The
BAUMAN LETTER

— YOUR GUIDE TO ROGUE FREEDOM & BOLD PROSPERITY —

Life After Death: 2 Ways to Save Your Legacy

IT'S one of the worst moments in a person's life.

A spouse dies after decades together. You're still dealing with the emotional side of things.

How do you live every day without the other person around?

How does the fuse box work?

How do you make the favorite meal she used to make for you?

That's bad enough. But now you discover … you've got a financial knot to untangle.

On top of the knot in your stomach.

It's not something I would wish on anyone. But I've just helped someone through it.

It taught me some lessons I want to share with you.

Consider life insurance. Not as an abstraction, but as a real-life thing. I just did that. Instead of approaching it as a financial advisor, I've dealt with it as a human being.

That's given me some important insights into the strategies we consider as we plan for our financial futures and those of our descendants. So, I decided to share my reflections on this experience with you this month.

They say that experience is the best teacher. And I've just had an experience with insurance.

One of my relatives passed away – let's call him Paul. Paul had many insurance policies. His wife asked me to help sort through them.

Paul's insurance setup seemed complex and bewildering at first. He had different policies with different companies. He had standard life insurance, whole life and annuities.

Paul also used his insurance policies creatively. He took loans against some of them.

He even took an "early death benefit." You can do that if you have a terminal disease, as he did. It was the first time I'd heard of that.

But Paul was tough and hard to kill. He outlived his doctors' prognosis by many years.

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When he took the "early death benefit," he expected to live a year at most. But he hung around a lot longer than that.

He had planned to use some of the death benefit to cover his final health care costs and leave the rest to his wife. But because he lived so long, he spent it all before he passed away.

That left his wife with a problem.

Outliving Your Life Insurance

When planning their insurance strategy, their goal had been to provide for each other. Whoever passed first would leave enough behind to allow the other to live comfortably.

But Paul's unexpected longevity threw a wrench into their works. They ended up using the bulk of his life insurance proceeds while he was still alive. That reduced the amount available to his wife.

Paul was also an undisciplined spender. He found it hard to resist bargains. A lot of the insurance money that was supposed to provide for his wife's future went into things that had nothing to do with that.

I don't criticize that. After all, life is for living. Paul's unexpected bounty of extra years presented them with opportunities to do things they'd always wanted to do. It is hard for anyone to live their last few years frugally when there is so much to do and enjoy together.

This got me thinking.

We tend to look at life insurance as something that will provide a lump sum to our survivors when we are gone. That's why they call it a "death benefit."

But the point of leaving wealth behind is to provide for the time remaining in your descendant's life. In that sense, Paul's life policies were also "longevity insurance" for his wife.

In other words, it was a way of guaranteeing that she would have the resources she needed *every year* for the rest of her life.

But because Paul looked at life insurance in the conventional way — as a benefit paid out when he died — he disregarded its role as longevity insurance. He was tempted into using more than he should have. That reduced its value as longevity insurance for his wife considerably.

This is something worth thinking about as you plan for your own future. After all, life insurance is not the only way to secure the future needs for those you leave behind.

Annuities: The Life Insurance Alternative

Given the circumstances, Paul and his wife would have been better off choosing a different option: an annuity.

I've written about annuities periodically in *The Bauman Letter.* They are a contract between an individual — the annuitant — and a financial company.

In exchange for a sum of money, the company pays the annuitant a guaranteed monthly amount for a set period. That period can be a fixed number of years or as long as the annuitant lives.

The annuity contract specifies an interest rate at which the annuity will grow. Depending on how long the annuity is for, this interest can make the

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total paid out over time larger than the money the annuitant pays in.

In Paul's case, an annuity would have been a better option for him and his wife. That's because an annuity is better designed to provide longevity insurance.

A life insurance death benefit is paid out in a lump sum. As in Paul's case, it can even be paid out while you are still alive if you have been diagnosed with a terminal disease. But that opens the door to spending money too fast and leaving too little for longevity insurance.

By contrast, you can set up an annuity in a way that forces you to take the monthly benefit. Although it is possible to borrow against an annuity, you can build in restrictions that discourage it.

There are two ways that an annuity could have improved Paul and his wife's financial planning.

First, Paul could have taken the early death benefit from his life insurance and converted it into an annuity. That would have provided an income stream that could start immediately or kick in after he passed away.

Either way, that would've insured that his life insurance policy performed as longevity insurance, as was its intention.

The second option would have been to buy an annuity instead of an insurance policy in the first place. Annuities can either be immediate or deferred.

Paul could have used the money he paid for the insurance policy and instead bought an annuity that would only start payouts in, say, five or 10 years. During those years, the annuity would have increased in value, increasing the later monthly payouts.

Most importantly, the annuity would have become part of their monthly cash flow planning instead of appearing as a lump sum sometime in the future. That would've encouraged Paul and his wife to think in terms of preserving its value and using it to provide longevity insurance for both of them.

In other words, opting for an annuity would have created different financial expectations and habits for Paul and his wife. It would have been costlier and more difficult to borrow against the annuity, reducing the likelihood that they would do so, even though Paul lived longer than expected.

But there was another consideration.

Mortgaging Your Benefits

Paul and his wife refinanced their home several times over the years. As a result, when Paul died, there was very little equity in the house.

Paul could have used his early death benefit to reduce the outstanding mortgage. That would have accomplished the same thing as converting it into an annuity.

By reducing the principal on their mortgage, Paul's wife would have a lower mortgage payment, increasing her monthly disposable income after he'd gone.

At the same time, the increased equity in their house would have served as a form of illiquid savings. That would have given Paul's wife the option of selling the house after he passed away and accessing the cash then. Or, she could have taken a home equity line of credit and accessed that.

The decision whether to annuitize Paul's early

About Ted Bauman

Ted Bauman is the editor of the Plan B Club, a blueprint to help protect your wealth and escape excessive taxation, regulations and wealth confiscation in America. He is also the editor of *The Bauman Letter*, a newsletter that's brimming with up-to-the-minute asset protection strategies, tips on buying and investing in real estate abroad, and retirement and residency secrets in American-friendly countries around the globe. Ted has been published in a variety of international journals, including the *Journal of Microfinance, Small Enterprise Development* and *Environment and Urbanization*. Email Ted your thoughts and questions at baumanletter@banyanhill.com death benefit or use it to pay down the mortgage would depend on interest rates. If the interest rate on the mortgage was higher than the rate on an annuity, the former would have been the better option.

But if Paul and his wife had locked in a very low interest mortgage and secured a higher annuity interest rate, annuitizing his death benefit would have made more sense.

So, the first "big picture" lesson to share is the importance of thinking of life insurance as longevity insurance rather than as a lump sum asset.

Many people who write to me at *The Bauman Letter* are concerned about having enough money to live the remainder of their lives.

Whether you approach it as life insurance or as an annuity, or as reducing debt versus securing income, the essential thing is to set a goal and choose options that will help you meet that goal.

But there is another lesson in this experience as well.

Financial Freedom — A Family Affair

There's a reason I'm helping Paul's wife makes sense of the household finances: Finances that were once "theirs" are now "hers."

In the United States, almost 60% of married women say that they play little or no role in managing household finances. To me, that's a shockingly high figure. It's the reason I'm helping Paul's wife now.

Think about that from the perspective of emotion as well as finances.

Paul's wife isn't just dealing with his passing. Every day, she's learning something new and startling about the most basic aspects of her existence, and how to pay for it going forward.

In some cases, Paul's wife was vaguely aware of the arrangements he made for them. She had reservations about some of those arrangements when Paul was still alive, and dealing with them after his passing made her feel worse.

But in a surprising number of matters, Paul's wife was simply unaware of what he decided to do with money or other assets. Here's how she explained it to me:

> *When I think about the sort of person Paul was, it's clear that he was living in the 1950s. In those days, men were the providers and they made all the decisions. He wasn't really interested in approaching these things as a partnership, because that's not the way his parents had done it, and it's not the way any of his peers did it either. But the reality is that we both had long full-time careers before and during our marriage. As a man, his earnings were higher than mine. But that doesn't change the fact that we were a partnership and we should have approached our financial arrangements in that spirit.*

Don't get me wrong. Paul's widow is not upset with him. She knew what he was like and she accepted it. But as she put it to me, that came with the cost … a cost that is only becoming clear now that he's gone.

I struggle to see any reason why husbands and wives — or any other arrangement in which two people share a common life and household — should not operate as equals when it comes to financial planning. That includes retirement and estate planning.

This is especially true given that most women in this country are active in the workforce. Even if they are not working for a wage or salary, women who maintain the household and raise the kids are performing work that has economic value.

The fact that they are not paid for it in money doesn't change the fact that it plays a critical role in enabling the husband — and therefore the household — to earn a living and build up wealth.

The table on page 5 comes from an article I found just before Mother's Day. It lists the standard Bureau of Labor Statistics job category for common

Mother's Day Job Values Index 2018

Occupation	Role	Hours a week	Weeks a year	Hourly	Annual
Cook	Cooking	14	52	$10.90	$7,935
Taxi drivers and chauffeurs	Driving	9	52	$11.33	$5,300
Other teachers and instructors	Helping with homework	10	40	$20.50	$8,200
Childcare Worker	Taking care of the kids	40	52	$11.85	$24,648
Licensed nurses	Nursing wounds	2	12	$20.35	$488
Housekeeping cleaners	Cleaning up	10	52	$10.98	$5,707
Meeting & Convention Planners	Planning parties	8	8	$26.60	$1,702
Miscellaneous social service specialists	Summer activity planner	40	12	$19.78	$9,492
Hairdressers, hairstylists, and cosmetologists	Haircuts	0.5	52	$13.03	$339
Personal care aides	Shopping	3	52	$11.98	$1,868
Accountants and auditors	Family finances	0.5	52	$26.63	$693
Grounds maintenance workers	Yard work	1	52	$13.13	$683
Interior Designers	Fixing up the house	5	8	$21.43	$857
Private detectives and investigators	Keeping track of the kids	5	8	$24.08	$963
TOTAL		**148**			**$68, 875**

women's household tasks, the average time spent on them, and the average hourly and annual wage:

Of course, not all women do all these things, but you get the point. Women work far more than 80 hours a week. They contribute substantially to the functioning of the household. But, they don't always get a fair say in financial matters … or outcomes.

Sometimes this inequality in the household has unexpected consequences.

In Paul's case, he was so accustomed to managing all their household affairs that only he knew the login information for all their financial and utilities accounts.

If their children hadn't intervened before Paul passed away, his wife would have faced a daunting process to identify their financial assets — not to mention access them.

As you might imagine, the imbalance in their financial roles played a big part in producing the outcome described above. It was Paul's call to take the early death benefit. His wife was against it, as were the friends who they consulted.

But as Paul's wife said to me, none of that made any difference. The terms of their financial partnership were already in place. The time to modify them had long since passed.

So, if I may, allow me to offer a piece of advice to you, my readers.

If there's still time in your own financial life to create a true partnership around these critical matters, give it a try. Only you know how you can go about it. I don't want to cause any family fights!

But as my recent experience with Paul and his wife have taught me, it can make an enormous difference to the rest of your lives. ■

I'm interested in hearing more from you. What is your No.1 concern when it comes to your assets and your freedom? Send your comments to me at baumanletter@banyanhill.com

Cybercrime: The Single Biggest Threat to Your Wealth

BY BRAD DEFLIN

THE cybersecurity business provides a front-row seat for what's happening in the world of hacking and cybercrime.

For us, the operating arena isn't about servers, LAN cables and databases. It's about Windows, Macs, Android, Apple iPhones and iPads. Our operating experience is where the rubber hits the road in cyber threats today. As a result, we have a distinct finger on the pulse of what hackers are doing and where the action is heading.

Since the second half of 2017, we have seen an accelerating trend that I want to bring to the attention of *Bauman Letter* readers. But first I need to provide some context.

The No. 1 Problem for Mankind

Before starting Total Digital Security in 2013, I spent 25 years advising some of the wealthiest families in the world. I was a senior executive with Wall Street's most prestigious banks. For my ultra-wealthy clients and me, it was all about risk management and mitigation.

We were relentless in asking ourselves what could go wrong and how to avoid it. When facing the question in early 2012, we received a new answer. It would challenge every assumption we had ever held about our job.

In the early 2000s, targets expanded from big governments and Fortune 500 companies to include mid-sized companies. And, the attacks and incident rates showed more than the traditional sort of cyber-espionage. The hackers' goal was financial gain.

Around 2010, smartphones and cloud computing drove cyber risk toward smaller targets. The new cybercrime-for-profit attacks included small businesses and professional practices.

This time, the perpetrators weren't only black hats, but professional criminals and amateurs.

Cybercrime became job No. 1 for crime cartels, organized hacking syndicates and even disaffected street thugs around the world.

It was shocking at the time how quickly it happened. From a slow start in the 2000s, cybercrime-for-profit accounted for more than half of all cyber attacks around the world by 2013.

The pattern continued, and, by 2016, law enforcement in the U.K. declared that cybercrime accounted for more than half of all crime in the country.

In 2017, at Warren Buffet's annual Berkshire shareholder love-fest in Omaha, when asked about risk in the world, Buffet replied: "Cyber, it's the No. 1 problem for mankind."

Mr. Buffet went on to clarify that, in his view, cyber risk posed a greater threat to man than nuclear and biological weapons. If that doesn't punctuate the internet's democratizing effect on cyber risk, I'm not sure what does.

You're Retirement Years at Risk

Today, cybercriminals are targeting broader economic classes. They are aiming at the mass-affluent and upper-middle-class.

In the business sectors, targets continue to move downstream in size. If you engage with information and technology, you are a target of cybercriminals from around the world.

Here's what a sampling of what looks like in the real world from recent cases we've handled:

- $95,000 lost by a recently retired couple while buying a downsized home for their golden years with an agent using "free" email.
- A funeral home owned and managed by family members stalked and harassed by a disgruntled former employee.
- Multiple online investment accounts breached

and wiped out, including an individual that lost everything from three separate investment firms.

- Over $40,000 lost by a "man-in-the-middle" exploit on a small business, and then another $34,000 pilfered while they were trying to figure out what happened.
- A divorcee's life made miserable by an ex- that found a hacker-for-hire on the internet to disrupt every aspect of her daily existence.
- An accountant, operating the practice without any cyber protection whatsoever, lost client records for use in ID theft and IRS tax-refund fraud.

The list goes on. Some stories and cases are heartbreaking. It's important to know that the potential damage to you is severe.

Here are five crucial takeaways from these experiences:

1. All of the breaches took place on personal technology — no servers, LAN rooms or databases involved.
2. The majority of cases begin with information stolen from computers and laptops used at home.
3. The victims, when not a small business, were affluent upper middle-class individuals or families.
4. Three-quarters of the victims are retirees.
5. All of the exploits started with unsecured and "free" email accounts.

For the couple that lost $95,000, it started with a hacked Gmail account used by the agent during sales and closing. The client's lawyer is considering a suit against the agent and broker for not taking reasonable protection measures.

For the individual that lost multiple investment accounts, her email account had been hacked. The criminals were following her activities for weeks, if not months, before the breach.

Hacking and cybercrime are increasingly a threat to mainstream life. It's going to get worse before regulation and law enforcement counter the wave risk we have immediately at hand.

Don't Wait to Safeguard Your Data

The good news? There are steps you can take to reduce risk, reduce your digital footprint and make you less of a target.

First, be sure your network of advisers is taking your privacy and information security seriously.

If a real estate agent, CPA or any other "trusted client advisor" is using "free" email such as Gmail, Yahoo, AOL and the like, they are not with the times. Either give them a last-chance ultimatum to adapt, or fire them.

If they haven't made the effort to privatize email communications by now, you have to wonder how they value of your relationship.

Second, privatize your email accounts. Remember, cyber-attacks today start by targeting people, not IT departments. Privatizing email gets you off the grid of abuse and is a fundamental adjustment.

We create personal and business email domains for clients all the time; it's one of the "fundamentals" we discuss in every case. Your information's value will only increase in time, as will the added digital autonomy it provides.

Another fundamental for risk management today is to protect your home network. It's the port-of-entry to your life. Take control of your network like it was the main gate to your kingdom, because in the digital age … it is.

There are remarkably effective solutions with "set-it-and-forget-it" simplicity. These solutions operate with the effectiveness of "an IT security department in the basement."

From a best-practices standpoint, it's time to manage passwords, use two-factor authentication, freeze credit files and use a VPN. Many of these are inexpensive or free. You can visit http://www.totaldigitalsecurity.com for everything you need around these measures.

Back in my banking days, I recall when advising clients to take certain measures to reduce risks garnered the response: "How much will it cost?"

Answering that question is simple. There is no greater economic value than using advanced cybersecurity technology to protect yourself from loss and damage.

Use it and find yourself and those you care about most empowered for survival and success in the new digital age.

You can email me for more information at mailto:brad@totaldgitalsecurity.com. ■

Brad Deflin is a seasoned business executive with success at both the large corporate level, and in the pioneering of start-up companies. Brad co-founded Total Digital Security. Contact Brad at Brad@TotalDigitalSecurity.com.

Market Power: Why "Free" Markets Aren't Free

EVERY day I receive emails from retired people with small incomes. They're desperately trying to make ends meet with their investments. While writing this month's main article, the cost to retirees of something called "market power" got my blood boiling. So, I sat down to write this.

I use a simple test to see if someone is *really* committed to personal and economic freedom. It involves their attitude toward market power. If they're unconcerned, they're enabling one of the biggest threats to our economy and your wealth.

"Market power" is a technical term used to identify how much market share is held by how many firms in a given market.

If the U.S. market for widgets has 10 companies with 10% market share each, then no firm has market power. The market is perfectly competitive. If one firm has 100% of market share, they have all the market power. The higher the share of the market a firm has, the closer it is to monopoly.

Market power allows firms to control product pricing. For example, if one company supplied all the water in your town, it could charge whatever it wanted. It could keep raising prices until people refused to pay and moved somewhere else. Since that's a drastic step, people would be reluctant to do it and the water company could charge very high prices and get away with it.

If the company supplied 100% of the water for the entire country, they could charge whatever they want. People wouldn't have anywhere else to go.

Market Power = Undeserved Profits

But that's only one side of market power. If one company controlled the entire market, engineers would have only one place to work. They would have to accept whatever wage the company offered them. If the wage was too low, of course, people would stop studying to become water engineers. But if they are the only employer in town, the water company could pay wages far lower than they would be otherwise.

Higher prices. Lower wages. Both power allow companies with market power to achieve excess profits unrelated to competitiveness.

Imagine our monopoly water company provides unpalatable water to its customers. With competition, other companies could enter the market and offer a clean alternative. That would either put providers of dirty water out of business, or force them to spend money to clean up their act.

But a company with market power is under no obligation to improve its products or services. It can continue to reap huge profits, because people have no alternative. It can force its employees to accept poor salaries and benefits. And it can charge higher prices than if the market was competitive. All because there is no alternative.

I chose the example of a water company deliberately. Market power is why regulated utilities provide water, electricity and other essential services. They're critical to the health of the economy. Unregulated utilities would be voracious monopolies, sucking the life out of the rest of the economy.

Regulated utilities can still be private companies. In Georgia, where I live, a private company provides electricity. Consumer rates are set by a government commission. They don't have any competitors — but enjoy a guaranteed fixed price for their product.

That encourages the company to be efficient at supplying electricity. The less it costs to produce, the more Georgia Power makes as profit. That's good for everyone. It's why reason regulated private utilities are preferred in most of the world.

But things like water and electricity are unique. They're known as "natural monopolies." It doesn't make sense to run six sets of water pipes to every house so six companies can compete for your business. It makes more sense to have one infrastructure for each utility.

But once that infrastructure is in place, there's almost no way for a new competitor to enter the market. Because of unique circumstances, government regulation of utilities by government is mostly uncontroversial.

A Triple Threat

But concentrated market power doesn't only arise because of unique market conditions. There are three other ways it can happen.

The first is when companies use market power to undercut competitors. They drive them out of business. Amazon, for example, has never paid a dividend. That's because Amazon has only recently become profitable.

Amazon produces mountains of cash revenue. But, for years it used that revenue to subsidize low prices and expand its market share. Eventually, smaller competitors give up and disappeared — for example, local bookshops. That's why everyone got so excited when Amazon acquired Whole Foods last year.

The second route to market power is via politics. Armies of high-paid lobbyists swarm over the capitol when Congress is in session. Many are paid by companies that consider them a business expense. They wouldn't be making those payments if those expenses didn't contribute to the bottom line.

Obviously, lobbyists aren't helping improve company operations, or the quality of products. Instead, they help their clients achieve higher profits … by convincing legislators to pass laws that enhance their market power.

The example we all know about is the bailout of Wall Street banks and financial firms after 2008. Washington not only kept these failing firms alive, but it also helped them grow even bigger and gain more market power.

As a result, there have been no new market entrants into the U.S. finance sector for years. Instead, retail banking has narrowed down through mergers to four enormous firms. They have so much market power that it's impossible for any new companies to challenge them.

The third source of market power is when companies develop a unique new product platform. For example, Microsoft Windows dominates the market for computer operating systems. That encourages other developers to produce applications that run on Windows. Because those applications are designed for Windows, you also need a copy of that – more money for Microsoft.

A platform like Windows creates an entire ecosystem that depends on it. Application developers and consumers all must work with Microsoft whether they like it or not.

That's precisely what's behind the market power of today's technology companies like Facebook, Amazon, Apple, Netflix and Google. Since they were there first with a new "platform," it's almost impossible to challenge them. So, they just keep getting bigger and more powerful.

But there's another aspect to it.

Once a company achieves this kind of market power, millions of people are using that platform. The company controlling the platform can now harvest data about those users. And, as my colleague Paul Mampilly likes to say, data is the new oil! It's incredibly profitable to mine, so the key to profit is to have ownership of as much raw data material as possible.

Google is the best example. It has billions of search and email users. Because of its vast trove of data on them, it can offer finely-targeted ads to advertisers. As a result, the company controls about 40% of the market for online ads in the United States. That market power allows Google to charge more for ads than it would in a more competitive market. Because Google can charge more, the company profits more than it would in a competitive market.

But even that's not the end of the story.

Companies like Google and Facebook use those extra profits to buy *other* companies. Merger and acquisition helps companies extend their market power into new areas. Eventually, it is almost impossible for new companies to challenge in those areas as well.

The Pseudo Free Market

One thing is clear: None of these three routes involve the *ongoing* operation of free markets.

True, companies like Google or Exxon were once startups like everybody else. Once they grew big enough, market power allowed them to earn uncompetitive profits. Those extra profits allowed those companies to become even more powerful. Now, only two or three firms dominate entire national industries.

Everyone who buys from these companies is spending more than in a competitive market. Those that work for them are earning less. That means money is flowing out of our pockets and into these powerful companies.

The higher prices we pay and the lower wages we receive are their monopoly profits. This transfer of wealth from the many to the few via market power has terrible effects on the economy. Here are a few of them:

- *Consumer spending power is reduced.* Market power diverts money into the pockets of large firms, instead of new products or new jobs. That makes the economy grow much more slowly than it would otherwise. It's one of the main reasons why U.S. GDP growth has been so poor over the last 40 years.
- *The formation of new companies and associated job creation dwindles.* If a monster firm has pricing power, like Amazon, it's impossible for competitors to get into the game. Indeed, the rate of new company formation in the U.S. has been dropping years.
- *Powerful companies use their excess profits to reduce their dependence on labor.* In a competitive market, automation would occur at a much slower pace. Companies would not have extra profits available to invest in developing automated production.
- *The growth of automation reduces the supply of quality jobs in the economy.* Behind the sunny statistics on unemployment and job growth lies a hidden fact. More than 90% of the job creation since 2008 has been in low-wage, low-skill and/or temporary positions. For those people, their ability to invest in their future is worse than it would be in a competitive market.
- *The super profits that come with market power encourage firms to expand around the globe.* They do so by buying foreign firms and establishing new facilities overseas. This makes those companies less sensitive to the health of the U.S. economy. It also aligns them with market powers in foreign countries. It's one reason why U.S. firms enjoy doing business with China. In China, most firms are protected by the government and enjoy outsize market power. It's an ironic outcome for a country that, for generations, was the main opponent of global communism.

Many who are aware of these facts downplay them. That's because the only viable solution is government regulation.

They believe that any government intervention is negative and ignore free market violations. Since violations result from market processes, they are inevitable and acceptable. They believe this despite the enormous cost they impose on us, on our economy and our society.

In fact, pseudo free-market ideology over the last 40 years has grown in tandem with market power. Pundits have talked about the evils of government regulation for a long time. So long, in fact, that they now use free-market language to defend market power. They ignore that Americans now pay more than the rest of the world for inferior services.

Taking the Power Back

I dismiss anyone who claims to be in favor of true freedom and yet ignores the dangers of market power. You should too.

But we can do more:

- Remember that not all government regulation is bad. Some of it is needed to protect our pocketbooks. Be suspicious of politicians who claim markets can solve everything. You'll probably find they are taking money from firms with lots of market power.
- Shop for real value, not the name. The whole point of advertising is to create a "brand" that allows companies to charge more for their products than necessary. Why buy Apple when other products will do just as well?
- Drive ruthless bargains with cable, internet and cellphone companies. They may have market power, but precisely because of that, they can afford to give you steep discounts, if you demand them. Even if there are only two providers in your area, they still want to keep you paying them and not the other guy. That gives you some leverage.
- Always be on the lookout for the next big platform. A lot of what we do here at Banyan Hill involves looking for the next big thing … not just a single product, but a new "ecosystem" that will generate super profits in years to come. Those are the companies you want to own.

After all, market power isn't going to vanish overnight. You might as well profit in the meantime … if only to get your own back. ■

The *Smart Money* System

BOB Dylan once sang that "the times they are a-changin'."

Things seemed to be changing very quickly in the 1960s when he wrote that line. But as I look back over the intervening decades, it's clear that everything changes all the time. As the saying goes: "the only constant is change."

Our *Smart Money* system continues to outperform the stock market in 2018. But the balance is starting to shift.

Throughout 2017, our emerging market positions led the way. We had double-digit gains from Chinese and Polish exchange-traded funds (ETFs).

We made a nearly 10% gain on a Russian ETF in just two months. We did the same thing with a Peru ETF. We had strong gains over short periods in ETFs for Thailand and India.

The Pressure of Sky-High Valuations

But the times are starting to change for our holdings in commodities and the U.S. and global markets.

Let's talk first about commodities.

The *Smart Money* system identified the energy sector as the place to be for May. As I write, the **PowerShares DB Energy Fund (NYSE: DBE)** is up 4.61% already this month.

The defense-oriented **PowerShares Aerospace & Defense Fund (PPA)** has been a long-term hold. We've seen an excellent 18.9% gain since we acquired it last summer. By contrast, U.S.-based ETFs didn't perform as well, except for technology.

The combination of sky-high valuations and dollar weakness pressured the U.S. market. Emerging market positions offered a much better value.

A weaker dollar helped emerging markets by reducing the cost of dollar-denominated borrowing. It also helped keep emerging market government accounts relatively stable.

As we head further into 2018, things are starting to change.

Playing the Yield Game

We are seeing a significant increase in oil prices, which is generally accompanied by a rise in the dollar. At the same time, U.S. long-term interest rates are climbing.

A while ago, a 30-year Treasury bill yielding 3% was considered shocking. Now, 4% is the accepted target.

Both developments support upward pressure on the dollar. The repercussions have been quick for certain emerging markets. This is especially true for those with heavy debt loads and government deficits.

Typically, when investors worry about financial problems in emerging markets, it drags them all down. That's what we've seen in our two emerging market positions: the **iShares MSCI Peru ETF (NYSE: EPU)** and the **VanEck Vectors Egypt ETF (NYSE: EGPT)**.

By contrast, investors seem to think that the new tax cuts will lead to an increase in consumer discretionary spending. The **Consumer Discretionary SPDR ETF (NYSE: XLY)** has outperformed energy in terms of total gains.

I suspect that the next few months will see our strongest gains in commodities and emerging markets. The signs of overheating in the U.S. economy are just too strong.

An unexpected interest-rate hike from the Fed would have an immediate impact on U.S. stocks and push them below emerging markets in terms of return.

The *Smart Money* system incorporates all these variables in our monthly recommendations. We've had a great run so far, and I expect it to continue in 2018!

Kind regards,

Ted Bauman

Editor

The Bauman Letter Recommendations

Investment	Date Added	5/11/2018	Purchase Price	% of Portfolio	Adjusted Total Return	Advice
PowerShares Aerospace & Defense Portfolio (PPA)	8/1/17	$56.86	$48.02	20.00%	19.00%	Hold
VanEck Vectors Egypt ETF (EGPT)	4/3/18	$38.08	$39.79	20.00%	-4.30%	Hold
Consumer Discretionary SPDR ETF (XLY)	4/3/18	$104.89	$99.68	20.00%	5.23%	Hold
PowerShares DB Energy Fund (DBE)	5/2/18	$16.72	$15.90	20.00%	5.18%	Buy
iShares MSCI Peru (EPU)	5/2/18	$43.51	$43.54	20.00%	-0.07%	Buy