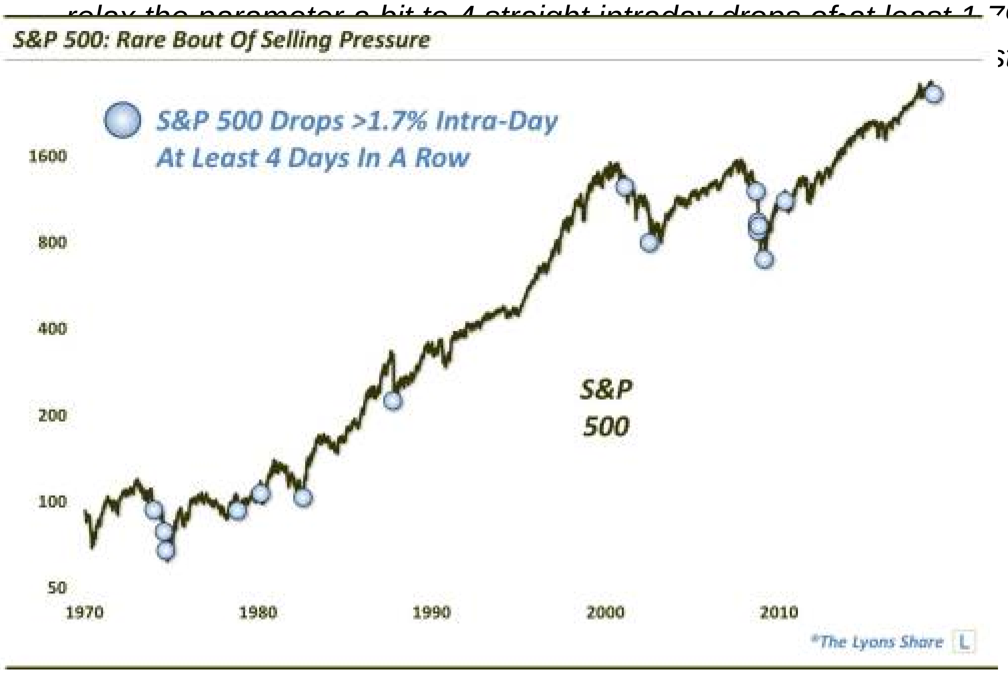
On Tuesday, we put on a small S&P 500 trading position for an oversold bounce.•At first, it didn't work and we were almost stopped out, but a late day rally kept us in the position. Wednesday was a different picture as stocks rocketed out of the gate on more *"trade talk"* news with China, but that rally faded as well heading into late day as the owner of the *"National Enquirer"* was granted immunity in exchange for details on another Trump-related *"hush money"* payment. Yesterday, the markets struggled out of the gate as economic data pointed to slowing rates of inflationary pressure and economic growth, fell into negative territory, and then ended the day flat. This morning stocks opened down as concerns of global economic weakness rose from China. So far, the *"Santa Rally"* has failed to appear and traders are beginning to wonder if they are on the *"Naughty List"* this year?•With all of the rhetoric over trade, White House shenanigans, and weak economic data, it certainly would seem to be the case. But, it may actually be more of the *"Grinch (aka The Fed) That Stole Christmas"* this year. While the Fed's rate hikes do indeed raise borrowing costs and slow economic growth, it is the extraction of liquidity from the markets which is most important. As shown in the chart below, the Fed is now reducing their flows by $50 billion each month. This is in direct contrast to the billions they were injecting previously which corresponds with the markets decade-long bull market despite weak revenue growth due to a sluggish economic expansion.

But it is no longer just the Fed. On Thursday, the [European Central Bank] made two important announcements.

1. *They will stop adding to its stock of government and corporate bonds at the end of December, and;*
2. *They are seeing signs of weaker inflation and economic growth.*

In other words, as world markets are beginning to struggle as the driver of the decade-long bull market is being removed. But yet, despite the market turmoil this year, which•certainly got investors attention, the debate has turned to whether the decline is over or has it just begun? Dana Lyons •had an interesting point earlier this week on the bout of selling.

> *"Specifically, regardless of the closing performance, the past 4 days have seen the S&P 500 drop at least 1.89% each day on an intra-day basis. That is just the 11th streak of such selling pressure in the S&P 500 going back to 1960, and the first since 2008.•If we relax the parameter a bit to 4 straight intraday drops of at least 1.7%, we observe 17 ... sting market*



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> *"As the chart displays, several of these instances occurred in the direct vicinity of cyclical market bottoms, including 1974, 1982, 1987, 2002 and 2009. That might give bulls some hope that perhaps things have gotten so bad, i.e., rock bottom,•that there?s nowhere to go but up. Although, it is probably a stretch to conclude that we are at a cyclical low right now since we were at all-time highs just about 10 weeks ago. And looking back at the chart, we see that some of the other historical events, e.g., 1974, 2001, 2008, occurred during the meat of a bear market and saw stocks just continue to fall further, going 'subterranean' if you will."*

I agree with Dana that it is hard to imagine we are at a cyclical low when we were just pegging all-time highs a few short weeks ago. As noted by•Barbara Kollmeyer,•Jeff Gundlach may have this right:

> *"DoubleLine founder Jeff Gundlach, who told clients Tuesday evening that the S&P 500 could take out February?s 2018 low due to a growth slowdown hitting company profits. 'Many equity markets are down over 20%, which some people call a bear market,' Gundlach said in his latest webcast,•according to Reuters. 'I don?t really define bear*

markets as a certain fixed arbitrary percentage. I think of it more as mood. And certainly, the setup for the equity markets looked like a bear market going into the middle of this year?the global equity market which is strongly in a bear market at the present time.' Bottom line, his•mood•is still bearish, considering he warned us in November that stocks still hadn?t hit a 'panic low."'•

While the Fed could certainly reduce, or even eliminate, their rate hike campaign, **the extraction of liquidity is a much more problematic issue.** Combined with still elevated valuation, weaker economic growth, and declining profit growth, it is highly likely that Lyons and Gundlach are correct in that the S&P 500 has yet to find a lasting bottom. For now, *"we have our stocking hung with care in hopes that Saint Nick will soon be there,"*•but don't be surprised if you wind up with a*"big lump of coal."* Just something to think about as you catch up on your weekend reading list.

Economy & Fed

- **Bad Communication All The Way Around**by Jonathon Trugman via NY Post
- **How Meng Wanzhou's Arrest Might Backfire** by Tyler Cowen via Bloomberg
- **The Economy Faces Big Risks In 2019**by Neil Irwin via NYT
- **It Is Not About Trade War - It's Global Debt Saturation** by Daniel Lacalle via dlacalle.com
- **Yield Curves, Economics & Markets**by Musings On Markets
- **IMF Issues Stark Warning On Leveraged Loans** by Pedro Da Costa via Forbes
- **The Fed Is About To Try A Tricky Balancing Act**by Greg Robb via MarketWatch
- **Fears About The Economy Are Overblown**by Gad Levanon via MarketWatch
- **Fed's Long History Of Bowing To Presidential Pressure**•by Scott Burns via FEE
- **Snake Oil Economics - Bad Math Behind Trump Policies**by Gregory Mankiw via Foreign Affairs
- **Small Business, The Casualty Of Rising Rates**by Mitchell Gunter via Washington Times
- **Americans Are Friendly Fire Victims Of Trade War**by Allan Golombek via RCM

Markets

- **Gundlach: "Scared To Look At It"**by Tyler Durden via ZeroHedge
- **2018 Forecasts: Who Nailed It & Who Didn't**by Shawn Langlois via MarketWatch
- **It's The Bullish Bear Market**by Michael Santoli via CNBC
- **I've Been High**by Eric Cinnamond via EricCinnamond.com
- **Did Stocks Hit A Bottom**by Dana Lyons via The Lyons Share
- **How To Lock In A Return On A Bond Fund**by William Baldwin via Forbes
- **No Ones In Charge** by William Watts via MarketWatch
- **Stock Market Risks Going Into 2019** by Barbara Kollmeyer via MarketWatch
- **Birds Of A Feather - Get Plucked Together**by DataTrek Research via Zerohedge
- **3-Ways To Reduce Risk In A Portfolio**by Susan Dziubinski via Morningstar
- **What A Shutdown Could Mean For Stocks**by Chris Matthews via MarketWatch

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Most Read On RIA

- **Bond Rally Was No Surprise**by Lance Roberts
- **Shiller Is Worried About Housing Again**by John Coumarianos

- **Top 10-Reasons We Could Be Heading Into A Bear Market** by Doug Kass
- **3-Really Big Lies By Financial Advisors** by Richard Rosso
- **Will Santa Visit Broad & Wall** by Lance Roberts
- **What Caused Powell To Flinch** by Michael Lebowitz
- **Why Another 50% Correction Is Possible** by Lance Roberts

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Watch

Danielle Dimartino-Booth - Quill Intelligence, LLC Peter Atwater - Financial Insyghts

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Research / Interesting Reads

- **The Market's "Long-Term" Is Changing** via Fundamental Capital via Seeking Alpha
- **Brexit: No Confidence, No Clarity** by Simon Constable via Korn Ferry Institute
- **US Banks Haven't Behaved Like This Since 2009** by Jeffrey Snider via Alhambra Partners
- **Netflix Christmas Movies - Appalling Economics** by Aaron Brown via RCM
- **Yep, Bitcoin Was A Bubble & It Popped** by Noah Smith via Bloomberg
- **Your Love Of Index Funds Is Economically Terrible** by Michael Brush via MarketWatch
- **Tales From The "Trading" Crypt** by Shawn Langlois via MarketWatch
- **Do American's Marry For Love Or Money - An Answer** by Quentin Fottrell via MarketWatch
- **Oil Prices And The Global Economy** by John Stepek via MoneyWeek
- **7-Questions To Ask In A Volatile Market** by Brett Arends via MarketWatch
- **Low Rates And "Good" Are A Delusion** by John Hussman via Hussman Funds

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> ***?The market may be bad, but I slept like a baby last night. I woke up every hour and cried."*** *– Anonymous*

Questions, comments, suggestions ? please email me.