

3 Ways to Profit From the 5G Revolution



5G

A SPECIAL REPORT
by Tom Hutchinson

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There are transformative events in society. Think about how the Industrial Revolution changed the world. More recently, the advent and adaptation of the internet has forever altered everyday life. Now we are on the precipice of another sweeping societal change, one that will forever alter the way we live.

That phenomenon is 5G.

Technically, 5G is the fifth generation of cellular wireless technology. A new generation has come along every 10 years or so, from the first one that enabled cellphones to the third and fourth that enabled texting and smartphones with internet access.

But this new generation is far more than mere cellphone gadgetry. It represents a technological tipping point that crosses a threshold into the digital age where everything is computerized.

It will offer speeds and internet connectivity on a scale far beyond what is available now. The technology will enable an endless number of devices to connect and interact with the internet at the same time. It will enable self-driving cars, real-time artificial intelligence, virtual reality, and smart homes and cities. And it will reshape the way we receive healthcare, shop, and use our military.

I'm not saying that society or life will completely change in the next one, two, or three years. I'm saying that by 2030, you will look back on 2019 as a very different world. The world will have undergone a massive transformation between those two dates. In hindsight, there will be a big difference between what life was like before 5G and after 5G.

5G is starting to roll out now. It is such a game-changer, with massive implications in industry, infrastructure, and military strategy, that our government considers the speedy adoption a "vital matter of national security."

China does as well. In fact, it is the race to adopt this new technology that is, at least partially, the cause of the current trade war.

This transformative event can create the investment opportunity of a lifetime. In this report,

I will highlight three ways you can profit from the advent of 5G.

But first, let's take a more in-depth look at the current situation.

The Dawn of a New Age

You may say we're already in the digital age. After all, you use the internet and smartphones, and you probably stream movies and TV shows every day. But we're just frittering around the edges now compared to what is coming.

A person transported from the 1950s could still get along fine today. Sure, they would have to learn to use a bunch of gadgets they aren't familiar with. But they could function. In a few years, that may change.

It is a future-world built on the foundation of current technology that would be totally foreign to someone from the past. And technology will be a more integral part of everyday life in the future than it is today.

What is 5G and how does it differ from what exists now?

It is essentially a new interface that uses much higher radio frequencies to transfer exponentially more data at far faster speeds, with much less congestion and better latency — the delay in transferring data.

It will enable far more devices in the same area to be connected to the internet and to other computers at the same time. The current 4G technology supports about 4,000 devices per square kilometer. 5G will support about a million.

In the current world, only certain things can access the internet. There are only a few things plugged into computers. With 5G, the entire world will be plugged in. It will be the computerization and digitalization of everything.

Look at it this way. If 4G is a digital one-lane road, 5G will be a five-lane superhighway with high-speed rails and air travel overhead. It will unleash a new digital age.

As I mentioned above, 5G will usher in a host

of new technology in autonomous cars, artificial intelligence, smart cities, and the like. It will likely also transform basic everyday life, from the way we do business to how we receive healthcare, shop, and interact. It could also have tremendous military implications. But these are just a very few of the things we can see now.

All of the aforementioned innovations are already here. 5G can just make them more functional. But these things were invented under the previous technological platform. Technological innovation builds on previous innovations. Every advancement creates a platform for further advancement. 5G will establish a new platform as a launching point to another level.

With 5G, innovators can reach for the stars, unbound by the limitations of past technology. It will enable discovery of things we don't even imagine today. It could be that in 10 years, or even as few as five years, the biggest innovations are things no one has even thought of yet.

The Industrial Revolution took the country to another level. But at the end of the 19th century, few envisioned a landscape of automobiles, roads, and power lines. There were probably few people writing about the possibilities unleashed by the technological advancements of that era who had any idea that those changes would lead to telephones, radios, TVs, jet aircraft, nuclear science, and computers.

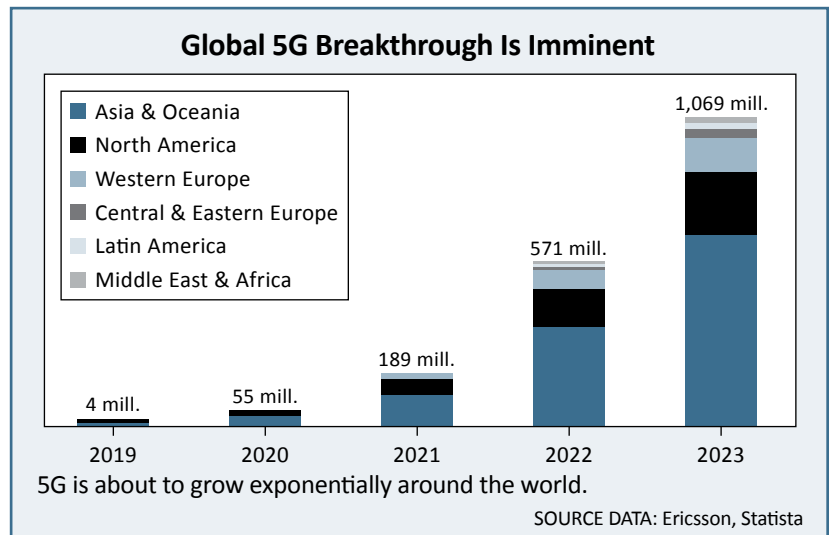
The first companies and nations to adopt 5G will have a huge leg-up in terms of logistics, business tracking, military strategy, and much more. The first to successfully adapt will be operating on a superior plane.

As a nation, we cannot afford to get left behind. We have to be first to the party in order to maintain and expand our advantages.

Consider recent history. The U.S. was the leader in the adoption of 4G technology. It gave rise to the app economy, which the U.S. completely dominates.

The implications of 5G are far greater. With a 5G advantage and a head start in the technologies it spawns, a country could gain a huge edge in myriad areas for decades to come.

Technology is the new arms race. By



most accounts, the U.S. is in a neck-and-neck competition with China to see which country can roll out 5G faster. It is an arms race we could lose. And officials in the U.S. government have noticed.

The Trump administration recently labeled 5G as a national security priority. The U.S. National Security Council has warned that if China gets 5G first it “will win economically and militarily.”

Republican Sen. Roger Wicker of Mississippi recently commented in a hearing that failure to win the 5G race “would forever reduce the economic and societal gains that come from leading the world in technology.”

The FCC has adopted a 5G strategy to facilitate America's superiority in 5G technology, known as the FAST Plan, which streamlines regulations, updates infrastructure codes, and frees up more spectrum (radio wave rights) to be used for 5G. For example, when a company applies to build a cell tower, state and local governments must now respond within 90 days (as opposed to many months or even years, which was not uncommon before).

As well, the FCC also put a \$270 per-tower cap on the fees local governments can charge companies. It appears to be working, as the FCC commissioner recently said that new towers are going up at six times the rate they were before the plan was enacted.

In order to gain competitive advantage, companies and governments are rolling out 5G in haste. By most accounts, the rollout is proceeding at a much faster pace than that of the 4G technology 10 years ago. That means 5G will be here sooner.

In fact, the rollout has already begun. The major U.S. carriers (Verizon, AT&T, Sprint, and T-Mobile) have already started rolling it out in several major U.S. cities. And several other countries have begun the rollout as well.

But availability is still very limited. Coverage is expected to proliferate to a much more significant degree this year. Some of the smartphone makers have already start selling phones with 5G capability, but it will really grow over the next year or so.

And soon, you will be able to get 5G-enabled internet service in your home, with far faster speeds than 4G.

What Companies Will Benefit

A variety of different kinds of companies are exposed to 5G and should benefit as it becomes available. The four major carriers mentioned above are included. They will be able to charge fees on increasing data options, fees for new phones that will become available, as well as higher fees for simply having 5G availability.

There are also myriad companies that make equipment for various levels of the 5G chain, from modems, which includes Intel, to switchers, like Cisco Systems, to companies that supply the parts necessary to facilitate the technology, like Corning for optical fiber, Xilinx for field-programmable gate arrays, and Skyworks for analog chips.

In addition, many companies will also benefit more indirectly, like Visa and Mastercard, because mobile payments will become easier and more efficient, and the number of cash transactions will decrease.

But many of these companies have already attracted investors' attention, and the stocks are expensive now. I prefer to go a different route — a lesser-known, but even more profitable route.

5G Profit Opportunity No. 1: Digital Realty Trust

In this rapidly changing technological landscape, an entirely new type of real estate property is emerging. These properties are called data centers.

The dependable operation of systems and information is essential to the operational integrity

of companies large and small. As you know, a computer outage can be a disastrous occurrence for a company that relies on smooth technological operation to deliver promised services. If Amazon can't fulfill orders or people can't post on Facebook or if ADP can't process payrolls, there's a problem for their businesses.

Meanwhile, computer systems and associated components can't just be stuffed in some basement anymore. The complexity of the equipment and the vitality of seamless operation require highly specialized data facilities.

A data center is a specialized facility used to house computer systems and related components, servers, and network equipment. Data centers have sophisticated temperature control systems, integrated fire suppression and other security devices.

They also have redundant data communications connections and multiple back-up power systems. These features will be essential as 5G gathers momentum.

By 2025, it is estimated that 75 billion devices will be connected to the internet, thanks to 5G. That means significantly more data will be created, which means there will be an even greater need for data security, as well as the ability to transmit that data reliably and consistently.

That's where our first profit opportunity comes in. It is a real estate investment trust (REIT) that specializes in data centers.

There are a handful of REITs in the market that specialize in data centers. As REITs, these organizations pay no income tax at the corporate level, provided 90% of profits are paid out to shareholders in the form of dividends. These securities enable income investors like us to participate in the growth of technology while earning a decent income at the same time.

My first 5G profit pick, **Digital Realty Trust (DLR)**, is the second-largest data center REIT in the market, and I believe it is the best run.

DLR has grown at a torrid pace, and revenues have nearly tripled since 2010.

The company now owns 210 data centers in 15 countries over 36 different metropolitan areas. It is the ninth-largest publicly traded REIT, with \$24 billion in market capitalization. The stock was added to the S&P 500 in May of 2016.

Digital Realty owns 91% of its properties and leases the other 9%. It operates principally in the United States, but it is aggressively expanding overseas. The current geographical breakdown of the property portfolio is North America at 80%, Europe at 15%, and Asia at 5%.

The company has over 2,300 customers of all sizes in a range of industries, including financial services, cloud and information technology services, manufacturing, energy, gaming, life sciences, and consumer products. Some of the firm's top customers include:

- IBM
- Oracle
- LinkedIn
- JPMorgan
- Uber
- Facebook
- Verizon
- AT&T
- Morgan Stanley

A great thing about this business is that clients are generally reluctant to move elsewhere because the average estimated cost of migrating to a new data facility is between \$10 million and \$20 million. Digital Realty has a high historical retention rate of over 70%. Annual rents increase 2% to 4% per year automatically, and the average remaining lease term is five years.

STRONG TRACK RECORD

The REIT has seen a 13% growth in funds from operations since 2005. And the dividend has grown every year for the past 14 years.

Granted, the current payout of 3.74% is on the low side for a REIT, but few REITs offer this much growth potential.

The stock hit a rough patch in August of 2018, but by August of 2019, DLR regained all of its losses and hit a new all-time high. And over the past five years, shareholders have gained a hefty 78% compared to the S&P 500, which gained just 53% over the same time period.

THE GROWTH AHEAD

"Sure, that's great," you may be saying. "But that performance is in the past. The future is what matters. Didn't we miss the boat on this one? The company is already big. How much growth is left?"

The torrid growth of 5G technology makes DLR a once-in-a-lifetime phenomenon. After all, you could have said that Amazon, Google, Facebook, or Netflix ran up too high five years

ago. We've seen how much further they've all climbed since.

There is still huge potential for growth in data centers. Cisco estimates that data center traffic will continue to grow at 25% per year at least through 2021.

Think about that. If an industry grows at 25% per year, it'll be more than three times its current size in five years.

Digital Realty grows in two primary ways: 1) organically by expanding existing facilities and 2) by making acquisitions.

To the first point, as the volume of data increases, client needs increase as well. Often, expansion of Digital Realty's existing facilities takes place to accommodate the expanding needs of clients.

As for acquisitions, there is a huge opportunity overseas, and Digital Realty has the size and scope to take advantage. DLR recently acquired eight data centers in Brazil.

This REIT offers a practical and safe way to profit from the unprecedented expansion that will come on the heels of the 5G rollout. I recommend buying DLR at prices up to \$120.

5G Profit Opportunity No. 2: Crown Castle International

Crown Castle International Corp. (CCI) is a REIT that leases cellular technology infrastructure.

More specifically, the company leases a portfolio of properties that currently includes 40,000 cell towers, 65,000 small cell towers, and 70,000 miles of fiber optic cable.

Its customers are primarily the four largest wireless service providers in locations where medical and technological innovation are centered, like the Boston area, where there are many large medical universities, and Silicon Valley.

With the 5G build-out taking full hold, the demand for infrastructure will skyrocket. You may look at all those people fiddling with their cellphones out there and think this market is already saturated. Think again.

Mobile data is just coming of age. It currently accounts for just 6% of all internet traffic, up from 3% two years ago. Going forward, mobile data traffic is expected to grow at a staggering rate of 36% per year through 2022.

And the current 5G build-out plays right into Crown Castle's hands. Although speed and latency will improve by staggering amounts with 5G, it lacks something previous ones had: range. A 5G signal only travels about half a mile, compared to several miles for earlier generations. That means that small cell towers will be needed all over the place in order to increase the range and relieve congestion.

Crown Castle is the small tower king. It's the main reason I prefer CCI to its major competitors, American Tower Corp. and SBA Communications. That's because these towers will be the key to the 5G build-out.

Small towers are about the size of a pizza box and will soon decorate almost every street corner. AT&T claims that 300,000 new small towers will be needed for 5G. Only 220,000 currently exist.

Crown Castle already owns 65,000 (more than any other company in the country) and has recently signed multibillion-dollar contracts with the four largest cell providers to provide more. These companies typically don't own towers, but rather lease space on them from companies like CCI.

Crown Castle built 7,000 small towers in 2018 and 15,000 more in 2019. By some estimates, the infrastructure REIT will have 240,000 such towers by 2025.

Another reason I like Crown Castle better than its competitors is that it operates exclusively in the U.S. The other companies have operations in places like Brazil and India. I think the 5G story is so good I don't want to risk getting tripped up by weird political and regulatory circumstances in these other countries.

THE DIVIDEND

Crown Castle's yield is currently a solid 3.43%, much higher than AMT (1.8%), and SBA pays no dividend. Management is targeting dividend growth of 7% to 8% annually going forward.

The dividend is also incredibly well-supported by the company's operations. The company leases out its towers and cables, with long-term contracts that have sizable payment increases built in. The average remaining length of CCI's contracts is over five years, and the company has guaranteed payments totaling

five times current annual revenues over that period. That means that it has already booked the current level of revenue for the next five years. Everything else it generates from here is growth.

TRACK RECORD

This has been a great performing stock and REIT. It has consistently outperformed the overall market as well as the REIT index in just about every measurable period over the last 10 years. In that period, it provided an average annual return of over 20% (with dividends reinvested) and a better than 16% average return over the past five years.

While the stock isn't particularly cheap here, the strong growth prospects should more than justify the higher price.

There are other stocks that benefit from 5G that will likely soar much higher than CCI. It's not a tech stock. It's a conservative REIT. But it should continue to forge consistently higher because it has such a strong and timely business model.

REITs can go in and out of style. Technology can do the same. But strong earnings are almost always in favor. With the massive 5G build-out just getting underway and the urgency with which it will be pursued, the demand for Crown Castle's properties will likely grow at a strong clip, rain or shine, in a good economy or a bad economy.

Crown Castle is a safe way for income investors to play the massive opportunity poised by 5G. The stock should offer both solid growth as well as defense in an uncertain market. It is a buy up to \$140.

5G Profit Opportunity No. 3: Qualcomm

Qualcomm (QCOM) has a serious advantage in the race to implement 5G. That's because the company currently makes the only chip that can enable 5G, setting it up for an upcoming windfall in the launch that is coming, plus continued growth in the years to come.

A chip is the part of a computer processor that is essentially the brains of the computer, smartphone, or device. These chips are the cutting edge of computer technology and determine the power, speed, and function of a computer.

Qualcomm is the world's largest supplier of

chips for mobile devices. It also holds the patents for the key technology systems that are the backbone of all 3G and 4G networks.

The company is the undisputed king of the chips that will enable 5G technology. A main reason is because its 5G Snapdragon 855 chipset uniquely offers modularity, which is the ability to help existing spectrum accommodate 5G.

It offers a bridge between older 3G and 4G and the 5G upgrade that virtually every company will need. In order to effectively compete in the fierce race between countries and companies to develop new 5G technology, equipment makers must have Qualcomm's chips.

Analysts estimate that the 5G chipset market will grow from \$2.1 billion in 2020 to over \$23 billion by 2026. Qualcomm has already partnered with 30 smartphone makers that will use its chips and equipment. And the new 5G-enabled phones will start hitting the market this year. Over 75 5G devices are either in the process of being launched or in development.

While Qualcomm appears to be ahead of a huge wave of demand for its chips, the stock is still cheap. After bouncing around in the same basic trading range since the middle of last decade, QCOM has had a nice 35% move over the past year, compared to 13% for the overall market. But the stock still sells at less than 14 times forward earnings, a significant discount to the overall market.

WHAT'S HOLDING QUALCOMM BACK

Why is a stock with so much growth ahead of it selling at a discount? Everybody knows 5G is coming. How come this stock isn't flying?

There have been several issues holding the stock back. It is my opinion that these things have kept the stock back but will not be able to continue to do so going forward. The following issues may sound bad, but they are precisely what is providing us with this unique opportunity to get Qualcomm cheap:

Legal problems

A lawsuit with Apple over Qualcomm's licensing practices was settled last year, and QCOM had a huge pop on the news. The suit had been

holding the stock back, but cooler heads prevailed, as both companies recognized that they need each other. Apple will use Qualcomm's chips for now.

However, there are other suits pending in the U.S. and abroad over Qualcomm's practice of charging a percentage of the phone sale as its royalty. It is likely that future rulings will somewhat diminish the profitability of Qualcomm's licensing fees going forward.

China trade war

Bad news about trade disputes with China has hurt the technology sector in general and semiconductors in particular. It's a problem because Qualcomm derives roughly two-thirds of its revenue from China. Trade uncertainty has really held the stock back, and the issue continues to be a risk.

Competition

As it is with all technology companies, competition is fierce. Qualcomm has the best chips now, but eventually other companies will compete. Apple recently purchased the 5G modem business from Intel in order to compete with QCOM, and it is working on developing in-house chips. China has been rapidly expanding R&D to develop its own chips.

Near-term stumbles

Semiconductors are a commodity, and they are very cyclical as well. There are always supply/demand issues. If the overall semiconductor market is in a down leg, it is very difficult for any company in the sector to perform well. As well, Qualcomm has had several quarters of falling revenue, as companies cut back on 4G spending to make way for 5G, which has not really arrived yet.

But many of these issues are not as serious as they may seem. For example, while Apple is developing its own chips and will likely ultimately prevail, it will probably take a couple of years at least. And Apple is only one of many customers for Qualcomm.

The Chinese are in a similar position. Qualcomm offers the only chips that can propel a company or nation into the 5G era right now.

And while China is in a race to develop 5G — so much so that the Chinese consider 5G a

national imperative — it can't compete without Qualcomm. China needs Qualcomm more than Qualcomm needs China. Trade war or no trade war, China has to have those chips. There simply is no alternative.

It's also true that the effect of the trade war has not been what people think. The most negative thing is that the uncertainty hurts business confidence, and companies spend less.

In addition, there is likely to be a trade agreement that will be positive for the U.S., and that could end up being a big advantage for a company like Qualcomm.

Sure, the lawsuits will likely continue. And the market will continue to be uneasy about the trade situation. But Qualcomm is standing on the precipice of a massive growth in demand for its products as businesses expand into 5G. And the change to 5G is occurring at a much faster rate than the one for 4G.

At some point, Qualcomm will lose its dominance in 5G chips and will have to expand

into data centers, connected cars, gaming, and the like. But for the foreseeable future, this company will be a huge beneficiary of 5G adoption.

Even if the company has other troubles, it always comes down to earnings and profits. Soaring revenues and profits will most likely propel the stock price higher, and likely increase the payout on the 3.08% dividend at just as fast of a clip.

In short, QCOM is reasonably priced ahead of a massive explosion in demand for its chips and intelligence. The fact that short-term troubles and concerns have held the stock back creates a massive opportunity heading into 2020 and beyond. Qualcomm is an excellent buy up to \$90 per share.

Sincerely,



Tom Hutchinson

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