

# The Market is Worried and With Good Reason

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Dow falls 370 points.

Now there's a line we haven't seen for a while.

Ever since 'The Donald' won the US Presidential election in November 2016, it's been a one-way ride for the [US market](#).

Tax cuts. Infrastructure spending. Cutting red and green tape. Reforming healthcare.

The mere prospect of a pro-business agenda has propelled the Dow 10% higher over the past six months.

On the surface, it looks like that old market chestnut of 'buy the rumour and sell the fact' is once again proving to be a great predictor of [market behaviour](#).

The Donald has promised a lot, but delivered very little. Perhaps this will all change once he deals with this pesky FBI investigation into whether the master self-promoter was a mere pawn of the master chess player...big Vladimir Putin.

The Donald's actions do nothing to persuade a casual observer of his innocence. But is he a little guilty or really guilty of colluding with his enemy? The answer to that question is what will decide his presidency.

The US market developed a case of the wobbles over a leaked memo — allegedly from former FBI director James Comey.

According to Bloomberg:

*'Donald Trump is facing the deepest crisis of his presidency after contents of a memo written by James Comey when he was FBI director surfaced Tuesday, alleging that the president asked him to drop an investigation of former National Security Adviser Michael Flynn.'*

*"I hope you can let this go," Trump told the FBI director [James Comey], according to the memo as cited by the New York Times.*

Whether it was a 'wink and a nod' type suggestion or a more direct 'or else' threat or nothing at all is yet to be determined. Given The Donald is no shrinking violet and plays by his own rule book, **the market is worried**. And with a good reason.

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And this from the Bloomberg article (emphasis is mine):

*'The revelation raised questions about whether the president sought to influence the FBI at the same time the agency is investigating Russian interference in the 2016 election and possible collusion with Moscow by Trump associates. The memo's emergence, after Trump fired Comey, had congressional Democrats raising the specter that the president engaged in obstruction of justice, **an impeachable offense.**'*



The road to impeachment is a long one. And, even if it does happen, as witnessed with Clinton in 1998, you can survive with the numbers in Congress.

Make no mistake; there are very powerful forces within Congress (and outside) that are determined to keep the pressure on.

Trump probably has a collection of skeletons in the closet, and his enemies are determined to shed some light on those bones.

The prospect of impeachment reminded me of a conversation I had earlier this year with acclaimed economist Nouriel Roubini (prof at NYU's Stern School of Business and Chairman of Roubini Global Economics). Here's an extract from the January 2017 edition of *Gowdie Letter*:

*'Courtesy of a good friend of ours in New York we had the pleasure of being a guest at cocktail party hosted by Nouriel Roubini' in his lower East side penthouse.*

*'Nouriel was gracious enough to spend some time with me to share his views on what he thinks may happen in the near term.*

*'He "warned" me that he's Mr Doom and Gloom...I said "we're a good match".*

*'Firstly, Nouriel is no fan of Donald Trump.*

*'He thinks the markets will "rejoice" Trump's administration for the first 100 days. Then watch out. As reality sets in and people begin to understand the impact on trade of his protectionist policy and the budget restraints that make his promised tax cuts unlikely, Nouriel said "the uncertainty will result in the world going through a series of shocks."*

*'My question was "what's your advice?"*

*'His very direct reply was "Go to cash".*

*'Nouriel also said "that if only 1/3<sup>d</sup> of what's being said about Trump is correct, then don't be surprised if he's impeached." As I said, he is no fan of Trump so perhaps there may have been some wishful thinking behind the impeachment comment.'*

Roubini is very well connected in the business and political world.

The week after our meeting he was in Davos, speaking at the World Economic Forum. What did he know about those skeletons?

The Donald's first 100 days in office recently ticked over.

Is the latest [market action](#) the beginning of the shocks predicted by Roubini?

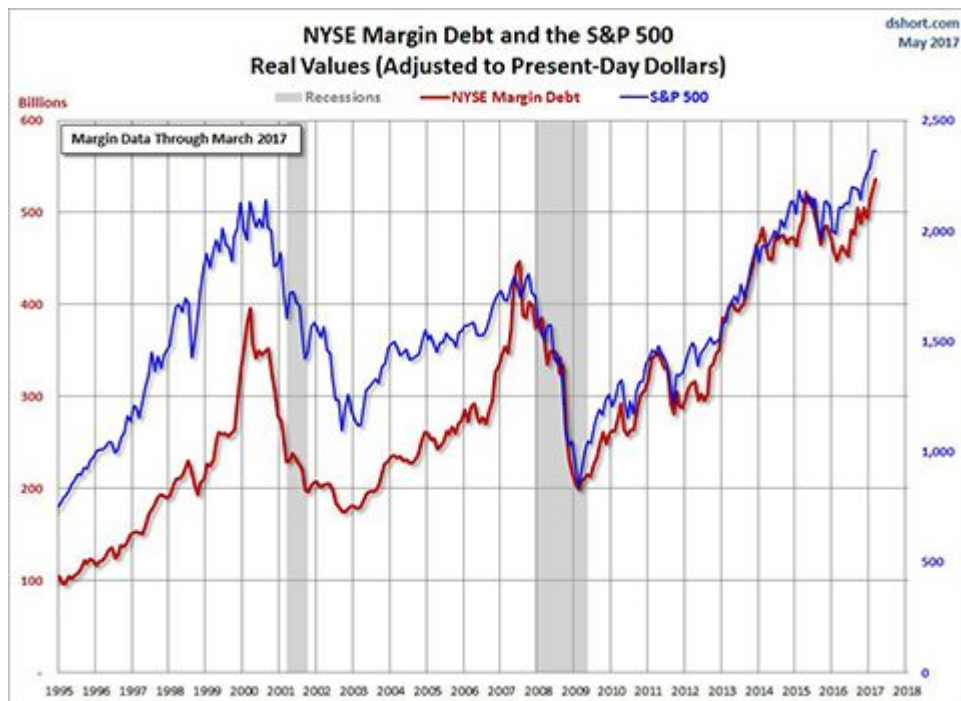
Possibly.

This may turn out to be more of a tremor, as opposed to a full-blown shock.

Experience tells me that things rarely happen in markets in neatly packaged outcomes.

Investors are still gripped by the TINA (there is no alternative) mentality. Momentum is still with the market...stocks are the main game in town.

The following chart shows the New York Stock Exchange margin debt (red line) in relation to the S&P 500 index (blue line). The values have been adjusted to present-day dollars to make an 'apples with apples' comparison.



Source: Advisor Perspectives

[\[Click to enlarge\]](#)

Even in adjusted-value terms, the S&P 500 and NYSE margin debt levels exceed the peaks of both the dotcom and US housing

We know from experience that this is dangerous territory. However, investors are not retreating from participating in this ageing and overvalued bull market with borrowed dollars. They're not ready to let go just yet.

The investment industry — as it always does — will promote this current period of volatility as 'an opportunity to buy the dip'. This la bout of uncertainty will be sold as a mere dip in the Dow's march towards 30,000 points.

My guess is there'll be more tremors. Then Trump might catch a break with some good news going his way. If that happens, it'll be the casino for one last throw of the dice.

Why do I think there'll be one last hurrah?

If this is truly going to be a market for the history books, the blue and red lines need to go higher...much higher. The fall from that height needs to be so devastating that a generation of investors will be scarred for life. Brutal lessons need to be taught.

They'll find out the hard way there was an alternative: cash.

As Roubini said in an interview with *The Sunday Times*: 'You're not getting much from savings these days but earning 0% is better than losing 50%.'

When this is all over, investors will wish their losses were only 50%.

The coming market collapse is going to rival the Great Depression in its intensity.

The reason for this dire prediction is because hardly anyone is expecting it. To even suggest it invites ridicule and derision. That suits just fine.

You want the believers of 'this time is different' to be the overwhelming majority in this difference of opinion. The more who believe, greater the certainty of the opposite being true.

At the point of peak belief, the market says 'Gotcha. It's not different...sucker.'

The Donald's true believers face the same fate. Trump is not different.

To quote from Monty Python's *Life of Brian*, Trump believers are going to find out 'He's not the Messiah, he's just a very naughty boy'.

The Donald's fall will be every bit as spectacular to watch as the market's historic collapse.

Belief in false gods always leads to disappointment. This time will be no different.

For those who believe in the physics of 'every action creating an equal and opposite reaction', you'll need to remain patient a little longer.

Lines of 'Trump impeached' and 'Dow plunges 2000 points' are in our future.

Regards,

Vern Gowdie,  
Editor, *Markets & Money*

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Vern Gowdie

**Vern Gowdie** has been involved in **financial planning** in Australia since 1986. In 1999, *Personal Investor* magazine ranked Vern as Australia's Top 50 financial planners. His previous firm, Gowdie Financial Planning, was recognized in 2004, 2005, 2006 & 2007, *Independent Financial Adviser* magazine as one of the top five financial planning firms in Australia. He is a feature editor to *Markets & Money* and is Founder and Chairman of the [Gowdie Family Wealth](#) advisory service and editor of [the Gowdie Letter](#). To follow Vern's financial news more closely you can [you can subscribe to Markets and Money for free here](#).



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