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

INFLECTION POINTS

February 25, 2013

The 4th quarter's alternate scenarios for the Dow and precious metals unfolded, are likely complete and updated below. Meanwhile, a boon for the first quarter has been the currencies, where SKGS has been hot.

DOW

Curiously, 13 years ago, today's date marked the low of the initial decline of what would become a 50% bear market drop.

The IB **6-month Dow** chart immediately below (chart on next page) illustrates an expanding triangle. Such a pattern connotes increasing volatility that leads to a fast decline.

Further, such triangles have 7 points, where the last represents the low of the decline. Where I interpret the triangle to be as of now can be summarized thus:

If the Dow prints below 13,700, then no rally to speak of *needs* to occur before the low for this move. Otherwise, there is resistance around 13,850 which could be used to short.

If the highs have been seen for the year, then we have to be looking at a 2000-point decline. If the market will double-top later, then the Dow would more likely find support in the 13,200 - 13,425 area. (See point #7 on the annotated chart below.)

The StockCharts **6-month chart** of the **Dow** that follows on page-3 includes a slow stochastic beneath the price chart, as well as the MACD indicator above it.

The MACD gave a sell signal during the first week of the month, while the slow stochastic gave a confirmed sell signal right on the day of the perfect peak (14,058).

In December, when I contemplated the alternate scenario of a strong market for the first quarter, I felt that a decline from a high during the quarter, could be exceeded in April. Though not necessarily.

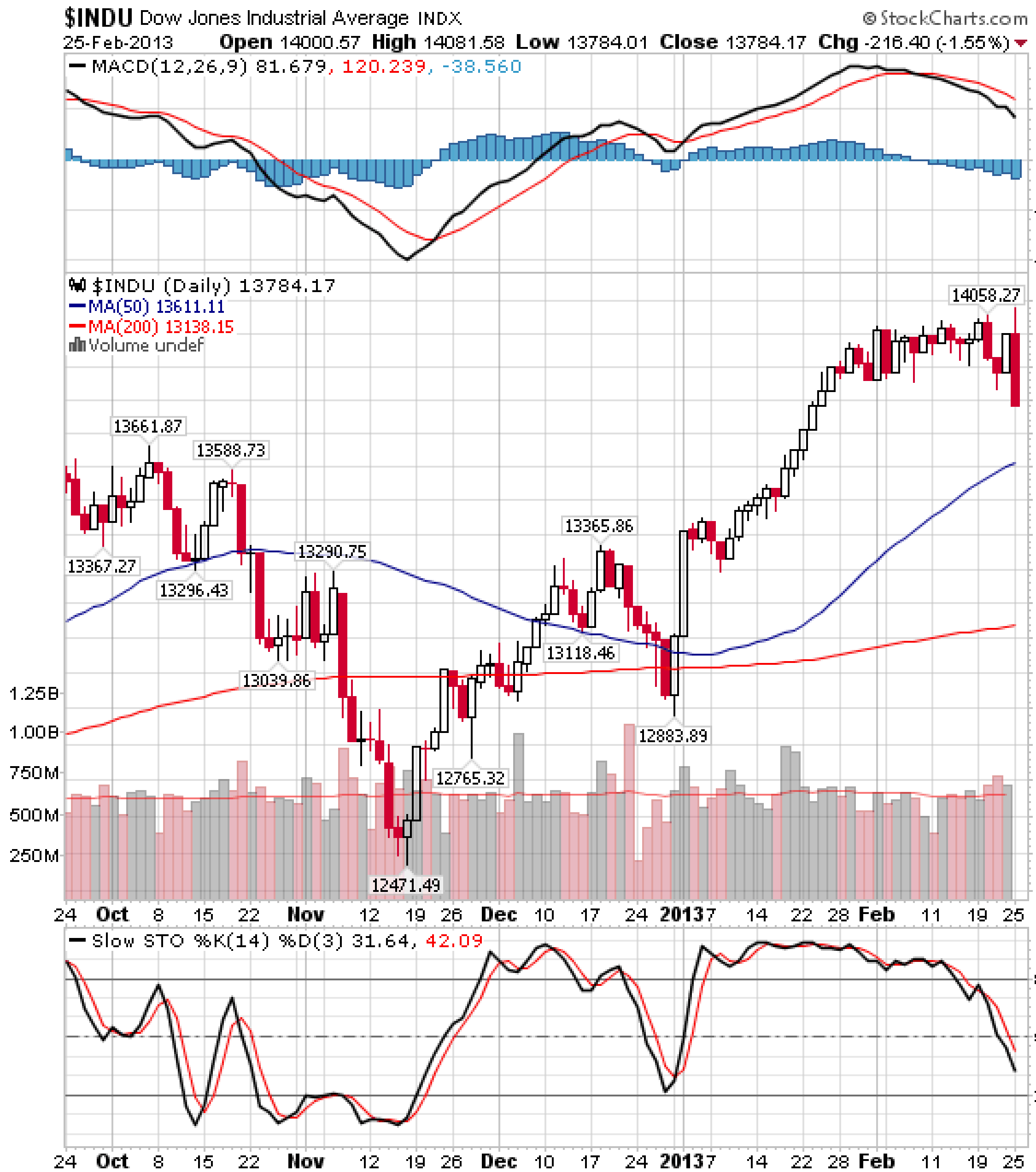
The Russell did not confirm the Dow in 2008, but the fooler this time may have been the Dow not confirming the Russell. If an investor wanted to focus on the US and minimize the rest of the world, he/she would not invest in the global companies but, rather, those that benefit domestically.

After all, if the focus has been to buy dividend-payers, then how bullish have investors been on global growth? Wouldn't outperformance of the Russell be consistent?

The key is to treat each high as possibly THE high. Quarter-end puts have quickly doubled and should travel 600% from bottom-to-top, by the time point #7 is completed in March. And if the expanding triangle assumption is incorrect, then the results ahead could be much greater.

To begin with, this sequestration date had a high chance of being the market peak, either due to the best result having been discounted, or, worse, overvaluation preceding the failure of discounted positive news to even materialize.

Regarding the chart on the next page, please refer to the technical commentary in the last two paragraphs of page-1.



JAPAN

The most dovish possible new BoJ head being selected is the perfect background for "sell in the news." It is the news piece that is perfect for turning points in the Yen and the Nikkei, which performance runs counter to the currency.

Looking back over 3 decades, I have found that extremes, whether peaks or bottoms, occur between mid-March and the end of the month, which is Japan's fiscal yearend.

So, who knows, maybe Japanese officials really will have forecast the yearend top over 13,000 (after a decline). But do you want to bet on officials being truthful...and in Japan?

I believe that being long anywhere is nuts. Totally nuts.

SHANGHAI

In December, I forecast the 500-point rally in the Shanghai Composite which subsequently occurred, but only after I decided to be strictly cautious about equities, as a basic policy, and thereby abandoned the gains in China since about 2000 on the index.

We have had a sharp shot down from the high, suggesting a short term top is in, or worse.

Talk of the Bank of China tightening to curb inflation spooked international players, but this off-cycle index could travel to 2600 after a correction. That bet would be off, if the index were to crack 2200, however.

GOLD

As the commodity collapse on February 20 was transpiring, the SKGS interim report identified what is presently the low, after having misidentified the intermediate term pattern earlier, in believing that there would the customary 2 decline form, as opposed to the also common 3 downward waves.

I strongly reiterate the view that Wave-2 concluded and that lows will continue to be higher. Of course, as I write above, "reiterate" suggests that I had this view at higher levels too.

I discuss the pattern below the **1-year daily GLD chart** (StockCharts), which includes the MACD above the price chart, along with the slow stochastic beneath it.

The MACD is so underwater that it will take some really good time and price to get a confirmed a buy signal. The slow stochastic is so oversold that, with a turn up, there is much room to rally before crossing the 80 level (overbought zone).

My conclusion, on considering all of the indicators, and the Elliott count assigned here, gold bottomed last Wednesday, when commodities were off-loaded (see February 25, 2013 interim report). I wrote that we were seeing the low, or at least beginning the formation of one (price low or negative momentum peak).

Consistent with that, the pattern has bottomed or will over the next 3 trading sessions for month-end, creating positive divergences and confirmed buy-signals, against a "risk-off theme" this week, as equity markets decline.

That would be a ridiculous explanation, as everything would be technical.

Therefore, with indicators a bit healthier and positioned to provide positive divergences if prices were in fact to make new lows, the GLD, I believe, will rally strongly, but with far less gusto than silver.

Unlike the SLV, the GLD collapsed below the apex of the triangle, out from which it broke this past summer, in commencing Wave-1 of a major move to higher levels. Having fallen to a level so close to the summer lows, the GLD's long term momentum has been deeply slowed.

Still, let's keep perspective.

As the SLV rallies to 32, 34, 37, and 42 dollars (general levels), the GLD would be driving higher to its corresponding chart levels, albeit generating perhaps even less than half the per cent gains of silver.

Again referring the 1-year GLD chart, in Elliott terms, from the October high, the GLD suffered 3 major declines. In brief, corrective patterns most often have 2 waves, though 3 is common. I had not believed that there would be an additional wave.

The following **GLD chart** is a **1-month (hourly)** look.

The bottom as of now occurred at the apex of the diagonal triangle crossing the upper trend-line, while the pattern of this 3rd decline on the daily chart has a completed or almost completed c-wave pattern within the larger wave-C on the 6-month daily chart (page-5).

As we can see, the stochastic is pointing down from a lofty level, so it's always possible that a price low will coincide with month-end, creating a divergence with this indicator, on any slight and short-lived new low (likely by Monday).

February 14, 2013 GoldCore
"Central bank buying for the full year rose by 17% compared to 2011, totaling 534.6t, the highest level since 1964. Central bank purchases stood at 145.0t in Q4, up 29% on the corresponding quarter in the previous year, making this the eighth consecutive quarter in which central banks have been net purchasers of gold."

Meanwhile, central banks bought more gold last year than at any time over the past 50 years.

Volatility is in the cards. The GVZ (gold volatility indicator) (not shown) has completely broken out to the upside, and this is consistent with the past when such action occurred on a price capitulation, before the GVZ accelerated higher, as the metal's price just as violently reversed course to the upside.

SILVER

The SLV analysis is the same as for the GLD, with the following charts' indicators (MACD and slow stochastic) also being the same, and in the same order as in the GLD section (1-year daily and 60-minute hourly charts, respectively). There is a major difference, though.

The SLV did not breach its neckline at $27 (6-month chart), and its 3 movements down were all something over $4. The 3rd down-wave was the shortest, while the opposite is true for GLD to this point, as the latter busted through its neckline to come within a couple of bucks of the summer bottom.

Also, as per Elliott and Fibonacci, with similar wave lengths (over $4), there is exists even further technical substantiation that a low has been seen or that any new one would be very minor.

I insist and reiterate that the Wave-2 low will have been seen, on completion of this decline (Feb. 20 or imminent).

This means that a Wave-3 acceleration higher lies ahead, with a good start in March, aided and abetted by the general global decline in equities. (Please review the SLV price levels discussed in the GLD section.)

I have been warning of the asymmetry achieved or developing between the precious metals and the equity markets, and the precious metals versus the Dollar. Past would no longer be prologue, has been and remains a major theme for me.

Co-directional becoming asymmetrical was a premature thought 8 months or so ago, but it has been the case in recent months; this month, I still see the relationships in the b trends continuing in the same way. I reiterate that this is important.

DECEMBER 26, 2012

"FOR EXTREMELY HIGH PROFIT-TO-RISK-RATIO OPPORTUNITIES, BE ALERT TO ESTABLISH WINDFALL PROFIT SCENARIOS IN 2013, USING A COMBINATION OF CASH (SLV) AND SELECT DERIVATIVE STRATEGIES!"

CURRENCIES

Basis the **FXY (Yen ETF),** SKGS remained extremely bearish in the 122 - 126 region, citing the currency wars as the reason for central bankers lying to gain "position," to be able to print after others do.

I often cited "Japanese ways," to explain the Japanese art of monetary battles (and, now, war). Therefore, their actions would conclude with astonishing fireworks, after the westerners would conclude that the Japanese were all talk.

But then they put in Abe. Yes, it's all planned in that community. And the Yen short became what has been called the best short of the year. Everyone got on-board this theme too, but only after it had become a source of exasperation and renunciation by those who had previously represented the bullish camp.

I repeated what I have written so often over the past quarter-century, namely, that the Japanese always do what they say, but not when expected, and only when the ever-Japan-ignorant foreigners have given up.

At the peak, I maintained a then hard-to-believe-target of 113 for the FXY. At that point, I lowered the target to 110, where I recommended exit as a matter of discipline, given the extraordinary gains.

February 5, 2013

"Since then, the FXY has broken under 106 **(today may finally have been a short term low)**, but our purpose was achieved.

"Those who used long term options to take advantage of the unique features of the Yen (above), as well as the fact that volatility premiums were at all-time lows, have realized extraordinary gains.

"No matter how big a theme, the Yen was a trade, since it doesn't fit into our currency allocation model. Also, something won't remain a trade if long term options are not cheap enough to offer great potential."

Today's shocking 3.21 reversal in the Yen ETF, put the FXY at 107.35, making today what I had thought February 5th to be, namely, the reversal day.

Resistance is in the broad 109 - 113 zone, so close monitoring is necessary. The Euro message that follows contains a key argument concerning the Yen's potential upside.

(The "S" on the 1-year chart above had indicated a major long term right shoulder, suggesting an unfolding collapse.)

The 6-month **FXE (euro ETF)** chart below has shown that this will continue to trade counter to the Yen, as I have been writing for months, believing that their see-saw activity will be that amidst which the DXY would find basic and misleading "stability" (see Dollar).

February 5, 2013

"Replete with some momentum divergences (i.e. - RSI), **today's pop up to 136 may have been a near term peak.** Too many came to share the view that 140 is the level where the euro tops, so a peak (not at all necessarily THE top) may have concluded today.

"Indeed, a final high slightly UNDER 140 may yet be seen, as that level could be where Draghi promises to print anew, as some have speculated."

SKGS identified the day of the peak in the euro, and, also as in the past, the speed of the ensuing move kept me onside. So, with a bit of luck we may have caught the peak that precedes the big leg to under 120.

Due to the asymmetric oscillations between its advances and declines versus the Yen, the above is consistent with a Yen that rallies toward the higher end of the trading range discussed in the Yen section.

December 26, 2013

"There is a 79 - 81 trading range in the **Dollar Index** (DXY).

"The **Yen** and **Euro** are pulling in opposite directions, thereby aiding the result of a **DXY** trading range that is bound to become a right shoulder top (81) or neckline support (79)."

The **DXY** has busted out over 81, so that is a wild card that could suggest inferior performance of the Yen and euro's combined net effects, compared to when the DXY traded in the 79-81 zone. The theme is the same, but the plot has thickened.

The inter-currency relationships won't alter, but the mathematical degrees of the respective movements is now changing. (In tech-speak, the charts will have different price levels at corresponding chart points.)

ASSET ALLOCATION

There is no change. Under SKGS's model, 50% of all liquid wealth is invested in gold, while the other half is equally split between the Swiss Franc and US Dollar.

Sid Klein