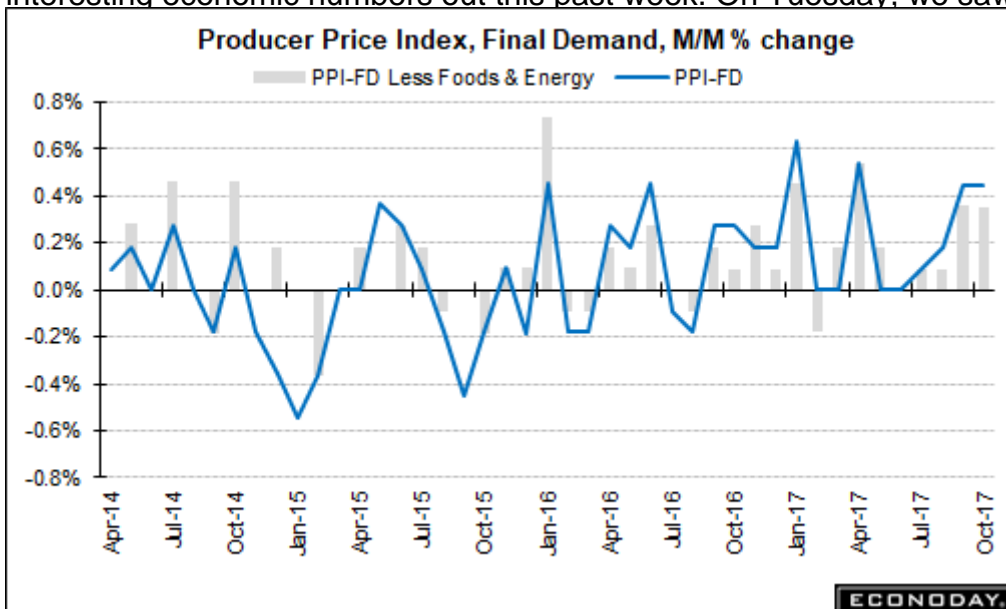


Weekend Reading

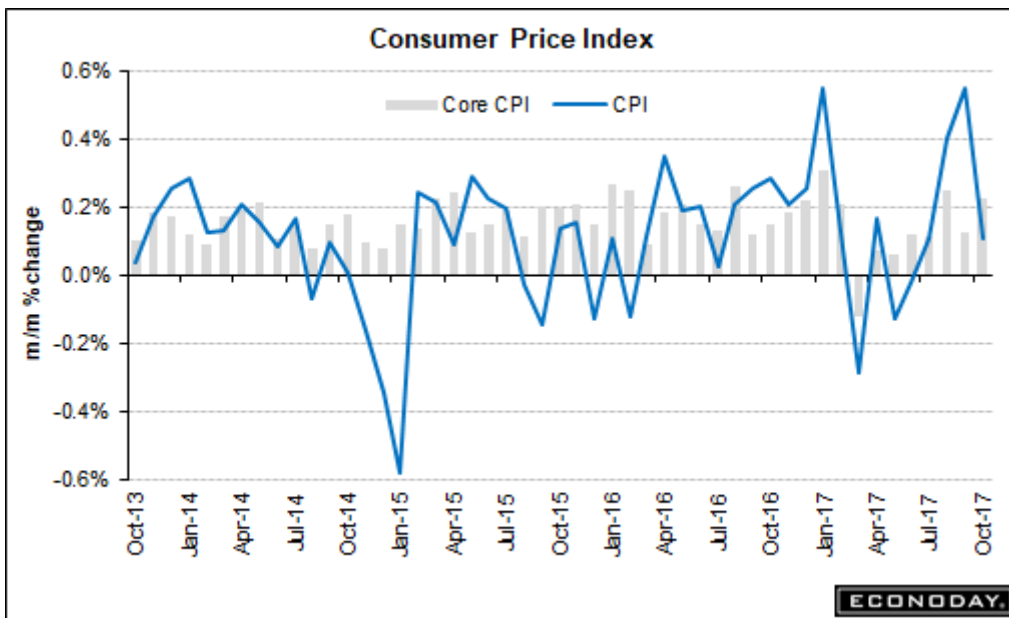
You Have Been Warned

Investors aren't paying attention. There is an important picture that is currently developing which, if it continues, will impact earnings and ultimately the stock market. Let's take a look at some interesting economic numbers out this past week. On Tuesday, we saw the release of the Producer



Price of 0.4% last month. This is due to hurricanes and massive price increases in goods and services.

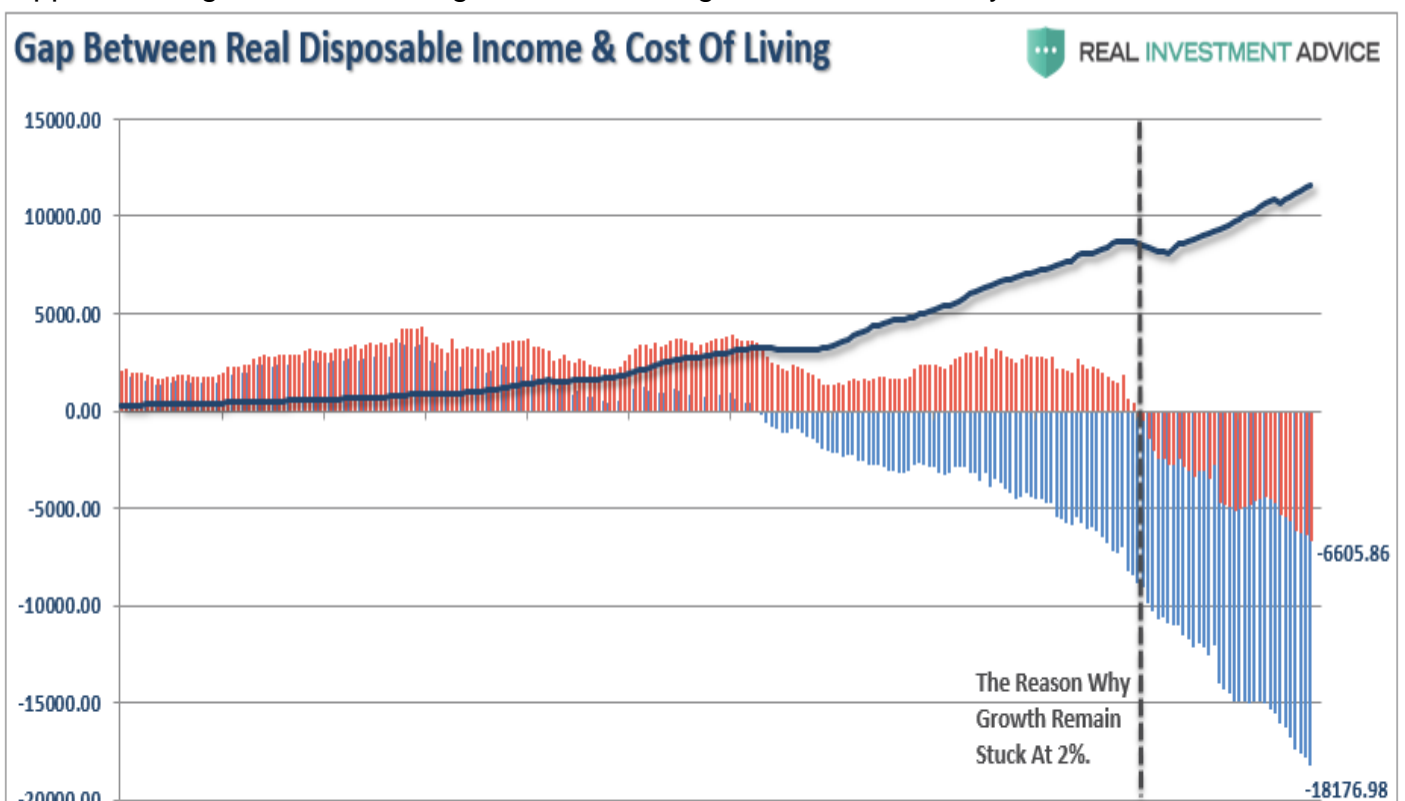
Then on Wednesday, the



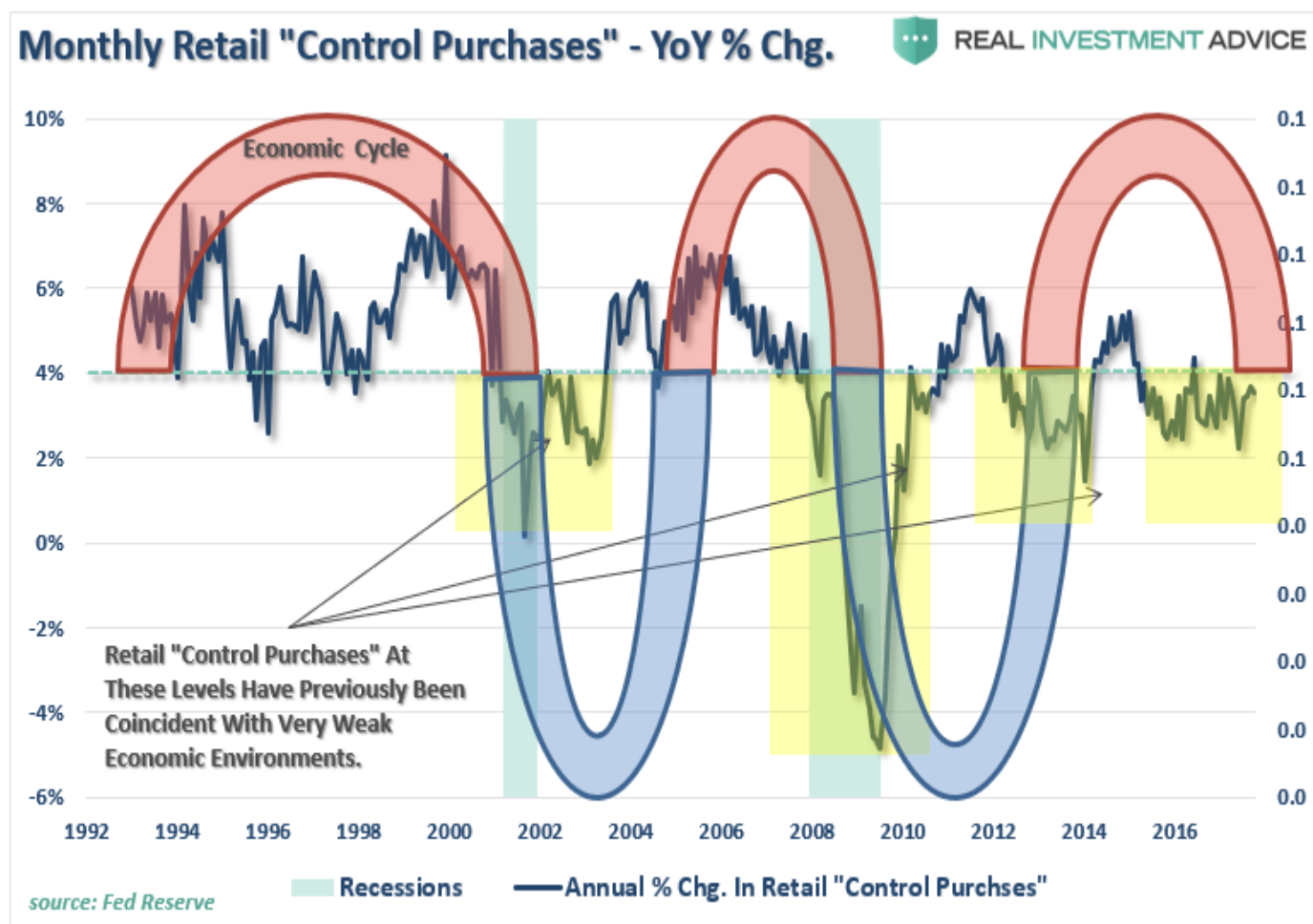
1% increase falling

This deflationary pressure

further showed up on Thursday with a **-0.3** decline in Export prices. (*Exports make up about 40% of corporate profits*) **For all of you that continue to insist this is an "earnings-driven market," you should pay very close attention to those three data points above.** When companies have higher input costs in their production they have two choices: 1) "pass along" those price increase to their customers; or 2) absorb those costs internally. If a company opts to "pass along" those costs then we should have seen CPI rise more strongly. **Since that didn't happen, it suggests companies are unable to "pass along" those costs which means a reduction in earnings.** The other BIG report released on Wednesday tells you WHY companies have been unable to "pass along" those increased costs. **The "retail sales" report came in at just a 0.1% increase for the month.** After a large jump in retail sales last month, as was expected following the hurricanes, there should have been some subsequent follow through last month. There simply wasn't. **More importantly, despite annual hopes by the National Retail Federation of surging holiday spending which is consistently over-estimated, the recent surge in consumer debt without a subsequent increase in consumer spending shows the financial distress faced by a vast majority of consumers.** The first chart below shows a record gap between the standard cost of living and the debt required to finance that cost of living. Prior to 2000, debt was able to support a rising standard of living, which is no longer the case currently.



With a current shortfall of \$18,176 between the standard of living and real disposable incomes, debt is only able to cover about 2/3rds of the difference with a net shortfall of \$6,605. This explains the reason why "control purchases" by individuals (*those items individuals buy most often*) is running at levels more normally consistent with recessions rather than economic expansions.



If companies are unable to pass along rising production costs to consumers, export prices are falling and consumer demand remains weak, be warned of continued weakness in earnings reports in the months ahead. As [I stated earlier this year](#), the recovery in earnings this year was solely a function of the recovering energy sector due to higher oil prices. With that tailwind now firmly behind us, the risk to earnings in the year ahead is dangerous to a market basing its current "overvaluation" on the "strong earnings" story. **Don't say you weren't warned.**

In the meantime, here is your weekend reading list.

Trump, Economy & Fed

- **Don't Rely On Consumers For Growth** by Danielle Dimartino-Booth via Bloomberg
- **What History Teaches About Interest Rates** by Brian Maher via The Daily Reckoning
- **The Deeper Purpose Of Trump's Asia Trip** by James Rickards Via Daily Reckoning
- **Senate Tax Bill Hides \$500 Billion In Gimmicks** by Committee For A Responsible Federal Budget
- **Which Companies Spend Most On Lobbyists** by Simon Constable via Forbes
- **Tax Code: Repeal & Replace It** by George Will via National Review
- **The Moment Cohn Realized He's Wrong** by Tyler Durden via ZeroHedge
- **Gary Cohn Fails Massively With Tax Plan** by Jonathan Chait via New York Magazine

- **Paradise Papers Show How Misguided Tax Plan Is** [by Bryce Covert via NYT](#)
 - **Senate Tax Bill Could Increase Taxes On The Middle Class** [by Bob Bryan via BI](#)
 - **I'm Conservative, Here's 3-Flaws With Tax Plan** [by Robert Robb via Arizona Republic](#)
 - **Making A Tax Cut Affordable** [by Richard Rahn via Washington Times](#)
 - **Republican Tax Plan Will Make Economy Worse** [by Jared Bernstein via NYT](#)
 - **Jack Kemp, Tax Cuts & The World** [by Ralph Benko via Forbes](#)
 - **Not Much Evidence Tax Cuts Boost Wages** [by Marc Chandler via Real Clear Markets](#)
 - **How Corporations & Super Rich Avoid Taxes** [by Gabriel Zucman via NYT](#)
 - **Consumers Are Confident & Broke** [by John Rubino via DollarCollapse.com](#)
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VIDEO - It's A Turkey Market

Markets

- **Bonds Are From Venus, Stocks From Mars** [by Caroline Baum via MarketWatch](#)
 - **Hindenburg Meets The Titanic** [by Joe Ciolli via BI](#)
 - **Deutsche Bank: Sell Off In Junk May Not Be Bad Thing** [by Mark Decambre via MarketWatch](#)
 - **The 12-Point List To Identify Value Traps** [by Nick Colas via Datatrek Research](#)
 - **Advisors Role In Retirement Advice** [by SA Gil Weinreich via Seeking Alpha](#)
 - **Back In A Bubble, But This Time Is Different** [by Martin Wolf via FT](#)
 - **A Big Stock Buyer Has Stopped Buying** [by Kevin Muir via The Macro Tourist](#)
 - **A Lesson Of Confidence** [by Andrew Ross-Sorkin via NY Times](#)
 - **A Serious Bear Market May Be On Us** [by Shawn Langlois via MarketWatch](#)
 - **Market Not Ready To Surrender** [by Michael Kahn via Barron's](#)
 - **Yield Curve Not Buying It** [by Tad Rivelle via Trust Co Of The West](#)
 - **A Little Knowledge Is Dangerous** [by Nick Maggiulli via Dollars and Data](#)
 - **Is Shiller Right? Is Passive Investing Dangerous?** [by Cullen Roche via PragCap](#)
 - **Market Undergoing A Big Change** [by Ryan Vlastelica via MarketWatch](#)
 - **Keep Calm & Carry On** [by Michael Lebowitz via RIA](#)
 - **Or, Would You Rather Be A Bear** [by Doug Kass via RIA](#)
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Research•/ Interesting•Reads

- **Predatory P2P Loans & Delinquencies** [by Wolf Richter via Wolf Street](#)
 - **Complete Idiot's Guide To China Risks** [by Tyler Durden via ZeroHedge](#)
 - **This Indicator Bombed In 2016** [by Simon Maierhofer via MarketWatch](#)
 - **Is Da Vinci's "Salvator Mundi" Worth \$450 Million** [by Jason Zweig via WSJ](#)
 - **Sovereign Wealth Fund Wants To Dump Oil Stocks** [by Gwladys Fouche via Reuters](#)
 - **U.S. Entry Into WWI Was A Disaster** [by David Stockman via Daily Reckoning](#)
 - **Central Banks Have Done What They Are Good At** [by Jeffrey Snider via Alhambra Partners](#)
 - **Money Moves To Make By Year End** [by Dan Caplinger via Motley Fool](#)
 - **Should Retirees Use Robo-Advisors** [by Anne Tergesen via WSJ](#)
 - **Hindenburgs & Titanics** [by John Hussman via Hussman Funds](#)
 - **Russell's Record Run Of Resilience** [by Dana Lyons via The Lyons Share](#)
 - **The Flames Went Higher** [by Jesse Felder via The Felder Report](#)
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?The only function of economic forecasting is to make astrology look respectable." - Sir John Templeton

Questions, comments, suggestions ? please [email me](#).