

Yes, Everything's on Schedule?



February 26, 2014

Summary

The March report comes to you pre-weekend, to help take advantage of the markets' month-end vagaries, particularly in the precious metals.

Tailor-making efforts to meet the needs presented by the market, then, the April - May period will surely require interim reports that address unfolding events in the precious metals and currency markets, as well as a potential undoing in China.

DOW JONES

The February 1, 2014 report summarized the 4th-quarter reports that had forecast the Dow's peak, as well as the progression within the new secular bear market with precision. However, that same letter warned:

February 1, 2014.

"While one may have positioned oneself with a very long term put spread, long term puts, or, simply, the opening leg of a long term put spread, one should be mindful of a possible short term low having been hit earlier in the day on Friday.

This is particularly important for a player seeking to put on the short leg of the long term put spread. Again, please revisit the excerpt in blue, from the October 29, 2013 letter, above."

While the low was identified with precision, one must ask oneself whether there could perhaps be a fooler awaiting this quarter, with the Dow making a final high on the strength of:

- The NASDAQ being a magnet to higher levels, as that index made new highs while the Dow was making a lower one last month,
- a developing expanding triangle that fishes more participants into the market (Dow), while merely creating a formation that bespeaks greater volatility, a formation that necessarily ends with a swift and sharp decline,
- [anticipation of the European version of QE finally kicking in this year, an event about which there is no doubt whatsoever, as the others have already taken the lead \(U.S., Japan, Britain, Switzerland and China\).](#)

More than anything, the preceding link explains the trigger for the precious metals eruption, as opposed to any positive argument for owning equities since it will be in response to crises that the Wall Street's servant, Draghi, will act as pre-planned.

Therefore, the previously stated and perfectly implemented (re: timing) long term Dow put spreads are unaffected because, even if concerned about the preceding, one must also consider that:

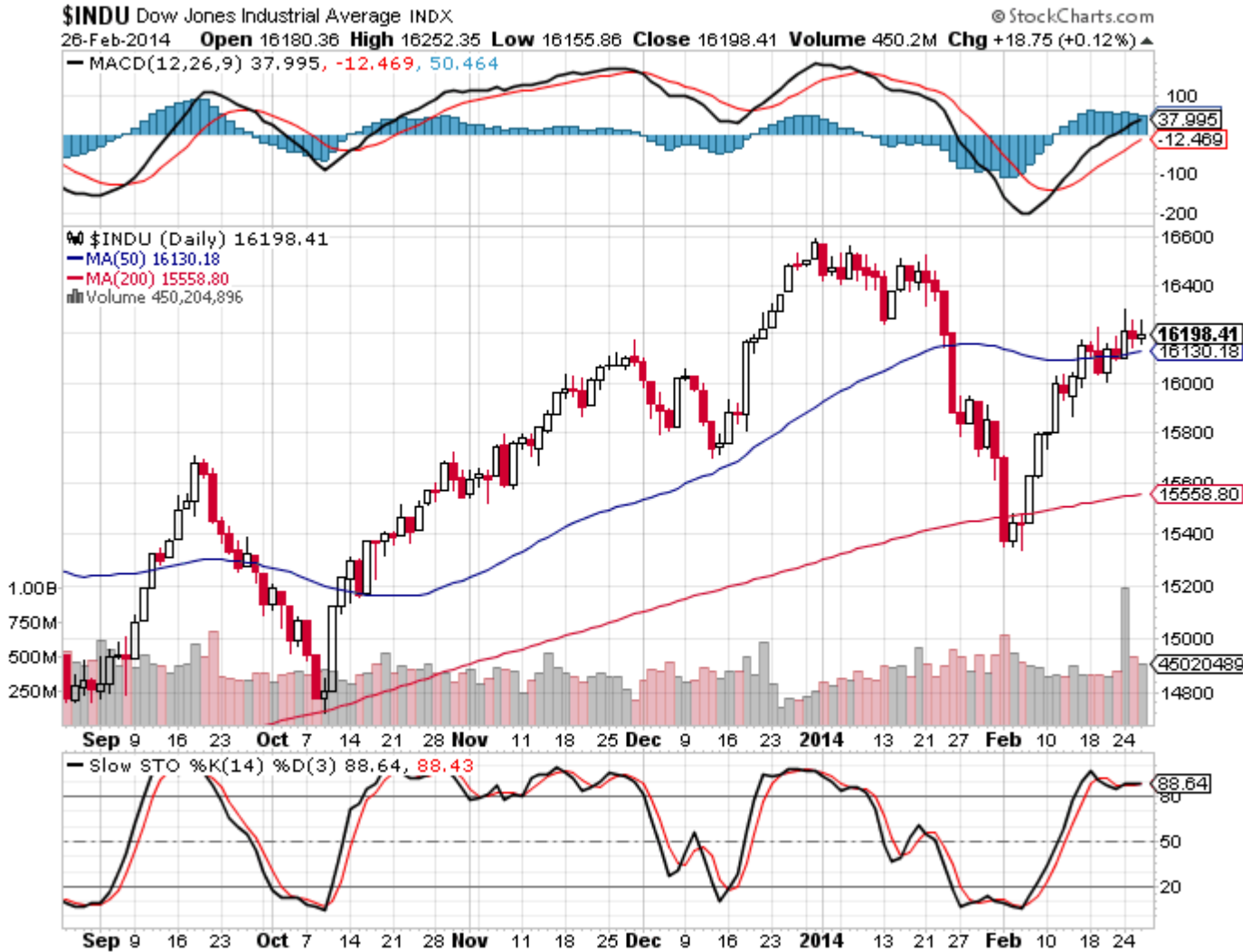
- The NASDAQ peaked later in the first quarter of 2000 (the Dow had topped in January), yet, over the pursuant two years, all hell broke loose to drag the major averages down 50%,
- the correct bearish strategy merely benefits from such potentially delayed bearish gratification,
- [the outrageously taught and stretched market, matches or exceeds previous MAJOR historical summits, accompanied by several disastrous indicators on the levels of fundamental, technical and valuation analyses.](#)

The link immediately above serves as a wonderful synopsis of major negatives found at MAJOR highs, but, as an overlay chart, it also plainly illustrates why the proverbial rubber band is so stretched that, not only is the time very short (this year!) before the onset of the Cataclysm, but that it must be a dramatic downdraft once it commences.

The pre-planned Crash merely awaits the events upon which the Masters of War (currency or otherwise) seek to lay blame, for what they themselves have long-since planned as part of the global power and asset grab.

[To underscore a specific indicator, note this link's illustration of today's margin debt levels, which exceed those of both 2000 and 2007.](#)

Given the 50% debacles that followed those peaks, one can more easily understand my analysis found in the October 29, 2013 report (reprinted February 1, 2014), in which I explain that we are on the cusp of the beginning of a Cataclysm that will take the Dow to 6000 in 2015, before a rally to 9000, with a wartime disintegration to even lower lows thereafter.



The **6-month Dow chart** above includes the MACD indicator above the price graph, while the slow stochastic appears below it.

February 1, 2014

"Of course, what would be different, would be a failure to make a new high and stop around, say, 16,350, before resuming the decline."

As you can see, the February 1 report identified the perfect low, while forecasting a level of resistance which was seen this week, when the Dow hit 16,300.

As the previous reports identified the perfect high, including the secondary top that was part of the summit's development, it is safe to say that, including the February 1 low and successfully identified subsequent rally, SKGS is back on track in the market that is nearest and dearest to the hearts of so many.

Now, it remains to be seen whether I can remain hot in the currencies and build on the recent pinpoint forecasts in the precious metals, and Eastern market as well. In other words, let's see if perfection in every market can be attained.

Such is always the aim, and rare is such an outcome, but NEVER would such an eventuality be so rewarding or be so critical to investors than in the period in which we presently find ourselves and in which we will remain for the next 3 years or so.

VIX

As plainly evident on the **1-year VIX chart** that appears on the next page, the low of this contrary indicator (which trades asymmetrically to the equity market) was nearly a year ago (last March).

Further, we have pulled back to neckline support, having formed a reverse shoulder head-shoulder at the same time.

The February 1 report wrote of the need to establish (sell) the short put, if one was legging into the long term put spread (at the market's peak, other strategic alternatives had included outright put purchases, as well as long term put spreads, in which both legs were established simultaneously).

Since the VIX and the equity market trade asymmetrically, one sells peak premiums at a market low: the market is at its bottom, and the premium (VIX) is at a high, thereby providing the favourable double whammy.



NIKKEI

"The way the Nikkei trades, a 400-point intra-day move down, could even be a one-day event. Traders be alert Sunday (tomorrow) night."

As the **1-year Nikkei chart** on the next page illustrates, the commentary above provided an almost perfect strategy and pattern identification.

Now, our concern is the fact that the speed of this index's decline is threatening to undo markets, as people sell what they own to cover their losses and meet margin requirements.

In other words, the hedge funds are long and overinvested, in much the same way that no one owned Japanese stocks at the bottom.

So, apart from having identified the peak in that index, I join those who are concerned that this index's new bear market is among the world's countless woes, and included within the lengthy list of items that threaten to unglue the global financial scheme.



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

"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."

I continue to reprint these excerpts to underscore the critical nature and position of a market that commenced its collapse ahead of other global indices in 2007, en route to a 66% drubbing.

The Chinese Ponzi scheme ("shadow banking system") is unravelling and we will see how this affects the world. Many suggest that the US will claim the Chinese bubble's bursting to be the trigger (and cause, no doubt) of the financial world's undoing.

I would not doubt them; nor would I doubt my forecast that the gold rush will then commence in earnest, including among private citizens in China.

Of course, if Chinese citizens are wiped out by the massive defaults, that would create a need to sell what one owns to balance the books. We'll see.



One thing we do know is this: The 18-year chart immediately above is a mess and looks ready to melt toward 1000 through 2015.

PRECIOUS METALS

I have explained before that when a market becomes deeply oversold, it may be indicating a massive and negative cycle shift (as was the case in October 1987), rather than support any suggestion that one should expect a healthy rally.

The same works in reverse.

Analysts and market commentators have come out of the woodwork to suggest that the precious metals are very overbought, and they have further seized on that to be a little contrarian and state that too many have turned bullish too soon and that, as in the past, the bulls will get burned.

Two observations:

Firstly, many of these commentators would like to call a higher low and recommend entry there, and go about it in this way. I have learned this from experience.

Secondly, what many don't see is that we may be in the throes of an upside correction, which would be indicative of a powerful market (today's silver *smashette* would just about complete that decline).

This would suggest that such commentators would miss getting in before what would have been a \$9 run, or so, bottom-to-top (in silver).

As with the other charts in today's letter, the following **6-month pictures** of the **GLD** (page 9) and **SLV** (page 11) include the slow stochastic below the charts, with the MACD indicators appearing above them.

However, in between the two (page 10) is an indicator that supports the notion of a sideways-to-up correction, which, on long term charts, is what we had in gold through the previous decade!

The **VXSLV** is the SLV's volatility indicator. As I discussed in the past, due to the speed of the metals' collapses, the volatility indicators spiked upward when the metals got smashed.

However, I noted, the PM's volatility indicators are in bull markets with the underlying metals. (The GVZ is the gold volatility index.)

This is the case for an obvious reason: while the equity markets are lofty and have much room to fall (zero is a long ways away), there is a limit to how far silver can fall (re: laws of diminishing returns).

Meanwhile, the upside is literally limitless, and the marketplace is fearfully aware of this fact.

Therefore, please note the chart on page 10.



The **6-month VXSLV chart** has been moving closely with the SLV, often a day ahead, as was the case this week. The reason is simple: traders front-run their own orders or those that they see on their books (market-makers).

And, today, the VXSLV enjoyed an outside day bullish reversal, even as the SLV was completing a *smashette*. Compare the 2 charts on a day-to-day basis!

Next month, we'll look at longer term charts, which will also make apparent a descending wedge pattern, which suggests that option premiums will explode once the 32-level is breached (on the VXSLV).

Coupled with an up-move in the SLV itself, profits will be staggering, as backward looking market commentators are left in the dust.



Please scroll to next page.



LONG BONDS (TLT)

February 1, 2014

"Much has been made of the historical finding that gold's advances have coincided with declining rates.

"Since identifying the precise peak just above 126, the TLT has plummeted to almost par. Now, it has rallied ~7 points and, in doing so, has broken the vicious downtrend.

"While I believe that a near term top is being made, no meaningful consolidation should take place before completing this march toward ~110, at which point the chart should finally reflect some bearish divergences.

"Until then, lower rates are to be expected....and then later in the year as well, as the 114 resistance level acts as a magnet.

"As we can see, the very lofty level of the TLT's slow stochastic suggests plainly that any pullback will indeed create a bearish divergence when the TLT subsequently rallies to ~110.

"Lower interest rates also means a weaker USD, which further translates into higher PM prices."



As illustrated by the **6-month Treasury Bond Fund index chart**, the February report identified the perfect peak in this market as well.

Moreover, the reprinted (above) commentary forecasted this post-correction rally, as being one that will stop near 110 with a bearish divergence. Pursuant to the correction that will then ensue, a still bigger rally is expected next quarter to the 114 area, as rates continue to decline, to gold and silver's good favour.

CURRENCIES

Today, I am concerned only with the euro. Simply, the USD is, for now, in my opinion, reverting to the sideways action created by asymmetrically related Yen and euro currencies.

This time, the Yen is a positive, while it is the euro that is in trouble. The last time I wrote of a politically engineered balancing act so as to disguise the fact that there was actually a lot going on with the Dollar was when the Yen was in dire straits.

Big money called me a conspiracy theorist; the Yen was collapsing at the time. Well, a year later, my "conspiracy theory" was confirmed as market manipulation and, this time, the bearish story is the euro. This is CRUCIAL to understand for two reasons:

We are going back to something like 2010, when the European banking crisis related to the US market indices' declines, as the euro and Dow downdrafts moved in relative lockstep.

Gold will no longer relate to USD declines, but, rather, euro printing, as Draghi is "forced" to react to banking crises there.

In other words, the US, Japanese, Swiss and Chinese have printed like crazy, but it is the euro mega-printing that will drive gold bugs over the top.

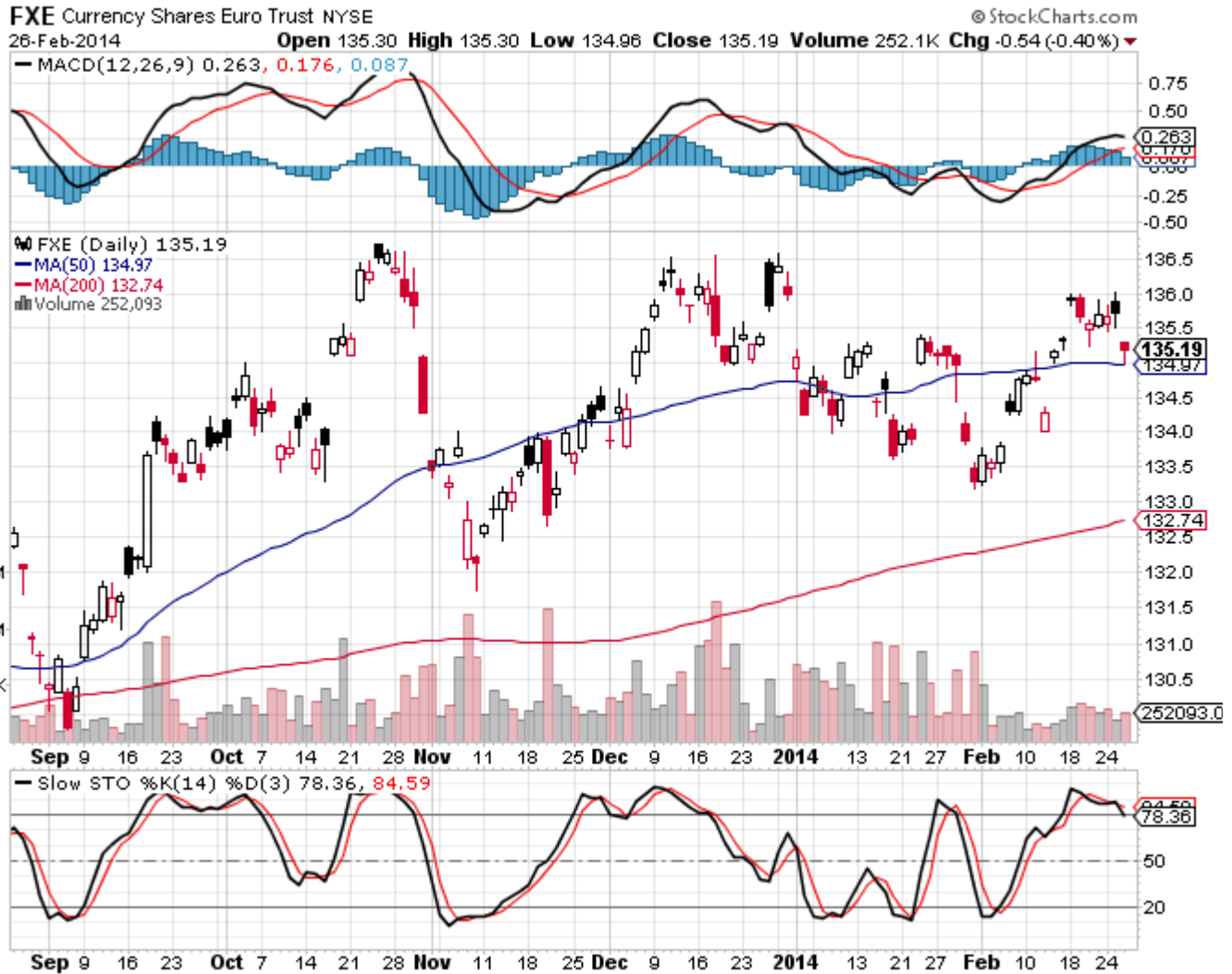
At the same time of course, the cover story will be safe-haven investing, as Europeans join Asians in buying gold to protect whatever they have left (see 3rd bullet point on page 2).

In other words, they'll figure out what the German citizenry has been ahead of them in discovering.

The **euro's** dangerously declining tops and rolling over pattern is evident in its **6-month chart** on the next page.

The stochastic is lofty and rolled over. This appears to be yet another easy money chart analysis and forecast.

Go ahead and make some more money. TLT, Nikkei, Shanghai, Dow, silver....but this one is today's easy short. If nervous, one can use a 136.5 stop, which translates into very muted losses on a well-purchased put, within the context of risk/reward.



Sid Klein

LEGAL NOTICE: This market letter is the work product and intellectual property of Mr. Sidney Klein. It arises out of his training and profession as an international expert on financial equities. It is a private correspondence from Mr. Klein to his subscribers. Any person who copies or otherwise disseminates this letter becomes subject to international criminal and/or civil prosecution under the Universal Copyright Convention and the Berne Convention for the Protection of Literary and Artistic Works. Nearly all countries in the world have signed both of these Conventions and have pledged to enforce them through their own legal systems. In addition, Interpol may be called upon to assist in the international enforcement of these Conventions through its processes of arrest and extradition. If you are the *recipient* of a copy of this market letter, whether through the internet or by facsimile, you should immediately report to Mr. Klein the name of the person or entity that sent it to you. Send your email to sidklein@sidklein.com.

DISCLAIMER: This market letter is intended to assist in the dissemination of information to private subscribers. The information contained herein represents Mr. Klein's best efforts in good faith to advance knowledge to his clientele, but there can be no implied guarantee as to its accuracy or completeness. The information is given as of the date appearing on this market letter, and Mr. Klein assumes no obligation to update the information or advise on further developments relating to the information provided herein. No solicitation to buy or sell securities is intended, and none should be inferred. Investments are inherently risky, but investment risk itself is a function of individual preferences. Thus any opinions, recommendations, or judgments expressed in this market letter are of necessity abstract and general. They must be modified, accepted, or rejected by individual subscriber/investors whose risk averseness cannot be known to Mr. Klein.