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Now is Everyone Onboard?

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DOW

I was always aware of the bullish argument that there was too much money that had reacted with fear in the face of potentially very bad news, thereby resulting in a ton of yield-starved cash on the sideline.

While cognizant of the implications, there was and is an alternative way of understanding public participation, by considering the different roles played by the ruling class with respect to mutual funds.

Without revisiting the latter, it is very important to note that the best bullish argument has taken a dagger to the heart.

Specifically, investor sentiment is now so lofty that we can understand how the market shrugged off bad news to-date, reiterating however that a correction could lead to a final quarter-ending rally.

Much sideline cash has been dragged in but, given that other US indices have made all-time highs, I believe that the last dollar will even more likely be in, once the headlines underscore the Dow's all-time highs. To achieve this by mid-April would fit nicely, with churning higher having been the last bullish phase.

Tonight, indicators are bearish and the market signs are bad, at least until mid-month, I suspect. The negative divergences in the market could even take a correction to 13,200 without precluding the market from making the stab at new all-time highs to suck in the last fool.

Beware, however. NOTHING bullish has to happen. We are in a global secular bear market. Since I believe that the next moves are down anyway, the posture is for short side.

However, the nuance regarding the secular trend suggests that bearish positions should be poised for maximal long term leverage. Meanwhile, bullish bets should reflect mere trading positions of much lesser duration.

Uncertain if the February decline is primary or corrective in Elliott terms (decline NOT followed by new highs or correction before new highs, respectively), one would/could scale out of a larger long term short term position, to leave a normal-sized one.

The **6-month Dow** chart immediately below illustrates slow and fast stochastic that are pointing straight down from lofty levels. Also, the stochastic attained lower levels at the Dow's peak than at the preceding index top, thereby creating divergences (the ideal divergence, however, is when the stochastic rises back above 80, after having fallen below it).

JAPAN

Somewhere in the 4th-quarter, I believed that a deluge in the Yen could send the Nikkei toward 12,000.

While I maintained my view on the Yen, later on, my global equity bearishness caused me set my sights on "only" ~9400 for the Nikkei. Pursuant to that change of heart, the Nikkei has rallied steadily, above 11,200.

Still, like the majority of global equity indices, I believe, this trend, for which there was so much time to get onboard will be over by April.

SHANGHAI

With the Shanghai Composite under 1900, I had reiterated my view that the index would rally to 2400, above which level we do find ourselves today.

Moreover, I had also felt that the 1st-quarter in China could be very strong, always maintaining the view that it could rally even as others faltered. This, I theorized could continue for a few months, as it is an off-cycle index.

Regrettably, my global equity bearishness caused me to abandon a bullish stance in China too, focusing on the new regime's possible raison d'etre of cleaning up corruption (which is always bad for prices, of course).

Decemeber 26, 2012

"...even though China tends to be off-cycle and should therefore peak 3 months after the Western markets."

GOLD

I reiterate the view that Wave-2 concluded and that lows will continue to be higher.

In fact, the pattern of higher lows has been creating triangles within triangles, and, from such a short term pattern, gold could presently break to the upside and trigger a greater move.

To underscore my interpretation of the technicals as a whole, I would view a decline this week as a false breakdown.

The fundamentals are superb and, most of all for intermediate-term timers, looking at others in the same boat (as I also write in CURRENCIES) may be most instructive. Looking at platinum and palladium, one might think of it as silly to bet on gold or silver making new intermediate term lows.

And if something doesn't make new lows, it makes new highs. Truth is simple.

As regards the **6-month GLD** chart on page 4, the triangles mentioned above are more evident on longer or shorter dated charts, particularly where the SLV is concerned.

Regarding stochastic, the GLD are better positioned, as, in the very near term, the GLD is correcting its recent underperformance versus the SLV, to a very minor degree.

Anyway, volatility is in the cards. The bears are running out of time to crack key levels in gold and silver. The bears have been trying, but their arms grow weary.

Hold your breath because if it does happen, it would most likely be this week (gold and silver both).

SILVER

Like gold, silver is in a triangle within a triangle and poised to have volatility move higher. Intra-week indicators (not shown) are negative tonight; I would view any false breakdown toward 30 as precisely that.

SKGS has been bullish from the bottom and I have seemingly identified the higher Wave-2 low. For that, however, substantiation is required. Waiting for that, one likely misses the best premium levels by a lot.

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 AND SELECT DERIVATIVE STRATEGIES!"

6-Month SLV chart

CURRENCIES

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

At the peak, it was noteworthy that commentators were rather unanimously saying that the bearish Yen view had been the case for far too long and had driven too many to persistent losses.

Such commentary was AFTER the major central banks had embarked upon and promised to maintain massive future money printing. It was simply a matter of waiting for the Japanese to go last. The BoJ shook 'em loose.

It was too easy to repeat what I have written so often over the past quarter-century, namely, the Japanese always do what they say, but not when expected, when the ever-Japan-ignorant foreigners have given up.

Also, the measures would be huge, Japanese style.

There were several indications of "loosening" from the Bank of Japan and Finance Ministry that, over time and with each passing BoJ meeting, foreigners grew increasingly disappointed, until they couldn't handle the grief anymore.

As with precious metals, a look at those in the same boat (in this case the central banks) showed what would follow next for Yen. And still the foreigners were not onboard.

The bullish arguments were self-evident, and they became a full blown gift once Abe had made his promises before he became Prime Minister. The populace was not going to deny their politicians the opportunity to do unto others. The Japanese are superb at non-military war, hence I forecasted that they would go last.

So, as in the past, everyone had time to get onboard the Dollar/Yen trade. As in the past, it was painful. As in the past, it was easy.

As a matter of discipline, upon achieving the 110 target, I wrote of the wisdom of exiting at 110 given the windfall gains, depending on when one got onboard, and what instrument one used. However, my view too was that this thing has much farther to go in this cyclical bear market.

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.

As previously commented, the **FXE (euro ETF)** has shown that is will continue to trade counter to the Yen (see Dollar).

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.

During the 4th-quarter, I had felt that the euro would see 140, but only after hitting a new low under 120. 130.5 was exactly the peak and it did hold the 125.5 - 126 area. The speed of the ensuing rally precluded reentry. Until...

December 26, 2013

"The FXE closed today at 131.27. I believe it is a short right here, using a close-only stop above 133."

So that one didn't work.

Now, I am closely following the Yen and euro, including the effects of their relationship on the DXY; the preceding ought to be viewed in relation to the precious metals complex, as well.

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** closed today at 79.56, so, I firmly believe, it was correct to analyze that political leaders had basically mapped out currency exchange rates, so as to have a certain framework for this war to divvy up the planet.

As previously described, the notion was to achieve currency neutrality in the Dollar, while extreme changes globally were actually going on with central bank policies and printing (global sovereign wealth transfers).

As you may infer from the above, I recommend no action, insofar as trading is concerned.

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 shared between the Swiss Franc and US dollar.

Sid Klein

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