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Silver is Pure Gold

February 5, 2012

On December 27, 2011, I wrote that the chances were exceptional that the Dow would collapse into mid-April, with the deluge perhaps commencing in January. I added that silver was bottoming with a major cycle, likely on that very day.

I hit a bulls eye with respect to the latter, while the former was a complete bust...for now, anyway.

This report draws attention to that reports' analyses and recommendations, including those that followed, as well as what the best strategy is now going forward.

DOW

THE BEAR CASE

January 25, 2012

"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-point smash last year, after the May extreme in the indicators cited above."

Regarding the sentiment indicators discussed in that report, the missed aspect in the excerpt cited above is that the May 11, 2011 date was ALSO followed (as was the case with the other two instances) by a 1-month 1000-point decline while, in all three cases, the Dow fell 2500 points within 3.5 - 5 months (close approximations).

The first chart we look at today is that of the **1-year NASDAQ**, since its new all-time high has caused mass capitulation among the bears that remained, thereby exacerbating further the sentiment extremes discussed above.

A few observations are noteworthy, but first I must set the stage by describing that the annotations break down wave-B of an A-B-C formation.

Wave A concluded at the peak of the major rally that followed the summer's European-dominated smash. In this scenario, wave-C is concluding with the present move's parabolic blow-off.

Also, please note that this peak coincides with the triangle's apex, plainly evident if one were to simply draw a vertical line connecting the index's top to the triangle's apex, thereby illustrating the intersection with the apex.

And, YES, with regard to the present move in the NASDAQ, B-waves ARE allowed to make new highs under the Elliott Wave Theory.

A **6-month Dow** chart follows below.

It is astounding that right through all of the bullish activity of the past week, the Dow Jones' MACD (above the price chart), the most popular indicator for many if not most technicians, is serving up TWO divergences since the October peak, as it is since the second week of January. So, both the short and intermediate terms are providing these double-divergences! (Commentary continues beneath the price chart.)

Back to the MACD, when looking at the signal line (blue), there is only a steady downtrend, while the Dow Jones has been advancing over the same time period.

Looking only at the period from the December top, the same miserably divergent downtrend exists against the backdrop of the Dow's advance.

A MACD sell signal includes the momentum indicator crossing its 200-day moving average (black line crosses the red line), and, so, even though the sell signal is slight, it augers favourably for the 1000-point decline discussed above. Simply, it's very weak.

The next **6-month Dow** graph is to specifically look at a developing expanding triangle, wherein point-4 of 7 is peaking, ideally with a final intra-day high on Monday. (Such triangles have 7 points, wherein point 6 remains within the formation, not making a new high.)

An expanding triangle here would require a move below point-3 to about 12,400, before rallying back up to around 12,700 to form point-6. Thereafter, the bears would be back in business, at least in the sorter run, as regards the 1000-point decline discussed above.

Fundamentally, the hoopla revolves around, (1) good economic numbers in the US (job creation, albeit within a serious downtrend cycle that is not presently being perceived, (2) the perception of a short term abatement of the crisis in Europe, as authorities there engage in unofficial quantitative easing, and (3) expectation of more quantitative easing in the US.

It is agreed that quantitative easing takes place when there is fear regarding looming financial disaster that needs to be avoided at all costs, and that such measures only exacerbate the situation longer term.

Imagine that a man gets drunk to feel better because he knows that his wife is about to divorce him and take him to the cleaners. Can you imagine a woman seeking a long term relationship with this man, the drunker he gets, because he appears so happy?

The woman in this analogy would be the long term investor.

THE BULL CASE

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."

With the above written at 12,300, the breakout discussed in that letter occurred at, say, 12,400, when looking at the Dow chart. Quantitative easing (QE-3), coupled with an election year could well drag the Dow sideways for 6 months, while the authorities prepare to let the thing go thereafter.

Bernanke knows that Obama is his best bet for continued employment and will do whatever it takes for the home team, notwithstanding his comment/warning that a perception of a lack of action to deal with deficits could cause a run-up in interest rates, while investors lose confidence to further exacerbate conditions. (So, as you can see, even in making the "bull case", I cannot ignore the overwhelming preponderance of bearish possibilities.)

Coming back to the bull scenario, we would decide to take the NASDAQ's new all-time-high seriously, trusting that it merits greater seriousness than what it should have had in March 2000.

CONCLUSION

I have decided to simply look at the best strategic alternative, in consideration of all the factors above (i.e. 1000-point correction, even if not part of a major debacle right now), after discussion of silver below.

VIX

Please note the **6-month VIX** chart on p.6, along with two critical observations:

Firstly, the three lows in the VIX during December, January and February are unconfirmed (positively divergent) by the stochastic (beneath the price chart).

Secondly, there is actually a buy signal in the MACD! The buy signal is slight, much as the Dow's sell signal is just as minor, but, in both cases, this is positive for the bears who can look forward to superb bearish performance once a decline does commence!

However, it is the next and third point that best describes how well put options may be expected to perform, during the decline that the indicators such as the MACD and stochastic anticipate:

There is dramatic contango in the VIX futures, and it continues even beyond June, as well!

- Cash VIX: 17.10
- February VIX: 17.95
- March VIX: 20.55
- April VIX: 22.50
- June VIX: 25.15

At significant lows in the market, the futures traded in backwardation (opposite of contango), correctly identifying bottoms. The futures are still trading with steep contango, which suggests that a decline will reward put holders with the major double whammy of a declining market (enhanced intrinsic value), coupled with much higher time premiums.

NIKKEI

Yes, the Nikkei bottomed when expected, but it has not outperformed the Dow so far as anticipated.

Therefore, it should be ignored for now. I maintain, however, that it is the best major global index, but I recommend greater participation AFTER the Japanese yearend and a reversal of the Dow's fortunes, at least on an intermediate term basis, thus permitting a reasoned approach to again assuming a bullish Nikkei/Dow long/short trade.

SILVER

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.

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, <u>not</u> any income statement diversion."

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

The stochastic appears beneath the price chart and we see it peak as having coincided with wave-3 of the larger wave-1. This is logical, as momentum indeed peaks at wave 3, the strongest part of any move.

Thereafter, the stochastic makes lower lows with each of the two successive peaks, thereby creating a double divergence! (This too is supportive of a coming correction in equities.)

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)."

As for gold, Westerners were again being so proudly ignorant, boasting of even having sold their holdings at the lows that were forming, as described real-time in these reports. The Westerners have never gotten it right.

They cannot even read (and never read and understood) the demand statistics that continually flow(ed) from the East, which would have kept them onside, even if they have not read my reports over the past decade; these letters have given a play-by-play forecast of the "transition of wealth and power from West to East, as evidenced by the sale of gold from one to the other."

As recently described, these yahoos have forecasted 1000 for gold and made such insane arguments that gold's pricing is based merely on a state of mind. As I already explained, isn't printed paper valued by a "state of mind?"

Gold has ALWAYS reflected the safe haven mentality, of those whose states of mind sought non-arbitrary values such as paper, throughout the ages.

Besides, EVERYTHING is a state of mind, anyway!

EURO

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.

Then again, does it have to?

(Please scroll down to p.11.)

STRATEGY CONCLUSION

Our positions initially included longer-dated diagonal silver bull spreads, along with longer-dated Dow put spreads, though the Dow strategy was not as long-dated as the silver call strategy was, until the latter was sold on January 25, 2012.

Whether there was a loss or gain, and to what extent to-date, entirely depends on the ratio that one position had vis-a-vis the other, as well as the strike prices and dates in question.

Given the scenarios considered in the Dow and silver sections in this report, the best strategic approach is to maintain one's Dow position, in anticipation of a 1000-point decline.

Meanwhile, we will see just how far silver corrects and for just how long. I expect the correction to be one that is more of time than price.

Thereafter, my attention will turn mostly toward profiting from a silver advance in the direction of and over $50, rather than benefitting from a decline in the Dow, until certain factors that I am looking for take place. Of course, I will discuss what those factors are at a later date.

The world's central banks have all but guaranteed silver at dramatically higher prices, and almost as assuredly silver outperformance of gold and the Dow.

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

ASSET ALLOCATION

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

50% gold
25% Swiss Franc
25% Dollar

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