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Nikkei: A Yen for It

The Fed Reaches Above 11,000

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YEN, NIKKEI (and its volatility)

Technical references relate to charts which appear at the bottom of the section.

Earlier this fall, I wrote of an approaching turn in the Nikkei after a 21-year bear market, following a final flush-out. I linked that to **Yen Monetization,** about which I wrote the here-linked article.

The signal has been given clearly in Japan that quantitative easing will have remained in vogue, while, at the same time, the Fed has commented that they **"…do not intend to use a falling Dollar to support trade."** (Parahrase)

When there is coordinated action, there is the stuff of a major cycle trend reversal that leads to dramatic price changes.

In the past this has attended dramatic spike reversals that launched new cyclical trends. I've seen it enough over the past 28 years.

Both countries have laid out massive asset repurchase programmes. The net effects on the currencies and stock markets are enormous.

For the Dow, it represents a greater squeeze and delay, an outcome of which is a better environment for major families to distribute shares. But, mostly, the Fed is the great insider trader that serves its own needs..

But we must always appreciate that the Bank of Japan is as "competent" as the Fed. They are even more excessive in the use of shock and awe to reverse a trend.

They can do that as Japan enjoys the greatest savings in the world. Meanwhile the Fed performs early morning shocks, within a gradual uptrend, according to what the Fed has to work with for stocks, by its own design

After their operations of the first-hour, one must wonder how much is left of those Fed purchases by the end of the day. **One must decide for oneself the degree to which Wall Street has become a stock distribution arm for the Fed.**

Bill Gross said Thursday on CNBC that investors should invest abroad.

It was not an endorsement of the Yen specifically, but, then again he said nothing at all about the Yen. I will add that, at points, the Yen has trended counter to what the Dollar Index would ordinarily imply for a foreign currency.

Equally, he made no comment on the Nikkei, of course.

Now consider what the more likely effects would be if someone took his advice, which the 2011 trends may come to vindicate.

The Yen has been wild over the past few years. However, the Nikkei (historically a **major** countertrend) has collapsed globally in relative terms.

The spike up in the Nikkei has left a reverse **shoulder-head-shoulder** pattern behind it. This has created a spike in volatility in that index, of course.

With coordination in and between Japan and the U.S., Japanese assets are indeed set for significant and enduring advances, reversing relative performances, at the minimum. However, I suspect that after the spike in volatility, the Nikkei will settle down for yearend, not closing at peak volatility.

The Volatility Index in the US spikes up when the market gets hit. Among other reasons, there is a simple consideration that anyone may appreciate. Simply, the law of diminishing returns:

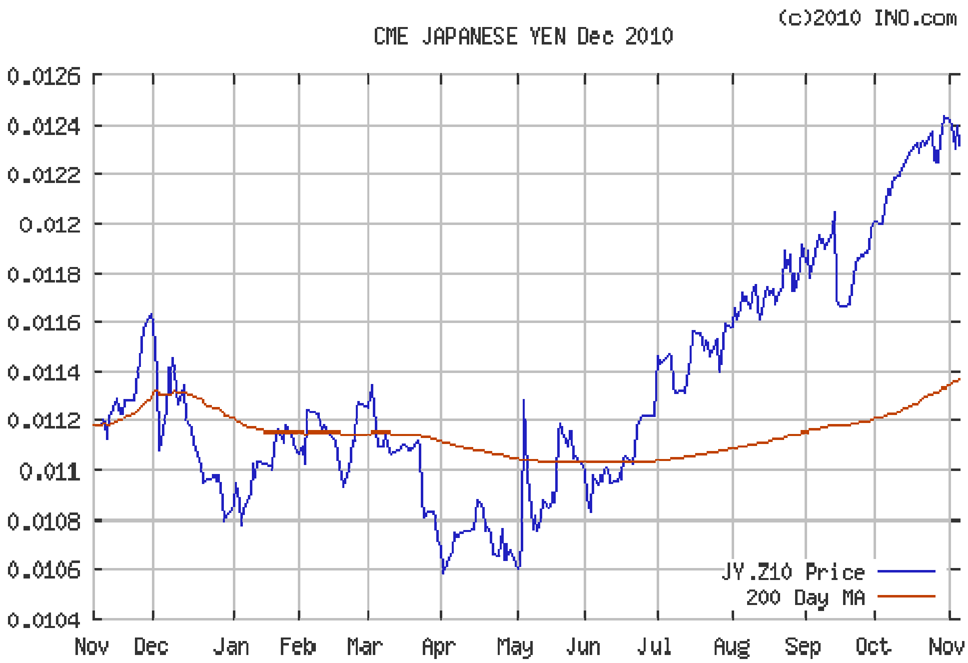
The market in New York looks below it enjoys a cliff's view. There is whole lot below.

In Japan, the market lies on its back and views the sky, somewhere around 40,000 on a clear night.

Conclusion: volatility premiums run counter to one another in Japan and the US.

The **1-year Yen** chart that follows below does not reflect Friday's quick and sharp decline from 124. The 1-month chart highlights that.

1-YEAR YEN CHART:



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1-MONTH YEN CHART:

CONCLUSION
A full 5-wave count is in place in the 1-year chart of the Yen, and I believe that SKGS will have perfectly (imprecisely) identified the peak in the Yen, several weeks early. (That exit closed a position established near the lows for the Yen.)

Please scroll to next page.

1-YEAR NIKKEI CHART:

DOW

1-YEAR DOW CHART:

I forecasted that I would probably revise weightings on a pullback to 10,000. I proceed to note the level when the Dow did pull back that level. But I added nothing, except later when I adjusted around 10,250.

Since then, I went on to advise 100% and then 200% short positions at 10,600 and 10,800, respectively. The recommendations referenced long term Dow puts, which presently out to June 2012 in the listed markets.

(As I have written previously, long term puts create opportunities to minimize or repair damage, by the use of spreading at a chosen point, such as the break of a trend, in terms of either price or time.)

Mea culpa, but…..

We may take cheer in the knowledge that there is darkness in the horizon.

The mantra that one should not ever fight the Fed (with which I agree) exists as the latter's actions lead to the prolongation of rallies.

Like a predator emitting a favourable stimulus for its prey, those same Fed actions entrap investors of all stripes (i.e.: retail, momentum players, etc.).

These are major turning points and, for the Dow, the worst is yet to come in 2011.

Sid Klein