SoundAdvice **The Best Risk-Adjusted Returns in Both Up & Down Markets from 2000-2015** - Hulbert's Financial Digest

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Quantitative Tightening

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The *Sound Advice* Portfolio is up 6.2 percent so far this year, as compared to 10.2 percent for the S&P 500. We have an average profit of 72 percent based on the prices at which each position was recommended.

The *Sound Advice* investment returns in prior years have been calculated independently by the Hulbert Financial Group. They are as follows:

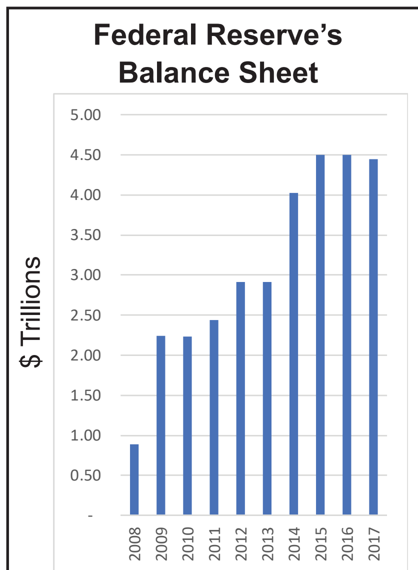
18.69% in 2016 vs.
9.54% from the S&P 500

From 2000-2016
10.30% Annually vs.
2.37% from the S&P 500

To pull the economy out of the 2008-09 melt-down, the Federal Reserve instituted three massive rounds of "Quantitative Easing" (QE) programs. These involved buying large quantities of Treasury bonds and mortgage-backed securities. As we now know, the QE programs worked. The economy was stimulated into a long and steady recovery.

In addition to pumping new money into the economy, these purchases pushed up the prices of these securities which forced their yields down. The downward pressure on bond yields and interest rates also stimulated the financial markets. Mortgage rates dropped to enticing levels. Bond prices soared, forcing bond yields to historically low levels. The stock market staged a bull market that is now 100 months old and still going strong. If it lasts for another 13 months, it will be the longest in modern history.

As the Federal Reserve purchased these Treasury bonds and mortgage-backed securities, they were added to the Fed's balance sheet as assets. The Fed's assets grew by more than 5 times, from under $900 million in 2008 to $4.5 trillion. See the chart below.



Three years ago, when the economy was no longer in need of bailing out, the Federal Reserve stopped the last QE program. Since then, it has simply been replacing securities as they matured, keeping the overall portfolio the same size. To keep its balance sheet stable, the Fed has been making monthly purchases totaling $17.5 billion of Treasury bonds and $24 billion of mortgage securities.

In May, the Federal Reserve conclusively decided to start a program to "normalize" its balance sheet by shrinking its holdings. This will be accomplished by allowing a fixed dollar amount of holdings to mature each month without reinvesting the proceeds in similar securities. In the June meeting, more details were decided.

The plan is to start reducing the Fed's current inventory of $2.8 trillion of Treasury bonds. Holdings will be reduced by $6 billion per month initially, and gradually by $30 billion per month. To wind down the current holdings of $1.8 trillion of mortgage-backed securities, holdings will be reduced by $4 billion per month initially, and gradually by $20 billion per month. In the Fed's late-July meeting, it said that the downsizing of the bond holdings will begin “relatively soon”.

If the Federal Reserve does not reduce its balance sheet substantially now, it will not have the QE tool in its arsenal to stimulate the economy out of another recession. It will also risk sending the financial market into bubbles (to the extent they are not now). Inflation could also be stoked by all of the new QE money sloshing around as the economy heats up.

The reversal of quantitative easing will amount to quantitative tightening. The economy is stronger now, so the tightening is unlikely to cause a new recession. The Fed acknowledges that the unwinding will need to be done slowly and carefully. This will be a balancing act. Considering the enormous stimulative impact quantitative easing had, its reversal could be quite destructive.

The Fed has also acknowledged that this process will be tantamount to a series of interest rate hikes. The Fed’s holdings include a preponderance of longer term bonds. The reduction of the Federal Reserve’s long-term bond holdings will add upward pressure to long-term bond yields. This means that upward pressure will be more pronounced on the long end of the yield curve. This is important because our recommended ETFs for rising interest rates are based on long-term bond yields.

ETFs for Rising Interest Rates

Our recommended ETFs are designed to benefit from the normalization of the Federal Reserve’s balance sheet and increase in long-term bond yields from their current historically low levels. They differ in the amount of leverage used. You can choose among them depending on your investment objectives and risk tolerance.

The **Direxion Daily 20 Plus Year Bear 3 Shares (TMV)** uses 3:1 leverage.

The **Proshares UltraShort Lehman 20 Plus Year Treasury (TBT)** uses 2:1 leverage.

The **Proshares Short 20 Plus Year Treasury (TBF)** uses no leverage.

The price action of these ETFs is based on the changes in long-term treasury bonds, as measured by benchmark bond indexes, only in the opposite direction, and then multiplied by the leverage each ETF uses. For example, a decline of say, 1.0 percent in their respective benchmarks will cause TMV to increase by 3.0 percent, TBT by 2.0 percent, and TBF by 1.0 percent. Conversely, an increase in their respective benchmarks will cause these ETFs to drop in the same fashion.

We can project the movements of these ETFs based on any given scenario. We have been using the Federal Reserve’s prediction, which was as good as any. As part of the Federal Reserve’s quarterly Federal Open Market Committee (FOMC) meetings, each of the 17 committee members makes a prediction regarding the future path of interest rates. Those predictions are plotted in the so-called “Dot Plot”.

The most recent Dot Plot was taken at the June 14 meeting. As usual, there was a wide difference in the predictions among this group of informed experts. The median prediction was that the Federal funds rate would be 1.375 percent at the end of 2017, 2.125 percent at the end of 2018, and 3.00 percent at the end of 2019. These medians were unchanged from the March 15 meeting.

Assuming long-term Treasury bond yields move in accordance with these target points (to preserve the same yields as today’s real return), long-term Treasury bonds would be yielding 3.28% by the end of 2017, and 4.03% by the end of 2018, and 4.9% by the end of 2019.

Here is what would happen to each ETF:

TMV would rise from $19.87 to $24.26 by the end of 2017, to $35.32 by the end of 2018, and to $52.77 by the end of 2019.

TBT would rise from $36.38 to $41.57 by the end of 2017, to $53.39 by the end of 2018, and to $69.78 by the end of 2019.

TBF would rise from $22.65 to $24.21 by the end of 2017, and to $27.44 by the end of 2018, and to $31.37 by the end of 2019.

The Erosion Factor

As we point out regularly, these ETFs suffer from erosion because they decline slightly faster than they increase with an equivalent change in bond yields, particularly with higher leverage. To gauge this factor, we can assume that Treasury bond yields simply tread water, rising and falling by an unusually large amount, say, 0.04 percent (4 basis points) every day, and thus go nowhere through the end of 2017. By the end of 2017, TMV would decline to $18.85 (5.1%), TBT would decline to $35.32 (2.9%), and TBF would decline to $22.28 (0.1.2%). While not insignificant, this erosion factor is nominal in comparison to the price swings caused by a change in bond yields.

Portfolio Updates

We must keep in mind that the market delivers returns in waves, and not in measured doses. We have already had a long wave up. The *Sound Advice* portfolio is currently designed with a cautious approach, as suggested by the "Caution" signal in force by the *Sound Advice* Diffusion Index of Lagging Indicators (page 11) which is telling us that the stage is set for rising interest rates.

Energy & Natural Resource Selections

Improved technology in the US oil patch is bringing down costs and continues to stimulate production. The US Energy Information Administration (EIA), the agency in charge of collecting data, projects that increasing worldwide demand will absorb the added supplies. This outlook translates to flat oil prices for the foreseeable future. However, beneath this stagnant forecast, there are trends that should be beneficial to certain sectors of the industry, and our portfolio selections are selected with these in mind.

Chesapeake Energy (CHK) is well situated to participate in the resurgence of the shale drilling boom because it is a domestic producer. The company has a portfolio of close to 8 million net acres of oil and gas assets inside the US, in the Powder River Basin, Eagle Ford, the Marcellus and Utica shale, along with the Haynesville/Bossier and Anadarko Basin regions. The company expects oil output to grow by 10 percent this year with the goal of doubling it in 2018.

The consensus is that CHK will earn 65 cents per share in 2017. A forward P/E ratio of 10 puts the stock at $6.5. A forward P/E ratio of 15 puts the stock close to $10.

Chevron (CVX) reported second quarter earnings of 77 cents per share on revenues of $34.5 billion in the final days of July. Earnings were disappointing but revenue was higher than expected. Earnings reversed a loss of 78 cents one year ago, and were negatively impacted by a paper loss charged to earnings for "impairment", a charge oil companies are required to take when a low price of oil impairs the value of their oil-producing properties. The stock responded favorably to the news.

Chevron has a huge reserve base and production is set to increase from several areas, including the two massive Australian projects, the Gorgon and Wheatstone, both of which have required large capital outlays that are no longer needed in CVX's forward-going cap-ex budget. Other significant revenue is bound to come from CVX's large, 1.5 million acre position in the prolific Permian Basin which could likely see an eightfold increase to 700,000 barrels of oil per day.

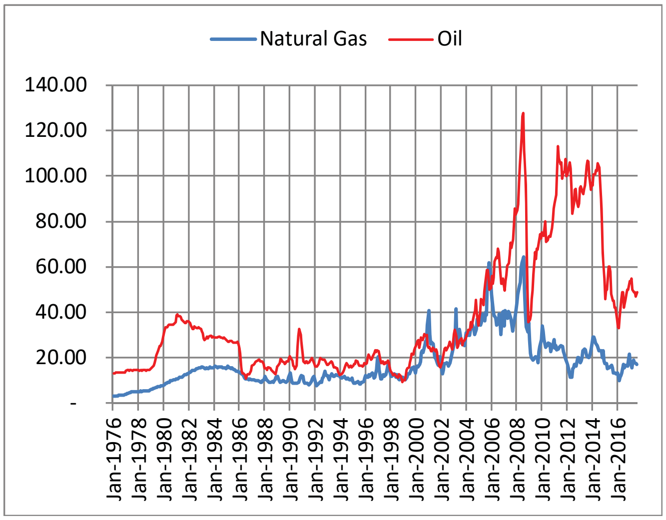
Chicago Bridge & Iron (CBI) completed the sale of its Capital Services business in July for $700 million, a sector of the company that was not particularly profitable. The net sale proceeds are paying down senior debt which will give the company better financial flexibility.

Also in July, CBI received a contract, valued at nearly $200 million, from Venture Global LNG, for the engineering, procurement and construction of two LNG storage tanks in Southwest Louisiana. CBI also secured two $40 million contracts, one with Shurtan Gas Chemical for an ethylene complex to be built in southern Uzbekistan, and the other for DuPont's Sabine River Works ethylene plant in Orange, TX. These contracts will provide a boost to the company's revenue that has been diminished recently by reduced activity from its LNG projects in the Asia-Pacific region.

CBI is expected to report second quarter earnings on 08/07/2017 after the market closes. The consensus among 7 analysts is that CBI will earn 80 cents per share, which is likely close to what the market is expecting. The Company's 2017 earnings guidance is still $3.50 per share. At a P/E ratio of, say 8 times this guidance, a ratio close to one-half that of the overall market, the price of the stock would be $28.

Fidelity Select Natural Gas Fund (FSNGX) is a diversified way to participate in the growth of the natural gas industry through strong companies. Natural gas provides the same energy as oil for pennies on the dollar, and natural gas is more environmentally friendly. One barrel of oil provides approximately 5.8 million British Thermal Units (BTUs) of energy. At the current price of $49 a barrel, that is the cost of 5.8 million BTUs. However, with the current market price for natural gas at $2.94 for one million BTUs, 5.8 million BTUs will cost $17.05. Thus, the same amount of energy is available for approximately 35 cents on the dollar, if it is in the form of natural gas rather than oil.

The Cost of Energy Equivalents of Oil and Natural Gas



The updated chart shows the historic relationship between the costs of these two forms of energy. 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. The fact that natural gas provides energy for pennies on the dollar will translate into an expanding natural gas industry.

ICON Energy Fund Class S (ICENX) is also a diversified way to participate in the expansion of the energy sector with a basket of substantial companies. The hallmark of this fund has been its ability to look for changes within the energy sector to capture value, rather than simply depending on rising oil prices. This fund is a good way to capture today's values and profit from the recovery and changing landscape on a diversified basis with professional management.

Valero Energy (VLO) is in a unique position to benefit from a US conundrum. Prior to the US shale revolution, most US refineries were constructed to process imported oil which is a heavy (thick) and sour (high sulfur) grade. The oil from fracking US shale cannot be processed at these refineries because it is light sweet crude. Moreover, east and west coast refineries do not have adequate access to the US crude oil pipeline network, so they must rely on imported oil arriving in US ports for their feedstocks. This is evidenced by the fact that we are still importing nearly half of our oil needs, while US storage tanks in Cushing, Oklahoma, are brimming with the light sweet crude fracked from US shale.

Valero is well-positioned to take advantage of this conundrum because it has the flexibility to refine substantial quantities of both US light sweet as well as heavy sour crude. It also has access to the US pipeline network for delivery to its gulf coast locations.

This flexibility allows VLO to capture the highest margins among its competitors. It can take advantage of the best discounts for its feedstocks, whether it's low or high quality crude, or light sweet or heavy sour.

Real Estate Selections

Our posture is still defensive with regard to real estate stocks. Commercial real estate prices are historically high because low interest rates have pushed down real estate cap rates to historically low levels (like bond yields). Accordingly, the *Sound Advice* portfolio only includes real estate stocks offering an extraordinary value now. Two currently exist in the hospitality industry.

The table above shows the comparative values of other hospitality REITs. **Hospitality Properties (HPT)** has the second largest discount. However, this company is externally managed by RMR which charges high fees and suppresses value. As long as RMR continues to externally manage HPT, we do not expect to see significant growth. **Host Hotels and Properties (HST)** is very small, with only 749 thousand shares outstanding, which may lead to excessive volatility. Growth may be limited by its small capitalization. **Apple Hospitality (APLE)** is trading at close to its net asset value.

Hersha Hospitality (HT) sold three more of its Hyatt Extended Stay hotels in northern California in July as part of its campaign to upgrade its portfolio. The sale followed the sale earlier this year of the Courtyard by Marriott in Alexandria, VA, and the Residence Inn in Greenbelt, MD, based on a 7.4 percent cap rate.

In July, HT also purchased the *AAA* Four-Diamond 294-room Westin Hotel in Philadelphia, PA, at a cap rate of 7.8%. This purchase adds to HT's Philadelphia cluster which includes The Rittenhouse Hotel and the Hampton Inn Convention Center. The acquisition will benefit HT from increased synergies and economies of scale, and the Westin's superior asset quality and strong cash flow yield makes the investment immediately accretive to the HT portfolio.

During the last several years, Hersha has reported several hotel transactions at cap rates ranging from 5.4 to 8 percent. To be on the conservative side, we can

Hospitality REITs Comparison Table

Company Name	Symbol	Recent Stock Price	Dividend Yield	Stock Market Cap Rate	Portfolio Value @ 7.5% Cap Rate ($Millions)	Stock Value	Discount (-) Premium (+)
RLJ Lodging	RLJ	21.16	6.2%	13.0%	6,458.1	43.16	-51.0%
Felcor Lodging	FHC	7.66	6.2%	8.9%	2,756.6	11.39	-32.8%
Hospitality Properties	HPT	29.06	7.0%	10.3%	11,369.9	47.89	-39.3%
Hersha	HT	18.76	6.0%	8.7%	2,286.7	19.55	-4.1%
Host Hotels & Resorts	HST	18.66	4.3%	9.5%	21.0	24.69	-24.4%
Apple Hospitality	APLE	18.46	6.5%	7.6%	5,510.5	18.81	-1.8%

The table above shows the "Stock Market Cap Rate" (what the stock price is paying for the underlying real estate portfolio) for several comparable hospitality stocks. The "Stock Value" column shows the current value of the stock assuming the underlying portfolios are valued using a cap rate of 7.5 percent, which is close to the average cap rate on recent hotel transactions. The last column shows the discount or premium at which the stock is trading based on a 7.5 percent cap rate valuation of each company's real estate portfolio.

establish a "Main Street" cap rate at the high end of this range of 7.5 percent for valuation purposes.

Based on the latest trailing four quarters' financials, including the most recent 2017 second quarter, and using a 7.5 percent cap rate to evaluate the company's real estate portfolio, we value HT at $19.55 per share which is higher than the current price. HT has completed its upgrading cycle. As future quarters are included, the trailing income will include upgrades to the portfolio, which is bound to cause the net operating income and the net asset value to increase. The dividend yield is attractive and lowers the risk profile.

RLJ Lodging Trust (RLJ) is selling at a steeper discount to its hotel assets than HT. The company is on a mission to upgrade its assets by purchasing properties in high growth markets with barriers to entry while seizing opportunities to sell at high prices, such as the recent sale of two of its New York City hotels at a lofty 4.7 percent cap rate.

Based on the latest trailing four quarters' financials reported, including the most recent 2017 first quarter (RLJ has not yet reported second quarter earnings), and using a 7.5 percent cap rate to evaluate the company's portfolio, we value RLJ at $43.16 per share which is considerably higher than the current price. The high dividend yield is attractive and lowers the risk profile.

In late April, RLJ announced it will merge with FelCor Lodging Trust (NYSE: FCH). Each share of FelCor common stock will be converted into 0.362 shares of newly issued common shares of RLJ stock. Accordingly, the price on the above table for FCH is 0.362 times the current price of RLJ, which is the effective price RLJ is paying. The merge is expected to close by the end of 2017 which will expand RLJ's portfolio to 160 hotels. The merger is estimated to save RLJ close to $20 million in annual administrative expenses.

As we reported in our mid-month update, RLJ has been receiving offers from a private equity firm. The last was for $24 per share for RLJ. Although the RLJ board rejected the offer, along with two previous offers, the stock has remained strong. There may be better offers coming, or this offer simply woke up the market to the under-valued price of RLJ.

These offers for RLJ are an indication that private equity firms have gained new interest in the hotel REIT group. Evidently, the extraordinary value we have been pointing out is becoming more widely recognized.

Third Avenue Real Estate Value Investor Fund (TVRVX) is a global real estate fund which means it is not confined to US real estate with low cap rates. Management looks for growth more than current income by focusing on real estate operating companies which, unlike REITs, can reinvest profits back into the business. Management also searches for opportunities in different aspects of a real estate company's capital structure by investing in senior debt in addition to equity. Also unlike the typical REIT, management will go to cash when asset prices are generally high. Cash is preserved for scooping up opportunities.

TVRVX is loaded with good values substantially below net asset value (NAV) with strong growth prospects. Management has a similar approach to ours because it is very price conscious, especially in relation to net asset value. Just as we do at *Sound Advice,* they eat their own cooking – they invest a substantial amount of their personal assets into their funds.

Medically-Related Selections

The cloud of uncertainty still blankets the healthcare industry as long as the repeal and replacement of the Affordable Care Act (Obamacare) is still ongoing. We are comfortable with our current recommendations in this sector based on their own individual merits.

Boston Scientific (BSX) reported second quarter earnings in July for 31 cents per share, in line with expectations. Revenue surpassed Wall Street forecasts at $2.26 billion. The company now expects 2017 earnings in the range of $1.23 to $1.27 per share, with revenue ranging from $8.89 billion to $8.99 billion.

BSX has been a global medical technology leader for three decades by providing a range of high performance solutions aimed at addressing medical needs and reducing healthcare costs. BSX's medical products are well suited for an aging population.

Stryker (SYK) also reported second quarter earnings in July. Earnings were $1.53 per share on revenue of $3.01 billion. Both of these bottom and top line results beat expectations. The company now expects full-year earnings in the range of $6.45 to $6.55 per share.

Although SYK is best known for its orthopedic devices for artificial knees and hips, the company provides a diverse array of innovative medical technologies, including reconstructive, medical and surgical, as well as neuro-technological and spine products. In July, Stryker received FDA approval for its MultiGen 2 RF (radio frequency) generator, the next generation of radio-frequency ablation procedure for facet joint pain that occurs between the two vertebrae in the spine.

Continued growth is assured by accelerating demand for joint replacements on aging US baby boomers. As life expectancies continue to increase (and obesity trends continue), more and more hip, knee, and spinal procedures will be needed. Stryker's cash-rich balance sheet and strong cash flow give it avenues for continued diversified growth through acquisitions.

Tekla Life Sciences Investors (HQL) is an excellent way to invest in the most explosive profits in the healthcare industry with a portfolio of biotech companies. Over the last 15 years, biotechnology has become a major industry and the source of the world's top breakthrough drugs. Biotech companies tend to be high risk and high reward investments which makes diversification essential.

Financials

The Federal Reserve's most recent Comprehensive Capital Analysis and Review, commonly known as the "Stress Test" on US banks shows that US banks have sufficient levels of capital to weather severe situations similar to those of the 2008-09 melt-down. Our two recommended banks were given the stamp of approval to proceed with their respective dividend increases and share buyback programs.

JP Morgan Chase (JPM) reported strong earnings in July for the second quarter of $1.55 per share, mainly as a result of strong loan growth and higher interest rates. The earnings estimate for 2017 is now $6.82 per share. Strong growth is expected in the immediate years ahead. JPM is expected to earn $7.72 per share in 2018 and $8.50 in 2019. At a forward P/E ratio of 15, JPM would be $102 per share by the end of 2017, $116 by the end of 2018, and $127 by the end of 2019. JPM is still currently cheap in comparison to the rest of the market.

JPM has maintained solid capital levels and has a strong balance sheet. The company has a common equity "Tier 1 ratio", well exceeding minimum requirements. JPM did not have a losing quarter during the 2008-09 meltdown. As a result of passing the latest Federal Reserve Stress Test, JPM increased its quarterly dividend from 50 to 56 cents per share and is proceeding with a $19.4 billion share buyback program.

Wells Fargo (WFC) also beat expectations with the second quarter earnings report. WFC's 2017 earnings are now expected to be $4.16 per share, $4.48 per share for 2018, and $4.95 for 2019. At a forward P/E ratio of 15, WFC would be $62 per share by the end of 2017, $67 in 2018, and $74 in 2019.

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After passing the latest Stress Test, WFC increased its quarterly dividend from 38 to 39 cents per share and is proceeding with its $11.5 billion share buyback program.

Small Caps

Numerous studies show that small caps perform better over the long run than the market as a whole. They are pure plays on the early stages of new industries and inventions, they have more dynamic and entrepreneurial management, and they are much more likely to be the target of an acquisition or merger, which is usually quite profitable.

Third Avenue Small-Cap Value Investor Fund (TVSVX) invests in companies with small capitalizations using the same value-oriented approach as it does with its real estate value fund (TVRVX). Management scours the investment universe for companies that combine the three main features: creditworthiness, a meaningful discount to a conservatively estimated net asset value, and the ability to consistently grow NAV, with an initial targeted holding period of three to five years. A patient and price conscious acquisition is a critical first step in both protecting capital and in realizing an attractive investment return.

Special Situations

The rest of our portfolio falls into other market sectors, with companies that are presenting extraordinary values within their respective industries. Here they are in alphabetical order.

Apple (AAPL) has a pristine balance sheet, with as much cash as long-term debt. The company carries the highest A++ financial rating. The company is getting closer to releasing its new iPhone 8, inaugurating a new upgrade cycle. The Target is still September. The iPhone 8 is rumored to recognize the face of its authorized user. To compete with Samsung, Apple's fiercest competitor, the iPhone 8 will be waterproof.

Samsung has nearly double the market share of smart phones – nearly double that of Apple. More than one-half of Apple's revenue comes from its iPhones, so a gain of just one percent in market share translates to 14 million iPhones, which would add 7 percent to revenue.

Conduent (CNDT) was the growth side of the old Xerox, with expertise in transaction-intensive processing, analytics, and automation. This side of the business had an 86 percent contract renewal rate. CNDT is a turnaround company with fresh new management and specific growth goals. CNDT is the company that Xerox purchased in 2010 called Affiliated Computer, and was spun off in January after 6 years of mismanagement as evidenced by falling operating margins. Still, Carl Icahn holds 9.77 percent of the stock, which means he has influence and a reason to see growth. Icahn has 3 directors on the 9-person board with a focus on shareholder performance.

International Business Machines (IBM) reported second quarter earnings in July of $2.97 per share, above estimates by 23 cents. Revenue of $19.29 billion was a little short of expectations of $19.46 billion. The revenue shortfall was disappointing because it marked the 21st quarter in a row of year-over-year declines.

The company now expects 2017 earnings to be $13.80 per share, which is in line with the consensus of analysts. IBM is a good value now. The $6.00 annual dividend provides a dividend close to 4 percent and puts a floor under the stock because the yield would become even greater if the price of the stock declined. The stock is selling at a P/E ratio substantially below the market. A P/E ratio of 15 puts the stock above $200 per share.

IBM's P/E deserves to be higher because the company is turning into a growth stock. Its artificial intelligence division is in its infancy. We have only begun to see and imagine the uses of artificial intelligence. Watson, the Company's super computer, can "think" like a human. Watson cognitively scans a world of data and applies relevant information to what it learns about a company's business and systems to create new revenue streams, reduce expenses, and make existing operations more efficient. IBM is the leader in that field and on a solid path to provide a growing abundance of opportunities in the months and years ahead.

NCR Corp (NCR) reported second quarter earnings in July of 80 cents per share, which was above expectations and 13 percent higher than one year ago (in constant currency). The company re-affirmed its 2017 earnings guidance to be in the range of $3.32–$3.42 per share. At a P/E ratio of 15, the stock belongs close to $50 per share. NCR makes automatic tellers (ATMs), retail point-of-sale (POS) workstations, self-service kiosks, and other self-service checkout systems. 485 million people use NCR products every day, and there is room for substantial growth in the US and around the world.

Symantec (SYMC) is the world's leading cyber security company offering organizations strategic, integrated solutions to defend against sophisticated attacks across endpoints, cloud, and infrastructure. Symantec operates one of the world's largest civilian cyber intelligence networks, allowing it to see and protect against the most advanced threats. If there ever was a more certain growth industry, protection from cyber espionage is it.

Tetra Tech (TTEK) is a leading company in water technologies and environmental remediation. The acquisitions of Coffey and INDUS corporations have swelled TTEK's backlog of contracts and increased prospects for more Federal contracts in the IT sector. The company's backlog is now $2.3 billion, which reveals a robust pipeline with major governmental organizations like the US Department of State, US Army Corps of Engineers, and the US Air Force, which should continue to bolster growth. TTEK has a very healthy balance sheet.

Xerox (XRX) has new separate leadership and goals, since the spin-off of Conduent (CNDT), which is bound to translate into better focus execution. CEO, Jeff Jacobson, is bringing a new enthusiastic corporate culture and a three-year strategy for growth. Xerox is rolling out 29 new products aimed at mid-size companies which are stronger growth targets than large-scale businesses. An area of focus is "smart-label" technology directed at food and drug companies. Smart labels are printed electronic circuits that allow items to be identified and tracked in real time. They can be produced for a fraction of the cost of silicon sensors and used on small packages. This is a wide-open and high-growth market.

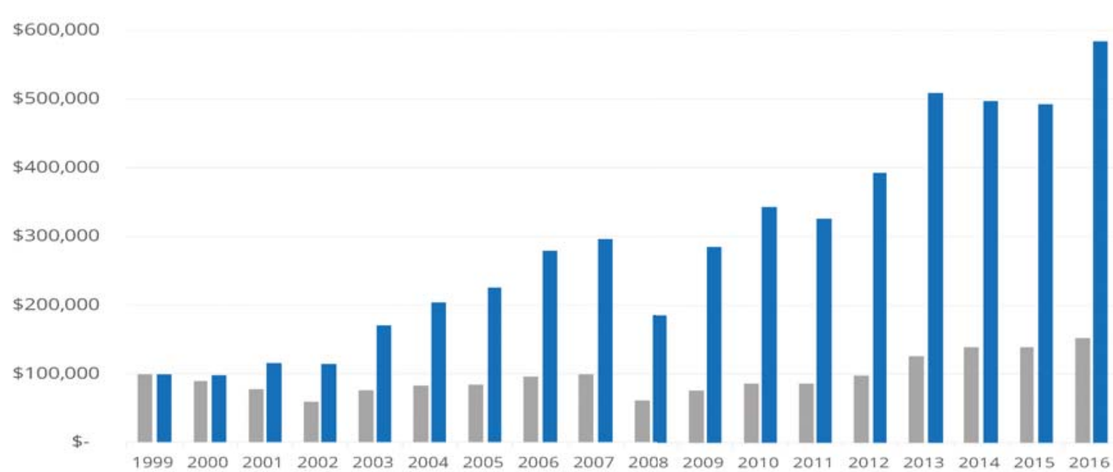
XRX is still cheap relative to the rest of the market, especially with new growth paths to be implemented under the watchful eyes of Carl Icahn who holds 9.77 percent of the stock. The company's full year 2017 earnings guidance is from $3.20 to $3.50. At the current stock price, the price/earnings ratio is below 10 which is substantially below the market average. The dividend yield is also attractive.

Hedging the Portfolio

Our **SoundAdvice Diffusion Index of LAGGING Indicators** (page 11) is warning us to be cautious. Accordingly, we are also recommending a reverse ETF that essentially short-sells the market and will benefit from down-drafts in the S&P 500.

The **ProShares UltraShort S&P 500 (SDS)** is designed to produce two times the daily fluctuations of the S&P 500 index. A decline of say, 1.0 percent in the S&P 500 will cause SDS to increase by 2.0 percent. Conversely, an increase in the S&P 500 will cause SDS to decline in the same fashion. We have been tracking SDS and confirmed that it is performing as it should, with daily premiums and discounts within 0.5 percent. It is also very liquid.

Sound Advice vs the S&P 500



This chart shows the growth of $100,000 invested in the S&P 500 (in gray), which would have grown to $152,379, versus $100,000 invested in the *Sound Advice* recommendations (in blue), which would have grown to $584,161.

Energy/Natural Resources	Symbol	Price / NAV	Yield	Action	Limit
Chesapeake Energy Corp	CHK	$4.96	0.00%	BUY	$5.50
Chevron	CVX	$109.19	3.96%	BUY	$112.00
Chicago Bridge & Iron	CBI	$18.74	1.49%	BUY	$25.00
Fidelity Select Nat. Gas Fund	FSNGX	$23.81	0.52%	BUY	$28.00
ICON Energy Fund Class S	ICENX	$11.94	0.46%	BUY	$14.50
Valero	VLO	$68.97	3.48%	BUY	$70.00
Real Estate					
Hersha Hospitality Trust	HT	$18.76	5.97%	BUY	$20.00
RLJ Lodging Trust	RLJ	$21.16	6.24%	BUY	$24.00
Third Avenue Real Estate Value Investor	TVRVX	$33.64	0.48%	BUY	$35.00
Medically Related					
Boston Scientific	BSX	$26.62	0.00%	BUY	$29.00
Stryker Corp.	SYK	$147.10	1.16%	BUY	$150.00
Tekla Life Sciences Fund	HQL	$21.56	0.00%	BUY	$24.00
Financials					
JP Morgan Chase	JPM	$91.80	2.44%	BUY	$95.00
Wells Fargo	WFC	$53.94	2.89%	BUY	$59.00
Small Caps					
Third Avenue Small-Cap Value Investor Fund	TVSVX	$22.12	0.29%	BUY	$24.00
Special Situations					
Apple	AAPL	$148.73	1.53%	BUY	$158.00
Conduent	CNDT	$16.51	0.00%	BUY	$18.50
International Business Machines	IBM	$144.67	4.15%	BUY	$160.00
NCR Corp	NCR	$37.85	0.00%	BUY	$45.00
Symantec	SYMC	$30.99	1.03%	BUY	$34.00
Tetra Tech	TTEK	$47.45	0.76%	BUY	$49.00
Xerox	XRX	$30.67	0.91%	BUY	$33.00
ETFs for Rising Interest Rates					
ETF - Direxion Daily 20+ Yr Bear 3X	TMV	$19.87	0.00%	BUY	$25.00
ETF - ProShares Short 20+ Year Trsry	TBF	$22.65	0.00%	BUY	$26.00
ETF - ProShares UltraShort 20+ Year Trsry	TBT	$36.38	0.00%	BUY	$40.00
Hedges					
S&P 500 ProShares Ultra Short ETF	SDS	$48.76	0.00%	HOLD	$14.00

This table has live prices, charts & buy limits on our website: http://www.soundadvice-newsletter.com/members

Notes to the table: The right hand column is the highest recommended price limit for purchases. Prices are as of 7/31/2017. See our website for live pricing and buy limits:

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General Comments: Our statistics are based on the assumption that $10,000 is invested in each position. When a new position is added, we assume the same $10,000 amount is invested in the new recommendation. When we recommend adding to a particular position, as we have done over the years, we assume another $10,000 is invested again in that position.

If you are picking and choosing, you can focus on the sector of the portfolio that matches your investment objectives. Alternatively, you may have a higher degree of comfort with certain industries, funds, or stocks because of past experience or your profession. In that case, you may want to invest more heavily in one sector, or in one or more individual recommendations.

As always, broad diversification will temper volatility, add to safety, and improve long-term performance.

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 under performing 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 $14.5 million in stocks and to $1.73 million in houses.

> The New York Times
>
> ***"Cardiff's equation reveals an elegant financial minuet as each market takes turns outperforming the other."***

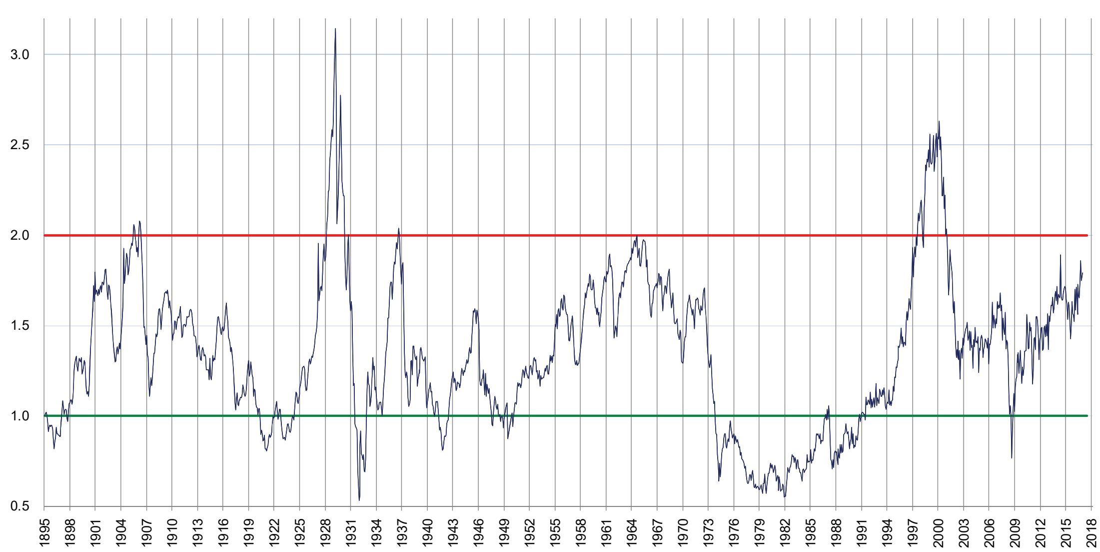
But though an investment beginning with $25,000 in 1895 could have made money being in either stocks or housing and simply leaving it there over such a long period of time, had the investor followed the signals of the SoundAdvice Risk Indicator he would have made $577 million, or 39.7 times more money—the 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 latest reading for the SoundAdvice Risk Indicator is 1.82. This reading reveals that stock prices are 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 the Stock Market*** for a complete explanation of the SoundAdvice Risk Indicator and its track record.

The SoundAdvice Risk Indicator



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, and take the percentage of those increasing.

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 soft economy is providing an atmosphere for stable or declining interest rates.

This Diffusion Index gave us a zero reading in April, 2009, close to the bottom, officially giving us an "Aggressive" signal. That signal came at a time when the Risk Indicator was below 1.0, which 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. This reading reveals that the US economy is strong enough to put upward pressures on interest rates.

We have been operating under a "Caution" signal since the June 2015 release of the May lagging economic indicators.

The SoundAdvice Diffusion Index of LAGGING Indicators was 66.7 percent in June (the most recent data).

Our next signal will come from the SoundAdvice **Diffusion Index of LEADING Indicators** when it drops to zero. **The latest reading for June was 33.3 Percent.**

Track Record of the SoundAdvice Diffusion Indexes

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
Mar-15	2,080.0	May-15	2,111.9
Ave +/-	32.1%		3.7%

This chart shows the growth of $100,000 invested in the S&P 500 (in gray) versus $100,000 invested in the *Sound Advice* recommendations (in blue).

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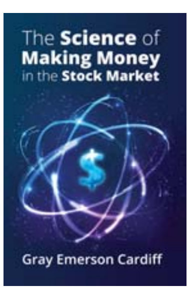

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