



Hungary Matters

We believe Hungary matters.

Likewise, we believe Greece matters. And Spain. And especially Italy.

Some market participants clearly hoped the \$125 billion Fed-orchestrated bailout of Greece would be the end of Europe's sovereign debt worries. They say these small economies "don't matter." But we know otherwise...

The Greek crisis (and the other European debt crises yet to come) is merely a precursor to the "real world" debt crisis of 2010-2012. (We say "real world" because a crisis among developed nations will dwarf the "emerging-market" debt default cycle of the late 1990s.) Likewise, both the emerging-market crises of the last decade, the Internet bubble that followed, and the real estate bubble after that were all merely stepping stones towards the ultimate collapse of the world's untenable, paper-backed monetary standard.

In this month's issue, we'll point out a few new critical links in the debt chain – factors we're certain will prove to be particularly profitable for you, assuming you've followed our basic advice to maintain a hedged book (both long and short positions). We have two new ideas that allow you to hedge your portfolio, including one that offers generous income at an attractive price.

So while the economic world as we know it might be ending... there's no reason you can't enjoy the fireworks from the safety of your well-protected portfolio. And while we fear the terrible suffering that's likely to be caused by a collapse of the world's developed economies (yes, really), we are excited about the incredible opportunities that will likely crop up along the way – like one of our new ideas for you this month.

Let's begin with a review of where we stand now in the early stages of this unfolding crisis...

It's the 'Real World' This Time

We are intimately familiar with how sovereign credit crises spread from one over-indebted nation to the next. Porter had a front-row seat to the emerging-market credit debacle of the late 1990s, which culminated in the Russia default. These events began with a small country (Thailand) most pundits said "didn't matter," and they led directly to poverty and bankruptcy for millions of people around the world. They also set up the greatest trade of Porter's career up to that point. This is a central, but somewhat unpleasant fact of global finance: A horrible crisis is perhaps the single best way to make an enormous amount of money quickly.

Inside This Issue

- How Italy and Hungary Will Trigger the Crisis
- Another Hedge Against Calamity
- An Opportunity We've Only Had Twice in the Last Decade
- Portfolio Review

Editors: Braden Copeland
and Porter Stansberry

In 1996, Porter took a post with a small macro-economic research shop called *Welt Research*. Porter's job was to cover the seven major economies of Latin America. In particular, he studied Argentina, which was using a somewhat novel currency scheme. In order to reassure its citizens, who were used to runaway inflation, and its creditors, who were used to chronic defaults, Argentina's government had adopted a "currency board regime." The government matched each domestically circulating peso with a U.S. dollar in reserve. As a result, the amount of pesos circulating depended on Argentina's trade balance with the U.S. As Argentina's trade deficit grew, so did the pressure on the domestic economy. Only foreign borrowing could relieve the pressure.

Argentina's relentless borrowing to fund its currency board system led lots of folks like us to spend a lot of effort trying to guess how long the scheme would last. How much debt could it handle? As a consequence, Porter also spent a lot of time reviewing the world's other emerging economies – and found that almost every "hot" emerging market around the world was funding various pegged-currency schemes with enormous quantities of foreign borrowing. It was easy to see these debts (and their growth rates) were not sustainable. All you had to do was look at the numbers.

Thus, when Thailand collapsed in the fall of 1998, Porter was certain that ALL of the other heavily indebted emerging markets would follow – and they did. To protect the readers of his *Latin American Index*, Porter recommended buying puts on Telebras just after the Thai baht was allowed to float (it sank about 90%). Telebras was the telecom monopoly of Brazil and the most widely held emerging-market stock in the world. Porter knew investors moving out of emerging-market stocks would sell their most liquid stocks – like Telebras – first. Those puts soared more than 500% in about six weeks as the crisis intensified – the best trade in Porter's career to that point.

Interestingly, Argentina managed to maintain its peg to the U.S. dollar throughout the Thai baht crisis and the Russian default of the following year. It survived because it was willing to pay high interest rates and borrow enormous additional sums. It wasn't until December 2001 that Argentina was forced to close its banks and "pesofy" all of the dollars held in its banking system, robbing its citizens of their life savings.

We see the current sovereign debt crisis as a repeat of the late 1990s emerging-market debt crisis – only this time it's happening in some of the world's richest nations, i.e. the "real world." In economic terms, there's almost no difference between the "PIIGS" of Europe and the world's emerging economies in the 1990s. Rather than pegging their currencies

to the U.S. dollar, Portugal, Italy, Ireland, Greece, and Spain have simply chosen to peg their currencies to a French/German basket and have been using vast amounts of foreign debt to keep the scheme alive. It can't last.

The first reason is easiest to understand. Just like Argentina's economy couldn't compete with the much larger U.S. economy, Greece and the others can't compete against the vastly larger German economy on a playing field that's denominated in what's really the German mark. The euro isn't sustainable because *it never was in the first place*. And it's certainly not sustainable with those weaker economies now paying enormous amounts of interest to maintain debt loads that approach (or exceed) 100% of gross domestic product (GDP).

The second reason the PIIGS must soon decouple from the euro is competitive. The other nations the PIIGS can compete with – such as Hungary and Poland – have the benefit of a flexible exchange rate. As these countries devalue their currencies to protect their economies, the pressure on the PIIGS will greatly increase to devalue as well.

Italy Is Next... And It Definitely Matters

As we said earlier, Hungary matters... just like Thailand and Indonesia mattered to larger economies like Chile, Brazil, and Russia back in 1998.

Last week, the Hungarian forint lost about 5% against the value of the euro and about 7% against the Swiss franc. About 45% of Hungary's foreign debt is denominated in foreign currencies, so the forint's collapse impairs the Hungarian government's ability to service its debts. It costs the Hungarians significantly more forint to pay the same debts they were paying just weeks ago. A weak economy is undermining a weak currency, which further weakens the economy. In a rare moment of clarity and honesty, Peter Szijjarto, the Hungarian president's spokesman, told reporters, "*I don't think it's an exaggeration at all to talk about a default...*"

It shouldn't surprise a single reader of this newsletter that one of the largest lenders in Hungary is... Italy's UniCredit! As you know, we've been predicting souring loans in Eastern Europe would overwhelm UniCredit. The stock fell 5% on the day of Szijjarto's comments.

Like dominoes, all of the weaker economies in Europe are going to tumble for the simple reason that creditors will be unwilling to extend more credit given the increased risk of default. Suddenly, when debts cannot be rolled over or extended, a country's fiscal situation can simply collapse

because confidence is lost.

Why does this matter to you? Well, consider this one fact. A little more than \$14 billion of General Electric's tangible equity is invested in European debt. If we're right and Europe's financial situation continues to deteriorate and the euro really does collapse, more than half of these loans will likely end up in default. That would create a significant new problem for GE to deal with. The growing crisis in Europe will almost certainly result in GE being forced to raise new equity at unattractive prices.

Let me summarize the situation for you this way...

Many of the world's developed economies have been fueling growth with foreign debts. This growth and the asset values created under the euro standard are unsustainable for the simple reason that debt service cannot be made and creditors are unwilling to extend these debts on reasonable terms. These problems have no simple answers. They will spread from creditor to creditor and intensify as the market realizes these defaults are unstoppable. The next major country likely to experience a credit crisis is Italy, which has enormous exposure through its banks to Eastern Europe and the rest of Europe's weak economies.

Italy's public debt totals 1.7 trillion euro – seven times the size of Greece. Italy is the world's third-largest sovereign borrower. It cannot be bailed out – it is simply too big. Meanwhile, it cannot possibly hope to pay back its debts as long as it remains in the euro. In fact, Italy has been in recession almost since the day it adopted the euro: Its economy has grown by a total of 0.54% over the last decade. The total public debt to GDP will soon surpass 120%. At that point, it will become progressively more difficult for Italy to extend its foreign debts because all of the foreign creditors will know these debts will never be repaid. A default and devaluation will be the only way to restart Italy's economy.

We recommend you sell Italy short. It's simple to do, using the Italy exchange-traded fund called the **iShares MSCI Italy Index (EWI)**. The ETF has been crushed lately – falling to \$14 from \$19 in just the last three months. So we don't have an attractive entry price right now.

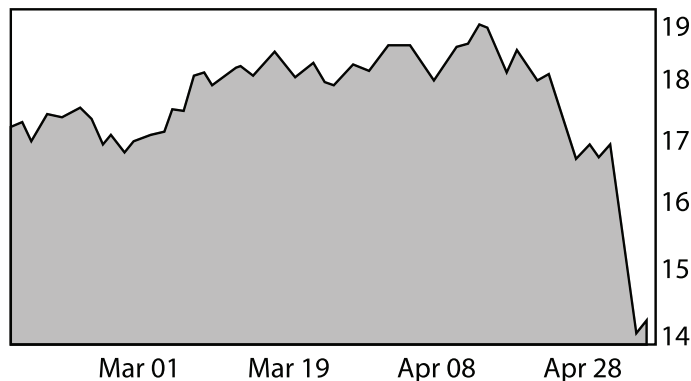
Here's the important thing to understand: *Italy cannot afford its debts. Its economy cannot grow – at all – because it's stuck in a currency regime it can't truly afford. Thus, it is only a matter of time before Italy abandons the euro and defaults on its foreign debts.*

I believe the crisis in Europe will continue until Italy fails and the euro collapses. Shorting Italy is a good way to hedge your portfolio against the risks of sovereign defaults, as it is

the largest country that's most likely to default. It's the Argentina of the "real world" crisis.

I'd look to establish a short position here on any rebound in EWI to more than \$16. As always, limit your risk in this position by using a 25% trailing stop loss and don't allocate more than 25% of your portfolio to the position.

Italian Stocks Have Been Crushed



A Way to Hedge Your Bets from the 'Long' Side

Shorting stocks isn't the only way to hedge your bets...

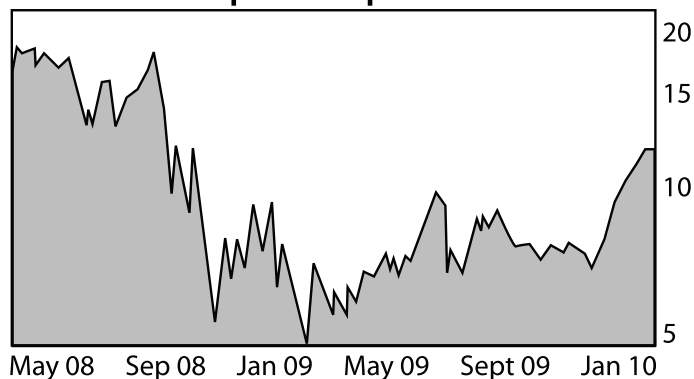
The other smart way to hedge your bets against a continuation of the "real world" debt crisis is to buy high-quality bonds at a big discount. Mike Williams does this for subscribers of his *True Income* newsletter, which scored huge profits buying distressed debts at a discount during 2008 and early 2009.

Buying individual bonds, however profitable it has been for Mike and his subscribers, can be difficult for folks who aren't used to buying bonds or don't have a good relationship with a broker who deals in them. There's another way to buy high-quality bonds at an attractive price – you can invest in a business development company (BDC).

You may be familiar with BDCs. We covered another BDC, Gladstone Capital (Nasdaq: GLAD), in the February 2009 issue. As you know, we got stopped out of Gladstone during a sharp pullback in the stock market in March 2009. If not for that exceptional volatility, we might have scored a huge gain. As you can see, the stock survived the crisis and now trades for much more than 100% of its lows during the crisis.

Just as important, it continued to pay excellent dividends over the past year and a half. If we'd been able to hold on to Gladstone, we would have earned monthly dividends totaling \$1.12 since our purchase, giving us a yield of about 12% annually.

Gladstone Capital Corp.

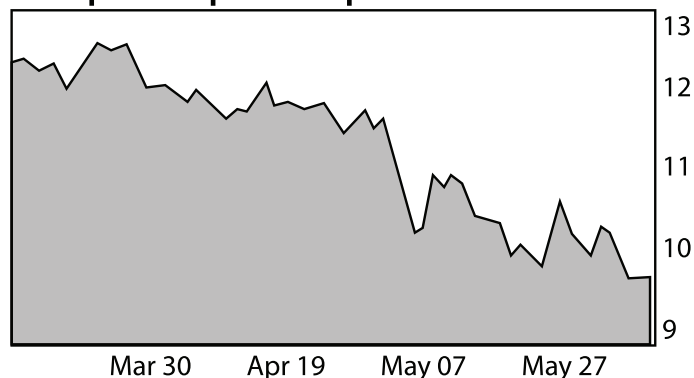


BDCs are specially qualified U.S.-based companies that raise money by selling stock. Then, they use this money, combined with no more than an equal amount of debt (BDC rules limit them to a debt-equity-ratio of 1:1) to make loans to small, private companies at high interest rates. As long as they distribute 90% of their taxable income as a dividend (and follow other rules), BDCs don't have to pay income tax.

Typically, companies borrow from BDCs because the borrowers require special effort for lenders to get comfortable lending them money. Their businesses don't fit any sort of standard checklist. They also present a unique wrinkle (like a prior default or bankruptcy) that requires an open-minded lender willing to take a little risk.

This month, we'd like to introduce you to another high-quality BDC whose stock has fallen over the last two months into our "buy range" and whose insiders have been buying stock heavily at these prices.

Prospect Capital Corp.



Prospect Capital (Nasdaq: PSEC) is a \$700 million BDC. It got its start in the rough and tumble world of lending to natural gas exploration companies. That's where we first learned about the company, through our friend Rick Rule. The firm's CEO, John Barry, is a talented banker. Barry and his partners took Prospect public in 2004. (You may have

heard of the stock before... co-editor Braden Copeland recommended Prospect to his *Inside Strategist* readers in May 2009. By the time he recommended selling it in February 2010, subscribers had gained 34%.)

As the world has become riskier, lenders have become much more risk-averse. This opens up much better opportunities for astute lenders like John Barry, who can get much better terms on even safer loans. Specifically, Prospect can now require borrowers to put up more equity. The more equity a borrower puts in a deal, the more likely a lender will get its principal back if the borrower shutters. A few years ago, Prospect was lending money against 30%-35% equity. Today, the equity required is approaching 50%. As long as \$1 worth of assets can be sold for 50¢, PSEC gets its money back.

Here is what John Barry said regarding making new deals with borrowers, struggling or not:

[E]ven a company that's performing well, they might have increased their profitability but not as much to hit its tightening covenants... That gives us a seat at the table for strong performing companies as well as for companies that are experiencing economic cyclicality too, not just re-price in an economic sense, but also look for ways to reduce our risk.

We know it sounds counterintuitive to want to own a lender during a credit crisis... but that's exactly when you should be looking closely at well-run banks. Buying a BDC run by an experienced banker (who personally owns tons of stock – more than 1 million shares, in Barry's case) is among the best ways to do it.

While Prospect got its start as an oil-patch lender, it's now much more diversified, which makes it an even better investment. The diversification came through a big acquisition last year, the purchase of Patriot Capital, a struggling competitor that was unable to raise money. Prospect bought the assets at a \$5.7 million discount. The purchase increased Prospect's investment portfolio from 30 companies to 55 companies. Most of its holdings remain in the oil & gas sector (33%). But manufacturing (13.6%), health care (12.6%), and food products (7.6%) industries also represent large segments of its portfolio. The combined total of all investments after the Patriot transaction was \$648 million. The total portfolio was yielding 15.6%.

In addition, on March 17, 2010, Prospect established something called an "at-the-market" program. This allows the company to sell up to 8 million additional shares of stock to raise cash for lending and investments. Since the program began, Prospect has sold 3.45 million shares for an average price of \$12.09, raising \$41.6 million.

This sort of selling of shares by a company dilutes the value of existing shareholders' holdings. That's not always good. It bears scrutiny. In Prospect's case, though, it is a positive. The company is raising cash to grow its investment portfolio and earnings – just as it did with the acquisition of Patriot Capital. This will increase shareholder equity – as long as Prospect can continue to raise capital at or above book value while it buys assets at a discount to their fair value.

For outside investors, the key is to buy the stock for *less than its* book value. Right now the stock is trading at \$10. Its book value per share is \$10.09. As long as you're buying for less than book and Prospect continues to raise capital at around \$12 a share, you're going to do well owning this stock. Likewise, as long as Prospect can buy troubled loans at a big discount, you'll do well.

Buying \$12-\$14 worth of assets for only \$10 is a good business to be in. And because Prospect is a BDC, you know you'll end up with the profits because the company is required by law to pay out 90% of its earnings. That's part of the reason Prospect has increased its dividend every quarter since it went public. It is now yielding 16%.

We also expect growth at Prospect to pick up because we think it will add a bit more leverage to its balance sheet. We're not talking about Lehman or Bear Stearns levels of debt... just a little bit of leverage to increase returns. Currently, Prospect uses virtually no leverage (a negligible 0.1:1) To see how a little "levering up" might boost investment returns, let's look at a hypothetical \$10 million loan...

Right now, assume Prospect funds the entire loan with shareholder equity. If Prospect charges 12%, it would receive \$1.2 million and a straight 12% return on equity. Now, assume Prospect has another \$20 million loan it would like to make for a total of \$30 million in loans. It decides to use \$10 million in equity and *borrow* the other \$10 million from a bank for 6%.

With \$30 million now paying 12%, Prospect's interest income is \$3.6 million. Prospect's interest *expense* is \$600,000 (6% interest on \$10 million borrowed). The leftover income, then, is \$3 million on \$20 million equity. By employing leverage of just 0.5:1 (\$10 million in debt versus \$20 million in equity), the return on equity has been juiced to 15% from 12% (\$3 million on \$20 million). Extending this out to Prospect's \$700 million you can see the benefit of employing some conservative leverage. This is exactly what Prospect is doing...

On the most recent conference call, John Barry discussed ongoing negotiations for a new, larger line of credit. As the company "levers up," it can do so more cheaply than with its existing line. You see, the company currently has only \$56 million borrowed against its \$250 million line. The terms of the

line date back to June 2009, when financing was tight. The 6% interest rate is higher and the terms are more onerous than the company, with its stronger balance sheet, could get today.

Barry also mentioned the company is adding more senior staff to pursue the opportunities management sees. Right now, it is looking at more than 20 new loans and potential business in excess of \$2 billion. On top of all of this, Prospect is also being aggressive when it comes to earning special kickers for its loans... *including warrants*.

Right now, the warrants in Prospect's portfolio with the biggest potential are the ones it holds for Miller Petroleum (MILL), a \$153 million oil and gas explorer. Prospect's loan to Miller has been repaid, but Prospect still has its extremely valuable warrants. They give Prospect the option to buy 2.2 million shares of Miller stock for just 7¢ per share. Today, Miller stock trades for more than \$6 per share. *Prospect stands to make more than \$11 million selling these warrants*, nearly a third of what the company earned in total interest income during the most recent quarter.

Much of this value will eventually find its way into the hands of shareholders. Why? Remember, BDCs must pay 90% of their taxable income. If Prospect delivers on this growth and refinancing of its balance sheet, and we think it will, investors will do extraordinarily well. And when shares are trading for less than book value, it's time to buy.

Finally... when it comes to a financial stock, there is only so much outside analysts can possibly know. Investors have to trust management to make sound loans and not to chase deals simply to earn bigger bonuses. That's why John Barry is a huge factor in our recommendation. When you buy Prospect, you're buying him. And his interests are definitely aligned with ours. In 2009 alone, Barry bought more than 200,000 shares of his stock on the open market, investing more than \$2 million in the company. His 2009 purchases increased his stake in Prospect by nearly a third. Since the company was established in 2004, he has personally purchased more than 1 million shares, investing much more than \$10 million. This includes his most recent purchase of 62,700 shares between May 21 and

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25 when he bought \$615,000 worth of stock for an average price of \$9.81 per share, increasing his stake by another 6%.

We like buying well-run financial companies (like Annaly and Prospect) for less than book value. And the only opportunities you'll have to do so are in the midst of a crisis. Take advantage of the current crisis to start buying Prospect Capital. If the world doesn't collapse, you'll make at least 50% in the next year or two – including a steady income of constantly increasing dividends. This will provide you with a solid hedge against any further negative volatility.

Action to take: Buy Prospect Capital Corporation (Nasdaq: PSEC) up to \$10.08. Use a 25% trailing stop loss, adjusted for the income you receive. (Each time a dividend is paid, simply lower your trailing stop by that amount.)

Also, keep in mind this stock is thinly traded. Orders to buy more shares than usual (which *Stansberry's Investment Advisory* ideas often generate) could drive the stock price temporarily higher in the near term. Use a limit order and be sure not to overpay for the stock. If shares run to more than \$10.08, be patient. Shares will almost certainly pull back to less than \$10.08 before they begin their true run higher.

Good investing,



Porter Stansberry and Braden Copeland

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Thanks very much for providing us with the means to do what we love and provide you and others like you with investment ideas and insight we believe is unique in the world of finance.

Portfolio Review

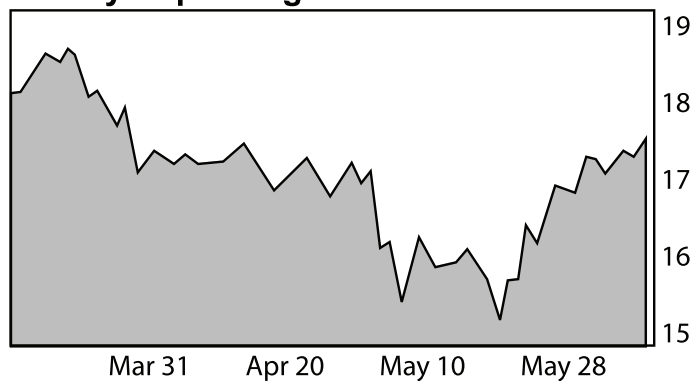
When we recommended **Annaly Capital Management (NYSE: NLY)** shares in our November 2008 issue, we knew there was no way we could lose money – we were buying a collection of 100% federally guaranteed mortgage notes – for less than face value.

If you bought shares then, you are up 30% on capital gains alone. Total dividends of \$3.69 have put another 27% in your pocket. The combined return is well more than 50%. Based on the dividends paid over the last four quarters (\$2.69 per share), the current yield on your \$14 per share investment is more than 19%. Consider the risk we took (none) that's about the best investment you'll ever hope to make.

And guess what? You have essentially the same opportunity all over again. You see, the company's book value has grown over time. It's now \$16.80 per share. As you can see, the stock has traded for less than that frequently over the past two months as the stock market corrected.

Buying Annaly for less than book value is the closest thing we know of to getting free money. Huge amounts of it. If you're not familiar with the story, we urge you to go back and read our original recommendation. But here's a brief summary...

Annaly Capital Mgmt.



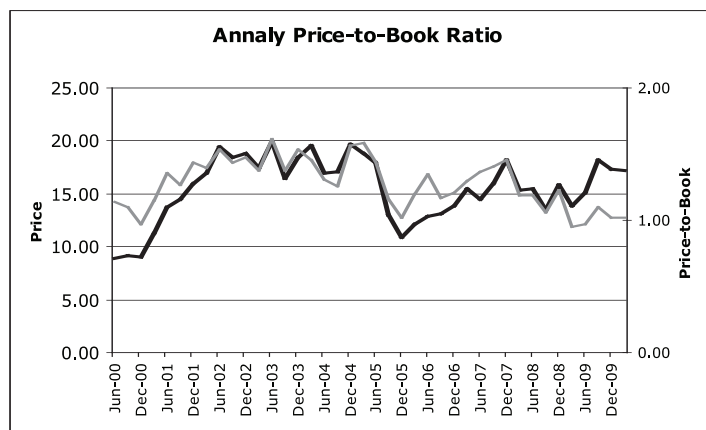
Annaly does nothing more than use low-cost money (thanks to the Federal Reserve) to buy 100% guaranteed mortgages from Fannie and Freddie, which pay them higher interest than the cost of their money. They call it a "carry trade." Pretend you can borrow \$100 for 2% (thanks to Ben Bernanke) and then reinvest that \$100 for 8% – without any risk of losing money (thanks to the U.S. Treasury). That means you are earning \$8 on a \$100 investment that cost you \$2. You make \$6 in profit. That's it. That's the whole idea.

The key is to remember that Annaly's invests *exclusively* in mortgage loans guaranteed by the U.S. government, which can't go broke thanks to its printing press.

Only the Third Time in 10 Years

In the last decade, investors only had two other opportunities to buy Annaly for less than book value.

Buying shares when the price-to-book ratio is 1 means you're paying a price equal to what the company owns of its assets, free and clear of debt. With Annaly specifically, it means you're paying exactly what its mortgage holdings are worth after subtracting the amount of debt it borrowed to buy them. Essentially, you're paying what it paid out of its own pocket when it made its deals... no more, no less. If it made good deals, you're making a good deal. Annaly makes good deals. Look at this chart...



This goes back 10 years. Notice what happens when the price-to-book ratio, the gray line, drops to one (the value is on the right vertical axis). The price of the shares, the black line, immediately starts to climb. Look at what happened the last time, in 2005. On that \$11 investment, they've earned \$6.88 in dividends to-date (63%) and, with shares above \$17 today, capital gains are greater than 50%.

But What About the 'Spread'?

You may be wondering what happens when the gap between the interest rate at which Annaly borrows and what it earns on the mortgages it buys (the "spread") closes. The company's earnings decline. If rates go the other way, the gap widens and earnings increase.

Earnings dictate the price of a company's shares. Annaly is no exception. However, it's not the best indicator. Take a look at the chart to the right...

It assumes Annaly borrows at short-term interest rates (tied to three-month T-bills) and buys mortgages yielding long-term interest rates (tied to 10-year Treasuries). The spread is the difference between the two (long minus short). This chart shows it (the gray line) plotted against Annaly's stock

price (the black line) over the last 10 years. When the gray line is falling, the spread is narrowing (Annaly is earning less). When the gray line is rising the spread is widening (Annaly is earning more).

Notice how the spread was still falling in December 2005 when the price-to-book value signal (the gray line in our other chart) was screaming "buy." Investors who waited for the spread to start rising missed a lot of the move – and the dividends.

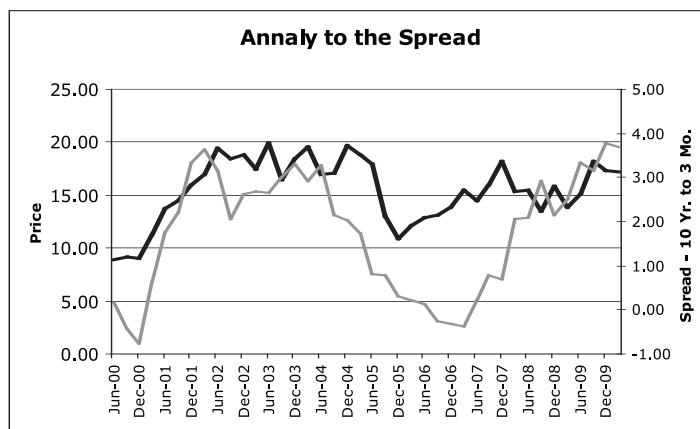
In November 2008, when we made our recommendation based on the price-to-book signal, it was unclear exactly what would happen with the spread. You couldn't use it to make a good decision. Many investors would have let that opportunity pass.

The same is still true today. With short-term rates practically zero and long-term rates incredibly erratic – the 10-year Treasury has moved from 4% down to 3.15% in the last two months – the spread is a moving target.

On the other hand, Annaly's book value isn't. Right now, the price-to-book ratio is 1.04 and Annaly shares are yielding more than 15%. You must take this opportunity to buy this super-safe cash machine right now if you haven't already. It won't exist for long...

Action to take: Buy Annaly Capital Management (NYSE: NLY) up to \$17.50. Use a 25% trailing stop loss, adjusted for the income you receive. (Each time a dividend is paid, simply lower your trailing stop by that amount – this is how you'll end up owning Annaly forever.)

Finally, we stopped out of our **Visa (NYSE: V)** and **Freeport-McMoRan (NYSE: FCX)** positions in May. On May 18, shares of Visa closed at \$70.09, less than our \$71.96 stop. On May 20, shares of FCX closed at \$63.62, less than our \$65.78 stop. If you have not closed these positions, make sure to do so. For the portfolio, we're recording a better than 5% gain on Visa and a 24% loss on FCX.



Investment Advisory Model Portfolio

Prices as of June 10, 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	\$51.76	\$3.02	Chocolate empire	Buy	35%	1
Annaly	NLY	Nov-08	\$13.64	\$17.49	\$3.69	Gov. port. repair	Buy	55%	3
Exelon	EXC	Oct-02	\$21.47	\$40.04	\$12.57	Nuclear power	Buy	145%	3
Prospect Capital	PSEC	Jun-10	NEW	\$10.16		High-yield lender	Buy	NEW	3
Johnson & Johnson	JNJ	Jul-06	\$60.52	\$58.50	\$7.13	Blue-chip health	Buy	8%	2
<u>The "Next Boom"</u>									
Calpine	CPN	May-10	\$13.93	\$13.60		Nat gas power	Buy	-2%	2
Petrohawk Energy	HK	Apr-10	\$23.18	\$20.77		Eagle Ford	Buy	-10%	2
St. Mary Land	SM	Apr-10	\$37.73	\$45.93	\$0.05	Eagle Ford	Buy	22%	2
San Juan Basin	SJT	Jan-10	\$18.34	\$26.70	\$0.81	Safe natural gas play	Hold	50%	4
Financial ETF	XLF	Aug-09	\$14.33	\$14.47	\$0.14	Fed manipulation	Buy	2%	2
Freeport-McMoRan^	FCX	Nov-09	\$84.72	\$63.62	\$0.30	Inflation hedge	Stopped Out	-25%	3
Silver	SLV	Oct-09	\$17.48	\$17.86		Money crisis	Buy	2%	3
Visa^	V	Jun-09	\$66.50	\$70.09	\$0.48	Global money	Stopped Out	6%	3
ConocoPhillips	COP	Apr-09	\$41.45	\$53.37	\$2.49	Cheap oil	Buy	35%	3
Gold Miners ETF	GDX	Dec-08	\$28.02	\$50.66	\$0.11	End of America	Hold	81%	5
<u>Victims</u>									
Barnes & Noble	BKS	May-10	\$20.01	\$17.51	\$0.25	Obsolete bookstores	Short	11%	5
Gannett	GCI	Mar-10	\$16.29	\$15.42	\$0.04	Obsolete newspaper	Short	5%	5
Western Digital	WDC	Feb-10	\$43.40	\$34.10		Obsolete tech	Short	21%	5
Seagate	STX	Feb-10	\$20.73	\$14.88		Obsolete tech	Short	28%	5
General Electric	GE	Nov-09	\$15.76	\$15.68	\$0.20	Overleveraged	Short	-1%	5
Am. Electric Power	AEP	Apr-09	\$30.53	\$32.68	\$1.65	King of coal	Short	-12%	5
iShares US Bond	TLT	Jan-09	\$114.30	\$96.19	\$5.23	End of America	Short	11%	5
Current Portfolio Avg:	22.3%								
S&P 500 Portfolio Avg	4.4%*								
* This is the average return you would have earned so far had you opened positions on the S&P 500 Index instead of the Investment Advisory recommendation at the time the recommendation was made. ^ Recent price and gain reflect stop-out date. Investment Advisory's Model Portfolio does not represent any actual investment result. Our reference price represents the price of our recommended securities at the time we wrote the recommendation. Our sell 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. Please note: Our investment philosophy requires limiting risk through the use of trailing stop losses. Unless otherwise noted, all recommendations use a 25% TRAILING 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. Our risk label is based on current share price and one-year business outlook. 1 = the lowest possible risk. 10 = the highest possible risk.									

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