STANSBERRY RESEARCH

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DR. DAVID EIFRIG'S

Income Intelligence

The World Dominating Dividend Grower Making Addiction Cool Again

- *Why we like investing in a legal and profitable addiction.*
- *It's tough to find a better value stock than this today.*
- *A speculative "option" on the marijuana market.*

Infamous drug smuggler George Jung had 180 pounds of U.S. cash.

Roughly $3 million was in hundred-dollar bills... and another $3 million was in fifties. And he didn't know what to do with it...

This was early in his cocaine-running career. Jung was collecting $47,000 for each kilo he smuggled into the U.S. He would go on to make, by his estimates, $100 million moving cocaine through flight attendants and chartered planes.

Jung changed the culture of America.

When Jung started in the 1970s, cocaine didn't warrant much concern. The supply was low, prices were high, and only a few select groups used it – Hollywood celebrities, rock stars, and New York City artists. Most heavy drug users opted for heroin.

But by 1985, thanks to Jung's trafficking, cocaine had exploded... That year, sales of cocaine hit an estimated $40 to $50 billion a year, more than phone giant AT&T (T) was earning at the time. According to Jung, 80% of the nation's cocaine came through him.

And as if cocaine wasn't addictive enough, enterprising dealers discovered how to boil it down into "crack," which became a scourge across the U.S. in the 1980s.

That's the power of addiction. If people *need* your product, huge piles of cash will follow. And if you pair that with a social trend – like the cocaine-fueled parties of the go-go 1980s – you're in for a wild ride.

Of course, Jung didn't make $100 million because cocaine was hard to physically carry from South America to the U.S. He made so much because he did something illegal and took huge risks with his life and freedom.

And eventually, he got caught... He served 20 years in prison. Now you can hire him for $65 on a website that allows you to pay celebrities to record personal video messages for your friends (for comparison, comedian Gilbert Gottfried costs $125).

We don't have any interest in breaking the law here at *Income Intelligence*. That won't help us sleep well at night.

But for reasons ingrained in our cultural history, some addictive substances are perfectly legal... and make fortunes for their sellers.

IN THIS ISSUE:

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Alcohol is notably destructive when it leads to addiction, yet more than $200 billion worth is sold each year in the U.S. Sugar is addictive, and it's the main event at every child's birthday party. And Starbucks (SBUX) combines sugar with an addictive stimulant, caffeine, in nearly all its drinks. More than half of Facebook (FB) users check the site multiple times per day. And sometimes I get a hankering for a **McDonald's (NYSE: MCD)** Egg White Delight that I can't shake.

The point is that people make buying decisions based on their emotional and physical desires, and those buying decisions can lead a business to grow or fail.

What's more, you've seen the market. Now is not the time for taking on risk... It's the time for cheap stocks with necessary products and conservative balance sheets. This is exactly the stock you want for today's market.

In this month's issue, we've found an income investment that's paying a big yield and trading at a bargain-basement price. In the past year alone, it made more than $7 billion in free cash flow – or about 70 times George Jung's *lifetime* earnings – and returns it all to shareholders.

And you won't get 20 years in prison for owning this business...

A Legal and Profitable Addiction

Altria (NYSE: MO) is the No. 1 cigarette and tobacco company in the U.S. The "MO" symbol is a relic from when it was known as Philip Morris.

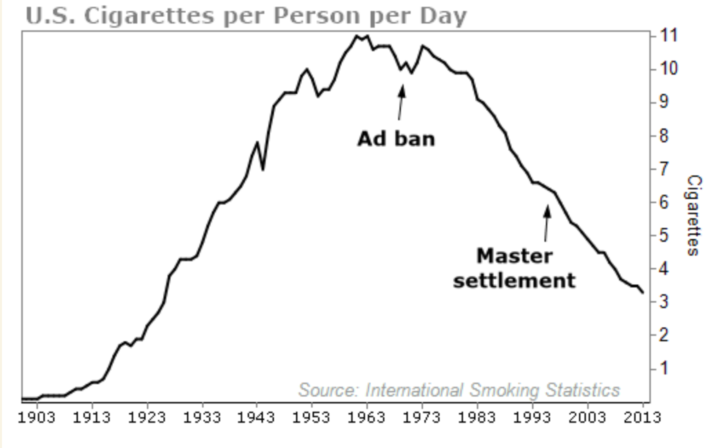
Selling cigarettes is a good business. Over the past 20 years, an Altria stake has returned a steady 12.8% a year compared to a 5.6% annual return for the S&P 500 Index. That's the difference between turning an initial $10,000 stake into either $111,000 or $30,000.

After all, cigarettes are expensive and addictive. And people keep buying them no matter what.

Over the years, Altria has been banned from advertising, had its products taxed aggressively, been sued for multi-billion payouts... And still the money rolls in.

It has also seen a large decrease in demand for its products. In the 1960s, Americans consumed more than 4,000 cigarettes per person, per year. By 2016, that number declined to 1,000.

That's an average of half a pack per every single person in the country every day down to just three cigarettes per day, as you can see in the chart. And still the money rolls in.



Altria shares kept climbing through the drop in daily smokes, until the past two years.

Altria uses its addictive product to build powerful brands, such as Marlboro. And it has predictable margins on predictable streams of revenue, even if the number of smokers is declining. It doesn't need to invest in more factories or farms.

That allows it to make decisions that return capital to shareholders...

By our estimates, when a smoker buys a $14 pack of cigarettes in New York City, about $6 goes to taxes and $2 goes to the retailer. That leaves $6 to Altria. After paying for costs, Altria earns about $2.24 in profits – *and it pays nearly that entire amount to shareholders through dividends and buybacks.*

This is the type of stock you want to own today...

A Stock for All-Time, But Especially Today

Our timing was exceptional. We noted in these pages on October 18...

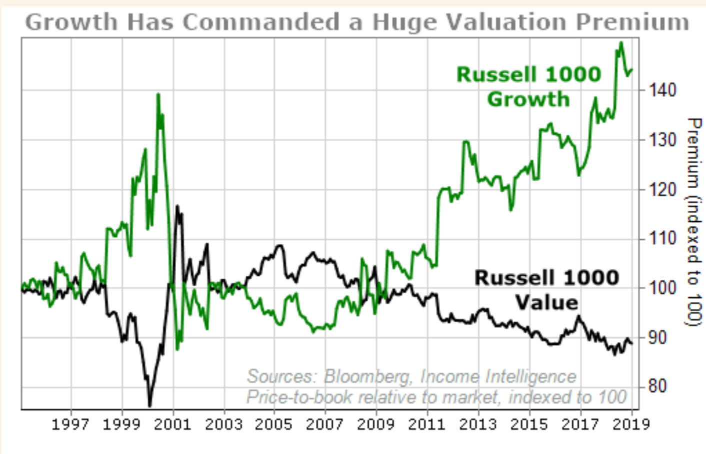
> Right now is the best time in the past nine years to reduce your risk and move some of your capital to cash and cash-like investments.

Since then, the stock market has dropped nearly 10%... and was down nearly 20% at its low. That cheaper price means it's a better time to get into stocks than it was three months ago. At the same time, we can't dismiss concerns about the market and the economy.

With our *Income Intelligence* model portfolio, we want to be safe, conservative, and collect big yields. In short, we want to buy value, low volatility, and recession-proof staples. All those strategies point us to Altria.

First, the divergence between growth stocks and value stocks may never have been larger.

Today, the Russell 1000 Value Index trades at a 1.9 price-to-book ratio compared to 3.0 ratio for the broader benchmark. The Russell 1000 Growth Index sports a 6.7x ratio. As you can see in our comparison chart below, **that spread is as wide as it's ever been**.

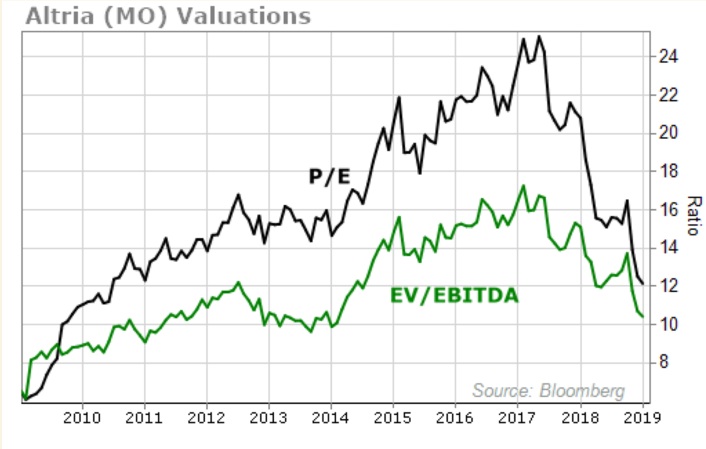


Today, you can't find a better value stock than Altria.

Shares are trading for just 12 times earnings and 10.4 times the more comprehensive enterprise value to earnings before interest, taxes, depreciation, and amortization (EV/EBITDA). Those are the lowest levels since around 2011.

And we haven't even mentioned the dividend yield. Altria now pays 6.6%. That puts it in the top 10 yielders of the S&P 500, and it looks much safer than less profitable companies such as Ford (F) and L Brands (LB).

We consider the dividend very safe. In fact, we expect the company will *raise* its dividend. That will continue a run of 51 dividend raises in the past 48 years.



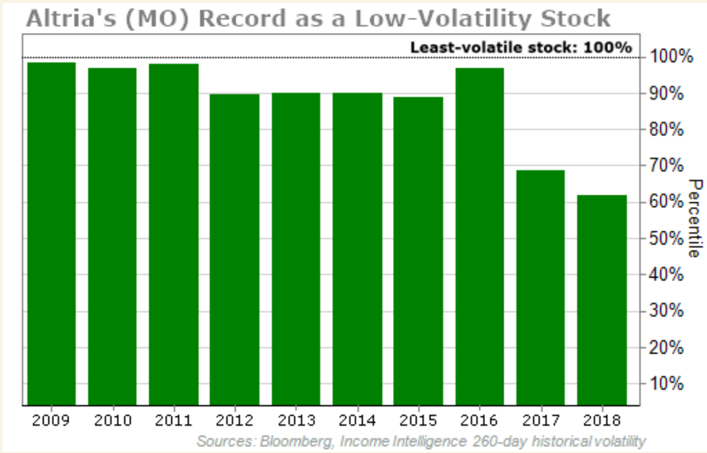
Altria shares are well positioned if the market turns from growth to value.

At the same time, we want low-volatility stocks. Finance theory tells you that higher risk comes with higher return. But the math doesn't back it up. The *least* volatile stocks typically outperform the most volatile ones. According to quantitative research firm Alpha Architect...

> Over the last five decades, defensive stocks have delivered higher returns than the most aggressive stocks, and defensive strategies... This runs counter to economic theory, which predicts that higher expected risk is compensated with a higher expected return.

Studies show that if you buy the one-fifth (known as a quintile) of stocks that have low volatility, you'll outperform the quintile of high-volatility stocks.

Altria isn't just in the low quintile... it's one of the least-volatile stocks you can buy. If you compare where it ranks amongst current S&P 500 stocks over the past 10 years, it's near the very top (a rating of 100%) every year except the past two, thanks to the recent downturn.



If you measure volatility by beta, it checks in at 0.62 (based on weekly, five-year data). That means it's only 60% as volatile as the S&P 500.

You simply can't find a more conservative stock. And that should be exactly what you are looking for in today's market.

Finally, we want to set aside the math and focus on common sense...

Today, we want to own businesses that don't need a good economy to make money. We want to hide our money in municipal bonds, gold, funeral homes, and other things that people buy no matter what.

The next step is to invest in "sin" or "vice" stocks. People who smoke can't do without cigarettes. If the economy slows, the increased stress may lead them to smoke even more.

A study of the 2007-2009 bear market finds that tobacco stocks were the only industry to outperform the market on a risk-adjusted basis, though international growth helped.

> The only industry to outperform the market during the downturn was the [Tobacco Fund]. This performance could be attributed to the rapid growth of cigarette smoking in developing nations, whereby tobacco is viewed as a growth industry.

Other research finds that many investors, including institutions and pension funds, don't like to hold sin stocks because they don't want to be involved in the ethical quandary of profiting from addiction. Lack of buying interest has these stocks priced 15% to 20% cheaper than they would be otherwise.

Credit Suisse found that $1 invested in tobacco stocks in 1900 turned into $6.2 million by 2014 and just $38,000 if invested in stocks in general.

You can stay away from tobacco stocks if you'd like. But it may cost you.

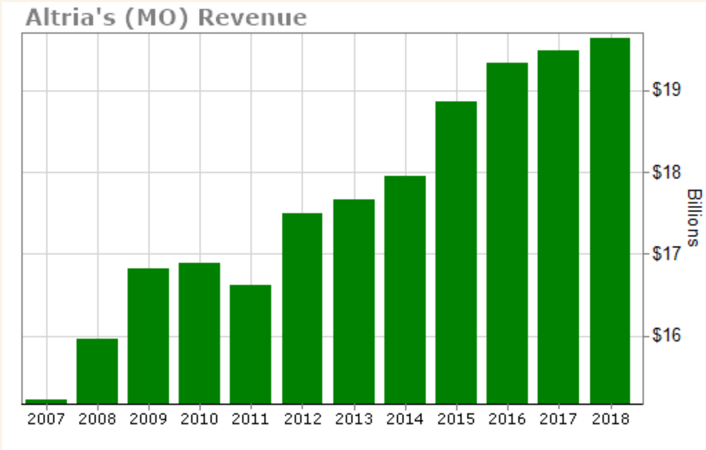
We have got a cheap, conservative stock with a recession-proof product. So why is it so cheap?

This Business Is Impeccable... Except for One Thing

People aren't smoking as much as they used to. The cigarette business is in decline.

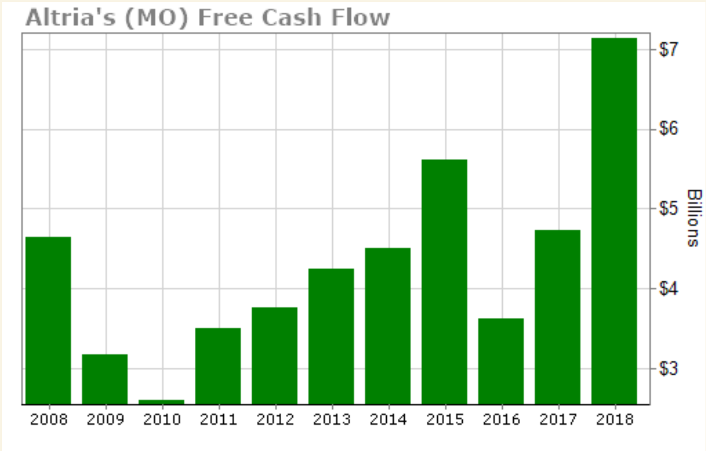
At least, that's what the headline numbers on smoking will tell you. If you look at Altria's revenue, income, or cash flow... it's doing just fine.

People smoke less, as we mentioned earlier, but Altria's sales have grown from $16.8 billion in 2010 to $19.5 billion over the past 12 months.



Altria has been able to raise prices (despite already punitive sales taxes) and grow moderately by expanding into smokeless products and some wines. Cigar sales – since Altria started disclosing them in 2015 – have also risen.

More remarkable, on that $19.5 billion in sales, Altria has generated $7.1 billion in free cash flow over the past 12 months. That number is drastically higher than previous years, as Altria has streamlined operations and improved its margins.



And as we mentioned, Altria returns nearly all its cash to shareholders. In the past 12 months, it paid $5.2 billion in dividends and bought back $1.8 billion worth of shares.

Stock investors will pay more for growing stocks, but that doesn't mean only growing stocks have value.

By our estimates, even if you slap a 5% rate of decline on the cash flow growth – which as we mentioned, would be a complete reversal in trend – Altria should be worth 10% more than it is today. Put another way, to arrive at today's valuation, our model suggests that cash flows are set to decline at 12.5% a year.

That's not going to happen.

The reason this stock has such attractive financials is because of the addictive nature of its business. There may be a few less smokers each year due to quitting and death, but the vast majority of smokers come back for another pack. They can't help it.

Investing in that may not appeal to you. That's OK. Big Tobacco earned itself a bad name when it spent decades claiming its products were not addictive or harmful when it had evidence to the contrary. Now, tobacco companies not only admit their products are addictive and deadly, they advertise that fact. If grown adults still choose to smoke, it's their choice.

Plenty of businesses are built on addictive products. The fastest-growing restaurant chains in history have been those with addictive products, like McDonald's, Chipotle Mexican Grill (CMG), and Starbucks. When you start thinking about one of those big carb-laden burritos for lunch, you've got to go get one. Addictive products lead to growth.

Altria's in the same category. It's simply at a different stage in the life cycle of its business.

The stock does have risks. In late 2017, the U.S. Food and Drug Administration (FDA) announced it was reviewing the rules for nicotine levels in cigarettes. Now, it's considering banning menthol cigarettes. And the e-cigarette business could run into new rules, too. An adverse announcement from the FDA could send MO shares down. But at current valuations and with a yield of 6.6%, that's a risk we're willing to take.

Besides, it's possible that Altria's business may not be in decline at all...

Smoking Isn't Cool Anymore... But Nicotine Still Is

Altria has been dealing with a decline in smoking for decades. But in recent years, a new threat has emerged: Vaping and e-cigarettes.

Rather than burning tobacco, these products deliver nicotine as a flavored vapor using a battery.

Originally, e-cigarettes were pitched as a healthy alternative to cigarettes. Nicotine is bad for you, and we still don't know all the effects of the glycol liquid that vaping uses, but most health experts agree that vaping is better for you than cigarettes if you are already addicted to nicotine.

However, the business has grown into much more than a cigarette replacement...

While about 7 million people vaped in 2011, now there are more than 35 million regular users. The industry is well over $20 billion in sales.

And the biggest success story is, by far, JUUL (pronounced "jewel"). JUUL has a sleek design that looks like a USB drive, an especially high dose of nicotine, and is the "cool brand" among young e-smokers.

A study from May 2018 in the journal *Tobacco Control* found that JUUL was dominating its competition:

> JUUL has changed the landscape of the e-cigarette retail market in the USA. Because of JUUL's growth, the e-cigarette brands owned by the tobacco industry, which had dominated the e-cigarette retail market since 2013, no longer had the majority of the market share at the end of 2017.
>
> JUUL's fast growth contrasted dramatically with the e-cigarette brands owned by the tobacco industry, whose retail sales had stagnated since 2015. With quarterly retail sales exceeding $100 million and annual retail sales exceeding $650 million, JUUL is now the largest e-cigarette brand measured by retail sales, taking up more than half the e-cigarette retail market share.

This domination has not gone unnoticed. In December, Altria invested $12.8 billion in exchange for a 35% stake in the company. JUUL is a private company, so it doesn't release financial statements. But estimates put its 2018 revenue at $2 billion.

For its 35% stake, Altria paid about 19 times sales. That's pricey. But it could pay off...

For one, Altria's portion of JUUL's sales would equate to about 3.5% of Altria's revenue based on 2018 numbers. And cigarette sales are declining around 5% a year. There's also reports that JUUL's revenue grew 641% in the past year.

That's astounding. If it keeps up anything like that pace, it will offset the loss from cigarettes and then some. In fact, revenue growth of just 100% will make JUUL more than 7% of Altria's revenue by next year. Rather than being a cigarette business in decline, the JUUL purchase could turn Altria into a *growing* company.

It's worth noting there are also reports that JUUL's gross margins are as high as 75%. Again though, nothing has been officially disclosed yet.

There's more... In 2008, Altria split its international tobacco businesses into a separate company, Phillip Morris International (PM). While smoking has declined in the U.S., it's doing better overseas. With JUUL, Altria has access to growing international markets again.

Finally, JUUL is worth more to Altria than it is to anyone else.

The challenge with a consumer-facing business is distribution. You need to send sales staff to store after store to entice them to stock your product. JUUL's been good at that, but it's still a slog.

Altria already has connections with convenience stores and other places that sell cigarettes. It can blast JUUL out to 230,000 locations much faster than JUUL could've made those relationships itself.

Whatever JUUL's prospects for growth in 2019 were prior to the Altria investment, they have increased.

That's not to mention access to Altria's legal and regulatory departments, which have more experience navigating this tricky business than anyone else.

As mentioned before, this business has risks. The FDA could change the rules regarding e-cigarettes at any time.

Altria has taken the approach of self-regulating. It wants to show that it is such a responsible business that the FDA doesn't need to come in and tell it what to do. Altria and JUUL have already agreed to remove flavored vapors that may appeal to underage kids from stores. And they have endorsed efforts to raise the minimum age to purchase tobacco from 18 to 21.

Still, an adverse ruling could dim JUUL's bright future. And that's part of the reason we can get Altria shares so cheaply today.

A World Dominating Dividend Grower

We're adding Altria to our portfolio of World Dominating Dividend Growers. These are stocks we intend to hold for a long time, collect the dividends, reinvest them, and compound our growth to accumulate a large amount of wealth.

In this case, however, we also suspect that Altria could provide quicker returns with a few good quarters. The valuation of today's shares is simply too low. A 10% to 20% short-term move higher is likely.

Action to take:

Buy Altria (NYSE: MO) up to $55 per share. We use a 25% trailing stop to protect our capital for our World Dominating Dividend Growers. We recommend putting no more than 4%-5% of your portfolio into this investment.

What if You Hate Cigarettes?

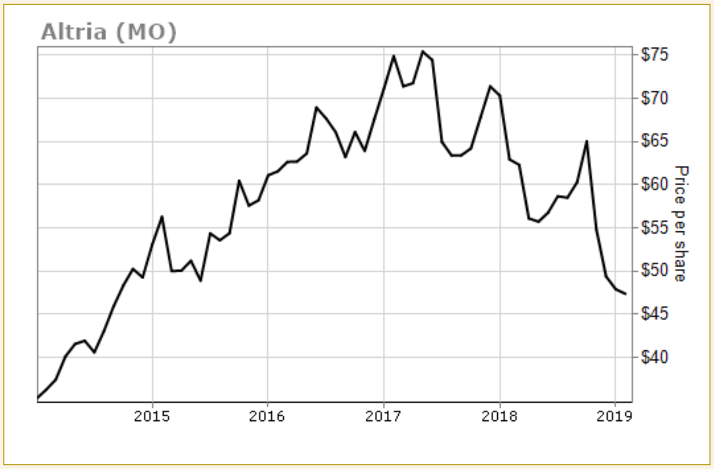
Good, you probably should.

Don't forget, I'm a medical doctor. And smoking anything regularly – whether cigarettes, vaping, or recreational cannabis – probably isn't healthy for you in the long run. But in the long run, we're *all* dead! And the fact is that our bodies have nicotine and cannabinoid receptors, so my guess is that these things may even turn out to be good for you in moderation.

But my job is to show you the best available investments I can find. We may differ on the ethics of any investment. Some may not want to invest in guns, tobacco, alcohol, fast food, or oil companies. But it's not up to me to force my ethics on your wealth.

We pinpoint the best investments and deliver them to you. You decide if you want to invest.

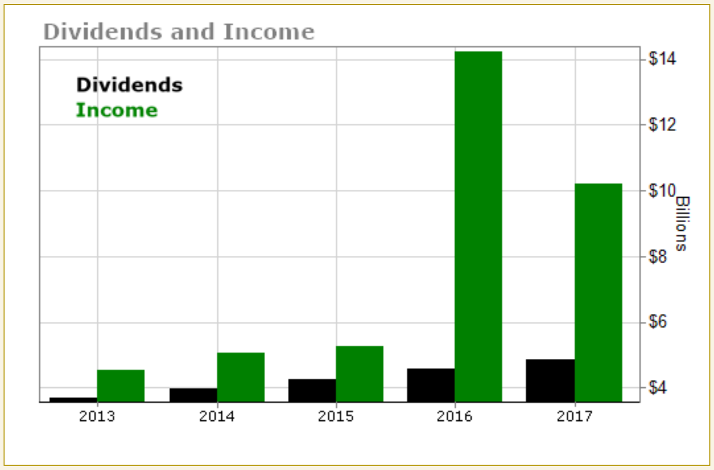
Altria (NYSE: MO)



Snapshot	
Recent Price (per share)	$47.20
Market Cap (in billions)	$88.7
52-Week High	$71.86
52-Week Low	$46.49
Dividends per Share (estimated)	$3.12
Dividend Yield (indicated)	6.6%
One-Year Return	-26.7%
Three-Year Return (annualized)	-1.7%
Average Volume (30 days)	12,631,770

Income Statement	2013	2014	2015	2016	2017
Revenue	$17,663	$17,945	$18,854	$19,337	$19,494
EBITDA	$8,296	$7,828	$8,586	$8,966	$9,765
Net Income	$4,535	$5,070	$5,241	$14,239	$10,222
Dividends Paid	$3,683	$3,961	$4,261	$4,590	$4,877

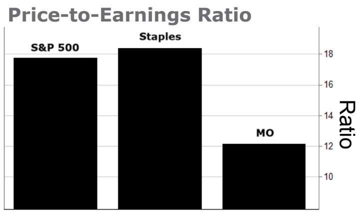
Cash Flow	2013	2014	2015	2016	2017
Cash From Operations	$4,375	$4,663	$5,843	$3,821	$4,922
Cash From Investing	$602	$177	-$15	$3,708	-$467
Cash From Financing	-$4,702	-$4,694	-$6,780	-$5,329	-$7,771
Free Cash Flow	$4,244	$4,500	$5,614	$3,632	$4,723

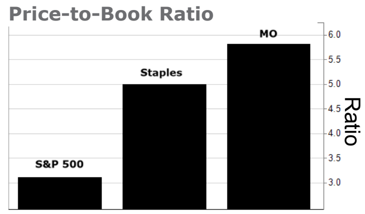


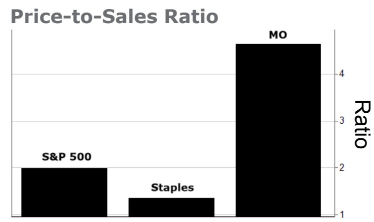
Balance Sheet	2013	2014	2015	2016	2017
Cash and Equities	$3,175	$3,321	$2,369	$4,569	$1,253
Total Assets	$34,859	$34,475	$31,459	$45,932	$43,202
Long-Term Debt	$13,992	$13,693	$12,843	$13,881	$13,030
Total Liabilities	$30,706	$31,430	$28,549	$33,121	$27,784

**All dollar figures in millions.*

Dividend Payout Ratio	Years Paid	Interest Coverage
48%	48	13x







Source: Bloomberg

Income Investor Dashboard

Inflation Monitor

Fears of rising inflation have eased a bit from last year. While three months ago we had 10 measures flashing "inflation," today we have 11 measures pointing toward "deflation."

Still, we expect inflation to re-accelerate later this year. The labor market remains tight, which should continue to push wages higher. Remember, wages are by far the biggest indicator and driver of inflation. A rebound in gas prices would also help drive inflation.

Commodities	Price	1-Mo. Change	1-Yr. Change	Inflation	Stable	Deflation
Oil (barrel)	$52.11	1.8%	-18.2%			●
Gold (oz)	$1,288.98	4.0%	-3.7%			●
Silver (oz)	$15.51	6.4%	-9.8%			●
Copper (lb)	$2.69	-3.4%	-16.4%			●
Corn (bushel)	$3.44	-2.3%	6.8%	●		
Surveys and Stats	**Index Value**	**1-Mo. Change**	**1-Yr. Change**	**Inflation**	**Stable**	**Deflation**
Consumer Price Index	252.7	-0.1%	1.9%		●	
Producer Price Index	203.8	-0.3%	1.4%		●	
CRB Industrial Prices	479.5	-1.4%	-8.5%			●
2018 SSA COLA			2.8%	●		
Economy	**Price/ Index Value**	**Qrtly Change**	**1-Yr. Change**	**Inflation**	**Stable**	**Deflation**
Unemployment	3.8%	0.0%	-0.3%	●		
Capacity Utilization	78.5%	0.1%	1.2%	●		
US Personal Income (in trillions)	$17.82	0.7%	3.8%	●		
Baltic Dry Shipping Rates	1,096	-28.8%	-10.9%			●
Real-World Inflation	**Price**	**1-Mo. Change**	**1-Yr. Change**	**Inflation**	**Stable**	**Deflation**
White Bread (lb)	$1.29	1.3%	-2.0%			●
Gasoline (unleaded gallon)	$2.41	-9.6%	-1.8%			●
Electricity (kilowatt hour)	$0.135	0.7%	-0.7%			●
Milk (gallon)	$2.85	-0.8%	-9.6%			●
Ground Beef (lb)	$3.71	-1.0%	-0.5%			●
26" Men's Bike (Walmart)	$89.00	0.0%	11.3%	●		

Overall Score

INFLATION	STABLE	DEFLATION
6 (-3)	2 (+1)	11 (+2)

Yield Corner

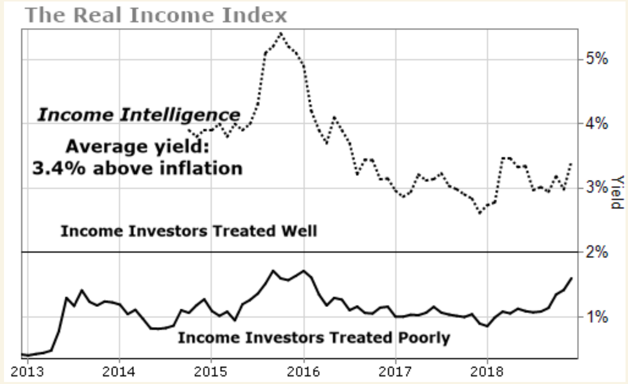
With the Federal Reserve taking a wait-and-see approach to interest rates, it's likely we won't see the number of rate hikes we saw in 2018. Without signs of higher inflation, hikes are hard to justify. That means the slow grind higher in CD and savings rates may take a pause.

Certificate of Deposit	Highest Avail	3 Mo. Ago
Capital One	2.8%	2.6%
Money-Market Fund	**Highest Avail**	**3 Mo. Ago**
CIT Bank	1.9%	2.2%
Current Rates	**Current**	**3 Mo. Ago**
$30K Home Equity Line of Credit	7.6%	7.1%
High-Yield Bonds	7.2%	6.6%
Corporate Bonds	5.2%	5.0%
30-Year Fixed-Rate Mortgage	5.0%	4.5%
48 Mo. Auto Loan	4.4%	4.8%
Municipal Bonds	4.1%	4.3%
U.S. 10-Year Gov't Bonds	2.7%	3.2%
S&P 500 Dividend Yield	2.1%	1.9%
Five-Year Certificate of Deposit	2.1%	1.9%
Interest Checking Rate	0.6%	0.6%
Money-Market Fund	0.6%	0.4%
Option Income	**Current**	**3 Mo. Ago**
Volatility Index	19.0%	19.0%
1-Year S&P 500 Call Yield	7.1%	6.9%

The Real Income Index

We take what an average investor can earn in a basket of conventional income investments and subtract inflation to calculate the Real Income Index.

If the average investor can earn at least 2% after inflation, it's a good time for income investors. In *Income Intelligence*, our goal is to show you how to safely earn high income... no matter what the market is doing.



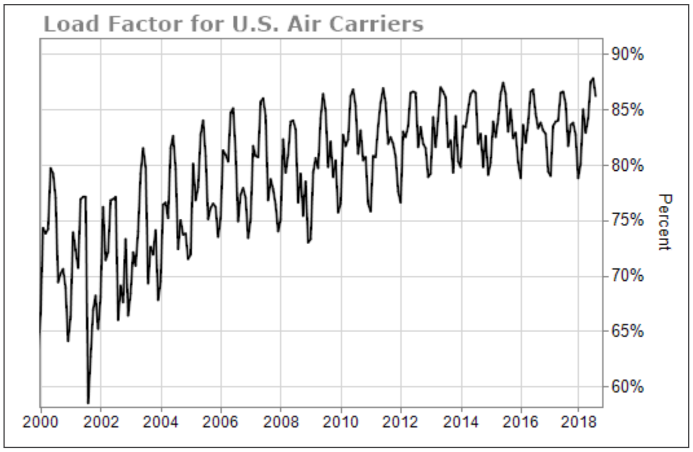
Income Investor Dashboard

Is the Economy Slowing?

This week, I was on a flight that, for the first time in five years, I could easily call empty. There were only a handful of seats near the front of the plane occupied.

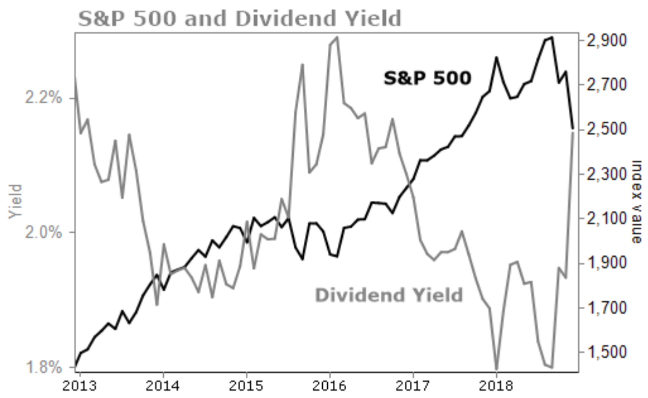
Longtime readers know I use real-world indicators to get a feel for how the economy is doing. When planes and restaurants are crowded, I know the economy is strong and consumers are confident. My recent flight worries me...

But let's check the numbers. In July, airline load factor hit an all-time high, and the August reading was near there too, over 86%. But the national numbers are out of date.



We can get more recent numbers from quarterly earnings reports. Delta (DAL) just reported its earnings and its total December load factor was unchanged from December 2017. And its total 2018 load factor was 3.6% higher than 2017. Southwest (LUV) reported its earnings in October, and its load factor for the recent quarter was down about 0.9%.

We'll be watching to see if a slowdown is here.



From *Retirement Trader*: Trading for Income

By selling options, you can earn income with a safety cushion should the stock decline. The list below shows some of the best opportunities based on the ratio between risk and reward. You can learn more about selling options here.

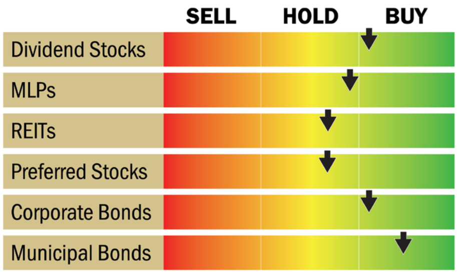
The list below shows the top 10 income trades available from selling a near-the-money covered call expiring in March 2019. The stocks are from our list of the "Top 25 Blue-Chip Stocks."

	Symbol	Recent Price	Strike	2-Month Return on Capital	Downside Cushion
Target	TGT	$67.91	$67.50	4.7%	5.1%
Intel	INTC	$48.45	$48	4.4%	5.1%
Cisco	CSCO	$43.99	$44	4.5%	4.3%
Microsoft	MSFT	$105.24	$105	4.1%	4.2%
Oracle	ORCL	$48.21	$50	5.9%	2.1%
Disney	DIS	$111.19	$110	3.5%	4.4%
CVS Health	CVS	$64.28	$65	4.5%	3.3%
Johnson & Johnson	JNJ	$128.30	$130	4.3%	2.8%
Starbucks	SBUX	$64.22	$65	4.2%	2.8%
Eli Lilly	LLY	$117.14	$115	2.6%	4.3%

Next Month: CEF Blacklist

Income Market Overview

Income Market Overview



Dividend Stocks – See below.

MLPs – Overcoming some of the carnage of oil markets, MLPs have risen 2% in the past month. We're still cautious buyers of only the highest-quality assets.

Preferred Stocks – The huge discount in closed-end funds of preferred shares, like our **Nuveen Preferred Securities Income Fund (NYSE: JPS)**, has narrowed as share prices rallied sharply.

REITs – Despite a rally in the last week, REITs are down 2% over the month. Our Income Triggers don't like them, but a pause in rate hikes could provide a temporary boost.

Corporate Bonds – High-quality investment-grade corporates, now paying around 4%, could offer shelter if markets keep heading downward.

Municipal Bonds– The only better option than corporates for the fearful is municipal bonds. They still offer safety and tax-free yields.

Spotlight: Dividend Stocks

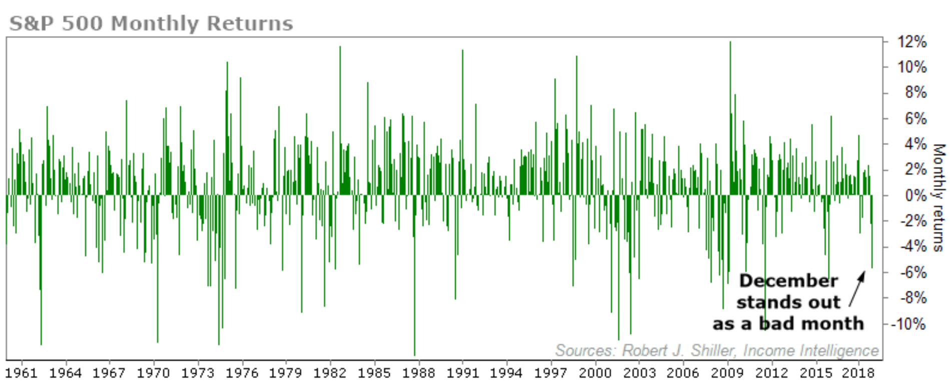
I've been talking about a down market since September, but the worst of it came in December...

Using data from Professor Robert Shiller that goes back to 1900, December's loss of 5.7% makes it the 78th worst month out of 1,428... barely missing the "worst top 5%." And if you focus on the era of the modern market, December was the 33rd worst month since 1960.

A down market means stocks are cheaper and a better buy... But that doesn't mean they'll bounce back immediately. If you look at the returns following bad months, there's no statistical difference after three months.

But after six months, the market does tend to outperform. In the 32 instances since 1960 that were worse than December, the following six-month return averages 8.1%, compared to 4.6% for the average of all periods.

The key here is still the economy. If we don't get a recession, we've likely seen the bottom of this correction. If we do get a recession, there's more room to fall.



Income Market Overview

Data Edge: Vice Stocks

Name	Symbol	Industry	Market Cap	5-Year Growth	P/E Ratio	Net Debt / Equity	Dividend Yield
Phillip Morris International	PM	Tobacco	$110.0	-0.9%	13.3x	N/A	6.4%
Altria	**MO**	**Tobacco**	**$89.0**	**2.2%**	**12.0x**	**82.0%**	**6.6%**
Diageo	DEO	Alcohol	$84.7	1.9%	N/A	76.8%	3.0%
Starbucks	SBUX	Caffeine	$79.5	10.9%	24.7x	42.7%	2.2%
British American Tobacco	BTI	Tobacco	$73.6	11.2%	N/A	75.5%	8.5%
Las Vegas Sands	LVS	Gambling	$44.7	-0.7%	16.4x	94.6%	5.3%
Constellation Brands	STZ	Alcohol	$30.4	6.5%	18.8x	126.3%	1.8%
Brown-Forman	BF-B	Alcohol	$21.7	1.9%	28.6x	176.1%	1.5%
Canopy Growth	WEED.TO	Cannabis	$18.8	226.3%	N/A	N/A	N/A
MGM Resorts	MGM	Gambling	$14.6	4.5%	30.7x	97.3%	1.7%
Wynn Resorts	WYNN	Gambling	$12.2	6.5%	17.1x	617.2%	2.7%
Melco Resorts	MLCO	Gambling	$10.1	0.8%	27.0x	70.4%	2.8%

Market Cap – in billions.

Data Insights: Vice Stocks

We've focused on "vice stocks" listed in the U.S. or Canada with a market cap of $10 billion or more. Of course, there's no official list of what counts as vice stocks (some would consider defense stocks to fit the bill), so this list is subjective.

Let's start with casinos. Decades ago, they were considered recession proof. Not so much because people gambled through the recessions, but because it was such an easy way to make money. *People hand it to you*. Now the industry is so competitive and so highly leveraged that it's become much riskier. Casinos, to us, don't have the recession-proof edge that we want from our vice stocks.

Phillip Morris International looks almost as attractive as Altria. It owns the rights to the overseas business for Altria's brands. However, given the state of the global economy, we think retreating our portfolio to the stalwart U.S. economy will pay off over the next couple of years.

We don't have a unified view of the alcohol makers. Some look too expensive. Others have low-quality brands. But we do think alcohol is still largely immune to a recession.

And we also don't have enough history to judge pot stocks like Toronto-listed Canopy Growth (WEED.TO). The company is valued at $18 billion, but it had only $77 million in sales last year. We like having an "option" on the marijuana market with Altria, but we don't feel comfortable recommending a pure play on pot. Plus, this type of company is probably a decade away from paying a dividend.

The Income Drilldown

Cannabis investments are hot right now. And Altria's gotten in on the game.

The cannabis industry has had a groundbreaking year. Each month, more and more U.S. states are legalizing it for both recreational and medical purposes. After last year's mid-term elections, Michigan became the 10th state to legalize recreational marijuana. And there are currently 33 states that have legalized medical marijuana.

Marijuana is still illegal in the U.S. on the federal level, but we think that will change soon...

In fact, just last month President Donald Trump signed the U.S. Farm Bill into law, which legalized hemp (a plant that's roughly identical to marijuana).

And if the cannabis business does get legalized, the government will want its piece. Just as governments allow lotteries and sales of cigarettes and alcohol to generate revenue, it will do the same thing with weed.

The biggest development for the cannabis industry came in October when Canada officially announced it was going to legalize marijuana. Many estimate this will bring in billions of dollars of sales to Canadian pot companies in the years to come.

As you can imagine, it also created a mania in pot stocks. Canadian marijuana grower Tilray (TLRY) traded for around $22 a share in late July and shot up nearly 1,000% to $214 a share in mid- September. Since then, it's come back down a bit... trading for around $85 a share today.

This was an extreme move, but the excitement in pot stocks is justified.

According to Grand View Research, medical and recreational cannabis sales are projected to skyrocket to $146.4 billion by the end of 2025. It may eventually surpass both the soda and tobacco industries. This industry is still in its infancy, with a lot of run life left.

Major blue-chip companies seem to agree. Over the past few months, we've seen monstrous deals to consolidate the industry.

It started in August, when beer giant Molson Coors Brewing (TAP) announced a partnership with Quebec-based cannabis grower HEXO (HEXO.TO) to develop cannabis-infused beverages.

Two weeks later, alcohol conglomerate Constellation Brands (STZ) shelled out $4 billion for 37% of Canadian marijuana grower Canopy Growth (CGC).

And finally, in early December, Altria got into the game. It paid $1.8 billion for a 45% stake in leading cannabinoid company Cronos Group (CRON). This firm primarily invests in Canadian medical-marijuana companies.

Cronos has three core assets: Peace Naturals (100% ownership), Original BC (100% ownership), and Whistler Medical Marijuana Company ("WMMC") (21.5% ownership).

All three businesses produce and sell medical cannabis. Peace Naturals and WMMC also focus on cannabis oils. What we like about Cronos is that it has capacity and distribution set up all around the world. It can produce in Canada, Australia, Israel, Colombia, and British Columbia. It has distribution in all those countries plus Poland and Germany.

Cronos has 40,000 kilograms of annual capacity. And with some of the projects it has in progress, it will tack on 77,000 kilos, bringing total capacity to roughly 120,000 kilos. This would make it one of the largest producers in Canada.

We think Altria's investment in Cronos makes sense. The move helps diversify Altria away from cigarettes and toward a high-growth product like marijuana. This can help offset the lack of growth we mentioned earlier.

Second, as we talked about with the company's JUUL deal, Altria has the infrastructure in place to help scale. When marijuana becomes legal in the U.S., Cronos will have a huge advantage over its competition. Altria will be able to distribute its products, like its Peace Naturals' dried cannabis "White Widow" or its cannabis oil "Happy Feet," across the nation.

Altria also has plenty of cash to help facilitate research for new products.

Perhaps the biggest reason this is a good match is because Altria will be able to help with regulators. Since cannabis is a relatively new industry, there hasn't been much regulation yet. But trust us, there will be.

When that happens, Cronos has one of the best partners. Altria has an army of lawyers and the knowledge of how to handle tricky regulatory issues.

Like the JUUL deal, Altria overpaid based on the current financials of Cronos. At Cronos' annual revenue rate of $15 million, Altria paid about 120 times sales. That is *extremely* expensive. And Altria also paid a fat 30% premium over Cronos' share price at the time of the deal.

But if the growth and legalization estimates for the cannabis industry are anywhere close to accurate, Cronos' sales are poised for explosive growth. A few years from now, we could look back and think $1.8 billion was a bargain.

Cronos also has a lottery ticket of sorts. Cronos recently agreed to a deal with Ginkgo Bioworks to develop yeast strains capable of producing cannabinoids at commercial scale. That could produce large volumes of cannabis at a much lower cost than growing marijuana plants, which means huge margins.

And of course, $1.8 billion is less than 10% of Altria's sales. Altria has more than that in cash sitting on its balance sheet. So it's not like Altria is staking its future on either Cronos or medical marijuana.

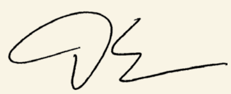
The Cronos investment is a speculation nestled within a much bigger, very profitable, and conservative company. As with all speculations, there's a chance it could fail. But there's also a chance that it could flourish.

We like the long-term prospects for the cannabis industry. We also think Cronos is well positioned to benefit from strong tailwinds. And with the backing of a giant like Altria, we see a lot less growing pains as it expands.

If Cronos grows the way Altria thinks it will, Altria has strong upside.

But despite the high price tag, this is a drop in the bucket for Altria's business. It's not central to the business. A failure will harm the company very little, but we don't mind having the potential gains hidden in Altria's portfolio of products.

Here's to our health, wealth, and a great retirement,



Dr. David Eifrig, MD, MBA
Baltimore, Maryland
January 17, 2019

Income Intelligence Portfolio

Prices as of January 16, 2019

THE INCOME PORTFOLIO

Our flagship, diversified, income-generating portfolio.

Stock	Ticker	Description	Ref. Date	Ref. Price	Recent Price	Dividend	Yield	Return	Advice	Buy Up To	Sell Stop
Enterprise*‡	EPD	Pipeline operator	10/16/08	$11.01	$27.48	$14.22	6.3%	278.7%	Buy	$35	$20.12
Nuveen Quality Preferred Income Fund 2	JPS	Preferred stock	7/22/13	$8.57	$8.64	$3.90	8.1%	46.3%	Buy	$10	$7.17
AllianceBernstein	AB	Financial MLP	11/21/13	$21.56	$29.47	$10.58	10.0%	85.8%	Buy	$30	$19.50
Nuveen Quality Preferred Income Fund 2	JPS	Preferred stock	1/16/14	$8.38	$8.64	$3.57	8.1%	45.7%	Buy	$10	$7.17
CME Group	CME	Global exchanges	10/16/14	$79.31	$182.29	$23.71	1.5%	159.7%	Hold	$105	$165.87
Eaton Vance Enhanced Equity Income Fund	EOI	Covered-call fund	12/17/15	$13.01	$11.48	$3.20	7.6%	12.8%	**Sell**	**Sell**	**Hit Stop**
Wells Fargo - Series W	WFC-W	Preferred stock	3/17/16	$25.34	$24.65	$3.92	5.8%	12.7%	Buy	$26	-
PNC - Series P	PNC-P	Preferred stock	3/17/16	$28.67	$25.77	$4.59	5.0%	5.9%	Buy	$28	-
Vanguard REIT Fund	VNQ	REIT index fund	6/16/16	$85.30	$78.78	$10.10	4.5%	4.2%	Buy	$85	$61.95
iShares Investment Grade Corp Bond Fund	LQD	Investment-grade bonds	8/18/16	$123.50	$113.74	$9.50	3.6%	-0.2%	Buy	$120	$87.95
iShares Select Dividend Fund	DVY	Growing dividends	8/18/16	$86.69	$92.15	$7.54	3.5%	15.0%	Buy	$105	$75.48
WisdomTree Emerging Market Dividend Fund	DEM	Emerging markets	2/16/17	$40.92	$42.25	$3.46	4.3%	11.7%	Buy	$52	$36.17
iShares MSCI Japan Fund	EWJ	Japanese stocks	5/18/17	$52.48	$53.55	$1.61	1.6%	5.1%	Buy	$68	$47.76
Blackstone Mortgage Trust	BXMT	Commercial MREIT	7/20/17	$31.03	$33.18	$3.72	7.5%	18.9%	Buy	$35	$26.07
Nestlé	NSRGY	Global staples	10/19/17	$86.30	$84.01	$2.42	2.8%	0.2%	Buy	$90	$64.58
Essex Property Trust	ESS	California real estate	11/16/17	$252.15	$256.66	$9.19	2.9%	5.4%	Hold	$245	$224.21
Williams Companies ^	WMB	Pipeline operator	4/19/18	$23.53	$20.58	$1.02	5.3%	-8.2%	**Sell**	**Sell**	**Hit Stop**
Altarea Cogedim	ALTA.PA	Parisian real estate	6/21/18	€ 202.00	€169.80	€0.00	6.2%	-15.9%	Buy	€ 205.00	€153.00
VanEck JPM Emerging Markets LC Bond Fund ±	EMLC	Emerging market debt	7/19/18	$34.40	$33.84	$1.06	6.3%	1.5%	Buy	$41	$25.43
Cracker Barrel	CBRL	Restaurant dividends	8/16/18	$149.69	$169.01	$1.25	2.2%	13.7%	Buy	$175	$154.24
Service Corp International	SCI	Funeral Provider	9/20/18	$43.11	$42.44	$0.17	1.6%	-1.2%	Buy	$50	$37.03
Franco-Nevada Corp	FNV	Gold royalties	10/18/18	$65.33	$69.11	$0.48	2.0%	6.5%	Buy	$70	$55.72
Invesco Value Municipal Income Trust	IIM	Municipal bonds	10/18/18	$13.17	$13.96	$0.18	5.7%	7.4%	Buy	$15	$10.51
International Paper	IP	Cardboard	11/15/18	$45.59	$39.62	$0.00	4.3%	-13.1%	**Sell**	**Sell**	**Hit Stop**
Blackstone	BX	Private equity	12/20/18	$27.60	$32.58	$0.00	7.5%	18.0%	Buy	$36	$24.43
Macquarie Infrastructure	MIC	Infrastructure	12/20/18	$38.03	$40.82	$0.00	13.3%	7.3%	Buy	$44	$30.68

* *Represents positions transferred from* The 12% Letter. *Entry dates may pre-date* Income Intelligence.
‡ *EPD prices adjusted for a 2:1 stock split on August 22, 2014.*
^ *WMB prices adjusted for purchase of WPZ on April 19, 2018 and WPZ dividends.*
± *EMLC adjusted for reverse split October 26, 2018*

Note: All dividends received while holding this position in the model portfolio.

Income Intelligence Portfolio

Prices as of January 16, 2019

WORLD DOMINATING DIVIDEND GROWERS											
Perennial dividend-raisers that dominate their industries. Holding these stocks and reinvesting the dividends will build a stream of income for your future. Use a 25% trailing stop unless otherwise noted.											
Stock	**Ticker**	**Description**	**Ref. Date**	**Ref. Price**	**Recent Price**	**Dividend**	**Yield**	**Return**	**Advice**	**Buy Up To**	**Sell Stop**
McDonald's*	MCD	Fast food chain	11/28/06	$41.40	$179.35	$34.30	2.3%	416.1%	Hold	$88	$141.38
Coca-Cola*	KO	Soft-drink company	11/19/08	$21.14	$46.92	$11.95	3.3%	178.5%	Buy	$48	$37.80
Procter & Gamble*	PG	Consumer products	12/17/08	$60.70	$91.37	$23.66	3.1%	89.5%	Hold	$79	$72.48
Johnson & Johnson*	JNJ	Health care	12/17/08	$58.78	$128.04	$27.00	2.7%	163.8%	Hold	$115	$110.88
Microsoft*	MSFT	Software provider	2/23/11	$26.59	$105.38	$9.54	1.6%	332.2%	Hold	$90	$86.33
Becton-Dickinson*	BDX	Needles/syringes	10/26/11	$76.72	$231.27	$17.69	1.3%	224.5%	Hold	$208	$197.65
Sysco*	SYY	Food distribution	4/18/12	$29.67	$62.25	$8.05	1.8%	136.9%	Hold	$50	$49.98
Altria	MO	Tobacco	1/16/19	$47.20	$47.20	$0.00	6.7%	**New**	**Buy**	$55	$35.40

* *Represents positions transferred from* The 12% Letter. *Entry dates may pre-date* Income Intelligence.