



The Only Trend that Matters for the Next Decade

Here's a great investment trick question...

Would you have made more money in U.S. blue-chip stocks or U.S. government bonds in the roughly 30-year period between 1980 and 2009?

The answer, of course, is bonds.

Few people will believe you. After all, the first thing we're taught about investing is that risk is correlated with return. (That's a giant lie... In fact, the opposite is true.)

So when you explain to your friends they would have done better by simply holding one of the lowest-risk assets in the world – U.S. government bonds – than investing in their stock 401(k) plans, be prepared for an argument. But it's an argument you'll win...

The numbers are plain to see. Anyone using a Bloomberg terminal can simply look them up. Starting at any time after 1979, an investor in 20-year Treasuries, rolling them over every year, beat the Standard & Poor's 500 through January 2009.

But that, as they say, was last year.

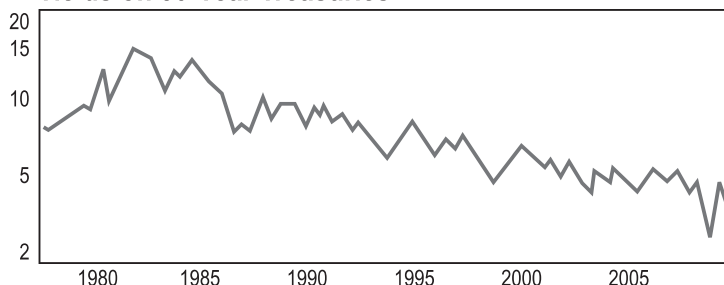
Now... let me tell you an even more important fact most people simply don't recognize: Last year was the worst year since 1978 for U.S. government bonds. The chart below shows the huge bull market in U.S. government debt. It lasts around 30 years and saw yields on government bonds fall from around 15% all the way down

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Editor: Porter Stansberry

Yields on 30-Year Treasuries



It was a bull market for the ages... A time when creditors would lend to a bankrupt nation at fixed rates less than 5% for 30 years. In time, historians will ponder the global delusion that paper money was considered better than gold and U.S. Treasuries were seen as safe.

to less than 4%. Rates on 10-year government bonds have nearly doubled since last year. I expect this trend toward higher rates (lower bond prices) to continue – for a long, long time.

This trend – toward higher interest rates in the United States – is the single most important trend in finance. The great bull market in paper money, central banking, and the faith and credit of the United States is over. After all, our leaders have no faith. And we have no credit.

We commemorate the death of the great bond bull in this issue.

The good news is, after a 30-year bull market in bonds (lower interest rates every year), most people don't believe higher rates are possible. Incredibly, despite the actions of our Federal Reserve, many investors still actually believe *deflation* is a real possibility. This gives us plenty of time to position our portfolio properly.

Last January, I drew your attention to the risk in the government bond market. I saw the huge rally in bonds at the end of 2008 as the final “blow-off” of the great bond bull market. And I thought the government's out-of-control bailout spending would threaten – and eventually end – the dollar's role as the world's reserve currency:

The U.S. budget deficit for 2009 is now projected to be \$1.1 trillion – more than 8% of GDP. Only during World War I and World War II did the government ever have bigger annual deficits. None of these figures include any of the new stimulus package OBAMA! has promised, which means the actual deficit next year might grow to \$2 trillion – around 15% of GDP. Given our total debt already exceeds \$10 trillion, it seems improbable this level of deficit spending can continue without sparking a run on the dollar via foreign governments selling U.S. Treasury bonds. No one believes our creditors will ever sell the dollar. But they're wrong. Our creditors will not allow us to print money forever. We are squandering

and destroying the greatest advantage of our country – control over the world's reserve currency.

Unfortunately, today it seems even more likely my investment thesis is correct. Central banks around the world have begun to abandon the U.S. dollar. Last year was not only the worst in 30 years for U.S. Treasuries, it was also the first time since the end of the Bretton Woods agreement (in 1971) that central banks were net buyers of gold.

Our creditors are saying “enough.” But Congress, of course, is completely oblivious to the incredible risks. Rather than reining in our deficit spending, Congress is dead-set on passing a huge new entitlement program – universal health care. And on Christmas Eve, when it hoped no one would notice, the Treasury removed all of the spending caps it had placed on its backstop of Fannie and Freddie, the government's mortgage banks.

You'll recall I recommended shorting both Fannie and Freddie because – back in the summer of 2008 – I estimated the companies had a combined negative net worth of more than \$500 billion. A few people took my warnings seriously – *Barron's*, for example, published my analysis. But I doubt anyone in Congress bothered to look at the numbers. Instead, it authorized the Treasury to provide Fannie and Freddie with up to \$200 billion. Later, it doubled the number to \$400 billion. And now Congress is admitting even that enormous amount of money won't be enough.

Fannie, Freddie, and the Federal Housing Administration (the other bankrupt government mortgage bank) are the conduits through which our government plays Robin Hood. It steals from the rich through heavily progressive income taxes and then gives to the poor through heavily subsidized mortgage loans – many of which result in losses. Some may argue this is a good social policy. (I would disagree... giving poor people houses they can't afford is just plain stupid. It results in bankrupt homeowners and destroys neighborhoods. Just walk around Detroit if you don't believe me...) But whether it's a good policy or not, we can't afford it.

The fact Congress is writing blank checks to subsidize our country's most obviously socialist program tells me there's no chance we will return to sensible and legitimate fiscal policies. And with the Federal Reserve monetizing *trillions* of dollars of this deficit spending, we are truly at risk of a huge new period of inflation.

To understand why a bear market in bonds is now inevitable, let's consider the situation when the bull market began in 1979.

My friend Chris Weber is one of the world's most suc-

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cessful speculators. In 1979, he sold a huge, nine-year-old position in gold and silver. He was sitting mostly in T-bills, which were paying 12% a year or better. He explained his thinking at the time in an interview with Van Tharp, a psychologist who profiles the world's best investors:

Van: Chris, you cashed out of [gold] investment at \$677 per ounce – returning nearly 100 times your money because of the leverage used. What made you cash out of the position? What made you uncomfortable? Was it the fact that gold was becoming too expensive or did you find better ideas?

Chris: It was a happy combination of both: Gold was becoming too expensive, and I had seen another trend starting. First, throughout 1979, there were signs that gold's rise was unsustainable... The gold price rise started to be "cocktail party" chatter, and it entered the popular culture... I sort of instinctively realized that whenever this happens, the game is probably over. But there were more substantial indicators. The '70s had been an era of steep inflation, and this of course was one of the chief factors behind gold's rise.

But on Saturday, October 6, 1979, the chairman of the Federal Reserve, Paul Volker, made an announcement that for me changed everything... Volker announced the central bank would start reducing the rate of inflation. He didn't use those words, instead the message was couched in more technical jargon about "targeting reserves." But to me the message was clear, and the next few months I watched as Fed credit – the only part of the monetary base that the Fed actually controls – slowed its rate of increase...

By early 1980, the prime rate reached an amazing 20% and Treasury bill (T-bill) rates were not much under that. Since I thought that inflation would be coming more under control, I started buying bonds with the profits I made from selling gold and silver... This was one of the most extraordinary times of my investing life. As I said before, I had thought that inflation was not going to run away in spite of what it seemed to be doing. I had already started to buy three-month T-bills... I just added to them throughout 1979 and early 1980. And by the time my last gold call option expired worthless, I think I was totally in Treasuries...

Chris went on to hold most of those bonds to maturity – producing an enormous fortune.

His experience shows how important it is to get the big

trends right. No market in the world is more important than the market for U.S. debt securities. And today, we have almost the polar opposite set of circumstances as we did when Chris piled into bonds.

For the first time since Volker ran the Federal Reserve, its credit (our monetary base) is soaring – up almost 200% in the past year or so. Gold recently surpassed its previous old highs and seems to be in the midst of a solid bull market. And most importantly to me, inflation is still the last thing on the minds of most investors. What does Chris Weber think now about the bond market that treated him so well? As he wrote in the January 4 *Weber Global Opportunities Report*:

It may well be that the long bull market in bonds – meaning the long fall in long-term bond yields – is finally over. Remember, in each of the past three decades, bond yields ended the decade at lower rates than at the beginning of the decade. With all the huge borrowing the U.S. Treasury is doing to finance its bailouts and its wars, it seems natural to expect the falling yields of the past 30 years to become a thing of the past...

This is, without a doubt, the single most important financial trend to watch. It will not only affect the bond market, it will come to greatly affect the stock market, too.

You see, what most people don't understand about the huge bull market in stocks over the last 30 years is that it was mostly funded by debt and powered by falling interest rates. Earnings were driven by growth in GDP, which was fueled by the greatest expansion in public and private debt in history. Keep in mind, over the last 30 years, America went from being the world's largest creditor to the world's largest debtor. At the same time, the interest on our debts fell every year and nearly in a straight line. This is the best recipe you can script for soaring asset prices.

Consider how these factors worked in your own neighborhood. As interest rates fell, more people could afford a bigger mortgage. And as more credit became available, more people were competing to buy homes. Prices rose. Rising prices allowed more credit to become available. As more credit was available, interest rates fell more. The cycle continued.

In the stock market, falling interest rates increased earnings because companies spent less maintaining their debts. At the same time, consumers had more money to spend, too. Not only did earnings rise, but more importantly, the value of equities rose in terms of earnings multiples. When interest rates are very high, fewer investors are interested in stocks. But as interest rates fell, more and more investors had to buy

stocks to earn an acceptable rate of return.

Rather than trading for 10 times earnings or less, stocks began to trade at 20 times earnings or more. At the peak of stock valuation in 2000, the S&P 500 was trading at almost 45 times earnings. Today, the valuation is still high – around 20 – because interest rates are still very, very low. If interest rates on U.S. bonds go to more than 10%, stock market valuations will plunge. At the height of the last interest-rate cycle in the early 1980s, the S&P 500 traded at around seven times earnings.

It will happen again. But right now, few people believe it's possible. It's instructive to note who does think this risk is real.

Hedge-fund billionaire John Paulson says he no longer trusts the dollar as his reserve currency and has put a huge amount of his fortune into gold. The world's biggest bond investor, Bill Gross, recently posted this on his website: "We caution that the days of carefree, check-writing leading to debt issuance without limit or interest-rate consequences may be numbered for all countries."

And in August, Warren Buffett himself wrote an op-ed to the *New York Times* warning about inflation:

The United States economy is now out of the emergency room and appears to be on a slow path to recovery. But enormous dosages of monetary medicine continue to be administered and, before long, we will need to deal with their side effects. For now, most of those effects are invisible and could indeed remain latent for a long time. Still, their threat may be as ominous as that posed by the financial crisis itself... the Treasury will be obliged to find another \$900 billion to finance the remainder of the \$1.8 trillion of debt it is issuing. Washington's printing presses will need to work overtime.

He told CNBC the government's efforts to paper over the banking crisis "are potentially very inflationary... worse than the 1970s inflation."

As for us... we repeat our warning of a year ago – but with perhaps a bit more urgency. The best trade in the world is shorting U.S. government long bonds. The simplest way for a retail investor to do so is by short selling the **iShares Lehman Brothers Long Bond (NYSE: TLT)**. Another leveraged inverse fund – TBT – shorts the long bond and provides a two-times return. But I don't expect this to be a straight-line trade. I'm sure there will be big swings and lots of volatility. As a result, I don't recommend the leveraged inverse fund.

Finally... please keep this in mind: While making money on this trade might be a near certainty, rising interest rates will make it very hard to do well in most other financial assets over the next decade. Be prepared for "tough sledding" and volatile markets.

The Other Big Trend: Natural Gas

What does well when inflation is rising, when the government bond market is correcting, and when earnings multiples in the stock market contract?

Two things in particular: energy and precious metals.

In December 2008, just after witnessing the financial crisis and the government bail out AIG, the investment banks, and Fannie/Freddie, I knew it was only a matter of time before we entered a market like we have today – one with rising inflation and interest rates. My first – and best advice – was to buy gold bullion. Secondly, I noted:

I also believe you should immediately buy gold stocks. In fact, I'm convinced you'll never have a chance to buy gold stocks this cheaply again. During the liquidity crisis, gold stocks were sold off without mercy. Now, they've never been cheaper compared to the price of gold itself. This is an amazing, once-in-a-lifetime opportunity.

We recommended buying **GDX** – the ETF of the unhedged gold producer companies. We bought at \$28 per share. It was recently trading at more than \$50 per share. I expect it to go much higher, but clearly, our best chance to buy gold stocks is long gone.

On the other hand, as I explained in September 2009, various market factors have pushed natural gas down to record low levels – offering us an attractive way to buy a great inflation hedge.

Why the Best Oil Producers Are Switching to Gas

People who don't know much about economics think the price hikes are because of "Peak Oil" – they think we're going to run out of oil.

That's complete nonsense.

The Peak Oil hypothesis claimed onshore oil and gas production peaked in the United States in the early 1970s. Whoops. We produced more natural gas onshore in the U.S. last year than ever before. So much for that idea.

So what's causing oil and gas prices to go up if not Peak Oil? The price of oil is up because of inflation. Oil is a much better investment than the U.S. dollar, and everyone knows it. Thus, the price is way up – even though record amounts of oil and gas sit in storage. That's why, even in the midst of the worst recession since the Great Depression, you didn't see oil stay below \$50. It's already back trading for more than \$80. And it will surely trade for more than \$100 very soon.

The other factor is politics. Most of the best places in the world to drill for oil are off limits to the best oil and gas companies. Likewise, today, governments own most of the largest oil and gas companies, and governments do a horrible job maintaining their fields and increasing production.

That's why most Western oil and gas companies are looking for oil in expensive places – like deep in the ocean. All of the recent giant discoveries have been far offshore... Petrobras discovered the Tupi field, a potential 8 billion-barrel find, off the coast of Brazil. It will cost an estimated \$100 billion for Petrobras to develop the field. BP discovered Tiber, a potential 3 billion-barrel field, 250 miles southeast of Houston. BP had to drill down about 35,055 feet to find the well, greater than the height of Mount Everest.

In its search for the next big oilfield, Chevron has been forced far out into the Gulf of Mexico. The company is paying nearly \$500,000 a day to Transocean for Clear Leader, one of the world's newest and best drilling rigs. The rig is sitting in 4,300 feet of water and has to drill through five miles of rock. Chevron has spent \$2.7 billion and 10 years on this exploration project. And it hasn't paid off yet.

Meanwhile, ExxonMobil, the world's best oil operating company, is focusing its efforts elsewhere...

In mid-December of last year, ExxonMobil announced it would buy the largest U.S. natural gas producer, XTO Energy, in an all-stock transaction valued at \$41 billion. This will be Exxon's biggest takeover since acquiring Mobil in 1999. The XTO purchase provides Exxon with reserves equivalent to 13.9 trillion cubic feet of gas. That's equivalent to 2.3 billion barrels of oil.

From 2005-2008, when most of the other Big Oil companies went on a buying spree, Exxon was selling assets and adding to its massive cash hoard. Just as easy lending led to the real estate crash, high energy prices (especially in natural gas) led oil companies to expand recklessly. They started investing in alternative energy resources like shale, which cost more to produce.

In December 2005, ConocoPhillips paid \$35.6 billion for the independent oil and gas company Burlington

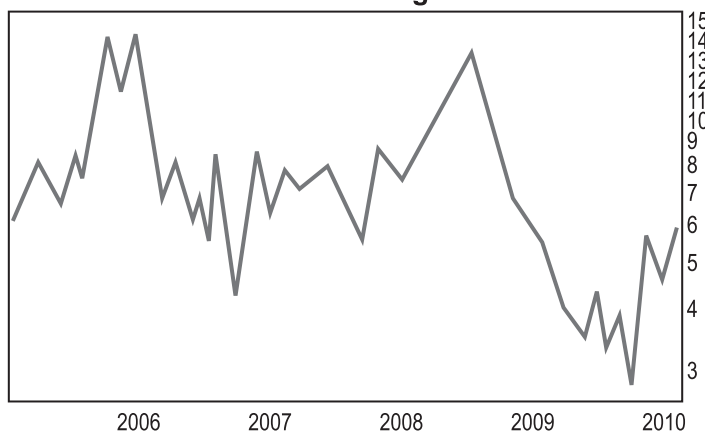
Resources. In January 2006, Royal Dutch Shell bought 70,000 acres of the Fayetteville shale property in Arkansas. BP paid nearly \$2 billion for 90,000 acres of Chesapeake Energy's Woodford property in July 2008 – right near the top. BP paid another \$1.9 billion for a 25% stake in Fayetteville just after the Woodford purchase.

All of these purchases took place while gas was trading near all-time highs. When the economy turned down in mid-2008, natural gas plunged from around \$14 per thousand cubic feet (mcf) to less than \$3 per mcf. Big Oil's gas purchases got crushed. That's when Exxon made its move.

Now, other oil and gas companies are following Exxon into gas.

On January 4, another oil giant, Total, announced a \$2.25 billion deal with natural gas giant Chesapeake Energy. The deal will provide Total with additional production of around 175 million cubic feet of natural gas per day – 30,000 barrels of oil equivalent. That number should grow to more than 250 million cubic feet per day.

Natural Gas Prices Rebounding



The reason Exxon and Total are buying gas is simple... Oil is expensive to find. It's more cost effective to buy cheap natural gas reserves. Gas has more than doubled from its 2009 low, but it's still down 70% from its 2005 highs.

We saw the same opportunity. As we explained right at the bottom in gas prices in September:

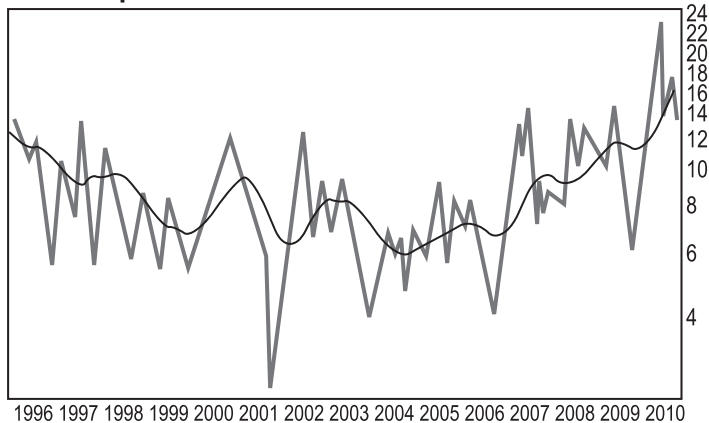
Right now, nobody wants natural gas. The current record-low valuation of natural gas as compared to oil tells you market participants have come to believe natural gas will never be valued at par with oil again. That's impossible, of course, because as the price of a commodity falls – especially one as useful as natural gas – consumption rises.... These factors lead me to believe we are approaching a once-in-a-

decade opportunity in natural gas. It's worth watching closely. And I know every great investor in the world is doing the same thing. I know because I've spoken to a handful of them about natural gas. I know because legendary investors have been buying lots of natural gas-related stocks.

*Finally, I've been in the markets long enough to know, when you see an anomaly like this, it's going to attract a lot of capital... **At some point in the next year or two, lots of people are going to make a killing in natural gas. I want you to be one of them...** From a valuation perspective, there's no doubt in my mind it is time to buy natural gas.*

Gas prices have improved since September, but they're still a bargain. The chart below shows the 15-year historic ratio of oil to natural gas – when the line peaks gas is cheap relative to oil, and when the line bottoms out gas is expensive compared with oil. When gas prices bottomed in September, the ratio jumped to more than 24. The current ratio is around 14. While we're not catching the exact bottom, we do have the opportunity to buy gas at one of its cheapest points relative to oil in history.

Oil Is Expensive Relative to Gas



While the Exxon and Total purchases may act as a short-term catalyst for natural gas, global demand will help push the commodity up in the long run. And three main drivers will increase demand...

1) Domestically, power companies are switching a large number of coal-fired power plants to natural gas. As electricity demand rebounds this year, natural gas demand will rebound faster than expected.

2) In China, coal comprises 70% of the primary energy. Natural gas only makes up 3% of its primary energy. Eventually, out of health concerns for its citizens, China will depend more

heavily on the much cleaner alternative – natural gas.

3) Finally, our friend Rick Rule, the hugely successful resource investor, points out many national oil companies, like Venezuela's and Mexico's, have severely underinvested in their domestic oil production for years. As a result, they will suffer drastic production declines. Unless Iraq steps up its oil production in the next five years, Rick says we'll see "a catastrophic shrinkage in crude export availability." Natural gas can solve that problem, as well.

I predict these three macro factors will push natural gas to more than \$10 per mcf this year. And this month's recommendation will be one of the biggest benefactors of that increase.

This Stock Will Double in 18 Months And Pay Us an 8% Dividend

The stock I'm recommending this month is a pure natural gas play.

It's 100% focused on gas. It has zero debt. It also pays a 7.3% annual dividend. And because this company is an income trust, any price increase in natural gas directly translates into higher dividends for us.

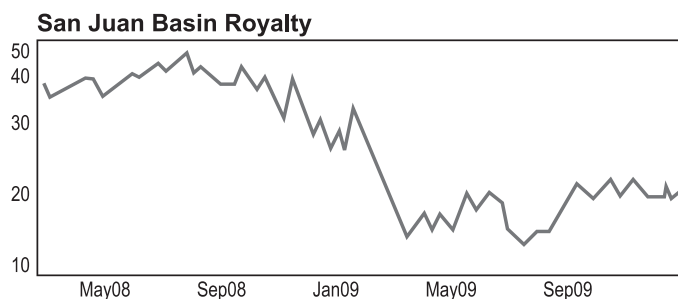
It's called the **San Juan Basin Royalty Trust (NYSE: SJT)**. San Juan is an "overriding" royalty interest carved out of Burlington Resources interests in properties located in the San Juan Basin of northwest New Mexico. It owns working interests in 119,000 producing acres and 1,137 wells.

The beautiful thing about these kinds of royalty trust businesses is there's really nothing to understand about them. They simply take the royalties owed on the drilling leases and pay them out to the shareholders. That's it. In this case, the oil and gas operators send checks every quarter – based on production rates – to Compass Bank. Then, Compass Bank sends the money to us, in the form of a dividend on our investment. It's really that simple.

The downside is, obviously, these are declining asset pools. Sooner or later, the gas in these wells will run out. But the decline will take a long time – probably longer than anyone now expects because the techniques and technology for extracting gas continues to improve. As old wells die out, new wells are drilled. In 2009, for example, 49 new wells were drilled on this trust's property, including four new wells on coal-seam gas – using the latest technology.

Given a choice between highly leveraged natural gas corporations run by self-aggrandizing and hugely overcompensated executives or a simple pile of natural gas, I'll choose the

latter nine times out of 10. This year, as natural gas will surely move higher, we'll make plenty of money simply buying San Juan Basin.



Action to take: Buy San Juan Basin (NYSE: SJT) up to \$20. Use a 25% trailing stop loss, adjusted for dividends.

Warren Buffett Closer to His Next Big Deal

Last month, I predicted Warren Buffett would back **Hershey (NYSE: HSY)** in a bid for Cadbury. At that point, Kraft and Nestle were in a bidding war for the English confectioner. Hershey, a company half Cadbury's size, was on the sidelines. But things have changed...

On January 5, Nestle dropped out of the race, leaving Kraft as the sole interested party. And Kraft, hoping to gain support from Cadbury shareholders, raised its bid for Cadbury to \$17 billion. Kraft said it will sell pizza brands to Nestle, including DiGiorno and Tombstone, and use the net \$3.7 billion to up its bid. But Cadbury still thinks the bid is too low... "Kraft has once again missed the point," said Cadbury spokesman Trevor Datson. "Despite this tinkering, the Kraft offer remains unchanged and derisory with less than half the consideration in cash."

The news gets worse for Kraft...

Warren Buffett, Kraft's largest shareholder, voted no on Kraft's proposal to issue more shares to fund its takeover. Kraft wants to issue up to 370 million additional shares, potentially diluting existing shareholders by 25%. In a public statement, Buffett said voting yes to the share issuance is granting Kraft a "blank check," and "no shareholder should vote 'yes' when he can't possibly know what he is voting for."

Kraft's problems leave the door wide open for Hershey. And news came out January 7 that Cadbury is having secret meetings with Hershey to encourage a competing bid. Cadbury even told Hershey it wants it to make a bid and how much money it would take for the board to accept. It's clear who Cadbury wants to acquire it.

To run down the checklist:

- Buffett helped Hershey by voting against Kraft's efforts to buy Cadbury.
- Byron Trott, Buffett's favorite investment banker, is representing Hershey in this deal.
- Hershey will need around \$10 billion in financing (right in Buffett's sweet spot).
- And Cadbury is holding meetings with Hershey telling its counterpart exactly what it will take for a deal to happen.

It looks like my thesis will be correct, though it's taking longer than expected. I reiterate my recommendation:

If you already own Hershey (NYSE: HSY), double your position if a deal is announced, or...

If you haven't yet established a position, take a large position (6-8% of your portfolio) in Hershey when the deal is announced.

I expect Hershey shares to drop on the news, but it will only be temporary. Use the dip as your opportunity to get into the stock.

Finally, we're closing out our position in the New York Times Co (NYSE: NYT). When we established our position, we knew the newspaper industry would likely continue its decline. We thought the *New York Times* would emerge a survivor, but nevertheless bought a put to protect against any fall in its share price. That put cost us about 25% of our entry price, but guaranteed nothing worse than a 25% loss.

That put expires next Friday, and we would lose our downside protections.

The industry decline has been faster and more complete than expected. New York Times shares are trading for about \$14, less than the strike price of our puts. Even if New York Times survives, the economics of the industry will be so bad, we don't want to be a part of it.

I recommend you exercise the put and sell the New York Times (NYSE: NYT) shares for \$15 each. The result should be a decline of 25%.

Good investing,

Porter Stansberry
January 8, 2010

Porter Stansberry's Model Portfolio

Prices as of January 7, 2010

<u>"No-Risk"</u>	<u>Symbol</u>	<u>Ref. Date</u>	<u>Ref. Price</u>	<u>Recent</u>	<u>Div.</u>	<u>Description</u>	<u>Action</u>	<u>P/L</u>	<u>RISK</u>
Exelon	EXC	Oct-02	\$21.47	\$48.53	\$11.52	Nuclear power	Buy	180%	1
Verizon	VZ	Feb-06	\$31.54	\$31.73	\$7.95	Blue-chip telecom	Buy	26%	1
Hershey	HSY	Dec-07	\$40.55	\$36.49	\$1.79	Chocolate empire	Wait for bid	-6%	2
Nokia*	NOK	Jul-04	\$14.65	\$13.32	\$4.00	Profitable telecom	Hold	18%	3
Valhi	VHI	Mar-05	\$16.11	\$17.70	\$19.52	Simmon's holding co.	Hold	131%	3
Annaly	NLY	Nov-08	\$13.64	\$17.41	\$3.04	Gov. port. repair	Hold	50%	5
Chunghwa Telecom	CHT	Aug-07	\$13.91	\$18.37	\$2.40	Taiwan's Verizon	Hold	18%	5
<u>The "Next Boom"</u>									
Financial ETF	XLF	Aug-09	\$14.33	\$15.31	\$0.10	Fed manipulation	Buy	8%	2
Freeport-McMoRan	FCS	Nov-09	\$85.33	\$85.64		Inflation hedge	Buy	0%	3
Silver	SLV	Oct-09	\$17.48	\$17.89		Money crisis	Buy	2%	3
ConocoPhillips	COP	Apr-09	\$42.36	\$52.80	\$1.44	Cheap oil	Buy	28%	3
Visa	V	Jun-09	\$66.50	\$86.76	\$0.23	Global money	Buy	31%	3
High Yield Bonds	HYG	May 09	\$76.66	\$89.54	\$4.05	Yield spread	Hold	22%	4
San Juan Basin	SJT	Jan-10	NEW	\$18.34	—	Safe natural gas play	Buy	NEW	4
Patterson-UTI**	PTEN	Jan-09	\$10.33	\$10.00	\$3.70	Safe oil play	Hold	33%	5
C&S REIT Income	RNP	May-09	\$6.31	\$10.56	\$0.60	REIT spread	Hold	81%	5
Gold Miners ETF	GDX	Dec-08	\$28.02	\$49.10	\$0.11	End of America	Hold	76%	5
<u>Forever</u>									
Johnson & Johnson	JNJ	Jul-06	\$60.52	\$63.99	\$5.61	Blue-chip health	Buy	15%	2
New York Times^	NYT	Feb-08	\$16.74	\$15.00	-\$2.25	Blue-chip newspaper	SELL	-24%	5
<u>Victims</u>									
iShares US Bond	TLT	Jan-09	\$114.30	\$89.33	\$2.39	End of America	Sell Short	20%	5
Am. Electric Power	AEP	Apr-09	\$30.53	\$35.19	\$0.82	King of coal	Sell Short	-18%	5
First Solar	FSLR	Jul-09	\$144.00	\$140.48	—	Expensive solar	Hold	2%	5
General Electric	GE	Nov-09	\$16.02	\$16.25	\$0.01	Overleveraged	Sell Short	2%	6
Current PSIA Average	36.6%								
S&P 500 2009	21.0%								

* We sold covered calls on these stocks, adding the call premiums to the dividends.

** The \$10 calls we sold on PTEN limit our upside to \$10. Actual price is now higher.

^ We bought put options to hedge this position below \$15, see the Feb. 2008 issue for details.

Please note: our investment philosophy limits risk through the use of stop losses and trailing stop losses. Unless otherwise noted below, all "Next Boom" recommendations use a 25% TRAILING STOP LOSS; "No-Risk" recommendations use a 25% STOP LOSS; and all "Forever" recommendations carry no stop loss. NEVER ENTER YOUR STOPS INTO THE MARKET. KEEP SUCH INFORMATION PRIVATE.

How to use a trailing stop: A stop loss is a predetermined price at which you will sell a stock in case it declines. A "trailing stop" is a stop loss that "trails" a stock as it rises. For example, let's say you set a 25% trailing stop on a stock you purchase for \$10. If the stock rises to \$20, you would move your trailing stop to \$15 (\$5 is 25% of \$20, \$20 - \$5 is \$15). Only use closing prices, and never enter your stop into the market. For more information, see our frequently asked questions at www.stansberryresearch.com/secure/faq.asp.

PSIA's Model Portfolio does not represent any actual investment result. Our reference price represents only the price of our recommended securities at the time we wrote the recommendation. Our sell or "stopped out" price represents the closing price at the time a reasonable reader would have had the opportunity to sell – typically the day after such a recommendation is given.

Our risk label is based mainly on current share price and the nature of the business.

1 = the lowest possible risk. 10 = the highest possible risk.

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