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Temporarily Inaudible, Hear the Deafening Sound of

Cyprus Ringing the Bell

March 27, 2013

The April report comes a tad early due to the stunning events coming out of Europe.

SUMMARY

Gold and silver have confirmed their asymmetrical relationship with the equity markets. I had forecast this for a long time, repeatedly proven to have been too early with that analysis. But no more. They have gone their separate ways, period.

The US Dollar has shown its own semi-inverse relationship to gold and silver, moving with US equities, since last year's theme of investing in the US as a safe haven has returned.

Virtually all markets are hitting their extremes for quarter-end this week, and not even Cyprus is interrupting that process, except to the well-trained eye. Therefore, many investors don't realize that this seminal event is what market players call a "bell being rung", which suggests that the event is the tip-off of a turn.

However, the unabated trends that are influenced by the completion of pre-existent capital allocations for quarter-end has lulled investors to sleep. I want my readers to be fully awake.

Historic extremes are being put in place....right now.

DOW

Dow: 14529
S&P: 1562

The market has been fixated on waiting for a few more points out of the S&P, so that it may join the other popular indices in creating new all-time highs. The discussion was not if it would happen, but whether or not to go short at such a new summit. Contrarianism offers a few scenarios, from which my favourite is:

1. The S&P may make a new all-time high for quarter-end, but would then make another and minor new top by April 12. In doing so, the following *would be* achieved:

- Stochastic (my most reliable technical indicator, given the selected parameters) would create a divergence in the Dow that does not presently exist (the divergence presently in place is NOT the ideal, since it has not yet crossed below the 80 level, but the latter already IS the case in the S&P).
- This scenario would be akin to January 2000, when the market declined on the hype of Y2K, before the last rally to a final new top that would be taken as proof that the waters were safe to swim in.

The analogy here is plain and obvious:

An all-time high in the new quarter would squeeze the shorts and dub New York as the Teflon-market for sure and true, since Europe would be exposed to not matter.

Either way (whether the final high is this week or next month), the bait of waiting for the S&P's new high will have been the hook to keep the market fish biting through this quarter's end, *while stock is distributed.*

On the S&P's new highs, the sell-off would occur due to all of the talk about whether or not to sell such a peak (due to its forecasted and presumably discounted attainment), and particularly due to valuation and (lastly, for Americans) European policies pertaining to Cyprus.

Then, a new peak that shrugs off Cyprus, which causes the shorts to cover and the public to be lulled to sleep. And maybe this extra pop doesn't even happen. Do NOT count on it. Just be ready if it does occur.

There never was a Y2K problem, so the 2000 new all-time high seemed to be for real, when it was a red herring all along....before a 50% S&P smash. But/and Cyprus IS for real.

That depositors can have capital expropriated is a shot heard around the world...certainly across Europe, which debt and banking crises are truly in their EARLY stages (stick around).

Depositors' capital being expropriated is beyond serious, and the European public, if not investors, have figured out that "one-off events," as their politicians call them, are anything but one-time but, rather, prologue as well as just-past.

There have been too many "one-time" policies. The public rush for gold will only accelerate and equities are the source of capital for too many.

Regarding the public, consumer confidence (CC) has again dipped and that is what ultimately drives the market.

That CC has done as well as it has is solely due to the massive money printing, whereby private debt has been absorbed the government, which armed forced will have been used to defend the currency, thereby allowing Americans to continue to live on the cheap. If the international wealth transfer works, why not?

Still, the dip in CC and lofty valuations and price levels will stagger the market, once citizens the world-over discover that a lack of faith in governments and bank accounts demands gold, not shares in US equities.

The Dow has nothing but air underneath it until 14,050, with multiple levels of support down to 13,500. From the 2nd-half of April through June, watch out. Very realistically, the Dow could be at 12,200 by then.

If you were clever enough to not listen to me in the 4th-quarter, be wise enough to not push your luck now. For those for whom it would be appropriate, May Dow puts are being given away, given today's VIX level.

JAPAN

Nikkei: 12494

For decades, I have reported that the Nikkei has a multi-decade history of forming extremes right at yearend (December), as well as the Japanese yearend; in the latter case, I have specifically pointed to the March 20 - March 31 period.

Last month, I reiterated that I had abandoned my previous extremely bullish call on the Nikkei (due to a prematurely bearish view on global equities), in favour of only being bearish on the Yen, which peak was identified in these pages {with a target of 113 basis-FXY (Yen ETF), before lowering the target to 110, where I covered as a matter of discipline, despite the stated anticipation of much lower future levels}.

The above summary of previous commentary is chiefly to underscore the conclusion of the Nikkei's rally at THIS time, and therefore signals the conclusion of the Yen's decline, for now.

Whether the Yen's future declines are joined with a rallying Nikkei remains to be seen, but I will likely only be interested in the currency from the short side...again (see YEN below).

SHANGHAI

Shanghai Composite: 2301

The Shanghai Composite has become far less the off-cycle market that it used to be and more and more seems to be in lockstep with other bourses, even if not on a day-to-day or week-to-week basis. It does seem to me to lead, though, and, as such, I don't like it or any other market.

Chinese equities may even be the worst for enjoying any transparency as to what authorities actually forecast or believe, either as regards the economy, real estate, rates, equities...anything.

Continue to stay out of this market which has achieved the once-forecasted levels around 2400 (before I abandoned any bullish call, for the same reason and at the same time as I had done with respect to the Nikkei).

GLD (gold ETF)

The **daily 6-month GLD chart** below illustrates far greater near term strength than silver, simply because recent events have been more about quick safe haven liquidity, particularly since it is not held back by any negative sentiment toward non-precious metals such as copper (the latter being very bearish for equities).

The fact that silver does not trade solely as a precious metal is a major positive in the bigger picture, however. Therefore, once gold's uptrend becomes plain and obvious, silver will once again outperform strongly.

As for the GLD, the worst case that I see for any possible decline would be within a point of this week's low (one GLD point can be taken to equal ten dollars in gold).

SILVER

SLV (silver ETF):

Among the several compelling arguments for [silver](#) is the proximity of today's price to its replacement cost, as discussed in the foregoing article linked here.

I have listed different bullish fundamentals or technicals at different times, but today I will keep it simple:

By flushing out to a new low for the quarter this morning, an exciting bullish divergence was put in by the stochastic. This indicator is finally in place and I believe that we have seen the bottom today.

Further, by the end of the 2nd-quarter, I believe that silver can rally $10 from today's low, leaving nearly EVERYONE behind.

CURRENCIES

Basis the **FXY (Yen ETF),** the Yen's short term strength is already leading toward overbought readings, so, the entire rally, by the time that it is over, will have been one that is more of time than price.

In other words, the Yen {**daily 6-month FXY (Yen ETF) chart** on page 6} will take up time in bouncing, more than actually moving price-wise. The Nikkei, being an equity index, may be a better sale than the Yen a purchase.

Of course, with the 200-day moving average so far away at 118 (the red line), the FXY could find itself at 109 by the end of the 2nd-quarter, while the euro is cracking 119 over the same time period.

That the Yen already bottomed (regardless whether or not it was an intermediate or short term low) should be taken as confirmation that quarter-end may be used to short the Nikkei (as opposed to play a rally in the Yen).

The **daily 6-month FXE (euro ETF) chart** on page 7 reflects a stochastic beneath the price chart that is developing a significant bullish divergence that will support a countertrend bounce. From where precisely is not the key point.

The message to take home continues to be my forecast that 136 was a peak that was achieved while everyone was waiting for 140, to be followed by a drop to below 119. And this is what will have occurred.

Then, US market players will see how little Europe matters.

December 26, 2013

"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)."

February 25, 2013

"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.)"

Indeed, the combined effect of the Yen's decline and the euro's strength lent itself to rising Dollar indices, as opposed to merely keeping them in ranges (the Yen's weakness had become greater than the euro's strength).

The **6-month daily chart** below is of the **UUP Dollar index** (as opposed to the DXY; they track tightly).

Beneath the price chart we see a huge bearish divergence, which mirrors the developing bullish divergence in the FXE. Obviously, the euro and USD will continue to move asymmetrically (counter to one another).

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

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