Does Your Retirement Plan Have Staying Power? Stansberry's Doc Eifrig Has Some Advice

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COMPANIES MENTIONED

- Cheniere Energy Inc.
- Chevron Corp.
- Exxon Mobil Corp.
- Occidental Petroleum Corp.
- **Royal Dutch Shell Plc**

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What is the best way to juice up your portfolio for a rich retirement? Natural gas and uranium are here to stay, says Stansberry Research's resident medical doctor and retirement investment guru, David Eifrig. In this *The Energy Report* interview, Eifrig shares tips to maintain your financial health—but get plenty of rest and exercise so you can enjoy those golden years.

Source: Peter Byrne of *The Energy Report*

The Energy Report: David, you've had successful careers on Wall Street and in the medical profession. Why are you now focused on helping people to prepare for retirement?

David Eifrig: The vocation to help others came out of my natural aversion to authority; I don't really like institutions. At heart, I am an anarchist, a Libertarian, a freedom-lover. This mindset inspires me to teach people about how to live self sufficiently. I'm naturally enthusiastic about combining the important issues of finance and personal health, so I thought, why not share my insights with others?

I am a lifelong bargain hunter. And I am evidence-based when it comes to evaluating both medical and financial issues. Porter Stansberry heard about my background in biotechnology, medicine and finance. And he convinced me that reaching out in a newsletter is a more effective way of communicating than seeing one person at a time in a clinic. *The Retirement Millionaire* combines all of my knowledge and various interests about retirement.

TER: You've written that we're entering a new stage of profitability for investing in stocks. Please explain how economic indicators support this prediction.

DE: One of the main economic indicators of economic resurgence is the cheapness of bank financing. Interest rates between the banks—the Fed funds rate—is super-duper low. Banks access funds at cheap rates and pay savers next to nothing. Banks charge 6–7% for loans and the interest rate spreads make them rich. As the banks do more lending, the loans generate more business activity, and that means more money flows into the economy at all levels.

TER: Do you think there's any danger of excess inventory in energy commodities?

DE: I recently published a chart showing that crude oil inventories in the U.S. are at record highs. But I do not see that phenomenon as creating excess inventory. We are emerging from economic winter. People are starting to fly more and drive more and use more energy. Chinese and European consumers are slowly coming out of hibernation, too. I am not saying that energy demand is going to go crazy, but there are positive signs of pickup. Energy supplies are building up, in part, because we have made huge technological advances. We suck gas, gas liquids and oil out of the ground more than ever, cheapening it. And energy use correlates nicely with cheaper energy as well as with economic growth. U.S., manufacturers are talking about building new plants for the first time in twenty years.

TER: Stansberry Research recommends several strong buys in energy stocks. Can you talk about why these investments are good candidates for a retirement portfolio?

DE: For retirement capital allocation, I like Exxon Mobil Corp. (XOM:NYSE), which is a classic leader in the oil and gas industry, as are Chevron Corp. (CVX:NYSE), Royal Dutch Shell Plc (RDS.A:NYSE; RDS.B:NYSE) and Occidental Petroleum Corp. (OXY:NYSE). For decades, these companies have seen business cycles come and go; they have seen political unrest in countries that they do business in. They will keep grinding away, doing business and making returns on their capital, and supporting a nominal amount of income through dividends. It just makes sense to be there with them in the long term. Particularly, if one is worried about the ecological side—that the industry could cut back on fracking—then it makes sense to be in companies that are stable.

TER: Do you think fracking is in danger of being downsized in the U.S.?

DE: The only good science that I've seen on that issue concerns the risk of earthquakes. Companies will want to be more careful around fault lines, but that will not stop fracking.

TER: Is the U.S. poised to become a major gas exporter to the international energy market?

DE: My understanding is that natural gas will increasingly be exported as liquefied natural gas (LNG). The international spreads on liquid gas are incredible. It sells for about $17 per million British thermal units ($17/MMBtu) worldwide, and about $4/MMBtu in the U.S. For example, a gas company called Cheniere Energy Inc. (LNG:NYSE.MKT) is transforming itself from a gas importer to a gas exporter by reversing the direction of flow in pipes connected to the export terminals. It's waiting on governmental permits to commence operations. There is a similar effort being made to do the same thing with crude oil.

TER: How do the junior energy explorers stack up against the large-cap companies?

DE: When the Keystone pipeline and other pipelines from oil-producing regions are in place, the stuff is going to remain relatively cheap. Of course, if it gets too cheap, the companies will close down their wells, because they won't be able to make a profit. But then, with reduced supply, the prices will start going back up, and the companies will put the wells back online. There is plenty of breathing space in this cycle for the juniors.

TER: In a retirement portfolio, what is a reasonable balance between holding large-cap and small-cap energy stocks?

DE: With 20% of a retirement portfolio in the energy sector, it makes sense to hold about 5% in junior energy explorers, and the rest in the larger caps, both domestic and international. With 5% in the juniors, I suggest holding two or three positions, unless one is confident enough to bet it all on one stock.

TER: What's the best way to hedge against inflation in a retirement portfolio?

DE: Sticking with the energy theme: If price inflation rises, the large caps will feel the pressure, because they are close to the consumer level. Vertical integration from drill head to retail pump is an important way to reduce the impact of inflation and keep margins sound.

As an inflation hedge, Stansberry likes TIPS (Treasury Inflation Protection Securities). TIPS are priced off the government's Consumer Price Index (CPI). Some people don't believe that the CPI numbers are exact or worthwhile, but I find them to be useful economic indicators. It all depends on the individual investor's level of comfort with fixed income, bond yields and wherever securities are at in a given moment. As interest rates start to climb, it makes sense to buy floating-rate income funds–the short-term loans that banks and companies make to institutions. They deliver a little bit of increased interest.

The question really is, of course, where do you think price inflation is going to set in? If it's going to happen on the food front, then you can buy integrated food companies, such as General Mills or Tyson Chicken, corporations with pricing power. Similarly, a company like McDonald's, which is close to the consumer, can keep up with inflation through pricing.

Technology tends to not be a very good investment sector in inflationary times because its pricing power is based on who has created the hottest new thing. And if your product is not the latest, greatest and hottest, forget it.

TER: Will energy prices maintain at current low levels, or is inflation going to hit?

DE: There will not be much inflation in the energy sector, because the supply and infrastructure are firmly in place. Look at Pennsylvania, where companies capped producing wells because the price of natural gas dropped to $2/Mcf. Then, it shot back up to $4! If a company can cap a well and then uncap it and make a profit at $3–4, swell. There is going to be a lot of supply emerging if gas goes to $5–6, and then that will drive the cost down again, and the cycle will repeat.

U.S. railroads are talking about converting train engines to natural gas. Wal-Mart is converting its trucks to natural gas. These engines are going off conventional fuel oil because natural gas is really, really cheap. I do not feel like there's going to be runaway inflation on the energy front, because the iron law of supply and demand fluctuates around a market balance.

TER: Is there room for alternative energy investments in a retirement portfolio?

DE: Without heavy government subsidies, the alternatives do not work. The conversion of sunlight to electricity is expensive; the places where it's really windy are usually far away from where most people live, so it is not cost efficient to transmit that energy. The maintenance cost for alternative energy infrastructure is also very expensive.

TER: The price of the solar technology has been plummeting, yet many solar firms are going bankrupt. Why?

DE: No one is buying solar because it doesn't work that cheaply–so those firms go bankrupt. That's the nature of capitalism. Of course, one hears stories about people buying solar chips or panels really, really cheaply, and throwing them on their house, or buying them from Wal-Mart because they've been dumped on the market by a Chinese company. People are jerry-rigging them on top of their houses and trying to make solar financially viable. But on a large-scale commercial level, the payback on solar is a long time, especially considering how thirsty Americans are for instant gratification.

TER: Do you think fossil fuels are here to stay?

DE: Fossil fuels are here to stay, absolutely. In practical terms, there is an almost unlimited supply. Saudi Arabia and the Middle East have not started fracking yet, so, think of the amount of stuff they will pull out of the ground when they start fracking. There are plenty of conventional fossil fuels. And, of course, there is uranium for nuclear energy. If you want to make everyone happy, don't build a nuclear power plant on the edge of the ocean in a fault zone! But, if you build nuclear power plants safely, as the Chinese are doing, then we will enjoy very cheap, very safe, and very clean energy for a long, long time.

TER: As a medical doctor, do you have a position on radiation fears?

DE: The fears are overblown. Obviously, you do not want to live near or downwind of a nuclear power plant. We are close to developing technology and drugs to protect people after radiation poisoning. They are probably just three or four years away, so that will be exciting.

TER: Do you have any personal healthcare strategies that enable people to live long enough to enjoy a happy retirement?

DE: It goes without saying–your mama used to tell you this, your daddy used to tell you, too: Make sure you get sleep. Sleep is one of the most important things a person can do for health. I talk to people all the time who say 'oh, I can't sleep' and you ask them about "sleep hygiene" and the room they sleep in has the TV on, the iPad, the phone, lights streaming from the streetlamp, or the door is open to hear if the baby wakes up in the middle of the night. Stuff like that really affects your sleep. Turn the lights off, get the room as dark as you can! Lack of sleep and heart disease are related!

Walking 18-20 minutes a day sounds simple, it sounds easy, but a lot of people don't even do that. If you can't get out for a walk, do what I do: Throw down a big beach towel on the floor and stretch for 15-20 minutes. Exercise affects the joints and the body and secretes chemicals that keep your immune system strong. So those are the two most important items: sleep and movement. And have a happy retirement!

TER: Thanks for the advice, Doc.

DE: You are welcome.

David Eifrig Jr. holds an MBA from Kellogg and has worked in arbitrage and trading groups with major Wall Street investment banks (Goldman Sachs). In 1995, he retired from the "Street," went to UNC-Chapel Hill for medical school, and became an ophthalmologist. Now, in his latest "retirement," he joined Stansberry & Associates full time to share with readers his experiences and ideas. He edits Stansberry's Retirement Millionaire, *a monthly letter showing readers how to live a millionaire lifestyle on less than you'd imagine possible. He travels around the U.S. looking for bargains, deals, and great investment ideas. He also writes* Retirement Trader, *a bi-monthly advisory that explains simple techniques to make large, but very safe gains in the stock and bond markets. Porter Stansberry loves having "Doc" on the team.*

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