The KonLin Letter TKL

Technical & Fundamental Analysis • Market Timing •

Low-Priced Stocks

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September 2014

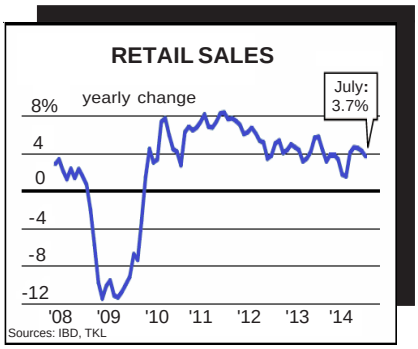
MIXED SIGNALS

Considering the *deluge* of confusing **U.S. ECONOMIC DATA,** indicators causing *false* **OPTIMISM** in the face of *deteriorating* **GLOBAL ECONOMIC** conditions and **GEOPOLITICAL** tensions *intensifying*, the resilience of the **STOCK MARKET** is uncanny. Defying **ECONOMIC** gravity last month, the 4% **MARKET** pullback into the zone of support areas we alerted you of were *swift* and *sharp*, in a "V" formation, the hallmark of the **BULL**, with the **NASDAQ COMPOSITE** being the first to reverse north, leading the rest of the **MARKET** higher [is of significance] making a new recovery high.

The **S&P 500** continued its *steep* climb without looking back, *reclaiming* its **50-DAY MA** and punching up through the 2000 level to a record 2003.37. The **S&P 500 AD LINE** making a new weekly high *confirms* the record high in the **S&P 500,** as it re-entered the area of the **TOPPING PROCESS** and signifies *no trend change* near-term. However, the 200% gain from the Mar.'09 lows is just another trading high. As the **MARKET** entered its most *treacherous* month, the **VALUE LINE (A) INDEX**, a proxy for the *broader* **MARKET** not *eclipsing* its July record high reflects the Washington elites *parsing* the truth about **Q2 GDP** data that the **ECONOMY** is in a [strong] rebound…is a **BEARISH OMEN**.

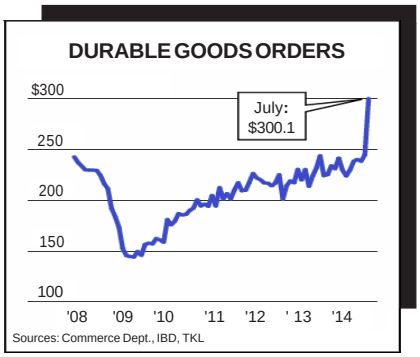
Also, the **DJIA** hit an *intraday record* of 17153.80, but *failed* to achieve a closing high as we write. Usually one of the **MAJOR INDEXES** would lead the **MARKET** higher without **NON-CONFIRMATION** by the others and then turn on a dime with the **MARKET** *plunging*. In addition, the continued **SMALL** and **MID-CAP'S** *underperformance* confirming an intermediate-term **DOUBLE TOP** is a **NEGATIVE DIVERGENCE** of *extreme* concern.

Both the **RUSSELL 2000 SMALL-CAP INDEX ($RUT)** and the **S&P 600 SMALL-CAP INDEX ($SML)** lag the **MARKET,** but are in a *rising* channel and need to break above their previous highs. If channel support is *broken* through the *downside* with the **$RUT** *undercutting* its May low at 1082.53 and the **$SML** falling through its Feb. low at 614.47 it would signal a *deeper* **MARKET CORRECTION** of 10-18%. Remain cautious, play it close to the vest, and **SELL LPS** selections as they *advance or spike up* into the area of their first objectives. Even though **MARKETS** can *surge* higher than expected, especially in a **BLOW-OFF** phase with **LPS** *rocketing* (still very possible), it also can *freefall* deeper than you expect, especially at this stage of the cycle, with doubts about the **ECONOMY'S** *underlying strength*.



Obama's domestic achievements are *widely misleading* and his foreign policies are rudderless. His *failed* fiscal **KEYNESIAN** *redistribution* policies of huge government **SPENDING,** and mountains of **DEBT** have caused *vast* **ECONOMIC** *structural damage* that can't restore **GROWTH.** The *pathetic* **OBAMA RECOVERY** continues to *"chug"* along, with **RETAIL SALES** (Fig.1) for July flat and only rising 3.7% from a year ago, the third straight month of annual *deceleration*. The reluctance to spend is being felt across the **RETAIL LANDSCAPE. DURABLE GOODS ORDERS** (Fig.2) in Aug. *surged* 22.6%, but when you exclude the *volatile* surge in *aircraft orders* booked years in advance, then **CORE DURABLE GOODS,** the **REAL ECONOMY,** was a *scant* 0.8%.

Furthermore, **HOUSING STARTS** in July *surged* 15.7%, but most of the activity is *still* concentrated in apartments/condos. **EXISTING HOME SALES** rose 2.4%, but remain in a 9-mo. annual decline, while **NEW SINGLE FAMILY HOME SALES** fell 2.4%, the second straight *decline* and the lowest level since Mar. The **NEW HOME MARKET** is *significantly* weaker than the resale market and is not even half its long-term norm when you account for *population growth*. And the *slowdown* occurred as **MORTGAGE RATES** were at the *lowest* levels in more than a year, with price gains also declining. Data shows the **HOUSING MARKET** can't get any sort of *sustained* forward momentum, reflecting the lack of **JOB** and minimal **INCOME GROWTH,** which is more *risk* for the fragile **ECONOMY.** (continued on page 6)



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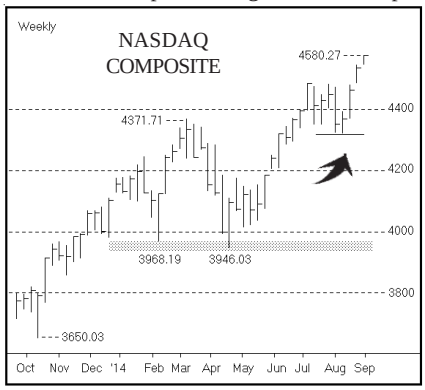
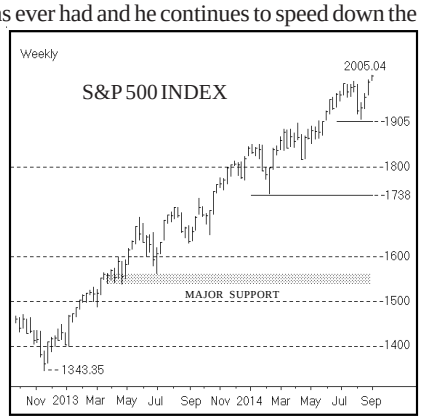
TECHNICAL REVIEW

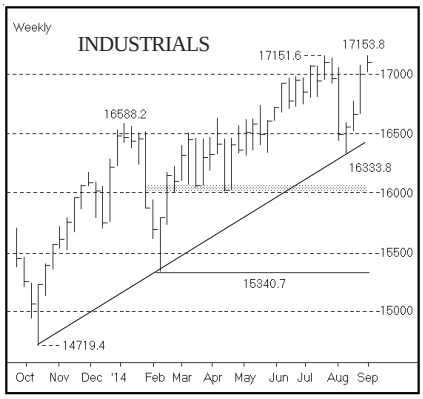
September 2014

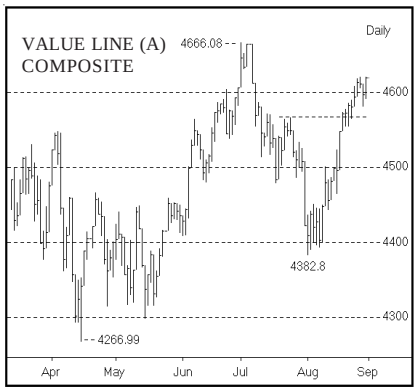
(continued from page 1) Unbelievably, **JOBS** that **OBAMANOMICS** is *creating* are paying 20% less than the **JOBS** lost during the **RECESSION.** According to **IBD, OBAMACARE** mandates are having their biggest impact on low-wage sectors. Among **PRIVATE INDUSTRIES,** where pay averages were up to nearly $14.50 an hour, the average work week *sank* to 27.4 hours, *undercutting* the *record low* seen at the *depth* of the **GREAT RECESSION** in '09. Every day, **SMALL-BUSINESSES** and hardworking Americans live their **ECONOMIC** nightmare of being *suffocated* by overregulation and increased **TAXES,** while the Obama team looks for more ways to *confiscate wealth* through **TAXATION,** without any **PRO-GROWTH** incentives or plans for the future. **JOB GROWTH** has been 20% slower than during Reagan and Clinton's *solid* **GROWTH EXPANSIONS,** and was only *interrupted* in both **EXPANSIONS** by one month of *barely* a decline, not a *serious* **Q1'14 CONTRACTION**, which was no accident. The Congressional Budget Office (CBO) *hiked* this year's **DEFICIT** forecast due to *weaker* **GDP GROWTH**—comes as no surprise that we've been on record for 1.5% **GROWTH** for the year. Government as a share of **GDP** is estimated at 74.4% this year, the most since '50 and at 77.2% in '24, but our children and grandchildren *can* worry about that, as the American dream keeps *evaporating* while Pres. Obama improves his golf skills. The problem is that Obama is the most *inexperienced* president this nation has ever had and he continues to speed down the road of **SOCIALISM,** causing havoc on industries and **SMALL BUSINESSES** who account for nearly 80% of all **NEW JOB CREATION.** Instead of **PRO-GROWTH** policies from the White House, Americans and businesses are *layered* down by massive **TAX INCREASES. PRIVATE SECTOR PRODUCTIVITY** is *declining* because the **U.S.** has the *biggest* **CORPORATE INCOME TAX RATE** of 35%, which makes us *uncompetitive* and is slowly *destroying* the free-market foundation of **CAPITALISM.** Obama's socialist preference of **NO-GROWTH** incentives keeps the **ECONOMY** *"creeping"* along in his **"RECESSIONARY" RECOVERY RUT,** with *risk* of **DEFLATION** still *lurking* around the corner.





You see, the **U.S. ECONOMY** is in a vise being *squeezed* by both **DEFLATION** (when *"cash"* is **KING**) and **INFLATION—** an unstable situation. The **FED** *fears* **DEFLATION** because it makes **DEBT** *more* expensive and harder to pay, and *wipes out* **TAX REVENUE.** So the **FED** prints money, nearly $4 tril. since '08—**INFLATION**—and they don't stop until they *achieve* their goal. July's **CORE PCE,** the FED Chief's favorite measure of **INFLATION** increased 1.5% year-over-year, well below its 2% target. Seeing **DEFLATION** instead of **INFLATION**, the *metal speculators* sent **GOLD** and **SILVER** south—it's better to have **CASH** for safety. In addition, **SILVER** is also a key **GLOBAL** *industrial metal* and is *not* signaling a rebound in **GROWTH.** A break below $18.17 will cause a rush to the exit. The *primary trend* remains down. **GOLD** support is at $1044-$1000 and **SILVER** is at $16.33-$14.65. Remember, the **FED** Chief needs a *rising* **STOCK MARKET** to maintain the *wealth-effect* in the hope it will *eventually* trickle down to boost **ECONOMIC ACTIVITY.** The only fly in the ointment is that the **FED** *historically* reacts too late or too early.





Most important, **EUROPE'S ECONOMY** continues to *deteriorate,* sliding further into a **DEPRESSION,** with several European countries on the *verge* of **BANKRUPTCY** and **SOVEREIGN DEFAULT**. The **EURO-ZONE** grew a *tiny* 0.2% in Q1, while its **UNEMPLOYMENT RATE** sits at 11.8%. Germany, the *engine* of **GROWTH** for the **EURO-LANDSCAPE,** *contracted* in Q1, while Italy's **ECONOMY** is in **CONTRACTION,** with its **YOUTH UNEMPLOYMENT** at a *record* 40%—that's the third **RECESSION** since the '08 **FINANCIAL DISASTER.** The **CENTRAL BANK'S** worldwide *fueled* expansion effort only produced a *tepid* recovery and is *faltering* badly. Japan's *massive* **QE,** with a *hefty* **SALES-TAX** raise to *combat* **DEFLATIONARY FORCES,** only caused Q2 **GDP** to *crash* at a -6.8% annual rate. **SOCIALISM**, the foundation of **DEBT** and **TAXES** is *causing* **DEFLATION,** with the massive *civil unrest*, taking down country by country. As forecasted, the **EUROPEAN CENTRAL BANK'S (ECB)** Pres. Draghi continues to **CRASH** the **EURO** to fight *evil* **DEFLATIONARY FORCES**; politically it's the *easiest* fix available. After two-years of *jawboning,* he can no longer pretend he's on the *verge* of implementing **QE. MARKET** *forces* will make him follow the successful Dr. Ben's **QE.** Economists/analysts are puzzled. They have it backwards. For nearly two years, **TKL** explained how the *deepening* **DEFLATION** problems of the **WORLD ECONOMIES,** with the **U.S.** the *strongest* and most **LIQUID,** are *extremely* **BULLISH** for the **U.S. EQUITY MARKET—***CAPITAL FRIGHT* seeks the ***SAFE-HAVEN*** surging **$.**