Doug Kass made an interesting observation about the market yesterday:

> *"The month of September started with optimism. That optimism has faded in the last two trading days. The most notable winners (year to date), FANG, have been particularly weak as investors begin to understand (thanks to the Congressional testimony and hearings) that the component companies' costs will balloon in order to deliver a product that is palatable to the U.S. government and other authorities - something I have been suggesting for a while. As noted yesterday, many other former market leaders are also falling back in price.* ***While there has been some rotation (there always is), there have been no notable winning sectors (save the speculative marijuana space).*** *Meanwhile, over there, the European banks are making new lows as the European bourses dramatically underperform and diverge from the S&P Index. And China's stock market is moving swiftly into bear market territory. I*

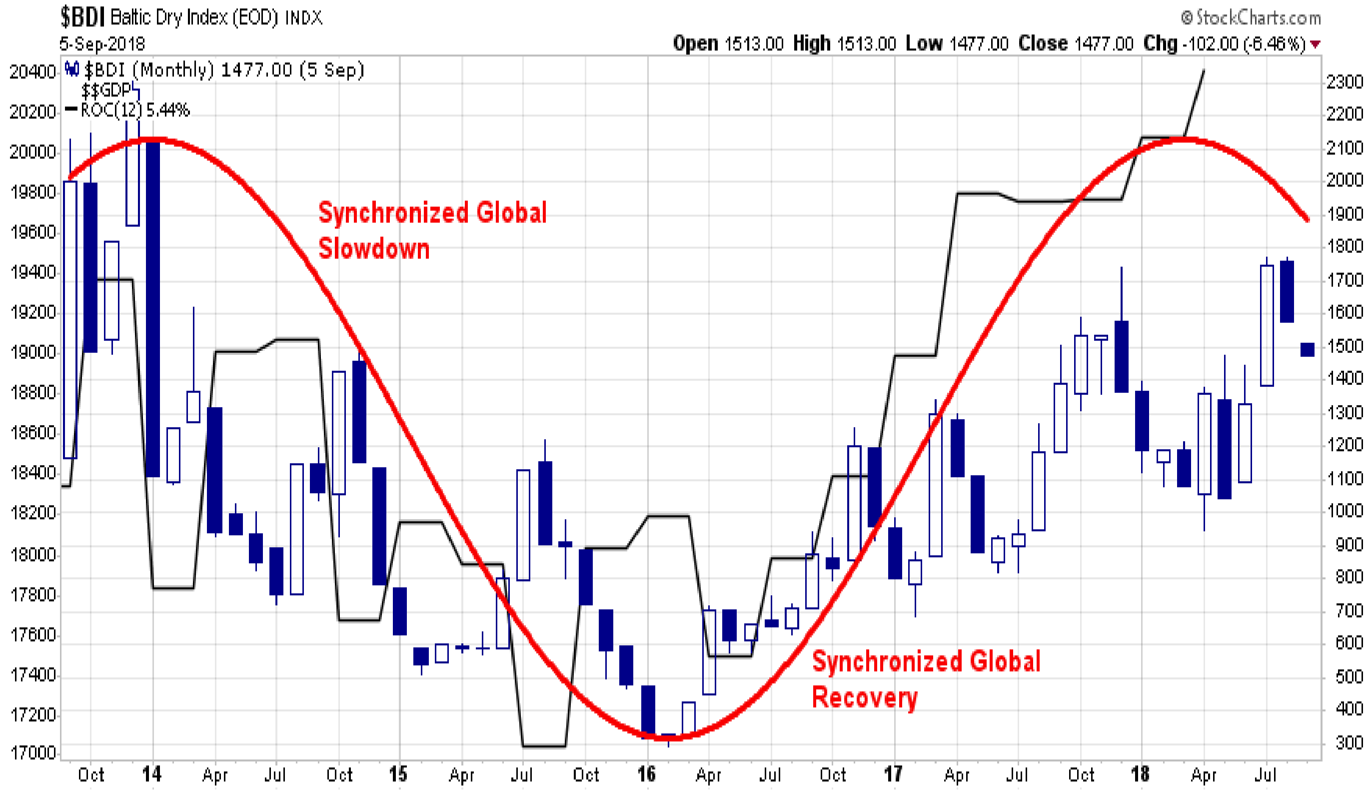
continue to believe that we are in an 'Acne Market' in which Mr. Market's complexion is changing for the worse. Economically, global high-frequency data is growing ambiguous. In terms of sentiment, investors seem unduly complacent in their optimism and I know no strategists who are even contemplating the possibility of a large market drawdown. The bottom line is that the economic, policy (trade, etc.), political (midterm elections are only two months away), currency and geopolitical outcomes are numerous and growing: Many of those outcomes are market adverse. Over the last few years, it has paid to buy the dip. ***It might be different this time as a maturing economy and stock market are showing their rough edges - just when global monetary authorities are pivoting and many non-US fiat currencies are imploding."***

I addressed last week, that emerging markets are likely sending a signal which is being largely dismissed by mainstream analysis. At the end of September, unless things markedly improve over the next 3-weeks, emerging markets will trigger the 4th major *"sell"* signal in the last 20-years.

"In 2000, 2007 and 2012, emerging markets warned of an impending recessionary drag in the U.S.•(While 2012 wasn?t recognized as a recession, there were many economic

similarities to one.)"

Currently, there is a high degree of complacency among investors, and Wall Street, the current bull market advance will continue uninterrupted into 2019. Targets are already being set for the S&P 500 to hit 3200, 3300, and higher. While anything is certainly a possibility, it doesn't mean that such will occur in a straight line either. The lack of leadership from the technology sector is certainly concerning given its extremely heavy weighting to the overall index. But likewise, the lack of performance from international markets also suggest *"something isn't quite right."*•This also shows up in the Baltic Dry Index which is just a representation of the demand to ship dry goods. While the index bounced from the lows in 2016, as global central banks infused massive amounts of liquidity into the system, early indications suggest that the cycle of global growth has started to wane.



The biggest concern domestically remains the strength of earnings growth going forward as well. Currently, estimates remain extremely high and the drag from a stronger dollar, tariffs, and rising rates will likely bring estimates lower. As I [noted last week:]()

> *"But looking forward, year over year comparisons are going to become markedly more troublesome even as expectations for the S&P 500 index continues to rise."*

While I am certainly hopeful the analysts are correct, as bull markets are much easier to navigate, the risk of disappointment is rising. As Doug notes, the contraction of monetary policy is beginning to take effect on the markets and the economy. Risks are always under-appreciated when bullish enthusiasm prevails. But knowing when to *"fall back"* and regroup has always been a better strategy than fighting to the last man. Just something to think about as you catch up on your weekend reading list.

Economy & Fed

- **Economy Is Great, What Could Go Wrong** by Caroline Baum via MarketWatch
- **What If The Economy Is Better Than It Looks** by Jeff Sommer via NYT
- **Riffs And Tariffs** by Jibran Khan via National Review
- **Tariffs Threaten The Economy** by Win Cramer via Washington Examiner
- **Wages Are Rising - If You Change The Math** by Jim Tankersley via NYT
- **6-Signs We're Closer To A Recession Than You Think** by Sean Williams via Motley Fool
- **Secular Stagnation** by Roger Farmer via Project Syndicate
- **How The Economy Turned 6-Good Jobs Into Bad Ones** by Andrew Van Dam/Heather Long via WaPo
- **The Rise And Fall Of Zombie Small Businesses** by Annie Lowrey via The Atlantic
- **The Depth Of The Next Recession** by Jeffrey Frankel via Project Syndicate
- **Wage Gap Widens, Mystery Persists** by Courtland Milloy via Washington Post

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Markets

- **GS: Bear Market Indicator Issues Warning** by Tyler Durden via Zerohedge
- **Grant's 10-Most Important Lessons In Finance** by Simon Black via Sovereignman.com
- **Don't Look At This Chart** by Shawn Langlois via MarketWatch
- **How Buffett Navigates All-Time Highs** by Michael Cannivet via RCM
- **Fear & The Markets** by Mark DeCambre via MarketWatch
- **European Stocks At A Critical Juncture** by Dana Lyons via The Lyons Share
- **US Dollar Key To Global Markets** by John Stepek via MoneyWeek
- **Lessons On Borrowing $200 Million At A Time** by Simon Constable via Korn Ferry Institute
- **The Dow-Gold Ratio Sends A Message** by Tom McClellan
- **Markets Best Investment Strategy Not Slowing** by Ryan Vlastelica via MarketWatch
- **"What If" Everything Goes Right** by Ed Yardeni via Yardeni Research
- **4-Reasons To Avoid Emerging Markets** by Howard Gold via MarketWatch

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Most Read On RIA

- **Q2 Earnings Review & Market Outlook** by Lance Roberts
- **What Turkey Can Teach Us About Gold** by Michael Lebowitz
- **Experience Is The Only Cure** by Lance Roberts
- **What Your Financial Wikipedia Says About You** by Richard Rosso
- **Learning Emotional Control** by John Coumarianos
- **Kass: Fallen Angels & Lessons Learned** by Doug Kass
- **As Good As It Gets** by Lance Roberts

Research / Interesting Reads

- **What Does Full Employment Mean?** by Chris Hamilton via Economica Blog
- **Two More Rate Hikes Will Do The Trick** by Tyler Durden via ZeroHedge
- **The Online "Gig" Economies "Race To The Bottom"** by Alana Semuels via The Atlantic
- **Social Media Companies Beware - D.C. Is Watching** by Jonathon Trugman via NY Post
- **The Next Financial Crisis Lurks Underground** by Bethany McLean via NYT
- **How To Invest Like Dale Carnegie** by Vitaliy Katsenelson via Contrarian Edge
- **Beyond Secular Stagnation** by Joseph Stiglitz via Project Syndicate
- **How Real News Is Worse Than Fake News** by Tyler Cowen via Bloomberg
- **What Happens When The Everything Bubble Bursts** by Jesse Colombo via Forbes
- **Just Do It - The Surprising Story Behind Nike's Slogan** by Timothy Bella via Washington Post

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> ***"I never hesitate to tell a man that I am bullish or bearish. But I do not tell people to buy or sell any particular stock. In a bear market all stocks go down and in a bull market they go up."*** - Jesse Livermore

Questions, comments, suggestions ? please email me.