, which suggests that the next move is down or sideways-down, but, in my opinion, only bad enough to create a right shoulder.

Yes, while being so close to the chart's low, I am going out on a limb to write this, as part of an analysis that the spread chart suggests that the Dow will now correct, and that silver will merely have been ahead of the corrective activity in each.

EURO

February 5, 2012

"The 1-year Euro Trust Currency Shares chart below may be overbought, but there are no divergences and, in and of itself, does not portend of anything bad to come soon in the world."

Well, now things have changed.

1-Year daily Euro Trust Currency Shares chart



Above, we again witness an expanding triangle, along with a double-divergence in the stochastic. Further, by breaking over 132, traders were stopped out, while heading into critical resistance at 134.

Having said that, a triangle-concluding mini-smash to 130 may indeed be the opportunity go long (for speculators), yes, based on the story that everyone is short, and that in dropping weaker partners (such as Greece), the Euro may be ready to enjoy a cyclical bull market (within a secular bear market, however).

STRATEGY CONCLUSION

Dow Jones: Short but cover after correction's completion in March.

Nikkei: **Major** buy after completion of correction in March.

Shanghai: Buy after completion of correction in March.

European equities: Long/short London or Germany versus France (simplest and easiest intra-European strategy).

Silver: Major (and favoured) buy after correction's completion in March.

Gold: Major buy after correction's completion in March.

Euro: Speculative buy after completion of correction in March.

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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