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In Sync for Mass Delusion and the Madness of Crowds

November 2, 2014

DOW

In recent months, these reports have forecast and identified short term lows at the 200-day MAs, as well as the short term peaks that preceded those declines.

On October 4, 2014, I advised covering shorts on a close-only new low, since I still felt that a final secular bull market blow-off to 19,500 was still possible (see here-linked July 6, 2014 report). Theoretically, one covered, therefore.

However, the October 11 interim report suggested that since it only became evident that there would be a close-only break in the final minutes of Friday the 10th, one may not have covered, in which case one should maintain both long term diagonal put spread positions (one of the spreads has been a non-trading core position, 2 years over 1 from the time of institution months ago).

As it happens, the market spiked lower after re-establishing the second spread that had previously been covered (see 1-year Dow chart below), before reversing to make the present minor new highs. If yearend really does serve up the 19,500 figure, we'll hit it with a 6-month short position, not spread.

ALL of the charts in this report reflect an international group-think as regards how to interpret a strong USD (see CURRENCIES) and *seemingly* positive US economic statistics.

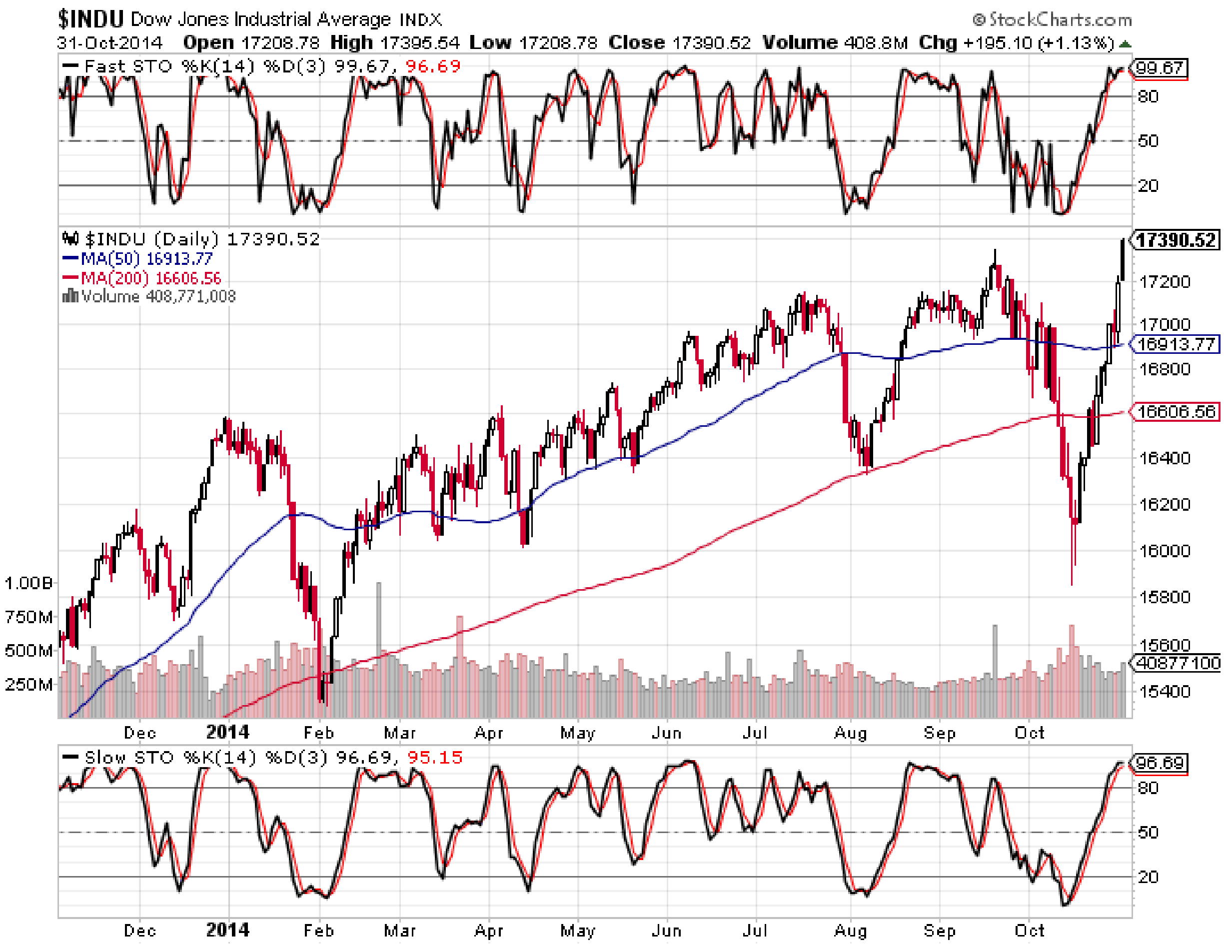
However, the true message from the currencies suggests a here-oft-discussed interpretation that reflects the new paradigm, when analyzing why the USD has been "strong" and what to make of it.

As for the economic statistics, they have either been the result of printing which is winding down, or blatant misstatements of facts, or equally blatant misinterpretations of those statistics, once their components are more closely examined.

Be certain of this:

While the market is focused on the end of QE as being bad for equities, which means that the rally in New York can only be the result of strong economic numbers in the US, the truth is that the New York advance Friday was the result of the BoJ printing and Nikkei explosion in Japan, which suggests a very different conclusion!

1-Year Dow chart



Finally, apart from the loftiness of the slow stochastic (below price chart), note that YET ANOTHER expanding triangle is developing in the Dow, the upshot of which is that a break below the October low would be followed by a rally to ~16,400, before an initial ~2500 point decline, as part of the new secular bear market.

As noted in the past, there exist secular, cyclical, intermediate and short term expanding triangles, all suggestive of an artificially postponed bear market, which will only have been made dramatically worse as a result of such interventions against free markets.

NIKKEI

October 4, 2014

"When peaks are made, the chart below clearly illustrates an index that only makes slightly new highs. A line connecting the peaks, therefore, suggests little upside for someone trading the short position to fear.

"Plain and simple: This market trades asymmetrically to the Yen and we are **short the Nikkei as from 15,500. The Nikkei closed at 15,700 and positions should be closed,** despite the foregoing. Why?

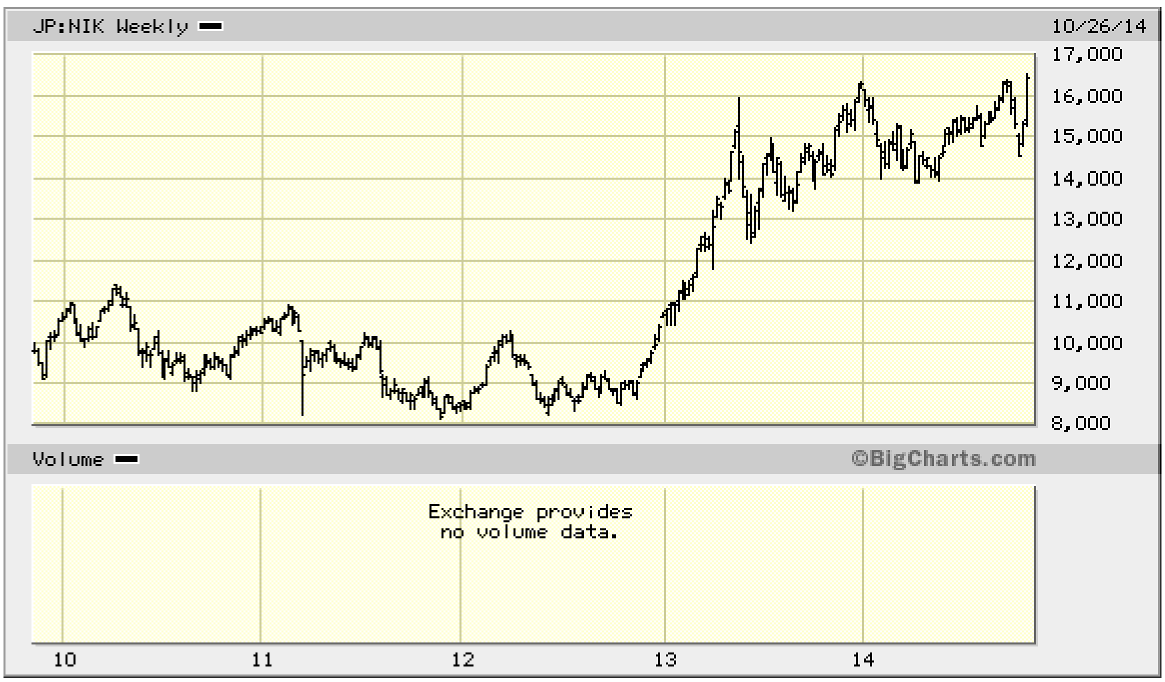
"The Dollar rally may not be spent and, until it is, the Nikkei retains potential; so, there is no need for dead money, especially since potential exists to 17,000. Let's see what this index does through the remainder of the Dollar rally (specifically, the asymmetrically-trading Yen)."

Friday's here-linked GoldCore report does a fine job in outlining the BoJ's staggering and increased printing plans and related numbers (in Yen and Dollars), to which Mr. O'Byrne refers as "going Weimar."

It helps in understanding the excerpts above, as well as the conclusions found in the CURRENCIES section below, as regards the relationship between the currencies and the other asset classes.

Consistent with the October 4, 2014 conclusions, Friday's shocking Nikkei shorts-destroying blast-off can easily achieve 17,000, which is all but assured as part of a 5th-wave conclusion of this most recent move, the 3rd wave of which was experienced Friday.

5-Year Nikkei chart



SHANGHAI

October 4, 2014

"Similar thought as the Nikkei.

"Here, a "C-wave" out of a contracting triangle took-off from 2000, with a "c" of "C" perhaps concluding at the 2400 resistance area (after having broken above the 2250 resistance level).

"Still, stand aside until the Dollar rally becomes much easier to bet against. As currencies trend far longer and farther than what is customarily expected (as compared to other markets), this is wise approach."

For the reasons cited in the excerpt above, we maintain no position as yet in this market, which seems to want to break above the February high, however marginal such a break may prove to be (2475?).

2-Year Shanghai Composite chart

LONG BONDS (TLT)

October 4, 2014

"Since the peak above 125, 120 has manifested itself as a key support or resistance level.

"My sense is that, by or at yearend, the trend will have concluded around the latter level, **allowing for the discussed migration of the fear trade to the precious metals.**

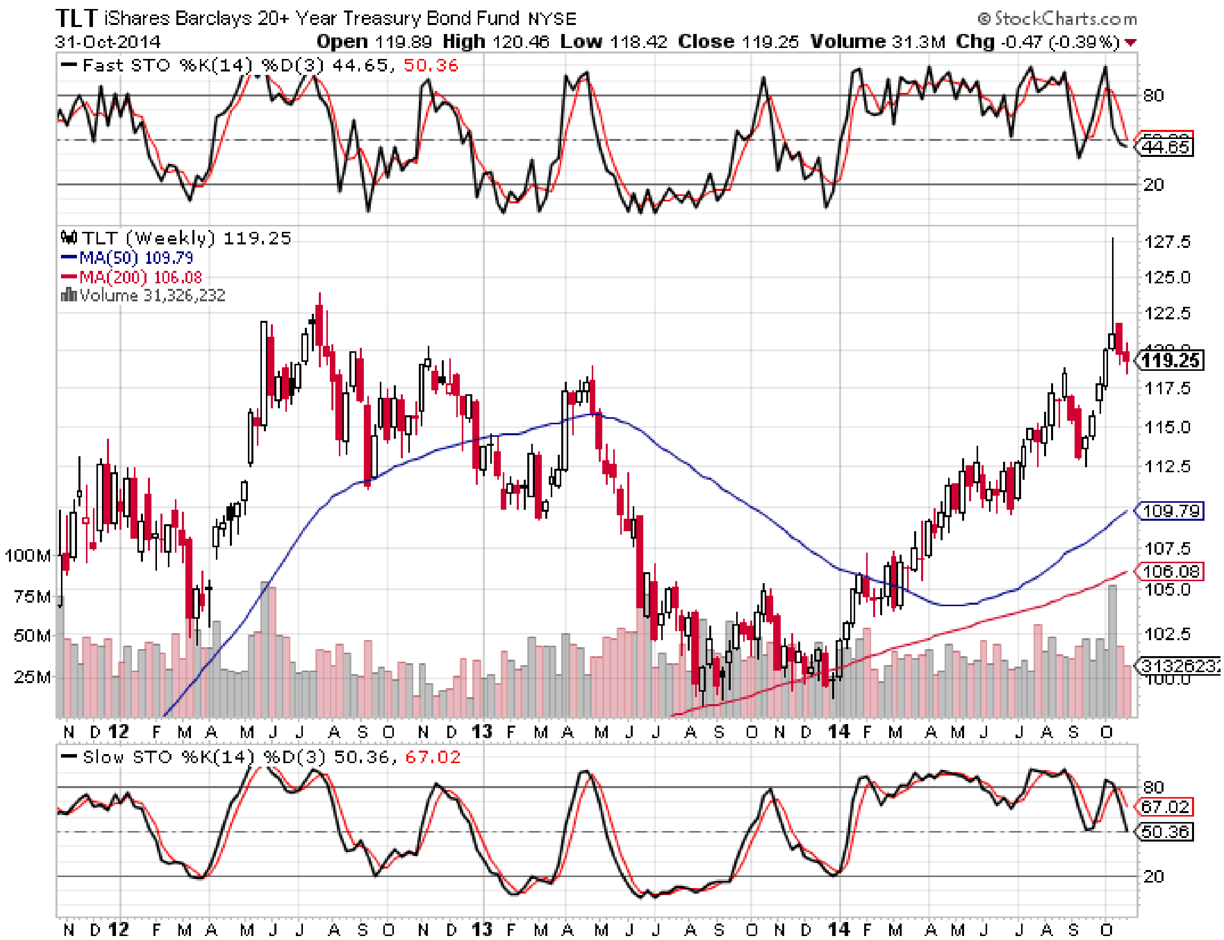
"With the age of the Dollar rally and the swirling news about rates, long positions represent misery that just isn't worth it.

"No position, as there is little from which to benefit going forward."

Evidently, the analysis of, and strategic stance taken last month will have proven to be wise.

On the day of the October high-volume blow-off, the TLT was up a whopping $6, before giving back more than half its gains by the close.

3-Year TLT chart (Barclays 20+ year Treasury Bond Fund):



SKGS identified the day of the 2012 peak, including subsequent key turning points, which included support at the 200-week MA in 2013. Of course, I did not forecast new all-time lows in rates, as I eventually stood aside ~110.

Now, please note the ominous bearish divergence in the weekly slow stochastic, which appears below the price chart. It is coupled with a roll over from 80, which could suggest a serious bull market-concluding decline.

This supports the notion of a migration of the fear trade from long bonds to precious metals, both of which are plainly consistent with the views found in the CURENCIES section below

Specifically, it is GLOBAL QE upon which an investor must focus, to understand the new paradigm, including the new intra-asset class relationships.

DOLLAR

The Dollar charts understandably mirror the Yen and Euro (particularly since July), **as well as the precious metals** (when looking at the latter's 1-year charts, which are not included this month).

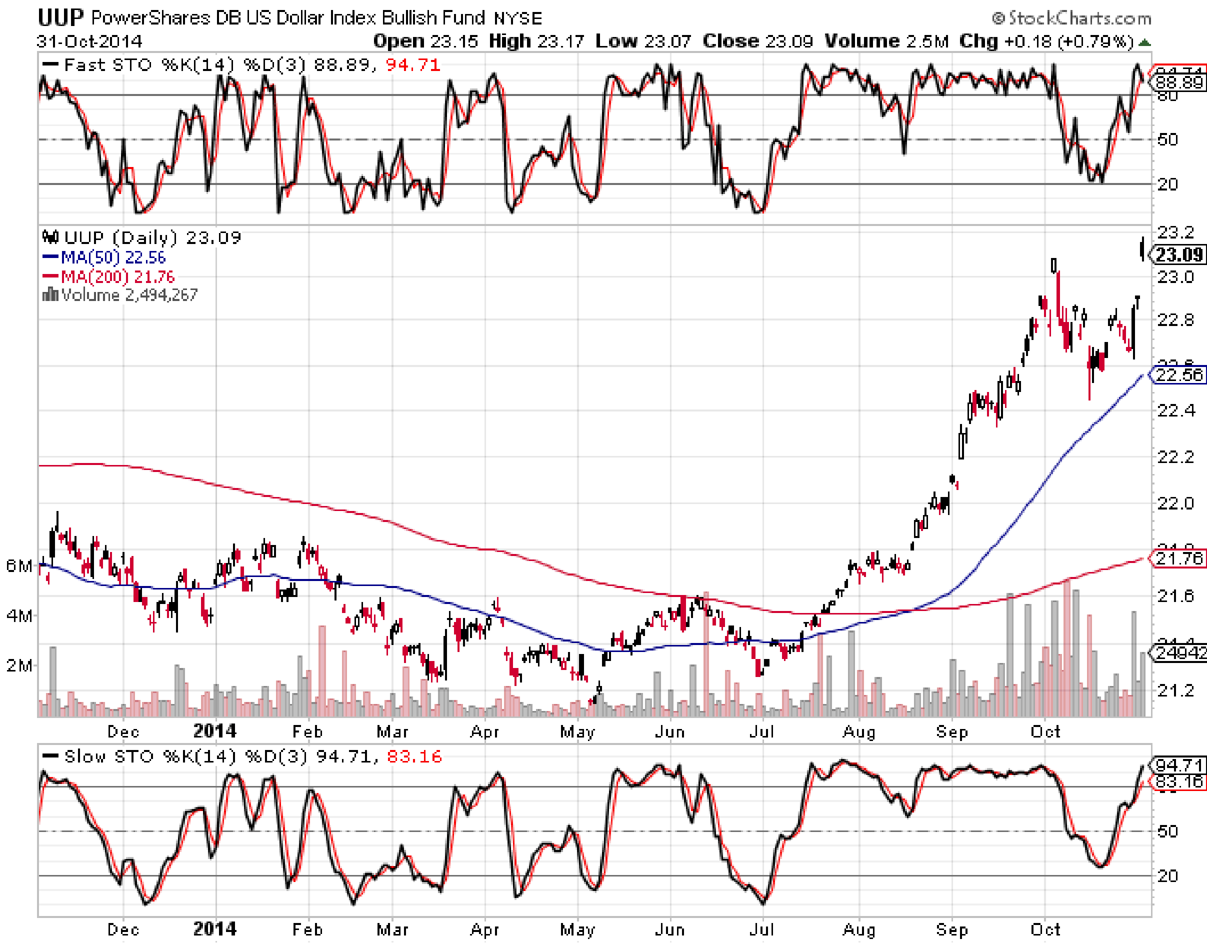
October 4, 2014

"The Dollar has come into critical long term neckline resistance and can pull back in tandem with *a euro bounce, but since the euro still has room to decline thereafter to ~118.5, even if it did bounce, the UUP may yet see 24.25 by yearend."

"In the past, Dollar strength related to rising rates stemming from a robust economy.

"Today, currency movements are caused by each government taking turns printing paper, which has a devaluing effect on fiat currencies, which, in turn, is positive for the PMs."

1-Year US DB US Dollar Index Bullish Fund (UUP) **chart**



The excerpt which precedes the above chart appears to have described the script which is being playing out, as further evidenced in the other currencies.

Warning: A reversal from here could prove ominous, since it would leave gaping negative divergences in the slow stochastic, a warning that is manifesting in the fast stochastic (above price chart).

EURO

August 31, 2014

"In 2013, I had forecast that the euro would continue higher "toward 140", before reversing to ultimately flush-out under 120, before reversing yet again, all over a period of 3-years, or so.

"The event that will trigger the flush to under 120 will be Draghi firing the much-discussed bazooka that I had forecast for this period (excerpt above).

"The strong move in the Dollar is telegraphing this, at a time when the crowd has lost confidence in Draghi doing what he promised in 2012."

1-year FXE (Euro Trust Currency Shares) **chart**

As discussed in the Dollar section above, the euro did indeed bounce, traversing the neckline resistance at 126 that I had felt could contain the move, if it would get even that far.

The story for the currencies, stock markets AND precious metals is that US QE is NOT the main story: *GLOBAL QE is!*

Draghi's bazooka is warming up, while the Japanese have again shown their own weapon of fiat mass destruction.

The currency bazookas in Europe and Japan will have replaced the US currency madness at the forefront of fiat news, keeping the stock markets up amid the propaganda that such equity loftiness is the result of economic ameliorations.

Simply, equities are still rallying due to global printing, NOT economic strength, and this too is key to understand, in attempting to get the true lowdown on the precious metals.

YEN

1-Year FXY (Currency shares Japanese Yen Trust) **chart**

The utter collapse in the Yen on Friday is discussed in the DOW section (see GoldCore link therein).

The Yen debacle and the attendant asymmetric spike in the Nikkei speak to what is transpiring in all of the charts, including the precious metals, however irrational may be the relationship of the latter's fundamental background to its technical one.

GOLD

When examining the following 10 and 9-year GLD and SLV charts, respectively, we see supports at 100 (gold at 1000) and 11; that's just an observation. However,...

The SLV is already at massive support in the 15 area, having broken 16, the level that I felt would hold. Far more important than price support levels, however, are the time cycle low targets.

Once again, the 6-month cycle kicks in at yearend, but as I noted during the summer, it is a cycle that has become well-popularized...by folks like me.

Indeed, the summer's 6-month cycle lows occurred a month early and, given the recent price debacle, I would not be the least bit surprised to see a November-end low to conclude Wave-C of the precious metal corrections that began in 2011.

The upshot is that one is wise to time any entries from here on a time-cycle basis and otherwise ignore price movements for any tip-offs.

Just as blow-offs to the upside end with hysteria, there is irrational panic at the other end as well (when a decline terminates). Such is particularly the case when said declines insanely (and after a very lengthy period of such insanity) have ignored *fundamentals*, as the precious metal post-2011 descents have.

The long term movements in the currencies, rates, and, of course, equities, will have ended serving-up historic opportunities and threats (equally), of the sort that won't be forgotten by anyone alive today, regardless their age.

For the precious metals, the initial major cycle rallies (within their new secular bull markets which began this century) ended in 2011.

Since the decade-long rallies were Wave-1 in each metal, the next major rallies will take gold and silver to the long-since-held targets of $3,500 and $150, respectively. The Asians and Russians have GUARANTEED it, along with everyone else.

And those targets will not have been the end of it.

This 4th-quarter will have concluded one of the most amazing "tree-shakings" in the history of markets, as fools will *not* have rushed in....as they have everywhere except in North America.

In doing so, they will have vindicated the oft-repeated forecast found in these pages since 2001:

"There is a transference of wealth and power from West to East, which will have included the sale **of** the West's gold **to** the East."

10-Year GLD

SILVER

9-Year SLV

Asset Allocation (remains)**:**

Gold: 25%
Silver: 25%
Dollar: 25%

Swiss Franc: 25%

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