



“...Let us run with patience the race that is set before us.” Hebrews 12:1

by Eric S. Hadik

# Bring on the Bear II

## An INSIIDE Track Dollar Analysis Recap

### Bring on The Bear II

Dollar Analysis Recap

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“The Lord said to Moses, “This month is to be for you the first month, the first month of your year.”

*Tell the whole community of Israel that on the tenth day of this month, each man is to take a lamb for his family, one for each house-*

### Testing...

#### 40 Days Transpired

**April - June 2007** - In the original **Bring on the Bear**, I described in detail the unique sequence of events that have occurred in the days immediately surrounding April 19th. These events often involved war and/or domestic attacks & revolt.

As stated then, America was dealing with a new kind of stealth warfare against her. Some examples of recent events included Waco (1993), the Oklahoma City bombing (1995, but directly linked to another domestic event on April 20, 1985), the L.A. riots (1992) and Columbine (1999).

One of the primary conclusions of that Report was that America would be hit by new attacks - domestic and/or international - on April 16 - 20, 2007.

April 16, 2007 validated this cycle - unfortunately - with the Virginia Tech Massacre.

hold...

*Eat it in haste; it is the Lord's Passover. On that same night I will pass through Egypt and strike down every firstborn - both men and animals - and I will bring judgment on all the gods of Egypt.”*

Exodus 12:1-3, 11-12

Shortly after - on April 20, 2007 - an international 'precursor event' was also witnessed as Iran confirmed a significant escalation in their nuclear development.

This reinforces another conclusion of the original **Report** - that April 2008 would probably witness similar events. This will be examined in future publications.

The markets usually operate on a lead or lag basis - sometimes both - and are the ultimate focus of these **Reports**. This time displacement is often on a 'Period of Testing' basis, so it is important to review what is expected as the markets complete the first 40 days from this critical cycle.

This will allow new readers and subscribers to get caught up on what current subscribers are already distilling. This is NOT intended to add any new analysis at this time.

As described in **Bring on the Bear**, Dollar cycles could be the key to the next several years. This is the best place to start and the focus of this reprinting of recent/current analysis...

*“...On **April 19, 1933**, America abandoned the Gold Standard. This date was the second shot of the war against the US Dollar. (The first came in 1913 with the establishment of the Federal Reserve.)*

*The ultimate demise of the Dollar could coincide with this anniversary, although the year 2013 has the greatest number of long-term cycles related to the Dollar & the US Banking System (separate discussion). I expect a 2<sup>nd</sup> multi-year Dollar decline from 2007/2008 into 2011--2013.”*

*Excerpt from March 2007 **Bring on the Bear***

**4/25/07 Weekly Re-Lay Alert: “The Last Straw: Oil or the Dollar?”** *“The **Dollar** is another market that could provide the ‘straw that breaks the camel’s back’... at least with respect to the stock market. Although I am not expecting it to occur at this time, if the Dollar gives a weekly close below 80.53/DXM it could enter an accelerated decline.”*

**5/16/07 Weekly Re-Lay Alert: “The Last Straw: Oil or the Dollar... or Interest Rates?”** *“In recent months, one of my contentions has been that another market complex (perhaps more than one) will provide the last straw for stock indices. Market cycles have peaked and the indices have rallied beyond these time frames, creating a kind of rubber-band effect. For every additional day that this ‘rubber band’ stretches, the ensuing ‘snap back’ will be that much greater.*

*Similar to times like 1986/1987, stock indices have ignored oft-correlated markets that would normally be deemed negative for stocks. This is not unusual since correlations are most influential once the lead market enters a parabolic phase... or breaks through a multi-year extreme.*

*I believe the Dollar will break below its multi-year lows later in 2007... and this will weigh heavily on stocks. If the Dollar sets a rebound peak in May, this breakdown could be seen as early as mid-June (although likely later). See*

*related short-term analysis elsewhere in this **Alert**.*

*Oil markets are another complex that could trigger a knee-jerk reaction in stocks. And, interest rates could do the same (even if it is just an initial reaction before a more-sustained sell-off hits stock indices later on)...*

**Bonds & Notes** are increasing the potential that they could see a drop back to their April lows in the coming days or weeks. A drop to new intra-year lows is also possible. If they show even more negative signs - and Notes drop below 104-00/TY - they will be setting new 5-year lows and extending the bear market that began in June 2003.

This potential action could have a similar impact - albeit on a smaller scale - as the 1986--1987 bear market (in Bonds) did on stocks. This is

NOT to say that the proverbial ‘sky will fall’... just that it could be one of those events that suddenly attracts traders’ attention... at just the right moment in time. Bonds & Notes still need to provide confirming action, like a May 18<sup>th</sup> close below 110-22/USM & 107-09/TYM.

In the meantime, it is important to trade Bonds and Notes... as Bonds and Notes. Any potential/future correlation is secondary. Bonds have turned their daily trend down while Notes need a daily close below 107-18/TYM to do the same.”

**5/19/07 Weekly Re-Lay:** *“The **Dollar** did see additional gains and did signal that its current advance should extend into May 21--25<sup>th</sup>.*

*82.66--82.75/DXM is shaping up as a powerful range of resistance that could pinpoint a top. 82.66/DXM is the monthly 2<sup>nd</sup> Close Resistance (the March 30<sup>th</sup> close, which also makes it ‘unchanged’ for 2Q 2007) while 82.70/DXM is the low of the year-opening range (support turned into resistance). 82.75/DXM is the weekly 21 Low AMAC, a level that should clarify what to expect in the next 1-3 months...*

*If the Dollar trades up to this level and reverses lower, it would show a trend that is about to enter an accelerated decline. This could trigger a new wave of selling that lasts into mid-September, when multiple cycles come into play.”*

5/22/07 **Weekly Re-Lay Alert: "Japanese Yen Trade Update"** "The Dollar has spiked into its upside target range - at 82.37--82.66/DXM and into its monthly resistance (just shy of weekly resistance) while the Euro dropped to 1-2 week support at 1.3442--1.3480/ECM. A Dollar top/Euro low is still expected this week.

The Yen has also dropped to new lows, although it did not quite reach weekly support. The Yen did, however, spike into monthly support and is trading around .8260/JYM.

There is still the potential for a spike below .8230/JYM before a low is intact. The intra-week PHHS (.8228/JYM) corroborates this. However, the downside potential appears to be very limited and the upside risk is growing daily. For this reason - and the fact that most downside targets have been reached - some profit-taking (on put options) should be implemented...

1--4 week traders should be holding June Yen .8350 put options - from around .30 pts. - w/avg. open gains of about \$875/option. Exit ½ of these put options now and risk a daily close above .8284/JYM - or an intraday rally above .8301/JYM - on the remaining ½."

5/23/07 **Weekly Re-Lay Alert:**

**"The Back-Breaking Straw: The Dollar"**

"Although Gold, Oil, the CRB and Interest Rates could all place additional burdens on the Stock Indices, I still place the highest probability on the Dollar providing the proverbial 'straw that breaks the camel's back'... at least with respect to Stock Indices.

There are many reasons for this, but I will just touch on a few right now. Others will be elaborated in the June 2007 **INSIIDE Track** (and others in upcoming **IT Special Reports**).

The first reason is cycles. This does NOT refer to the cycles topping in either market now. Instead, it refers to the cycles bottoming in both in September 2007. At the risk of sounding like a broken record, this has similarities to 1987...

At that time, interest rates had been surging for 17 months - into September 1987 - and stocks

barely took notice (although they did peak in late-August). In this case, the Dollar has been dropping for almost 6 years and stocks have barely taken notice. But, let me review one other piece of analysis that leads up to the present...

In late-2004, I compared the action of the Dollar & Euro to that of the Dollar & D-Mark in late-1987 and projected a 12-18 month Dollar rally/Euro correction - for 2005 & 2006 - before a new Dollar drop/Euro surge took hold.

The Dollar and Euro turned the next month and have consolidated ever since. The next phase - a Dollar drop to new 40+-year lows - appears to be underway.

Though it is rarely described in terms like that, the Dollar Index is only 2 basis points above its 10-year low and less than 4 basis points above its 30--40 year low. Can you imagine how the media will describe it if/when the Dollar drops below 78.00/DX?

In typical form, a drop from 121.00 to 81.00 (2001 peak to late-2004 low) will mean little or nothing. However, a drop from 82.00 to 78.00 will mean the end of the world... at least that's what we are all likely to hear, if it happens.

At the risk of sounding like a broken record, now is a perfect time to review '**Hadik's Axiom of Market Correlation**', which states:

**Markets only follow other markets when the lead market is going parabolic or is in an extreme phase...**

In this case, the Dollar might not be going 'parabolic' if/when it breaks below 80.53 and then below 78.50 (although that will likely trigger some panic selling) but it will be in an 'extreme phase' - the lowest point of a generation... and going lower.

Which brings us back to the comparison to 1987... October 1987 saw the 18<sup>th</sup> month of an interest rate surge... and it was finally too much for stocks to bear. This also coincided with a US/ Iranian confrontation in the Persian Gulf on October 19<sup>th</sup>. Bonds dropped below psychological support and stocks suddenly plummeted.

As in 1987, the reaction in stocks could be extremely sharp... and short-lived. Or, it could be

something that drags out a little longer and does more overall damage. My guess is more of the latter... with the sharpest stock drop occurring in September 2007 and the Dollar initially bottoming in September 2007."

5/30/07 **Weekly Re-Lay Alert:** "The Back-Breaking Straw: The Dollar II" "Although there seems to be very little attention given it presently, many signs still point to a coming breakdown in the Dollar... potentially by Sept. 2007.

However, it is definitely at a critical juncture. If the Dollar - which is only 2 basis points above its 10-year low and less than 4 basis points above its 30--40 year low - is going to turn back down in the near future, it should NOT give a weekly close above 82.32/DXM.

There are a lot of corresponding factors - that are elaborated in the current **INSIIDE Track** - that could continue to contribute to this. Other currencies are testing or breaking out above multi-year and multi-decade highs. The British Pound & Canadian Dollar are prime examples.

Economic strength in areas like housing had delayed the need for further interest rate cuts that could undermine the Dollar. This, however, appears to be changing. The 3-6 month outlook for Bonds & Notes is corroborating this.

A 5-year advance in stocks has also helped to keep the Dollar's 'head above water'... but has certainly not rescued it. This is why the Dollar - and by association, the US stock market - are a precarious house of cards. Remove one of those cards and the whole house comes toppling down."

#### June 2007 **INSIIDE Track**

5/31/07 - "For over a decade, my primary focus has been on Sept. 2007 to usher in a unique period in history.

As this time frame has neared, more and more cycles have corroborated it and more price action has validated it. Coincidentally, stock market cycles show that an initial decline could be taking hold - or even culminating - around that time. Have the indices taken longer to set and confirm a top than expected? Absolutely.

But, that is not unusual and it does not negate cycle lows coming into play later this year. It might simply mean that the related drop occurs in a shorter-period of time than expected. As explained before, whether that drop lasts 1 month or 6 months matters little. The magnitude of it is the key.

Although I usually resist speculating on 'causes' for market moves, there is at least one strong possibility for a stock market correction that should be watched closely. If nothing more, it might give a brief warning signal before the masses recognize the danger.

Many cycles and indicators point to a new decline in the Dollar coming this Summer. If the Dollar drops only 2.00 basis points, it will already be at new 10+-year lows. If it drops a mere 4.00 basis points - more than the amount it declined between mid-April & mid-May 2006 (a 4-week drop) - the Dollar will be trading at new 40+-year lows!

Imagine how the media would portray that?!?

And, this could trigger panic selling in the Dollar... resulting in domestic and int'l investors deciding to liquidate some US Dollar-denominated investments, like stocks. Dollar cycles show that the next decline could be culminating in September 2007. So, the majority of the drop could occur before then.

This could also coincide with the potential for declining interest rates into late-2007 (lowering the appeal of the Dollar), either leading the Dollar lower or as a response to falling stock prices ('flight to quality').

So, we could see a vicious circle of a declining Dollar causing declining stocks causing declining interest rates causing a declining Dollar causing declining stocks, etc., etc. I will continue to monitor this **POSSIBLE** scenario - here and in the respective Interest Rate & Currency sections."

Excerpt from June 2007 **INSIIDE Track**

6/02/07 **Weekly Re-Lay:** "The Dollar remains at a crossroads that could determine or influence what occurs for the next 3-6 months (or longer). It has fulfilled analysis for a rally to 82.37--82.66/DXM and has done it without turning its weekly trend up. This also brings it back up to the low of the year-

opening range (support turned into resistance).

Since little of that has changed, it is a good time to review an important principle...

All of trading and technical analysis is a 'numbers game'. It is calculating the most probable scenario based on all available factors. Often, the difference between a market signaling a big rally versus a big decline is a few points. This is where the Dollar finds itself...

As long as the Dollar does NOT give a weekly close above 82.32/DXM (which would turn the weekly trend up), the prevailing analysis will be that the Dollar has completed a rebound and is poised to enter a new 2--4 month decline.

As explained in INSIIDE Track and in previous Weekly Re-Lays, this decline - if it unfolds - has the potential to be momentous.

This does NOT mean it has to be an all-out Dollar crash. Instead, it would just be the proverbial 'straw that breaks the camel's back'.

This 'straw' doesn't weigh any more than any of the other straws... and might even weigh less. However, it represents that decisive move when the masses no longer ignore what has gone on for the past 6 years... and even the past 22 years.

And, just like the news media needing another new story every day (often totally blowing an event out of proportion in the constant battle for viewer attention), traders constantly need a new focus and a new scapegoat for whatever ills might be impacting various markets on a given day or week.

So, IF - and this is still a big IF - the Dollar turns down & breaks below 80.53/DX... and then below 78.50/DX... my guess is we will hear about the inflationary ramifications, the lost faith in America & her currency and foreigners fleeing Dollar-denominated investments.

And, this might all be discussed as a result of a 4-5 basis point drop in the Dollar Index (less than the amount it dropped in a 4-week period in April/May 2006). In reality, these points may have been valid all along. It would just be the Dollar 'crossing the Rubicon' that suddenly made it all so significant."

The Dollar could be the key to what occurs in Stock Indices, Interest Rates, Gold and even Oil over the next couple years. All signs point to an impending Dollar drop - into September 2007 - to new 10+-year lows and potentially to new 40+-year lows. Please refer to current copies of INSIIDE Track and the Weekly Re-Lay for updated analysis. More to come... IT

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