



China Implosion

U.S. investors think that everything revolves around the local market.

Collectively, we are massively underweight in international markets.

U.S. stocks account for about 60% of global market capitalization despite the economy accounting for about 25% of global value.

The most common approach to investing is "buy and hold the S&P 500 index fund," and as a result, investors aren't focused on other markets.

So, when a shoe drops out of the blue, not from the U.S., it will catch us by surprise.

There's an old saying that when the U.S. economy sneezes, the rest of the world catches a cold.

China is the second-biggest economy in the world in terms of nominal GDP. Several trends point to its economy being under stress.

If China sneezes, it's gonna filter through to the U.S. It's unavoidable. As a result, we should be concerned.

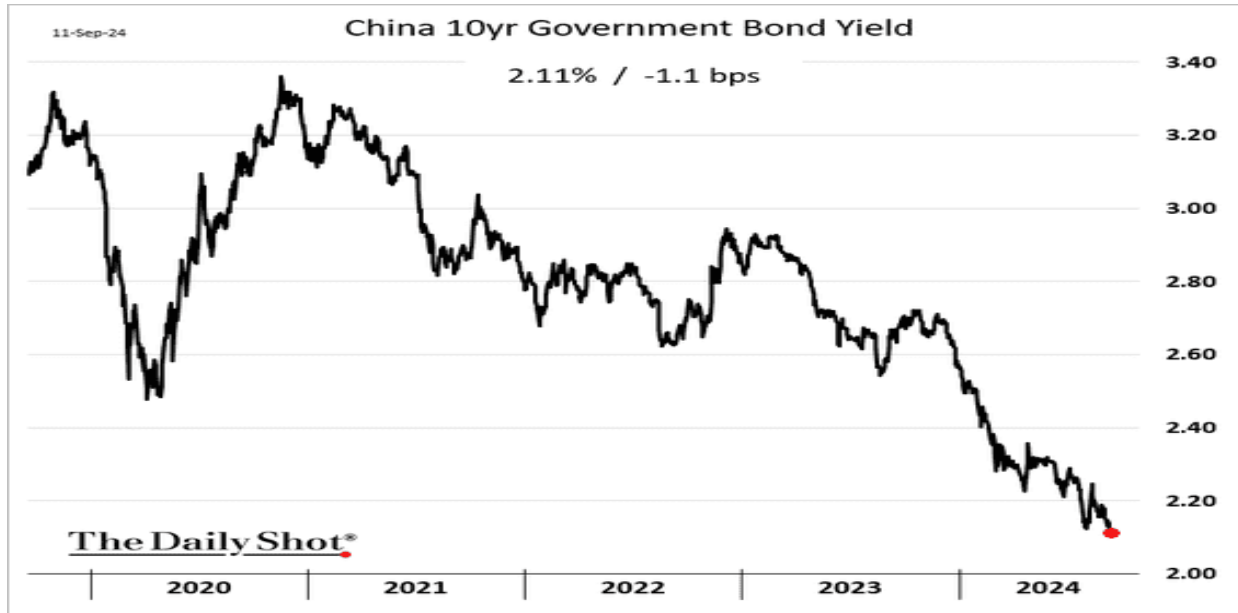
And prepared.

My retirement accounts and the *Risk-O-Meter* have been cautious in recent weeks after being bullish for a long time.

While my strategies do not analyze Chinese markets directly, many indirect factors go into my models, which show changes in trends *before* stocks tend to react.

The first warning sign that trouble is in China is the imploding yield on its 10-year government bond.

Take a look at this chart below.



Over the past four years, yields have been persistently down. This freefall indicates that deflation may be taking hold in China.

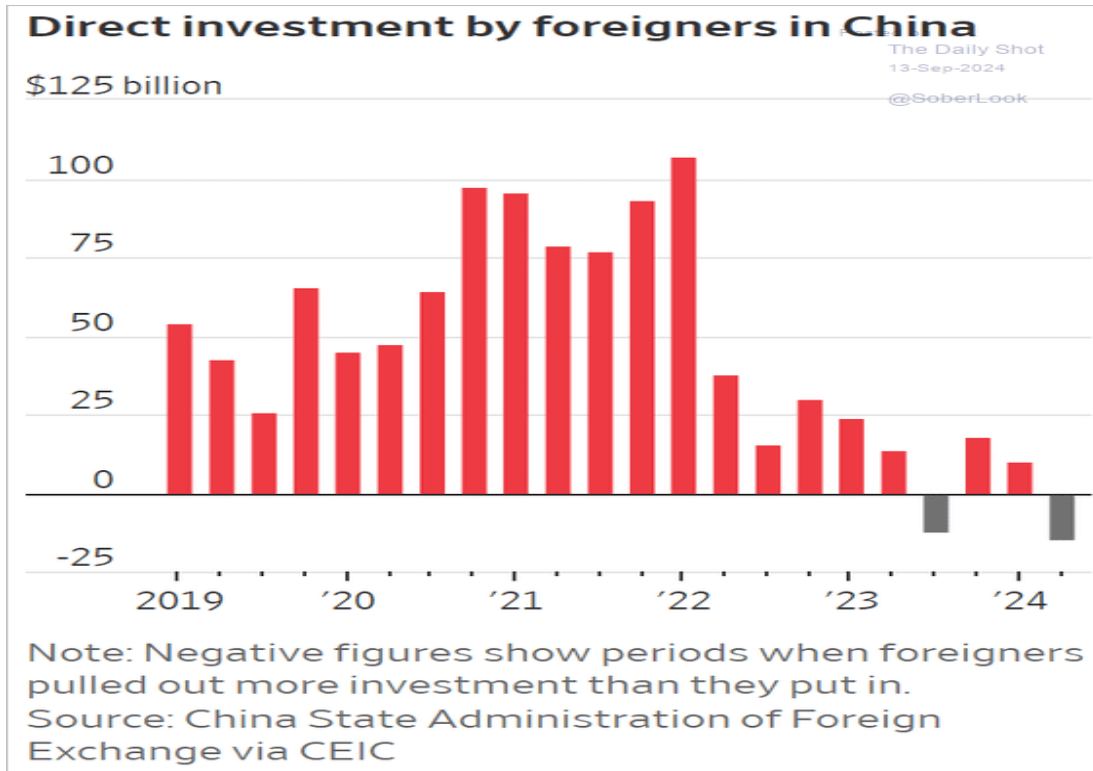
Corporate spreads have widened, indicating stress in the system. The surge and reversal in spreads have happened in just the past couple of months.



Meanwhile, foreigners are yanking their investments in China.

Investment outflows are a *big* problem.

As the chart below illustrates, after years of persistent investment, the last four quarters of foreign investment were relatively flat. The September number will be of particular interest because if it's negative, it could start a new trend.



Lastly, commodity prices are softening.

Look at rebar prices on the next page.

China has been in expansion mode for decades. Cities get built seemingly overnight.

But does anyone live in those cities?

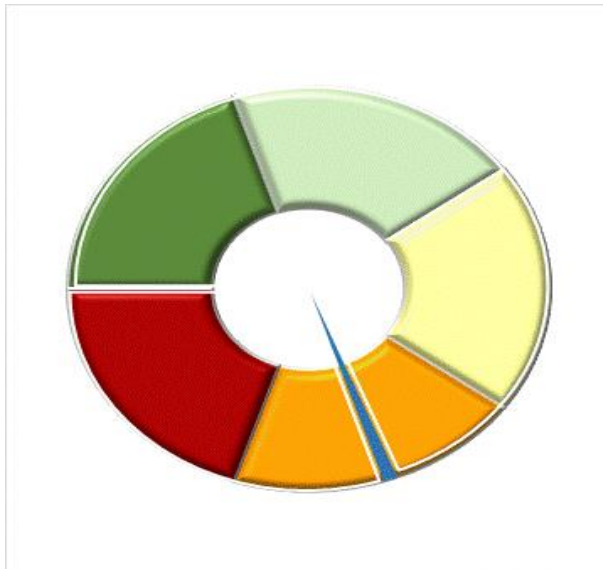
Is it all smoke and mirrors?

I'm skeptical because China's economy is opaque.

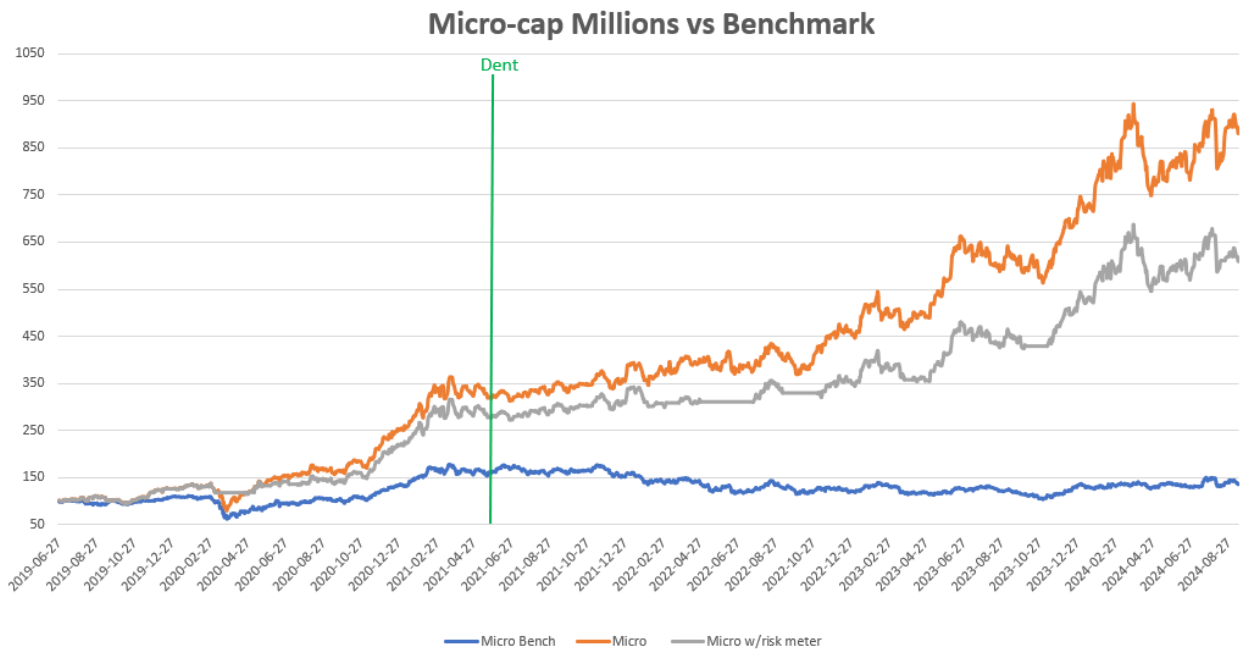
China has reduced the number of economic indicators it reports by a substantial amount. The government has cracked down on Chinese firms providing more useful data. Less transparency about anything is always a red flag.

One guy runs the entire show.

As a result, we are now firmly planted at the riskier end of the risk spectrum and need to avoid complacency.



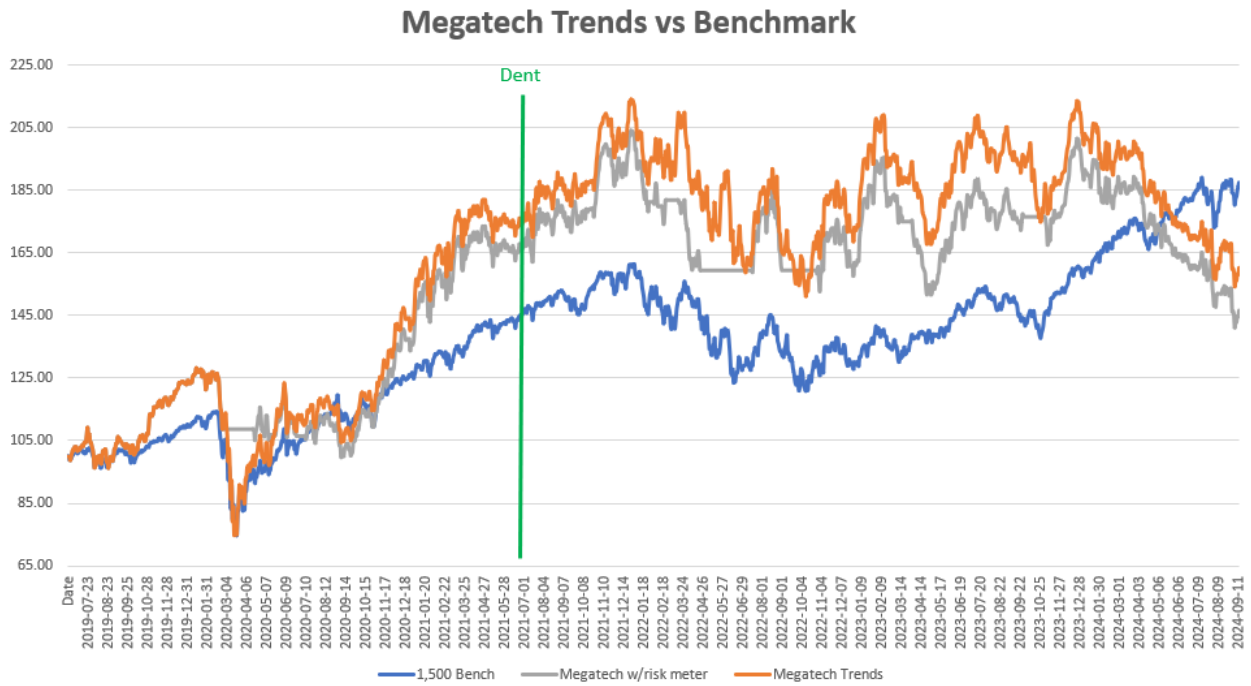
Micro-Cap Millions



There are no trades this week. Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
ALOT	AstroNova, Inc.	-11.05%	144	Technology
BWAY	Brainsway Ltd.	38.28%	179	Healthcare
DDI	DoubleDown Interactive Co., Ltd.	-0.73%	206	Technology
DSP	Viant Technology, Inc.	114.65%	319	Technology
ELMD	Electromed, Inc.	32.68%	206	Healthcare
KMDA	Kamada Ltd.	-5.54%	53	Healthcare
MPTI	M-tron Industries, Inc.	25.62%	123	Technology
MTLS	Materialise NV	-20.78%	39	Technology
RDVT	Red Violet, Inc.	42.76%	123	Technology
WYY	WidePoint Corp.	30.85%	116	Technology

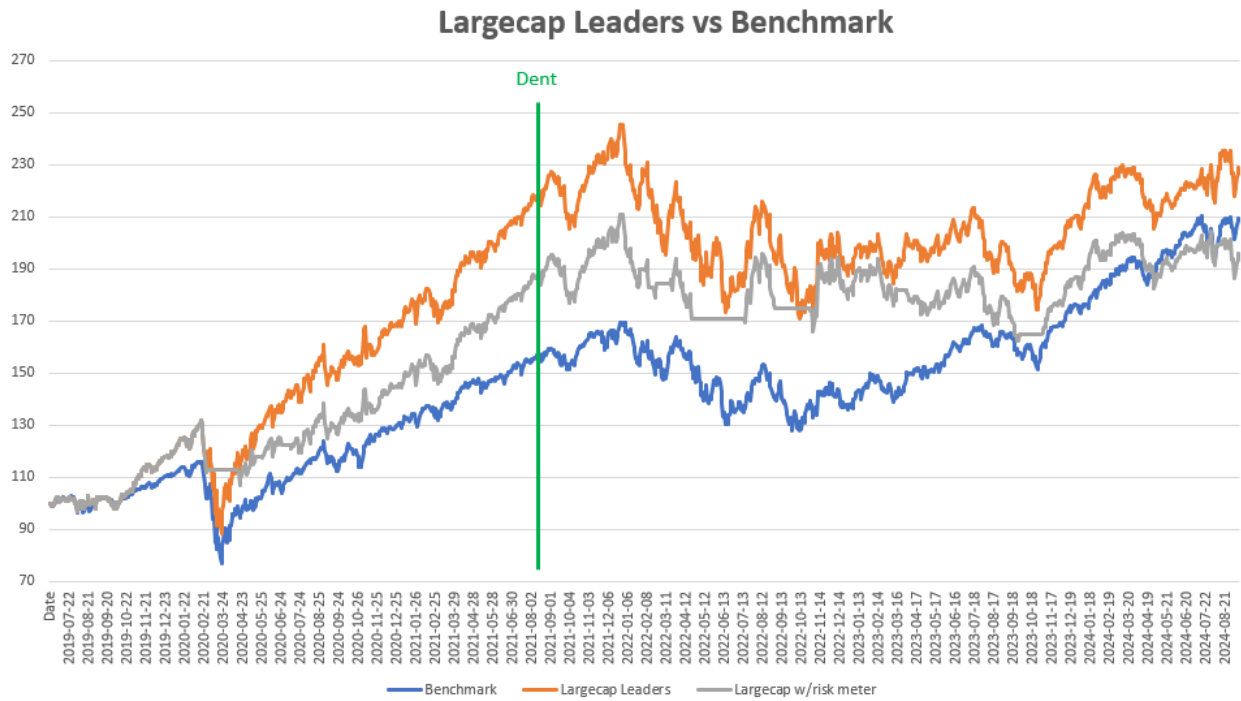
Mega-Tech Trends



There are no trades this week. Here is the current portfolio.

Ticker	Name	Return	Days Held	Sector
CVLT	Commvault Systems, Inc.	-3.12%	14	Technology
FFIV	F5, Inc.	22.22%	67	Technology
GDDY	GoDaddy, Inc.	5.18%	67	Technology
JAZZ	Jazz Pharmaceuticals Plc	-2.23%	32	Healthcare
JNJ	Johnson & Johnson	1.02%	39	Healthcare
META	Meta Platforms, Inc.	7.22%	39	Technology
NXPI	NXP Semiconductors NV	-14.50%	67	Technology
QCOM	QUALCOMM, Inc.	-16.00%	67	Technology
QRVO	Qorvo, Inc.	-3.10%	25	Technology
RMBS	Rambus, Inc.	-25.85%	67	Technology

Large Cap Leaders



There are no trades this week. Here is the current portfolio.

Ticker	Name	Return	Days Held	Sector
AVGO	Broadcom Inc.	12.27%	49	Technology
BMJ	Bristol Myers Squibb Co.	-0.45%	25	Healthcare
FFIV	F5, Inc.	16.75%	235	Technology
GDDY	GoDaddy, Inc.	5.32%	67	Technology
JNJ	Johnson & Johnson	1.05%	39	Healthcare
KEYS	Keysight Technologies, Inc.	-1.78%	14	Technology
META	Meta Platforms, Inc.	-0.83%	67	Technology
NXPI	NXP Semiconductors NV	-13.90%	67	Technology
QCOM	QUALCOMM, Inc.	-15.21%	67	Technology
QRVO	Qorvo, Inc.	-0.21%	39	Technology

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