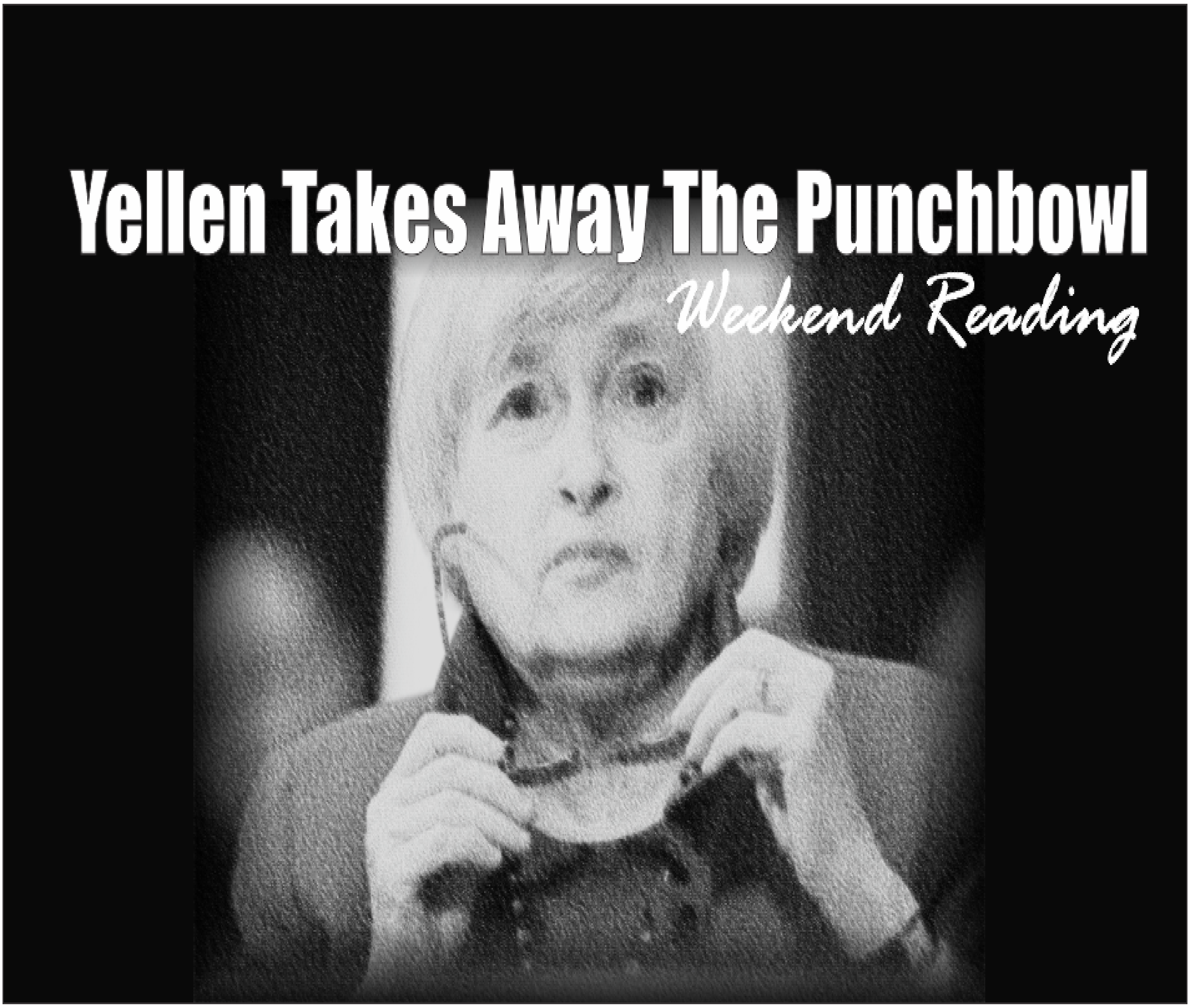


September 20th, 2017 will likely be a day that goes down in market history. It will either be remembered as one of the greatest achievements in the history of monetary policy experiments, or the beginning of the next bear market or worse. Given the Fed's inability to spark either inflation or economic growth, as witnessed by their dismal forecasting record shown below, I would lean towards the latter.

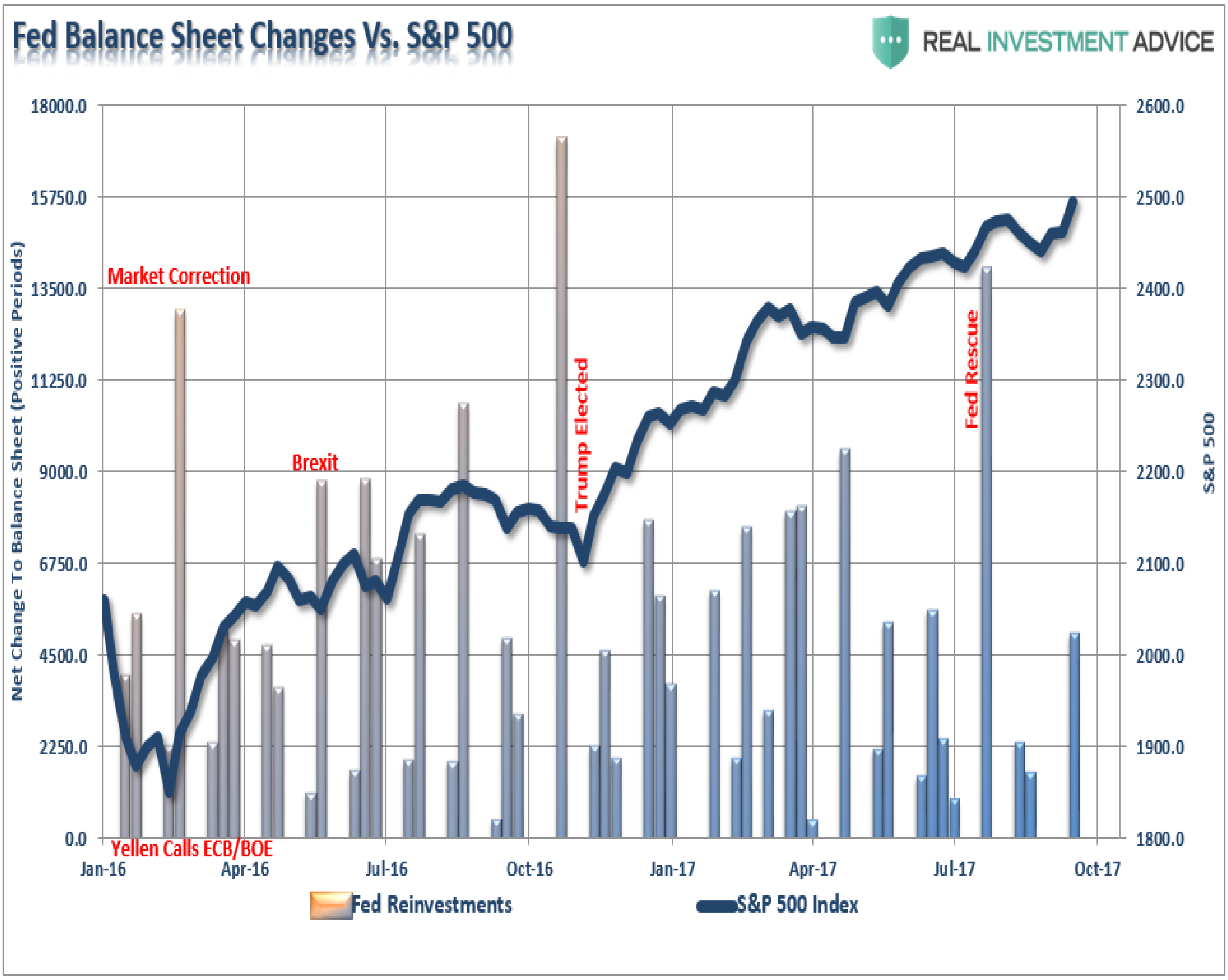
FOMC Economic Projections (Avg. Of Range)

REAL INVESTMENT ADVICE

Meeting Date	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Long Run	Actual 2011-2016 GDP
Jan-11	3.7	3.95	4								2.7	1.59
Apr-11	3.3	3.65	4								2.7	1.59
Jun-11	2.75	3.1	3.75								2.7	1.59
Nov-11	1.7	2.9	3.35	3.6							2.6	1.59
Jan-12		2.55	3.1	3.55							2.6	2.2
Apr-12		2.55	3.1	3.6							2.6	2.2
Jun-12		2.05	2.85	3.4							2.6	2.2
Sep-12		1.8	2.9	3.4	3.35						2.6	2.2
Dec-12		1.8	2.6	3.4	3.35						2.6	2.2

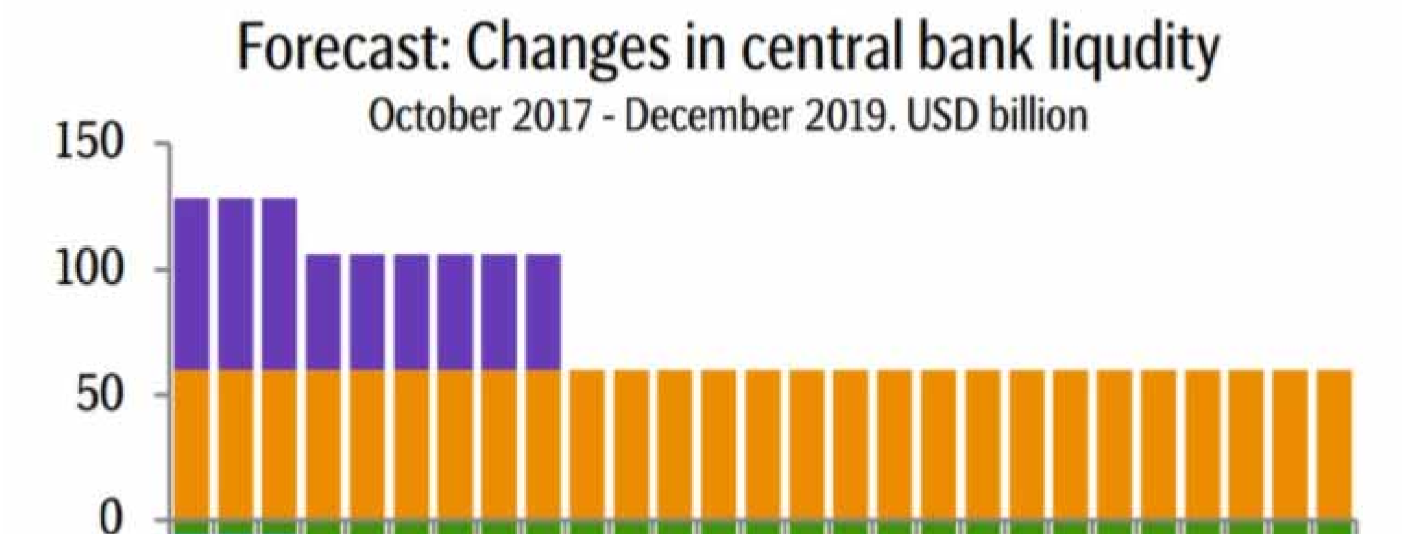
GDP Projections Lowest Levels Since 2011

The media is very interesting. Despite the fact there is clear evidence that unbridled Central Bank interventions supported the market on the way up, there is now a consensus that believes the *"unwinding"* will have *"no effect"* on the market. This would seem to be naive given that, as shown below, the biggest injections of liquidity from the Fed have come near market bottoms. Without the proverbial *"punch bowl,"* where does the *"support"* come from to stem declines?



I tend to agree with BofA who recently warned...***" the paint may be drying but the wall is about to crumble."***

> ***"****This point can be summarized simply as follows: there is $1 trillion in excess TSY supply coming down the line, and either yields will have to jump for the net issuance to be absorbed, or equities will have to plunge 30% for the incremental demand to appear."*



> ***"An unwind of the Fed?s balance sheet also increases UST supply to the public**. Ultimately, the Treasury needs to borrow from the public to pay back principal to the Fed resulting in an increase in marketable issuance**. We estimate the Treasury?s borrowing needs will increase roughly by $1tn over the next five years due to the Fed roll offs.** However, not all increases in UST supply are made equal. This will be the first time UST supply is projected to increase when EM reserve growth likely remains benign. Our analysis suggests **this would necessitate a significant rise in yields or a notable correction in equity markets to trigger the two largest remaining sources (pensions or mutual funds) to step up to meet the demand shortfall**. Again, this is a slower moving trigger that tightens financial conditions either by necessitating higher yields or lower equities."*

Of course, as I have discussed previously, a surge in interest rates would lead to a massive recession in the economy. Therefore, while it is possible you could experience a short-term pop in rates, the end result will be a substantial decline in equities as money flees to the safety of bonds driving rates toward zero.

> *"From many perspectives, the real risk of the heavy equity exposure in portfolios is outweighed by the potential for further reward.* ***The realization of 'risk,'•when it occurs, will lead to a rapid unwinding of the markets pushing volatility higher and bond yields lower.*** *•This is why I continue to acquire bonds on rallies in the markets, which suppresses bond prices, to increase portfolio income and hedge against a future market dislocation."*

My best guess is the Fed has made a critical error. But just as a *"turnover"* early in the first-quarter of the game may not seem to be an issue, **it can very well wind up being the single defining moment when the game was already lost.**•In the meantime, here is what I am•reading this weekend.

Politics/Fed/Economy

- **The Fed Is Peddling "Tinker Bell Economics"** by Caroline Baum via MarketWatch
- **What Did We Learn From The Fed** by Tyler Durden via ZeroHedge
- **The Fed Is On A Mission** by Wolf Richter via Wolf Street
- **Reform The Debt Ceiling** by Maya McGuinness via Washington Post
- **Politics & Your Portfolio, It's Complicated** by Joe Calhoun via RCM
- **Why Are Economists Always So Wrong** by Jeff Harding via An Independent Mind
- **Senate Embraces $1.5 Trillion Tax Cut Plan** by Rappaport & Kaplan via NYT
- **Don't Be Fooled By The Fed's Magic Show** by Brandon Smith via Alt-Market
- **Free Health Care Is Very Expensive** by Dan Mitchell via International Liberty

---

Markets

- **When The Market Implodes, Don't Say You Weren't Warned** by Shawn Langlois via MarketWatch
- **Rogers: ETF Holders Will Get Mauled In Next Bear Market** by Barbara Kollmeyer via MarketWatch
- **This Is Your Last Warning** by Thomas Kee via MarketWatch
- **Mass Psychology Is Driving The Market** by Robert Shiller via NYT
- **The Everything Bubble Is Ready To Pop** by Jared Dillian via Mauldin Economics

- **Little Things Mean A Lot** by Cliff Asness via AQR Capital Management
- **Investor Returns: The Failure Endures** by James Picerno via Capital Spectator
- **4-Charts Could Signal Markets End** by Michael Kahn via Barron's
- **Buffett Predicts DOW 1,000,000 In 100-Years** by Tyler Durden via ZeroHedge
- **Key Lessons From 2nd-Longest Bull Market** by Sue Chang via MarketWatch
- **Stock Market Bubbles In Perspective** by Howard Mia via Meritocracy Capital
- **The Folly Of Hiring Winners & Firing Losers** by Rob Arnott via Research Affiliates
- **Ways To Navigate An Aging Bull Market** by Michael Brush via MarketWatch
- **Scent Of Group Stink As Strong As It Was In 2000 & 2007** by Doug Kass via RIA
- **Bull Market Depends On The Fed** by Mark DeCambre via MarketWatch

---

Research / Interesting Reads

- **The Alarming Implications Of The Equifax Breach** by The Economist
- **5-Common Mental Errors** by James Clear
- **The Case For Stock Buy Backs** by Harvard Business Review
- **Why Is Value Investing So Difficult** by Behavioral Investment
- **AI Can Listen To Earnings Calls Better** by Institutional Investor
- **The Death Of Active Management Is Greatly Exaggerated** by Jeff Troutner via Index Funds
- **Forget Full-Time Work, Gigs Can Be Safer** by Simon Constable via Forbes
- **Mauldin: The Pension Crisis Is Coming** by John Mauldin via Zerohedge
- **Big Brother Is Coming For BitCoin** by James Rickards via Daily Reckoning
- **BitCoin Is Probably Worth ZERO** by James Mackintosh via WSJ
- **SEC Admits EDGAR System Was Hacked** by Tyler Durden via ZeroHedge
- **Walking Into A 2007-08 Scenario** by John Hussman via Hussman Funds
- **A Silver Lining In Precious Metals Sell-Off?** by Dana Lyons via Tumblr
- **All You Need To Know About The Fed In Two Charts** by Jesse Felder via The Felder Report

---

?If you are playing the rigged game of investing, the house always wins.? ? Robert Rolih

Questions, comments, suggestions ? please email me.