



No More Secrets

The Secret U.S. Company That's Dominating the World's Emerging Markets

There are no more secrets.

Digital databases now contain every imaginable piece of information about you – what you buy, where you go, even what you *believe*. Accessing this information is cheap, costing only a few cents per name.

Likewise, the cost of broadcasting information to the *entire* world has largely been eliminated. As the Rodney King affair proved, anyone with a camera phone can change the world today.

Some people believe this profound collapse of personal privacy will lead to a government-dominated society, like the one described in George Orwell's famous novel *1984*. We doubt it.

We believe governments around the world have the most to lose from the dramatic revolution taking place in digital communication. The Pentagon's secrets have become Internet gossip fodder, thanks to military sources leaking to www.WikiLeaks.com. If you haven't been to the website yet, you should go there and look around. You'll find classified documents from every division of the U.S. government (and other governments around the world).

For example, this morning on WikiLeaks.com, we read a classified U.S. State Department report from January 2010 about how the U.S. and British governments are conspiring with both major political parties in Iceland to ensure the Icelandic people don't have another opportunity to vote down a bailout of Landsbanki *Icesave* online savings accounts. If you ever doubted the power that bankers have on the world, you won't if you read that memo. (You can read it for yourself at: <http://file.wikileaks.org/file/us-watson1-2010.txt>.)

Bloggers, like WikiLeaks.com and the DrudgeReport.com, have broken the major networks' (and their government handlers') control on the flow of information. That will have *profound* changes on our society, making it much more difficult for traditional centers of power – like the federal government and major corporations – to control popular opinion.

In short, there are no more secrets. Well, almost none. There is one major secret we've known about for a while...

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- The Best, Cheapest Business We've Ever Recommended
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and Porter Stansberry

A well-known U.S. conglomerate has secretly built what we believe is the largest collection of emerging-market businesses in the world. Largely hidden from the prying eyes of the U.S. press, its own conservative shareholders, and most importantly, from local competitors desperately afraid of U.S. competition, this company has become a powerhouse in emerging markets. It now owns dominant franchises in several Latin American countries and China. Last year, it began expanding into India – using the same “under the radar” strategy.

U.S. investors have begun to focus on foreign earnings as a way to maintain growth despite the moribund U.S. economy. And yet... we promise you’ve never heard about any of this, even though this business expansion has been one of the largest (and most profitable) in history.

How big? How profitable? Right now, this secret U.S. conglomerate owns or controls foreign subsidiaries or operating groups that produce roughly \$100 billion per year in revenue. That would make the firm’s foreign operations alone the 13th-largest company in the S&P 500. Just to reiterate... that’s only its foreign operations. Meanwhile, most investors know nothing about the company’s emerging-market dominance.

It’s one of the world’s greatest secrets. And it is truly an amazing story.

The Strategy Is Born

Over two decades ago, a series of secret meetings took place in rural North America.

Shrewd, grey-haired business executives would arrive at their remote headquarters and remain there for days, away from Wall Street’s watchful eye. They were peering into the future, hatching a complex strategy to dominate an industry they all knew extremely well. But their sights were set on foreign soil.

Their primary targets: Latin America and Asia. Through their realms of expensive on-the-ground

research, they could see what the future would be like there. They knew these markets’ long-term growth would power the world’s economy for the next 50 years – more so than anywhere else on the planet, including the United States.

They also knew success depended upon secrecy. If their foreign competitors saw them coming, they’d use their political power to bar U.S. competition. Locking down as many positions as possible before they were discovered was critical.

The strategy they devised would cover half the globe, eventually requiring action on several fronts in several countries simultaneously. Brazil, Argentina, and Mexico were among their first targets. But they sent their best into China.

Nearly 20 years ago, they knew an early Chinese foothold would prove their greatest single coup.

There was one problem. Several major shareholders were *extremely* conservative. They were blind to any opportunities outside the United States. In their eyes, business anywhere else was irrelevant and foolhardy. Thus, the need for secrecy was two-fold: They had to hide the scope of their international efforts from their competitors and their own shareholders for as long as possible.

Corporate secrecy like this is unusual... but not unheard of. You may know the 1960s story of Walt Disney and his mysterious moves in Florida. His vision was to create an entire city, resort, and amusement complex, complete with its own train. It would become his company’s hallmark, the brand of a gigantic entertainment legacy that could never be duplicated.

Disney needed more than 45 square miles of land. Getting it would require complete secrecy. With his people posing as timber farmers and other land buyers, setting-up completely untraceable shell companies and bank accounts, he pulled it off. The greatest entertainment destination and icon in the world was born.

You may also know Coca-Cola’s real original

secret ingredient: Cocaine produced from Peruvian and Bolivian coca leaves. They say there's no cocaine in Coke's recipe anymore. But these same coca leaves are still flown-in to Maywood, N.J. (the only place in the country where they can be legally imported) and used in the recipe. Only a handful of people know exactly how, though. The recipe remains one of the great business secrets in the world... locked in an underground bank vault in Atlanta, Georgia. And Coca-Cola ("New Coke" sans coca leaves flop notwithstanding) remains one of the world's greatest businesses.

Today, the world's greatest emerging-market business largely remains a secret.

Its first deals were done in Mexico, Canada, and Brazil.

After nearly five years of careful planning, the company's team secured its first five positions in Brazil in 1995. Within 10 years, it had established 293 businesses, including operations in food, clothing, pharmaceuticals, and merchandise.

In 2009, revenues in Brazil totaled \$9.8 billion. The company had succeeded in creating a \$10 billion per year business in less than 15 years, making it the third-largest such business in the entire country. Today, it owns 445 businesses and employs more than 75,000 people.

Activity in Mexico began in 1991. In the first 10 years, the company established 499 businesses throughout this country of 106 million people. One of the main focuses in Mexico was the restaurant industry. Today, they own 363 "VIPS" restaurants (almost twice as many outlets as P.F. Chang's has in the U.S.). These restaurants, at 7,500 square feet, are 30% larger than the average Outback Steakhouse.

Adding the restaurants to the company's 1,166 other businesses, you get 1,529 total Mexican locations. Over the last eight years, the company has grown its Mexican footprint twice as fast as it did during the previous decade. Total Mexican revenue

for the group in 2009 was more than \$20 billion with nearly 170,000 employees. Outside of the telecom monopoly, we can't think of a larger business in Mexico.

The company's expansion in China is even more staggering. But it has taken a lot longer to get things moving. After entering the market in 1996 with its first location, the China team was only able to gain control of 60 more businesses over the next decade.

But within the last four years, the firm has quadrupled that number. Today, it has 291 locations in China. By the end of December, it will have more than 300.

During this time, the company has acquired and built more square footage than China giant Yum! Brands has in total.

Yum! Brands, which owns Kentucky Fried Chicken, Taco Bell, and Pizza Hut, has long been one of the leading U.S. corporations in China. Sales from its Chinese stores make up 30% of its total revenue, making this company one of Wall Street's most popular "China plays." As a result, its stock is popular with U.S. investors looking for a safer way to play the growth of emerging-market economies. That's probably why its stock trades at a significant premium (in terms of price to earnings) to McDonald's, a vastly superior business with plenty of growth in China, too.

Meanwhile, the secret U.S. conglomerate dominating most of the world's emerging markets remains completely unknown to investors – despite having 4,205 different stores in 14 countries worldwide. Its emerging-market sales and profits already outclass Yum! Brands – yet not a single Wall Street analyst labels this company an emerging-markets investment.

How much larger is this secret global conglomerate?

We can't tell you precisely because, in order to keep much of its global operations a secret, it does-

n't break out sales from key regions (like China). However, even though we can only make rough estimates, the numbers are so much larger than Yum! Brands it is almost comical.

For example, we estimate this secret conglomerate produced more than \$18 billion in sales from China last year. We derived this figure because we know it has locations in 87 different Chinese cities and controls 50 million square feet of commercial real estate. (We use these stats to compare the company's sales in other regions around the world.) Assuming our Chinese sales figure is accurate, this conglomerate is earning roughly nine times more in China than Yum! Brands – and it has much more room for growth.

Look carefully at the bottom of the list below. You'll find India. It is home to 1.1 billion people. It is as big as China. And as it has done in these other markets, the secret U.S. conglomerate is starting small – building one good business at a time. Currently, it only owns two businesses in China. But... as we've seen over the past 20 years... growth here will be rapid. It will not be long before China and India make up this company's two largest operations, dwarfing its businesses in Mexico – which produces \$20 billion in revenue and \$1.2

billion in net income.

Despite being almost unknown to U.S. investors, this company's prospects on the world stage are now without equal. That's why, regardless of the size of its U.S. operations (it is one of the largest corporations in America), the company's net sales grew by 11% over the last year. Operating income grew nearly 17%. This kind of growth shouldn't have been possible for a largely American company, where the economy remains stalled. Since the U.S. recession began in 2008, this company's sales have grown by \$30 billion (yes, *billion*).

A few investors have caught wind of the company's success because of these numbers. (We're not the only people in the world who read annual reports carefully... but there aren't many of us.) Warren Buffett, for example, has been a major buyer of the stock over the last several quarters.

Perhaps the Cheapest, Highest-Quality Business We've Ever Recommended

Even so... this company's position in the world's emerging markets is almost totally unknown and unappreciated by the stock market. That's why,

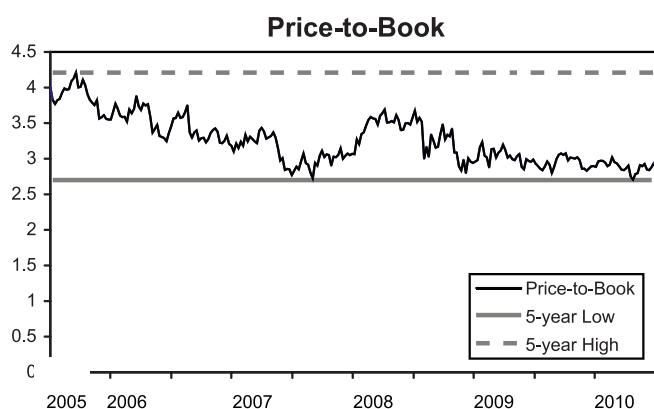
Secret Dominance of the World's Emerging Markets

<u>Country</u>	<u>Locations</u>	<u>Date of Entry</u>
Mexico	1,529	November 1991
Canada	319	November 1994
Brazil	445	May 1995
Argentina	46	August 1995
China	291	August 1996
United Kingdom	377	July 1999
Japan	414	March 2002
Costa Rica	171	September 2005
El Salvador	77	September 2005
Guatemala	169	September 2005
Honduras	53	September 2005
Nicaragua	55	September 2005
Chile	257	January 2009
India	2	May 2009

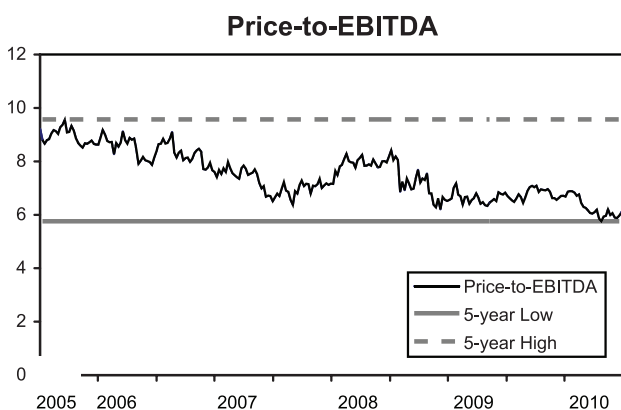
despite its excellent results, its share price is now *within 15% of its five-year lows*.

Given the increases to sales and earnings over the period, it's fair to say this business has never been cheaper – by almost any valuation metric.

The price-to-book value (simply the market cap of the stock compared to the assets minus the liabilities) is currently 2.9x. Its low over the last five years was 2.7x. On the other hand, the high was 4.21x – more than 45% higher from here.



In terms of price-to-EBITDA (market cap as a multiple of the last 12 months' earnings before interest, taxes, depreciation, and amortization), shares are trading for less than a 6.1x multiple. The low in the last five years was 5.76x. The high was 9.6x. Getting back to there from here would be a 57% gain.



... And Shares Have Never Yielded This Kind of Dividend

We think the best valuation metric is simply how much capital a business can afford to return to shareholders.

It's amazing... but the bull markets of the past 30 years caused investors to forget the whole purpose of owning a business is to derive income from it. The speculative madness of the '80s, '90s, and early 2000s led to an entire generation of investors who ignore valuation because they never cared about income.

We know better. We know over the long term, more than half of your returns from owning stocks will come from the return of capital in the form of dividends. Share buybacks can be even more important as a form of capital return – but only if they're done at the right times – when the stock is cheap.

Since the beginning of the recession, this global conglomerate has seen its cash derived from operations go from \$20 billion per year in 2007 to \$23 billion in 2008 to \$26 billion in 2009. It is currently spending around \$10 billion in cash per year on capital investments – expanding the number of its locations throughout the world. That leaves it with between \$10 billion and \$15 billion per year to return to investors in the form of dividends and share buybacks. Last year, it returned a total of \$11.9 billion to shareholders. We expect a similar amount this year. (In fact, during the first two quarters of the year the company bought \$7 billion in stock and paid out \$2.2 billion in cash to shareholders.) Assuming the company returns a total of \$15 billion this year, its yield would be almost 8%.

Stock vs. Bond

It is unbelievable that you can earn almost 8% a year – between dividends and buybacks – holding the equity of a company growing so fast in all of the world's major emerging markets.

The main reason you can still buy this stock

for so little (about seven times annual cash earnings) and get such a high dividend yield is because almost no U.S. investors realize this company's emerging-markets presence. Also, U.S. investors have become *extremely* fearful of all stocks. Billions of dollars each month have been flowing out of stocks and into bonds. (We find the move particularly ironic, given our concerns about the likelihood of massive inflation over the next few years.)

Because investors have been selling stocks and buying bonds, this conglomerate's bonds yield very, very little. Its 3% notes that mature in 2014 (rated double-A) are now trading at \$104. Yet, when these notes mature, they can only be redeemed for \$100. Thus, *bond market investors are locking in a capital loss*. That means their yield to maturity on these 3% notes will be less than 2%.

Meanwhile, you could buy the stock instead and earn close to 8%. Plus, as an equity holder you own the business, which means as earnings increase your payouts increase.

There is no rational explanation for the huge discrepancy in value in this company's stock versus its bonds. This is a terrific opportunity for equity investors because this stock is so badly mispriced.

But what about equity risk?

There is none in this company. This company could easily afford to buy back all of its debt outstanding *and* all of its shares. Doing so would cost approximately \$225 billion. At the current yield on its bonds, it would cost this company far less than \$10 billion a year in interest to borrow the money required. You can buy this company's stock at a huge discount to its bonds – and take on no more risk.

Furthermore, **this conglomerate is the highest-rated U.S. company in its field**. We believe it should be rated triple A – and we think an upgrade to this credit rating will soon occur. This would make buying back more stock even cheaper.

Sooner or later, investors will come to their

senses. Within three years, we think this stock, which is trading near \$50 today, will be in the \$90s. Easily. You'll be sitting on a 70% capital gain and earning a double-digit yield on your initial investment.

We rarely say things like this about potential investments... but this is simply a *no-brainer*. This is a "triple-lock" deal. The company is sure to continue growing. The stock is sure to pay you far more than the bonds. And the stock valuation is certain to increase, by a wide margin.

And yet... despite all of these facts and everything we've told you about the company's secret emerging-markets dominance... we feel relatively certain most subscribers will let this opportunity pass them by.

If you are one of those people, just know that in five years you're going to be saying, "*Damn... how did I miss that opportunity!*"

The main reason most people won't buy the stock is because they think there's no way one of the best-known companies in the world can still grow that much...

You see, the conglomerate we've been discussing is **Wal-Mart Stores (NYSE: WMT)**. Most investors believe it is just another old and tired retailer. But there is a lot more to the story – more than most investors will ever know.

Take our advice on this one. Wal-Mart stock, bought here, will be the highest returning triple-A-rated investment you can make over the next 10 years – by at least 100%. (Yes, we know Wal-Mart isn't triple-A rated right now. But it will be soon.) You just can't do better than that with a truly no-risk investment.

Portfolio Review

This month, there are a few open positions in the portfolio we believe deserve special mention.

First up is **Intel (Nasdaq: INTC)**. Over the 60

days since our recommendation, shares of the microchip giant have tumbled 15%. This surprises us, because they were already incredibly cheap.

The best conclusion we can reach regarding the slump is the market is not happy with the proposed McAfee acquisition. Uncertainty is never a stock price's friend, and it's not crystal clear this will be a good deal for Intel.

However, we remain bullish on Intel. It will take a few quarters for the McAfee transaction to make sense and the security-related intellectual capital to start meshing with Intel's, but it will happen. As it does, the share price will begin to climb. Meantime, it may languish, making the stock a fantastic bargain. If you don't already own Intel, picking up shares here will do your portfolio wonders over the long term.

Next is **Calpine (NYSE: CPN)**. The unregulated, gas-fired power plant energy producer remains a favorite. Quietly, natural gas power has been squeezing coal-fired power off the American power grid for almost a decade, boosting Calpine's business.

Now, with gas prices continuing to tumble, sitting near all-time lows of \$3.80 per million British thermal units (Btu), gas is pushing coal away even harder. Calpine's business growth story becomes more compelling with super-cheap natural gas. Add to that the fact that more people understand burning gas is much better for the environment than coal, and the Calpine story is practically a lock.

We recommend buying Calpine up to \$15. With shares trading near \$13 right now, make sure you have some in your portfolio.

ConocoPhillips (NYSE: COP) is another stock we like at these levels. We have lowered its risk number from "4" to "2" as the price of oil is putting in a floor in the low \$70s. The company is extremely profitable with oil at these prices. Any increase in price and Conoco shares will climb, too.

Meantime, we're getting paid well to wait. The

company's dividend yield is nearly 4% with a five-year dividend growth near 15%. Conoco is another stock you should seriously consider for your portfolio, right now.

As far as positions we are closing, we have three this month...

Our short on obsolete hard-drive maker **Seagate (Nasdaq: STX)** was a fantastic winner. As we said we would last month, we bought, to cover, when the gain on the short passed 50%. On August 26, we closed the position at \$10.14 per share, for a 51% gain.

For a short trade, where the maximum possible gain is always 100%, that is an amazing return... all in six months. Note, we're still in the game shorting our other obsolete hard drive outfit, **Western Digital Corporation (NYSE: WDC)**, up 40% so far.

On the other hand, our Eagle Ford play **SM Energy (NYSE: SM)**, wasn't so kind to us. We were stopped out for a 6% loss when it closed at \$35.48 on August 20.

Finally, we're going to go ahead and close out our short on **American Electric Power (NYSE: AEP)**. The coal-focused power company has been granted a reprieve with the carbon emissions, cap-and-trade legislation being moved off of the front burner in Washington. Eventually, something will be done about it all, and AEP will suffer.

Meantime, we need to cut our losses. **Buy, to cover, AEP.** We're marking down a 26% loss on this one.

Good investing,



Porter Stansberry and Braden Copeland
September 10, 2010

Investment Advisory Model Portfolio

Prices as of September 9, 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>Return</u>	<u>RISK</u>
Wal-Mart	WMT	9/9/10	NEW	\$51.91		Global blue-chip	Buy	NEW	1
Johnson & Johnson	JNJ	7/6/06	\$60.52	\$59.82	\$7.67	Blue-chip health	Buy	11.5%	1
Exelon	EXC	10/9/02	\$21.47	\$42.48	\$13.10	Nuclear power	Buy	158.9%	1
Annaly	NLY	11/6/08	\$13.64	\$17.68	\$4.37	Gov. port. repair	Buy below \$17.50	61.7%	1
Intel	INTC	7/16/10	\$21.51	\$18.00	\$0.16	Blue-chip tech	Buy	-15.6%	2
Weyerhaeuser	WY	7/16/10	—	\$16.18		Timber REIT	Buy below \$13.53	—	2
Prospect Capital	PSEC	6/24/10	\$10.03	\$9.81	\$0.30	Warrant banker	Buy below \$10.08	0.8%	2
Hershey	HSY	12/6/07	\$40.55	\$46.33	\$3.34	Chocolate empire	Hold (Long)	22.5%	2
SVB Financial^^	SIVB	6/29/10	\$41.42	\$39.63		Warrant banker	Buy below \$42.50	-4.3%	3
<u>The "Next Boom"</u>									
Calpine	CPN	5/13/10	\$13.93	\$12.95		Nat gas power	Buy below \$15	-7.0%	2
SM Energy**^	SM	4/13/10	\$37.73	\$38.51	\$0.05	Eagle Ford	SELL	2.2%	2
ConocoPhillips	COP	4/2/09	\$41.45	\$54.73	\$3.04	Cheap oil	Hold (Long)	39.4%	2
Eagle Bulk Shipping	EGLE	8/12/10	\$4.72	\$5.05		Super-cheap ships	Buy below \$5	7.0%	3
San Juan Basin	SJT	1/7/10	\$18.34	\$22.57	\$1.17	Safe natural gas play	Hold (Long)	29.4%	4
Silver	SLV	10/13/09	\$17.48	\$19.32		Money crisis	Hold (Long)	10.5%	4
Gold Miners ETF	GDX	12/11/08	\$28.02	\$52.65	\$0.11	End of America	Hold (Long)	88.3%	5
<u>Victims</u>									
Brunswick	BC	8/12/10	\$15.01	\$14.32		Sinking boat maker	Short above \$15	4.6%	5
Adv. Micro Devices	AMD	7/15/10	—	\$5.86		Intel's punching bag	Short above \$8	—	5
iShares Italy ETF	EWI	6/10/10	\$15.79	\$15.70		Europe crumbles	Short	0.6%	5
Barnes & Noble	BKS	5/13/10	\$20.01	\$15.40	\$0.50	Obsolete bookstores	Hold (Short)	20.5%	5
Gannett	GCI	3/11/10	\$16.29	\$13.22	\$0.08	Obsolete newspaper	Hold (Short)	18.4%	5
Western Digital	WDC	2/18/10	\$43.40	\$25.95		Obsolete tech	Hold (Short)	40.2%	5
Seagate^	STX	2/18/10	\$20.73	\$11.03		Obsolete tech	Buy to Cover	48.9%	5
General Electric	GE	11/19/09	\$15.76	\$15.91	\$0.30	Overleveraged	Short	-2.9%	5
Am. Electric Power^	AEP	7/24/09	\$30.53	\$36.35	\$2.07	King of coal	Buy to Cover	25.8%	5
Current Portfolio Avg:	22.9%								
S&P 500 Portfolio Avg	3.7%								
* This is the return since reference date, including dividends.									
** 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.									
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