
A Publication of Newsmax Finance

Ultimate Wealth Report®

By Sean Hyman

Vol. 5, No. 11 / November 2016

Warning: Your Window to Prepare Financially Is Closing Fast

I just hung up the phone with a real-estate agent friend of mine. He had a confession to make.

"You know, Sean, when you first put your house up for sale, I thought you were making a mistake," he said. "I wondered why you were doing it. But since your house sold, I've been seeing price reductions, and there are now plenty of houses available out there compared to the demand."

He laughed. "You know what? It looks like you got out right at the peak."

That made me feel pretty good. Because admittedly, when I made the decision, I still had some doubts. Like I always say, it's not easy being a contrarian in any market — doing the opposite of what everyone else is doing.

So why did I sell? For one, I saw a frenzy that had been going on for quite some time locally in the Dallas area. That is, people were tripping over themselves to pay sky-high prices, which had run up awfully fast during the recovery, outpacing most of the rest of the country.

> "It was a strategic decision to get a jump on the looming recession, and to prepare for the even harsher realities that lie ahead for the economy."

You can bet that when people start losing their minds and paying too much for an asset, that asset is due for a correction. I'm not a real estate pro — but I am a pro at recognizing and following sentiment in a financial market.

I see this same uber-positive sentiment in our stock market. For instance, there's no logical reason why investors should be bidding up stocks to insane fundamental valuations with corporate profits being squeezed and the earnings momentum slowing down, and with much of the corporate world cutting off hiring.

Interestingly, the same overly bullish sentiment has shown up in auto sales, the bond market, and even utility stocks, blowing up bubbles that are likely to pop, and sooner rather than later.

The bottom line is that investor sentiment is badly out of line with economic reality and the future earning ability of corporate America.

With all that in mind, I did some major downsizing. We sold our 4,200-square-foot home. It had everything I'd ever wanted: six bedrooms, four full baths, a weight room, a pool table room, a full media room, a fire pit, hot tub, and a swimming pool surrounded by palm trees. It was my dream home.

Yet, I knew what was coming. So I did something drastic and turned that real estate into liquid cash at what I estimated to be the peak of the market optimism, so that I could preserve all of my equity.

My family didn't stop there. We downsized my wife's Lincoln Navigator down to a Hyundai Elantra GT and I sold my supercharged, 525 horsepower Corvette with custom paint, custom interior, and Lamborghini doors — my favorite car — and I bought a Mini Cooper S.

Certainly, don't feel sorry for me. It was a hard choice, but it was a strategic decision to get a jump on the looming recession, and to prepare for the even harsher realities that lie ahead for the U.S. economy over the next five to 10 years.

I believe that if we're not already in the next recession, it's upon us. I'm seeing far too many signs for that not to be the case. For instance, I live in one of the fastest-growing and most prosperous areas in the country. While the average household income in America is just over $53,000, where I live in Frisco, Texas, the average income is more than double that. It's never surprising to see Lamborghinis, Porsches, and Ferraris parked in front of multimillion-dollar houses.

But even here, I'm starting to see the cracks forming. I have a couple of friends who have tons of experience in the information technology field. Their resumes, experience, and recommendations are impeccable. Yet they're having a hard time finding a job right now.

I know others who have commented that they've never had a harder time getting a job in their entire life. These are go-getter types too, not slackers. Friends of mine who still have their jobs are fearful they'll lose them in the next recession,

Sean Hyman's extensive background in the financial markets goes back more than 20 years, including as a broker at Charles Schwab and as an instructor for Forex Capital Markets. He has held five financial licenses and has been a stockbroker, manager of a team of stockbrokers, a trading course instructor in the currency markets, a financial writer, and a key speaker at conferences both nationally and internationally. His investing philosophy is based on choosing the assets that will get "inflated" in the future — commodities — and investing in fundamentally superior currencies that will benefit from the U.S. dollar's decline. He does it in a way that's simple and, via the use of exchange-traded funds, can be done through a standard brokerage account.

and are right now building other streams of income for themselves — just in case. Some are doing things like driving for Uber and Lyft, while others have joined multi-level marketing companies. Anything to secure an extra paycheck.

That same trend is cropping up all over the U.S., and is showing up in all sorts of economic data. To see what I mean, I'd like to show you what's been happening in our economy over the past seven decades. Some scary trends indeed have formed, and it's why I urge everyone who hasn't taken steps to get their own personal economic house in order to do so starting now.

Here's the situation we're facing. I know the nation's gross domestic product, or GDP, growth figures don't easily translate into our everyday lives. It's hard to gauge what it means to each of us. But for the sake of what I'm explaining here, just know that economists estimate that it takes between 3-4 percent annual GDP growth for real, sustainable job creation, and an increase in living wage.

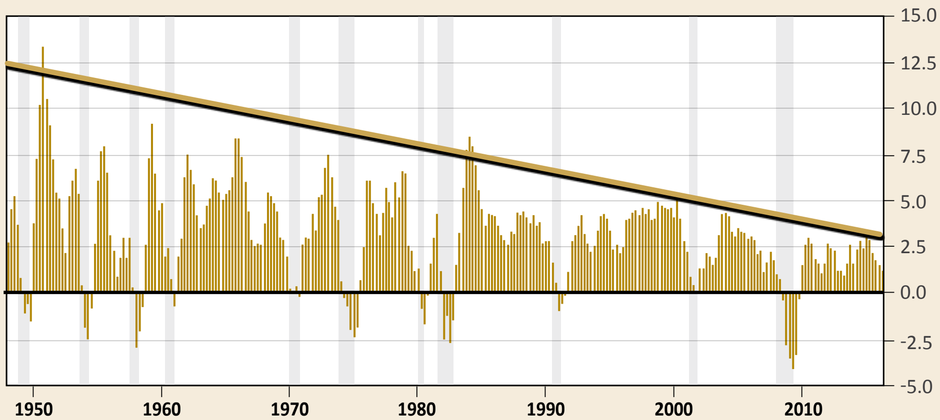
Some of you are old enough to recall a time when this level was no problem at all. In fact, back in the 1950s, the economy expanded at a 10-12 percent clip. Even in the 1960s, GDP growth was still around 7-8 percent. In the '70s, it fell to the 5-6 percent range, and dropped into the 4 percent range during the '80s and '90s.

Then the decade of the 2000s arrived. Economic growth averaged around 3 percent, barely enough to eke out any real job creation at all. And from 2010 on, we've averaged around 2.5 percent GDP growth or less — with the most recent reading at a paltry 1.2 percent! Chart 1 shows the downtrend clearly. The consistent long-term downward slope in GDP growth over the long term is very concerning, to say the least.

Now, in all fairness, a developed economy can't continue to expand at a pace of 7-12 percent per year. That's not realistic, nor should it be expected. However, in a healthy overall economy, a 3-5 percent growth rate should be fairly easy to achieve, yet the U.S. hasn't been on such a track lately at all. If this pattern continues — and based on the past 65-plus years, I'm fairly certain it will

Chart 1

U.S. REAL GDP PERCENT CHANGE, 1950s-PRESENT



When measured by percent change from the year prior, the U.S. real GDP has been on a steady decline for decades. It seems the government and Federal Reserve can't reverse the long-term economic decline despite their increasingly desperate actions. Shaded areas show U.S. recessions.

SOURCE: U.S. Bureau of Economic Analysis, Federal Reserve Bank of St. Louis

— GDP growth will remain so dismal that we won't see any real job creation or wage growth in our immediate future.

Rise of the Machines

Those who rely on traditional jobs have reason to worry. That's even before taking into consideration the age we live in. Technology advances are accelerating at a rapid clip, with artificial intelligence, software, robots, and drones at the ready to help companies eliminate jobs.

Corporations see the writing on the wall. They know that they won't be able to keep as many employees as in the past, due to the huge slowdown not only in the U.S. economy but globally as well. Just as well for them, they can replace people with cheaper, more efficient technology. Good news for their bottom lines, bad news for you. That is, unless you're prepared ahead of time.

That said, it still won't be easy for corporations. Anything but. They may have a brighter future than the average individual who depends on a job to survive, but they are entering a rocky era.

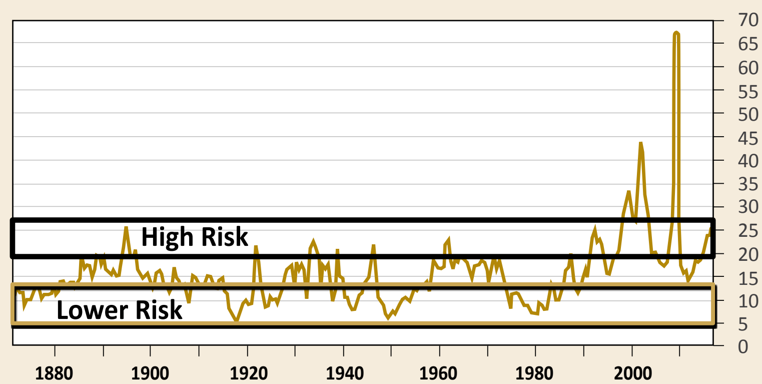
Check out Chart 2 and you'll see what I mean. It shows the price-to-earnings ratio of the S&P 500 going back more than 100 years. The P/E measures the level of stock prices relative to the underlying annual earnings of a company — if a P/E of a stock is, say, 15, you're essentially paying $15 for every $1 of annual earnings the company posts. When P/E's are higher, it means stocks are expensive, and when that average is lower, stocks are fairly valued or cheap.

A P/E up to about 13 indicates prices are inexpensive relative to earnings. Around 15 is considered "fairly valued," while a P/E of 18-20 or more is high risk, because you're paying a historically significant amount for each dollar of underlying earnings. Chances are, at that point you're overpaying, and the market eventually will correct to a more reasonable level.

In Ultimate Wealth Report, we target stocks on the low end of the P/E range. We want inexpensive

Chart 2

S&P 500 P/E RATIO, 1880s-PRESENT



The price-to-earnings ratio of the S&P 500 — an index that includes 500 of the largest U.S. companies — is a helpful gauge, showing whether stocks are fairly valued or overpriced as a whole. When the P/E ventures into the territory where we find it today, 25 and above, prices are extremely high and due for a fall. (Note that the extreme spikes around the 2000 tech crash and 2008 financial crisis are anomalies, because earnings dropped like a rock, even faster than the price of stocks, causing a short-term hiccup in the data.)

SOURCE: multpl.com

companies, and we want to see a lot of earnings power backing up every dollar we put into a stock.

The Smarter Strategy

It's always arguably dumb to pay top dollar for a stock, and that holds true especially now. Corporate profits have fallen overall for the last five quarters in a row, and the current quarter isn't looking any better.

Additionally, default rates on corporate debt are at the highest levels since the throes of the 2008 financial crisis. In August, for instance, the corporate bankruptcy filings were up 29 percent compared with the same period one year ago. The rate of business creation hasn't recovered since the last recession, and we're still seeing the numbers hover at those low recessionary levels.

Corporations are cautious and proceeding as if they expect a recession; capital expenditure growth has turned negative. Additionally, full-time employment hasn't been this low since way back in 1983. We've lost over 5 million manufacturing jobs just since 2000. In fact, the total number of government employees now exceeds the number of manufacturing employees — who would have ever thought that day would come?

Median incomes have fallen in 80 percent of metropolitan areas since the year 2000. Auto loan debt has reached bubble territory of $1 trillion for the first time ever.

Who's prepared? Practically no one. A recent survey revealed that 62 percent of Americans have less than $1,000 in savings on hand for emergencies. The Federal Reserve backs this up with its own study that showed that 47 percent of Americans couldn't afford to pay an unexpected expense of $400 without having to borrow the money or sell something. That's how poor at least half of the country has become.

Keep in mind too that when Barack Obama stepped into office, we had about $10 trillion in debt, and now as he's about to exit, that amount has just about doubled.

Given the state of individuals' finances and the overall economy, do we really want to be paying top dollar for stocks, as if everything were hitting on all cylinders? I don't think so. Yet, the masses continue to buy up stocks and remain fully invested up to the very time of this writing.

To succeed, you need to be a contrarian and do the opposite of what everyone else is doing. It's why I've encouraged you to move as much of your 401(k) and IRA to cash as you're comfortable with, because a huge stock sell-off is coming and our next recession is approaching. I'd like my readers to not be caught off guard, like much of the nation will be.

Markets Losing Their Muscle

The government and Federal Reserve are trying to stave off the coming financial meltdown.But their bag of tricks is just about empty. With interest rates already near zero percent, the Fed can't really cut further without going into negative territory.

Remember, rates peaked in 1981 at over 14 percent. Around 2000, they were still at a very typical average historical rate of around 5-6 percent. Then the Fed cut that in half, giving the stock market a boost from 2000 through much of 2007, while helping to perpetuate the real estate bubble in the process by bringing down the cost of loans.

Once real estate collapsed, the Fed took rates down to almost zero, while also implementing a quantitative easing program, which acted like a steroid shot in the arm for stocks.

Yet, just like a weightlifter who uses drugs, once you are off them for any length of time, the effects fade. That's what happened to the economy and stock market — they got softer and weaker.

The real problems have never been solved. Meanwhile, the final trick of the Fed may be to buy stocks outright, if the Congress authorizes it, instead of just buying Treasurys like it has in past quantitative easing programs. If this happens, it may have the effect of driving up stock prices — but that's a false boost, not a sustainable one buoyed by a more vibrant economy.

Your Prep Plan

So like I've said, I think we have a five- to 10-year window at best to get fully prepared

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financially. This will include saving aggressively, building up a portfolio of value stocks that pay out nice dividend yields so that you have a secondary stream of income, and paying down your debts so that your monthly and overall obligations are much lower during this period.

Additionally, like the friends I mentioned earlier, you might consider another secondary source of income as a back-up plan, whether it's some sort of side job, freelance business, or property that generates rental profits.

Believe me, I'm taking my own advice and doing the things I'm suggesting here. Getting prepared for what's coming reminds me of the story of Joseph in the Bible. God showed him that economic good times were coming, to be followed by bad times. He told Joseph to store 20 percent of the grain crop in the good years and it would take him through the bad years when the long-lasting famine hit. God enabled Joseph to see ahead, and he readied himself. As a result, the area he oversaw was fine, while others suffered greatly and came to Joseph in search of food.

Today, I think we are in for a recession in the next 12 months, and even tougher times are coming in the next decade, thanks in part to the economic "domino effect." That is, if people are unemployed or underemployed — i.e., working part time or for much lower pay — home values and overall stock market valuations suffer.

So with the bond market being overvalued, stock market being overvalued, and real estate overvalued in some markets and only fairly valued in others, we're going to see some huge corrections lower in these assets and it's not going to be pretty.

And what happens when people's portfolios and net worth go down? They tighten their belts and spend less, which perpetuates an even slower economy and even more job losses, which further perpetuates the cycle.

I'm not saying all this to be "gloom and doom." It's based on facts. And I'm suggesting we take positive action — we can be empowered by recognizing the signs and preparing ahead of time by stewarding our assets well now.

We never focus on what we can't control, things like the economy, the Fed, or our government. Instead, we focus on what we can proactively do to protect our own purchasing power and our own assets in light of what these other entities are doing. That's the beauty of the Ultimate Wealth Report. It's full of empowering information, rather than stuff that makes you feel helpless and want to crawl under a rock.

Holding a portfolio of low P/E value stocks of solid companies with huge sums of cash on their books and nice-sized dividends is the way to go. The big institutions agree . . . they've been moving money into value and commodity stocks for most of 2016, a trend I see continuing.

My Top 3 Best Buys

When the initial sell-off happens in the broader market, even our stocks could initially pull back.

Chart 3

U.S. DOLLAR INDEX AND iSHARES SILVER TRUST (SLV), 2007-2016

As the dollar topped out in early December of last year, silver bottomed a week or two later. Ever since, the iShares Silver Trust has been putting in higher lows and higher highs all year long. I expect that to continue as the dollar plummets thanks to a sliding stock market and further delayed interest rate hikes.

SOURCE: StockCharts.com

However, the ones that will survive that initial drop and continue to trend higher overall will be the ones that we hold, which aren't overvalued like much of the rest of the market is now. Large institutions will continue to be forced into the pockets of value that we are already in.

I'm still bullish on all of our positions — that's why I have recommended we hold onto them. But there are three positions I really like for new investors and those of you who have new money to invest.

NOVEMBER BEST BUYS			
Security	Price*	52-Week Range	Yield
iShares Silver Trust (SLV)	$16.73	$13.04-$19.71	0.00%
Total S.A. (TOT)	$48.81	$39.05-$52.13	5.62%
CurrencyShares Canadian Dollar ETF (FXC)	$75.10	$67.71-$79.26	0.07%

* As of close Oct 10, 2016

iShares Silver Trust (SLV)

In financial markets, when there is a broad-based sell-off, not everything will go down. In fact, there are some assets that actually tend to rise when stocks fall and economies slow. That leads me to my first best buy for this month: the iShares Silver Trust. I covered this one quite a bit in last month's issue, so I'll be brief here since the premise remains the same.

Metals like silver tend to do well with uncertainty or fear in the markets. Today, we have the former, and if stocks start dropping, we'll quickly see the latter. In such an environment, silver tends to uptrend.

Additionally, metals like silver (and gold, for that matter) head higher when the dollar drops, which happens with negative sentiment about our financial markets or economy. Savvy foreign investors have been exiting our stock market already and returning to their home markets, which are generally undervalued compared to the overvalued U.S.

Those huge monetary outflows lead to dollar selling and foreign currency buying. Chart 3 shows that the dollar topped out just before the calendar rolled over to 2016, and it set its first "lower low" going into May of this year. So far, there has been a "lower high" in July of this year. Once the U.S. dollar index solidly takes out the 93 level to the downside, we'll see a swift drop in the dollar, and an upswing in silver and the ETF that tracks it, SLV.

Thus, if you don't already own SLV, consider picking it up at $19 or below, because once it gets going, it could easily surge into the $30s.

Total (TOT)

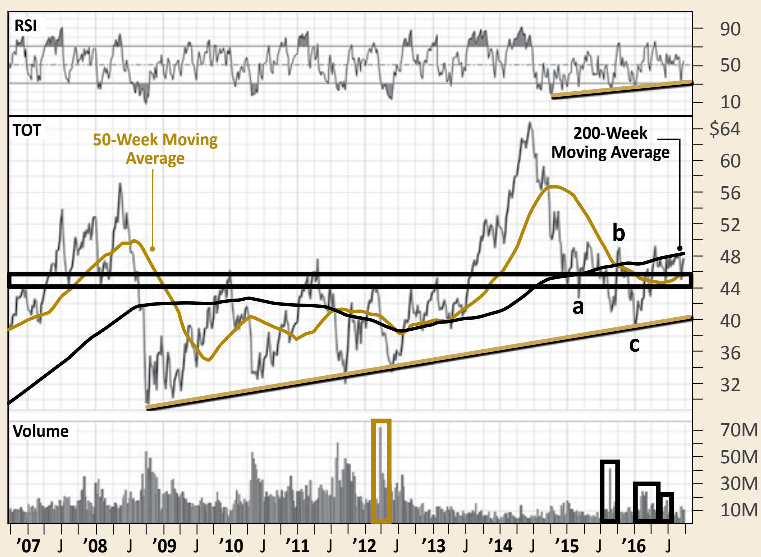
Oil prices have been rising all year, and so have oil stocks. Normally, you'd think that oil would head lower in a slowing U.S. and global economy, but it's not. And when any asset defies logic, there's typically one logical answer.

In the last downturn, oil plummeted much more than was justified, so its price already accounted for the worst possible scenario.

A more important reason why oil likely has further upside is because OPEC just blinked. I've said for a while that the game that OPEC started

Chart 4

TOTAL (TOT) WEEKLY PRICES, 2007-2016



From a technical perspective, Total completed its major a-b-c correction lower, bounced off an eight-year-long uptrend line, and has successfully climbed back up above its rising 50-week moving average. Also note the upward sloping 200-week moving average, with many volume buying spikes, and with a steadily rising relative strength index (RSI) reading too.

SOURCE: StockCharts.com

ULTIMATE WEALTH PORTFOLIO

RECOMMENDATION	Symbol	Entry Date	Entry Price	Recent Price	Buy at or Under	Current Yield	Effective Yield
VanEck Russia ETF	RSX	26-Feb-13	$28.86	$19.04	$27.00	2.73%	2.99%
PowerShares Agriculture	DBA	19-Apr-13	$25.94	$20.00	$21.00	0.00%	0.00%
iShares Silver Trust	SLV	22-Jul-13	$19.60	$16.73	$19.00	0.00%	0.00%
iShares MSCI Turkey	TUR	18-Dec-13	$52.40	$37.66	$62.50	2.38%	1.82%
CNOOC Limited	CEO	23-May-14	$177.39	$135.56	$180.00	3.52%	3.08%
Mobile TeleSystems	MBT	23-Jun-14	$19.40	$8.03	$17.00	7.58%	3.75%
VanEck Vectors Steel ETF	SLX	25-Jul-14	$49.79	$31.78	$28.00	3.28%	2.28%
Diamond Offshore	DO	24-Sep-14	$37.21	$17.62	$48.00	0.00%	0.00%
Transocean	RIG	24-Sep-14	$33.20	$10.38	$38.00	0.00%	0.00%
COPEL	ELP	21-Oct-14	$13.00	$10.75	$14.50	3.30%	3.06%
Gazprom	OGZPY	28-Oct-14	$6.42	$4.47	$8.00	6.55%	4.84%
Total	TOT	24-Nov-14	$60.12	$48.81	$50.00	5.62%	4.98%
Devon Energy	DVN	24-Dec-14	$60.79	$44.39	$68.00	2.16%	1.66%
BP plc	BP	26-Feb-15	$41.49	$36.67	$43.00	6.54%	6.42%
Qualcomm	QCOM	27-May-15	$71.02	$67.25	$74.00	3.15%	3.12%
Rio Tinto	RIO	23-Jun-15	$43.17	$33.71	$32.00	4.52%	3.89%
ProShares Ultra Euro	ULE	29-Sep-15	$16.66	$15.80	$19.50	0.00%	0.00%
CurrencyShs Canadian Dollar	FXC	22-Oct-15	$75.74	$75.10	$80.00	0.07%	0.07%
Apple	AAPL	23-Jun-16	$95.89	$116.05	$106.00	1.96%	2.39%

Notes on portfolio: The “Effective Yield” column reflects the yield investors receive assuming they bought at the entry price and followed all subsequent recommendations. To see the chart of previous “sold” positions, subscribers can log onto www.ultimatewealthreport.com (click the “Ultimate Wealth Portfolio” button). All as of close October 10, 2016

— trying to run the U.S. shale oil drillers out of business with ultra-low oil prices, so its members could increase their own market share — was hurting them as much as it was hurting us. In fact, I pointed out, it’s likely hurting them even more.

Oil is just about the only game in town for Saudi Arabia and other OPEC members. However, it’s only a portion of our overall economy — an important one, but nonetheless, not as big a slice of the economic pie as it is for OPEC members. For OPEC, the pain has been increasing.

In 2011, Saudi Arabia was firing on all cylinders. Its GDP was at 11 percent. But the following year, the GDP dropped to 5 percent. The year after that was 2.5 percent. So far, in 2016, their GDP growth has cut in half again. That’s a huge drop-off for an emerging market country.

In addition, because of oil’s drop, the Saudi government had to reduce subsidies to its people, pushing up the cost of living 17 percent over the past five years. That’s even more significant when you consider how much of their population is poor. Such price sensitivity led to the Arab Spring, which could certainly happen again in the Middle East if the situation worsens.

It’s evident this is starting to worry Saudi Arabia. Even before the surprise OPEC meeting where a production cut of almost a million barrels a day was announced, government employee salaries were slashed. This is a big deal, since government workers account for about two-thirds of all working Saudis. Ministers’ salaries were also cut 20 percent.

That tells me they’re scared, and they — along with the other OPEC nations that are struggling — will start propping up the price of oil. They need oil to hold above $50 per barrel and head higher from there. OPEC still controls about one third of the oil market, so their efforts will have an impact.

That's good news for our oil stocks. In particular, I'm bullish on Total because it's among the fundamentally strongest ones that we own. It also has a 5.62 percent dividend yield, with almost $25 billion in cash on its books to back up that dividend. Analysts already have ratcheted up earnings estimates on TOT for the coming quarter.

All in all, I like how solid TOT is. It's a huge, $117 billion company that made $18.8 billion last year in a rough time for oil companies. And its debt levels are only at about 47 percent of its market cap, which is OK for the debt-intensive oil industry.

If you don't already own Total or entered at a higher price, I recommend averaging down by buying at $50 or lower. The stock can very easily go to the $58-$65 level, especially with Saudi Arabia and OPEC's incentive to keep oil prices higher. They're doing it for their own good, of course, but we can benefit from their selfish motives.

CurrencyShares Canadian Dollar (FXC)

Oil has a major influence over the Canadian dollar. The two assets are very highly correlated, because Canada is a huge oil producer and exporter. In fact, we get more of our oil in the U.S. from Canada than we get from the Middle East. So when oil and other commodities are rising like they have been in 2016, that's very bullish for Canada's economy and currency.

Technically, the Canadian dollar is in a great position to rise from here. The Canadian dollar had declined overall for the past five years. Typically, downtrends in a major asset last between three and five years on the long end of bear market declines. Over that same time period, a massive Elliott Wave a-b-c corrective downtrend has been completed through the end of 2015. In 2016, the Canadian dollar began its uptrend around the same time that oil began its uptrend.

Additionally, I like the fact that Canada has now had a couple of months of positive economic growth as its economy has exceeded GDP estimates. It seems an economic turnaround has begun now that oil is stable and heading higher. This will all push the Canadian dollar up, which is bullish for our ETF that tracks it. If you don't already own FXC or you originally entered it at a higher price, consider buying or averaging down on the ETF at or under $80 per share.

God bless!

Sean Hyman
Editor, Ultimate Wealth Report

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