

The KonLin Letter^{TKL}

Technical & Fundamental Analysis.
Market Timing.

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Low-Priced Stocks

May 30, 2017

LOFTY MARKET LEVEL UNSUSTAINABLE

ECONOMIC and **POLITICAL** conditions *urge CAUTION* for the next 3-6 mos. **GLOBAL ECONOMICS** have *risk* coming from every direction. The **CHINA CAIXIN MANUFACTURING PURCHASING MANAGERS INDEX** fell in Apr. to 50.3, *significantly* below March's 51.2 reading. Weakness was across the board, signaling *slower GROWTH MOMENTUM*.

Worse, **MOODY'S downgrade** of **CHINA'S CREDIT RATING** from Aa3 to A1 was long overdue! Not since '89, when the Berlin Wall was *collapsing*, has **MOODY'S** issued a **CHINESE** downgrade. The trouble in **CHINA** is much *deeper* than **MOODY'S** lets on with *multiple BUBBLES* all getting ready to **BURST**.

PRES. TRUMP is fighting fires **WORLDWIDE** from *fake news* to even some of his own party *undermining* him with the **DEEP STATE** as the **U.S. ECONOMY deteriorates** further. Unfortunately, the **STOCK MARKET** and **ECONOMIC OUTLOOK** were *buoyed* by *huge OPTIMISTIC EXPECTATIONS*, thinking Congress would *immediately* approve **TRUMP'S** campaign promise of **TAX-CUTS** from 35% to 15%, with **REGULATION REFORM** and \$1 tril. in **INFRASTRUCTURE SPENDING**, which has kept the **MARKET** at *unsustainable lofty levels*.

This month, the **MAJOR INDEXES** *suffered* their worst loss in 8-mos. as NYS Senator Schumer's *avenging* band of *radical liberal* Democrats kept the White House under *siege*, causing one crisis after another, together with the *outrageous* televised screaming by a *vengeful* liberal media anchor trying to further *impede TRUMP'S GROWTH PROGRAM*. Also, the **FED** Chief's *intent* of hiking **INTEREST RATES** and *shrinking* its balance sheet and the **FRENCH PRESIDENTIAL ELECTION** sent the **DJIA** *plunging* 372.82 pts., with the **S&P 500 INDEX** *sinking* more than 43 pts., the *worst, broadest* one-day sell-off since last Sept. The next day, both **INDEXES** dipped further, with the **DJIA** bottoming at 20553.45 and the **S&P 500 INDEX** at 2352.72, with **VIX** (Fig.1), "*the fear gauge*," hitting a high of 16.3 then *free-falling* to an intraday low of 9.65, just above its prior low of 9.56 this month and the *historical low* of 9.39 not seen since Nov.'06's **BEAR SIGNAL...DANGEROUS COMPLACENCY!**

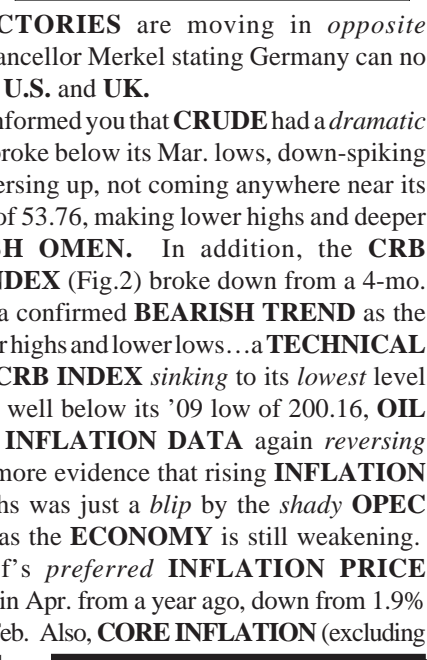
VOLATILITY evaporated from **U.S. EQUITY** and **BOND MARKETS** this month after **MACRON'S** decisive triumph over the **ANTI-EURO** Le Pen caused the *populist wave* that rolled investor's western democracies during the

prior year to come *crashing down*. The **VOLATILITY BELL** is ringing, but no one seems to care. The **STOCK MARKET forges** ahead, but **AMERICA** and **EUROPE'S POPULIST**

POLITICAL VICTORIES are moving in *opposite directions*, with Chancellor Merkel stating Germany can no longer count on the **U.S.** and **UK**.

Last month, we informed you that **CRUDE** had a *dramatic reversal* and since broke below its Mar. lows, down-spiking to 43.76 before reversing up, not coming anywhere near its *previous* Apr. high of 53.76, making lower highs and deeper lows...a **BEARISH OMEN**. In addition, the **CRB COMMODITY INDEX** (Fig.2) broke down from a 4-mo. top and remains in a confirmed **BEARISH TREND** as the **INDEX** makes lower highs and lower lows...a **TECHNICAL DISASTER**. The **CRB INDEX** *sinking* to its *lowest* level of 176.68 this year, well below its '09 low of 200.16, **OIL** *sliding* lower and **INFLATION DATA** again *reversing sharply* lower, are more evidence that rising **INFLATION** over the past months was just a *blip* by the *shady* **OPEC OIL manipulators** as the **ECONOMY** is still weakening.

The **FED** Chief's *preferred* **INFLATION PRICE GAUGE** rose 1.7% in Apr. from a year ago, down from 1.9% in Mar. and 2.1% in Feb. Also, **CORE INFLATION** (excluding volatile **OIL** and **FOOD** costs) slowed to its *weakest* annual pace since '15. As **TKL** has repeatedly explained since last year, **OPEC'S** cut in **CRUDE OUTPUT** does not *guarantee* higher prices or **INFLATION**. Obama warned Americans to conserve stating, "We can't *drill* our way out of the problem." **TKL** stated that's exactly what needs to (continued on page 6)

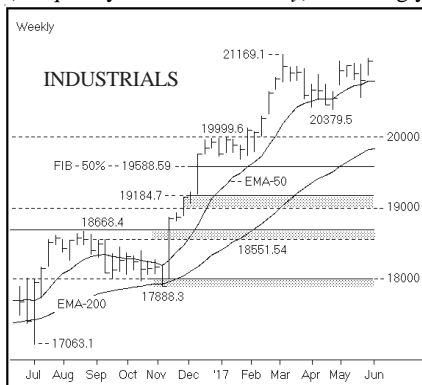


The KonLin Letter^{TKL}

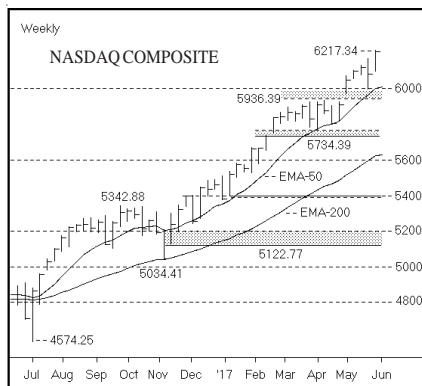
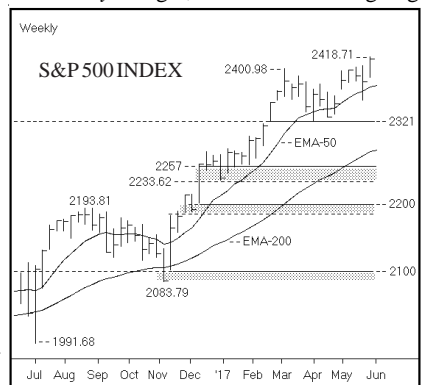
TECHNICAL REVIEW

May 30, 2017

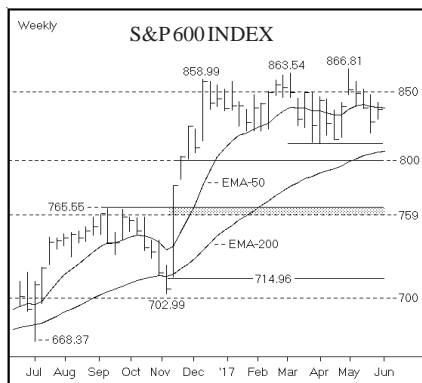
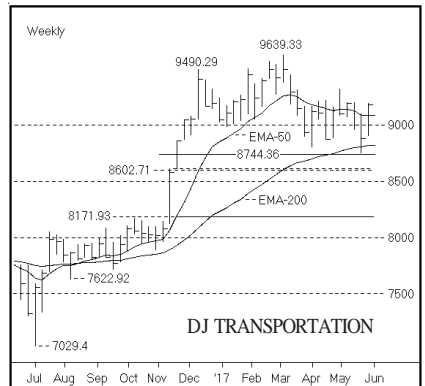
(continued from page 1) be done—unleash the *free-market enterprise*. Just like **PEAK OIL** it was nothing more than *controlling supply*, causing the **biggest MIDDLE CLASS rip-off**, as the *Washington elites*, with the **DEEP STATE** (while lining their pockets), *guaranteed* the **OPEC CARTEL** dominance and more **INFLATION** for Americans. For decades, **TKL** advocated to drill and increase supply; there was no **“PEAK OIL!”** **PRES. TRUMP** promising *more exploration* on federal lands and letting **U.S. PRODUCERS** sell their product *overseas*, while **U.S. FRACKING** (that Obama tried to stop) *exploded*, producing *more* than half of all the **U.S. OIL** in the market, with **PRODUCTION** of 9.3 BPD. A vast new supply of **CRUDE** from American **FRACKERS** keeps **OIL INVENTORIES** from falling. The only thing that will drop will be the price of **OIL**, which is **DEFLATIONARY!** **TKL** has been on record that **CRUDE** would have a test of its Feb. 12, '16 low of 26.05. I still believe support in the 42-43 area will be taken out, and if the 39.17 low is *undercut*, we could even see the '06 low breached, confirming **DEVASTATING DEFLATION** increasing, which should be of major concern—**HEED THE TECHNICALS!** Furthermore, investors' *serenity* in the **STOCK MARKET** is *alarming*, especially when you factor in the **COMMODITIES' BEARISH** reversal and the **FED** Chief *acknowledging* **ECONOMIC weakness** (but quickly states it's *transitory*). Amazingly, **ECONOMIC GROWTH** for Q1'17 was *found* to be a *bit* stronger than *initially* thought, and with *revisions* going



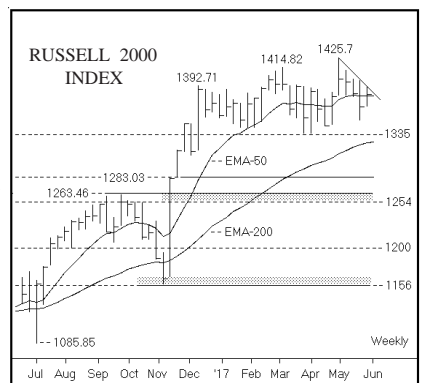
back a year, the **ECONOMY** still grew at a *seasonally* adjusted *pathetic* 1.2% for Q1. With a population of nearly 320 mil. people this is an *overwhelming shameful disaster*. Now the bureaucrats *admit* **U.S. GROWTH** has averaged 2.1% a year since the **GREAT RECESSION** ended in mid-'09. Like **TKL** stated for years, it was the worst **GROWTH** since the **GREAT DEPRESSION**, and during **OBAMA'S** 8-yrs. in the White House, he never once achieved 3% annual **GROWTH** and the **RECOVERY** never entered the **EXPANSION PHASE!** Remember, the **FED'S EMPLOYMENT DATA** is *skewed* with a starting upward bias and their *revisions* are based initially on *false assumptions*, gimmicks and all kinds of seasonal tendencies and reporting shenanigans to increase **HEADLINE GROWTH**. The **DEEP STATE** with Washington's political and power elites on both sides of the aisle create the *illusion* of **ECONOMIC STRENGTH**, so they continue to prosper as the **MIDDLE CLASS** suffers. Now the **FED** and some Washington elites who are part of the *“shadow government”* want you to think the *uninspiring* **ECONOMIC GROWTH** will jump because of the *huge CONFIDENCE* for **TRUMP'S GROWTH POLICIES** without any of these **FISCAL POLICIES** ever being *implemented*.



TRUMP'S ELECTION VICTORY sent the **STOCK MARKET** *skyrocketing*, adding a *whopping* \$1.5 tril. since Nov. 8th—one of the *mega valuation* rises in history and is totally *unsustainable* in an ailing **NON-GROWTH ECONOMY**. Each month another *key indicator* points to **RECESSION**. Americans aren't *SPENDING* more, they are **BORROWING** more—increasing **DEBT!** Total **CONSUMER DEBT** for Q1'17 (includes **STUDENT LOANS, AUTO SUBPRIME LOANS, CREDIT CARDS** and **MORTGAGES**) *jumped* to \$12.7 tril., the *biggest* amount just before the '08 **FINANCIAL MELTDOWN**. The Republican-controlled Congress should stay *focused* on legislative priorities. Speaker Paul Ryan (R-Wis.) *misled* **PRES. TRUMP** in replacing **OBAMACARE** instead of the **TAX CUTS** being first. This month investors were *spooked* by the *steepest* sell-off in the domestic **SMALL-CAP ARENA** since just before **TRUMP'S** upset election win. They pulled out \$3.5 bil. from the *largest* exchange traded **FUND** that tracks the **RUSSELL 2000 SMALL-CAP INDEX (RUT)**. It was the *biggest* **OUTFLOW** in 10-yrs. coming less than a month after **SMALL-CAPS** soared to an *all-time record high* on speculation that **TRUMP'S PRO-GROWTH POLICIES** would *supercharge* **GROWTH** in the world's *largest* **ECONOMY**.



However, the *sell-off* in the **LOW-PRICED SECTOR** is an indication of a possible *protracted* **downturn**. In addition, the **S&P 500 INDEX** (strong support at 2083.79) and the **NASDAQ COMPOSITE** made *marginally* *all-time record highs* this month while the **DJIA** (major support at 18000) and **DJTA** did not succeed



in breaking above their March *record highs*. The lagging **S&P 600** and **RUT**, after making new *all-time highs* in Apr., turned down *sharply* as we write, falling through their respective **50-DAY MAs**, with strong support at 785, a 50% **FIBONACCI RETRACEMENT** and 1254 respectively. If these support levels are *undercut* with the **DJTA** falling through 8744.36 support with a *break* below the 8603 level, it would be of *serious concern* and *panic* could set in. Heed the **TECHNICAL WARNING** until it is apparently *“crystal”-clear* that **TRUMP'S GROWTH PROPOSALS** have the congressional support needed to become law! The *overwhelming* wave of **BULLISH SENTIMENT** in the **STOCK MARKET** stands in *contradiction* to **ECONOMIC REALITY**.