TRUE RETIREMENT WEALTH

This Is The Time To Get Rich

Dear *True Retirement Wealth* Subscriber,

"F.E.A.R. has two meanings—Forget Everything And Run, or, Face Everything And Rise. The choice is yours."

I love this quote so much.

It applies to almost every challenge we face in life.

Including the one investor face right now.

There aren't many that would dare to buy stocks at this point.

I can understand why. The stock market is in decline, the number of coronavirus cases is rising, and most of the daily news we receive is extremely negative.

However, while most investors have backed away, some are buying in this environment.

And they're not some crazy maniacs either. I'm talking about some of the smartest financial professionals in the world.

Industry giants like Howard Marks, Kyle Bass, and Mark Cuban.

They know that billions are to be made in times like these.

In fact, in the last forty years, a crash like the one we're experiencing now happened only three times.

And each time, the market rallied afterward.

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PORTFOLIO SNAPSHOT

- Microsoft Corporation (MSFT)

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LESSONS FROM HISTORY

The first such crash was actually a combination of two, the first one in 1981, and the second one in 1982.

They happened after the Fed Chairman Paul Volcker raised interest rates to 20% to curb in the runaway inflation.

His move froze up the economy and collapsed the financial markets. From peak to top, the S&P 50 declined by 33%.

At the time, the newspapers labeled it the worst crash since the Great Depression.

However, nine months later, the stock market was up 52%, erasing all the losses of the past two and a half years.

The crisis, dark as it seemed, proved to be a tremendous buying opportunity.

Fast forward a few years to the dreadful October 1987, and investors were once again facing another scary situation.

During the Black Monday crisis, the S&P 500 declined by 31%.

"Does 1987 Equal 1929?"; "Billions Lost In Trading"; and "Panic" read the newspapers.

21 months later, however, the index was up by 41%.

Investors would then have to wait more than twenty long years for another such opportunity to arise.

When it finally came in 2008, it was touted as the worst crisis in eighty years.

And it was. Peak to bottom, the S&P 500 declined by 53%.

Nonetheless, that didn't stop it from rising by 70% in the 10 months that followed.

As you can see, there is an underlying pattern repeating itself through past crises.

When everyone else is panicking, you should face the fears, and buy stocks.

And with the market down by 30%, this is the time to do it.

Of course, I don't mean you should just buy any stock. Some companies will navigate this crisis better than others.

Which is why I applied the following three criteria when selecting this month's picks.

CORONAVIRUS INVESTING CRITERIA

The first and most important criterium to consider is the state of a company's balance sheets.

Over the last two years, I have been warning investors about the elevated levels of corporate debt and the danger it presents.

Let's just say that now, the chickens have come home to roost.

Companies that let their debt run out of hand will face severe difficulties in the coming months. Some will default, though most will secure enough additional funding to prevent that scenario. Still, even if bailed out, the negative impact on their share prices will last well into the next economic expansion, so you want to avoid those.

On the other hand, businesses with strong balance sheets and, in particular, with large cash positions, will bridge this revenue gap with ease.

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LIVING ROOM GYM ESSENTIALS

If there's one positive result that's emerging because of the ongoing quarantine, is that more people are trying to work out from home.

As a frequent traveler and a fitness enthusiast, it's something I've been practicing for years.

And once you get used to it, it's surprising how little space you need to get a solid workout in.

While you can do it without any equipment, I still own a few essential items which I bring with me anywhere I go. And best of all, together they weigh less than two pounds.

The first piece you need is a yoga mat, which you can use to do yoga, for stretching, crunches, or any other ground physical activity. I use an ultralight Voyager version from the company Jade Yoga.

Next, you'll need a pair of 70-80-inch elastic bands. With these, you can replicate pretty much any moves you perform with weights or fitness equipment. You want to choose one with less resistance, and one that's a bit higher on the scale. That way, you have three different levels to work out with—low resistance, medium resistance, and, by combining the bands, high resistance.

Now that you have your stretching and strength workout covered, all you need is something for cardio. A simple solution is to go running. But since that's not always possible, like if it's raining or you're in quarantine, you need something that can simulate that movement—a jump rope. This is an excellent whole-body workout that doesn't require much space and burns calories fast. I can't recommend it enough.

TRADER'S VIEW – WHAT IS QE ANYWAY?

I talk about QE and its effect on the stock market a lot.

But, I realized, I never explained to you what QE is.

Quantitative Easing is a type of monetary stimulus where a central bank purchases a large quantity of long-term securities, typically in the form of government bonds and mortgage-backed securities. By doing this, a central bank significantly increases the money supply.

That's where the law of supply and demand comes in. Whenever you increase the supply of any asset, its price drops.

And the way we measure the price of money is in lending costs, otherwise known as interest rates. This leads to loans becoming more accessible, which individuals can then borrow to spend on goods and services, and businesses on their expansion.

And the result is a rise in economic activity.

Moreover, the ample amount of cash will allow them to aggressively re-enter the market and consolidate their market share once we exit the recession.

Which brings me to the second criterium—market share.

In times like these, it's safer to stick with companies with established business channels, rather than betting on upcoming players.

New market entrants typically invest all their cashflow in expansion and rely on outside funding to cover their liabilities. This is a viable strategy for 90% of the time. Unfortunately, though, it utterly fails during a recession, since there's not enough money to service the ongoing liabilities.

Furthermore, established companies have higher credit scores, meaning they can borrow cheaper. This access to capital, which they can invest in their business, gives them another competitive advantage going forward.

The final criterium to look for is excellent long-term growth projections.

This is really something you should look at in any economic environment.

However, the reason why I'm stipulating it is because the recent price declines might tempt you to reach for companies with dubious long-term potential just because they're trading so cheap.

The easiest way to separate the two is to favor the stocks that were making gains over the last two years, and avoid those that were already in decline before this crisis.

Having said all that and putting the three criteria in action, I've identified two companies that I believe will emerge out of this conundrum even stronger than before.

They're names every investor and, really, any person knows of.

Together, they form a duopoly in the online advertising space, each boasting billions of monthly active users worldwide.

I am talking about Facebook and Google.

THE 21st CENTURY ADVERTISING GIANT

Let's start with the larger one—Google.

Of course, the correct name of the company is Alphabet Inc, but since its Google division represents 99% of all revenues, I'll stick with that.

Google has become the de-facto online search engine and boasts an impressive 73% market share.

The second and third place competitors, Bing and Baidu, for example, claim only 11.6% and 10.4%, respectively.

This dominance is a crucial benefit for the company's long-term prospects. There is an ongoing trend of advertising dollars moving from TV to online, and when companies decide where to post their ads, they're going to pick the platform with the most users—Google.

Advertising currently represents 83% of the company's revenues and includes Google adds as well as adds from the video platform YouTube.

The latter platform especially shows much promise. The revenue from YouTube adds increased by 37% in 2018, and 36% in 2019, which is why I see it as the primary beneficiary as advertising money keeps moving from TV to online.

As for the company's search engine, the availability of low-cost mobile devices in emerging economies, and better access to the internet should continue to provide opportunities for Google to expand and monetize its core solutions.

For that reason, I expect the tech giant's double-digit growth figures will endure over the next decade. Another exciting venture the company can count on in the future is Google Cloud.

The global cloud revenues increased by 40% in the last year, and are expected to grow at an annual rate of 22% until 2023. Google Cloud is on an excellent trajectory in that space, with the segment revenues growing by 54% in 2019. And best of all, it allows the Silicon Valley conglomerate to diversify from its ad-centric business model.

As I mentioned, one of the criterium I'm looking for in this environment is a robust balance sheet, and Google has one of the best out there.

The tech giant holds a whopping $120 billions of cash on its balance sheets. This means it can comfortably cruise through a deep economic crisis. Moreover, it allows the company to invest ample amounts in research and development to help it maintain its competitive edge.

Furthermore, I'm impressed with the management's ability to grow revenues without sacrificing the profit margin. It has stayed the same for the last 15 years, displaying the company has firm control over the pricing power.

Finally, I'm intrigued by the company's PE ratio, which is trading 33% below its 5-year average. A clear indication this is an excellent time to buy.

I recommend buying Google (NASDAQ: GOOGL) up to $1,150.

FACEBOOK'S SEEMINGLY ENDLESS GROWTH POTENTIAL

My second recommendation is Facebook—the other half of the online-advertising duopoly.

Unlike Google, whose ads target users based on their search history, Facebook's are a lot more specific. As a client, you can decide to advertise to only a certain age group, geography, sex, and can narrow down even more to the type of music your audience listens to, which sports team they like, their hobbies, and other interests.

The company is currently in an interesting predicament. On the one hand, ad spending is going to decrease as companies across the world cut their budgets. On the other, the number of monthly active users across Facebook's platforms is increasing due to the ongoing quarantine.

This is an excellent opportunity since it means that the company will exit this crisis with a much higher user base, which will bump their future revenues.

And this is on top of the already impressive growth numbers. Despite the company becoming a household name among the investing community, it was still able to grow revenues at a remarkable pace of 46% annually over the last three years.

Even more impressive is the fact that it is doing so while keeping its net profit margin above 25%. Fast-growing companies typically can't do that.

Moreover, the company hasn't monetized its messaging applications Messenger and WhatsApp yet. They have 1.3 billion and 1.6 billion monthly active users, respectively, which represent a massive untapped ad-revenue potential.

Just like Google, Facebook also can withstand a severe recession. It currently holds a massive cash reserve of $55 billion on its books. That's more than enough to finance any business expansion and help the company maintain its competitive advantage.

Finally, the social media giant's PE trades 45% below its 5-year average. Another indication this the time to invest.

I recommend purchasing Facebook (NASDAQ: FB) up to $160.

Good investing,

Leon Wilfan

Leon Wilfan
April 7, 2020

PORTFOLIO COMMENTARY

I come to you with positive news in these troubled times.

The stock market crash appears to be over.

We could see the prices re-test March lows in the following weeks, but overall, I see stocks moving higher from here on out.

Fed's "QE Infinity program," and the $2 trillion stimulus will take care of that.

Moreover, judging by how they acted during the 2009 crisis, I expect pension funds could pour $400 billion or more into the stock market over the coming months, which should also speed up the recovery.

Unfortunately, however, this was the type of crash where every stock market sector experienced a decline. So, despite the *True Retirement Wealth* portfolio being defensively oriented, we still suffered significant losses. Nonetheless, with only half of the names in negative territory, it's obvious we could do a lot worse.

Over the coming months, expect to see a lot of bankruptcies and bailouts from overleveraged companies. In case you hold any such stocks, I suggest you sell them immediately. You can determine which one fits the bill by looking at the liquidity and solvency ratios, such as the interest coverage ratio, the current ratio, the acid test, and the like.

Of course, I don't expect that to happen to any of our stocks. A robust balance sheet has always been a priority in my selection process, for the next six years. Therefore, it didn't make sense for Intel to continue pursuing this market. Despite better than expected earnings in other segments, Intel's stock didn't take this news well. Many were expecting the company to be a major player in the 5G space.

As for our countercyclical stocks NCMGY, CAHPF, LTC, MHGVY, and KDP, they have all significantly outperformed the market, offsetting any losses that the failed trade negotiations caused.

Prices as of April 7, 2020

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Investment	Ticker	Ref. Date	Ref. Price	Recent Price	Div. Yield (Forward)	Next Ex-Div.	Total Return*
Mowi ASA	**MHGVY**	1/22/2019	$22.28	$15.85	7.30%	--	-22.34%
Keurig Dr Pepper Inc	**KDP**	2/12/2019	$27.75	$24.59	2.52%	--	-9.23%
Intel Corporation	**INTC**	3/11/2019	$52.88	$58.43	2.44%	--	12.91%
International Business Machines	**IBM**	3/18/2019	$139.83	$114.82	6.09%	--	-13.25%
LTC Properties, Inc.	**LTC**	5/7/2019	$45.99	$29.94	8.38%	Apr 21	-30.35%
Microsoft Corporation	**MSFT**	6/4/2019	$119.84	$165.27	1.33%	May 20	39.14%
Walmart Inc	**WMT**	7/2/2019	$110.63	$126.07	1.81%	May 7	15.40%
Office Properties Income Trust	**OPI**	8/6/2019	$26.81	$26.46	4.12%	May 6	1.60%
Easterly Government Properties	**DEA**	8/6/2019	$18.98	$26.88	9.50%	--	47.42%
AT&T	**T**	10/1/2019	$37.43	$29.44	7.57%	Apr 8	-18.59%
Algonquin Power & Utilities Corp	**AQN**	11/5/2019	$13.61	$13.63	4.47%	--	1.18%
Qorvo Inc	**QRVO**	12/3/2019	$104.21	$82.61			-20.73%
Tencent Holdings	**TCEHY**	12/26/2019	$48.49	$49.94	0.68%	Apr 14	2.99%
Activision Blizzard	**ATVI**	12/26/2019	$58.81	$61.60	0.53%	--	4.74%
Blackstone Group	**BX**	2/4/2020	$60.52	$46.57	5.85%	--	-22.04%
Barrick Gold Corp	**GOLD**	3/3/2020	$19.86	$20.53	1.40%	--	3.37%
Newmont Corp	**NEM**	3/3/2020	$46.83	$50.11		--	7.17%
Kinross Gold Corp	**KGC**	3/3/2020	$5.29	$5.09	1.19%	--	-1.13%
Alphabet Inc	**GOOGL**	3/20/2020	$1,111.67	$1,183.19		--	6.43%
Facebook Inc	**FB**	3/20/2020	$153.13	$165.55		--	8.11%

This portfolio represents the associated value of our insights at the time of publication and is not intended to represent the exact prices at which stocks should be bought and sold.

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