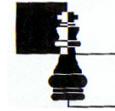


The King Report

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“Independent View of the News”

Due to an economy that is clearly faltering, the Fed decided to NOT taper QE.

In its Statement of Economic Projections (SEP), the Fed downgraded its economic outlook. The Fed reduced its GDP estimate to 2.0%-2.3% from 2.3-2.6% . Street GDP estimates are sub 2%.

Ben sees economic headwinds prevailing through 2016. There is no other spin. The US economy is teetering; consumers are still suffering; so the Fed will maintain QE even though it is ineffective.

The Fed’s thinking is: QE is ineffective but the economy would be worse without it.

The Fed has explicitly indicated that even an insignificant \$10B to \$15B of tapering could torpedo the economy. The Fed will tolerate bubbles but not an economic contraction because of the dreaded debt deflation that will inevitably occur at some point.

Ben and his academic tools at the Fed are trying, again, to lower long-term rates in yet another attempt to stimulate housing and borrowing. But who hasn’t refinanced at much lower rates.

Unless they are totally ignorant, Fed officials know they are fomenting bubbles and irrational exuberance while robbing consumers to fund big banks and speculators. The Fed fears that the economy is so fragile that an insignificant tapering could generate a negative psychological effect that could kill the economy.

The academics running the Fed do not realize or cannot admit that their financial repression is a principal drag on the organic economy. Redistributing income & wealth from the masses to the few harms the many while benefiting the few.

By not tapering, the Fed has ceded control and influence over the markets and economy. The Fed, like a meek parent, threatened to apply discipline but then it failed to act. Ergo, it will be increasing difficult for the Fed to moderate unacceptable market behavior in the future. The Fed has lost credibility in regard to not only tightening but even moderation.

Stocks will now diverge even further from the real economy. The US’s wealth & income gap, already at a record, will widen.

The WSJ’s David Wessel: *Bernanke on surprising market with no taper today: "We can't let market expectations dictate our policy actions."* [We must throw the BS-flag on Ben for that whopper.]

Bernanke: We should be very reluctant to raise rates if inflation remains persistently below target. We haven't seen any inflation

The Fed continues to press the losing bet on its 5-year old easy credit scheme that is harming average Americans; and it continues to enable our duly elected to shirk their fiscal responsibilities.

Here’s another economic basic that Ivy League academics fail to understand: CPI of 1.5% to 2%, let alone the much higher real inflation rate, crushes average Americans that have stagnant or falling wages.

Lower wages should induce lower prices until equilibrium occurs. However, the megalomaniacs that believe that they are smart enough to centrally plan the entire economy believe that they can usurp the laws of nature. But Mother Nature always and everywhere exerts itself. It's only a question of when.

As we mentioned above, **stocks will now diverge even further from the economy. This is the most dangerous condition that can exist for stocks – rallying on easy money while the economy recedes.**

The third peak of 'The Three Little Indians' topping pattern is now being formed. Stocks could go parabolic for some period of time. However, when a key support level or line is breached to the downside at some future time, stocks will implode unless the Fed or one of its stooges rescues the stock market.

Our best guess going forward:

- Bonds surged on short covering yesterday but they will be the first to retreat because after the initial sugar high from previous QEs, bonds have retreated. Furthermore **bond yields started to rise six weeks (yield low 5/2) before QE taper talk appeared at the June 18-19 FOMC.**
- Stocks will blowout to the upside in the coming weeks. IPOs and bond issuance will proliferate.
- Gold (+4% yesterday vs. stocks +1%) should outperform stocks over the next several weeks.

Here's another instance of Bernanke being ignorant or deceitful: *"I think there is a cyclical component to participation, and in that respect, the unemployment rate understates the amount of sort-of true unemployment, if you will, in the economy. But on the other hand, there's also a downward trend in participation in our economy, which is arising from factors that have been going on for some time, including an aging population, lower participation by prime-age males, fewer women in the labor force, other factors which aren't really related to this recession..."*

<http://www.reuters.com/article/2013/09/18/us-usa-fed-bernanke-idUSBRE98H0Z220130918>

Female employment is outpacing male employment and the biggest gains in employment are in the 55 year of age or higher demographic because Ben's financial repression is forcing them back to work.

In addition, the percentage of Americans in the labor force has dropped by about 0.3 percentage points and real wages have not grown, he [Ben] said. <http://www.latimes.com/business/money/la-fi-mo-federal-reserve-bernanke-tapering-20130918,0,5685386.story>

Another thing, the Fed obviously does not believe that the great PMIs are accurate.

Marc Faber: *The endgame is a total collapse, but from a higher diving board.*

The Fed has no endgame because the Fed fears that any downtick in the US economy could unleash the dreaded debt deflation. Ergo, the Fed's end game can only occur if the US somehow acquires a 50's or 80's economic environment. This type of economy would be the proverbial Six Sigma event. So, the Fed will remain in fixed markets, central planning mode. This will persist until the inevitable market revolt. Then the Fed as we know it will no longer exist.

Now that Syria, Summers and QE taper are no longer issues and relief rallies have occurred, the market can turn its fleeting attention to the fight over the US budget and the looming government shutdown.

GOP goes all-in on 'de-fund ObamaCare,' as shutdown looms

*GOP leaders unveiled their plan to members on Wednesday morning, teeing up a vote for Friday -- **the proposed bill would tie the vote to de-fund the health care law to a vote on a stopgap spending bill.** Current funding for the government is set to expire at the end of the month, and lawmakers must approve the stopgap bill in order to keep Washington open; conservatives see this as leverage to force a*

suspension of ObamaCare. "The law's a trainwreck," Boehner said of the Affordable Care Act. "It's time to protect American families from this unworkable law."...

Under the plan, funding the government would be conditional on de-funding ObamaCare. It is a concession to House conservatives as well as senators like Ted Cruz, R-Texas, and outside groups like the Heritage Foundation that have demanded Congress use the must-pass budget bill as leverage to derail the health care law...

<http://www.foxnews.com/politics/2013/09/18/gop-goes-all-in-on-de-fund-obamacare-as-shutdown-looms/>

ObamaCare 'defund' to get a vote

Leadership aides say that under the plan, the House would pass the defunding bill, sending it to the Democratic Senate where Majority Leader Harry Reid would likely strip out the provision, setting up a days-long procedural battle with conservatives, like Texas Sen. Ted Cruz. With a government shutdown just 12 days away, leaders in both parties are anxious. The best-case scenario for avoiding a shutdown looks to be a swift defeat in the Senate for the measure, beginning the process of building a bipartisan coalition in support of an emergency funding bill in the House...

<http://www.foxnews.com/politics/2013/09/18/obamacare-defund-to-get-vote/?intcmp=trending>

Equity traders are elated that the government shutdown issue has appeared because once that issue is resolved there can be yet another relief rally.

An astute client sent us this: "I love Obamacare because now I can get health care even though I am unemployed."

"Why are you unemployed?"

"I got laid off because my employer can't afford to pay for Obamacare." -- Brick

<http://sactodan.com/post/37259261330>

Housing starts and permits for August were less than forecast. Starts increased to an annualized rate of 891k; 917k was consensus. July was revised lower to 883k from 896k. Permits declined to 918k from 954k. 950k was consensus.

Housing completions increased 0.3% to 769k. Single-family home starts increased 7% to 628k; permits increased 3% to 769k. Multi-family housing starts, which have led home construction for the past few years, tanked 11.1%; permits tumbled 15.7%. The bloom appears to be over for multi-family starts.

Apparently Wells Fargo didn't get Ben's memo that no QE tapering will boost the housing market.

Wells Fargo cutting 1,800 jobs in mortgage business: report

<http://mobilebeta.reuters.com/wells-fargo-cutting-1800-jobs-in-mortgage-business>

White House Signals Yellen Will Be Nominee for Fed Chief

Outreach [AKA cave] to Senate Democrats Suggests Decision on Bernanke Successor Is Near

<http://online.wsj.com/article/SB10001424127887324492604579083582910497304.html>

David Stockman: Yellen Has No Clue How to Run Fed

They are stumbling into the endgame of this whole misbegotten spree of QE, ZIRP, and massive manipulation of financial markets. We are going to basically replace bubbles Ben with calamity Janet.

She has no clue how to wean Wall Street from the pathetic addiction to this massive stimulus, easy money that has been going on for the entire century. I backed that up because she has spent her whole

life as a monetary bureaucrat in the Fed system, and has no clue what honest capital and genuine free markets are about... <http://globaleconomicanalysis.blogspot.com/>

Today – Usually there is stock to buy near the close in anticipation of buyers on the NYSE open for expiration. Holders of expiry futures contracts buy stocks on the NYSE open to replace expired exposure. So traders tend to buy stocks in the afternoon before expiration to front-run the next day MOO buying.

Expected economic data: Initial Jobless Claims 330k, Continuing Claims 2.9m; Current Account Deficit \$97B; Philly Fed 10.3; Existing Homes Sales 5.25m; LEI 0.6%

You can't make up stuff like this! President Obama: *"Now, this debt ceiling -- I just want to remind people in case you haven't been keeping up -- **raising the debt ceiling, which has been done over a hundred times, does not increase our debt; it does not somehow promote profligacy.** All it does is it says you got to pay the bills that you've already racked up, Congress. It's a basic function of making sure that the full faith and credit of the United States is preserved...It's always a tough vote because the **average person thinks raising the debt ceiling must mean that we're running up our debt...**"*

The technicality in the above argument: When the US ignores the debt ceiling and incurs unauthorized, illegal debt above the ceiling, like now, the ceiling is raised to legally accommodate the debt.