



The *Sound Advice* portfolio is up 12.72 percent so far this year, assuming an equal amount was invested in each position on December 31, 2012. This return compares to 12.02 percent for the S&P 500. If we look back to the beginning of last year, the portfolio is up 39 percent as compared to 27 percent for the S&P500. We have an average gain of 55.1 percent based on the prices at which each stock, ETF, or mutual fund was originally recommended.

According to an April 30th CNBC survey, the consensus among Wall Street is that the Federal Reserve will extend its quantitative easing into February 2014, at which time the Fed will start to reduce its bond-buying program, and that it will stop completely by July 2014.

If we have learned anything over the years, it is that the consensus is usually wrong. After all, it is only human nature to assume that the current trends are more or less permanent. That's why market turns are always a surprise to most investors and investing professionals. It comes sooner than the consensus expected it would.

Turns come sooner because of the forward-looking nature of the market. Events are anticipated ahead of time. The long-term Treasury bond market will be no exception.

The Federal Reserve intends to maintain quantitative easing until unemployment drops significantly. However, by the time that happens, the economic recovery will be well on its way and pushing bond yields up. As we have noted in past Issues and again in this Issue, it will not take much of an upward move to bring us very large profits from our "No-Brainer" ETFs.

-Gray Emerson Cardiff

"No-Brainer" Buying Opportunity

Recent negative economic reports undermined the markets in April. The Conference Board's Leading Economic Indicators reported in April declined slightly for March for the first time since late last year. This was disappointing because gains have been widespread in recent months.

Negative contributions in March were from building permits, new orders, average work week in manufacturing, and initial unemployment claims. These declines offset the positive contributions from all the financial components and manufacturing new orders for both capital and consumer goods.

In the six-month period ending in March, the composite index of Leading Economic Indicators increased 1.6 percent which is faster than the growth of 0.1 percent during the previous six months. While the most recent six-month growth rate eased somewhat, it remained in expansionary territory.

All of the hand-picked leading economic indicators we use for the *Sound Advice* Diffusion Index of Leading Indicators (page 11) rose over the most recent 6-month span. In addition, all of the lagging economic indicators used in the *Sound Advice* Diffusion Index of Lagging Indicators also climbed. Accordingly, both of the *Sound Advice* leading and lagging Diffusion Indexes, read 100% in March. Such a dual reading is rare, and only happens during a steady recovery.

A significant bright spot was the fact that personal income and consumer spending both increased in March. For the first quarter, consumer spending was 3.2 percent higher than the fourth quarter, the largest increase in two years. This is important because consumer spending accounts for 70 percent of the US gross domestic product (GDP). The confidence of consumers and the sources of their wealth are primary drivers of the US economy.

Primary sources of consumer wealth come from their houses and stocks. Crashes in the real estate and financial markets were the heart of the 2008-09 melt-down and recession, and they need to be at the heart of the recovery. Both houses and stocks are in strong uptrends.

At the foundation of these uptrends is the Federal Reserve's extraordinary expansionary monetary policy. The Federal Reserve is pumping huge sums of money into the economy, which will ultimately stimulate the recovery. We are living by the old axiom "never fight the fed" which is always good to keep in mind in the midst of a blizzard of news and "noise" that can easily throw you off track.

Our "No-Brainers"

The negative economic news caused bond yields to decline to near all-time historic lows. Our "No-Brainer" ETFs, which are designed to benefit strongly from a rise in long-term Treasury bond yields, have declined to very attractive prices.

Long-term bond yields always increase after a recession. It is as simple as that. Demand for money and credit increases with economic expansions which pushes up interest rates. Fears of inflation also resurface which pushes up long-term interest rates in earnest. Long-term Treasury bond yields rise to a premium over the anticipated inflation rate to provide a "real" return of approximately 3 percentage points over the perceived inflation rate.

The graph on the opposite page shows the history of Treasury bond yields since 1977. As you can see, today's yields are historically low. The only room for movement is up.

As we have pointed out in previous Issues, even a relatively small upward movement in bond yields will produce huge profits. The next signs of economic strength will boost bond yields and send these ETFs soaring.

The most recent time Treasury bond yields rose significantly was from January 1 to June 10, 2009, when long-term Treasury bond yields rose from 2.82 percent (close to today's yield) to 4.75 percent.

Our No-Brainer ETFs did not exist during this entire period, so we don't have a historical track record to view, but we can model them to get an idea of the profit potential. We can use the history of the daily percentage changes in 30-year Treasury bond yields during that period, and apply them to our No-Brainer ETFs with the appropriate amount of leverage each one uses.

The most responsive ETF, the **Direxion Daily 20 Plus Year Bear 3 Shares (TMV-NYSE)** uses 3 to one leverage. The top graph to the right shows the daily price action of TMV that would occur from the rise that took place from January 1 to June 10, 2009, when long-term Treasury bond yields rose to 4.75 percent. Note that the price of TMV would nearly quadruple to \$191 a share.

The **Proshares Ultrashort Lehman 20 Plus Year Treasury (TBT-NYSE)**, uses 2:1 leverage. Its price would more than double to \$140. See the middle graph.

The **Proshares Short 20 Plus Year Treasury (TBF-NYSE)** uses no leverage. Its price would climb more than 50 percent to \$46. See the lower graph.

From the history of 30-year Treasury bond yields, we can see that 4.75 percent is still historically low. Gains could be considerably higher. There is no reason for the climb in yields to stop at 4.75 percent.

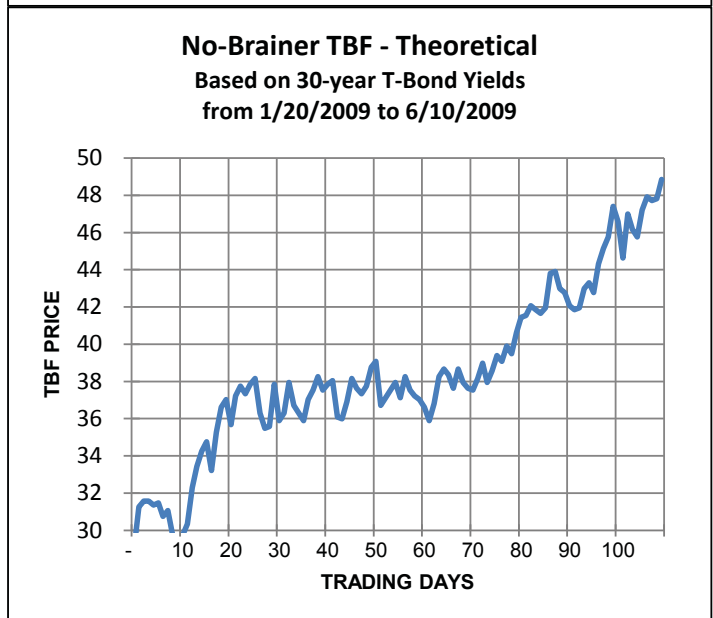
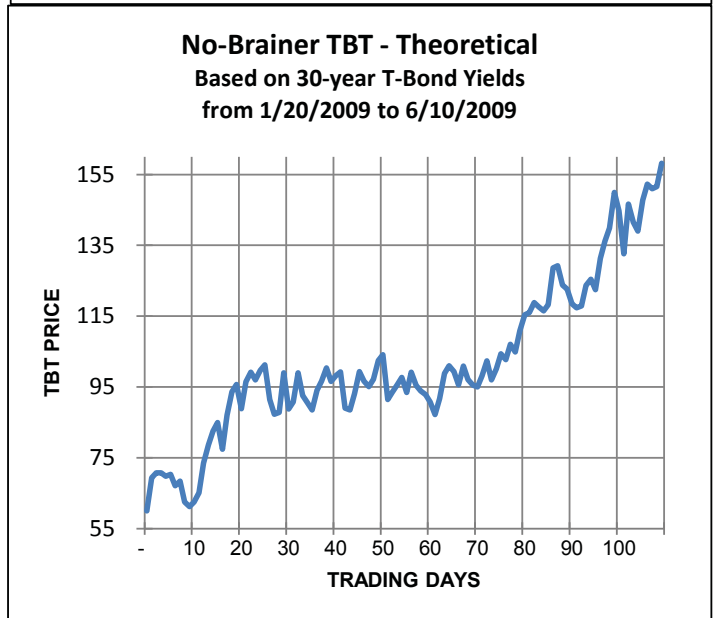
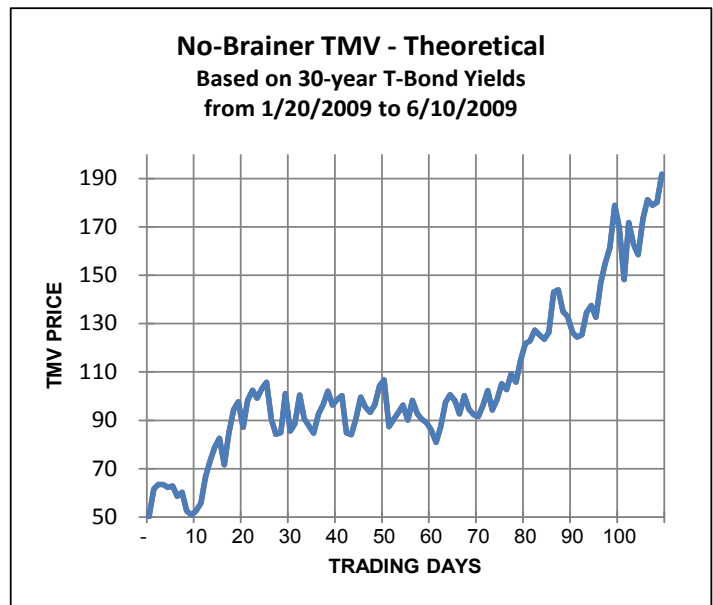
The Negative Aspect

The daily compounding of changes in bond yields magnifies both gains and losses in these ETFs. This compounding is more powerful on down days because the daily percentages are taken of a higher number.

Despite this negative aspect, these ETFs are worth a substantial investment right now because the profit potential is so great. Even if we lose a little ground in the event these ETFs tread water for a period, the upside is worth it.

These ETFs are No-Brainers. It's not a question of whether they will climb, it is only a question of when.

Clearly, with bond yields still near historic lows and the economy recovering, the greatest and most explosive movement in long-term Treasury bond yields will be upward.



The History of 30-Year Treasury Bond Yields



This graph shows the yields of 30-year Treasury bonds since 1977. As you can see, the recent lows are historic. Yields have been close to the recent lows only once before -- after the 2008-09 meltdown as systemic risks in the banking system fueled a capital flight to safety.

Source: Yahoo! Finance

Portfolio Updates

Here are updates on the rest of our recommendations in alphabetical order. The table on page 7 details our buy limits and other information on each recommendation, and organizes them by investment objective.

Agrium (AGU) is down slightly this year, after climbing 48 percent in 2012. We have a profit of 672 percent. This is the largest farm products retailer in North America and a wholesaler to the world.

Agrium's management won its battle against JANA. The stock dropped on the disappointment that a quick gain is not around the corner from the breakup that JANA was proposing. However, even with the likelihood of a quick gain, most stockholders agreed with management that the company as a whole increases operating efficiencies, provides market intelligence, and furnishes counter-cyclical cash flow.

At close to 9 times earnings, AGU is a strong buy. This is a low P/E for a company with growth prospects.

Growth potential has not changed. In North America, Australia and Western Europe, but especially here, the scientific use of fertilizer is commonplace. Elsewhere farming techniques often resemble what we used to do 40 years ago, or worse. The US accounts for 5% of the world's population

but has 13% of its arable land. Conversely, China holds 21% of the world's people but has only 9% of its arable land. If emerging markets are to meet their populations' need for food, they will either have to import foodstuffs from the more advanced countries or, better for the fertilizer industry, use fertilizer to improve their crop yields. Either way means more use of fertilizers.

AMN Healthcare (AHS) is up 19 percent this year, extending our profit to 159 percent.

AMN Healthcare provides temporary healthcare staffing services to the healthcare industry, ranging from nurses to physicians. The rationale for recommending AMN Healthcare was a two-fer. AHS is not just an opportunity to invest in healthcare, which is traditionally a non-cyclical industry, but it is also a chance to buy into a healthcare business which will benefit from a recovery in the economy.

Earnings growth has been positive since we recommended this stock at an average price of \$5.35. Although we expect more growth over the longer run, we believe the market has become overly excited about the growth.

We expect earnings to be in the vicinity of \$0.42 to \$0.50 a share this year, which is in line with Street estimates. At the current price, the price/earnings (P/E) ratio is close to 28 which already anticipates a very high growth rate.

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We recommend holding for now and waiting for a pull-back to buy more.

Associated Estates Realty Corp (AEC) is up 11.3 percent this year, extending our profit to 25.6 percent.

AEC reported first quarter results in April. Funds from Operations (FFO) were \$0.31 per common share compared to \$0.25 per common share for the first quarter of 2012.

President and Chief Executive Officer Jeffrey I. Friedman said "It was another strong quarter for Associated Estates. Operating fundamentals remain solid and the propensity to rent apartments continues at a generational high."

This is the most undervalued apartment REIT in the sector. The equity of its apartment portfolio translates into a stock value of \$27 per share. So the stock is still trading at a steep discount. It pays a nice yield as well.

Boston Scientific (BSX) is up 30 percent this year, but still cheap. This is a classic turnaround story. Based on the depressed price of this stock, gains from the current low price should be substantial.

BSX reported better-than-expected first-quarter results on April 25, which the company said will put it on the path to return to growth.

Medical device makers have been struggling with weak sales for the last several years as people lost their jobs and health insurance, prompting them to delay medical procedures, and as cash-strapped governments around the world have cut spending on healthcare.

The new CEO, Mike Mahoney, is focused on growth. "We continue to be encouraged but not satisfied with our operating performance ... We continue to make strong progress on our strategy to return to consistent sales and earnings-per-share growth."

BSX's medical products are well suited for an aging population in the US as well as emerging markets around the world, especially in India, China, Brazil, and Russia. Emerging markets only accounted for 4 percent of revenue in 2012, so there is considerable room for growth.

CGM Real Estate Fund (CGMRX) is up 9 percent this year, extending our profit to 69 percent. We believe that this fund is poised for considerably more gains ahead as the economy recovers.

Most of the time, above average investment returns can be earned in REITs. The Morgan Stanley Capital International (MSCI) Index of US REITs, a benchmark index that measures the performance of publicly traded equity US REITs, hit a 5-year high in April.

Over the last 10 years, an investment of \$10,000 in the MSCI REIT index would have grown to \$24,808 through the

end of April. However, in CGMRX, that investment would have grown to \$49,838, for an annual return of nearly 18 percent.

By far, CGMRX has been the best performer of REIT funds over the last ten years. (See the February 1 Issue of *Sound Advice* for the complete rundown of all REIT Funds.)

Unlike the other mutual funds we recommend, CGMRX is not cleared through brokerage firms. You will need to call the fund directly to invest at 800-343-5678.

Chesapeake Energy (CHK) is up 17.3 percent this year. CHK is the second largest producer of natural gas.

We added it to the portfolio last year because it was greatly undervalued. Natural gas prices were historically low at the time, close to \$2.00 for one million BTUs. In addition the company had poor corporate governance, and was suffering from a severe cash squeeze. Natural gas prices have nearly doubled since our recommendation. Carl Icahn has been instrumental in removing the founder, Aubrey McClendon, as chairman of the board and replacing several other board members. CHK has sold most of the targeted divestments to straighten out its cash squeeze. Over the last four quarters, revenue has increased 14.2% on average year-over-year.

CHK's remaining natural gas and oil assets are extensive and offer a large upside. Morningstar's fair value estimate is \$26 a share.

Comcast (CMCSA) is up 10.5 percent this year, after climbing 57 percent last year, extending our profit to 91.2 percent.

Universal Pictures and Illumination Entertainment, which are both divisions of CMCSA, announced in April that *Despicable Me 2* will be digitally re-mastered into the immersive IMAX(®) 3D format and released in June. The 2010 hit, *Despicable Me*, grossed more than \$543 million and became the tenth highest-grossing animated motion picture in US history.

Revenue from providing internet broadband has become the most important part of growth. CMCSA is focusing investment in delivering the fastest broadband service, not just to the premises but also the fastest WiFi inside.

Although CMCSA lost 60,000 video subscribers during the first quarter, and broadcast TV revenue was down 18.5 percent from one year ago, voice and high-speed internet customers grew by 3.2 percent and revenue from filmed entertainment content was higher by 2.0 percent. Overall, cable revenue was 6.2 percent higher than one year ago. In addition theme park revenue (Universal Studios) was up 12.2 percent.



CMCSA is above our buy limit of \$40. Based on earnings estimated at \$2.25 for 2013, CMCSA is close to a price/earnings ratio of 19 which is at a premium to the market. Being value oriented, we prefer to invest at discounts. (We originally recommended CMCSA at an average cost of \$22.90.) We recommend waiting for a dip to accumulate more shares.

CommonWealth REIT (CWH) is up 41.2 percent this year, primarily due to the one-day jump of 50 percent in February when two hedge funds offered \$25 (and then \$27) for all outstanding shares because they believe the shares are worth \$40 per share (\$50 with better management). These hedge funds (Corvex and Related Fund Management) along with CWH's other largest shareholders are also interested in removing the management. On March 28, these hedge funds made another offer at \$24.50 for all outstanding shares.

In late April, Corvex Management LP and Related Fund Management, LLC, sent a letter to CWH shareholders, urging them to vote the WHITE consent card and remove the entire Board of CommonWealth. In our April 24th blog, called *The Portnoy's Complaint*, we recommended voting the WHITE consent card supporting Corvex and Related.

You may also be able to vote online by following the instructions on the voting materials sent to you. Corvex and Related also encourage all shareholders to call D.F. King & Co., Inc., their proxy solicitor, at 1-800-714-3313 so they can ensure you receive their materials and they can assist you in voting your shares.

Corvex and Related are emphasizing that CommonWealth's assets are substantially undervalued as a result of mismanagement and a misalignment of incentives between CommonWealth's shareholders and Reit Management & Research (RMR), CommonWealth's external manager owned by Barry Portnoy and his son Adam. The WHITE consent solicitation proposes to remove RMR and the Portnoys along with the entire board.

CommonWealth has stiff takeover defenses, including a provision that limits ownership of its stock to no more than 10 percent of its shares. CWH also has a staggered board with roughly one-third up for election each year, so that all the directors cannot be unseated at once.

However, Corvex and Related see a flaw in CommonWealth's organizational documents -- that directors can still all be removed and replaced at any time by written consent without cause outside the company's annual meeting. Hence the recent consent solicitation.

If elected, Corvex and Related pledge that any of their future trustees will move to terminate CWH's anti-takeover provisions, and that no material transaction will occur between CommonWealth and Related or Corvex without the approval of a majority of the outstanding shares not owned by Related or Corvex.

We have been recommending CWH because of the stock's tremendous discount to the value of its net real estate assets. We have valued the real estate conservatively

by using a 9 percent capitalization rate, which translates the value of CWH's real estate net assets to \$31.52 a share based on the latest financials. However, capitalization rates are significantly lower today, in the vicinity of 7 percent. Even using an 8 percent rate, for example, brings the value to \$41.36 per share.

Whatever the outcome, this battle has brought attention to the underlying value of this REIT's portfolio.

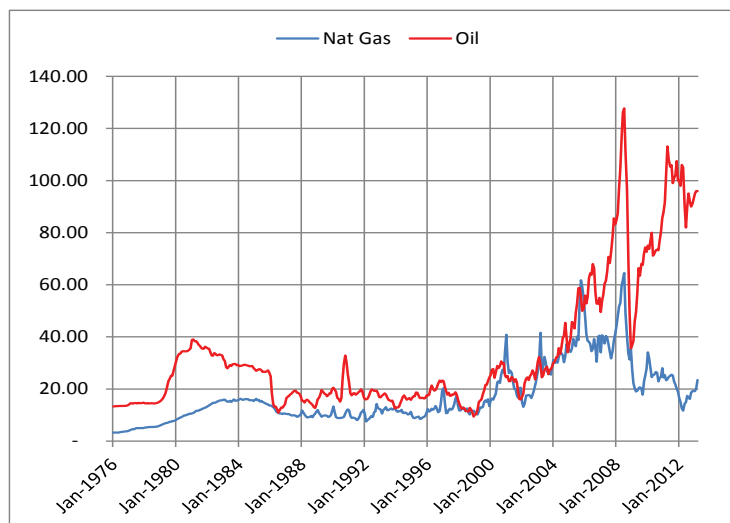
Fidelity Select Natural Gas Fund (FSNGX) is up 7.9 percent this year. This is the only mutual fund that concentrates on the natural gas industry, and a diversified play on the gap between the energy equivalents of oil and natural gas.

One barrel of oil provides approximately 5.8 million British Thermal Units (BTUs) of energy. So if a barrel of oil is say, \$100, that is the cost of 5.8 million BTUs of energy. On the other hand, with the market price for natural gas at \$4.00 for one million BTUs, 5.8 million BTUs will cost \$23.20 (5.8x4.00). So the same amount of energy is available for approximately 23.20 cents on the dollar -- if it is in the form of natural gas.

As the chart below shows, this is not a normal situation. The red line shows the price of a barrel of oil since the mid-1970s. The blue line shows the price of natural gas multiplied by 5.8 to approximate the same amount of energy contained in a barrel of oil. Note that for most of the time (36 years), the two forms of energy are closely aligned. This stands to reason. After all, energy is energy, and it should cost approximately the same regardless of the form in which it comes. However, that is not the case today. For 5.8 million BTUs of energy, it costs approximately \$100 if it is in the form of oil, but only \$23.20 in the form of natural gas.

The US is self-sufficient in natural gas with only 9 percent imported from Canada. At 23.2 cents on the dollar versus oil, natural gas is bound to have a growing role in America's energy needs as well as independence from importing oil. This fund is well positioned to benefit from an expanding natural gas industry.

The Cost of Energy Equivalents of Oil and Natural Gas



Hambrecht & Quist Life Sciences Fund (HQL) is up 24.1 percent this year, extending our profit to 91.3 percent. The climb in the price of HQL has brought the price/earnings (P/E) ratio of the underlying portfolio above 25. Although these are typically young promising companies which tend to carry high multiples, we are not anxious to chase a high P/E. Accordingly, we recommend accumulating shares on weakness.

The most explosive profits in the entire healthcare industry can be found here in biotech companies. This is a volatile sector, so diversification is crucial. HQL is a superior way to gain exposure to biotech on a diversified basis.

ICON Energy Fund Class S is a no-load open-end mutual funds we added last month because the demand for energy accelerates with an economic expansion. The best time to invest is when the economy is coming out of a slump, before demand increases.

Aside from the cyclical timing, above average investment returns can be earned over the long run. Over the last 10 years, the Energy Equity Index produced an average of 14.58 percent annually while the S&P 500 produced an annual return of 7.24 percent. The superior performance is due to the fact that energy is in the fabric of the economy. It takes energy to make everything, and especially large amounts to make the most vital materials and substances, such as chemicals, plastics, and to run data centers. There is always the possibility of the added “bonus” of geopolitical disturbances threatening supplies and driving up energy prices.

Sadly, most energy mutual funds have not been able to match the 14.58 percent annual performance of the Energy Equity Index. However, this fund not only beat the Energy Equity Index resoundingly, it has turned in the best performance – by far – of energy funds. This no-load fund furnished an annual return of 16.14 percent during the last ten years. Investing \$10,000 in this fund grew into \$44,646. It also has the lowest annual expenses of all of the ICON Energy Funds.

This Fund’s performance also led the pack in shorter durations – 5 year, 3 year, and 1 year.

Derek Rollingson, who has managed the Fund since May 2007, emphasizes value. While the price of energy in its different forms is important, the real opportunities come from how the stock market reacts to changes within the industry: whether the market realizes the change too fast and becomes over-priced, or conversely, whether there is still opportunity to invest. This Fund focuses on the values created by changes, even by falling prices.

Leucadia (LUK) is up 29.6 percent this year, extending our profit to 50.7 percent. This is a holding company with a portfolio in excess of \$9 billion of assets in beef processing, manufacturing, gaming entertainment, real estate activities, medical product development, and winery operations.

Skillful investing has produced double digit growth rates in its assets since 1979. After a bad year in 2008, assets have since grown by 150 percent according to Morningstar.

We think that LUK is valued well below the market prices of its disparate parts, with a very low debt-to-equity ratio. LUK’s holdings currently translate into a P/E ratio of 11.9, substantially below the market averages. It remains undervalued.

Its management has been compared to Warren Buffett in their success at identifying lucrative investments that can be purchased substantially below their intrinsic value. In fact, Buffet continues to team up with the Leucadia team on joint venture investments, and several holdings are directly partnered with Warren Buffett.

Masco (MAS) was up 59 percent last year and up another 16.9 percent this year, extending our profit to 164 percent. MAS manufactures a wide range of products for home construction and remodeling--everything from kitchen cabinets and faucets to windows and paint.

We added MAS to the portfolio at \$7.49 after the shares got hammered during the recession. However, the share price has rocketed, bringing the price/earnings ratio to 32 times the 2013 earnings estimate of \$0.60 a share. This high price/earnings ratio is already anticipating a steep growth rate. We continue to recommend waiting for a pullback to accumulate more shares.

Maxim Integrated Products (MXIM) is up 5.2 percent this year, extending our profit to 59 percent. MXIM specializes in high-performance electronic chips that convert digital signals into analog format. Such chips are in every cell phone. After receiving a digital signal, it must be transformed into an analog format so that we can hear it.

MXIM also makes integrated power management chips (PMIC) for portable devices makers to extend battery lives.

Revenues and earnings are growing sharply. On April 24, MXIM reported third-quarter profit of \$131.39 million or \$0.44 per share, up from \$54.52 million or \$0.18 per share in the same period last year. Income from continuing operations totaled \$128.79 million or \$0.43 per share, compared to \$22.71 million or \$0.07 per share last year.

Samsung’s cell phones and tablets are now contributing to 40 percent of MXIM’s revenues and 30 percent of earnings.

The importance of Samsung is both a benefit and a risk. To diversify, MXIM is starting to sell integrated power management chips to other smartphone manufacturers who are aiming for growth in lower-priced handsets in emerging markets.

In April MXIM announced its new “smart” battery charger that automatically identifies the host device and the adapter type, and then determines the fastest rate to charge a battery. It also monitors temperatures and adjusts the charging current and voltage to maximize safety in any temperature environment. The MAX77301 charger is ideal for mobile equipment, such as cameras, Bluetooth headsets, MP3 players, and portable medical devices.

MXIM is in excellent financial health with \$1.0 billion of cash and plenty of cash flow to support operations. The investment and resources necessary to develop MXIM’s

Income With Growth	Sym	Exchange	Price	Yield	Limit	Action
Associated Estates Realty Corp	AEC	NYSE/Nasdaq	\$ 17.94	4.24%	\$ 19.00	BUY
CommonWealth REIT	CWH	NYSE	\$ 22.36	4.47%	\$ 22.00	HOLD
Retail Opportunity Investment Corp	ROIC	NASDAQ	\$ 14.86	3.77%	\$ 15.00	BUY
Diversified Growth						
CGM Realty Fund	CGMRX	800-343-5678	\$ 32.02	0.81%	\$ 35.00	BUY
Comcast	CMCSA	NASDAQ	\$ 41.28	1.57%	\$ 40.00	HOLD
Leucadia National Corp.	LUK	NYSE	\$ 30.84	3.24%	\$ 32.00	BUY
Masco	MAS	NYSE	\$ 19.47	1.54%	\$ 16.00	HOLD
Paychex	PAYX	NASDAQ	\$ 36.36	3.52%	\$ 32.00	HOLD
Pfizer	PFE	NYSE	\$ 29.15	3.02%	\$ 30.00	BUY
Stryker Corp.	SYK	NYSE	\$ 65.40	1.30%	\$ 68.00	BUY
Xerox	XRX	NYSE	\$ 8.59	1.98%	\$ 10.00	BUY
Energy/Natural Resources						
Agrium	AGU	NYSE/TSE	\$ 91.71	2.18%	\$ 110.00	BUY
Chesapeake Energy Corp	CHK	NYSE	\$ 19.50	1.79%	\$ 22.00	BUY
Fidelity Select Nat. Gas Fund	FSNGX	800-544-8888	\$ 33.28	0.17%	\$ 35.00	BUY
ICON Energy Fund Class S	ICENX	Your Broker	\$ 21.06	0.00%	\$ 24.00	BUY
Tetra Tech	TTEK	NASDAQ	\$ 26.44	0.00%	\$ 26.00	HOLD
USAA Precious Metals & Minerals	USAGX	800-862-6909	\$ 17.63	0.46%	\$ 20.00	BUY
Aggressive Growth						
AMN Healthcare	AHS	NYSE	\$ 13.77	0.00%	\$ 11.00	HOLD
Boston Scientific	BSX	NYSE	\$ 7.47	0.00%	\$ 8.50	BUY
ETF - Direxion Daily 20+ Yr Bear 3X	TMV	NYSE	\$ 49.16	0.00%	\$ 60.00	BUY
ETF - ProShares Short 20+ Year Trsry	TBF	NYSE	\$ 29.46	0.00%	\$ 32.00	BUY
ETF - ProShares UltraShort 20+ Year Trsry	TBT	NYSE	\$ 58.81	0.00%	\$ 66.00	BUY
H&Q Life Sciences Fund	HQL	NYSE	\$ 18.00	6.00%	\$ 18.00	BUY
Maxim Integrated	MXIM	NASDAQ	\$ 30.92	2.85%	\$ 33.00	BUY
Symantec	SYMC	NASDAQ	\$ 24.29	0.00%	\$ 25.00	BUY
Tellabs	TLAB	NASDAQ	\$ 2.06	0.00%	\$ 2.50	BUY

Prices are as of 4/30/2013. See our website for live pricing and buy limits.

<http://www.soundadvice-newsletter.com/members>

Yields on funds do not include distributions of capital gains. Note that all fund distributions fluctuate annually.

analog chips, and the years it takes to develop them, is an entry barrier for new competition. Once developed, these chips have long and profitable product lives.

Paychex (PAYX) is up 16.9 percent this year, extending our profit to 35 percent.

PAYX is the second-largest provider of payroll services to small to medium-sized companies serving a total of approximately 567,000 payroll clients. Accordingly, its revenues and earnings directly mirror the employment situation. There is definitely further growth ahead with a recovery in the economy. Another attractive feature is its pristine with no long-term debt exposure.

However, in its typical fashion, the market has been anticipating future growth by bidding up the stock price. The price/earnings ratio is currently 22 based on 2013 earnings estimated at \$1.60. A P/E of 22 is above the market

average of approximately 14 and not a bargain, so we would recommend not chasing it higher.

Morningstar's fair value estimate is \$38 per share which does not allow much head room from the current price.

We recommend that you hold for now and wait to accumulate any more shares on weakness.

Pfizer (PFE) is up 16.2 percent this year, extending our profit to 74 percent.

We added PFE to the portfolio when it became dirt cheap as the expiration date approached on its blockbuster drug, Lipitor. However, its future was brighter due to the arsenal of new pharmaceutical products. Pfizer is poised to launch several blockbusters in cancer, heart disease, and immunology.

Pfizer is the world's largest pharmaceutical firm, with annual sales near \$60 billion. Pfizer's large size gives it

economy of scale and the resources to finance the research and development of new drugs. It has more than 80 drugs in the development stage and 90 in the discovery stage.

In April, PFE and Merck joined forces to develop worldwide Pfizer's treatment of type 2 diabetes, Ertugliflozin, an oral sodium glucose inhibitor discovered by Pfizer scientists. Pfizer received an up-front payment of \$60 million and will be eligible for additional payments associated with the achievements in future clinical, regulatory, and commercial milestones. Merck and Pfizer will share potential revenues and certain costs on a 60/40 percent basis.

PFE has an extensive sales force to market its products in nations where growth and increasing wealth is strong, including Brazil, Russia, India, China, and Turkey. PFE has devoted the resources to arm its salesforce with plenty of data for marketing.

Retail Opportunities Investment Corp (ROIC) is up 15.6 percent this year, extending our profit to 40 percent. This REIT began as an IPO in October 2009, just after the REIT sector had been decimated by the 2008 melt-down. It started with a fresh slate in a real estate market replete with bargains.

It is a simple model: buy distressed retail properties with high-quality demographics, refurbish them, and then lease them at a premium. As new properties are added, along with tenant upgrades, FFO is bound to continue to rise, along with the dividend, and push the price of this REIT upward.

Based on its peers (Regency Centers, Acadia Realty Trust, and Kimco Properties), ROIC should trade close to \$18 a share in today's market.

Stryker (SYK) is up 19 percent so far this year, extending our profit to 57 percent. SYK is best known for its orthopedic devices: artificial knees and hips. SYK also provides a diverse array of innovative medical technologies, including reconstructive, medical and surgical, as well as neuro-technological and spine products.

Stryker's cash-rich balance sheet (with over \$2 billion in net cash) and robust cash flow, gives SYK multiple avenues for growth through mergers and acquisitions. The company recently took advantage of the low interest rate environment by selling \$600 million of senior unsecured notes due 2018 that bear interest at 1.3% per year. It also sold \$400 million of senior unsecured notes due 2043 that bear interest at 4.1% per year. Part of the proceeds of the offering was used to repurchase approximately 3.6 million of its shares.

On April 24, Stryker reported earnings of \$304 million, or 79 cents a share, down from \$350 million last year, or 91 cents per share. The earnings report included a \$40 million charge from the voluntary recall of the Rejuvenate and ABG II modular-neck hip stems.

Net sales of \$2.2 billion increased 1.3 percent in the quarter compared to the prior year. Kevin Lobo, President and Chief Executive Officer, said "We delivered solid sales and earnings performance, and expect this momentum to continue throughout 2013."

Reconstructive implants account for 45 percent of SYK's revenues, and more profits are assured by accelerating demand for joint replacements on aging baby boomers. As life expectancies continue to increase, and obesity trends continue, more and more hip, knee, and spinal procedures will be needed.

Symantec (SYMC) is up 29 percent this year, extending our profit to 45 percent. SYMC is the dominant supplier of software for computer security and protection against viruses and other nuisances through its leading flagship brand, Norton.

We added SYMC to our portfolio when it was cheap and when the company was suffering from operational inefficiency and lack of direction. In July, 2012, Steve Bennett took over as the new CEO and has streamlined operations while giving SYMC stronger direction.

SYMC is expanding its cloud computing customer base through its new product "Norton Zone" which allows users to safely access, sync, and share photos, videos and documents from any of their PC, Mac, Android, or iPhones and iPads.

Protection from cyberespionage is definitely a growth industry. There was a 42 percent surge in attacks during 2012 compared to the prior year, according to a report based on data from Symantec's Global Intelligence Network, which Symantec analysts use to identify, analyze, and provide commentary on emerging trends in attacks, malicious code activity, phishing, and spam.

"This year's [data] shows that cybercriminals aren't slowing down, and they continue to devise new ways to steal information from organizations of all sizes," said Stephen Trilling, chief technology officer of Symantec.

According to Symantec, attackers hone in on small businesses that may often lack adequate security practices and infrastructure. The attacker leverages the weak security of one business to circumvent the potentially stronger security of another business. In 2012, the Elderwood Gang infected 500 organizations in a single day in a "watering hole" attack whereby the attacker compromises a website, such as a blog or small business website, which is known to be frequently visited by the victim of interest. When the victim later visits the compromised website, a targeted attack payload is silently installed on their computer.

Last year, mobile malware increased by 58 percent, and 32 percent of all mobile threats attempted to steal information, such as e-mail addresses and phone numbers. Surprisingly, these increases cannot necessarily be attributed to the 30 percent increase in mobile vulnerabilities. While Apple's iOS had the most documented vulnerabilities, it only had one threat discovered during the same period. Android, by contrast, had fewer vulnerabilities but more threats than any other mobile operating system. Android's market share, its open platform and the multiple distribution methods available to distribute malicious apps, make it the go-to platform for attackers.

Tellabs (TLAB) designs and manufactures hardware for the telecommunications industry. It is down slightly this year,

near its all-time low and is a bargain at this price.

The company's balance sheet at the end of the first quarter show cash and equivalents of \$1.13 billion, which works out to \$3.14 per share. Adding in its other assets, including properties and equipment (less depreciation), but excluding the paper assets of Goodwill and Intangibles, TLAB's assets total \$1.42 billion, or \$3.95 a share.

The company has no debt, but short-term liabilities total \$507 million, leaving net assets of \$912 million, or \$2.54 per share.

TLAB has been hurt by falling demand in Europe along with falling revenues from its largest customer, AT&T.

The company is still experiencing deficits, although they are getting smaller with each quarter. On April 26, TLAB announced its first quarter results which were below expectations. The net loss was reported to be \$55.9 million or 16 cents per share as compared to a net loss of \$139.8 million or 38 cents per share in the previous quarter.

TLAB is restructuring its operations and has discontinued its 9200 router which should continue leading to savings in operating costs. The 8600 and 8800 routers show promise and are expected to lead to the company's profitability in 2014.

The company has plenty of cash to survive until it can turn a profit, even if profits are delayed substantially. However, the \$1.00 dividend paid late last year (to gain favorable tax treatment) is the last dividend the foreseeable future.

The company has begun buying back its shares, and plans to reduce the float by 20 percent.

At a discount to its net assets, there is very little downside risk. As profitability comes into focus, the market will anticipate a brighter day ahead and bid up share prices.

Tetra Tech (TTEK) is unchanged this year, leaving our profit at 72 percent. TTEK is a leading company in water technologies and environmental remediation with a healthy balance sheet.

In April, TTEK announced that earnings will be reduced in the second half of the year due to weak business conditions in the Canadian regions and poor performance in the mining segment. TTEK also derives a major portion of its revenue from the US federal government agencies, and the delay in the government's budget is having an adverse impact on its future revenues.

Helping to offset the reductions is strong demand from domestic and international commercial clients. In addition, recent acquisitions should be paying off soon and business margins have widened in the energy sector. Management efforts to reduce costs should help as well.

TTEK currently has a record backlog of work totaling approximately \$2 billion. In April, TTEK was awarded a \$17.8 million contract to clean up the McClellan Business Park in California, formerly the McClellan Air Force Base. This follows the March award for a \$100 million remedial action contract by the Naval Facilities Atlantic Division covering the Atlantic area

including North Carolina, Virginia, Maryland, Connecticut, Maine, West Virginia, Africa, and Vieques, Puerto Rico.

The greatest growth potential lies outside the United States in China and India, where environmental concerns have been at best an afterthought. Only now are these governments starting to recognize the consequences. As these and other governments around the world make this a priority, Tetra Tech should be a prime beneficiary.

USAA Precious Metals & Minerals Fund (USAGX) is down 34 percent this year as the price of gold suffered a heavy sell-off in mid-April. The negative economic reports also scared gold investors. However, the longer-term fundamentals are still in-tact.

India and China account for nearly half of the demand for gold. While growth has slowed, these economies are still experiencing an expanding middle class with increasing discretionary incomes. Gold is a fundamental asset in these cultures for long-term wealth creation. India's wedding season is around the corner, which spawns seasonal purchases.

USAGX is the best diversified way to invest in precious metals. It is the top-performing fund, and has constantly outperformed precious metal equities for ten years. Even after the poor markets and declines of precious metals, USAGX still provided an annualized return of 13.54 percent over the last ten years as of April 29.

When the economy gets more traction, USAGX will benefit from the Federal Reserve's monetary stimulus programs which have been printing money to make massive purchases of Treasuries and mortgage-backed securities. All these extra dollars will raise inflationary expectations, and precious metals will be a direct beneficiary.

Xerox (XRX) has climbed 25.9 percent this year. XRX has been transforming from a seller of printers and copiers to a company providing services on those machines as well as I.T. services in a variety of other areas. The revenue from services is more profitable and less cyclical, and it now accounts for half of XRX's revenues.

The addition of a substantial amount of new service clients in 2012 were a drag on earnings because they required start-up expenses. However, revenues began to show up in the fourth quarter, resulting in higher than expected earnings, even off-setting poor European results.

Net growth is expected to continue from services as well as technological advances in its color output equipment. XRX is expected to earn \$1.00 per share and at least \$1.10 next year. At 8.4 times 2013 earnings, XRX is at a steep discount to the market's price earnings ratio of 14. XRX is still dirt cheap.

When Wall Street starts to believe in the growth prospects, the stock will be trading at a substantially higher price and bring us a large capital gain. Morningstar's fair value estimate of the stock is currently \$11 per share which is still only 11 times 2013 earnings. However, even \$11 is 28 percent above the current price.

Capital Competition: Real Estate versus Stocks: The SoundAdvice Risk Indicator

There are few forces that are more important to a market's destiny than the amount of capital that is available to it. In a normal situation, capital will flow easily between markets as their underlying conditions change. But if a market becomes dangerously superheated, it will absorb a larger proportion of available investment capital than economic conditions and market demand can justify. This change will be reflected not only in the rising market's prices but also in the prices of competing markets, which will be lower than their underlying fundamentals would indicate they should be. Over the last 100+ years, we can see this titanic struggle between the stock market and its foremost competitor for investment dollars: real estate.

To reveal this phenomenon, we have set up an equation in which we divide the Standard and Poor's 500 Stock Index average by the median price of a new house for each month over the last 100+ years. This equation exhibits an elegant financial minuet as each market has taken turns outperforming the other.

As we look at the historical data, we find that there is a range in which the price disparities are so strong that they are too great to be accounted for by the fundamental economic conditions underlying each market. Every time prices get into these danger zones it has meant that the prices in one market or the other have gone too high, and that they are in imminent danger of falling.

We can, therefore, label this new tool the **SoundAdvice** "Risk Indicator," since it will allow us to locate the point at which prices are so high when compared to competing markets that they have come loose from their moorings

and are on the verge of declining or underperforming the other market.

What is too high? When stock prices are very high relative to house prices, the **SoundAdvice** Risk Indicator will rise over the line marked 2.0, revealing a high-risk time for stocks. In contrast, when the indicator drops below the line marked 1.0, it means that it is a very low-risk time to buy stocks. Notice from the chart how the **SoundAdvice** Risk Indicator has oscillated back and forth, revealing the ongoing struggle between Stocks and houses for investment capital. We have labeled these long vacillations Supercycles.

The figures show that over the entire century-plus, stock prices have outperformed housing prices. Just based on the price growth of each investment market and assuming no leverage was used, a \$25,000 investment would have grown to \$9,122,529 in stocks and to \$1,409,043 in houses.

But though an investment beginning with \$25,000 in 1895 could have made money being in either stocks or housing and simply leaving it there over such a long period of time, had the investor followed the signals of the **SoundAdvice** Risk Indicator he would have made \$362,583,075, or 39.7 times more money—the difference between profits the buy-and-hold stock market strategy would have yielded by itself and the profits that the **SoundAdvice** Risk Indicator would have provided.

These figures illustrate why it is so important to remain aware of the Supercycles that are at work within markets.

The SoundAdvice Risk Indicator

The latest reading for the **Sound Advice** Risk Indicator is 1.54. This reading reveals that stock prices are slightly above average in relation to house prices. The February 2009 reading of 0.77 marked the low for this cycle as well as the beginning of Supercycle 6.

See *The Science of Making Money in Turbulent Markets* for a complete explanation of the **Sound Advice** Risk Indicator and its track record. (You received a copy of this book with your subscription, and you will also receive an updated copy when you renew your subscription.)



Business Cycles and Stocks: The SoundAdvice Diffusion Indexes

If the Supercycles identified by our Risk Indicator are the solemn, inexorable seasons that roll across the market's landscape, business cycles are the highly visible, sometimes serene but frequently blustery fronts and storms that we actually perceive as weather. The Risk Indicator has given us a reliable tool to determine the investment season in the stock market. This information is all-important; there will be no heat waves in January, no blizzards in July. But in our search for fair winds, we need to know more than the season. We also must be able to predict the shorter-term weather -- the bull and bear markets that fluctuate along the path of Supercycles.

The data we need is contained in the leading and lagging economic indicators published monthly by The Conference Board. We have hand picked the most sensitive of these economic indicators to produce our "Diffusion Indexes" which function with amazing accuracy as predictors of the birth of cyclical bull and bear markets in stocks.

To construct our SoundAdvice Diffusion Indexes, we observe changes in each of our selected indicators over a six-month period. For every indicator that is unchanged from its value during the six month span, we will attach a value of one half point (0.5). If an indicator falls below its level six months prior, it will be given a value of zero. If an indicator is higher than it was six months before, it is assigned a value of 1.0. The sum of all of these figures will be expressed as a percentage of the total number of indicators. If, for example, one indicator is up (+1) at the end of a six-month period, one is unchanged (+0.5), and one is down (0), the diffusion index will be $(1.5)/3$ or 50 percent.

When the SoundAdvice Diffusion Index of Leading Indicators drops to zero, it is time to buy stocks aggressively, regardless of how negative the atmosphere may be. This is not just an empirical coincidence. It is also logical. In order for all of the leading economic indicators to be giving off a zero value compared to six months before, it is nearly certain that the economy as a whole must be very soft, which is the atmosphere necessary to produce a lasting decline in interest rates.

The Diffusion Index of Leading Indicators: As far back as February and March 2009 we were projecting that our Diffusion Index of leading indicators soon would hit zero and mark an important buying opportunity. We made that projection by assuming that the leading indicators would not improve in the current economic environment. In fact that signal arrived in March, very close to the bottom, officially giving us an "Aggressive" signal. The market subsequently climbed 61 percent.

An "Aggressive" signal coming at a time when the Risk Indicator was below 1.0 revealed that Supercycle 5 came to an end, and that Supercycle 6 was born.

The SoundAdvice Diffusion Index of Lagging Indicators gives "Caution" signals when all three of its individual lagging economic indicators rise above their respective levels of six months earlier, providing a 100 percent reading which reveals that the economy is about to put upward pressures on interest rates. This index hit 100% in March 2012 (reported in April - close to the peak of the market) telling us to move to a cautious approach.

Our next signal will come from a zero reading from our Diffusion Index of Leading Indicators. The latest reading is 100 percent.

Each month we project into future months the current readings for our hand-picked individual leading economic indicators that go into our Diffusion Index of Leading Indicators. We do this to see if a zero reading will be recorded assuming the readings stayed the same. However, due to significant increases in all of the leading indicators, we will not see a new signal (zero reading) in the months ahead unless the economy shows significant weakness.

Track Record of the SoundAdvice Diffusion Indexes

If we had followed the signals from our Diffusion Indexes over the years, we would have done very well indeed. The results are shown below. After each "Aggressive" signal, the S&P 500 climbed an average of 34.4 percent. During "Caution" signals, the S&P 500 declined an average of 0.2 percent.

Aggressive	S&P	Caution	S&P
Sep-74	68.1	Apr-76	101.9
Jul-76	104.2	Dec-76	104.7
Oct-78	100.6	Jun-79	101.7
Nov-79	100.0	Oct-83	167.7
Aug-84	164.5	Jun-85	188.9
Jul-86	240.2	Aug-87	329.4
Feb-88	258.1	Jun-88	270.7
Mar-89	280.0	Mar-93	449.7
Mar-95	493.2	Dec-98	1,141.0
Jun-00	1,429.4	Dec-00	1,320.3
Jun-03	974.5	May-05	1,191.5
Jun-06	1,276.7	Mar-08	1,325.4
Apr-09	848.2	Mar-12	1,370.3
Ave +/-	34.4%		-0.2%

See *The Science of Making Money in Turbulent Markets* for a complete explanation of the SoundAdvice Diffusion Indexes and their track record. (You received a copy of this book with your paid subscription, and you will also receive an updated copy when you renew your subscription.)

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