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TURNING POINTS: First One Way, And Then The Other

October 6, 2013

DOW JONES

Given my concerns of last month, as a Canadian I am particularly relieved that, for now, such military mid-East-related military threats have abated. However, my analysis of the military/terrorist threat to Canada is very real and can occur at any time.

September 2, 2013

"With respect to the NASDAQ chart on page-6, sure, one can reasonably argue that the moves are completed a-b-c patterns and that a correction is over, especially given the momentum indicators' oversold readings on the three charts here."

"The NASDAQ and Russell charts have not had ANY 5-wave patterns down, so the only way one can feel better about equities is to assume that the previous bull market is not yet over, and that one can see the action in the NASDAQ and Russell as being corrective (hence no 5-wave patterns down are necessary)."

My base argument was that the peak had been seen and that declines should be analyzed in that context (i.e. analyzing Elliott Wave counts). I warned that one should not remember prior periods of delayed gratification to support a "cry wolf" mentality.

However, plainly, I was wrong.

Still, while the excerpts above explained the scenario under which I would be mistaken in the short term, they did not betray the point that, principally, the base case argued for a **4th-quarter smash.**

Moreover, that has not changed, particularly with a *minor* new high in the Dow, against a backdrop of *waning* technical indicators.

Actually, the key point to take home is what we conclude in the Dollar section below, as markets are on the verge of starting and completing fake-outs.

In the case of the Dow, after some form of resolution this month to the ceiling mess, a rally would hook traders, before a decline that breaks the **200-day** moving average **(red line on chart below),** which would become resistance in countertrend rally.

This correction should therefore be supported at the 200-day MA and 14,700. For now.

On page-3, please note the **1-year Dow chart.** The slow stochastic appears below the price chart, while the fast stochastic appears above it. The stochastic are oversold, though without positive divergences yet.

The 50-day moving average **(blue line)** has turned over, and the bearish formation is supportive of the notion that the next rally will be the last.

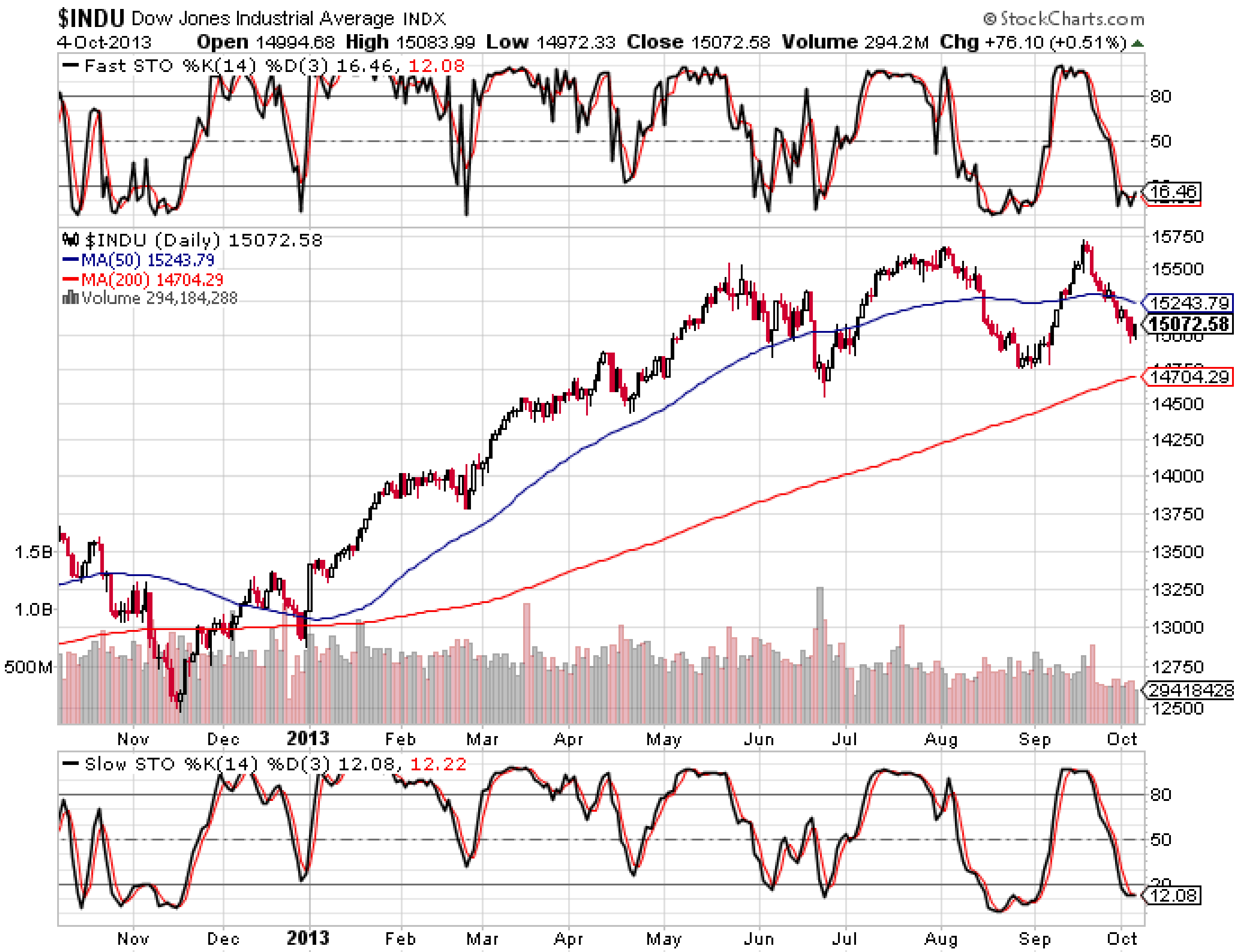
Finally, experience has taught me that when the **200-day moving** average and the price of the underlying finally converge, a sharp decline may commence, as the convergence often represents completed profit taking through a **distribution** period.

Finally, please take note of an ominous warning shot across the bow:

Margin requirements have increased for stock index futures contracts.

Exchanges are preparing the system for a yearend shock, much as I am attempting for readers.

Please scroll to page-3.



VIX

The **1-Year VIX chart** on page-4 illustrates overbought stochastic, with the fast stochastic (above price chart) having turned down. This matches what we see in the Dow chart, since the VIX indicators commonly lead in an asymmetrical fashion.

As well, please note that the fast stochastic leads the more important slow stochastic and that, having turned down, is supportive of the conclusion on the previous page, namely, that the next decline toward Dow 14,700 should end this particular decline.

An additional argument in support of the above findings is the level of the VIX.

The VIX spiked around 50% in a quick 5-wave pattern into resistance at 19.

Option time premiums (VIX) discount market levels and the fact that the 50% advance was fast reflects the fact that traders believed in the ominous situation in Washington late and all at once.

All of this is consistent with a topping VIX and a conclusive move down in the equity markets before a countertrend rally.

September 2, 2013

"A yearend calamity of great proportions is made all the more likely by the fact that the reader may hear the cries of a wolf, instead of focusing on the fact that the author of this report amended his forecast 8 months ago, to state that everything had been pushed back by 6 months."

Okay, let's call it pushed back by 3 quarters.

NIKKEI

September 2, 2013.

"Here, I add only that the price chart is rolling over. This is underscored by the downward diagonal line that one may draw by simply connecting the May and July peaks.

"No annotation is necessary; the referenced diagonal line and rollover-deterioration are optically self-evident."

1-Year Nikkei chart

July 7, 2013

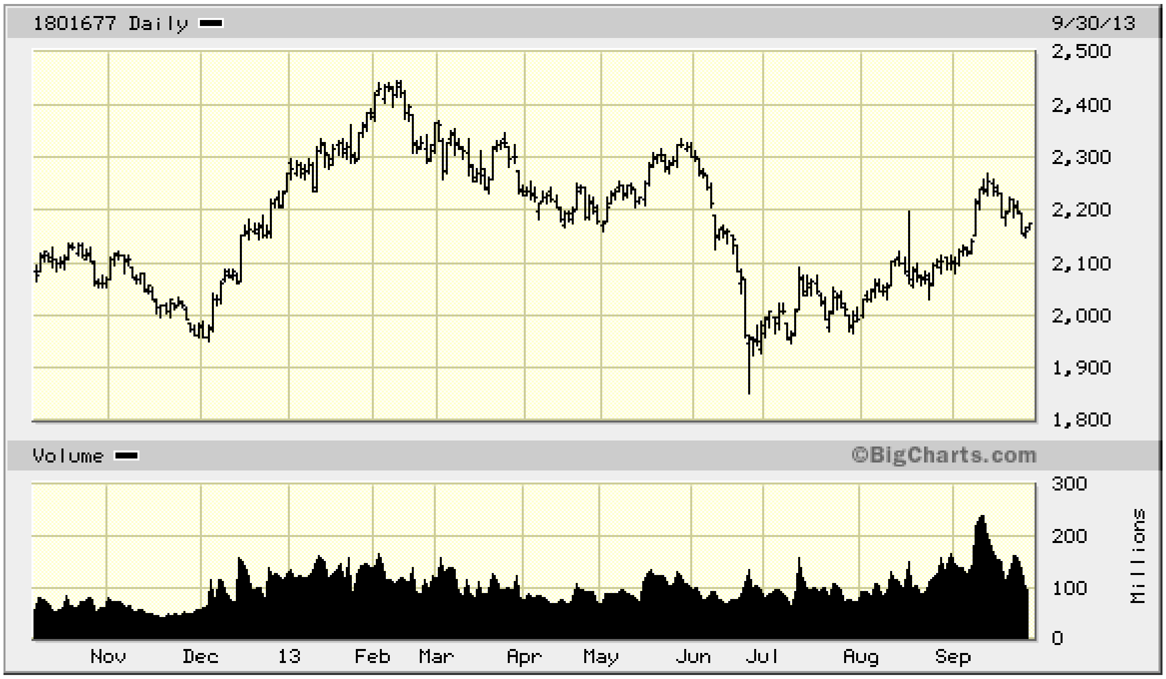
"By breaking above long term resistance at 14,000, and approaching the critical long term resistance at 17,000 (by hitting what I call "an in-between zone", where everyone is stopped or waiting for what doesn't come), the Nikkei has achieved all that one should expect, and one may again defer to the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

The Nikkei continues to find a strong relationship to the Yen. While I see the latter's next move as down (Nikkei double-topping expected, therefore), I see its pursuant move as up (see CURRENCIES). The Nikkei's true colours will likely only be seen then.

SHANGHAI

September 2, 2013

"WHEN the Shanghai Composite cracks to new news below 1600, the Asian stampede into gold will take on cartoon-like proportions!"



Accounting in China is amusing. The health of the economy is determined by GDP and all the rest of it, same as here.

Over there, however, when an office building is constructed, it adds to the economy's numbers in a positive fashion, without reflecting whether or not the building is empty.

The latter would actually be a sign of a weak economy. *Moreover, all of these buildings are a sign of a burgeoning financial bubble.*

CONCLUSION:

There are MANY traps in the international financial minefield that can trigger the domino effect that brings world markets asunder. That the traps are in the world's largest economies is beyond scary.

GOLD, SILVER

There is major news in the precious metals markets this week, so please pay close attention:

Before taking off to the upside, SMART AND BULLISH players not only get nervous, they even allow for or even forecast retests of lows, or even allow for new lows that they add mean nothing to the long term.

THIS HAS HAPPENED THIS WEEK AND WEEKEND.

Precious metals sites, bullion brokers and respected traders are nervous and short or even intermediate term bearish, right at this Wave-2 low. (Wave-1 peaked on the 4th-to-last trading day of August.)

Wave-2 lows generate bearish sentiment that exceeds the negative psychology that existed at the price lows. This is basic Elliott Wave theory, and very understandable from the viewpoint of the study of market psychology, which is the aim and object of technical analysis.

It is absolutely uncanny how the BULLS have lined up on the short or even intermediate term bearish sides! This is MAJOR news, given the Elliott Wave count!

Starting with silver (SLV), note how the October correction declined in a CLASSIC ELLIOTT WAVE A-B-C fashion (3-leg drop), wherein each decline further subdivided into two 3-wave declines. (The second 3-legged decline began at mid-month at $22.50.)

A second 3-wave subdivision is not essential and sometimes does not occur, but does when it is necessary to create the bearish psychology which matches or exceeds that which existed at the low (if referring to a wave-2; in this case, the low occurred at end of June).

Further, and CLASSICALLY, the drop ended at the neckline at ~$20. For good measure, the first day of the month included the spike low. Often, and as a result of commodity fund rebalancing, the first day of the month marks a short term extreme in price, with the following few days marking a higher low, or lower high, as the case may be.

This is why I forecast this scenario before the week began (not in print), especially since I knew that such activity would also create a bullish divergence AND buy signal (reading above 20) in the slow stochastic, my key indicator.

Therefore, expect a run to start, with Wave-3's first important stop around $26!

Be certain that the all-of-a-sudden squeamish bulls would then quickly return to the bullish camp, fuelling the PM markets higher.

1-year SLV and GLD charts follow on the next page, respectively. In each case, the fast stochastic appears above the price chart, while the slow stochastic appears beneath it. The technical interpretations are the same for each metal.

SPECIAL NOTE:

ALL of the favourable fundamental reasons for being bullish are well know. The only analysis of any value is technical, therefore, to determine when the marketplace will be able to act on ANY on the fundamental positives.

Simply, only technical analysis will have been able to determine when the extreme technical damage done since 2011 will have been repaired sufficiently to make lift-off possible, particlurly given the beating given to the sundry indicators since April (2013).

Given what has just occurred in the VXSLV (silver option premiums), the opportunities are EXTREME for rebalancing the long term combination of option strategies described at the perfect lows here, particularly with all of Asia starting back to a full work week.

CURRENCIES

Concluding this report are the **1-year charts** of the **US Dollar Index Bullish Fund,** the **FXE (Euro ETF),** and the **FXY (Yen ETF),** respectively. In each case, the fast stochastic appears above the price chart, while the slow stochastic appears below it.

According to my analysis, the USD is suffering from an expanding triangle, which is a less common and more dangerous technical chart formation.

Such a formation has 7 points, with the 6th remaining within the triangle (not making a new high or low, as the case may be, depending on whether the triangle is within a bearish or bullish formation). Point-7 is the hard smash that concludes the pattern.

In today's case, we have just concluded point-5.

The first day of May marked point-1; mid-May formed point-2; mid-June is point-3; the July peak marks point-4, and, I believe, we have just concluded point-5.

Point #6 would end around 22 and be followed by a significant Dollar smash that will conclude this phase of weakness.

This knowledge can guide traders who follow SKGS, in trading the precious metals as well as the currencies, as expanding triangles are less common and are therefore very profitable when correctly identified. <u>And this triangle appears to me to be textbook</u>.

Note too that this bounce to ~22 may closely coincide time-wise with a rally in the Dow, while the Dollar smash could coincide with something more bearishly serious in stocks.

Just as the Dollar's indicators are oversold, the euro's and Yen's indicators (immediately above and below, respectively) are overbought, with the these two currencies trading at extreme price levels, from which pullbacks are in the offing.

Of course, and also asymmetrically to the Dollar, the euro and Yen should reverse course to the upside and test significant resistant levels higher than today, when the Dollar puts in point-7, as discussed on page-10.

For the euro (above), this could mean a decline to 132, which would be followed by a rally back to the 136 level, or even marginal new highs.

The Yen (below), like the Dollar, appears to have an obvious pattern to read, I believe. Specifically, it seems to be concluding an a-b-c-d-e contracting triangle.

This would be entirely consistent with the Dollar interpretation and lead to a retest of the lows around 95, dead ahead.

The point-7 smash in the Dollar would likely coincide with a nasty whipsaw for traders, who get killed as the Yen would subsequently rally to 105.

Over the past year, apart from when I had briefly and correctly stepped aside due to a forecasted trading range (past few months), my hot trading hand was in the currencies.

So, since it takes but one good asset class to pay for a subscription several times over, I advise paying special heed to this currency section.

Of course, the precious metals have again become my friends, and I strongly suspect that that's where the big long term and leveraged trading bucks will have been earned.

Still, one may wish to ride the curerency wave.

Okay, print some money this quarter! The governments do it, so why not get into the act?!

Sid Klein