The KonLin Letter TKL

Technical & Fundamental Analysis• Market Timing•

Low-Priced Stocks

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December 2018
Data through Jan. 4th

CRASH/CORRECTION OVER

Since the **MARKET'S** Nov.'17 *lift-off*, **TKL** has become *deeply* concerned about the **FOMC** (Federal Open Market Committee) *withdrawing* **LIQUIDITY** out of the **BANKING SYSTEM** in the name of *normalization*, which is really **"QUANTITATIVE TIGHTENING (QT),"** while *hiking* **INTEREST RATES.**

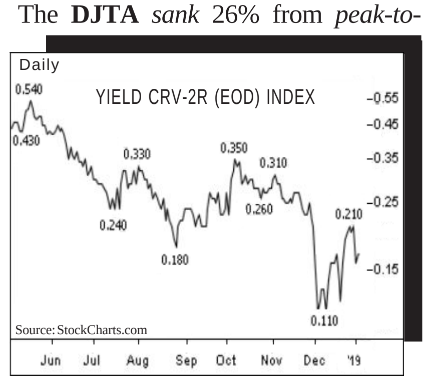
Entering Feb.'18 with the **STOCK MARKET** *soaring*, the *arrogant* **FED** Chief increased the **LIQUIDITY CONTRACTION** by 100% sending the **MARKET** into its first *freefall*. **VIX,** the *"fear gauge,"* soared a record 116% to 50.3, its biggest one day leap in history. Since the *out-of-touch* **FED** Chief has been *ramping up* its balance sheet *reductions*, the **MARKET** has become *increasingly* unstable, as predicted! The **STOCK MARKET,** a leading **INDICATOR** of the **ECONOMY,** has been *struggling* to gain ground since Feb.'s **CRASH.** Most important, the **YIELD CURVE** indicated *danger* of **INVERSION** due to an *accelerated decline* in **ECONOMIC ACTIVITY—**a warning of a possible **RECESSION!**

INVESTORS were faced with *falling* **COMMODITY PRICES,** a strong **BUCK** and weaker **FOREIGN MARKETS,** as the *befuddled* **FED** head kept beating the drum of *robust synchronization* of **GLOBAL GROWTH** without any supporting evidence. For over 1½ years, **TKL** repeatedly reported about the *increasing* **ECONOMIC** problems in **EUROPE**, especially with **GERMANY'S Q3** *contraction* worsening, **FRANCE** in *freefall* and **CHINA'S** deteriorating **GROWTH** accelerating, with its **MANUFACTURING PMI** recently *collapsing* into **CONTRACTION. TKL** warned in June that **COPPER,** a key indicator of **GLOBAL ECONOMIC STRENGTH,** had a *dramatic, sharp reversal* to the downside, confirming **ECONOMIC MOMENTUM** worldwide was rapidly *faltering*, especially in **EMERGING ECONOMIES.**

With *extreme weakness* in the **ECONOMY,** the out-of-sync **FED FOMC** kept raising the **FED FUNDS RATE** while *withdrawing* **LIQUIDITY** from an **ECONOMY** that never fully recovered from the **GREAT RECESSION—**an *inconceivable* error of policy! On Oct.3rd, **FED** head Powell commented that **INTEREST RATES** were gradually moving to a neutral place and we may *pass* neutral—but we are a *"long way"* from the Neutral Point. **GLOBAL MARKETS** interpreted it to mean the *overbearing* **FED** head would continue his *devastating* **QT POLICIES,** regardless of what it means to the **MARKETS.** The same day of the Powell interview, the **DJIA** and **CRUDE** had *peak reversals*, together with the **S&P 500 INDEX (SPX-**already peaked) rolling over into a *waterfall decline* through their **50/200-DAY MAs.** After the **STOCK MARKET** *collapsed* in Oct., we stated that all the **MAJOR INDEXES** will *fail* below their *previous* Oct. highs as the **TECHNICAL BREAKDOWN** indicated that the ultimate lows are still ahead of us.

MARKET TUMULT continued in Dec. with **STOCK** and **BOND YIELDS** extending their *decline*. Despite the temporary **TRADE TRUCE** between the **U.S.** and **CHINA**, the **MARKET** did not swing to the upside, heightening anxiety. All three **MAJOR INDEXES** *gapped* to the *downside* on the opening, *falling* through their previous day *upside gaps*, a **BEARISH SIGN.** The **DJIA** *plunged* 799.36 pts., or 3.1%, the **S&P 500 INDEX (SPX)** sank 3.2% and the **NASDAQ COMPOSITE,** the first of the **MAJORS** to *join* the **SMALL-CAPS**, who led the **MARKET** *decline* into **CORRECTION TERRITORY.**

Worse, both the **DJIA** (*industrials make the goods)* and the **BELLWETHER OF ECONOMIC ACTIVITY,** the **DJ TRANSPORTATION AVERAGE** (**DJTA-***ships the* goods), closed below Oct.'s support level, signaling a **DOW THEORY BEAR MARKET.** The **DJTA** *sank* 26% from *peak-to-trough* into **BEAR TERRITORY.** And with the **S&P 600 SMALL-CAP INDEX (SML)** heavily *exposed* to the **DOMESTIC ECONOMY** already in a **BEAR MARKET** and **U.S. MANUFACTURING PMI** for Dec. *plunging* to 15-mo. lows, any thinking of robust growth is *shattered*. Still, the **SML** remaining in a **SECULAR BULL MARKET** and leading the (continued on page 6)



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TECHNICAL REVIEW

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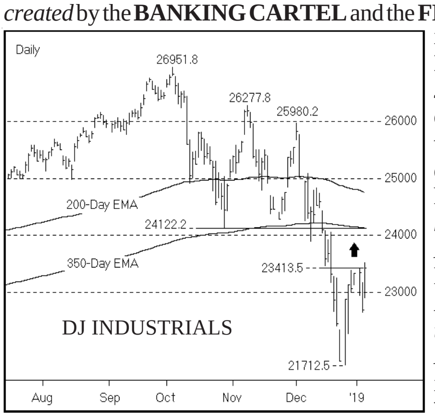
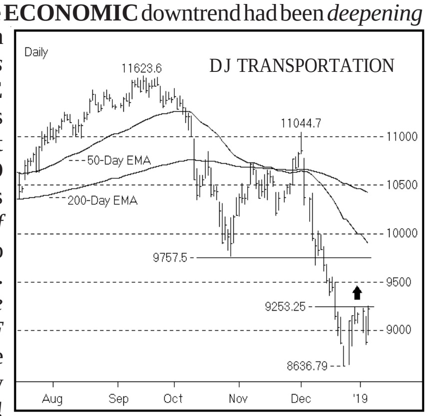
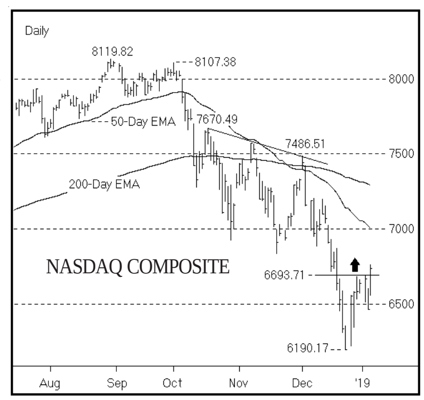
(continued from page 1) rebound, gave a buy signal with a first obj. up into the 960-970 area. Indeed, the **ECONOMY** may be in serious trouble as the **10-YR TREASURY YIELD** (Fig.1) *plummeted, causing* **BOND PRICES** to *surge*, indicating that **INVESTORS** are losing *confidence* in the **ECONOMY** and **STOCK MARKET.** Furthermore, the *spread* between **YIELDS** on the 2n'10 (Fig.2) *dramatically* narrowed to 0.110%, the smallest difference since '07. Remember, every **RECESSION** since '75 has been preceded by the **2-YR. TREASURY YIELD** surpassing the **10-YR. YIELD.** Last month**, TKL** correctly predicted **SPREADS** between both **2/5-YR.** and **3/5-YR. YIELDS** would be **INVERTED.** We are in the midst of **CURVE INVERSION CHAOS,** which signals **RECESSION**! **INVERSIONS** have occurred in several parts of the **YIELD CURVE,** indicating the entire **CURVE** may soon be inverted due to the *incompetent* **FED** head. The **U.S. BOND MARKET,** the *largest, most liquid* in the **WORLD,** consistently one of the most *accurate* **INDICATORS,** is signaling a **RECESSION** is lurking around the corner. I believe the *muddled* **FED** has *overshot* the Neutral Point. The **GLOBAL ECONOMY** cannot handle the same amount of *aggressive tightening* as in *past cycles* due to the mountain of **DEBT!** I have repeatedly stated that the only ways to *extinguish* the overwhelming **DEBT** *created* by the **BANKING CARTEL** and the **FED** *elites* is either by *massive* **INFLATION** or by **DEFAULT.** The **ECONOMIC** downtrend had been *deepening* in **EUROPE** and **CHINA,** with nearly 3-yrs. of **PROFITS** in **INDUSTRIAL COMPANIES** *collapsing.* Also, the *relentless slump* in **COMMODITY PRICES,** with the *carnage* in **CRUDE** down 45%, meeting our first downside obj. at 42.36, also confirms there was no *synchronization* of **GLOBAL GROWTH.** Next downside obj. 35-30, then Feb.'16's low of 26.05. The *reckless* **FED** head keeps sucking "**CASH"** out of the system. It appears he is *knowingly* collapsing an **ASSET BUBBLE** that the *"Masters of Disaster"* at the **FOMC** created. **TKL** warned last month not to listen to what the *destructive* **FED** says, but to watch what they do. Also, don't fight the *lyin'* **FED.** They will continue their *staircase to destruction* and raise rates in Dec.—and they did!! The *"TARIFF MAN"* called to keep rates steady. **PRES. TRUMP** is correct, there is no need to hike rates unless they want to *destroy* the only **ECONOMIC EXPANSION** in a decade—the **TRUMP BOOM!**





During the *worried* **FED** Chief's explanation of Dec.'s rate hike, he *"backpedaled,"* signaling raising rates twice next year (one less) since rates are just below…the Neutral Point (Oct.3rd he stated they were a "*long way"* from the Neutral Point). He further stated they were committed to letting its crisis error holdings of **TREASURY** and **MORTGAGE BONDS** *run-off* the balance sheet as planned, meaning on *"AUTO PILOT"*—the **MARKET** went into a tailspin. A *fury* of **SELL ORDERS** hit the **MARKET.** Over the weekend, with the **STOCK MARKET** already *crashing* on surging *record* **VOLUME,** Treasury Sec. Mnuchin called **CEOs** of the top-six **BANKS** inquiring about their **LIQUIDITY** and would be calling the **PPT** (Plunge Protection Team) on Monday (Christmas Eve) about a possible run on the **BANKS?** He also tweeted **PRES. TRUMP** *denied* threatening to fire the **FED** Chief. Only Congress can fire the **FED** head. In fact, for decades, **TKL** stated that the **FEDERAL RESERVE** (a private *corrupt* corporation) *caused* every **RECESSION** since their 1913 inception and should be abolished.



On Monday, Christmas Eve, a *blizzard* of sell orders *aborted* the *Santa Claus Rally (SCR)* on **WALL STREET,** but did arrive at the **CME** with the **SCR** in **SILVER & GOLD** breaking above their Aug. **BULLISH FOUNDATION**. The **MASSIVE NEGATIVE SENTIMENT** is the driving force of **SILVER & GOLD** and the **$** falling through a large **BEARISH RISING WEDGE** was the needed prescription to punch up through their **200-DAY MAs.** I believe the **$** *plunge* will be *severe*, advancing the grey and yellow metals strongly to higher prices. Meanwhile, the **DJIA** *plummeted* though its **350-DAY EMA,** having a 19% **CORRECTION** from *peak-to-trough.* The **SPX** *plunged* 20% into a **BEAR MARKET** falling through its'16 **UPTREND LINE-CD** while remaining in a **SECULAR BULL MARKET** above its'09 **UPTREND LINE-AB.** Unbelievably, **NYSE** (on the 26th) **VOLUME** of more than a 10-1 **UP VOLUME DAY** after a *vicious decline* is a significant **BULLISH** initiation/reversal of that decline. Also, *investorsintelligence.com* reported that the **SPX** had an *extreme record* of **SELLING CLIMAXES** for the week of the 28th with 2347. In addition, **BULLISH ADVISORS** are now at the severe reading of Feb.'16's lows...**THAT'S BULLISH!** The **STOCK MARKET** ended the year with the **DJIA** changing direction 19x on Friday the 28th, as the *brutal* Dec. caused the **SPX** and **DJIA** the worst Dec. since '31, but both have given bullish buy signals, ending the **CHRISTMAS MNUCHIN MASSACRE** with an *explosive upside reversal* as **INTEREST RATES** saw its top and the **MARKET** only to retest its bottom.