"Or would you like to swing on a star Carry moonbeams home in a jar And be better off than you are Or would you rather be a pig"•*-Duffy's Tavern, "Swinging on a Star"*•*(1945)*

I see downside market risk at about four times the upside reward. I don't believe stocks are a buy on a minor dip -- a view adopted by most. Given the outlook that there is outsize risk, I have been steadily expanding my large net short exposure. The bearish tremors are multiplying. Let's look at my long-term, intermediate-term, and short-term and everyday concerns.

Long-Term Concerns

*•**Uncle Sam's Unfunded Promises:**•The Trump administration's tax plan is not a plan. It is a melange of ideas put forth without precision or arithmetic. Any possible supply-side benefits of the tax proposal must be weighed against the dampening impact of future deficits on economic growth.
*•**Pension Storm Warning** *•**The Screwflation•of the Middle Class:**•A longstanding concern of mine, the continued income and wealth gap and the likely continued failure of trickle-down

economics, holds important and adverse social, political and economic ramifications. *•**The Fed's Role and Its Effect on the Markets:**•The bullish cabal is taking an incredible leap of faith that the Fed's tightening cycle is going to be without hiccup and essentially have been brainwashed by not just the Fed but by the actions of all central banks in believing that every slip-up will be fully rectified. The central banks believe they have cured the diseases called "bear market" and recession and convinced us that we are in a new paradigm. I would argue that this is likely a big mistake, as evidenced by the numerous policy boners by the Fed in the last one to two decades. *• **Washington, D.C., Is Broken and Is More Partisan Than Ever:**•Political polarization between the Republicans and Democrats is not rhetoric -- it is reality. Like the income and wealth gap, it holds adverse and potentially grave social and economic ramifications.

Intermediate-Term Concerns

*•**Excessive Liquidity Is Being Turned Off:**•Asset prices have been buoyed by massive central bank liquidity, but the shoe is being placed on the other foot in the time ahead as central bankers begin to reduce or eliminate the monetary spigot. *•**Stretched Multiples:**•Valuations, buoyed by liquidity, the popularity and proliferation of passive investing (ETFs) and dominance of quant strategies (e.g., risk parity and volatility trending) have stretched price-to-earnings multiples and other metrics (price to book and CAPE, among others) to at least the 95th decile. (See "The Active vs. Passive Conflict, and Why All Dips are Bought.") *•**Stretched Multiples (Part Deux)**: Contrary to the consensus, we have been in a valuation-driven and not an earnings-driven market. (See "It's an Earnings-Driven Market? Not So Fast, Kids.") *•**Market Positioning and the Global Volatility Short Bubble:**•An extended period of low volatility absent any real market weakness that has characterized the market backdrop for several years has abetted the buy-the-dip conditioning, has made bears an endangered species by reducing the latent demand for stocks on any drop, and, importantly, has created a volatility short bubble that raises the chance of a dangerous "flash crash" and a deleveraging of risk-parity accounts. (See "More on the Global Volatility Short Bubble .") *•**A Global Bond Market Bubble (see below):**•Many thoughtful investors I know (e.g., Lee Cooperman, Warren Buffett) express the notion that stocks are cheap relative to today's interest rates, and as long as a rate rise is contained they can continue to prosper. Those same investors fully recognize and agree that bonds are frothy and that we are in the eighth or ninth inning of the bond bull market. To me, stocks are not cheap because the current level of rates is not likely to be a condition that lingers for very long. Bond yields likely will regress to the mean, possibly sooner than many expect. So, saying that stocks as an asset class are cheap relative to a possible•Generational Low•in yields -- my view from June 2016 -- makes little sense*•**Failing and Flailing White House Policy**: Regardless of one's political viewpoint, the administration's fiscal initiatives have been fundamentally misshapen, delivered ineffectively and represent another trickle-down solution not likely to produce a timely economic-friendly outcome. Indeed, nearly a year after the election, not a single major piece of legislation has been passed by the Trump White House.

Short-Term Concerns

For those who have been patient and are attuned to reactionary responses, there are developing technical signposts that should concern investors: *•**Weakness Over There**: The Euro STOXX bank index is down in eight of the last nine days. And the Euro STOXX 600 is down for the seventh straight day and is below its 500-, 200- and 100-day moving averages and at a two-month low. (Hat Tip Peter Boockvar) *•**The Global Bond Market Bubble (Part Deux) Is Now Deflating**: The European high-yield credit index compiled by Credit Suisse yielded 1.91% last week -- lower than the U.S. five-year Treasury note yield! During the last five trading days the European junk bond market has imploded. Today the European high-yield credit market yields 2.50%, up 59 basis

points in a week. That is a monumental move and represents a monumental loss for those who own this asset class. * **Junk Bonds Fall:** The deterioration of the high-yield market relative to the climb in the broader indices has grown unusually and historically wide. The dreaded alligator formation has appeared. (See "Beware of That Gator Lurking Beneath the Surface.") * **Slowing Domestic Economic Growth Is the Message of the Bond Market and Yield Curve:** The universal view that domestic growth is on solid footing and may accelerate may be misplaced. This morning the yield on the 10-year U.S. note is down by another four basis points, yielding 2.34%. The 2s/10s curve is flattening further, by two basis points today. * **Bad Breadth:** Breadth is bad and worsening. As the Divine Ms. M, Helene Meisler, writes this morning, the number of new lows is expanding, the percentage of stocks trading above their 50- day moving average is decreasing and the McClellan Index indicates the majority of stocks are trending down, not up. * **Sector Underperformance Accumulating:** This week has witnessed a conspicuous rollover seen in biotech, transports, the Russell Index, industrials and materials; check out copper's 2% drop yesterday and look at the charts of Freeport-McMoRan (FCX) and Glencore). * **Investor Sentiment Is at a Bullish Extreme:** Investor surveys are one-sided and bullish. The spread between bulls and bears is at the highest level in over a year. * **An Increasingly Speculative Overtone:** The proliferation of SPAC (special-purpose acquisition company) share sales is historically another warning sign. So is the general acceptance of covenant-lite debt offerings that have mushroomed over the last few months. And then there are the Rokuians (ROKU) -- move over Iomegans.

Continuing and Everyday Concerns

Finally, my eight questions asked every morning argue in favor of lower, not higher, valuations:

1. *In a paperless and cloudy world, are investors and citizens as safe as the markets assume we are?*
2. *In a flat, networked and interconnected world, is it even possible for America to be an "oasis of prosperity" and a driver or engine of global economic growth?*
3. *With the G-8's geopolitical coordination at an all-time low, how slow and inept will the reaction be if the wheels do come off?*
4. *Remember when the big argument in favor of President Trump was that he was a dealmaker who knew how to get things done? That was when he was doing real estate deals. Now he has to deal with 535 other politically partisan legislators in Congress on their own real estate turf.*
5. *Does the administration have the depth of experience, understand the extent of the legwork and organization required for passing legislation or have a coherent idea or shared vision of what it wants to achieve and what problems it means to solve?*
6. *If President Trump can't easily put through a health care package, what does that mean for more difficult regulatory reforms and his tax- and fiscal-policy agenda?*
7. *President Trump took credit for the stock market's advance since his election victory. Will he take responsibility for a correction? And is it a slippery slope for an administration to use the S&P 500 as a barometer of success? And is a pro-business and anti-domestic programs (in education, the arts, etc.) agenda going to benefit those in the lower and middle class (largely his base) who have suffered the most over the last decade?*
8. *With the specialist system now extinct, when ETFs sell, who will buy?*

Bottom Line

> *"You can be better than you are You could be swingin' on a star"*

Or would you rather be a bear? With recent new short additions of General Motors Co. (GM), CSX Corp. (CSX), Union Pacific Corp. (UNP), Caterpillar Inc. (CAT) and Deere & Co. (DE), I am at my

highest net short exposure in four years.