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Yearend Risk Management &
The Components of 2011 Long/Short Shifts

September 5, 2010

JAPAN

Hedge fund managers, please take special note of the excerpt immediately below.

Asset Allocation section, **August 22, 2010:**
"The lag times between the reversals in the different asset classes and sectors suggest very careful short and short-intermediate term analysis, in maximizing best prices, whether this relates to currency, bonds, equities, long/short positions, or derivatives relating to any of these.

"However, this is true only to the extent that one wishes to try for best or better prices, since it is such prices that determine one's leverage.

"Everything gets trickier, the greater the precision that one aims for."

The 10-year weekly and 1-year daily Nikkei charts follow, respectively (the 10-year is from BigCharts for clear viewing).

Regarding the 10-year Topix Small Index, which chart follows the 2 Nikkei graphs, that picture illustrates the clear neckline support zone at the 800 – 850 area. This intermediate term support correlates well to the 9000 level on the Nikkei, for the short- to-medium term.

Bottom Line:
Either as outperformance or as absolute returns, as the case may be: Up for Japanese equities, down for Yen and long term bonds.

As I have been saying, bonds will be sold to some extent for the purchase of stocks, due to the wish to earn compensatory returns for the simultaneous deflation in other asset values.

The upshot is that a 21-year (3 x 7, for numerology lovers) secular or long term bear market is ending at the end of this calendar year, as Japan takes its turn with fiscal stimulus and, more, even the probability of **Yen Monetization**.

In 1989, SEVERAL indicators had turned decidedly bearish for what lay beyond yearend, for those prepared to read the handwriting on the wall.

I repeatedly warned that the final quarter's upward **momentum** was merely the result of investment capital that **had already been earmarked** for the market. However, the funds then turned against the very market that window dressing had compelled them to be allied to until just days before.

Commentary continues after the above-referenced charts.


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Index TAS
At 02:28 Op 9097.59 Hi 9141.09 Lo 9050.83
NKY INDEX Advanced Hide Stochastics Page 1/19
Range 09/03/09 - 09/03/10 Upper Bar Chart Mov. Avgs 200 Currency JPY
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Index TAS
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Today, there is the effect of window dressing again, but now going the other way. The market is preparing to turn versus other markets, as cross-charts (long/short) bottom about 3 months ahead of the component indices, as I have written so often over these recent years.

Therefore, the next 3 weeks are critical for timing, but: for long term players, particularly those using premium, a week early is usually better than a day late, due the volatility that typically ensues from extreme levels, as such is the nature of "extreme."

I advise Japan watchers to note the Yen commentary contained in the July 4, 2010 report, including commentary published hence.

ASSET ALLOCATION

The SKGS asset allocation model remains (and will for a while):

50% gold, with 25% Swiss Franc, and 25% US Dollar.

Sid Klein

opinions, recommendations, or judgments expressed in this market letter are of necessity abstract and general. They must be modified, accepted, or rejected by individual subscriber/investors whose risk averseness cannot be known to Mr. Klein.