A publication from STANSBERRY RESEARCH

DR. DAVID EIFRIG'S
Retirement Millionaire

# It's Time to Buy One 'Mission Critical' Company Serving America's First Responders

Dear *Retirement Millionaire* subscriber,

It was Sunday morning, and the Smiths knew they had a problem...

Hurricane Harvey was in the process of dumping more than 50 inches of rain on Houston. The city would eventually call for a mandatory evacuation, and the 2017 storm drove more than 30,000 people from their homes... and stranded millions more.

By mid-morning August 27, the storm was already causing flooding around the Smiths' home.

That's when Annie went into labor.

Greg and Annie Smith were doctors who had recently moved to Houston to complete their fellowships. Annie was seven months pregnant when they arrived two months earlier.

The Smiths knew the storm was coming and had planned to go to the hospital early to avoid trouble, they later told the news service of their alma mater, the University of Virginia. But when they woke up Sunday morning, the floodwaters surrounding their home were already two feet deep.

Greg Smith tried calling the National Guard and emergency services, but got no response.

That's when they started making plans to deliver their first child at home.

"I was terrified," Annie told *UVA Today* writer Caroline Newman. "I just keep thinking, what if something happened to me or happened to the baby? There would be very little we could do about it at home."

Fortunately, that wasn't necessary. The couple had gotten in touch with Annie's boss... who was able to relay word of their predicament to a nearby fire station. The firefighters arrived in a large dump truck in time to get the Smiths to the hospital for the safe delivery of their daughter.

## INSIDE THIS ISSUE:



### Portfolio Snapshot:

**Average Open Position Gain:**
72%

**Open Position Win Rate:**
20 of 21 (95.2%)

**Top Three Buys Today:**
RMD, CVS, GLD

View the full portfolio at www.stansberryresearch.com

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The storm and the devastating floods that resulted cost more than $180 billion in Texas. And it resulted in thousands of stories like the Smiths'.

Houston Police Department Captain Larry Baimbridge reported his search-and-rescue teams performed around 3,000 such missions.

Responding to disasters like Harvey is a massive endeavor... the cost and complexity can be enormous. More than 31,000 emergency responders were deployed to help with the initial response to Harvey.

In all these situations, one capability is more important than any other. It's not funding or management. It's communication.

Coordinating an effort across a geographic location breaks down without being able to relay information between the ground and the command center. Today, we're going to write about a company that provides a vital tool in such efforts.

It makes loads of cash from doing so, but things are changing. The industry it works in has big changes coming up ahead. We think it will turn out to be an opportunity...

## SOLVING A RIOT, HURRICANE, OR FIRE...

The company we're recommending this month is **Motorola Solutions (NYSE: MSI)**.

When a government agency, municipality, or large project wants consistent communications, it goes to Motorola Solutions. Captain Baimbridge's Houston Police Department is just one example.

You likely think of "Motorola" as a mobile-phone maker. I still remember my old Motorola StarTAC "flip" phone from the late 1990s. It was top-of-the-line at the time. Motorola's phone business succeeded well into the smartphone era by loading its phones with Google's Android operating system.

In 2011, Motorola split into two businesses, Motorola Mobility and Motorola Solutions. Mobility made the phones, cable boxes, and other consumer products. Motorola Solutions sold "enterprise" products – meaning its customers were businesses, not individuals.

The reason for the split: Solutions made money... Mobility didn't. Making smartphones and competing against Apple and Samsung didn't leave room for many profits. Google bought Motorola Mobility that year – largely for its patent portfolio.

Solutions, on the other hand, was profitable. In the quarter before the split, Mobility earned just $3 million in operating earnings on $2.9 billion in sales. Solutions earned a much larger $321 million on $1.9 billion in sales.

At the same time, Mobility had a growth story attached to it, while Solutions was mature and boring. Separating the businesses allowed investors to choose whether they wanted to speculate on future profits or invest in a slow-growth stream of cash flows.

Three years later, Google sold Motorola Mobility to Chinese computer-maker Lenovo. Motorola-branded devices now claim just 5% of the smartphone market.

But Motorola Solutions kept chugging along. Then, in 2014 it sold off its enterprise business for $3.45 billion. In other words, it didn't have any corporate customers anymore. This left Motorola Solutions to focus exclusively on one market: mission-critical communications for government customers.

Whether it's police, firefighters, or 911 operators, Motorola Solutions dominates the market for public safety communications.

The basic technology behind this is the land mobile radio system, or LMR. When local police officers radio license-plate numbers back and forth, they are chatting over an LMR system. Motorola owns the market. Morningstar Research puts its market share at 80%.

It's not exactly cutting-edge technology, but that's by design. These systems need to maintain 100% uptime during all sorts of conditions. You don't want to get a "dropped call" when you request backup.

So virtually all municipalities have stayed with staid-but-reliable LMR systems. (One Houston fire-fighter reported losing his Motorola radio in Harvey's floodwaters. He found it a week later buried in mud... and still functioning.)

This means they buy an expensive central system to connect the organization. Then, they need all the radios and peripheral devices to set it all up. Motorola provides it all.

Around 60% of Motorola's revenue comes from sales of these devices. Of that, around 26% comes from the central systems and 74% from the accompanying radios. Motorola earns a decent markup on these devices. The product segment has an operating profit margin around 24%.

The great thing about this business is its stability. First, competition is scarce. Second, once an organization has a Motorola LMR system, it tends not to switch its central unit. It's just too costly. So they keep buying new radio units.

The systems generate real, recurring cash flows. We'll see later when we dig into the financials that Motorola has generous cash flows and plenty of long-term contracts. A lot of that comes from the classic radio division.

If we (or other countries) beef up border patrols, disaster readiness, police presence, or military operations, LMR will be handling the communications, and Motorola will be providing them.

But the company's not just cashing in on radio tech that you may consider outdated. It's preparing for some big changes coming...

## WHY NOT USE A CELLPHONE?

This is 2019 (almost). Why are our first responders still using LMR walkie-talkies?

Reliability is of paramount importance. So LMR systems still have a great deal of usefulness ahead of it. But that doesn't mean the technology is perfect.

The September 11 attacks highlighted one LMR shortcoming. These systems are all separate and unconnected to each other. Communications from an officer to headquarters worked great, but communicating between agencies or across wider geographies just didn't work.

That started a long process to create a national, standardized network of emergency communications. After an 11-year process, Congress signed an act in 2012 to establish FirstNet, allocating $7 billion and valuable radio spectrum to the project.

As technology progressed, it became clear that interoperability wasn't the only improvement needed. Radios communicate voice, but beaming maps, pictures, and other data during emergencies would be extremely valuable. FirstNet grew to include not just connecting agencies, but high-value broadband data capabilities as well.

The network is finally being built. AT&T got the major contract to put together the network. It's subcontracting a valuable chunk of the work to Motorola. The revenue from that project is great, but it's not the main benefit for Motorola.

Rather, the underlying technology behind emergency communications is changing drastically.

This will have both pros and cons for Motorola. We'll cover both.

Pessimists consider this network a strong challenge to Motorola's dominance. The company has benefited from having thousands of municipalities with LMR systems that only worked with Motorola products. Motorola owned the LMR protocol. Customers were locked in and had to pay high – some would say inflated – prices for Motorola gear.

FirstNet will use LTE technology, the same network technology as any half-decent smartphone. Motorola doesn't own the LTE protocol. Competitors can come in and offer different products or cheaper prices. Competition is never good for business.

On the positive side, Motorola sees LMR and LTE as complementary. While the LTE network will allow all sorts of data sharing and a national standard, local organizations will still want an LMR system as the backbone.

As we said earlier, you can't have a dropped call or bad reception in an emergency. Smartphones and other devices will never be as rugged as walkie-talkies, given their sensitive components. And mobile software always comes with bugs. A walkie-talkie doesn't freeze up or randomly quit vital apps.

Additionally, Motorola is charging headfirst into LTE devices. It's likely that Motorola won't have the same dominance that it does with LMR, but it's going to be a major player.

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■ The end of the year is one of the best times to buy a new car. Dealerships move out 2018 car models to make room for new 2019 models. Buying last year's model can save you thousands of dollars. And the cars are basically the same, minus a new gadget or two. According to Kelley Blue Book, December 30 and 31 are the best days for deals.

Two of my subscribers used this tip a few years ago. They knocked about $15,000 off the price of a 2014 Ford F-150 because they knew the dealership would need to make room for the 2015 models.

■ I am livid with the MVA...

Last week, my assistant received a notice from the Maryland Motor Vehicle Administration that she needed to get a new driver's license that would be "compliant" with something called the "REAL ID Act." She has until June 5, 2019, to bring in three forms of ID – including proof of identity (like a birth certificate), residence, and Social Security registration. If she doesn't, she won't be able to use her ID to fly next summer...

States are supposed to issue IDs with little gold or black stars in the upper right-hand corner to indicate the licenses are compliant. We found plenty of articles (including one from the *Washington Post*) explaining this feature.

My assistant just renewed her license, and it had the telltale star. She figured she was covered and the letter was an error.

Unfortunately, as we found out from a phone call with the MVA of Maryland, **this isn't true**. Some states have issued licenses without scanning the necessary documents... Star or no star, if the feds don't have the documents scanned into their systems, you would be in violation of the federal law next year (or even this year, depending on your state's deadline).

The only way to know if you're compliant is to check on your state's MVA website or call their customer service line and ask to have your license number checked. If you plan on using your driver's license to travel or even to enter federal buildings, you should check on this today.

■ Contemplating divorce? Be aware, it will hurt your wallet more in 2019...

A new law will go into effect for any divorce finalized in 2019 or later. The new rules state that anyone paying alimony will not be able to deduct the payments. And those receiving alimony will no longer have to claim it as income.

If your divorce is final by the end of 2018, you'll still follow the old rules where you can deduct alimony payments.

The rate of "gray divorces" has increased dramatically. As we wrote before, folks 50 and older have doubled the divorce rate over the past 25 years. This complicates retirement planning, and now with this new alimony ruling, it could cost you even more if you're considering a split.

■ 97% of you are doing this simple task completely wrong...

Last week was National Handwashing Awareness Week... I bet most of you didn't hear about it. What's more, you likely didn't hear that 97% of folks wash their hands incorrectly.

To best kill germs, don't use antibacterial soap. As we told you last year, the Food and Drug Administration (FDA) finally banned the dangerous chemical triclosan in soaps and body wash. Just wet your hands before adding regular soap. Rub your hands together for at least 20 seconds. You can hum the song "Happy Birthday" twice if you need a timer. Then rinse and dry off with a towel, not an air dryer.

Washing your hands is a simple way to avoid spreading germs, which is especially important during cold and flu season.

■ Consider this cash investment...

Certificates of deposit (CDs) are cash-equivalent securities that park your cash for a set amount of time while earning a small yield. The returns are usually too small for us to focus on because they didn't beat inflation. However, new two-year CD rates have just hit 3%... more than the yield on popular dividend-paying blue chips like Johnson & Johnson (JNJ) and Colgate-Palmolive (CL).

For nearly a decade now, sitting on cash has been a sucker's bet. Bank accounts and CDs paid close to zero. Sitting on $10,000 for a year would barely earn you enough to buy a nice lunch. Now CD yields look attractive.

I don't know when the bear market will hit, but you need to be prepared. In the October *Retirement Millionaire* issue, I told you that a safety-first investor should have around 40% of his or her portfolio in cash and cash-like securities. Given our skepticism about how the market will perform in the next year or so, CDs are a safe bet. Find the best CD rates right here and here.

■ Don't follow the crowd...

If you need to choose a hospital for any kind of surgery or procedure, don't trust the masses. According to a study in the journal *Health Services Research* earlier this year, you can't trust ratings on popular sites like Facebook, Yelp, or Google.

The problem is that people review these places like they would restaurants. They neglect to show you the important stuff – like infection rates, safety ratings, and more. Worse, this report showed that 20% of hospitals getting the best "crowdsourced" ratings actually had the lowest scores from Medicare's Hospital Compare. This system looks at things like infection rates, timeliness of care, and safety procedures. It accounts for about 57 different measures – far more than your average Joe on Facebook would consider.

So don't blindly follow personal recommendations. Do your own research. We recommend using U.S. News & World Report for its hospital rating system. We've also recommended the Hospital Compare system, which you can find here. And be sure to check with your insurance provider to make sure the hospital is in-network to avoid sky-high fees.

■ Don't miss your required minimum distribution (RMD) date. If you have an individual retirement account (IRA), remember that you must make your annual RMD withdrawal by December 31.

Failing to take your RMD on time or not taking the correct amount results in a huge fine. You'll pay 50% of the missed deduction. And if you don't take the full amount, you still owe 50% of the leftover amount. Make sure you know how much to take out and when. Use the IRS worksheets for RMDs right here.

■ Make sure your favorite charity is the only one getting your donations...

We warned you last year about the growing number of charity scams. These groups prey on the charitable nature of people during the holidays to scam both you and your "beneficiaries." Two years ago, the Federal Trade Commission cracked down on four charities that cheated cancer patients out of about $187 million.

Almost one-third of Americans donate to charities in December. So if it's on your to-do list this year, be smart and pick an honest one. Websites like Charity Navigator and the BBB Wise Giving Alliance (called Give.org) have hundreds of charities in their databases. They rank them based on things like financial metrics (how much money goes directly to the stated cause) and accountability (audits and transparency). Use their ratings and make sure your dollars will go to those in need.

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As we noted earlier, Motorola is a subcontractor on AT&T's buildout of the FirstNet system. Earlier this year, Motorola introduced the first available FirstNet device, the Lex L11. It's essentially a ruggedized, full-featured smartphone for first responders with specialized features like push-to-talk, a dedicated emergency button, and complete waterproofing.

Motorola has an opportunity to transition to FirstNet, while still deriving big cash flows from its LMR business. Besides, this change has been a long time coming...

## MOTOROLA PREPPED FOR THE FUTURE

We've pointed out many of the advantages of the LMR business, but let's face it, radio isn't exactly exciting. And while public safety officials will be using radios for years to come, at some point in the future they'll be moving on.

Motorola has known this for a while. And for years, Motorola has been working to move its revenue streams away from selling equipment and toward providing software and services to its customers.

This is where the money is. A subscription service keeps the revenue flowing, often on long-term contracts.

In 2013, around 34% of Motorola's sales came from software and services. Today, it's up to 38%.

Moving forward, Motorola is switching its research-and-development focus. In 2014, it spent 75% of its $500 million research budget on LMR and just 25% on software. By 2017, that had shifted to 55% on LMR and 45% on software.

As an example, you can run a 911 center with Motorola software. These used to be just call centers, but now they take body-camera footage, gunshot-detection, and text messages. Motorola provides video and crime data analytics.

To get an idea of what this can look like, watch this video.

This is a marketing video from Motorola, so it's clearly presenting a positive case. Still, it features Detroit's police chief describing the success of Project Green Light. Businesses in the city that have crime problems can sign up to install surveillance equipment at their business that pipes directly into the police network. The system, of course, is built by Motorola.

One real-life scene shows crystal-clear video footage of a woman threatening someone with a gun. (There's nothing disturbing or violent in the video.) Police picked her up within two hours.

This is the future of policing. And the future for Motorola.

Software and services makes for a faster-growth, higher-profit business. As of the most recent quarter, revenue from products grew 10% year-over-year. Revenue from software and services grew 22%. And while products boast a 21.4% operating profit margin, software and services earn 30.7%.

Motorola will only dig deeper into these advanced services. Earlier this year, it bought the company Avigilon for about $1 billion. The company provides video surveillance and analytics, but did very little work in the public sector. Plugging it into Motorola's sales network can expand its value immensely.

Additionally, U.S. companies that deal with sensitive information – like video surveillance – have been warned away from using Chinese equipment to avoid hacking. Canada-based Avigilon has an opportunity to swoop in and steal business.

All this is to describe the competitive dynamics and opportunities that Motorola faces. However, the most attractive aspects are the simple finances...

## LMR: LONG-TERM MONEY RETURNS

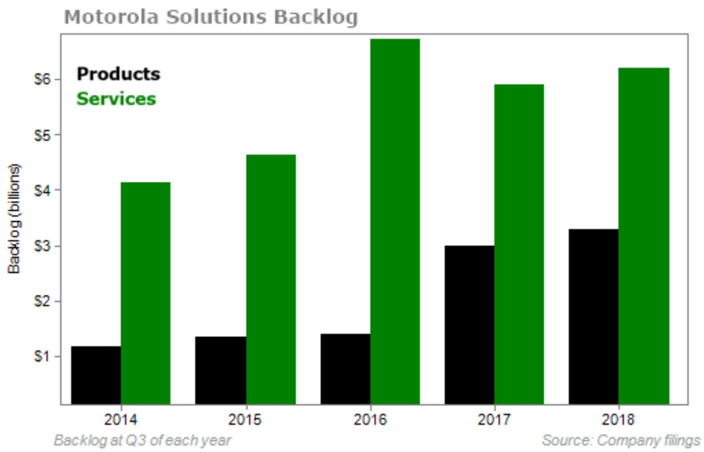
Put in simple terms, Motorola makes money and returns it to shareholders.

Selling a device is great. But selling a recurring service is better. You make one sale, and you get revenue for years to come.

These future sales currently stand at $6.2 billion. Motorola measures this with its backlog, or sales agreed upon but yet to be completed.

In the products division, backlog means someone has agreed to buy an LMR system, but it hasn't been installed yet. That backlog stands at $3.3 billion.

With services, the backlog means multiyear contracts for ongoing services. That totals $6.2 billion. That number is growing fast, up from $5.9 billion in the previous year.



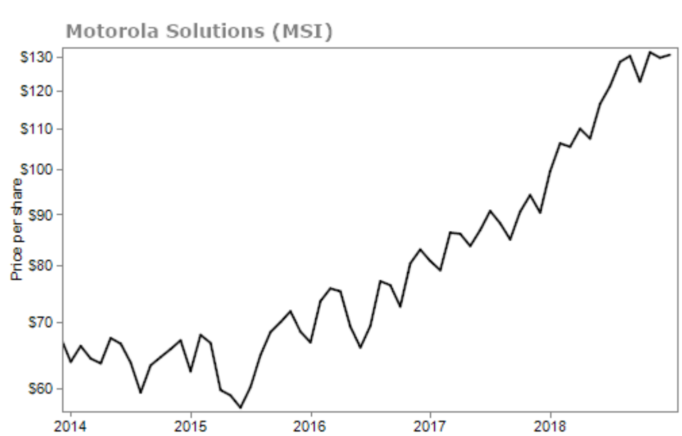

These numbers give us a great idea of how Motorola will do in the future.

Importantly, the company is profitable. From its $7 billion in annual revenue, it generates $1 billion in cash from operations. Its capital spending is manageable at $149 million and leaves $875 million in free cash flow left over.

Motorola's goal is to return 80% of operating cash flow back to shareholders through dividends and share repurchases. That's good for $875 million on a market cap of $21 billion, for a shareholder yield of 4.2%. So shares of Motorola may bounce around in the interim, but the underlying value should return 4.2% a year – and even more if Motorola can grow its cash flows.

With revenue growth at 11.8% over the last year, growth should come as well.

That consistent yield has been paying off with a long, steady increase for shareholders, even during the recent market downturn.




With the acquisition of Avigilon, Motorola took on some debt. It currently owes $5.4 billion against $8.2 billion in assets, including $1.2 billion in cash. It has paused its share repurchase program in order to pay off some of that debt. But the repurchases should resume in 2019. The company still has an investment-grade rating from the major ratings agencies.

Finally, its price-to-sales ratio is 23 times. And the company's enterprise value is 16 times its earnings before interest, taxes, depreciation, and amortization. With those numbers, Motorola stock isn't screaming cheap. But it offsets that price with growth potential, a 1.8% dividend, and a stock price with low volatility.

## WHAT WILL THE WORLD LOOK LIKE?

The world has been tumultuous lately. Political uncertainty and social unrest appear to be on the rise. Which European city will see the next riots? Which South American country will disintegrate... or fear the collapse of its neighbor and need to shore up its border? Will Brexit require a new border station between Northern Ireland and Ireland?

The world is warming (though we won't get into the causes for that in order to avoid sparking an unfruitful debate). That could lead to more fires or hurricanes... and more disaster response.

In 2016, we released research warning of rising military tensions and an imminent boost in military spending. A buy-and-hold strategy of the five defense stocks recommended has returned 20.1%, beating the market's 12.2% return.

Today's thesis doesn't have such a straight line through it.

These global developments don't mean governments will go straight out and purchase radio systems from Motorola tomorrow. But the connection is there. We're moving towards a world that needs smarter police forces, more surveillance, and great public safety response capabilities.

If that doesn't happen and the world calms down, we'll be thrilled. And we'd still love to own our small piece of Motorola's business. It's a profitable company with real cash flows and it returns them to shareholders. But if you think things will get stranger before they go back to normal, Motorola stands to find a few extra customers in the confusion.

## ACTION TO TAKE

**Buy Motorola Solutions (NYSE: MSI) up to $135 per share**. Please use a 25% hard stop to protect your capital. And follow our position-size rule of limiting individual stock holdings to 4%-5% of your investing portfolio.

## PORTFOLIO UPDATE

The true test of any portfolio is to see how it holds up in times of turmoil. The market has decided to give us that test, with the S&P 500 officially in a correction.

For our portfolio, the past three months were mixed. On average, our portfolio fell about the same as the rest of the market. We had some positions outperform, some that underperformed.

Here are the raw numbers on how each position did…

| Name | Three-Month Return |
|---|---|
| GLD | 4.3% |
| RMD | -1.8% |
| IR | -2.3% |
| MSFT | -3.1% |
| CVS | -4.1% |
| BRK.B | -4.6% |
| PBP | -6.2% |
| PEY | -6.4% |
| **S&P 500** | **-7.3%** |
| FSMEX | -7.4% |
| JPM | -9.6% |
| CBRE | -10.2% |
| GOOGL | -11.1% |
| SPR | -11.2% |
| LMT | -13.1% |
| AMZN | -16.5% |
| HII | -19.2% |
| MTCH | -19.3% |

Our technology and defense stocks were hit the hardest.

The tech stocks – **Match Group (Nasdaq: MTCH)**, **Amazon (Nasdaq: AMZN)**, and **Alphabet (Nasdaq: GOOGL)** – fell an average of 15.6%, while the Nasdaq was only down 11.8%.

Owning tech stocks has been a moneymaker for the past five years. It makes sense investors are taking profits off the table given the age of this bull market. We knew we'd have to endure some volatility by holding these tech flyers during a drawdown. (Not that we enjoy it.)

However, while investors sell off tech stocks *en masse*, the underlying businesses still look strong.

Match's high-growth product – dating app Tinder – continued to impress. Subscriptions grew at a 61% year-over-year clip with average revenue per user (ARPU) increasing 24%. Those are mind-boggling numbers. However, Match announced on its earnings call that it expects subscriber growth to be softer in the fourth quarter. This, paired with the general pessimism in the market, sent shares down 17% in one day.

Management also announced it expects Tinder growth to continue to improve heading into 2019. A 17% drop seems excessive. You can almost always make money betting that such a move is an overreaction.

Match is one of our riskier positions, and we expect it to be a volatile stock going forward. The fundamentals haven't changed, and we're still up around 48%.

Amazon also sold off following its latest earnings release.

Revenues were shy of what analysts had expected. Like with Match, we're not worried.

About one-third of Amazon's annual revenue comes during the holiday season. The National Retail Federation predicts this year will be one of the strongest holiday seasons yet. It estimates retail sales will increase 4.1% from last year. We'll be tuning into Amazon's next earnings release in late January and expecting robust sales.

Our defense stocks, **Huntington Ingalls (NYSE: HII)** and **Lockheed Martin (NYSE: LMT)** underperformed in this recent stretch as well. In October, President

Donald Trump said military spending would be trimmed by about 5%, which would bring the figure down to $700 billion. As a result, both HII and LMT fell 15% in October.

But earlier this week, Trump reportedly told Defense Secretary James Mattis to prepare a $750 billion budget proposal for 2020. While other federal agencies were asked to trim their budgets, defense spending should continue to stay strong. Our thesis on defense companies is still intact.

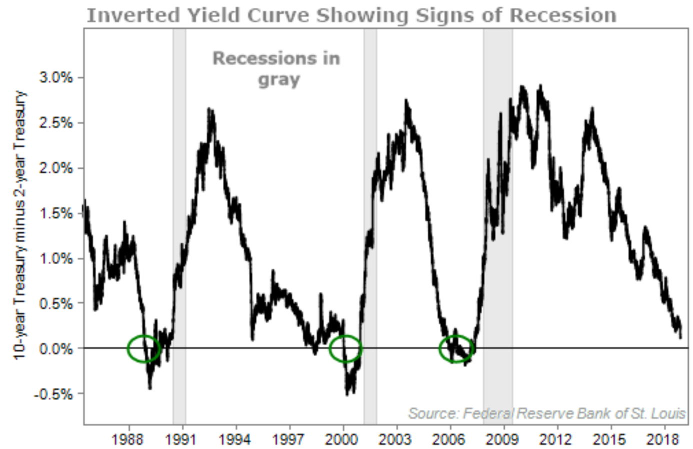
Megabank **JPMorgan Chase (NYSE: JPM)** has also had a rough few weeks. Folks are down on bank stocks in general because of the flattening of the "yield curve." The yield curve is simply the spread between the 10-year and two-year Treasury yield.

This is important for banks like JPMorgan because banks essentially borrow money at short-term rates and lend it at long term-rates. When the spread tightens, their profits evaporate. And as the curve inverts, lending money will be a losing proposition.

The spread is down to about 0.11%, the smallest it's been in more than a decade. And bank investors are worried. Still with rates on the rise – which generally helps banks make more money – and fewer regulations for the industry, we want to continue to hold JPMorgan.

The yield curve is also an incredibly accurate predictor of recessions. Every recession in the past 60 years was preceded by an inverted yield curve.

When the curve inverts, short-term rates are greater than long-term rates, and it's only a matter of time before we're in a recession...




It's important to note that once the yield curve inverts, the economy doesn't automatically enter a recession. It can happen in as little as six months or up to two years.

Although it's awfully close... this indicator isn't flashing a recession warning just yet. So stocks may still have room to run higher.

Elsewhere in the portfolio, our stalwarts like **Berkshire Hathaway (NYSE: BRK.B)**, **CVS Health (NYSE: CVS)**, and **Ingersoll Rand (NYSE: IR)** have held up just fine. This is an example of why it's important to hold blue-chip stocks for the stability they can bring to your portfolio.

Additionally, last month's recommendation of medical-device maker **ResMed (NYSE: RMD)** is already up 11% in a brutal market.

And as you would expect, when the market is falling, folks turn to hard assets like gold. We hope you took our advice two months ago and bought some gold or a gold fund like the **SPDR Gold Shares (NYSE: GLD)**. If you haven't already, it's not too late.

## TWO STEPS TO SECURE YOUR FINANCES FOR 2019

It's time to count the barrels.

The crush is over, the grapes are pressed, and my wine now rests in beautiful barrels. I recently took stock of our new vintage, and I'm prepared to say it's going to be one of the best yet.

Personally, 2018 was a great year. But with it nearly over, it got me thinking that now is the time to take a few minutes away from the hustle and bustle of holiday chaos. It's a time to focus on the ending of one year and the beginning of a new one. And it's the perfect opportunity to reflect on more important things in life...

For many, that can mean your portfolio, your estate, your relationships, or even just your own life satisfaction. These topics can bring up a lot of emotions for folks.

Today, I urge you to use these last few weeks of 2018 to take a hard review of two things: your portfolio and your estate.

## TAKE STOCK OF YOUR PORTFOLIO

None of us like taking losses. We're programmed to hate losing with a psychological behavior called "loss aversion." We hate to lose and would rather hold onto a tanking stock than to sell and accept the loss. In a previous issue of *Retirement Millionaire*, we told you that there's evidence of people disliking losses about two times more than they enjoy gains.

But this time of year is a great time to "trick yourself" into thinking about losses in terms of future gains on your taxes. That can make it easier to face a portfolio with a lot of positions in the red... And you likely have some red in your portfolio given the market lately.

For the losing positions that you sell before the end of the year, you can deduct up to $3,000 in booked losses on your 2018 taxes (and you can carry over additional losses to future years' taxes). You'll be putting cold, hard cash back in your pocket.

Even better, if you have capital gains from the year, you can also sell positions at a loss to reduce your tax burden.

Say you have $2,500 in capital gains. Depending on your income level, you could face up to 20% tax on that amount, or $500.

But if you sell stocks at a loss for $2,500, those will cancel out your capital gains. You won't owe any tax. Use the $500 you saved for a nice, relaxing trip.

The only caveat here is to avoid the "wash sale" rule. Basically, you can't buy or sell the same or a very similar security within 30 days. So, if you sell a tech stock for a loss, you must wait 30 calendar days to buy it back.

That's not a terrible rule. If you're already considering selling a loser, you don't have the temptation to buy it back. Some time away from a stock will also help you combat a phenomenon called the "endowment effect." That occurs when we place a higher value on something simply because we own it.

Here are five simple steps to start...

1) Pull up your portfolio. Go through trades for the year and calculate your capital gains. Remember, this applies for trades made in 2018 only – the rules follow the calendar year, so you can't count Tax Day to Tax Day.

2) Go through your trades and calculate any losses you've accumulated in 2018.

3) If you have $3,000 or more in capital gains, compare them with your losses. If your losses are lower, consider selling more. (Remember, I'm on the record saying that now is the time to reduce risk and increase your cash holdings.) You can only use this capital gains tax avoidance strategy up to the $3,000 cut off.

4) This step is one everyone should take, regardless of your gains and losses for the year. Review every position you have. Ask yourself if the reasons you bought that security still apply today. I've written before about the benefits of writing down your reasoning for every investment and reviewing it periodically. The end of the year is a great time to do so.

5) If you decide to sell some stocks, consider two things:

- Sell stocks that no longer match your investment goals.

Taking stock of your portfolio is a great way to trim your 2018 tax bill. But you should take a few other steps as well...

1) Pre-pay medical expenses. In 2018, you can deduct unreimbursed medical costs that are more than 7.5% of your adjusted gross income (AGI). That means if your AGI is $100,000, you can deduct anything over $7,500. In 2019, that limit jumps up to 10%, so take advantage if you can.

2) Make an extra mortgage payment. You can deduct this expense if you itemize, though with the increase in the standard deduction, only about 13% of Americans are likely to itemize for their 2018 taxes.

3) Don't neglect your retirement accounts. You have until April 15, 2019, to make contributions to your 401(k) or IRA that count to your 2018 taxes. The contributions lower your taxable income, so they may then lower your tax bracket.

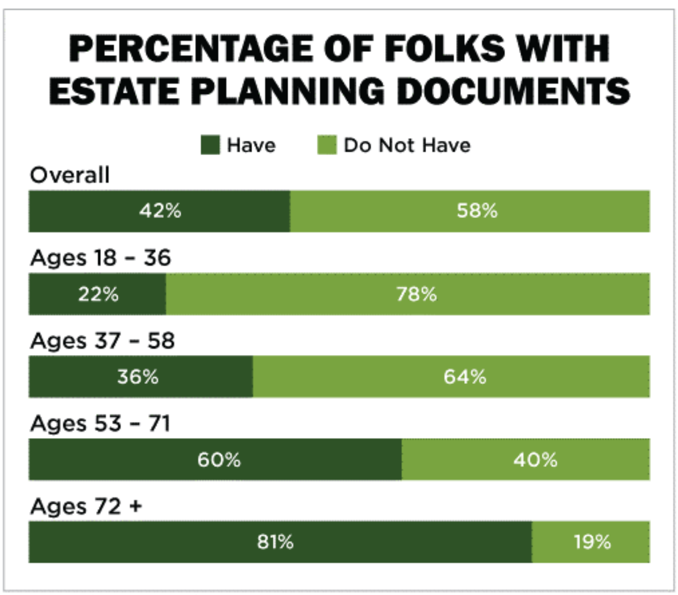
- Sell stocks that reduce your risk as we head into the final innings of this bull market. Your portfolio doesn't need to be all risky tech stocks. Selling a few risky positions not only helps with taxes, but it also helps build up some dry powder. And you'll be happy you hold cash when the bull market flames out.

But getting your portfolio in shape at the end of the year isn't the only way to prepare for 2019. I also urge you to use this time to look at your estate plan...

Take Stock of Your Estate

Every year around this time, I urge my readers to have difficult conversations. You might call me morbid. Some have accused me of "ruining" the holidays. But I stand by my recommendation: Use the time when all your family is together to discuss the hardest topic of all – your death.

Start off with some simple documents, like your power of attorney, an advance directive, and your will or living trust. My guess is, you might not have these done. Take a look at where each age group stands...




www.stansberryresearch.com Source: Caring.com

If you have done these, then use this time to urge your kids and grandkids to start planning. If you haven't done them for yourself, I recommend you get these done as soon as possible. Here's a refresher on the types of documents (feel free to share this with your family)...

**Power of attorney**: This document names an individual to make decisions for you should you become incapacitated. Think of someone who can handle your bills, manage your money, and make other financial and legal decisions.

**Advance directive**: There are two types of advance directives... A living will is a directive for the types of treatments you want or do not want, should you become incapacitated. Think feeding tubes, assisted breathing, and pain management.

The second type, a health-care proxy, may also take care of this. Or your power of attorney might also share this responsibility. One question you might hear is: Do you want a backup proxy? In other words, if you name someone and he or she is unavailable when needed, who else can make the decisions? Also, consider whether your proxy should consult with anyone (like other family members).

**Will or living trust**: A simple will outlines the division of assets upon your death, and how your estate should cover any applicable taxes. It also names the person responsible for your dependent children, as well as an executor to carry out all the requests. A living trust is more complicated but involves things like transfers of property and avoids the legal entanglements of probate court.

Typically, a simple will is all you need if you're married and own your possessions jointly. It also works if you don't have a multimillion-dollar estate that may trigger high taxes in probate.

If you're considering putting these documents together, there are three major considerations...

First, make a list of all your assets: house(s), cars, valuables, other vehicles (boats, RVs, etc.), bank accounts, retirement accounts, and life-insurance holdings.

Next, consider the following: Who would you like to inherit your assets? Will everything go to one person? Will you want it split between people? And what kind of split? Making these decisions is tough, but it's necessary to have a plan in place.

Consider which of the above three documents you'd like to include. Setting them all up at once can save you money and time.

Now, do you need a lawyer to draw up all these documents? No. You can start by simply writing out what you want or don't want. But keep in mind, the majority of states won't accept a will you write yourself. You'll need to find the form and regulations on your state's website.

We recommend a few websites to learn more. You can find will requirements on LegalZoom's website here. The site also offers more on power of attorney here.

And the American Bar Association has links for each state's advance directive forms right here.

You may choose to visit a lawyer to get all of these documents done. It offers peace of mind and a level of backup should something go wrong.

But doing it by yourself online means you'll need to find out which services are worth your time and money. Fortunately, my assistant Laura researched different providers and wrote a fantastic essay about it, which you can read right here.

So be sure to do your research and make sure you comply with state guidelines. Otherwise, you'll just leave a headache for your family after you're gone.

And that's the point of this section... We want to make sure both you and your family can spend 2019 stress-free. That's why I urge you to print out this issue and consider going through both your portfolio and your estate with your loved ones this holiday season.

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

Dr. David Eifrig, MD, MBA
Baltimore, Maryland
December 12, 2018