

Is Blow-Off Really in the Wind?



October 4, 2014

DOW

July 6, 2014

"We all know of the disconnect between the economy and the stock market but, PRECISELY DUE TO THE FACT THAT THIS IS SUCH AN ENORMOUS MEGA-CYCLE (~250 YEARS) THAT IS CONCLUDING, so extreme must be the illogic and irrationality of the situation, such that a parabolic conclusion may indeed be in order.

"19,500 Makes sense because investors' desire to participate in and not miss the party at 20,000 would be the way of getting the last dollar into the market and, of course, smart long term stock distributors play their role in keeping the Dow short of that holy mark.

"39,000 Was the Japanese public's heartbroken attempt at Nikkei 40,000. Is 19,500 the Dow's Waterloo?"

A month later, I advised abandoning the above scenario, though I have since taken to probing market lows that could allow one to benefit from such a contemplated blow-off, or at least not get caught on the wrong side one.

Profiting on the rallies or not (a bit dangerous, compared to standing aside, if one believes that the major secular trend is down), one could perhaps catch and short the summit, as in Japan in 1990, the Dow in 2000, or the Shanghai Composite in 2007.

Only this could be even more spectacular, so the effort is merited.

The most recent years have not been kind to us in this market in the way of profits, but we may yet ding the pre-cataclysmic peak.

2-Year Dow chart



The Dow's August low was identified within points of it. Simultaneously, I advised shorting again at 16,900.

As in August, the Dow has again fallen toward the 200-day moving average and merits consideration for perhaps closing short positions. Indeed, any minor break of this week's lows, I believe, would be unconfirmed by key momentum indicators.

Therefore, based on close-only charts, I recommend closing short positions at minor per cent profits, since I again do not believe that the 200-day moving average will be broken.

Simply, the way I decided to stay on side was/is to cover shorts whenever the Dow would approach the 200-day MA, if the momentum indicators *allowed* for a low.

In this way (my strategy has been), I will hopefully catch the top, without having first burnt out.

Therefore, I will advise being all-in, either at the blow-off top that I again contemplate above, or a decided break of 2500 points, which ensuing rally I would aim to short, if I actually did not maintain a short position to that point.

This is the model that you can expect going forward.

NIKKEI

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 18,000. Let's see what this index does through the remainder of the Dollar rally (specifically, the asymmetrically-trading Yen).

We'll come back to this market, I guarantee you.

2-Year Nikkei chart



SHANGHAI

August 31, 2014

"Raise the close-only stop to 2280."

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.

2-Year Shanghai Composite chart



LONG BONDS (TLT)

August 3, 2014

"Friday's candlestick-bullish outside day reversal maintained a trend of declines pausing at ever higher levels within its uptrend, as the marketplace's fear holds the upper hand."

August 31, 2014

"Indeed, this has been the case since the first day of the year, because the institutions and others decided to make huge asset allocations to treasuries."

"This fear-trend will migrate to precious metals, and so one should understand that once that trend begins, there may not be many easy entries for getting in board. There is no better example of that than the tenacity and acceleration of long term bonds over recent months, as illustrated below:"

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

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. (See Asset Allocation.)



DOLLAR

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.

The Yen's minor net weakness (as opposed to positive-trending-counterbalance against the euro to keep the Dollar relatively unchanged), is what is causing the Dollar's strength.

As well, with that strength, the most illogical of outcomes is befalling the precious metals.

The latter are trending asymmetrically to the Dollar, as has historically been the case. However, today, that's simply nonsensical.

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.

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



Euro

July 6, 2014

"Europe's easily forecasted printing spree will get the job done, as I discussed and illustrated early in the year when Draghi's intentions for the latter half of 2014 were made *painfully obvious.*"

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."

The macro story in the currencies is unfolding as forecasted, with unexpected related trends in the PMs, however.

*The above-contemplated short term bounce in the euro may be so contained as to not even allow it to cross the 125 level, as neckline resistance at 126 appears just overhead.

These forecasted levels can be seen in the **2-year FXE** (Euro Trust Currency Shares), immediately below.



The **September 30, 2014 interim report** on silver effectively covered this month's views on the **PMs**.

Asset Allocation:

- Gold: 25%
- Silver: 25%
- Dollar: 25%
- Swiss Franc: 25%

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.