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The Puzzle Fits Perfectly

December 19, 2013

Summary

Reiterating: Market movements are completing before giving way to 2014's true trends.

The January report comes early with a business week to go in the year, since investors should be aware that the less-followed yearend moves mark outstanding opportunities.

With that in mind, note that each section below may pertain to or comment on other asset classes or markets.

DOW JONES

An approximate double-top (see CURRENCIES) for the Dow was previously discussed, as was the ideal long term shorting opportunities for either yearend or, more likely, mid-January.

Having given 2000 as an example, regardless the news background for the year in question, the Dow can offer up a couple of head-fakes, by initially declining, and then rallying into mid-January to give the impression that the decline was the fooler, only to have the decline commence in earnest, thereafter.

October 29, 2013

"Anyone for deep out-of the money puts?

According to the following analysis, the time to buy them would be yearend, for which time period of book-closing the market will have held up the averages. The **1-year Dow chart on page-2** illustrates its own expanding triangle: OMINOUS expanding triangle within expanding triangle!" (Please see section-concluding 1-year Dow chart.)

December 1, 2013

"Still, this bull move's conclusion is reminiscent of January 2000 when the Y2K, Bill Gates- government-supported hoax had everyone looking the wrong way. However, it is still more akin to the finale in Japan in January 1990.

"Then, the baton had been passed to Mieno, just as Bernanke will have passed the torch to Yellen. What is most striking is the fact that today's analysis is the same as then:

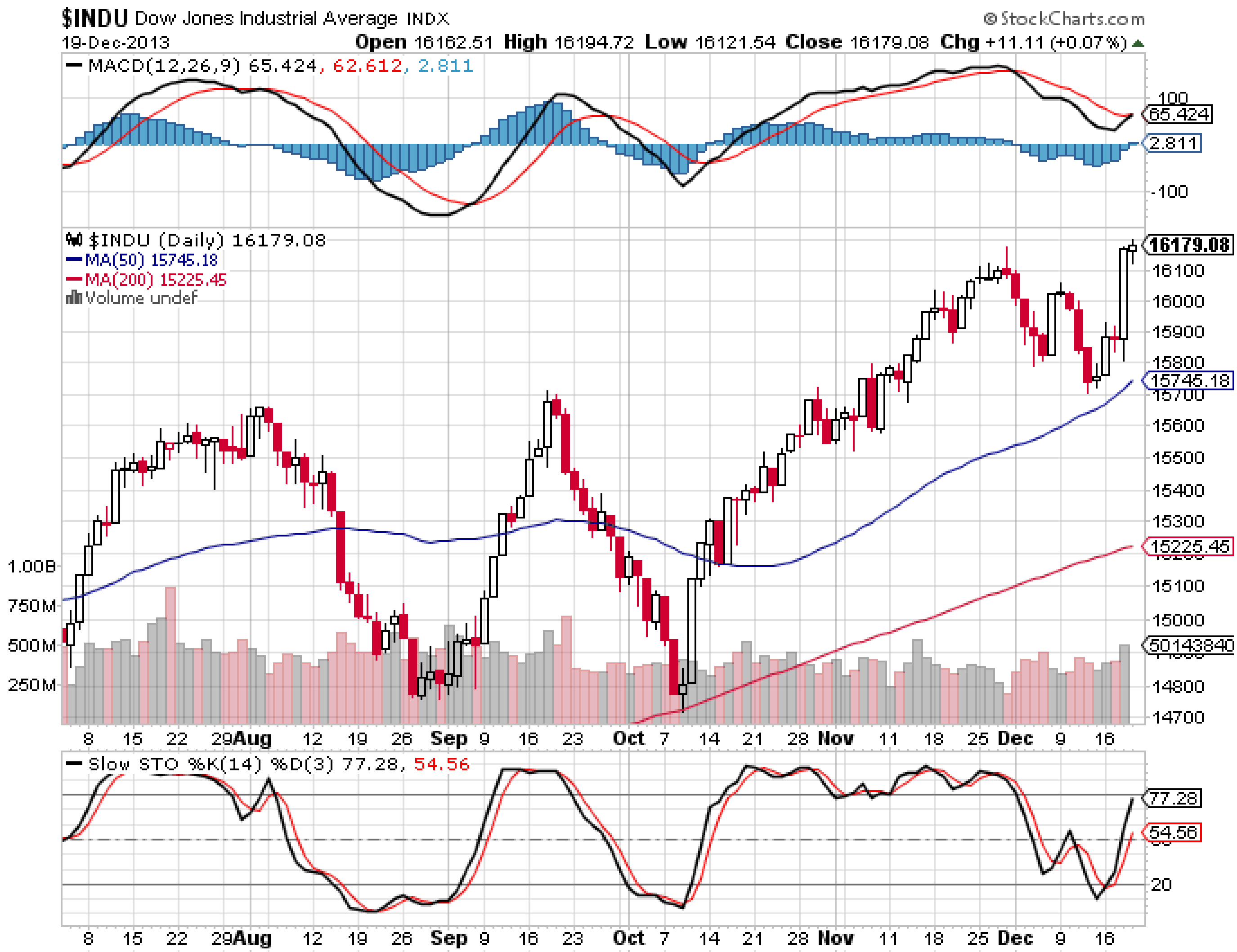
"This one-way march upward in the equity market is the result of already made committee-driven investment commitments, which suggests that market events can have little effect on trend directionality...right now. This is true as well of other markets and asset classes.

"I stressed this point in 1989 when Mieno was already spiking Japanese rates toward 6%, even as the Nikkei marched onward. Today, "underinvestedness" has driven trend-following committee decision-making."

I draw particular attention to the October 29 report, which outlines the sequence, depth and form of a **cataclysm that should get fully underway in 2014.** (Report's retransmission available upon request.)

The latter report discusses, illustrates and breaks down the OMINOUS expanding triangle which has formed over the past 13 years.

As always, the **1-year Dow chart** here, includes the MACD above the price chart, as well as the slow stochastic beneath it.



VIX

December 1, 2013

"March, August and November have so far each marked non-confirming higher lows in the VIX, versus the equity markets."

Witness the 1-year VIX chart below, the above divergence versus the S&P and Dow remains true.

Since the VIX gages option time premiums, it is a *"psychology"* divergence (gages sentiment), whereas the stochastic discussed in the Dow section is a *momentum* divergence.

NIKKEI

The Japanese cabinet approved a $182B stimulus package to go into effect the 1st-quarter of the Japanese New Year in April, though it did include some of the stimulus that had already been announced.

Even so, they also announced that they can go farther sill. Unbelievable. Gold bugs need not be solely focused on the US. Not at all!

As well, wait until the Europeans get as crazy, as Herr Draghi has already promised. As politics would dictate though, timing is everything there, as funds will mostly flow only once southern states yield their sovereignty to even greater degrees. Germany forever.

Apart from the recipe for explosive precious metals prices, the above has also spelled dramatic growth in exports, due both to the collapse in the Yen and Europe's increased importation, affected by the wild moves in the respective exchange rates (see CURRENCIES).

The volume of merchandise exported increased 6.1% on the year, suggesting that the weak Yen was not the only factor in creating the sharpest increase in 18 months. For this reason, I pay much attention to the Euro`s demise and the cosmetics of QE anywhere.

This also suggests that next year`s resumed banking crisis in Europe will have had an oversized effect on Japan`s economy; the world will understand the difference between cosmetics and a healthy pallor in identifying true long term economic indicators.

October 29, 2013

"An A-B-C-D-E contracting triangle occurs in wave-4 patterns. In other words, what follows is necessarily the final move up.

"By consequence, a quick run-up of as much as 1500 points to form a double-top is very possible; even a slight decline from here below 13,900 would negate this interpretation."

My comments were, continued to be, and remains that this interpretation is key for those not trading Japan, as well. If the Nikkei move is terminal, then so it is likely that such is the case for the world's other major benchmark indices.

The above interpretation has come to pass with precision. (The following **1-year Nikkei chart** reflects the above triangle during the August - November period.)

Separately, for a quarter-century I have been writing of an extremely long history (since the 70s) of Japan making perfect highs or lows right at our yearend, while secondary extremes occur during the March 15 - 31 period, their yearend.

Regardless the asset class or market (precious metals, Nikkei, etc.), the puzzle`s pieces fit perfectly. They rarely do so with clarity, though yearend is when Santa is most kind with his wink-and-nod.

SHANGHAI

October 29, 2013

"Without describing complex wave counts, this nutty off-cycle market can take **a stab at 2300 before resuming its downtrend."**

December 1, 2013

``As we can see from the **1-year Shanghai chart** on the next page, the above forecast represents precisely what is unfolding now.

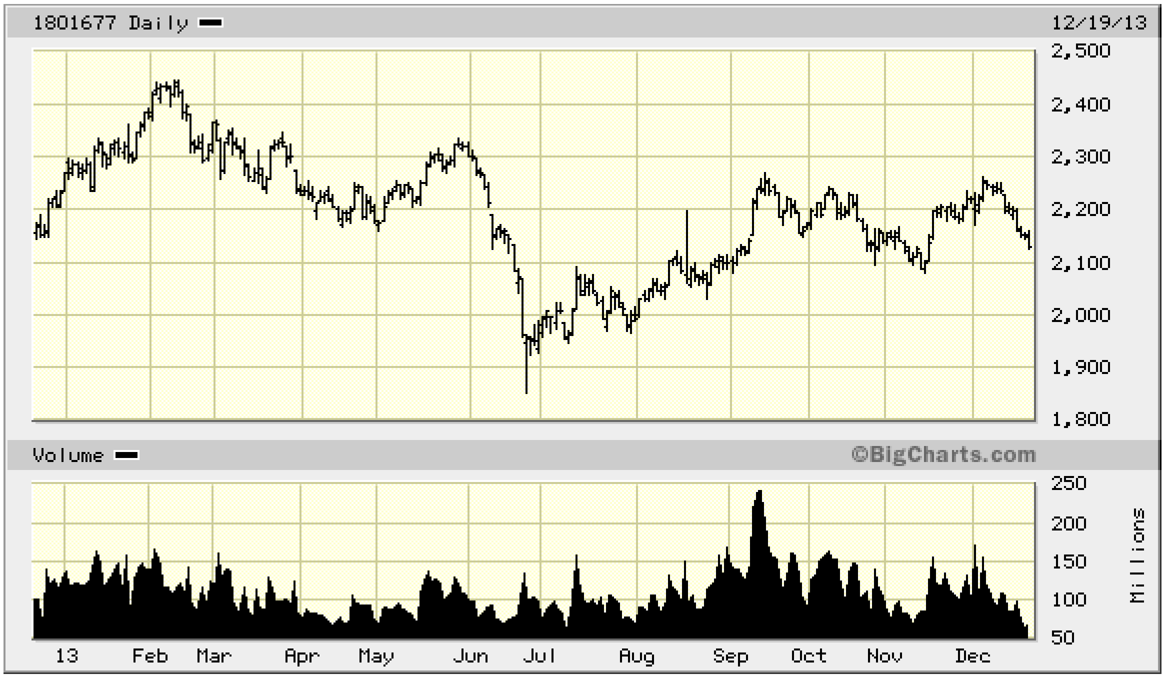
``I reiterate that a break of the 1800 - 1900 zone will fuel the precious metals stampede.

``More and more is being made of the fact that "the Chinese" are hoarding gold and that the metal will spike once the world discovers just how vast their holdings have become.

``What will garner increased attention is the fact that the people themselves were not allowed to own gold for a half-century and that, with the change in that fact about a decade ago, 1.3 billion citizens will panic into the PMs as they watch real estate and equity values melt.``

Regarding the preceding paragraph, please note the chart found in the precious metals section: Annual Chinese Gold Net Imports From Hong Kong.

As far as the October 29 and December 1, 2013 forecasts are concerned, they came to pass, as illustrated by the following **1-year Shanghai chart.**



GOLD

<u>More on supply and demand</u>:

Peak gold is a term which refers to the point in time when the planet`s supply of gold is/was at its peak. Hoarding further supports disappearance.

We passed that peak years ago, with unending global demand (secular bull market) already commenced since 13 years, to compound that reality to the bulls` good favour.

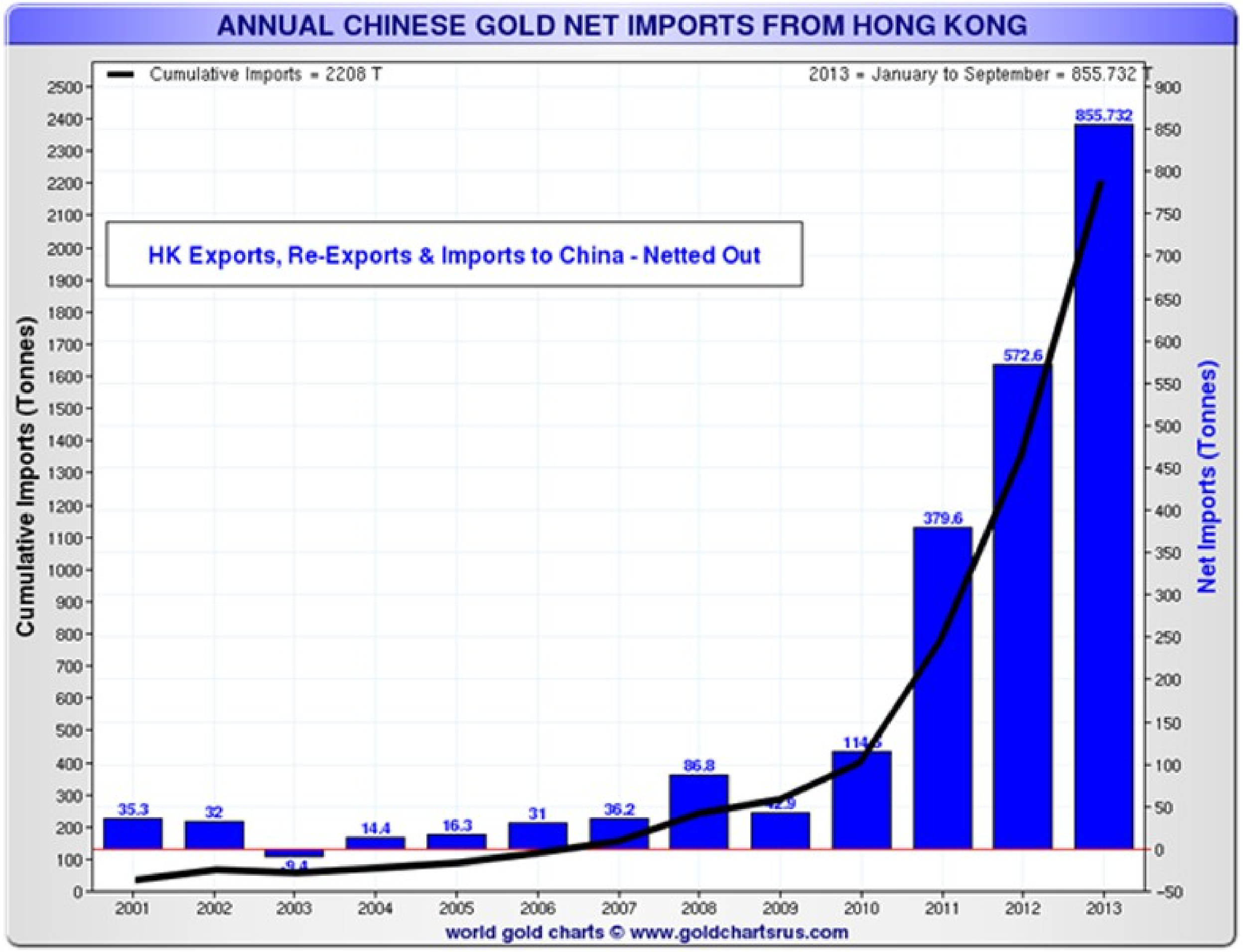
Mines are being shut and projects are being canceled, as the costs to produce are now higher than the prices that can be fetched for the precious metals at today`s levels.

Both aspects of the equation fit the economic model for higher prices. Economics 101.

GoldCore, November 26, 2013:

"The world's largest jewellery group, Chow Tai Fook Jewellery Group Ltd., established in 1929, saw sales jumped 49% during the first half of 2013."

Consider the above in tandem with the first chart on the next page, and everything in this section quite manifestly is painting the same picture of our brave and cowardly new world.



As I have been reporting (along with so may others), and as I have forecasted since 2001 (along with "a shift in wealth and power from West to East"), gold has indeed migrated. This link plainly illustrates that shift visually, very well.

Citing this week's news in the Nikkei section above, discussion of even further money-printing in that country will be yet another major factor driving precious metals prices to dramatically higher new all-time highs (please see NIKKEI above for gold-related commentary). This week's news (above) is an embellishment to the here-linked key report.

The chart below illustrates an overlay of the price of gold (in orange) and the short interest of traders in futures and options (in white). Understandably, the two trend in opposite directions.

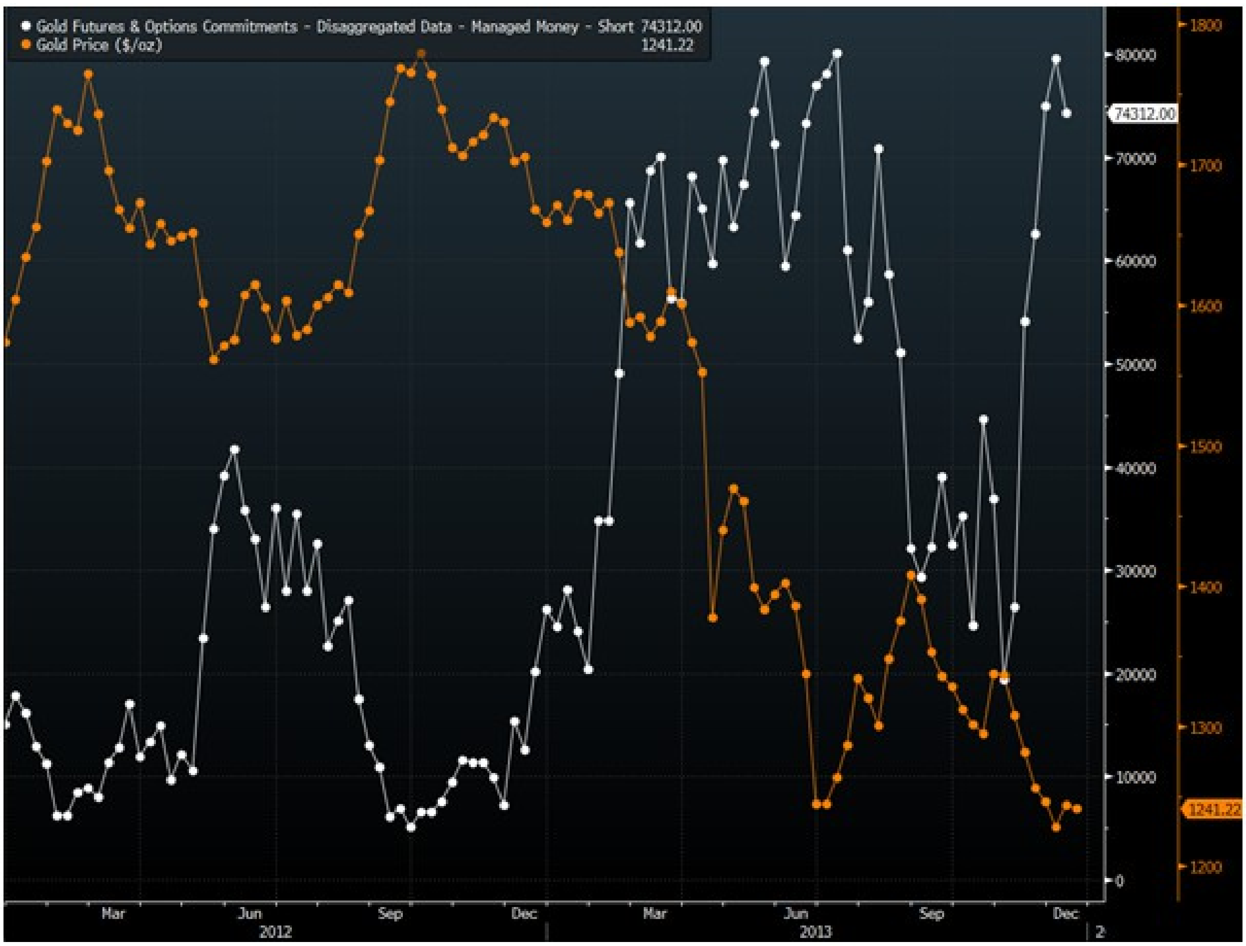
Short interest is at a 7.5-year high, which caused many to speculate that yearend would include a major short covering price increase.

I firmly disagreed, believing instead that the 6-month cycle would continue to dominate, with the background being that managers are all too happy to suppress PM prices to help make their little-or-no-precious-metals yearend reports look good.

Spiking prices by short covering would be self-defeating, and this became obvious when even the puny $10B QE tapering could not spark better price action.

All of this inspired today`s early report to be commenced yesterday, but I evidently should have started sooner by one day or more. In any event.....

From September 2012 through June 2013, gold collapsed. Short interest (the white line) spiked in a very telling and esoteric 5-wave pattern. (Analysis continued below chart.)



As gold darted higher in the summer, the white line (short interest) collapsed into the 4th-quarter. Continuing in their asymmetric relationship, gold is making final and minor new lows for yearend, while short interest has exploded in a 5-wave pattern (again), to 7.5-year highs, forming an ominous double-top.

The New Year will include a dramatic short covering rally, and perhaps during that window when managers are still not back yet from their winter break, specifically, the first two weeks of the year.

SILVER

Early this year, I made what I had thought at the time to be a rather simple observation and just as simple conclusion, namely, that India would partly turn its world-leading gold purchasing, into silver investments, in response to their government's newly imposed and onerous taxes and restrictions on yellow metal acquisition.

Subsequently, I produced evidence that Indians had already made that forecast come to pass.

Now, however, we learn from the here-linked article and its stunning forecasts something that is just as obvious, even without the supportive numbers: that the future will prove to be overwhelmingly dominated by the same phenomenon.

Here, Wall Street manipulators are helpless.

The 1-year SLV and GLD charts appear on pages 11 and 12, respectively. In each case, the MACD appears above the price chart, while the slow stochastic appears beneath it. The technical interpretations are the same for each metal.

Simply, despite the sharp price declines, the MACD is neutral in each case, suggesting that price reversals will easily trigger buy signals.

The inverse is true of the **Dow,** where a price high is accompanied by an ostensibly neutral MACD, which can turn negative with hardly any move down.

The slow stochastic will be oversold by yearend and is almost certain to provide major buy signal divergences versus the previous major lows in June. This is noteworthy.

Again, the Dow story is similar, in reverse. Divergences prepare to abound.

December 1, 2013

``As per the 6-month cycle which has been in effect with accuracy and even precision for the past several years, December may be bad and make the final lows that I had believed June would be.

``Following that low, the very brightest minds in the industry, backed by their well-healed billion-dollar pockets or PM businesses, declared that the low had finally been seen.

``As I have always explained, it is the brightest who get caught on the wrong side when remains a final move because, consistent with contrarianism and supply/demand psychology, once that phase ends, there remains absolutely no one to fool anymore.

``And that is what 2014 finally is. Be confident of this. June was a major low. December is the final one.``

Please scroll to next page.

CURRENCIES

The **1-year US Dollar Index Bullish Fund chart** follows; the MACD appears above the price chart, while the slow stochastic appears below it.

The USD excerpts from the December report are, taken together and for the purposes of understanding the puzzle and EACH of its pieces (asset classes and markets), more important than the entirety of this report to this point. Every key investment concern is touched upon.

December 1, 2013

``The Dow, euro and Yen charts are related closely, though the Dow relationship is tricky, since the Dow debacle will come mostly when the euro gets crushed in 2014.

``However, note that in the Dow analysis, I wrote of a decline that is followed by a possibly lower high in the New Year, or perhaps something that merely approximates a double-top.

``In such as scenrio, the Dollar smash relates to a sharp Dow correction, while the rally from the subsequent low would correspond to the Dow's ensuing year-beginning rally, as contemplated here (whether the Dow would form a lower high or something approximating a double-top). (KEY EXCERPT CONTINUES ON NEXT PAGE.)

``Then, the euro's renewed debacle, relating to banking woes and negative rates in Europe, would quite fittingly be tied to the Dow decline or even orchestrated cataclysm.

``This global picture fits, insofar as far as the currencies and equities are concerned; the reason that precious metals do not contradict this picture is that their astounding resumption of their massive secular bull trends relates more to negative rates in Europe and unspeakably massive QE in Japan, as opposed to any cliche asymmetric relationship to the Dollar.``

The Dollar is performing as forecast and, again, a final train wreck would coincide with the significant lift-off in the PMs.

The **1-year euro ETF chart** follows. As with the other charts, the MACD appears above the price chart, while the slow stochastic appears below it.

The excerpts in the Dollar section encompasses the euro forecast, in conjunction with the October 6 comment commencing at the bottom of this page.

October 6, 2013

"For the euro (above), this could mean a decline to 132, which would be followed by a rally back to the 136 level, or even marginal new highs."

The **1-year Yen ETF chart** appears on page 16, following the October 6, 2013 excerpt, which came to pass with precision. For that reason, the October 29 excerpt is again reproduced, as well.

October 6, 2013

"The Yen (below), like the Dollar, appears to have an obvious pattern to read, I believe. Specifically, it seems to be concuding an a-b-c-d-e contracting triangle.

"This would be entirely consistent with the Dollar interpretation and lead to a **retest of the lows around 95, dead ahead.**

"The point-7 smash in the Dollar would likely coincide with a nasty whipsaw for traders, who get killed as the Yen would subsequently rally to 105."

October 29, 2013

"Currencies were easily and by far my hottest market for the preceding 12 months, providing huge gains, in identifying cyclical extremes in the major currencies."

December 1, 2013

``If one was/is a currencies player, that more than made up for equities, so bear these forecasts in mind, both as an asset allocator, as well as a speculator constructing one's book.

``Once again this year, today's report reflects a sweep in the currencies' performances.``

Please scroll to Yen chart on next page.

Merry Christmas and Happy New Year`s

Sid Klein

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