

## The Emotions and Economics of Gun Control The Mauldin Gun Connection

*“Americans have the right and advantage of being armed unlike the citizens of other countries whose governments are afraid to trust the people with arms.”*

—James Madison, *The Federalist Papers*



There isn't a lot of middle ground on the subject of guns. Either you're a fervent believer in the right to bear arms, or you want as much gun control as possible.

Like it or not, guns are ingrained in American culture. Estimates vary, but 34% to 40% of US households are thought to own a gun.

Emotions have escalated since the tragic shooting at Sandy Hook Elementary in Newtown, Connecticut, and gun control is more of a lightning-rod issue than ever.

President Obama and many lawmakers, as well as millions of Americans, are calling for strict gun laws in the aftermath of the Newtown slayings.

Meanwhile, the firearms business is better than ever. Though pension funds, endowments, and money managers have sold this year around 8% of the total market cap of firearms companies, gun company stock prices are up roughly 23% this year alone.

### The Mauldin Gun Connection

Texas has one of the strongest gun cultures in the country, but I didn't grow up around guns, nor did I raise my children around guns. I guess I'm somewhat of an anomaly in that I don't currently own any guns. However, one of my kids is as passionate about guns as anyone I know.

Chad is my second son, and he has never been very serious about school or able to stick with a job for more than a few months.

Believe me, I've spent a lot of sleepless nights worrying about his future, but I am happy to say that my entrepreneurial spirit seems to have rubbed off on him. He has now built a successful and growing small business of his own.

I'm quite proud of what he has accomplished.

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It came as a surprise to me. I have no idea where he acquired the passion, but Chad developed a love of guns. For years, he has gone to gun shows and spent many an afternoon at shooting ranges.

(He has also developed an affinity for country music, which is even more odd, given my tastes. He has moved out into the country near Dallas, the opposite of my move from the country to the city. The rest of his six siblings, as well as dad, are confirmed city dwellers. But he is as happy as I've ever seen him.)

A few years ago, Chad, who is now 24, started making a special type of rigid plastic holster that is individually molded to be an exact, inverse image of a gun.

The beauty of his holsters is that you don't need a buckle to hold your gun in—it will not inadvertently slip out. That makes the holsters very popular with law enforcement personnel, gun owners with concealed weapon permits, and competitive shooters.

Chad initially made these holsters in the oven of my house. Since they are individually custom-molded to each gun, it takes 1½ to 2 hours of hand labor to make them. They retail for \$75 to \$100.



Flash forward to today and Chad now has two full-time employees and is getting all the orders over the Internet that he can handle. Given his complete lack of enthusiasm about schoolwork in the not-too-distant past, it is now rather amusing to hear him complaining at our customary Sunday brunches about the rising cost of materials and overhead and the issues around keeping employees happy.

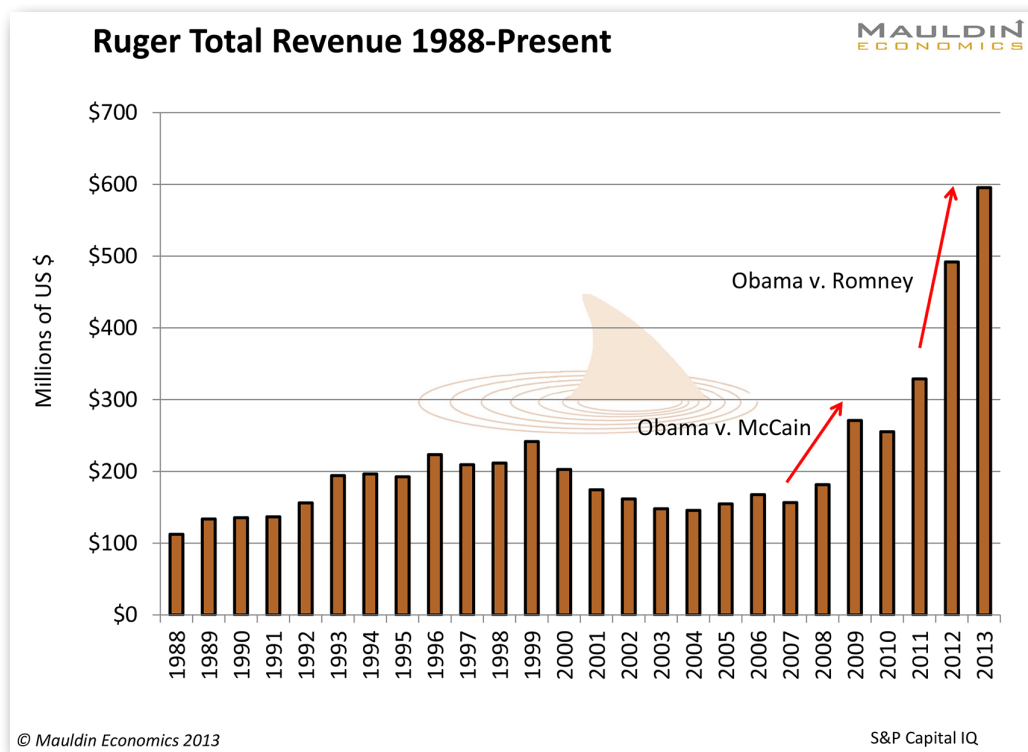
His sisters are introducing him to the joys of keeping records on his employees for the US government. He just wanted to make holsters. I think I'm going to give him a copy of the OSHA regulations for his birthday next month. Chad is hopefully on his way to becoming a successful, independent businessman, and I am a very proud father.

He is also in the process of reopening a long-closed gun range in northern Texas to serve a growing culture of gun owners who want to be trained and educated in the proper use of firearms. He will also use the storefront as a way to display his holsters, although he is shipping them as fast as he can make them.

I don't tell you this to drum up business for Chad—he has all the business he can handle, thank you—but to give you a real-life example of how healthy and profitable the firearms business really can be.

## The Booming Economics of Guns

The US has experienced three distinct firearms booms of late.



The first was in 2008 with the election of Obama; the second came in 2012 when he won reelection; and the last was in the aftermath of the Sandy Hook tragedy.

The gun boom doesn't show any sign of slowing down, and, while controversial, investing in the firearms business has been very profitable. The research team at Mauldin Economics has uncovered a gun manufacturer that has increased its sales by 228% over the last five years, is poised to grow even bigger, and offers an extremely attractive combination of growth and big dividends.

Here are the details from the Mauldin Economics team.



## Shooting for Growth with Sturm Ruger

Sturm Ruger is in the gun business, manufactures over 400 different types of firearms, and is one of the largest manufacturers of rifles, pistols, and revolvers in the world.

Sturm Ruger is an iconic American success story.

Bill Ruger was born in 1916 and got his first rifle as a present for his 12<sup>th</sup> birthday, which sparked his passion for guns. Ruger read every book about guns in the New York City Public Library and joined his high school rifle team. He even bought two deactivated Army machine guns so he could see how they worked.

After dropping out of the University of North Carolina at 20 years of age, Ruger took a job with the US government designing machine guns, and later went to work for Smith & Wesson.

He became friends with another gun enthusiast, Alexander Sturm, who happened to come from a wealthy family. Together they formed Sturm, Ruger & Company, and the rest, as they say, is history.

Sturm Ruger is very much an American company with 98% of sales coming from the US and is so highly regarded that Forbes ranked it #4 on America's *Best Small Companies* list.

Whether you love or hate guns, the firearms industry is spectacularly profitable, and Sturm, Ruger & Co. offers one of the most attractive combinations of booming growth and big dividend that you'll ever find. Here's why:

### Reason #1: Good or Bad... Gun Control Is Still Far Away

The main objection to buying gun company stocks, other than philosophical, is that more restrictive gun control laws are around the corner, which will negatively impact Sturm Ruger's business. The evidence, however, indicates that the opposite is true.

There has been no shortage of firearm legislation, with more than 500 gun-related bills in 2012, but the majority of them have been to weaken—not strengthen—gun control.

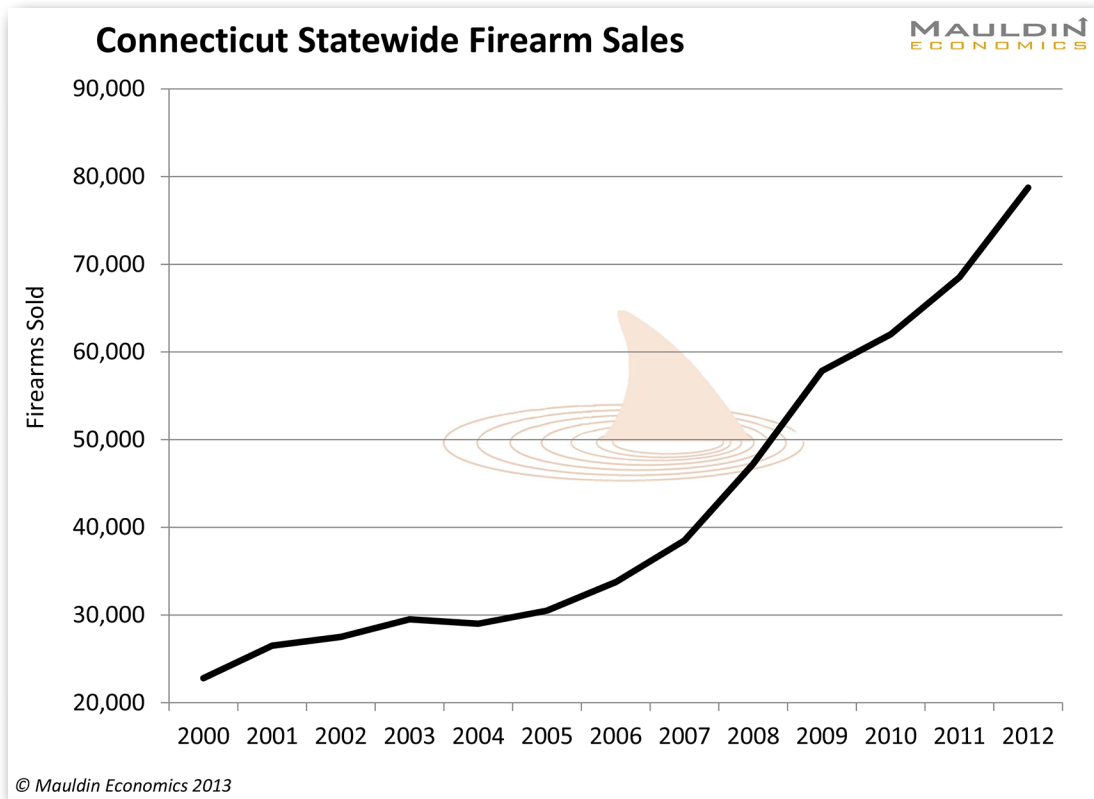
- Arkansas eliminated prohibitions on carrying firearms in churches and on college campuses.
- South Dakota authorized school boards to arm teachers.
- Tennessee passed a law allowing workers to bring guns to work and store them in their vehicles, even if their employer objects.
- Kentucky shortened the process for obtaining licenses to carry a concealed weapon.

The mainstream media overwhelmingly delivers a message that restrictive gun control is right around the corner, but the legislative evidence is quite the opposite.

Will the US end up with strong gun controls that hurt Sturm Ruger? It is possible but we believe it will take years and several high-profile attempts. And each attempt will energize Sturm Ruger sales and profits.

## Reason #2: Gun Control Talk Is Good For Sturm Ruger

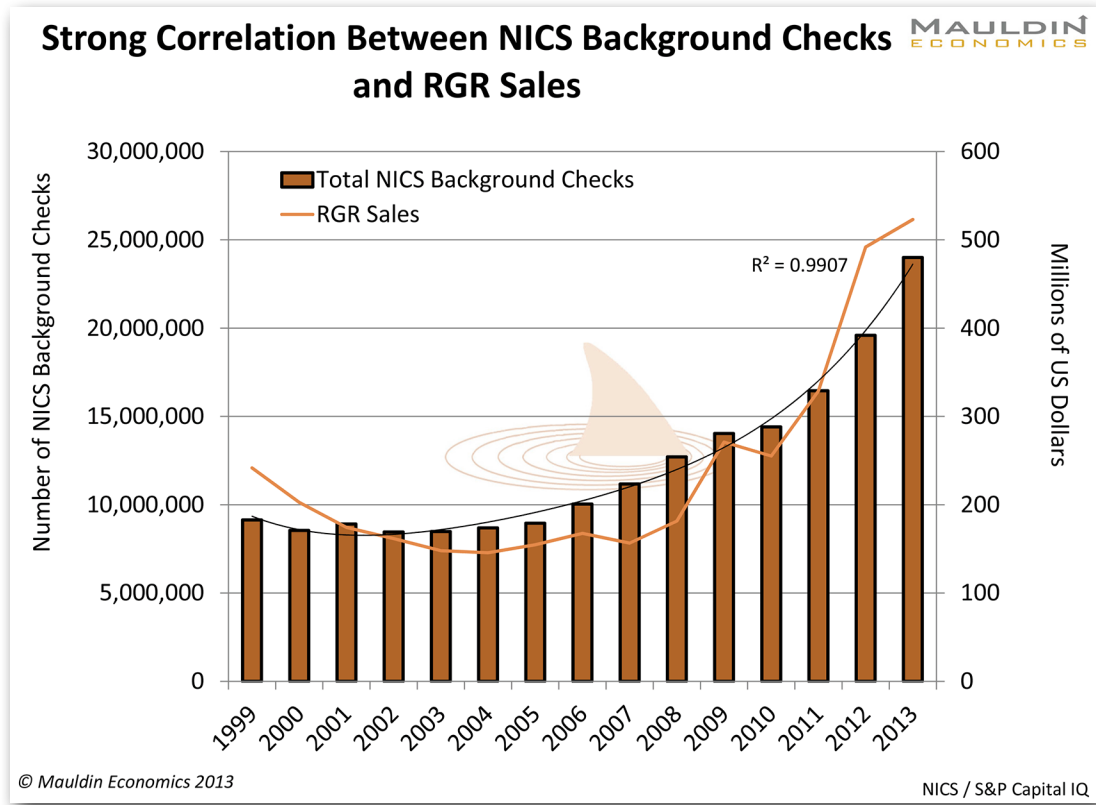
The national debate about gun control is actually a positive for Sturm Ruger, because gun sales take off every time gun control becomes a headline issue.



Source: State Dept. of Emergency Services and Public Protection;  
Hearst Newspapers Research

And in the three months after the Newtown shooting, background checks and gun purchases skyrocketed.

The number of NICS (National Instant Criminal Background Check System) background checks has been an accurate indicator of future sales. If that's true, then the rest of 2013 will be very profitable for Sturm Ruger, because the number of NICS background checks in the second quarter and first half of 2013 increased 9% and 28% respectively.

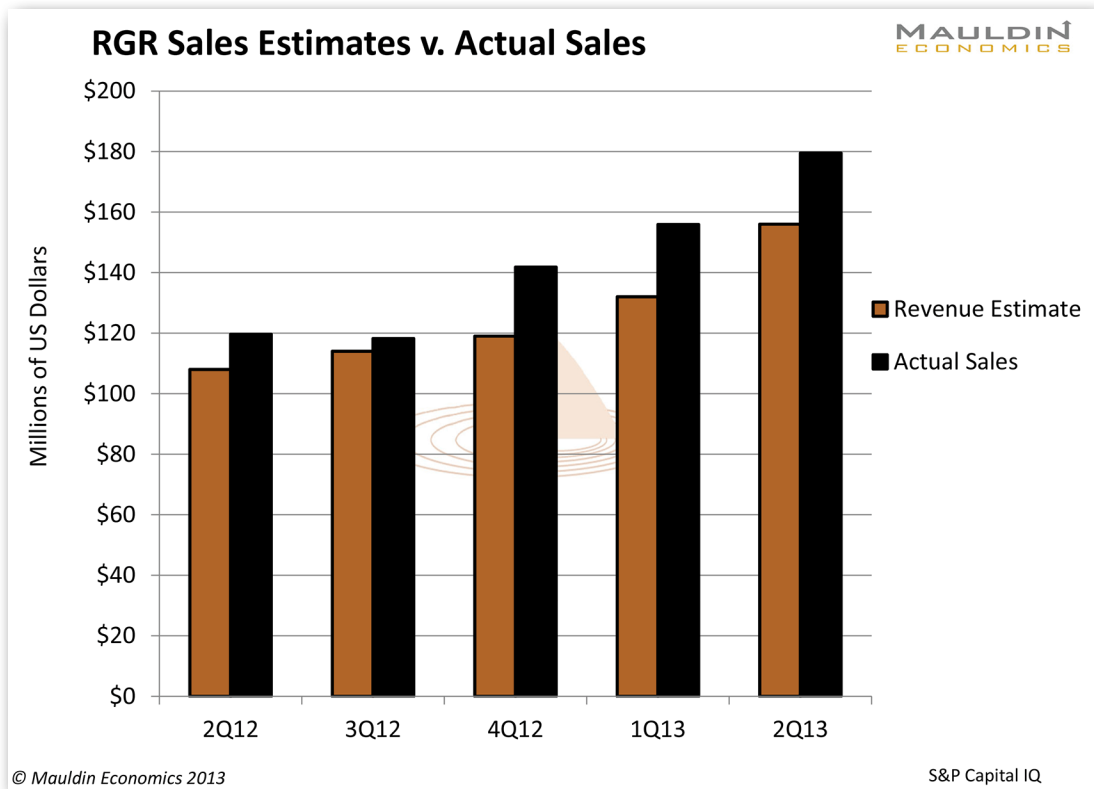


Sturm Ruger is certainly expecting more business. It has ramped up its production by 35% in the first half of 2013, and we believe that higher production will translate into bigger profits in the second half of the year.

### Reason #3: Sales Are On FIRE!

Sturm Ruger recently reported its Q2 results, and they were spectacular. Second-quarter profits soared by 79% to \$32.3 million, or \$1.63 per share, compared with \$18 million, or 91 cents per share, a year earlier.

Some of that demand was in reaction to calls for tougher gun laws from the Obama administration. “We believe the strong demand for our products was due to the anti-gun political environment at both national and state levels,” said CEO Michael Fifer.



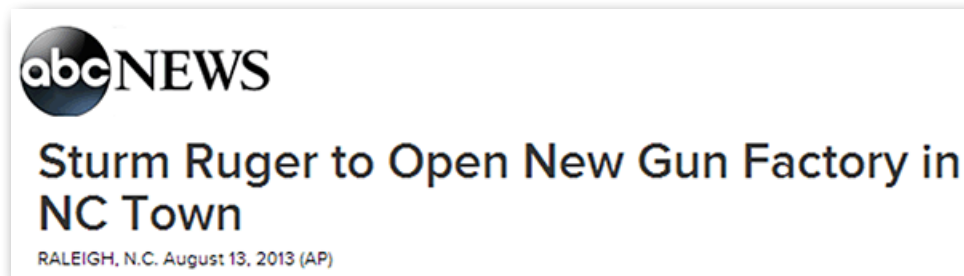
One standout fact is that new product sales produced \$102.7 million, or 31% of sales, in the first half of the year. That tells us that Sturm Ruger is successfully releasing new products and that innovation should have a direct, positive impact on earnings going forward.

#### Reason #4: Keeping Up with Demand

The demand for Sturm Ruger firearms is so strong that it has had to temporarily suspend the acceptance of new orders, because they simply can't keep up with demand.

At the end of June, Sturm Ruger was sitting on an order backlog of \$600 million, which works out to about 2 million guns.

Get this: that backlog is more than DOUBLE what it was a year ago. That tells us that business is accelerating, not slowing down.

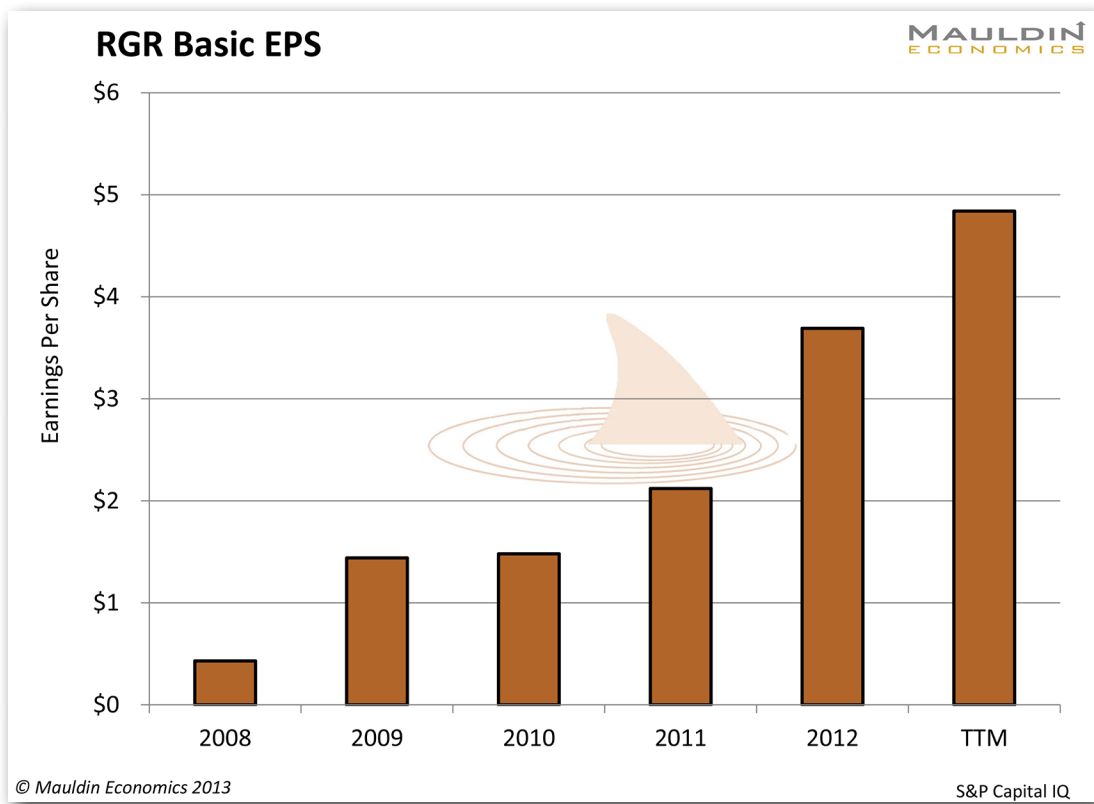


In response, Sturm Ruger will soon open a new factory in North Carolina, its first new factory in 25 years. This new factory will mean that Sturm Ruger will soon be able to swap those orders for cold, hard sales and profits in the very near future.

### Reason #5: Rock-Solid Fundamentals

On a valuation basis, Sturm Ruger sells for a very inexpensive 10.8 times earnings, despite the fact that it has grown its sales by 26% and earnings at a 60% annual compounded rate of return over the last five years.

10 times earnings for a stock that has grown its profits by 60% a year over the last five years is one of the most compelling values you will find.



Why so cheap? Simple: the controversy surrounding guns.

Its balance sheet is equally impressive. It has ZERO debt, as well as \$65 million of cash in the bank.

Additionally, a whopping 29% of Sturm Ruger stock is currently sold short, which creates the opportunity for a big short-covering rally down the road.



## Reason #6: Big and Growing Dividends

Sturm Ruger has a projected a \$1.65 annual dividend, which works out to an attractive 3% dividend yield.

Ex-Div. Date	Amount	Type	Yield
<b>8/28/2013</b>	\$0.65	Quarter	5.1%
<b>5/8/2013</b>	\$0.49	Quarter	3.9%
<b>3/6/2013</b>	\$0.404	Quarter	2.9%
<b>11/7/2012</b>	\$0.382	Quarter	3.2%
<b>8/9/2012</b>	\$0.377	Quarter	3.3%
<b>5/10/2012</b>	\$0.324	Quarter	2.6%
<b>3/7/2012</b>	\$0.212	Quarter	2.0%
<b>11/10/2011</b>	\$0.141	Quarter	1.1%
<b>8/10/2011</b>	\$0.142	Quarter	1.1%

Better yet, Sturm Ruger has a history of raising that dividend. The annual dividend was as low as 59 cents a share back in 2011, and we believe that Sturm Ruger will be able to boost that dividend in the future.

NOTE: The last dividend was paid out on August 30th, so you'll have to wait until November to collect the next one.

Sturm Ruger is currently trading in the low \$50s but was recently as high as \$60.11. That drop is an opportunity. Here's what to do:

**Assuming a \$100,000 portfolio, BUY 100 shares of Sturm, Ruger & Co., symbol RGR, at the market. Then place a protective stop to SELL ALL your shares at \$41.**

### ATTENTION READERS

We exited this position on September 12, 2013 for a gain of 12%... in 16 days!

[Click here to subscribe to Yield Shark today and learn about our next profit opportunity.](#)



## Welcome Back Annaly Capital Plus, Portfolio Review

Your order to buy Annaly Capital at \$11.50 should have been filled on August 6, and you won't have to wait too long to collect a big dividend, which is payable at the end of October.

We're not the only ones who think Annaly Capital is a bargain at current prices. The people running Annaly Capital think it is a pretty darn good buy, too. In the month of August:

- CEO Denahan Wellington purchased 151,618 shares
- Co-CIO Kristopher Konrad bought 17,000 shares
- Director John Shaefer purchased 10,000 shares

Month	Insider shares bought	Insider shares sold
August 2013	208,818	0
July 2013	0	0
June 2013	0	0
May 2013	25,000	0
April 2013	0	0
March 2013	0	0

Even more telling, there have been ZERO insider sales since February 2013. Continue to hold.

**New Subscribers:** BUY 400 shares of Annaly Capital Management, symbol NLY, at \$11.50 or lower.

As for the rest of our portfolio...

### Portfolio Review

#### Aircastle Ltd. (AYR):

Aircastle reported its Q2 results, and they were excellent. Aircastle pulled in \$170.4 million of revenues, well above the \$168.5 million forecast, and 48 cents per share of profits, an impressive 13 cents better than the analyst estimate of 35 cents.

The reason for the better-than-expected results is that Aircastle is doing a magnificent job of managing its business. Second quarter fleet utilization came in at 98% with a portfolio yield of 13.4%.

Your dividend payday is right around the corner. Aircastle will pay 16.5 cents per share on Friday, September 13. Hold.

**New Subscribers:** BUY 400 shares of Aircastle Ltd, symbol AYR, at \$13.50 or lower.

### **American Railcar Industries (ARII):**

American Railcar reported better-than-expected Q2 results:

- A year ago, ARII earned 63 cents of profits, but profits increased by 76% to \$1.11 per share in the second quarter of this year.
- Wall Street was expecting only 82 cents of profits, so ARII beat expectations by an impressive 35%.
- ARII received orders for another 1,850 railcars last quarter, pushing the backlog of orders to 6,940 railcars as of June 30, 2013.



The future looks even brighter. The overall industry backlog for railcars stood at 71,700 as of March 31, and 91% of those orders are for tanker and hopper cars, which is ARII's specialty. Hold.

**New Subscribers:** Buy 150 shares of American Railcar Industries, symbol ARII, at \$34.50 or lower.

### **Enterprise Products Partners (EPD):**

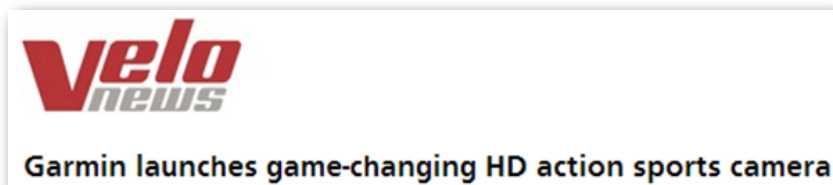
Enterprise Products Partners paid out a 68-cent dividend on August 7, but that is just the first of what should be a steady stream of rising dividends. That 68-cent dividend was 7% more than the first quarter of 2013, and it is the 36th consecutive quarterly dividend increase.

Yup, that's not a misprint: 36 straight quarters of rising dividends. Hold.

**New Subscribers:** Buy 90 shares of Enterprise Products Partners L.P., symbol EPD, at \$61 or lower.

### **Garmin (GRMN):**

Garmin is expanding its product line and early reviews indicate that it may be a home run. Garmin is entering the action camera market with a rugged, durable GPS-enable camera that will wow outdoor action enthusiasts: skiing, surfing, hiking, motorcycling, skydiving, skateboarding, mountain biking, and even scuba diving.



In addition to recording video, Garmin's camera tracks location, speed, elevation, and heart rate, as well as being able to embed this data into the video.

Here's a link to a [free 2-minute video](#) that demonstrates the versatility and function of Garmin's new camera. Watch it and you'll understand why Garmin's stock has been on fire and is likely to move even higher.

**New Subscribers:** BUY 150 shares of Garmin, symbol GRMN, at the market. Then place a protective stop to SELL ALL your shares at \$25.40.

### **JPMorgan Chase (JPM):**

The talk about breaking up JPMorgan into four separate entities—traditional banking, investment banking, asset management, and private equity—is picking up steam.

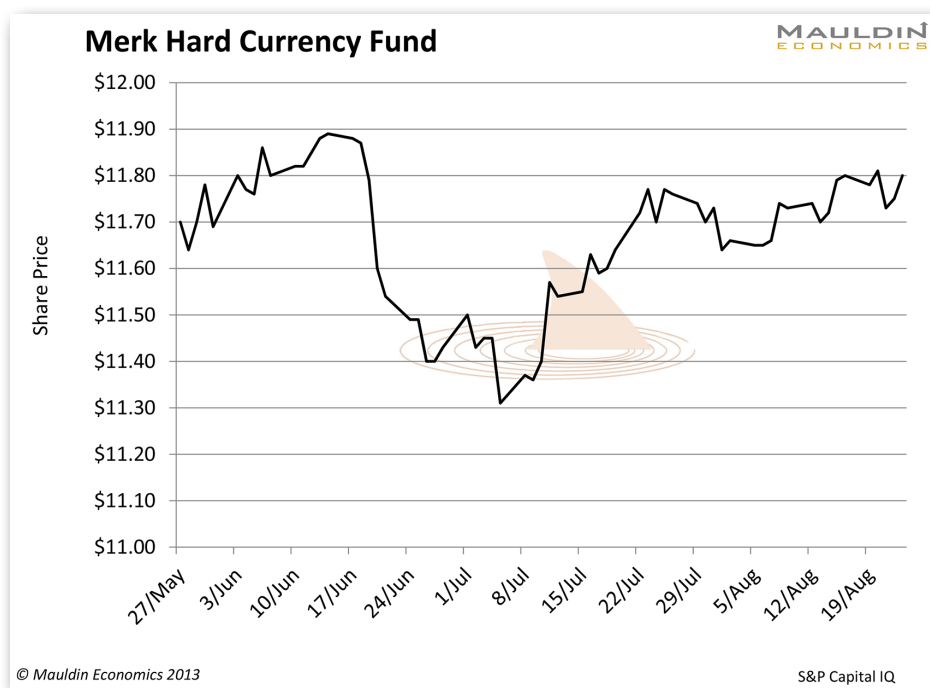
An analyst from Stifel Financial estimates that JPM would be worth 30% more if it were split into separate units. That would put JPM stock in the high-\$60s to low-\$70s and turn our small double-digit gain into a BIG double-digit gain.

Will that happen? We don't believe so, but it does highlight the tremendous value of JPM on top of the nearly 3% dividend yield that you are enjoying. Hold.

**New Subscribers:** BUY 100 shares of JPMorgan Chase, symbol JPM, at the market. Then place a protective stop to SELL ALL your shares at \$41.00.

### **Merk Hard Currency Fund (MERKX):**

MERKX has been on the road to recovery lately, thanks to its roughly 12% allocation in gold.



The price of gold hit a 2-month high last Friday and is up an impressive 15.1% since the June lows.

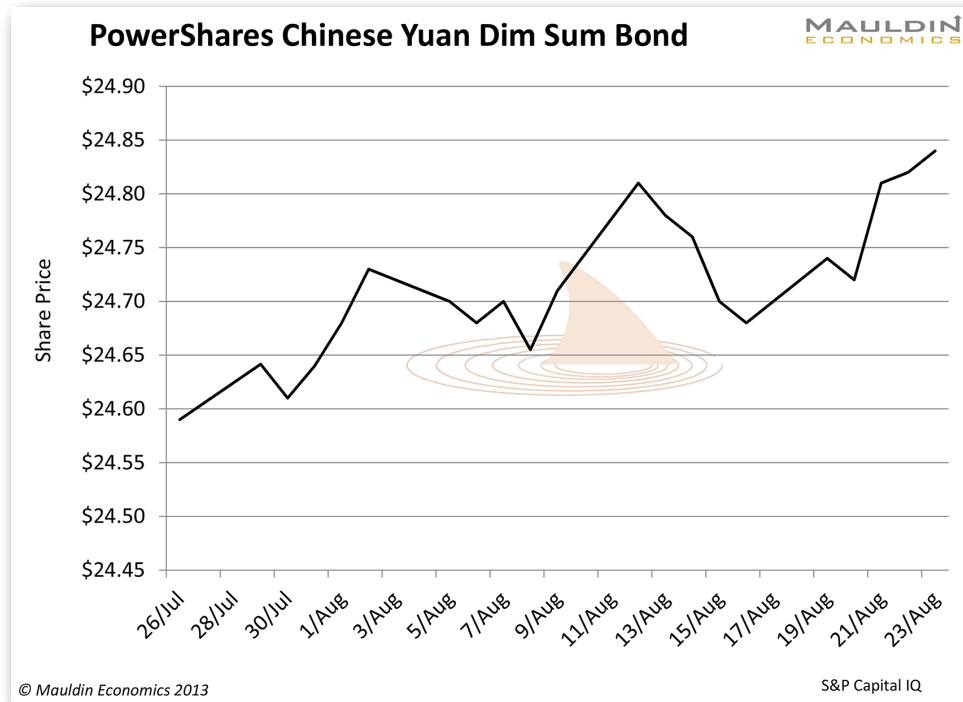
The reason we recommended MERKX with its ultra short-term, non-dollar government bond portfolio and gold allocation, is we see it as a safe hiding spot during times of turmoil.

Rising interest rates, threat of QE tapering, and the emerging-markets turmoil may turn MERKX into one of best safe harbors you can invest in. Hold.

**New Subscribers:** BUY \$10,000 of MERKX at the market.

### **PowerShares Chinese Yuan Dim Sum Bond Portfolio (DSUM):**

Several emerging markets, particularly India and Indonesia, have been roiled recently, and the US bond market has been clobbered. One of the few fixed income markets delivering both stability and safety recently has been the Chinese dim sum bond market.



The dim sum bond index is up 1.6% for the year, which may not sound like much, but compared to the massive loss that a 55% increase in the 10-year Treasury bond yield has produced, it is one of the top fixed income markets in the world.

Plus, DSUM paid a 73-cents-per-share dividend on August 15. Hold!

**New Subscribers:** Buy 200 shares of PowerShares Chinese Yuan Dim Sum Bond, symbol DSUM, at the market. Then place a protective stop to SELL ALL your shares at \$22.50.

### **Sun Communities (SUI):**

The Motley Fool recently highlighted Sun Communities as a beneficiary of the aging of America, especially for the less affluent retirees. Here's what it said:

*“Sun Communities owns 184 manufactured housing and RV communities in 25 States. About 25 of the company’s properties are “RV resorts” with the rest comprised of mobile home parks. Although the company’s operations span the country, it has a heavy concentration on the east coast. Most of its properties are in Florida and around the Great Lakes region.*

“The company’s occupancy rate has increased steadily over the past five years and now sits at about 87%. Its top line has been heading higher for a decade, including through the recession.”

That’s not groundbreaking news, but it does reiterate why we are so optimistic about SUI’s future. And the \$2.52 annual dividend (current yield of 5.6%) is a nice bonus to boot. Hold.

**New Subscribers:** BUY 150 shares of Sun Communities, symbol SUI. New Price: at the market.

<b>YIELD SHARK PORTFOLIO<sup>1</sup></b>									
<b>INVESTMENT</b>									
Ref. Date <sup>2</sup>	Sym-bol	Current Rec	Entry Price	Latest Closing Price (8-26-2013)	Gain / (Loss) % <sup>3</sup>	Stop Loss	Dividend Paid	Current Yield	Total Return
<b>HIGH CURRENT INCOME</b>									
<i>Aircastle Ltd.</i>									
1/29/2013	AYR	Hold	\$13.35	\$17.20	28.83%	\$12.10	\$0.33	4.03%	31.30%
<i>Garmin Ltd.</i>									
4/23/2013	GRMN	Hold	\$34.25	\$40.42	18.01%	\$25.40	\$0.45	4.47%	19.32%
<i>Annaly Capital Management</i>									
6/25/2013	NLY	Hold	\$11.50	\$11.44	-0.52%	\$10.05	\$0.00	14.63%	-0.52%
<b>INTERNATIONAL INCOME</b>									
<i>Merk Hard Currency Inv</i>									
2/27/2013	MERKX	Hold	\$12.03	\$11.79	-1.99%	NA	\$0.00	0.96%	-1.99%
<i>PowerShares Chinese Yuan Dim Sum Bond</i>									
5/28/2013	DSUM	Hold	\$25.55	\$24.86	-2.70%	\$22.50	\$0.2168	3.28%	-1.85%
<b>BEST OF BOTH WORLDS</b>									
<i>JPMorgan Chase</i>									
1/29/2013	JPM	Hold	\$47.13	\$51.80	9.90%	\$41.00	\$0.68	2.94%	11.35%
<i>American Railcar Industries</i>									
5/13/2013	ARII	Hold	\$35.40	\$36.85	4.09%	\$28.00	\$0.25	2.77%	4.80%
<i>Enterprise Products Partners</i>									
7/23/2013	EPD	Hold	\$61.00	\$59.53	-2.40%	\$53.00	\$0.00	4.59%	-2.40%
<i>Sun Communities</i>									
7/23/2013	SUI	Hold	\$51.15	\$44.73	-12.55%	\$41.00	\$0.00	5.86%	-12.55%
<b>BONUS STOCKS</b>									
<i>iShares U.S. Preferred Stock ETF</i>									
6/14/2012	PFF	Hold	\$38.43	\$37.78	-1.69%	NA	\$2.406	5.78%	4.57%
<i>WisdomTree Emerging Markets Equity Income Fund</i>									
6/14/2012	DEM	Hold	\$51.24	\$48.84	-4.68%	NA	\$2.74	4.15%	0.66%
<i>PowerShares High Yield Equity Dividend Achievers Portfolio</i>									
6/14/2012	PEY	Hold	\$9.31	\$10.92	17.29%	NA	\$0.519	3.74%	22.86%

### YIELD SHARK PORTFOLIO<sup>1</sup>

#### INVESTMENT

Ref. Date <sup>2</sup>	Sym-bol	Current Rec	Entry Price	Latest Closing Price (8-26-2013)	Gain / (Loss) % <sup>3</sup>	Stop Loss	Dividend Paid	Current Yield	Total Return
Guggenheim S&P Global Dividend Opportunities Index ETF									
6/4/2013	LVL	Hold	\$12.89	\$12.56	-2.56%	NA	\$0.396	7.23%	0.51%

<sup>1</sup> This sheet represents our current portfolio recommendations and is not a comprehensive track record.

<sup>2</sup> Reference date is the release date of the publication when the recommendation was originally made in Yield Shark.

<sup>3</sup> Includes dividends

### YIELD SHARK PORTFOLIO

INVESTMENT	Ref. Date	Symbol	Current Rec	Entry Price	Selling Price	Gain / (Loss) %	Dividends Paid	Total Return
<b>CLOSED POSITIONS</b>								
Annaly Capital Management	6/5/2012	NLY	Sell	\$16.23	\$17.00	4.74%	\$0.55	8.13%
Yara International	6/27/2012	YARIY	Sell	\$42.17	\$49.00	16.20%	\$0.00	16.20%
Philip Morris International	6/26/2012	PM	Sell	\$84.90	\$86.00	1.30%	\$0.85	2.30%
Female Health Company	8/28/2012	FHCO	Sell	\$6.44	\$7.00	8.70%	\$0.00	8.70%
Poseidon Concepts	10/24/2012	POOSF	Sell	\$15.33	\$13.10	-14.54%	\$0.00	-14.54%
United Online	6/5/2012	UNTD	Sell	\$4.03	\$5.05*	25.31%	\$0.10	27.79%
United Online	6/5/2012	UNTD	Sell	\$4.03	\$5.60	38.95%	\$0.20	43.91%
Cheniere Energy Partners LP	11/24/2012	CQP	Sell	\$20.73	\$23.50	13.36%	\$0.425	15.41%
Linn Energy	7/24/2012	LINE	Sell	\$38.83	\$35.00	-9.86%	\$2.18	-4.26%
Build America Bond	9/25/2012	BAB	Sell	\$30.10	\$30.20	0.33%	\$0.70	2.65%
American Railcar Industries	1/29/2013	ARII	Sell 2/3s Sell 1/3	\$37.90	\$47.00 \$42.00	24.01% 10.82%	\$0.25	24.67% 11.48%
Aberdeen Asia-Pacific Income Fund	6/5/2012	FAX	Sell	\$7.68	\$7.20	-6.25%	\$0.42	-0.78%
Cimatron	3/26/2013	CIMT	Sell	\$7.80	\$6.00	-23.08%	\$0.00	-23.08%
Plum Creek Timber	6/5/2012	PCL	Sell	\$36.68	\$45.00	22.68%	\$1.70	27.31%
Annaly Capital Management	6/25/2013	NLY	Sell	\$13.03	\$11.80	-9.44%	\$0.40	-6.37%

\* Partial sale on 8/16/2012



## Questions & Answers

**Question:** Are you standing firm on the recent recommendation on Linn Energy (LINE) in the light of accounting and other issues that have surfaced recently?

**Answer:** Sorry, but Linn Energy was stopped out back in February 2013. It is no longer recommended, and we recommend that it be sold immediately.

**Question:** Cheniere Energy Partners took on \$2.2 billion of debt to finance its expansion. Is that debt at a fixed rate or is it floating rate debt? If the rate is floating, the risk would intensify in a rising rate environment. If the rate is fixed or has a mechanism that provides some protection in a rising interest rate environment, then I would, indeed be interested in investing money in the security.

**Answer:** Sorry, but Cheniere Energy Partners was stopped out back in January. It is no longer recommended, and we recommend that it be sold immediately.

**Question:** Your last issue of Yield Shark said to buy Annaly Capital, which I did, but I read an article that says their dividend is taxed as ordinary income. Is it true and if so you should tell your subscribers!

**Answer:** Fair point. Dividends paid by REITs are generally taxed at ordinary income rates instead of the preferential rate given to traditional dividend income.

Security Description	Record Date	Payable Date	Total Distribution Per Share	Ordinary Income Dividends	Long-term Capital Gains	Qualified Dividends	Non-qualified Dividends
Common Stock CUSIP 35710409	3/30/2012	4/26/2012	\$0.55	\$0.50	\$0.05	-	\$0.50
	6/29/2012	7/26/2012	\$0.55	\$0.48	\$0.07	-	\$0.48
	10/1/2012	10/29/2012	\$0.50	\$0.45	\$0.05	-	\$0.45
	12/28/2012	1/29/2013	\$0.45	\$0.40	\$0.05	\$0.01	\$0.39

Annaly Capital is a mortgage REIT, and its dividends are taxed at a mixture of ordinary income (primarily) and long-term capital gains.

**Question:** Do you recommend that we leave the stop loss order as is or adjust down after a dividend to adjust stop orders back to the initial recommended stop price?

**Answer:** The challenge with adjusting stop losses for dividends is that every brokerage firm has its own policy about adjusting limit orders for dividends. Most (but not all) brokerage firms will automatically adjust limit orders for dividends, but some do not.

It would be convenient if every brokerage firm played by the same set of rules, but that just isn't the case. You'll need to find out what your brokerage firm's rules are and then adjust your stop loss strategy accordingly.



For our record keeping purposes, we will adjust limit orders, both buys and sells, for dividends. And we recommend that you do the same.

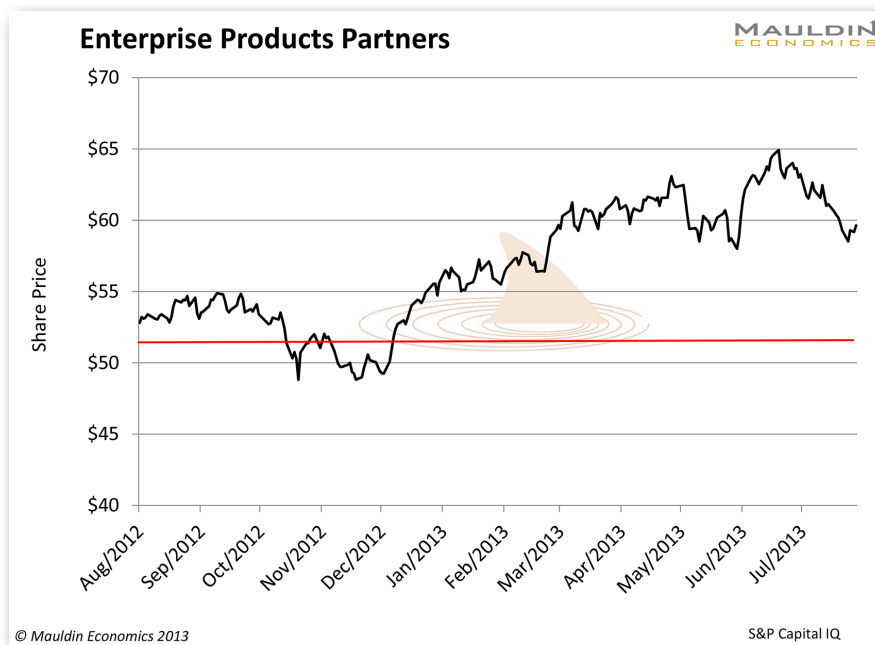
**Question:** Would you please explain your rationale for setting stop-loss for Enterprise Products Partners at \$53 versus the Garmin stop loss set at \$25? That is a 13% drop for Energy Products but 35% drop for Garmin.

**Answer:** Every situation is different, but in general, we recommend stop loss triggers at 15% to 20% below the entry price.

We look at many factors in determining recommended stop losses, but the two most important are (a) volatility and (b) nearest support levels.

Enterprise Products Partners, with a beta of 0.72, is less volatile than Garmin, so we can recommend a stop loss that isn't as far away from current prices. In general, the higher the volatility... the more room you need in a stop loss.

Even more important is how far the nearest support level is from current prices. In the case of EPD, we feel there is a strong support area in the \$53 range.



For Garmin, the nearest major meaningful support at the time we recommended it was in the \$25 range, and we set our recommended stop-loss at \$25.40.



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