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JEFF D. OPDYKE'S

Global Intelligence

Play 'Four Corners' Offense With This Recession-Proof Vice Stock

Way back yonder—February 4, 1979—the University of North Carolina and Duke University faced off in a basketball game that was remarkable for one reason: The halftime score: Duke 7, UNC 0.

If you're a basketball fan, you will reflexively know that 7-0 is most definitely not a typical halftime score in this sport. Football, yes. Basketball, no way.

Behind the shockingly low tally was a once-popular strategy known as the "Four Corners," an offensive arrangement that saw four players standing in each of the four corners of the offensive side of the court, dribbling and passing the ball between themselves and the point guard in the middle. It was a clock-killing tactic popularized and used with devastating effect by UNC's legendary head coach, Dean Smith (who used the strategy all the time as the team's coach for 36 years). Unfortunately for UNC, the tactic did not work in this particular instance; Duke won the game 40-7.

Until basketball's overlords introduced the shot-clock in the 1980s as a way to kill this time-vampire, coaches typically deployed the Four Corners late in the game, to all-but-assure a victory after pulling ahead of their opponent. But in this particular game between UNC and Duke, Smith launched into the Four Corners offense from the very start. Late in the season, UNC owned a one-game lead in the Atlantic Coast Conference standings, and Smith was determined to kill the clock from the get-go to preserve Carolina's record as the season drew to a close.

I share this tiny bit of sports history as way to offer a spin on the phrase, "The best offense is a good defense." Sometimes, the best offense is finding a way to not play defense at all.

Which plays into the theme of this month's *Global Intelligence Letter*: Playing offense safely. In this case, that means buying into a temporarily undervalued consumer company serving up addiction.

We are in a fragile moment economically.

The Federal Reserve, for all the firepower it supposedly has at besting inflation, has proven wholly impotent in that fight. Inflation remains stubbornly persistent—for reasons way beyond the Fed's control—even as interest rates are crushing consumers and businesses.

The federal government is drowning in debt, yet the Biden Administration has surrounded itself with econo-types who are devout practitioners of one of the dumbest belief systems ever conceived: Modern Monetary Theory, which posits that government can print and spend as much money as it wants, without worry, because it has a monopoly over currency and the power to tax. Little wonder the U.S. deficit doubled to more than $2 trillion for fiscal 2023—double expectations—and why the bond market is now fearful of collapse.

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We have shoot-'em-up wars raging in Eastern Europe and the Middle East, both of which could spill over into something more devastating and have global impacts on the financial markets.

And despite hollow claims about Bidenomics making America better, the stark reality is darker.

U.S. consumers are struggling under the largest mountain of credit-card debt in history—exceeding more than $1 trillion cumulatively. Overall consumer debt, meanwhile, exceeds $95,000 per American, on average, according to USAToday. And now, record numbers of Americans are looking for ways to "give back" the cars they can no longer afford.

Home sellers are beginning to sharply slash their asking prices because buyers can't afford overpriced homes in a market where mortgages are at levels last seen more than 23 years ago, thanks to soaring interest rates. Those high mortgage rates have pushed up the payment on a typically $350,000 house by $900 per month in just two years—well beyond the financial capacity for much of middle-class America.

Meanwhile, corporate bankruptcies are now heating up as high interest rates play through the corporate lending market.

All in all, lots of dyspeptic signs course through the American economy these days, and they seem to be leading us toward recession.

I know, we've heard the word "recession" a lot in the last year. I've used it many times in stating my expectations that recession is our destination. Of course, to this point, waiting for a recession has been a lot like *Waiting For Godot*.

However, recessions aren't like Christmas—they don't arrive on a scheduled date.

But they do arrive.

And one is certainly on the way. The internal economic data, the egregiously expanding U.S. debt, and a Fed interest-rate policy that overshot the mark in the agency's eagerness to curb inflation tells us to expect the R word soon enough.

And for that reason, I want to channel my inner Dean Smith and bring a bit of Four Corners offense into the *Global Intelligence* portfolio this month.

In other words, I want us to notch a win, but in a safe manner.

In this particular economy, that means... vice!

Four Ways to Hold Cash

In times of high interest rates, we should theoretically be holding onto cash.

And if you happened to participate in my *Retirement Income Masterclass* earlier this year, you will know that I recommend locking in any 5-year certificates of deposit that pay you more than 5%. And a few of those opportunities are available today.

But we’re also in a moment where the Federal Reserve is quite likely to start cutting rates again because of those internal weaknesses in the economy that I just noted. Plus, we’re on the cusp of a recession.

Question is: How cleansing will this recession be?

Will this be a fairly tepid, run-of-mill recession or a much sharper downturn?

That, I cannot say.

But I do expect that stock markets are going to have a challenging time. They’re going to want to rise into news of a recession because of expectations that the Fed will cut rates and Congress will dole out dollars to stimulate the economy. It’s the “bad news is good news on Wall Street” thesis.

Offsetting that, however, will be the growing fears that America is spending itself into penury and that more and more stimulus money from Congress or the Fed’s lower rates—even for a worthy cause—is just packing the blast site with ever more dynamite.

And we still have the ongoing inflation worries. Those aren’t going away because they’re tied largely to exogenous events. Wars have pushed up the price of oil. Mother Nature and her droughts, along with global climate change, have caused a variety of ill effects across croplands globally. And supply chains continue to reorient in a post-COVID world, which causes shortages of key materials for various processes, in turn driving up consumer prices.

Ironically, even the Fed’s aggressive interest rate hikes are driving the inflation they aim to kill off with those same rate hikes. Higher interest rates are leading to higher debt-servicing costs for American companies, which are now more heavily indebted than at any point in history. Those costs flow through production and lead to higher prices on consumer shelves.

Don’t expect a recession to kneecap inflation, though. Inflation and recession can certainly party together. Just look at the 1970s, when America and much of the world struggled with stagflation. If that’s where we headed, stocks are going to struggle. In that world, we’re going to want to own a stock tied to a company whose products are forever in demand.

If a mild recession is where we end up, stocks should fare well as the Fed cuts interest rates. Which means high-quality blue chip stocks that have drifted lower in recent months should rebound—particularly those dolling out fat, juicy dividends in our inflationary times.

Either way, the safe, Four Corners stock I want to own:

1. Will hold its own in a recession of any kind.

2. Will rebound alongside the broader market.

3. Pay us a stable and uncharacteristically large dividend.
4. Tap into insatiable demand globally for its product, regardless of economic volatility.

That stock in this case is: **British American Tobacco PLC (BTI)**.

This Vice Economy Play Positions Us for Any Economic Downturn

London-based BAT, as it's known, is the world's second-largest tobacco company. (It's also tied into legal marijuana, but that's a small portion of its business, at least for now). The company began more than 120 years ago and today sells cigarettes and products like vapes and e-cigarettes in nearly 180 countries.

Some brands you know will likely know, such as Camel, Lucky Strike, Pall Mall, and Dunhill. Others are more obscure: Everest in Zimbabwe, Shuang Xi in China, and Peter Stuyvesant in Australia and New Zealand.

In all, BAT owns about 12.2% of the global market, meaning one of every eight cigarettes smoked every day is money in the pocket of BAT shareholders.

On a social level, I realize smoking and tobacco-related stocks are polarizing.

But I'm an investor. I seek opportunities to turn $1 into $2. I do not make calls on what is and is not good or right for society because that leads us down a slippery slope, raising all kinds of hard-to-answer questions on morality and whose beliefs should supersede someone else's. So, I leave that to others. As long as something is legal, and as long as I see an investment opportunity in that legal product, that's all I really care about.

And for now, smoking is legal and cigarettes are a legal product. Moreover, an estimated 1.1 billion smokers worldwide are lighting up daily, and generally multiple times daily. They don't care if it's sunny, rainy, or snowing. Sandstorm or thunderstorm. Monday or Sunday, or any day in between. They don't care which politician runs the county, or that the economy is bursting at the seams or collapsing into a crisis.

All they care about is feeding that nicotine monkey riding their back that wants his fix. NOW!

As an investor, I'm a big fan of addictive products. They represent a very sticky relationship between consumer and business. And where we find consumer stickiness, we find a business that has pricing power and very often a long history of generally rising dividend payments.

That's certainly the case here.

I still remember back in the 1970s, when my friend's dad—a heavy smoker—insisted one evening that "as soon as cigarettes hit a dollar a pack, I'm done! I'm quitting!" Forty-plus years later, the average pack of smokes costs more than six times as much, yet he's still buying a pack a day. That's addictive stickiness.

While the number of smokers has gone down over time, the pricing power tobacco companies have means they've made higher prices stick, which means revenues have continued to rise, allowing them ultimately to funnel large dividend payments to shareholders. Farthest I've been able to track back is 1989, but over those last 34 years, BAT's dividend has steadily and consistently risen.

Today, the stock is dishing out $2.84 per share per year, representing an annualized yield of nearly 9.2%, as I write this. That's a beefy payout in Wall Street terms. More relevant to this month's issue, that's a beefy payout in BAT terms. Going back to at least 2000—so, nearly a quarter century—BAT typically yielded in the 4% to 6% range. Since about 2019, that range has moved to between 6% and 8%.

But north of 9% is an entirely new threshold for BAT.

The reason it's so high is that the share dividend payout has continued to climb every quarter, even as the share price has drifted lower over the last year or so. That share-price weakness coincides with the Fed's aggressive rate-hike regime, which has seen much of Wall Street struggle.

So be it. The lower price just gives us a grand opportunity to own a blue-chip, consumer vice stock, at a historically high yield.

I'm good with that.

Looking Ahead: Vapes, E-Cigarettes and Other Non-Traditional Cigarettes

As I briefly noted, the number of smokers globally exceeds 1.1 billion today, according to the World Health Organization. That number is in decline as years of anti-smoking efforts and health warnings have their impact.

BAT and the industry recognize this fact, and are not idly sitting by and puffing on a Pall Mall as they wait their inevitable, buggy-whip future. To the contrary, the entire industry is moving toward a future defined not by cigarettes but by new products that do not require a lighter or match setting aflame tobacco in a wrapper.

Indeed, at the Barclays Global Consumer Staples Conference earlier this fall, a BAT executive said the company sees a future in which traditional cigarettes might not even be part of the company's product line. Instead, BAT is moving to diversify its products, with vapes, e-cigarettes, and other non-traditional products that deliver nicotine through oral means, like small, flavored pouches that consumers place between their cheek and gum.

A decade ago, these products amounted to 0% of BAT's revenue stream. Today, they're about 17% and growing faster than the rest of the business.

Company execs, reflecting the industry overall, see these non-traditional products as less risky in terms of health, and more sustainable in terms of business operations. On the health claims, it's a mixed bag for sure. U.S. and U.K. health officials agree that nicotine is not the real problem in cigarettes—the smoke and its chemical contents are. But vapes have caused certain health issues such as a "popcorn lung," a type lung disease.

Nevertheless, the industry sees these new nicotine-delivery methods as less risky than traditional cigarettes, so there's a concerted effort globally to build a larger consumer base for vapes and pouches and such. Right now, the market for these non-traditional tobacco products represents about 100 million consumers globally, but it's growing faster than traditional cigarettes. And with 1.1 billion smokers, hundreds of millions of will likely gravitate toward these non-traditional options, helping the industry preserve its growth and profitability.

Equally important to BAT investors are our expectations for plump, ongoing dividends. These new product categories are, on the whole, equally profitable as traditional cigarettes, if not more so.

Better yet, BAT is growing its new-product revenue faster than its peers.

Given these facts—and the eagerness with which BAT and the industry are pursuing these new products—I'm not too worried about the future of tobacco companies. They're going to be with us for a long time to come.

And going back to my original sentiment: So long as the product is legal, and so long as consumer demand for it remains so sticky, I'm happy to be an investor. I don't have to enjoy the product myself, and I can be downright annoyed by its impact when I'm dining *al fresco* in Europe, where I live. But I know I'm getting paid handsomely to hold the shares, and I'm happy with that.

RECOMMENDATION: Buy British American Tobacco (symbol: BTI) up to $33.50.

Risk Profile: Higher. (What does this mean? Before you act, read a full breakdown of my five-level risk assessment scale here.)

Though BAT is a London-based company that trades on its home market in the United Kingdom, the company has American depositary receipts, ADRs, that are listed on the New York Stock Exchange, and have been for years.

Though many ADRs suffer from limited trading volume that can make buying, and especially selling, a challenge at times, BAT trades more than 3.5 million shares per day on average in New York. As such, grabbing a position is not hard at all.

Moreover, BAT shares are available through any traditional U.S. stock brokerage, including some of the gamified brokers, such as WeBull and Robin Hood.

In short, you'll have no problems buying **British American Tobacco** shares in the U.S.

As I write this, the stock trades right at $31. At that price, we're not only picking up that monster dividend yield of 9.2%, we're buying into a stock with a price-to-earnings ratio of just 6.5. Contextually speaking, that's pretty cheap.

The S&P 500 as a whole trades at a P/E of more than 24, which is historically oxygen-deprived.

But even in terms of its own history, BAT is cheap. Going back to at least 2007, BAT's P/E ratio has ranged between 9 and 19. On average, that's a 14 P/E.

I like to be even more conservative when I look ahead. So let's say BAT's P/E climbs back to a more normalized 10 or 11. When I look ahead to the company's likely earnings in 2025 and 2026, I see $5.50 to $5.75 per share. That's up from what will be about $4.75 per share this year.

My earnings projection and my P/E expectation would imply a BAT stock price of $55 to $64 per share. At $31 today, we're looking at a meaningful climb that would effectively see the price double.

Plus, we're collecting that 9% dividend—a dividend that is all-but-guaranteed to grow each year, meaning our yield on initial cost will quickly push past 10%.

We're getting into BAT at a moment of Wall Street weakness, which I really like. As I look out over the next year, here's what I see relative to BAT:

- Regardless of what happens in the economy, tobacco users are going to continue using tobacco and/or shifting from traditional cigarettes to alternative means of nicotine delivery. Good news for us.
- If inflation remains a persistent problem, investors will go looking for income opportunities. BAT will stand out for all the reasons I've laid out, but primarily because it's a blue-chip consumer product company with sticky demand and that fat yield.
- If we get a recession, that's not much to fear either because of that sticky consumer demand. BAT's sales per share between 2019 and 2021—the COVID era—remained consistent, while earnings and dividends increased. (Sales jumped in 2020, but that's largely a function of all the free money governments sent to consumers.)
- And if the Fed ultimately reacts to a recession by cutting interest rates, then Wall Street as a whole will rally much higher, and BAT will likely rally even more because it's so far undervalued today relative to its own history.

To me, this is Four Corners investing.

We're playing offense—chasing a total return win—by investing relatively safely.

Buy **British American Tobacco PLC (BTI)** up to $33.50.

PORTFOLIO REVIEW

Beyond Bitcoin: Why Investors Should Be Bullish on Crypto Heading Into 2024

This month's portfolio review has to focus on one particular asset: crypto.

Back in late January of this year, I began telling anyone who would listen, including my daily *Field Notes* readers, that a bull market in crypto had quietly started. Much of the world and the media were still bearish on the asset class, which, they insisted, was still in the throes of "crypto winter."

I saw it much differently.

I'm deeply involved in the space, taking to teams running non-fungible token, or NFT, projects. I work with a European-based blockchain, and I regularly attend various crypto conferences. I sensed a mood shift. This is what I send to *Field Notes* readers on January 26:

> *"The dark clouds that hung about [crypto] for most of last year appear to be lifting. Not only are the animal spirits rekindling on Solana, but bitcoin, the benchmark crypto, is flirting with $23,000, a level not seen since last August. Ethereum, meanwhile, is up more than 50% since late November lows... my sense is that the bottom is in.*
>
> *"Recent lows are the lows for the bear cycle... meaning now is a good moment to being wading into crypto, and picking up some bitcoin and Ethereum on down days, because in time they're going to see prices that are multiples higher than today."*

Today, bitcoin has passed $37,000, up 61% since I called the bottom.

Ethereum is up 28%.

And as for Solana, well January 26 marked that project's low of $9.99 per coin. As I write this, Solana is priced at $59.60, nearly a 497% gain.

I tell you this because our *Global Intel* crypto portfolio is finally beginning to rebound.

We are now right at breakeven with bitcoin. Ethereum is still down about 16%. Band Protocol and AAVE, our smaller, so-called "alt-coins" (or, alternative coins) are still deeply underwater.

But crypto moves fast. See Solana for proof. Of that huge 497% move, 237% of it happened in just a two-month span between September 23 and November 23.

I am not terribly worried about Band and AAVE. They both have big uses cases, and they're both beginning to move.

Band is up 62% in three months. The company is a so-called "oracle." It sources, verifies, digitizes and brings onto the blockchain all kinds of real-world analog data. Think weather data, sports scores, governmental records and such. That data is necessary for "smart-contracts" to execute their instructions.

These are blockchain-based contracts that, once programmed and set into motion, operate without human intervention. Once all of a contract's necessary parameters are met, the contract executes. But those contracts need access to provably accurate data, which is where oracles like Band come into play.

Band is the #2 oracle on the blockchain, and demand for its services continues to grow because smart-contract usage is exploding among companies that offer all kinds services ranging from decentralized finance (think: money and banking on the blockchain) to online gaming. Soon enough, real estate transactions will migrate to the blockchain, and oracles will be the source of everything from tax records to proof of escrow deposit.

AAVE, meanwhile, is up nearly 90% since late September.

This is one of the blockchain's biggest blockchain-based companies offering crypto lending and borrowing services. That might seem like a small universe, but right now AAVE is overseeing $9 billion in online borrowing and lending.

This is part of the world known as decentralized finance, or DeFi. In effect, it's moving traditional banking services onto the blockchain where those services happen far faster and with far cheaper fees. In short, DeFi is the future of personal and commercial finance, and AAVE, as one of the biggest players, will have a big role in that future.

Though both Band and AAVE are up markedly in recent months, we're still underwater.

But I'm confident that will change, likely in 2024.

Though crypto is clearly in a new bull market now, too many people still suffer from the PTSD that crypto winter instilled. That will change as they see wealth accruing to those of who braved the bear and were buying through crypto winter.

They will rush back into the market, driving crypto prices to new record highs.

Moreover, this time around we have a new player in the market: institutional money.

A host of new bitcoin- and Ethereum-based investment products are soon to hit Wall Street, including much-anticipated exchange-traded funds (ETFs) that track bitcoin's spot price, the price you see reported every day.

Such an ETF does not yet exist, but once approved, trillions of institutional dollars are going to flow in. That's going to propel bitcoin sharply higher.

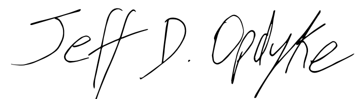
Plus, bitcoin's fourth "halving" happens in April. This is when the process of creating new bitcoin through the "mining" process becomes harder. It happens roughly every four years, and in the months after each of the first three halvings, bitcoin raised to what were then all-time highs.

I see the same happening this time around. My expectation is that bitcoin rises to somewhere between $185,000 and $200,000 in the 12 months to 18 months following the halving.

But, of course, bitcoin's price will begin moving well in advance of the halving. It's already moving now.

And as bitcoin goes, so goes the overall crypto market. Which is why I am exceedingly bullish on crypto as we go into 2024. My bet is that our crypto positions are going to have a very good new year.

Thanks for reading, and here's to living richer.



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Global Intelligence Letter

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