



DR. DAVID EIFRIG'S

# Retirement Trader

## A Renewed Focus Will Power This Tech Giant Higher

Dear *Retirement Trader* subscriber,

With enough computing power, you can earn \$318,000 per day.

In eight factory buildings in Inner Mongolia, nearly 25,000 computers churn away... creating money out of electricity. They get so hot that water-cooling systems and huge fans are used to draw heat away.

Workers check in, run diagnostics, and perform maintenance to ensure uptime. After all, time is money.

This operation, as of September, provided around 5% of the bitcoin-mining network. And it earns hundreds of thousands of dollars a day for the operation's owner, Chinese technology company Bitmain.

While I can't quite say, "you know what bitcoin is," I'm sure you've heard of it by now.

That's not the point of today's issue.

All you need to know is that this digital currency relies on a global network of computers that process transactions and validate them on the bitcoin network. For doing this, the processors get rewarded with bitcoins. It's called "mining."

The network is designed to make mining *harder* when more processing power is in place, keeping the growth in the supply of bitcoins constant.

About 10 years ago, you could mine thousands of bitcoins on your home computer. It was new. No one had heard about it. And a simple desktop PC could crank through the calculations with ease.

At the start, bitcoin's creator Satoshi Nakamoto could reportedly mine 7,200 bitcoins per day... worth \$50 million at today's price. (Of course, they were practically worthless at the time.)

Before long, however, folks realized you could mine bitcoin faster using powerful specialized circuitry, known as graphics processing units ("GPUs"). Once these hit the market, they blew away traditional central processing units ("CPUs"). Mining got so hard that a CPU could crank away for weeks and never earn a dime.

### IN THIS ISSUE:

- It's Not All About Bitcoin
- The Company Leading a Computer Technology Shift
- Update on Existing Positions
- Calculating Stop Losses When We Roll

### Retirement Trader Track Record

Winning positions: **371**  
 Losing positions: **21**  
 Winning percentage: **94.6%**  
 Longest winning streak: **136**  
 Current winning streak: **108**

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But now, even GPUs are worthless for bitcoin.

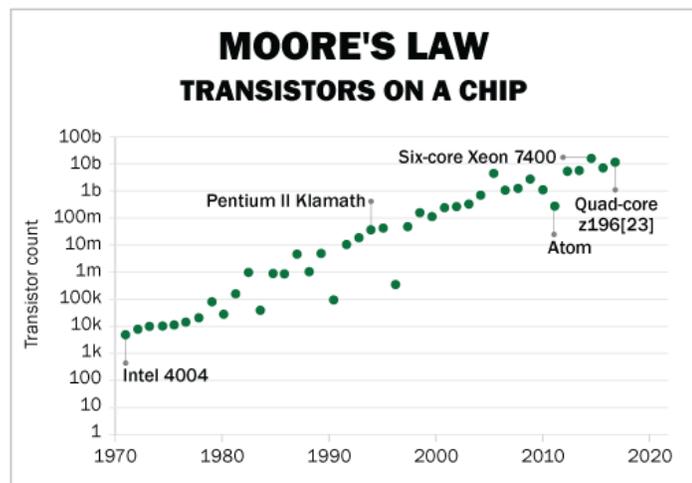
That's because in 2013, companies started releasing application-specific integrated circuit ("ASIC") miners.

These chips were custom engineered to do one particular thing... process bitcoin transactions.

They can't do anything else. You couldn't play a game of digital solitaire if your computer used one of these ASIC chips. They do just one thing, but they do it well. The first ones were about 60 times faster than GPUs.

From then on, bitcoin mining belonged to professionals. It takes real capital and expertise to buy and operate a collection of ASIC miners.

This is the way the semiconductor business goes. Efficiency and power keeps improving over time.



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A regular old computer chip isn't worth much in the bitcoin world anymore. This shift is part of a larger trend in the semiconductor world that's driven by incredible innovation and is setting up huge opportunities for a few manufacturers. And in this issue, we've found a great trade to take advantage of...

## A MAJOR SHIFT IN COMPUTER TECHNOLOGY

It's not just bitcoin, though. More and more of the challenges in computing get solved by custom hardware and chips. Not just software.

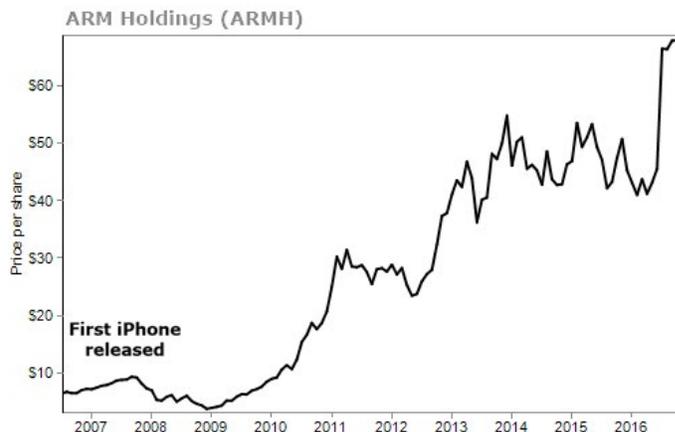
Computing isn't just "computing" anymore. You need the right chip for the job.

Take the explosion of smartphones. They didn't use

traditional chips. They used ones with a fundamentally different architecture called ARM.

ARM chips used a sort of stripped-down simplified language to operate. More important, they used much less power. That's a huge plus when you're trying to conserve battery life.

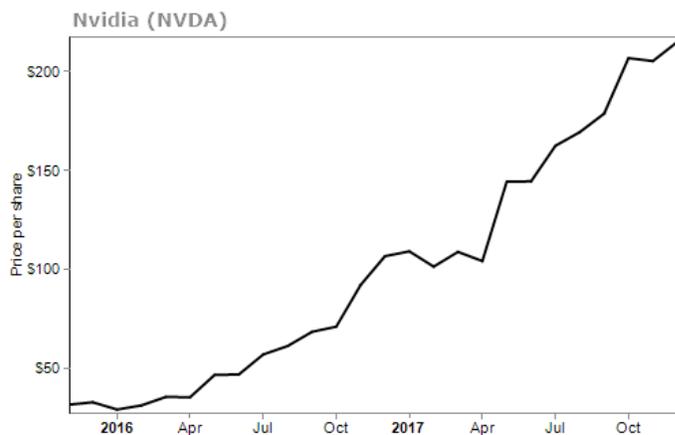
You can see the boom in the adoption of this architecture when you look at the stock of ARM Holdings (formerly ARMH – it was bought out in 2016), a designer and licensor of ARM technology.



Now, it's happening again.

Thanks to the growth of data and the use of techniques like machine learning and artificial intelligence, there's an opportunity to improve computations by using the right kind of chips.

Machine-learning techniques tend to run better on GPUs. Yes, those same chips used in early bitcoin mining. They were initially designed to process graphics for video games, but they can also perform the calculations for machine learnings faster than conventional CPUs.



This is part of the reason that the No. 1 GPU manufacturer, Nvidia (NVDA) has posted gains of 560% over the last two years.

But now, these applications are getting their own specialized “ASIC type” chips, so to speak.

Alphabet’s (GOOGL) Google unit has designed machine-learning chips that are 15 to 30 times more powerful than CPUs or GPUs. (They call it a TPU. The T stands for “tensor.”) And they’re including chips like these in mobile devices like the Google Pixel phone.

The new iPhone X includes a chip that **Apple (Nasdaq: AAPL)** calls the «neural engine» that will help with artificial-intelligence features.

The point is the chip business is expanding. Newer, better chips demand higher prices and better profits. It takes billions in capital to develop and manufacture a new chip. So the advantage goes to the big, existing chipmakers that already control the market.

One, in particular, has had an outstanding run for the last year... It has a business that’s growing faster than any other... But it still trades for an extremely low valuation.

## BIG DATA IS WHERE THE ACTION IS

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We haven’t mentioned cloud computing, yet much of the work performed on your home computer or smartphone has now been off-loaded to massive data centers all over the world. They don’t use a regular old CPU either.

These data centers have specific needs for power consumption and load balances. And the big data-center operators – like Google, Facebook, and Equinix – also place million-dollar orders for specialized chips like those regularly.

*That’s what gives such great growth potential to Intel (Nasdaq: INTC).*

Intel jockeys with Samsung for being the world leader in semiconductors. They split about 30% of the market. When you look specifically at chips that end up in computers (as opposed to other applications like automotive or industrial), Intel alone owns 41% of the market.

Today, though, Intel’s big opportunity is its data-center chips. INTC does about \$62 billion in revenue per year.

The data-center market could be worth another \$65 billion in sales – though there is some competition.

When you use cloud services – like Amazon Web Services – an Intel chip is likely running your computations.

Intel’s data-center chips, the Xeon and Xeon Phi, are more like a complete computer on a chip. They keep all the communication on one piece of silicon. This means it can have up to 60 cores all running at the same time and communicating directly. (If you go buy a good computer today, you’ll have around four cores).

The chips are amazing. And Intel can charge a premium price for them.

The company also has high-performance, solid-state storage (think super-fast hard drives) that can improve data-center performance and power consumption.

Intel’s data-center division posted sales of \$18.1 billion in the last 12 months – good for annual growth of 7.5%. That’s much higher than the company’s 4.5% overall growth.

Better yet, the margins are higher. Overall, the company earns about 27% of sales as operating income. But its data-center division earns 40%.

This is a big, growing, and profitable business, making for a bright future for Intel’s share price. But even without this growth kicker, this company is...

## A GLOBAL DOMINATOR

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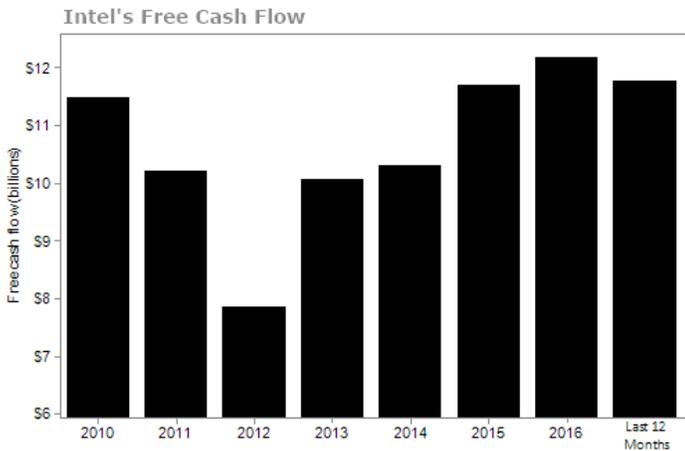
Making chips is what Intel does best, and it remains the leader in the industry. This isn’t the first time we’ve recommended a trade on Intel. It’s a company we come back to over and over again, producing winning trades.

For a time, Intel’s future didn’t look so bright. Intel missed the early shift to mobile. That boom went largely to competitors **Qualcomm (Nasdaq: QCOM)** and ARM Holdings. So Intel faced the strategic question of whether it should invest to catch up or let the mobile market go. It decided to jump in... And while it’ll never dominate mobile like it does in other markets, it has still become a profitable business.

And overall, it has a chip in most “smart” products these days. Most recently, Apple adopted its processor for the iPhone X, which sold out in a matter of minutes. (That’s a lot of Intel’s chips.)

All of this translates into growing revenues, which are up 4.5% since last year. And as we said earlier, Intel is extremely profitable on its revenue. That's why it has more than \$9 billion of cash and cash equivalents sitting on its balance sheet, a cash stockpile that's increasing quarterly.

As longtime subscribers know, I love when a company has healthy free cash flow (FCF). Free cash flow is what's left after the company pays all operating expenses and capital outlays. Over the past three years, Intel has managed to produce around \$12 billion of FCF every year.



That consistency is incredible.

Intel reported earnings in late October and demonstrated just how well it's doing. It beat revenue estimates by \$420 million and earnings per share by \$0.21.

With all of that cash flowing in, Intel is able to pay shareholders a generous 2.4% yield and spend heavily on research and development (R&D). Intel's partnership with Alphabet's self-driving car unit, Waymo, could put autonomous cars on the roads sooner than we thought possible.

With all this excitement, the stock is up 12% over the last



few weeks. But what's good for us today is that its valuation is still cheap...

It currently trades for 13.7 time earnings... well below the average semiconductor stock of 23.6 times earnings.

Intel is slightly above its five-year average. And given its innovation and recent results, it's still a bargain.

## PUTTING RIVALRY ASIDE

Who said enemies can't get along?

On Monday, Intel unveiled a partnership with one of its longstanding adversaries in the PC-processor market - Advanced Micro Devices (AMD). This will be the first time the two chipmakers have collaborated since the 1980s.

The two chip giants will join forces to build a new laptop-computer chip. It will combine Intel's processor with AMD's graphics processor. And it will be used for high-end gaming.

By teaming up, Intel and AMD will look to combat a common competitor, Nvidia. Nvidia competes with AMD in the GPU and with Intel in the artificial-intelligence race.

This partnership makes a lot of sense for Intel. The chip will appeal to serious gamers, who always want the most advanced graphics. This partnership should profit for years to come.

## IT'S ALL ABOUT THE CYCLE

We've talked about the semiconductor and memory cycle before. We've recently taken advantage of that cycle with Micron Technology (MU).

The demand for semiconductors has lots of determinants. When the economy is doing well... or Apple is about to release a new iPhone... or data centers expand... it leads to spikes in demand.

And not unlike gold mining or oil drilling, building or expanding a facility to manufacture semiconductors takes billions of dollars and more than a year of lead time.

This creates a cycle of low prices and overcapacity alternating with periods of high prices and low capacity.

You can see this in the chart below of the Philadelphia Stock Exchange Semiconductor Index – which tracks the stocks of about 30 chipmakers (including all the ones named in this issue). Every move upward is followed by a decline...



This cycle still has plenty of room to run.

Chipmakers are building new capacity – spending \$55 billion on new facilities over the course of 2017. But these projects take years to complete and bring on line. “Foundry” capacity should only grow by 8% this year and 5% in 2018. That’ll keep supply tight and prices high for a while longer.

We’ll bet that Intel can continue to produce excellent results as semiconductors in general are in high demand.

Even with Intel’s recent rise in share price, its options have a high implied volatility. Combine that with a surging semiconductor cycle, and it’s a great setup for an option trade on Intel...

## HERE’S OUR COVERED-CALL TRADE ON INTC

Today I recommend you...

**Buy 100 shares of Intel (INTC) for about \$45.70, and Sell, to open, the INTC January \$46 calls for about \$1.55.**

This represents a total outlay (or “net debit”) of \$44.15 per share (the \$45.70 stock price minus the \$1.55 we receive from the call premium). Remember... you are buying 100 shares of the stock for every call option you sell against it.

Here’s how the math works...

**Income from sold call premium of \$1.55 is \$155.  
Purchase of 100 shares of INTC at \$45.70 is \$4,570.  
Initial outlay: \$4,415.**

If INTC shares sell for \$46 or more on January 19, the stock will be “called” away from you at \$46 a share. This gives you a net gain of \$1.85 per share on the position. This is about 4.2% in two months, for an annualized return of about 25.1%.

Of course, if the stock trades for less than \$46, your calls will expire worthless... And you’ll still own the stock, uncovered. You can keep the future dividend stream from 100 shares of INTC – which should amount to \$109 a year per 100 shares – plus the \$155 premium. This is a total of \$264 (the \$155 premium plus the \$109 dividend) on a \$4,570 investment, or about 5.8% this year.

As always, put no more than 5% of your portfolio into this position. And hold it with a 20%-25% stop loss.

## HERE’S OUR PUT-SELL TRADE ON INTC...

If you’re an experienced option trader and you’d like to commit less initial capital to your trades, you can choose to sell a put, rather than a covered call...

This strategy earns nearly identical returns on your capital as the covered-call trade above. Some put sellers use a margin account to reduce the amount of capital they require up front.

This allows for higher returns on that margin amount, but it may also require you to come up with the full amount of capital to purchase 100 shares should the option be exercised. Be sure that you understand margin and your potential put obligation before trading put options.

Here is how the INTC trade works as a put-sell trade...

**Sell, to open, the Intel (INTC) January \$46 puts for around \$1.75 with the stock trading around \$45.70.**

The puts obligate you to buy INTC at \$46 a share if the stock falls to less than that by option-expiration day (January 19). Selling these puts gives you \$175 in your account per option contract. (Remember... one option contract equals 100 shares of stock.)

Buying 100 shares at \$46 each represents a potential obligation of \$4,600. To put on this trade, you will have to deposit a “margin requirement” – essentially a security

deposit that reassures the broker that you can cover your potential obligation. It usually runs about 20% for put sales. (In this case, 20% of \$4,600 is just \$920.)

Here's the math...

**Sell one INTC January \$46 put for \$175.**  
**Place 20% of the capital at risk in your option account, \$920.**  
**Total outlay: \$745.**

If the markets remain unchanged and INTC trades for more than \$46 on January 19, you won't have to buy the stock. You keep the \$175 premium (and the \$920 margin). That's a simple 19% return on margin in about two months.

If we put this trade on every two months – assuming all prices remain the same – this could return 114% a year on the margin amount.

If INTC trades for less than \$46 on January 19, you'll keep the \$175. But you'll have to buy INTC stock at \$46 per share. So you'll own INTC at \$44.25 (the \$46 strike price minus the \$1.75-per-share premium). Here's how that scenario works out for each option contract you sell...

**Initial income from sold put premium of \$175.**  
**Purchase of 100 shares of INTC at \$46 is \$4,600.**  
**Total outlay: \$4,425.**

The cost (\$44.25) is roughly 3% less than INTC's current market price. This gives us downside protection on a company that provides the world's processors.

Plus, if you become a shareholder, you'll also receive the company's \$1.09-per-share annual dividend. If INTC pays its expected dividend over the next 12 months, you'll receive a total of \$284 (\$175 in premium plus \$109 in dividends) on a \$4,600 investment... 6% cash on your investment in the first year. And we would likely sell call options against the stock to further boost our returns.

Note: The prices in this example reflect morning trading on November 10.

## WHAT TO DO IF PRICES MOVE

In the examples above, we gave you the most recent prices as of mid-morning November 10. However, we realize prices can change by the time you go to open a position.

If there are small price moves, you can still enter the trade. Just pay attention to the initial outlay – the net debits and premiums described above.

Try to keep your net debit (in the case of covered calls) at or less than what we recommend. The credit for opening a put sale should equal or exceed what I described above.

For example, we recommend selling the INTC January \$46 call for around \$1.55 with the stock trading at \$45.70. This gives you an initial outlay of \$44.15 a share (the \$45.70 stock price minus the \$1.55 premium).

If the stock moves up to \$46.60 on Monday, you'd want to receive a premium of about \$1.98. This would give you an outlay of \$44.62. Keep in mind that as we get closer to option-expiration day, the option loses time value, so your outlay may be a bit more than what we recommend.

Similarly, if INTC moves down, you would pay less for the stock, but also get less for the call option.

The following table will give you a rough guide for prices we think represent good opportunities to open the recommended INTC positions over the next few trading days.

INTC January \$46 Calls		
Underlying Price	11/13/2017	11/17/2017
\$44.80	\$1.09	\$1.04
\$45.70	\$1.49	\$1.44
\$46.60	\$1.98	\$1.93
INTC January \$46 Puts		
Underlying Price	10/30/2017	11/3/2017
\$44.80	\$2.17	\$2.13
\$45.70	\$1.68	\$1.63
\$46.60	\$1.27	\$1.22

## DOC'S DELTA BOX

### ■ INTC

Call Delta: 0.50  
Put Delta: -0.50

If INTC shares move by \$1 from our prescribed prices, the call-option price should be adjusted by \$0.50 in the same direction.

The put price should also be adjusted by \$0.50 in the opposite direction.

For more on how to use Doc's Delta Box, [read our guide here](#).

## UPDATE ON EXISTING POSITIONS

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We have three stocks soaring... and we need to make an adjustment on them today.

Remember, when we sell a covered call (or sell a put), we put a cap on our upside. Sometimes if stocks move up quickly, we'll get left behind and miss out on some of the gains.

We can adjust positions to try upping our profits. That's what we're going to do today with **Qualcomm (Nasdaq: QCOM)**, **Pilgrim's Pride (Nasdaq: PPC)**, and **Occidental Petroleum (NYSE: OXY)**.

In QCOM's case, competitor Broadcom (AVGO) has put an offer on the table to buy the company for \$70 per share, but our calls have capped our upside at \$55. We're going to roll our position to generate more income and position ourselves to capture more profits.

Remember: *these instructions only apply if you already have these positions open. They are not new trades.* To learn more about how and why we roll positions, [read our guide here](#).

For QCOM, I recommend you...

**Buy, to close, the Qualcomm (QCOM) November \$55 calls and sell, to open, the January \$67.50 calls for a net debit around \$7.50.**

We've got a similar situation for PPC. Chicken prices have been strong lately, and that's driving up the share price. For PPC, I recommend you...

**Buy, to close, the Pilgrim's Pride (PPC) December \$23 calls and sell, to open, the PPC March \$34 calls for a net debit around \$8.90.**

With OXY, rising oil prices have pushed shares to more than \$68, but our \$62.50 calls are limiting us. For OXY, I recommend you...

**Buy, to close, the Occidental Petroleum (OXY) November \$62.50 calls and sell, to open, the OXY February \$65 calls for a net debit around \$2.**

We're also going to make an adjustment on General Electric (NYSE: GE). This position hasn't gone our way, but we're not out just yet. Our current options have no time value, and the company will make a big announcement on its dividend in the coming days. We want to get into new options before that so we get paid for the uncertainty.

For GE, I recommend you...

**Buy, to close, the General Electric (GE) November \$22 calls and sell, to open, the January \$21 calls for a net credit around \$0.50.**

Or...

**Buy, to close, the General Electric (GE) November \$22 puts and sell, to open, the GE January \$21 puts for a net debit around \$0.50.**

There are no actions to take on our other positions at this time.

## QUESTIONS AND ANSWERS

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Have an options question you want answered? Send us an e-mail at [rtr@stansberryresearch.com](mailto:rtr@stansberryresearch.com).

**Q: Just started a subscription to [Retirement Trader]. Took Doc's recent advice regarding Intel and sold the November \$37 call. I was hoping at least if stock got called away, I would still be in line for the dividend. But the option got exercised on November 3, which has left me with a double-whammy – a hefty loss in profit as the stock soared to over \$46 just before being called away before ex-dividend date. As a result, it seems I've also lost out on the dividend. Did I do something wrong, or did Doc get this one badly wrong? – I.K.**

**Doc Eifrig comment:** I love it when newbies try to call me out like this. You think I "got this badly wrong"? Pshaw.

First thing to note, we recommended closing this position in our [October 11 update](#). Closing then would have helped you avoid your frustration of getting called away before the dividend. **If you had closed it then, you would have made gains of 2.2%, or 33.6% annualized.**

By our estimate, you still earned a profit of \$80 on every option in less than a month *on a trade we gave away for free*. That comes to 21.5% annualized returns by my calculation.

Finally, the dividend is irrelevant. It's already accounted for in the traded prices of the options because both you (the seller) and the buyer of the option should know about it... expected dividends are public.

The worst part about your complaint is that after you put the trade on, you wanted to have your cake and eat it too. You can't have all the upside of stock when you sell it away for option premium.

The nature of selling calls means we give away any upside above the strike price (technically, plus the premium). In return, we receive option premium up front. We say that over and over... in every instruction on every trade.

**We make the trade-off because it greatly enhances our win rate.** Without the benefit of options, skilled investors hit win rates of 55% or 60% on their stocks. We have a win rate of more than 90%.

You could give up the options part if you wanted to earn more... *and* knew which stocks would go up.

We identified a stock with great potential... so much, in fact, that it's up 25% in less than two months. We shared a free trade with you that was profitable. And you're upset that you didn't just buy the stock now that you know it's up at \$46.

If you look back with perfect knowledge after every trade that you make, you're never going to be happy trading. Say you bought Google at the beginning of the year. It's gone up about 33%, or double the S&P 500 Index. Are you going to be upset that you *didn't* buy Apple instead, which went up more than 50%?

I'm afraid that you may not be happy with what we offer here... which is "trading for income" as one of the many techniques to living a wealthy retirement, and we do it *with much less risk* than simply buying stocks.

Look, you made a perfect first option trade... (Most folks' first option trade involves buying a high-risk, way-out-of-the-money call option and losing 100% of their money.) Enjoy it and congrats!

**Q: Regarding IRAs, can options be bought and sold in basic, traditional IRAs? An article on self-directed IRAs stated that covered calls were OK, but didn't continue. I would like to avoid a self-directed IRA, but I would be interested in selling covered calls and naked puts in a traditional or Roth IRA. Thanks. – M.H.**

**Doc Eifrig comment:** You don't need to have a true fully "self-directed" individual retirement account (IRA) to sell covered calls. When we first launched *Retirement Trader*, we called covered calls our "IRA Alternative" trades.

Selling options in any broker's IRA is a great technique... The extra income and any capital gains stay out of the hands of the taxman and grow even faster because more stays in your hands and compounds upon itself over time.

Tax-free compounding makes a huge difference in your long-term performance. And you don't need to worry about tracking your gains and losses for the IRS. And you don't need to worry about short- and long-term differences in capital gains, either.

**Q: What process do you use to determine when to roll an underwater position (down and/or out) and what metrics do you use to determine the preferred option to roll to? – C.B.**

**Doc Eifrig comment:** Some of the most common questions we get are people wondering when, how, and why we roll options. We created a report to answer all of your questions: "[How Rolling Options Helps Us Earn More Income.](#)"

But we do apply a little "secret sauce"... We always ask the question: where can I deploy capital for the highest expected returns?

**Q: Please explain how you would account for trailing stop loss for a trade that has been rolled over. – V.C.**

**Doc Eifrig comment:** It's simple, just add up your inflows, subtract your outflows, and divide by what you started with to get the number to apply the stop-loss level against.

Let's take a look at how you would calculate a stop loss for a covered call, and then I'll explain how to adjust it...

Say you sell one call option for \$1 with a \$21 strike price. Since we're trading covered calls, you would also have to buy 100 shares of that stock. For simplicity, let's say the stock is also trading at \$21 a share. (So we'd say the call is "at the money.") That means you would pay \$2,100 to buy 100 shares of stock, but you'd receive \$100 in call premium. This means your total outlay ("net debit") is \$2,000. (The \$2,100 you paid for the shares minus the \$100 you receive in call premium.)

Here's the math:

Purchase of 100 shares at \$21 is \$2,100.  
- Income from sold call premium of \$1 is \$100.  
Initial outlay: \$2,000.

For a simple stop, to figure out the 25% stop limit, just take the combined value of the position and multiply it by 75%.

In this case, the combined value was \$2,000 (cost of the shares minus the premium income)... \$2,000 multiplied by 75% is \$1,500. If shares fell to \$15, we would close the

position. You'll have to simultaneously sell the stock and buy back the call options.

For a trailing stop, you'd use the highest share price instead of the cost to purchase shares.

Now let's say you rolled the trade forward and you received another \$1 premium. You'd just have to subtract that premium from your purchase price (or the highest share price if you're using a trailing stop).

Purchase of 100 shares at \$21 is \$2,100.

- Income from sold call premium of \$1.00 is \$100.

- Additional income from sold call premium of \$1.00 is \$100.

Initial outlay: \$1,900.

Again, multiply your initial outlay by 75% and you've got your stop loss.

This also works if you need to account for dividends as well.

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



Dr. David Eifrig Jr., MD, MBA

Salt Lake City, Utah

November 10, 2017

To view the *Retirement Trader* Portfolio, [click here](#).