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Intermediate Term Low

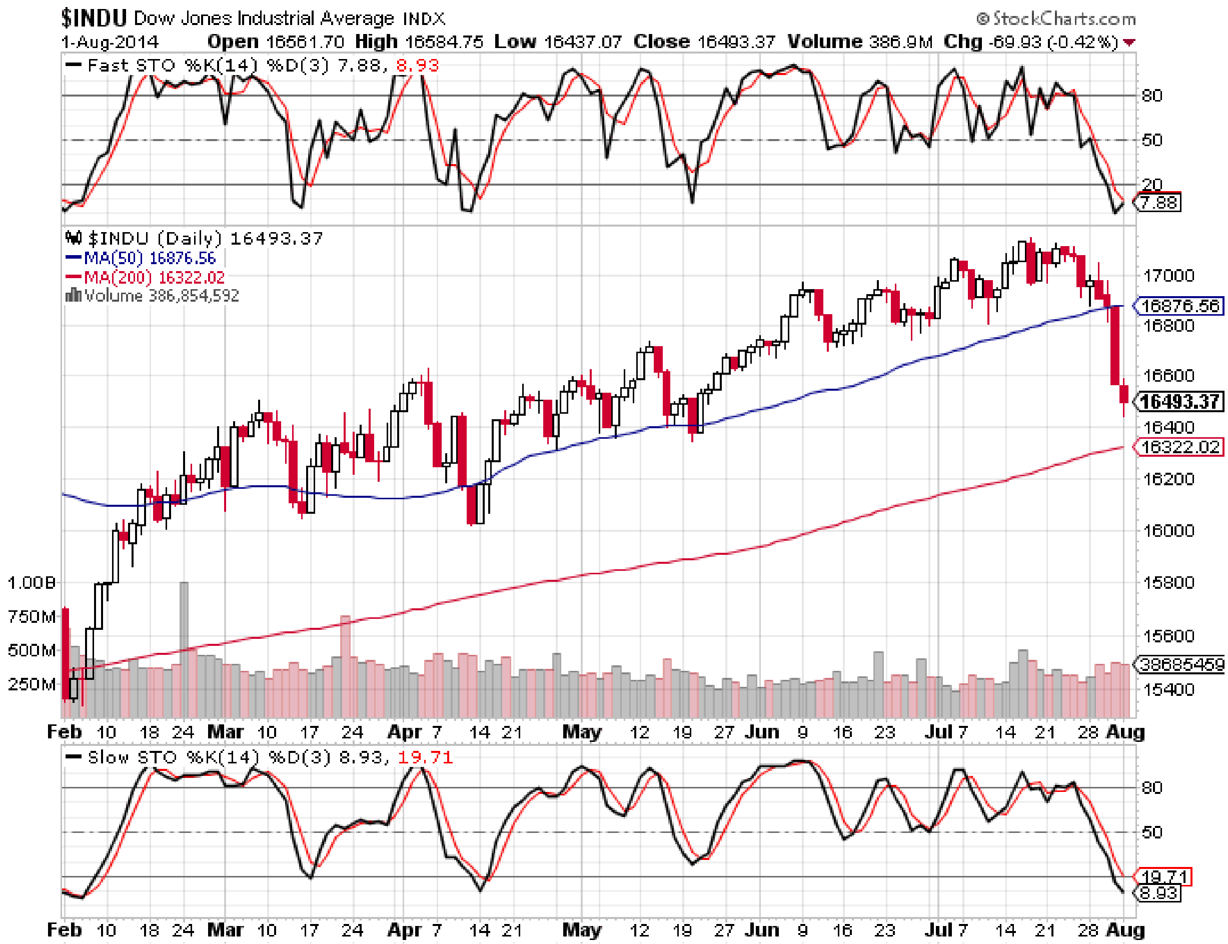
August 3, 2014

DOW

Reviewing patterns, indicators and sentiment, today we examine the **June 1** and **July 6, 2014** reports, and conclude the probabilities regarding the scenarios.

So, let us look at the **6-month Dow chart**.

Please scroll to next page.



As we can see above, my favourite and single-most reliable indicator, the slow stochastic (beneath price chart) put in a quadruple divergence from July.

So this decline was an easy warning call, though not necessarily occurring in that fashion (technical and fundamental backgrounds). Therefore, given the nature of the decline, it is another question whether or not we have seen the final top.

Given the sharp turnarounds in foreign markets (see *NIKKEI and SHANGHAI)* **(external divergences),** probabilities have again shifted to the short term peak marking THE peak of every other degree, from secular, cyclical, and down to short, though not near terms.

I do not believe that the 200-day moving average will be broken at this time.

I also believe that the countertrend rally's sweet-spot for marking a peak that would precede a Wave-3 collapse is in the area of **16,900** (SKGS countertrend rally target).

The countertrend rally (from perhaps a few points lower than here) should be used to complete the final third of a 3-part re-entry into the re-establishment of one of the 2 strategies that have been recommended in these pages (see **July 6, 2014** report).

First, the **June 1, 2014** letter mostly maps out where we are today, I believe, While the **July 6** report describes the alternate scenario. The latter was a short term call (2-3 months) to end the secular bull market.

The **June 1** report continued to contemplate an intermediate term peak that would form the secular summit, knowing that the first move down almost always tips off the major move down with an initial "crack in the wall."

This then dramatically increases the clarity relating to the bearish probabilities for the short term, with the view to entering well ahead of the eventual cataclysm.

SKGS refers to long term and leveraged strategies, going out 9 - 24 months. Volatility entry points and spreads seek to further maximize leverage (see previous and prior reports).

Technically, apart from expanding triangles and the world's collapsed volatility, including its mirroring complacency, in recent reports we have focused on the US market's internal and external divergences. The GLOBAL external ones are obvious!

June 1, 2014

"As reported often in recent months' reports, the technical expression of increasing volatility and attendant growing risk of collapse is known as the "expanding triangle."

"More than once now, I have illustrated the *secular* triangle that has formed over the past 14 years, while also drawing attention to *intermediate* (December - now) and *short term* (March - now) expanding triangles, to create a trinity of ever-decreasing-in-size expanding triangle formations."

"<u>However, the excerpt from the May 18</u> report which appears in that paragraph above the chart warns of a 3rd triangle this year, the latter being a *near-term* formation.

"A move of only a few points higher from here on an intra-day basis (Monday?) would create the 4th triangle formation, and 3rd this year. Secular, intermediate, short term and, now, near term. Unbelievable."

"The Dow is unconfirmed on multiple internal and external levels, with the coiled nature of the pattern (multiple expanding triangles of ever smaller degrees) suggestive of explosive action to come. That "coiling" is also evident in the precious metals, however they are going in the opposite direction in those cases.

"Coiling and expanding triangles each (let alone both) point to a manipulated stalling of the inevitable, as smart money finds different places to park its capital, while distributing shares throughout the entire topping formation."

On **July 6, 2014,** I finally provided the contrarian scenario for the very near term. Occasionally, I do that at peaks.

At the major July 2007 top, SKGS correctly identified the peak, before needing to do so again 3 months later. So let's look at the bottom line today:

The argument AGAINST a parabolic blow-off: Government works to give the public the impression that all is under control, without being great.

Simply, a blow-off would be too obvious and self-defeating, since **the idea is to blame foreigners for what follows, not blame financial excesses,** which a stock price blow-off would suggest.

Therefore, on that alone, without considering any of the indicators above, there will be no blow-off. Still, as regards the re-establishment of the partial position that was lifted, a new closing high should be used as a would-be stop.

Re-establishment of the 2nd long term put spread position {or straight long term put as opening leg, as per individual's chosen complement (see prior reports)} is recommended in thirds, at 16,750, 16,800 and 16,875.

Sid Klein