

## Intermediate Term Countertrend Rallies Commencing



April 5, 2008

### **In Sum:**

To follow-up on previous reports, the first quarter's trends in all markets are coming to an end, with perhaps one more move in the dominant direction, whether it makes a new low or high, as the case may be. Such a move may or may not fail. Failing, in the cases of the Dow and Nikkei would mean that the bottoms have already been seen. These New Year's extremes in ALL markets won't be surpassed for 3 to 6 months, in my view.

As I previously wrote, the long-term fundamentals won't change anytime soon, while recent measures would still have to have some effect. Those effects will be the background noise during this coming intermediate term rally.

Specifically, as an example, ANY effect resultant from the massive printing the US Fed performed. **This includes the printing away of obligations that belong either to the US public or government. In other words, while money printing has been a support for the equity markets and for buffering against economic negatives, THE story is how long will the world accept the terms of this arrangement, and how soon before a "steeper" (direct) relationship between the USD and equity prices? Is**

## **the next Dollar down-wave later in the year that truly opens the floodgates of panic?**

Proof of these words is found in the relationships between various international equity markets and their currencies. **(This month, items highlighted in blue draw conclusions for that section).**

### **JAPAN**

The chart immediately below (reprinted from **March 2<sup>nd</sup>**) was used to express the forecast of a final bottom by early April. The forecasted final decline would require, in technical terms, what is referred to as a move (or wave) 5 of © of C.

The first chart on page 3 shows that the Nikkei did indeed stop right at 14,000 at the beginning of the month, and then followed that by putting in a new low, from which it has rallied. **The move up has probably already created a short-term overbought condition.**

**This would be consistent with the view that the damage done to the Nikkei will require time to repair. It also implies a final move down is commencing, which may or may not fail (to make new lows). In either case, it will all be extremely brief.**

Further evidentiary support of that comes from the Nikkei's glaring relationship to the Yen. Unlike domestic stocks, the big-cap fundamentals find a weak Yen more endearing. The Dollar/Yen and Nikkei charts clearly have a great deal in common. Walk away from this letter and try to recall from a distance which chart is which, the next time you look at page 3.

Therefore, to support commentary, and for fundamental as well as technical reasons, this month, the Yen's charts are interspersed with those of the Nikkei.

(Please scroll down.)



**The Nikkei support at 12,000 (see charts below) requires base-building and suggests under-performance versus other Japanese indices.**

**This page contains the all-similar 1-year Nikkei and 1-year Yen charts.**

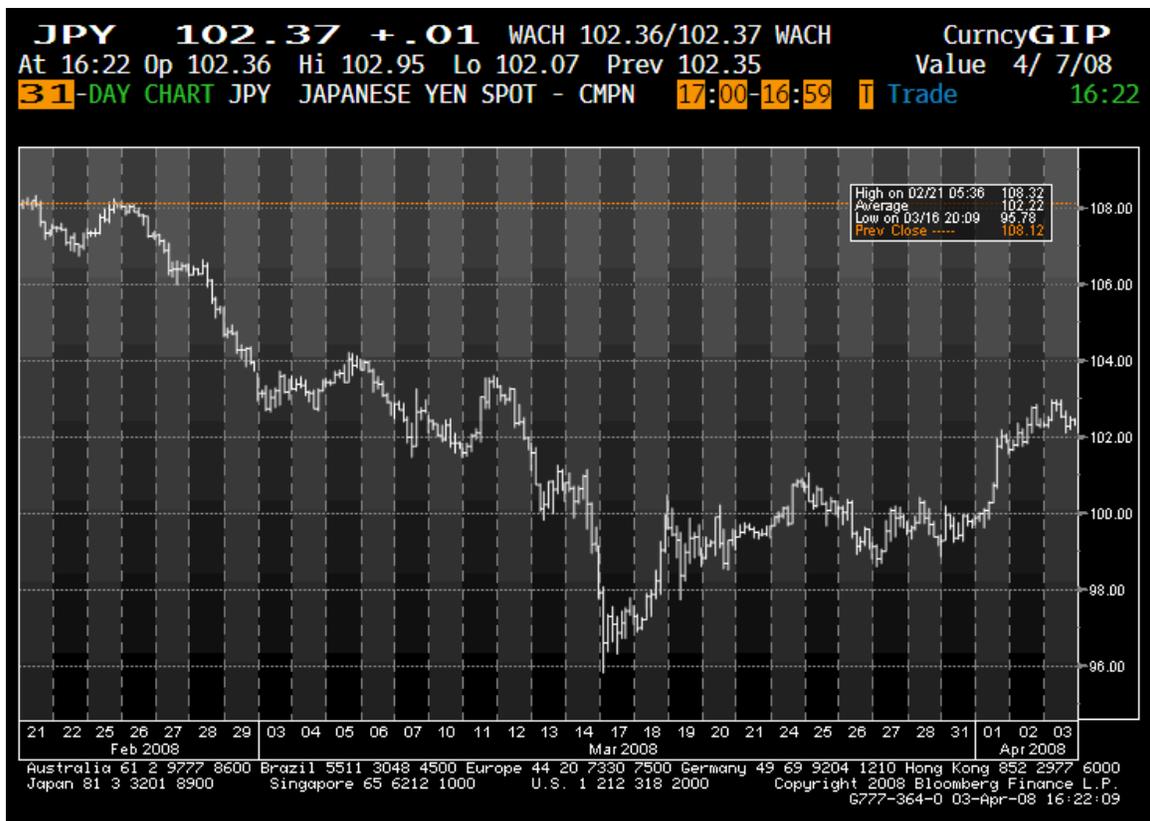


The following Yen chart illustrates **a new low for this decade**, to a level near 104 (96 inverted) and well off its high around 124, as evidenced by the 31-day chart which concludes this section.



In my opinion, a look at the following short term Yen pattern (31-day) supports the overall view that Japan and New York may now put in their final pullbacks for this sequence, which, since the fourth quarter of last year, was repeatedly seen as a key low for this period.

Founded on that basic premise, I forecast major turning points and debacles in many markets. Some came through even more than others. (See Shanghai below.)



### **Strategy:**

The secular trend is quite obviously up for the Yen, so non-big-cap Japanese equities are the prescription. Foreigners don't own them to sell and, when buying gets going, these deeply under-owned stocks will be ripe for the savings of the **Japanese investor**, who hasn't even begun to buy. This is so despite being well past the point of having any interest in foreign currency assets.

So, as my mentor had taught me ages ago, investors go from the stage of sell, to wait, and then to buy, just as buyers go to hold before selling. **Similarly here, Japanese investors have gone from aversion for foreign currency assets, to waiting to buy their own stocks again.** Japanese over the age of 50 control the vast majority of national public wealth, which represents about 40% of the world's savings. And all of **this is notwithstanding the international hedge fund power looking for a low risk and counter-cyclical home to park funds.**

High valuation (and even low PE) domestic equities will rally 100% - 200% over the next 2 years, led by those stocks that have recently been the first to reverse with 50% moves.

### **SHANGHAI**

During the fourth quarter of last year (December 2, 2007 report, plus follow-ups), I believed that carefully engineered tailor-made 2-year out-performance warrants, which used non-big-cap Japanese indices, as a basis against the Shanghai, would return **500%** as a minimum target, based on trading and strategic adjustments along the way. Meanwhile, the Shanghai index would fall 50%.

Well, with days remaining to a cycle correction, it has all but done just that. And combining the correct market call, with the select tailor-made index ratios and preferred currency denomination, indeed yields the maximal result.

**At this time, fitting into everything else I see in the world for this long-since forecasted time frame, a terrible and nearly 50% debacle is completing in the Shanghai...now. The strategic possibilities are several.**



## **NEW YORK**

To start the decade, I identified the peak in the Dow within a single day. I had forecasted a 50% bear market, which completed in the S&P. The Dow bottomed in October 2002, 2 days after I commented on the presently concluding bottom. The forecast was for a peak around 10,400 in early 2004.

The forecast for a rally of such magnitude was considered extreme, given the irrational bearishness among the public at the time, though it was tempered with a forecast for Dow 6,500 subsequently

**So, I showed charts that compared the Dow to gold, to illustrate that the index had indeed fallen to a Dow equivalent of 6,500, basis gold.**

The point was merely that the American use of the printing press was the unforeseeable aspect of the post-February 2004 period for me. For engineering and constructing international strategies, as well as for asset allocation, one must be aware of what may be the effects of the causes.

The cause is the Dollar printing. The effects are both economic and financial. Later, according to the cycle we know all too well, history follows with political strife and war on a grander and less regional scale.

Now, simply know that the correction will have stories about the end to whatever ailed us during the recent period of decline. That's what a correction truly is. Also, we need to know how to price things – whether economically speaking or financially speaking – as a resultant of the US military supported ***right to free press (and paper currency)***.

**Financially, the basic concept/problem calls for us to analyze the Dow in Yen terms.**

(Please scroll down.)



Compare the 3-year **Dow** denominated in **Yen** price history immediately above (p. 9), with the regular 3-year Dow chart at the top of page 10.

While the Dow fell nearly a third in Yen terms, in local currency the index sustained the higher support level, by falling just over **half** the Yen-denominated loss.

Similarly, the second chart on page 10 is a 1-year Dow in local currency terms, while the 1-year Dow chart at the top of page 11 is denominated in Yen. As with the previous comparison, there is much to glean, not the least of which being that the Yen is the grand **determinant of what ALL markets do. It was a repeated view for many months in these pages that the secret to the moves in everything would be the Yen.**

I commented that one could watch the Yen tick alongside the Dow and other markets on an almost tick-by-tick relationship, **just by watching CNBC; no grand analysis.**

This has been the position expressed in these pages for many months.





## Strategy:

The only appropriate strategy in the New York non-precious metals world, relates to international out-performance, for strategic reasons, including those pertaining to capital and risk exposure. The idea is to have no net long positions. No options. (More NEW YORK commentary below.)

## GOLD

When gold got hammered more than \$40, I felt that the move was all but over and that a counter-trend bounce within a countertrend decline (also known as a "b wave") would commence toward \$950.

Indeed, from slightly lower levels, gold rallied to just under \$950. I was surprised by the speed of the ensuing decline after completing both moves, however. It suggests that these moves down and up are part of a larger decline (multiple a-b-c sequences).

**Those looking to lighten up on the tradable portion of one's gold holdings (a minority position, in the big picture of asset allocation) may do so in the \$930 - \$960 area. Gold's downside is to \$830. Like most times, however, expect much of the correction to take place with the**

**passage of time, as opposed to depth of decline. So, gold too fits the model of a countertrend move for 3 – 6 months.**

Two charts, on pages 13 - 14 illustrate the relationship between the Dow and gold. Given the price levels to which these charts can correct, or considering the time it may take to correct after having clearly completed this cycle's move up, one must plan the tradable portion. I have discussed that it would be logical to cross the headline-making \$1000 level. This has trapped those bulls who are weak holders, as a great deal of profit taking by the not totally committed gets underway.

In any event, these 2 chart on pages 13 – 14 also support the conclusion of a countertrend rally in the Dow that will be hemmed in by the all-time highs, thereby creating an up and down whipsawing pattern, much as 2001 had (even while others had faltered worse and sooner). Ultimately, the second shoe drops in all markets.

**The smart money will be positioning itself for what lies ahead. This will include investment banks dumping product, or major families moving from equities to gold. Either way, this is the pause that kills. Either one will be ahead of the curve, or swept away by the tide. Make choices while they're easily made, not once there's tumult.**







## YEN (CURRENCIES)

The heart of this Yen and currency portion in the letter can be found in the JAPAN section above.

Consistent with the market forecasts in the remainder of this letter: **The Yen may now test 96, and whether it's with a higher low (as I suspect) or slightly lower low, whatever happens, it will be fast.**

A prosperous week to all,

Sid Klein

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