

**European Stocks Peaked, Spike Down to Complete;
Dow Jones 500-Point Drop Before Final Blow-Off;
Nikkei 9100 Near, Shanghai Composite Bottomed;
Precious Metals Panic**



May 4, 2012 (4:20 a.m. EDT)

NEW YORK

SUMMARY

The following portion in red is the summary from the April report. What follows in regular black is the May summary:

"**European equities** have topped and will become very volatile this quarter; the unfolding smash will yield to a countertrend rally this spring, that will leave the Dow and other US equity indices alone in making globally unconfirmed peaks.

"Meanwhile, therefore, the **Dow Jones** should get taken down to 12,300 or so by mid-May, before making final highs this summer, coincident with Europe's rally phase.

"The **Nikkei** has peaked, just as the **Shanghai Composite** is putting in an important bottom. The latter's advance, along with Europe's countertrend rally (after this

unfolding spring smash), will also be a "positive" aspect within the background against which the Dow's psychology of denial finds daily excuses for investors to delay panic.

"Silver and gold have likely bottomed, except that a smash in equities *could* delay the resumption of the powerful bull market in the precious metals for about a month.

"The **Yen's** bull market finally ended, though I remind all of the counterintuitive co-directionality of the Yen and the **Dollar.**"

It is my belief that the Dow peaked this past Wednesday and will have declined 500 points from the intra-day peak this month, consistent with prior analysis. However, I am raising the support from 12,300 to 12,600 (see annotated NYSE chart).

Europe is preparing for its flush-out to final lows for this particular move.

Volatility will now spike everywhere and startle investors into fearing that a correction is accelerating, as opposed to concluding (for now), as QE3 gets going in the US and the ECB prepares to print another \$Trillion.

The metals will take off and the Euro finally breaks toward 126.

December 27, 2011

"At 4%, the bull scenario includes a reverse-shoulder-head-shoulder breakout and acceleration from levels just overhead (see charts) (12,400). The Dow would trade essentially flat around 13,000 through the year."

April 1, 2012

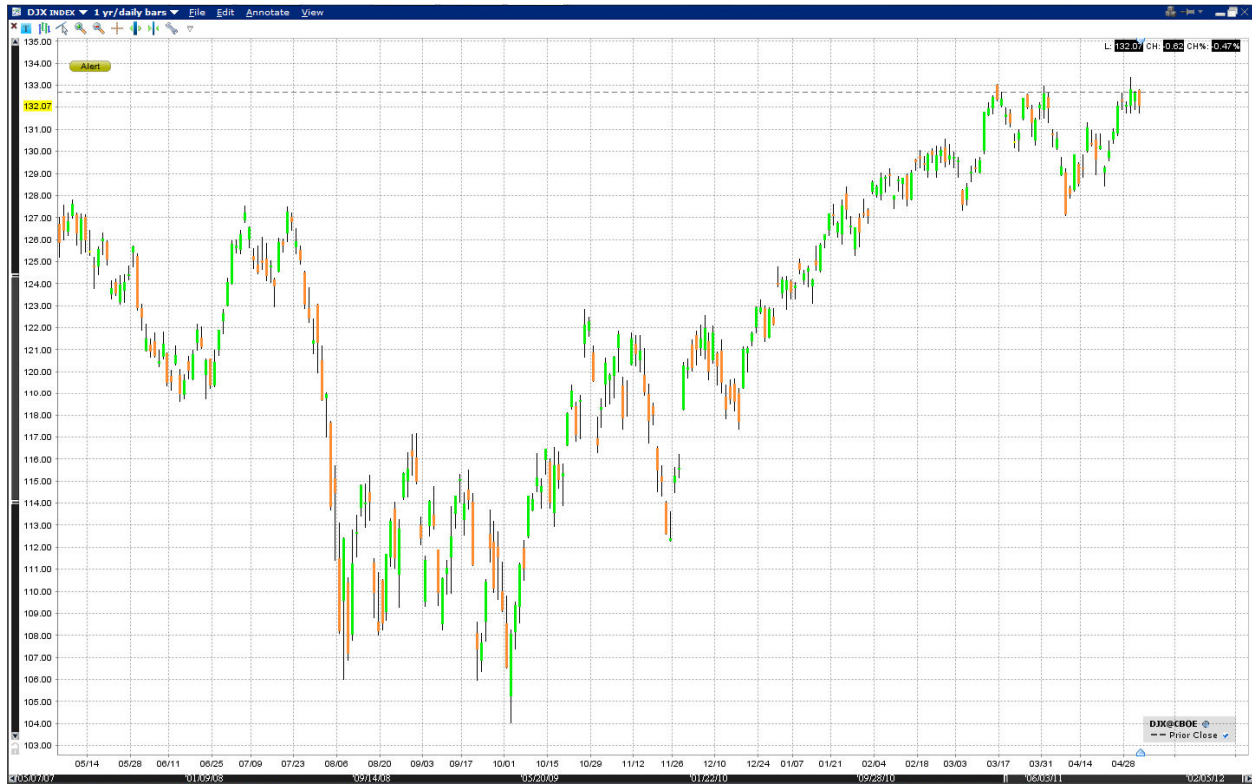
"It's all gonna get worse until bad news will be greeted with global implosion. I commented long ago that the markets have stopped leading the news, but have merely reacted simultaneously with the negative news or developments. This seems to have been the case for over a decade, or so.

"So, the effect of printing and can-kicking will have been an implosion later in 2012 and 2013, that resembles a mud slide for a home...where the owner never saw the earth underneath the structure beginning to move."

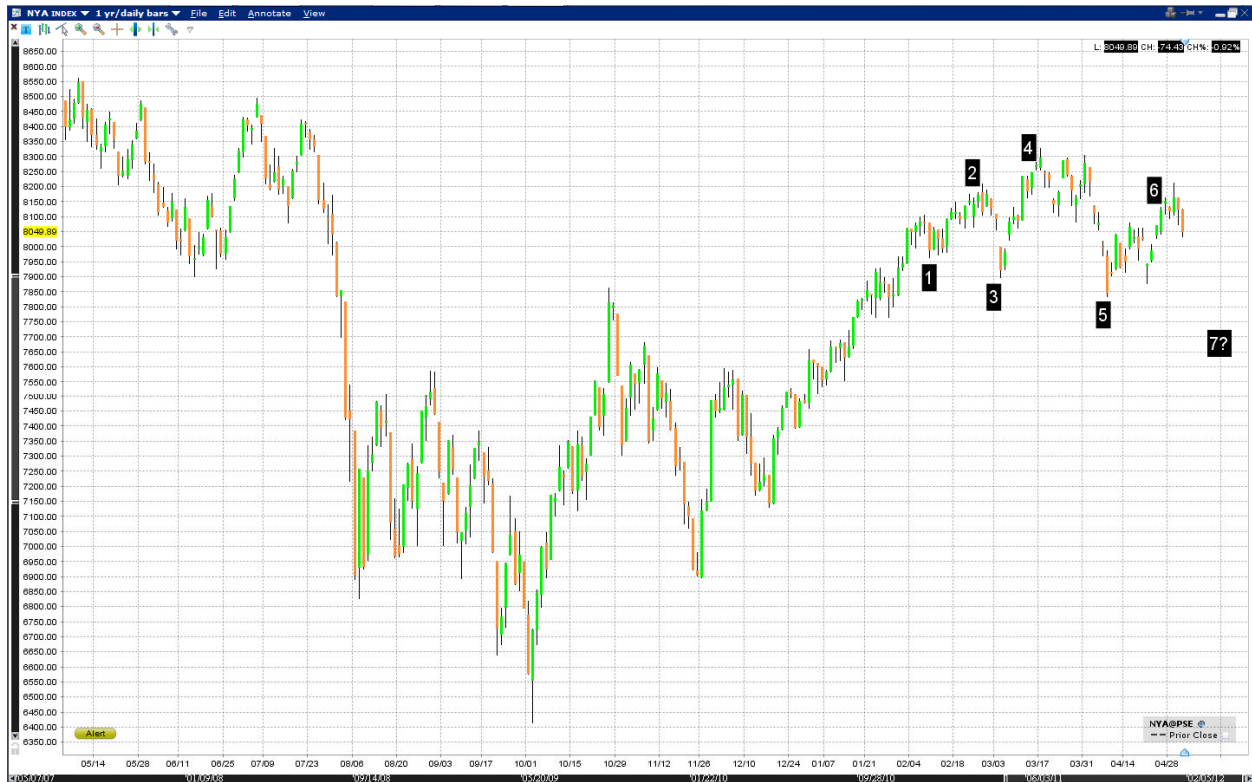
April 1, 2012

"Another way to understand the global sequence as I see it would be: The unending bad news out of Europe is ahead of New York, as the US is treated as safe haven for Westerners. Then, global contagion sets in, whether economic or financial, etc.

1-Year Dow chart



1-Year NYSE chart



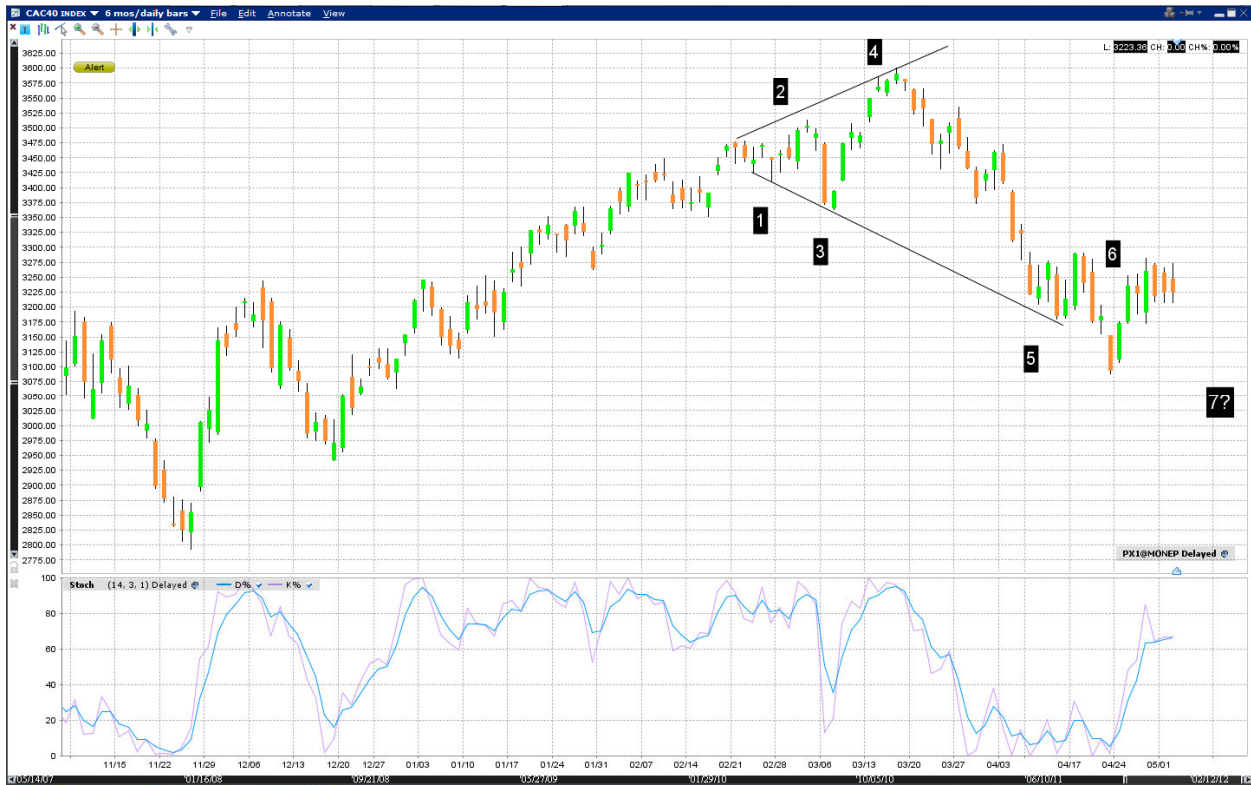
The Dow chart on the preceding page bears out the comments attending it, but the most interesting graph by far is that of the NYSE (which follows the Dow graph).

The NYSE chart illustrates the clearest and cleanest definition of an expanding triangle, and therefore serves as the best gauge as to when the equity markets may be bottoming.

As the NYSE chart reflects, 7800 or so on that index may prove to be the low.

6-Month CAC-40 chart (France)

Please note that since the report on April 1, points 5 and 6 have passed within the CAC's expanding triangle, including an a-b-c correction (upward) that puts point-6 into place. A volatile shot lower would conclude the sequence, which would coincide with the conclusion of a correction in New York, precisely as forecast in that same report.



Regarding the DAX (Germany) and the FTSE (London), the bigger picture is the same.

April 1, 2012 (re: 5-year charts)

"When looking at these massive right shoulders and necklines, is it not rather obvious that all of this money printing will have merely delayed the inevitable calamity coming later this year and next?!"

VIX

The descending wedge pattern that developed over the past two quarters (wedge patterns are quite reliable) implies a sharp reversal that would correspond to a falling US stock market.

1-Year VIX chart



NB: Meanwhile, the developed complacency among traders has led to a sharp drop in the VIX futures' contango. [A technique by which to identify the coming stock market bottom would be to watch for the disappearance of the contango \(at least in the 3 front months\), even as the VIX rallies along with said decline.](#)

CONCLUSION

April 1, 2012

"Thereafter, the Dow should decline to 12,700 or so, before rallying back to test the 13,000 area. That would likely be followed by a decline to 12,300 or so, thereby setting the stage for the alternate scenario reprinted from December 27, 2011 on page 2, whereby the Dow kills time in a range limited by, say, 13,400, heading into the US presidential elections."

The only thing that I change here is my short term worst case scenario, which I now deem to be 12,600, basis the Dow.

QE3 can only happen after the market deflates. This is what Greenspan did with monetary policy and what Bernanke has openly said would define his own *modus operandi*, as regards QE. After a decline, QE can be seen as a positive. At the peak it would merely appear to be even more desperate than it already is. Besides, the Fed and its shareholders can trade on the news this way.

NIKKEI

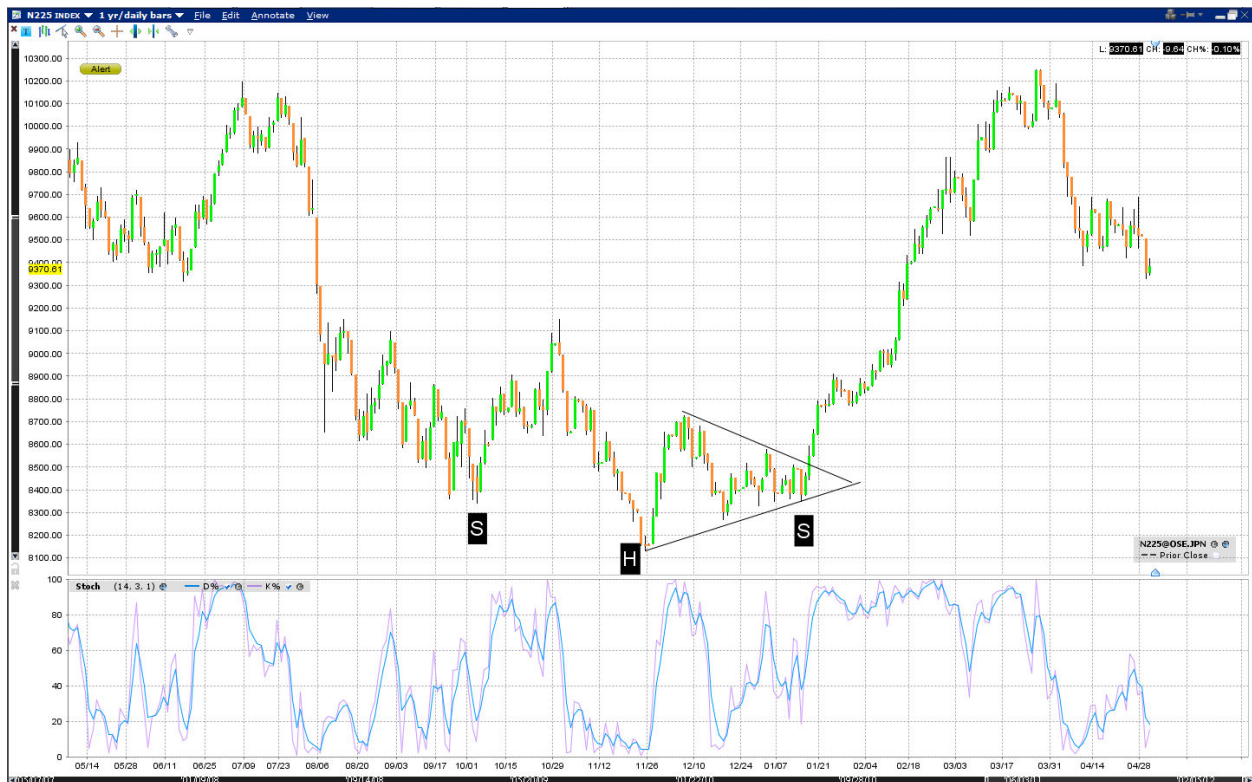
April 1, 2012

"Major support is at 9100, while my target for later this year is around 13,000. Stay tuned, however, because the world is a dangerous place."

I strongly suspect that the reports of the past six months reflect the world's most accurate Nikkei forecasting, consistent with the past 22 years. So, be confident regarding the next rally phase's effect on call premiums, as a break over 11,000 triggers their expansion. Coupled with the index rise itself, profits can again be substantial.

Today, we are ever closer to the ideal 9100 level, with the stochastic preparing to put in a bullish divergence, just as it out in a bearish one when SKGS forecast and identified the peak a month ago.

1-year Nikkei chart



CHINA

February 29, 2012

"Therefore, I conclude that a spike lower toward the bottom, in the index above (Morgan Stanley China A Share), 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."

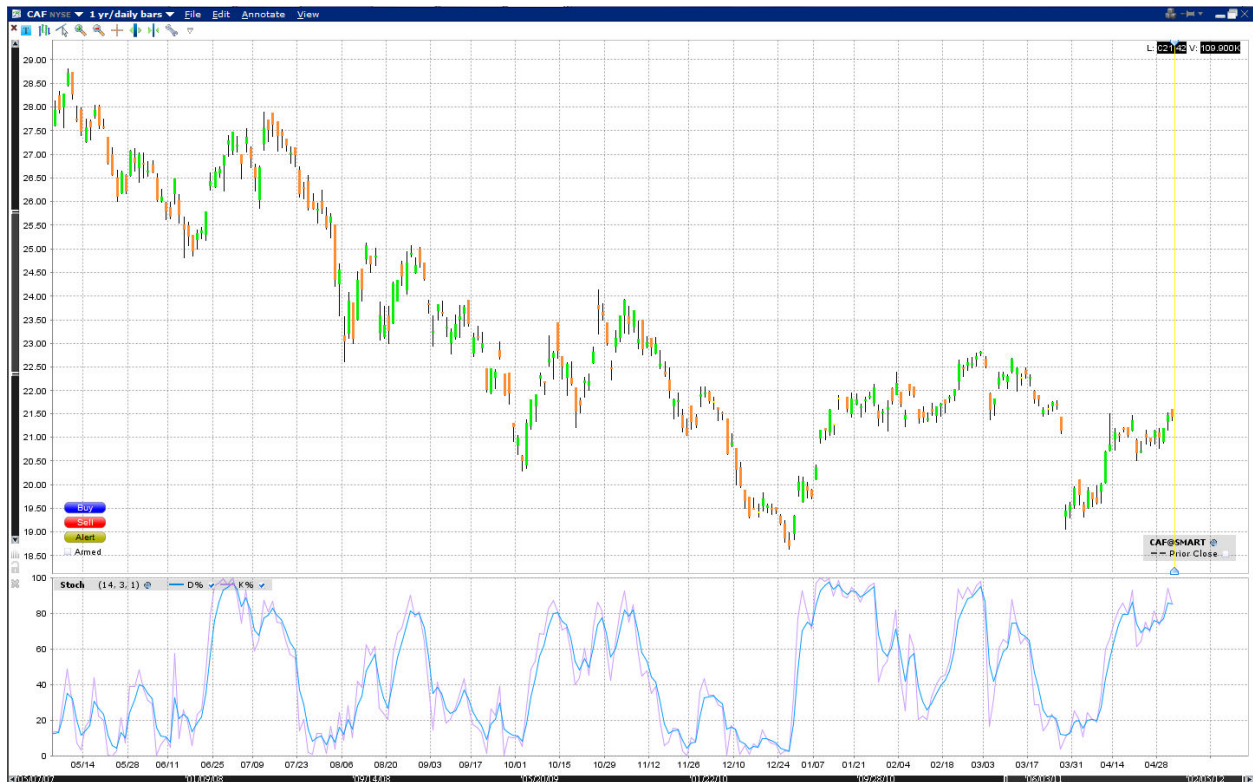
April 1, 2012

"It would appear, therefore, that the analyses in these reports has been pinpoint. However, appearances can be deceiving. I believed that a break of \$21 would be followed by a rally back to it before a collapse of the sort that we just saw. The chart simply fell apart, however."

"Pinpoint" forecasting may indeed be the perfect description. Over the past month, the chart below did in fact rally sharply, thereby leaving the initial forecast as perfect.

Simply, the pattern will have formed the higher low and bullish reverse-shoulder-head-shoulder. A point lower or so (20 - 20.5), therefore, should hold during the coming correction.

1-year chart: Morgan Stanley China A Share



Understanding the off-cycle nature of the Shanghai Composite allowed me to identify the peak in the 4th-quarter of 2007 (much as I had 8 years earlier in the Nikkei), as well as the low at 2000 and subsequent top at 3500, respectively.

This is why I am comfortable maintaining a bullish view for the intermediate term, even as I am very bearish elsewhere for the same time period.

December 27, 2011

"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.)"

April 1, 2012

"Being off-cycle, the suggestion is that Shanghai will rally 25% soon! Indeed, this is what I believe."

As with **all** of the charts in this letter, please take note of where we were when the April 1, 2012 report was written, along with the follow-through since, so as to gauge whether the interpretations are valid; it is the interpretations upon which the forecasts are made, of course.

In the case of the Shanghai index, for instance, that market rallied about 9% since the April report, while the Nikkei fell about 7% (that report's title included, "Nikkei Peak, Shanghai Low").

Shanghai Composite Index 1-year chart

Please scroll to next page.



PRECIOUS METALS

I am being told by those better informed than I that precious metals equity fund managers are throwing in the towel in varying degrees, just as the GDX and GDXJ are each within 1 - 2 points of their multi-year lows (presently about \$44 and \$22, respectively), which I do not believe will be broken. In fact, these may even be historic bullish turning points.

Major speculators trimmed their gold futures holdings last month by 4%, taking their net long positions down by 4%, to a 3-year low that corresponds to when gold traded at \$800 (before rallying to \$1200 that same year).

Also, silver net long positions were cut by 20% during the period, by those same traders.

Finally, the Commercials cut their short positions in the precious metals, suggesting that they expect little decline going forward, against which they feel the need to hedge themselves.

3-year GLD (gold ETF) chart



When looking at both the GLD and SLV weekly stochastic (beneath the price charts), one can see that, in each case, the indicator will be oversold once the weekend is traversed.

One can also see that little damage followed those oversold points, over the past 3 years. Further, in each case, it would take little to turn the weekly MACD positive (less in the case of silver).

Since October, shoulder-head-shoulder patterns have developed in each case and, based on the ETFs above, gold's maximum downside is \$40 - \$50, with silver's ideal right shoulder about \$1.5 lower.

HOWEVER, no such declines need occur.

It is entirely possible that the Dow could suffer a 200-point down day (for example), coupled with the precious metals doing nothing or even going up. In that case, one should wait no longer go long.

It is also possible that gold and silver outperform, but still decline in value as the equity markets tumble. In such a case, I expect the precious metals to bottom first. This is the scenario that I most expect, but one must be prepared for a run into gold and silver that coincides with the drop in stock prices.

Remember, the background news is that trouble is brewing in the global banking sectors and economies, all with the overhanging question regarding QE3 in the US and the eventual printing of another \$Trillion Euros.

Simply, in considering the preceding paragraph, one must bear in mind that there may be gaps in time between events such as market declines and monetary announcements.

Maybe it doesn't matter, if everyone gets spooked enough. This is the scenario where stock market concerns are sufficient to send gold and silver higher. Only traders care, though.

Long term investors are 100% long gold forever, and long term silver holders should be fully in, too.

3-year SLV (silver ETF) chart

Please scroll to next page.



Even long term calls have been falling to a degree that is out of whack with the softness in silver (exaggerated negative relationship), suggesting an emotional capitulation on the part of traders and speculators.

From the Dow's peak on Wednesday, the index may slide 500 points, as I believe that an important peak was made (see NEW YORK). With terrible news out of Europe and worsening news on the US economy, QE will be on everybody's mind.

The latter would be consistent with previous analysis that the 1st-quarter rally in silver was a wave-1, implying a wave-3 explosion from these levels, suggesting a trampoline

effect: **the harder one jumps and the closer one gets to the hitting the ground, the greater the liftoff.**

Conclusion

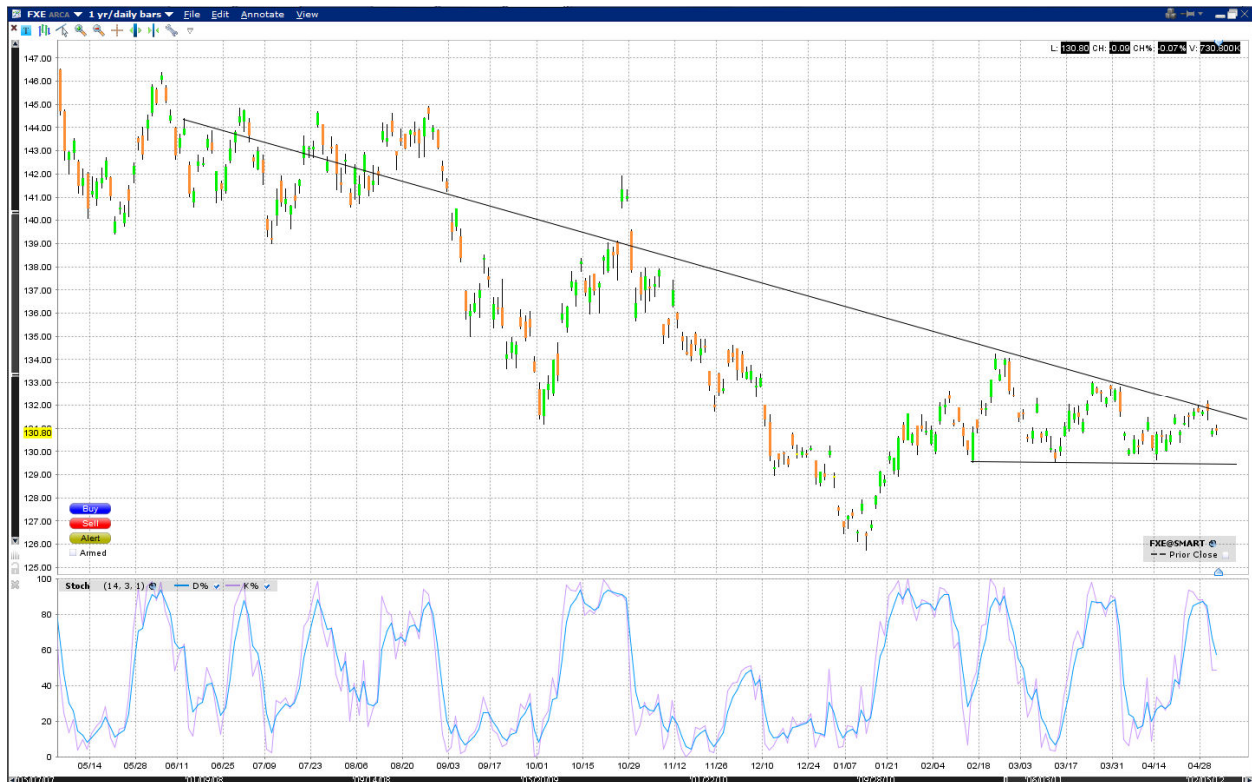
The metals will lift off at the same time that the market accelerates its slide, or after a day or two of steep declines. Either way, they will have hit bottom earlier. Everything can now happen fast (all markets).

CURRENCIES

I have nothing to add to previous commentary with respect to other currencies, except to say that a new low in the Euro is becoming more likely, with key support at 126, which is a level where many traders will have been stopped out.

The simple passage of time achieved that, while many have been replaced by new bears, but many had their nerves wear too thin to stick around any further.

1-Year daily Euro Trust Currency Shares chart



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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