Wealthpin Pro

FEBRUARY 2024

Written by Alex Reid with Paul Baron and the Wealthpin team.

This controversial stock could soar to new heights as the 2024 presidential election rapidly approaches.

Hello and welcome to the February issue of Wealthpin.

Overall, the mood is good.

Or at least much better than it's been.

After a very difficult 2023, 2024 is shaping up to be a much better year for the markets and overall economy.

But we're certainly not out of the woods yet.

"Volatility Fears Resurface in US Stocks"
-Bloomberg

"Steel yourself — the stock market is irrationally exuberant again"
-New York Post

"Stock Market Outlook: Stocks Look Like They Did Before, Dot-Com, '08 Crash"
-Business Insider

If you had to use one word to describe current conditions, it would be "uncertainty."

Why?

Well, it all comes down to one major story towering above all others right now. And this big story, the biggest in financial markets — and beyond — isn't a secret.

It's the U.S. 2024 presidential election.

And both the election itself, and the seismic shifts around it, could have massive effects on the market.

And before you start typing an angry letter saying your candidate is the messiah himself, and the other candidate is the devil incarnate...

Slow down!

Here at Wealthpin, we avoid gratuitous discussion of politics. Our goal is not to support one side or the other. Our goal is to look carefully at the situation, and see how we can use it to find the highest potential investment opportunities.

To be clear:

We want to use our expertise and analysis to give our readers the best possible ideas about investing and wealth creation.

But at times, that does mean paying close attention to U.S. politics. The U.S. is the most important financial market in the world. It's where we live, and where our readers live.

And U.S. politicians have a lot of power over these financial markets. Just look at the recent Lazarus-like resurgence in the world of crypto.

That's all thanks to U.S. regulators approving Bitcoin ETFs, making it easy for retail investors to get crypto exposure with a simple click of a button in their normal brokerage accounts.

(And yes we do still like crypto, for a small portion of an overall portfolio, ideally held in a crypto wallet that the investor PERSONALLY controls. This means you can't have your coins stolen by the collapse of an exchange like the infamous events with Sam Bankman-Fried's FTX.

And while these ETFs are exciting for the cryptocurrency industry, they add another layer of middlemen between you and the actual coins.

If you want crypto exposure, many people are fine buying from a major U.S.-based exchange like Coinbase - but to be truly secure - you're going to want to move them into your own wallet as soon as you buy them. This, after all, was the original great appeal of Bitcoin - an asset that YOU can control, independent of giant bureaucratic banks and governments.)

So we're going to keep covering politics as they relate to the financial markets, both in this newsletter and beyond.

Because here's the thing:

As cynical and depressing as political news cycles can be... they're also a chance to get rich.

If you can correctly analyze the politicians and regulators they appoint to oversee U.S. business and financial markets, you can make some bets with serious upside potential.

Maybe the best recent example of this is the legend himself, Warren Buffet, during the great financial crisis of 2008.

In 2008, at the peak of the global financial crisis, the legendary investor invested $5 billion in Goldman Sachs to strengthen the firm's capitalization at a time when many though those massive banks would fail.

He was essentially betting big on the Bush administration - and then later the Obama administration - and how they would respond to the financial crisis, expecting them to inject massive liquidity into U.S. banks and do whatever they could to keep them from collapsing.

And with billionaires like Buffett stepping in, plus the federal government’s massive $250 billion TARP bailout program for the banks, things did eventually stabilize...

At least for the banks and their shareholders.

That bet by Buffett netted a return of over $3 billion for his firm, Berkshire Hathaway.

Three billion dollars is a pretty good return for a bet on how multiple U.S. presidents will respond to a crisis.

And for a very recent example - that you certainly didn’t have to be a billionaire to get a piece of - let’s look at that crypto story again.

If you had purchased Bitcoin in 2022 at its lowest levels, you could have got in for about $16,000 a coin.

And if you held them through the recent regulatory ETF approvals, you’d be looking at a value around $52,000 a coin right now.

That’s a 225% increase in just about a year and a half!

Source: https://coinmarketcap.com/currencies/bitcoin/

Again, all based on a single catalyst from the U.S. government.

"Bitcoin Spot ETF Catalyst for a 'Major Bull Run' in 2024"
-Yahoo Finance

So let's dig into the 2024 election and some of the stocks and investments we think could soar - or crash - depending on the results.

Right now, the election is straightforward.

It's going to be a contest between President Joe Biden and former President Donald Trump.

Here are the current odds from one of the largest European betting markets:

(Betting on political events is currently illegal in the U.S., so that's why we look at the European markets.)

Contract	Latest Yes Price	Best Offer			Best Offer
Donald Trump	46¢ 1¢	47¢	Buy Yes	Buy No	54¢
Joe Biden	40¢ 1¢	41¢	Buy Yes	Buy No	60¢
Gavin Newsom	13¢ 3¢	13¢	Buy Yes	Buy No	88¢

Source: https://www.predictit.org/markets/detail/7456

These are the oldest candidates in U.S. history, and Trump,77, is one of the most controversial...

But as of right now, this race still seems to be the most likely outcome.

And Trump is a slight, but certainly not prohibitive, favorite.

And even if Biden - the oldest candidate ever at 81 - is replaced, the Democratic national party is a large, well-organized coalition with a clear set of policy goals. It's unlikely that Gavin Newsom or Michelle Obama would have materially different policies.

Now, Trump is more singular.

Both his enthusiastic supporters and his enraged enemies agree that he represents a challenge to the current Washington establishment, and his policies would upend the current status quo.

Again, this isn't an endorsement of either side, it's just our view of the playing field.

So we expect one set of policies from Joe Biden or a party-approved replacement...

And we expect a very different set of policies from Donald Trump.

So the billion-dollar question is: How will these competing policy goals impact the financial markets?

Well, the common wisdom seems basically correct to us here.

What would a second Biden term mean for different market sectors?

-Good for green energy.

-Good for multinational companies.

-Good for companies that use cheap immigrant labor.

What would a second Trump term mean for different market sectors?

-Good for domestic energy, especially natural gas.

-Good for domestic manufacturing.

-Better for U.S. dollar strength.

So there are some interesting plays here that could make sense based on who you think will win the election.

For example, if you think Trump will win, you could invest in American manufacturing stocks like **General Electric (GE)** or **Honeywell (HON)**.

You could also invest in domestic fossil fuel companies like **Exxon Mobil (XOM**).

A good bet for a Trump victory would also be **Cheniere Energy (LNG)**.

An Investment That Should Perform Well in Either Case

Cheniere is a major liquid natural gas company out of Houston, Texas, that would almost certainly do better under a Trump presidency, given Biden's policies and remarks about liquid natural gas.

If you think Biden will win, you may want to invest in foreign manufacturing companies like **Siemens AG (SIEGY)**, the German manufacturing conglomerate.

Foreign manufacturing would likely suffer under Trump's protectionist, "America First" regime.

But while you can find compelling ideas for both scenarios, we want to find an investment that will perform well in EITHER case.

We want to win big no matter what happens in the November election. And we want to do so in a way that the mainstream media is overlooking.

(Because if everyone knows and believes in a certain investment thesis, it's going to be expensive to invest in.)

So what sector will do well under either president?

<u>The defense sector.</u>

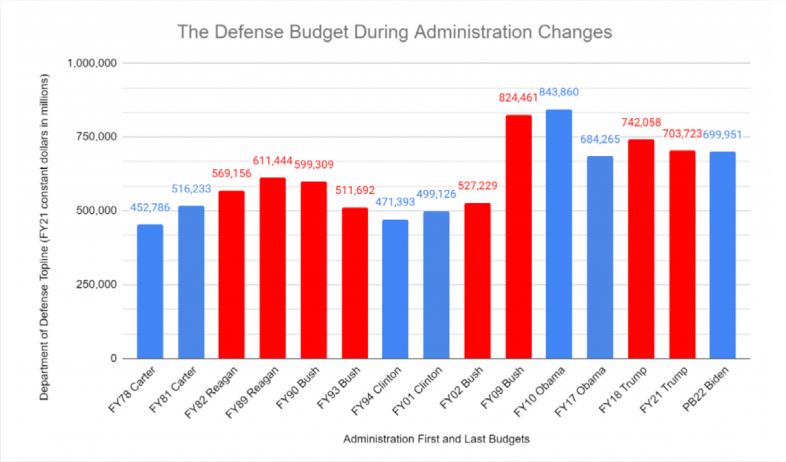
There's a misconception that it will do worse under a Trump presidency because he's more isolationist in his rhetoric, and Biden is pushing so hard to help fund the conflicts in Ukraine and Israel.

But we believe the defense sector will actually do equally well under Trump.

Even if he puts fewer funds towards overseas conflicts, he still believes in skilled American manufacturing - and that means the defense sector in a big way.

Just compare defense spending in the last year of the Trump administration to the first year of the Biden administration:

It's almost identical.



Source: https://www.aei.org/foreign-and-defense-policy/the-defense-budget-through-administrations/

As you can see from the above chart, there's no strong relationship between the political party of the president and the defense budget.

Maybe in long ago decades there was - like Carter versus Reagan. But in more recent times, you can see that Obama spent more than Bush on defense, with Trump then spending more than Obama.

So we feel that the defense sector is poised to thrive no matter what happens in November.

But of course that's not enough.

We also have to dig into the defense sector and find the best stocks within.

Giant well-known blue chips like **Boeing (BA)** aren't going to give us the potential risk-adjusted return that we're looking for, so we have to dig deeper.

One promising play is **Palantir (PLTR)**.

The Upstart of the Defense Sector

You've probably already heard about this Denver-based defense tech firm, but it's still a relative upstart compared to well-established defense stocks.

And if you've been a long-time reader of Wealthpin, you know it's already in our portfolio, and has done well since we added it.

It was co-founded by infamous Facebook and PayPal billionaire Peter Thiel.

Source: Google Stock Charts

And it's still well below the share price from the initial IPO hype.

The recent climb has likely been due to the overall AI hype in the market.

Because Palantir is mainly a software company, it was early on some of the artificial intelligence technology that's so in vogue right now.

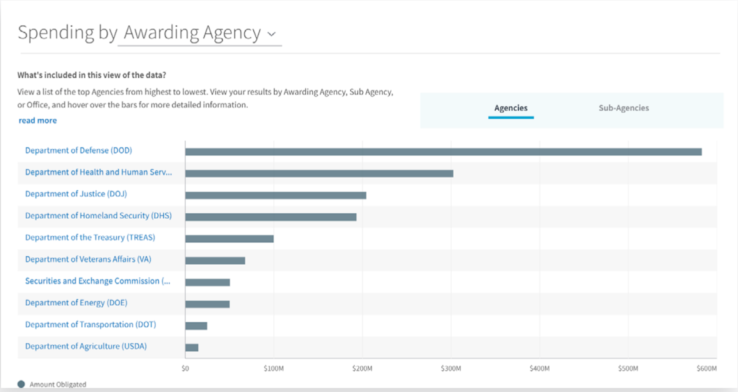
And a lot of these AI companies look overhyped because they don't have a defensible business moat, and can easily be disrupted by competitors in the space.

We like Palantir compared to these other AI companies.

Its large government contracts - the Department of Defense recently extended an army research contract worth $250 million until 2026 - and various clearances to work on national security projects means that it's much harder to compete with than a consumer-facing AI firm.

While it's relatively simple to build another AI image creation app, it's much harder to get your technology approved for use by the Central Intelligence Agency or Department of Defense.

Here's a breakdown of some of Palantir's current large government contracts:



Source: https://www.usaspending.gov/search/?hash=d8faffc36b14f8db149a681fb4798a7b

Of course, this also makes Palantir harder to analyze because many of its most valuable products and government contracts are classified.

So investing in Palantir is a little bit of blind bet on the ~**DEEP STATE**~.

Still, with seemingly bottomless government budgets and seemingly boundless demand for AI stocks, we think the stock has plenty of room to run.

But because it's already somewhat well-known, it's not going to be the main trade idea for this newsletter.

No, today's trade idea is a stock that flies way more under the radar.

A Defense Contractor With a Storied History

It's called **L3Harris Technologies (LHX).**

Price as of publication: **$213.80**

This is a defense contractor with a storied history.

L3Harris Technologies Inc. is a global aerospace and defense technology company that was formed by the merger of L3 Technologies and Harris Corporation in 2019.

One of its most exciting projects is development of "ghost" drone warships for the U.S. Navy.

It recently completed production of one of these unmanned naval warfare vessels called the Vanguard.

The Vanguard is the largest prototype unmanned vessel the navy has built to date.

Source: https://www.navsea.navy.mil/Media/News/Article-View/Article/3642890/us-navy-announces-launch-of-vanguard-unmanned-surface-vessel/

And these lethal, unmanned vessels could play a serious role in the U.S. Navy as tensions between Taiwan and China heat up in the South China Sea.

The idea is that operational use will be even larger: big enough to carry from 16 to 32 missile launchers, allowing the navy to spread them out across the sea, according to a strategy called "distributed lethality."

That could be a huge contract for L3Harris, adding massive revenue to the large amounts of business it already does with the Department of Defense.

Because, in addition to these exciting future war projects, L3Harris is a well- established defense contractor with a well-diversified portfolio of products for the U.S. military.

You might not hear it come up in casual conversation like Lockheed Martin or Northrop Grumman...

But it's still a serious player.

With a market value hovering around $40 billion, it's actually the sixth-largest military contractor in the U.S. - trailing behind the likes of Lockheed, Northrop, RTX, Boeing, and General Dynamics.

L3Harris provides cutting-edge technology for all sorts of military operations, whether it's on land, sea, or air.

Its Integrated Missions Systems unit, for example, cooks up things like radar warning systems for fighter jets and avionics for commercial aircraft.

L3Harris also has divisions that build rocket engines, and large technology divisions that produce the increasingly complex software for managing these systems.

It currently has nearly a billion dollars in Department of Defense contracts.

And with primary locations in New York and Florida, it should appeal to any president who wants to boost domestic manufacturing.

Since 2021, the stock hasn't done amazing - but that's why we think now is the perfect time to get into this undervalued defense contractor.

And a legendary activist hedge fund seems to agree...

D.E. Shaw took a position in the company, appointing new board members, and gearing up for serious profits in the coming years.

According to Barrons:

"L3Harris trades for about 16 times estimated 2024 earnings, not only below the S&P 500's 20 times but also lower than [competitor] Northrop's 18.1 times and Lockheed's 16.4 times.

L3Harris could be worth much more. One day after announcing its agreement with D.E. Shaw, the company hosted an analyst day, when it laid out financial goals for coming years.

Management expects sales to hit $23 billion in 2026, up from $19.4 billion in 2023, while generating an operating profit margin of 16%, up from just under 15%. L3Harris also highlighted increasing software-based sales and plans to take out $1 billion in costs over the next three years."

Analyst Leo Nellisen on Seeking Alpha wrote:

"I've recently increased my L3Harris Technologies position by 55% due to my strong belief in its undervaluation.

The challenges faced by L3Harris are primarily external, such as supply chain issues and inflation, rather than internal performance issues, as indicated by its robust backlog and revenue guidance.

With diverse business segments, high space exposure, and the potential for aggressive dividend growth, L3Harris is my top choice for a dividend growth stock."

Morgan Stanley seems to agree, giving the stock an "overweight" rating and a $279 price target, much higher than its current share price around $213.

Even some of the negatives on the stock are interesting.

The company had a controversial deal to buy an Israeli spyware company - behind the notorious Pegasus program that can spy on cellphones - that stalled due to the concerns of U.S. lawmakers.

We almost see this as a positive, with a company that's not afraid to look towards futuristic and controversial business opportunities.

In general, under environmental ESG and DEI initiatives, defense stocks have fallen out of favor with both retail investors and large funds like Vanguard and BlackRock.

All these factors can lead to some serious bargains in unfashionable sectors like defense stocks and domestic energy producers.

But we believe this is a stock that has the potential for huge growth, no matter what happens with the coming U.S. election.

And major institutions like Wells Fargo, T. Rowe Price and Morgan Stanley seem to agree, all with multi-hundred-million dollar investments in LHX.

Also, unlike many defense stocks, L3Harris pays a nice dividend!

It pays an annual dividend of $4.56 per share, and it's been increasing that for many years, almost placing it in dividend aristocrat territory.

Now, this is a modest dividend compared to aggressive income plays like certain REIT stocks. But it doesn't hurt to get paid to own shares in a defense technology company with serious upside potential.

As always, we hope this trade idea is exciting and interesting to you. Never invest more than you can afford to lose, and do your own research based on your own goals.

Remember - we're publishers. We don't take your money and invest it for you. Instead, we give you exciting and interesting trade ideas that you can decide how to use.

We also *never* take money from any of the companies we cover in this newsletter. These trade ideas are based purely on our own research.

What do you think about this newsletter? Do you like the prospects of L3Harris Technologies? How about Palantir? Or even Bitcoin?

Please respond to this email and let us know!

To your wealth,

Alex Reid
Founder, Wealthpin Pro