I [discussed yesterday](), the apparent *"myth"* of the Fed's proposed *"balance sheet reduction"* program as the most recent analysis shows a $13.5 billion *"reinvestment"* into their balance sheet which has helped fuel the recent market advance.

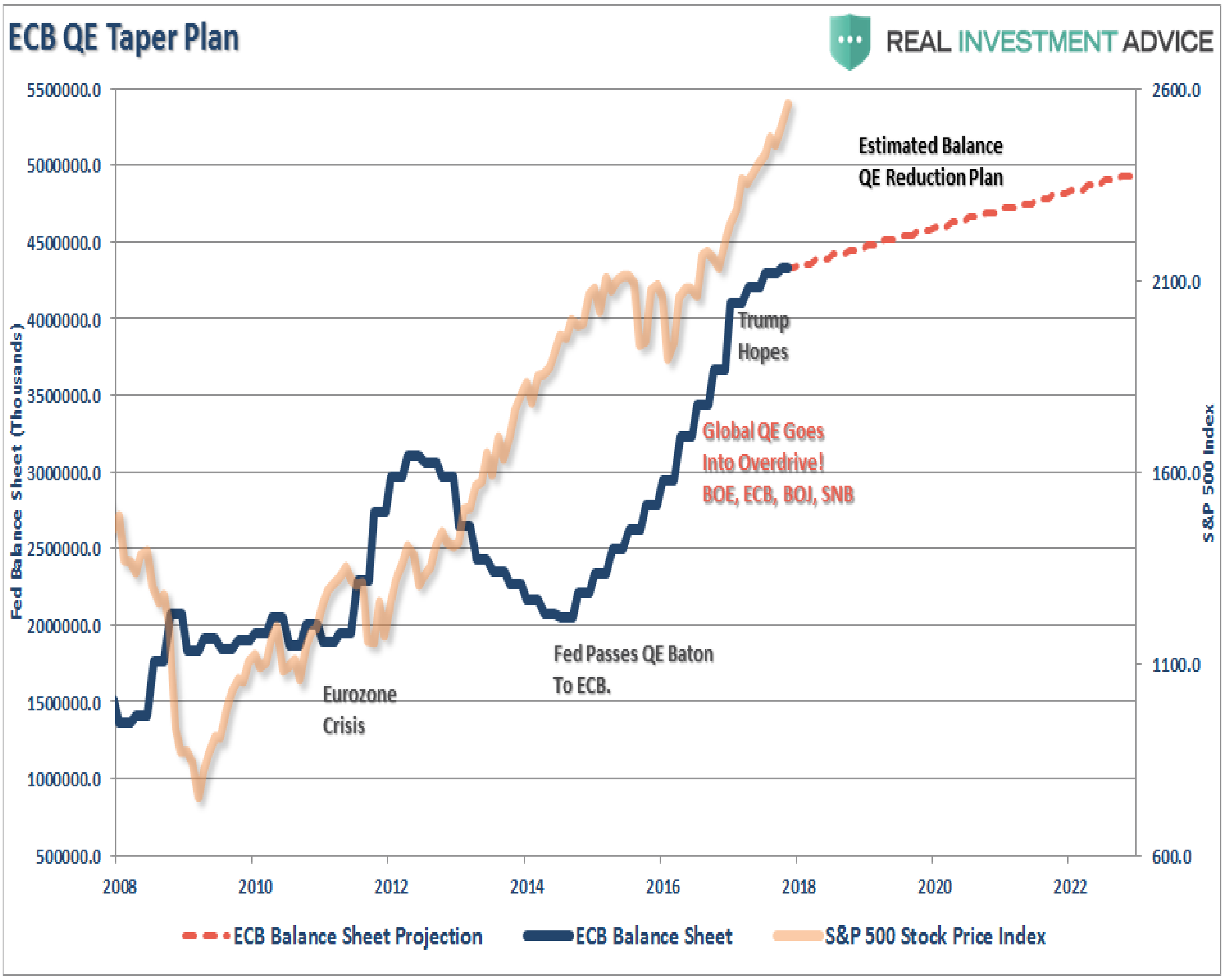
But therein lies the potential *"fatal flaw"* of the *"bullish logic."*•At the September FOMC meeting, the Federal Reserve announced their latest decision which contained two primary components:

1. *No rate hike currently, although, further rate hikes are likely in the future, and;*
2. *The beginning of the process to cease reinvestment of the Fed?s balance sheet.•*

That announcement was notable for two reasons:

1. *The Fed* ***did NOT hike rates•*** *because the underlying economic data, and, in particular, the inflation data, suggests the economy is too weak to absorb a further increase currently, and;*
2. *The unwinding of the balance sheet is generally believed* ***to be bullish•*** *for stocks.•*

So, despite the clear evidence of the support for the markets provided by near zero-interest rate policy and trillions in monetary injection,**•it is believed that** ***?unwinding?*** **•those supports will have•** ***?no effect?*** **•on the market. In other words, it doesn?t matter what the Fed does, it?s** ***?bullish.?*** The same is also believed to be the case for the European Central Bank and Mario Draghi who just announced yesterday that the ECB's QE program will begin to be reduced by ?30 Billion per month *(down from•?60 Billion).* **While this will continue the expansion of their balance sheet currently,•*"QE,"* as the markets have come to know it, is coming to an end.**



Don't misunderstand me, Central Banks are still very actively engaged in the support of the financial markets for the time being which keeps asset prices positively buoyed. **However, with Central Banks now *"tightening"* monetary policy, the risk of a policy error has risen markedly.** This is particularly the case when the financial markets insist on ignoring the knock-off effects of less liquidity.

Tax Reform With Complete Disregard

Yesterday, the House of Representatives passed the Senate-approved budget. This budget is an anathema to any fiscally conservative policy. As the Committee for a Responsible Federal Budget stated:

> *"Republicans in Congress laid out two visions in two budgets for our fiscal future,* ***and today, they choose the path of gimmicks, debt, and absolutely zero fiscal restraint over the one of responsibility and balance.*** *While the original House budget balanced on paper and offered some real savings, the Senate?s version accepted today by the House fails to reach balance, enacts a pathetic $1 billion in spending cuts out of a possible $47 trillion, and* ***allows for $1.5 trillion to be added to the national debt.*** *Make no mistake ? this is a defining moment for the Republican party. After years of passing balanced budgets and calling for fiscal responsibility,* ***the GOP is now on-the-record as supporting trillions in new debt for the sake of tax cuts over tax reform and failing to act on the pressing need to reform our largest entitlement programs."***

Passing fiscally irresponsible budgets just for the sake of passing *"tax cuts,"* is, well, irresponsible. Once again, elected leaders have not listened to, or learned, what their constituents are asking for which is simply adherence to the Constitution and fiscal restraint. As the CFRB concludes:

> ***"Tax cuts do not pay for themselves; they can create growth, but in the amount of tenths of percentage points, not whole percentage points. And they certainly cannot fill in trillions in lost revenue.*** *Relying on growth projections that no independent forecaster says will happen isn?t the way to do tax reform."*

That is absolutely correct. Here is your weekend reading list.

Trump, Economy & Fed

- **Fed Ignores Most Relevant Evidence** by Caroline Baum via MarketWatch
- **Another Reason To Fear Unions** by Simon Constable via PJ Media
- **Given Time Tax Cuts Will Work** by Stephen Moore via The Washington Times
- **Tax Cuts Won't Work As Well As Trump Hopes** by Don Lee via LA Times
- **Kevin Hassett Is Betting Tax Deliver Growth** by George Will via National Review
- **Here's What's Important About The Budget** by Robert Samuelson via RCM
- **The Risk Of Income Tax Reform "In Name Only"** by Brian Domitrovic via Forbes
- **Republicans Are NOT Cutting Taxes** by John Tamny via RCM
- **Dem's Fight To Keep SALT Deduction** by Editorial via IBD
- **Trump Should Keep Yellen As Fed Chair** by Editorial via USA Today
- **The GOP Has No Budget Plan** by James Capretta via Real Clear Policy
- **The New Populism Isn't About Economics** by Tyler Cowen via Bloomberg
- **Hassett's Flawed Analysis Of Tax Plan** by Larry Summers via CNBC
- **Don't Be Fooled By Corporate Tax/Wage Correlation** by Paul Krugman via NYT

Markets

- **One Of The MOST Overbought Markets In History** by Charlie Bilello via Pension Partners

- **Some Reasons To Worry As Stocks Rise** by Jeff Reeves via MarketWatch
- **What Would You Do With $1 Billion** by SA Gil Weinreich via Seeking Alpha
- **S&P 500 Matches Uncanny Record For Doing Nothing** by Mark DeCambre via MarketWatch
- **Longest Streak Ever W/O A 3% Correction** by Ryan Detrick via LPL Financial
- **The $1000 Bagel And Market Tops** by Shawn Langlois via MarketWatch
- **First Cracks In The Market Appear** by Michael Kahn via Barron's
- **Intermediate-Term Irrational** by David Merkel via The Aleph Blog
- **Japan Is Booming, But Not Really** by Jeffrey Snider via Alhambra Partners
- **Low Rates: Yes, You Still Need Bonds** by James Picerno via Capital Spectator
- **BofA: Market Implies No Way A Shock Can Happen** by Tyler Durden via ZeroHedge
- **Buy & Hold Fantasy•Reaches Fever Pitch** by Richard Rosso via RIA
- **Volatility, The World's Only Undervalued Asset Class** by Doug Kass via RIA

Research•/ Interesting•Reads

- **Is Fed Getting Gold Feet About QE Unwind** by Wolf Richter via Wolf Street
- **The Bull, The Bear & The Tortoise** by Simon Maierhofer via MarketWatch
- **Passive Should Never Laugh At Active** by Kevin Muir via The Macro Tourist
- **The Market IS NOT The Economy** by Buttonwood via The Economist
- **Shielding Seniors From Financial Fraud** by Alex Veiga via USA Today
- **Capping 401k Contributions Worsens Savings Crisis** by Robert Powell via The Street
- **Americans Still Terrible At Investing** by Lance Roberts via MarketWatch
- **Understanding The Fed's Shrinking Balance Sheet** by Kathy Jones via Schwab
- **An Old-School Manager Builds Wealth Quietly** by Landon Thomas via NY Times
- **Even Borderline Data Will Be Recessionary** by William Hester via Hussman Funds
- **Bears Head For Early Hibernation** by Dana Lyons via The Lyons Share
- **What Were You Thinking** by•Jesse Felder via The Felder Report

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> ***?There have been three great inventions since the beginning of time: fire, the wheel, and Central Banking." -*** *Will Rogers*

Questions, comments, suggestions ? please email me.