

# The King Report

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“Independent View of the News”

**Today** – Traders will play for the expected Monday Merger Mania Rally but the perilous condition of global affairs can blindside speculators without notice. After expiration stocks tend to open soft and then rally on post-expiry position squaring. **The S&P 500 needs to stay above 1975.** A breach of this level could generate a test of the triple low near 1960.

We opined last week that stocks should make a short-term peak after expiration manipulation. After the expected Monday Merger Mania Rally, the odds favor a stock market retreat.

Netflix is expected to report 1.38. A \$1.00 - \$1.25B POMO is scheduled. Expected economic data: Chicago Fed National Activity Index 0.18

Stocks surged on Friday, despite horrid global tensions, for one reason: It was option expiration. Because the stock market has become unhinged with the economy and reality, traders rule the realm.

A summer Friday has high absenteeism and thin markets. So, a determined trader or two can push the stock market around with little resistance.

*The Dow is up 11 Fridays in a row, gaining 2.4% (of the Dow's total 2.7% gain since then).*

<http://www.zerohedge.com/news/2014-07-18/friday-new-tuesday>

Part of the recent propensity to rally on Friday is traders want to be long for the expected Monday Merger Mania Rally, no matter what is happening throughout the globe.

BN on Friday afternoon: **BREAKING: Espirito Santo International seeks protection from creditors Portugal's Banco Espirito Santo says it can't meet obligations, asks to be placed under 'controlled management'**

Gee, only a week or so ago, we were assured that Portugal's second largest bank had plenty of capital and there was nothing to worry about. Stocks zoomed after a modest dip on the initial reports of trouble.

Consumer Sentiment unexpectedly declined in July from to 81.3 from 82.5. 83.2 was expected. Current economic conditions rose to 97.1 from 96.6. 97.0 was expected. **Consumer expectations declined for the third straight month**, to 71.1 from 73.5. 74.0 was expected.

Over the past few years, we have noted that when consumer confidence surveys jump higher, it is usually due to a gain in expectations - hope for the future.

This has been the case for most of this year. Now, some consumers have tired of waiting for the much hyped and expected economic uptick.

ZeroHedge: **95% of the market rally in Q2 was due to multiple expansion: UBS** [Since January 1, 2013, 80% of the rally is due to multiple expansion.]

<http://www.zerohedge.com/news/2014-07-17/here-source-more-95-market-rally-q2>

## **IMF's Lagarde says financial markets 'perhaps too upbeat' on Europe**

Lagarde hammered the message home at a conference in Paris, saying: "The good news is that the European economy is recovering from the crisis. Confidence is improving and financial markets are upbeat. Perhaps too upbeat."...

<http://www.reuters.com/article/2014/07/18/us-eurozone-economy-imf-idUSKBN0FN14Z20140718>

Lagarde, who has been begging the ECB to do QE and beseeching the Fed to not hike rates, is suddenly a hawk on financial markets?!?! Sounds like CYA on bubbles time for Christine

## **How elite hackers (almost) stole the NASDAQ**

***Elite hackers used two zero-day exploits to penetrate world's #2 stock market.***

*In 2010, elite hackers, most likely from Russia, used at least two zero-day vulnerabilities to penetrate the computer network operated by Nasdaq Stock Market, a hack that allowed them to roam unmolested for months and plant destructive malware designed to cause disruptions, according to a media report published Thursday...*

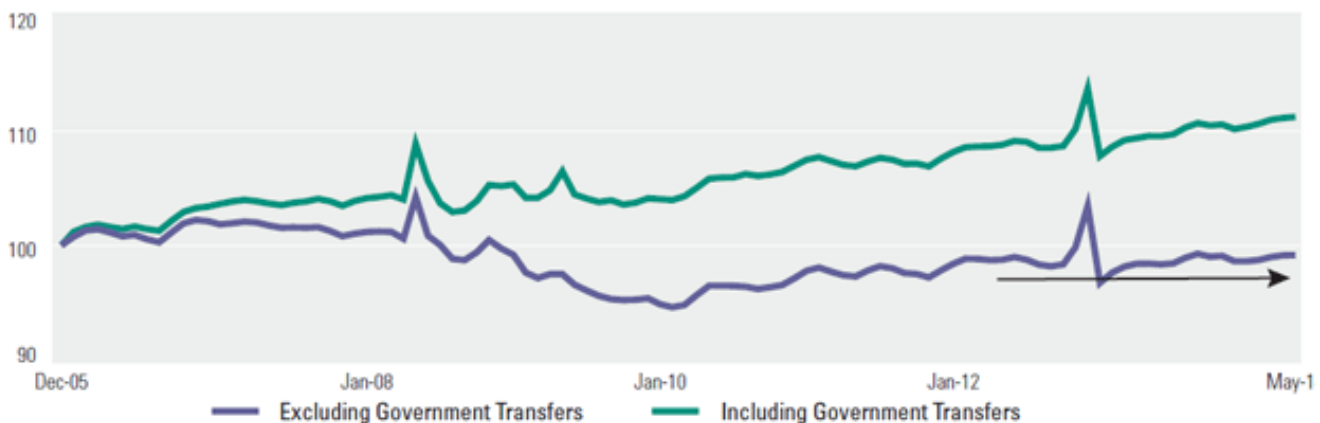
*"While the hack was successfully disrupted, it revealed how vulnerable financial exchanges—as well as banks, chemical refineries, water plants, and electric utilities—are to digital assault," Riley wrote of the 2010 campaign. "One official who experienced the event firsthand says he thought the attack would change everything, that it would force the US to get serious about preparing for a new era of conflict by computer. He was wrong."...*

<http://arstechnica.com/security/2014/07/how-elite-hackers-almost-stole-the-nasdaq/>

WSJ Business News: *The U.S. had 150 TV makers in the 1950s. Today, no one makes even TV components in the U.S.*

## **Eric Sprott: The Ongoing Rot in the Economy**

*As shown in Figure 1, real disposable income per capita in the U.S. has increased only modestly since the Great Recession. However, all of this increase is due to Government Transfers, not from an improvement in the real economy. If we exclude those transfers from the numbers, disposable income per capita is actually lower than it was at the end of 2005 and has been painfully flat since 2011. Also, those numbers assume that the headline Consumer Price Index accurately represents people's purchasing power...*



Source: Bureau of Economic Analysis, U.S. Census Bureau, Sprott Calculations

<http://www.sprott.com/markets-at-a-glance/the-ongoing-rot-in-the-economy/>

## **Fed Unveils a New Job-Market Index**

*So four Fed staff economists have come to the rescue with a new "labor markets conditions index" that uses a statistical model to summarize monthly changes in 19 labor-market into a single handy gauge...*

<http://blogs.wsj.com/economics/2014/07/16/fed-unveils-a-new-job-market-index/>

### **The Fed: Estimating the labor market conditions index**

*Table 1 lists the 19 indicators and provides some basic information about each indicator. All are measured at a monthly frequency and have been seasonally adjusted...*

<http://www.federalreserve.gov/econresdata/notes/feds-notes/2014/assessing-the-change-in-labor-market-conditions-20140522.html>

### **The St. Louis Fed: The Effects of Extending Unemployment Insurance Benefits**

*Canon and Liu found that an early expiration of the EUC program would have resulted in a drop of 0.03 to 0.05 percentage points in the observed unemployment rate in late 2013.*

*“We find that the extension of unemployment benefits affected the labor market status of long-term unemployed workers in late 2013. Without extended UI benefits, these unemployed workers would have been more likely to be employed, more likely to exit the labor force, and on average 1.9 percent less likely to remain unemployed in the following period.”*

<http://www.stlouisfed.org/on-the-economy/the-effects-of-extending-unemployment-insurance-benefits/>

### **Bank limits copper finance after ICBC moves to defer payment against LC**

*At least one western bank has stopped discount financing of copper into China after Industrial & Commercial Bank of China (ICBC) applied for the right not to settle a letter of credit...*

*...if the move was granted, it would be likely to leave its counterparties out of pocket, and would risk a renewed ratcheting-up of concerns about copper financing.* <http://www.metalbulletin.com/Article/3361067/Bank-limits-copper-finance-after-ICBC-moves-to-defer-payment-against-LC.html#ixzz37rL8EQEI>

### **In a Subprime Bubble for Used Cars, Borrowers Pay Sky-High Rates** [No bubble, right Janet?]

*Mr. Durham is one of millions of Americans with shoddy credit who are easily obtaining auto loans from used-car dealers...The surge in lending and the lack of caution resemble the frenzied subprime mortgage market before its implosion set off the 2008 financial crisis...*

*Many subprime auto lenders are loosening credit standards and focusing on the riskiest borrowers, according to the examination of documents and interviews with current and former executives from five large subprime auto lenders...Despite such warnings, the volume of total subprime auto loans increased roughly 15 percent, to \$145.6 billion, in the first three months of this year from a year earlier...*

[http://dealbook.nytimes.com/2014/07/19/in-a-subprime-bubble-for-used-cars-unfit-borrowers-pay-sky-high-rates/?\\_php=true&\\_type=blogs&smid=tw-share&r=0](http://dealbook.nytimes.com/2014/07/19/in-a-subprime-bubble-for-used-cars-unfit-borrowers-pay-sky-high-rates/?_php=true&_type=blogs&smid=tw-share&r=0)

### **How The Tax Code And Cheap Debt Fuel The Massive Stock Buyback Ponzi—\$7 Trillion Since 2001**

<http://davidstockmanscontracorner.com/how-the-tax-code-and-cheap-debt-fuel-the-massive-stock-buyback-ponzi-7-trillion-since-2001/>

IBM is the quintessential example of the share repurchase boom that will end in the not-too-distant future. IBM's erstwhile pristine balance sheet now teems with \$44B of debt while shares outstanding have fallen from 2.3B to less than one billion. Revenue has fallen for nine straight quarters. At some point, and that point is coming quickly, the ability to service debt will be an issue – and not just for IBM.

### **Flight MH17 and the new world disorder**

*The downing of the Malaysian passenger plane shows that the West is paying the price for its complacency, weakness and lack of leadership*

*As before the First World War, the centenary of which falls next month, there is a detectable sense of complacency among the coddled citizens of Europe and America...*

*When European foreign ministers meet in Brussels next week to discuss how far to take sanctions against Moscow, they cannot now say they haven't been warned.*

<http://www.telegraph.co.uk/news/worldnews/10976498/Flight-MH17-and-the-new-world-disorder.html>

Europe's big three issued an ultimatum to Putin - either allow unfettered access to the MH17 crash site or face tougher economic sanctions. Euro leaders are responding to furious anger from their subjects.

Israel's ground offensive in Gaza could be a necessary first step to prepare for an attack on Iran. Plus, in our uninformed view, the thousands of missiles that Hamas have fired into Israel generates intelligence on Israel's "Iron Dome" for Iran.

Utilizing a late Friday night news dump, Obama extended the Iran nuclear negotiations by four months and released \$2.8B to Iran. The latest appeasement thwarted bipartisan requests for added sanctions.

*"We can't let Iran buy more time to make a nuclear bomb," said Senator Mark S. Kirk, the Illinois Republican and the author, with Senator Robert Menendez of New Jersey, a Democrat, of one of the major efforts for additional sanctions... [http://www.nytimes.com/2014/07/20/world/middleeast/staying-the-course-on-iran-by-threatening-pain-and-offering-relief.html?\\_r=0](http://www.nytimes.com/2014/07/20/world/middleeast/staying-the-course-on-iran-by-threatening-pain-and-offering-relief.html?_r=0)*

Shannon Bream: *On @FoxNews @ANHQDC - @SenatorKirk says Iran \*will\* have a nuke weapon by Nov - finalize during this delay in talks*

### **Israel resigned to four more months in global diplomatic effort with Iran**

*Netanyahu prefers extension to bad deal... Israel would like to see a complete dismantlement of Iran's nuclear infrastructure. The US, alternatively, seeks a "significant reduction"...*

*Yet six months after negotiations began, on the day that a comprehensive solution was meant to be complete, Iran appears far from prepared to meet either of those standards... "The existential threat to Israel remains," one official noted.*

<http://www.jpost.com/Diplomacy-and-Politics/Israel-resigned-to-four-more-months-in-global-diplomatic-effort-with-Iran-363495>

### **Kerry Caught Mocking Israel on Hot Mic: 'It's a Hell of a Pinpoint Operation'**

*This isn't the first time Kerry has been caught criticizing Israel... in April on Kerry warning a closed-door meeting of world leaders that Israel could become an "apartheid state" soon if a peaceful, two-state solution wasn't reached... <http://freebeacon.com/national-security/kerry-caught-mocking-israel-on-hot-mic-its-a-hell-of-a-pinpoint-operation/>*

### **Obama to Netanyahu: U.S. seeks immediate cease-fire in Gaza**

<http://www.haaretz.com/news/diplomacy-defense/1.606129>

### **US Under Secretary of State apologizes after tweeting 'United For Gaza' hashtag**

<http://twitchy.com/2014/07/20/what-a-jackass-us-under-secretary-of-state-apologizes-after-tweeting-united-for-gaza-hashtag/>

Israeli officials cannot have much confidence in the US right now.

### **Putin Posied to Retaliate Against Obama by Trashing Iran Deal**

*On Thursday, Putin called President Obama to alert him a civilian jetliner had crashed over Eastern Even top Democrats in Congress are worried that the MH17 disaster and its effect on U.S.-Russian relations will harm the effort to strike a nuclear deal with Iran...*

<http://www.thedailybeast.com/articles/2014/07/18/putin-set-to-retaliate-against-obama-by-trashing-iran-deal.html>

### **Sen. Feinstein: The U.S. Is Now At Cold War Levels With Russia**

<http://www.nationaljournal.com/defense/sen-feinstein-the-u-s-is-now-at-cold-war-levels-with-russia-20140720>

*The LA Times (January 22, 2009): Indeed, at least in domestic policy, Obama clearly intends to be the anti-Reagan... <http://www.latimes.com/news/opinion/opinionla/la-oe-bunch22-2009jan22-story.html>*

Obama is also undoing Reagan's ending of the cold war and other foreign policy accomplishments.

This week is a time of great division in the US because many Americans believe that life begins with the conception of NFL training camps.