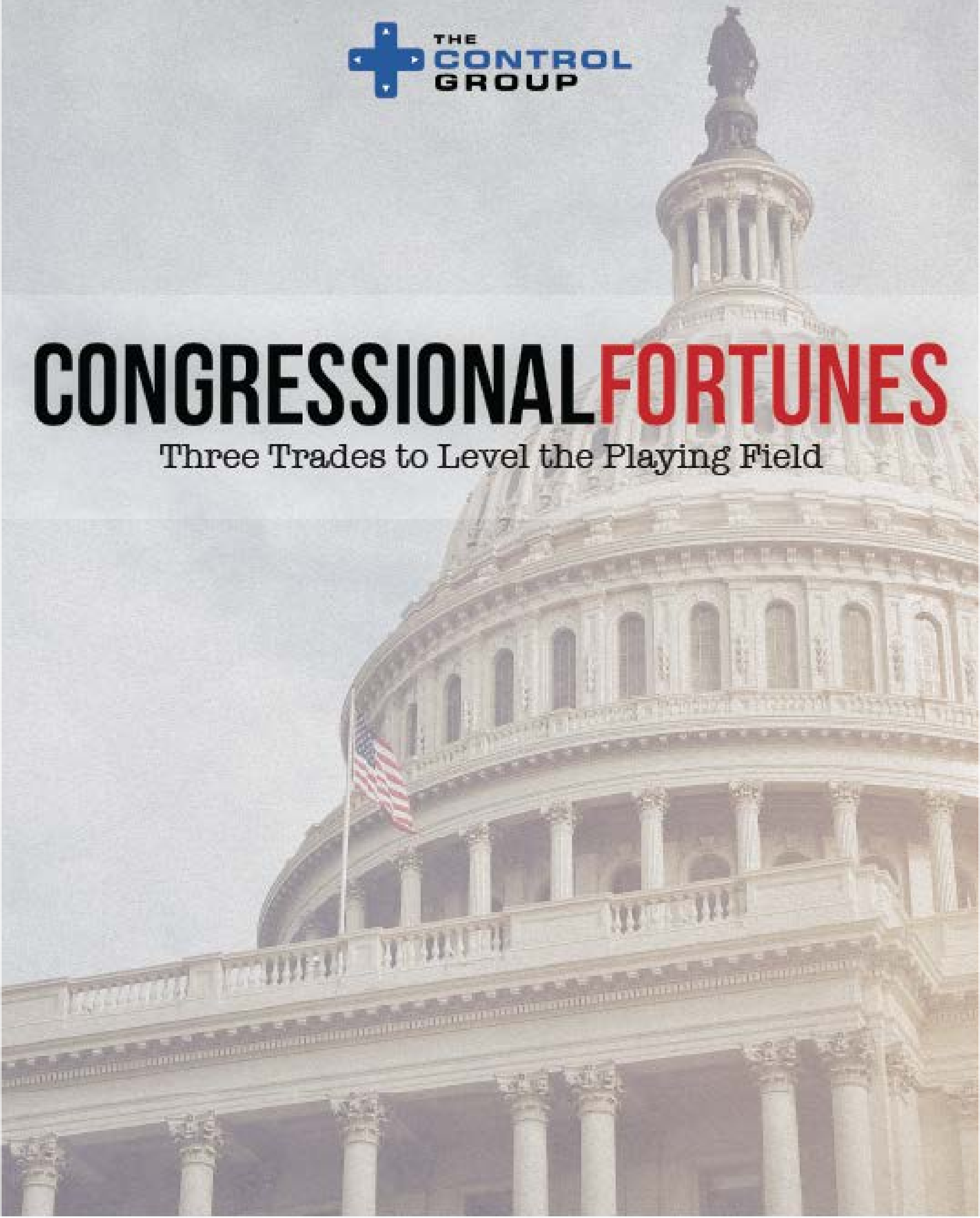
THE CONTROL GROUP

CONGRESSIONAL FORTUNES

Three Trades to Level the Playing Field



Congressional Fortunes

Three Trades to Level the Playing Field

CAPITOL GAINS
TRADER

Dear *Capitol Gains Trader*,

Our proprietary trading system recently flashed a buy alert on three stocks.

A total of 26 members of Congress have already invested a combined $6 million into at least one of these stocks.

They're backing up the truck because of the artificial intelligence (AI) investing boom *and* the subsidies that Congress has awarded to semiconductor companies.

This government-subsidized boom could send these three stocks exploding higher as Wall Street analysts recognize the surge in future profits that will flow from Chips Act subsidies.

We will start with the biggest recipient of subsidies to construct semiconductor fabs in the U.S.

We will follow up with two trades that are low-risk, high-potential plays on the electricity consumption surge that's required to run AI data centers.

Intel: A New CEO Navigates The Next Chip Boom

Number of Congress Members Who Have Traded: 26

Number of Trades Last Three Years: 129

Total Transaction Amount: $6.18 million

The year was 1968. Gordon Moore, known for Moore's Law, dropped by Robert Noyce's house. According to Intel's account, Noyce was mowing the lawn. Their conversation shifted to the growing potential of semiconductor memory, a technology they believed held immense promise. This conversation planted the seed for Intel's creation.

Noyce and Moore were soon joined by Andy Grove. A legendary leadership team was formed.

From its humble beginnings, Intel went on to develop pioneering technologies like DRAM memory chips. Intel ultimately found its specialty: microprocessors. The success of the personal computer (PC) in the early 1990s made Intel a leading force in computing.

Intel (NASDAQ: INTC) technology has been at the heart of computing breakthroughs. It has great potential in many promising markets, including artificial intelligence, 5G network development, and the rise of edge computing.

Starting around a decade ago, Intel lost its way. It focused too much on the Wall Street earnings game and lost touch with its engineering roots.

But that's ancient history. Under new CEO Pat Gelsinger, Intel is racing to regain its leadership position in computing.

After years of missteps, Intel has a lot to prove. The consensus view on Wall Street is that Intel is out of touch. It's too far behind the competition. Skeptics claim that "fabless" chip companies – which only design chips, not manufacture them – are the wave of the future.

These skeptics fail to consider the risk that China will draw Taiwan into its sphere of influence in the future. China may do this through a combination of political influence and intimidation, as it did with Hong Kong a few years ago. Once assimilated, China is likely to alter the terms of chip exports from Taiwan in a manner that is not favorable to fabless U.S. chip companies.

In this scenario, Intel's strategic value would increase dramatically. Intel would have a big head start in the generational task of bringing chip manufacturing back to the U.S.

Intel has been going through a painful but necessary strategic transformation. Since the mid-2010s, Intel has been transitioning from being a PC-centric company to a data-centric one. It has expanded its product offerings to pursue new market opportunities.

CEO Pat Gelsinger is revitalizing Intel's engineering culture. In a March 2021 presentation of his vision for Intel, Gelsinger doubled down on Intel's commitment to manufacturing its chips in America. It started with a commitment to invest $20 billion in two new chip factories in Arizona. Two more are in the works in Ohio.

Partial funding from taxpayers will reduce project funding requirements from Intel shareholders. And lower funding requirements, in turn, boost the value of INTC shares.

Three years after Gelsinger unveiled his vision, Intel has made impressive progress.

For decades, Intel has dominated the integrated design and manufacturing of microprocessors for both PCs and servers. While the PC microprocessor market has seen its best days, and only had a temporary boom during the Covid work-from-home and school-from-home trend, Intel has reinvested sufficient capital to establish strong positions in growing markets.

For example, Intel's server chips are critical to the data centers that host cloud computing applications. More than a billion Intel Xeon Processor cores have been deployed into cloud computing applications since 2013.

Intel's dominant position in legacy chips means it will have a large recurring revenue base as older chips reach the end of their useful lives and are replaced.

Intel has established strong positions in markets outside of microprocessors. In 2015, Intel acquired Altera. Altera is a specialist in field-programmable gate arrays or FPGAs. FPGAs are chips designed to perform narrow tasks very efficiently. The Altera acquisition helped Intel cement its leadership position in server chips. Many data centers use customized servers with FPGAs.

Intel also has a roadmap to get back to a world-leading position in cutting-edge chips.

Extreme ultraviolet lithography ("EUV") is a technology pioneered by Dutch chip equipment maker ASML. It uses a new type of laser to etch microscopic circuits into chips. Generally, the thinner a chip's circuits, the faster speeds it can run.

EUV allowed TSMC to leapfrog competitors including Intel – at least temporarily.

But nothing is stopping Intel from investing more heavily in EUV equipment. That's what it has done. Intel will get generous tax credits from the Chips Act.

What is Intel worth?

While finding growing markets is one ingredient in a successful stock investment, financially sustainable companies must also treat shareholders well.

By revitalizing Intel's engineering culture and boosting its R&D and capital spending, Pat Gelsinger is steadily restoring investor confidence in Intel's long-term earnings potential.

In mid-2024, Intel is still in a deep downturn in server and PC chips. Its revenue and profit margins have shrunk. But they will rebound sharply during the next upturn. And combined with new business wins for the plants it has under construction, Intel's earnings could be multiples of its 2021 peak near $5 per share.

Intel has the potential to earn $10 to $15 per share by the late 2020s. At a historic multiple of 20, that translates into a price target of $200 per share – far above recent prices.

Many members of Congress have noticed Intel's value. Over the past three years, Congress members have traded Intel in no less than 129 separate transactions.

The latest buy is from Texas Congressman Michael McCaul. He bought between $250,000 and $500,000 worth of INTC on May 20, 2024.

To profit, you can choose a trade that fits your unique risk profile. Remember, we'll always give you three different choices to play the trade ideas we'll send you. That way, based on your sophistication level and risk tolerance, you can pick a trade plan that suits you best…

#1 Lowest-risk Action to Take:

Buy Intel (NASDAQ: INTC) up to $35 per share.

Buying the stock outright is the simplest and lowest-risk way to play Congressional interest in Intel. But it will lack the leverage than the two other trade plans below using options will. On the plus side, since there's no expiration on holding a stock like there is an option, you'll have more time to let the trade play out. And, it's unlikely Intel will ever lose 100% of its value. And options on Intel could expire worthless (a loss of all capital invested) if the trade doesn't pan out before the options expiration date…

We'll cover our option trade ideas on Intel, next…

#2 Medium-risk Action to Take:

- **Buy to open the INTC January 17, 2025 $30 calls; and**
- **Sell to open the INTC January 17, 2025 $36 calls**

This is a bull call spread with a maximum value of $6 per contract if INTC is trading above $36 on January 17, 2025. You can enter it for a net cost of $2.20, so it has 173% upside to a max value of $6 if INTC rises by 18% between now and expiration.

The biggest downside here is the sophistication of trading bull call spreads if you're new to options. If that's the case, don't worry. Read our primer, submit your questions and study our alerts as they come out, and you'll gain competency with them. But for those comfortable with more sophisticated options trades, this is a way to get leverage, without all of the risk that comes from simply buying a call option on Intel. That's the third trade idea we'll cover next…

#3 Highest-risk Action to Take:

Buy to open the INTC January 17, 2025 $30 calls up to $11 per contract. Here is a link to a quote for this option. If you buy at $4.00 per contract, you could make 275% if INTC rises to $45 by next January.

The reason we list this as the highest risk action to take is because if Intel does not go above a certain level by the expiration date, the option could expire worthless (a loss of 100% of invested capital). But, because of the leverage this choice gives you, that high risk comes with high reward potential.

Congressman Builds Big Position in Oil and Gas

Number of Congress Members Who Have Traded: 2

Number of Trades in the Last Three Years: 25

Total Transaction Amount: $445,000

Kevin Hern's story is a testament to the American Dream. He made a small fortune as an entrepreneur and has represented the first Congressional district of Oklahoma since 2018.

Congressman Hern's broad educational background includes architectural drafting, engineering, and business. This gave him insight into how organizations can thrive… and how they can fail.

After an engineering stint in the corporate world, Hern saw the entrepreneurial potential in being a restaurant franchisee. So, he sold his hog farm to buy his first McDonald's restaurant in Arkansas in 1997.

Hern expanded to Oklahoma in 1999, growing his organization to 24 restaurants, which now employ thousands.

Beyond McDonald's, Hern succeeded in banking, manufacturing, real estate development, technology, and sports publishing.

In short, Hern is an entrepreneur who keeps striving in the face of adversity. He's the type of Congressman the Founding Fathers envisioned would be an ideal representative for the American people.

For our purposes, we view Hern's investments as solid leads for further investigation. And one stock, **Devon Energy (NYSE: DVN)**, stands out in Hern's portfolio.

Devon Energy explores, develops, and produces oil, natural gas, and natural gas liquids in the United States. It operates in Delaware, Eagle Ford, Anadarko, Williston, and Powder River Basins. Devon was founded in 1971 and is headquartered in Oklahoma City, Oklahoma.

Devon's crown jewel asset is in the Delaware Basin area of the Permian. It produces oil from this acreage at low costs.

As an entrepreneur who owns McDonald's franchises, Congressman Hern recognizes the strategic value of real estate. **In this case, Devon sits on some of the most valuable *oil* real estate in the world.**

So, Hern has been buying up shares of Devon at a steady pace. Hern's most recent purchase of Devon was on March 28, 2024.

Many of Congressman Hern's trades are dividend reinvestment transactions. This is a good sign. It indicates he is bullish on Devon's long-term future. Setting up a dividend reinvestment program on the stock of a highly profitable company that pays a high dividend yield can build a small fortune over time.

At a 5% dividend yield, Congressman Hern adds 5% to his share count every year by reinvesting. If dividends rise, which is likely, the stock price will follow.

Excessive worries over OPEC production quotas and a slower global economy have pushed oil and gas prices lower. This has driven a $10 correction in DVN since early April.

Devon is buying back stock and paying dividends at an impressive rate. Buyers of DVN in the mid-$40s can expect to receive 15-20% compound annual total returns (including dividends) over five years.

That 15-20% range of compound annual return will be accelerated when oil and natural gas prices are trending higher.

Devon's revenue comes from a mix of oil, natural gas, and natural gas liquids (NGLs).

The natural gas market fundamentals look strong. In 2024, aggressive plans to build more gas-fired electric plants to fuel artificial intelligence (AI) investments are building enthusiasm for natural gas bulls.

Besides demand for AI, we may have a hotter-than-usual summer which drives up air conditioning usage. Seasonal spikes in electricity demand cause natural gas "peaker" plants to kick into gear.

Gas demand is a global phenomenon. Global demand has grown consistently at a 3% annual rate for about 50 years. Liquefied natural gas (LNG) facilities are heavy draws on U.S. gas supply, exporting gas overseas to a long list of interested buyers.

More reasons to like DVN include its role as an industry pioneer in committing to a capital-return framework.

This means Devon management stopped reinvesting all of its cash flow into more drilling projects to grow revenue in an undisciplined fashion. A few years ago, Devon started limiting its drilling investments to *only* the highest-return projects.

The result was $14 billion in cumulative capital returns since 2020. Capital returns include debt reduction, dividends, stock buybacks, and selective acquisitions.

At current oil and gas prices, DVN's free cash flow yield is close to 9%. That's more than *twice* the free cash flow yield of the S&P 500 Index.

DVN stock is so cheaply priced at today's valuation that the board prioritizes stock buybacks.

As Devon continues to execute its plans, more members of Congress – and investors at large – will follow Congressman Herd's lead and buy DVN.

To profit, choose a trade that fits your unique risk profile.

#1 Lowest-risk Action to Take:

Buy Devon Energy (NYSE: DVN).

Buying the stock outright is the simplest and lowest-risk way to play Congressional interest in DVN. But it lacks the leverage that the two other trade plans below using options will. On the plus side, since there's no expiration on holding a stock like there is an option, you'll have more time to let the trade play out. And, it's unlikely DVN will ever lose 100% of its value. Options on DVN could expire worthless (a loss of all capital invested) if the trade doesn't pan out before the option's expiration date…

We'll cover our option trade ideas on DVN, next…

#2 Medium-risk Action to Take:

- **Buy to open the DVN December 20, 2024 $45 calls; and**
- **Sell to open the DVN December 20, 2024 $55 calls**

This is a bull call spread with a maximum value of $10 per contract if DVN is trading above $55 on December 20, 2024. You can enter it for a net cost of $3.90, so it has 156% upside to a max value of $10 if DVN rises by 19% between now and expiration.

The biggest downside here is the sophistication of trading bull call spreads if you're new to options. If that's the case, don't worry. Read our primer, submit your questions, and study our alerts as they come out, and you'll gain competency with them. But for those comfortable with more sophisticated options trades, this is a way to get leverage without as much risk as simply buying a call option. That's the third trade idea we'll cover next…

#3 Highest-risk Action to Take:

Buy to open the DVN December 20, 2024 $45 calls up to $5.60 per contract. Here is a link to a quote for this option. If you buy at $4.90 per contract, you could triple your money if DVN has a sharp rally, and rises to $60 by December.

The reason we list this as the highest-risk action to take is if DVN does not go above a certain level by the expiration date, the option could expire worthless (a loss of 100% of invested capital). But, because of the leverage this choice gives you, that high risk comes with high reward potential.

Congress Piles Into This Hidden Play On The AI Boom

Number of Congress Members Who Have Traded: 16

Number of Trades in the Last Three Years: 54

Total Transaction Amount: $1,520,000

Many politicians have traded **Dominion Energy (NYSE: D)** over the past three years. They have traded $1.52 million in total volume, mostly buy transactions. The amount of buying has accelerated over the past few months.

For example, Congressman Michael McCaul (R-TX), a skilled, active trader, bought between $250,000 and $500,000 worth of D on February 27. Dominion was trading near $47 at the time.

Dominion is a regulated utility holding company. It owns interests in gas and electric utilities, a nuclear facility, renewable natural gas plants, and renewable energy sources.

Dominion is poised for significant growth, driven by rising demand in data centers and expanding populations in its service areas. This growth, coupled with potential rate increases and higher capital investments, positions the company well for higher earnings.

D bottomed in October 2023 after a brutal two-year bear market made its stock dirt cheap. It has been on an uptrend since then.

Northern Virginia is within Dominion Energy's service area. It's the world's largest data center market. Since 2019, Dominion Energy has connected 94 data centers, supplying over 4 gigawatts (GW) of capacity.

This trend is accelerating, with 15 more data centers expected in 2024. Artificial intelligence (AI) has sparked an acceleration in data center construction.

The demand from individual data centers is rising dramatically, from 30 megawatts (MW) to 60-90 MW. Larger, more AI-focused campuses require 300 MW to several GWs of electricity.

This substantial and increasing demand offers a robust growth trajectory for Dominion Energy. To support this, Dominion is investing in transmission and infrastructure to ensure a reliable grid.

Heavy capital investments at a regulated utility like Dominion are a good thing, not a bad thing. Utility earnings are tied to a formula of "base rate" times allowable ROE from public utility commissions. A rising base rate, driven by heavier capital investments, means Dominion's revenue growth will accelerate.

Demographic trends help, too. Dominion operates primarily in Virginia and South Carolina, regions experiencing steady population growth. This demographic trend drives increased energy consumption, bolstering the company's customer base and revenue potential.

Dominion's ability to secure rate increases through successful rate cases is pivotal. For instance, the company filed an electric base rate case in South Carolina, requesting a 10.6% return on equity and a 52.51% equity capitalization. If approved, these rates will result in a 3.5% increase in typical residential customer bills, effective in September.

Dominion Energy's strategic capital investments are central to its growth strategy. The company plans significant investments in regulated offshore wind projects, with a capital budget of $9.8 billion for the Coastal Virginia Offshore Wind (CVOW) project. This project alone is expected to deliver substantial clean energy and enhance the company's long-term profitability.

Dominion Energy's financial guidance predicts a 5-7% annual growth rate in operating EPS through 2029, based on the 2025 operating EPS midpoint of $3.40.

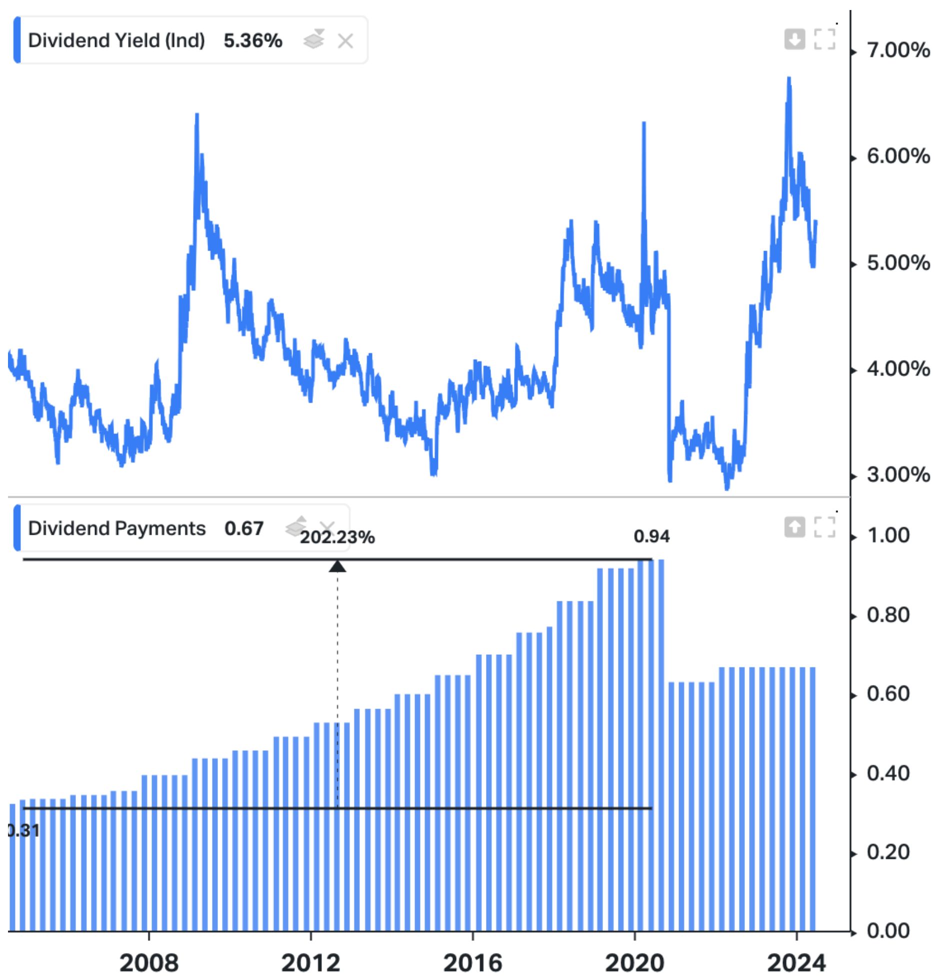
The company's credit profile is also improving, with substantial debt reduction efforts. For instance, the sale of Cove Point LNG and The East Ohio Gas Company, and a few other announced transactions will ultimately drive a $21 billion reduction in net debt.

This portfolio simplification process will also make D stock a purer play on rapid growth in electric demand in its service area.

Dominion Energy's first-quarter operating earnings fell slightly, but management maintained its guidance for future earnings and growth. Strong electricity demand growth, exposure to data center construction in its core market of Virginia, and a focus on renewable energy will draw more Congressional traders and investors into the stock. Investing in renewable energy has the sweetener of federal tax breaks. All these factors make it likely that Dominion will achieve its earnings growth goals.

After cutting its dividend in the 2020 recession to strengthen its balance sheet and raising cash from selling non-core assets like gas pipelines, Dominion could grow its quarterly dividend rapidly over the next several years.

From 2004 to 2020, Dominion's quarterly dividend rose by 202%.



Dominion stock could rise to the high $50s based on its current dividend yield and the likelihood of lower Treasury yields in the second half of 2024.

Lower Treasury yields plus growing recognition of Dominion's earnings growth could drive the stock's dividend yield from 5.36% to 4.5% by October 2024.

The math on that yield results in a price target of $59.50 for D.

To profit, choose a trade that fits your unique risk profile.

#1 Lowest-risk Action to Take:

Buy Dominion Energy (NYSE: D).

Buying the stock outright is the simplest and lowest-risk way to play Congressional interest in D. But it lacks the leverage that the two other trade plans below using options will. On the plus side, since there's no expiration on holding a stock like there is an option, you'll have more time to let the trade play out. And, it's unlikely D will ever lose 100% of its value. Options on D could expire worthless (a loss of all capital invested) if the trade doesn't pan out before the option's expiration date…

We'll cover our option trade ideas on D, next…

#2 Medium-risk Action to Take:

- **Buy to open the D October 18, 2024 $50 calls; and**
- **Sell to open the D October 18, 2024 $55 calls**

This is a bull call spread with a maximum value of $5 per contract if D trades above $55 on October 18, 2024. You can enter it for a net cost of $1.60, so it has 213% profit potential to a max value of $5 if D rises by 11% between now and expiration.

The biggest downside here is the sophistication of trading bull call spreads if you're new to options. If that's the case, don't worry. Read our primer, submit your questions, and study our alerts as they come out, and you'll gain competency with them. But for those comfortable with more sophisticated options trades, this is a way to get leverage without as much risk as simply buying a call option. That's the third trade idea we'll cover next…

#3 Highest-risk Action to Take:

Buy to open the D October 18, 2024 $50 calls up to $2.70 per contract. [Here is a link] to a quote for this option. If you buy at $2.10 per contract, you could make 300% if D has a sharp rally, and rises to $59 by October.

The reason we list this as the highest-risk action to take is if D does not go above a certain level by the expiration date, the option could expire worthless (a loss of 100% of invested capital). But, because of the leverage this choice gives you, that high risk comes with high reward potential.

Regards,

Peter Coyne
Founder, *Capitol Gains Trader*

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