Sid Klein Global Strategy
1001 BOUL. DE MAISONNEUVE O., BUREAU 950, MONTREAL, CANADA H3A 3C8
TEL: (514) 939-2221
e-mail: sid @sidklein.com
www.sidklein.com

PIVOT...and Look the Other Way

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DOW, SILVER: Managing risk-on

The first quarter's main play is the *economic* inflation trade, caused by China's pump-priming and the anticipated Japanese printing spree.

Wisdom indeed appears to be that the Chinese printing madness of the past 3 months will have created a false boom in the 1st quarter, as supplies will have been drawn down to build more empty cities.

Simultaneously and on the *financial* side, the Japanese are about to enter the currency wars full steam, witness the Yen's new bear market .

In any event, the inventory draw-downs and restocking in China will cause commodity inflation, witness recent action in the base metals. And all of this also means that equity bear market activity may resume after being pushed out a few months, to allow for any printing effects to pass.

In addition, inflation has become front and centre news in Britain and, at some point, economists on this side of the pond will also acknowledge what everyone already knows: it costs more to live.

The preceding would trigger a collapse in consumer confidence, which would trump any nice number to which one's psychology could associate the Dow Jones Industrial Average.

For the first quarter, the bigger win isn't the Dow falling; it's silver rallying.

The latter is about to truly benefit from being an industrial metal (per above), as well as precious metal, both. And that is why silver had been outperforming gold so well for a while, until today's break of $30.

A curious point: By getting pushed below $30, silver's 2012 performance right now does not demand window-dressing, whereas it was the performance leader among several asset classes until several days ago. Hmm.

The hedge funds could not benefit from running up precious metals at yearend amid lower volume. It would have merely underscored a failing of trheirs in 2012.

Having shunned the precious metals in 2012, I strongly suspect that the hedge funds will trip over one another to get gold and silver positions on the books as soon as possible.

I reiterate, it would be cliché for silver to again bottom right at yearend, given all of the related publicity.

The SLV's negative selling pressure (momentum) has peaked, notwithstanding the possibility of a decline that would follow a bounce over the next day. Any low must maintain the $27.50 area.

I believe that a major Wave-2 is ending during this yearend period. I won't recite the cycles (6-month, seasonal, whatever). I simply state that this wave count precedes Wave-3. And that would take us far from here, by the definition of a Wave-3. For me, not if, but when.

While the same factors as above also support stock prices, the best action will be in emerging markets, both for stocks as well as bonds. This an obvious global macro long short play!

The printing stems from China and Japan, while the US market has become a source of funds for international investors, as US markets were 2012's safe harbour (go figure).

Near and intermediate term conclusions, possible scenario:

I have felt that December 20th would be a pivotal point for markets ("last 2 weeks of the year"), so I believe that Monday will start down (but can indeed commence Friday), perhaps inspiring **silver's** final low, before again decoupling from the **Dow,** only with silver going up this time (as opposed to down as the Dow rallies).

Even within an uptrend, the Dow has downside to the 12,950 - 13,050 zone. That area could be used to lighten up positions in two increments, by trading the aforementioned area.

Due to the possible effects of all inflationary factors, about which we are all already well aware (i.e. - commodity price shocks, loose monetary policy), the Dow can be held up for a quarter, but the big global winners are NOT the multi-nationals.

Ultimately, the emerging markets will yield to the effects of global cans being kicked down the road in foreign countries. Can-kicking doesn't make the problems disappear for too long. What will be left for investors then?

The notion of abandoning the view that the cataclysm would become visible at yearend is itself canceled if the decline into the 13,000 zone were to occur by falling 400 points in two days next week, in which case I would write another interim update.

If there is no downside action in the Dow to start the week (such decline possibly hurting silver), being patient with going long silver for an extra day or two is most appropriate, if one already holds a 50% long position.

The following 3-year weekly SLV chart illustrates the approaching neckline, as well as the fact that the left and right shoulders are price-equidistant from the head (25.34).

We may also observe that the 2 down-legs from 34.08 are about equal ("c" = "a", in Elliott terms). Finally, the SLV is approaching the area of the 200-week moving average.

The stage is set for a major move in the SLV, leaving much appreciation for beyond 2012, much of said appreciation that I had previously thought would have happened by the end of 2012.

But here comes 2013.

Sid Klein