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S&P500: 2001
Gold: 1268
10yr Bond: 1.9%

Stock Market
My market timing model for the S&P500 remains out of the market. Over the last month some chartists have been predicting an imminent collapse. There were many calls to short the market as a sure thing. Then it turned around and regained most of the selloff. Getting caught in a short squeeze is no fun. On the mainstream business news shows they talk about a double bottom and higher prices ahead. I'll stick with my trend following system and will stay out of the indexes for now.

I don't have much faith in charts and drawing trend lines that connect high and low points. Years ago Harry Browne wrote a book and competently debunked that nonsense. I do know from my own research that moving averages do work if the right duration is selected.

The problem for stocks is we are at the end of a thirty year cycle of debt expansion. Prior to 1980 the US had high inflation. Volcker raised rates and regained control. Then the government went from printing money to selling bonds. Public debt began its upward trend and has gone parabolic since 2001 with one war after another. As interest rates fell after the 80s private debt expanded as borrowing became more affordable. Now the official public debt is at $20 trillion, wages are going nowhere and the rich have all the money having benefited from capital appreciation on stocks and bonds at reduced tax rates.

Both government and consumer credit expansion are at the end of the road. In a fiat money system, credit is money and if it can't expand due to faltering incomes and existing debt burdens then it will contract. The US government has to make a decision. They know monetary policy is no longer effective. In fairness to the Fed, they can't be expected to boost economic growth with interest rate policy alone. The only thing left is fiscal policy, i.e. government spending stimulus. If they don't spend then stocks will fall and pension funds will gradually go insolvent. They really have no choice. Once fiscal spending starts I'd expect to see stocks do well again. This sort of undulating market action will be the norm until consumer and government debt is greatly reduced. The future of stock prices depends on the government policy response.

The stock market is taunting Wall Street. It has risen a bit and is begging investors to get back in. I think that would be a mistake but many will take the bait.

Author Richard Duncan who closely follows credit cycles issued a warning this past month. His book, The New Depression, is one of the finest explanations of credit that I've ever read and I highly recommend it. He said:

… there is not just a single Death Spiral, but, instead, a number of overlapping and mutually reinforcing Death Spirals now dragging the global economy down toward depression.
The Strong Dollar, The China Hard Landing, The Deflating Asset Price Bubble, The Credit Cycle

The reality is that the global economy is being sucked down in a whirlpool of interlocking Death Spirals; and there are only three ways out: Death (War), Quantitative Easing on a very large scale or Fiscal Stimulus on a very large scale. QE has been overused and is now beginning to have undesirable side effects such as negative interest rates. So, at this stage of the global economic crisis, only Fiscal Stimulus offers hope of a permanent solution.

Another Wise Counselor Warns
The Levy Institute has a superb track record forecasting economic cycles. They are saying the US will slide into a deep recession along with the emerging markets. It can't be avoided.

… the United States faces a global recession that it will be unable to withstand. U.S. export exposure recently hit a record share of GDP, problems in global credit markets will adversely affect U.S. banks and markets, the American stock market has vast foreign exposure, and household spending/saving rates are unusually vulnerable to prices of financial assets. Plus, there is no room to cut interest rates, a tonic applied for economic and financial weakness consistently for many decades.
http://levyforecast.com/why-the-global-economy-is-facing-recession/

Unless governments quickly enact massive amounts of fiscal spending the world economy will contract severely. To save the system they must in the US commit to spend trillions on public works. They'd probably have to first give everyone Helicopter Money (free cash) to provide a quick spending jolt until the broader plan could be put into action.

With nations deep in debt, selling more debt at low rates isn't attractive to the markets. This is shown in weak treasury auctions among the G20. Selling debt at higher interest rates would consume their budgets. So they have to print and buy their own debt – monetize – and suppress interest rates. Therefore, for fiscal spending to work it must be big and it must be global because the G20 nations need to synchronize the depreciation of their currencies so any one currency doesn't crash. At the recent G20 meeting in Shanghai they couldn't come to an agreement with Germany saying the days of QE and government debt expansion are over. I'll agree that debt expansion has no future but money printing sure does. I saw hedge funder Ray Dalio on Bloomberg TV and he agrees that monetization and helicopter money is necessary. http://davidstockmanscontracorner.com/the-g-20s-big-fat-zero-now-comes-the-bubbles-demise/

The US is in the best position to expand fiscal spending. Unfortunately for the world, the US congress is completely captured by corporate and banker money. The elected officials care nothing for the citizens any more. They answer only to their party leaderships who will withhold election funds if they buck the party platform. The only things both parties agree on are fiscal spending via endless war and getting more donor cash from the rich who benefit from war. Like I've said before, defense spending makes up 25% of the US budget so they have to keep spending on bombs and bullets or the economy will contract. That's about it. There is no plan and no expectations of economic growth. The guys in DC don't know what to do.

So here's the situation. The advanced nations all have pension and health care commitments but no growth to pay for it. They can't expand their national debts or their currencies will crash. For now they can't come to an agreement to bamboozle the markets by depreciating the currencies together. They've kicked the can down the road and now they're at the end of the road. So what is left? At this time all they can think of is to tax wealth and confiscate money from savers. Negative interest rates are a form of wealth confiscation. This is why they now have bail-in laws on the books to grab bank deposits. This is why America has enacted FACTA so you can't open foreign bank accounts to escape capital controls. These strategies are stupid and will provoke capital flight. If they continue on this foolish path then pension payments will be cut after capital exits stock markets. In America they'd have to enact Medicare means testing. For political reasons I don't think these strategies have any future. Governments will do what they historically have always done when in this bind. They print – a lot. And that's why gold is going up.

Gold

I advised buying gold in January. In the February newsletter I suggested up to a 30% allocation to gold and ideally in your personal possession. The higher percent is a significant concentration in one asset class. How much risk is your decision. I'm comfortable with 30% but most advisers will tell you 5-10%. I think that's too low considering the global and monetary risks. There are a few allocated gold funds that are quite good. The Central Fund of Canada (CEF) holds gold and silver. Sprott Gold (PHYS) holds gold in Canada. The Merk fund (OUNZ) holds bullion overseas. Do not buy gold via GLD. You <u>should not</u> invest in gold "pools", non-segregated accounts, or in bullion funds holding "unallocated" metal. That means any place that doesn't have clear title to specific gold bars held in caged vaults.

Very few super rich people own any gold. When the big money wakes up it could get interesting. Gold is very volatile so you must expect big price swings. In late December gold was $1060. Last month gold was $1137 and today it was over $1250. That's a 20% rise in two months. It has risen quickly and I'd expect it to fall back but I could easily be wrong. (I know nothing about mining stocks and have never owned any.)

Gold isn't easily taxed and can't be electronically confiscated. US gold and silver eagle coins are legal tender produced by the US mint. It is perfectly legal, for now, to stash some wealth in precious metals. China, Russia, India and other others know what's coming. They are selling their US treasury bonds and buying gold in huge quantities. Several keen analysts have confirmed that the amount being sold to Asia is far in excess of scrap salvage and new mining supplies. That means it must be coming from US stockpiles, aka Fort Knox. One such analyst says America's 8100 ton gold hoard is now down to 6000 tons and the rest is probably encumbered.
http://averybgoodman.com/myblog/2016/02/23/why-gold-prices-are-headed-up-now/

OPEC is in tatters and countries will now sell oil for any trade currency. Thus the requirement to use dollar's for oil pricing is over and that was the key support for the dollar's reserve currency status. The other reasons for a loss of dollar status are abuse of the dollar privilege and debt growth but mostly resentment by Asia of US hegemonic ambitions which require a dominant dollar at the point of a gun. This has huge implications for your standard of living. Confirmation is coming from China which in February cut the Yuan's peg to the dollar. They will now peg to a currency basket thus diminishing the dollar's dominance.
http://www.bloomberg.com/news/articles/2016-01-11/pboc-s-ma-sees-stable-yuan-as-peg-shifts-to-basket-from-dollar

Furthermore, China is taking some of the gold price control away from London and New York. On April 19th they will use the Shanghai Gold Exchange to set the Asian price fix. This act will limit the ability of the West to manipulate the price.
http://www.bulliondesk.com/gold-news/update-china-plans-to-launch-yuan-denominated-gold-fix-april-19-sources-109581/

The handwriting is on the wall.

Presidential Election

Of the presidential candidates, only Donald Trump talks about jobs. The rest have given up. Trump is popular, not because he has a real plan, but because he tells some truth about the broken and corrupt system. Hillary represents corruption and Trump possible chaos.

The Clinton administration with Hillary actively involved had a history of brutality. She has legal problems with her email server and issues with fund raising for her foundation while Secretary of State. That's why she's facing indictment.

In the late 90's Bill Clinton's secretary of state Madeline Albright gave the green light to the genocidal murder of 500,000 Iraqi children under the age of ten by deliberately targeting and destroying clean water supplies and sanctioning water purification equipment. Targeting of non-combatant and defenseless populations in war is the textbook definition of genocide per the UN. What's really pathetic is Iraq was not a threat to US security. It's only about money. America holds itself exempt from the standards it imposes on others and the world knows it.

Stuff like this is why the US political system is in disarray. It's why the world has lost confidence in the American leadership. It's why the dollar's days are coming to an end. The public has had enough of crazy people like Hillary, Bush and John McCain pushing senseless wars and running up trillions in debt. The political leadership is out of control and detached from reality. They seem to have no concern for world opinion and the consequences of their stupidity.

Federal Money Market Funds

In January I advised investors to take some money out of the banks and move it into a brokerage money market fund that holds US government treasury bills. I suggested something similar to Vanguard's VMFXX. Unknown to me big money is doing just that and to such an extent that the Fed chastised mutual funds.

The Federal Reserve's top markets official warned on Monday that a trend of U.S. money market firms converting funds from "prime" to "government-only" could be sharply reversed and harm the overall execution of policy when a new Fed tool is eventually dismantled.

In a speech on tools the U.S. central bank adopted to wrench interest rates from near zero in December, New York Fed markets chief Simon Potter warned money funds that one of those tools, an overnight repurchase facility known as ON RRP, is only temporary.

More than 100 funds have access to this facility that provides a short-term yield of 0.25 percent on cash. Many of them have begun in recent months to make the conversion from prime, which invests in a wide range of securities, to the narrower government-only structure ahead of an October deadline by the Securities and Exchange Commission for new controls on client redemptions in prime funds.
http://www.reuters.com/article/us-usa-fed-potter-idUSKCN0VV283

In other words, the Fed is saying that they have plans to limit redemptions from regular money market funds when the next crisis hits and people in Federal MM funds are escaping the noose. It's good to have a plan B. You can also invest in a short term federal bond fund with about two year duration. This is just as good as a money market fund.

Hedging Risk

If things play out as I suspect, without enormous fiscal spending, global stock markets will struggle. They could fall dramatically. Earnings are also likely to fall as consumer wealth is destroyed and people stop spending. This spiral down is what Richard Duncan is warning about. Many pension plans in America would go broke unless they cut their payouts. People in their 50s expecting nice retirements would likely see their monthly payouts reduced but not right away. It would take perhaps five years of poor stock performance before they'd have to face the music. The government would eventually means test Medicare. For these reasons I believe governments will enact major fiscal spending. This means inflation. Deflation is very unlikely. In his 2006 autobiography Greenspan said the public debt would be reduced by boosting annual real inflation to 4%. This is coming because it's the only way out but things will have to get bad before they act.

I believe it's wise to hedge your risk by owning gold and silver. Most 401k retirement plans have limited mutual fund investment options. Some don't offer a money market fund. It's stocks and bonds only. Most people aren't aware that their company 401k retirement plans can be borrowed from. Under many plans you can borrow up to 50% of the balance you've saved. You are charged interest but you will pay it back to yourself, not to a bank. That money could be placed into a federal money market fund until the stock market decline is over. Talk to your plan administrator if this is something you want to do.

Staying 100% invested in expensive stocks and low yielding bonds is a total commitment to financial assets in a no-growth world. It's your money and your decision.

Dividend Stocks

I believe stocks are expensive. Most of America's best companies will survive and will be excellent buys at a later date. I have targeted the best 125 dividend stocks. I track these weekly with my new dividend software. I don't recommend buying them until the recession is admitted and the overall market declines. These stocks then tend to turn up before the broad market.

Below is a partial list ranked by my dividend model. Essentially, I'm looking at consistent dividend paying companies which manage their cash and never cut the dividend. I rank them by a formula that looks for dividend yield at the high end of its range but it's not just yield. I've created some metrics that flag these firms. Historically, quality firms bought this way revert to their yield average as the stock price goes up. My research shows this technique greatly outperforms the market averages. Again, I'm not making a recommendation to buy now but want you to be aware of my process.

The chart below shows the top ranked dividend stocks by my method. Under the 5yr Yield caption is the minimum, maximum, average and current yield for the stock over the last five years. So if you need at least a 3% yield there are some to choose from under the NOW column.

My model also identifies stocks that should be sold because their yields are historically too low and indicate the stock price is overvalued. In the months ahead I'll publish the full list each month and will send alerts on a more frequent basis. I think this safe and effective model will be of great value over the coming years.

		5yr Yield				Price			Trend
Ticker	Company Name	Min	Max	Avg	Now	Year Ago	1mo	Now	20 dma
NKE	Nike, Inc. Common Stock	0.16	0.91	0.3	0.9	48.08	57.17	61.59	UP
NDSN	Nordson Corporation	0.18	2.59	0.6	2.0	74.4	58.67	71.67	UP
SKT	Tanger Factory Outlet Centers,	0.00	8.34	3.0	7.9	32.78	31.82	32.08	UP
CINF	Cincinnati Financial Corporatio	2.99	10.04	4.3	8.7	50.33	60.25	63.14	UP
CFR	Cullen/Frost Bankers, Inc. Comm	2.51	4.75	3.1	4.4	66.91	47.85	47.93	DN
ANDE	The Andersons, Inc.	0.47	2.27	1.0	2.1	41.44	27.57	26.85	UP
NUS	Nu Skin Enterprises, Inc. Commo	0.65	4.98	2.0	4.6	52.26	33.31	30.49	UP
ADM	Archer-Daniels-Midland Company	1.73	3.55	2.3	3.2	44.98	33.76	34.96	UP
OKE	ONEOK, Inc. Common Stock	0.55	13.00	3.0	10.2	43.8	25.54	24	UP
DCI	Donaldson Company, Inc. Comm	0.32	3.78	1.4	3.6	36.73	29.54	28.24	DN
TIF	Tiffany & Co. Common Stock	1.31	2.60	1.8	2.5	83.56	63.86	64.98	UP
IBM	International Business Machines	1.54	4.30	2.3	4.0	153	127.27	131.03	UP
CLC	CLARCOR Inc. Common Stock	0.52	1.96	1.0	1.8	63.6	46.63	48.14	UP
TROW	T. Rowe Price Group, Inc.	1.67	3.20	2.2	3.0	77.94	68.64	69.11	UP
EOG	EOG Resources, Inc. Common S	0.19	1.07	0.5	1.0	87.83	67.06	64.74	DN
CVX	Chevron Corporation Common Stc	2.85	5.65	3.6	5.1	98.78	81.84	83.44	DN
HCP	HCP, Inc. Common Stock	1.87	8.76	4.4	7.8	37.96	35.60	29.58	UP
AOS	A.O. Smith Corporation Common	0.44	1.20	0.7	1.1	62.31	65.56	70.38	UP
CBSH	Commerce Bancshares, Inc.	0.81	2.20	1.1	2.0	39.37	41.13	42.48	UP
ABT	Abbott Laboratories Common Sto	1.37	2.59	1.8	2.5	45.49	37.41	38.74	UP
PII	Polaris Industries Inc. Common	0.48	2.98	1.4	2.5	146.01	82.17	87.91	UP
BEN	Franklin Resources, Inc. Commoı	0.19	1.86	0.7	1.7	52.27	33.71	35.85	UP
GRC	Gorman-Rupp Company (The) Co	0.63	1.87	1.2	1.7	27.58	23.20	25.26	UP
RAVN	Raven Industries, Inc.	0.25	3.60	1.4	3.4	19.97	14.99	15.28	UP
KO	Coca-Cola Company (The) Comm	0.52	3.46	1.3	3.1	40.18	42.44	43.13	DN
CAT	Caterpillar, Inc. Common Stock	1.05	5.14	2.6	4.5	76.84	66.12	67.7	UP
NFG	National Fuel Gas Company Com	1.83	4.17	2.5	3.5	59.68	45.29	45.68	UP
PNR	Pentair plc. Ordinary Share	1.21	2.90	1.9	2.7	61.93	46.25	47.71	UP

Summary

What has worked for the past 30 years may not work in the future. I think a balanced portfolio strategy may beat inflation if owning gold is not your thing. I think returns will greatly beat inflation if you can use market timing to avoid stock market downturns. Gold is edging up and my research shows it really gets going as long term rates rise. Rates will rise as governments start spending. At the same time they will try to suppress rates and trap capital with various controls. This is quite a conundrum because nobody alive has any investing experience in such an environment. It also means we’re in the early stages of a gold bull market. The price volatility in stocks, bonds and gold will be wild. For the adventurous investor it could be a lot of fun but for most it will lead to emotional panic; fearful selling, wealth destruction, and ruin. It’s the end of an era and the beginning of a new one.

Best regards,

Tom Gleason