

MANAGERS! IT IS TOO LATE(?)



November 8, 2009

{The June 7, 2009 letter's quotes are in blue, while that which was coloured in that June report appears here in red.}

The title of the June report was, "**MANAGERS! IT IS VERY LATE.**" Hence, the title of this letter is posed as a question, as a way of asking, "Do you wish to wait until this is the SKGS title?"

From the June 7, 2009 report (1st paragraph therein):

"This summer, there remains a final major phase of rally to this intervening countertrend phase which I have likened to 1931 in prior reports. As such, I draw your critical attention to secular shifts in inter-market directionality, as well as *historic* shifts in directionality, as per the Kondratieff cycle. This is crucial for hedge and other managers of all stripes."

In the same section of that report:

"Given the crosscurrents contemplated in this rally, I believe we again have situations in long dated outperformance premiums, where the underlying index will increase, regardless the initial direction of markets, before increasing in earnest once the global bear market resumes."

This has happened and continues to gain momentum! The best outperformance plays have already hit their lows and one can only hope for chances to jump into that which will assure the profits that belong to 2010.

So, I write here, with a cynical yawn, that it's just another year when the 4th-quarter (last 4 months of the year, actually) that one plants the seed of the following year's success and, again, by not even attempting to nail down market extremes.

Rather, one ventures to do that which is simpler, as well as less risky, too. This does not even reiterate that such strategies are also more leveraged, due to the lesser premiums. Not bad, eh?

Beware, however. Once the calendar turns into the New Year, the opportunities' prices will become out of reach...again. As I write every year at this time, it seems, many are doomed to fail because of the greater priority, here referred to as the all-important Christmas break.

And as I warn every year, don't miss another cycle of easy hedge investing. Have a great year and Santa Claus will visit to provide all the breaks one requires. Of course, I'm not suggesting that one be at one's desk on the 25th.

Seriously, the next 5 - 6 weeks are not to be treated lightly. One must be at one's desk to "make" 2010's year. Isn't it worth 6 weeks of discipline, to not miss a whole cycle's best or 2nd-best prices (many plays have already bottomed)?

JAPAN

At Nikkei-7000, I forecast a "multi-thousand point rally" that would take the index to as high as 11,000. Most of that was fulfilled by the 3rd-quarter, as evidenced by the **2-year chart on the next page**.

While 11,000 now appears less likely, and while the macro picture looks quite bad for the economy, export economy and the major stocks that represent these, the Nikkei could advance from here, despite the yearend weakness that I anticipate in Japan. These mixed thoughts represent uncertainty and result in the recommendation for abstention from any action, for now.

The bullish argument stems from a supportive 200-day moving average (see chart's purple curve on page 3), and the fact that New York has just been manipulated to take the Dow back above 10,000, right when it looked like it was going to go off the cliff.

In any event, the recommendation remains the same: Regarding the Nikkei there is nothing to discuss on the long side, and the short side demands abstention for now, in my view.



CHINA

The Shanghai chart on the next page is a **weekly 10-year** look, which includes the perfect peak that SKGS identified, when I theorized that this index could become my new Nikkei, where I had identified the summit with precision. This isn't about bragging; this is about attempting to reinforce investor confidence with which to go out and make money.

The pursuant **daily 2-year** chart illustrates the bottom below 1700, when I had forecast and identified the crash's bottom "below 2000." Simultaneously, I forecast a rally into the 3000 – 4000 area.

After the Shanghai took a serious hit off of last quarter's peak, **I commented that the index could actually give shorter-sellers another shot.** In the meantime, my attention turned to another and more leveraged Asian index (not covered in this letter).

Technical comment: Please note the roles played by the weekly and daily moving averages in the Shanghai charts (page 4). They will continue to play major roles.



NEW YORK

The 2-year Dow chart below illustrates the early-year bottom identified in SKGS. Though I had forecast a peak around 10,400 at the time, in recent letters (around Dow 10,000) I advised not waiting for it. So, the chart below illustrates the recent near term hit and the manipulated endeavour to get back above Dow 10,000, undoubtedly with the desire to make me look good...for the academics. For investors, I can only caution again of the foolhardiness of remaining long.

Manipulation requires news stories, and the way the game is played, as I have so often described, when a manipulated move up occurs, the media is fed a "positive" story that it could get its fingers to type or mouths to express.

Then, however, comes the decline and with it any number of explanatory news stories, which are dredged back out of the storage bin of unresolved and un-resolvable issues that can only conclude in ruin.

A touch of Zen: For rebirth to occur, please remember, death must come first.



Once again from this year's June report:

"Global indices and sectors are approaching critical resistance levels that merit action, even though those levels will be broken. Simply, global rotation will begin

in earnest soon and the best investments are those that will trend higher with the markets, while trending still higher even as markets revert to the bear camp, whether such appreciation results from changing relative performance (i.e. - shift in co-directionality), or even absolute performance (shift in *historic* co-directionality)."

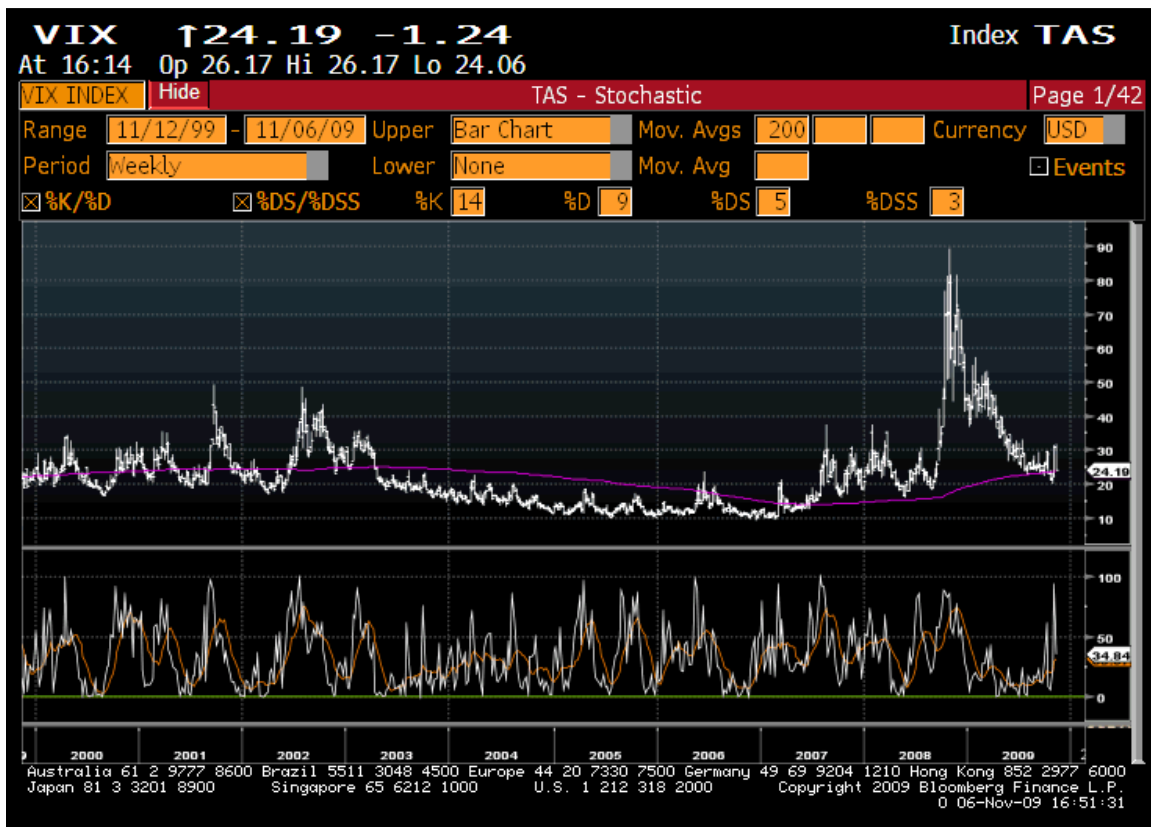
As an aside, I previously referred sarcastically to a US economy encroaching on, and 'en route to' 10% unemployment. Realistically and not with any sense of jest, how will the American population react to publically recognized figures that encroach upon 20%?

According to Karl Marx, not well.

VIX

I have written often of the VIX's 200-week (3-year) moving average (MA) on this page, and how it has defined (provide **support** to) its bull market, since the inception of the VIX's bull market 3 years ago.

After nailing the spike peak to 90 and covering in the 30's, more recently I advised going long with a stop at 18, on a close-only basis. The qualifier indeed spared us from being stopped-out.



Make no mistake about it: A new bull move in the VIX will affect ALL option-related investments, including those pertaining to long/short OTC investments. And do note the quick spike from 20 to 30, on visiting the 200-week MA on the previous page.

As crosscurrents go, please note the **daily 2-year** chart on this page and the **resistance** it provided at the very recent peak. Meanwhile, the 200-day MA has turned down, while the 200-week indicator on page 6 reversed and spiked up. Soon, they will align and advance together.



PRECIOUS METALS

From the June report:

"A breakout toward \$2,000 and \$3,000 should commence with a bang. In any event, at first, gold and silver will decline with the equity markets when they finally reverse, but who knows from what levels?"

"This is (again) a key time for planning, in attempting to secure tomorrow's wealth and its enhancement."

The 10-year weekly chart on the next page reflects the pullback to the 200-week MA at the forecasted and realized target of \$700. This was a correction of the entire move up this decade.

I further commented that to verify or correlate its wave count interpretation, one could study the silver chart, where the technical interpretation is simpler. Therefore, one can easily infer gold's wave count. Please note as well that the Philly Gold and Silver Index (XAU) has, by no coincidence, the same 10-year pattern as silver.

So, we can infer gold's own wave count (analyzed in prior reports), as well as that of the XAU (chart not shown here). The latter and silver have VERY similar patterns. A critical technical comment and wave interpretation, consistent with forecasts to-date:

The pullback and correction (of the decade's advance) to \$700, was a wave 2! Yes, this means that that the Wave-3 advance toward \$3500 has begun.

Ask yourself: "Did I doubt the interpretation at \$280 and those since, and can I afford to be offside now?"



What follows immediately below is the **2-year gold** chart, which includes the triangle of this year's first half. Regarding it, I had forecast a breakout that would run gold to the \$1,050 - \$1,150 range, before reversing a maximum of \$150 toward the apex of the triangle, the apex from which the pattern broke out.



Regarding the **10-year weekly** and **2-year daily silver** charts that follow on pages 10 & 11, respectively, I reiterate that the long term silver chart is very similar to that of the XAU. (The latter will be covered in the next report.)

When I observe the weekly chart at the top of the next page, we note the Wave-2 bottom below \$9.00 where we had gone 200% long at the time and which I correlate to the Wave-2 low in gold that, without the silver chart, would be far more difficult to read, due to the uninterrupted advance to \$1000 this decade.

The pursuant **2-year daily chart** on page 11 reflects clearly the very recent run-up, which was not as strong as that of gold. Perhaps as importantly, for timers, is that the move appears to be a short term B-wave. This would imply that gold could relax from here, and that traders could mistakenly wait for more correction than what could be forthcoming, since this recent move up toward \$1100 would be part of the correction (notwithstanding the fact that the most recent move was up).

Quite understandably, traders rarely see a move to new highs as part of a correction. Rather, they see it as strength which suggests that the correction in question has more to run in order to be competed (since the correction's commencement is thought to have begun more recently).



Please scroll down to page 11.



YEN, DOLLAR

From the June report:

"Having remained consistently in-tune with where we are in the Kondratieff Long Wave Cycle, I am pleased with what may be globally unsurpassed success in asset allocation in risk adjusted terms, since 2002. Currency allocation, whether paper or precious metal, has been rarely touched over the past 7½ years.

"This is a balance sheet story, not one of the of the income statement. This is the all-critical K-Wave conclusion. So, all that matters is who has how much – not how much they can earn (i.e. – import/export, etc.); forget fundamentals as you were taught them."

Those who do not "feel" the Japan story do not understand this, which is also why they may have missed the bottom around 123 (SKGS went prematurely but forgivably long the Yen at 117).

I reiterate that gold is the only true currency, while the Swiss Franc remains the only fiat *safe haven* currency. Still, it was undeniably correct to refer to the Yen as, "The best paper currency for capital appreciation." **Since currency trends historically extend, I maintain my target of 80, or so.**



The weekly 10-year and daily 2-year Dollar Index charts follow here.



Interestingly, the 2 charts on page 13 appear to be approaching a bottom of some sort. This is consistent with the distance of the Yen's 200-week MA from the Yen's present level (see page 11).

CONCLUSION

The following excerpts from the June letter's conclusion stand as the conclusion to this report.

"The picture painted by this letter makes obvious where asset allocators and hedge players alike should have had their money as of the 4th quarter, while clearly indicating that one must reposition at this time, if one wishes to plant the seeds of maximal success for the period which follows this intervening countertrend rally phase."

"So, here it may be a well-placed segue to express that, to-date, as is all too often the case, those seeking to be more conservative have also enjoyed the greater leverage."

"First, there was the customary 50% collapse (New York). Then, I further called its bottom and forecast the global rally (*a la 1931*), which is presently underway.

"As history is being made, how many major and easily playable cycles are left?"

Sid Klein

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