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Mirages

July 7, 2013

As in the past, the added interim reports have been the result of accelerated or more volatile activity in different markets. Simultaneously, such coverage alters the depth of the monthly missive itself, so continue to expect more interim reporting.

NB: Please note the TLT (US long bonds) and Shanghai action in this report, since it supports 2 of the major points of this report.

Firstly, when markets correct to where they would naturally be if not manipulated, and based on untainted longer term factors, they do so VERY quickly.

Secondly, when those moves finally occur, the volatility premiums shut the doors of opportunity firmly behind them.

This will occur in the precious metals, just as it already has in the **TLT** (long term rates), where SKGS identified the ideal peak, and the **Yen,** where these reports also identified the perfect top (intermediate term, the **Chinese** market has now behaved in similar fashion).

With respect to BOTH the **Yen** and **TLT,** I advised the use of long term option strategies, as I do again, now with respect to **silver** (see below).

DOW JONES

June 2, 2013

"While a quick decline toward Dow 14,800 could easily yield a snap-back bounce to, say, 15,050, the true areas of support this month lie around the 14,600 and 14,000 levels. 13,000 and beyond has been pushed out to the next quarter."

The Dow slightly broke 14,600 before rallying, except that I subsequently expressed the view that we could follow a bounce with a decline to something closer to 14,000, perhaps sooner rather than later, despite the opinion that the greater and forecasted Dow drubbing had been pushed out a quarter.

6-Month Dow chart:

The MACD (above the price chart on P.1) has now crossed to create a buy signal, following what can be interpreted as an a-b-c corrective phase during May and June.

However, the slow stochastic (beneath the same price chart) and the fast stochastic (not shown) suggest to me that the Dow may do little more than approximate a double-top. This would also be consistent with what I see occurring in foreign markets .

The ever-waning technicals are consistent with the fundamentals that continue to deteriorate, as they have throughout the year.

Whether the US continues to print money at breakneck speed is not a fundamental consideration, please note. It is a factor that one hopes (pointlessly) would affect fundamentals (money velocity, etc.).

However, the market continues to cynically celebrate the electronic and paper printing as something that will maintain higher stock prices (so much for valuation being related to fundamentals!).

The May - June correction related to concerns about the reduction or elimination of the no-velocity-creating "wealth" (QE). Hence the media-provided explanation (however false) also related to the decline in the precious metals.

An earlier report already discussed the stupidity of the argument that would relate further printing to PM price action.

As I discuss in the PM section below, though, there will NEVER be an end to the "printing", since the aim is to monetize debt and thereby transfer wealth internationally to those who can play the game, from those who cannot.

As I've reported more than once, the game won't end, and those who *can* play the game include the US and Japan, while others will be permitted to join, with a whole bunch of conditionality attached. Yep, there's the "C"-word.

I won't revisit here how this leads to military war later on; I'll simply remind of Bernanke's words that the $1.5T of mortgage-back securities that the Fed has already purchased will NEVER be sold.

So there you have confirmation of my long-since clearly expressed words, regarding the true intentions and motives of that administration.

6-Month VIX chart

Here too the MACD appears above the price chart, while the slow stochastic is shown beneath the price graph. (In all of this report's charts, the blue curve within the section of the price chart is the 50-day moving average, while the red curve is the 200-day MA.)

The VIX moves asymmetrically to the Dow, so it is to be expected that the low in the Dow was the high in the VIX. June 24th was the high for the Dow, but there was no confirming indicator that would come so quickly as what the VIX provided.

On that same day, the VIX marked a peak with a triple-divergence in its stochastic, which became a poignant and confirmed sell signal the next day when the stochastic's momentum line crossed its moving average (the black line crossed the red line the next day).

June 20, 2013

"Make no mistake about it however, the MOST critical story on the financial planet these days is the unfolding and long-since commenced bear market in the global longer term bond markets."

Basis the **TLT (2-year chart below),** US long rates have spiked sharply over the past 2 months, right up to and including the dramatic smash of this past Friday, when the Barclay's 20+ Year Treasury Bond Fund was sledgehammered 3.41%.

After identifying the perfect top in the TLT, there were sharp declines and rallies (please examine chart), before this nail-in-the-coffin - though not final - collapse.

What does this mean market-wise and strategically (see PM section)?

"Since having identified the precise peak of this market (see previous reports), the TLT has gone through major swings, though the true direction took firm hold in 2013 (as did the Yen over the past year).

"I have long since warned and repeated that the precious metals will benefit with massive upside moves, from a falling bond market for a simple reason.

"In the past, bonds and stocks moved asymmetrically, but both have rallied SHARPLY this time until this year's respective tops. Simply, the WORLD wanted US-Dollar-denominated assets.

"Therefore, this peak is different from all others. The currency market is the biggest by far and, there, we see **gross** devaluations. Next are the ever-massive global bond markets, where we are **now** seeing some serious global ass-whooping."

NIKKEI/SHANGHAI

Over the decades, became known for being deadly accurate at secular and cyclical extremes in Japan and China.

How embarrassing then that not only have I not benefitted from the extreme movements this time, but I have even been whipsawed. Enough. So, here I offer some history to which to own-up, as well as my resolution to which everyone may hold me.

1-Year Shanghai Composite chart follows immediately below:

When the Shanghai Composite was below 2000, I forecast a move to the 2400 area. Just before it got going, I revised in deference for the new political leadership possibly focusing on dealing with corruption, against a too-early negative global equity forecast.

At 2400, I reminded of my initial 4th-quarter forecast and correctly commented that the index would back off.

However, I added that since the Shanghai Composite seemed to lag the Nikkei, one could play the game of going back and forth between the two indices at key market junctures.

Simply, I was using 5-year charts to illustrate the similarities, while explaining the fundamental reasons for the occurrence. Most importantly, the eruption in the Nikkei made the commentary logical and, regarding that, let's look at the **1-year Nikkei chart** immediately below.

Here, I had identified the perfect low in the Nikkei last summer. However, I canceled the recommendation to go long for 2 reasons:

Firstly I believed that the Yen was going to crash and that nothing could stop it, now that the last major central bank had acted in the money-printing game, as I had forecast would be the final necessary ingredient before the Yen would finally be let go.

The 2nd reason was my global equity bearishness, so there was no need to take on the risk of being long the Nikkei, if one could simply be short the Yen.

Subsequently, I never recommended buying the Shanghai Composite because last month's 20% collapse was too violent to provide the time for such a mistake.

Conclusion

By breaking above long term resistance at 14,000, and approaching the critical long term resistance at 17,000 (by hitting what I call "an in-between zone", where everyone is stopped or waiting for what doesn't come), the Nikkei has achieved all that one should expect, and one may again defer to the long term global equity bearishness to which I have always alluded.

Meanwhile, as per the introductory portion of this report, the Shanghai Composite has shown what ALL markets are capable of in this insane investment world, where lightening strikes only after volatility and investor nerves have capitulated.

Whether up or down, this is true of the Euro, Yen, Shanghai Composite, TLT, Nikkei...or the precious metals and New York.

No continent merits equity investment. Keep it simple.

CURRENCIES

The end of the week saw stunning movements in the currencies and interest rates... typical of healthy equity markets?

Anyway, what follows are the **6-month charts** of the **US Dollar Index Bullish Fund,** the **FXE (Euro ETF),** and the **FXY (Yen ETF),** respectively. Again, the MACD appears above the price chart, while the slow stochastic is illustrated beneath it. As well, the blue curve is the 50-day moving average, while the red curve is the 200-day MA.

The Dollar is the mirror image of the other currencies, just as the indicators are positioned in reverse. For example, if the stochastic is at the top in the Dollar, it is at the bottom in the Yen.

The only thing that I would like to add here is with respect to the **2-year Yen chart which appears last,** following the three 6-month charts.

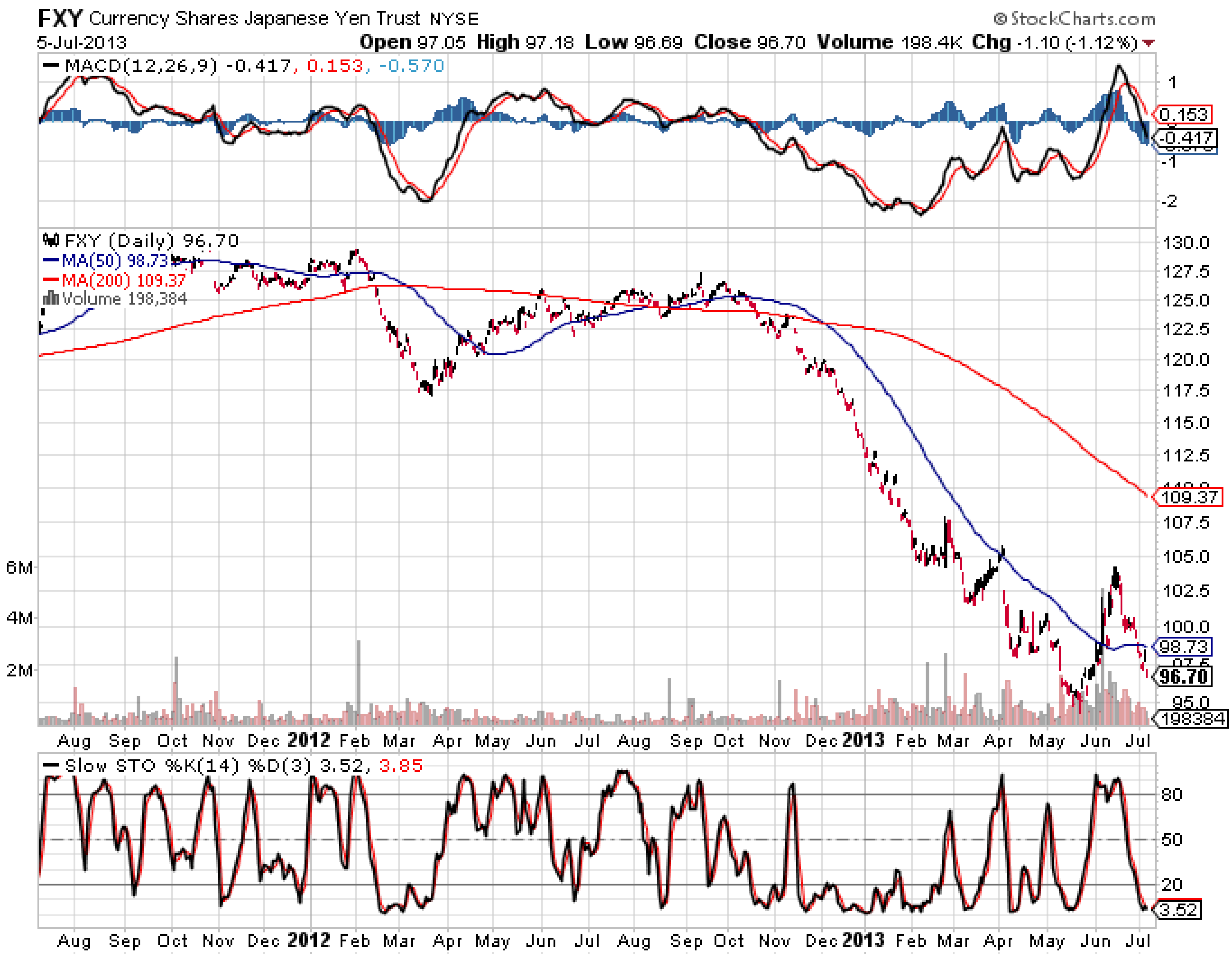
For comparative purposes, I've included the 6-month Yen ETF chart, but I have included the 2-year version so that it can join the TLT graph above in making an essential point with respect to the report-concluding silver strategy.

In both cases, a lengthy topping process had made very long term spread strategies highly profitable, while one would have been pressed to sell other positions due to the lofty values to which the wasting assets in question had attained {i.e. - straight long Yen (FXY) puts - see P.13}.

UUP PowerShares DB US Dollar Index Bullish Fund NYSE
© StockCharts.com
5-Jul-2013
Open 22.88 High 22.92 Low 22.86 Close 22.90 Volume 1.4M Chg +0.33 (+1.46%)
MACD(12,26,9) 0.084, 0.004, 0.080
UUP (Daily) 22.90
MA(50) 22.43
MA(200) 22.14
Volume 1,436,541
Slow STO %K(14) %D(3) 95.23, 93.51
14 22 28 Feb 11 19 25 Mar 11 18 25 Apr 8 15 22 May 6 13 20 28 Jun 10 17 24 Jul

FXE Currency Shares Euro Trust NYSE
©StockCharts.com
5-Jul-2013
Open 127.14 High 127.22 Low 126.96 Close 127.10 Volume 411.2K Chg -1.78 (-1.38%)
MACD(12,26,9) -0.426, -0.007, -0.420
FXE (Daily) 127.10
MA(50) 129.55
MA(200) 129.66
Volume 411,168
Slow STO %K(14) %D(3) 5.24, 8.34

FXY Currency Shares Japanese Yen Trust NYSE
©StockCharts.com
5-Jul-2013
Open 97.05 High 97.18 Low 96.69 Close 96.70 Volume 198.4K Chg -1.10 (-1.12%)
MACD(12,26,9) -0.417, 0.153, -0.570
FXY (Daily) 96.70
MA(50) 98.73
MA(200) 109.37
Volume 198,384
Slow STO %K(14) %D(3) 3.52, 3.85
14 22 28 Feb 11 19 25 Mar 11 18 25 Apr 8 15 22 May 6 13 20 28 Jun 10 17 24 Jul



GOLD, SILVER

(Please note the PM-related commentary on P.3 and P.5.)

In the past, I have mentioned the effect on the tiny silver market, if even a very small fraction of what comes out of bonds or stocks were to go into the metal.

Indian households own about as much gold as does the ECB and the US combined. Also, Indians have overtaken the Chinese as the world's biggest buyers of gold.

Finally, to deal with a crisis in their current account, the Indian government has taken such measures that make further gold acquisition prohibitive for its citizens. Hence, the observation someone wrote on Seeking Alpha:

If even a tiny fraction of what Indians have been investing in gold were to flow into silver, it could cause the latter's price to explode (due to relative price, that phenomenon started a year ago or so anyway).

It sure seems that that there are plenty of "tiny" things that can cause an eruption in the price of silver, eh?

June 2, 2013

"Everything is continuing according to the script previously laid out, most notably the transference of wealth and power from West to East, which must necessarily include the transfer of the former's gold to Asia.

"While I have been writing about this for 13 years, and while it has been going on for just as long, it is this most recent period during which it has been most notable, as the crash in paper gold has ushered in the most overwhelming GLOBAL hunt for physical gold in the history of markets."

Yesterday (July 6), in an interview with King World News, Bill Haynes referred to the preceding as reflecting the, "...transfer of wealth from West to East."

So, now, those who have been around even longer than myself and who have been dealing in the precious metals markets for as long see the plain and obvious truth:

While hedge funds set the gold price for now in the paper markets (COMEX), the big premiums that Asians pay to own gold reflect the fact that that can't continue.

With gold trading at the cost to mine to mine it, the hedge funds will soon want NO part of taking on all of Asia, especially given the fact that there is very limited selling pressure that the public can now exert in the PM market (having gotten rid of most of what they have) and, more importantly, while, the Commercial traders are now on the side of the good guys.

That's us.

Market-wise, I reiterate my view that if bonds don't provide the safe haven status of capital value maintenance that investors seek, then PM diversification cannot be far off. This becomes especially so if US equities start to get hit, though there is no dependence on the latter occurring for PMs to rocket.

Strategically, the lesson learned from the TLT and Yen markets is that long term options and long term diagonal option spreads can create windfall gains, particularly as the latter benefits from what harms the former. To be specific:

In the case of the Yen, at its summit, I had a downside target of 115 on the FXY. There, I lowered the target to 110. At 110, I recommended selling the puts for a single reason, despite analyzing that the Yen was en route to appreciably lower levels over the coming year(s).

Indeed, this has already occurred, but as I wrote at the time, it was a matter of discipline, and that I do not buy or maintain an option position unless the risk/reward is highly favourable.

Simply, while I recommended out-of-the-money puts, I had never advised long term diagonal spreads. The latter is when the long side has more time than the short position, while also enjoying a superior strike price.

Such a strategy allows one to maintain a short position, whereas holding an already highly profitable straight long option position faces the risk of great capital (including unrealized gains) deterioration.

Therefore......

Strategy

A portfolio of "balanced leverage" in silver would consist of the capacity to take advantage of *any* movements, by holding a mathematically sound mix of:

1. cash SLV;
2. strategically selected multiple long term SLV diagonal call spreads, of different durations and strikes (the unfolding interplay of spreads creates the subsequent portfolio adjustments);
3. straight calls, both very long term and what is ordinarily seen as long term in the option world;
4. cash.

The proportion of the strategic components above is what will decide if one can react in the most efficient and profitable manner possible, as suggested by the action that we have already seen in the Yen and TLT markets.

Note well the conclusion on page-8 above, to better appreciate the need for an appropriate mix of strategies, so as to both minimize risk as well as maximize potential by being *positioned to remain well-positioned.*

CONCLUSION

The dramatic (fast) reversal in long interest rates has set the stage for a powerful run-up in the PM market, particularly once the equity indices reverse. That Shanghai can so very quickly give back all of its 2013 gains, and given that the Nikkei so quickly doubled, a major Dow shot against its present technical background is very possible indeed.

Sid Klein