



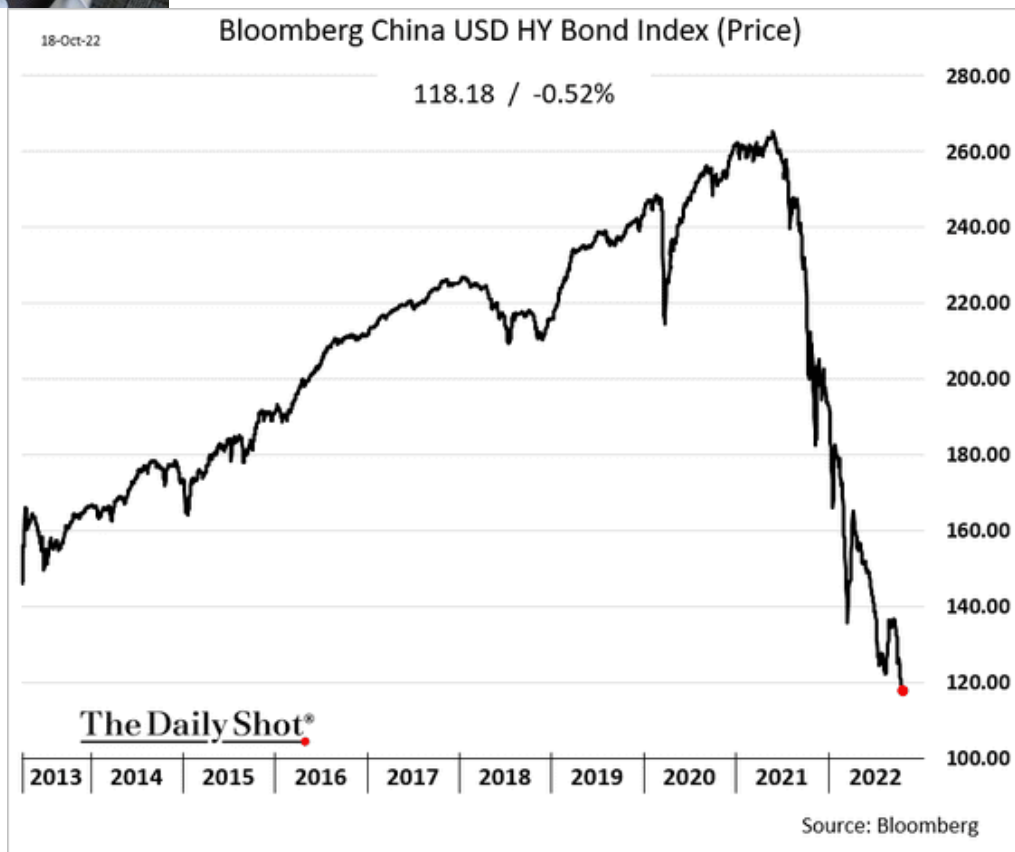
China's House of Cards

China is imploding.

The country's High Yield Bond index is in freefall.

This is a harbinger of bad news to come.

The index has hit fresh lows on the chart below.



This bond meltdown comes when the government becomes less transparent in its reporting.

The charts below illustrate that the Chinese have significantly cut the number of economic statistical series it reports.

Not just a few, mind you. *Thousands* of statistical studies.



This comes at a time when GDP growth is slowing.



If there were a handbook for the type of forensic analysis I do, page one would state that it's a huge red flag whenever someone starts reporting *less* information.

One concern I have with the Chinese is that its society is opaque, to begin with.

Problems with China could quickly spread to the rest of the world.

Here's a compelling analysis by the *FT* of how poorly China is performing and the massive investment required to generate GDP growth (\$8 in investment to generate \$1 in growth).

The implications of China growing at 2.5 per cent have yet to be fully digested anywhere, including Beijing. For one thing, assuming that the US grows at 1.5 per cent, with similar rates of inflation and a stable exchange rate, China would not overtake America as the world's largest economy until 2060, if ever.

Growth in the long term depends on more workers using more capital, and using it more efficiently (productivity). China, with a shrinking population and declining productivity growth, has been growing by injecting more capital into the economy at an unsustainable rate.

China is now a middle-income country, a stage when many economies naturally start to slow given the higher base. Its per capita income is currently \$12,500, one-fifth that of the US. There are 38 advanced economies today, and all of them grew past the \$12,500 income level in the decades after the second world war — most quite gradually. Only 19 grew at 2.5 per cent or faster for the next 10 years, and did so with a boost from more workers; on average the working age population grew at 1.2 per cent a year. Only two (Lithuania and Latvia) had a shrinking workforce.

China is an outlier. It would be the first large middle-income country to sustain 2.5 per cent gross domestic product growth despite working-age population decline, which began in 2015. And in China this decline is precipitous, on track to contract at an annual rate of nearly 0.5 per cent in the coming decades. Then there's the debt. In the 19 countries that sustained 2.5 per cent growth after reaching China's current income level, debt (including government, households and businesses) averaged 170 per cent of GDP. None had debts nearly as high as China's.

That's scary when I think about it.

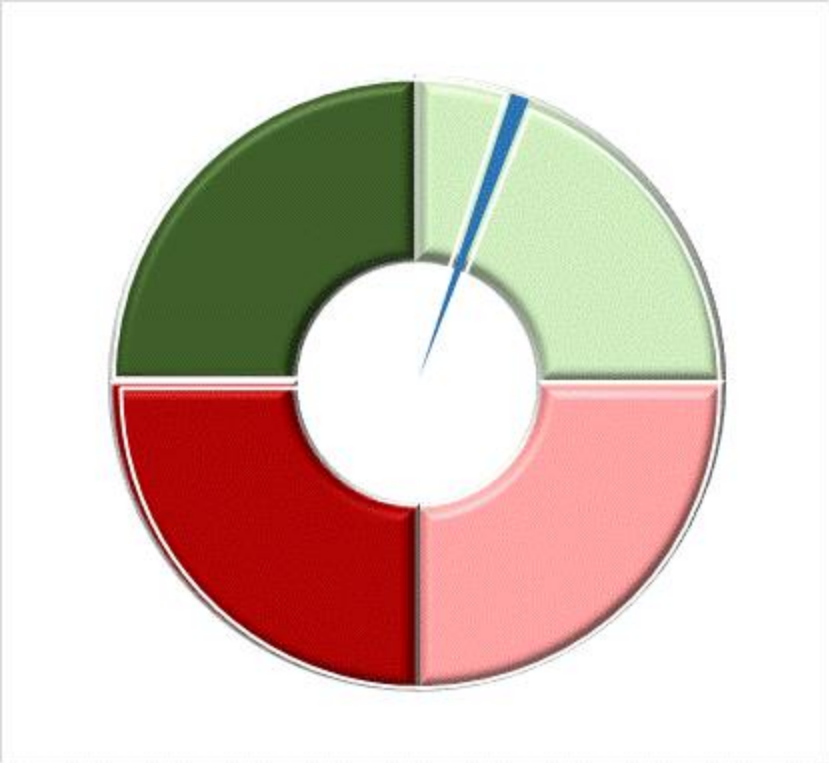
China creates little.

On the other hand, the Chinese are good at *stealing* other people's intellectual property.

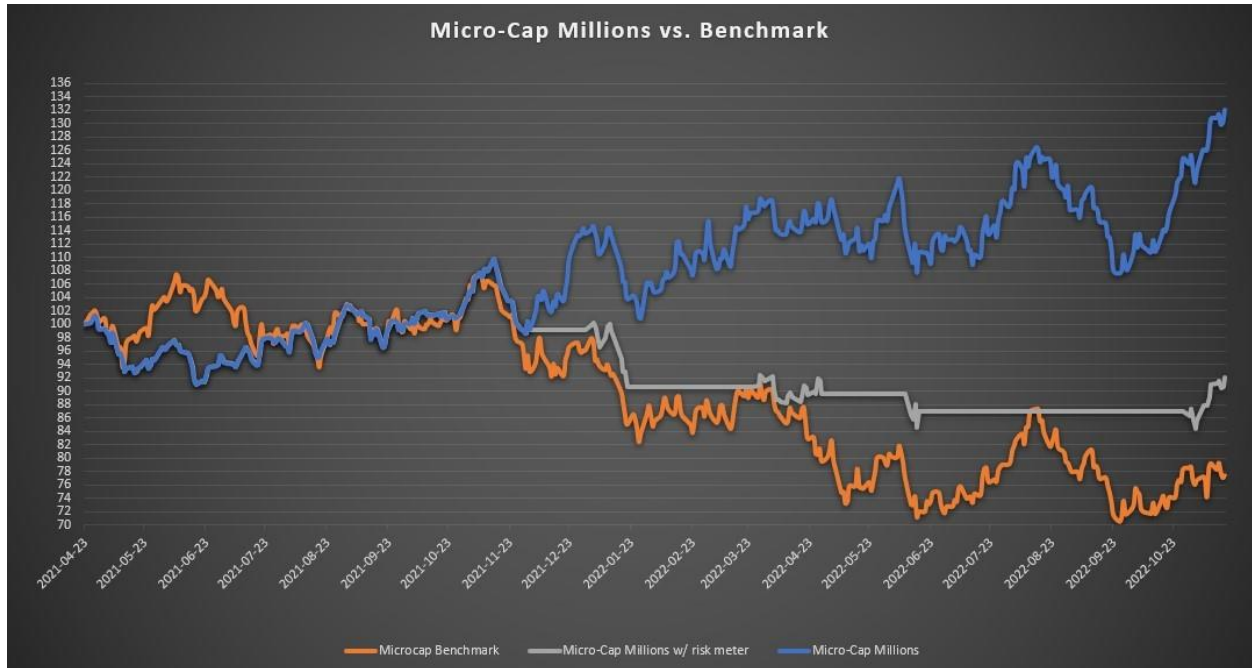
The lack of innovation and productivity could pose a challenge to reversing China's concerning trends.

These poor trends in China are something to keep an eye on in the months ahead.

The Risk-O-Meter stays on a buy. The market is overbought though.



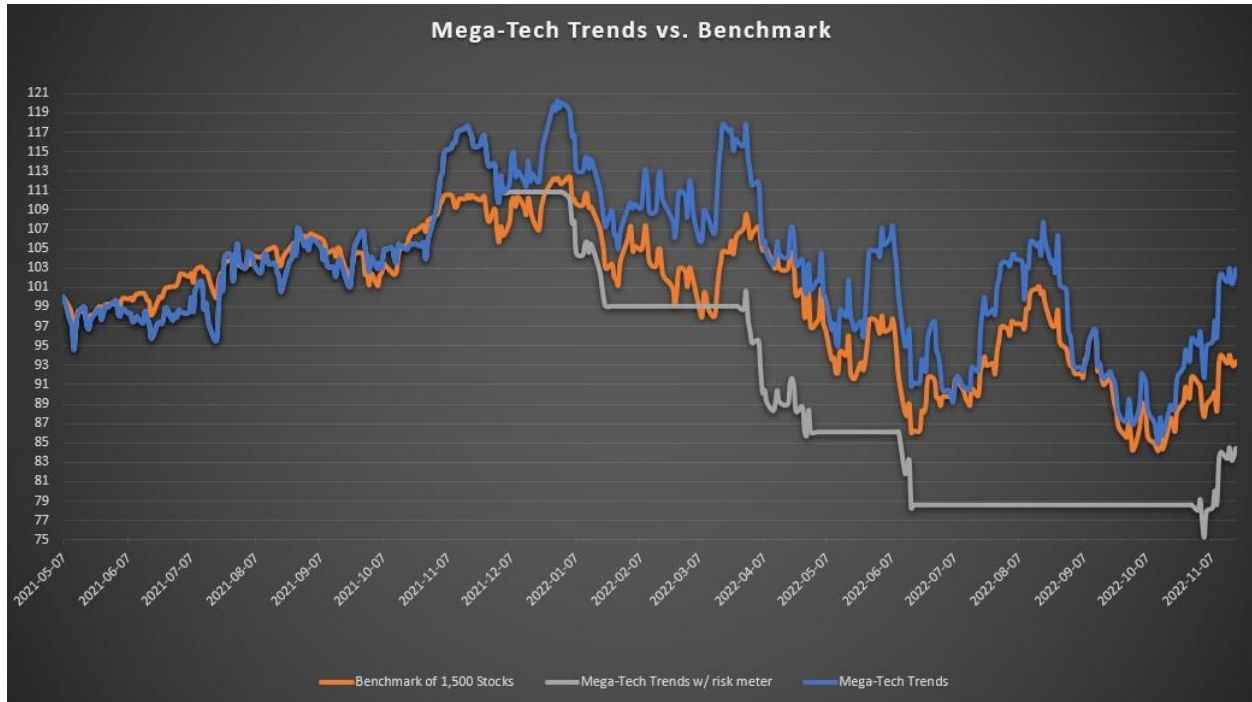
Micro-Cap Millions



No trades this week! Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
BELFB	Bel Fuse, Inc.	35.02%	88	Technology
EDAP	EDAP TMS SA	17.89%	73	Healthcare
HCKT	The Hackett Group, Inc.	6.92%	242	Technology
IRMD	IRadimed Corp.	2.47%	11	Healthcare
IVAC	Intevac, Inc.	11.32%	11	Technology
KNSA	Kiniksa Pharmaceuticals Ltd.	15.94%	11	Healthcare
PERI	Perion Network Ltd.	45.90%	123	Technology
SMLR	Semler Scientific, Inc.	10.23%	11	Healthcare
TCMD	Tactile Systems Technology, Inc.	-2.61%	4	Healthcare
VYGR	Voyager Therapeutics, Inc.	-1.64%	4	Healthcare

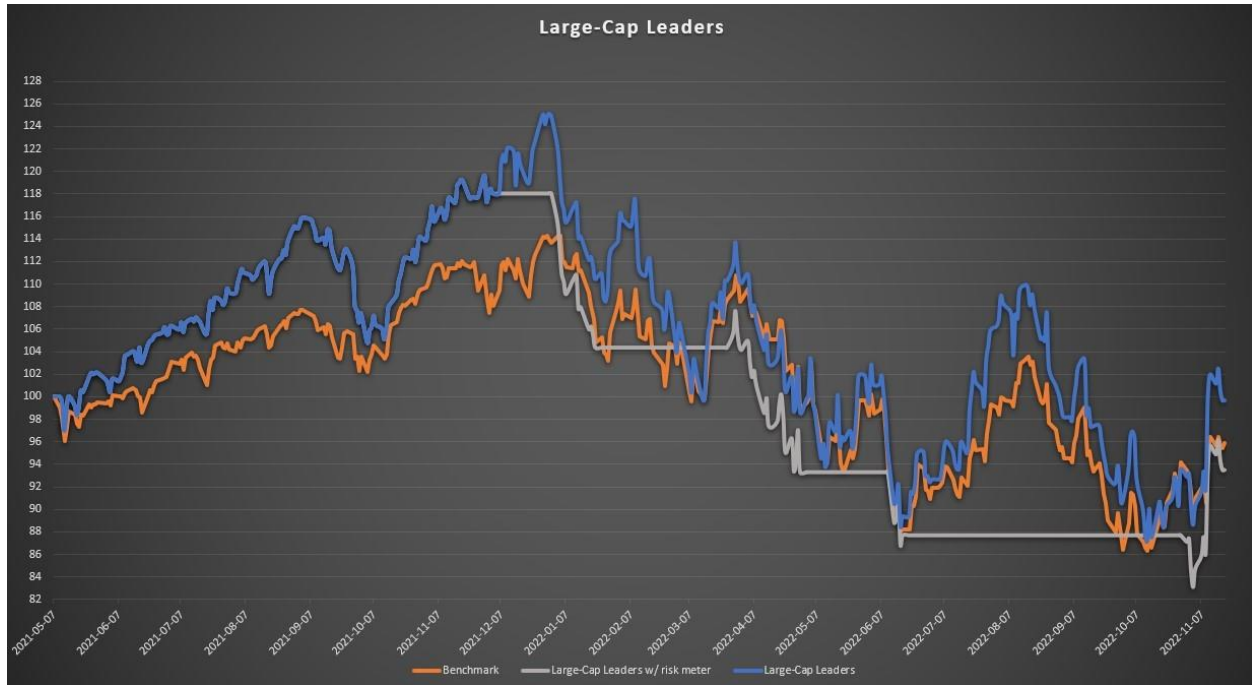
Mega-Tech Trends



No trades this week. Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
AEIS	Advanced Energy Industries, Inc.	7.59%	11	Technology
BDC	Belden, Inc.	8.84%	11	Technology
BHE	Benchmark Electronics, Inc.	1.60%	18	Technology
CDW	CDW Corp.	16.07%	53	Technology
COHU	Cohu, Inc.	5.88%	18	Technology
EXTR	Extreme Networks, Inc.	6.72%	18	Technology
JBL	Jabil, Inc.	16.90%	109	Technology
NTAP	NetApp, Inc.	12.38%	25	Technology
PLAB	Photronics, Inc.	22.55%	39	Technology
SANM	Sanmina Corp.	32.46%	102	Technology

Large Cap Leaders



There is one trade this week.

Buy Vertex Pharmaceuticals, Inc. (Nasdaq: VRTX)

Sell Analog Devices, Inc. (Nasdaq: ADI)

Here is the current portfolio:

Large-Cap Leaders				
Ticker	Name	Return	Days Held	Sector
ADSK	Autodesk, Inc.	4.46%	25	Technology
APH	Amphenol Corp.	1.21%	284	Technology
CDNS	Cadence Design Systems, Inc.	8.94%	18	Technology
CDW	CDW Corp.	8.65%	60	Technology
EPAM	EPAM Systems, Inc.	-5.21%	4	Technology
FTNT	Fortinet, Inc.	10.72%	11	Technology
KLAC	KLA Corp.	17.06%	18	Technology
NTAP	NetApp, Inc.	11.56%	39	Technology
SNPS	Synopsys, Inc.	-10.22%	88	Technology
VRTX	Vertex Pharmaceuticals, Inc.	0.00%	new	Healthcare

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