PRIVATE WEALTH ADVISORY

INVESTMENT RESEARCH THAT CONVERTS

The Perfect Storm

TRACK RECORD: RECENTLY CLOSED POSITIONS

POSITION	SYMBOL	BUY DATE	BUY PRICE	SELL	SELL PRICE	GAIN/ LOSS
CVS	CVS	5/30/18	$65.99	6/20/18	$71.73	9%
Public Storage	PSA	3/23/17	$225.92	6/27/18	$227.20	5%
Diamond Offshore Drilling	DO	1/3/18	$19.77	6/27/18	$21.22	7%
Energy Transfer Partners	ETP	8/2/17	$21.00	7/19/18	$19.91	6%
Utilities ETF	XLU	2/15/18	$49.68	7/19/18	$52.56	7%
Brazil ETF	EWZ	7/18/18	$33.67	7/31/18	$36.23	8%
Walmart	WMT	7/18/18	$87.86	8/16/18	$99.26	13%
UltraShort Brazil	BZQ	8/15/18	$54.00	8/20/18	$57.06	6%
Telecom ETF	IYZ	8/1/18	$27.57	8/31/18	$29.68	8%
Altria Group	MO	5/30/18	$56.59	9/12/18	$63.46	12%
India ETF (SHORT)	INDA	8/15/18	$34.50	10/3/18	$31.94	7%
Deere & Co	DE	9/13/18	$148.87	10/4/18	$155.92	5%
Russell 200 ETF (SHORT)	IWM	6/26/18	$163.38	10/10/18	$156.57	4%
VIX ETN	VXX	8/15/18	$33.50	10/11/18	$34.97	4%
Freeport McMoRan	FCX	3/22/18	$18.30	10/18/18	$12.15	-33%
UltraShort China	FXP	8/15/18	$78.71	10/18/18	$83.85	7%
McDonalds	MCD	8/29/18	$163.11	10/23/18	$176.58	8%
Nvidia	NVDA	10/21/18	$231.28	10/23/18	$217.76	6%
Spain ETF (SHORT)	EWP	8/15/18	$29.04	10/23/18	$27.69	5%
UltraShort NASDAQ	QID	10/25/18	$43.61	10/30/18	$43.85	1%

To view the full track record of all closed positions running back to early-2015, visit:

http://phoenixcapitalresearch.com/privatewealthadvisory/track-record/

To view our current open positions, scroll to the bottom of this issue of *Private Wealth Advisory.*

The Perfect Storm

This might be the single most important issue I've written in well over two years.

The financial system is now facing a perfect storm. The largest most systemically important issues are as follows:

1) China is on the verge of a complete financial meltdown. No, not a correction, but a MELTDOWN as in **systemic collapse**.

2) The US economy is rolling over precisely as inflation becomes a major issue for stocks. This means topline growth stalling right as profit margins shrink. And this is occurring in the context of US corporates being more leveraged than they were in 2007.

3) The EU is ending its Central Bank's support of its financial system right as its economy rolls over. Simultaneously populism is rising, greatly reducing the chance of any kind of reform/ austerity during the coming downturn. Put simply, the odds of the EU breaking up are higher than at any point since 2012.

Again, this is a perfect storm. We have the primary driver of economic growth in the Emerging Market space (China) facing an economic slowdown concurrent with the bursting of multiple bubbles.

This is occurring at a time when the single largest economy in the world (the US) is rolling over… while facing its own "end of cycle" inflationary impulse. Throw in record corporate leverage at a time when profits have peaked and we could easily experience a 1991 type corporate default

November 1 2018

SHORT-TERM ISSUES

- Stocks bounce, but risk off is the trend.
- Tech to drop hard.
- Precious Metals to rally.

INTERMEDIATE-TERM ISSUES

- A bear market bringing the S&P 500 to the low 2,000s.
- China to enter a crisis.
- The EU to break apart.

LONG-TERM ISSUES

- A Crisis worse than 2008.
- Eventual market collapse of 50%+ in real terms.
- A scramble for high-end collateral to bring about derivatives collapse/ implosion of big banks.

crisis.

And finally, the second largest banking system in the world (the EU) is about to come off Central Bank "life support" right as its underlying political fractures break wide open.

Put as simply as possible, the three largest economies in the world, accounting for 60% of global GDP are all facing slowdowns and financial asset crises.

<u>However, I want to emphasize that this does NOT mean that the system melts down right this minute</u>.

I am not trying to scare you, nor am I trying to sound overly dramatic. I am simply trying to alert you to the fact that the potential for a 2008-type meltdown is the highest it has been since 2008. I expect that process to take the next 6 months to unfold.

Having said that, there are many moving parts to this situation. Some of these issues could be "solved" in the intermediate term. Others are without solutions. And for certain the political classes/ Central Banks will be fighting "tooth and nail" to hold things together.

A perfect example of what I mean by this concerns President Trump's tweet this morning.

There is literally no way of confirming that the above statement is true. We can't know if President Trump *did* indeed have a conversation with China's President Jinping, nor if the conversation went well.

Moreover, regardless of how well the discussion went, fixing the real issues between the US and China (espionage, theft of IP, structural trade disparities) **<u>is IMPOSSIBLE without China blowing up.</u>**

However, none of those facts mattered to the markets this morning. Within minutes of President Trump tweeting the above message, the $USD nose-dived and risk assets roared higher.

We've covered a lot of ground already, and we're about to cover even more, so let me summate the BIG PICTURE for the financial system today.

My points are the following:

1) Volatility is back in a BIG way.

2) This volatility is due to REAL structural problems hitting the financial system, NOT your normal, everyday market blips.

3) As a result of this, we are going to see sharp rallies, but the BIG PICTURE is that the trend is now DOWN and we are in a Bear Market.

My downside target for the market is 2,100 on the S&P 500. I expect we'll get there sometime in 1Q19.

Having established all of this, let's dive into the issues I mentioned at the top of this report.

CHINA

First and foremost, we need to dispel with the myth that China is a standalone global superpower.

China is a derivative economy. All of its economic clout on the world stage has been a result of its lopsided relationship with the US. Remove the US from the equation and China is a 3rd world country in a matter of years.

Moreover, there is ample evidence that China's appearance of strength is in fact just a façade. Analysis of internal aspects of the country reveal a system that is held together by fraud, corruption, and some of the worst human rights violations in history.

Let's first attack this from a common-sense perspective.

1) No command-style, centrally planned government growth **in history** has ever produced sustained, dynamic economic.

2) The idea that China's communist leaders figured out economics/ how to run a country in the 1970s better than anyone else in the last 5,000 years is next to zero.

3) If China is such a great place to grow wealthy and prosper, why does everyone flee the country for the US the minute he or she comes into money?

Moving on from basic common sense, let's get into the specifics.

First and foremost, **China's economic data is complete fiction**. Back in 2007, the current Premiere of the State Council of China, Li Keqiang, admitted to the US ambassador to China that **ALL** Chinese data, outside of electricity consumption, railroad cargo, and bank lending is for "reference only" i.e. "fiction."

Fraud is rampant throughout China's economy/ social system.

Chinese students RIOTED when it was announced that they were no longer permitted to cheat on exams.

> *What should have been a hushed scene of 800 Chinese students diligently sitting their university entrance exams* ***erupted into siege warfare after invigilators tried to stop them from cheating.***
>
> https://www.telegraph.co.uk/news/worldnews/asia/china/10132391/Riot-after-Chinese-teachers-try-to-stop-pupils-cheating.html

In the research community, the fraud is so rampant that even the *NY Times* has caught on. Note the ridiculously "pro-China" introduction to this article (more on this issue shortly)… only to be followed by the admission that the whole mess is based on fraud.

> *Having conquered world markets and challenged American political and military leadership, China has set its sights on becoming a global powerhouse in a different field: scientific research. It now has more laboratory scientists than any other country, outspends the entire European Union on research and development, and produces more scientific articles than any other nation except the United States.*
>
> *But in its rush to dominance, China has stood out in another, less boastful way. Since 2012,* ***the country has retracted more scientific papers because of faked peer reviews than all other countries and territories put together****, according to Retraction Watch, a blog that tracks and seeks to publicize retractions of research papers.*
>
> https://www.nytimes.com/2017/10/13/world/asia/china-science-fraud-scandals.html

In terms of economic fraud, China counts *any* and all economic production as economic growth.

So, let's say that China built a city. Regardless of whether any of the buildings are ever purchased or leased, **China will count the entire city in its GDP growth**. As one can imagine, this has highly incentivized China's government to build "bridges to nowhere" or economic projects that are never actually used.

As a result the country is replete with ghost towns…

> **China's ghost towns and phantom malls**
>
> *"In Chenggong, there are more than 100,000 new apartments with no occupants," according to the World Bank's Holly Krambeck.*
>
> *Designed as an overspill point for nearby Kunming, a city of nearly six-and-a-half million, Chenggong began to take shape in 2003.*
>
> *High-rise apartment blocks have mushroomed but today it is still largely deserted after failed attempts by the authorities to attract new residents.*
>
> *Matteo Damiani, an Italian journalist who worked for seven years in Kunming, has visited Chenggong several times, photographing empty tower blocks that loom over gigantic plazas, peopled only by enormous works of art.*

He found a small community of students, workers and security guards but nobody else.

"The suburbs and even the city centre are empty," he says. "You can find a big stadium, shopping malls and hundreds of buildings finished but abandoned."

There is even an area for luxury villas that is totally abandoned, he adds.

It is said to be one of the biggest ghost cities in Asia.

http://www.bbc.co.uk/news/magazine-19049254

Outside of building things that no one ever uses, China has a history of building things that don't work… or, worse still, collapse.

A13-storey apartment building buried and killed a worker in China on June 27

https://www.telegraph.co.uk/news/worldnews/asia/china/5664043/Shanghai-building-collapse.html

…this tends to happen even when it's politically unsavory…

A $10 million Chinese-built bridge in western Kenya, personally commissioned by

president Uhuru Kenyatta, has collapsed*. At least 27 workers were injured when the bridge broke on Monday (June 26). The government has halted construction and sent a team of engineers to investigate.*

The collapse occurred less than two weeks after president Kenyatta visited the site as part of a campaign tour before general elections in August*. Kenyatta, who is up for reelection, has been emphasizing his party's focus on infrastructure projects, like a new railway between Nairobi and the port city of Mombasa.*

https://qz.com/africa/1015554/a-chinese-built-bridge-collapsed-in-kenya-two-weeks-after-it-was-inspected-by-the-president/

The reason why this kind of stuff occurs is because China's entire economy is rife with economic fraud and counterfeiting. The "growth by any means possible" paradigm pushed by Leadership has resulted in a culture of graft, corruption and fraud:

Fraud, Culture and the Law: Can China Change?

Counterfeit goods and scams are used to defraud millions of Chinese daily.

This week alone, the country's state media have reported the arrests of two men for fraud: one a high-profile real estate financier suspected of manipulating bids, the other a sales manager at milk producer Mengniu who reportedly tampered with production dates on milk and yogurt labels.

Those cases follow the announcement earlier this month by police that they had seized more than $182 million in counterfeit pharmaceuticals, including drugs used to treat diabetes and high blood pressure*, as part of a nationwide crackdown on fake food and drugs. Drug counterfeiters "are coming up with new schemes, becoming craftier and better able to deceive" police warned in a statement accompanying the news.*

The persistence and extent of fraud in China, despite a near constant string of crackdowns and arrests, raises fundamental questions about cultural forces in Chinese society that limit the reach of law…

*…**The production of counterfeit cigarettes, for example, has been estimated to reach 400 billion cigarettes, although cigarette manufacturing and distribution is supposed to be exclusively state-owned and controlled. One manufacturer reportedly went so far as build a counterfeit cigarette factory in Fujian designed to look like a military compound, including laborers dressed in second-hand military uniforms who conducted false military drills to complement the masquerade****. In*

Sichuan, meanwhile, police are said to have raided a black-market cigarette factory that had been disguised as the "Number 1 Block" of a provincial prison.

http://blogs.wsj.com/chinarealtime/2012/08/24/fraud-culture-and-the-law-can-china-change/

Some more striking evidence of fraud, corruption, and counterfeiting in China:

1) In 2010, 30 animals died in the Chinese zoo of Shenyang due to *malnutrition*.

2) China built the world's largest mall in 2005. Of the over 2,300 spaces available for lease only 47 were rented.

3) China alone accounted for 73 % of $1.69 billion in counterfeit goods seized in the EU in 2011.

4) Chinese officials have seized over 50 TONS of counterfeit pharmaceuticals.

5) Raids have seized more than 350,000 counterfeit golf products.

These sorts of issues don't come out of a free market with a stable regulatory bodies, sound accounting principles, and a legitimate legal structure: they come out of control-style economy that this based on fraud and corruption.

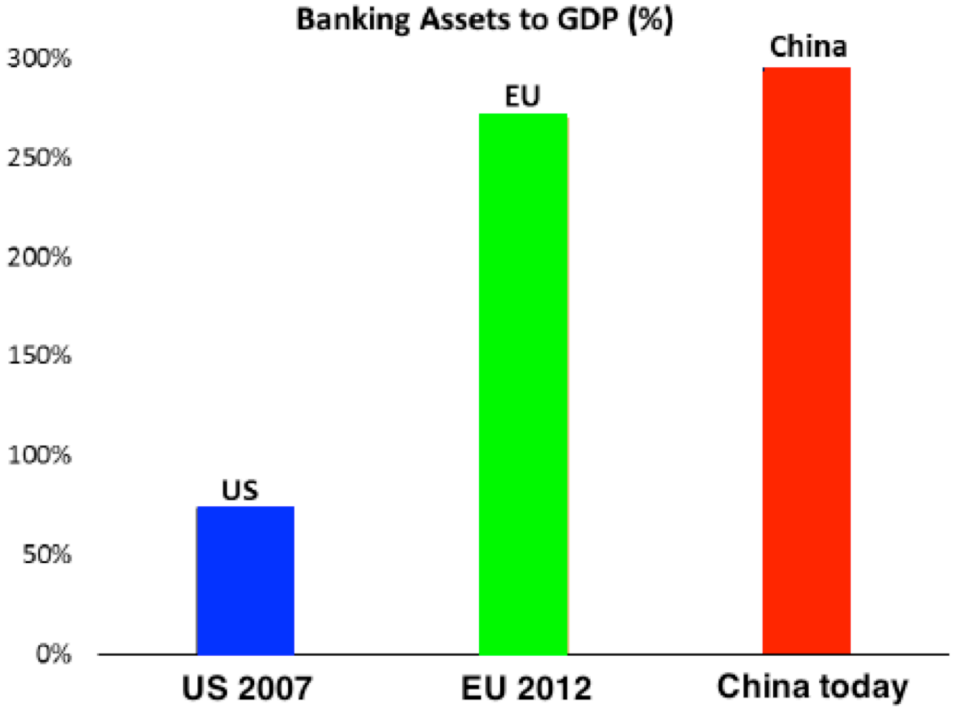
Speaking of corruption… the data here is murky, but we do know the following:

1) In 2010 alone, 146,000 cases of corruption were launched in China (that's 400 PER DAY).

2) How much these officials stole is unknown. But… of the 14 cases that were *actually reported* in the Chinese media, the average amount stolen was 18 MILLION RMB (for perspective, the average college graduate in China earns 2,500 RMB *per year*).

3) Between 1991-2011, it's estimated that between 16,000-18,000 Chinese officials *fled* China taking 800 BILLION RMB (roughly $125 BILLION) with them. **Bear in mind China's entire GDP was just 2.1 trillion RMB in 1991.**

All of this was bankrolled by a banking system that is opaque at best and outright fraudulent at worst. China's banking assets to GDP ratio is approaching 300%... to provide some perspective here, the US banking system had an asset to GDP ratio of less than 100% at the peak of the housing bubble…and that was the single largest credit bubble in US history.



To summate, China is many things, but a global superpower, driven by a dynamic capitalist economy with a sound financial system is NOT one of them.

So why is this view so uncommon in the US? Why is it that so many believe China to be the next big thing?

Because China has been waging an all out war on US public opinion. This included placing spies on the staff of highly prominent US senators in order to shape policy…

> ***As vice chair of the Senate Judiciary Committee and a ranking member of the Senate Intelligence Committee, Dianne Feinstein (D-Calif.)*** *has been investigating allegations of President Trump's "collusion" with Russia.*
>
> *But now we learn Feinstein may be the one compromised by a foreign power.*
>
> ***Turns out that Communist China had a spy in her office. A 20-year employee of Feinstein's, the agent had been reporting back to China's Ministry of State Security for well over a decade before he was caught in 2013, according to the FBI.***
>
> *https://nypost.com/2018/08/08/dianne-feinstein-was-an-easy-mark-for-chinas-spy/*

… placing spies within major, strategically important US corporations…

> ***Chinese-American engineer charged with stealing General Electric trade secrets to take to China***
>
> *Xiaoqing Zheng sneaked out turbine technology data by hiding it within the code of a digital photo, the FBI said.*
>
> *https://www.scmp.com/news/china/article/2158061/us-charges-chinese-american-engineer-stealing-trade-secrets-ge*

> ***The Big Hack: How China Used a Tiny Chip to Infiltrate U.S. Companies***
>
> *The attack by Chinese spies reached almost 30 U.S. companies, including Amazon and Apple, by compromising America's technology supply chain, according to extensive interviews with government and corporate sources.*
>
> https://www.bloomberg.com/news/features/2018-10-04/the-big-hack-how-china-used-a-tiny-chip-to-infiltrate-america-s-top-companies

…as we as US academic institutions…

> *With more than 100 universities in the United States now in direct partnership with the Chinese government through Confucius Institutes,* ***the U.S. intelligence community is warning about their potential as spying outposts****. But the more important challenge is the threat the institutes pose to the ability of the next generation of American leaders to learn, think and speak about realities in China and the true nature of the Communist Party regime.*
>
> *https://www.washingtonpost.com/opinions/global-opinions/waking-up-to-chinas-infiltration-of-american-colleges/2018/02/18/99d3bee8-13f7-11e8-9570-29c9830535e5_story.html?utm_term=.a81bbe3c7088*

Moreover, the corporate/ political elite in the US have been easy targets for Chinese leadership, who promised them access to China markets (for corporates) or outright bribes (for dignitaries). **As a result of this, a lot of very powerful people have had pro-China stances.**

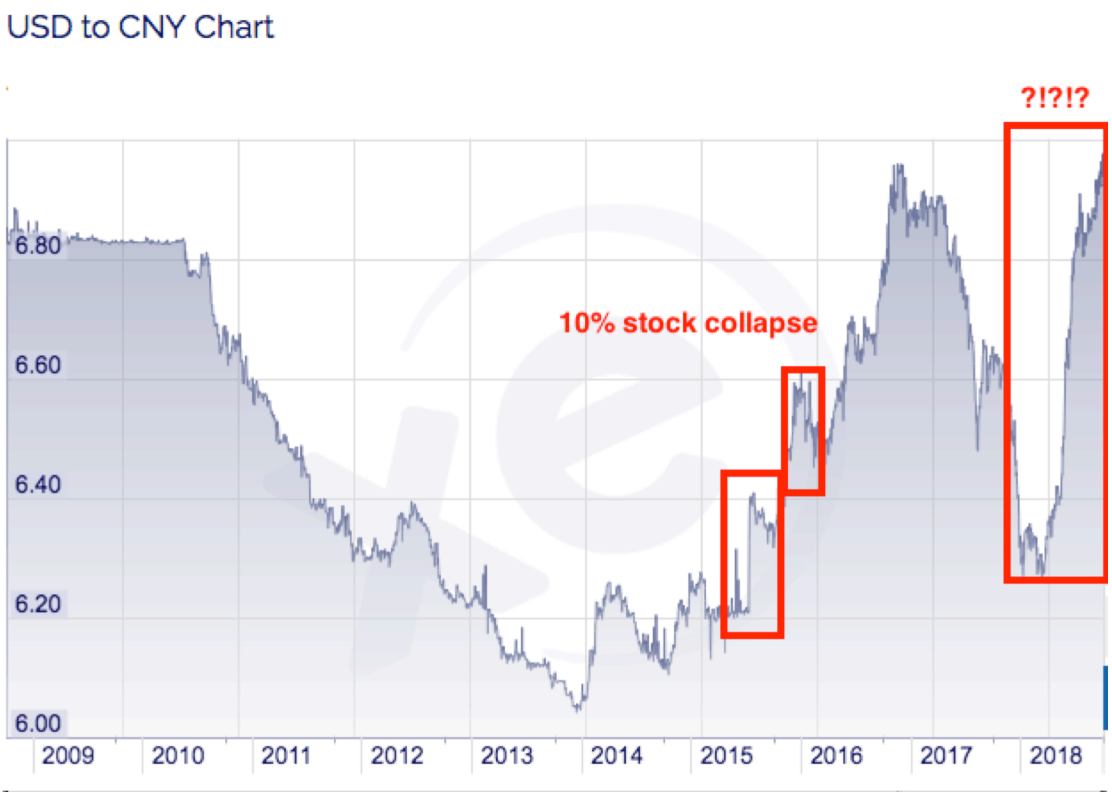
All of this was moving along swimmingly until the Trump Presidency, which has clearly designated China as the #1 threat to US national security… hence the recent arrests of Chinese spies, the increasingly aggressive trade anti-China policies, and the move to de-nuke North Korea.

I want to be clear here, I am not saying I am a fan of President Trump nor of his policies. I am merely noting that the Trump Administration has taken a VERY aggressive stance on China. And that stance has resulted in China's systemic issues being brought to the forefront of the financial system.

China's stock market has collapsed, having fallen almost 40% from its recent peak.

Moreover, China's banking system is in serious trouble. The Financial Stability board has found that 15% or roughly $7 trillion worth of the world's riskiest loans were in… China. To put that number into perspective, China's entire GDP is just $9 trillion. **So we're talking about a high-risk loan to GDP ratio of nearly 80%.**

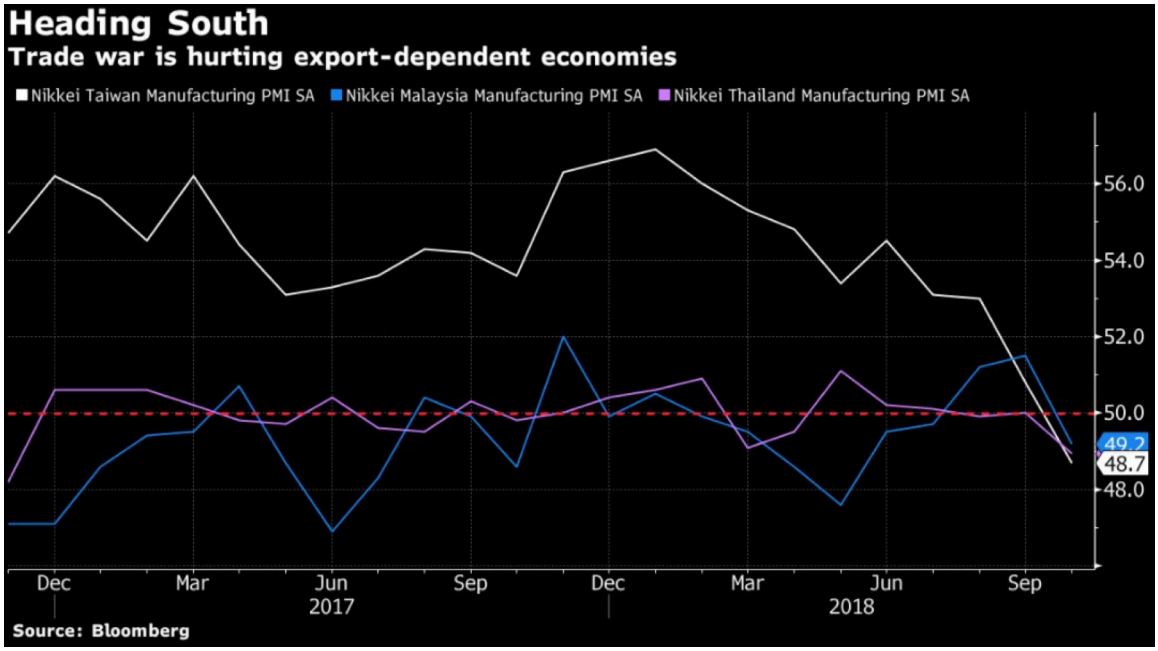
And then there is China's currency, which is devaluing at a pace that SCREAMS "systemic risk." The last two major Yuan devaluations (the ones that triggered a 10% stock market meltdown) are the first two squares. Now take a look at the most recent one.



<u>This is NOT indicative of a financial system that is doing well.</u>

Indeed, it is now clear that the Chinese economy is contracting. Credit growth (one of the few reliable economic data points out of China) is slowing rapidly. Moreover, we are seeing an uptick in unemployment via the Chinese PMI data. And this is occurring at a time when the Trump Administration has China lined up for even MORE aggressive tariffs… and one quarter before China's private sector faces its largest bond redemption in decades.

Moreover, the Chinese slowdown is now spreading to other parts of Asia. The latest spate of PMI data shows Taiwan (basically a proxy for China), Malaysia, and Thailand **all in contractions.** Not slowing growth… CONTRACTIONS.



Put simply, China is in serious trouble. And while most investors are aware there is an issue here, the vast majority of them are COMPLETELY UNDERESTIMATING the likelihood that China is going to blow up in spectacular fashion.

And this is just ONE storm the global financial system is facing today.

The second one is the fact that the US economy is slowing.

The United States

First and foremost, corporate sales, which represent top-line economic growth and are all but impossible to fake, are rolling over. On a Year Over Year basis, 3Q18 saw the slowest growth in sales since 1Q17. On top of this, the pace of the slowdown is truly alarming… YoY growth dropped from the 9%-10% range down to the 4% range.

	3 Q 2017	**4 Q 2017**	**1 Q 2018**	**2 Q 2018**	**3 Q 2018**
Y / Y Revenue Quarterly Growth	6.13%	10.43%	10.24%	9.88%	4.26%
Seq. Revenue Quarterly Growth	0.09%	7.34%	10.76%	3.63%	-1.74%

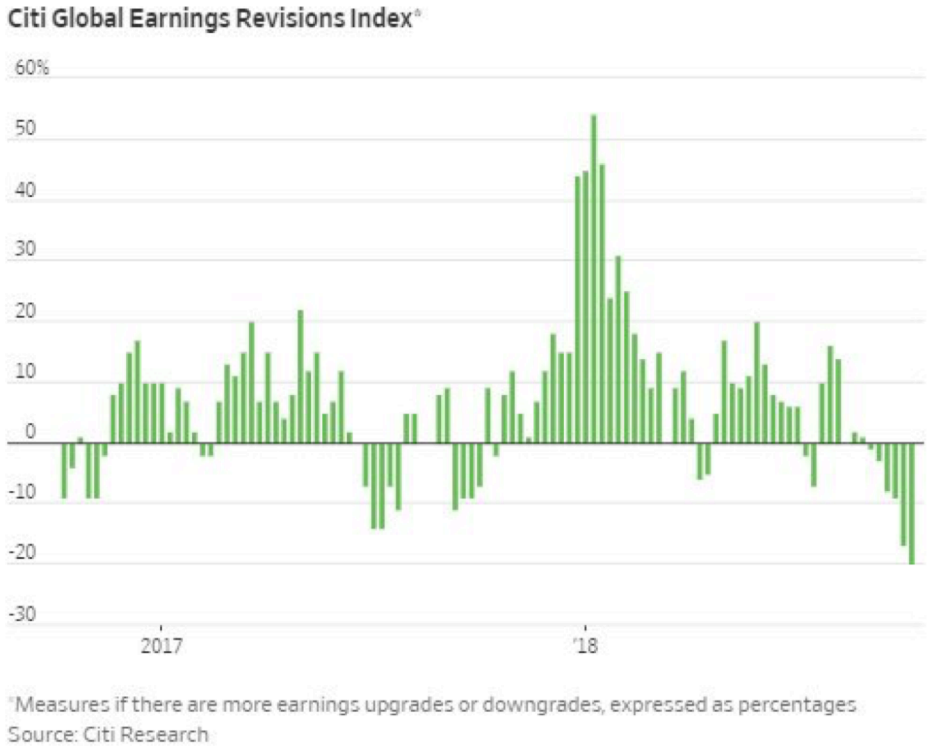
To make matters worse, sequential growth (meaning from 2Q18 to 3Q18) went **NEGATIVE.** This again, has not happened since 1Q17. And it is truly SHOCKING to see it in light of the prior growth rates.

That is just the beginning of the problems…

By the look of things, corporate profit margins peaked in 2Q18.

S&P 500 Profitability Ratios	**3 Q 2017**	**4 Q 2017**	**1 Q 2018**	**2 Q 2018**	**3 Q 2018**
Gross Margin	42.77%	42.96%	44.60%	45.83%	43.20%
EBITDA Margin	18.61%	18.63%	21.82%	20.65%	19.06%
Operating Margin	15.66%	15.93%	17.42%	17.32%	15.20%

By the way, this is not just a US phenomenon; globally earnings are being revised MUCH lower.



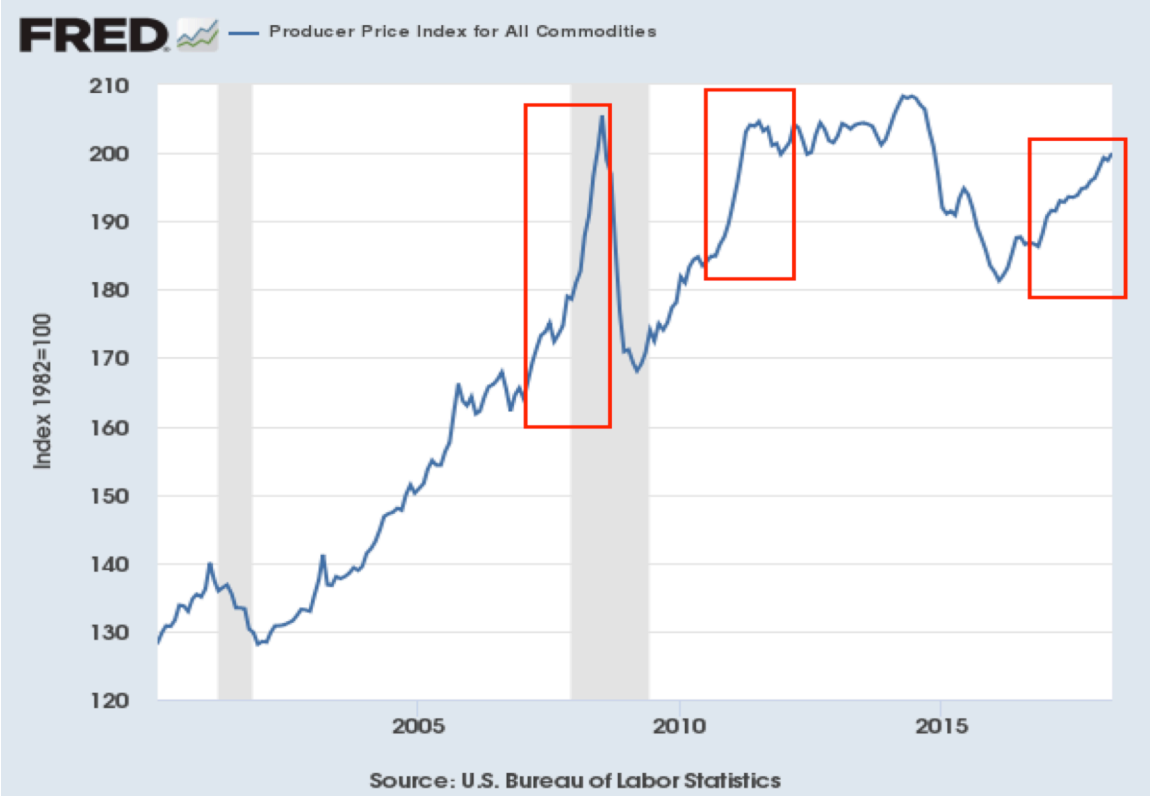
In the US, the culprit for this is… INFLATION. And by the look of things we're reaching the point at which inflation is a REAL problem for stocks.

Let me exaplin.

Inflation enters the economy in **stages**. It's not as though the Fed begins to print money and POOF! inflation appears. It takes time.

The first stage occurs in the manufacturing/ production segment of the economy when you see producers suddenly paying more for the raw goods and commodities they use to manufacture/ produce finished goods.

You can see this development in the chart below. The highlighted periods featured times in which Producer Prices for commodities or raw goods spiked approached record highs.



One or two months of higher Producer Prices for commodities or raw goods is no big deal, but once you're talking 6-8 months of steadily rising Producer Prices it's significant. At that point manufacturers/ producers have to start raising the prices of finished goods or face shrinking profit margins.

At that point you move into the second stage of inflation. That didn't happen in 2008 (the deflationary crisis removed the inflationary stresses). But it did happen in 2011. And it's happening again now.

When the price of finished goods begins to rise, you're in stage 2 for inflation. Again, this can be temporary, but if you have multiple months of this, you're talking about a significant development.

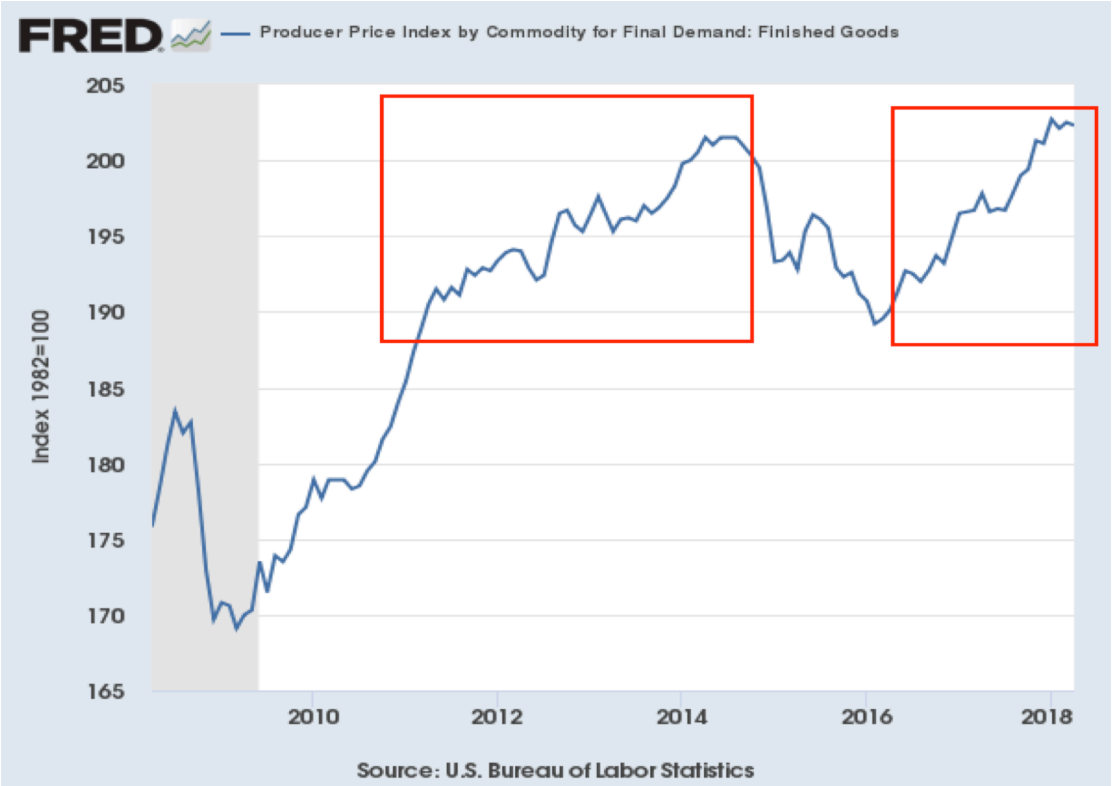
Bear in mind that phase 2 can happen in different ways. Management at companies don't just say "raise the price now!" Instead they can do different things such as charge the **same amount** for less of a finished product/ shrink the size of the container. This is called shrinkflation.

Another strategy is to start using cheaper/ lower quality raw goods (to reduce costs/ quality) while charging the SAME amount for the finished good. This too is inflation as the cost of the

SAME item is MORE expensive, though it's being masked because the QUALITY is LOWER and the price is the same.

You get the general idea.

I've marked periods in which "Stage 2" of inflation occurred in the last 10 years on the chart below.



It's HERE that inflation begins to appear in the economy. However, it doesn't become a SERIOUS problem until you reach the point at which the price of finished goods remain elevated long enough that **people start to demand raises/ higher wages to maintain their living standards.**

THAT is Stage 3 for inflation… the inflation that most people think about when they use the word. And it marks when inflation has fully seeped into the economy.

We are now hitting this stage…

Wages and salaries jump by 3.1%, highest level in a decade

- ***Wages and salaries rose 3.1 percent in the third quarter, the biggest increase in a decade, according to the Labor Department.***
- ***Overall compensation costs were up 2.8 percent, ahead of Wall Street expectations.***
- *Wages have been the missing piece in the economic recovery, though the Fed has been raising rates to guard against future inflationary pressures.*

  https://www.cnbc.com/2018/10/31/wages-and-salaries-jump-by-3point1percent-highest-level-in-a-decade.html

So we have slowing economic growth at the same time that corporate profit margins are shrinking due to higher inflation.

Slow growth and higher inflation…There's a word for this, it's STAGFLATION.

Put simply, whatever economic gains were generated via the tax cuts/ deregulation of the last two years is now spent. The "Trump Bump" is finished. Barring some new major policy the corporate sector is in serious trouble.

How serious?

The corporate bond market took 50 years to reach $3 trillion. Between 2008 and today it has more than doubled that. **And the majority of this new issuance was of VERY low quality**.

> *Since 2009, the level of global nonfinancial companies rated as speculative, or junk, has surged by 58 percent, to the highest ever,* ***with 40 percent rated B1 or lower, the point that Moody's considers "highly speculative,"*** *as opposed to "non-investment grade speculative."*
>
> ***In dollar terms, that translates to $3.7 trillion in total junk debt outstanding, $2 trillion of which is in the B1 or lower category.***
>
> https://www.cnbc.com/2018/05/25/moodys-warns-of-particularly-large-wave-of-junk-bond-defaults.html

Again… there is $2 trillion of "high speculative" corporate debt outstanding… at a time when sales are falling, margins are shrinking, and rates are rising (by the way, the IMF has warned that as much as 20% of corporates could default during the next major downturn).

That downturn is now here. Again, this is the perfect storm. And while the US economy might

not implode, the US corporate bond market could. And that would mean a VERY nasty bear market for US stocks.

Which brings us to the 3rd major issue: the EU.

Europe

It's a little known fact that the EU almost broke apart during the PIIGS crisis of 2012. While it received almost no coverage in the US at the time, the EU actually implemented both capital and border controls at this time.

> ***A Vote of No Confidence in Europe***
>
> ***Germany and France's joint proposal to allow Schengen-zone countries to temporarily reintroduce border controls*** *as a means of last resort might sound harmless. But doing so would damage one of the strongest symbols of European unity and perhaps even contribute to the EU's demise.*
>
> *Germany and France are serious this time. During next week's meeting of European Union interior ministers, the two countries plan to start a discussion about reintroducing national border controls within the Schengen zone.* ***According to the German daily Süddeutsche Zeitung, German Interior Minister Hans-Peter Friedrich and his French counterpart, Claude Guéant, have formulated a letter to their colleagues in which they call for governments to once again be allowed to control their borders as "an ultima ratio" -- that is, measure of last resort -- "and for a limited period of time." They reportedly go on to recommend 30-days for the period****.*
>
> *http://www.spiegel.de/international/europe/german-and-french-proposal-for-border-controls-endangers-european-unity-a-828815.html*

Given that the ENTIRE purpose of the EU was to have open borders and open flow of capital, this was a clear signal of just how dire the situation had become. The only thing that pulled Europe back from the brink was the ECB launching a massive QE program through which it bought every debt under the sun (corporate, sovereign, etc.) as well as cutting rates deep into NEGATIVE territory.

Put simply, without direct Central Bank intervention in its bond markets, **Europe is finished**.

Bad news… Central Banks intervention is ending for Europe in December. And it's happening at a time when the EU economy is already rolling over.

***Italy's economy came to a standstill in the third quarter of the year**, registering no growth at all,*

It comes as the new coalition government is arguing with the European Commission over the need for an expansionary budget to boost growth.

Meanwhile, figures from the European Union showed economic growth in the 19 countries using the euro currency slowed by more than expected.

Eurozone growth slowed to 0.2%, from 0.4% in the previous quarter.

Growth across all 28 countries of the EU fell to 0.3% from 0.5%.

https://www.bbc.com/news/business-46028714

This, in of itself, is bad enough. However, it is the political developments in Europe that signal the end of the EU coming.

To understand what I mean by this, let me provide a brief outline of Europe's political/economic structure.

Europe as a whole is socialist in nature. You will never hear a discussion of *"how involved should the Government be in the economy?"* in most of Europe; it is just assumed that the Government should *always* be involved to a significant degree. The question is whether it should be a lot (the public sector accounts for 30% of jobs in Germany) or almost entirely (the public sector accounts for 56% of jobs in France).

In simple form, politics drives the economy and everything else in Europe. This is how Europe managed to squeak through a banking crisis that would have cratered any other region. It's also why I wrote back in 2015 that the *real* European crisis will be *political* in nature.

What I mean is that Europe will finally break apart based on politics, *not finance or economics.*

That time is now here.

The elite globalists of the EU are on the way out. In France, the globalist president Emmanuel Macron has record low approval, with 71% of the nation stating it has NO confidence in his leadership.

In Germany, Chancellor and globalist figure head Angela Merkel's political party suffered two

massive defeats in recent election, resulting in her party suffering the least amount of political control since 1966. Merkel, with the exception of ECB President Mario Draghi, is the single most important figurehead of Europe. And she is an astute political operator. Which is why she has announced she is stepping down as party leader and that she will not seek re-election.

The collapse of globalism for France and Germany is occurring at the same time that populism gains strength in the PIIGS nations. Italy is now in control of a populist party. Similar groups are rapidly gaining political clout in other EU nations.

Which tells us the EU will break apart sometime next year.

Let me be both simple and clear here. If populism is already on the rise in Europe at a time when the economy is still growing (albeit barely), the moment things take a turn for the worse, the EU will break apart.

Why?

The political tides have turned away from unity towards Populism. With that in mind, NO populist leader is going to submit to austerity measures from the EU/ ECB during the next round of bailout negotiations.

Greece came close the leaving the EU during its most recent bailout in 2015 (there was an alternate plan through which Greece had prepared to reroute its financial system and start printing drachmas). And that was BEFORE populism took hold in the EU.

Simply put, I expect the EU to begin the process of formally dissolving in the middle of 2019.

Again, the world is now facing the Perfect Storm.

I want to stop this issue here today.

We've already covered a LOT of ground. And I want to give you a chance to digest it before I present you with the usual market analysis and charts. So with that in mind, I'll have another update to you tomorrow with the usual market analysis. Take some time to reread this issue and process what's in it. Again, this is very likely the single most important issue I've written in two years' time.

On that note, if you are looking for a way to play short-term market moves for larger, more rapid gains, I also run a weekly options trading service that typically holds positions for just 2-3 weeks at the most.

It's called ***The Crisis Trader*** and it uses options to trade highly predictable moves in stocks and ETFs for double-digit gains. **Since inception, this newsletter has returned average annual gains of 41%.**

Typically a subscription to this service costs $799. But I'd like to invite any of you to join at a discounted rate of $499 (35% off the usual market price).

You can try it for 60 days. If you find it's not what you're looking for, you can email us at support@phoenixcapitalresearch.com and we'll issue a full refund of your $499 no questions asked.

To take out a 60 day $499 trial subscription to ***The Crisis Trader*** use the link below.

https://www.phoenixcapitalmarketing.com/tctrenewal499.html

Until tomorrow…

Best Regards,

Graham Summers
Chief Market Strategist
Phoenix Capital Research

OPEN POSITIONS

STOCKS PORTFOLIO

Position	Symbol	Buy Date	Buy Price	Current Price	Change From Last Week	Total Return*
Agricultural Commodities ETF	RJA	1/12/17	$6.46	$5.82	1%	-10%
US Steel	X	3/15/18	$38.34	$27.17	2%	-29%
China ETF	ASHR	4/4/18	$30.94	$24.14	2%	-22%
Emerging Markets ETF	EEM	4/4/18	$47.90	$40.57	3%	-15%
Japan ETF	EWJ	4/25/18	$60.58	$54.71	0%	-9%
Financials ETF	XLF	6/6/18	$27.95	$26.40	2%	-5%
Rio Tinto	RIO	7/18/18	$53.90	$50.77	7%	-3%
Goldman Sachs	GS	8/29/18	$242.05	$226.97	6%	-6%
3M	MMM	9/13/18	$209.05	$192.22	4%	-8%
Komatsu	KMTUY	9/20/18	$30.48	$26.33	5%	-14%
Facebook	FB	10/11/18	$153.35	$151.75	10%	-1%

BONDS PORTFOLIO

Position	Symbol	Buy Date	Buy Price	Current Price	Change From Last Week	Total Return*
High Yield Credit ETF	HYG	3/28/18	$83.35	$84.32	-1%	4%
Emg. Market Bond ETF	EMB	5/16/18	$108.49	$104.70	0%	-1%
Long Treasury ETF	TLT	6/27/18	$122.11	$113.41	0%	-6%
7-10 Year Treasury ETF	IEF	10/25/18	$100.69	$100.53	0%	0%

Prices as of 11/1/18 at market's close.
***Gains include dividends**

PRECIOUS METALS/ MINERS PORTFOLIO

Position	Symbol	Buy Date	Buy Price	Current Price	Change From Last Week	Total Return *
Gold		3/17/10	$1,120	$1,235.00	0%	10%
Silver		3/17/10	$16.23	$14.76	1%	-9%
First Majestic Silver	AG	5/12/17	$7.43	$5.80	1%	-22%
Iamgold	IAG	9/28/17	$6.40	$3.63	0%	-43%
Silver Mining ETF	SIL	10/4/17	$32.51	$23.97	0%	-26%
Silver Mining Juniors ETF	SILJ	10/4/17	$11.83	$8.49	2%	-28%
Gold Mining ETF	GDX	6/6/18	$22.58	$19.57	3%	-13%
Gold Mining Juniors ETF	GDXJ	6/6/18	$32.99	$28.14	-1%	-15%
Hecla Mining	HL	7/23/18	$3.39	$2.56	1%	-24%
Newmont Mining	NEM	10/21/18	$32.09	$32.06	8%	0%
Barrick Gold	ABX	10/21/18	$13.17	$13.34	6%	1%

SPECIAL SITUATIONS/HEDGES/SHORTS PORTFOLIO

These are speculative positions and should be kept small

Position	Symbol	Buy Date	Buy Price	Current Price	Change From Last Week	Total Return*
Apple (SHORT)	AAPL	3/23/17	$180.12	$222.22	-1%	-23%
UltraShort Oil	SCO	8/15/18	$17.51	$17.50	10%	0%
UltraShort S&P 500	SDS	10/31/18	$37.70	$37.03	N/A	-2%
UltraShort China	FXP	10/31/18	$79.90	$73.04	N/A	-9%
Microsoft	MSFT	10/31/18	$107.30	$105.92	N/A	1%
Amazon	AMZN	10/31/18	$1,605.00	$1,665.53	N/A	-4%
Nvidia	NVDA	10/31/18	$208.50	$218.11	N/A	-5%

Prices as of 11/1/18 at market's close.
***Gains include dividends**

INFLATION PORTFOLIO

CASH POSITION

Position	Symbol	Buy Date	Buy Price	Current Price	Change From Last Week	Total Return*
Australian Dollar ETF	FXA	5/10/18	$75.13	$72.10	1%	-4%

INFLATION PORTFOLIO

Position	Symbol	Buy Date	Buy Price	Current Price	Change From Last Week	Total Return*
Copper Miners ETF	COPX	12/21/17	$26.55	$20.36	6%	-23%
ArcelorMittal	MT	12/21/17	$32.77	$25.25	0%	-23%
Corsa Coal	CRSXF	12/21/17	$1.20	$0.69	-2%	-43%
Uranium ETF	URA	1/17/18	$14.93	$12.22	2%	-16%

Prices as of 11/1/18 at market's close.
***Gains include dividends**