

## As the North Korea Situation Escalates What Should You Buy and What Should You Sell?

Tension is increasing on the Korean peninsula as North Korea races to perfect nuclear arms and the means to deliver them by missile as far away as the United States. As the North Korea situation escalates what should you buy and what should you sell? First a little background.

### What Is Going On in Korea?

Ever since the Korean War fighting ended with an armistice in 1953 troops have lined both sides of the demilitarized zone, ready to resume combat. Meanwhile the South has become a democratic country with an advanced economy. The North has remained under dictatorial rule of the same family unwilling to share power and fearful of overthrow. Their goal has been to build such a powerful military deterrent that their family would be safe to rule the north forever. That goal has advanced to the development of nuclear bombs and the missiles to deliver them.

Successive US presidents have stated that North Korea will never be allowed to accomplish that task but no one has moved beyond talks and sanctions. The problem is that for a small country North Korea has a large army and long range cannons as well as rockets aimed at Seoul, the capital of South Korea and the ability to strike other neighbors such as Japan. North Korea would certainly lose in the event of a full scale war. But no one has risked military strikes to knock out their missile and nuclear production facilities for fear that their apparently crazy leader would be willing to go down in flames rather than give up dictatorial power that his family has had over the country since the middle of the last century. But now North Korea is on the verge of accomplishing its goal and there is the possibility that the USA will intervene militarily to prevent that from happening. As these events play out what should you do with your investments?

### Defense Stocks

As the winds of war blow **defense stocks** are always a good bet.

*As many US defense contractors only devote a small part of their business to defense an investor who believes that the nature of the world and the US response will always reward defense stocks will want to stick with companies that are largely if not primarily defense contractors. However, when investing in defense stocks there are different types of stock. Northrop Grumman, for example, is the world's largest builder of naval vessels whereas Raytheon Company is the world's largest producer of guided missiles*

*and Boeing not only provides the military with many aerospace products and services but was the contractor for maintaining the Space Shuttle fleet. A smaller company such as L-3 Communications holdings provides primarily technical expertise and very high tech products involved in intelligence gathering and, more importantly, processing. The big names in defense are the kings of a high cost of entry business and primarily compete among themselves for large government contracts.*

And if a real war breaks out, how will that affect the economy and stocks in general. We have a hint as **global markets wobble** following Trump's fire and fury comment. CNN reports the story.

*Major European and Asian indexes dropped Wednesday after Trump ratcheted up the war of words with Kim Jong Un's regime, saying it will "face fire and fury like the world has never seen" if it keeps threatening the United States.*

If real fighting breaks out it will be devastating and stocks will fall across the world. Those who have profited from the current rally may wish to buy puts to protect their positions or simply take some money off the table and hold cash. And, of course, gold prices are up and will remain there until this situation is resolved. If you want to retreat to gold read our article about **gold investments**.

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