

# The KonLin Letter<sup>TKL</sup>

Technical & Fundamental Analysis.  
Market Timing.

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Low-Priced Stocks

November 25, 2016

## " THE TRUMP EFFECT "

During the past eight years, *self-serving* career politicians and Washington *elites* exploded the **NATIONAL DEBT** amid *rampant* corruption. These politicians and the insider bureaucrats would attack anyone trying to *expose* the *corruption*, the *cronyism*, the utter lack of border security and the subpar **ECONOMIC RECOVERY**, which explains the **GROWTH RECESSION** we've been in. This month, the *impossible* became possible when the **SILENT MAJORITY** said "*enough is enough!*" and came out in droves to take back their country to keep America a **BEACON OF HOPE**.

**POPULISM** is taking over the world. Republican Donald Trump's Electoral College *victory* over Democratic nominee Hillary Clinton was an *unprecedented triumph of populism* by the hardworking **MIDDLE CLASS** who for years *endured* hardship and uncertainty due to Pres. Obama and his *redistribution frenzy*, the political establishment, the Washington elites and *self-seeking elected officials* and immigration. Like **BREXIT**, the *deplorables* have ushered **TRUMP** into the White House, which will spread to other European countries and "*drain the swamp*" to rid government malfeasance. For months, even while the *biased* liberal mainstream media was predicting a **CLINTON LANDSLIDE**, **TKL** reported that our indicators were predicting a **TRUMP VICTORY** and that the **STOCK MARKET** would *surge* to a *new record high!*

You see, the **POPULISTS** of 320 mil. Americans are the *real* intellectuals and journalists while the so called Washington elites are the *real idiots*. **DONALD TRUMP** won the election as our 45<sup>th</sup> *President of the United States* with an *overwhelming* support of **CONFIDENCE** that he will "*MAKE AMERICA GREAT AGAIN!*" Yet, the *loony liberals* can't believe they lost and are raising money for a recount...shows there's a sucker born every day. Still, the *massive* turnout of American voters had their say at the **POLLS**, not by *rioting* or killing police. The *overwhelming CONFIDENCE* is an acknowledgement of the **TRUMP EFFECT** that will take a different positive direction and restore the foundation of **CAPITALISM**, which will *spur* free-market **GROWTH** *creating* **JOB**s.

The *majority* expected that a **TRUMP VICTORY** would send stocks *plummeting*; overnight, the **DJIA FUTURES** *sank* 867 pts. and a *sharply* lower opening was expected in the morning. Instead, with the *dawn of a new day*, the winds of *change* whipped through the canyons of Wall Street. The **MARKET** opened with a breath of fresh air only seeing the

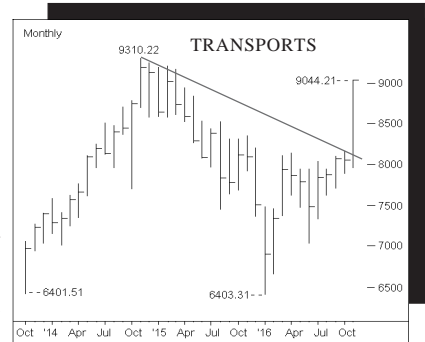
**DJIA** down-gap 15.48 pts., briefly *sinking* 80.19 pts. then reversed - - *soaring* north on another **BULLISH BREATH THRUST** never looking back.

The **STOCK MARKET'S** broad

advance, with **NEW HIGHS** *expanding* powered by the **TRUMP EFFECT**, has already caused *tremendous expectations* of an **ECONOMIC REBOUND**, with a **DJIA** upside objective to 21500 before he has even taken office. Adding to **BULLISH SENTIMENT** was a *glimmer* of **GROWTH** in *corporate earnings* after four straight quarters of *contractions*. They began to rebound in Q3 adding more fuel to the **BULLISH EQUATION**. Furthermore, the **TRANSPORTS (DJTA, Fig.1)** rising faster than the **DJIA**, punched up through its *long-term DOWNTREND LINE* and is synced on the upside for the first time in almost two years and is in the process of *challenging* its Nov.'14 all-time high. If successful, it would indicate that the **U.S. ECONOMY** is finally in the midst of a turnaround, providing **TRUMONOMICS** is put in place. If **SUPPLY SIDE PRO-GROWTH FISCAL POLICIES** are not implemented, expect a *severe RECESSION*, not **PROSPERITY**. In fact, **OBAMA'S SOCIALIST POLICIES** have caused *severe* and major *structural damage* to the **ECONOMY**, with **RECESSION** lurking around the corner!

If the **MAJOR INDEXES** close above their previous *record highs* at month's end, it would indicate a new **BULLUP-LEG**. In all probability it will, as the **DJIA**,

**S&P 500**, **NASDAQ** and **RUSSELL 2000** climbed together to *all-time* record highs for the first time since '99. In addition, the explosive (continued on page 6)

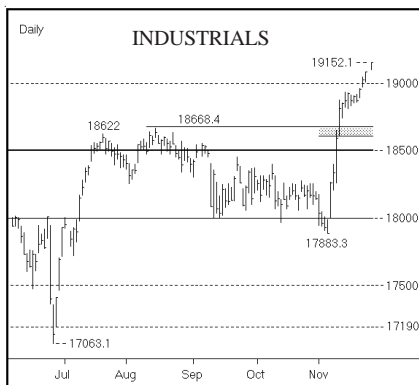


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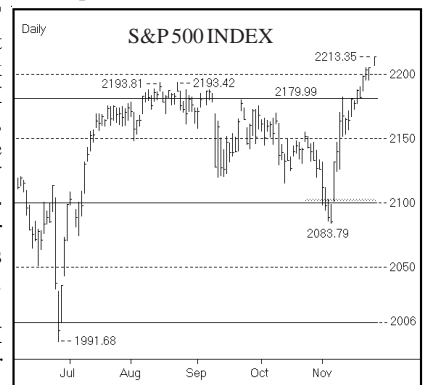
## TECHNICAL REVIEW

November 25, 2016

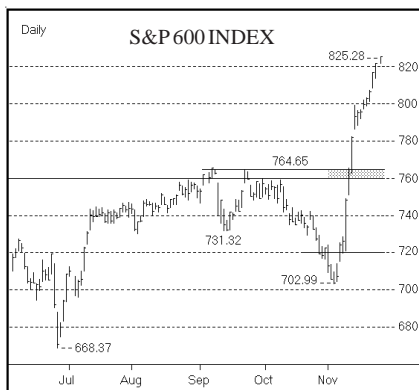
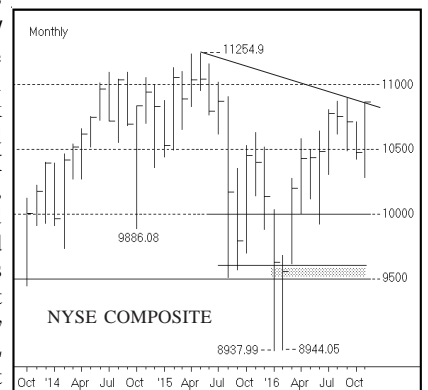
(continued from page 1) **TRUMP RALLY** propelled the **VALUE LINE (A) COMPOSITE**, **S&P MID-CAP 400 INDEX** and the **AMEX MAJOR MARKET INDEX** also to new *all-time highs*. Most exciting, we explained last month how the **SMALL-CAPS** were *severely underperforming* and closed below key support levels. They since had a *major upside reversal* due to the **TRUMP EFFECT!** A cut in the **CORPORATE TAX RATE** to 15% and even increasing **INFLATION** would be a major benefit to the **SMALL-CAPS** that are on a tear and led the *new high* list, which are also in a new **BULL UP-LEG**. The **S&P SMALL-CAP INDEX** has a price objective of 986 then 1069 with support at 760-765, and the **RUSSELL 2000** has a price target of 1715, with support at 1250. Still, the **SMALL** and **MID-CAPS** are in a **PARABOLIC PHASE** celebrating the future before it arrives -- watch out below. On a short-term basis, the **MARKET** is **OVERBOUGHT** (bullish) and we certainly are in need of a pullback to *unwind BULLISH SENTIMENT*. Look at the **VIX INDEX (VIX-Fig.2)**, the "*fear gauge*," that surged over 70% to its highest level in 3-mos. and dropped into the 12.16 area approaching *extreme complacency*. Still, **OVERBOUGHT** conditions do not guarantee pullbacks or **CORRECTIONS** as the **MARKET** can become even more *overbought*. And, when a pullback does unfold, there is no telling *duration* and how *deep* it will correct. In addition, there are some **NEGATIVE DIVERGENCES** that indicate one more deeper, *sharp decline*. Of notable concern



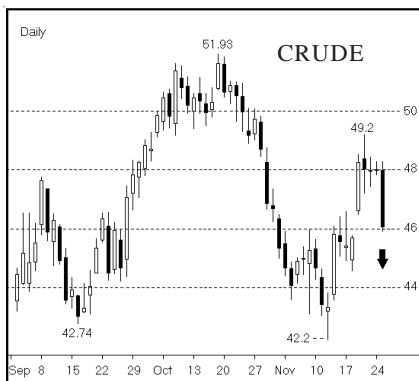
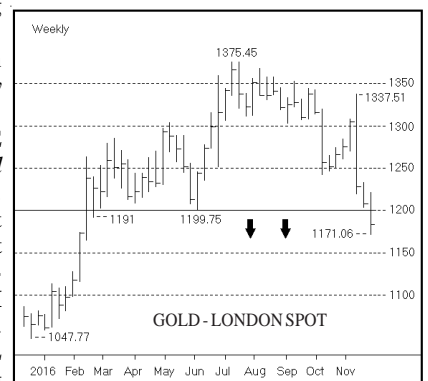
is while the **MARKET soared**, the flight from the **BOND MARKET** suffered a *huge decline* as investors sold \$18 bil., the second largest weekly outflow since Q1'02. **BONDS** are *poised* for a snap-back rally, but the **NEW DEFAULT CYCLE** has started as **HIGH YIELD BONDS** are above 5% as of Aug. this year. As warned, **BONDS** are **TOXIC** and will continue to send rates higher while the *deceptive FED* wants you to believe we have a *robust ECONOMY* and hike **INTEREST RATES** further. Also, the **NYSE COMPOSITE** has been *lagging* confirmations with all of the other **INDEXES**. As we write, the **INDEX** is starting to break above its May'15 **DOWNTREND LINE**, and once it *eclipses* its prior high, we could see a **BULL STAMPEDE**.



Most important, *investorsintelligence.com* **BULLISH ADVISORS SENTIMENT** jumped to 55.9% entering the *danger zone* above 55%. We should still see more **BULLS** before a **MARKET TOP** and a number above 60% would be a *serious warning* to consider defensive measures. In addition, the **BULL/BEAR SPREAD** expanded *sharply* again to 34.3% entering the high risk zone above 30%. Higher readings at 40 and above signal clear **MARKET TOPS**, which could occur again. **ADJIA** pullback should find support in the 18668-18500 (strong support) area. I would not like to see the 18500 level *undercut* after giving a **BULLISH BUY SIGNAL**. Although there's ample support at the 18000 level, I would look to the 17190 area to hold. The **S&P 500** should find support at 2193-2179. After the pullback, a *year-end rally* should resume into the New Year. Meanwhile, **ECONOMIC DATA** is mixed with many *flawed INDICATORS* used by government bureaucrats. Nevertheless, **CONSUMER ACTIVITY** *significantly* picked up if we believe the data. The 0.8% rise in **OCT. RETAIL SALES** followed an upward reversed 1% jump in Sept., the biggest back-to-back *increase* since Mar./Apr.'14. Remember, one month is *not a trend* and we can't rule out *gimmicks* and reporting *shenanigans* that happened just in time for the Election.



Nevertheless, if true, momentum at the start of the quarter, with increasing **OPTIMISM**, bodes exceptionally well during the *holiday shopping season*, as household purchases account for nearly 70% of the **ECONOMY**. Also, after the **TRUMP VICTORY**, **THE UNIV. OF MICHIGAN'S EXPECTATIONS INDEX** jumped 8.4 pts. from Oct. to 55.2 in Nov., the biggest gain since Dec.'11. Americans are the most hopeful in more than a decade. For the first time since '06, 37% of **HOUSEHOLDS** reported that they expect their personal finances to improve in '17. The *eroding CONFIDENCE* and *uncertainty* caused by **OBAMA'S SOCIALISM** is *evaporating*, but we are a long way off from good fortunes. **ECONOMIC WEAKNESS** *plagues* the nation with **GLOBAL DEFLATION** still having the upper hand. **JOB GROWTH** during



the past 3-mos. is running below average and remains in a **DOWNTREND** with no *sustainable reversal*. The **INTERNATIONAL ENERGY AGENCY** forecasted *demand* for **CRUDE** was overly **OPTIMISTIC** as **CHINA** and **INDIA'S ECONOMIES** further weakened. **OIL** remains in a **DOWNTREND** after putting in a **DOUBLE TOP** with a target back into the \$26.00 area. Likewise, **GOLD** and **SILVER** *collapsed*. **GOLD** closing below 1200 makes way for a test of its prior low of 1045.40, and if **SILVER** closes below 15.83, look for it to test its prior low at 13.62, while **KING \$**, after a pullback, continues to soar to its best level in nearly 14-yrs. in anticipation of fiscal spending and **TAX CUTS** that will spur **GROWTH**.