The ONLY 5G Company YOU NEED TO BUY FOR WINDFALL GAINS

EDDY ELFENBEIN

If you're cruising along in your autonomous BMW while working on a presentation for work, texting your significant other, and at the same time watching your kid's soccer game in real time...then 5G has arrived.

5G, or fifth-generation cellular wireless, will bring together all the capabilities necessary for that scenario to play out. I'm talking about major leaps in speed, efficiency, and connectivity.

Each successive generation of cellular wireless has added capabilities and spurred growth. From the first generation tech to 4G, each leap forward gave us new technology, new companies, and even entirely new industries.

4G made Uber possible, fueled the iPad and tablet market, and gave consumers the ability to purchase anything, from food to dining room chairs, and have it delivered within the hour.

5G promises to impact almost every industry. Entertainment, transportation, medicine, education, and basically any endeavor that would benefit from a new burst of speed, lower latency, and increased connectivity, will benefit from 5G.

HD movies that take 10 minutes to download today will arrive on your tablet in seconds. Trying to send a text to friends to tell them you're at a cool sporting event, concert, or any other place with a lot of people (and cell phones) today often results in a limited or VERY slow connection. With 5G you can livestream the whole event from your phone. But only if it's legal please.

5G efficiency, or low latency, will allow what are termed "real-time control applications." Think doctors performing complex medical procedures, with the patient in Egypt and the doctor in Japan.

Or, as I mentioned above, your autonomous car recognizing a round object in the road as a child's ball, knowing to slow down, and telling all the other cars around it to be aware that a child may be present.

But, before we get ahead of ourselves, there are still a few obstacles to overcome before we arrive in the wonderful world of 5G.

First, deployment of the technology to enable 5G will be expensive. This means 5G coverage, at first, will be spotty at best.

Local areas with high demand and profit potential, like large cities with dense populations, will be the first beneficiaries of 5G. While less populated areas will be left waiting, likely for several more years, for the technology to arrive.

This may impact the capabilities of some of the devices attached to 5G. What if you could only drive your autonomous car in city limits and never take it out on the open road?

Second, some of the technology that will enable 5G has not been deployed at scale. Testing technology, and its interactivity, on a town of 1,000 is not exactly the same as deploying a 5G network to a city of 8 million.

And third, there are still a large number of bureaucratic, regulatory, and business hurdles that must be overcome to realize the benefits of 5G. Government views, wanting the best for all their citizens, may not exactly align with business case demands of 5G providers.

And, the spectrum necessary for 5G, and who controls it where, has still not been worked out in many areas. Divergent interests in this area could delay the onset of 5G until all parties are satisfied with the outcome.

While all of these issues will take time, and for many of us anticipating the benefits of 5G they've already taken far too long, rest assured, 5G will get here. It may be piecemeal at first, but we'll eventually see all of the benefits I described above.

And, along the way, a lot of money will be made, just as in each previous roll out of a new generation of technology. So, what are a few of the companies that stand to benefit?

Some of the obvious plays are the telecom carriers. For example, **Verizon Communications (VZ)** is a major holder of 5G spectrum in key population areas. As 5G takes hold, VZ can expect a huge increase in connected devices. This should drive revenue growth, as well as provide new opportunities for the carrier to deliver new 5G services.

In addition to the carriers, hardware providers should see a major boost from 5G demand. I'm talking about chip companies, antennae and cell tower providers, and device manufacturers. Companies like **Xilinx (XLNX)** that manufactures the chipsets that will enable a wide array of devices to communicate on the network, should see tremendous growth from 5G demand.

Both of these companies, as well as many others, will see increased demand from the Internet of Things (IOT) as more and more devices become attached to the network. Each device will need the necessary technology and bandwidth to interact.

Think of anything in your home that could be connected in order to relay valuable information. Those could all be revenue generators for these companies.

Would it be nice if your hot water heater told you it was about to break? Or your heating or air conditioning units? What if all the devices in your kitchen could communicate to ensure you have all the ingredients for tonight's meal, or if not, they will be automatically ordered to arrive at your door before you come home from work? All revenue sources for 5G companies.

Best Regards,

Eddy Elfenbein
Editor, *Growth Stock Advisor*

The Safest Way to Profit from 5G

With any change as profound as 5G, sometimes the way best to profit isn't through the front door. By that I mean the knock-on effects can be outstanding profit opportunities. Remember, the big money made during the Gold Rush wasn't from folks doing the digging. It was made by the folks selling the picks and shovels.

That's why I like **American Tower (AMT)**. AMT is a Real Estate Investment Trust (REIT) that's in the cell phone tower business. Tower companies lease the space on their structures to several tenants like wireless carriers and government agencies.

This business has a strong growth component, thanks largely to the coming of 5G wireless networks. These faster, more powerful networks are an absolute necessity for our interconnected world.

The explosive growth in data traffic is driven by two key trends. The first is an expected 50% increase in connected wireless devices by 2021. The second is a major rise in the amount of data consumed per device as users upgrade to new smartphones.

This new tech also includes things like ultra-HD video, augmented reality and connected self-driving cars. And they all consume huge amounts of data, and that means towers.

For example, Intel estimates that a continuously connected self-driving car would consume as much data in a 1.5-hour ride as 1,000 smartphone users would in an entire month!

If you think of the wireless network as a toll road, 5G would have significantly larger lanes for wireless traffic and dramatically higher speed limits than 4G—in both cases 100 times greater.

Each new generation of wireless technology has required a greater level of investment from wireless carriers which closely correlates with tower leasing activity. It is highly likely the adoption of 5G will follow this historical trend.

The move toward 5G standards will require dramatically denser networks, which implies meaningful incremental demand for cell towers and massive deployments of smaller cell solutions.

Specifically, tower companies might benefit from higher tenancy, higher rents from amendments to existing leases needed to place new equipment, and new opportunities to build both towers and small cell (mini cellphone towers) sites.

In general, U.S. tower stocks will grow cash flows at rates meaningfully higher than the global infrastructure and U.S. REIT sector averages, probably in the 10% to 11% range at a minimum, based on historical patterns.

Now let's get back to American Tower. The company has over 171,000 tower sites. What I like is the economics of this business. As the company explained to Bloomberg, "single-tenant towers have gross margins of 40% from rentals…two tenants have 74% margins… three tenants have 83% margins." You can see the benefits of steady growth.

American Tower generates more than half its total revenue here in the U.S., with its customers being all the major wireless carriers. Another big plus I see for American Tower is its vast overseas footprint. This is important because the U.S. does not lead in 5G technologies.

American Tower is also in key emerging markets. For example, AMT has its largest international exposure in India where data usage has been growing 100% per year. Within a few years, I think most of AMT's revenue will come from outside the U.S.

Latin America has a lot of potential too. There are over 200 million people in the middle class in Latin America. A significant proportion of these consumers are under 40 years old (the heaviest data users).

However, the best news recently is that American Tower signed a long-term agreement with AT&T to streamline wireless network deployments on AMT's towers. This is a huge deal. AT&T has 160 million wireless customers. Currently, AT&T has 5G coverage available in a few places, but they want to ramp that up as soon as they can. AMT's towers will be a big help. This deal has enormous potential.

American Tower is a REIT very well-positioned to ride the trend of a more interconnected world!

Bonus Recommendation: Ericsson Is at the Center of the 5G Revolution

This is the year of 5G. The possibilities opened up by 5G's significantly faster data transfer opens up a brave new world. It will enable the newest technologies from autonomous vehicles to virtual reality gaming to advanced robotics to the Internet of Things.

Don't believe me? Then listen to Paul Lee, the head of telecoms, media and technology research at Deloitte. Lee recently said: "The last 10 years of smartphones have been about invigorating the consumer experience and entertainment. Now it is about the digital transformation of enterprise." He predicted that 5G-enabled smart devices will soon displace laptops.

Ericsson (ERIC), the Swedish telecom player, has been making a big bet on 5G, and that bet is paying off. Ericsson expects there to be 3.5 billion Internet of Things connections running over 5G by 2023, with 20% of global mobile data carried by 5G in 2023, and one billion consumers on the faster networks, representing 12% of projected mobile subscriptions.

Ericsson says spending on 5G is exceeding its expectations both in volume and speed of the uptake. In fact, it says it currently lacks enough personnel in North America to keep up with the demand from the likes of Verizon and AT&T.

That's a good problem to have and one that the company can fix quickly to take advantage of the fact that it is likely that 5G will have a longer spending period than prior 3G and 4G rollouts. In addition, 5G should create more opportunities for the company's software and services within Internet of Things device networks.

Ericsson is right to put such an emphasis on 5G, but the company has struggled since 2016 with quarter after quarter of losses. It had been caught out with a high cost base just as global telecom providers cut spending drastically ahead of the rollout of 5G networks.

So now, the company's recovery plans are closely tied to an uptick in spending by network operators on 5G networks along with restructuring, cost cutting and new partnerships such as that with Japan's Fujitsu to develop 5G base stations.

Ericsson estimates that half the world will be on 5G within the next five years.

But here's what a lot of people on Wall Street don't understand. The challenge for Ericsson is that they need to win large 5G contracts and they're competing against big rivals likes Nokia and Huawei.

In other words, they need to be competitive bidders and that puts a squeeze on margins but winning these contracts now will help margins in the long run. Ericsson made it clear that they see strong demand for 5G products.

Ericsson had more good news in October when the company's third-quarter earnings report impressed Wall Street. The company said that Q3 operating profits rose to 6.5 billion crowns. That's up from 3.8 billion for last year's Q3. Ericsson also raised its sales guidance for 2020. Ericsson said that 5G is taking off faster than expected. In fact, shares of Nokia recently plunged as investors realized that, in the words of one analyst, "Ericsson has the upper hand." I have to agree. Ericsson is at the center of the 5G Revolution.

For more on both AMT and ERIC be sure to check out the newsletter issues in which they were introduced to the portfolio: AMT, ERIC. Note that some information, like share price, may have changed since then. Be sure to consult the latest issue of Growth Stock Advisor for current information.