

A Breakthrough For AI

Earlier this year, AI capability took a giant leap forward. The AlphaGo system produced by **Google's** (GOOG) DeepMind was able to beat the world's top-ranking masters of the complex Chinese game of Go, that makes chess seem like child's play.

What was extraordinary about AlphaGo is that nobody taught the system how to play the game. All the programmers did is give the computer the basic rules. On its own, AlphaGo divided itself into opposing players and by conducting countless matches was able to devise winning strategies.⁶

Masters who played against AlphaGo – and were defeated – were stunned by the experience. Despite the 2,500 year history of the game, humans who challenged the system encountered brilliant new strategies they had never seen.

AlphaGo is the first highly-capable AI system that was able to teach itself a complex task, and learn how to solve its challenges. Experts believe AlphaGo could be given many other real-world problems to solve – which it should be able to do with relative ease.

Job number one will be to create AlphaEverything (my term). The second request the new AI systems will probably make is to be joined together in a large network. I wonder if they will call it Skynet?⁷

If you are nervous about the explosive growth of AI – and its potential to control almost everything in our tech-based world – you might find living a simpler life highly rewarding. I expect to see even greater interest than we have today towards downsizing, “techless Tuesdays”, small farms, urban “victory gardens”, and a greater emphasis on face-to-face relationships with friends and family.

Lifestyle changes take time to develop. If living more simply is a path that you might like to follow, it would be a good idea to get started now.

John Naisbitt summed it up best 34 years ago in his bestselling book, *Megatrends*. He predicted that the future would be a combination of “High tech and high touch.”

What to do:

The key to artificial intelligence is powerful computers and advanced programming. At this point in time, it is easiest to invest in the hardware.

Many AI systems will be installed in offices where the size of the computer won't matter. **IBM** (IBM) has several such AI systems including Deep Blue that beat Gary Kasparov at chess. Google's DeepMind Technologies created AlphaGo that beat all comers in the complex Chinese game. Several other desktop AI systems exist, and many more are on the way.

However, many of the most useful AI systems must be small enough to fit into vehicles to make them autonomous. Others will be housed in medical instruments, robots, and office machines – to name only a few applications.

⁶ <https://en.wikipedia.org/wiki/AlphaGo>

⁷ From “The Terminator”, a dystopian science fiction movie made in 1984.

interest in defensive stocks. Of the seven companies in this portfolio, four made gains and three declined.

Archer Daniels gained 4.4%, from \$48.26 to \$50.40. **Hershey** rose 2.4%, from \$98.21 to \$100.52.

McCormick jumped 6.4%, from \$117.54 to \$124.88 as the company continued to recover from an overly negative analyst report in March. **ConAgra** inched ahead just 0.1%, from \$36.71 to \$36.75.

On the downside, **General Mills** slipped a barely measurable 0.1%, from \$46.06 to \$46.01. **Kraft-Heinz** declined 3.3%, from \$60.25 to \$58.27. **Coca-Cola** dropped 4.4%, from \$46.63 to \$44.57.

Up, down, or sideways, the leading defensive stocks in this portfolio remain “OK to buy.”

Company	Sym	Price 12/20/11	Price 08/31/18	Percent Change	P/E	Yield	Recommendation
Archer Daniels Mid.	ADM	\$28.35	\$50.40	77.8%	14.7	2.66%	Up. OK to buy.
Coca-Cola	KO	\$34.20	\$44.57	30.3%	NM	3.47%	Down. OK to buy.
ConAgra	CAG	\$26.19	\$36.75	40.3%	18.5	2.33%	Up. OK to buy.
General Mills	GIS	\$39.27	\$46.01	17.2%	12.6	4.29%	Down. OK to buy.
Hershey	HSY	\$59.57	\$100.52	68.7%	20.7	2.90%	Up. OK to buy.
Kraft-Heinz Group	KHC	\$36.91	\$58.27	57.9%	6.7	4.29%	Down. OK to buy.
McCormick	MKC	\$49.56	\$124.88	152.0%	19.8	1.65%	Up. OK to buy.

✓ *Portfolio 1 Average Since 12/20/11: 63.5%. Change since last month: +2.2%*

Portfolio #2: Basic Needs Suppliers

Once again, everything that I said about the Food and Agriculture stocks in Portfolio #1 also applies our Basic Needs Portfolio – and for the same reasons.

Colgate Palmolive declined 0.9%, from \$67.01 to \$66.41. **Johnson & Johnson** rose 1.6%, from \$132.52 to \$134.69. **Procter & Gamble** did a little better with a 2.6% increase, from \$80.88 to \$82.95.

Colgate and **Johnson & Johnson** remain “OK to buy.” Keep your hold on **Procter & Gamble**.

Company	Sym	Price 12/20/11	Price 08/31/18	Percent Change	P/E	Yield	Recommendation
Colgate Palmolive	CL	\$45.78	\$66.41	45.1%	26.6	2.51%	Down. OK to buy.
Johnson & Johnson	JNJ	\$64.52	\$134.69	108.8%	NA	2.67%	Up. OK to buy.
Procter & Gamble	PG	\$65.79	\$82.95	26.1%	22.6	3.44%	Up. Still hold.

✓ *Portfolio 2 Average Since 12/20/11: 60.0% Change since last month: +15.2%*

Portfolio #3: Multinational Growth Stocks

Our Multinational Growth Stocks had another tough month as investors remained worried about the impact of Mr. Trump’s trade policies. The new agreement with Mexico was a relief, but the much bigger issue with China remains a problem. Until it is resolved, I think most growth stocks will remain stalled.

Alcoa posted a 3.2% gain, from \$43.27 to \$44.67. **Deere** had a small 0.7% decline, from \$144.79 to \$143.80. **Ford** had a larger 5.6% drop, from \$10.04 to \$9.48. **General Electric** slipped another 5.1%, from \$13.63 to \$12.94.

Bitcoin – the most popular cryptocurrency – was \$19,000 last December, and now moves between \$6,000 and \$8,000. No one should be surprised that a scheme to create free money out of thin air failed. Only governments can make that work – and not forever. Their currencies will ultimately suffer the same fate.

Nevertheless, we should not assume that the run is over for cryptocurrencies. The infamous dot.com bust of 18 years ago also looked like the end for that high flying group. Today, the leading dot.coms are soaring again. The cryptos may do the same – provided that they become more widely used.

The question that cryptocurrency buyers must ask themselves is, how long am I willing to wait for a possible recovery? It might be smarter to take a loss and invest in one of our top blue chip value stocks.

Late News: On August 20, Venezuela devalued the **bolivar** by 95% in a desperate attempt to stave off a complete economic collapse. Of course, it won't work. The deep devaluation of the country's currency will bring the economy to its knees all the sooner. Annual inflation is already running at more than 80,000% (that's not a typo). There are severe shortages of medicine and basic foods. Malnutrition is rising. Once-eradicated diseases like measles have returned.

Most people have no idea how much the quality of their lives depends upon the quality of their currency. -Robert H. Meier, RMB Group, Chicago.

As you may expect, excessive debt is contributing to Venezuela's woes. The country has the largest public debt to export ratio in the world – and has no chance of ever paying it back at anything close to its original value. The country's credit rating is zero which precludes any chance of attracting capital for the foreseeable future. For countries as well as organizations and individuals, debt can be deadly.

So far, 2.5 million Venezuelans have fled to neighboring countries. The exodus is already the largest forced displacement ever recorded in the western hemisphere, and is comparable to the departure of Syrians from their devastated country.⁸

On August 30, Argentina's government raised interest rates to 60% in a futile attempt to save its collapsing peso. Imagine what it must be like for people in Argentina who have revolving credit card debt and variable rate mortgages.

The disasters in Venezuela and Argentina are stark reminders that currencies issued by governments have no intrinsic value whatsoever. They are only as good as the financial – and political – stability of the governments that issue them.

When currency values plummet so does the quality of life for people who have most of their assets in them. Please keep that liability in mind when you read my warnings about the US debt bomb, and its ultimate impact on the value of the dollar.

⁸ Editorial Staff, "The Desperate Plight Of Maduro's Venezuela", *Financial Times*, August 22, 2018.

Precious Metals: Gold is now down 12% since its peak a year ago. With the trade war starting to take a toll on business activity, a further gold decline seems likely. What most of the world wants now is the strong **US dollar**. That will change some day, but I don't think it will be soon.

Gold, 1-Year



There is something important to remember about precious metals, especially **gold**. No Americans below the age of 85 were alive when physical gold was still used as money. No one younger than 45 was around when the US went off the gold standard and dollars could no longer be exchanged for the metal at any Federal Reserve bank (see the photo.)

The list of people who don't think of gold as

money includes most Baby Boomers (born between 1946 and 1964), Baby Bust/X-Gens (1965 to 1980), all Millennials/Y-Gens (1980 to 2000), and iGen/Z-Gens (born after 2001). In a population that rarely thinks about gold for anything but jewelry, it should be no surprise that gold prices are going nowhere despite the trade war, sinking emerging market currency values, rising inflation, and other problems.

A US Gold Certificate from 1928. It was real money. Read the top & bottom lines on the bill.



No matter how well-informed we may be about gold's historic role in economics – there is no way to overcome the fact that our knowledge is no longer widely shared. If we have an economic meltdown or other dire emergency, it is unlikely that Americans will flock to gold and push its price into the stratosphere as would have been true many years ago.

Realistic investors should treat gold primarily as a valuable commodity that will sometimes have considerable investment potential – and as a hedge against inflation and a devalued dollar. Gold is also a convenient way to store a great deal of wealth in a compact, easily portable form. In addition, Gold is an effective way to pass wealth from one generation to the next without doing a lot of costly paperwork. 🤖

Coleman 5-Gallon Folding Water Jug



One solution that works well for getting water after a disaster is the Coleman 5-gallon folding water container. Unlike rigid jugs that take up space that might be better used for something else, the polyethylene jug collapses into a compact size when it isn't needed.

The container also has two handles which makes toting the water – that weighs 8.35 pounds a gallon – much easier. A spigot aids in dispensing the water when you get it home.

The Coleman container is available from Amazon and most places where camping equipment is sold. The price is under \$15.

A Water Purifier: After floods and hurricanes when there is plenty of water available – it will usually be contaminated with bacteria and other microorganisms, plus suspended debris. You can only safely drink the water if you run it through one of the new ultra purification units with ceramic micropore filters.

A Big Berkey 2.4 Gallon Water Filter



The water filtration system that I recommend is made by British Berkefeld. They are used throughout the world by the United Nations High Commissioner for Refugees (UNHCR), Doctors Without Borders, and many other relief organizations. “Berkeys” are standard equipment at refugee camps.

All Berkeys are gravity fed (no pumping) and use black microporous filters that reduce over 99% of the bacteria and other creatures that you don't want swimming around in your water. The filters can be cleaned with a Scotchbrite pad and used over and over.

Berkey water filtration units are available in several sizes. For most families, the 2.5 gallon Big Berkey is just right. It's available from Amazon, Walmart or directly from the company (\$258 with two black ceramic filters, or \$358 with four filters to double its speed) <https://www.bigberkeywaterfilters.com/> .

Gasoline Containers can also be very helpful. It can be a lifesaver to have fuel for your vehicle on hand. After a natural disaster, lines at filling stations that are still open can be several blocks long. For problems such as hurricanes that can be seen coming, lines can be equally long before the storm hits. If local fire regulations permit it, you should have enough fuel on hand to move your family to safety right away. Even a half hour delay can make it impossible to get out of a city (see the photo on page 23 in the November/December 2017 GCOR).

ULINE Utility Wagon



A Garden Cart: For hauling water and fuel containers, emergency supplies, and everything else that you might need after a disaster, you will find a sturdy cart to be indispensable.

Rather than “borrow” a shopping cart from a market, as the homeless often do, I recommend buying a good folding cart that’s designed for outside use. The Uline Utility Wagon shown here (\$65) can hold 180 pounds and folds to just 15% of its open size. They are commonly seen in my area. Here’s the link: <https://www.uline.com/Product/AdvSearchResult?keywords=utility%20wagon> 

Final Thoughts

Stock Losses Can Cost More Than You Know

Legendary investor, Warren Buffet once said the number one rule of investing is, “Never lose money.” His number two rule is, “Never forget rule number one.”

Buffett’s two rules about losses are especially important in view of recent medical research that shows a big financial loss can seriously damage a person’s health and shorten lives.¹² It’s the most important reason that investors must not take unnecessary risks when choosing stocks and managing their portfolios. Stated simply, a stock crash could kill you.

We are in a late stage bull market. I think it has another year to go – and possibly a lot more – but it is impossible to know with certainty. The only safe way to proceed is to *expect to be surprised* by a sharp stock market correction (a 10% to 15% decline), a bear market (a 20% or more decline), or worse.

If you proceed with the expectation of being sucker punched somewhere along the way, you are more likely to prepare for it. For most investors, here are the basic protective steps to take:

1. Sell some of your winners and put the cash aside. Besides avoiding a loss if stocks take a hit, you will have the means to invest in the next upturn once the bear has run its course.
2. Place a greater emphasis on high-value stocks and fallen angels that have already been driven down and are unlikely to decline much more in a stock market decline.
3. Likewise, I think you should own more defensive stocks in food, energy, healthcare and other goods and services that people must buy no matter what the economy is doing.
4. Place trailing stop-loss orders on all your stocks. For your high-value stocks and fallen angels that are unlikely to take big plunges, use wide 25% stops that will save you from suffering the full impact of an unexpected emergency.

¹² Bill Alpert, “Losing Your Money Could Kill You”, *Barron’s*, April 5, 2018.

A 25% trailing stop loss order is like a life preserver. It will prevent “selling paralysis” (a common problem) from pulling you to the bottom in a rapidly sinking market.

For most of your other stocks, I think 15% to 20% stops are more appropriate. For stocks that you would like to sell at the first sign of trouble, use 10% stops.

This isn't a time to run for the hills. In fact, I think you should invest in what promises to be a very profitable final run for the bull market. However, this is also a time to increase your precautions against a possible market emergency.

As always, I will be with you every step of the way. If anything happens that demands our attention, I will send you another Subscriber Bulletin. 

Best wishes,



Next Month:

- Cyber security is becoming a bigger concern. Here is what is happening in the industry, and what companies are likely to be the biggest winners.
- I will present an easy option strategy that you can use to protect against market drops. Readers won't have any trouble understanding how it works, and how to set it up.
- Held over to feature China's technology push this month: China is ramping up its program to catch up to – and surpass – the US in space. Another “Sputnik moment” is coming that will lead to a global space race. Several companies will benefit.
- Also held over from September: I'll have more to say about authoritarian governments that are replacing democracies throughout the world – and the threats they pose to our finances and civil liberties. I will discuss how we should deal with this troubling development to minimize its impact on our lives.
- As always, I will review the news and the trends of the day, and recommend ways to make profitable use of them.
- And much more....

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