Stansberry Asset Management

Dear Valued Client,

As we begin a new year, I want to sincerely thank you for your partnership and patronage on behalf of the entire SAM team. I'll speak plainly – we've gone through two bear markets in three years. Anomalous as that may be, I know the market swings we've all experienced make for trying times. Nevertheless, SAM's commitment to helping you navigate this challenging market to protect and grow your capital is unwavering. We consider it both a privilege and our highest duty, and we greatly appreciate your continued faith in SAM.

Financial markets are noisy places. The barrage of company news, economic reports, and geopolitical developments is incessant. When I started in this business – as an Analyst at Blackstone over 20 years ago – it was very much the case that investors who possessed more information were at a decided advantage.

Not so today. Virtually everyone has access to the same information, there's more of it, and news gets baked into asset prices in the blink of an eye. Sifting through that abundance of information can sometimes create opportunity. But market prices tend to overemphasize the importance of every new bit of economic data or fragment of Fed speak. It's no wonder that many investors increasingly cannot see the forest for the trees.

The end of the calendar year is a natural time to reflect. And as my team and I reflect on happenings in the financial market forest over the past year, the fundamental story is a simple one.

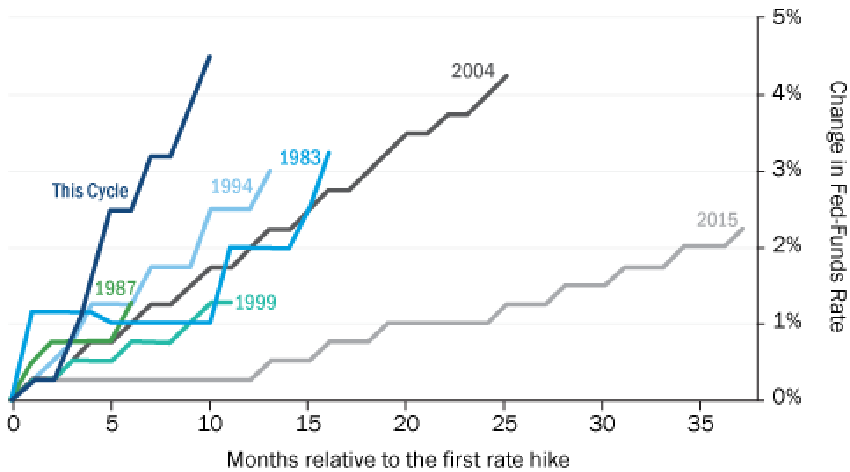
Inflation is up. Interest rates are up. Financial asset prices are down.

A gross oversimplification to be sure. And that's certainly not all that's going on… There's a war in Ukraine… A looming recession in Europe… China is dealing with a bursting property bubble and a botched zero-COVID strategy which have pressured not only its economy but supply chains around the world… The housing market – after being incredibly hot a year ago – has weakened more than any point since the Great Financial Crisis.

These and countless other variables all work themselves into our distilled narrative.

Asset prices are down *because* interest rates are up. Interest rates are up *because* central banks are fighting high inflation. And as can be gleaned from the following chart, the Federal Reserve has hiked rates higher and faster than any cycle in the past 40 years.

Fed Rate-Tightening Cycles



Sources: Stansberry Research, Bloomberg. Federal funds target rate – upper bound (FTDR index), using monthly data.

That was the story of 2022. But we may be turning the page.

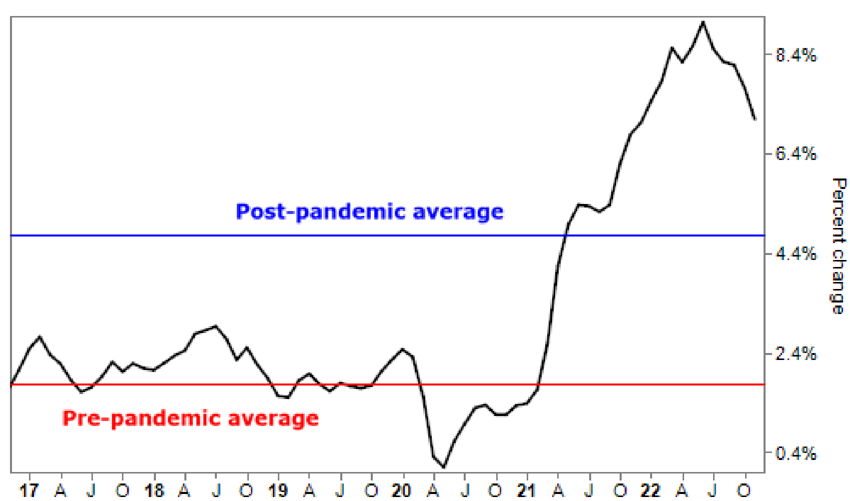
We've seen signs that inflation may have peaked. Cooling inflation has the potential to turn the story of 2022 on its head.

Inflation goes down. Interest rates go down. Financial asset prices go up.

That's certainly what many investors are hoping for. A pivot by the Federal Reserve in its interest rate hike campaign. And a subsequent rally in investment asset prices.

We are just now starting to see the impact of the Fed's tightening. Inflation, as shown in the Consumer Price Index chart below, is still quite high.

Consumer Price Index



Sources: Stansberry Research, Bureau of Labor Statistics.

The impact of this tightening goes beyond inflation. It takes a toll on economic growth as borrowing becomes more costly and demand recedes.

Similar to the inflation numbers, we are just now starting to see the effects of the Fed's aggressive rate hikes reverberate through the economy.

Federal Reserve Chair Jerome Powell says that the Fed has more work to do in 2023. That means raising rates higher to quell inflation.

The Fed will pivot… eventually. But the exact timing is unknowable. So too is the amount of economic damage that will be sustained before the Fed declares that inflation has been conquered.

This uncertainty feeds into an economic question echoing throughout the mainstream financial press as 2023 begins: *Will the U.S. experience a recession this year*?

Most forecasters say yes. Economists across all the major banks say an official downturn is all but inevitable, with only Goldman Sachs arguing that we'll avoid a recession.

What's our view? Ardent bulls and bears alike may not like this answer, but our baseline view is that growth should continue to slow throughout the year and result in a mild recession by year end. But fundamentals across the economy remain sturdy enough that it will most likely be short-lived before growth rebounds sometime next year. And a possibility remains that there is no official recession but rather a flattening of growth to zero before returning to expansion.

How is this possible when even some of the smart folks at Stansberry Research are calling for a deep and dark recession? I want to be clear, that scenario is certainly possible given the long list of things to worry about right now. But at SAM, our analysis is data-driven, and investing as though the doomsday scenario is the *most* likely outcome just isn't supported by the data. At least not right now. Unemployment is low, wages are rising, middle- and higher-income households still have larger savings balances than before the pandemic, and low-income households are just now beginning to increase credit card balances.

More likely than not, whether we enter a recession (and its severity) will be based on 1) if we have some additional, unexpected shock to the economy – we certainly could – or 2) if the American consumers who make up more than two-thirds of the economy materially drop their spending – as of now, they have not.

It's worth noting two final points. First, a recession is widely expected by market participants. That scenario is at least partially discounted into securities prices already. And being anticipated by most investors means a recession will catch few by surprise. It's often the unexpected that moves markets.

Second, as longer-term clients know, far more important than *predicting* what will happen is *preparing* our strategies for whatever the markets throw at us so that they are in the best position possible to meet their long-term objectives and goals.

And so, while 2023 may likely *end* differently than the preceding year, we anticipate the first part of the year will play out similarly, with plenty of volatility and focus on inflation, employment, and the Fed. As such, we expect three key investment approaches that were helpful for navigating 2022 to also be mission-critical for successfully investing in 2023.

1. Investors must be **tactical and nimble**.
2. Investors must focus more than ever on **managing risk**.
3. For their core portfolio, investors should continue to **own great businesses**, but with an added focus on the *right* types of high-quality businesses that we'll detail below.

Before going into more specifics about our approach, it's worth reiterating that each of our investment strategies is managed independently, with a unique set of investment goals and guidelines (for your reference and review, we have included a short description of each of our investment strategies following this letter). Thus, the degree to which we implement the investment approaches above will vary across each portfolio. For instance, expect the All-Weather strategy, by its nature, to be more tactical and nimbler than our buy-and-hold Forever strategy. But to the extent that they align with the portfolio's goals, know that we actively implement the three investment approaches above in each of our strategies.

Our **tactical** portfolio moves have been most evident in our decision to overweight Defense and Energy companies. Lockheed Martin, the world's largest defense company, was the largest holding across SAM strategies for most of 2022. Shell, the world's largest liquefied natural gas (LNG) trader, has been another prominent holding in multiple SAM strategies.

Those stocks finished the year up 37% and 31%, respectively. The S&P 500 was down 19%. This underscores why investors cannot simply invest in a passive index and hope everything will turn out for the best. Investments don't always move in the same direction. And the companies with the largest index weightings don't always outperform.

We were also **nimble** during the year, switching gears as the market changed. For example, we entered 2022 without any exposure to bonds. It was the correct decision, as almost every segment of the bond market suffered its worst decline in decades.

But in those bond declines, we saw renewed opportunity. Recall that when bond prices fall, their yields rise. So, in the latter half of the year, we added materially to our bond exposures across most of our strategies. To date, we have focused on owning U.S. Treasury bonds rather than corporate bonds or other types of fixed income. While we are generating slightly lower yields with U.S. Treasurys, the benefit of eliminating the risk of default that other bonds carry more than makes up for it in our view, particularly as we face a slowing economy. Moreover, we have focused on short-term bonds, essentially swapping part of our cash holdings (with zero return) for Treasury Bills (at yields north of 4%) while still preserving liquidity and flexibility for that capital.

Maintaining larger-than-normal cash (and now, short-term U.S. Treasury) reserves was also a form of **managing risk.** Being thoughtful about managing risk is always important, but seldom rewarded. That is because the market *usually* goes up. People *usually* listen to bull market geniuses. Investment returns are *usually* praised without regard as to how much risk was taken to generate them.

But 2022 was not usual. The market went down. The bull market geniuses were humbled (at least they should have been). And investors were suddenly very aware of the riskier assets in their portfolios – and promptly dumped them.

Our proactive decision to hold more cash than normal helped protect client capital across nearly all SAM strategies. So too did our decision to completely avoid what we deemed to be riskier categories of the market last year, including exposure to China, meme stocks, companies with large debt levels, and all non-bitcoin and Ethereum crypto assets (including altcoins, "stable" coins, NFTs, and highly dubious "high yield staking" arrangements, to name a few).

There are two more areas of risk management that I'd also like to address. The first is industry weightings. Except for the Gold strategy, in each of our portfolios we limit the exposure to any one industry to no more than 20% of total capital. We do this to protect portfolios from large one-way moves that can occur in entire sectors of the economy. Consider the oil and gas exploration industry. While 2021 and 2022 were incredibly strong years for the industry, the preceding six years were decidedly not: The S&P Oil & Gas Exploration & Production ETF (ticker: XOP) dropped more than 90% from its peak in 2014 over those six years. And even with strong gains over the past two years, XOP still trades for less than half its average price in 2014.

One final area where we've looked to reduce market risk *without* sacrificing returns is through low-correlation investments. You are likely familiar with our preference for low-correlation investments – that is, investments that do not behave in a similar way to the stock market (and therefore can often go up even when much of the market is down). This is most reflected in our merger arbitrage strategy, where we buy companies that have announced they'll be acquired. We buy these shares at a discount to the ultimate acquisition price and look to collect that "spread" over time. (These spreads exist because many previous holders of the shares do not have expertise in analyzing these situations and would rather sell at a lower price than wait to get paid and/or bear the risk the deal does not close.) Expect merger arbitrage investments to be a meaningful part of most of our investment strategies in the year ahead.

With all that said, at the core of what we do at SAM will always be identifying and **owning great businesses.** In particular, we are focused on investing in companies that we believe will thrive – no matter what 2023 holds in store. While not a complete checklist, these are four categories that we are making sure we own in size.

Companies with resilient business models. Consumer spending makes up about 70% of gross domestic product (GDP). The United States is a consumer-driven economy. If economic growth dips, weak consumer spending is almost certainly going to be a factor. But not every company sells to everyday consumers. Defense companies, as an example, have world governments as their primary customers. We know that the government doesn't mind spending money. What's more, these companies have backlogs of orders tied to long-term contracts that often last several years or even decades. We could enter into and then exit a recession, and certain defense companies wouldn't miss a beat.

Companies with strong pricing power. The labor market remains tight, and rising labor costs encourage companies to pass their costs onto consumers. While every company would like to be able to do that, the reality is that not all of them can. Some companies can't effectively raise prices, so they see their margins weaken and profits decline as they bear the brunt of inflation themselves. The companies that can effectively raise prices are said to have strong pricing power. The reasons a company has pricing power vary widely. They may have strong brand loyalty. They may have a monopoly on a vital product like a life-extending medication. Some businesses have inflation escalator clauses built right into their contracts. Whatever the reason, these are companies we want to own in an environment where inflation remains stubborn.

Companies that thrive when rates are high. Perhaps the best example here is insurance companies, who typically invest their float in assets like longer-term bonds. The higher rates go, the higher the return they can generate on new investments. There are also companies whose businesses involve borrowing at fixed rates and lending at floating rates. The higher rates go, the more valuable their floating rate portfolio becomes.

Companies that will come out stronger. Not every company will be shielded from a recession. In fact, most will see their revenues and earnings suffer. But of those companies that will see their business decline, a select few still come out stronger on the other side of a recession. How can that be? They will capitalize on the weaker economy by growing their market share. This can either be done through organic growth or through acquisitions – effectively taking out weaker competitors. We own companies that excel at this and have turned lemons into lemonade in several previous market downturns.

As we noted above, we expect 2023 to begin much like 2022 ended. Volatile, full of things to worry about, and with the Fed acting decidedly as a headwind to the economy and asset prices. We expect to utilize all the approaches detailed above in similar manners. However, there is one notable change to our view. With a portion of your portfolio, we now believe *the importance of a **tactical** approach will be even greater in the years ahead*. Whether it's increased tensions with China, a collapse in energy security, a colossal misstep by the Fed, or an event that is largely unconsidered today, the world and the financial markets will assuredly change in the future.

When that change happens, you don't want to be 'holding and hoping'.

With that in mind, I'm very excited to tell you about a new strategy that we'll soon make available to SAM clients! It's frankly one that we've gotten requests about for years. Believe me, we heard you. But we never want to invest on your behalf unless we are 100% confident in the strategy. And the timing.

So, we rolled up our sleeves. Did a lot of homework. Had a lot of discussions. And backtested this strategy six ways to Sunday.

I'm very skeptical when I hear people talk about backtests. I'll tell you why. There are some less than reputable folks in the investment industry that will use backtesting to solve for whatever results they want. They simply change the variables until they have stellar results.

We did the opposite. Our first test produced better results than we'd imagined. So we tried to make them worse! We changed position sizes. Buy and sell criteria. We even ran virtually impossible scenarios, like what would happen if every stock ceased paying a dividend.

The results changed with every iteration. But they were always impressive. That's when we knew we had something special.

I’m referring to our soon-to-be launched strategy - **Tactical Select**… *powered by TradeSmith*!

Many of you are likely familiar with TradeSmith’s suite of risk management tools, including their flagship TradeStops product and the Volatility Quotient (VQ). The TradeSmith platform has always been one of the proverbial tools in SAM’s risk management toolbox. But while it guided our decision making, it wasn’t at the forefront.

Tactical Select will be different. It will be driven by SAM’s fundamental approach and overlayed with TradeSmith’s risk-based algorithms. I’m so excited to share the results of our backtesting along with all the details about this strategy. I hope you’ll join me for a special SAM Client Webinar on Tuesday, January 10th to learn more.

Thank you again for being a valued SAM client. We are optimistic for the opportunities to come in 2023 and grateful to be a part of your investment journey. Be sure that we’re fully committed to making the coming year a prosperous one for you and your family.

Sincerely,

Austin Root
On behalf of the SAM Investment Committee

Stansberry Asset Management Investment Committee
Austin Root
Michael Joseph, CFA
Mario Valente, CFA
Eamonn O’Brien
Vincent Dolce
Jacob Abrams

SAM Investment Strategies

All-Weather: This strategy is designed for clients seeking a portfolio with less correlation to the stock market. All-Weather aims to produce superior risk-adjusted returns through the full investment cycle with an added emphasis on capital preservation. All-Weather is an actively-managed strategy. We will be opportunistic – shifting to capitalize when market conditions change, and also actively moving to protect our clients from market drawdowns.

Total Alpha: This strategy is designed for clients who want to capture the upside of bull markets and are prepared to tolerate some volatility in the event of a correction, but still want tight risk management in the event of a bona fide bear market. Total Alpha is meant to draw on various ideas from the vast array of Stansberry Research publications. While it will typically be dominated by Stansberry Research investment ideas by design, SAM will conduct additional due diligence and monitoring and may make substitutions for positions when we believe it is appropriate.

Income: This strategy is designed for clients for whom reliable current income is a priority, who place a heavy emphasis on minimizing their portfolio drawdown in the event of a significant correction, and who are interested in investments beyond the traditional income universe. Income is an actively-managed strategy. The risk-reward dynamics of different types of income-generating investments are constantly changing. We adjust the Income strategy to increase the reliability of income streams, reduce risk, and to capture upside total return potential.

Venture Growth: This strategy is designed for clients that want to have an emphasis on generating long-term capital appreciation above other investment goals. Venture Growth seeks to harness the power of compounding by investing early in innovative, well-run, financially strong companies and then staying invested as they grow into even better companies.

Forever: This strategy is designed for clients with a long investing time horizon who wish to hold high-quality businesses and are prepared to tolerate short-term volatility. Forever typically experiences low turnover which makes it popular with clients who want to minimize capital gains taxes. While it will typically be dominated by Stansberry Research investment ideas by design, SAM will conduct additional due diligence and monitoring and may make substitutions for positions when we believe it is appropriate.

Gold: This strategy is designed for clients who want to allocate more of their net worth to precious metals and related investments. SAM believes precious metals will continue to appreciate and be a superior store of value to the U.S. dollar and other fiat currencies. We also believe that gold is the ultimate safe haven asset. During times of economic downturn, war, and other calamities, investors have time and time again sought refuge in gold in order to preserve their wealth. In our increasingly uncertain and unpredictable world, gold has a place in the portfolio of every investor.

Cornerstone: This strategy is designed for accounts with a starting balance less than or equal to $100,000. Cornerstone features thematic elements from our All-Weather and Forever strategies. This strategy is meant for long-term investing and is focused on owning high-quality businesses expected to perform well through a full market cycle. We may also invest in securities that serve as hedges in the event that the market suffers a significant drawdown.