Jim Woods'
INTELLIGENCE REPORT®

The Financial and Personal Security Letter • November 2017

Can This Market Get a Little R-E-S-P-E-C-T?

What you want, baby I got it
What you need, do you know I got it
All I'm askin', is for a little respect

–Aretha Franklin, "Respect"

October was very good for the financial markets, and very good for those who have money at work in the greatest wealth-creation engine the world has ever seen.

Marking a milestone highlighting just how good things got this month was the Dow Jones Industrial Average, which on Wednesday, Oct. 18, closed above 23,000 for the first time. Now, think back to how you felt nearly nine years ago, when the Dow was trading just over 7,000.

Did a realistic Dow 23,000 even seem like a remote possibility then? I suppose there were a few strident bulls out there who were eminently confident about the future, but I doubt there were many people thinking the next decade would bring about a tripling of the Industrials in less than nine years.

Given the remarkable track record of the Dow, as well as the other major market indices, since the Great Recession, you would think that this bull market finally would be given a little respect. Yet because of far too many doomsday pundits, this market continues to suffer from what I call "Rodney Dangerfield syndrome." That reference is to the late, great comedian, whose saying, "I don't get no respect," is one of the most famous catch phrases in comedy history.

I say that, because this has been the most unloved bull market, certainly in my professional lifetime, and one that has been haunted by the ghosts of the Great Recession, as well as a near-oppressive cloud of skepticism over what's driven stocks higher.

The main driver of stocks over this period, of course, has been the Federal Reserve and its money printing scheme that's artificially inflated equity prices. And while I certainly understand the skepticism brought about by the unprecedented moves by the central bank to pump excess liquidity into the system via the numerous quantitative easing permutations, the fact is that if you had put money to work in the Dow around the time that the money printing began, you now would be sitting on a massive gain.

Still, some would argue that those gains are "artificial," and that they are almost entirely fueled by the Fed. Now, I certainly won't argue that the Fed's easy monetary policy hasn't been a major driver of equity prices, but it's not the entire reason why people want to own stocks. We can see this if we look at markets over the past couple of years, when the Fed has pulled back on quantitative easing.

In late 2015/early 2016, stocks fell below key support at the 200-day moving average. By March 2016, markets were back above that key trend line (see SPX chart, Page 2).

Even with a brief pullback down to the 200-day average in late June of that year due to the "Brexit" scare, the Dow has remained in a confirmed bull market. That's more than 18 months where the oldest and most widely followed market index has been lighting up the scoreboard with an unequivocally "Bullish" neon sign.

It is because of this remarkable resilience, as well as the relentless 2017 march to new highs, that I think this bull market deserves way more respect than it has received.

Consider that year to date, the Dow is up nearly 19% (as of Oct. 26).

Also consider that those remarkable gains have come despite the Fed hiking rates, signaling more rate hikes later this year and announcing it will begin to reduce its balance sheet this year.

This tells me that rather than caused by the Fed, this year's market climb has been the direct result of

S&P 500 Large Cap Index (SPX)

President Trump's pro-growth hope trade, improving economic data and surprisingly strong corporate earnings. Now, you might think that given the resilience of this bull market over the past 18 months that you would have fewer naysayers out there questioning its legitimacy.

Yet what we need to remember is that in today's society, including financial media, controversy is what grabs attention. Take, for example, recent headlines in two of the financial media's more cerebral financial publications — *Barron's* and *The Economist*.

The Oct. 14 *Barron's* cover story was titled, "Echoes of The 1987 Crash," a piece reflecting on the seminal pullback in markets some 30 years ago this month, and how we could be headed for the same fate this time (see Page 8 for my remembrances of "Black Monday").

Then there was *The Economist* and its Oct. 7 cover story, "The bull market in everything," with the subtitle, "Are asset prices too high?" That piece essentially lamented the fact that stocks have done so well over the past couple of years.

My read on both articles was not that they were outright wrong in their expression of concern and caution. In fact, many of the points made in these articles I agreed with. Yet contrary to the overall intended takeaway of both articles, my read on them is that each continues to serve as proof that, just like for the past eight-plus years, sentiment remains skeptical and cautious towards this rally — and *that* skepticism and caution is one of the most-compelling reasons the rally keeps on going.

As my friend and go-to research source, as well as the provider of research for this newsletter, Tom Essaye of the *Sevens Report*, recently told me:

"I haven't confirmed this, but I feel pretty confident saying that neither *Barron's* nor *The Economist* have ever predicted a market crash or bear market. Now, that's not meant as disrespect to those two great publications, it's just that practical investing history shows us crashes and bear markets come when it's not the consensus expectation."

Both Tom and I do share in the long-term view of this market that we always need to be cautious when we have money at work. We also both agree that this nearly nine-year rally in markets has been manufactured with cheap money and low rates, and that when things return to normal the impact on stocks and bonds could be decidedly uncomfortable.

If 2017 has taught investors anything, it's that the price of getting out of stocks too early is nearly as steep as staying in the market too long.

Yet as the past eight-plus years have shown, being cautious doesn't mean you can afford to be out of the market just because it "feels" like something bad will happen. If 2017 has taught investors anything, it's that the price of getting out of stocks too early is nearly as steep as staying in the market too long.

Now, adherents to the principles of this service aren't likely to have run for the hills this year just because markets historically are overbought. After all, we concentrate on owning great, dividend-paying stalwarts that allow us to build wealth over the long term.

Still, we are only human, and by that, I mean we are subject to getting jittery when signs of trouble are on the horizon. Fortunately, the fact that stocks trade generally at about 18 times 2018 earnings per share (EPS) estimates is not the kind of trouble that should force anyone into a bunker.

Jim Woods' Intelligence Report (ISSN 0884-3031), JimWoodsInvesting.com, is published monthly by Eagle Products LLC, 300 New Jersey Ave., NW, Washington, DC 20001. **Editor-in-Chief:** Jim Woods; **Editorial Director:** Paul Dykewicz; **Group Publisher:** Roger Michalski. **Subscriptions:** 1 year $249; **Customer Service:** 800-211-4766. Periodicals postage paid at Washington, D.C., and at additional mailing offices. Postmaster: Send address changes to: **Jim Woods' *Intelligence Report***, 300 New Jersey Avenue NW, Suite 500, Washington, DC, 20001.

Assessing the Reflation Trade Wobble

In last month's issue, we asked rhetorically if this market is seeing a "reflation trade." As I wrote then, reflationary periods are when bond yields tend to rise as they reflect investor expectations for future economic growth and inflation. Those rising bond yields also tend to be accompanied by a steepening of the yield curve, which reflects rising inflationary expectations and increased demand for money via loans.

We saw the return of the reflation trade in September, amid a surge in 10-year bond yields, a rise in the U.S. dollar vs. rival foreign currencies and the move higher in reflation sectors such as banks, financials and small caps.

Yet in early October, the reflation trade began to wobble. What put the brakes on the reflation trade, and what could cause that trade to start back up again? To answer these questions, we need to remember that since the July Federal Open Market Committee meeting, inflation has become perhaps the most important economic statistic. Stated simply, the markets need inflation to rise to help fuel the reflation trade.

That happened midway through September, as we saw the first real inklings of accelerated inflation in the Chinese, British and U.S. Consumer Price Indexes (CPIs), as each respective report bested expectations. Yet since then, there has been no real follow-through on inflation metrics, and that's left the reflation trade treading water.

Interestingly, in mid-October the reflation trade regained its sea legs, and we know that via two key metrics — the 10-year Treasury yield and the price of bank stocks as measured by the KBW Bank Index.

The chart below shows the 10-Year Treasury yield. As you can see, the "wobble" of sorts came after the late-September move through the 200-day moving average.

CBOE 10-Year US Treasury Yield (TNX)

The 10-year yield failed to hold that level in early October. Yet in the week leading up to this writing, we have seen the 10-year move up to the very important 2.40% level. If we see bond yields remain at this level, and/or if they trend higher, that will be a big signal confirming the reflation trade. It also will serve as a signal that financial stocks (only those of the highest quality) should be the recipient of new investment capital.

KBW Bank Index (BKX)

And speaking of financial stocks, the second indicator I told you I use to monitor the reflation trade is banks, and specifically the KBW Nasdaq Bank Index (BKX). The chart above of BKX shows that it, too, had a bit of a wobble midway through October as it fell back below key resistance at the 100 level.

Yet like the 10-Year Treasury yield, BKX also rallied back above that key resistance in the week leading up to this writing. The index now trades at a new 52-week high, and it appears poised to continue its ascent into new-high territory.

The bottom line here is that with these two key reflation trade indicators now signaling a potential substantive change in this market's character, we will need to be acutely aware of any major rotations of capital out of the sectors that have outperformed in 2017 (technology, internet, utilities and consumer staples) and into reflation sectors (banks, industrials, small caps and consumer discretionary).

Income Multipliers in the News

In his final issue of *Intelligence Report*, Dick Young selected **Caterpillar (CAT)** as his No. 1 stock. Well, I concur. The undisputed leader in high-quality construction machines has a massive global footprint, with more than 3 million machines spread throughout 190 countries.

On Oct. 24, CAT crushed analysts' third-quarter estimates on both the top and the bottom lines, as the equipment behemoth saw very strong demand

Caterpillar, Inc. (CAT)

for its construction equipment in North America and China. The company reported adjusted earnings per share of $1.95 vs. estimates calling for just $1.27 per share. On the revenue front. CAT said its top line came in at $11.41 billion in Q3; firmly above the $10.65 billion Wall Street was expecting.

I guess it should come as no surprise that CAT shares surged on the news. It also should come as no surprise that CAT is one of the best-performing, large-cap dividend payers around, having vaulted nearly 48% year to date. Suffice it to say, CAT shares are a firm "Buy."

Another one of Dick's favorites, as well as mine, is **McDonald's Corp (MCD)**. This may be the oldest kid on the fast-food block, but that just means the company has had time to figure out the ever-changing taste trends of its patrons. Key amongst those trends is the desire for "fresh" and health foods. In recent quarters, McDonald's has promoted items that cater to that demand.

On Oct. 24, the same day as CAT announced its results, MCD reported Q3 earnings per share of $1.76. That was basically in line with expectations. Revenue was $5.8 billion, which was a slight beat vs. the $5.7 billion analysts had anticipated. The really good metric was the company's same-store sales in the United States. That number climbed 4.1%, far outpacing the 3.6% growth industry watchers had anticipated. That same-store sales number is even more impressive considering it came during a period that included Hurricanes Harvey and Irma, which shut down many of its restaurants for days and, in some cases, for weeks. "Buy."

Wal-Mart Stores, Inc. (WMT)

Retail dominator **Wal-Mart Stores Inc (WMT)** is one of the few companies to figure out a balance between selling items in physical locations and selling online. That mix of sales funnels allowed Wal-Mart to announce in early October, during its annual meeting, that it still is expecting earnings per share to range from $4.30 to $4.40 for fiscal 2018, which is in line with current Street estimates.

The company also rather boldly announced that it expects its fiscal 2019 earnings per share to be up 5% from the year prior. Perhaps most impressively, the company's renewed focus on online sales has allowed it to announce that it expects ecommerce in the United States to rise by some 40% in fiscal 2019. Wal-Mart's share price is up nearly 11% in October, and that recent move helped lift the Dow past 23,000. "Buy."

One of the strongest large-cap industrial stocks this year is **3M Company (MMM)**. The stock has powered some 30.5% higher year to date, and that gain has come on the back of solid earnings. The company, best known for its famous consumer brands Scotch, Post-It and Scotch-Brite, recently reported strong Q3 results that easily beat expectations.

3M reported its Q3 bottom line was $2.33 per share, well above estimates calling for earnings per share of just $2.21. That solid earnings metric came along with strong revenue, which was $8.17 billion, well above consensus estimates of $7.93 billion. Impressively, 3M saw sales rise in each of its reporting segments. Leading the way was the electronics and energy segment, which climbed 13.1% year over year. 3M also saw sales growth in its industrials, its biggest overall segment, of 6.2% year over year to $2.8 billion.

If that weren't enough bullishness for one report, the company also raised its full-year guidance for sales growth from 3% to 5%, to 4% to 5%, and its EPS forecast from the prior range of $8.80 to $9.05 to $9.00 to $9.10. "Buy."

Taking on a Nobel Prize-Winning Economist

In a recent *New York Times* column, "The G.O.P. Is No Party for Honest Men," Keynesian warrior and Nobel Prize-winning economist Paul Krugman starts out by admitting he is confounded that only 60 percent of Americans in a recent poll think that the tax plan favors the rich.

According to Krugman, "It's shocking that as many as 40 percent of Americans don't realize this."

Well, you might be surprised that I agree.

The tax plan does favor the rich... and it should.

Indeed, one of the most aggravating accusations levied against the Trump administration and the GOP's tax reform proposal is that it favors the rich. I say aggravating, because that criticism is analogous to saying that the lunch special at a Chinese buffet favors those who eat a lot.

Of course, the tax plan, i.e. tax cuts, are going to favor the rich. That's because it's the rich who pay the taxes.

This simple fact of reality seems to be lost on those quick to criticize tax cuts, chief among them Krugman. Surely the Yale and MIT-educated professor knows that the overwhelming majority of income tax revenue collected by the federal government comes from the richest Americans, i.e. the much-maligned "top 1%"?

According to Krugman, "The main elements of the [GOP] plan are a cut in top individual tax rates; a cut in corporate taxes; an end to the estate tax; and the creation of a big new loophole that will allow wealthy individuals to pretend that they are small businesses, and get a preferential tax rate. All of these overwhelmingly benefit the wealthy, mainly the top 1 percent."

Again, I agree, and that agreement should make perfect sense to anyone looking at things objectively. I mean, after all, shouldn't a tax-cut plan be designed to give tax relief to those who pay the most taxes? If you don't believe me, let's just take a look at the numbers — numbers so clear that even Nobel Prize winner can understand them.

In 2014, the top 50 percent of all taxpayers paid 97.3 percent of all individual income taxes while the bottom 50 percent paid the remaining 2.7 percent.

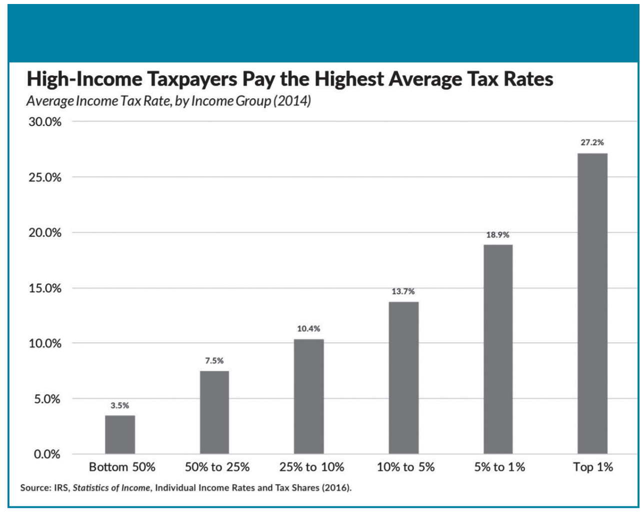
According to data from the non-partisan, yet conservative-leaning Tax Foundation, there's no denying who bears the greatest burden in terms of overall income taxes paid. The most recent data analysis published at the Tax Foundation is for 2014, and it tells us the following:

In 2014, the top 50 percent of all taxpayers paid 97.3 percent of all individual income taxes while the bottom 50 percent paid the remaining 2.7 percent.

The top 1 percent paid a greater share of individual income taxes (39.5 percent) than the bottom 90 percent combined (29.1 percent).

The top 1 percent of taxpayers paid a 27.1 percent individual income tax rate, which is more than seven times higher than taxpayers in the bottom 50 percent (3.5 percent).

The following chart illustrates this final point quite vividly.



What we have here is irrefutable evidence that the overwhelming burden of the overall tax base falls on the shoulders of the richest taxpayers.

So, I ask again, if you are going to cut taxes, why wouldn't you start by cutting the taxes of those who pay the most taxes?

Yet these numbers don't seem to matter to Krugman and others who share his view that tax policy should unduly harm the most successful in society. To Krugman and his ilk, taxes should be punitively progressive, meaning they should punish those at the top.

Then, they want that tax revenue *redistributed* via government bureaucracy to the projects, policies and political goals of those who hold power.

It's not enough to just give those who pay the most in taxes a tax break. The Krugmans of the world want to squeeze the rich for as much as they can, because in their grand philosophic view society is the *real* owner of that money, not the individual.

Yet I have a solution for Professor Krugman and those in his intellectual camp that should appeal to them, especially if their interest is purely one of fairness.

How about a HUGE tax cut for EVERYONE?

The only entity that would suffer from tax reform of that sort is government — and that's why leftists and progressives will never support it.

It's A Financial and *Personal Security* Letter

One of the things I love about the *Intelligence Report* is its subtitle: "The Financial and Personal Security Letter."

Now, "personal security" can mean a lot of things. It can refer to making sure you and your family are prepared and protected from outlier events such as hurricanes, storms, earthquakes, etc. It also can mean securing your health, staying physically fit, eating properly and taking the right supplements to stave off the ravages of aging.

Unfortunately, personal security today also means being acutely aware of the possibility (however statistically remote) of being caught in a horrific violent situation such as the tragedy we saw take place recently at a Las Vegas country music festival.

The reality of the world today (and really, throughout history) is that that acts of violent crime, terrorism, mass shootings and other forms of mayhem can happen to any of us, and at virtually any time, and at any place. Yes, the odds of you being in some kind of violent situation, and particularly an active shooter situation like the one in Las Vegas, are infinitesimal. However, that doesn't mean it can't happen to anyone at any time.

Reality is what it is, or "A is A" as Aristotle might have dubbed it, regardless of how we might want it to be. This means we must be aware of how to deal with reality when it turns violent, because the potential consequences could be catastrophic.

So, what must you do to maximize your chances of survival during an "active shooter" situation like the one in Las Vegas?

Well, there are many specific recommendations given by law enforcement officials on what to do. For example, officials will tell you to have an escape plan mapped out whenever you go to a public place. They'll also tell you to be aware of your surroundings, and to report anything strange or seemingly out of the ordinary.

According to the Advanced Law Enforcement Rapid Response Training Center, or ALERRT, in an active-shooter situation you should employ three rules... "avoid, deny and defend."

The first rule is to *avoid* the attacker by creating that aforementioned escape plan, which also means moving away from the threat as quickly as possible. Next, you need to *deny* the shooter access to your location. That means taking measures such as putting up barriers to block doors, turning off the lights to a venue, or taking hardened cover.

As for the third rule, *defend*, that's where the real action and preparation needs to take place.

According to Dr. Peter Blair, the executive director of ALERRT and a criminal justice professor at Texas State University, when it comes to defending against an attacker,

"Do not fight fairly. This is about survival."

It is this last rule that I think nearly every person must be aware of (regardless of age) and must take on as a personal responsibility for themselves, their loved ones... and for the rest of civilized society.

And while being psychologically and physically equipped to defend against an attack will vary along the spectrum of individuals, there are some things most of us can do to make sure we maximize our chances of surviving a violent encounter.

First, make sure you are as physically fit as you can be. Train to gain strength and increase muscle mass in the proper fashion. My preferred choice is via high-intensity, progressive resistance exercise.

The photo above is me training on the latest innovation in strength training equipment, ARX, which stands for Adaptive Resistance Exercise (www.ARXfit.com). ARX is state-of-the-art, computer-controlled, motorized resistance equipment that allows you to fatigue your muscles in the fastest-possible time, and in the most thorough manner imaginable — all in about 10 minutes per week! I cannot recommend it highly enough.

Next is to learn some self-defense skills. I am speaking here particularly about skills such as hand-to-hand combat, and particularly my preferred form of martial art, Brazilian jiu-jitsu. The next step is to learn some defensive firearms skills from a reputable training organization staffed by professionals from either law enforcement or the military, and who emphasize safety first in their instruction philosophy.

My recommended training group is in Los Angeles, Calif., and it is International Tactical Training Seminars, or ITTS. The staff at ITTS is comprised of former and current Los Angeles Police Department S.W.A.T. instructors and team members. As a former member of the U.S. Army's elite combat schools, I can personally attest to the skill and professionalism of the team at ITTS (www.internationaltactical.com).

I hope I never have to use the knowledge and skills I've learned from ITTS in a live scenario. Yet I feel I have the obligation to do what's necessary to maximize my chances of prevailing during a violent conflict, and to help my loved ones and my fellow citizens survive if the unthinkable happens.

Of course, all the preparation in the world can't ensure you won't become a victim of violence before you're able to take any volitional action. That's certainly the case with the horrific murders in Las Vegas.

Yet being prepared as well as you can be will help increase your odds of surviving an active-shooter situation, and other types of violent situations — and isn't that the ultimate in "personal security"?

Welcome to the Fed Chair Follies

One of the big questions on Wall Street (and even on Main Street) is who will be the new Fed chair. That decision will come soon, as President Trump already has met with many of the leading candidates.

Those candidates include current Fed Chair Janet Yellen, current Fed member Jerome Powell, former Fed governor Kevin Warsh and Stanford University Professor John Taylor. Some pundits include current Trump economic advisor Gary Cohn as a candidate, but I do not think he's in the running given the importance of Cohn when it comes to getting tax reform passed.

In terms of a market response, either Yellen or Powell will be the most favorable for stocks, simply because both represent a stay-the-course approach to monetary policy. Warsh is seen as more of a monetary "hawk," meaning he would likely favor policy that would hike interest rates faster than either Yellen or Powell. Plus, in the past Warsh has been critical of the Fed, saying its ultra-accommodative policies have been too loose.

Finally, there's Taylor, who is considered far more hawkish than even Warsh. A Taylor appointment would almost certainly mean bigger, faster rate hikes and a reduction of the Fed's balance sheet at a faster pace than the market currently expects. Taylor would be the most upsetting to the markets, as his approach is decidedly different than that of Yellen, Powell or Warsh.

> Markets want inflation to rise slightly, and steadily, and they want the Fed to hike interest rates in a slow, predictable and steady fashion.

Markets thrive on predictability. Markets want inflation to rise slightly, and steadily, and they want the Fed to hike interest rates in a slow, predictable and steady fashion. If we get a new Fed chair who is too aggressive, or who represents a wild card to markets, then this bull market could be headed for the exits.

When Philosophy Makes Sense of Markets

I recently gave a talk at the Dallas MoneyShow that I titled, "5 ETFs to Fight the Fake News." Indeed, all this talk of fake news by President Trump has clouded the political landscape, as it makes Americans question the validity of the information we get from the media.

Of course, decades of clearly biased reporting infused by liberal and progressive ideology at America's leading media outlets gives the often-outrageous claims about fake news more than a mere hint of credibility. So, what's an intelligent person supposed to do given the competing spins on the truth?

First, we need to think for ourselves.

I never take on face value what the president is saying, nor do I accept as gospel the slanted reporting from the mainstream media outlets. Second, I employ a philosophic precept called "Occam's razor" whenever assessing any situation.

That precept states that whenever you have competing hypotheses, the one with the fewest assumptions should be selected. Stated differently, when confronted with two explanations, the simplest one should be selected.

When applied to the markets, Occam's razor tells me that the best explanation for the relentless push to new highs in equity prices is that investors are confident there will be a continuation of A) Solid, if not stellar, economic data, B) Strong corporate earnings, and C) Hope that tax reform will be passed, and that we will see a substantive reduction in the corporate tax rate.

It is those three simple, yet decidedly bullish, factors that continue to bring buyers in, and that continue to push stocks to new all-time highs. Until those three bullish factors subside, the path of least resistance for equities will remain higher.

Reflections on an Ominous Day in Market History

On Oct. 19, the financial media reminded us all of what happened exactly three decades ago. Perhaps you remember that day, too, as it was the 30-year anniversary of Black Monday.

I suspect most *Intelligence Report* readers recall what happened that day, but it doesn't hurt to remind everyone that on October 19, 1987, the Dow suffered its worst-ever one-day (percentage) plunge of 22.6%, or over 500 points!

That's the equivalent of a 5,000-point one-day drop at current Dow values.

Ironically, this inauspicious anniversary came the same week that the Dow vaulted past the 23,000 mark to reach a milestone I doubt many would have thought remotely possible three decades ago.

This latest record-setting Dow move really is a testament to the resilience of this market, and to the positive drivers fueling the 2017 rally. Those drivers include progress on tax reform, solid-if-not-stellar economic data and stout earnings from many of the market's highest-profile companies.

As for me, I was only in college when Black Monday happened, but I recall the event quite vividly.

I was at the UCLA campus coffee house that I frequented, and I saw a girl friend of mine sitting at a table crying. I asked her what was wrong, and she told me that her father was distraught, and had become physically ill because of the market's plunge.

This woman's father was an executive at a bulge bracket bank, and he had just got a huge margin call that cost him millions of dollars. This very successful investor managed to lose much of his net worth in one day, and the scars afflicted his family for years.

I lost touch with that young woman after graduation, but years later I ran into her at a social event. Sadly, she told me her father was never the same again after that devastating day, and that he had retired a few years after Black Monday far-less financially secure than he would have been if that day never happened.

The moral of this story is that although I wasn't involved in the securities industry on Black Monday (I was a mere starving student), I did learn a very important lesson.

The lesson is that avoiding really big investment losses is essential to your financial well-being, your family's well-being... and your physical well-being.

I never have forgotten that lesson throughout my 25 years in the industry. Fortunately, I have been able to avoid any really big losses during my career.

One way to position your money that generally helps mitigate losses is by investing in the best-quality, high-barrier-to-entry stocks of the kind we advocate in this service via the Income Multipliers. Another way is to construct a portfolio designed to preserve and protect your money the way our Protection Portfolio has been constructed to do.

By following sound logic, staying the course and investing for the long haul, you can ride out the market's inevitable bear markets — and you can mitigate the pain and suffering that was levied on so many investors three decades ago.

In the name of the best within us,

Jim

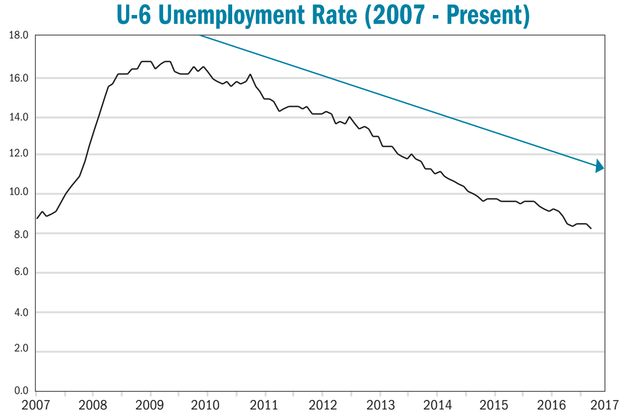
JIM WOODS is a 20-plus-year veteran of the markets with varied experience as a broker, hedge fund trader, financial writer, author and newsletter editor. His books include co-authoring, "Billion Dollar Green: Profit from the Eco Revolution," and "The Wealth Shield: How to Invest and Protect Your Money from Another Stock Market Crash, Financial Crisis or Global Economic Collapse." He also has ghostwritten books and articles, as well as edited the writing of the investment industry's biggest luminaries. His articles have appeared on financial websites that include InvestorPlace.com, Main Street Investor, MarketWatch, Street Authority, Human Events and others. Jim formerly worked with Investor's Business Daily founder William J. O'Neil to help with author training courses in stock-picking methodology.

In the five-year period from 2009 to 2014, the independent firm TipRanks ranked Jim the No. 4 financial blogger in the world (out of more than 9,000). TipRanks calculates that during that period, Jim made 378 successful recommendations out of 506 total to earn a success rate of 75% and a 16.3% average return per recommendation. He is known in professional and personal circles as a "Renaissance Man," since his skills encompass composing and performing music, Western horsemanship, combat marksmanship, martial arts, auto racing and bodybuilding.

Economic Analysis

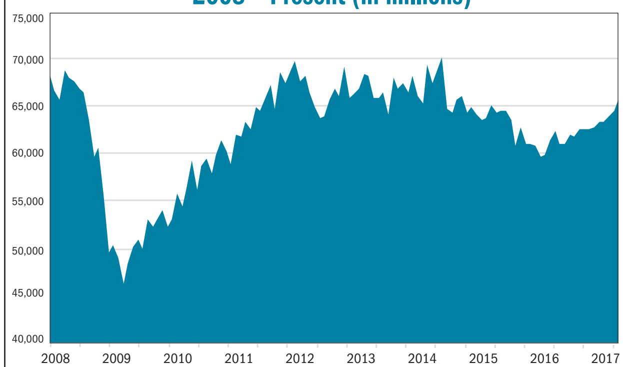
— REPORT —

U-6 Unemployment Rate (2007 - Present)



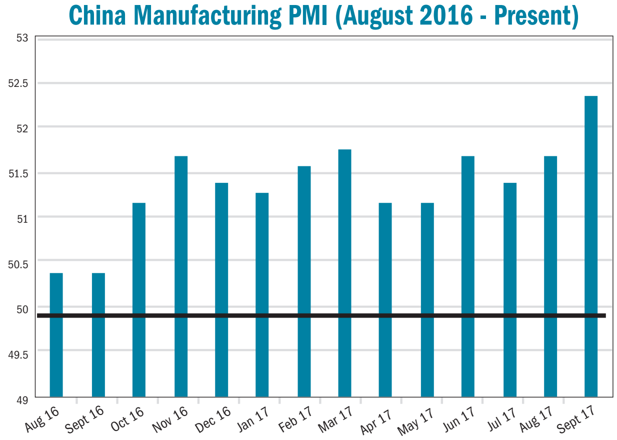
U-6 unemployment continues to grind relentlessly lower, as the U.S. economy is at full employment, and that will put pressure on inflation. It also will put pressure on the Fed to raise rates.

New Orders for Non-Defense Capital Goods ex-Aircraft 2008 – Present (in millions)



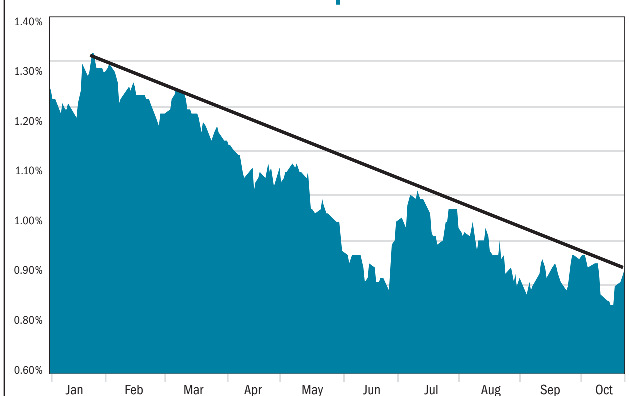
New Orders for Non-Defense Capital Goods ex-Aircraft is the best measure of business spending, and the trend there is higher, which is positive for the U.S. economy.

China Manufacturing PMI (August 2016 - Present)



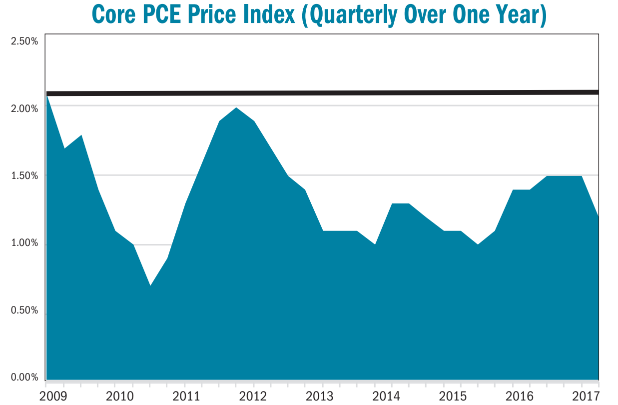
The uptick in growth is global, as Chinese economic activity is accelerating, which also is a positive for global stocks.

10s – 2s Yield Spread 2017 YTD



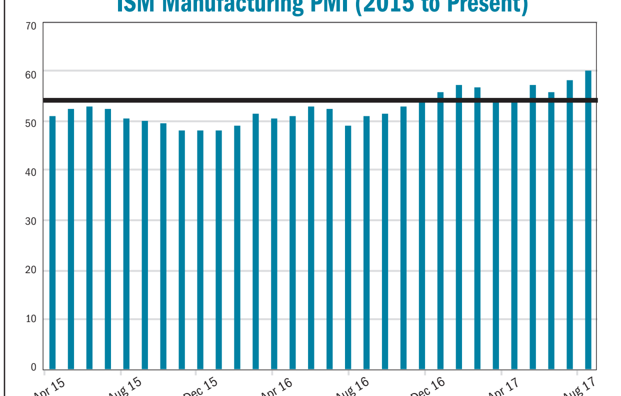
After hitting fresh 2017 lows, the yield curve has started to steepen, and that needs to continue if we are going to see materially higher stock prices.

Core PCE Price Index (Quarterly Over One Year)



The missing piece of this "economic reflation" remains an increase in inflation metrics. However, if inflation does start to accelerate, bond yields will rise… and quickly.

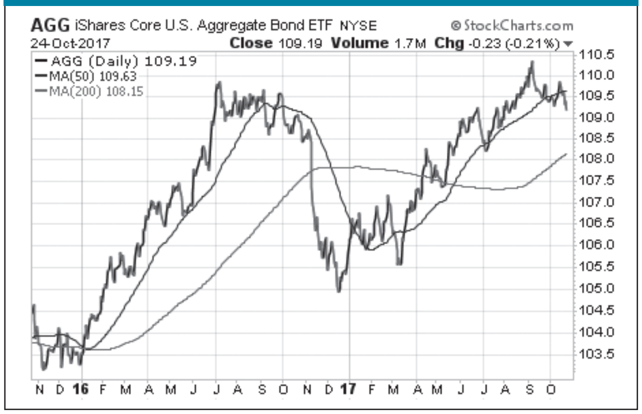
ISM Manufacturing PMI (2015 to Present)



The ISM Manufacturing PMI shows that economic data in the United States is accelerating, and that is a tailwind pushing equity prices higher.

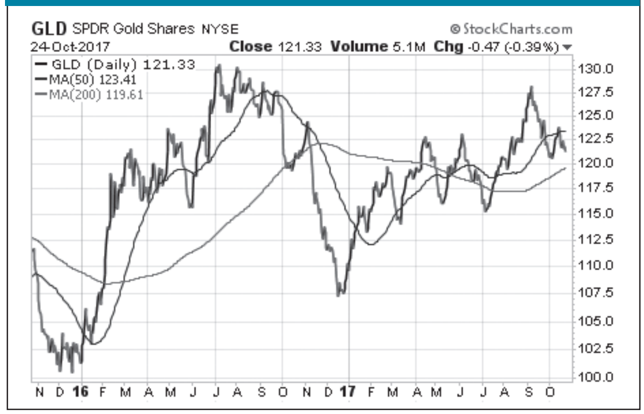
Data and chart analysis provided by Sevens Report Research, www.sevensreport.com.

iShares Core U.S. Aggregate Bond ETF (AGG)



Bonds are at a potential tipping point, and the 2017 uptrend appears to have been broken, as global central banks go from incrementally adding accommodation to incrementally removing it.

SPDR Gold Shares (GLD)



This is a dangerous time for gold as the dollar potentially is entering an uptrend. If we don't see an uptick in inflation, a move lower in gold potentially to support levels around $1,200 is likely.

S&P 500 Index ($SPX)

Despite domestic political noise on tax cuts, high valuations and the risk of an overdue correction, the trend in U.S. stocks remains definitively higher.

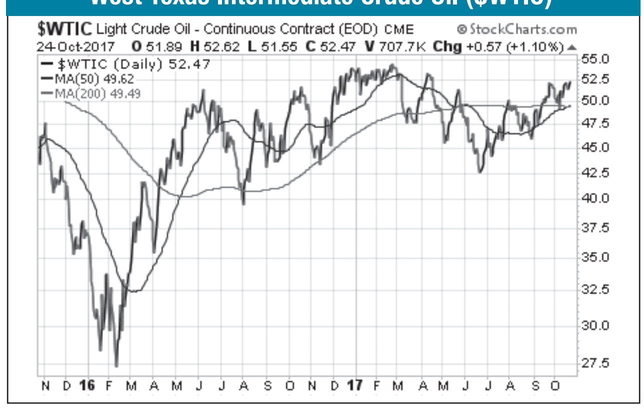
U.S. Dollar Index ($USD)

An important trend change has occurred in the greenback, and if the Dollar Index can hold 94.10, the trend will be decidedly higher. As long as economic growth continues to accelerate, the stronger dollar shouldn't hurt U.S. stocks. However, this is a potential headwind to watch.

Vanguard Total World Stock ETF (VT)

Despite the geopolitical noise, the simple fact is that the trend in global stocks is higher, as global equities recently have hit fresh highs.

West Texas Intermediate Crude Oil ($WTIC)



Oil prices are at six-month highs, reflecting an uptick in demand. This also should be read as a macroeconomic positive.

Data and chart analysis provided by Sevens Report Research, www.sevensreport.com.