For now, global geopolitical risk has diminished. China has ceased making transparent preparations to invade Taiwan. With Asia at peace, businesses can operate without fear of imminent supply-chain disruption.

America's political risk is a different story. Can it get any crazier?

Consider America's trip through the "twilight zone" in the past two weeks. It has the makings of a spy novel.

> A young man – still too young to buy an adult beverage – outsmarts the Secret Service and shoots the GOP Presidential candidate. But the assassination attempt fails because the candidate turns his head aside at the precise moment the bullet grazes the target.
>
> In two weeks following the assassination attempt, the investigating agency, the FBI, does nothing to inform the public. No press releases… silence.
>
> A week after the assassination attempt, the sitting President falls ill and withdraws his candidacy. Nobody from his administration provides a diagnosis or explanation.
>
> Despite appearing to be incapacitated, the sitting President remains in office.

Fortunately, the investment markets have not been hit by the political instability… perhaps for good reason. Regardless of which party controls the White House, orderly transitions have always occurred. Policy changes following a transition of power rarely impact the stock market in a profound way.

This time may be different… but not because of policy change. This time, nearly half of the population is prepared to protest the election result, regardless of who wins. A slim victory margin will probably lead to civil disobedience, unrest, and possibly civil war.

One of the brightest minds of the investment community is worried about the nation coming apart. Last month, hedge-fund guru Ray Dalio published "*Pick A Side And Fight For It, Keep Your Head Down, Or Flee*"[1]. Dalio argues that in this year's Presidential election, neither party will accept defeat.

The historical trend supports Dalio's concern. Distrust of elections has been intensifying for more than two decades. It started with the Bush v Gore election of 2000, which required a month's time and a Supreme Court ruling to declare a victor. For the next four years, many Democrats called Bush an illegitimate President. Then, after losing in 2016, Hillary Clinton claimed that Russia interfered in the election and labelled Trump illegitimate. Roles reversed in 2020. Amid unprecedented mail-in voting, unsecured ballot boxes, and a massive overnight swing in the vote count, Republicans cried foul. Investigations uncovered irregularities. Protests followed. More than 1200 people were charged… 460 were jailed.

In Dalio's opinion, neither party will trust the election result. Democrats will cry foul if the GOP wins narrowly, and the GOP will cry foul if the Democrats win narrowly. Either way, Dalio anticipates escalating protests and disorder… possibly leading to instability in the investment markets.

[1] https://www.linkedin.com/pulse/pick-side-fight-keep-your-head-down-flee-ray-dalio-53fpe/?published=t

The Long-Term Debt Cycle and War

About once every 80 years, private-sector debt reaches a long-term-cycle limit. When the cycle turns lower, lending contracts. So does the economy. Economic dislocations lead to societal distress. Sometimes, one country invades another. Other times, internal disorder develops, leading to revolution or civil war. Figure 1 outlines the crises that followed recent debt cycle peaks.

Table 1: Debt Cycle Peaks and War

Debt Crises	Subsequent Events
1770 -1800	British and French crises lead to American and French Revolutions
1850s	Railroad / Farm Debt Crisis leads to American Civil War
1910-1920s	Russian Revolution, Spanish Civil War, Japan and Germany Invade
1990-Japan 2008-USA 2012-Europe 202?-China	No major revolutions or invasions - yet

The Path to Political Stability – A Decisive Victory by Either Party

If either party wins the Presidency by a large margin, the losing side will probably accept the result. However, a contest decided by a narrow margin will probably lead to disorder.

Current polling (RCP Average 7/24/2024) shows Trump leading with 312 electoral votes and a 2.8% lead in the popular vote. However, the election season is just starting. The contest will tighten, and it could easily reverse. Unless either candidate secures a resounding victory, investors should prepare for fallout from a disputed election, including the possible abandonment of the rule of law.

The risk of a disputed election should not compel investors to sell stocks. Instead, investors should carefully diversify across the key asset classes. Specifically, investors should offset stock market risk with cash, precious metals, and high-quality fixed income holdings.

The Mid Cap Value Index (VOE)

AI speculation has sucked most of the energy out of the stock market.

That speculation has pushed valuations in the large-cap technology sector to an extreme. The most widely followed index, the S&P 500, is significantly weighted in large cap tech. Consequently, the index is running up against its long-term upper valuation limit. In other words, the S&P index has very little sustainable upside potential.

Figure 1: S&P 500 Weekly Chart, Log Scale 7/24/2024

However, value-oriented stocks have lagged, especially mid-cap value. The mid-cap value sector enjoys substantial upside potential.

Figure 2: Mid Cap Value Weekly Chart 7/24/2025

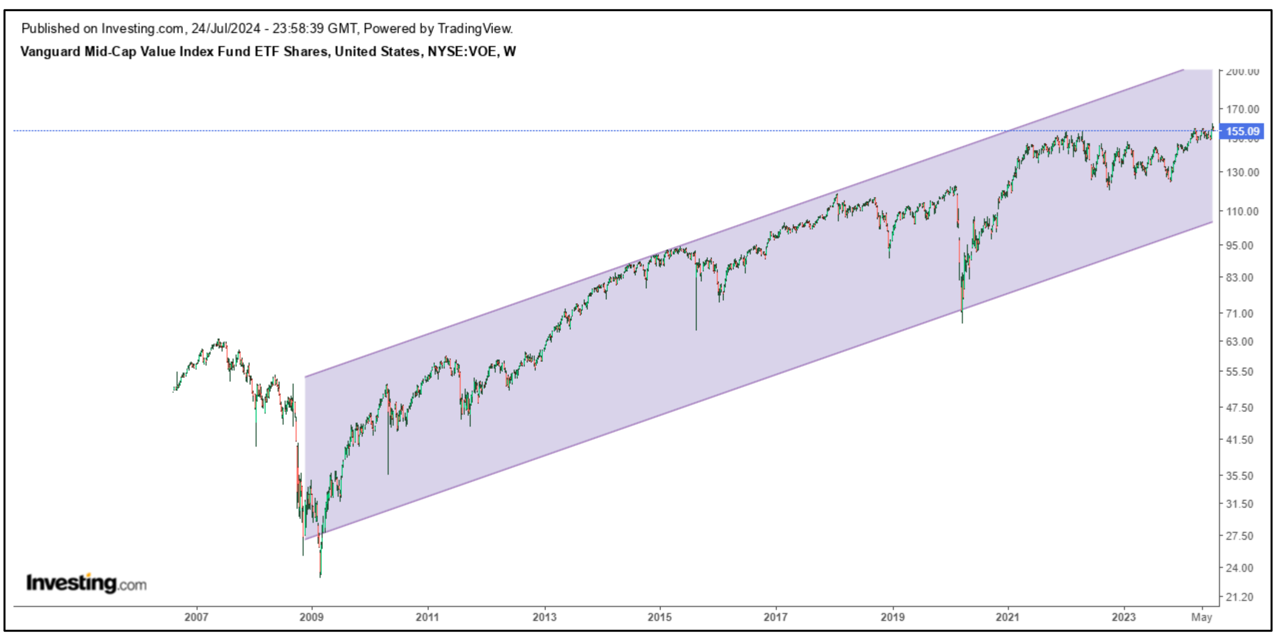


Table 2 below compares the valuations and risk/reward tradeoffs of various investable indices.

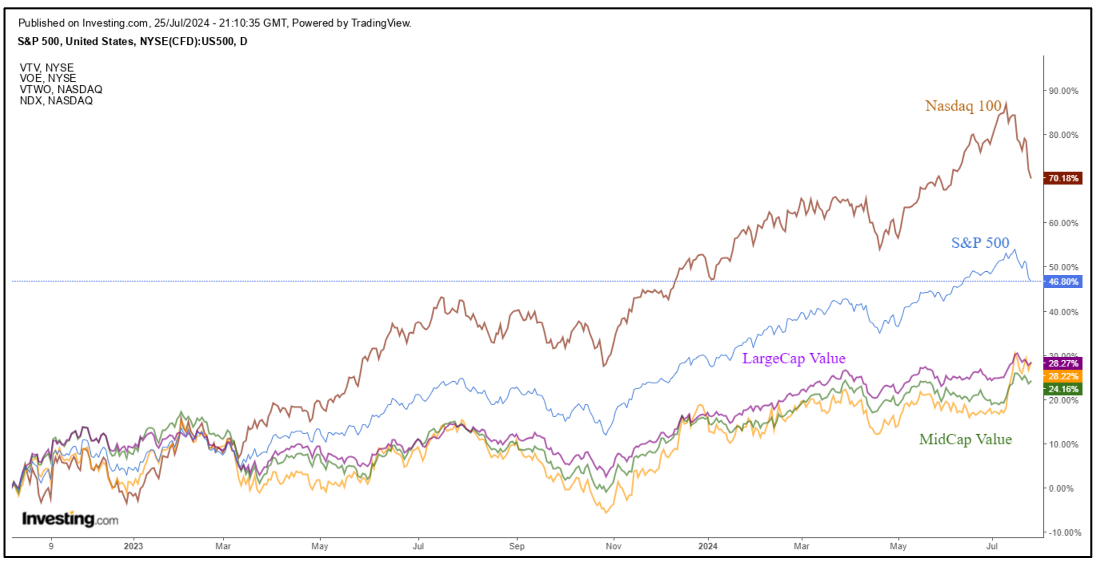
Table 2: Investable Indices vs. Long-Term Trend 7/24/2025

	7/24 Price	Upper Valuation Limit	Lower Valuation Limit	Valuation Tend	%Change to Trend Value	%Change to Upper Limit
S&P 500	5427.13	5639	2980	4309.5	-20.59%	3.90%
LargeCapValue Index - VTV	164.24	193.08	107.25	150.165	-8.57%	17.56%
Midcap Value Index - VOE	155.09	202.82	105.74	154.28	***-0.52%***	***30.78%***
SmallCap Value Index-VBR	191.34	225.78	106.81	166.295	-13.09%	18.00%

It is safe to conclude that the Mid-Cap Value sector represents a haven for investors right now.

Additionally, it seems that value-oriented companies in the real economy may become the next beneficiary of the AI boom. For the past two years, AI-themed stocks have been attracting the lions' share of investment. That trend has started to unwind in the past month.

Figure 3: Sock Index Comparison Since Fall of 2022



According to Goldman Sachs, AI adoption will likely develop slowly. If true, a glut of chips, data centers, and AI software will develop… like the telecom glut that developed during the internet bubble.

Excess capacity will cause AI goods and services prices to fall. This will benefit pioneering companies in the real economy, who will buy AI services on the cheap to improve productivity.

Investors who wish to stay invested in stocks while limiting downside risk should consider adding exposure to the mid cap value sector. The Vanguard Midcap Value ETF represents an efficient, diversified position in the sector with the best current risk/reward tradeoff.

Recommended Strategy: Buy a full position of the Vanguard Midcap Value ETF at current prices.

Precious Metals Update

Persistent inflation, expectations of Fed rate cuts, and worries about the global order are stoking demand for gold and silver.

Figure 3: Gold Futures Daily Chart, 7/24/2024

Mining stocks have been following metals prices higher. However, the historical relationship between mining stocks and metals prices has broken down. Mining stocks have lagged.

Table 3: *Vigilante Investor* Precious Metal Scorecard[2] as of 7/25/2023

Precious Metal ETF	Price	Ratio	Hist Avg	Rating
GLD	221.8			
SLV	26.43	8.39	6.08	2
Stocks vs GLD	**Price**	**Model**	**vs. Model**	**Value Rating**
Barrick Gold (GOLD)	$18.46	$19.09	-0.63	2
Jr. Gold Miners ETF (GDXJ)	$45.27	$45.43	-0.16	2
Sandstorm Gold (SAND)	$5.72	$5.73	-0.01	5
Royal Gold (RGLD)	$137.37	$136.75	0.62	5
Gold Miners ETF (GDX)	$37.23	$36.77	0.46	5
Newmont Mining (NEM)	$47.70	$42.25	5.45	6
Wheaton Precious Metals (WPM)	$59.94	$58.03	1.91	6
Stocks vs SLV	**Price**	**Model**	**vs. Model**	**Value Rating**
Silver Miners ETF (SIL)	$33.99	$42.24	-8.25	3
Pan American Silver (PAAS)	$22.71	$29.00	-6.29	3
Hecla Mining (HL)	$5.88	$6.56	-0.68	4

[2] The Vigilante *Investor* Scorecard rates large and mid-sized miners, streaming companies, and ETFs. The cheapest securities have the lowest Value Ratings, color coded in green. Fair Value is yellow, and expensive stocks are red. The scorecard also rates SLV, the iShares Silver Trust, relative to gold bullion.

The precious metals scorecard shows that most mining stocks remain cheap. Only one stock has maintained its historical valuation and correlation vs. gold, and that is Wheaton Precious Metals (WPM). For the rest, correlations and valuations have fallen. The correlations for Barrick Gold Corp and Newmont Corp have dropped to around zero. Consequently, the model now understates fair values. If and when historic correlations resume, these two mining stocks will soar.

Some analysts attribute the underperformance of mining stocks to rising mining costs. This may explain part of the underperformance. However, something bigger is happening. Perhaps investor preference for physical metals (vs. stocks) is now rising. Or maybe Bitcoin is pulling demand away from mining stocks. Maybe both

Vigilante Investor believes that demand for mining stocks will eventually return. We will continue to hold the basket of mining stocks, including GOLD, NEM, GDX, GDXJ, SIL, and PAAS.

The Economy

Both growth and inflation are slowing. The Scorecard favors growth by a score of only 3-to-2. However, some very reliable indicators are warning of recession.

Table 4: Vigilante Investor Scorecard of Economic Conditions July 26, 2024

Score	Positive	Neutral	Negative
Growth 3 Contraction 2	US Real GDP +2.9%YOY US Productivity +1.0%YOY Global Comp PMI 52.9	Fed Signal +0.5%	US 2-10 Spread -0.18% US Non-Manf PMI 48.8
Inflation 4 Deflation 0	CPI +3.0% YOY US Wages +3.9% YOY Gold +22.6% YOY Gold / Euro +23.4% YOY	US Dollar +1.3% YOY Crude Oil -7.9% YOY	
Positive $ 2 Negative $ 0	US-Ger2YR Spread +1.72% US-Ger10YR Spread+1.80%		

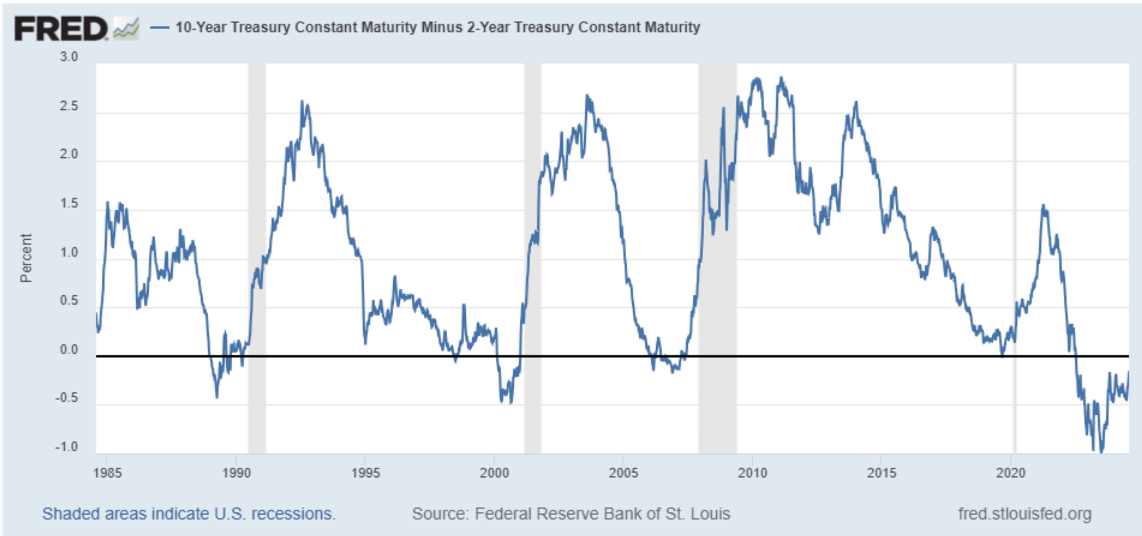
Sources: Tradingeconomics.com, St. Louis Fed, and Investing.com

One recesion signal is the Non-Manufacturing PMI. It slipped below 50, indicating that the majority of the U.S. economy is now contracting.

An even more alarming indicator is nearing a recession signal. Many analysts believe that the the yield-curve inversion (when 2-year yields are higher than 10-year yields) signals a future recession. This is true. But the recession waits until after the yield curve normalizes.

The yield curve has been inverted for the past 2 years. The yield curve is now trending toward a normal, positive shape. Figure 4 shows the yield curve history of the past 40 years. Note that the gray- shaded time periods indicate recession. Every time that the yield curve normalizes after an inversion, a recession immediately follows.

Figure 4: Yield Curve Inversion and Recession History



It appears likely that a mild recession is developing. If so, the Fed may lower interest rates by more than the market now anticipates.

Investment Strategy and Portfolio Review

Since the Fed may need to cut interest rates significantly, *Vigilante Investor* is reallocating cash and fixed income holdings. We will continue to extend the maturity of cash to 2.4 years by holding it in the Vanguard Short Term Corporate ETF (VCSH). And we will extend the average maturity of our bond holdings to 7.4 years by investing in the Vanguard Intermediate Term Corporate Bond ETF (VCIT).

In the last quarter, we added to the Genuine Parts (GPC) position at $145 per share. Most of our positions in defense contractors rallied significantly, including Lockheed Martin, Rtx Corp, Invesco Aerospace, and Boeing. One of our defense-industry positions, Textron, lagged the market after a disappointing earnings report.

Table 5: The Vigilante Model ETF Portfolio as of 7/26/2024

All ETF Portfolio	%	Selections	Symbol	Initial Price	Price July 26
Broad Market	9%	VG Mid-Cap Value ETF	VOE	$137.05	$158.02
	5%	VG Mid-Cap Value ETF	VOE	$158.02	$158.02
	4%	VG Large-Cap Value ETF	VTV	$121.81	$166.91
Financials	4%	VG Financials	VFH	$88.21	$106.29
	14%	iShares U.S. Insurance	IAK	$84.25	$119.21
Energy	24%	First Trust Revere Nat Gas	FCG	$19.01	$26.12
Defense	10%	Invesco Aerospace & Defense	PPA	$91.40	$107.61
Precious Matals	5%	VanEck Vectors Gold Miners	GDX	$32.75	$36.48
	5%	Global X Silver Miners	SIL	$39.51	$33.24
Intermediate Bonds	*10%*	VG Intermed Corp Bond ETF	VCIT	$80.70	$80.70
Short Term Bonds	*10%*	VG ST Corporate Bond ETF	VCSH	$74.95	$77.95
Cash	0%	Broker MoneyFund			

Table 6: The Vigilante Model Portfolio as of 7/26/2024

Sector	%	Selections	Symbol	Initial Price	Price July 26
Broad Market	4%	Vanguard Midcap Value ETF	VOE	$158.02	$158.02
Defense/Aerospace	14%	Rtx Corporation	RTX	$85.17	$113.95
		Lockheed Martin	LMT	$428.00	$524.80
		Textron	TXT	$93.31	$92.06
		Boeing	BA	$169.84	$186.89
Financials	16%	Chubb	CB	$165.98	$270.06
		AIG	AIG	$47.54	$77.24
		WR Berkley	WRB	$35.72	$54.07
		Bank OZK	OZK	$34.86	$46.76
Energy	26%	ProPetro	PUMP	$8.25	$8.82
		Nine Energy	NINE	$1.90	$1.92
		Coterra (Formerly Cabot)	CTRA	$18.69	$25.78
		Southwestern Energy	SWN	$4.06	$6.53
		Antero Resources Corporation	AR	$32.67	$29.59
		KLX Energy Services	KLXE	$9.94	$6.56
Agriculture	4%	Mosaic Co	MOS	$28.67	$29.57
Industrial	4%	Genuine Parts Company	GPC	$153.50	$141.97
Precious Metals	10%	Junior Gold Miners ETF	GDXJ	$46.02	$44.43
		Gold Miners Index	GDX	$29.30	$36.48
		Pan American Silver	PAAS	$21.13	$21.47
		Silver Miners ETF	SIL	$42.00	$33.24
		Newmont Mining	NEM	$53.32	$46.72
Intermediate Bonds	11%	VG Intermed Corp Bond ETF	VCIT	$80.70	$80.70
Short Terrm Bonds	11%	VG ST Corporate Bond ETF	VCSH	$74.95	$77.95
Cash	0%	Broker Money Fund			

May peace be with you!

Steve Koomar

July 26, 2024

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