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& CO.

THE BIG SECRET ON WALL STREET

THE DROP

WHY WE'RE HEADED FOR A MARKET
AND ECONOMIC PRECIPICE...

AND THREE HIGH-PROFILE
STOCKS TO AVOID TODAY

FROM THE DESK OF PORTER STANSBERRY

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Why We're Headed for a Market and Economic Precipice...

And Three High-Profile Stocks to Avoid Today

I'm Porter Stansberry. I'm usually right.

That's not bragging. It's just a sober statement of fact.

If you've been with me for any portion of the past quarter-century (and some of you have been there for all of it)... you'll remember that I've consistently called major drops in the economy and collapses of major companies, well ahead of time.

My team and I predicted the dot-com crash. We warned of the demise of General Electric (GE), of General Motors (GM), and of Fannie Mae (FNMA) and Freddie Mac (FMCC). We predicted the Great Financial Crisis. Along the way, we made our subscribers a series of five-digit gains that paid subscribers can peruse in our Hall of Fame.

There's no magic to making these prescient calls – just years of experience, deep insight, and good pattern recognition. When I started Stansberry Research from my kitchen table, I had a crappy laptop and access to the same publicly available Security and Exchange Commission (“SEC”) documents and financial filings that anyone with an internet connection does. What gave us our edge was a dogged commitment to the truth – and a willingness to piss people off when they didn't like what we found.

My point is that I have a long history of successfully predicting disasters – and showing my readers how to stay out of trouble. And that's what I want to do for you today. My team and I will show you why another great recession is likely on the way (regardless of who wins the presidential elections in November)... and reveal three stocks that you should dump now, before the carnage begins.

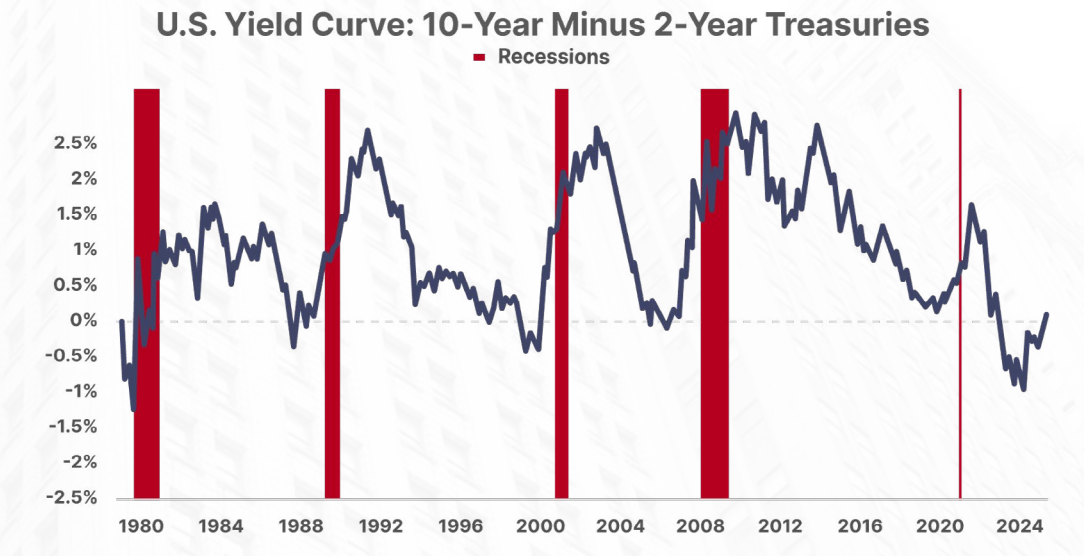
Another Crisis Is Unavoidable

The economic warning signs have been popping up for the past couple years...

But in just the last few months, we've seen mounting evidence that the economy is barreling toward a severe recession.

For example, Treasury yield-curve inversions – when the yield on short-duration U.S. Treasury debt trades above the yield on long-duration Treasuries – have correctly predicted every recession since World War II. However, it is only after the yield curve “uninverts” that those recessions have materialized.

That's exactly what happened this month, when the 2-Year U.S. Treasury yield moved back below the 10-Year Treasury yield, following one of its longest (two-plus years) and deepest inversions in history.



In addition, the U.S. consumer is now showing signs of significant distress. We first noted signs of **consumer weakness** in the quarterly reports of bellwether brands like McDonald's (MCD) and **Starbucks (SBUX)** early this year. Since then, weakness has begun to materialize in a growing list of companies, including such historically "recession-proof" businesses as PepsiCo (PEP) and Procter & Gamble (PG).

Consumer credit card charge-offs at U.S. banks have quietly risen to their highest level in 13 years, as persistent inflation (rising prices) has collided with dwindling COVID-era stimulus savings (which means less spending money). And with Americans now owing a record \$1.14 trillion in credit card debt – and paying a staggering average 22.8% interest on that debt – these problems are likely to get much worse.

But the most worrisome recessionary "red flag" has now shown up in the labor market...

Full-time employment fell by a massive 1 million workers in August, marking the seventh consecutive monthly decline. And this followed the unemployment rate jumping to a post-COVID high of 4.3% in July. This increase triggered another reliable recession indicator known as the Sahm Rule.

Created by economist Claudia Sahm, the rule states that if the three-month average of the unemployment rate rises by a half-percentage point or more over the lowest three-month average over the previous year, the economy is in recession. And last month's rise in unemployment officially met that condition.

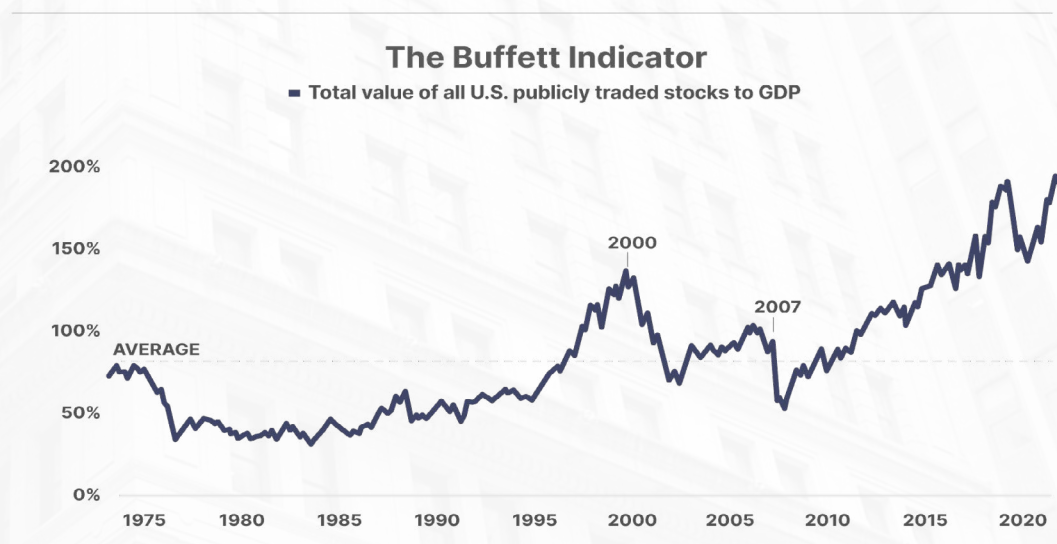
This combination of the job market cooling off (and unemployment rising) has historically been the key signal that a recession is imminent. In fact, according to the Sahm Rule, it could already be underway.

These warning signs are occurring against a backdrop of unprecedented government debt. U.S. federal debt recently surpassed \$35 trillion, and the government is now adding another \$1 trillion to the total roughly every three months.

The unbelievable size of U.S. debt and deficits have created a legitimate threat to U.S. dollar hegemony. The "End of America" has been happening for more than a decade as more and more central banks turn to alternative reserve assets, including gold, Bitcoin, and the new BRICS (Brazil, Russia, India, China, South Africa) currency. These factors will make it much harder for the Fed to prevent a recession in the U.S.

Meanwhile, the major stock market indexes are trading near record-high valuations by nearly every important metric.

A recent Bank of America analysis shows that the S&P 500 is trading well above its long-term historical averages in 19 out of 20 key valuation metrics. Total market capitalization divided by GDP (Warren Buffett's favorite measure of value) is higher than at any point since data has been kept, starting in 1964... and the Shiller P/E, a longer-term price-to-earnings multiple that "smooths" valuation fluctuations over a 10-year period, is double its long-term average.



This potent cocktail suggests the potential for significant economic and market turmoil is arguably greater than at any time in recent memory. And unfortunately, the upcoming U.S. presidential election could dramatically amplify these risks.

You see, neither candidate has any plans to slow the government's runaway spending. Debt and deficits will continue to grow regardless of whether Trump or Harris wins in November.

While markets may benefit from this boost of artificial stimulus in the short term, the end result will be an acceleration in the erosion of U.S. dollar supremacy on the global stage, and ultimately, a reckoning for overinflated U.S. markets.

To help you prepare, we've identified three well-known – and widely-owned – stocks that investors would be wise to avoid ahead of the next crisis. These stocks are likely to underperform even as the rally continues, and regardless of who is the next American president... and could absolutely plummet when the next bear market begins.

The Boeing Company (NYSE: BA): How Wall Street Eggheads Tanked The “Flying Fortress”

The first stock we recommend you avoid today is iconic airplane manufacturer Boeing (NYSE: BA).

Boeing built an unshakable reputation for trustworthiness during WWII, as the B-17 “Flying Fortress” and B-52 “Stratosphere” routinely shook off pummelings from anti-aircraft guns and enemy fighter planes, helping their crews deliver payloads and return home safely to base.

At that point, Boeing planes had been in the skies for close to three decades. In 1916, lumber entrepreneur William E. Boeing built the very first Boeing plane in a repurposed boat factory, using master craftsmen and materials from the boat business. He started a legacy of durability and reliability that would continue unbroken for nearly a century... before things went horribly wrong.

After the war, Boeing launched America into the jet age, starting with the Boeing 707 in 1957 – the world's first widely used jet airliner. This was followed by the three-engine 727 in 1963, and then Boeing's hallmark 737 in 1967.

The Boeing 737, which became the best-selling commercial plane of all time, made the name “Boeing” synonymous with safety, with an average of 12.5 million safe flights for every fatal crash.

Pilots worldwide repeated a pithy mantra that said it all: “If it ain't Boeing, I ain't going.”



What made Boeing planes the best in the world? The fact that engineers ran the joint.

The company made a conscious choice to hire hands-on aircraft builders as top executives. CEOs like Clairmont Egtvedt, “the father of the B-17”, and Thornton Wilson were patent-owning engineers and aircraft designers, who’d gotten oil under their nails building and designing planes before moving into the C-suite.

Predictably, these results-oriented builders wanted little to do with Wall Street eggheads. As one long-time aerospace reporter recalled about Boeing’s former culture in a 2019 article:

“Finance wasn’t a primary language. Even Boeing’s bean counters didn’t act the part. As late as the mid-’90s, the company’s chief financial officer had minimal contact with Wall Street and answered colleagues’ requests for basic financial data with a curt ‘Tell them not to worry.’”

But that all changed in a fateful corporate transaction in the late 1990s, which set the stage for Boeing’s spectacular fall from grace twenty years later.

The Financiers Take Over – and Destroy an 80-Year-Old Legacy

In August 1997, Boeing merged with fellow aerospace manufacturer McDonnell Douglas in a \$13 billion stock swap. It was a match made in hell.

Boeing was known for quality, and McDonnell was known for financial engineering – with a focus on cost cutting and the company’s share price. And though the Boeing name survived, it was the McDonnell Douglas attitude that prevailed.

As one aviation reporter recalled from his coverage of the company in 2000:

"One of the most successful engineering cultures of all time was quickly giving way to the McDonnell mind-set. Another McDonnell executive had recently been elevated to chief financial officer. ("A further indication of who in the hell was controlling this company," a union leader told me.)"

McDonnell CEO Harry Stonecipher, who took over day-to-day operations at Boeing, immediately took a carving knife to Boeing's highly-paid engineering staff. The resulting labor strike shut down production for 40 days in 2000.

And in May 2001, Boeing management made a physical break with its engineering staff: manufacturing headquarters stayed in Seattle, while corporate moved to downtown Chicago, 1,700 miles away.

That split symbolized the growing distance between builders and bosses, as aerospace analyst Richard Aboulafia explained in a 2019 article:

"You had this weird combination of a distant building with a few hundred people in it and a non-engineer with no technical skills whatsoever at the helm...It wasn't just technical knowledge that was lost. It was the ability to comfortably interact with an engineer who in turn feels comfortable telling you their reservations, versus calling a manager [more than] 1,500 miles away who you know has a reputation for wanting to take your pension away. It's a very different dynamic. As a recipe for disempowering engineers in particular, you couldn't come up with a better format."

Then Boeing's upstanding reputation took a beating as the company was rocked by a series of scandals, including violations of government contracting laws that landed one Boeing CFO in jail. But nothing changed at the top. In fact, Harry Stonecipher took over as sole CEO, erasing Boeing execs entirely.

In the wake of the executive shakeup, Stonecipher explained:

"When people say I changed the culture of Boeing, that was the intent, so that it's run like a business rather than a great engineering firm."

In an ironic turn, Stonecipher himself was eventually forced out because he had an affair with a subordinate. But the damage was done. He had indeed changed Boeing culture... for the worse.

And he set the stage for a series of disastrous decisions that have brought Boeing to the brink of bankruptcy today.

Boeing's Fall from Grace

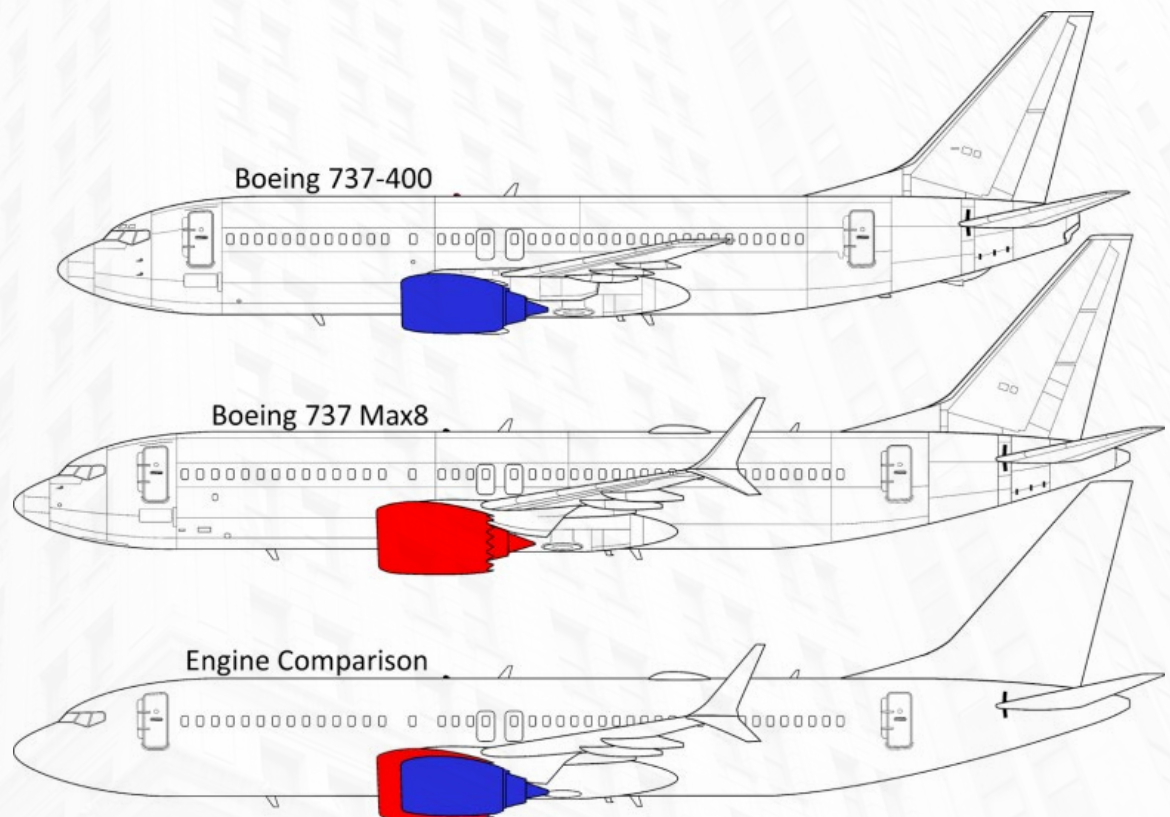
Most jets in the sky are made by either America's Boeing or Europe's Airbus. The long-running rivalry shifted in favor of Airbus in 2010.

That year, the rival company unveiled the A320neo single-body jet, which offered significantly better mileage than Boeing's 737, thanks to a larger, high-efficiency engine.

Boeing executives had to come up with a response, and fast...

Of course, by 2010, Boeing's C-suite was entirely made up of financial engineers, whose main concern was the bottom line and the share price. And while they wanted a fuel-efficient plane, they didn't want to spend the money or time needed to overhaul the entire 737 design.

So they simply tacked the bigger engines onto the wings of the existing 737-400 frame, moving them slightly forward to achieve the same ground clearance. The trouble was, the more forward placement made the planes (now called 737 Max-8) top-heavy.

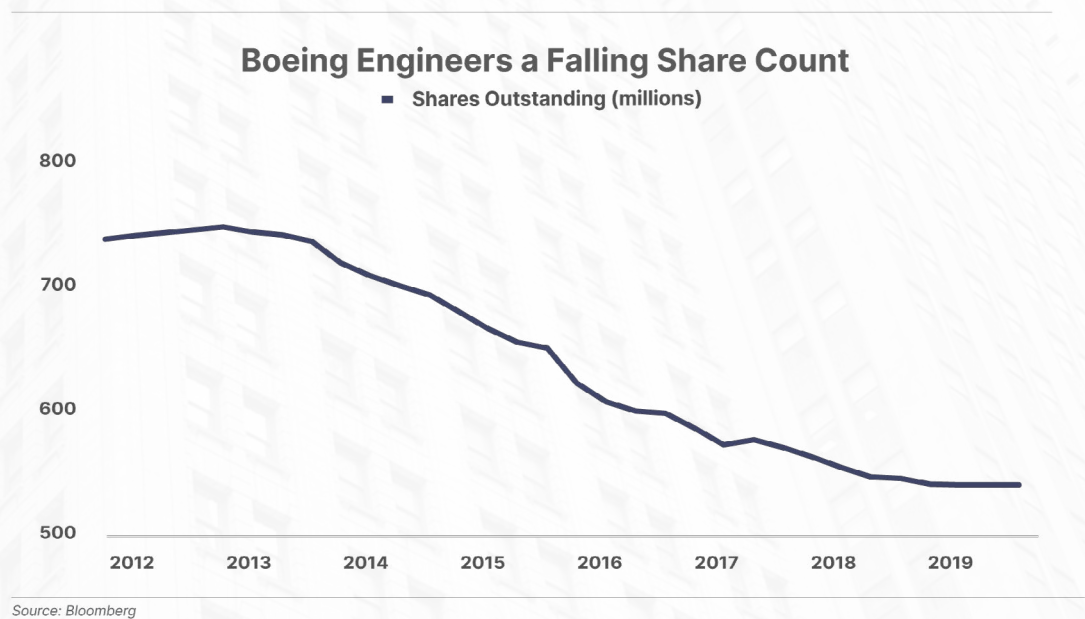


The new engine placement created a high risk of aerodynamic instability, especially under high thrust. But instead of focusing on the engineering of keeping its planes in the air, Boeing created a workaround software solution, ignoring pushback from its engineers.

One cardinal engineering rule is “Always build in redundancy.” In other words, make sure your systems have back-up...and the back-up has back-up. Predictably, Boeing executives ignored this rule when launching the flight-stabilization software. They didn’t want extra costs or complexity, so they skipped the backup and left the system vulnerable to a single point of failure.

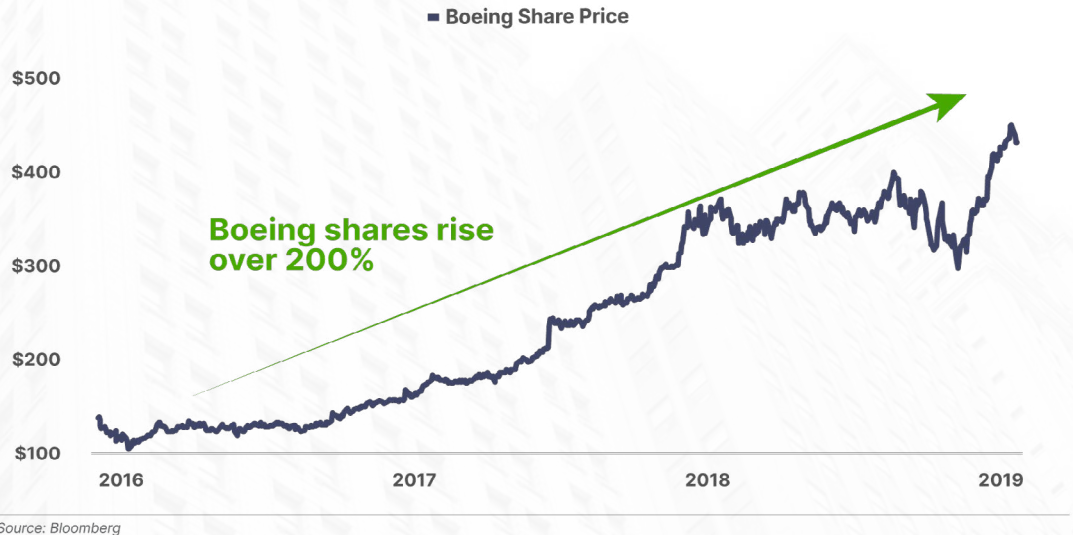
That easy fix left Boeing with a lot of extra cash, which it used on... you guessed it... financial engineering. After running off the engineers, Boeing deliberately decided to copy the financial strategy of General Electric – a company that ultimately destroyed itself with financial engineering.

From 2010 to 2019 Boeing spent \$44 billion (!) on buying back its own shares, while adding \$50 billion in debt. This reduced the share count by 23%.



Slashing the share count helped boost the all-important Wall Street metric of earnings per share, which rose by 290% from 2016 to 2019. In turn, that sent Boeing’s stock price flying high. Meanwhile, over this period, free cash flow – a measure of the underlying profitability of a company – plunged from \$7.9 billion in ‘16, to negative \$4.3 billion in ‘19. The share price took off.

Boeing Engineering Sends Boeing Shares Soaring



Boeing's suits made out like air pirates. Stock-based compensation soared six-fold from \$32 million in 2015 to around \$200 million per year in 2016 – 2019.

Unfortunately, the bean counters couldn't run the business. Shareholders, and passengers, paid the price.

Two years after delivering the first of its 737 Max-8 planes in 2017, two deadly crashes – Lion Air Flight 610 and Ethiopian Airlines Flight 302 – that killed all 346 passengers and crew on board were directly attributed to faulty software .

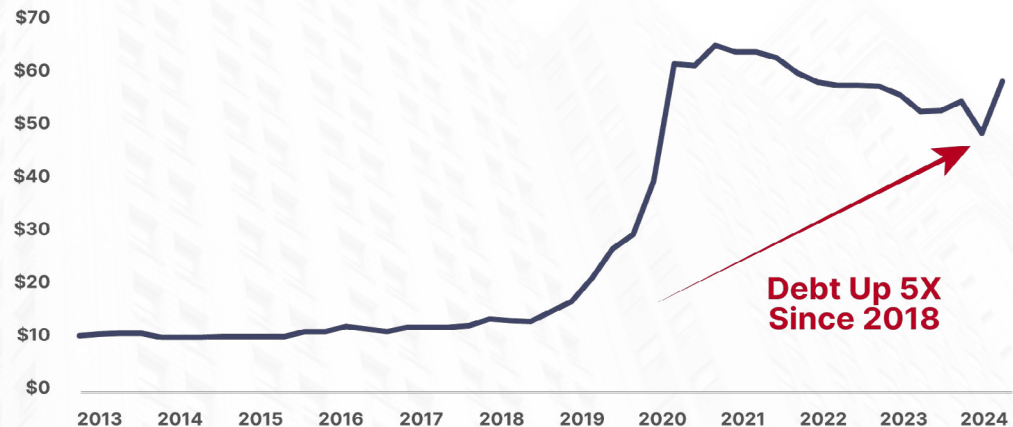
A Department of Justice investigation found Boeing guilty of "conspiracy to defraud the United States over the 737 MAX certification." The company paid \$2.5 billion in fines.

It got worse. Boeing was forced to ground its entire fleet of 737 Max-8 planes from March 2019 through December 2020 in the U.S., and longer in other jurisdictions. Then in 2020, COVID-19 travel restrictions kneecapped the airline industry, and Boeing's cash flow plummeted.

Boeing was forced to borrow a mountain of money to keep itself afloat. The company's debt burden exploded from \$12 billion in 2018, to \$58 billion today:

Boeing's Unsustainable Debt Burden

■ Short & Long Term Debt (\$billions)



Source: Bloomberg

Boeing eventually addressed these problems by adding new redundant safety features into the flight stabilizing software, and received global clearance to resume flights of the 737 Max-8. But it didn't take long for disaster to strike yet again...

In January 2024, the plug covering an emergency door blew off during Alaska Airlines flight 1282 at 16,000 feet. The plane was a brand new Boeing 737 Max 9, which rolled off the assembly line just two months earlier. Fortunately, no one was injured. But it was an extremely alarming incident.

In the wake of the accident, the Federal Aviation Administration ("FAA") grounded over 170 of Boeing's 737 Max 9 fleet with these door plugs. Soon after, United Airlines said that it discovered "bolts that needed additional tightening" on several of its Boeing 737 Max planes. Alaska Airlines also reported this week it had found "loose hardware" on its Boeing 737 Max fleet.

Shoddily installed door bolts appear to be the culprit.

The FAA announced a process for airlines to perform inspections on door plugs and other components of Boeing's 737 Max 9 fleet. The planes will remain grounded until air carriers complete the "enhanced inspections," a process which remains ongoing today.

Meanwhile, the company is still buried under that growing mountain of debt, with roughly \$18 billion maturing over just the next three years.

Boeing has also been hemorrhaging cash – generating a negative \$5.7 billion in free cash flow over the last 12 months – due to a dramatic slowdown in production following the latest problems with the 737 Max. And a strike this summer by some 30,000 employees is only likely to make these losses worse.

Boeing may well become free cash flow positive again once these production issues pass. However, it generated an average of less than \$1 billion in free cash flow per year in the three years prior – not nearly enough to support its bloated balance sheet in the long run.

Granted, with the Federal Reserve now beginning to cut interest rates for the first time since the COVID lockdowns, corporate financing costs may begin to ease in the months ahead. But it will likely be a case of “too little, too late” for Boeing, which is likely to find itself unable to repay or refinance these bonds at anything less than usurious interest rates. Throw in the potential for a sharp recession – bad for travel, worse for airlines – and Boeing’s financial situation goes from precarious to impossible.

We aren’t alone in this belief... Moody’s Ratings recently warned that Boeing’s investment-grade credit rating could be cut to “junk” due to these mounting risks.

Here at Porter & Co., we first began warning about Boeing’s problems in early 2023 – nearly one full year before the company’s latest problems surfaced. Since then Boeing’s stock has depressurized faster than its 737 Max-9 cabins, down more than 40% from its December 2023 peak.

This decline is likely just the beginning...

Though Boeing might solve its latest debacle du jour, the company’s issues run far deeper than a few loose door bolts. Boeing’s real problem is the rot that lies within its culture – and it represents everything that’s wrong with American society today.

Stephanie Pope is Boeing’s chief operating officer. She holds a bachelor’s degree in accounting from Southwest Missouri State University. And an MBA from another intellectual powerhouse, Lindenwood University. She has zero engineering background.

Why would someone with this kind of background be placed in charge of operations of the world’s leading aerospace engineering firm? Maybe because she is the executive sponsor of Boeing’s Women Inspiring Leadership, a group dedicated to “increasing gender diversity awareness.”

Boeing’s planes keep killing passengers and falling apart in mid-air. These outcomes are the result of years of bad ideas – starting with the intentional destruction of Boeing’s engineering culture, followed by GE-style financial engineering, and now, as the icing on this ridiculous corporate cake, the company’s full embrace of modern Marxism – ESG and DEI.

When we promote people because of their political views (or their race, or their sex) instead of their competencies, we get planes that fall out of the sky... and share prices that eventually follow.

We recommend investors avoid shares at all costs.

The Charles Schwab Corporation (NYSE:SCHW): The Quiet Decline of a Discount Broker

The second stock we recommend avoiding is Charles Schwab (NYSE: SCHW).

As of the mid-1970s, San Francisco-based Charles (“Chuck”) Schwab – the man – had been in the traditional brokerage business for a few years. But, following the passage of the Securities Act Amendments of 1975 – which effectively deregulated the stock market – Schwab realized he could now slash his fees, market aggressively to retail investors, and become the nation’s go-to “discount broker.”

Schwab charged half of what regular brokers did, and made the decision to stay open 24/7 – and soon his phones were ringing off the hook, to the detriment of his competitors.

It was a winning strategy. Schwab went on to become the U.S.’s largest publicly traded brokerage company, holding over \$9 trillion in client assets. (Our Kim Iskryan has fond memories of opening his first trading account there many years ago.)

But while Schwab is still best known as a discount broker, its business has changed quite a bit since those early days in the 1970s.

Today, Schwab offers a number of additional financial services, including asset management and retail banking services like checking and savings accounts and home mortgages.

As you can see below, Schwab’s banking services business now generates almost 50% of its total annual revenue. Meanwhile its traditional brokerage segment – which over the decades became a highly competitive business, to the point where today most brokerages, including Schwab, don’t even charge commissions for basic equity trades – accounts for less than 20%.

Schwab Earns Nearly Half Its Revenue From Banking

Segment	Estimated FY2024 Revenue (\$billions)	Percentage of Total Revenue
Interest on deposits, loans, and securities	\$9.3	47%
Asset management fees	\$5.5	28%
Trading commissions	\$3.4	17%
Maintenance fees and other	\$1.5	8%
Total	\$19.7	100%

Source: Company filings, Trefis

In other words, Schwab is more a bank than a brokerage *firm* today. And that could ultimately spell trouble for its shareholders in the years ahead.

The 2023 Banking Crisis Hasn't Been Resolved

A “perfect storm” of conditions brought the American banking system to the brink of disaster in early 2023.

Following COVID, when the U.S. government unleashed trillions in fiscal stimulus and the Federal Reserve pushed interest rates to the lowest levels in history, many banks invested heavily in low-yielding long-term bonds. These primarily included long-term U.S. Treasury bonds and longer-duration “agency” debt – issued by government-sponsored entities (“GSEs”) like Fannie Mae and Freddie Mac, and typically backed by mortgages.

At the time, this arguably made some investment sense. While these bonds were yielding a paltry 1% to 2% a year, it was far more than the 0% investors could earn in short-term Treasury bills and money-market funds. And because the Federal Reserve forecasted that interest rates were unlikely to rise meaningfully for years, there appeared to be little in the way of interest rate risk.

Of course, as we know now, the Fed (and many investors) were dead wrong. The trillions in COVID stimulus caused inflation to soar... and the central bank was forced to carry out one of the most aggressive rate-hike cycles in history.

The Fed raised short-term rates by more than 500 basis points in less than 18 months – from nearly 0% in March 2022 to 5.25% in August 2023. And this sharp rise in rates caused the market value of long-duration debt to plunge.

Before we proceed, a quick review of “bond math”: As you may know, bond prices move inversely to bond *yields* (which are driven by interest rates).

For example, when a bank buys a newly issued 10-year Treasury note that yields 1%, the bond price starts out at par value (100 cents on the dollar). If the interest rate in the market moves higher to 2%, then the price of the old 1% bond falls. That’s because there’s no incentive for investors to buy a 1% yielding bond at par value, if they can instead buy a bond with the higher 2% rate. So, the price of the old 1% bond falls to the point where it will generate returns equal to the 2% bonds in the current market.

Generally speaking, the longer the duration of a particular bond, the more its price fluctuates based on a given move in interest rates.

If an investor is able to buy and hold a Treasury bond until maturity, those short-term price gyrations don’t matter – the bond will always get repaid at 100 cents on the dollar when it matures, regardless of its market price in the interim. But if an investor needs to sell a bond before it matures – say, like a bank with a skittish deposit base – it’s possible to lose a lot of money when interest rates move sharply higher.

At the peak of the banking crisis in the spring of 2023, U.S. banks were sitting on nearly \$700 billion in unrealized losses from their holdings of “risk-free” Treasuries and agency debt.

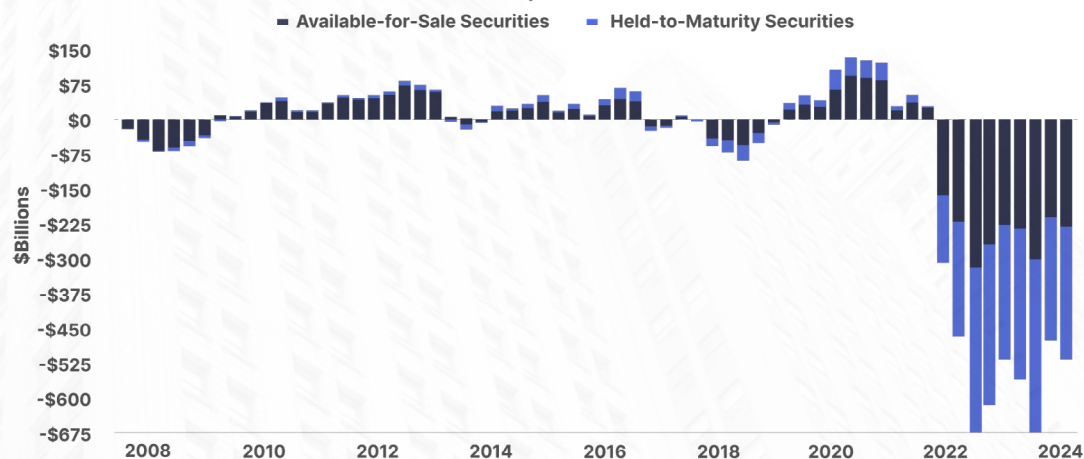
As word of these losses spread – and customers realized they could now earn significantly higher yields on their cash in short-term Treasury bills or money-market funds – many people withdrew their deposits. This forced several banks to sell those Treasury holdings and realize losses, quickly making them insolvent.

Following the high-profile failures of several banks in March, including Silicon Valley Bank (“SVB”) and Signature Bank, the government stepped in to stop the panic with its Bank Term Funding Program (“BTFP”). BTFP allowed banks to temporarily swap their underwater bonds for cash, which in turn reassured depositors and prevented the bank run from spreading further.

However, while the Fed’s bailout halted the acute phase of the crisis, it didn’t actually solve the underlying problem. Interest rates remained (and remain) well above their COVID lows, which meant those unrealized losses didn’t go away.

Today, U.S. banks are sitting on more than \$500 billion in unrealized losses in these securities.

Unrealized Gains (Losses) on Investment Securities For Banks, as of Q2 2023



Source: FDIC

And Charles Schwab is one of the worst offenders...

A Problem Bank in Disguise

As you can see below, Schwab has unrealized losses that exceed those of all but five of the largest banks in the country.

U.S. Banks With The Most Unrealized Losses

Institution	Ticker	Held-To-Maturity Loss (\$billion)*	Available-For-Sale (AFS) Loss (\$billion)	HTM+AFS Loss (\$billion)
Bank of America	BAC	-\$109.1	-\$2.8	-\$112.0
Wells Fargo	WFC	-\$40.3	-\$6.9	-\$47.2
JPMorgan Chase	JPM	-\$29.2	-\$3.6	-\$32.8
Citibank	C	-\$20.7	-\$2.4	-\$23.1
Truist Financial	TFC	-\$10.3	-\$12.2	-\$22.5
Charles Schwab	SCHW	-\$12.7	-\$7.9	-\$20.6
U.S. Bancorp	USB	-\$11.8	-\$7.0	-\$18.8
The Bank of New York Mellon	BK	-\$5.2	-\$4.2	-\$9.4
PNC Financial	PNC	-\$4.9	-\$4.0	-\$8.9
State Street	STT	-\$6.1	-\$0.3	-\$6.4
Morgan Stanley	MS	-\$5.3	-\$1.0	-\$6.3

* As of Q1 2024

Source: FDIC, The Banking Initiative at Florida Atlantic University

Yet, even that jaw-dropping figure – showing that Schwab has nearly \$21 billion in unrealized losses, between both held-to-maturity and available-for-sale securities – doesn't tell the whole story. That's because Schwab is smaller – and holds significantly lower reserves – than most of the banks on this list.

When viewed through this lens, Schwab appears even more fragile.

The company's unrealized losses exceed 64% of its common equity tier 1 ("CET1") capital – regulators' preferred measure of bank capital that includes ordinary shares and retained earnings – and well over 100% of its tangible equity capital, as of the first quarter of 2024.

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Wells Fargo	WFC	-\$40.3	-\$6.9	-\$47.2
JPMorgan Chase	JPM	-\$29.2	-\$3.6	-\$32.8
Citibank	C	-\$20.7	-\$2.4	-\$23.1
Truist Financial	TFC	-\$10.3	-\$12.2	-\$22.5
Charles Schwab	SCHW	-\$12.7	-\$7.9	-\$20.6
U.S. Bancorp	USB	-\$11.8	-\$7.0	-\$18.8
The Bank of New York Mellon	BK	-\$5.2	-\$4.2	-\$9.4
PNC Financial	PNC	-\$4.9	-\$4.0	-\$8.9
State Street	STT	-\$6.1	-\$0.3	-\$6.4
Morgan Stanley	MS	-\$5.3	-\$1.0	-\$6.3

* As of Q1 2024

Source: FDIC, The Banking Initiative at Florida Atlantic University

That's worse than any bank on this list by a huge margin.

So if Schwab were forced to realize those losses today – due to deposit flight or another unexpected reason – it could easily become insolvent.

In that case, Schwab shareholders could be wiped out even if the government bails out depositors in full (as we saw with SVB and others in the spring of 2023).

"Talk to Chuck"... But Don't Own His Stock

To be clear, insolvency is not our expectation here. However, there are still some huge potential risks for Schwab shareholders, even if the company avoids a worst-case scenario.

First, Schwab's deposit base has been shrinking significantly, as customers move funds from accounts currently paying them just 0.45% to competitors (like Robinhood, which pays up to 5% on cash balances) or Schwab's own money-market fund (offering more than 5%).

In July 2024, Schwab reported that bank deposits fell 17% year-over-year in the second quarter, to \$252 billion. All told, the company has lost roughly \$175 billion in bank deposits since the Fed started raising rates in 2022, a total decline of nearly 40%.

This exodus of customer deposits is far from a true panic-driven bank run. But it is a massive obstacle to the growth and profitability of Schwab's most important business segment going forward.

Second, there is a significant opportunity cost for holding those underwater assets, even if the losses are never realized. Those bonds represent tens of billions of dollars in idle capital that Schwab can't deploy elsewhere to earn a higher return and pay out higher yields to slow further deposit flight. This again is likely to be a drag on growth for years.

To be fair, Schwab management did recently announce that it's exploring plans to offload some of this debt to TD Bank – a Canadian institution and Schwab's largest shareholder following its recent merger with TD Ameritrade.

If successful, this move would reduce the existential risk of those unrealized losses. However, it would also permanently shrink Schwab's asset base, and would further weigh on growth. A true Catch-22.

Finally, Schwab's brokerage business has also been underperforming lately, despite an artificial intelligence-fueled stock market mania and soaring trading volumes.

The company reported new brokerage accounts grew by just 3% year-over-year in the second quarter – and actually declined 10% from the previous quarter. For comparison, privately held competitor Fidelity Investments reported that its brokerage accounts grew by 9% year-over-year in the same quarter.

When the current market mania inevitably ends, brokerage businesses like Schwab's are likely to experience a dramatic decline in revenue as record trading volumes slow. And though this business only accounts for 17% of Schwab's total revenue, it could certainly exacerbate the banking issues above.

Given these risks, it's little surprise that Schwab's stock price has fallen. Shares are trading more than 30% below their pre-banking-crisis peak of just under \$100 in early 2022, and have significantly underperformed those of publicly traded competitors and the broad financial sector over that time.

Schwab's Lackluster Returns



Note: Returns from February 2, 2022 through July 25, 2024 / Source: Bloomberg

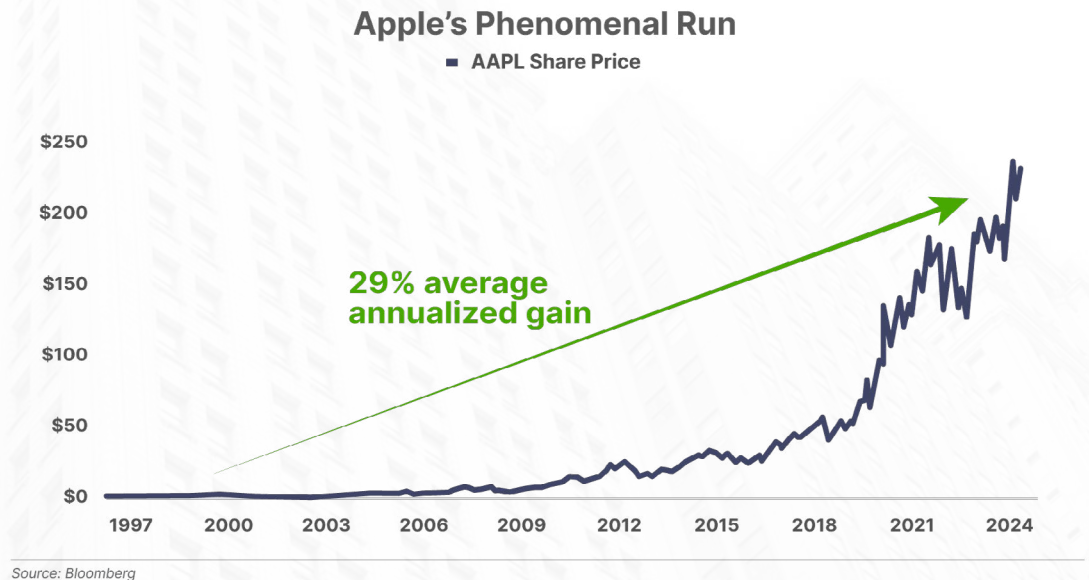
We don't expect that to change anytime soon, and would recommend that investors avoid owning Schwab shares today.

Apple (Nasdaq: AAPL): This Market Leader Isn't Growing Anymore

The third stock that we recommend that you avoid is a household name: Apple (Nasdaq: AAPL).

Yes... Apple is one of the most extraordinary consumer brands in history. It has a special sauce of blending high-end technology with style and an easy-to-use interface. It's also unparalleled in its ability to keep users inside its tech and operating ecosystem (ever tried to switch from a Mac to a PC... or from an iPhone to an Android... and keep all your files and music and photos? Exactly). Apple products achieve the dream of any consumer brand: *They make you feel smarter just for owning them.*

As a result, Apple has created immense wealth for its shareholders: The shares are up 121,694% since the beginning of 1997, for an average annualized return of 29.2%. \$1000 invested in Apple in 1997 would be worth more than \$1.2 million today (with dividends reinvested, that figure jumps to \$1.44 million). With some small bumps, it's been a one-way road upward for Apple shares. The company's market tops \$3 trillion – that's more than (depending on the day) any other listed company, and more than the annual GDP of all but five countries.



Historically, it's been a bad idea to bet against Apple. But today, it's a stock to avoid. Here's why...

Revenue Growth Has Stalled

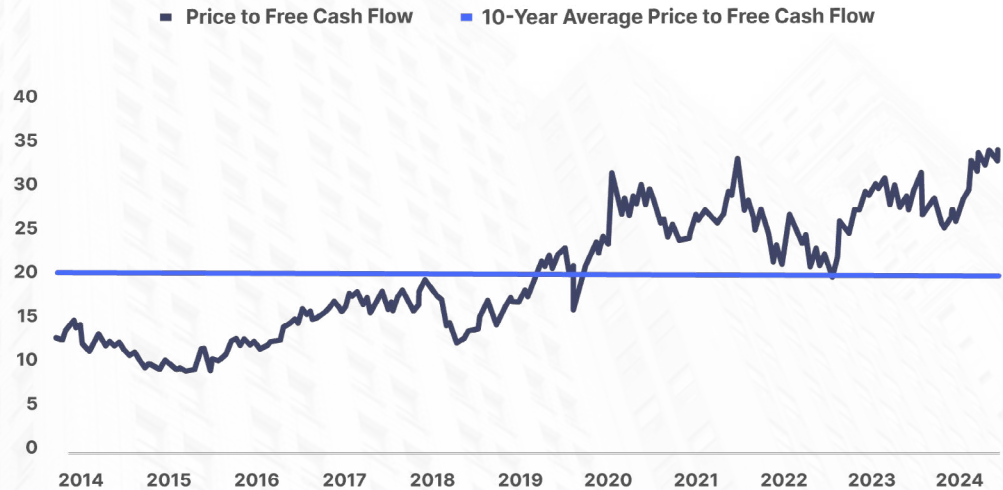
It's a lot more difficult for Apple, as a company that does nearly \$400 billion in revenue every year, to grow... even just 5% growth would be like adding \$20 billion. That's impossible to sustain – and Apple hasn't. Its revenues over the past decade have grown an average annual 9%. But that's slowing... for the twelve months ended in late June, the company posted anemic top-line growth of just 0.4%.

Share price growth is tough to justify without rising revenues (Apple already has world-beating margins... and improving them even further won't be easy, particularly when prices are already high – see below). So as a result, a rising share price has led to stretched valuations...

Apple Is The Most Expensive It's Been In A Decade

As shown below, Apple is trading at big valuation premiums... at decade highs on a price/free cash flow basis, and within shouting distance of 10-year highs on a price/earnings basis.

Apple Trades at a 75% Premium To Decade Highs



Source: Bloomberg

Apple Trades at a 60% Premium To Decade Highs



Source: Bloomberg

If Apple were growing fast, trading at these levels would be fine. But it's not growing fast, and buying a slow-growth megacap at stretched valuations is a bad idea.

AI Isn't Coming To The Rescue

What's more... an incredible \$1 trillion of that gain in market cap happened after its June developers conference, where Apple touted its rollout of artificial intelligence ("AI") features. For a company that had been under fire for missing out on the AI boom, this was a market balm, because AI gadgetry could be a trigger for an upgrade super cycle – that is, a reason for at least some of those 1.38 billion people globally who own an iPhone to get the newest iteration.

Thing is, the introduction of the new iPhone in September showed that Apple is in fact nowhere near close to actually bringing AI to its most important product (the iPhone accounts for around half of Apple's total revenue). Apple has delayed the rollout of many of its touted AI features. And it's well behind the competition in delivering AI to the iPhone owning masses. Early pre-orders were disappointing, which doesn't bode well for the upgrade cycle. When will Apple get around to actually implementing AI to perhaps justify that \$1 trillion (that's like three Bank of Americas... or nearly 25 Ford Motors) jump in market capitalization? Good question.

And Apple is losing ground to other phone producers, particularly in one of its most important markets. The latest smartphone from Chinese powerhouse Huawei folds three times to produce a tablet-sized 10.2-inch screen known as the trifold Mate XT. It was released just hours after Apple introduced the iPhone 16. And despite a \$2,800 price point, the phone has received over 5 million pre-orders within days.

American Consumers Can't Afford Pricy Gadgets Anymore

As we noted earlier, a number of major consumer brands – including many that have traditionally been resilient to recession – have recently reported faltering demand, in addition to increased resistance to price hikes. And Americans now owe a record \$1.14 trillion in credit card debt – meaning these problems are likely to get much worse.

Even with AI, bling like \$799 for a stripped-down, just-the-basics iPhone 16 (or as much as \$1,599+ for the Rolls Royce) will be difficult for increasingly stretched American consumers – the U.S. accounts for just under half of Apple's total revenue – to justify... or to pay for. If the upgrade cycle lengthens as U.S. consumers choose to hold off on buying the newest generation of iPhones, Apple's revenues will suffer.

Apple Has A China Problem

Or rather, two China problems.

First... China, which accounted for 19% of Apple's total revenue in 2023 and is the company's second-largest market, is turning away from the iPhone. In the second quarter of 2024, Apple was just the sixth-biggest smartphone seller, down from third just a year before, and its market share declined to 14%. Shipments in the first quarter were down by a quarter from the previous year. Domestic competitors are well ahead of Apple in innovating and bringing AI to the market, with more appealing products.

Second... around 95% of all Apple products are manufactured in China. The vast bulk of the company's far-flung supply chain is in China. For example, in the city of Zhengzhou in central China – also known as “iPhone City” – around a quarter of a million employees of Apple contractor Foxconn make most of the world's iPhones, with inputs from a vast web of suppliers, many of them in the area. The company has been trying to diversify – it has several production facilities in India, for example – but its heavy reliance on China isn't going to change anytime soon.

That means that Apple is susceptible to being collateral damage in the evolving chilliness in geopolitical relations between China and the U.S. – another dynamic that isn't going to change anytime soon, given that a “China chill” is one of the few policies that is popular across the political spectrum in the U.S. Notably, the Chinese government hasn't yet interfered in Apple's operations in the country to a meaningful degree (that Apple is a big employer might play a factor). But it's a threat that isn't going away, and one that presents big downside for Apple.

Apple will continue to be one of the world's most valuable companies. We'll all continue to use Apple products, likely for generations to come. But for now, there are far better investment opportunities.

The Time To Prepare Is Now

An economic and financial reckoning is approaching. I've been right about these warning signs many times in the past... and I see the same economic signals flashing again. Unfortunately, the upcoming U.S. presidential election could be the trigger that sets the next crisis in motion.

As I told readers before the 2008 Great Financial Crisis, one of the best ways to protect yourself is to avoid stocks with outsized risks, like those we've detailed above. You should also consider holding a significant portion of cash and hard assets that do well during periods of monetary inflation.

For additional insights on navigating the coming chaos – including what to avoid and, importantly, what to buy – look for new issues of *The Big Secret on Wall Street* in your inbox each Thursday, at 4 p.m. Eastern.

In the meantime, you can catch up with all of our current buy recommendations in *The Big Secret on Wall Street* portfolio [here](#).



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Stevenson, MD