

Weekend Reading

Oil Slick

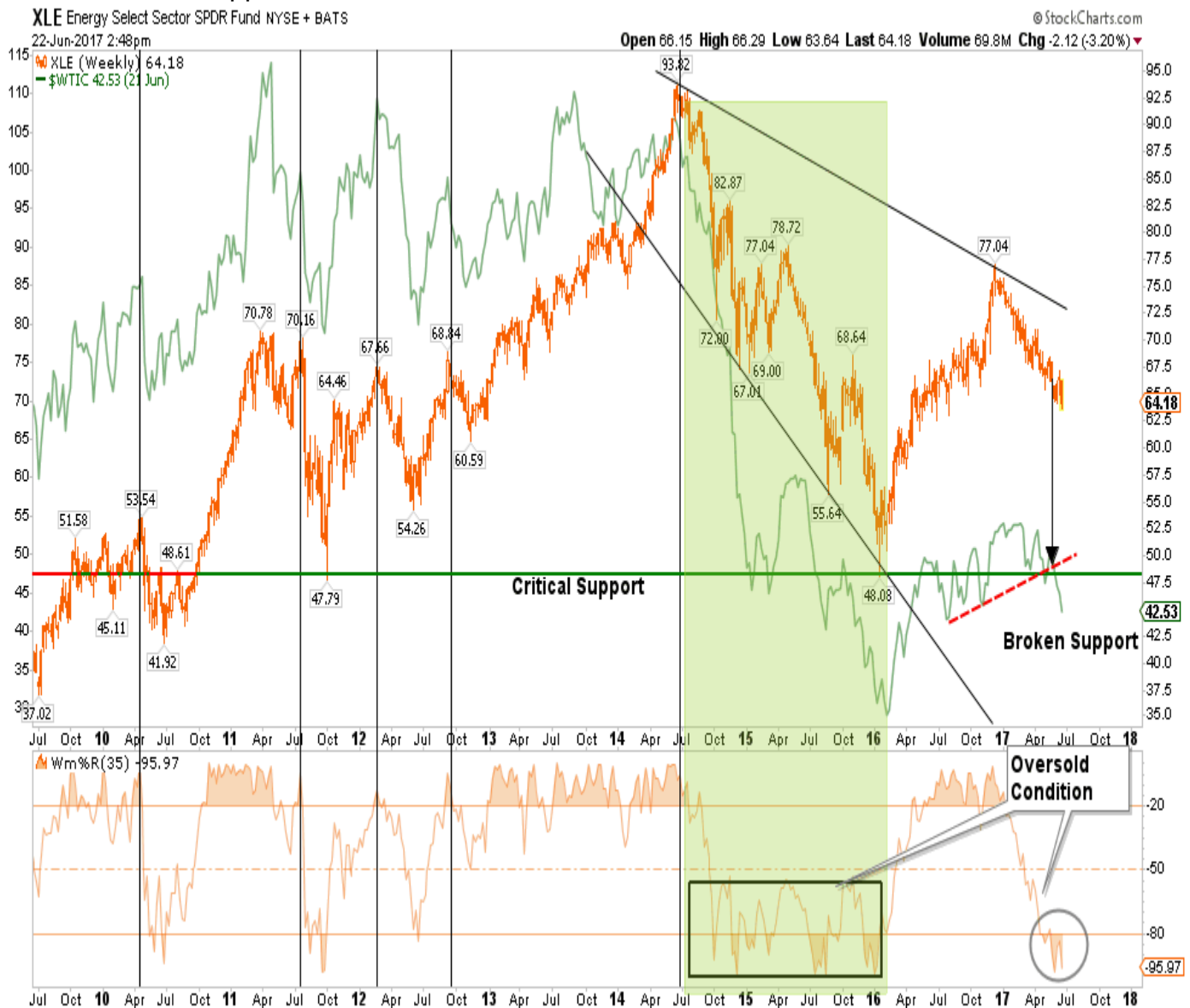
Beginning in December of last year, following the announcement by OPEC of a cut in oil production, I have discussed the ["headwinds" that persist](#) against a sustained rise in oil prices.

"The supply/demand dynamics currently suggest that oil prices and energy-related investments could find a long-term bottom within the next year or so following the next recession. However, it does not mean those investments will repeat the run witnessed prior to 2008 or 2014. Such is the hope of many investors currently as their 'recency bias' tends to overshadow the potential of the underlying fundamental dynamics."

After exiting the energy space in April 2014, there have been small tradeable opportunities within the energy sector but the trend remains sorely negative. The recent pounding of both oil prices, and the energy-related sector, continues to support the repeated warnings to [remain clear of the space for now.](#)

"Energy continues to struggle after breaking its 50-dma and broke its 200-dma two weeks ago. While energy had a bit of a bounce last week, and tested resistance at the 50-dma, the bounce failed and the trend continues to materially weaken. Energy is very close to a major sector sell signal. Remain heavily underweight energy for the time being."

Since then energy stocks have continued to deteriorate and oil prices have now broken important support. The next major level of support for oil prices on a weekly basis is \$42.50/bbl. A failure there leaves little support until \$35/bbl.



However, there is more to the price of oil than just weakness in the energy sector. Oil prices are also a reflexion of what is happening in the actual economy. **The Fed should be paying closer attention to what is happening in oil prices.** As shown below, the decline in oil prices suggests not only a real lack of inflationary pressures but are also a threat to the mild recovery in earnings in the last quarter. This weakness is also feeding back through the interest rate complex as well.



As I [stated yesterday](#):

*"While the Federal Reserve clearly should not raise rates further in the current environment, it is clear they will remain on their current path. This is because, I believe, the Fed understands that economic cycles do not last forever, and we are closer to the next recession than not. **While raising rates will accelerate a potential recession and a significant market correction, from the Fed's perspective it might be the lesser of two evils.** Being caught near the 'zero bound' at the onset of a recession leaves few options for the Federal Reserve to stabilize an economic decline. In other words, they already likely realize they are screwed."*

There are ample data points suggesting the Fed has already **"missed their window"** for hiking rates. At this juncture, it is much more likely we will be talking about restarting QE in 2018 rather than how the **"reduction of the balance sheet"** is proceeding. Of course, such a conversation will most likely flow in conjunction with the onset of a **"recessionary drag"** in the economy and a decline in asset prices. However, for now, **"hope"** remains the emotion of choice. Here is what I am reading this weekend.

Politics/Fed/Economy

- **Woman On Fire** [by Danielle Dimartino-Booth via MoneyStrong](#)
 - **Recession Closer Than You May Realize** [by James Rickards via Daily Reckoning](#)
 - **The Great Big Coup** [by David Stockman via Daily Reckoning](#)
 - **Demography Vs Economic Destiny** [by James Picerno via Capital Spectator](#)
 - **Service Industries Need A Disruptor** [by Caroline Baum via MarketWatch](#)
 - **Rising Wages Scare The Fed** [by Wolf Richter via Wolf Street](#)
 - **Trump Is Causing Chaos In DC, Just Not The Market** [by Ben Casselman via FiveThirtyEight](#)
 - **A Clue To Their Thinking** [by Peter Boockvar via The Boock Report](#)
 - **Chart Shows Traders Don't Believe The Fed** [by Pedro Da Costa via BI](#)
 - **Fed: Can They Get Back To Normal** [by Alex Pollock via Law and Liberty](#)
 - **Details Of Senate Health Care Bill** [by Bob Bryan via BI](#)
 - **Doctors & Patients Are Slamming Senates HealthCare Plan** [by Lydia Ramsey via BI](#)
 - **I May Not Know, But Neither Does Yellen** [by Joe Calhoun via Alhambra Partners](#)
 - **Infrastructure Won't Create More Jobs** [by Jeff Harding via An Independent Mind](#)
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Markets

- **U.S. Oil Companies Face A Huge Problem** [by Tsvetana Paraskova via OilPrice.com](#)
- **The Wisdom Of Crowds And Bond Markets** [by Edward Harrison via Credit Writedowns](#)
- **Can You See A Bubble If You're In It?** [by Charles Hugh-Smith via Of Two Minds](#)
- **FAANG Is Now A Textbook Example Of Euphoria** [by John Mauldin via HVST.com](#)
- **5-Predictions From Smart Investors** [by Annie Nova via Money](#)
- **Euphoria? The Stock Market Can Triple By 2026** [by Raul Elizalde via Forbes](#)
- **Still Not Crazy After All These Years (FAANG)** [by Cliff Asness via AQR Capital Management](#)
- **Stocks Refuse To Die** [by Michael Kahn via Barron's](#)
- **Stocks Don't Become Less Risky** [by Mair Statman via MarketWatch](#)
- **4-Things That Could Kill The Bull Market** [by Howard Gold via MarketWatch](#)

- **David Rosenberg: Stock Market In Denial** [by Stephanie Landsman via CNBC](#)
 - **Chart Porn** [by Akin Oyedele via BI](#)
 - **Time For Investors To End Their Wishful Thinking** [by Stan Collender via Forbes](#)
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Research•/ Interesting•Reads

- **Rediscovered Masterpiece By Ben Graham** [by Jason Zweig via Intelligent Investor](#)
 - **5-Reasons Amazon Bought Whole Foods** [by Lisa Eadicicco via Time](#)
 - **Social Security Benefits To Lose 30% Of Buying Power** [by Staff via Senior Citizens League](#)
 - **The Hoarding Of The American Dream** [by Annie Lowrey via The Atlantic](#)
 - **57 Million Americans Have No Emergency Savings** [by Jessica Dickler via CNBC](#)
 - **NYC Mortgage Delinquencies Elevated, Again** [by Keith Jurow via KCS Blog](#)
 - **Housing Bubble 2.0 - The End Is Nigh** [by Mark Hanson via MHanson.com](#)
 - **The Car Was Repossessed, The Debt Remains** [by Jessica Silver-Greenberg via NYT DealBook](#)
 - **Behold The Everything Bubble!** [by Jared Dillian via Maulding Economics](#)
 - **Understanding The Productivity Puzzle** [by Howard Davies via Project Syndicate](#)
 - **How To Wind Down A \$4 Trillion Balance Sheet** [by John Hussman via Hussman Funds](#)
 - **As Oil Drops** [by Dana Lyons via Tumblr](#)
 - **Podcast: Tom McClellan On Effective Stock Market Models** [by Jesse Felder via The Felder Report](#)
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?Buy In Haste. Repent At Leisure.? -Unknown

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