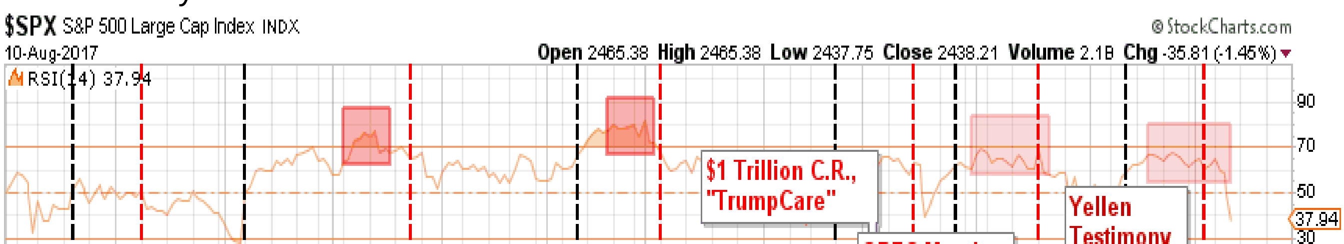
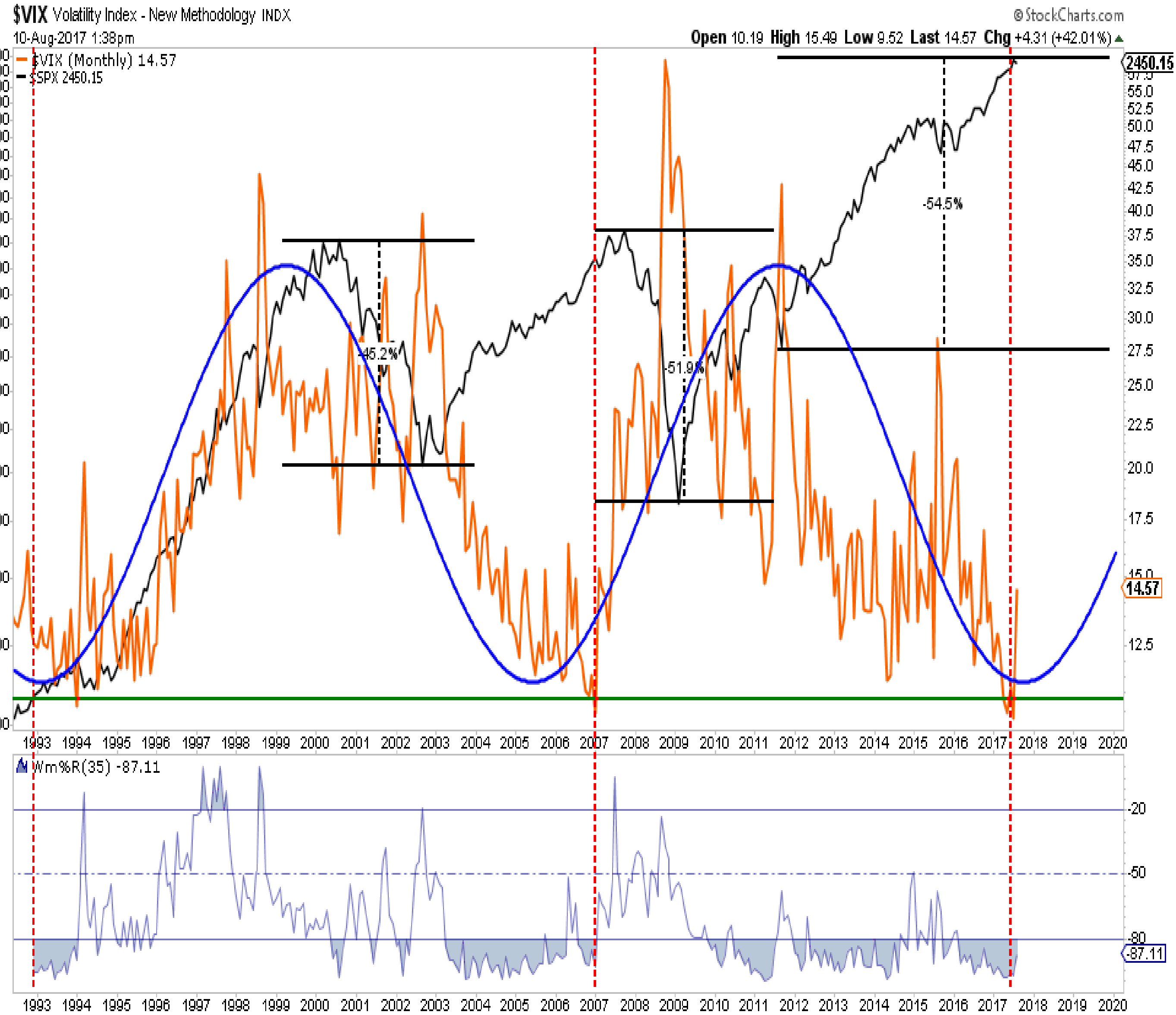
After a week on vacation, I got the joy of coming back to an Administration threatening North Korea over nuclear weapons. Now, you would suspect the possibility of nuclear war might just be the catalyst to send markets reeling, but looking at the market's reaction on Thursday, I suspect there will be t-shirts soon reading:

> ***"I survived the threat of nuclear war and the 'great crash of 2017' of 1.5%"***

As shown, the market did register a short-term *"sell signal"* last Friday and downward pressure has continued to build all week. The sell off on Thursday led to a break of the 50-dma and is threatening the bullish trend support line which has existed since the beginning of the year. **IF the market does not regain the 50-dma by close of the markets today, I would suspect we will likely be looking for a decline to 2400.** Such a correction, **a whopping 3.03%,** would likely shock many investors who have become overly complacent in recent months due to the abnormally low levels of volatility.



The sell-off on Thursday also resulted in a sharp snapback in volatility which had recently touched historically low levels. **While this is likely not the beginning of the next cyclical upswing in volatility just yet, it should serve as a good reminder of what will happen when volatility does return.**



One interesting note was the consternation by the mainstream media and analysts over why stocks did not perform better in the recent earnings reporting season when it was so good. Well, despite the much trumpeted **operating earnings growth** of 7.67%, **reported earnings** *(the actual earnings that matter)* **only rose by 0.51%.** Furthermore, revenue, which is what happens at the top-line of the income statement, has remained mired at the same level as it was in Q4.•With markets having already priced in much of the forward estimates, there seems to be little catalyst to push stocks higher at this point leaving investor risk elevated. While the markets can certainly remain *"irrational"* longer than logic would dictate, it only seems prudent to step back and the question of *"what will likely happen next?"* For me that question has **three outcomes**:

1. *The bull market continues for another 12-18 months as "greed" and "exuberance" push asset prices to further extremes. The subsequent "reversion to the mean" wipes out the majority of gains from the 2009 lows resetting valuations and investor psychology for the next bull market.*
2. *There is a mid-term correction within the next few months, like the beginning of 2016, which fails to shake out investors and sets the market up for the final leg of the bull market melt-up as the final capitulation of buyers makes its appearance.•The subsequent "reversion to the*

mean"•resets the market by 50-60%.

3. *The market drifts sideways for the next couple of months, and then, as the realization that legislative agenda is not forthcoming, the debt ceiling fight or some other political debacle sends investors rushing for the sidelines. The sell-off sends "algo's" into a "sell the rally" mode and margin calls exacerbate the selling. The stampede to "sell everything" will result in the same "reversion to the mean" which will, as noted, wipe out 50-60% of investors portfolios as the next recession resets expectations to economic realities*.

There is no case that be made that supports *"the bull market will continue forever."* When you are standing on the edge of cliff, looking at the ground far below, there is always that momentary desire to take a leap. Fortunately, for most, rationality takes hold.

> *Unfortunately, in the financial markets, irrationality historically prevails and very few investors survive the fall. •*

So, with that said, here's what I am reading this weekend.

Politics/Fed/Economy

- **Trump Economy: Progress & Peril** by Stephen Moore via The Washington Times
- **The Dem's "Better Deal"** by Allan Golombek via RCM
- **Debt Limit Showdown** by Caroline Baum via MarketWatch
- **Debt Ceiling Fight, This Time Is Different** by Michael Hiltzik via LA Times
- **Republicans Can't Just Pivot On Tax Reform** by Russell Berman via The Atlantic
- **Trump & The Outrageous Tax Reform Hoax** by Brian Beutler via The New Republic
- **Trump's Great Growth Debate Is Guesswork** by Robert Samuelson via RCM
- **If Gov't Doesn't Act, Fools Rush In** by Brad DeLong via Project Syndicate
- **What Happens In Washington Matters To The Markets** by Komal Sri-Kumar via Bloomberg
- **The False Premise Of GOP Tax Cuts** by Editorial via New York Times
- **What's Trump Got To Do With It?** by Andrew Ross-Sorkin via NY Times
- **Something Unusual About Jobs Numbers** by John Crudele via NY Post
- **Trump May Rate Credit For Market Boom** by Ira Stoll via NY Sun
- **No Trump Bump** by Heather Long via Washington Post
- **Our Broken Economy - In One Chart** by David Leonhardt via NYT

Markets

- **Charts Without Context Breed Hysteria** by Aaron Brown via Bloomberg
- **Expect A Market Crash** by Tyler Durden via ZeroHedge
- **Pay No Mind To The Market's Seasonal Curse** by Sue Chang via MarketWatch
- **401k Accounts Are Booming, What Should You Do?** by Stan Choe via AP
- **Paul Singer: The World's Most Feared Investor** by Ahmed, Deveau, Sam & Benhamou via Bloomberg
- **What Happens When There's A Rush Of Sell Orders?** by Jared Dillian via Mauldin Economics
- **Markets Don't Crash From All-Time Highs** by Charlie Bilello via Pension Partners
- **North Korea Effect On Stocks** by Michael Kahn via Barron's
- **Hickey: Trouble Ahead For The Markets** by Christoph Gisiger via Finanz Und Wirtschaft
- **U.S. Companies Less Profitable More Highly Valued** by John Mauldin via Mauldin Economics

- **Beneath Market Calm Are Signs Of Caution** by Landon Thomas via NY Times
- **Gundlach: Too Much Glee In The Markets** by Erik Schatzker via Bloomberg
- **Stock Market Bulls Are Wrong, It Will End Badly** by Doug Kass via The Street
- **This Is Why It's So Hard To Be A Contrarian** by Stefan Cheplick via Medium

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Research / Interesting Reads

- **Richest Men In History In One Chart** by Shawn Langlois via MarketWatch
- **There They Go Again** by Howard Marks via OakTree Capital
- **The Transformation Of The American Dream** by Robert Shiller via NYT
- **As Good As It Gets** by Joe Calhoun via Alhambra Partners
- **August Of Our Discontent** by Cliff Asness via AQR Capital Management
- **5 Highly Respected Investors Are Worried** by John Maxfield via Motley Fool
- **FLASH CRASH: Seth Klarman Weighs In On HFT** by Jody Chudley via Daily Reckoning
- **Google Employee Full PC Manifesto** by Kate Cooper via Gizmodo
- **The Reason Everyone Resents Millennials** by Bill Murphy Jr via Inc.
- **Student Borrowers Face Relentless Debt Collector** by Michelle Conlin via Reuters
- **In Debt We Trust For U.S. Consumers** by Vince Golle via Bloomberg
- **Time Is Running Out With North Korea** by George Friedman via MarketWatch
- **Still Too Much Risk In The Financial System** by Mohamed El-Erian via Bloomberg
- **Singer: "I'm Very Concerned About The Global Economy"** by Tyler Durden via ZeroHedge
- **Extreme Market Losses At Speculative Extremes** by John Hussman via Hussman Funds
- **Internal Cracks Or Chasms?** by Dana Lyons via Tumblr
- **Much Bigger Than The Dot.Com Bubble** by Jesse Felder via The Felder Report

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> ***"Wide diversification is only required when investors do not understand what they are doing." -*** *Warren Buffett*

Questions, comments, suggestions ? please email me.