Sid Klein Global Strategy
1001 BOUL. DE MAISONNEUVE O., BUREAU 950, MONTREAL, CANADA H3A 3C8
TEL: (514) 939-2221 FAX: (309) 417-0942
e-mail: sidklein@sidklein.com
www.sidklein.com

2011

Reversal Accelerations: Part 2

January 7, 2011

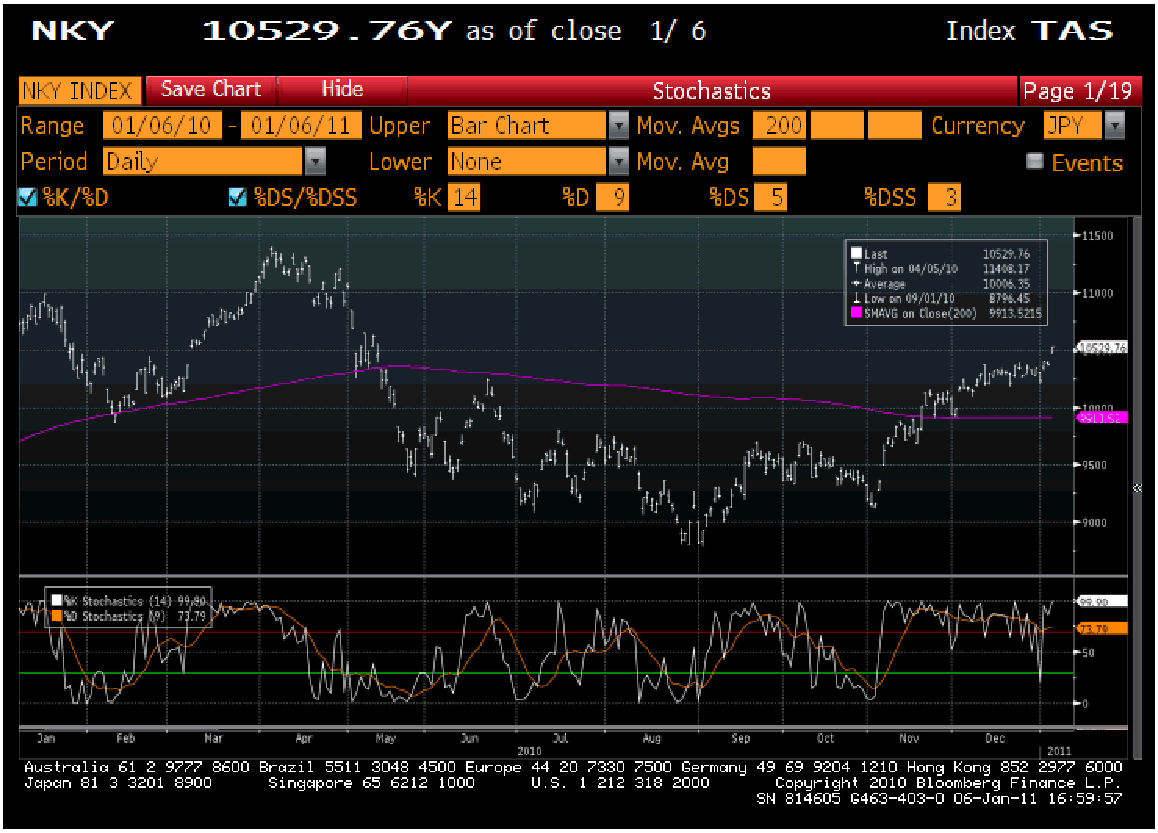
NIKKEI

November 6, 2010
"The spike up in the Nikkei has left a reverse shoulder-head-shoulder pattern behind it. This has created a spike in volatility…"

The Nikkei has indeed seen its lows, and all the way back in August, in fact. The pattern referred to above, as well as the level as at November 6 is evident in the **1-year chart, which appears on the next page.**

Kick-started by positive fundamental surprises, the Nikkei maintained its advance in the second half as part of the ascent in global equity prices. The latter were completing their countertrend rallies, which they have now all but done.

December 6, 2010:
"…the Nikkei will erupt versus the rest of the world in outperformance terms."



Three months after the August low, the Nikkei bottomed versus the Dow, having sunk to a low of -2000. Completing a 21-year bear market, the Nikkei achieved that never-before-seen level, before rallying 1000 points.

Since, the Nikkei predictably pulled back 400 points to a higher support level, caused by Japan's annual holidays which extended into the first week of the year, while the Dow advanced to create the referenced higher support.

Until November, the negative gap between the Nikkei and Dow levels expanded when the indices fell and bounced (to less negative) when the markets rallied. Now, the presently negative spread narrows in both up and down markets.

This is the #1 play for 2011.

As so often reported through the years and just as often ignored by many, managers defer to their annual holidays, leaving best-timing factors to be treated as secondary considerations. Still, the yearend turning points come in like clockwork and, this time has included Japanese outperformance strategies.

Which are many. (See Dow section.)

December 6, 2010

"Regarding these days in particular, the Western commentators may have been confusing the Japanese with Europe.

"….Power and wealth is being transferred from West to East for the next 500 years….Japan has most of the *established* wealth, majority market capitalization and GDP. China will catch up, for sure. But not by "expiration date." (<u>Much</u> longer, actually.)"

Foreigners just can't help themselves; if there is a way of getting the Japan story wrong, they'll find it. "Japan isn't important anymore." "Japan's chronic deficits will sink them into the Pacific." "The Japanese eat turtle soup." On and on…

There's always something to rationalize their ignorance of the world's 3rd largest market. I have been watching this for decades. And, once again over these past 30 years, I have identified secular extremes*.

Ignore your fellow foreigner, and take it to the bank! Especially since there are plenty of low risk ways of doing so.

5-Year weekly Nikkei chart

DOW

December 6, 2010

"I forecasted that I would probably revise weightings on a pullback to 10,000. I did proceed to note that level when the Dow did pull back to 10,000. 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, in the listed markets, presently extend out to June 2012."

As technicians know all too well, it is tough identifying a perfect peak in terms of time and price, much more so than identifying a bottom. It is a reality in the technical analysis of markets that tops are more complex and drawn out, particularly when there is manipulation involved.

1-Year daily Dow chart

The daily 1-year Dow chart above illustrates a dangerous and month-old divergence, which is easily part of a scenario that should drag the index back to 11,000 with speed.

December 6, 2010

"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. The forecasted "1931 rally is over!"

So, history will have judged SKGS to have been early, but still quite accurate in the view that all of this has been a major countertrend rally akin to that one which was seen post-Crash into 1931.

Harping on misunderstood out-of-context fundamentals, the touts have reported on what matters least and have ignored what matters most: The Fed's manipulation. Simply, manipulation ends badly for the fat kid playing musical chairs….as the investor ends up on his butt.

The yearend turning point which was forecast at the and of the year reiterated the annual song that the first 2 weeks of the year pull in the opposite direction of the coming year's trend.

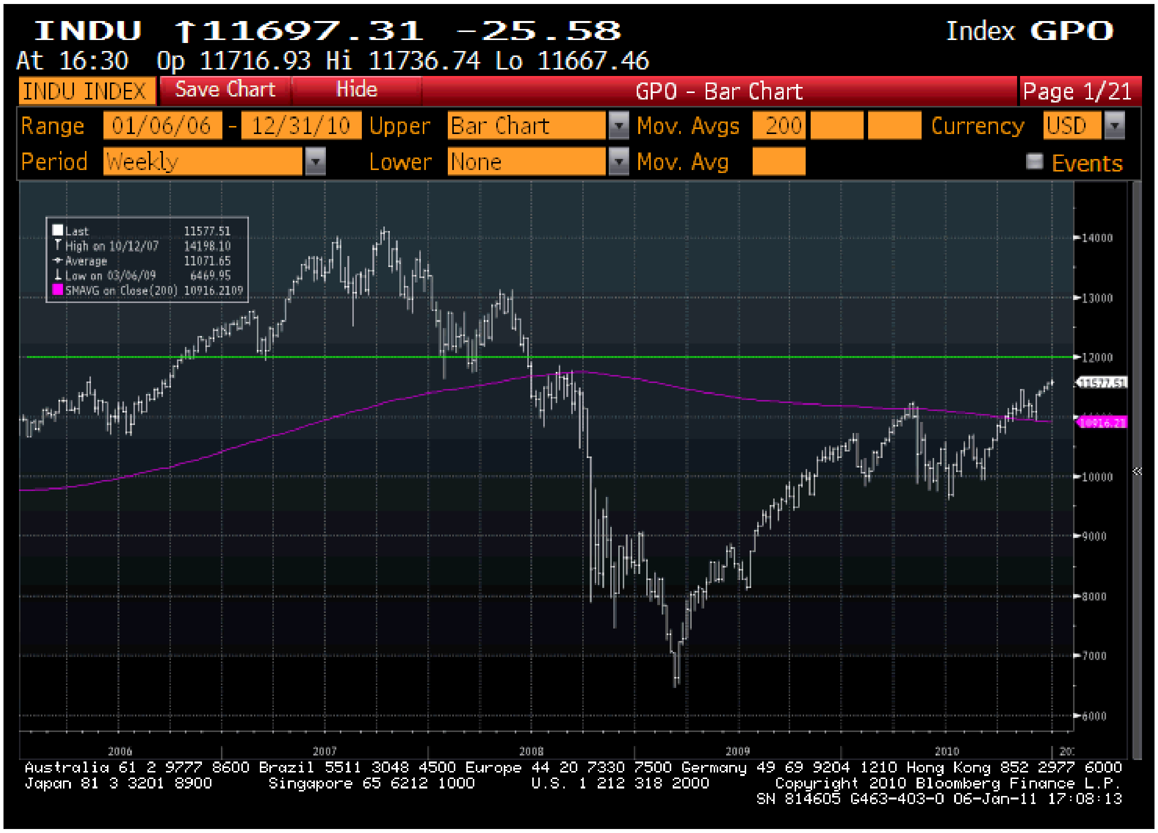
For New York, this has spelled a clear and easy opportunity to establish one's desired positions for 2011 (see Japan section).

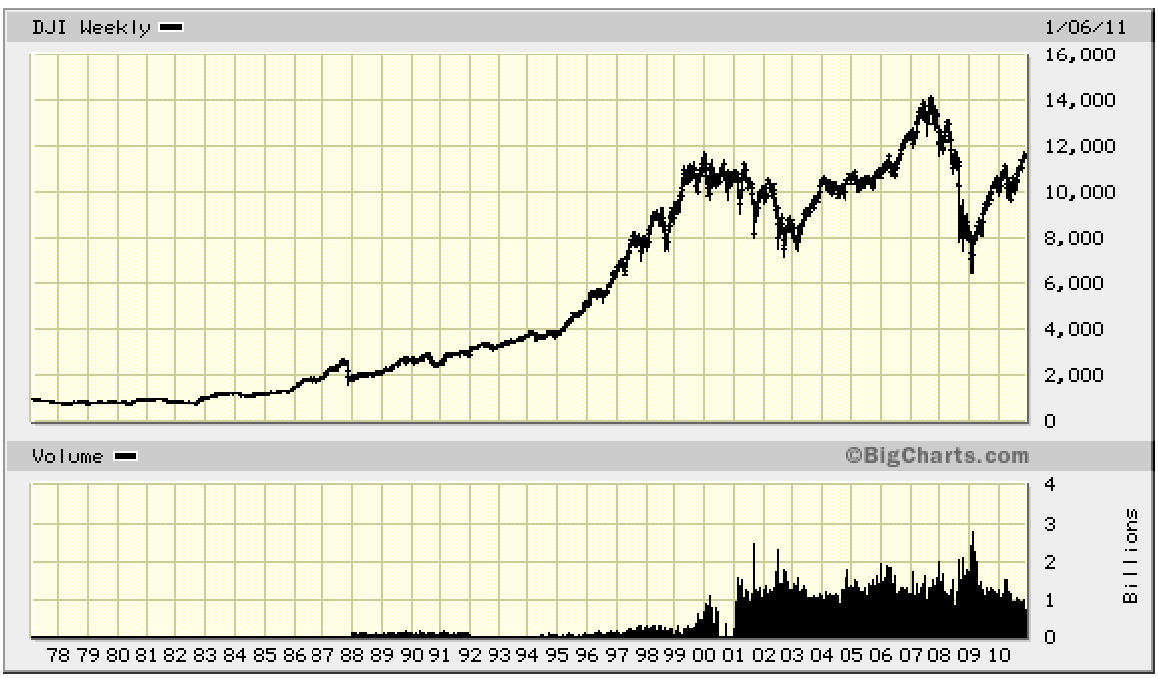
December 6, 2010

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

The **5-Year weekly Dow chart appears** on page 6; it is followed by a **32-year BigChart** look at the index.

The 5-year chart includes a green resistance line at 12,000, while the pursuant graph is included to provide greater perspective regarding the significance of that resistance area. (Further, BigCharts provides a clearer background for easier viewing.)





VIX

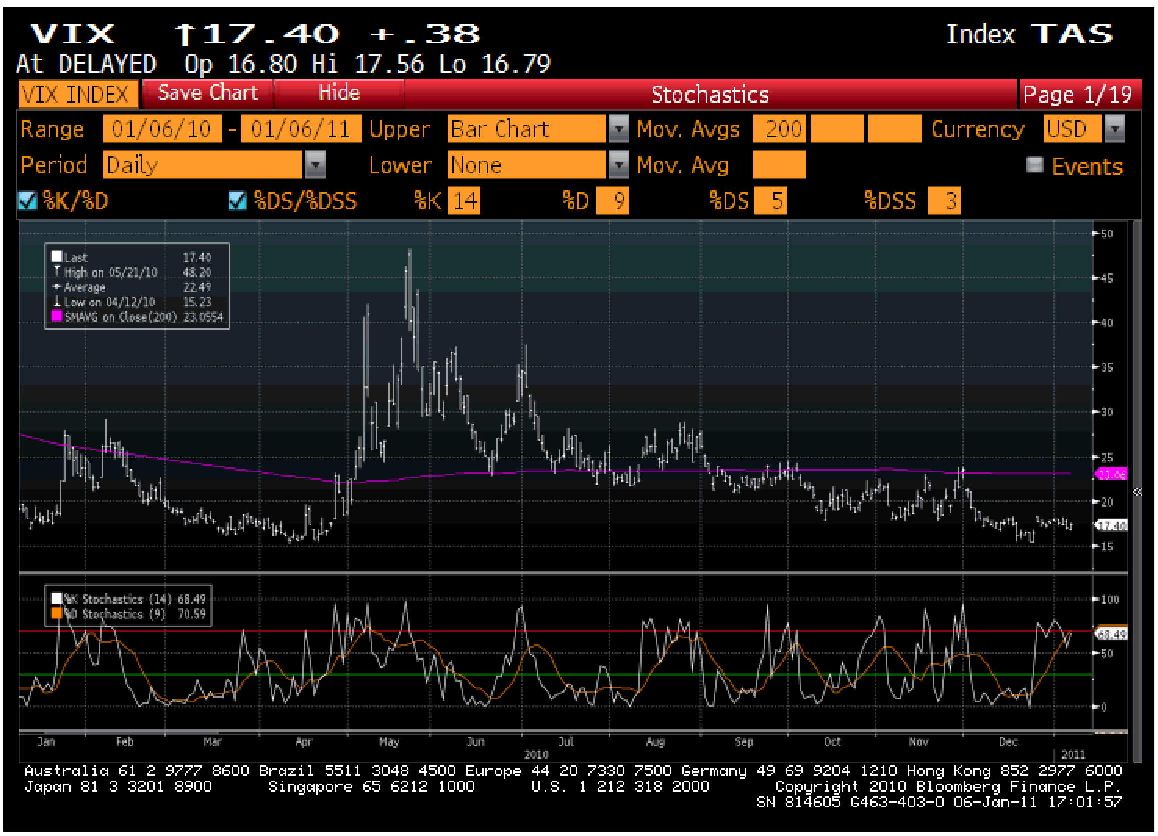
December 6, 2010

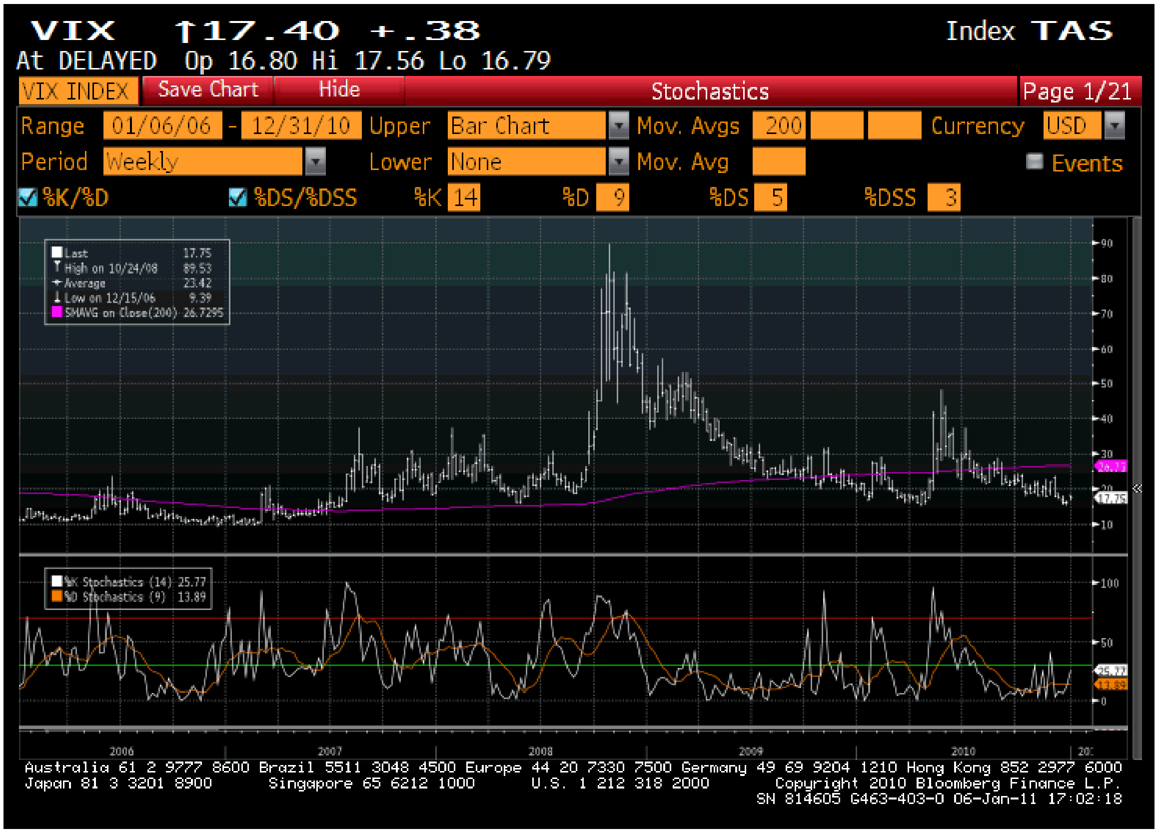
The following **1-year daily VIX chart** illustrates the head and right shoulder of a reverse shoulder-head-shoulder formation, as well as the solid support in this area.

The pursuant **5-year weekly chart** on page 8 also includes the head and right shoulder of a still greater shoulder-head-shoulder pattern, as well as the massive support in this area!

Perhaps more telling still is the fact that an extremely bullish triple-divergence was created over this past year in that stochastic.

Put holders of all stripes will therefore enjoy the double-whammy of a spiraling Dow and a spiking VIX. This will obviously affect intra-market option strategies, as well.





GOLD

December 6, 2010

"The technical arguments included the analysis that, in the context of the preceding, the powerful uptrend was being defined by the 200-day moving average, from which it would be getting ever closer to breaking away from, as gold accelerates toward 3500…"

The following **1-year daily gold chart** on page 9 reflects a 200-day moving average which has indeed been curving upward and defining the trend's acceleration.

Those who simply note the extent of gold's advance and relate it too closely to the moves in the broader indices will be fooled once the correction in equity prices commences in earnest.

The point of total de coupling, which I have long since forecast, will leave investors behind, especially those who will be waiting for the completion of the correction in the general stock market to be fully invested in gold and silver equities.

And, again, domestic players in North America will watch foreigners in Asia (and Europe) benefit most from what lies *beneath* their very noses.

I will certainly attempt to catch that decoupling for you particularly since we are only 33% long the PM equities, albeit from excellent prices. In that case, I was one of those waiting for a correction that didn't come.

I was influenced by the fact that the position of this letter is that 50% of all liquid wealth should remain in gold. (This has been SKGS's stance since gold $500, while positions ranged from 25% - 50% from $250 - $500, having traded effectively throughout that period.)

SKGS has identified **virtually every intermediate turn in** **gold and silver** **since 2002.** (If this link does not work on your computer in PDF format, simply type the following into your browser or view it on the homepage, www.sidklein.com.)
http://www.sidklein.com/comments/Gold%20Excerpts%20%20March%202010.pdf

December 6, 2010
"The pattern since July includes a 5-wave pattern that may complete around yearend, so that a decline in asset prices of all stripes in the

New Year may temporarily affect gold as well. That point is moot, however.

"In an article I wrote for Gold-Eagle earlier in the year (referenced in previous letters), I forecast Gold 1500, which was the title of the piece. Okay, as of now, for the purposes of judging investment forecasting for strategic purposes, good enough, I would say.

"Among the arguments was that corrections are so powerful that they are disguised by actually moving higher during those corrections, as eager long term buyers (such as Easterners) absorb whatever gold that silly Westerners are dumb enough to let go."

The **5-year weekly gold chart** below provides greater perspective regarding this explosive market, which is en route to $3500 and beyond.

December 6, 2010

"2011 belongs to the mega-bulls, and readers will still more clearly appreciate why I have advised investors to maintain 50% of all liquid wealth in this one true currency."

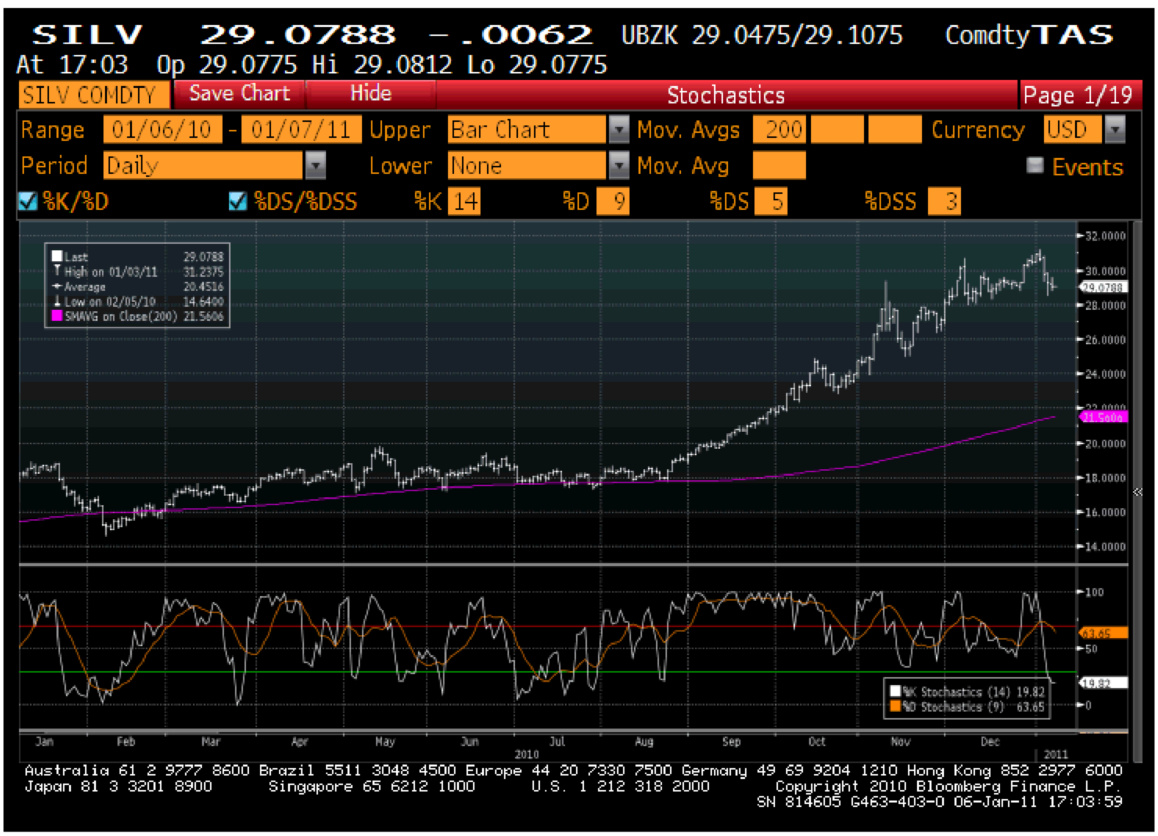
SILVER

December 6, 2010
"I have not participated since $18, true. The one redeeming feature of my analysis of silver has been my observation that the XAU's pattern most closely resembled that of silver.

"Only a single reader picked up on the following question to me: *"If you are not advising 100% investment in the XAU (the gold and silver stocks), and if I am concerned about missing a good move in the precious metal stocks, since you feel that silver itself closely reflects the pattern of the XAU, couldn't I at least buy silver as a hedge against my non-100% investment in those stocks?"*

"I answered in the affirmative, since the logic of his question was sound. Silver would enjoy a higher risk-adjusted return, since the metal is safer than equities."

As the **1-year daily silver chart** immediately below illustrates, much like gold, this metal is in acceleration mode and it will not see $20 for many years to come, if ever.

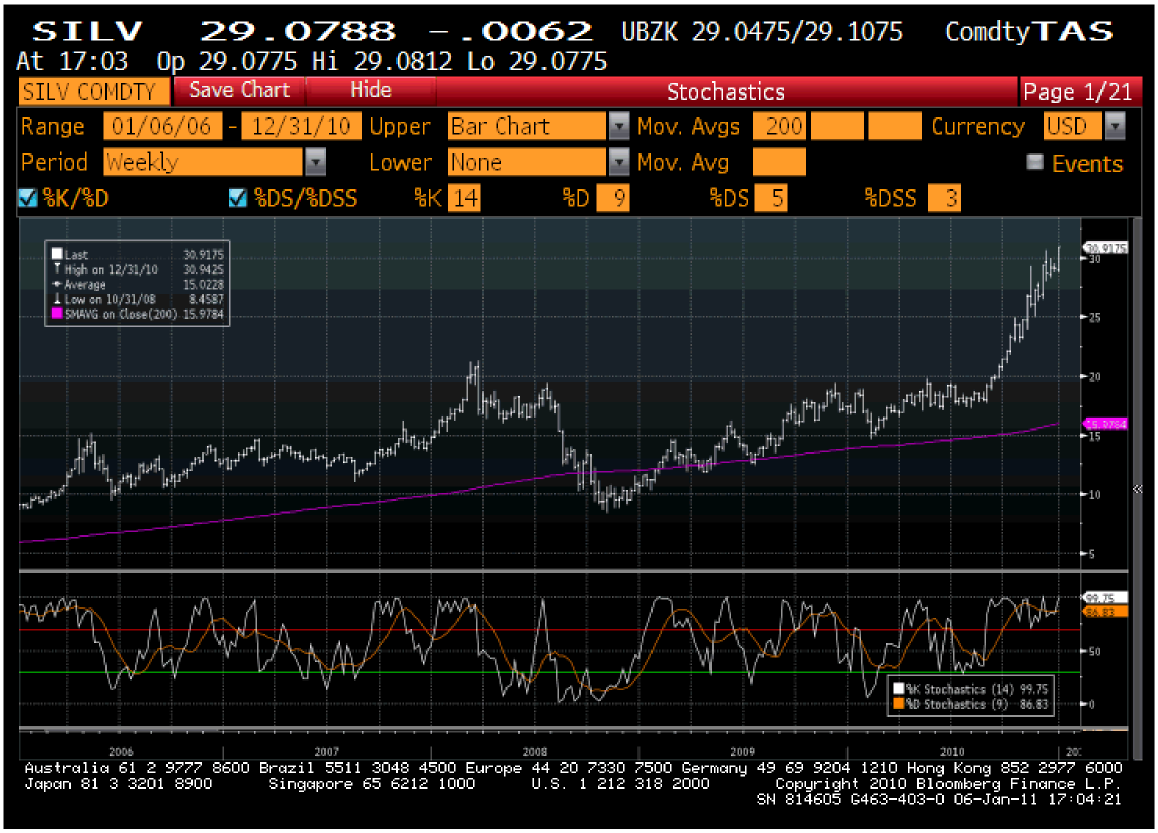


Silver traders will be given a chance to hop on board, and silver will again represent a superior *risk/reward* bet to the precious metal ETFs.

Having said that, the precious metal stocks will provide even more leverage, however.

The **5-year weekly chart** on this page reflects the activity referred to immediately below, though, of course, SKGS has been long since gold-$280.

December 6, 2010
"After huge silver returns since the bottom at $9 (see chart below)**, including a 200% position for the first $5, this nice recent run was not an official position. My focus was the sure bet called gold, the necessary holding, called gold."**

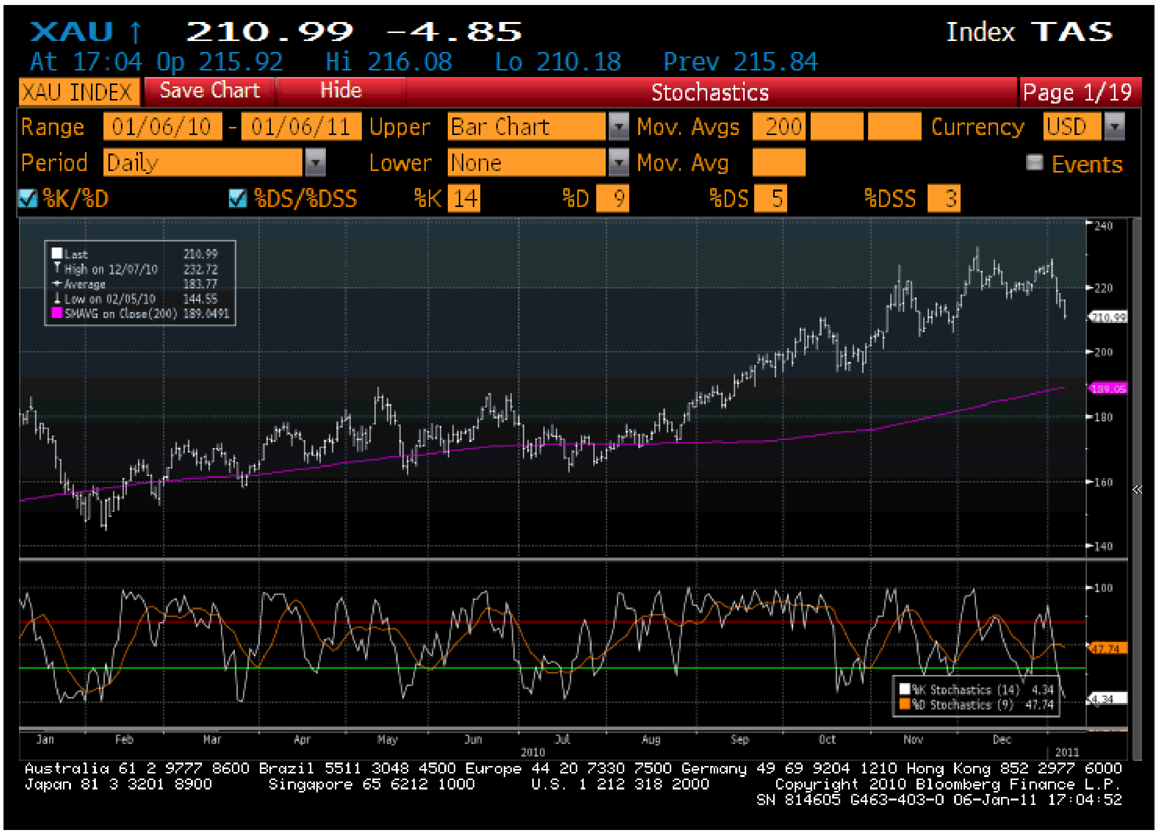


XAU

The reprint below leaves nothing that needs to be added. As mentioned in the GOLD section, the identification of the point of decoupling will hold the key to extraordinary gains.

Simply, this is an off-cycle index and investment banks selling structured products do not have any model or historical basis for determining the appropriate prices for precious metal-related products, since this equity group will explode to levels unforeseen (again, see **GOLD 1500**). Like gold itself, that is what Wave-3 and new all-time highs are all about.

The following **1-year daily XAU chart** reflects the fact that its pattern is completely in sync with that of silver, while the **5-year weekly chart** at the end of this section illustrates the index's off-cycle reality.



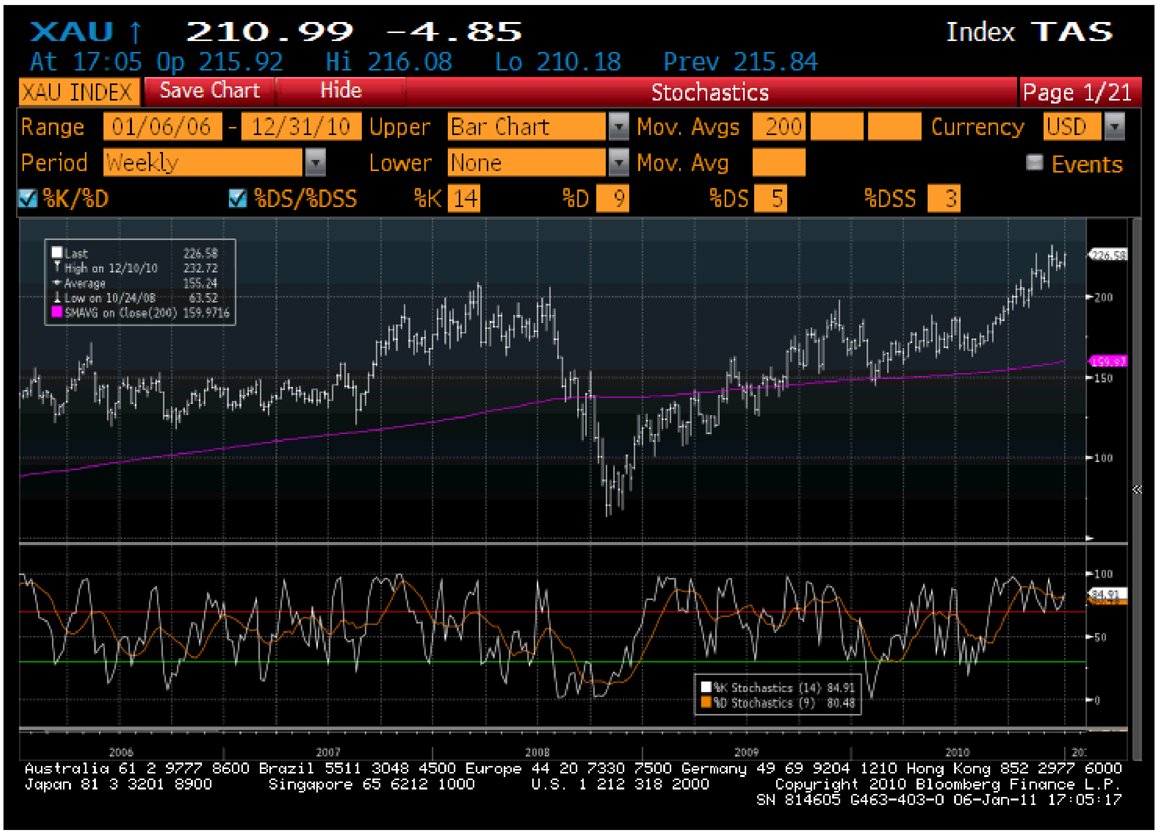
To the trained eye, the graph on the next page also piques the imagination regarding what the upside potential might be, once one understands that the pullback to $60 was a **Wave-2!**

December 6, 2010

"The XAU has indeed underperformed silver and the latter's superior risk-adjusted return (66%!), but it still would have been nice to have recommended more than the 33% position we finally put on in the XAU, before its breakout from the 165 area. I did that out of sheer respect for the pattern, as I wrote at the time.

"Structuring long/short investments, still, I am happy to say that we have not missed the bottom of those structures that are and will be designed to benefit from the precious metal equities' out-performances.

"This is why I have maintained that the best time for that will be after a sharp stock market decline drags down the XAU, before the latter breaks away and reverses, as co-directionality comes unglued. Just like 1931."



YEN

At the time of the November 6, 2010 report, the Yen was trading at 80. We see from the **1-year daily Yen chart** below that the identification of the bottom only weeks earlier at roughly the same price was followed by a reversal to 85.

We also see that the Yen's peak (bottom in the following Dollar/Yen chart) came in at just about the exact same time that the peak in the Yen was identified in these pages, after having gone long at 116.5 (the low was at 124).

So, the low in the Yen was at 124 Dollar/Yen and the recent 4th-quarter peak was at 124 Yen/Dollar.

December 6, 2010

"Moreover, consistent with this report's theme of counter-cyclicality, and as pointed out before, the Yen drops, even as the US Dollar Index does so. And it rallies along with the Dollar Index, as well. Hmmm…

"This is a fascinating reality, since it completely jibes with Japanese and American equity prices traveling in opposite directions. The counter-cyclicality theme is clear today and, as a Bache trader used to say in his daily commodity market coverage, NEVER correlate markets."

The **1-year daily Yen chart** below reflects this month's sharp move, which the ensuing **5-year weekly graph** (page 16) does not, since weekly charts are only updated after the week's end.

"For 21 years, the exact opposite has been taking place. The US printed money, while the Japanese did not. Now, it is the Japanese who will 'create money.'"

I had already forecasted Yen monetization and, on **November 6, 2010, I** wrote:

"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." (Paraphrase)

"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.

"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."

The yearend turn was correctly forecast and there is nothing to add. So,…

ASSET ALLOCATION

The breakdown remains:

50% gold
25% Swiss Franc
25% US Dollar

Sid Klein