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PRIMARY DOW MOVE ENDING; IT WASN'T COUNTERTREND

March 7, 2010

JAPAN

The main technical story out of Japan is that foreigners are sticking to the liquid large-caps.

On a purely technical level, the *daily moving average (MA) is flattening (as is the case in most markets), though it has not yet rolled over, as is the case with the weekly MA (flattening precedes rolling over).

This has created a story for those who understand the behaviour of the Japanese retailer (as opposed to the ever-wrong foreign investor) and Japanese demographics (who has all the savings, and all that).

That story is not today's business, however, though it is a principal theme for those looking for quality international long/short plays. After all, there are few asset classes and sectors that make any sense in the equity world, outside of the precious metals-related themes.

*The 1-year daily chart follows the 10-year weekly graph on the next page.


NKY ↑10368.96 +223.24
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Page 1/42
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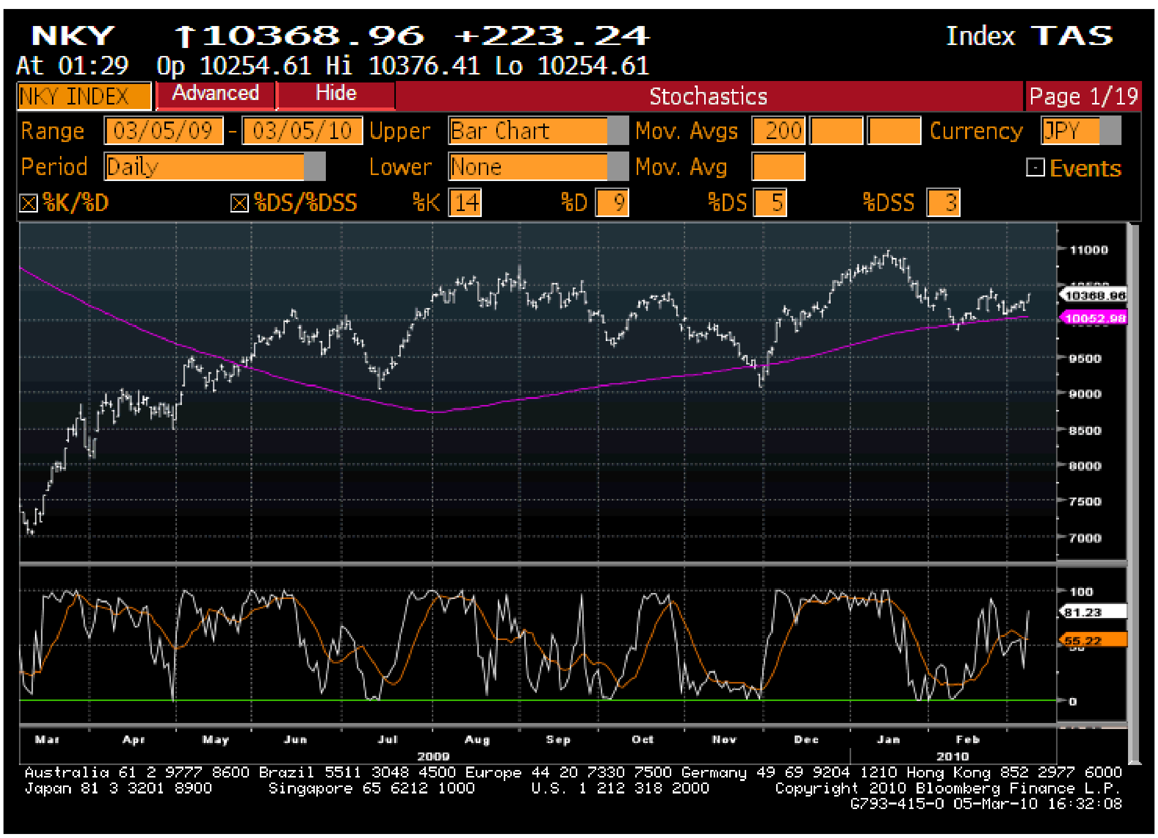
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Upper Bar Chart
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The main story in Asia used to be Japan for me. However, the story has become China, without a doubt.

I have also commented that the precision and accuracy with which I forecast the Nikkei in the 1990's through the present, except for the Nikkei's decline under 12,000 (which made no strategic difference), and the incorrect interpretation of the small caps beyond 2004, has been reincarnated in the form of SKGS' accuracy with respect to China, where the Shanghai's highs and lows have been forecast and identified in these pages, since its perfect top.

The Shanghai's chart pattern has largely been a **forerunner** (determinant?) of what would later be seen in Korea and elsewhere. Japan is now almost yesterday's news, as an indicator. In fact…

CHINA

The *price peak* of Shanghai's countertrend rally, post-2008 collapse, was about 8 months ago.

However, when judging by the *orthodox peak* (where the wave pattern is complete, whether it is the price summit or not), the countertrend rally peak is about 3 months old; this is more consistent with the last few years, to be sure.

From the December 6, 2009 SKGS report:
"….this index is points away from its top. The timing of the peak may be when the tracker indices come onto line with it, but that's just an educated guess. Breaks of the moving averages could open up the gates to the downside. And what will Asian bourses do then?"

And from the January 10, 2010 letter:
"Indeed, this badly weakening index is just points from 3,500 and the end of wave c of c. Yes, it is THAT close to its demise."

SKGS identified the peak in China, the low of its subsequent collapse below 2000 and forecast the ensuing rally to 3500, plus or minus. So, what of the analysis expressed in the 2 paragraphs above, regarding this "forerunner index?"

No change! It's in trouble.

In New York, the terrible news is ignored, in favour of attention on disassociated and advancing stock prices. It is always thus, until the advance turns into a nightmare. Well, awaken to the charts on the next page, and avoid shock ANYWHERE.

See 1-year daily chart on page 4, regarding the above-referenced peaks.

NEW YORK

From the Feb. 7, 2010 report:

"Now, we reiterate the 4th-quarter view that there is a 75% - 80% probability that those extremes will have occurred for yearend, while the lesser probability contemplated a minor new high in February, after an initial January decline."

"Countertrend moves ought to be sold without any care for what happens thereafter, as we are well-positioned for the longer term. **Lost opportunity is not the same as lost capital.**"

SKGS has enjoyed having most everything else right the first go-round. The revision/update with respect to the Dow is that the move from the recent low below 10,000 has been primary, as opposed to countertrend.

The simple meaning is that the correction from the 2008 collapse's low – what I have called, "The 1931 rally" – is only completing now, as opposed to having already been completed, and is still in the throes of the countertrend rally.

28 years of experience told me that this recent rally from the upper 9000s would not end a bit below the recent high but, rather, that it would reverse from the

10,200 – 10,300 area, if it were indeed countertrend, since the decline from the 10,600 area was relatively shallow.

Therefore, I looked for continued rally, if the Dow were to indeed move through that area. And, now, sure enough, one must indeed look for the alternate scenario that recent letters have discussed, namely, that the Dow would make a minor new high (if that area was worked through).

However, the main short entry point upon which to now focus is *time,* not *price.*

Simply, with such distractions as health care reform (that the market could later "celebrate"), the end of the first quarter could be the typical short entry we seek. It is common, historically, that April usher in a smash, much as January can.

The "feel-good" in the market, upon news of some form of health care resolution, could drive the fund managers to satisfy their ever-short-of-memory clients, with some old-fashioned window dressing.

As a reminder of the oft-stated analysis in these pages, the cross-charts (my favoured long/short investments) tend to achieve their extremes about 3 months in advance. A late first-quarter top would satisfy this analysis perfectly.

The result of prior analyses (since 13,000) has commented that the market(place) is, on average, invested at Dow 11,200. Please consider the psychology of the average investor after having taken a bath:

"When I get even, I'm out! I promise, Lord, really! Just give me another chance."

Investors plead thus (while hanging onto their losses), like patients with a sexually transmitted disease. They regret ever having committed the deed they knew better than to perform, and swear they would never again go un-hedged, if only….

Actually, it is for this reason that indices fall just short of such critical levels, since markets exist to fool most of the people, most of the time.

Note the following technical analysis, and be prepared to enjoy a 2-year period of enormous profits, as SKGS again nails the peak, after having been a little early.

When it's a second go-round, the targeting of the peak has historically been within days. So, remain confidently and positively negative, for yet another thrill ride.

Note the weekly MA. It presently rests just overhead at 11,142. (The 10-year weekly Dow chart on page 7 is followed by its 1-year daily version on page 8.)

Kissing the MA (or so) would bring the Dow into the resistance level mentioned on page 2. It would also complete a 5-wave pattern, which is more evident on the daily chart. But what would that pattern be?

My experience has me suspect that the 5^{th}-wave will have taken the form of a wedge, a diagonal triangle wherein the sequence is comprised of five 3-legged waves.

This means that each wave will/would take the form of an a-b-c move, as opposed to the customary five waves, which is the general rule for primary advances. Three-legged (a-b-c) moves are ordinarily *corrective,* not *primary.*

The significance is that such exceptions can only occur in the **final** move up (or down, as the case may be)…and that the move is very weak.

I don't believe that the Dow will get to 11,142, but I do believe that the best strategy is to play this according to time, not price. Let the month go by and benefit from premiums being crushed further, as the Dow ekes out a **very minor new high.**

The slightest new high will provide astounding leverage, as a result of those crushed premiums. Plan for it and enjoy 2010 – 2011!

As this report illustrates, there are no changes in the analyses of the other asset classes, and even the new Dow interpretation here is hardly a "change." It may seem so, since being off by three months may appear to be much, since the expectations have come to be rather high, given my track record.

Later, three months will have appeared as a blip, en route to stupendous gains.

Hence my warnings about being married to any specific market, as well as my adherence to long/short strategies, where I have enjoyed a nearly ideal record, regardless any short term vagaries in any specific market.

The December 6, 2009 report asked:
"Are the last trickles of the countertrend "1931" Dow rally completing right now?" The January 10 letter replied, **"Yes."**

The January 10 strategy section remained unchanged from the prior month:
"The Dow is rolling over and dangerously close to its tipping point NOW, in line with global market activity. 5000, give or take, awaits

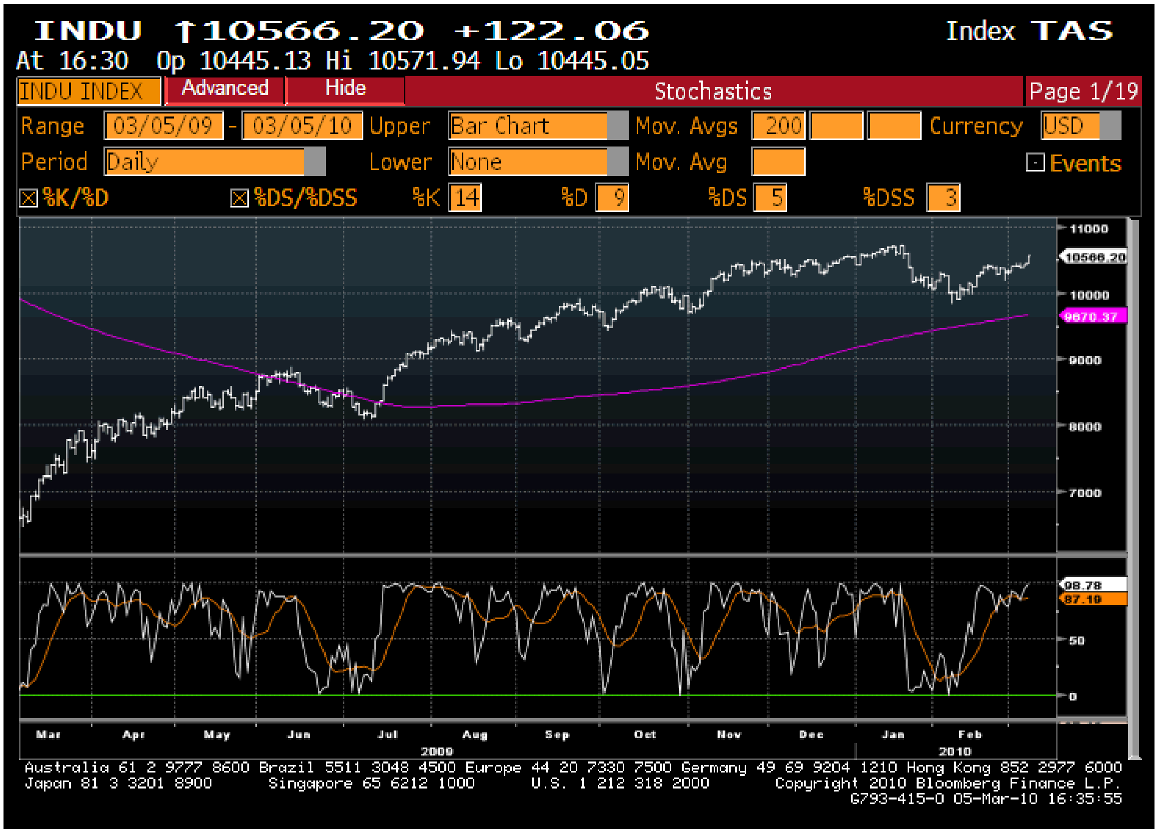
below, through 2011. This next cycle, which is commencing NOW will take the Dow to the 4000-6000 area."

These two paragraphs will have been vindicated. Remain confident. Stay positively negative!

STRATEGY

I don't believe that the Dow will get to 11,142, but I do believe that the best strategy is to play this according to time, not price. Let the month go by and benefit from premiums being crushed further, as the Dow ekes out a **very minor new high.**

The slightest new high will provide astounding leverage, as a result of those **flushed-out premiums**. Plan for it and enjoy 2010 – 2011!



VIX

We nailed the recent low to the day, going long at 16.93.

For a variety of strategic reasons, I chose to not take advantage of the ensuing spike toward 30, nor the stab back toward it after the sharp correction that had followed that spike.

STRATEGY

The stop remains a close-only of 15.75. Why not close the position, given the Dow analysis above?

Well, our profits in the previous VIX trades afford us some latitude, particularly given the fact that any loss here would be minor, given our entry at what was the low (16.93 was on the day of the low).

Simply, it is dangerous to be out of any bearish theme altogether, assuming one is not invested in the recommended long/short plays, which offer superior downside leverage and safety.

PRECIOUS METALS (gold, XAU, silver)

From the January 27, 2010 report:

"Today's action in gold suggests a greater likelihood of new short term lows."

"However, the action in the Philly Gold & Silver Index (XAU) suggests that the low it made today may have completed its correction and, since it leads gold, it fits that the metal is about to make its final short term bottom."

From the February 7, 2010 report:
"A reversal in gold from these levels (and the proximate 200-day MA) would be perfectly consistent with the above commentary and that of the analyses that followed the forecasted breakout over $1,000/once!"

With the above commentary in mind, please examine the gold and XAU charts on pages 10 & 11, respectively. In each case, the 10-year weekly chart is followed by the 1-year daily graph.

Previous commentary, then, identified the lows in the XAU and gold, and forecast rallies to the 165 - 170 and 1150 areas, respectively. (Continued on page 12.)

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Index TAS
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Stochastics
Page 1/19
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Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2010 Bloomberg Finance L.P.
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Along with the targets reiterated at the bottom of page 9, influenced by the stock market, what follows could be another wave of decline in the XAU.

This would be consistent with a gold correction which completes by mostly trading sideways in the $1,030 – $1,100 area. The resultant pattern would be consistent with prior corrections. But it does not matter to SKGS? No.

This service is for asset allocators and fund managers, far more so than for short term traders, due largely to the frequency of publication (though consultation is available for traders).

So, simply, we remain 100% long the metal for all liquid assets, within my asset allocation model (see the end of this report). After all, $3,500 is my wave-3 target (through 2012). And gold is the only true currency. Don't doubt that.

In any event, when examining the weekly XAU chart closely, we see that the advance from about 140 to 200 over the past 9 months was marked by a negative triple divergence.

And, now, as is particularly evident from the daily chart, another leg down that would take the XAU into the 120 – 140 area is very possible.

While gold could make a stab at a slight new high over $1,200 before completing its correction, as contemplated in the 2nd paragraph on this page, this view of the XAU is not only consistent with the interpretation of gold.

This is consistent not only with the gold commentary above, but with the 1-year daily silver chart, which follows the 10-year weekly silver graph on pages 13 & 14, respectively.

As so often reported, the XAU and silver charts are profoundly similar. And, it seems to me, while silver *could* make a move toward its high at $20, I would expect a correction to set in, should that rally occur now.

Consistent with the above gold commentary and that of the XAU, however, I suspect that this metal could trade sideways in the $16 - $17 area.

From the February 7, 2010 report:
"Therefore, I am VERY sensitive to the XAU's mirroring the equity markets during this recent decline…and in a leveraged manner, at that.

"Therefore: an XAU bounce to 165-170, and we're out. A decline to 120-130 is possible, once the Dow cracks to 8000 soon, and I wouldn't

want to suffer through it. At that point, the gold stocks would divorce themselves from the broader indices (a la 1931) and skyrocket.

"If, on the other hand, the XAU's intermediate term uptrend is unbroken, my indicators and cross-charts will reflect that to me and we'll hop back in at advantaged prices. In the same way, we have enjoyed quality entry points, which have thereby allowed us no-harm-done exit points....like this one.

Therefore, while I have been more confident with my short term market calls in the precious metals complex in the past, I do conclude the following:

SUMMARY

Due to its pattern, and THE FACT THAT IT HAS TRACED THE STOCK MARKET, I believe the risk to be too high to have any further involvement in the XAU for now.

I also conclude to remain 100% long gold, within my asset allocation model.

DOLLAR

From the urgent November 20, 2009 interim report, entitled, "USD:"

"The bottom line is that it's really about other currencies taking a break from their bull markets."

"STRATEGY

On the basis of all of the above, the broad-stroke target range for an intermediate term rally is 85 – 95, in 2010."

The 10-year weekly and 1-year daily charts follow on the next page.

Please scroll down to page 16 for the continuation of this section's commentary.


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From the February 7 SKGS report:

"Immediately below is a 2-year chart of the US Dollar index. Since identifying the low, the rally has already carried the Dollar up to 80, well on its way to the forecasted 85 - 95 range."

"However, it appears that the rally may have carried far enough for now. In Elliott terms, this would suggest the completion of wave-a of a 3-leg correction, to be followed by a b-wave decline therefore, preceding wave-c, to complete 2010's countertrend move in the Dollar.

"The resistance and neckline at 80 should be sufficiently formidable to provide the here-contemplated pullback, which would be consistent with the gold rally discussed in the gold section.

"This view further explains my reluctance to sit through what could happen with the XAU through a Dow decline to 8000 (en route toward 5000 in this newly commenced bear cycle)."

CONCLUSION

I will allow the excerpts above and the refreshed charts speak for themselves, as the countertrend Dollar rally continues to unfold….for now. For far, so perfect.

YEN

From the February 7, 2010 report:

"When the Yen reversed from 124 USD/Yen, it followed my having turned bullish on the Yen (at 117), stating that it was by far the best major fiat currency in the world for capital appreciation. This was proved correct.

"Looking at the second chart on the previous page, we see the Yen as having reversed to the upside, after the 200-day MA was hit on that USD/Yen graph. We also see that the Yen was up in January, even as the USD advanced.

"When SKGS turned nervously bullish on the Dollar for the intermediate term, I forecasted a rally in the Dollar <u>against</u> the Yen to the 95 – 105 zone, at the same time as I had made my new Dollar forecast, including the forecasted target area mentioned in the beginning of this section on page 11.

"At the 4th-quarter USD/Yen peak, SKGS reported that the Yen advance had gone far enough in the short term, much as I am making such a case regarding the Dollar (Dollar index, DXY) at this time."

Please bear in mind that moves up are declines in the Yen, as the following are USD/Yen charts.

CONCLUSION

Again, the excerpts here from previous letters, along with the charts, again tell the tale because all of this is countertrend.

To expand on what is actually the same theme, this period is more about the currencies correcting, than the Dollar rallying.

One may even call this a play on words but, for the US government, it is a play on relative political and military power, which is no less ridiculous, though far more dangerous.

ASSET ALLOCATION

From the November 20, 209 interim report:

"ASSET ALLOCATION
"On the strength of the preceding, my asset allocation model is today altered to 50% gold (unchanged), with the Swiss Franc, Yen and USD now sharing the other 50% equally. (Previously, the DXY portion was evenly split, between the Swiss Franc and Yen.)

"I suspect that this will remain SKGS' asset allocation model through a good part of 2010."

No change.

Sid Klein