Jim Woods'
INTELLIGENCE REPORT®

Actionable Information for the Prudent Investor • September 2019

The Bond Market Flashes a 'Check Engine' Light

When you're driving your car and the "check engine" light comes on, it's usually a sign that something is wrong with your vehicle.

It could be problems with your motor, or it could be problems with your exhaust system, or transmission, or electric system, etc. You won't really know until you have it checked out, but you do know that it's a warning sign you had better respect. If you don't, and you just ignore it, well, you could break down somewhere far from help, and in a dangerous place.

Well, this month the big news on the economic front was the "check engine" light being flashed by the bond market. This check engine light is no joke, as it historically has been one of the best predictors of recession. That check engine light is, of course, the first inversion of the yield curve since 2007.

As I explained in the Wednesday, Aug. 14, edition of *The Deep Woods* e-letter, early that morning the yield on the 10-year Treasury note fell below the yield on the two-year Treasury note (a.k.a. the 10s-2s yield spread). This foreboding economic signal must be taken seriously as a warning sign on the economy. The reason why is because the yield curve has accurately predicted five of the last five recessions.

Now, long-time readers will recognize that I have been writing about the yield curve and the likelihood of an inversion in the 10s-2s spread in this service for more than a year now (see Economic Analysis chart for details) and it's something I've called the "fear of an inverted planet" (i.e. a world where you get more yield for a short-term loan than you do for taking on the risk of a longer-term loan). That inversion now is a blaring warning beacon that global growth could get ugly.

The bigger fear here is that a recession now is inevitable, as historically a yield curve inversion in the 10s-2s precedes an official recession in the economy, although we don't usually see it in the actual data for, on average, more than a year post-inversion.

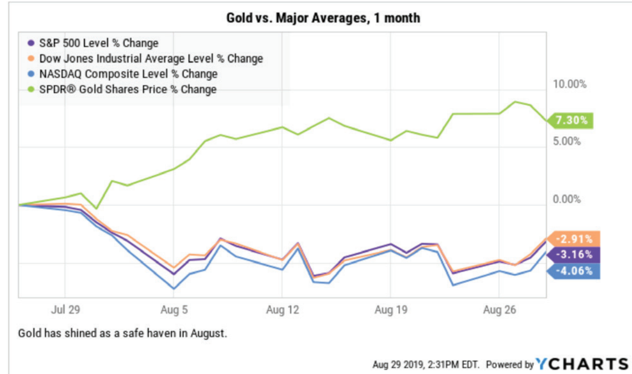
According to *Intelligence Report* contributor Tom Essaye of Sevens Report Research, over the last 50 years an inversion of the 10s-2s Treasury yield spread has a perfect track of forecasting five different recessions over the time period. Yet here is the very good news for those of us who have our money in the markets. You see, during that five-decade period, a top in the S&P 500 came, on average, seven months after a yield curve inversion. Moreover, the average return of those upward moves post-inversion was 9.5%. Meanwhile, over the same time period, recessions have started, on average, 15 months after a yield curve inversion.

It is this time delay that allows me to identify the 10s-2s inversion as a "check engine" light because rather than an imminent danger to our money, it's a signal letting us know that although the economy could be in for a rocky ride, there is no reason to panic and pull over to the side of the road just yet. Yes, we must be mindful of the situation, but there is no cause for panic.

Interestingly, on the day of the yield curve inversion, I was asked by a friend if now is the time to "get out" of stocks. I told him you only should get out of stocks if you are in the *wrong* stocks. Yes, I admit that response was a bit snarky, so I made it up to him by telling him that the key to expertly navigating the markets isn't to "get out" when the news is bad.

Rather, the time to get out of the market should be based on whether you need to raise capital for a specific purpose, or if you want to begin rotating your money into more of a capital preservation-style portfolio rather than a dividend-paying, capital appreciation portfolio. I must say that he was intrigued by this response, and he wanted more information.

Despite an August pullback, stocks are still trading near all-time highs.



Gold has shined as a safe haven in August.

That request led me to explain to him the essence of this service, i.e. long-term wealth-building prowess and power of compounding, and of having your money primarily allocated to the best-of-breed income stocks, best-of-breed tactical stocks for medium-term gains and funds such as the kind in our Protection Portfolio. The latter funds are designed first and foremost to keep your money as safe as possible from equity market volatility of the sort we've seen since our last issue.

That August pullback can be seen in the year-to-date chart of the major domestic averages here atop Page 2. As you can see, despite the pullback in August from the all-time highs hit in late July, stocks are still doing very well so far in 2019. The only major index not pinging double-digit percentage gains is the Russell 2000, but it still has a respectable 9.2% gain year to date (as of Aug. 29).

Now, the real winner in August, aside from bond prices, has been the flight to safety in gold. The chart here shows the marked outperformance of the SPDR Gold Shares (GLD) in August, with a gain of more than 7% vs. a loss of 3-4% in the major averages. That outperformance is significant, and it also has helped lift our Protection Portfolio sharply higher of late.

As you can see in the table below of the current Protection Portfolio holdings, the mix of bond funds, dividend stocks, consumer staples stocks and gold have delivered very solid capital preservation, and with far less volatility than a portfolio of only equities. So, if you are in that stage where your main concern with your money is capital preservation, this is what your portfolio should resemble.

So, why has gold shined so much of late? And more importantly, is the run higher in gold just a temporary market reaction, or is this a broader trend that's sustainable? And of course, the corollary question here is whether it's a good time for investors to be buying gold.

To help me answer this question, I turned to my friend, colleague and all-around Renaissance Man, Rich Checkan of Asset Strategies International. Rich and his colleagues are the smartest guys in the business when it comes to metals, and they are the only firm I recommend if you want to own physical gold and precious metals. In fact, if you go anywhere else, well, then you're probably doing yourself a disservice.

Buy Date or 12/31/17 Close	Symbol	Stock	Buy Price	Current Price (8/28 Close)	Dividends	Total Return	Allocation
12/31/2017	VFIIX	Vanguard GNMA	$10.46	$10.57	$0.45	5.38%	30.00%
12/31/2017	VFSTX	Vanguard Short-Term Investment-Grade	$10.63	$10.77	$0.43	5.38%	25.00%
12/31/2017	VFICX	Vanguard Intermediate-Term Investment-Grade	$9.75	$10.15	$0.46	8.79%	15.00%
12/31/2017	VDC	Vanguard Consumer Staples ETF	$146.04	$154.53	$5.44	9.54%	12.50%
12/31/2017	VDIGX	Vanguard Dividend Growth	$26.55	$29.99	$2.40	21.98%	12.50%
12/31/2017	GLD	SPDR Gold Shares	$123.65	$145.16	$0.12	17.49%	5.00%
Average return on open positions						**11.43%**	

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.

Here's a brief Q&A I had with Rich on this subject that I suspect you'll find enlightening.

Jim Woods: So, Rich, the million-dollar question my friend — is it too late to buy gold?

Rich Checkan: Absolutely not, and I am not just saying that because gold and precious metals are my business. I am saying that because gold now has emphatically broken out of its long period of consolidation through $1,350 per ounce and further through $1,400 per ounce. Gold did pull back below $1,400, but then it recovered above that key level almost immediately. Since then, there really has been no looking back for gold.

JW: I know that gold and precious metals are a flight to safety trade. I also know gold is good in low-yield environments such as our current milieu. Yet there is a bigger driver to gold's latest shine. Can you explain that?

RC: That driver is primal; and it is fear. Fear in markets is synonymous with the gold and larger precious metals markets. Those in fear seek protection, and there is no better, more proven protection for wealth known to man than gold. This store of purchasing power has been the choice for wealth insurance for several millennia. Plain and simple, it is gold's moment yet again.

JW: So, given the fear bid, how brilliant can gold shine before we see a slight dulling?

RC: I expect higher prices for gold, but we shouldn't expect that to come in the form of a straight line. For investors, straight lines are not your friends. As gold continues its ascent, I prefer it do so in "staggered steps." That's because when assets appreciate in unfettered straight lines, expect that any correction will be swift and painful. As with any asset class, it is much healthier for an asset to appreciate, pull back a little, appreciate further, pull back a little, etc. With each rise, you see a new higher high, and with each pullback, you see a new higher low.

JW: Okay, so how high, in your expert opinion, can gold go from here?

RC: The ultimate answer will only be known via hindsight, but don't expect much significant resistance between here and $1,800 per ounce for gold. That means we have a lot more upside ahead.

JW: If investors want to buy physical gold here, how best do you suggest they do so?

RC: I recommend investors consider dollar-cost-averaging into the market on the inevitable dips along the way. You will hear this from me often in this bull market, and that is that the dips are not to be feared, they are to be embraced.

Excellent advice here from a man who knows of what he speaks. If you are in the market for physical gold, Rich and Asset Strategies International is the place to go.

Top 20 Income Multipliers YTD

Stock	Total Return YTD
Lowe's	18.76%
McDonald's	24.11%
Procter & Gamble	34.47%
Walmart Stores	22.72%
Exxon Mobil Corp.	3.01%
BB&T	10.50%
PNC Financial	10.86%
Johnson and Johnson	1.88%
Medtronic Inc.	19.88%
3M	-15.05%
Caterpillar	-7.44%
Cummins Inc.	11.64%
General Dynamics	19.85%
Union Pacific	15.86%
Automatic Data Processing	28.72%
Texas Instruments	32.33%
Albermarle Corp.	-22.08%
American Tower REIT	46.63%
AT&T	27.86%
Zimmer Biomet	32.68%
Average Return	**15.86%**

Top 20 Income Multipliers Update

The gains in the Top 20 Income Multipliers have held up well despite the downturn in markets during August. Our year-to-date (YTD) portfolio performance is a total return gain of 15.86%, which basically is in sync with the total return in the major domestic indices. Big winners in the portfolio year to date continue to be American Tower REIT (AMT), up a stunning 46.63% in 2019 (through Aug. 28). The next biggest winner here is Proctor & Gamble (PG), up a very impressive 34.47% year to date. Hey, who says these giant consumer staple stocks don't trade like tech stocks?

And speaking of tech, semiconductor stalwart Texas Instruments (TXN) continues its marked outperformance, up a robust 32.33% so far in 2019. Outpacing even TXN is medical device maker Zimmer Biomet Holdings (ZBH), which has rewarded us with a total return year to date of 32.68%.

Now, not all our holdings have outpaced the market the way these stocks have. Some have captured more pedestrian gains year to date (see table, Pg. 3) while some have failed to keep pace with the broad market benchmark. Three companies that have been marked laggards this year all have one major thing in common — all are directly suffering from the trade tensions between the United States and China.

Those companies are diversified industrial products maker 3M (MMM), heavy construction equipment maker Caterpillar (CAT) and lithium mining giant Albemarle Corp (ALB). The latest round of tariffs by the Trump administration, as well as the heightened trade tension rhetoric from both sides, has put a clear sell bid in stocks with the greatest exposure to China, and that's particularly true of CAT and ALB.

What's even more troubling is that the trade war doesn't seem to have any real end in sight. Sure, the market spikes from time to time on word from the White House that there have been renewed talks, or that progress is being made. However, keep in mind that what triggered the August selling was the heightened trade tensions, including the latest announcement of new tariffs by President Trump on $250 billion worth of Chinese goods to 30% from 25% on Oct. 1. The president also said he would tax an additional $300 billion worth of Chinese imports at a 15% rate, rather than the 10% rate he had initially planned. Those levies go into effect on Sept. 1.

Not to be outdone, China announced it would impose tariffs ranging from 5% to 10% on $75 billion U.S. goods in two batches, effective on Sept. 1 and Dec. 15. It also said tariffs of 25% will be imposed on U.S. cars and of 5% on auto parts and components, which will go into effect on Dec.15. China had paused these tariffs in April, but they're back on the table now.

So, as of this writing on Aug. 29, we are much further away from a trade deal than we've been since the trade negotiations began last year. And while I am hopeful that cooler heads will prevail in this trade war (it's in the interest of both sides to do so), there is a real feeling of anxiety that this trade war is going to continue being a major headwind to the global economy, and the equity markets, for some time.

Tactical Trends Portfolio (TTP) Update

Our expansion of the Tactical Trends Portfolio (TTP) last month got us more exposure to the markets, although that exposure did come right before the market pulled back in early August. Still, our six current holdings in the TTP have delivered us very good upside, particularly in biotech giant Edwards Life Sciences Corp (EW), the Invesco QQQ Trust (QQQ) and in one of our newest holdings, online dating site Match, Inc. (MTCH).

Match shares are up a robust 10.15% in about four weeks, and that is while the overall market was down about 3% over the same period. The reason for the stellar gain in MTCH this month was the much-better-than-expected second-quarter financial results and the company's raising of its full-year guidance.

For the quarter, Match reported revenue of $498 million, up 18% year over year, a metric that easily beat estimates for $489 million. Earnings per share came in at 43 cents, also besting estimates for earnings of just 40 cents. What was most impressive is that Match reported an 18% year-over-year increase in average subscribers to 9.1 million. This move is part of what I call the "interface" economy, and it's an area in the TTP that we will be adding allocations to as the months go on.

One company I have on my radar that is a sort of incubator of these interface companies is InterActiveCorp, or simply IAC (IAC), which owns about 80% of Match. That company's share surged on the MTCH news as well, but the company, which is led by business genius Barry Diller, is hitting home runs with its portfolio of interface companies. I'll have more on this in next month's issue, but for now know that this is a tactical trend I am very much impressed by.

Most impressive as well is Edward's Life Sciences, which surged in late July after it too came out with very impressive quarterly earnings. You can see by the chart here that this stock spiked following the positive earnings beat. Since then, it has been building a nice base of price support just below $220.

The chart here of the Invesco QQQ Trust (QQQ) also shows a base forming at about $185 in a choppy August. Still, the Qs remain well above the 200-day moving average, although it trades slightly below the 50-day moving average. Yet because the QQQ is heavily populated with large-cap tech stocks such as Apple (AAPL) that have exposure to China, it also has been susceptible to trade war angst.

So here again, if the politicos on both sides of this issue can get themselves to the table and make some material progress on trade, stocks in the QQQ likely will be some of the biggest beneficiaries.

Finally, I want to address one other major potential market headwind/tailwind that will affect nearly all stocks, and that is the next move by the Federal Reserve. As of this writing, the Fed is expected to cut interest rates by another 25 basis points at its September Federal Open Market Committee (FOMC) meeting. Unfortunately, that's not the kind of aggressive rate cutting the market bulls want.

Instead, the bulls want a September cut, but they also are hoping for several more rate cuts before the end of the year. We know that because of market expectations heading into the July 31 Fed meeting. The market had priced in 75-100 basis points of Fed rate cuts by early 2020. That's three-to-four cuts. However, the Fed's message at the July 31 FOMC meeting was that unless economic data falls out of bed, we're not getting three-to-four cuts.

Basically, the Fed leaders indicated that while they are going to cut rates again, they are not altering policy materially and they are not embarking on a sustained easing cycle of multiple rate cuts. That's not what the market wanted, and that's one big reason for the August slump. Unless this changes, the market likely will come away from the September FOMC with the bulls a little more bruised.

Buy Date	Symbol	Stock	Buy Price	Current Price as of 8/28	Dividends	Total Return
1/18/2019	EW	Edwards Life Sciences Corp	$167.85	$216.90	$0.00	29.22%
1/18/2019	QQQ	Invesco QQQ Trust	$165.04	$185.09	$0.74	12.60%
5/2/2019	AMZN	Amazon	$1,959.40	$1,764.25	$0.00	-9.96%
7/26/2019	MA	Mastercard	$281.79	$278.24	$0.00	-1.26%
7/26/2019	MSFT	Microsoft	$141.57	$135.56	$0.46	-3.92%
7/26/2019	MTCH	Match Inc.	$77.17	$85.00	$0.00	10.15%
Average return on open positions						**6.14%**

What's Up & What's Down

Since our last issue, the major domestic equity averages are all lower, with Dow, S&P 500 and NASDAQ Composites down roughly 4%. The August decline has taken some of the shine off the year-to-date performance; however, as you can see here, stocks are still having a very good year. Now, because of the common tendency for humans to suffer from "recency bias," i.e. thinking that what has happened most recently is going to keep happening, it's easy to start becoming uncomfortable with the market. That's why it's important to widen our lens and look a little further back.

As for performance leaders in 2019, dividend stocks via the Vanguard Dividend Growth (VDIGX), utilities via the Dow Jones Utilities (DJUTR) and gold via the SPDR Gold Trust (GLD) are leading the charge higher with gains of more than 20% year to date. As for S&P sectors, by far the best performer continues to be Information Technology (+27.1), followed by Consumer Staples (+20.3%) and Utilities (+19.7%). I suspect we will continue to see these segments lead the charge higher at least until the Federal Reserve gets more dovish, which could push the smart money into more cyclical segments.

Total Return

	Ticker	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD
Dow Jones 30 Ind.	DJITR	5.3	1.7	19	8.9	-31.9	22.7	14.1	8.4	10.2	29.7	10	0.2	16.5	28.1	-3.5	12.3
Dow Jones 15 Ut.	DJUTR	30.2	25.1	16.6	20.1	-27.8	12.5	6.5	19.7	1.6	12.7	30.7	-3.1	18.2	14.2	1.3	20.7
Dow Jones Trans.	DJTTR	27.7	11.7	9.8	1.4	-21.4	18.6	26.7	0	7.5	41.4	25.1	-16.8	22.3	19.2	-12.4	7.3
NASDAQ Comp.	XCMP	10.3	2.1	10.9	10.7	-40	45.3	18.1	-0.8	17.7	40.2	14.8	7.1	9	30.7	-3.6	18.8
Wellesley Income	VWINX	7.6	3.5	11.2	5.7	-9.8	16	10.6	9.6	10.1	9.2	8.1	13	8.1	7.4	-8.8	10.5
Wellington	VWELX	11.2	6.8	14.9	8.4	-22.3	22.2	10.9	3.9	12.6	19.7	9.8	0.1	11	14.2	-15.3	11.6
VG Consumer Staples*	VDC	8.2	3.8	15.9	12.7	-16.6	16.6	14.6	13.6	11	28	16	5.8	6.3	10.9	-10.0	16.9
Vanguard High Div. Yield	VYM	n/a	n/a	n/a	1.4	-31.9	17.2	14.2	10.5	12.7	30.1	13.5	0.3	17	16.3	-9.5	8.3
Vanguard Div. Growth	VDIGX	11	4.2	19.6	7	-25.6	21.7	11.4	9.4	10.4	31.5	11.8	2.7	7.5	14.9	-7.7	21.5
iShares Canada	EWC	22.8	27.5	16.9	28.4	-44.5	53.1	19.8	-12.4	9.1	5.3	1.1	-23.9	23.8	11.4	-17.1	15.6
iShares Switzerland	EWL	17.3	13	30	5.5	-27.2	22.1	14.4	-7.9	21.9	25.7	-1.7	0.3	-2.5	21.2	-9.9	17.4
Vanguard Materials*	VAW	13.2	3.45	19.5	26.6	-46.5	51.4	24.5	-9.5	17.3	24.9	5.9	-10.2	21.5	22.1	-18.1	7.5
PwrShrs High Div. Achievers	PEY	n/a	1	14	-15.3	-38.1	3.6	20.9	8.6	6.3	30.5	18	2.4	31.4	8.0	-10.8	9.2
T.Rowe Price New Era	PRNEX	30.1	29.9	17	40.7	-50.2	49.4	21	-15.1	4	15.7	-7.8	-18.8	25	5.9	-15.5	2.6
SPDR Gold Trust*	GLD	5.5	17.8	22.5	30.5	4.9	24	29.3	9.6	6.6	-28.3	-2.2	-10.7	8	9.6	0.9	20.1
VG ST Inv Grade	VFSTX	2.1	2.2	5	5.9	-4.7	14	5.2	1.9	4.5	1	1.8	1	2.7	1.7	-1.8	3.1
Vanguard GNMA	VFIIX	4.1	3.3	4.3	7	7.2	5.3	7	7.7	2.3	-2.2	6.7	1.3	1.8	1.0	-1.8	2.9
VG IT Inv Grade	VFICX	4.8	2	4.4	6.1	-6.2	17.7	10.6	7.4	9.1	-1.4	5.8	1.5	3.8	3.1	-3.3	7.9

*An appropriate benchmark is used prior to fund inception

S&P 500 Sector Indices

	Ticker	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD
S&P 500	GSPC	10.9	4.9	15.8	5.6	-37	26.4	15.1	2.1	16	32.4	13.7	1.4	12	19.4	-6.2	14.5
Consumer Discretionary	SP500-25TR	13.2	-6.4	18.6	-13.2	-33.5	41.3	27.7	6.1	23.9	43.1	9.7	10.1	6	23.4	0.4	19.0
Consumer Staples	SP500-30TR	8.2	3.6	14.4	14.2	-15.4	14.9	14.1	14	10.8	26.1	16	6.6	5.4	19.7	-8.4	20.3
Energy	SP500-10TR	31.5	31.4	24.2	35.3	-34.9	13.8	20.4	4.7	4.6	25	-7.8	-21.1	27.4	-2.2	-17.1	-0.8
Financials	SP500-40TR	10.9	6.5	19.2	-18.6	-55.3	17.1	12.1	-17.1	28.7	35.6	15.2	-1.6	22.7	23.2	-13.7	11.1
Healthcare	SP500-35TR	1.7	6.5	7.5	7.1	-22.8	19.7	2.9	12.7	17.9	41.5	25.3	6.9	-2.7	23.4	5.3	4.1
Industrials	SP500-20TR	18	2.3	13.2	12	-39.9	20.9	26.7	-0.6	15.3	40.6	9.8	-2.6	18.8	20.6	-13.0	15.1
Information Technology	SP500-45TR	2.5	1	8.4	16.3	-43.1	61.7	10.2	2.4	14.8	28.4	20.1	5.9	13.8	41.0	-1.8	27.1
Materials	SP500-15TR	13.2	4.4	18.2	22.4	-45.7	48.6	22.2	-9.8	15	25.6	6.9	-8.4	16.7	22.9	-14.1	10.3
Telecommunications	SP500-50TR	19.8	-5.6	36.8	11.9	-30.5	8.9	19	6.3	18.3	11.5	3	3.4	23.5	-0.3	-13.4	19.1
Utilities	SP500-55TR	24.3	16.8	21	19.4	-29	11.9	5.5	19.9	1.3	13.2	29	-4.8	16.3	12.0	4.2	19.7

A Red Alert from this Unique Indicator

I can't remember a juncture in the markets and the economy where it has been more important to be acutely accurate about the trend in the economy. The reason why is because we're as close as we've been to the end of this 10-year bull market and knowing how to read the warning signs with real, forward-looking indicators is critical to knowing how to position our money.

That's why I am pleased to be partnered with Tom Essaye of Sevens Report Research, as he shares his unique assessment of the key economic data that he calls the Economic Breaker Panel (EBP). Tom doesn't look at conventional metrics such as jobs reports or gross domestic product (GDP) in this indicator. The reason why is because those don't tell us anything about where the economy is going. Metrics such as Average Hours Worked and Building Permits do give us a look at where things are heading, as do the other indicators in the EBP.

Now, in the latest EBP, the readings show growing evidence that the economy is losing positive momentum, as some of the best leading indicators of growth are threatening to roll over. Let's dig into the details of the August EBP straight from Tom himself.

August Economic Breaker Panel: An Even Split

By Tom Essaye, Sevens Report Research

The Breaker Panel is evenly split this month with five breakers normal, and five breakers "tripped," but it's the ultra-forward-looking nature of the breakers that are tripped that make this month's reading disconcerting — not in the immediate term, but looking months and quarters into the future.

Specifically, this month we had a macro breaker trip (10s-2s inverted) and two economic indicators tripped (average work week and building permits), and both of those are generally very forward looking. Bottom line, if we were to judge the economy right now, activity looks generally "fine." But the breaker panel also is signaling trouble ahead in the coming months and quarters if things don't change — and that largely echoes what the 10s-2s curve inversion historically says.

***Macro indicators*: 10s-2s, Real Interest Rates.** For these two indicators, we're looking for outright inversion of the 10s-2s spread and positive real interest rates as conditions that would "trip" the economic breaker and serve as a warning.

Update: Both of these indicators have now "tripped" and while that doesn't mean an imminent slowdown, it does increase the likelihood of a slowdown in the coming months and quarters. The 10s-2s yield inversion obviously dominated the headlines and for good reason, as that inversion has predicted five of the last five recessions.

But, even more disconcerting in some ways is the fact that real interest rates didn't really decline, despite a 25-basis-point rate cut. We calculate real rates by taking Fed funds and subtracting the five-year TIPS/Treasuries break even rate. The Fed cut Fed funds by 25 basis points, so Real Interest Rates should have declined by 25 basis points. But they didn't, they only declined marginally as inflation expectations also fell. Bottom line, Real Interest Rates remain solidly positive, and that is a continued headwind on economic growth, which implies the Fed needs to cut further (about 75 bps more based on this reading). **Takeaway: Both macro breakers tripped.**

***Sevens Report* Economic Breaker Panel (August Update)**

Indicator	Slowdown Signal	Slowdown Indicated?
10s-2s Spread	Inverted?	Yes
Real Interest Rates	Positive?	Yes
Light Truck Sales	Declining?	No
12 Month Total Vehicle Miles Travelled	Declining?	No
Avg. Work Week	Declining?	Yes
Jobless Claims	Multi-Month Highs?	No
Building Permits	Declining?	Yes
New Orders NDCGXA	Declining?	No
Copper	Declining?	Yes
Crude Oil	Declining?	No

***Economic indicators*: Light Truck Sales, 12-Month Total Vehicle Miles Traveled, Avg. Work Week, Jobless Claims, Building Permits, New Orders for Non-Defense Capital Goods Ex Aircraft.** For these economic indicators, we're looking for multi-month declines to imply a rollover of the economic trend, or, for 12-month total vehicle miles traveled, a year-over-year decline.

Update: Positively, New Orders for Non-Defense Capital Goods bounced back in a big way in July, so that breaker was "reset." Unfortunately, we saw Average Work Week declined to the lowest level in years, tripping that breaker. That's notable, because while the job market is still strong, employers reduce hours before they start layoffs. So, average hours worked is the best leading indicator of employment. If that keeps falling, it's not good. Second, Building Permits also dropped sharply, and that breaker was tripped.

In fairness, building permits is one of the more volatile breakers we have, but that's because it's a leading edge of economic growth. Construction is a highly leveraged enterprise, and it tends to cool well before the rest of the economy.

Bottom line, only two economic breakers were tripped, but they are two of the most "leading" breakers, so it's notable. **Takeaway: Two breakers tripped, Average Work Week and Building Permits, both on the leading edge of changes in economic growth.**

***Market based indicators*: Brent Crude & Copper.** "Dr. Copper" and crude oil can act as coincident or leading indicators of economic activity, and multi-month lows in both would "trip" this market-based indicator. To trip these market-based breakers, we'd need to see multi-month lows in both Brent crude and copper.

Update: Copper remains not far from its 2019 lows as deterioration in the U.S.-China trade situation continues to weigh on expectations for global growth. Oil also remains volatile and is still well off 2019 highs, but it's bounced on some positive supply data and it's low enough that we'd say it's signaling something negative for the broader economy. **Takeaway: Copper near multi-month lows. One breaker tripped.**

From a market standpoint, the takeaway is clear: Yes, the Fed is cutting rates, but there's reason for that and whether that cut ends up boosting stocks, or being too late for an economy losing momentum, will be decided in the coming weeks and months. The "decider" here will be economic growth, which is why monitoring the Breaker Panel is so important right now.

Farewell to a Libertarian Luminary

Mention the name "Koch" in American political circles and you'll get reactions ranging from revulsion to loathing, and from gratitude to celebration. Not surprisingly, the recent news of the death of David Koch at age 79, elicited a wave of responses from both left and right.

Just reading some of the editorial headlines on the billionaire businessman, philanthropist and political activist is enough to demonstrate just what a polarizing figure he was. Then there were the crass comments by comedian Bill Maher on his TV show "Real Time" that outright celebrated his death. Of course, there were those who celebrated the life of a man who boldly put his money where his ideas were. Kentucky Senator Rand Paul wrote the following Twitter post in reaction to David Koch's death:

"RIP to a man who lived a life of liberty, peace and philanthropy. Great blessings being great responsibility, and David Koch lived that way. His many contributions will have lasting impact on our country…"

Now, it should come as no surprise that I am a fan of the Koch brothers. First off, they grew their family's business, Koch Industries, into one of the most profitable industrial enterprises in the world. For that alone they deserve reverence. Yet what got the ire of the political left is the Koch brothers' support and funding for free-market political causes and for political candidates with a libertarian bent. The Kochs were not Republicans. Rather, they were lifelong libertarians whose work and charitable donations reflected the values they held, values such as love of free enterprise and the need to restrict and limit the power of government.

In a book I highly recommend titled "Radicals for Capitalism" by Brian Doherty, Koch said in an interview that his father taught him that "big government was bad, and impositions of government controls on our lives and our economic fortunes was not good." The Koch brothers used that premise to animate their activism, which included David Koch winning the nomination for vice president on the Libertarian Party ticket in the 1980 election, as well as his support of the Reason Foundation, which publishes *Reason* magazine.

What the Koch brothers wanted most was to make the world a place where government's role was restricted to its original intent — a government that existed to preserve and protect individual rights, and not a government that could pell-mell violate individual rights in the name of the "greater good." It is for this reason that I think David Koch deserves a fond farewell.

In the name of the best within us,

Jim Woods

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 author training courses in stock-picking methodology.

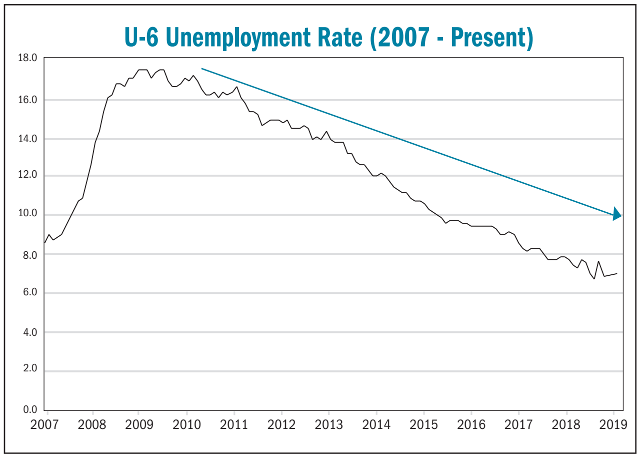
In the five-year period from 2009 to 2014, the independent firm TipRanks ranked Jim the No. 4 financial blogger in the world (out of more than 9,000). TipRanks calculates that during that period, Jim made 378 successful recommendations out of 506 total to earn a success rate of 75% and a 16.3% average 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.

Jim Woods'

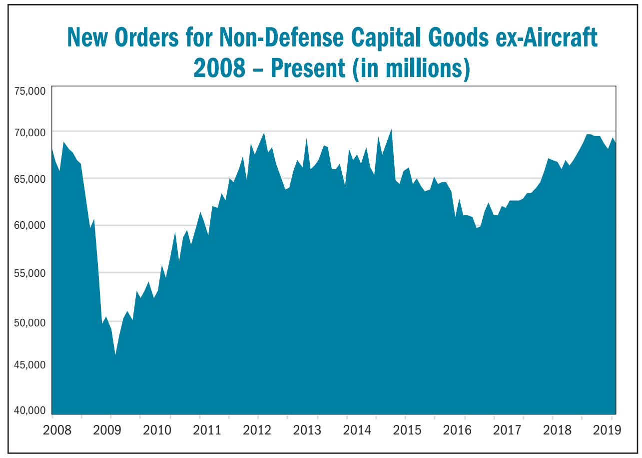
INTELLIGENCE REPORT

Economic Analysis

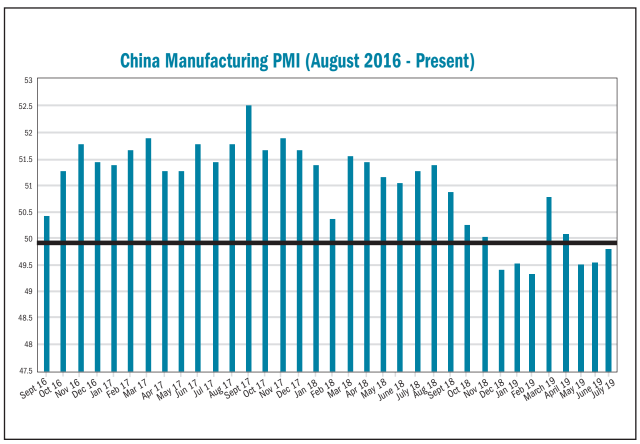
— REPORT —



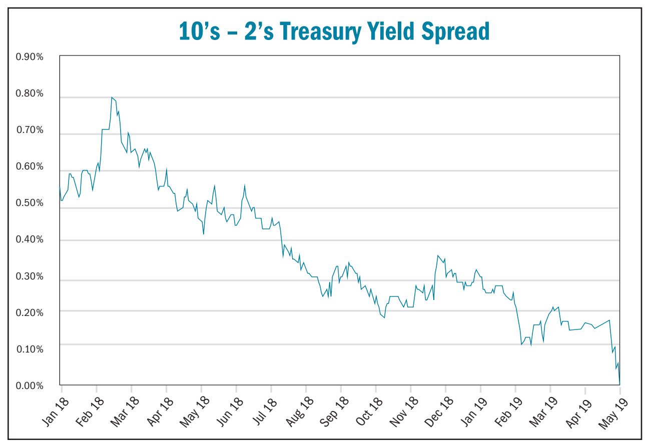
The total unemployment metric remains very low, and it will be tough for economic growth to slow meaningfully with unemployment at such minimal levels (a very good thing).



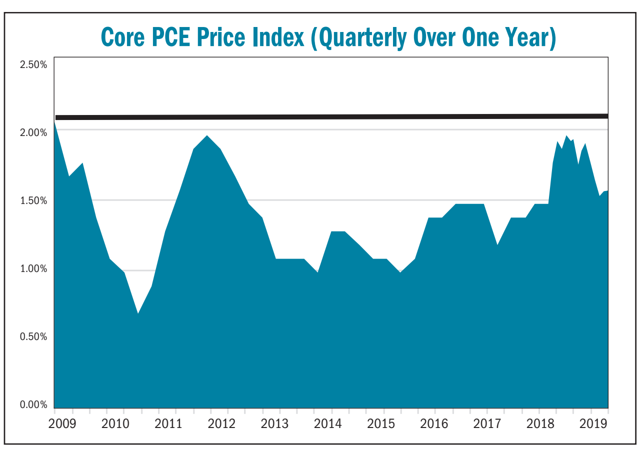
Business spending and investment has held up reasonably well over the past months despite the looming damage of a trade war.



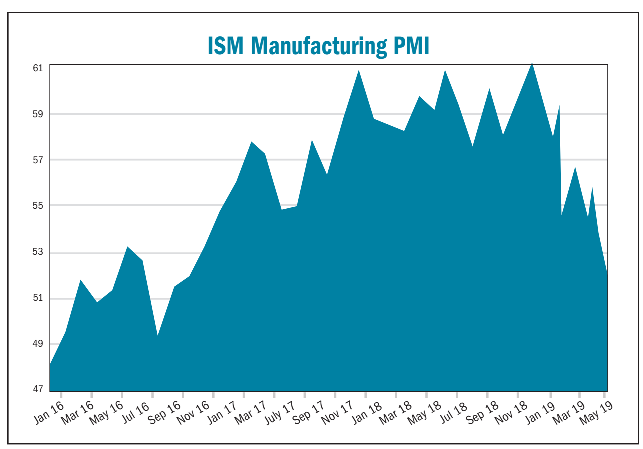
Chinese manufacturing activity rose in July, but the metric remains in contraction territory.



The benchmark Treasury yield curve spread is easily the most important chart this month. The 10s-2s inverted for the first time in 12 years, signaling an increased possibility of a future recession.



The Core PCE Price Index, the central bank's preferred measure of inflation, remains well below the Fed's 2.0% target as it has all year.



The ISM Manufacturing activity continues to slow in the face of trade uncertainty, but the metric remains positive.

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

Bonds prices keep surging as concerns about global economic growth continue to push smart money into the safety of U.S. bonds.

SPDR Gold Shares (GLD)

Gold prices continued their near-relentless march to multi-year highs, as global interest rates continue to fall (bullish for non-yielding assets such as gold).

S&P 500 Index ($SPX)

The S&P 500 was hit in August by trade war concerns, but the benchmark domestic average remains just a few percentage points from all-time highs.

U.S. Dollar Index ($USD)

The U.S. dollar continues to rally, and the greenback now is just below fresh 2019 highs vs. rival foreign currencies.

Vanguard Total World Stock ETF (VT)

Global stocks were very volatile in August, but so far, the segment has held support at the key 200-day moving average.

West Texas Intermediate Crude Oil ($WTIC)

Crude oil prices remain pressured by concerns about global growth, despite elevated geopolitical tensions.

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

Dark Days Are Coming

Economists are predicting the next big recession – here's what to do before it hits

Dear *Wood's Intelligence Report* Subscriber:

The economy is about to go in the toilet.

75% of economists believe the United States will enter another recession by 2021, according to a recent survey by the National Association of Business Economics.

Let me reiterate that: over 3/4 of economists are expecting a recession to hit **within the next two years.**

These aren't crackpot bloggers writing from their parents' basements. CNBC, Kiplinger, CNN Business, Charles Schwab, Wells Fargo... they all report expert predictions of losses ranging from 40% (Guggenheim Partners' Chairman of Investments) to 70% (Economist Ted Bauman.) The CIA's Financial Threat Advisor Jim Rickards has even gone so far as to claim that a **70% drop is the worst-case scenario.**

When the Stock Market Crash of 1929 hit, the Dow Jones Industrial Average dropped only 25 percent—and it was more than the total cost of World War I.

In other words...

The Time to Act is Now

You need a safe haven for your wealth. You need a way to protect your family from financial ruin. You need to buy gold.

Gold has a solid history as a safe haven in times of economic crisis, making it an incredibly attractive way to wait out the storm. If you look back at 2008, you'll see that gold prices rose 24% by the end of 2009—one year after the worst financial crisis we've seen since the Great Depression.

Look at gold prices today and you'll see something else: prices are already rising. Since November of 2018, gold has gone from less than $1,200 an ounce to $1,415 an ounce at the time of this writing. People are seeing the signs. Some are predicting gold getting as high as $1,700 before the year is out. In other words: ***The time to act is now.*** You need to secure your gold **NOW before the recession hits**.

But not all gold is created equal...

Bullion, or Better Than Bullion?

I know what you're thinking. Gold is gold is gold, right? Wrong. When you've worked in the world of gold coins for as long as I have, you know that not all coins are created equal—which means that you have a decision to make.

Buying any gold before the recession hits is a good choice.

But if you really want to guard your wealth from the coming storm—if you really want to create a golden legacy you can leave behind for future generations—you need to make more than a good choice. You need to make an educated choice, and feel confident that you made the right decision.

There are two main types of gold out there for you to buy: Bullion Gold, which is valued based strictly and solely on the value of its gold content—what we in the industry call its "spot" or "melt" price; and Collectible Gold, which maintains its intrinsic "spot" value, but also holds additional historic and collector value. These include vintage coins, special commemorative issues and even coins recovered from shipwrecks.

There are pros and cons to each type of gold, but you need to make a decision NOW if you're going to secure your gold before the next massive market correction hits and/or gold prices jump again. So to help you make an educated decision, I'm going to lay out the pros and cons for both types of gold for you, beginning with the pros and cons of

over, please

buying Bullion—coins whose value is based solely on the current price of gold.

The Pros and Cons of Buying Bullion

1) Portability: One of the best things about storing wealth in gold is that it's immediately portable. If you or your family needs to move your wealth for any reason—a natural disaster, an economic fallout or if you pass away—gold coins give you the ability to simply pack up and go. However, if you're looking to create a Precious Metals IRA and use gold as a retirement portfolio, an approved trustee, custodian or financial institution has to hold on to that gold for you. In the event of an emergency, that gold is no longer easily accessible.
RESULT: MIXED

2) Volatility: The gold market can be volatile, and regardless of their fancy design or country of origin, gold bullion coins are worth no more or less than their gold content. So if gold prices go up or down, so does your wealth.
RESULT: MIXED

3) Premiums: In general, Bullion Gold coins are sold for only a small premium over the value of their gold content.
RESULT: PRO

4) Record Keeping: Certain amounts of gold sales require taxes, transaction fees and/or governmental reporting. If you're looking to keep your gold ownership private, bullion is not the way you want to go.
RESULT: CON

The Pros and Cons of Buying Collectible Gold

1) Portability: Just as with Bullion Gold coins, Collectible Gold is incredibly portable. If something happens, all you need to do is pack up and go. No phone calls to make, no transactions needed, no third party interference at all.
RESULT: PRO

2) Volatility: This is one of the areas in which Collectible Gold really shines. When you secure Collectible Gold coins, you're actually buying into two markets: one based on the coin's "bullion" value—the intrinsic value of its gold content —and a second market based on the coin's historic and collector value. Thanks to this second market—one that can be slow to change—the volatility of Collectible Gold is far less than that of standard bullion. Plus, your coins will always continue to carry their "bullion" value—they'll never be worth less than the value of their gold content alone.
RESULT: PRO

3) Premiums: Collectible Gold coins have higher premiums than Bullion Gold because you're not just paying the cost of the precious metal—you're also paying for additional external factors that add to the coin's historic and collector value, like rarity, condition and age. Sometimes this premium is very high—but in the right condition, that can turn these coins into a hedge against even drops in gold price. In the mid-1990s, for example, gold was priced much lower than it is today, while the premium for vintage U.S. gold in high collector grades was in excess of 100% over the underlying gold content. Recently, we've seen some of the lowest premiums on historic U.S. gold in more than 20 years, allowing you to secure coins with additional historic and collector value at a great price.
RESULT: MIXED

4) Record Keeping: Another area where Collectible Gold shines far brighter than bullion. In the event of a stock market crash—or worse—do you really want the government to know how much gold you have in your home? I sure don't. But in a world drowning in regulations, mandatory reporting, and government intrusion, I'm happy to report that no one needs to know that you buy or own vintage gold coins. Unlike stocks, gold bars, or real estate, collectible coins require no registration, transaction fees or government reporting. Collectible Gold coins are the last truly private way to invest money.
RESULT: PRO

As you can see, buying Bullion Gold coins is a good move, but it can be a mixed bag. Gold's inherit volatility and the record-keeping involved can keep many buyers at bay. Collectible Gold, however, is an educated move. These coins can be more portable than Bullion Gold, their market is far more stable, and they don't require government reporting. Plus, we're currently seeing historic low premiums on Collectible Gold alongside a sharply rising

GOLD BUYING GUIDE

	GOLD BULLION	COLLECTIBLE GOLD	WINNER
PORTABILITY	MIXED	PRO	COLLECTIBLE GOLD
VOLATILITY	MIXED	PRO	COLLECTIBLE GOLD
PREMIUMS	PRO	MIXED	GOLD BULLION
RECORD KEEPING	CON	PRO	COLLECTIBLE GOLD

OVERALL WINNER = COLLECTIBLE GOLD

price of gold. To be clear: NOW is the time to buy gold coins—and if you're going to buy, you should buy Collectible Gold coins.

Create a Golden Legacy to Leave Behind

Buying gold is about more than weathering the storm. It's also about creating a legacy that you can leave behind that will protect your family from the next recession, and the next, and the next. Without a safe haven for their inheritance, your family could be left unprotected when the stock market takes another dive, or the tax man comes calling.

By securing an amount of Collectible Gold, you're helping your family prepare for whatever the financial world will throw at them. It allows you to take care of yourself in this time of impending doom, and take care of your loved ones once you're gone. There are few things in world more precious than financial stability—and your family is one of them. Make sure you don't leave them unprotected.

How to Buy Collectible Gold

So if Collectible Gold is the smart gold to buy, how do you go about securing the right coins? What signs should you look for to make sure you're getting the right coins for the right amount of money? Here are my **Top Three Things to Look For When Buying Collectible Gold:**

1) Popularity—If you're using these coins as a store of wealth, you'll need to be able to sell them. Securing coins that are popular with the collecting community is not only necessary for resale, but helps with appreciation.

2) Quality—Collectors want the "best of the best", which means you'll want to buy the finest quality coins that meet your budget. You'll want to secure coins certified and graded by one of the two most respected third-party grading services: Numismatic Guaranty Corporation (NGC) and Professional Coin Grading Service (PCGS). These companies grade coins on a scale of 1-70, with a 70 representing absolute perfection under magnification. I suggest securing the finest grades available.

3) Rarity—The rule of supply and demand applies to Collectible Coins as much as it does any other commodity. If a coin is popular and in-demand, aim for those with smaller mintages or availability. The more scarce a coin is, the more desirable it is to collectors.

One of America's Most Beautiful Gold Coins

Before the next crash hits, I'm authorizing a limited release of 40 coins from my vaults that fits all three of these criteria. That coin is the 1888-S $10 Gold Liberty, struck at the historic San Francisco Mint. This beautiful piece of American history contains 16.718 grams of pure gold, comes struck in 90% fineness and is the first of its kind to bear the words "In God We Trust," which was added after the Civil War.

Why this particular coin? I'm glad you asked...

Score board: The 1888-S $10 U.S. Gold Liberty
Let's take this historic coin and run it through my **Top Three Things to Look For When Buying Collectible Gold.**
Here's what I call my "Collector's Scorecard."

1) Popularity—The $10 Gold Liberty is an American treasure, and has been a top staple of collectors for over 100 years. Also known as a "Gold Eagle," it's one of the most widely collected vintage U.S. gold coins ever struck. In addition, collectors revere the San Francisco Mint for having produced the finest vintage U.S. coins, with crisp details other mints couldn't match.
Score: 5/5

2) Quality—The coins I'm making available come certified in Mint State-63 (MS63) condition. Of the original 648,700 $10 Gold Liberty coins struck in San Francisco in 1888, only 439 coins have ever received this grade from NGC or PCGS. Just 16 coins in the entire world are graded higher—all as MS64—and that single grade difference raises their value to $5,000 each!
Score: 4.5/5

1888-S $10
Gold Liberty MS 63

POPULARITY
A "must have" for collectors

QUALITY
Only 16 coins of the original mintage have been graded higher

RARITY/SCARCITY
Only 32% of all $10 Gold Liberty coins were struck at the San Francisco mint. Of that only 493 have been give the grade of MS63

3) Rarity—Here are a few more numbers for you: From 1866 to 1907, the U.S. Mint produced 37,390,767 $10 Gold Liberty coins. Of those 37 million coins, less than a third of them (32.2%) were struck at the respected San Francisco Mint. And of the 648,700 1888-S $10 Gold Liberty coins struck by San Francisco in 1888, just 439 have been graded as MS63 condition. That's 0.068% of the entire mintage!
Score: 4/5

Total Score: 13.5/15

* Secure yours now. Only 40 available

The 1888-S $10 Gold Liberty is an incredible choice for those looking to put money into gold before the next financial crisis. And it gets even better...

An Exclusive, Limited Offer Just for Subscribers

The 1888-S $10 Gold Liberty in MS63 condition is currently listed in the Redbook—the "Bible" price guide of the coin collecting world—for $1,500 each. But I'm not selling them today for $1,500. I'm not even selling them for $1,200. If you hurry, you can secure these Collectible Gold coins now for yourself and your family today for just $1,195.
That's $300 less than the Redbook value!

This is a special offer I'm only bringing to newsletter subscribers. I want you to know what I know—that Collectible Gold is the educated move when putting money into gold and protecting yourself from a major market correction.

These coins are popular, high-quality, and scarce Collectible Gold pieces. They tick off all three of my boxes, and score high on my "Collector's Scorecard."

But like I said, I only have 40 available (remember, only 439 total coins exist in this grade), and gold prices are already far higher than they were just a few months ago. You have to act now!

The only downside is I have to put a limit this offer to a maximum of 3 coins per person.

Don't Wait—Secure Your Collectible U.S. Gold Now!

The majority of economists say that we have less than two years before the next financial storm. So what are you waiting for?

Gold prices are rising right now as I write this and the next stock market crash is getting closer. Protect yourself and your family by building a golden legacy for your children, grandchildren and heirs NOW.

Take advantage of this incredible offer and secure historic U.S. $10 Gold Liberty coins today. I'll even include **FREE Domestic Shipping** with every order.

Call 1-888-201-7636 or CLICK HERE and use the special offer code UWR241 now.

Only 439 coins exist in this grade

Sincerely,

Bill Gale
Founder, GovMint.com

P.S. Time is running out. I only have a limited number of coins available. Don't wait—your order is protected by our 30-Day Return Privilege. So hurry up and secure your Collectible Gold coins now!

Call Toll-FREE today 1-888-201-7636 or CLICK HERE to Secure Your 1888-S $10 Gold Liberty