

The KonLin Letter^{TKL}

Technical & Fundamental Analysis •
Market Timing •

Low-Priced Stocks

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August 2011

DEBT CEILING AND GROWTH DEBACLE

The President announced that the **ECONOMY** has encountered *slight headwinds*...it's more like hurricane **OBAMANOMICS!** The **ECONOMY** is *flirting* with **RECESSION** while *unsustainable* **GLOBAL DEBT** threatens **DEFAULT** and **DOWNGRADE** due to *political paralysis* brought on by **GOVERNMENT SPENDING**.

STANDARD & POOR'S cut **GREECE'S** rating to **CC**, saying a planned *restructuring* will be a "**SELECTIVE DEFAULT.**" **MOODY'S** also cut its rating on **GREECE** to one notch above **DEFAULT**, following **FITCH**, which *reignited* **FEAR** about *contagion* risks. Worldwide worries of **DEBT-DEFICIT** and **DEFAULT** increase.

All this, together with the **GREAT DEBT DEBATE** at a stalemate in Washington, the **DOUBLE-DIP** in the **U.S. HOUSING MARKET** with **NEW HOME SALES** falling 1% in June while **HOME VALUES** further declined vs. a year ago, **ECONOMIC GROWTH** rapidly *decelerating* and **CORPORATE EARNINGS** getting whacked, sent the **STOCK MARKET** into *free-fall*.

As **TRANSPORTS** (Fig.1) continued its *vigorous uptrend*, making an *all-time record high*, a **NON-CONFIRMATION** by the rest of the **INDEXES** caused a *major negative DIVERGENCE*. As the European **SOVEREIGN DEBT CRISIS** intensifies, the **DJTA** had a *dramatic reversal*, sending **VIX** (Fig.2), the "*fear gauge*," north, eclipsing its June high on a wave of **FEAR**. The **DJTA's** (support 5000 then 4200) *sharp reversal* led the **MAJOR INDEXES** south, as we alerted you would happen last month. The **DJIA** plummeted for six straight days, 657.40 pts. from *peak-to-trough*, or 5%, which included the largest weekly drop in a year, **VOLUME** increased across the board as **DECLINES** significantly *outperformed* **ADVANCES**. The **S&P 500** undercutting its important **JULY** low indicates that the **MARKET** has resumed its **CORRECTION**.

As we write, the **DEBT CLOCK** ticks away. With four days left until **D-DAY**, all three major **RATINGS AGENCIES** say the **U.S.** must undertake a *major* **DEFICIT REDUCTION** effort in the near-term to stabilize **DEBT LEVELS** to preserve its **CREDIT RATING**. Yes, these are the same *rating agencies* that rated **SUBPRIME SLIME "AAA,"** which was their part in the **GLOBAL FINANCIAL MELTDOWN**—the cause for **OBAMA'S** *reckless* **SPENDING STIMULUS** that cost **TAXPAYERS** trillions. In fact, **S&P** alone has threatened an immediate **DOWNGRADE** if a grand **DEAL** doesn't emerge. With both sides acting like *Washington clowns* threatening

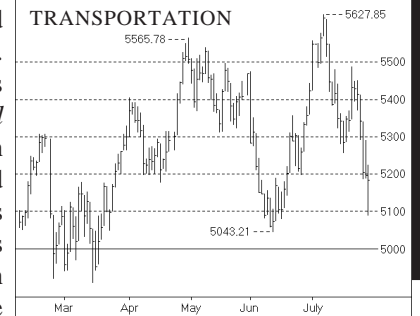
DEAL or **DEFAULT**, Republicans walked out but returned. Pres. Obama, who is supposed to *lead* our country, then *stormed out* and *tweeted* about his campaign; this shows how broken Washington is. He

then returned with *no* **BUDGET PLAN**... so Speaker Boehner walked out. Republicans are gaining ground in the **DEBT DEBATE** to *derail* *high-speed spending* and prevent **TAX HIKES**. Also, the Fourteenth Amendment allows the President to raise the **DEBT CEILING**, which Obama doesn't want. He sees the handwriting on the wall... **2012 OUSTED!**

DEFAULT is not an **ECONOMIC OPTION**. Obama and his *media chorus* lie/distort/mislead and scare the public with dire warnings about **FINANCIAL ARMAGEDDON**; it's just not so. Pres. Obama *threatening* elderly Americans that their **SOCIAL SECURITY** checks will not be sent out, nor soldiers' pay and **MEDICARE** payments, is *vastly* exaggerated and shameful for a President to say. However, with the **ECONOMY** dead in the water, he *desperately* needs to share *sole* ownership of his gross failure of **KEYNESIAN POLICY**, which caused a *tremendous* amount of **ECONOMIC WRECKAGE**. The inability to reach an agreement so close to the **DEBT DEADLINE** has *significantly* damaged the **CREDIT** and **CREDIBILITY** of the **U.S. GOVERNMENT** that he is *solely* responsible for.

DEFAULT and **DOWNGRADE** were *preventable*. The *stupidity* of our *self-centered* elected officials still can avoid an immediate **DEFAULT DISASTER**, but *avoiding* a **DOWNGRADE** of **AAA**—already discounted by the **MARKET**—to **AA**

may not be. All this *threatening* noise, coupled with **MOODY'S** **DOWNGRADING** **GREECE** and **ITALY** and *cutting* **IRISH SOVEREIGN DEBT** to *junk* (continued on page 6)

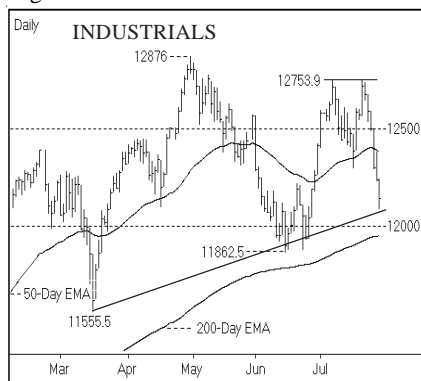


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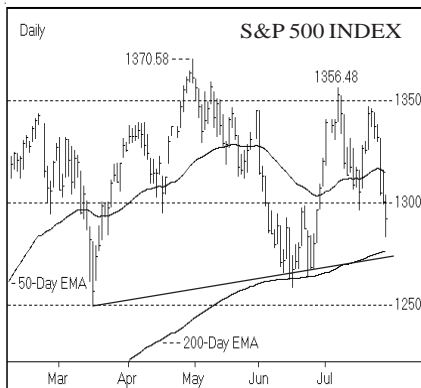
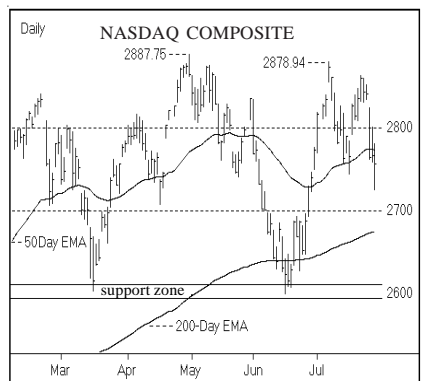
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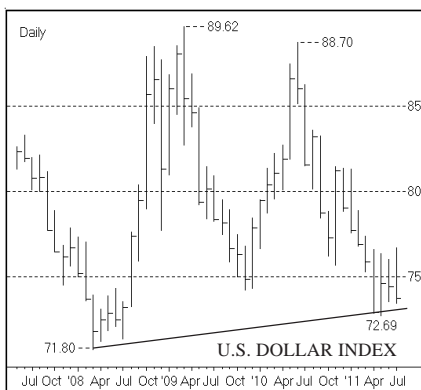
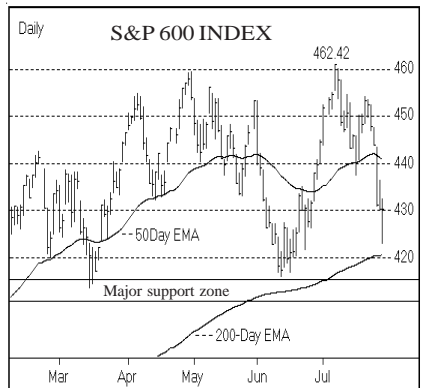
(continued from page 1) and the **U.S. DEBT IMPASSE**, weighed heavily on the **MARKET** and remain *catalysts* for **VOLATILITY** throughout the market. Meanwhile, **CONSUMER CONFIDENCE** plunged as American views of the **ECONOMY** dove to the lowest level since the **RECESSION**. **ECONOMIC DATA** was mixed, but for the most part came in *below expectations*. The **ISM SERVICES SECTOR INDEX** showed *weaker GROWTH* in June as the pace of **NEW ORDERS** eased. **EXISTING HOME SALES** fell 0.8% in June to a 7-mo. low while **INDUSTRIAL PRODUCTION** rose 0.2%, with May's production *reversed down*. **DURABLE GOODS ORDERS** fell 2.1%, defying expectations for a 0.5% rise, wiping out the previous month's 1.9% gain. And while the **PHILLY FED'S MANUFACTURING INDEX** edged back above neutral after June's 2-yr. low of -7.7, the **EMPIRE STATE MANUFACTURING INDEX** stayed *negative* in July for a second mo., at -3.76. Most important, during the past two years, **TKL** has repeatedly advised that key **INDICATORS** were showing far less **GROWTH** than initially claimed. Unbelievably, **Q1 GDP GROWTH** was *revised down* to a mere 0.4% from a previously reported 1.9% (was fudged by bureaucrats and hyped by the media); **Q2 GDP GROWTH** grew at a tepid 1.3%. The **ECONOMY** is skating on thin ice and **OBAMANOMICS'** huge **TAX** increases and *massive REGULATIONS* are fueling **UNEMPLOYMENT**, with nearly 30 mil. Americans unable to find full-time **EMPLOYMENT**.



As **TKL** predicted, the **GREAT RECESSION** was much *deeper* and the **OBAMA RECOVERY** *weaker* than previously reported. At best, America went from the **GREAT RECESSION**, which has been *greatly underestimated*, right into an *extended RECESSION*, called a **GROWTH RECESSION** we explained last year (insufficient growth); this is an **ECONOMY** whose *extremely slow RECOVERY impedes* the creation of **JOBS**. The **JUNE EMPLOYMENT** numbers *crushed* any hope of establishing a *positive trend in JOB CREATION*. The **UNEMPLOYMENT RATE** rose to 9.2% as the hiring pace *crashed 90%*—**EMPLOYERS** only added 18,000 **JOBS** in June—**ECONOMISTS** are stunned as the **UNDEREMPLOYMENT RATE** *increased* to 16.2%. This is alarming since the *pace of natural growth* in the labor force *requires* 100,000 **JOBS** a month. Worse, the real world of number crunching (like during the Reagan Administration), which is done by John Williams at ShadowStats.com, would have the **JOBLESS RATE** today at 22.7%, a *postwar record*. This is getting more *dangerous* by the day, especially when the lower middle-class begins to be more *severely* affected. The horrible **EMPLOYMENT** situation is also due to the *massive uncertainty* resulting from Obama's anti-growth policies and War with the **PRIVATE SECTOR** *destroying SMALL BUSINESSES*, the *entrepreneurial backbone* of our Nation's **ECONOMY**. Also, Obama *deliberately* continues to close the **OIL-SPIGOT** in favor of his "green job schemes," creating one **JOB** at the expense of *losing 2.2 JOBS* in the **ECONOMY**.



Just returning the development *permits* in the Gulf of Mexico, *finalizing* the KeystoneXL pipeline to bring Canadian **OIL** to Houston refineries is a *potential JOBS BONANZA* that even the **AFL-CIO** supports! It also will send **GASOLINE PRICES** south and avoid another **OIL CRISIS!** The **FED** head's **QE1** and **QE2** infusion of **LIQUIDITY** to prevent **DEFLATION** caused the *psychological effect of illusionary prosperity* that the White House was cheering. The two year old **ECONOMIC RECOVERY**—the worst ever—when this nation should be in a strong **EXPANSION** and the **EMPLOYMENT** level lower than it was in Mar.'00... is pathetic. The **ECONOMIC EXPRESS** is on track, *speeding* towards the dark tunnel of **RECESSION** loaded with *huge DEBT*, large **HOUSING INVENTORY** and an abundance of **LABOR** needing work with an increasing reliance on **FOREIGN OIL**, the *foundation* for this next **RECESSION**. As for the **MARKET**, being *short-term oversold* doesn't matter. Selling pressure in all of the **MAJOR INDEXES** is broadening with their **AD-VOLUME LINES** trending lower-**CAUTION**. All **INDEXES** will find first support at their **200-DAY** Mas. If the **DJIA** and **S&P 500** drop through their **UPTREND LINES** and *undercut* March lows, next support is 11500-11400 and 1150-1140 respectively. And if taken



out, then 10950 and 1020 are the next support levels respectively. If the **NASDAQ** takes out the zone of support in the 2620-2580 area, next support level is 2300. We believe the **LPS ARENA** will continue to *outperform* when the **MARKET** surges north. Still, if the **S&P 600 SMALL-CAP INDEX** support zone of 415-410 is broken through to the downside, there is strong support at 392 then 324. The \$ is sitting on its *long-term UPTREND LINE* and if the **PIGS** start to **DEFAULT**, there will be *tremendous VOLATILITY* in the **EURO** and in the **EUROPEAN MARKETS** causing a *flight to safety*... the \$. **GOLD** continues its strong advance due to **FEAR** of **GLOBAL DEBT** and potential **DEFAULTS**, but is long overdue for a major **CORRECTION**.



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