



Yesterday, the President stated:

*"If I ever got impeached, I think the market would crash. I think everybody would be very poor. Because without this thinking, you would see, you would see numbers that you wouldn't believe in reverse."•*

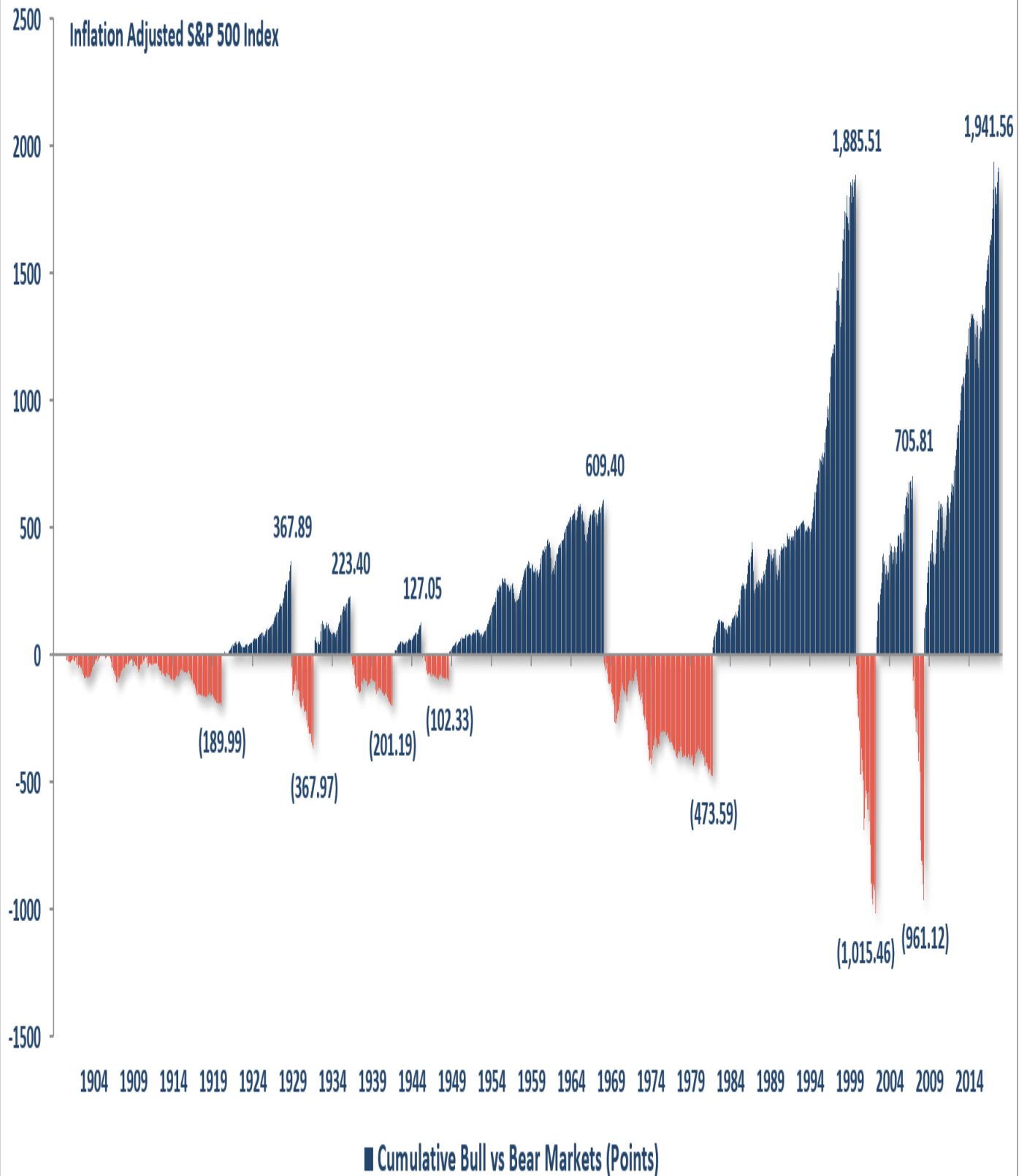
It is an interesting statement because there has been little to seemingly deter the bullish momentum of the market. Trade wars, tariffs, geopolitical stresses, a stronger dollar, and tighter monetary policy have all been quickly dismissed in exchange for hopes that corporate earnings and profitability will continue to accelerate into the future. Even as I write this note this morning, the market is opening higher in the attempt to push the S&P 500 to "all-time" highs despite the fact the recent rally over the past week was attributed to "trade resolutions" with China which completely [fell apart overnight](#).

*"When reports emerged last week of a low-level Chinese delegation coming to meet with members of the Treasury department ahead of what the WSJ described would be a November trade summit in the US, stocks spiked and yields ran up (they have since tumbled with the 2s10s yield curve collapsing to just 20 basis points) on hopes that the long-running trade feud between the US and China may finally be coming to an end. The skeptics were right because, after the conclusion on Thursday of the second day of the closely watched trade talks between the U.S. and China, **there was 'no major progress' according to Bloomberg, with the stage once again set for further escalation of the trade war between the US and China.**"*

As you know, I was one of those skeptics. Despite the headline rhetoric, the drive of the market is simply the momentum chase or more commonly known as the *"Fear Of Missing Out (FOMO)"*. •The momentum push is historically the last stage of a bull market cycle and is very difficult to stop. It is at this point in the cycle where *"everything is as good as it can get,"* literally. Confidence is at a peak, earnings and profitability are expanding and economic data is optimistic. Such provides the support to discount overvaluation•and investment related risk. But as penned last week:

***? 'Record levels'? •of anything are 'records for a reason.' When a 'record level' •is reached it is NOT THE BEGINNING, but rather an indication of the PEAK of a cycle.***  
•Records, while they are often broken, are often only breached by a small amount, rather than a great stretch. While the media has focused on record low unemployment, record stock market levels, and record confidence as signs of an ongoing economic recovery, history suggests caution. **For investors, everything is always at its best at the end of a cycle rather than the beginning."**

# Cumulative Bull vs Bear Markets (Points)



But the cracks are already starting to appear as underlying economic data is beginning to show weakness. While the economy grinds higher over the last few quarters, it was more of the residual effects from the series of natural disasters in 2017 than "Trumponomics" at work. **The "pull forward" of demand is already beginning to fade as the frenzy of activity culminated in Q2 of 2018.** For the stock market, an impeachment process, which is a very low probability event, is likely

the least of concerns over the next 9-12 months. What will matter to investors, in my opinion, are three things:

- *The Fed*
- *China*
- *The 2nd Derivative*

The Fed is important as they continue to hike rates which is already impacting, as we [discussed yesterday](#), some of the more economically sensitive areas of the market. China matters because they are a major trading partner with the U.S. and the potentially negative impact on corporate earnings from trade, tariffs, and a stronger dollar should not be quickly dismissed. While those things may not be immediately noticeable, even though they have been mentioned in recent corporate earnings reports, **the longer they persist, the more they will matter.** Lastly, the annual rate of change in earnings and economic data will begin to weaken as the year-over-year comparisons become much more difficult. Importantly, the explosive earnings growth in earnings this year, due to a lowered tax rate, has been key to supporting higher stock prices. **That growth rate is set to slow markedly beginning in Q3 as the "tax rate effect" is absorbed and discounted.** As far as the political backdrop goes, the biggest risk is the upcoming mid-term elections. If the House and/or Senate falls to the Democrats, the inability to push forward, or even the potential reversal of, any of the "Trumponomic" agenda will likely be much more unsettling for the markets in the short-term. Nonetheless, the trend and momentum remains bullish, and bullish sentiment is an extremely hard thing to turn. But it will eventually turn. The only question is what causes it? There are certainly plenty of reasons for investors to be concerned, however, none of those "reasons" have seemed to matter so far. **Most likely, the one that does is likely the one we aren't even talking about yet.** Just something to think about as you catch up on your weekend reading list.

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## Economy & Fed

- **Student Loans Are Starting To Bite The Economy** [by Danielle DiMartino-Booth via Bloomberg](#)
  - **Jackson Hole Guards The Secrets Of The Temple** [by Caroline Baum via MarketWatch](#)
  - **US Overdue For Another Economic Disaster** [by George Will via National Review](#)
  - **Deficits Are Putting American On Path Fiscal Ruin** [by Stan Collender via USA Today](#)
  - **CBO's Long-Term View Is Dire** [by Maya McGuinness via CNN](#)
  - **Will Is Wrong About The Economy** [by David Bahnsen via National Review](#)
  - **Why Prosperity Has Increased, But Not Happiness** [by Jonathan Rauch via NYT](#)
  - **Bostic Throws Down The Gauntlet** [by Tim Duy via Fed Watch](#)
  - **The Fed Is About To Make A Mistake** [by Jim Bianco and Ben Breitholtz via Bloomberg](#)
  - **Fed Concerned About Downside Risk Of Tariffs** [by Mike "Mish" Shedlock via TheMaven](#)
  - **The US Economy And Mid-Term Elections** [by Michael Boskin via Project Syndicate](#)
  - **An Even Bigger China Shock** [by Scott Sumner via The Hill](#)
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## Markets

- **US Bank Profits Hit Record Of \$60 Billion In Q2** [by Tyler Durden via Zerohedge](#)
- **The Bull Market That Wouldn't Die** [by IBD](#)
- **Timing The Stock Market Is Tough, Or Is It?** [by Shawn Langlois via MarketWatch](#)
- **Global Liquidity Is Drying Up** [by Colby Smith via FT](#)

- **Historic Bull Market Could Run Another Year** [by Howard Gold via MarketWatch](#)
  - **New High In Stocks Brings Warning** [by Dana Lyons via The Lyons Share](#)
  - **A Brief History Of Bull Markets** [by Peter Eavis via NYT](#)
  - **Recession Signals From The Bond Market** [by Simon Constable via Forbes](#)
  - **Your Bull Market Debate Is Dumb** [by Cullen Roche via PragCap](#)
  - **DB: Don't Expect Emerging Markets To Outperform** [by Ryan Vlastelica via MarketWatch](#)
  - **The Markets Latest Sell Signal Only Happened 5 Other Times** [by Mark Hulbert via MarketWatch](#)
  - **How Does This Bull Market End?** [by Gillian White via The Atlantic](#)
  - **Negative Bets Against Gold Could Be Tipping Point** [by Patti Domm via CNBC](#)
  - **Fowl Plays In Emerging Markets** [by Macromon via Global Macro Monitor](#)
  - **Best Stock Strategy Is To Just Stay Home** [by Ed Yardeni via MarketWatch](#)
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## Most Read On RIA

- **Longest Bull Market In History & What Happens Next** [by Lance Roberts](#)
  - **The Weaponization Of The Dollar** [by Michael Lebowitz](#)
  - **Trump & The Cons Of 6-Month Reporting** [by Doug Kass](#)
  - **Markets Are Waiving A Huge Red Flag** [by Lance Roberts](#)
  - **Why Your Credit Score Just Improved** [by John Coumarianos](#)
  - **Cliff Asness On Buybacks** [by John Coumarianos](#)
  - **Dont' Fear The Yield Curve?** [by Lance Roberts](#)
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## Research•/ Interesting•Reads

- **My New "Fed Hawkishness-O-Meter"** [by Wolf Richter via Wolf Street](#)
  - **Turkey Tariffs Hurt EM And US Economies** [by Patrick Hill via The Progressive Ensign](#)
  - **10-Reasons It's Hard To Be An Intelligent Investor** [by Justin Carbonneau via Validea.com](#)
  - **China's Railways Are Leading To High-Speed Debt** [by Tom Mitchell via Ozy.com](#)
  - **Passive Investing Would Have Confounded Adam Smith** [by Merryn Webb via MoneyWeek](#)
  - **Housing Is Back, The Dream Isn't** [by Noah Smith via Bloomberg](#)
  - **Paul Singer: Doomsday Investor** [by Sheelah Kolhatkar via The New Yorker](#)
  - **15-Companies Investing In Tomorrow** [by Rex Nutting via MarketWatch](#)
  - **Spooked Banks Slash Subprime Credit Card Exposure** [by Tyler Durden via ZeroHedge](#)
  - **Extrapolating Growth** [by John Hussman via Hussman Funds](#)
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***"The trick of successful investors is to sell when they want to, not when they have to."*** - Seth Klarman

Questions, comments, suggestions ? please [email me](#).