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Fundamentally Technical

November 9, 2011

DOW JONES

October 29, 2011
"The shock and awe that caused the self-feeding short covering rally gave the bears the volume that they needed to sell.

"Here, "the bears" referred to are the smart money folks, not the short sellers."

The October 29 and November 5 reports were entitled "Yearend Crash?" and "Yearend Crash Part 2", respectively. I invite you to revisit the latter report in particular to better grasp what is unfolding today.

The following excerpts, then, basically pose the question: Are fund managers prepared to risk client departures as a result of investment ahead of a yearend European debacle, due to a concern for missing a rally due to holding so much cash?

This letter has been asking the right questions and, I continue to believe, providing the correct answers.

November 5, 2011

"The "theory" above would be such a surprise, along with any tendency by the market to prioritize ANY of the global markets' ills over a concern about excess cash and a "need" for managers to actually spend it before yearend, thereby risking making fools of themselves.

"In today's environment, is a manager's risk of losing investors greater in missing positive returns, or in participating in losses at a time when those same investors are made nervous by all of the headlines that they have been exposed to daily?"

(As an aside, the political delays in the Italian process singlehandedly runs out the clock for managers to enjoy and create any yearend really.)

For days we have been hearing about the technically critical **7% level for Italian bonds,** as regards their capacity to continue borrowing on the open markets. IF EVERYONE KNEW OF THIS QUESTION, WHY DID ANYONE HOLD EQUITIES?

Today, 7% was breached and regret about not having acted yesterday is pervasive in the world equity markets.

Now, we must look at the most followed technical indicator by analysts, namely, the **MACD** (indicator above the Dow price chart immediately below). It is not my own favourite technical indicator because it has become a coincident indicator more than a leading one. Having said that...

The momentum indicator (black line) is crossing below the red line (the moving average of the momentum indicator) at the same time that the signal line (*the difference between two exponential moving averages*) is threatening to go negative, basically sitting at zero at writing.

Further and minor decline from here would set off this widely indicator in the negative direction.

As one may observe even on the 6-month chart at the top of the next page, a turn negative in this indicator can be followed with an almost immediate smash; this would be coincident with an Italian bond crisis and exodus of capital in that country.

The indicator under the price chart is my favoured slow stochastic, which is plainly pointing downward.

Do you want to lead the managers' eventual if not immediate selling pressure, or do you want follow them into a yearend rally that may or may not happen, and which would be exited by those managers anyway (on January 1st?)?

If you are paying the $1,100, you are smart enough to know what is prudent. You probably also know what is the best and rarely available speculative opportunity today.

I have been holding long term silver call spreads (see **SILVER** below), coupled with an appropriate dollar mix that includes short and intermediate term diagonal Dow put spreads.

OVER THESE LAST MOMENTS, THE DOW'S DECLINED HAS ACCELERATED TO NEGATIVE 348, ALREADY CREATING THE MACD SELL SIGNAL, THEREFORE.

NIKKEI

The Nikkei continues to behave in that way most consistent with the best long side component of any global equity index long/short trade.

SILVER

The price chart and the same technical indicators point to a strong intermediate term uptrend, though overbought in the shorter term.

Therefore, as described in the **October 29** report, we exited **50%** of our position within cents of the high, even as others were finally getting on board with the trade that they were rejecting at the bottom when we went long.

The **SLV** (silver ETF) chart immediately below reflects the commentary that was published on the 29th, though the price data is obviously updated.

At yesterday's close, we sold 1/3 of the remaining half (perfect double top), while the remainder was sold at today's open. Please note the present candlestick sell signal above.

Among other factors, the SLV was up for a 5th day yesterday (an important number recently), while today's global price action demanded erring on the side of prudence.

Good luck to all.

ASSET ALLOCATION

50% gold
25% Swiss Franc
25% Dollar

Sid Klein