



Despite all of the controversies, drama, and staff turnover, one thing has been consistent throughout Trump's presidency: his frequent praise of the stock market's performance and taking credit for it. As someone who has been warning that our stock market boom is really a dangerous, debt-driven bubble that is going to end disastrously, I have been publicly cautioning that ***it is extremely unwise and irresponsible for President Trump to be encouraging and taking ownership of this irrational speculative boom.*** In this piece, I will explain why Trump's praise of today's stock market bubble would be like President George W. Bush praising the housing bubble in the mid-2000s before it crashed and sunk the country into a deep recession.

Trump uses the stock market as one of the main yardsticks of his administration's performance, as the following tweets show:

<https://twitter.com/realDonaldTrump/status/1111745178824511489>

<https://twitter.com/realDonaldTrump/status/1117428291227533312>

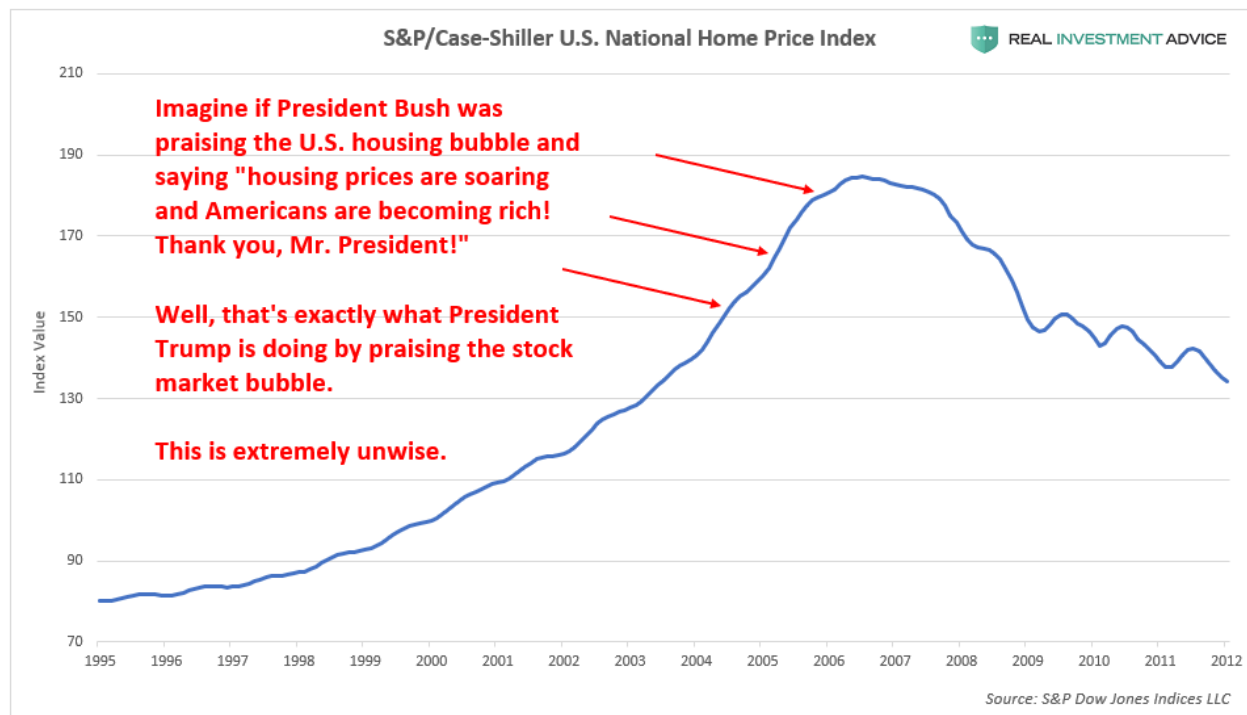
<https://twitter.com/realDonaldTrump/status/1142476293331738624>

<https://twitter.com/realDonaldTrump/status/1142435387496902656>

<https://twitter.com/realDonaldTrump/status/1143492027897778176>

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Imagine, theoretically, if President George W. Bush was praising the U.S. housing bubble as it inflated in the mid-2000s while saying extremely arrogant and cocky things like "***I'm making you all rich!***" and "***Thank you, Mr. President!***" Then, the housing bubble bursts and causes the most severe recession since the Great Depression. Well, that's basically what President Trump is doing when he praises the soaring stock market.



As a result of the Fed's ultra-stimulative monetary policies, the U.S. stock market (as measured by the S&P 500) surged 300% higher in the past decade. **Note: the market surged due to the actions of the Fed, not Trump** (read my [detailed explanation](#)). The market was already surging and quite inflated before Trump even got into office in late-2016.



Trump himself even called the stock market a "[big, fat, ugly bubble](#)" when he was on the campaign trail in 2016. He changed his tune immediately after he won the election.

Donald Trump on the stock market: 'It's all a big bubble'

Jeff Cox | [@JeffCoxCNBCcom](#)

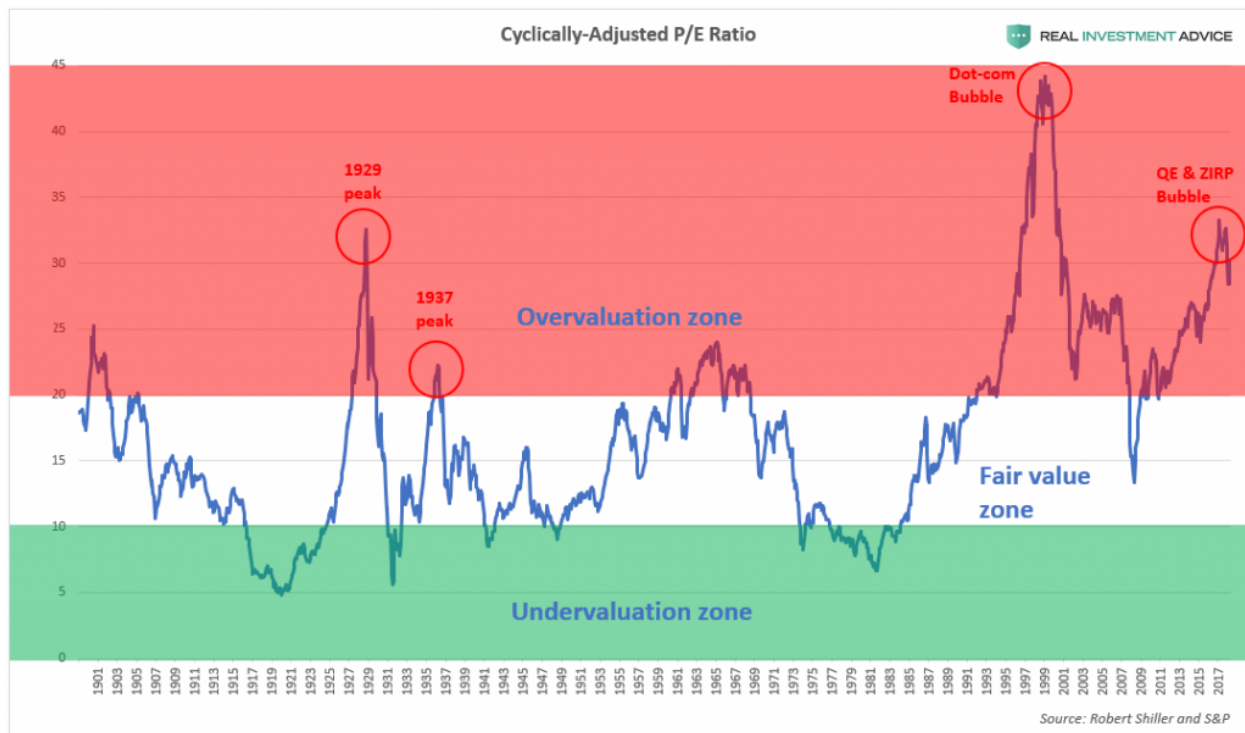
Published 9:15 AM ET Tue, 9 Aug 2016 Updated 10:07 AM ET Tue, 9 Aug 2016

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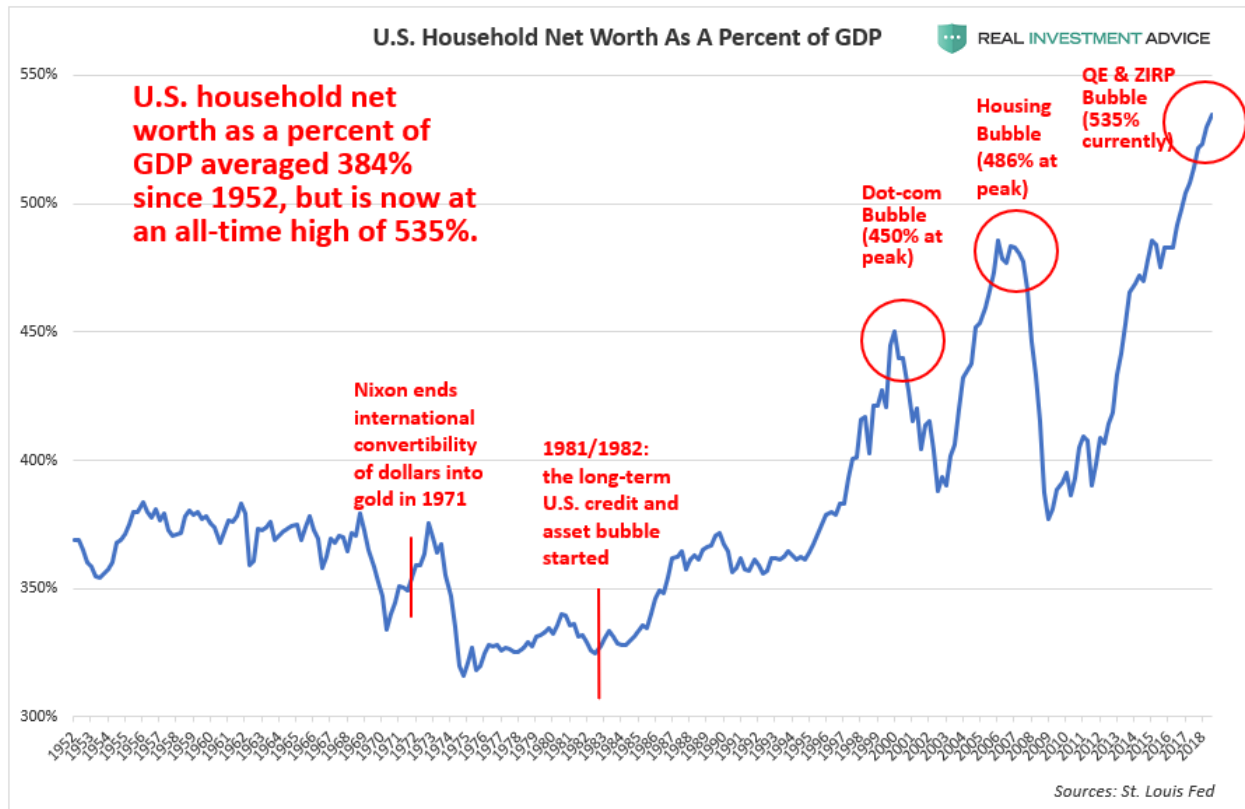


Count Donald Trump among the ranks of those who don't think too much of the stock market as a sound place to put money.

The Fed's aggressive inflation of the U.S. stock market caused stocks to rise at a faster rate than their underlying earnings, which means that the market is extremely overvalued right now. Whenever the market becomes extremely overvalued, it's just a matter of time before the market falls to a more reasonable valuation again. As the chart below shows, the U.S. stock market is nearly as overvalued as it was in 1929, right before the stock market crash that led to the Great Depression. It is very unwise for Trump to be fanning the flames of this bubble as well as taking ownership of it.



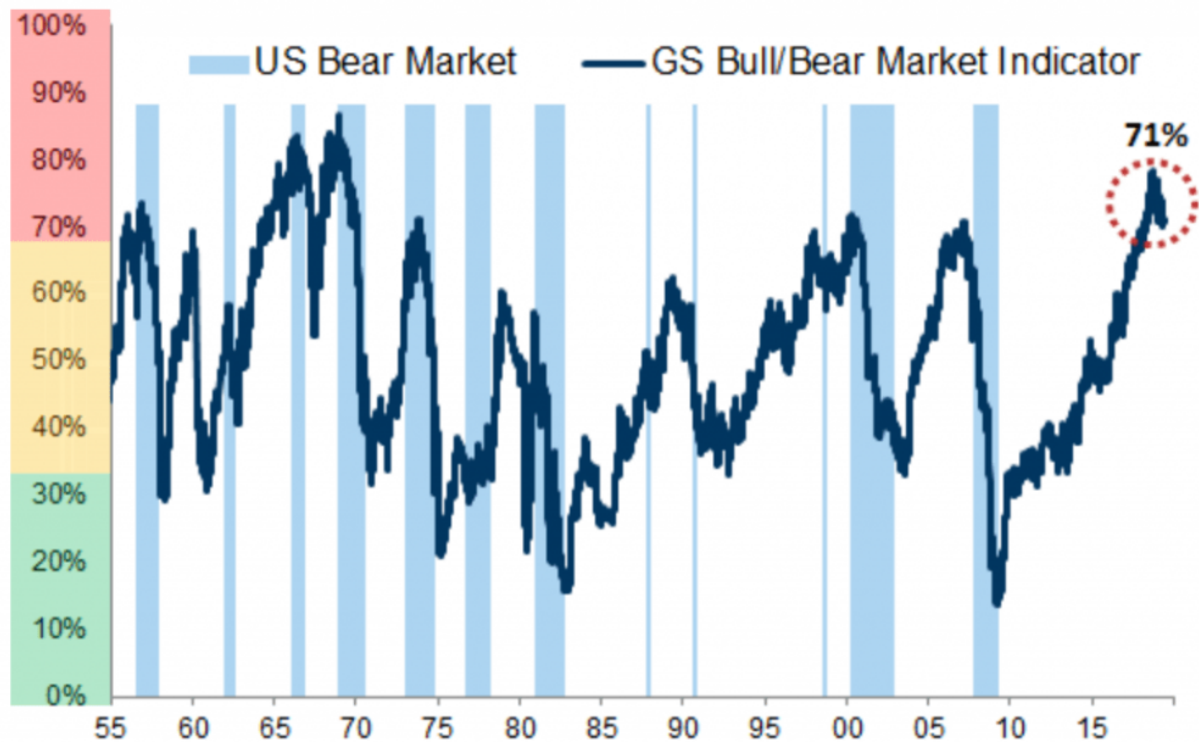
The Fed's aggressive inflation of the U.S. financial markets has created a massive bubble in household wealth. U.S. household wealth is extremely inflated relative to the GDP: since 1952, household wealth has averaged 384% of the GDP, so the current bubble's 535% figure is in rarefied territory. The dot-com bubble peaked with household wealth hitting 450% of GDP, while household wealth reached 486% of GDP during the housing bubble. Unfortunately, the coming household wealth crash will be proportional to the run-up.



To make matters worse, Goldman Sachs' very accurate Bear Market Risk Indicator has been at its highest level since the early-1970s:

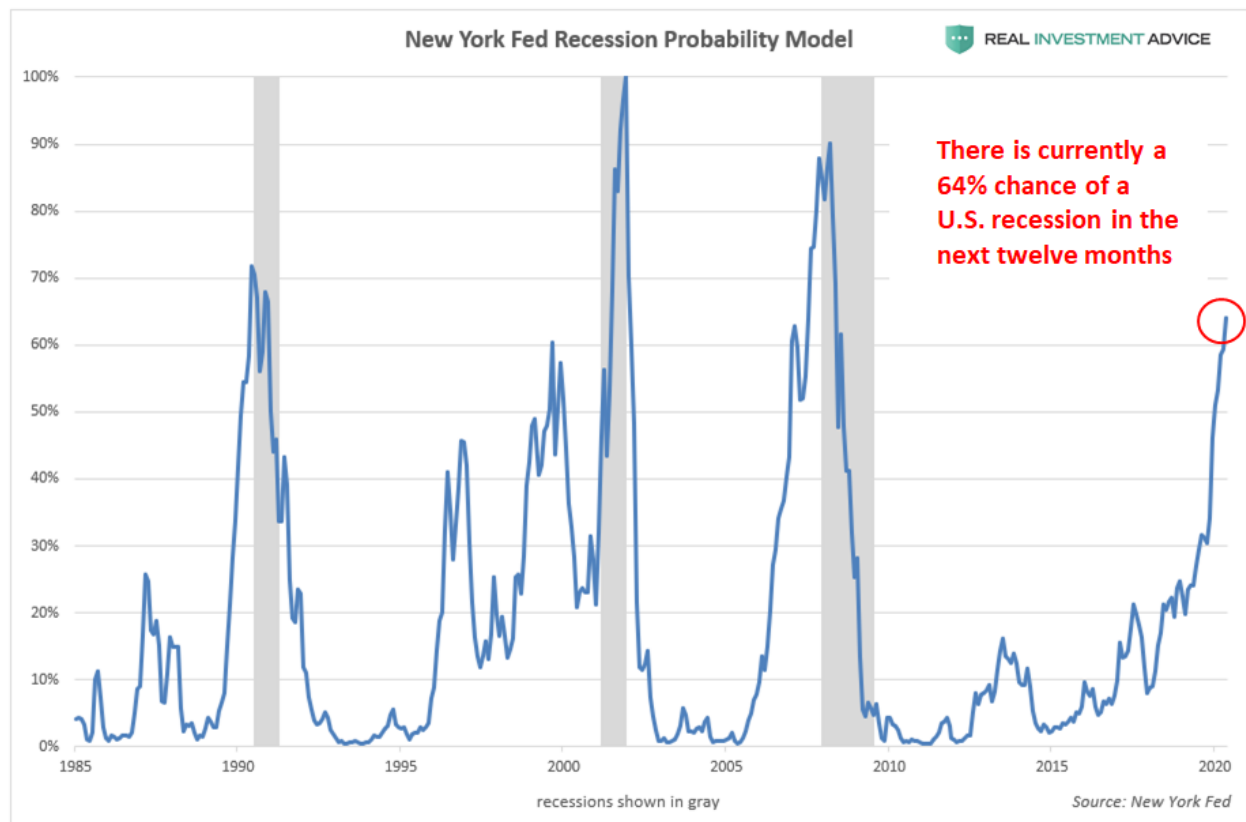
Exhibit 17 : GS Bear Market Risk Indicator

Average percentile (in US) for ISM, slope of yield curve, core inflation, unemployment and Shiller PE. For Unemployment and yield curve, a lower reading corresponds to a higher (riskier) percentile.



Source: Shiller, Haver Analytics, Datastream, Goldman Sachs Global Investment Research

In addition, the probability of a U.S. recession in the next twelve months may be as high [as 64%](#). It should go without saying that recessions are not kind to the stock market - especially when the market is overvalued like it is now.



To summarize, President Trump is extremely foolish for encouraging the current stock market bubble and conditioning the public to believe that the stock market boom of the past decade (which had started long before he became president) is the direct result of his policies. **A responsible leader who genuinely cares about the long-term future of the country would have distanced himself from this bubble and done everything in his power to try to defuse the bubble to prevent it from doing even more damage when it ultimately bursts.** Do I say this as an avowed liberal? Quite the opposite. I say this as a conservative who is worried that President Trump is going to make conservatives look bad when this artificial market and economy implodes.

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