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# This Bubble May Burst

***e*Research Corporation** is pleased to provide an article, contributed by Jason Stutman (bio provided), for **WealthDaily**, wherein Mr. Stutman provides an opinion on the market.

The article begins on the next page, or you can access it directly at **WealthDaily** at the following link: http://www.wealthdaily.com/articles/investors-forget-about-the-trump-rally-were-sitting-on-a-trump-bubble/8588. The article is entitled "**Careful! This Bubble May Be About To Burst**".

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WEALTHDAILY

# Careful! This Bubble May Be About To Burst

**By Jason Stutman | Sunday, March 26, 2017**

Earlier this week, fellow *Wealth Daily* editor and investing veteran Briton Ryle raised a very important question to our readers: whether or not the recent "Trump Rally" is now over.

Ryle's comments were sparked by a sudden drop in the U.S. stock market on Tuesday that marked the largest single-day decline (-1.24%) in the S&P 500 since last October.

As Ryle rightly pointed out on Wednesday, Tuesday's sell-off, while not a crash, was particularly notable because of movement towards the downside in the Russell 2000 small-cap index. The index had fallen more than twice as hard (-2.74%) as more commonly cited benchmarks like the DJI and S&P 500.

This is important to note because, as Ryle explains, small caps tend to lead in bear markets, being more speculative assets in general. Further, the Russell 2000 represents four times as many companies as the S&P 500, arguably making it a much broader gauge of general economic sentiment.

Of course, it's only been three days of trading since Ryle's comments, but the market may already be indicating that the “Trump Rally” could indeed be over. At the very least, it's hit the pause button for the time being.

**Correction or Capitulation?**

It's worth recognizing that corrections are perfectly normal and, on its own, Tuesday's sell-off isn't of any major concern.

After all, the S&P 500 is still up over 300 points since early November, and the Russell 200 is up about 200 in the same time frame. At some point or another in every bull market, investors will begin to protect their gains and wait for the dust to settle...

Ultimately, though, this is the kind of question that keeps us market forecasters up at night: Are investors simply waiting to establish a new support, or is this a sign of further things to come?

The truth is there are no sure answers, but of course there's always room to speculate.

Here was Ryle's take on the matter:

*I'm not going to talk too much about this, but as we all know, this whole rally was based on Trump policy. Basically the belief that he was going to cut corporate taxes, roll back some regulations like Dodd-Frank that has hindered the banks, and maybe spend a bunch of money on infrastructure.*

*As I've written here before, the corporate tax cut alone had the potential to add $10 a share to S&P 500 earnings, which is significant.*

*You may also recall that I warned that if the Trump administration put off tax reform and easing regulations, and instead focused on Obamacare, the market would sell off.*

*It looks like that's what's happening now. The House is set to vote on the new health care bill tomorrow. Consensus is that it will not pass. That's another defeat for the Trump administration. But worse, it dials back the clock on tax reform. Those corporate tax cuts could have come in 2017. That would have justified the rally. But now that we may not get those tax reforms until 2018...*

Now, I've removed a bit of context for the sake of space, but the basic argument here is that while the market has rallied on tax cuts and deregulation, investors are finally beginning to realize the truth: we probably aren't going to get that bag of goodies as soon as many may have hoped.

The premise is agreeable enough on its own, but I'm willing to take it one step further: If things continue the way they are, we probably won't get those reforms at all...

And if that's what ends up happening, any gains made during the "Trump Rally" could be wiped out entirely as soon as this reality becomes obvious — that is, at least to whatever extent Trump's anticipated policies are actually behind the recent stock rally.

**An Eye for an Eye Leaves America Blind**

On Thursday, Senate Minority Leader Chuck Schumer shed some further clarity on what the remaining 45 months of a Trump presidency might look like, and for investors hoping for tax reform, it's not especially pretty.

Along with the assertion that he plans vote "no" on Supreme Court nominee Neil Gorsuch, Schumer called on his colleagues to do the same, and made it clear that Democrats plan to filibuster.

Republicans, of course, still have the "nuclear option" to change Senate rules and weaken the filibuster, but regarding the sustainability of a "Trump Rally," it doesn't really matter; what's telling here is that a filibuster is even going to happen at all.

The reason I bring this up is not to stir a political debate, but rather to highlight the unwavering opposition against anything Trump touches.

Of course, this may not seem like anything new on the surface. After all, Democrats have already obstructed a number of other Trump nominations and orders. However, the opposition to Gorsuch is particularly telling as to their motivations...

Gorsuch, it turns out, is an objectively good nomination. He is without controversy, and the voting record shows it.

**Serving the People, or Serving the Party?**

In 2006 Neil Gorsuch was nominated by George W. Bush to serve on the 10th Circuit Court of Appeals, and was confirmed unanimously by voice. At the time, 12 of the current 48 Democratic senators were present, yet not a single one of them chose to vote against Gorsuch at the time.

The list of Democrats shown voting in favor of Gorsuch in 2006 includes just about every recognizable Democratic leader you can think of — John Kerry, Hillary Clinton, Joe Biden, Barrack Obama, and none other than Chuck Schumer himself all voted for Gorsuch not too long ago.

Yet now it's looking like the Democrats are going to fight to the bitter end, despite no obvious line of reasoning other than "resist Trump," "he's a conservative," or "they did it to us first."

As Wesley Pruden over at the *Washington Times* put it:

*Democratic senators can only cast their votes in opposition by holding their noses at the stench of their own shame. There might be a Democratic rogue or two.*

*The hearings were devoid of sturm, drang and even squeaks. There was no drama, no surprises and nothing to suggest anything but a roll call of one kind or the other that will put Judge Gorsuch on the court.*

Even the *Washington Post*, which is widely recognized as a left-leaning outlet, is nudging Democratic congressmen in Gorsuch's direction:

*We are likely to disagree with Mr. Gorsuch on a variety of major legal questions. That is different from saying he is unfit to serve. He deserves the deference due any presidential nominee...*

*[Gorsuch's] merits include top-flight academic credentials, a decade on the federal appeals bench, a "well-qualified" rating from the American Bar Association and the support of some key Obama administration legal officials. In his hearings, Mr. Gorsuch defended judicial independence, went as far as he could in criticizing President Trump's bullying of federal judges, and expressed reverence for legal precedent.*

What this should tell you is that the obstructionism occurring right now in Congress is blind. The core motive is not to protect the interests of their constituents but rather to protect themselves and their party.

Of course, one could certainly make the case that this is just tit-for-tat after two terms of Republicans obstructing Obama, but the point remains: without a Republican super-majority, Democrats will continue to say, "Over my dead body."

And for a market that many believe to be banking on deregulation and tax reform right now, that could be a very, very big problem.

Until next time,

Jason Stutman

Jason Stutman (bio on next page)

*Jason Stutman is Wealth Daily's senior technology analyst and editor of investment advisory newsletters Technology and Opportunity and The Cutting Edge. His strategy for building winning portfolios is simple: Buy the disruptor, sell the disrupted.*

*Covering the broad sector of technology and occasionally dabbling in the political sphere, Jason has written hundreds of articles spanning topics from consumer electronics and development stage biotechnology to political forecasting and social commentary.*

*Outside the office Jason is a lover of science fiction and the outdoors, and an amateur squash player at best. He writes through the lens of a futurist, free market advocate, and fiscal conservative. Jason currently hails from Baltimore, Maryland, with roots in the great state of New York.*

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