

# The King Report

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“Independent View of the News”

## **Federal Reserve Signals Intent to Pressure Largest Banks to Slim Down**

*Daniel K. Tarullo, the Fed governor who oversees regulatory policies, signaled the central bank's intent in testimony that he is scheduled to give before the Senate Banking Committee on Tuesday. In particular, Mr. Tarullo said that the Fed would propose special capital requirements for the largest banks that will be even higher than those demanded under international banking regulations.*

*“We intend to improve the resiliency of these firms,” Mr. Tarullo said. “This measure might also create incentives for them to reduce their systemic footprint and risk profile.” ...*

<http://dealbook.nytimes.com/2014/09/08/federal-reserve-signals-intent-to-pressure-largest-banks-to-slim-down/?ref=business&module=Ribbon&version=context&region=Header&action=click&contentCollection=Business%20Day&pgtype=Blogs>

## **McDonald's August Sales Metric Hurt by China Scandal**

*... global sales figure fell 3.7 percent in August... [http://www.nbcchicago.com/blogs/inc-well/McDonalds-August-Sales-Metric-Hurt-by-China-Scandal-274474941.html?\\_osource=SocialFlowFB\\_CHBrand](http://www.nbcchicago.com/blogs/inc-well/McDonalds-August-Sales-Metric-Hurt-by-China-Scandal-274474941.html?_osource=SocialFlowFB_CHBrand)*

The above stories were the impetus behind the spirited Tuesday morning decline in stocks.

Stocks rallied briskly on light volume at midday due to hoopla over Apples' iPhone 6, and to a lesser degree, its iWatch. Apple jumped 4%, which induced traders to buy trading sardines, which induced other traders to buy SPUs and stocks. <http://www.foxnews.com/tech/2014/09/09/new-larger-iphones-unveiled/>

But as we warned in Tuesday's missive, the pattern for the past few years is for traders to buy Apple before the product event and then to sell after the product is presented in all its glory.

Apple coughed up half of its rally just after the glowing reports on its new gadgets appeared. Within an hour of its peak, Apple rescinded its entire rally. Reportedly the iWatch would not be ready until after Christmas. Traders sold SPUs and stocks in sympathy.

Telegraph: *Apple Watch priced from \$349 (ouch) available early 2015. "Worth the wait" says Tim Cook:* <http://fw.to/wMinbKj>

CNET's Tim Stevens: *No mention of Apple Watch battery life. Cook mentioned it's easy to charge at night. That implies charging EVERY night -- hopefully no more.*

Apple declined as much as 2.26% for the day; but a late rally, as usual, truncated the loss to .37.

The stock market is largely run on Game Theory. Most traders and operators understand that sophistry, shilling and stupidity rule the markets. But they buy, and once in a great while sell, in anticipation of what others perceive, whether it is right, wrong or impractical.

Keynes greatest achievement is not his *The General Theory of Employment, Interest and Money*. His crowning achievement is his observation that speculating in stocks is like picking the winner of a beauty contest. It doesn't matter who you think is the most beautiful; it matters who the majority of the judges

think is the most beautiful. So you have to pick who you think the majority of judges will deem as the most beautiful.

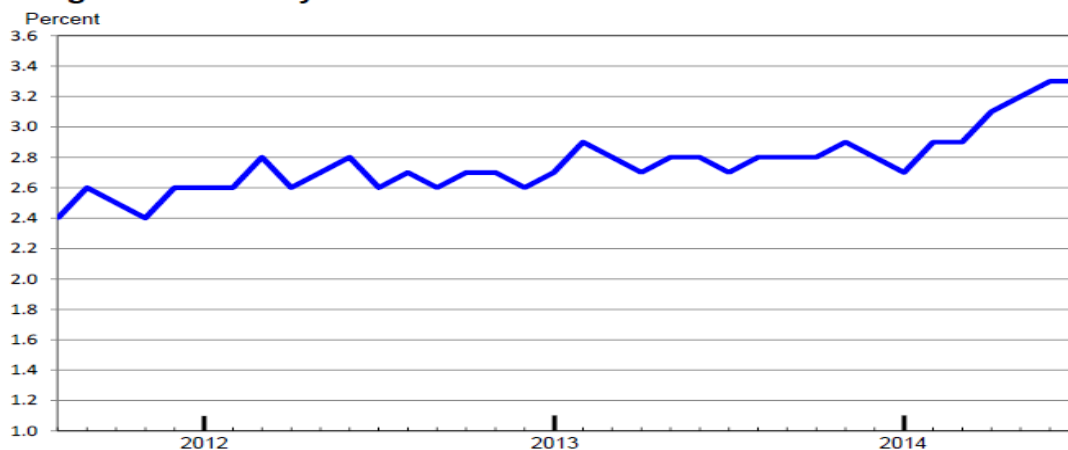
The vast majority of traders and operators now believe that given any excuse to buy SPUs or stocks, no matter how flimsy or ridiculous the rationalization, one should buy something ASAP.

#### The BLS: **JOB OPENINGS AND LABOR TURNOVER – JULY 2014**

*There were 4.7 million job openings [13-year high] on the last business day of July, little changed from June, the U.S. Bureau of Labor Statistics reported today. The hires rate (3.5 percent) and the separations rate (3.3 percent) were unchanged in July. Within separations, the quits rate (1.8 percent) and the layoffs and discharges rate (1.2 percent) were unchanged...*

*Although the number of total nonfarm job openings was little changed in July, there were 799,000 more job openings in July than in January 2014. The largest increases since January were in retail trade, professional and business services, and health care and social assistance...*

**Chart 1. Job openings rate, seasonally adjusted, August 2011 - July 2014**



<http://www.bls.gov/news.release/pdf/jolts.pdf>

The BLS: *Average expenditures per consumer unit in 2013 were \$51,100, little changed from 2012 levels, the U.S. Bureau of Labor Statistics reported today. In 2013 spending decreased 0.7 percent during the same period that the Consumer Price Index (CPI-U) increased 1.5 percent. In 2012 spending had increased 3.5 percent, outpacing the increase in prices. In 2013 average income per consumer unit edged down from 2012... [Biggest increases were healthcare insurance and autos.]*

<http://www.bls.gov/news.release/pdf/cesan.pdf>

If consumer spending declined 0.7% in 2013 while CPI increased 1.5%, how accurate was GDP in 2013?

The above metric, reported by the BLS yesterday, illustrates that US economic data doesn't make sense and conflicts with other data. It also underscores the fact that despite decades of pretention, economics is pseudo-science at best.

Charlie Bilello: *The last 10 trading days have been among the least volatile periods in the past 15 years*

#### **Why this stock market will never go down**

*The market has shrugged off multiple geopolitical problems, low market volume, trillions of dollars of debt, sky-high sentiment, extreme P/E ratios for many high-flying stocks, and dozens of other red flags. Yawn. The only gorilla in the room that matters is the Fed...*

Unfortunately for soul-searching bears, the Fed trumps all. As long as new money flows into stocks, interest rates are low, and the market keeps going up, why worry?

<http://www.marketwatch.com/story/why-this-stock-market-will-never-go-down-2014-09-09>

### **Morning MoneyBeat: Bears Capitulate**

*Bears are becoming an endangered species on Wall Street, a development that should give investors some pause... "Sentiment has reached an extreme," ... "The history of sentiment reminds us that it's more dangerous to have an evaporation of bears compared to a plethora of bulls," Mr. O'Hara said...*

<http://blogs.wsj.com/moneybeat/2014/09/09/morning-moneybeat-bears-capitulate/>

### **GE Exits Kitchen, Narrows Its Focus**

#### **Credit, Industry Left After Appliance Sale**

*Increasingly, the company founded by Thomas Edison is again an energy company.*

*Mr. Immelt has spent around \$14 billion buying oil-and-gas service companies over the past several years. Energy and related activities last year accounted for about one-third of the company's revenue and more than 40% of operating profit.*

*The company also remains a big bank, with GE Capital accounting for about one-third of its revenue and around half its profit. It is also a leading maker of aircraft engines and medical devices like CT scanners... GE now aims to reap 75% of its earnings from industrial businesses by 2016. In recent years, the company has relied on its finance arm, GE Capital, for roughly half its profit...*

<http://online.wsj.com/articles/appliances-sale-shifts-ge-further-away-from-consumers-1410197984>

### **Federal Reserve Bulletin: Changes in U.S. Family Finances from 2010 to 2013: Evidence from the Survey of Consumer Finances**

- *Between 2010 and 2013, mean (overall average) family income rose 4 percent in real terms, but median income fell 5%, consistent with increasing income concentration during this period...*
- *Families at the bottom of the income distribution saw continued substantial declines in average real incomes between 2010 and 2013, continuing the trend observed between...2007 and 2010...*
- *Ownership rates of housing and businesses fell substantially between 2010 and 2013.*
- ***Retirement plan participation in 2013 continued on the downward trajectory*** observed between the 2007 and 2010 surveys for families in the bottom half of the income distribution.
- *Participation rebounded slightly for upper-middle income families, but it did not move back to the levels observed in 2007...*
- ***The fraction of families that owned a privately held business fell 1.6 percentage points*** between 2010 and 2013, to 11.7 percent (figure A).<sup>1</sup> *This level is the lowest ever recorded in the Survey of Consumer Finances, dating back to the 1989 survey... [This is very bad news for America.]*

<http://www.federalreserve.gov/pubs/bulletin/2014/pdf/scf14.pdf>

### **Investors, be warned: Scottish independence would be highly contagious**

***The Catalans and Basques will be watching carefully; and further afield, separatists in Flanders, northern Italy and elsewhere will be jumping up and down with joy if Scotland votes for independence***

*My own guess is that if Scotland goes, Spain will break up and so will Belgium – Italy is less likely to follow suit but one never knows, especially given its never-ending economic stagnation and debilitated political system...*

<http://www.telegraph.co.uk/finance/economics/11083203/Investors-be-warned-Scottish-independence-would-be-highly-contagious.html>

The growing global fervor of nationalism is threatening to upend the supra-government and One World government desires of the elites.

**Today** – Stocks appear to be exhausted. There is no expected goods news, like Draghi or Apple, in the known universe for now. There are no key numbers for traders to shoot for in regard to major stock indices. Bullish sentiment is extreme. There are too many negatives, particularly geological problems, to contemplate. The odds favor the downside in the short term. A \$0.35 - \$0.45B POMO is scheduled. The POMO rally – European close window could contain today's stock market high... President Obama will deliver his plan to vanquish ISIS tonight... July Wholesale inventories are expected to be +0.5% m/m.

### **EU 'radio silence' over Italy migrant crisis**

*So far this year the Italian government has saved more than 106,000 boat migrants, as part of its "Mare Nostrum" ("Our Sea") operation, costing the country millions of euros every month... Last year 26 percent of boat migrants to Italy were Syrians or Palestinians from Syria...*

<http://www.thelocal.it/20140909/eu-radio-silence-over-italy-migrant-crisis-report>

### **Mob Rule Economics** by Thomas Sowell

*While we talk about democracy and equal rights, we seem increasingly to let both private and government decisions be determined by mob rule. There is nothing democratic about mob rule. It means that some people's votes are to be overruled by other people's disruptions, harassments and threats.*

*The latest examples are the mobs in the streets in cities across the country, demanding that employers pay a minimum wage of \$15 an hour, or else that the government makes them do so by law...*

*In 1948, the year I left home, the unemployment rate among black 16-year-olds and 17-year-olds was 9.4 percent, slightly lower than that for white kids the same ages, which was 10.2 percent.*

*Over the decades since then, we have gotten used to unemployment rates among black teenagers being over 30 percent, 40 percent or in some years even 50 percent...*

*Life was tough when all I could get were low-paying jobs. But it would have been a lot tougher if I couldn't get any job at all. And a tough life made me go get some skills and knowledge.*

<http://jewishworldreview.com/cols/sowell090914.php3>

*"The welfare state is not really about the welfare of the masses. It is about the egos of the elites."*

Thomas Sowell

### **Congress Approval Sits at 14% Two Months Before Elections** [Gallup]

*Lowest approval in fall before an election since 1974*

<http://www.gallup.com/poll/175676/congress-approval-sits-two-months-elections.aspx>

### **Harry Reid is the Democrat EVERY Republican is running against this fall**

*Republicans are hoping that the ill will toward Mr. Reid can tilt the playing field against Democrats in much the same fashion that they tried to use against then-House Speaker Nancy Pelosi in the 2010 elections, when the GOP flipped control of the lower chamber...*

<http://www.washingtontimes.com/news/2014/sep/8/gop-dubs-sen-harry-reid-king-of-gridlock-driver-of/>

### **Obama Hits a New Low for Leadership, With Criticism on ISIS & Immigration Alike**

*ABC News/Washington Post poll... With the midterm elections looming, Americans by a 10-point margin, 52-42 percent, see his presidency more as a failure than a success.*

*Just 38 percent now approve of Obama's handling of international affairs, down 8 percentage points since July to a career low; 56 percent disapprove, a majority for the first time. Fifty-two percent say he's been too cautious in dealing with Islamic insurgents in Iraq and Syria. And the public is ahead of Obama in support for a military response to that crisis, with 65% in favor of extending U.S. air strikes to Syria...*

<http://abcnews.go.com/blogs/politics/2014/09/obama-hits-a-new-low-for-leadership-with-criticism-on-isis-immigration-alike/>

John Nolte: *Media's gunna hound NFL, Goodell nonstop. Same media that doesn't give a s--- about the IRS, Benghazi.*