



How to Get 10% Dividends from the World's Safest Stocks

We face one of the most difficult choices of our careers this month.

Despite all of the world's credit and currency problems, many of the highest-quality companies are once again approaching fair value, thanks to the stock market's second-quarter fall.

The question keeping us up at night isn't whether or not the currency crisis we're experiencing will worsen (we know it will). What keeps us up at night now is wondering whether or not we are missing the opportunities this crisis has created by focusing so much on the risks. Despite the huge risks to the global economy, we know it is unlikely everything will grind to a complete halt or a new, global war will break out. Having been leaders in warning about the impending sovereign debt crisis, we would now like to lead you in a new direction – the incredible value presenting itself in the form of the world's biggest global companies.

We begin with a conclusion you might find surprising: *Only rarely in history have the world's largest and best corporations been for sale at lower prices.* Furthermore, buying blue-chip stocks at these super-low valuations has *always* led to outstanding returns. In short, despite the risks, high-quality stocks are amazingly cheap. And you're probably foolish if you don't at least start to buy.

This chart shows you the share price of Wal-Mart – the world's leading retailer – compared to its earnings.

As you can plainly see, over the last 12 *years*, the stock price of Wal-Mart has done exactly *nothing*. Meanwhile, its earnings have continued to grow by large amounts almost every single year. The reasons for Wal-Mart's success are largely unique to Wal-Mart, but the ability of high-quality companies to overcome macroeconomic factors and deliver earnings growth isn't unique to the company. It is a trait found in all of the world's best companies. At some point, Wal-Mart's share price must start climbing again.

A financial crisis might disrupt Wal-Mart's operations for some period, but it won't destroy the business.

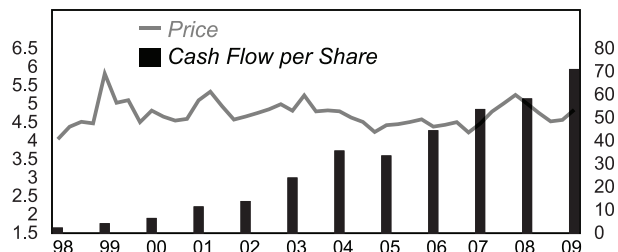
Wal-Mart is now earning more than \$26 billion annually in cash. It is spending roughly \$12 billion on returning capital to shareholders (via dividends/buybacks) and \$12 billion building new stores or improving old ones. The remaining balance of its cash earnings is going toward repaying its debt – almost \$2 billion was retired last year.

Inside This Issue

- Europe's Currency Crisis Is Far from Over
- High-Quality Stocks Have Rarely Been Cheaper
- This Hedge Is Untouched by Europe's Problems
- Portfolio Review

Editors: Braden Copeland
and Porter Stansberry

Walmart



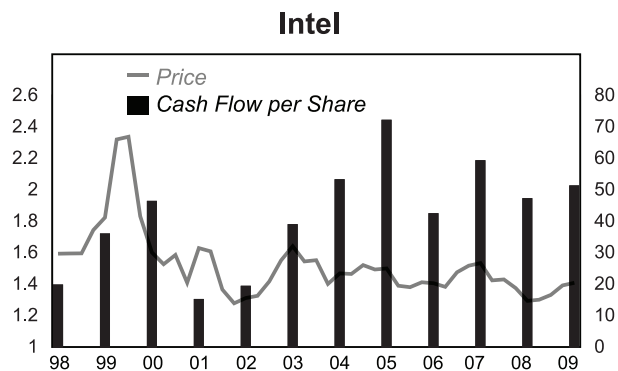
Given the company's size, global reach, and simple business model – offering the lowest prices – it seems difficult to imagine anything will threaten this company's performance over the next decade... or decades.

And yet... the company's entire market value is now "only" \$190 billion. That is, if Wal-Mart were to apply all of its capital toward buying stock, it could take itself private in a little more than seven years – assuming no additional growth whatsoever. Given its recent growth rates, this goal could likely be accomplished in something around five years. A reasonable analyst, adjusting for Wal-Mart's unique resilience and long history of earnings growth, would assign the company an earnings multiple of something between five to seven times forward earnings. Meanwhile, the stock is currently yielding more than 6%, when you adjust the cash dividends for the share buybacks. In short, Wal-Mart now has an earnings multiple that's roughly the same number as its yield, a situation that is *extremely* rare in the world's highest-quality stocks.

At the bottom of the stock market in 1932, the S&P 500 traded for less than 10 times earnings and yielded roughly the same amount (10%). At the bottom of the market in 1974, the S&P 500 traded at seven or eight times earnings and yielded nearly that much in income (6.5%). And at the market bottom in 1982, stocks were again trading for around six times earnings, while the dividend yield had increased to almost 7%.

In short, Wal-Mart's valuation suggests we are approaching a bottom in high-quality stocks. While this isn't true – yet – for the market as a whole (the S&P 500 today yields a little more than 2% in cash and is trading at 17 times earnings), it is true of the market's best companies.

Take a look at Intel, for another example.



Intel's growth isn't as uniform as Wal-Mart's. But its share price has actually fallen substantially over the last 12 years, despite big increases to its earnings. Intel CEO Paul Otellini said the most recent quarter was the best in Intel's history, with second-quarter revenue of \$10.8 billion up 34% from last year's second quarter. (You might show these numbers to anyone who believes the world economy is spiraling into a deflationary col-

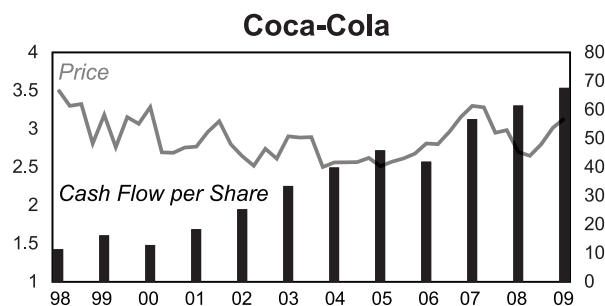
lapse...) And yet, despite these record results, Intel's stock price remains near \$20 – down from \$70 in the late 1990s.

Let me show you what that means in terms of current valuation.

I expect Intel will earn something around \$15 billion this year in cash. After spending roughly \$5 billion on building new factories and expanding old ones, Intel will have \$11 billion left over for debt repayment and distributions. Given that it only holds \$2 billion in debt, I doubt any of this cash will go toward debt repayment. But to be conservative, let's assume Intel decides to repay half of its debt. That implies it will return something around \$10 billion to shareholders. (These aren't pie-in-the-sky figures. In 2008, Intel returned more than \$9 billion to shareholders.) Given Intel's \$100 billion market value, my forecast is Intel will yield something around 10% to equity investors this year, including both cash dividends and stock buybacks. Meanwhile, the company is trading at a cash-earnings multiple of less than seven times.

I can't stress enough how unusual it is for super-high-quality stocks to be paying a dividend yield bigger than its earnings multiple. Opportunities to buy stocks at such low prices only occur around market bottoms.

To round out the picture for you, let's take a look at shares of Coca-Cola – one of the true grand dames of capitalism. Back in the mid-1990s, few companies in the world were as overvalued as Coca-Cola. I vividly remember punching data about Coke's shares into a software trading system back in 1996. It wasn't a sophisticated system, and it was weighed heavily toward relative strength. At the time, based on almost any timeframe – days, weeks, months, years, decades, etc. – Coke was one of the software's top picks. That buying momentum peaked in the late 1990s with the stock trading at close to 50 times earnings.



Since then, the stock has been in decline, falling nearly every year. Meanwhile, as you can see, the underlying business has boomed. Earnings (measured in cash flow per share) have nearly tripled.

Coke will announce second-quarter earnings next week.

We will have a better idea of how much growth is possible after we see those figures. Wall Street is forecasting revenue growth of 5% – but we expect Coke will do better. With two thirds of the world's GDP operating under interest-rate regimes locked at less than 1%, it's hard to imagine the funds required to buy a Coke will be that difficult to come by.

In any case, even if you assume growth of only 5%, it's likely Coke will produce \$8.5 billion in cash this year from operations. With a total market value of \$121 billion, that puts a 14 multiple on its stock price... a much richer multiple than the other examples we've offered you so far, but Coke's margins are richer, too. The company has long produced an after-tax profit margin greater than 20% and returns on equity of more than 30%. (That's roughly twice Intel's margins.)

So... while Coke might not be cheap enough yet to match its earnings multiple with its dividend yield, it's also possible the company will simply never trade as cheaply as Wal-Mart and Intel.

The point, as we're sure you've gotten by now, is these companies, which represent some of the finest examples of capitalism in the world, are trading at silly cheap prices. And while we have real concerns about the well being of the global economy, we believe these firms will be far more able to weather the coming storm than just about any other kind of asset.

Here we are, 12 years after the peak of stock valuations... All of the best companies people were paying crazy prices to own in their 401(k) accounts back then have executed either as well as – or better than – any reasonable projection would have forecast. The companies earned the money they were expected to earn – or even more. And yet today, with these companies vastly richer, better managed, and in better competitive positions, suddenly investors don't want them anymore.

We actually fear many people reading this newsletter would point to these stock charts and say, *"Who would want to own a go-nowhere stock like Intel, Coke, or Wal-Mart? I want to buy something that's going to move... like solar power stocks!"*

Finance is nothing if not ironic.

What do we make of this situation? How do we balance our fearful macro outlook, filled as it is with paper currencies run-amok, governments embracing socialism, and banks filled with bad debts bigger than the entire Western economy?

Let us review the bad news before we share our strategy. Otherwise, it might not make any sense...

The Crisis Isn't Over Yet – Not By a Long Shot

Here are some very interesting figures.

We are supposedly in a global debt crisis. The U.S. and most of the world's developed economies have debt burdens that cannot be serviced. The risk of default has creditors terrified. The risk of not defaulting has taxpayers terrified. So far, the whole situation seems to be stuck in a stalemate.

In the U.S., for example, total credit has barely contracted. And two forms of debt have exploded...

The federal government's official debts have doubled since 2007. (Its unofficial debts, which include the \$10 trillion owed by Fannie and Freddie, have increased by roughly 400%.)

Corporations have borrowed more, not less, since the start of this crisis. Total corporate debt is up about 14% since mid-2007, to a record \$7.2 trillion. It's a curious kind of debt deflation that causes more debt to accumulate, isn't it?

On the other hand, we have no doubt that total debt – and especially government debt – must soon decline for the simple reason that we can't afford it.

Likewise, we have little doubt the total amount of mortgage debt outstanding must soon decline by a large amount. Currently, 7 million mortgages are either in default or in foreclosure. Through June of this year, lenders had taken back 528,000 homes. At an annualized rate of nearly 1 million homes, that is *10 times* the historical average.

A total of 3.9 million houses were for sale in June. This suggests foreclosed homes will dominate the real estate business for a long time to come. That's big trouble for bankers: Loss severities on average for defaulted mortgages in Florida are now almost 80%.

Globally, we've been predicting Italy – the world's seventh-largest economy – is heading for a default. We now have a bit more data to back up our bluster. Between now and the end of 2013, the Italian government must repay (or refinance) 819 billion euro (€) – a total equals to 53.8% of Italy's annual GDP.

Unfortunately for Italians, more than 25% of this debt is due before the end of this year. Another third comes due next year. These figures don't include any additional deficit spending, which is expected to equal another 5% to 10% of GDP. Over the next 18 months, Italy will likely have to "rollover" (that is, borrow more money to repay old debts) – a total of €550 billion-€660 billion.

It seems extremely unlikely Italy will be able to get these loans on any reasonable terms, given the country's already

implausible debt load (110% of GDP) and its political culture. The interest rates it will have to pay will almost certainly be higher than they are now.

Looking at credit default swap prices on Italian debt, you can imply the market's best estimate of the risk of default at any time over the next five years. On a cumulative basis, the market is pricing a 20% probability of a default. Given that the same markets are placing a 63% chance of a Greek default and a 30% chance of a Portuguese default, we suspect these credit default prices will continue to rise. Why? The same numbers infer more than a 100% chance that at least one euro-area country defaults. And if one country defaults, the rest will fall like dominoes because of the contagion through an already weakened banking system.

How to Take Advantage of the Opportunities, While Still Protecting Yourself

We don't think being long stocks heading into what we believe is an inevitable European debt crisis makes much sense. But on the other hand, we're also fairly certain by the time the crisis is over, the opportunity to buy the world's best companies at a 50% discount to intrinsic value will have passed.

Our strategy moving forward will be to buy super-high-quality stocks when they're available at absurdly cheap prices, while continuing to sell short stocks doomed to fail.

This month, we recommend you buy shares of Intel (Nasdaq: INTC). Use a 25% trailing stop adjusted for the dividends you receive. (Each time a dividend is paid, simply lower your trailing stop by that amount.)

Getting paid something close to 10% a year to own the best technology company in the history of mankind seems like too good a deal to pass up, crisis or no crisis.

But to hedge against the risk that global demand for microprocessors falls precipitously (even though it looks like demand is actually soaring right now), we also recommend

you sell short Advanced Micro Devices (NYSE: AMD) if it trades for more than \$10.

AMD is an appropriate hedge because it competes directly against Intel in the microprocessor market. But more importantly, AMD is such a poorly run business that in our office we frequently joke that shorting it is simply the appropriate default position for any trader who is too lazy or too bored to do anything else. "*Don't know what to trade today? Why not go short AMD?*"

In fact, to call AMD a business at all is probably being too kind. Judging by its track record, we should really call it something else... like a sinkhole where money goes to die.

Occasionally, when the tech sector is really booming, AMD does make a little bit of money. That's when AMD's management steps up to the plate – and blows it, time after time. Over the last 20 years, the company has lost \$17.5 billion on its investments, including its most recent disaster, the debt-fueled 2006 acquisition of graphics chipmaker ATI.

AMD paid \$5 billion for the company, which was known as a weak competitor to NVIDIA. In the following year (2007), AMD lost \$310 million in cash from operations. The next year saw additional losses of almost \$700 million. In summary, AMD paid \$5 billion to add graphics to its chipsets and then proceeded to lose nearly \$1 billion trying to sell them. Few companies have a more perfect record of ineptitude.

AMD has long played second fiddle to Intel in the market for microprocessors. Intel's research-and-development budget dwarfs AMD's. For many years, investors in AMD held out hope the company's constant lawsuits against Intel would provide an enormous windfall. But in late 2009, Intel settled all patent disputes with AMD on a global basis in exchange for \$1.25 billion. This sum, while large, isn't nearly big enough to dig AMD out of the hole it is in.

In its annual report written after the Intel settlement, AMD says:

Our debt and capital lease obligations as of December 26, 2009 were \$4.7 billion... We cannot assure you that we will be able to generate sufficient cash flow or that we will be able to borrow funds in amounts sufficient to enable us to service our debt or to meet our working capital requirements... We cannot assure you that we will be able to refinance our debt, sell assets or equity or borrow more funds on terms acceptable to us, if at all.

AMD is the kind of short-sell setup we love. It has a long history of failure and losses. It has a huge debt load it is unlikely to repay. It has a well-funded, successful competitor. Its products are known to be inferior, and it lags its competitor

Published by Stansberry & Associates Investment Research



Braden Copeland, Editor
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

LEGAL DISCLAIMER: This work is based on SEC filings, current events, interviews, corporate press releases and what we've learned as financial journalists. It may contain errors and you shouldn't make any investment decision based solely on what you read here. It's your money and your responsibility. Stansberry and Associates Investment Research expressly forbids its writers from having a financial interest in any security they recommend to our subscribers. And all Stansberry & Associates Investment Research (and affiliated companies) employees and agents must wait 24 hours after an initial trade recommendation is published on the Internet, or 72 hours after a direct mail publication is sent, before acting on that recommendation.

in introducing newer, better products. (Intel has a sizeable lead in the introduction of the newest, 32nm circuitry chipsets.) In short, it is unlikely equity investors will ever see a penny in profits from AMD, which has never paid a dividend. And it's likely that during the next downturn in technology spending, AMD will finally do the world a favor and go bankrupt.

However, both Intel and AMD recently reported soaring demand for their products. And, like a cornered rat, AMD is doing everything it can to survive, including spinning off its foundries and cutting expenses to the bone. As a result, we wouldn't be surprised to see the company book a profit this year or see its stock do well, temporarily. AMD closed around \$7.40 yesterday. **We recommend you wait until the stock trades for more than \$10 to sell it short.**

Another Way to Hedge: Trees

Timber has long been a hedge for the wealthy against inflation. In addition to providing good risk-adjusted returns, timber has also been a non-correlated asset. In short, when stocks fall, timber usually doesn't. And because you only have to cut down your trees when prices are good (timber doesn't spoil), timberland is generally a low-volatility asset.

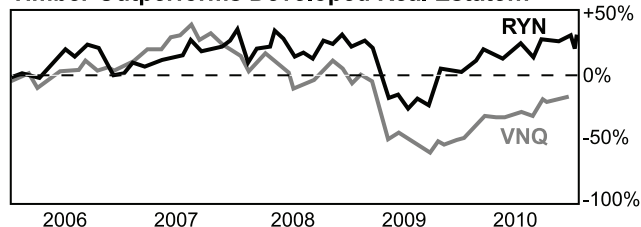
We have a special opportunity this month to buy a valuable timber resource that has long underperformed its peers. As you'll see, this situation is unique enough to warrant our interest, despite our concerns over the market as a whole. And even better, this deal will allow us to buy timber – which is a great volatility hedge.

The best way for individual investors to buy timber is through the well-established, large timber real estate investment trusts (REITs): Plum Creek (PCL), Rayonier (RYN), and Potlatch (PCH). Because these companies are structured as REITs, 90% of what they make goes to shareholders in the form of a dividend. They are all yielding more than 4% right now.

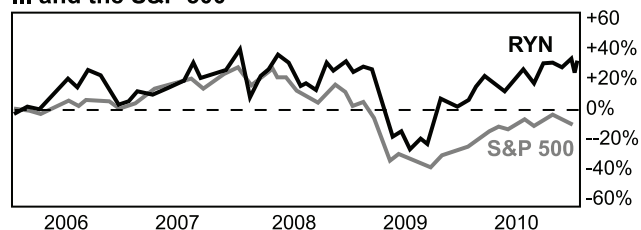
In terms of long-term performance, let's look at two five-year charts for Rayonier. First, we have the price appreciation of RYN (the dark line) plotted against the Vanguard REIT exchange-traded fund (VNQ – the lighter line). VNQ holds apartment, shopping center, and office REITs. Notice the “boring” timberland investment has done far better than developed real estate.

Now, let's take a look at how RYN has done against the entire S&P 500 Index over the last five years. Again, the dumb trees have done better than the smart people. This graph also gives us a peek at times when trees have not correlated to stock performance, particularly in early 2006, late 2007, and mid-2008. Investors with RYN in their portfolio have done extraordinarily well.

Timber Outperforms Developed Real Estate...



... and the S&P 500



Now, we have a new way to play timber, which we think offers investors even more value.

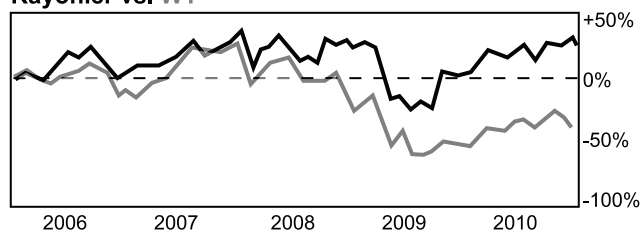
The “new” timber REIT is **Weyerhaeuser (NYSE: WY)**. While it has been around since 1900 and is already a huge business, it announced last week it will join the elite timber REIT group.

Frederick Weyerhaeuser and 15 partners founded the company when they bought 900,000 acres of timberland in the state of Washington. Over the last several decades, Weyerhaeuser has also been heavily involved in the wood-products business, making it a unique owner of timberlands.

Because Weyerhaeuser has a history as an operating business, it was not structured like a REIT. This has impaired its value for shareholders relative to the other timber companies. Tax expense has limited the amount of cash available for shareholder dividends. For timberland investors, RYN, PCH, and PCL were better choices.

Weyerhaeuser has spent the last few years working to fix this by becoming a REIT. When it does, shares should appreciate considerably. Investors will be looking at a big move higher, just for shares to get close to a valuation near RYN's (Weyerhaeuser is the light line and RYN is the dark line)...

Rayonier vs. WY



To start the REIT restructuring process, Weyerhaeuser first sold its paper packaging and containerboard business in 2008. This was a low-margin business and its sale brought Weyerhaeuser's focus more in line with managing timberland. Then, with the recession and downturn in housing during 2009, the company consolidated operations in its wood products business, increasing the company's potential to generate profits.

Finally, the company took the last step on Monday, July 12. Management announced it is prepared to pay shareholders the \$5.6 billion in past undistributed earnings and profit required by regulators for REIT conversion. The payment will come in the form of a special dividend. Of this \$5.6 billion, \$560 million will be paid in cash and the rest will be paid in stock.

The ex-dividend date for the special dividend is July 20, 2010. Buyers of Weyerhaeuser shares on or after that date will not receive the dividend. *You don't want to go rushing out to buy shares before the ex-date to get the dividend, though.* There is a better way to play it...

We're going to wait because the dividend will be taxed. Unless you buy it in a tax-free account, you'll just be paying taxes for the same benefit you would get purchasing the shares on the ex-date, without having to pay taxes. (Whenever a dividend is paid, markets adjust the closing price of the stock on the day before it goes ex-dividend. Theoretically, if a dividend is worth 5¢ per share, the stock would open on the ex-dividend date exactly 5¢ lower than its closing price the day before. Of course, with news happening around-the-clock that can change the price of a stock, this rarely happens.)

Also, big money and numerous institutional investors are paying attention to this deal. News of a \$5.6 billion special dividend coupled with a restructuring to increase shareholder value and enhance competitiveness will do that. As a result, shares of the company are up more than 10% in the days since the announcement, trading near \$40.

At that level, Weyerhaeuser is at the top of where we'd like to buy shares. Let's take a look...

The Right Price to Pay for Weyerhaeuser

The company has two principal business segments: timberlands and wood products. Valuing both is straightforward.

For the timberlands, we need to look at the quality acreage the company owns and see what it's worth. With Weyerhaeuser, this is simple. The company has a joint venture in China, more than 300,000 acres in Uruguay, and 15 million acres leased in Canada. But the 6 million acres Weyerhaeuser owns in the U.S. is the prime stuff to consider.

Of that, 2 million is in the northwest (growing Douglas fir and hemlocks) and 4 million is in the southeast (growing

southern yellow pine). At fire-sale prices, the acreage in the southeast is worth \$1,000 per acre. The acreage in the northwest, with its ready access to Asian demand centers, is worth more – \$2,000 per acre. Doing the quick math, we find the timberland alone is worth at least \$10 billion. Fully priced, all of this land is easily worth 50% more – and we're still getting Canada, China, and Uruguay for free.

To value the wood products business, let's start by looking at the worst quarter the company had during the downturn. It was the quarter ended March 31, 2009. The company sold hardly \$1 billion worth of products and lost \$230 million.

During the March quarter this year (the most recent quarter for which we have data – the company announces second quarter earnings on July 30), the company also sold \$1 billion worth of wood products. However, due to cost cutting throughout 2009, the company broke even. This business appears to be bottoming out, generating \$4 billion per year. Any further growth should lead to profitability.

If we value the business at 0.5 times sales (Louisiana-Pacific, a large wood products company that has been losing money over the past four quarters is trading for 50% more – 0.75 times sales), we get a value of \$2 billion.

Adding these two valuations together, we get a **fire-sale value** for Weyerhaeuser of \$12 billion (again, not including the trees on the land in Canada, China, or Uruguay). Essentially, we've calculated the value of both segments at a 33% discount...

And as it turns out, that is near where the company's stock is trading right now. Its enterprise value (market cap plus debt minus cash) with the stock at \$40 per share is \$12 billion. So, it is simple... At less than \$40 per share, we'd want to be buyers of Weyerhaeuser.

However, since we know the best move is to buy on or after the ex-date, the \$40-per-share number is meaningless. *Instead, we need to determine a fair price to pay once the shares go ex-dividend.* Fortunately, this is not as complicated as it sounds...

All we have to do is divide the amount of the dividend, \$5.6 billion, by the current number of shares outstanding, 211.6 million. That gives us a special-dividend-per-share amount of \$26.47. We subtract this from \$40 to get our post-dividend price target. On or after the ex-dividend date, we want to pay no more than \$13.53 for shares of Weyerhaeuser...

We pull that off, and we'll be adding a fantastic differentiator to our portfolio for a great price. Buying here, we should generate dividends and capital gains of at least 10%, year after year. And in the near term, as Weyerhaeuser's valuation approaches RYN's, we could do far better.

Action to take: Buy Weyerhaeuser (NYSE: WY) up to \$13.53 on or after July 20. 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.)

Portfolio Review

You may recall shares of **Prospect Capital (Nasdaq: PSEC)** sat above our maximum buy price of \$10.08 when we published last month's issue. The following week, they rose as high as \$10.87. The next Monday, though, the stock darted lower to close at \$10.18... A revision in PSEC's dividend policy caused the drop. The company paid 41¢ in the first quarter and was expected to pay at least that much quarterly going forward. Under that schedule, the total for 2010 would have been more than \$1.60 per share. On a \$10 stock, that would have been greater than a 16% yield.

Instead, the company decreased the amount of the payout and shifted to a monthly payment schedule starting with June. The total payout for 2010 will now be around \$1.15, or an 11.5% yield on a \$10 stock. This is a decrease of more than 25% in the amount of the dividend.

Regardless, PSEC is still a buy. On June 24, when the stock closed at \$10.08, we officially added the position to our advisory's model portfolio. Here's why...

Buying a well-run business development company like PSEC for less than book value is almost always a smart decision. We also view the lower dividend as prudent, considering what the company's CEO said about the change:

Given the attractive environment for investment opportunities, we are adjusting our distributions to retain capital for reinvestment. We have closed numerous transactions in the past several weeks, and we currently enjoy a pipeline of term sheets and other future potential opportunities more robust than in the past.

Of course, the real story will begin to be told in September, when the company announces earnings for the quarter ending June 30. In that earnings call, we should hear about several new deals. Profitability should be improving thanks to the cheaper debt. If that happens, we are confident shares will climb as investors anticipate further growth and profitability during the third quarter and beyond.

Between now and then, though, without any news hitting the wires, we expect shares to trade no lower than the upper \$9 range. Why are we so confident they won't fall further? Because that's not much less than book value.

By being patient and buying right, we've protected our downside. That is why it is so critical to only pay what a stock is worth. PSEC may take a bit to get going to the upside, but our downside will be limited while we wait and receive our 10¢ per month dividend... No, 11.5% isn't 16%, but it isn't

bad either. **PSEC remains a BUY at less than \$10.08.**

SM Energy Company (NYSE: SM), formerly St. Mary Land & Development Company, our Eagle Ford natural gas land play, announced a new long-term gas services agreement. The agreement covers gathering, transporting, and processing natural gas from SM's land in Eagle Ford. The group doing the deal includes Kinder Morgan Energy Partners (KMP), the gold standard in the pipeline world.

KMP and the others believe the find is so large, they will get a better return on their investment charging ongoing usage fees rather than charging an upfront fee for construction. *Really big finds finance their own infrastructure.* Not surprisingly, SM spiked more than 5% on this news. It has pulled back since, but we remain up nearly 14% overall. **SM is a buy.**

On the other hand, we stopped out of our other Eagle Ford stock, **Petrohawk Energy (NYSE: HK)**, on June 29, when shares closed at \$17.23. This is a bit frustrating since we know there is activity in Eagle Ford. On June 24, Pioneer Natural Resources (PXD) sold 45% of its Eagle Ford interests in a joint venture to Mumbai, India-based Reliance Industries for \$1.315 billion. Pioneer's price didn't spike on the news but, as activity like this continues, prices will climb. Petrohawk is a prime target.

Nevertheless, when a stop gets hit, we must sell and move on. Sell Petrohawk. For the portfolio, we're recording a 25% loss on the position.

As we mentioned above, the credit default swap market is simply too compelling to ignore. We believe at least one of the weak European countries will default. Once one does, the contagion will spread through the weakened banking system. We are going to put on the Italy short we discussed last month instead of waiting for it to rise above \$16. After coming close to that level recently, the **iShares MSCI Italy Index Fund (EWI)** is starting to crack-up again. **We're going to sell Italy short now and benefit from the fall.**

Institutions are rushing to the safe haven of the U.S. dollar and Treasuries. This is driving interest rates lower and may keep them low for some time. The 10-year yield is already down at 2.94% and the two-year is at record lows, less than 0.60%. As a result, our **iShares Barclays 20+ Year Treasury Bond Fund (TLT)** short has been rising in recent weeks, working against us. **We're going to buy-to-cover TLT, recording an 8.8% gain for the position in the portfolio.**

Good investing,



Porter Stansberry and Braden Copeland
July 16, 2010

Investment Advisory Model Portfolio

Prices as of July 15, 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>
Intel	INTC	7/16/10	NEW	\$21.51		Blue-chip stock	Buy	NEW	2
Weyerhaeuser	WY	7/16/10	NEW	\$40.64		Timber REIT	Buy below \$13.53	NEW	2
SVB Financial^^	SIVB	6/29/10	\$41.42	\$41.83		Warrant banker	Buy below \$42.50	-2%	3
Prospect Capital	PSEC	6/24/10	\$10.08	\$9.78	\$0.10	High-yield lender	Buy below \$10.08	-1%	2
Annaly	NLY	11/6/08	\$13.64	\$17.62	\$4.37	Gov. port. repair	Buy below \$17.50	61%	1
Hershey	HSY	12/6/07	\$40.55	\$51.61	\$3.02	Chocolate empire	Hold	35%	3
Johnson & Johnson	JNJ	6/6/06	\$60.53	\$60.26	\$7.13	Blue-chip health	Buy	11%	2
Exelon	EXC	10/9/02	\$21.47	\$41.76	\$12.57	Nuclear power	Buy	153%	1
<u>The "Next Boom"</u>									
Calpine	CPN	5/13/10	\$13.93	\$13.19		Nat gas power	Buy below \$15	-5%	2
Petrohawk Energy^	HK	4/13/10	\$23.18	\$17.23		Eagle Ford	Stopped out	-26%	2
SM Energy**	SM	4/13/10	\$37.73	\$43.81	\$0.05	Eagle Ford	Buy	16%	2
San Juan Basin	SJT	1/7/10	\$18.34	\$24.86	\$0.93	Safe natural gas play	Hold	41%	4
Silver	SLV	10/13/09	\$17.48	\$17.95		Money crisis	Hold	3%	4
Financial ETF	XLF	8/13/09	\$14.33	\$14.75	\$0.17	Fed manipulation	Buy	4%	2
ConocoPhillips	COP	4/2/09	\$41.45	\$52.86	\$2.49	Cheap oil	Hold	34%	4
Gold Miners ETF	GDX	12/11/08	\$28.02	\$50.17	\$0.11	End of America	Hold	79%	5
<u>Victims</u>									
Adv. Micro Devices	AMD	7/15/10	NEW	\$7.41		Intel's punching bag	Short above \$10	NEW	5
iShares Italy ETF^^	EWI	6/10/10	NEW	\$15.79		European default	Short	NEW	5
Barnes & Noble	BKS	5/13/10	\$20.01	\$13.26	\$0.25	Obsolete bookstores	Hold	11%	5
Gannett	GCI	3/11/10	\$16.29	\$15.11	\$0.04	Obsolete newspaper	Hold	5%	5
Western Digital	WDC	2/18/10	\$43.40	\$32.73		Obsolete tech	Hold	21%	5
Seagate	STX	2/18/10	\$20.73	\$14.77		Obsolete tech	Hold	28%	5
General Electric	GE	11/19/09	\$15.76	\$15.25	\$0.30	Overleveraged	Short	-1%	5
Am. Electric Power	AEP	6/24/09	\$30.53	\$34.86	\$1.65	King of coal	Hold	-12%	5
iShares US Bond	TLT	1/15/09	\$114.30	\$100.31	\$5.55	End of America	Cover	11%	5
Current Portfolio Avg: 23.1%									
S&P 500 Portfolio Avg 4.6%*									
* 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. ** Name changed from St. Mary Land & Exploration to SM Energy Co. on 5/27/2010 ^ Recent price and gain reflect stop-out date. ^^ See "Special Reports" section of the website for further information. 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.									

Published by Stansberry & Associates Investment Research.

Stansberry & Associates welcomes comments or suggestions at feedback@stansberryresearch.com. This address is for feedback only. For questions about your account or to speak with customer service, call 888-261-2693 (U.S.) or 410-895-7964 (international) Monday-Friday, 9 a.m.-5 p.m. Eastern time. Or e-mail info@stansberrycustomerservice.com. Please note: The law prohibits us from giving personalized investment advice.

© 2010 Stansberry & Associates Investment Research. All rights reserved. Any reproduction, copying, or redistribution, in whole or in part, is prohibited without written permission from Stansberry & Associates, 1217 Saint Paul Street, Baltimore, MD 21202 or www.stansberryresearch.com.

Any brokers mentioned constitute a partial list of available brokers and is for your information only. Stansberry & Associates does not recommend or endorse any brokers, dealers, or investment advisors.

Stansberry & Associates forbids its writers from having a financial interest in any security they recommend to our subscribers. All employees of Stansberry & Associates (and affiliated companies) must wait 24 hours after an investment recommendation is published online – or 72 hours after a direct mail publication is sent – before acting on that recommendation.

This work is based on SEC filings, current events, interviews, corporate press releases, and what we've learned as financial journalists. It may contain errors, and you shouldn't make any investment decision based solely on what you read here. It's your money and your responsibility.