



IN SILVER WE TRUST

We first recommended silver in May 2006... when the metal was trading for less than \$10 an ounce.

The headline of our newsletter that month was “Why You Must Buy Gold, or Even Better, Silver, Now.”

In this month's issue, we update our position on silver... which has suddenly become the darling of the investor class, if not yet the general public. In prelude, while we can't argue that silver is cheap anymore, it is arguably more important to own it now than at any other time since the early 1970s. Thus, while it will cost you a lot more to buy silver than it did a year ago, we judge the risk of not owning it greater than the risk of buying it now.

To explain, allow us to revisit our initial recommendation... and give you a bit of the broader historical context of our view. (We also recommend you read our May 2006 issue to get a clear understanding of the silver ratio. It's the key to understanding why silver prices are soaring.)

Back in the spring of 2006, few people even read our newsletter. Fewer still likely acted on our advice... or even took it seriously. Back then, symptoms of a serious monetary crisis were still far off. Stocks seemed to reach new all-time highs every other month. It seemed like everyone was getting rich in real estate.

So while trouble might have lurked on the horizon, almost no one bothered to look. They were too busy filling out the paperwork on their adjustable-rate, pay-option subprime mortgages. We must have sounded like raving lunatics to most as we warned about the “massive hubris” of the world's governments:

... Around the world, the role of government is at the top of a huge period of expansion. In Europe, governments have launched an enormous economic experiment: a paper currency that's not even backed by a single political force.

In the United States, the government believes it can spend money it doesn't have eternally without consequences. (The U.S. has also adopted the most aggressive “defensive” posture in its entire history, claiming the right to strike belligerent nations before they attack us, the right to torture military captives, the right to deny constitutionally granted rights to its own citizens under certain circumstances and the right to wiretap any phone call made to a foreign country without a warrant...)

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In Latin America, two governments, Bolivia and Venezuela, have decided that they're entitled to steal billions in assets from private investors, break contracts and take over the most important sectors of their economies.

In Russia, although it's not really a break from the past, the government has stolen the biggest energy company and staged a show trial of its CEO.

And, perhaps most dangerously of all, governments around the world have promised their citizens a level of economic security in the form of pensions and health benefits that they cannot possibly afford.

Today, not very many people understand the fallacy of these actions... or their inevitable collapse. But... over time... more and more people will begin to doubt the solvency of their governments and the practicality of their schemes.

If the government can't pay its bills... why am I saving its dollars? If I can't depend on the government to protect me and my family, how will I pay for protection... for health care... for energy...? People will turn to gold and silver as safe stores of value and as a trustworthy medium of exchange.

If you've never thought much about the role of gold and silver in the world's economy, you should begin by understanding one key fact: *The entire history of paper currencies contains not a single lasting success.* All paper monetary regimes have collapsed. People who trusted and saved paper currencies have been wiped out.

Sooner or later, the laws of economics clash with the rule of politics. When that happens, economics always wins. (More about this later...)

History has taught us these lessons countless times. And yet... it's so much easier to get into debt than to get out of debt. The temptation to paper over bad debts is irresistible. In all of history, no paper currency has ever survived this simple human impulse. Perhaps man cannot create a money more noble than gold because man himself is flawed. Only nature is perfect. And that's why, for all of recorded human history, sooner or later, people return to natural forms of money, like gold and silver.

We have plenty of other good reasons to prefer

“hard” money systems, too.

Let's start with inflation.

Inflation is the result of printing too much money. The government can always find some reason to print more money... whether it's to bail out the banks or provide a stimulus to the economy to hopefully spur employment. No matter the reason, cutting more pieces from a pizza doesn't actually increase the size of the pie. Likewise, printing more dollars doesn't actually make us richer. So while inflation may help some people for some time, it doesn't benefit us all and – on a net basis – it doesn't change anything. Regardless, these facts make no difference to politicians, who will always seek to increase the money supply to influence an election or to fight a war.

Sound money makes this manipulation impossible. You can't print more gold. You can't print more silver. And that's why politicians hate sound money.

Another crucial benefit of hard money systems is the limit to credit.

Why Sound Money Is Better than Paper

In “real” money systems (gold- and silver-backed economies), central banks cannot simply print more money. They cannot “inject” reserves into the system. Instead, actual gold bullion has to be mined or secured through trade for the monetary base of the country to grow.

Bankers hate sound money, too. Sound money represents a huge risk to them... Bailouts can't be organized quickly. The monetary base does not always grow. Credit can't constantly expand. Prices don't always rise. Sound money forces banks to maintain far larger reserves... and managing those reserves is far more expensive.

If politicians and bankers hate sound money, why should you prefer it?

People should always save gold and silver because, unlike paper money, precious metals have a long track record of holding their value. And people should prefer gold- and silver-backed monetary systems because *they are immune to credit bubbles.*

Politicians and bankers will tell you the “elasticity” of paper money is a terrific economic advantage because it allows credit to be created by the stroke of a pen or the

push of a button. They say this allows them to guide the economy, smoothing out the natural ups and downs of the credit cycle. Unfortunately, history teaches us exactly the opposite.

In fact, the ability to manipulate the money supply tends to increase the cyclical nature of booms and busts. And by allowing credit to be created easily, the process of credit creation becomes politicized. Well-connected financiers, who gain access to unlimited amounts of credit, end up owning the best assets.

Look at the bailout of Bear Stearns. The U.S. Treasury and the Federal Reserve provided an unlimited amount of credit to JPMorgan, which bought Bear Stearns' best assets (like its prime building in Manhattan)... but only a limited amount of its possibly toxic mortgages. None of the people who had been providing private credit to Bear took a loss – not even a single penny. All the losses were socialized – borne by taxpayers and dollar holders. All the profits were privatized.

That deal couldn't happen in a sound money system. The Treasury couldn't afford it, and you can't print more gold in a panic. It would have been too bad for Bear's creditors. And JPMorgan would have had to buy that building at an auction, competing against other bidders.

But... thanks to paper money, unlimited amounts of new money and credit can always be ginned up. The rich and powerful put the resulting inflation to good use by borrowing money and buying valuable assets, while the middle and lower classes see the purchasing power of their wages slowly disappear.

It is no surprise real (after-tax and after-inflation) wages per capita in America peaked in 1971. That's the same year we left the gold standard completely. *Despite all the apparent economic success we've achieved since then, the average American worker has enjoyed zero increase to his wealth.*

These facts are 100% true. You can look them up on the Commerce Department's website. But they are so difficult to believe, people routinely ignore them or simply dismiss them out of hand.

Real Dollars: The Coinage Act of 1792

At one time in American history, the benefits of sound money and the risks of easy credit were completely

understood. It was during the founding of our country... just after the Constitution was ratified.

The Second Congress of the United States passed the Coinage Act of 1792. The act established the dollar as the currency of the United States and defined precisely what a dollar was: 24.1 grams of pure silver. Interestingly, back then no one in America would have considered putting a person's face (much less a politician) on our coins. Instead, dollars had an emblem of liberty on one side with the word "liberty" inscribed and the date the coin was struck. On the other side, the coins had an eagle with the inscription "United States of America." (God wasn't mentioned on dollars until 1957... about the same time the current great inflation began. We suppose nobody bothered mentioning God on the dollar until we needed a miracle to keep the dollar sound.)

To ensure the quality of America's money, three coins were taken from every major batch minted. Each year on the last Monday in July, the chief justice of the Supreme Court, the secretary of the Treasury, the secretary of State, and the attorney general witnessed these coins being assayed. If the sample coins did not meet legal standards, the officers of the mint would be dismissed and the \$10,000 surety bonds they posted would be seized. Further, if any officer of the mint was found guilty of embezzlement or of debasing the coins, the penalty was death.

Consider that system – where the most senior members of the federal government are in charge of maintaining the soundness of our money – with today's system. Under the current system, the federal government has become the biggest counterfeiter in the world. Fed Chairman Ben Bernanke has tripled the monetary base of the United States in only two years. The dollar lost 50% of its purchasing power under Alan Greenspan. And since the dollar was taken off of the gold standard in 1971, it's lost 90% of its purchasing power.

But what does the outrageous perfidy of our political class mean to you? Let me show you...

Imagine if the dollar was still defined as 24.1 grams of pure silver. (That's the exact amount of silver in the famous "Morgan dollar." U.S. Mint Assistant Engraver George Morgan designed it in the 1870s to match the standards set by the Coinage Act of 1792.)

Imagine if companies paid dividends to shareholders

in silver coins (or a mixture of gold and silver coins). Imagine when you saw the S&P 500 quoted in dollars, those dollars represented amounts of silver, not empty promises from the Federal Reserve. What would our stock exchange look like if our money was still “real”?

This chart shows the value of the biggest U.S. corporations, as measured by real silver dollars, since the founding of our country.



You can see a long and powerful uptrend that begins just after the Civil War and continues until the late 1960s.

That's when the trouble starts.

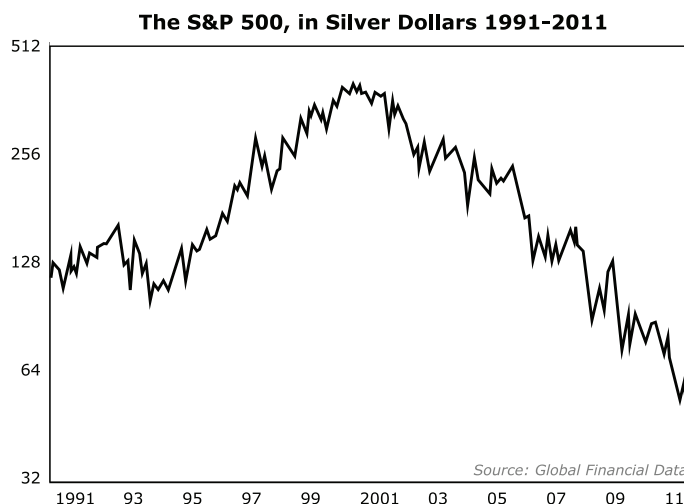
The Death of the Silver-Backed Dollar

In the late 1950s and early 1960s, the U.S. economy began running a constant and growing deficit with the rest of the world. Borrowing – mainly in the public sector – fueled these deficits, as the government tried to expand its social spending and fight a foreign war without raising taxes. Facing the possible loss of all its gold reserves, sharply higher borrowing costs, or both... the U.S. simply repudiated these debts, abandoning the pledge we'd made at Bretton Woods in 1946 to always allow foreign central banks to exchange their dollars for gold. We cheated our creditors, rather than repay our debts.

The value of the U.S. dollar collapsed as a result. The loss was so severe that during the 1970s the “real” value of the S&P 500 – as measured in silver – fell by almost 90%. Of course, since most people didn't look at the world through the lens of real money, few people realized what was happening. In terms of paper dollars,

stocks ended the decade of the 1970s about where they began. But in terms of purchasing power, stocks – in terms of real money – would not regain their 1960s highs for 27 years.

By using paper money instead of silver, politicians discovered they could easily hide declines in America's standard of living and our national wealth. In short, they discovered it was easier to “paper” over our problems than allow failing institutions and businesses to go under. It was easier to cheat our creditors than pay our debts.



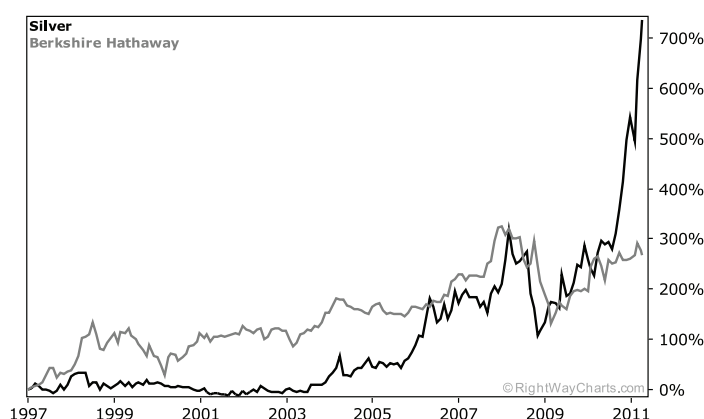
On the other hand, sound monetary policy (thanks to Paul Volcker) drove the big bull market of the 1980s and 1990s. But toward the end of the 1990s, debts began to explode again relative to the size of our economy. This second credit bubble, fostered by Alan Greenspan, wasn't limited to the public sector. Private debts soared, too... especially credit card, mortgage, and student-loan debt.

These policies sparked another huge devaluation of the dollar, one that has continued almost unabated today. That's why, in terms of silver, the value of the S&P 500 has been in a steady bear market since 2000. The supposed recovery we saw from 2003 to 2008 never shows up on this chart because it was all financed with funny money – debts the market knew would never be repaid.

Another way to measure the loss of purchasing power in our paper money is to simply compare the performance of “real” money (silver) with one of the best corporations in the world – headed by the greatest investor in history – Warren Buffett. You might recall... Buffett bought 130 million ounces of silver in 1997 – roughly 37% of the world's supply at the time.

Buffett reportedly sold his silver in 2006, providing supplies to the newly formed bullion ETF managed by Barclays. But Berkshire shipped its silver to London warehouses where there are no reporting requirements, so the truth about Buffett's silver hoard can't be confirmed.

In any case... an interesting question to consider is: What has done better since 1997, silver or shares of Berkshire Hathaway? The chart below tells the real story of what's happened to our money over the last decade. Not even Buffett could keep pace with the debasement of the paper dollar. *Silver has nearly tripled Berkshire Hathaway's returns.* Think about that for a minute. If the world's greatest investor can't keep pace with the debasement of our currency, how likely is it that the average person will?



The markets were right. Today, the Federal Reserve continues to buy about 70% of new Treasury debt issues. This amount of inflation is unprecedented in American history outside of the Civil and Revolutionary wars (when massive inflation destroyed nearly all purchasing power of the currency).

And that's not our only concern about this policy. The U.S. dollar is not just the standard of value in the United States... It is also the world's reserve currency. The dollar constitutes more than 60% of all banking reserves worldwide. By massively inflating the dollar over the last two years, our monetary authorities are stoking a massive global inflation. That's why commodity prices (as measured by the CRB index) and the S&P 500 are up 60% over the last two years.

It doesn't make any sense for raw materials and stock prices to *both* move up so much over such a short period of time. The fact is, these price changes are not driven by

real increases to earnings or changes to supply and demand. They result from the massive increase of the money supply itself.

This is a dangerous game... one we're certain the world's monetary mandarins do not understand.

Caution: Big Risks Ahead

The next three months will bring two significant challenges to the paper-dollar standard.

The first is already upon us. Portugal finally acknowledges it faces default and requires a bailout. It will later be shown that the European Central Bank (ECB) was buying Portuguese debt before any official bailout was arranged. Despite this, the world's currency markets seem to believe the euro currency is sounder than the dollar. But that's like two prostitutes arguing about who is prettier. It's foolish and pointless. The euro will have to withstand a major reorganization of both Spain's and Italy's sovereign debts. This is impossible without a major devaluation of the euro, something Germany will resist. So the euro will not last through the end of 2012... and its breakup will be incredibly painful for holders of that currency.

Second, the Federal Reserve should end its massive "quantitative easing" in June. Who will buy our debts as the Fed steps away from the market? Not the largest bond manager in the world... Bill Gross, the founder of PIMCO – the largest bond-centric investment fund in the world – is openly calling members of Congress "skunks," and berating them for refusing to make any significant financial changes.

It is outrageous that even after the crisis of 2008 – when our entire banking system collapsed and millions of Americans went bankrupt or lost their homes (or both) – our political leaders continue to act as if borrowing unlimited amounts of money is acceptable. Neither political party – not Obama and not the Republican's Paul Ryan with his *Roadmap for America* – have put forth a balanced budget.

We wonder how long the American people will accept this kind of political cowardice, while our standard of living evaporates beneath us. We don't know. But judging by the shocking rise in the cost of gas, food, and rent, our guess is... not for long.

What's the end game? How will our country (and most of the developed world) learn to live within its means? We continue to believe the most likely answer is "painfully." There just aren't many happy endings for countries with this much debt or with corrupt political systems that wield so much power.

And so... despite the high prices of gold and silver... we continue to urge investors to buy precious metals until they constitute at least 10% of their portfolio. And we continue to be bullish on energy and agriculture, given the Fed's preference for printing money.

On the other hand, we continue to be cautious on the market as a whole. Sooner or later, interest rates must rise to slow soaring inflation. We can't imagine how our government will afford these higher rates, given its enormous debt load and borrowing needs.

The federal government must refinance roughly half its total debt (\$14 trillion) in the next four years, while borrowing an additional \$4 trillion to \$6 trillion. These debts stand on top of record levels of state and local debt and high levels of personal debt. In total, Americans owe more than \$50 trillion. As a nation, we're already spending more on interest than we are on the federal budget. Even after this short-term funding crisis, we face completely unaffordable entitlement obligations.

We fear the only politically acceptable answer to these problems will be more quantitative easing. If that happens, the value of the dollar will be completely destroyed and the greatest economic advantage of the United States (our currency's status as the world's reserve currency) will be lost forever.

Given this outlook, our best advice is to be as cautious as possible right now.

We recommend selling stocks short (see our recommended portfolio) to hedge against the likelihood of higher interest rates, and selling long-term government bonds. We recommend buying mining, energy, and agricultural stocks. We also like certain brand-name companies with excellent pricing power (Hershey)... but only if you're also hedging your portfolio via short selling. We recommend a full allocation (up to 10%) in silver and gold.

If you're unwilling or unable to hedge your portfolio with short sales, we recommend holding 50% of your assets in cash (short-term Treasury bills) and the other

half in gold.

Having said all this... We have found one company we need to watch. It deals in a commodity that's likely to benefit from inflation. It is located outside the United States and well-positioned to help rebuild Japan.

Again, we turn our attention to Asia...

Exit America, Enter Asia

Both our "buy" recommendations this year have been companies focused on growth coming from outside the U.S.

In January, we recommended **Titanium Metals (NYSE: TIE)**. The company produces raw titanium and milled and fabricated titanium products. TIE and Russia's VSMPO-AVISMA are the two largest titanium companies in the world.

More than 50% of the world's titanium is used to build new aircraft. As we explained in January's issue, the aviation business is exploding in Asia. Nine of the world's 20 busiest airports are located in cities there. *Beijing Capital Airport was the second-busiest in the world last year – up from eighth-busiest just three years ago.*

Our recommendation to buy TIE has more to do with the Asian aviation demand boom than anything else.

But if we needed another catalyst, we now have it: The recent reports of holes developing in airplanes...

From our January issue:

... titanium alloys are not corrosive. Aluminum alloys react, corrode, and weaken over time when they come into contact with most composite materials. This is a problem because carbon fiber is increasingly replacing fiberglass and plastic in aircraft in order to save weight (pound for pound carbon fiber is much stronger than plastic and fiberglass, so less can be used for the same purposes – floor and wall panels, bulkheads, etc.). So titanium is being used instead of aluminum in more areas of an aircraft. It is even being used to make the nuts and bolts to hold components together.

The recent unzipping of the Southwest 737 aircraft on April 1 was just one of many. Only a few days earlier, a USAir plane was grounded when a pilot discovered a

hole in the fuselage during a pre-flight inspection. In 2009, Southwest had another 737 develop a hole in its skin. In October 2010, American Airlines had a hole problem with a Boeing 757 aircraft. The pattern is clear. Some sections of aluminum in old aircraft appear to be reaching the end of their useful life. They are corroding and cracking due to high-cycle fatigue.

Titanium is the obvious solution. Not only will it save fuel because it's lighter, but it also lasts longer because it resists fatigue cracking and corrosion. If you haven't bought TIE yet, you must... and prepare for the ride higher as this story unfolds. **Shares are a "buy" up to \$20.** (Don't pay more than \$20... having an extra margin of safety is critical now.)

In February, we recommended shares of oil behemoth **BP (NYSE: BP)**. We noted how investors focused on the company's Gulf of Mexico well explosion are missing the future.

BP has spent the last decade working in Russia. Now 25% of the 3.7 million barrels it produces each day comes from Russian fields. The company is pursuing a new deal in Russia to explore the South Kara Sea with Russian oil giant Rosneft. The negotiations are currently going through a typical Russian "extortion" phase. Once these hurdles are cleared... BP will have access to an undrilled area the size of the North Sea. (And the North Sea's oil deposits have been producing petroleum for 45 years).

Demand for oil will continue to climb. Oil consumption outside the U.S. is surging. In China, 2010 oil consumption totaled nearly 9 million barrels per day, up from 7.3 million in 2006 – a 23% increase in five years.

Oil usage per capita in China is just 2.5 barrels per year. U.S. annual oil consumption per capita is eight times greater. **Even if the Chinese double their oil use, they would barely consume 25% of the oil Americans use.**

Meantime, tighter supply caused by the chaos in the Middle East has led oil to spike from \$90 per barrel to nearly \$110 in the last six weeks.

BP is an ideal way to play the situation. Right now, at less than \$50 per share, it is a great value, too.

Why are we focusing our buy recommendations outside the U.S.?

Consider this... Global conglomerate United

Technologies (UTX) makes Otis elevators. Sales are projected to hit 300,000 in China this year. *That will be half its worldwide total.* Ten years ago, UTX sold just 30,000 Otis elevators in China. Growth for Otis elevators hardly depends on the U.S. anymore...

Look at car sales in India. In 2010, 1.5 million vehicles sold there. Analysts project the rate to double within the next five years.

Let's shift our focus to a basic commodity like steel. In India and China, analysts expect steel demand to increase at least 10% from 2010 to 2011. In Russia, demand should grow another 14%. In the U.S., the market could see 5%-6% growth. Worldwide, the average expected growth in steel demand is 5.3%, to 1.3 billion tons.

Now, with the earthquake that hit Japan on March 11, this number is going to be even higher. As Japan rebuilds, steel sales will surge. Steelmakers that survived the quake will make huge profits. Certain large steelmakers were hobbled by the quake, making the situation even better for those who weren't...

Two of Sumitomo Metals Industries' (Japan's third-largest steelmaker) locations will shutter two blast furnaces for weeks, perhaps months. The port facilities used to ship steel from the plant have also been damaged, taking 7 million tons per year of capacity offline.

Nippon Steel's wiring rod plant in Kamishi was partially submerged during the tsunami. (Steel wire rod is used to make different sizes of steel wire.) The plant accounts for half the wire rod production in Japan.

JFE Bars and Shapes produces gears and other auto parts in Japan. The company saw two of its three mills damaged. This contributed to Japanese carmakers deciding to suspend production. Toyota, the world's largest automaker, has been hit hardest. The company has lost 260,000 units of production so far – almost 10% of the total built in Japan in 2010.

Ports in northeastern Japan have been decimated. They're not expected to reopen for months. This is limiting steel exports, constraining supply and driving prices higher. Customers are being forced to buy the steel elsewhere.

Sitting in the midst of all of this, we have the world's third-largest steelmaker. It's ideally positioned to benefit

from growing demand and supply constraints caused by the Japanese quake.

South Korean Steel's Special Japanese Situation

Certain South Korean companies are setting up to benefit big from the Japanese troubles.

GM Korea is switching to domestic auto-parts suppliers. South Korea's Hynix Semiconductors is expected to gain market share due to lost production at some of Japan's Toshiba factories. The same is true for K.C. Tech, near Seoul. Advanced Semiconductor Engineering is beginning to source supplies from South Korea.

With the significant steel mill closures, South Korean steel giant **POSCO (NYSE: PKX)** may be the biggest beneficiary of all...

Based in Gyeongbuk, South Korea, POSCO is the third-largest steel company in the world, behind Luxembourg's ArcelorMittal and China's Baosteel Group.

POSCO sells 65% of its product within South Korea and exports much of the rest to India, China, and south-east Asia. In 2010, POSCO produced 33 million tons of steel generating near-record gross revenues of \$28.2 billion. Production and gross revenues during 2011 will be even higher...

In South Korea, POSCO's largest source of business will again come from the exploding auto industry. KIA Motors, South Korea's largest carmaker, started business in 1975. It took 30 years for exports to grow to 5 million per year. It took just six more years for that number to double to 10 million in 2010 – including 4.27 million vehicles exported to North America and 2.45 million to Europe. KIA is now among the top 10 sellers in China, the world's largest auto market. The company has seen 12% per year growth since 2004, crushing the industry average of 1.9%.

KIA Motors is a major POSCO customer. Its average car has about one ton of steel...

South Korea is also home to the world's three largest shipbuilders: Hyundai Heavy Industries, Daewoo Shipbuilding & Marine Engineering, and Samsung Heavy Industries. Those three POSCO customers consumed the majority of the 11 million tons of steel plate

used in South Korea last year. (POSCO supplied nearly 5 million tons of that.)

In 2011, POSCO expects to sell 7 million tons of steel plate to the shipbuilders thanks to the addition of its new 2 million ton plant and more new ship orders in 2010 than expected. With 7 million tons of total steel plate production, POSCO is the largest steel-plate manufacturer in the world.

Demand for steel in India is also strong. In 2010, the country consumed 65 million tons of the gray metal. India is expected to need more than 70 million tons of steel in 2011. It is now the third-largest steel user in the world, right behind the U.S. and China.

Indian industries are becoming some of POSCO's largest export customers. POSCO is planning to construct two plants in the country capable of producing a total of 18 million tons a year. Total investment will be nearly \$20 billion.

POSCO has broken ground on a new plant in Indonesia, capable of producing six million tons of steel per year. It's expected to open with 3 million tons of production in two years. That a 5% boost to POSCO's total daily production.

POSCO also increased hiring from 2,500 to 3,500 during the second half of 2010. Many of these employees are now concentrating on overseas sales growth. They are targeting new customers through POSCO's late 2010 acquisition of international metals trading company Daewoo International. New workers were also hired for Daewoo's resource development division. They are locking up supply agreements for POSCO with coal, iron ore, and metals mines around the world.

Given all this, POSCO's sales could increase by at least 50% over the next five years. Management is calling for a 10% increase during 2011 alone... **and that was before the Japanese earthquake happened.**

The aftermath of the earthquake is already leading to even more business for POSCO, as we'll show you...

In fact, POSCO's greater challenge will come with controlling costs...

Metallurgical coal and iron ore make up as much as 70% of a steel producer's costs. When the price of either of these climbs without the sales price of steel also rising,

steel manufacturers get squeezed.

Coal has surged 30% higher in the last six months. Iron ore has not been as volatile, trading in a 10% range for much of the last 12 months. But over the last three years, iron ore has more than doubled. To manage these price increases, POSCO is securing raw material supply and investing in ways to control costs and become more competitive.

One way to control expenses is building factories closer to the user or supply mines – another reason for POSCO's new factories in India (where its customer base is growing) and construction in Indonesia (which has significant metallurgical coal supplies).

Another way to save is investing in mines to lock in raw material supply and provide insulation from price shocks. Using the contacts gained through its Daewoo acquisition, POSCO has already taken a stake in a niobium mine in Brazil to secure supply. (Niobium is a rare metal used to strengthen steel.) The company has also recently invested in a manganese project in South Africa and an iron project in Australia.

POSCO has even invested money to help expand ports and railroads in western Australia for shipping of raw materials it needs.

The company is focused on activities that can make it a solid investment: market dominance, business growth, and cost control.

What makes POSCO a great business right now, though, is what happened to steel manufacturing in Japan.

The Japanese steel industry has been crippled. Many customers who used to get steel from Japan are turning to POSCO...

The three largest shipbuilders in the world have already asked POSCO to increase steel production. They're looking for an additional 600,000 tons of steel products just in the next few months so they can meet the deadlines for their projects. That's a 2% increase over POSCO's 2010 production.

Re-rollers – who process hot-rolled coils into cold-rolled coils to make steel sheets for appliances, vehicles, etc. – have only a two-month supply on hand. They are looking for production increases, too... but have yet to

specify how much.

A Japanese steel-pipe maker put in an early emergency request for 13,000 tons of coil for immediate infrastructure repair needs. There's more of this coming. POSCO expects Japan to require an additional 1.5 million tons of steel for infrastructure repairs this year – nearly 5% of POSCO's total 2010 production. To meet the demand, POSCO will be investing \$2 billion in increasing production facilities.

The Japanese quake has also presented POSCO with an opportunity to gain global market share, too. For years, southeast Asia has been Japanese steelmaker territory. That is changing. With supplies cut-off, these customers are discovering POSCO. If POSCO delivers (which it will) and Japanese suppliers are offline long enough, POSCO will gain long-term market share in the region.

This isn't POSCO's only way to sell steel into the southeast Asia market. Recall KIA. The automaker has the same opportunity to gain market share in the region. With Japanese carmakers' production hampered, KIA exports to southeast Asia should spike, as their vehicles replace some of the lost Japanese sales. The longer the Japanese are out of the picture, the better for KIA. Each one of those cars has a ton of steel in it. This will surely benefit POSCO.

It's hard to imagine a steelmaker in a better strategic position. POSCO has annual growth in its region near 10%, a large part of one of the world's most developed countries nearby has been destroyed, and – at the same time – significant competition has been removed from the market. If POSCO can manage its costs and push through price increases, profits will surge.

That leaves just one critical question...

Is POSCO a Smart Investment Right Now?

Remember... no matter how good the business opportunity is, if you pay too much for the investment, you won't make any money.

This is why Warren Buffett, whose Berkshire Hathaway owns 4% of POSCO, has said he wishes he bought more POSCO when the stock was hammered with the entire stock market back in late 2008. He knew

what a great business it was... and the price to invest at the time was dirt-cheap. POSCO shares are not dirt-cheap today...

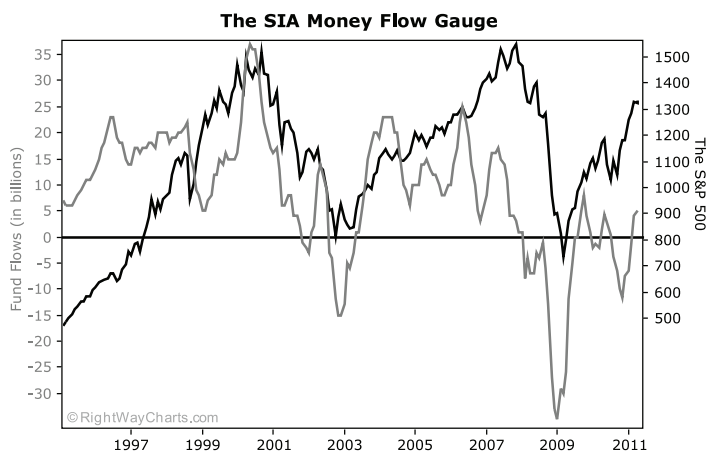
First, let's look at the market cap (share price times total shares outstanding) relative to its book value over the last five years – its price-to-book ratio (P/B). When we calculate POSCO's average P/B value over the past 20 quarters, we get 1.26x. (We remove the extreme high and low values so they don't pull the result too far one way or the other). Today, POSCO shares trade for around \$115 per share, and the market cap is \$35.4 billion. Its book value is \$31.2 billion. The P/B of the stock is 1.14x. It's on the cheap side by 10%.

Typically, we'd like to see a bigger margin of safety. That limits our downside. For example, if we could get POSCO for less than \$100 per share, we'd be paying a P/B of 0.99x. Our discount to the historical average would be 25%. That's a decent margin of safety.

Before we decide whether to buy at \$115 or wait, let's see what our three indicators (introduced in last month's issue) are telling us this month.

Checking Our *SIA* Indicators for April

Looking at the far right-hand side of the *SIA* Money Flow Gauge, we see fund-flows (the gray line) drifting sideways. This tells us retail investors remain hesitant. The indicator is not conclusive. Remember... we're looking for extreme selling periods telling us retail investors are giving up and it will soon be time to buy. We didn't see this in March.

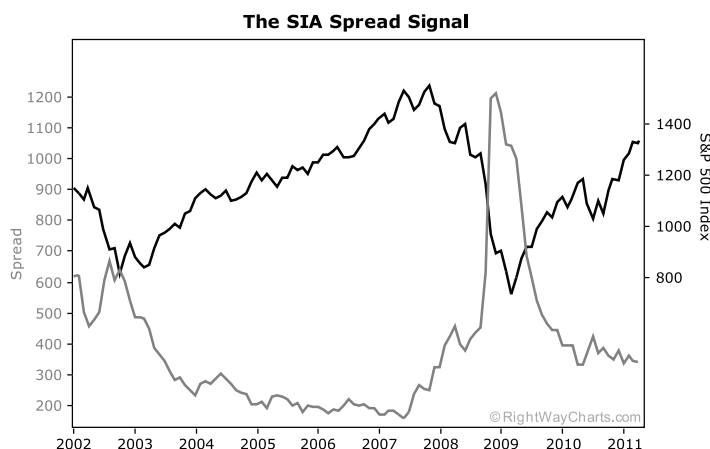


The *SIA* Spread Signal is also inconclusive. Recall,

we're looking for a *trend* here.

A higher trending signal means bond buyers are getting nervous and demanding to be paid more for the risks they're taking. It's a sign we should be selling stocks.

A trend lower means bond buyers are satisfied taking on risk, even willing to accept a lower payment for it. It's a signal to be buying stocks. Right now, we have neither.



Finally, we look at the *SIA* Black List. This month, the total number of companies is 14. Any time there are more than a dozen, this is a warning. Investors are paying too much for too many stocks.

Combined, our indicators are telling us this is a questionable time to enter the stock market. Bond buyers and retail stock investors are holding steady with what they've been getting paid for risk. Meanwhile, stock buyers are paying outrageous prices for "special" stocks.

During these questionable times, we must be careful not to overpay. This is the best defense we have against ending up a loser – buying at the top.

This month, we recommend you **buy POSCO (NYSE: PKX) when it trades for less than \$100 per share.**

We know it can be frustrating to hold off on a good investing idea... it feels more satisfying to rush off and buy now. Please resist that urge... POSCO is a great company, but even shares of great companies can suffer in a broad market pullback. Now is the time to demand a wide margin of safety...

Keep POSCO on your radar and buy only when it falls to less than our buy-up-to limit of \$100 a share.

THE SIA Black List

COMPANY	SYMBOL	MARKET CAP	PRICE-TO-SALES
Tencent Holdings	TCTZF	\$48 Billion	15.9
Baidu	BIDU	\$48 Billion	40.4
Vmware	VMW	\$33 Billion	11.3
Tullow Oil	TUWOY	\$21 Billion	19.3
American Tower	AMT	\$20 Billion	10.3
Public Storage	PSA	\$20 Billion	11.5
Salesforce.Com	CRM	\$17 Billion	10.4
Power Assets	HGKGY	\$14 Billion	10.8
Intuitive Surgical	ISRG	\$14 Billion	10.10
ARM Holdings	ARMH	\$13 Billion	19.0
Continental Resources	CLR	\$12 Billion	12.0
China Merchants Holdings	CMHHY	\$11 Billion	14.8
Cairn Energy	CRNCY	\$10 Billion	20.9
AvalonBay Communities	AVB	\$10 Billion	11.2
Total:	14		

Portfolio Review

Since we recommended **Intel (Nasdaq: INTC)** last July, shares have pulled back nearly 5%, while the S&P 500 Index has gained more than 20%. This is not the performance one would expect from a leader like Intel. We believe there are two reasons for the chipmaker's underperformance...

First, how the McAfee acquisition is going to help Intel's business is fuzzy. Sure, management is saying customary things about "synergies" and "new markets." Intel also says the acquisition will help it change the way technology security is done. It aims to start embedding security programming into their chips. Judging from the inaction in the share price, the stock market remains skeptical.

Second, Intel's principal focus has always been on desktop and notebook PCs and bigger computer hardware. Its share of the tablet-PC and mobile-device market is small. Yet the mobile-device market is the one growing. Shareholders invest in growth. They haven't been investing in Intel.

Undoubtedly, Intel is investing in research and development to gain market share in the mobile device market. It has some of the smartest chip designers in the business tackling the problem. It will figure it out. They will also figure out what to do with McAfee. Will they

figure out how to make money with it? That remains to be seen...

Our Intel investment could prove to be dead money for a long time, as shares move sideways while the company sorts this out. Worse, an overall market correction could cause a serious selloff in Intel shares. Either of these results outweighs the chance of Intel surging higher right now. **We're going to cut our small losses and sell Intel.** We can find a better place to put this money to work. For starters, try either cash or precious metals...

We booked a big gain with our **Barnes & Noble (NYSE: BKS)** short last month. Another 50% profit on the short side. This is a remarkable result given the fact the S&P 500 Index gained 15% during the same period that we were short BKS. We gained 50% betting on a single stock to crater while the broad market ran higher? That doesn't happen every day. If you haven't already... **Buy to cover your Barnes & Noble short.** Then, go buy yourself a steak dinner.

Good investing,



Porter Stansberry and Braden Copeland
April 8, 2011

Stansberry's Investment Advisory Model Portfolio

Prices as of April 7, 2011

"No-Risk"	Symbol	Ref. Date	Ref. Price	Recent	Div.	Description	Action	Return*	RISK
Wal-Mart	WMT	9/9/10	\$51.91	\$53.00	\$0.67	Global blue-chip	Buy	3.39%	1
Johnson & Johnson	JNJ	7/6/06	\$60.52	\$59.48	\$8.75	Blue-chip health	Buy below \$70	12.73%	1
Exelon	EXC	10/9/02	\$21.47	\$42.66	\$14.15	Nuclear power	Buy below \$46	155.26%	1
Annaly	NLY	11/6/08	\$13.64	\$17.41	\$6.31	Gov. port. repair	Buy below \$15.25	73.90%	1
Intel^	INTC	7/16/10	\$21.51	\$20.03	\$0.50	Blue-chip tech	SELL	-4.57%	2
Prospect Capital	PSEC	6/24/10	\$10.03	\$11.77	\$1.01	Warrant banker	Buy below \$10.08	27.42%	2
Hershey	HSY	12/6/07	\$40.55	\$55.63	\$4.01	Chocolate empire	Hold (Long)	47.08%	2
SVB Financial^^	SIVB	6/29/10	\$41.42	\$58.38		Warrant banker	Buy below \$42.50	40.95%	3
<u>The "Next Boom"</u>									
POSCO	PKX	4/7/11	NEW	\$112.55		Asian steel	Buy below \$100	NEW	2
Calpine	CPN	5/13/10	\$13.93	\$16.62		Nat gas power	Buy below \$15	19.31%	2
ConocoPhillips	COP	4/2/09	\$41.45	\$80.40	\$4.25	Cheap oil	Hold (Long)	104.22%	3
BP	BP	2/11/11	\$45.93	\$46.95		BIG oil	Buy below \$50	2.22%	3
Titanium Metals	TIE	1/14/11	\$18.40	\$18.70		Surging aircraft orders	Buy below \$20	1.63%	3
Silver Wheaton	SLW	12/1/10	\$37.90	\$45.51	\$0.03	Secret silver	See Nov. 2010 report	20.16%	3
Arch Coal	ACI	10/8/10	\$26.00	\$34.23	\$0.20	Coming coal boom	Buy below \$33	32.42%	3
San Juan Basin	SJT	1/7/10	\$18.34	\$27.02	\$2.00	Safe natural gas play	Hold (Long)	58.24%	4
Silver	SLV	10/13/09	\$17.48	\$38.73		Money crisis	Hold (Long)	121.57%	4
Gold Miners ETF	GDX	12/11/08	\$28.02	\$62.51	\$0.51	End of America	Hold (Long)	124.91%	5
<u>Victims</u>									
iShares US Bond Fund	TLT	2/11/11	\$88.19	\$90.36	\$0.68	Runaway inflation	Short	-3.24%	5
Assured Guaranty	AGO	1/14/11	\$19.00	\$14.95	\$0.05	Muni bond implosion	Short above \$18	21.08%	5
Pulte Group	PHM	1/16/10	\$8.23	\$7.79		Buckling homebuilder	Short above \$8	5.35%	5
Barnes & Noble	BKS	5/13/10	\$20.01	\$8.89	\$0.75	Obsolete bookstores	Buy, to cover	51.82%	5

Current Portfolio Avg: 43.59%

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

^ Recent price and return reflect closing date.

^^ 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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