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CAPITALISM OR SOCIALISM

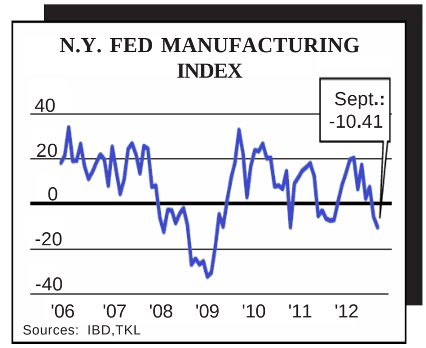
The **GLOBAL ECONOMY** continues to slow as the *election* and the "**FISCAL CLIFF"** *created* by the **POLITICAL ELITES** is fast approaching. As **EURO LAND** *sinks deeper* into **RECESSION**, the **CHINA SLOWDOWN** is *accelerating*, hurting **U.S. EXPORTS.**

Q2 **GDP GROWTH** was *revised down* to a *pathetic* 1.3%. In Aug. **DURABLE GOODS ORDERS** *sank* an unbelievable 13.2%, the *biggest* drop since the **GREAT RECESSION**, led by aircraft and autos. Even excluding *transportation*, **ORDERS** fell 1.6%, the 3rd straight drop and the 6th *decline* in 8 mos. **CORE CAPITAL GOODS ORDERS**, a proxy for *future* business investment, was down 5% vs. a year ago.

MANUFACTURING COMPANIES are *extremely* concerned about the **"FISCAL CLIFF'S"** *endless barrage* of **TAX HIKES** (it will *destroy* the **ECONOMY), GOVERNMENT SPENDING CUTS** (gutting out our **DEFENSE SECTOR** and jeopardizing *national security)* and the *avalanche* of **REGULATIONS** (*rapidly* rising toward $2 trill. annually or $8,000 per employee) that may take effect next year. This fear keeps businesses from *investing* and *hiring*. This is on top of the 35% **CORPORATE INCOME TAX RATE**, the highest in the world, making the U.S. non-competitive. The bonds of trust have broken as the **ELITES** in Washington are on the *verge* of causing a **GOVERNMENT RECESSION!**

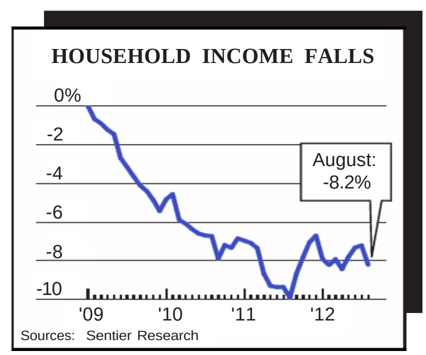
U.S. FACTORIES are weakening as **INDUSTRIAL PRODUCTION** fell in Aug. 1.2%, the most since Mar.'09. The **N.Y. FED MANUFACTURING INDEX** (Fig.1) in Sept. *contracted* to -10.41, the lowest since Apr.'09, while **NEW ORDERS** *sank* to a -14. Worse, the **ISM-CHICAGO MANUFACTURING ACTIVITY INDEX** *plunged* to -49.7 in Sept. from 53 in Aug., the first sub-50 reading in 3-yrs., indicating *contraction*. The **ORDERS GAUGE** also fell into *negative territory*. **BACKLOGS** *shrank* at a faster pace, while **JOB GROWTH, OUTPUT** and **INVENTORIES** slowed**.** You see, the concern about the *huge uncertainty* about the Jan. "**FISCAL CLIFF**"—when over $600 bill. in *automatic* **TAX HIKES** and **SPENDING CUTS** will take effect because our *self-serving* elected officials didn't act, is seriously *undermining* the **ECONOMY.**

For years, **TKL** warned that Obama's **KEYNESIAN ANTI-GROWTH** *fiscal policies* that take from the **PRIVATE SECTOR** and **TAXPAYERS** so he can dictate what products get built or industry gets *subsidized*, are not *sustainable* and are causing long-term structural *damage*. It should be clear that Pres. Obama will not stop on *transforming* America into a *government controlled society* unless he is *ushered* out of the White House in Nov. Obama is confident that he can kill off the *remnants* of **CAPITALISM** with exploding **DEBT** and *debilitating* **REGULATIONS. HIGH TAXES** and *anemic* **GROWTH** is the *failed* **EUROPEAN SOCIALIST** model and is why people come to an America founded on *free-market* **CAPITALISM** and *limited* **GOVERNMENT,** working for the people not controlling their destiny.



SOCIALISM IS A GROWTH KILLER! It will cause another **RECESSION,** wiping out what's left of the hardworking *MIDDLE CLASS* and *destroying* the engine of **GROWTH,** *SMALL BUSINESS AND ENTREPRENEURS*, who are responsible for 80% of **JOB CREATION**. "It is paradoxical truth that tax rates are too high and tax revenues are too low and the soundest way to raise the revenues in the long run is to cut the rates now."—John F. Kennedy. The American people in Nov. will be voting for *free-market* **CAPITALISM**—robost growth, freedom, independence and prosperity, or **SOCIALISM—***massive* government control by politicians who seek power, and to get votes promising *wealth* redistribution. It's not going **"FORWARD"—**it's backwards, *failed* economic policies and will end up *redistributing* **POVERTY!**

Obama cannot run on his record of annual $1 trill. **BUDGET DEFICITS** and $5 trill. in new **NATIONAL DEBT** that *surged* through $16 trill., and *entitlements* like the **PIIGS** countries that caused them to *implode*...it's just not sustainable. Even former Treasury Secretary Robert Rubin of the Clinton Admin. *warned* that the impact of the **"FISCAL CLIFF"** (continued on page 6)



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TECHNICAL REVIEW

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(continued from page 1) could be *worse* than the **FINANCIAL MELTDOWN,** which *caused* the worst **RECESSION** since the **GREAT DEPRESSION**, especially with **GDP GROWTH** for the first half of ’12 an *abysmal* 1.6%. Remember, if the **ECONOMY** expands *less* than 2.5% for a *prolonged period*, like now, we’re in a **“GROWTH RECESSION.”** In fact, since Obama entered the White House, **HOUSEHOLD INCOME** (Fig.2) *collapsed* 8.2% with **NET WORTH** *plunging* a *dramatic* 40%. To make ends meet, **HOUSEHOLDS** had to dip into their *personal savings*, as the **SAVINGS RATE** *dropped* to 3.7% from 4.1%. With **AUG. PAYROLLS** rising only 96,000 (*significantly* below forecasts while June and July hiring was [again] *revised* down), the **UNEMPLOYMENT RATE** ticked down to 8.1%, only because 368,000 people left the *workforce*, cutting the **LABOR PARTICIPATION RATE** to 63.5%, a 31-yr. low. If the millions of *discouraged* **JOB SEEKERS** hadn’t left the *workforce* since the *fragile* **OBAMA RECOVERY** began in June’09, the **JOBLESS RATE** would be a frightening 11.2%. The number of **UNEMPLOYED** for *over a year* jumped from 11.8% in Q1’09 to an *astonishing* 29.5% in Q1’12, a record not seen since the **GREAT DEPRESSION. UNEMPLOYMENT** remains over 8% for a record 43-mos. The number of people on **FOOD STAMPS** is up almost 12 mil., or 34% from June’09 to June’12…it’s **SOCIALISM** at its best. **OBAMANOMICS** is a *massive* **ECONOMIC FAILURE!** In order to boost **GROWTH**, the *worried* **FED** head said he will keep **INTEREST RATES** near zero until mid-’15 and, with the *paralysis* in Washington, *unleash* another round of **QUANTITATIVE EASING-QE3.** With a drumbeat of warnings from *extremely vulnerable* companies in a slowing **GLOBAL ECONOMY**, the **FED** will buy an *open-ended* $40 bil. per month of Mortgage-Backed Securities to gain **ECONOMIC** traction and will not stop until they drive **UNEMPLOYMENT** down. It will also continue *“Operation Twist.”* The **FED** head is going all-out; easy money is going to be here for a long time, which should benefit **SMALL-CAP STOCKS**.

The **MAJOR INDEXES** *surged* and are clearly *overbought. Excessive* **BULLISH SENTIMENT**—*complacency*—is signaling a temporary **MARKET TOP** while the **INFLATION CASSANDRAS** are already screaming; they have been wrong for over 3-yrs. Except for bear consumer essentials rising, *“supermarket inflation”*, I doubt the CPI will surge…there’s no demand. In the beginning of the year, **TKL** explained how the **FED** will be the **MARKET’S** *safety net* and will do whatever it takes to keep the **MARKET** up creating an *artificial wealth-effect* while **ECONOMIC GROWTH** is sinking. With **QE3,** the **FED** head is once again trying to *induce* **INFLATION** as strong **DEFLATIONARY FORCES** are the *greatest threat*, indicating the underlying real **ECONOMY** is much *weaker* than **ECONOMISTS** realize. Despite *synchronization* by worldwide **CENTRAL BANKS** of *unlimited* money-printing, **GOLD** and **SILVER** have not broken out on the rebound. Also, with all the *geopolitical tension* in the **MIDDLE EAST, CRUDE** collapsed 11% in 9 days. This is why we alerted you of an imminent *sharp decline* last month. When there’s no demand there’s no **INFLATION.** With the **FED’s QE3** announcement and the **ECB’s BOND-BUYING** plan for the **EURO-ZONE**, the **MAJOR INDEXES** *surged* on rising **VOLUME** well above their spring highs, advancing to *new recovery-highs* with the **S&P 600 SMALL CAP INDEX** (support 453 area then 430) and the **VALUE LINE (A) COMPOSITE** making *new all-time highs*. Nonetheless, **VIX** shows *complacency*, with three dips below 14% last month, but it has not seen a *support break* by the **S&P 500** at the 1396.36-1400 area (next support 1365).

The DJIA made a new monthly *recovery* high not seen since Oct.1,’07 and is in position to *eclipse* its all-time high. Support is in the 13000 area with strong support at 12778.1. Major support zone is at 12450-12521. Moves below 15% suggests *excessive complacency* and an *imminent* **MARKET TOP**. When FedEx, a *Bellwether* of **GLOBAL ECONOMIC** activity, lowered its full-year **EARNINGS** forecast and outlook for **GLOBAL GROWTH**, the **MAJOR INDEXES** went into a *tailspin* as **VIX** jumped to 17.08. The **NASDAQ** is digesting its recent gains after making a *fresh high* not seen since Nov.’00 while the **DJTA,** an *extremely* **ECONOMICALLY** sensitive **INDEX,** is locked in a trading range giving a **BEARISH DOW THEORY NON-CONFIRMATION.** If the **DJTA** has a weekly close below 4795.28, the *decline* could get ugly, indicating that we’re headed for a **MAJOR RECESSION.** However, if the **DJTA** closes above 5390.11 on a weekly basis, I would have to conclude that the worst is behind us. Friday the 28th **LOW VOLUME** is a sign that the **INSTITUTIONS** are taking *profits*—they’re selling into *strength* as we’ve been advising to **SELL LPS** selections nearing or meeting our 1st objective. The *intermediate uptrend* remains intact; it’s a **LIQUIDITY DRIVEN MARKET—QE3.** The **MARKET** remains **VOLATILE** with *sharp, shallow pullbacks* but is over due for a *deeper* **CORRECTION**. The **$** is going higher.