Reflections

"Through the mirror of my mind Time after time I see reflections of you and me Reflections of The way life used to be Reflections of The love you took from me Oh, I'm all alone now No love to shield me Trapped in a world That's a distorted reality" --The Supremes, "Reflections" When history judges this moment, it will not be kind. Central banks, oblivious to the real reasons for low wage inflation -- namely, globalization and advances in technology -- have created a monster bubble and the markets, rather than being frightened by this, have celebrated it. **The passing of a stimulative tax bill that clearly will worsen income inequality and, according to almost all economists, will lead to minimal incremental economic growth while expanding deficits despite a nine-year economic recovery and 4% unemployment, is irresponsible.** When the inevitable bust occurs, the public justifiably will reject corrective recommendations from those who have behaved so imprudently, thereby limiting the ability to re-stimulate. The bad actors who have acted imprudently are the Federal Reserve and Congress. Their failure to prosecute the bad guys in 2008-09 and their continuing and deceitful self-interest will cost them public support when it genuinely is needed in the future and in the next crisis. Our central bank, the Federal Reserve, in its infinite wisdom, is unconcerned about inflation. Consider $450 million paintings, wild speculation

on bitcoins, which are up tenfold in 12 months and are traded by grandmothers and the•Boca Biffs of the world, and $100 million New York City apartments bought on spec. The aforementioned hooligans already have enriched the rich while giving moderate-income people less than 1% in their savings accounts. The income and wealth gaps widen daily as the Screwflation of the Middle Class,•a subject I highlighted•in a Barron's piece in 2011, is unaddressed while•patently false statements and promises•(I am shocked!) are made by President Trump. Meanwhile, in another falsehood, Secretary of the Treasury Steve Mnuchin's promised analysis of the tax bill apparently was never even conducted (see•here•and•here)! Remember•Joseph in The Bible?•When things were good, he put grain in the silos to have sustenance for an eventual bad day. Our purported leaders, while often citing The Bible, apparently missed this part. They are eating the nation's seed corn. It's bad all around -- substantively, morally and intellectually. It is driven by discredited ideas that few are willing to challenge. We live in a world where Tesla TSLA and bitcoin are among the most popular investments and trades. Rather than being dedicated to finding value, most traders and "investors" today worship at the altar of price momentum. This is why we read•Charles Kindleberger's•*"Manias, Panics and Crashes"*•and read about•Hyman Minsky's•moment•to remind us not to lose our way when everyone around us is losing theirs. As I wrote last evening:

> *We truly live in a parallel universe inhabited and controlled by passive investing products (ETFs) and strategies (risk parity and volatility trending), which have been delivering a virtuous cycle as their inflows continue to overwhelm the markets and are conditioned to buying every dip. When interest rates rise and central banks pull back (or an unexpected event occurs), the virtuous cycle could be halted by outflows from ETFs and from these machine dominated algos. Despite protestations on our site and elsewhere, the recent market leg higher has only partially been influenced by the corporate profit and economic backdrop. As I have documented,•this has been a valuation-driven and not an earnings-driven market•buoyed by inflows into the aforementioned products and strategies coupled with excess central bank liquidity.*

Meanwhile, I continue to pound home that each day that goes by we get closer to a much wider monetary tightening next year -- $420 billion to be sucked out by the Fed and about $500 billion less in the way of buying from the European Central Bank. I would note for timing purposes that one trillion dollars of reduced liquidity in 2018 is beginning in just four weeks. Also, as I noted last evening:

> *As Grandma Koufax used to say, "Dougie, matzahs don't grow to the sky. Even in the Bronx." This morning's opening missive, "Here's What Works For Me," tracks how I look at the market. By my calculus the market's downside is at least 4x greater than the upside today -- even with a tax reduction, which will likely not "trickle down" and catalyze.*

From my perch there is no margin of safety left in today's market. I will leave it at that.