



The Only Trend that STILL Matters

We call it “the only trend that matters.”

It is the most important financial idea we could ever give to you. The fate of millions of Americans rests in a single market, where just one financial instrument trades, and...

This market is collapsing. Its downfall began, as we predicted at the time, in the fall of 2008.

This single market determines our standard of living, our role in the world, and our prestige as a nation. It directly influences the price of food and oil. And that's not all...

Most of the world's other markets depend on this market, too. The price of every fixed-income security in the world is based directly on this market. The prices of U.S. stocks depend on this market. Not directly, but strongly in comparison.

Most important, the U.S. dollar depends on this market.

You see, foreign investors own *trillions* of this asset. As the market collapses, foreign investors will sell. As they sell, they will also unload dollars. This market is the key to the future value of bonds, stocks, and the U.S. dollar. That's why the decline of this market is *the only trend that matters*.

We're talking about the collapse of the largest bond market in the world – the market for U.S. Treasuries.

The best illustration of this trend is the chart on the next page. We urge – no, we beg – our readers to pay attention to this chart. Put a copy of it on your refrigerator. Update it weekly. Keep your eye on it. And make sure you truly understand what it means. The chart compares the value of long-dated U.S. Treasury bonds (TLT) to the price of gold (GLD). When we say “long-dated,” we mean U.S. government debts that don't come due for more than 20 years. What this chart shows you is the value of the bond market compared to gold since December 2008.

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Gold skyrockets, while Treasuries crumble



Whenever someone tells you he believes we are exaggerating the risks of our government's debt load and its dependency on "quantitative easing" (aka printing money), show him this chart. This chart demonstrates the collapse of the purchasing power of our currency, as gold (GLD) rises. And it shows the corresponding collapse in the credit of the U.S. government, as bonds (TLT) fall.

Just to be clear about this... We are not rear-looking experts. We have been warning about these issues frequently (almost continuously) since December 2008. Here's what we wrote back then:

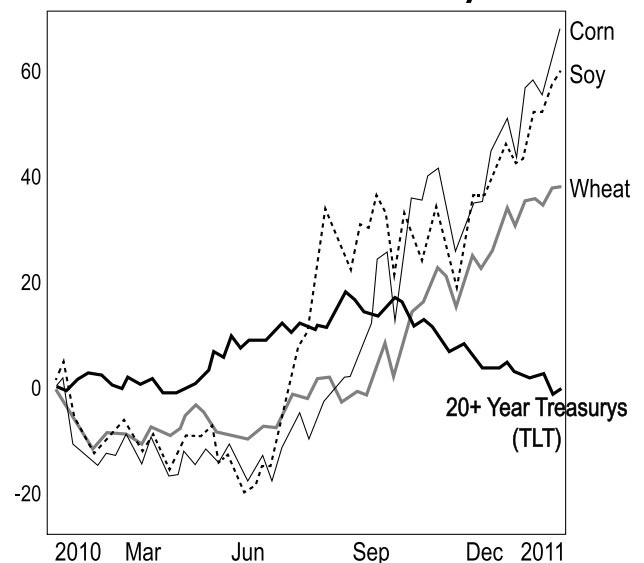
None of the government's bailout plans will solve any of the problems. The government can only shift the burden of the failures. Instead of bondholders and shareholders being wiped out, taxpayers are put on the hook. These actions will temporarily resuscitate the economy – but cause a permanent decline in the value of the dollar... inflation will wipe out much of the value of long-dated U.S. government bonds, causing their prices to plummet.

In that issue, we told folks to "buy as much gold bullion as you can reasonably afford." And we explained why you'd never have a better opportunity to buy gold stocks again in your entire life. (We recommended the gold stock exchange-traded fund, GDX). We reiterated these views and explained these trends again in our January 2009 issue... and in our January 2010 issue. If you haven't read these issues, please go back and review them... today. If you don't find our End of America pre-

dictions are unfolding almost exactly as we said, cancel our letter.

We're repeating these warnings again today because the market for U.S. Treasuries recently "broke down" through an important level. The decline seems to be accelerating. World food prices soaring offers still more evidence that something unusual is happening. Food prices and the market for U.S. Treasuries are negatively correlated (as you can see in the chart below). That is, as food prices rise, U.S. Treasuries fall. We know there's a fundamental reason for this: food, around the world, is priced in U.S. dollars. As people begin to fear inflation, they buy food and sell U.S. Treasuries. Judging by food prices, the market for U.S. Treasuries is about to collapse.

Food Prices vs. Treasuries



When we began writing about the looming collapse of the bond market and the risks to the U.S. dollar, a lot of people called us "right-wing nutjobs" or "gold bugs." That's not the case. This letter was founded (in 1999) on the idea the Internet would change our lives in a profound way. We write about the biggest financial trends we can understand – whatever they happen to be. We have always strived to understand the facts and allow the facts to dictate our view. Now, three years after we first predicted the collapse of the Treasury market, more and more people have discovered these facts. They can look around and see with their own eyes what's happening. Our ideas have gone from fringe to mainstream.

(Interestingly, we tried to run a television ad warning

about the risks to our country. You can see it for yourself here: <http://www.youtube.com/watch?v=MvLDTwvPR3w>. As far as we can tell, nothing in the ad is even mildly offensive. But no TV network in America will run it, not even Fox. You may believe you have the right to free speech, but not in any venue that matters.)

But one part of our view remains outside the mainstream... We believe gold will once again be used as the world's reserve currency. We understand all of the reasons why *this shouldn't happen*. The U.S. is the world's single-largest economy. Its currency sits in the incumbent position. It has the world's strongest military. It has a new hegemony over dozens of the world's developing countries – much like a colonial master.

Unfortunately, the U.S. dollar is no longer a reliable currency. The global paper money system the U.S. established in 1971 is falling apart. Look at the huge swings in commodity and foreign currency prices. Look at the constant financial crises. Witness “quantitative easing.” And most critically, a “sword of Damocles” hangs over the value of the U.S. dollar in the form of a crashing U.S. Treasury bond market.

But... how do we know the world will eventually return to gold?

First, we know that some form of reserve currency is necessary to facilitate global exchange. If Americans want to sell goods around the world and buy goods from around the world, some unit of exchange is required. It's critical the reserve currency be stable, so that long-term contracts and foreign investments can be made.

Let me show you what I mean. Imagine you're China and you need to buy corn. You can't afford for your supply of corn to be interrupted, so you need to lock in 20 years of supply. To do so, you have to know what the cost is going to be.

If you buy your corn in U.S. dollars, you have no idea how much corn will cost. Look at the price of corn in U.S. dollars over the last 10 years:

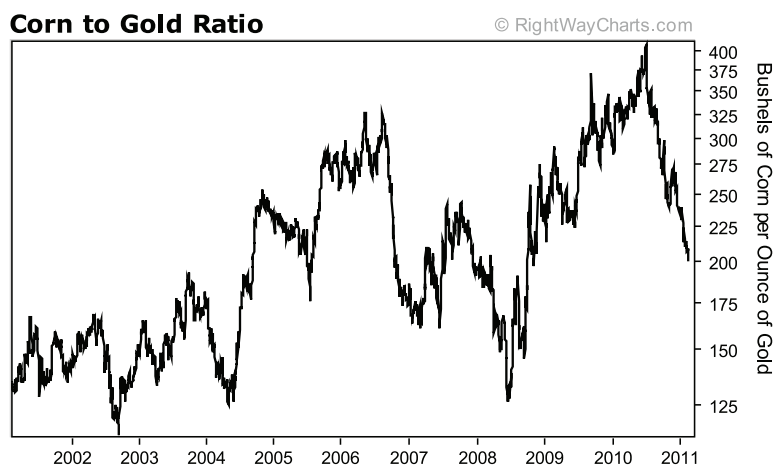
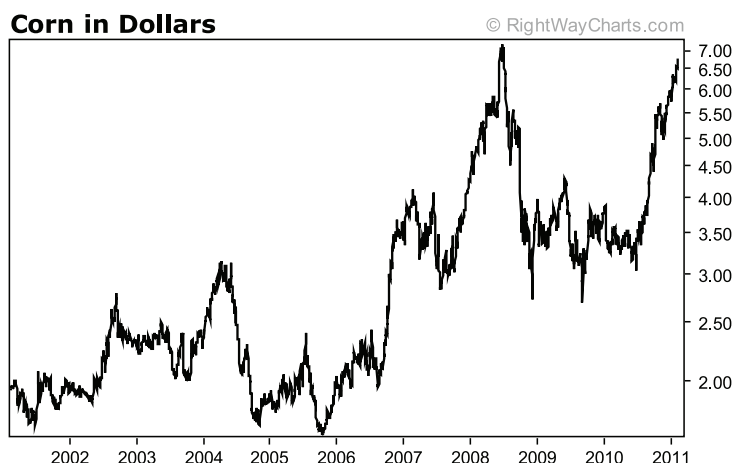
Now look at the price of corn in terms of gold.

From the perspective of a Chinese corn buyer, which is the better currency?

You could run the same example with almost any global commodity. And you can do the same exercise with domestic goods – like home prices... or even stocks. The fact is, the world's economy is being hamstrung by the volatility of our paper currency. The sooner it is replaced with real money (gold), the better. The world took a big step in this direction last month, when JPMorgan again decided to accept gold as collateral from hedge funds. (Isn't it amazing JPMorgan *didn't* accept gold as collateral?)

Now, you may not intuitively understand these concepts. They are complex. You may not ever really get your mind wrapped around the world's monetary system. You might not really understand why gold returning to the banking system via collateral rights is momentous. But I know you can understand in a deep and meaningful way, what's truly happening here...

Do you remember this line from a popular movie



made about 15 years ago?

Nobody believed he was real. Nobody ever saw him or knew anybody that ever worked directly for him... That was his power. The greatest trick the Devil ever pulled was convincing the world he didn't exist.

Christopher McQuarrie wrote the line in his Academy Award-winning screenplay, *The Usual Suspects* (which made Kevin Spacey a star). If you saw the film, you understand the message: *The best criminals convince the world that they don't exist.*

The Federal Reserve has done the same thing with its paper dollar. *The best counterfeiters convinced the world there's no real money.*

The world used gold as its monetary foundation for at least 4,000 years. Only since 1971 has the world's reserve currency had no connection to gold. And yet, only 40 years later, it seems as though most people have forgotten gold is the only real money. Incredibly, most people don't even know where to buy it... or how to use it.

We think this is the greatest financial crime in human history. The U.S. government convinced the world gold didn't matter, that its paper (which it can legally print) is better than gold. It convinced all of its creditors that counterfeiting was better than sound money. When you really understand what happened... it's incredible.

What do you think is going to happen when our creditors wake up and realize how they've been duped? It won't be pretty.

One thing is certain; they won't trust us again. And they won't buy our bonds. That's why we think you should sell U.S. Treasuries short. You can do so by shorting the long-dated U.S. Treasury bond exchange-traded fund. The symbol is TLT. Use a 25% trailing stop loss and a standard position size (something around 4% of your portfolio).

Here's one thing you probably don't know about *The Usual Suspects*.

A 19th-century French poet, Charles Baudelaire,

originally penned the line about the devil. "*La plus belle des ruses du diable est de vous persuader qu'il n'existe pas!*" Translated: *The devil's best trick is to persuade you that he doesn't exist.*"

Although the filmmakers didn't credit Baudelaire, the entire idea for the movie came from him. It's a powerful idea... and it has been with humanity for a long time.

As the rest of the world comes to realize the dollar is a fraud, its value will plummet. Those left with dollars will discover they buy far less. Everything will be much more expensive. Those who don't plan will be far worse off.

On the other hand, those who see what is coming and plan will come out ahead. They will have bought commodities like gold, silver, and oil. They will have invested in the companies that trade in them. They will have used their dollars, while they still have a little value left, to make investments that will appreciate in the future as the dollar slides.

Consider, we advised you in April 2009 to buy shares of **ConocoPhillips (NYSE: COP)**.

Shares of the gigantic oil company were cheap. Panicked investors at the time believed the global economy was headed for a long period of economic contraction thanks to disappearing credit. They sold the stock believing oil demand would vanish with it. They were wrong.

We knew oil was not going away. **Stansberry's Investment Advisory subscribers who followed our recommendation to buy ConocoPhillips are up nearly 90%.** The company is still in the portfolio and shares are still climbing...

This month, we have another oil investment for you... one whose assets are certain to appreciate as the cost of everything skyrockets...

Slipping into China Through Russia

In 2003, a Western oil company purchased a 50% stake in Russia-based Tyumen Oil for \$7.75 billion. Most viewed the move as the height of arrogance and stupidity. Included beyond the usual risks were the possibility of

government confiscation and jail.

At the time, the Russian government was on a natural resource stealing spree, taking control of majority interests in the country's largest firms. Just as the company made the investment, Mikhail Khordorkovsky of Yukos Oil, the largest independent oil company in Russia, was on trial for fraud, tax evasion, and stealing from Yukos' subsidiaries. Khordorkovsky – a multibillionaire – and his well-paid lawyers lost. He has been in prison since 2003. He's not scheduled to get out until 2017.

The Russian government-owned oil company Rosneft, now the second-largest oil concern in Russia, confiscated all of Yukos' assets. It pumps more than 2 million barrels of oil equivalent per day. One of Putin's deputy chiefs of staff, Igor Sechin, a man known as Russia's "Darth Vader," is the president of Rosneft and rumored to have lead the charge.

Undeterred, the Western oil company went ahead with the deal, creating the fourth-largest oil company in Russia (behind Gazprom, Rosneft, and LUKoil).

The Russian partner was Alfa-Access-Renova (AAR), the investment vehicle of four filthy rich Russian oligarchs: German Khan (known for toting a chrome pistol and modeling his management style after the movie "The Godfather"), Viktor Vekselberg, Mikhail Fridman, and Leonard Blavatnik (who recently gave the University of Oxford in England \$120 million to build the Blavatnik School of Government).

If the Western oil company had its politics right, the reward would be well worth it. The partnership would have access to one of the largest, undeveloped oil producing areas in the world... *right next door to the country destined to become the world's largest oil consumer, China.*

Early and often, the company's CEO would make trips to Russia. He would meet with Dmitry Medvedev, then a first deputy prime minister and chairman of state-owned oil giant Gazprom (Medvedev would become the Russian president in 2008). He would also meet with Rosneft's Sechin.

The extra effort paid off...

The partnership is pushing nearly 2 million barrels

per day through its Russian pipelines. With 1 million of that production allocated to the Western oil company, 25% of its total annual production came from the partnership in 2010.

The ride in Russia has not been smooth, though... particularly for the Western executive sent to run the partnership. After five years at the helm of the joint venture, the Western executive fled Russia in 2008, in the wake of a management dispute and trumped up tax-evasion charges (which have been dropped).

Two years later, the executive is now back in Russia... *this time, as CEO of the same major Western oil company.* He knows, as well as anyone, the vast oil riches Russia holds. The new CEO is not about to let the personal sacrifices he made dealing with the Russians go to waste. He is taking advantage of the practical monopoly and gigantic head start he earned for his company in this critical frontier for oil exploration...

Today, we're recommending shares of his company – BP (NYSE: BP).

The potential for gain is at least as much as ConocoPhillips. BP stock is lagging because most still believe its Gulf of Mexico disaster poses significant risk to the business. Those investors aren't paying attention. BP has transformed itself over the last several months. Nor are they watching BP's dealings in Russia over the last decade. They don't understand the importance of geography, politics, and the planning for the *future* when it comes to oil.

As we'll show you, the executives at BP have an acute awareness of these things... and have for some time. That's helping BP overcome the Macondo oil well explosion in the Gulf of Mexico that killed 11 and spewed 4.9 million of barrels of oil into the ocean. It also helped the company manage its way through the Texas City, Texas, refinery fire that killed 15 people in 2005.

With what's happening at BP today, we believe your investment will double within 36 months if you buy shares now. The dividend yield will be more than 7%. It is already set to be more than 3.5% over the next year. After not paying a dividend the last three quarters to help cover Macondo costs, the company reinstated its divi-

dend at 42¢ per share this quarter.

This could be the only time you'll ever hear this from us: **if you buy it now, BP is a stock you may hold for the grandkids.**

Getting Rid of the Chaff

The Macondo disaster forced BP to rethink its global strategy... And the timing couldn't have been better.

About the time Macondo happened, Chinese energy demand statistics were released. They showed total energy usage in China *larger than that of the European Union and nearly equal to the U.S.*

Looking at oil alone, the demand story becomes even more acute. During 2010, Chinese oil consumption totaled nearly 9 million barrels per day, up from 7.3 million in 2006 – a 23% increase in five years. At the same time, oil consumption in the U.S. *fell* from 20.5 million barrels per day in 2006 to hardly 19 million barrels per day in 2010.

Now consider this: Oil usage per capita in China is just 2.5 barrels per year. U.S. annual oil consumption per capita *eight times* greater. Even if the Chinese double their oil use, they would hardly consume 25% of the oil Americans use. BP economists predict it will take 20 years to see Chinese oil use double. We see it happening far sooner. (Don't you?)

Oil consumption is skyrocketing in Asia, while it stagnates in the U.S. and Europe. Behind closed doors, BP must see the same thing. That makes it easy deciding which assets to sell to pay for the Macondo affair and position the company for the future. If BP's management can sell an asset near a slowing market (like the U.S.) to free cash for investment near a growing market (like China) where returns will be greater, it will.

Just this month, BP announced two such sales prospects: the 1,200-acre Texas City refinery and the 630-acre Carson refinery in Los Angeles. These represent 50% of BP's U.S.-based refining business. These refineries produce low-margin gasoline that is seeing less demand with more fuel-efficient vehicles coming to market. BP is selling. Sales proceeds of the two refineries are

expected to exceed \$4 billion. They will help pay for Macondo damages as well as reinvested in growing markets.

Meantime, BP intends to keep its refineries in Whiting, Indiana; Ferndale, Washington; and Toledo, Ohio. These refineries produce jet fuel and diesel, which are more profitable than gasoline. BP's ditching the cash sprinklers and keeping the cash fire hoses.

During 2010, BP sold \$22 billion in assets around the globe...

Chinese crude producer CNOOC and an Argentinean family acquired BP's 60% interest in Pan American Energy in Argentina for \$7.1 billion. U.S.-based Apache Corp. bought BP assets in Egypt, Canada, and the U.S. for \$7 billion. BP also sold its interests in Pakistan, Vietnam, Venezuela, and Colombia. Ceasing the isolated exploration and production operations in these countries makes the company more efficient.

The average sale price was \$11 per barrel of oil equivalent. The value per barrel based on BP's market capitalization was less than \$8. So the company sold the oil for a 37.5% premium. Comparing the sales prices to the values on the company's books, BP doubled its money.

In the near term, this selling has decreased BP's production capacity. In 2009, the company produced 4 million barrels of oil equivalent per day and generated \$239 billion in gross revenue. In 2010, total production was 3.67 million, a 9% decrease. Gross revenues were higher, \$297 billion, thanks to the higher average price of oil throughout the year.

For 2011, BP plans to produce 3.4 million barrels of oil equivalent per day. The amount of gross revenue will depend on the price of oil. Whatever the case, if the dwindling production continued, the share price would suffer. Shrinking companies are shrinking investments.

BP will not be shrinking for long...

Bob Dudley, the current CEO at BP who took over for Tony Hayward after the Macondo disaster, knows the oil business. He's been in the oil industry for more than 30 years, starting with Amoco in 1979. Dudley's the man who endured the Russian oligarch's abuse through July 2008.

He understands the importance of selling maturing basins and the huge gains to be made discovering new ones.

For 18 years straight years, BP discovered more barrels of reserves than it has produced. It's an industry record. In 2010, even with the Macondo losses, BP succeeded in replacing 106% of what it produced. In 2009, the company replaced 129% of what it produced.

The company knows how to grow through exploring and opening new frontiers. BP was first to the North Sea in 1965. In 1969, BP discovered Alaska's Prudhoe Bay field, still the biggest oil field in the U.S.

In recent years, BP was among those dominating the headlines with discoveries in the Gulf of Mexico. In 2006, BP discovered 3 billion barrels of reserves in its Kaskida well. When Macondo was capped, it was blowing off an estimated 50,000 barrels of oil per day. This flow represents 7.5% of BP's entire U.S.-based daily production for 2010. BP never released an official estimate of the amount of reserves in the Macondo field. It is surely significant.

Discovering and bringing to production giant oil fields is BP's legacy... and where the real money is in the oil business. A \$200 million hole can lead to billions in revenue. BP is getting rid of the chaff refocusing its efforts on this part of the industry, leveraging its considerable expertise. This presents an opportunity for enormous gains for shareholders in coming years.

That brings us to BP's concentration on Asia and the work the company has been doing in Russia *for nearly a decade...*

BP's Russian Adventure

As hard as Bob Dudley has had his people working to get BP squared away on the rest of the globe, they have been making deals in Russia.

The \$16 billion deal BP just announced in Russia is among the largest the company has ever done.

Rosneft's Sechin and BP's Dudley – once enemies – have agreed to explore an area the size of the North Sea in Russia's Arctic waters of the South Kara Sea. *Early seismic studies show it is at least as rich in oil reserves.*

The South Kara Sea has more than 40 billion barrels of possible reserves waiting. It will be an incredible frontier for years to come (BP's been drilling the North Sea for over 45 years now). The fact the company has such a head start on the other major oil companies in Russia and the basin's proximity to China makes it all that much better.

BP has itself another huge field to drill thanks to its focus on geography, politics, and the future... the Rumaila oilfield deal in Iraq where BP is partnering with both Chinese and Iraqi state-owned oil outfits.

In 2009, BP signed a 20-year deal to produce oil in Iraq's Rumaila field with China's state-owned CNPC and Iraq's State Oil Marketing Organization. The split is 38%, 37%, and 25%, respectively. At the time, the deal was made, the field was producing a little less than 1 million barrels of oil per day.

So far, things are running as planned. This month, the group increased production to 1.1 million barrels per day – on track to reach its goal of reaching 2.85 million barrels per day within six years. The Rumaila oilfield has estimated reserves of 17 billion barrels, making it the world's fourth-largest.

Right now, BP is projecting adding 1 million barrels per day of production by 2016 across 32 prospects. *The Iraqi oil isn't even included in this.* The South Kara Sea deal with Rosneft will begin to add to that substantially by 2020.

BP is not slowing down.

The company is redirecting its efforts where there will be growth in energy consumption for the next 50 years.

Management is selling its less valuable operations to focus on the far more profitable exploration and production of new huge frontiers. They're out there and BP will find them by sharing their expertise and pocketbook with governments throughout the world. Every time they do, the company will become even more valuable.

High Risk in Oil Means High Reward

Few industries are as risky as oil... for investors and for the people in it. Bob Dudley has feared for his life

more than once. We don't think he carries a gun, but he probably has at least one bodyguard.

Potential trouble is always right around the next corner with oil... Exxon suddenly got hammered in the 1989 Valdez disaster. Tankers run aground or crash into other ships routinely. Oil lines rupture – Chevron is dealing with pipeline leaks that contaminated Salt Lake City waterways just last year. This month, BP suffered another leak in the Alaskan pipeline.

In 2005, Hurricane Katrina suddenly crippled two Shell and two Chevron platforms in the Gulf of Mexico. We all know about the Deep Horizon rig explosion that made Macondo a gusher. Necessary operations in the business can lead to disaster.

Then, there are the risks that have nothing to do with the business itself. People are almost always fighting about – or near – oil.

More than 1 *billion* barrels of oil were either burned or spilled in Kuwait during the Iraq-Kuwait war in 1991. (That's *200 times* as much as what was spilled in Macondo.) Each time activity heats up between Israel and Hezbollah, concern arises that the action could spread in the Middle East, choking supply.

Today, we have the uprising in Egypt. It could impact oil companies that depend on shipping oil through the Suez Canal, though the canal has yet to be threatened.

But BP has less than 5% of its production coming out of the Middle East. If the price of oil spikes because of a crisis there, it would actually be good for BP shareholders. The price of BP stock should spike along with it.

All of these risks are high and *real*. That's the oil business. It's why the rewards are also high and real. Oil companies that understand geography, politics, and how to plan for the future *gush cash*. BP is at the top of the list...

Few other companies could, in less than a year, begin setting aside \$41 billion to pay for a disaster (including the \$20 billion the U.S. government required it to start reserving) and still have capacity to pursue growth plans.

Are BP Shares Still a Good Value?

This is always the question to ask before hitting the “buy” button on any stock. A good business does not necessarily make a good stock purchase.

The important thing about buying stock in *any* company is making sure you get a good value when you buy, so when you go to sell, you can earn a profit. If you pay too much for an investment, no matter how good the business is, you'll lose every time.

So at \$47, are BP shares a good value?

With an asset-intensive business like BP (as opposed to an operating business like a retail chain), the answer lies in looking at the “price-to-book ratio.”

This is the ratio of the market price of the stock over the book value of the company per share. The book value is assets minus liabilities. BP's book value is \$96 billion. Total shares outstanding are 3.13 billion. Book value per share is \$30.70. The price-to-book ratio, then, is 1.53 (\$47/\$30.70).

At first, paying a 50% premium seems expensive. But BP is a growing business with appreciating assets. Therefore, paying more than book value for it would be OK if reasonable case can be made it will be worth more later.

With BP, this is the case... (By the way, as you might, imagine it's rare to find a business like BP trading for a price-to-book ratio of less than 1.)

BP is on the verge of significant growth. The geographic shift towards growing markets will increase oil sales. Partnering with governments to explore and prove reserves in huge new oil fields will increase the asset base.

Looking ahead, BP is the best-positioned, highest-quality integrated global oil company in the world. It is also among the cheapest stocks of the six “super major” oil companies today. (A super-major is a nongovernment-owned international oil company that explores, produces, refines, and distributes oil and natural gas.)

Take a look at this chart of price-to-book ratios for the six super-major oil companies.

Company	5-yr Price-to-Book Ratio Range			% Gain Reach
	5-yr Low	CURRENT	5-yr High	5-yr High
Royal Dutch Shell	0.95	1.46	5.18	255%
Total	1.32	1.69	3.59	112%
BP	0.82	1.53	3.24	111%
Exxon Mobil	2.06	2.92	4.45	53%
Chevron	1.31	1.92	2.82	47%
ConocoPhillips	0.67	1.53	2.09	36%

In the “Current” column, you see the current price-to-book ratios of all six. ExxonMobil is expensive trading for 2.92 times book value. BP, ConocoPhillips, and Royal Dutch Shell are the cheapest, trading for near 1.5 times book value. Over the last five years, BP traded as low as 0.82 times book (March 2009 when everything was dirt-cheap). In 2006, shares traded for more than three times book value. To get back there, the price of BP stock would have to double from where it is.

Will that happen? With the direction BP is heading, we believe it will. It just won’t happen in a straight line.

Remember, this is an industry fraught with risk. We’re likely to see pullbacks of 5%-10%, perhaps even 15%, along the way. The odds of seeing another Macondo-like selloff, though, are slim. Whatever the case, we’ll use a 25% trailing stop to ensure we preserve our capital.

Also, each year, BP adds to its asset base as it invests in exploration and proves new reserves. Within quarters we could see a situation where the stock is trading at just two times book value yet we’re sitting on a double because the book value of BP itself has increased thanks to the new proven reserves being discovered. (Recall this is the oil company that has discovered more than it has produced for 18 years running.)

Then there’s the dividend...

You see, before Macondo, BP was spending about \$2.5 billion per quarter paying its dividend, \$10 billion per year. The new dividend is exactly half that.

Interestingly, the half that is missing is exactly the amount that is going to the U.S. Macondo fund – \$5 billion per year. That is an obligation that carries through the end of 2013.

When that obligation is over, the cash saved will almost certainly go towards increasing the dividend. The pressure will just be too great for the company to do anything else. Before the disaster, the BP dividend accounted for 13% of corporate dividends paid by all U.K.-based companies. Pensions in the UK depended on it. They want it back, and BP will oblige. Unlike the stingy tech companies like Apple, Microsoft, and Cisco that are sitting on mountains of cash, BP will pay.

For shareholders who get in now, this means two things in the future: a higher return on their basis in the stock and a higher stock price.

With BP near \$47 today and paying 42¢ per share per quarter, the yield is 3.6%. If the payout were to double to 84¢ per share per quarter (once BP can stop funding the U.S. Macondo reserve), the yield on the \$47 basis would be 7.2%.

The higher future stock price will come as investors, over time, push shares to their historical yield, around 4% (in addition to paying-up for a more valuable business). If the quarterly dividend is 84¢, a 4% annual yield would mean shares would be trading for nearly \$85. That’s almost 80% higher than where shares are today.

Dividend increases by themselves are powerful forces... especially ones that are almost sure to come.

With BP (1) shifting its resources to exploration and production, (2) focusing on growing markets, (3) partnering with state-owned oil companies to access the greatest prospects, and (4) keenly aware of the need to get cash back to shareholders, a double with a fat current yield on your initial investment within the next 36 months is on the way.

Action to take: Buy BP (NYSE: BP) up to \$50. Use a 25% trailing stop.

A Word About Controversy

With our Monsanto recommendation in November

and BP today, you may believe we enjoy making controversial stock picks.

If you've been reading the feedback in our daily *SC&A Digests* we send to your e-mail, you've seen a few notes from subscribers who detest Monsanto.

We received significant blowback for recommending the producer of genetically modified seeds.

The press is rife with stories about how Monsanto is turning crops and those who eat them into Frankenstein. Films have been made casting Monsanto as a greedy corporate giant, suing farmers at will for patent infringement and manipulating the government to get the first patent ever on life and the evil that portends.

On the other hand, you've also seen e-mails from those who recognize Monsanto for what its technology has done to help keep food plentiful and affordable by increasing crop yields and decreasing farming costs.

One farmer recently wrote to us (paraphrasing):

I have followed the dialog concerning Monsanto with keen interest. Having farmed for over 50 years, I feel that I must make a comment or two.

I have seen firsthand the hungry masses in Africa and the Orient shortly after the Korean War. I am aware of the need for food.

Without the work with genetics, we would have seen the starvation of additional millions of people perish in my lifetime. It's only been through the investment of money in research that the land of the world has produced the food we enjoy.

I enjoy eating a large red apple free of holes filled with worm excrement. This is only possible because of the pesticides controlling the Codling Moth, which would infest the organic farms as well as the other commercial farms, which produce the majority of our food supply.

The attack on Roundup-ready plants is only part of the story. Roundup is also used to control weeds in many fields prior to planting thus conserving moisture, the fuel needed for tractors, and saving labor costs.

Those truly concerned should study the history of crop production over the last 60 years before condemning the use of modern agricultural advances. In part, we owe our longer life expectancy to the supply of food these produce.

Our job for you is to wade through the stories and find the facts for the investment. With Monsanto, it began with our recognizing crop inflation is coming. Then we looked for the best investment to make to take advantage of that fact. Monsanto – as controversial as it is – was our pick. Since we recommended the shares 90 days ago, they're up 27%. A big controversy can lead to a big return.

We won't be surprised if we get blowback for picking BP. The controversy around BP is greater than it is around Monsanto.

There are people who hate the company for what happened in the Gulf of Mexico last year.

But this event, along with problems BP has had at its Texas City refinery and along the Alaskan pipeline, is what sets up the investment opportunity. The stories covering BP's blunders are crowding out the positive facts. It's as if BP has no future when the opposite is true.

The press about the bad part of BP's track record is keeping the stock cheap for now and making the shares an ideal investment. We have discovered this. Our job is to recommend the shares, controversy notwithstanding.

The final choice to invest is *yours*. We have said our piece and laid out the story. What you do with your money is up to you. You have your reasons. We respect them.

Portfolio Review

When it comes to stock picking, the stock picker's excellence is measured by how much his pick outperforms its peers. If the picker's tech stock surges 15% while similar technology stocks only rise 5% or so, the picker has done his job.

Consider this scenario, though: What if a picker *shorts* a stock (bets it is going to fall) while the rest of the market surges... *yet the short position still plummets, earning the picker a big gain?* That is special. That is the height of good analysis and rare, no matter the picker.

This is exactly what happened during January with last month's pick, **Assured Guaranty (NYSE: AGO)**, the bond insurer...

Last month was one of the best January's on record for stock market gains. The S&P 500 surged 4.4% during the month. AGO, on the other hand, plummeted 18.5% over the same period. *The stock market rose, but the stock we shorted went into the tank.* We're up 22% on the position. We hope you got in.

Another short that's working is our position on the debt-laden homebuilder **Pulte Group (NYSE: PHM)**. On December 10, we wrote:

The stock is volatile and has been moving straight down for a number of weeks. We'd recommend waiting to sell short at prices above \$8. There's no particular logic for that price, as we firmly believe the proper value of the company's stock is \$0.00. But there's no reason to expose yourself to a bad entry price when the recent momentum in the shares has been a firm rebound.

At the time, the stock was trading at \$6.96 after bouncing off \$6. It was heading higher. On January 6, when the stock closed at more than \$8 a share, we sold the stock short. Shares traded as high as \$8.50 before reversing course. Now, they hover just above \$7.70.

The most recent earnings report confirmed our analysis. The company reported it has "too much land exposure." That simply means it can't take advantage of the opportunity to buy the cheaper land available today like other homebuilders are. Most of this "land exposure" came when they merged with Centex. Pulte management is now reporting that merger lost \$655 million of the shareholders' money.

This is the best part, though. The struggling company spent money hiring an outside firm to help with branding and a "mission statement." From *The Wall Street Journal*:

Shortly after the merger, Pulte hired the Purpose Institute, a branding company set up by advertising firm GSD&M Idea City, to come up with a 'purpose statement' for the company. At a town hall meeting of Pulte Group's New York-New

Jersey division last June, Mr. Dugas stood before about 50 employees and told them the company needs a stronger sense of purpose to succeed.

A stronger sense of purpose to succeed? When a struggling company engages in this sort of madness it means they have no idea how to get out of the trap and the current CEO isn't likely to show them the way.

What the company really needs to succeed is to go bankrupt and start over with a fresh balance sheet. We hope you shorted Pulte when it peaked its head above \$8.

Eagle Bulk Shipping (Nasdaq: EGLE), on the other hand, suffered a setback during January. One of its larger customers, Korea Line Corporation, filed for "protective receivership" in Korea. Essentially, the company went into bankruptcy to restructure its debts. This immediately put the contracts EGLE has with the company at risk and sent the stock for a dive.

Before the announcement, EGLE stock was trading in the \$4.80 range. Now, it is trading near \$4.20. Is it time to cut our losses and sell? No.

First, EGLE's stock is trading for less than 40¢ on the dollar (the price-to-book ratio is less than 0.4). Second, the company has almost four times more cash and liquid assets than it has short-term debt. That means the company can go long time before debt becomes a problem... probably long enough to trade back closer to book value. There are certainly riskier situations than owning a business with plenty of cash that's trading for less than 40¢ on the dollar. Hold.

However, we *will* stick to the rule we set when we recommended the shares. We will sell EGLE shares if they close at less than \$4. If the bulk shipper continues to slide in the midst of a resource boom something's not right. Preserving your capital so you have something to invest another day is most important.

Good investing,



Porter Stansberry and Braden Copeland
February 11, 2011

Stansberry's Investment Advisory Model Portfolio

Prices as of February 10, 2011

<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	\$51.91	\$55.59	\$0.30	Global blue-chip	Buy	7.67%	1
Johnson & Johnson	JNJ	7/6/06	\$60.52	\$60.93	\$8.21	Blue-chip health	Buy	14.23%	1
Exelon	EXC	10/9/02	\$21.47	\$42.74	\$13.62	Nuclear power	Buy	162.51%	1
Annaly	NLY	11/6/08	\$13.64	\$17.92	\$5.69	Gov. port. repair	Buy below \$15.25	73.09%	1
Intel	INTC	7/16/10	\$21.51	\$21.80	\$0.50	Blue-chip tech	Buy	3.66%	2
Prospect Capital	PSEC	6/24/10	\$10.03	\$11.68	\$0.81	Warrant banker	Buy below \$10.08	24.43%	2
Hershey	HSY	12/6/07	\$40.55	\$49.71	\$3.66	Chocolate empire	Hold (Long)	31.62%	2
SVB Financial^^	SIVB	6/29/10	\$41.42	\$53.65		Warrant banker	Buy below \$42.50	29.53%	3
<u>The "Next Boom"</u>									
Calpine	CPN	5/13/10	\$13.93	\$14.23		Nat gas power	Buy below \$15	2.15%	2
ConocoPhillips	COP	4/2/09	\$41.45	\$70.08	\$3.59	Cheap oil	Hold (Long)	77.73%	2
BP	BP	2/11/11	NEW	\$45.93		BIG oil	Buy below \$50	NEW	3
Titanium Metals	TIE	1/14/11	\$18.40	\$19.30		Surging aircraft orders	Buy below \$20	4.89%	3
Monsanto	MON	11/18/10	\$59.63	\$74.97	\$0.28	Exploding food prices	Buy below \$65	26.19%	3
Arch Coal	ACI	10/8/10	\$26.00	\$32.84	\$0.10	Coming coal boom	Buy below \$33	26.69%	3
Eagle Bulk Shipping	EGLE	8/12/10	\$4.72	\$4.14		Super-cheap ships	Buy below \$5.25	-12.29%	3
San Juan Basin	SJT	1/7/10	\$18.34	\$23.98	\$1.77	Safe natural gas play	Hold (Long)	40.38%	4
Silver	SLV	10/13/09	\$17.48	\$29.46		Money crisis	Hold (Long)	68.54%	4
Gold Miners ETF	GDX	12/11/08	\$28.02	\$55.93	\$0.51	End of America	Hold (Long)	101.43%	5
<u>Victims</u>									
iShares US Bond Fund	TLT	2/11/11	NEW	\$88.19		Runaway inflation	Short	NEW	5
Assured Guaranty	AGO	1/14/11	\$19.00	\$14.83		Muni bond implosion	Short above \$18	21.95%	5
Pulte Group	PHM	1/16/10	\$8.23	\$7.65		Buckling homebuilder	Short above \$8	7.05%	5
Barnes & Noble	BKS	5/13/10	\$20.01	\$17.86	\$0.75	Obsolete bookstores	Hold (Short)	7.00%	5

Current Portfolio Avg: 35.92%

* This is the return since reference date, including dividends.

^^ See "Special Reports" section of the website for further information.

Stansberry's 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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