



All the Oil in Texas

"They've ringed fenced me," Cactus said.

As I will undoubtedly prove to you in this month's newsletter, I am not an oil and gas analyst.

I know very little – nothing, really – about the engineering or the geology of hydrocarbon discovery and extraction. Fortunately for us, my good friend Cactus Schroeder has been discovering oilfields and pumping them dry for more than 30 years. His father was a wildcat Texas oilman, too. If I didn't know better, I'd wager the liquid in Cactus' veins was light crude instead of blood.

I spent the better part of last week with Cactus, fishing for giant blue and black marlin off the coast of the Darien jungle in Panama. With very little else to do on the boat (neither of us caught a big marlin), we had plenty of time to talk. And Cactus had a lot to say – far more than usual...

He told me he has found what he expects will be the largest oil discovery of his entire career. It lies in the middle of a huge new oil and gas discovery called Eagle Ford. It is a field that's so large Cactus says he believes it will become the largest oilfield in the history of the United States.

Still... I had no idea what a "ringed fence" was. Or why it mattered. Cactus explained:

They've been drilling all around my land – on all sides. And every well they drill is a well I don't have to drill to prove the value of my land. I've got working rigs surrounding my property now. And they're producing a lot more than just gas. They're full of condensate...

Slowly, over four or five days, I came to understand what Cactus was talking about and why it is so important. You need to understand one critical thing about the Eagle Ford play in South Texas: **It holds liquid hydrocarbons, not just gas. And there's a lot of liquid in it, not just a little.**

So-called "condensate" is the holy grail of the natural gas business. It refers to the amount of liquid hydrocarbons (think butane) that's mixed in with the gas that's trapped in "tight" shales. Shale gas plays have been the driving force in the onshore oil and gas business for the last decade. You might even have heard of some of the big fields by now: Barnett, Fayetteville, Haynesville, and Marcellus.

Inside This Issue

- The Biggest Oil Discovery in Texas History
- How to Buy the Eagle Ford Play
- Why Stocks Keep Going Up
- Where's the Inflation Going?

Editor: Porter Stansberry

Shale plays are big, rich resources... but they normally hold only a little condensate. Eagle Ford is proving to be a notable exception – it is rich in condensate. More information about the size of the field and the volumes of condensate and gas is coming out almost every day now, and the numbers get better and better. A year ago, only a dozen drilling rigs were working across the entire play, which stretches across more than 30 counties. Today, more than 50 rigs are drilling well after well.

Judging by the pace of the drilling and the production rates of each new well, these 50 drilling rigs should allow production to grow to nearly 40,000 barrels of oil per day within the next 24 months. That's roughly \$1 billion worth of oil per year at current prices. Keep in mind... this is just from the handful of rigs working Eagle Ford in 2009. Those estimates don't include the value of the gas that will also be produced. And those estimates don't take into account the hundreds of additional rigs that will be put to work. *Oil production is going to ramp up quickly.*

I expect Eagle Ford to yield more than \$2 billion in oil and gas by 2013 and to increase steadily for at least 20 years. These numbers mean Eagle Ford will probably produce hundreds of billions worth of oil and gas over the next 30-40 years.

I know these numbers must sound like pie in the sky. After all, U.S. oil production fell every year from 1991 until 2009. The decline led some pretty smart folks to declare we'd reached "peak oil." They believed onshore oil production would continue to decline until there was literally no oil left. I never believed any of that nonsense. I knew eventually prices would rise enough to support the development of new technologies for finding more oil and extracting it more efficiently. Not surprisingly, that's exactly what has happened.

New seismic technologies allowed prospectors to find liquid hydrocarbons in shales, even though the plays are deep and narrow – 12,000 feet down and usually only a few hundred feet thick. To efficiently drill these finds requires so-called "horizontal drilling," where rigs first must bore down to the oilfield and then veer sideways through it. The combination of these new technologies is releasing huge amounts of liquid hydrocarbons in the Eagle Ford.

Consider just one company's recent results. On April 7, EOG Resources announced drilling results from 16 test wells drilled across a 120-mile trend. Yes, that's right – a 120-mile trend. Based on the initial results and a core analysis, EOG believes it will produce *900 million barrels of crude* from these wells over the next decade.

Mark Papa, EOG's CEO, says of the discovery: "We believe the South Texas Eagle Ford horizontal crude oil play will prove to one of the most significant United States oil discoveries in the past 40 years."

How did this happen? How did a giant oilfield suddenly appear in Texas – an area that's been thoroughly studied and drilled since the 1930s? I asked our in-house resource analyst, Matt Badiali, to explain.

The Eagle Ford shale is best known as the "oil kitchen" for some of the iconic Texas oilfields. More than 60 million years ago, the giant Eagle Ford shale was the bottom of an ocean basin, similar to the modern Gulf of Mexico. Over millions of years, the basin filled in with organic material, limestone, mud, silt, and clay.

Slowly, these source materials were transformed into the shale we see today, about 12,000 feet underground. In this process, billions of barrels of oil were formed. Some of the oil was squeezed out of the shale. It migrated into the limestone rocks above the Eagle Ford. These areas are some of the most prolific oil reservoirs in the Gulf of Mexico basin. Oil from the Eagle Ford filled the reservoirs of the giant 5.2 billion barrel East Texas field. For decades, oil companies drilled into the Austin Chalk, the Georgetown, and the Buda limestone, just above the Eagle Ford. These rocks held billions of barrels and trillions of cubic feet of gas.

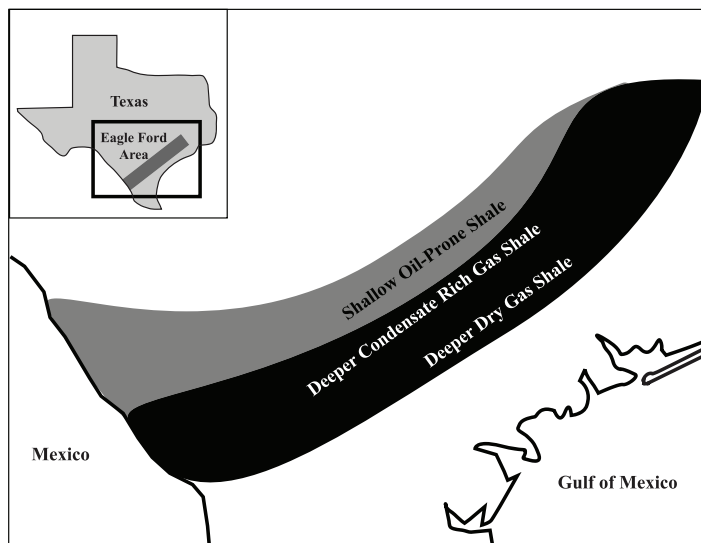
Geologists knew the Eagle Ford shale was the source of that oil, but couldn't extract it until new technologies – like horizontal drilling – opened up the shales around 2001. Even with new technologies, shale plays are tough to drill. The shale sits around 12,000 feet below the surface. And it's only about 250 feet thick. To put it a different way, drillers are trying to drill onto a particular house lot from two miles away. Not only that, but the

drill bit has to turn 90 degrees and become horizontal. That's no easy feat, and really only became common in the industry in the last few years.

To appreciate the size of this field, you simply have to look at a map. A big map.

The Eagle Ford shale stretches from the Mexican border in the southwest almost to Houston in the east – roughly 400 miles. It is about 90 miles wide.

Largest Oil Field in Texas?



Given the unique geography, the extensive drilling that's already been done, and the well results to date, there's not much uncertainty left about how much gas and oil are in the play. The only question left: Which companies will have the best acreage and the drilling expertise to extract the oil?

The Best Way to Buy Eagle Ford

I've decided to tackle this question with a diversified approach. I want to own the best operator in the field (even if that means I have to pay a premium for the stock), and I want to own the most acreage in the field on a per share basis.

I believe following this approach will allow us to buy a company that's most likely to produce the most oil and the company whose share price has the best chance at a huge amount of appreciation. Think of my strategy this way... Buying the best operator means we won't miss the play entirely. And buying the most acreage per share

gives us a shot at a huge upside.

Discerning the best operator in the field is tricky. Currently, a dozen relatively liquid, publicly traded oil and gas companies are involved in Eagle Ford. You've probably heard of most of these companies before: ConocoPhillips (COP), Pioneer (PXD), Petrohawk (HK), Anadarko (APC), St. Mary Land (SM), Chesapeake (CHK), Swift (SFY), Rosetta (ROSE), Newfield (NFX), Cabot (COG), and EOG (EOG). (Note: The chart I ran in *The Digest* last week was for Pioneer.)

A few of these stocks – like Conoco, Anadarko, and Chesapeake – have so many other assets and such large market caps they're simply not a good way to gain exposure to increasing rates of production on Eagle Ford. (Conoco, for example, is an \$80 billion business...) So while these huge companies are probably world-class operators, they won't give us any meaningful exposure to the field.

On the other hand, the company that originally pioneered the Eagle Ford – **Petrohawk Energy (NYSE: HK)** – is still a relatively small oil and gas company, with a market cap of "only" \$6 billion and total current production worth "only" about \$1 billion a year. Currently, the company's proven reserves at Eagle Ford make up only 13% of its resource base. But it controls more than 300,000 acres in the Eagle Ford, making it one of the largest landholders. It also controls what's widely believed to be the best field in the Eagle Ford play, the Hawkville field. Additionally, it owns what will probably be the first major oil field in the play, Red Hawk. Petrohawk is running five drill rigs in the Red Hawk field currently and expects to have 60 wells operational by the end of 2010.

I believe Petrohawk's Eagle Ford production will ramp up sharply in 2010 – particularly its production of oil. To fund its drilling campaign in the Eagle Ford, Petrohawk sold its position in another large Texas basin, the Permian basin, for \$376 million in late 2009. It plans to operate 82 wells in Eagle Ford by the end of 2010. **So far, it has drilled 24 wells in the Eagle Ford – with no dry holes.** Of these wells, 22 are currently operational. And 13 of them have condensate (oil) and average 280 barrels of oil per day.

In addition to its large acreage position and production head start, Petrohawk was the first company to figure

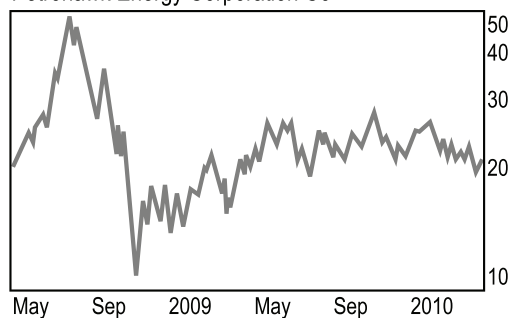
out how to get to Eagle Ford's oil and gas. Its horizontal wells were the first major producers of oil and gas there, coming online in late 2008 in LaSalle County. **Given its track record, I believe Petrohawk is the best operator in the field and will increase both reserves and production faster than any other company in the field.**

Despite its notable success in the Eagle Ford shale, the stock hasn't yet begun to show any appreciation for the large amounts of oil production that should be coming online in 2010. In fact, the stock is still down more than 50% from its peak in mid-2008. So... what's the stock worth?

The company is currently generating nearly \$700 million a year in cash from its operations, making its \$7 billion market cap reasonable on the basis of its cash earnings. On a cash basis, I believe the stock is worth at least 50% more than its current price.

However, with oil and gas companies, investors are really buying proven reserves. Even though Petrohawk is well run and financed, its annual capital spending far outpaces the cash it generates from operations. That makes it a risky stock for equity investors because Petrohawk will need access to the capital markets to continue funding its drilling programs.

Petrohawk Energy Corporation Co



Over the last year, the company's proven reserves actually fell, at least according to the SEC. A change in the rules that govern oil and gas reserves now requires Petrohawk (and all of the other public oil and gas companies) to value its proven reserves based on last year's average prices for oil and gas. Last year's average price for oil was only \$57. The average price for gas was less than \$4. Under these rules, the company's proven reserves were 2,750 billion cubic feet equivalent (bcfe) of gas.

I believe you should simply ignore this number. The

SEC's rules have made it truly meaningless to investors (thanks, guys). Instead of looking at proven reserves, I think you should look at something real and tangible, like increases to production. Petrohawk reports its production figures using a standard industry measure – mmcf. It's an abbreviation that means "one million cubic feet of gas equivalent." The company converts all of its production into gas by assuming a barrel of oil is equal to 6,000 cubic feet of natural gas. (You don't really need to know all of this... you just need to appreciate how fast the company's production is growing.)

In 2008, the company produced 111,000 mmcf. In 2009, it produced 183,156 mmcf. That's a 64% increase in actual production. You can safely assume the real value of its reserves increased in tandem, SEC accounting notwithstanding.

Given the soaring production rates, the aggressive drilling program, and the oil-rich fields it controls in Eagle Ford, I would expect to see Petrohawk continue to make large increases in production and reserves. Assuming oil prices stay about where they are now, I wouldn't be surprised to see the stock hitting new all-time highs in the next year or two...

But I doubt that will actually happen.

Why not? I expect a larger competitor will buy Petrohawk in the next 12 months. That's the cheapest and fastest way for a major oil company to significantly increase its onshore oil production and reserves. Expect a takeover price of between \$50 and \$75 per share.

How do I know? Because shale exploration and onshore oil production is suddenly capturing all of the industry's attention. The Eagle Ford is the one play that offers both and is big enough to interest the majors. And Petrohawk has the most advanced production and has leased a huge amount of the best acreage.

Action to take: Buy shares of Petrohawk Energy (NYSE: HK). Use a 25% trailing stop loss.

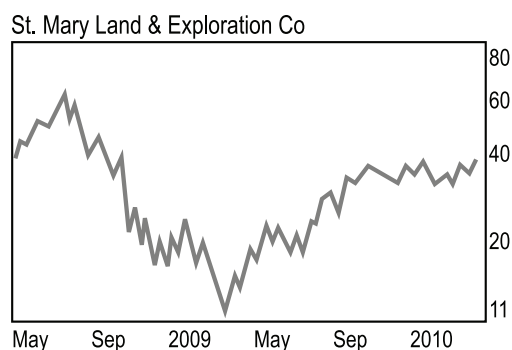
The Cheapest Way to Buy Eagle Ford

I think you'll do very well buying Petrohawk Energy whether or not it gets bought out. But there's a way you might end up doing even better in the long run...

St. Mary Land & Exploration (NYSE: SM) controls 250,000 acres of the Eagle Ford play. Petrohawk controls 310,000 acres. But... for the common stock investor, which company actually allows you to own more of the Eagle Ford per share?

The answer is St. Mary. You see, Petrohawk has 302 million shares outstanding. Each share you buy will get you roughly 0.1% of an acre of Eagle Ford. St. Mary only has 64 million shares outstanding. Buying one share of St. Mary gets you roughly 0.4% of an acre of Eagle Ford – nearly four times more.

Buying St. Mary requires a bit more patience, as the company is new to the Eagle Ford and has given up some of its land position to partner with Anadarko. In 2009, St. Mary drilled seven test wells, finding both gas and condensate. It decided to give up some of its better acreage in a joint venture with Anadarko, where it retains a 25% royalty interest. This land was in the condensate-rich area of Dimmit County, Texas. St. Mary will also drill 34 horizontal wells on its own acreage in 2010. My bet is at least some of these wells come back rich with condensate. If so, St. Mary could become one of the larger producers of oil in Eagle Ford. And if that happens, the stock could truly soar.



As with Petrohawk, St. Mary shares are relatively cheap on a cash-flow basis. The company's market cap is a little more than \$2 billion. It earns \$400 million to \$600 million per year in cash, but it's spending nearly all of this – or even more – as it continues to search for additional reserves. The value of the stock could easily be 100% greater based on its cash earnings, assuming its total reserve potential were to increase substantially. I believe that's about to happen.

Action to take: Buy St. Mary Land & Exploration Company (NYSE: SM). Use a 25% trailing stop loss.

More Trouble Ahead for the Federal Reserve

Here's something you shouldn't see in the markets: The leading commodity so far this year, in terms of price appreciation, is... *lumber*. Lumber prices are up 41.7% so far this year.

Looking at the fundamentals, it doesn't make any sense. More than 13% of the mortgages in the U.S. are in some stage of default. There's no reason to build any more homes with more than one home in 10 sitting vacant. And yet, lumber is the top-performing commodity this year. It's certainly not the only commodity that's way up...

Over the last year, crude oil is up 66.8%. Copper is up 66.7%. Silver is up 42.3%. The S&P 500 is up about 40%, too... and just crossed over 11,000 for the first time since Lehman failed in September 2008.

Blue-chip stock prices and these commodities are all economically sensitive. These indexes shouldn't be soaring – not if our economy is really as moribund as every newspaper and bailout-approving politician says.

What's really going on? As I've been telling you since December 2008, the world's central banks are doing everything they can to support the world's economy by pushing enormous amounts of paper money into the markets. That's why gold recently hit an all-time high in euros. And why gold has remained strong against the U.S. dollar, despite 10-year U.S. Treasury note yields near 4%.

The world's leading governments and central banks are determined to "reflate" the global economy. They're doing so with record levels of deficit spending and by printing money on a massive scale to manipulate the markets higher. Their plan suffers from just one obvious problem: You can't cure too much debt by adding still more debt. The more money and credit they gin up and the higher commodity prices go, the lower their currencies will fall.

Consider this... Last month, for the first time ever, the JPMorgan emerging-market currency basket had a lower implied volatility than its index of the world's leading developed currencies. The world is truly going upside down in front of our eyes, as genuine banana republics have become better credit risks than Great Britain or the United States. It's just simple math: The

world's leading developing economies have budget deficits one-third the size of the world's leading economies on a debt-to-GDP basis.

Much of the new money being shoved into the world's economy is finding its way to China because of that country's enormous labor surplus and its export-led economy. When people try to tell you there's no inflation in the world, just tell them to look at any of the Chinese statistics.

Luxury apartments in Hong Kong are up more than 40% in the last year. Retail sales in Shanghai and Hong Kong are up 36% over the last year. Luxury sales, like jewelry and watches, are up 48%. At the IFC mall in Hong Kong (the top-of-the-line luxury retail outlet), rents are up 25% over last year. China's banks have an enormous amount of money to lend, thanks to huge U.S. dollar inflows. Loan issuance reached \$1.4 trillion last year. It's hard to imagine how much money this is... but consider India's entire banking sector holds about \$650 billion in credit. So in one year, China's banks created new loans equal to twice India's entire banking system.

Several successful hedge-fund managers see China's booming economy as a sign of a bubble in China. They are right to worry. The residential property markets in all of China's major cities have become woefully overvalued in less than a year. The prices don't make sense anymore and far too many buildings are being built. Eventually, this will cause a serious problem for China's banking sector – eventually. In the meantime though, because construction makes up so much of China's GDP and because the economy is state-directed, I don't expect any let up in Chinese demand during this year or even next year. The fact is, despite the obvious signs of trouble in China's housing markets, the country as a whole isn't overleveraged.

Total consumer debt in China is only about 18% of GDP. And Chinese banks require down payments of 20% to 40% for real estate loans. Unlike some of the hedge-fund managers who have begun to sell China short, I believe the yuan must be revalued higher, not lower, in order to slow the Chinese economy and control the inflation of the property sector. Until China's leaders take this step, I'm certain the asset-price inflation in China will continue. And when China's leaders do step in, they will raise interest rates and the value of the yuan will soar against the dollar. When that happens, the Chinese economy will cool... and the prices of everything at Wal-Mart in the United States will go way up.

But as long as China maintains its currency peg (and it could be a long time), you won't see a big increase to consumer prices in the U.S. Unfortunately, that means the Federal Reserve will be able to maintain its near-zero interest rate policy, which means bigger problems for all of us down the road.

The Federal Reserve knows well the risks it is taking. It's gambling that it will be able to raise interest rates fast enough and withdraw enough liquidity from the banking system to stem the rate of inflation once the economy really recovers from the banking crisis of 2008. As you know, my concern is the stability of the dollar itself is in jeopardy because of the enormous size of our short-term debts – roughly \$4 trillion coming due within the next three years. I believe this will result in a catastrophic situation where the Fed is unable to raise interest rates because doing so would make it impossible to finance the government's debt.

Perhaps that explains why China has so far decided to maintain its currency peg. Why not lead the U.S. down the primrose path of believing inflation will never return and China will constantly refinance our debts? A collapse of the U.S. dollar would leave China's currency as the strongest in the world. The collapse of the U.S. government bond market might cost China \$1 trillion. But that would be a small price to pay in exchange for becoming the world's reserve currency. Just imagine what it would be like to see gas pumps in the U.S. displaying the cost of gasoline in yuan instead of dollars.

With the stock market soaring past 11,000 on the Dow, my decision in February to move us out of many of our long stock positions and get us into more short positions might look foolish. We've seen a 10% rise in stocks

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Porter Stansberry, Editor
Brian Hunt, Editor in Chief
Cadie Palmer, Graphic Designer

Visit our website at: www.stansberryresearch.com

1217 St. Paul Street, Baltimore, MD 21202 888-261-2693

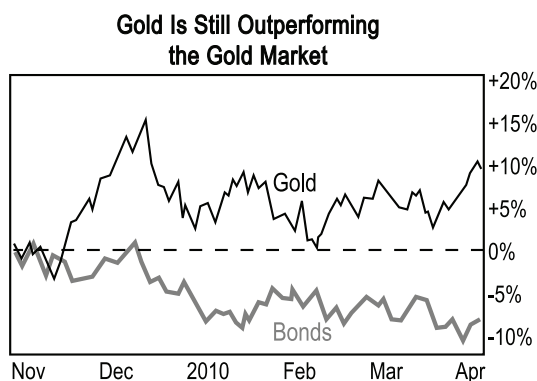
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since I told you to be cautious and moved our portfolio into a much more hedged position. While I wish my timing were better, I never expected to call the precise top. We cannot predict when the current inflation will find its breaking point. But we know the world's major economies are not operating in a balanced, sustainable way. You can't print money for long without suffering severe consequences. Likewise, you cannot borrow more than you can repay forever. The U.S. economy – and the rest of the world by extension – is running on borrowed time. I continue to recommend you remain cautious.

The safest way to position yourself is to be 50% in short-term U.S. T-bills and 50% in gold bullion. This would enable you to maintain a liquid position that's hedged against inflation. Unfortunately, you'll miss out on any further appreciation in stock prices – which is certainly possible. But if you're going to be in the stock market, make sure you include short positions to hedge against a decline in stock prices.

And if you're going to be in U.S. stocks, you've got to keep a sharp eye out for rising interest rates. Sooner or later, the U.S. bond market is going to kill the U.S. stock market. Keep watch on the 10-year government Treasury note. If I'm right about my forecast of rising inflation, rising interest rates, falling stock prices, and a collapsing U.S. dollar, you should see 10-year Treasury yields move strongly past the 4% mark.

Finally... you should watch the growing divergence between the value of U.S. government bonds and the value of gold. This chart tells the real story of what's really happening in the world. Governments are destroying the value of their currency to create the illusion of prosperity. Don't fall for it.



Portfolio Review

In general, I'm happy with the portfolio's performance this year. Yes, our short positions have gone against us (GE, Gannett, and AEP). In the face of a soaring stock market, that's to be expected. Remember, these positions are designed to give us a bit of insurance against a steep market correction, which could occur at any time. My plan is to simply follow our trailing stop loss policy on all of these positions. I'm happy to take a small loss or two in the pursuit of a lower-risk portfolio. And there's always a chance we'll hit at least one of two of our shorts out of the park, resulting in "free" insurance.

On the flip side of our three losing short positions... we don't have any losses to speak of on our long positions, which is great given the size and breadth of our portfolio. (Unfortunately... it's also a sign the market rally isn't based on fundamentals. Everything is up.) We've done a good job of taking advantage of this incredible rally. Our "Next Boom" portfolio is up almost 30% on average, despite the fact that most of the positions are less than a year old. And that's not including the positions we sold in February for big profits. I'm particularly happy with our **Visa (NYSE: V)** trade and our **bank ETF (NYSE: XLF)**. These trades, along with our **Annaly (NYSE: NLY)** position, are designed to allow us to profit directly on the Fed's manipulation of the currency. If you can't beat them, join them.

Please note... I've upgraded Annaly to a "buy" again based on my belief the Fed will continue its near-zero interest rate policy through the end of this year. As mortgage interest rates rise and the Fed holds short-term interest rates near zero, Annaly should experience record earnings for the next three to four quarters. Also, the market seems to believe the mortgage spread will disappear as soon as the Fed begins to raise interest rates. I don't believe that's true. I expect mortgage rates to continue increasing, allowing Annaly to maintain its wide spreads for longer than most investors expect.

Good investing,

Porter Stansberry
April 14, 2010

Porter Stansberry's Model Portfolio

Prices as of April 13, 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>
Hershey	HSY	Dec-07	\$40.55	\$43.93	\$2.70	Chocolate empire	Buy	15%	1
Verizon	VZ	Feb-06	\$31.54	\$30.07	\$8.90	Blue-chip telecom	Buy	24%	3
Annaly	NLY	Nov-08	\$13.64	\$17.38	\$3.69	Gov. port. repair	Buy	54%	3
Exelon	EXC	Oct-02	\$21.47	\$44.56	\$12.05	Nuclear power	Hold	163%	3
<u>The "Next Boom"</u>									
Petrohawk Energy	HK	Apr-10	NEW	\$23.18		Eagle Ford	Buy	NEW	2
St. Mary Land	SM	Apr-10	NEW	\$37.73		Eagle Ford	Buy	NEW	2
Financial ETF	XLF	Aug-09	\$14.33	\$16.62	\$0.10	Fed manipulation	Buy	17%	2
Freeport-McMoRan	FCS	Nov-09	\$84.72	\$84.77	\$0.30	Inflation hedge	Buy	0%	3
Silver	SLV	Oct-09	\$17.48	\$17.84		Money crisis	Buy	2%	3
ConocoPhillips	COP	Apr-09	\$42.36	\$55.67	\$1.94	Cheap oil	Buy	36%	3
Visa	V	Jun-09	\$66.50	\$92.79	\$0.36	Global money	Hold	40%	3
San Juan Basin	SJT	Jan-10	\$18.34	\$23.42	\$0.46	Safe natural gas play	Hold	30%	4
Gold Miners ETF	GDX	Dec-08	\$28.02	\$47.75	\$0.11	End of America	Hold	71%	5
<u>Forever</u>									
Johnson & Johnson	JNJ	Jul-06	\$60.52	\$65.68	\$6.58	Blue-chip health	Buy	19%	2
<u>Victims</u>									
iShares US Bond	TLT	Jan-09	\$114.30	\$89.74	\$3.96	End of America	Short	18%	5
Am. Electric Power	AEP	Apr-09	\$30.53	\$34.07	\$1.23	King of coal	Short	-16%	5
First Solar	FSLR	Jul-09	\$144.00	\$126.75		Expensive solar	Short	12%	5
General Electric	GE	Nov-09	\$15.76	\$18.95	\$0.20	Overleveraged	Short	-22%	5
Western Digital	WDC	Feb-10	\$43.40	\$40.15		Obsolete tech	Short	7%	5
Seagate Technology	STX	Feb-10	\$20.73	\$18.38		Obsolete tech	Short	11%	5
Gannett	GCI	Mar-10	\$16.29	\$17.74		Obsolete newspaper	Short	-9%	5
Current PSIA Average	23.0%								
S&P 500 2010	2.7%								

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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