

Ignacio Merino 636
Santa Cruz
Miraflores, Peru

Phone:001-51-56-973-5599
001-51-19-280-8796
Email:ebo@dowtheoryanalysis.com
Website: www.dowtheoryanalysis.com

DAILY REPORT (01/07/09) *Perseverance*

To make money trading in today's manipulated markets is difficult at best, but throw in a good dose of volatility and it is damn near impossible. I came to the realization some years back that I could not trade these markets given my make-up, and I knew as much as you could know anything that manipulation would become the rule rather than the exception. That left me two choices: get out of the markets altogether or adjust. I chose to adjust and did so by making very long term investments while managing my margin with tweezers. That type of strategy has served me well over the years and now should pay dividends. A case in point is gold. Yesterday gold was hit hard after a good open on the Globex. There was really no reason for the selling other than some minor adjustments with hedge fund selling, but gold fell \$40.00 from high to low. It came back somewhat to close down \$20.00 and well above good support at \$848.50. The volatility was enough to scare out weak longs and drive out the day traders.

As if that wasn't enough, the February gold contract traded up early last night and then sold off again early this morning posting a lower low at 838.80. Those who bought yesterday's close were stopped out. Since it broke support again, some went short forgetting this is a bull market. Slowly February gold clawed its way back up and is now trading up 11.00

at 869.00 at 2:30 pm EST and the shorts were stopped out while the longs were out of the market all together. If you would have just sat tight, you be within \$8.00 of Friday's close and with your positions intact. Likewise the

GOLD	856.90	866.50
	848.70	876.10
	839.30	887.80

SILVER	11.29	11.68
	11.12	11.95
	10.87	12.24

March silver was volatile but continues to hold up better than gold as it made a much higher low today. Currently the March silver is up .19 at 11.47 and looks quite good. What's more for the first time in months silver

Silver - Continuous Contract (EOD) (\$SILVER) INDX

05-Jan-2009, 16:00 ET, daily, O: 11.585, H: 11.77, L: 10.57, C: 11.27, Chg: -0.22 (-1.91%)

P&F Pattern Double Top Breakout on 16-Dec-2008

Traditional, 3 box reversal chart

Prelim. Bullish Price Obj. (Rev.): 17.0

© StockCharts.com



has a P & F chart with a bullish price target of 17.00 and that is a long ways up from today's price. It is my opinion that silver is quite possibly the cheapest thing out there and one should not overlook the fact that it is *money* just like gold.

Now if you really want to see volatility, take a look at today's March US Dollar Index and how it traded. Early this morning it looked like the greenback was headed to the moon as it traded as high as 84.98, a huge move up from yesterday's close at 83.57. Currently, the March contract is



at 83.65 and I would not be surprised to see it end in negative territory before the day is over. Many people are bullish the dollar but this

demonstrates a complete lack of understanding of the laws of supply and demand. Look at the weekly chart of the US Dollar Index and you'll see that the technicals are weak and all we really did is stage a reaction back up to the red/green horizontal line after a nasty initial decline.

Most folks tend to think of the dollar as the world's reserve currency but that is no longer the case. Most countries now look upon the dollar as a necessary evil since they still hold a large amount of dollars/dollar denominated debt as reserves. Make no mistake about it though as there will be a mad rush to the door in the near future. There are no reserves in the US, they have tremendous debt (past, present, and future), so they must resort to the printing press. Throughout history this has always led to the demise of the fiat currency in question and the dollar will not be the exception to the rule.

Finally, one quick comment on stocks: I am really making an effort to be bullish but the market just doesn't want to help me out. I know that selling pressure has eased but by the same token buying pressure hasn't really gotten off of the ground. That tells me that buyers are not lining up in search of bargains. Then we have the strong resistance at 9,055 and we have run up against it time and again, and we fade back down each and every time. Today was no exception as the March Dow traded up to 9,044 at 3 pm and then sold off. Currently it stands at 8,954 at 3:45 pm EST and I just don't see the strength. I know Richard Russell has turned bullish but he was bullish, and wrong, before. Never forget we are in a bear market and when I look at periods like this, I have to assume it is distribution until the market tells me otherwise. For those of you who would like to take a calculated risk, I would sell short the March Dow here at +/- 89.60 and stay short as long as the Dow does not close above 9,060.

ebo@dtanalysis.com
Dow Theory Analysis SAC
Jan. 06, 2009

Interesting article:

Willem Buiter warns of massive dollar collapse

Americans must prepare themselves for a massive collapse in the dollar as investors around the world dump their US assets, a former Bank of England policymaker has warned.

By Edmund Conway, Economics Editor
Last Updated: 3:05PM GMT 06 Jan 2009



MPC founder member Willem Buiter. Photo: CHRISTOPHER COX

The long-held assumption that US assets - particularly government bonds - are a safe haven will soon be overturned as investors lose their patience with the world's biggest economy, according to Willem Buiter.

Professor Buiter, a former Monetary Policy Committee member who is now at the London School of Economics, said this increasing disenchantment would result in an exodus of foreign cash from the US.

The warning comes despite the dollar having strengthened significantly against other major currencies, including sterling and the euro, after hitting historic lows last year. It will reignite fears about the currency's prospects, as well as sparking fears about the sustainability of President-Elect Barack Obama's mooted plans for a Keynesian-style increase in public spending to pull the US out of recession.

[Writing on his blog](#), Prof Buiter said: "There will, before long (my best guess is between two and five years from now) be a global dumping of US dollar assets, including US government assets. Old habits die hard. The US dollar and US Treasury bills and bonds are still viewed as a safe haven by many. But learning takes place."

He said that the dollar had been kept elevated in recent years by what some called "dark matter" or "American alpha" - an assumption that the US could earn more on its overseas investments than foreign investors could make on their American assets. However, this notion had been gradually dismantled in recent years, before being dealt a fatal blow by the current financial crisis, he said.

"The past eight years of imperial overstretch, hubris and domestic and international abuse of power on the part of the Bush administration has left the US materially weakened financially, economically, politically and morally," he said. "Even the most hard-nosed, Guantanamo Bay-indifferent potential foreign investor in the US must recognise that its financial system has collapsed."

He said investors would, rightly, suspect that the US would have to generate major inflation to whittle away its debt and this dollar collapse means that the US has less leeway for major spending plans than politicians realise.