



Operation Un-Twist



The SoundAdvice portfolio is still up 15 percent so far this year. This compares to 8.3 percent for the S&P 500. Fifteen of the 24 Sound Advice model portfolio positions are up, 3 are unchanged, and 6 are down. We are selling two of the six that are down - **Third Avenue Focused Credit Fund (TFCVX)** and **Columbia Seligman Premium Technology Fund (STK)** (See page 3). If you own these, we highly recommend putting the sale proceeds toward our recommendations this month (See page 1).

We have an average gain in the Sound Advice Model Portfolio of 39.8 percent based on the prices at which each stock or mutual fund was recommended. Our updates for each holding begin on page 4.

Spain and Italy are the most recent to pop up in the Whack a Euro-Mole game in Brussels last week. It looks like the first step was taken to unify the European Banking system and bring it under a central regulator. It's about time. See page 3 for the Eurozone update.

As the Obama Care bill went into the Supreme Court, we lightened up on health care and related stocks on the basis that it was unlikely something unexpectedly good was going to be the verdict. We are happy we did that. We believed then, and still believe that our remaining holdings will benefit because they are device makers - **Boston Scientific (BSX)** and **Stryker (SYK)** and will be more likely to be paid, along with hospitals, under the new law. **Pfizer (PFE)** should benefit as well.

Although this is a complicated area, very controversial, and may be changed substantially, successful device makers and pharmaceuticals are here to stay.

-Gray Emerson Cardiff

We have an investment recommendation that will be exceedingly profitable when Operation Twist begins to un-twist. This investment will benefit dramatically from rising yields on long-term Treasury bonds.

"Operation Twist" has been in force since November 2008 in a huge effort to stimulate the economy. As you may know, this is the program whereby the Federal Reserve has been aggressively buying long-term Treasury bonds in order to force long-term interest rates down. With long-term interest rates low, mortgages are more affordable, and borrowing in general becomes more feasible.

The name, Operation Twist, describes the impact on the yield curve. Normally, the yield curve slopes upward, reflecting low interest rates on short-term securities with higher interest rates on longer term securities. The reason for the normal shape of the yield curve is because expectations of inflation are higher the further out we look, or certainly less predictable.

However, due to Operation Twist, the yield curve is currently relatively flat, and annual interest rates on long term Treasuries is historically low – close to 1.6 percent on the 10-year Treasury bond.

A Sure Thing

The economic distortions resulting from public and private credit irresponsibility crested in the 2008 financial collapse and recession. In response, Washington opened the credit spigot to prevent a bank collapse and to bolster credit and equity markets, as well as to simulate a recovery from recession.

Our national debt has grown alarmingly in recent years. It is close to \$15 trillion when external debt is included – debt owed to creditors outside the country. See the chart to the right.

Our national debt is now close to 100 percent of our estimated 2011 GDP.

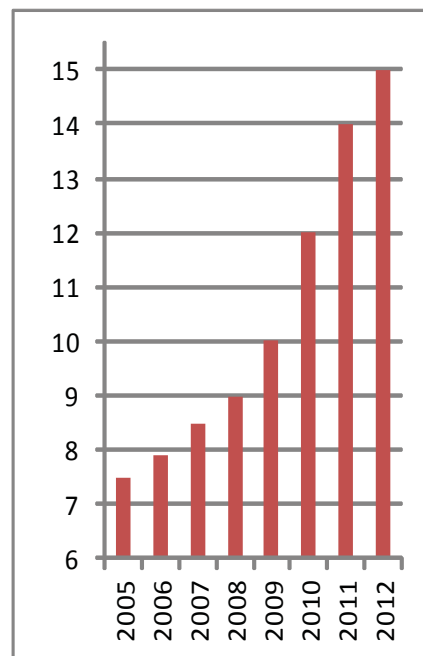
The economy will recover someday, and expectations of increasing inflation will return. That will force long-term interest rates upward. And the new gargantuan debt load will add to borrowing needs, which will be an added upward force on long-term interest rates.

So we know that the current situation will not last indefinitely. That is a sure thing. What we don't know is when the tide will turn. However, it may not be far off.

Signs of Life

We note in our foreclosure statistics and discussion on pages 10 and 11 that the overhang of unsold homes is a major damper on the economy. The latest reading in May shows pending home sales increasing strongly across the country, averaging a 5.9 percent increase over April. The strongest gains were in the west

US National Debt
\$ Trillions



20-year Treasury Bond Yields



Source: Fidelity Investments

The investment seeks daily investment results, before fees and expenses, of 300% of the inverse (or opposite) of the performance of the NYSE 20 Year Plus Treasury Bond Index. The fund, under normal circumstances, creates short positions by investing at least 80% of its net assets in: futures contracts; options on securities, indices and futures contracts; equity caps, collars and floors; swap agreements; forward contracts; short positions; reverse repurchase agreements; exchange-traded funds ("ETFs"); and other financial instruments that, in combination, provide leveraged and unleveraged exposure to the index. It is non-diversified.

where pending home sales jumped 14.5 percent.

This latest marks 13 consecutive months of year-over-year gains. The National Association of Realtor's (NAR) Pending Home Sales Index has now recovered to its highest level in two years, matching the level reached in April 2010 when buyers were rushing to beat the deadline for tax credits.

Keep in mind that pending home sales are the signed contracts that take place ahead of the actual closing sale, so pending sales are a leading indicator of home sales which are now certain to increase in July and August. Home sales have already increased notably this year, and the NAR projects 2012 will see an increase of 9 to 10 percent. Lawrence Yun, NAR's chief economist noted that the housing market is clearly superior this year compared with the past four years.

Separately, the latest reading in the April S&P/Case-Shiller home price index showed gains in house prices in 19 out of 20 cities.

Inverse ETFs

There are a variety of ETFs trading on the NYSE that short Treasury securities. These are known as "inverse" ETFs because their price action is opposite to the underlying securities. Although they are funds, they trade like stocks with their own ticker symbol. You can choose from two sponsors, ProShares and Direxion. The ETFs to consider are those shorting long-term Treasuries because longer-term bonds will have the greatest price movement for a given change in interest rates. The distinction is the amount of leverage used. The ticker symbols are TBF, TBT, and TMV. TBF uses no leverage, TBT uses 2:1 leverage, and TMV uses 3:1 leverage.

The leveraged results are created not with borrowed funds but through the use of derivatives -- futures contracts and swap agreements -- that amplify the daily changes in its portfolio.

At the end of each day, the fund managers revise the portfolio to bring it back into line with its leverage model. Though returns do compound over time, the portfolio at the start of each trading day does not carry over the effect of the previous day's trading. The required daily rebalancing also increases transaction costs. Charges run about 0.95% annually. However, we view the fee as nominal in view of the potential returns we expect.

The highest profit potential exists in the last one on the list, the Direxion Daily 20 Plus Year Bear 3 shares, ticker symbol TMV. This ETF uses 3:1 leverage on shorting long-term Treasury bonds with maturities of 20 years or longer. Take a look at the charts on the left.

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The top chart shows the yield on 20-year Treasury bonds during the last two years. The range has been a high of roughly 4.5 percent to slightly below 2.5 percent.

The chart below shows the price of TMV. When Treasury yields were 4.5 percent less than 2 years ago, TMV was close to \$250 a share. However, now that yields are below 2.5 percent, TMV is below \$60 a share. If (and when) yields on 20+ year Treasuries return to 4.5 percent, this ETF would be more than four times higher than it is today.

It is not unreasonable to expect Treasury yields to return to 4.5 percent on 20+ year bonds. It's difficult to imagine that the Federal Reserve will be able to smoothly drain the trillions of dollars worth of new money and credit it recently pumped into the U.S. economy. When this happens, current interest rates must rise and bond prices must fall. In the aftermath of any recession, interest rates normally rise. After the mammoth measures taken this time, the move upward in interest rates should be significant. This recalibration of interest rates need not be helter-skelter nor even explosive, although it is likely to be both.

Is this a No-Brainer?

As anyone who has spent enough time in its company knows, the market never offers a sure thing. However, with a view over the longer term, we think this comes close. The exact timing is the primary risk, and there could be volatility in the meantime. The Federal Reserve states that the economy does not need another dose of quantitative easing, but that could change. Another quantitative easing (QE3) could push long term Treasury yields down even further than they are now. In that event, prices would decline on these ETFs.

Choosing the Right ETF

Of course, leverage works both ways. You need to sleep at night and be comfortable with your investments.

If you are risk averse, you can choose the **Proshares Short 20 Plus year Treasury (TBF-NTSE)**, which uses no leverage. During the past two years, this EFT has ranged from 47 to 29, or 162 percent from its lowest price.

For 2:1 leverage, you can invest in **Proshares Ultrashort Lehman 20 Plus year Treasury (TBT-NTSE)** which has ranged from 40 to 15.5, or 258 percent from its lowest price.

The most responsive ETF, the **Direxion Daily 20 Plus Year Bear 3 Shares (TMV-NYSE)** is shown on the chart to the left which uses 3:1 leverage.

To gauge your risk/reward preference, compare TMV's range of 250 to 52.5, or 480 percent from its lowest price, to the other two choices.

You can manage your risk by the amount you invest. You can also invest in stages, buying at different times and averaging your cost basis. We do not see much room for long term rates to go lower. The greatest and most explosive movement will be upward, and the profit potential is enormous with these ETFs.

We are adding all three of these ETFs to our model portfolio. We will be tracking and updating all three so that you can

choose the one(s) most suitable for your risk tolerance and investment objectives.

Eurozone Update

In our June 19 internet update titled "Whack a Euro-Mole", we made the analogy between what is happening in the Eurozone and arcade game where moles randomly pop out of an array of holes and one must pound them back down with a club. The moles are the various countries in trouble, popping up and asking for bailout funds, and Germany has the club.

We stated that the fundamental problem is that the Eurozone countries have a common currency, but not a common monetary system. And there are wide differences in their cultures. When each country had its own money, fluctuations in the currencies was the mechanism that took care of the differences. However, as long as Europe sticks to a common currency, it needs to unite its banking systems along with diverse economic cultures. This is starting to happen, in a dramatic and alarming way.

The European Central Bank (ECB) has been pumping money into banks throughout the Euro-zone. But it has been reacting to desperate needs and crisis interventions. Until sovereign banking systems unite into one true system, the drama will continue as Euro-Moles pop up in crisis after crisis.

Such was the case again at last week's European Summit. Spanish and Italian leaders popped up and threatened to block a package of growth measures, using their "too big to fail" status as leverage. After 14 hours of talks, Germany agreed that rescue funds could be used to stabilize bond markets without forcing countries that comply with EU budget rules to adopt extra austerity measures or economic reforms. Most importantly, it was agreed that a single supervisory body for euro zone banks, under the authority of the European Central Bank (ECB), would be created by the end of the year.

The news of the forward progress fueled positive responses in financial markets around the world: interest rates fell on Spanish and Italian sovereign bonds, the Euro rose against the dollar, and the Dow-Jones Industrial average jumped 277 points. The three ETFs we are recommending in this Issue also showed some life, rising on the prospects that US Treasury yields would not remain historically low because Europe may be less of a drag on the US Economy.

The Euro crisis is not over, but this is a start in the right direction.

Portfolio Updates

Here is a progress report on our current recommendations. We begin with two action items, and then list our stock recommendations (in alphabetical order), followed by the mutual funds. See the table on page 7 for specific recommendations and upper price limits for buying.

Action Items:

We are selling the **Third Avenue Focused Credit Fund (TFCVX)** and the **Columbia Seligman Premium Technology Fund (STK)**. Although both sport a decent yield, we think our

money can be put to better use elsewhere – especially in the ETFs we are recommending this month.

Updates:

AMN Healthcare (AHS) is the nation's innovator in healthcare workforce solutions, including managed services programs, recruitment process outsourcing solutions, recruitment and placement of healthcare professionals into temporary and permanent positions. Although AHS has attractive valuation with strong growth fundamentals, it will be sensitive to general economic conditions.

Agrium (AGU) is the largest farm products retailer in North America. AGU more than doubled its dividend last week, less than six months after it was quadrupled.

The stock took a dip on disappointing first quarter earnings (down 1.8%), and we recommended using the dip as a buying opportunity. Although the stock has since recovered, it still rates as a buy. Strong results across its crop-input business should bring earnings for the first half of the year to be at or near the top-end of the Street's expectations. Elsewhere in the world, farming techniques often resemble what we used to do 40 years ago, or worse. Compare the situation in the US to that of China. The US accounts for 5% of the world's population but has 13% of its arable land. China, which holds 21% of the world's people has only 9% of 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.

Agrium is also one of the world's top producers of nitrogen-based fertilizers, like urea and ammonia, and it is investing about \$1.5 billion to expand its potash production capacity and capitalize on rising demand for this crop nutrient. AGU is also expanding its farm retail network with the acquisition of the bulk of Viterra Inc's retail assets. We expect continued strength in this stock.

Associated Estates Realty Corp (AEC) is a real estate investment trust ("REIT") and is a member of the Russell 2000 and the MSCI US REIT Indices. AEC's portfolio consists of 50 apartment properties containing 13,163 units located in ten states. Apartments is one of the most successful REIT sectors over the last two years as demand for apartments has surged thanks to the abrupt fall in home ownership.

AEC has been changing the nature of its apartment properties by disposing of its older properties, most of which were sold during real estate's more buoyant years. The current inventory's quality shows marked improvement. AEC recently acquired six properties with 2,131 units that on average are six years old at below their cost of replacement. All are Class A properties and command above-market rents with significantly higher operating margins than those that were sold off.

The equity of apartment portfolio translates into a stock value of \$29 per share – double the current stock price.

Boston Scientific (BSX) reported higher first quarter earn-

ings. One of its key markets for heart devices seems to be stabilizing. Its Epic Vascular Self-Expanding Stent System was recently approved by the FDA and launched to market. The Epic Stent is designed to open blocked arteries in patients with iliac artery stenosis (a form of peripheral vascular disease associated with severe leg pain caused by insufficient blood flow).

The FDA has recently approved several new pacemakers with proprietary features which will help BSX increase market share. The recent acquisition of Cameron will enhance its cardiac rhythm management business.

BSX recently completed enrollment in the PREVAIL confirmatory study, aimed at gaining FDA approval for the WATCH-MAN® Left Atrial Appendage (LAA) Closure device.

The introduction of new products and global expansion should help rise BSX off the bottom of its trading range. BSX's product pipeline is nicely stuffed and we expect to see upticks as new devices come to market.

The new CEO, Mike Mahoney, is from Johnson and Johnson, and has committed to following through with the current austere strategic plan, and promises to lead the charge in the current battle against Johnson and Johnson. This plan is already bearing fruit, and we expect to see more. BSX is the classic turnaround story.

Chesapeake Energy (CHK) has natural gas assets worth in excess of \$27 a share. The problem has been corporate governance. Share prices have been bouncing around and improving as Carl Icahn bought a 7.6% stake and was instrumental in removing the founder, Aubrey McClendon, as chairman of the board, and replacing several other board members.

Although Icahn and his constituents will not have a majority, the added attention is positive because the spotlight is on the board to do whatever it can to maximize shareholder value. Archie Dunum is the new chairman of the board, is well respected, and comes from Conoco Phillips. The Corporate governance should be changing. If not, stock holders can now vote board members out at the next annual meeting in about a year. So there is new pressure for performance.

We also note that futures prices for natural gas have continued moving up during the last several weeks which are indicative that the historically low prices of natural gas under \$2.00 per million BTUs are just that – history.

CommonWealth REIT (CWH) has been repositioning the portfolio from suburban properties into high value central business district (CBD) office properties. CWH has since acquired \$3.3 billion of CBD office buildings which now represent 45% of the portfolio. The current price of the stock translates into a 50% discount on the equity of the portfolio.

The benefit of repositioning into CBD office properties from suburban markets is becoming evident. The Company's weakness in funds from operations in 2011 was attributable to the suburban properties. Leasing activity (new leases and renewals) in the suburban office portfolio resulted in a decline in rents. By contrast, leasing activity in the CBD office portfolio

resulted in an increase in rents, and occupancy in the CBD office portfolio increased.

In the first quarter 2012, there was further evidence of the benefit of moving into CBD properties. Normalized FFO was \$0.91 per share, which was 19% higher than the previous quarter. The first quarter annualized to \$3.63 per share – 7.4% higher than in 2011.

When Wall Street sees first signs of sustainable growth, the discount is certain to shrink which will bring us a capital gain. Meanwhile, we can collect a secure 10%+ dividend -- a yield that is off the charts these days in comparison to other investments.

Comcast (CMCSA) is an indirect play on the real estate recovery. The housing recession has had a dampening effect on CMCSA as foreclosures and the accompanying financial stress has reduced customers. The new signs of life in the housing market will benefit CMCSA.

Leucadia (LUK) is a holding company with a portfolio in excess of \$9 billion of assets acquired by its two principals, Ian Cumming and Joseph Steinberg, who have 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.

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 Leucadia is valued well below the market prices of its disparate parts.

Masco (MAS) manufactures a wide range of products for home construction and remodeling. Masco covers everything from kitchen cabinets and faucets to windows and paint. Not surprisingly the shares got hammered during the downturn. Management had been through tough times before, and began cutting costs even before the housing sector went into free-fall.

We added MAS to the portfolio in October last year at \$7.49, when it was languishing in the doldrums. MAS offered several attractions. For example, the price to sales ratio had not been that low in over a decade. Although losses had wiped out earnings, a significant portion of those losses represented the writing off of goodwill, which represented the price paid for acquisitions in excess of their tangible book value. However, we believed that the worst was over and the risk was out of the stock. The price nearly doubled after our recommendation. As it crossed \$11.50 a share, we changed our recommendation from a buy to a hold.

Masco is moving to consolidate debt, close unprofitable

plants, formulate and implement new systems, streamline global supply chains and cut personnel to cut costs. MAS expects to save \$150 million of gross cost reduction before inflation with these policies. In view of these efforts, and the new signs of life in the housing market, we are raising our buy limit to \$14.

Maxim Integrated Products (MXIM) makes highly integrated analog and mixed-signal semiconductors. MXIM is a member of the Russell 3000, and it is one of the largest included in that index. It has recently won accolades for its solid state battery that harvests ambient energy. The device captures low-level energy forms, such as from photovoltaic cells, vibrations captured by a piezoelectric element, and heat captured by a thermoelectric generator. This device can eliminate the need to run expensive power cables to remote locations or reduce the frequency of battery replacements. The company is in excellent financial health with \$1.0 billion of cash and plenty of cash flow to support operations, as well as pay its quarterly dividend of \$0.22 per share. Even if MXIM's price ratios merely rise to the valuations of its average years, the share price should easily double from here.

Paychex (PAYX) core business is payroll services for small to medium sized companies. Accordingly, its revenues and earnings directly mirror the employment situation. The balance sheet is pristine with no long-term debt exposure. Based on the current price, the yield is close to 4%. This is a classic "buying straw hats in winter" opportunity that offers considerable potential for capital appreciation, along with safety, and a nice yield.

Pfizer (PFE) is cheap because the patent expired on its blockbuster drug, Lipitor. However, there are many new, potential blockbusters in the pipeline, especially Tofacitinib, its drug for rheumatoid arthritis, as well as Bapineuzumab, its high-risk but high reward drug for Alzheimer's. Also of interest is Eliquis for heart disease and blood thinning, and Bosutinib for Leukemia.

PFE has restructuring plans which include the spin-off of its animal health unit. In late April, PFE completed the sale of its nutrition unit to Nestle for \$11.8 billion. Much of these proceeds are to be spent on share by-backs which in itself should lead to a 5-6 cent increase in earnings per share. Pfizer is cheap at close to 10 times earnings and has nowhere to go but up.

Retail Opportunities Investment Corp (ROIC) 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, with no debt and no problems. It is a simple model: buy distressed retail properties with high-quality demographics, refurbish



them, and then lease them at a premium. Since inception, it has purchased \$654 million of shopping centers, which now have high occupancy. Fund from operations (FFO) more than cover the dividend. As new properties are added, along with tenant upgrades, FFO should continue to rise, along with the dividend and price of this REIT.

Stryker (SYK) is best known for its orthopedic devices: artificial knees and hips, but it's much more. SYK provides a diverse array of innovative medical technologies, including reconstructive, medical and surgical, and neurotechnological and spine products. SYK recently announced the release of their System 7 – the next generation of surgical power tools. It has many other new products with over 100 patents in 2010 alone. It also has a reputation as having a good working environment, and it was ranked 68th on *Fortune Magazine's* "100 Best Companies to Work For" list from 2011. Future growth is assured by aging the baby boomers as they need joint replacements.

Symantec (SYMC) is the dominant supplier of software for computer security and protection against viruses and other nuisances. As the world moves to smart phones and other mobile devices, hackers are starting to find security holes, and SYMC is the company to plug them.

SYMC's recent acquisition of Nukona, Inc, a provider of mobile application management, complements the acquisition earlier in March of Odyssey Software, a leading provider of mobile device management. The combination will enable SYMC to help customers secure mobile apps and data while managing and protecting them from hackers by authenticating users and encrypting sensitive files. SYMC is also extending its collaboration with Red Hat to deliver solutions that help customers deploy agile private and hybrid clouds, as well as create resilient datacenters.

These acquisitions and collaborations advance Symantec's leadership in the mobile device market by enhancing capabilities of devices, their applications, and data protection.

Tellabs (TLAB) designs and manufactures hardware and solutions for the telecommunications industry, which in a world of exploding demand for wireless communications should be a bonanza of a business. Eleven of the Fortune 50 companies now rely on services provided through Tellabs' equipment. Don't forget that Tellabs' balance sheet holds \$2.91 per share in cash and cash equivalents (short-term government debt or commercial paper) with no long-term debt. Other assets and liabilities on the balance sheet offset each other. Subtract that \$2.91 from the current share price and you are buying the entire business for practically nothing.

Tetra Tech (TTEK) is a leading company in water technologies. It designs complex and intricate plans that are used by local and national governments to meet future water needs, including desalinization.

We like TTEK's healthy balance sheet, and we think that water and environmental remediation are growth industries both here and internationally. The biggest potential business lies outside the United States in countries like China and India, where environmental concerns have been at best an

afterthought. Only now are their governments starting to recognize the consequences. As governments around the world make this a priority, Tetra Tech should be a prime beneficiary.

Xerox (XRX) has made huge progress in transforming from a seller of printers and copiers, which have thin profit margins and are highly dependent on economic conditions, to a company providing services on those machines. The revenue from services is more profitable and less cyclical. Now, half of XRX's revenues come from services. XRX expects to earn \$1.13 per share this year. At the current stock price, it is a bargain.

The Mutual Funds

CGM Real Estate Fund (CGMRX) is as good as they get for a REIT fund. CGMRX put on quite a fireworks show between 2003 and 2007 (+89.7%, +35.5%, +27%, +29%, +34.4%). We made a 145% profit during that period.

The fund's manager, Ken Heebner, who has run the fund since inception in 1995, is known as "The Mad Bomber" because he has never been considered cautious. He either outperforms or underperforms significantly, and this fund can be volatile, but Heebner's good years are really good. We watch his portfolio choices closely, so that we can judge whether the holdings make sense to us.

We got back into it again after the 2008-09 crash in REIT prices. Heebner has shaped his portfolio for maximum profits. His biggest bets are in residential (26% of his portfolio) and retail (at 21%). So far we have a large gain but there is more ahead. The good years of this fund are really good.

Hambrecht & Quist Life Sciences Fund (HQL) is a closed-end fund (CEF), which means it trades not at its Net Asset Value (NAV) but at whatever price the market sets, which can create a discount or a premium to NAV. HQL is currently trading at a discount to its NAV. We think HQL is a superior way to gain exposure to biotech, which is a volatile sector. However, the most explosive profits in the entire healthcare industry can be found here.

The Fund will be purchasing up to 12% of its own shares on the open market beginning in July. The share repurchase program is intended to increase the Fund's net asset value per share and to reduce the discount the stock has from the net asset value. HQL is an attractive way to participate on a diversified basis, especially given the discount from NAV.

USAA Precious Metals & Minerals Fund (USAGX) is widely recognized as the best diversified way to invest in precious metals. Lipper, for example, rates it as the best performer in its sector over the past ten years, and it regularly has been included among the top-performing funds over shorter durations. *Morningstar* also puts it first among precious metals funds over the past three, five and ten year periods. And there's more, or should we say less: USAGX has accomplished this without taking on oversized risk. As *Morningstar* observes: "Over the past 10 years, the fund's standard deviation is only slightly higher than that of its peer group over the same period". So, this fund has posted the best returns in the category accompanied by slightly above-

Income With Growth	Sym	Exchange	Price	Yield	Limit	Action
Associated Estates Realty Corp	AEC	NYSE/Nasdaq	15.13	4.76%	17.00	BUY
CommonWealth REIT	CWH	NYSE	19.21	10.41%	22.00	BUY
Retail Opportunity Investment Corp	ROIC	NASDAQ	12.20	3.28%	13.00	BUY
Diversified Growth						
CGM Realty Fund	CGMRX	800-343-5678	30.14	0.86%	N/A	BUY
Comcast	CMCSA	NASDAQ	32.26	2.02%	32.00	BUY
Leucadia National Corp.	LUK	NYSE	21.53	1.16%	23.00	BUY
Masco	MAS	NYSE	14.17	2.12%	14.00	HOLD
Paychex	PAYX	NASDAQ	31.38	4.08%	34.00	BUY
Pfizer	PFE	NYSE	23.00	3.83%	24.00	BUY
Stryker Corp.	SYK	NYSE	54.67	1.55%	58.00	BUY
Xerox	XRX	NYSE	7.87	2.16%	8.50	BUY
Energy/Natural Resources						
Agrium	AGU	NYSE/TSE	88.79	1.13%	90.00	BUY
Chesapeake Energy Corp	CHK	NYSE	18.73	1.87%	21.00	BUY
Fidelity Select Nat. Gas Fund	FSNGX	800-544-8888	29.60	0.19%	N/A	BUY
Tetra Tech	TTEK	NASDAQ	26.43	0.00%	28.00	BUY
USAA Precious Metals & Minerals	USAGX	800-862-6909	26.24	0.31%	N/A	BUY
Aggressive Growth						
AMN Healthcare	AHS	NYSE	6.08	0.00%	7.00	BUY
Boston Scientific	BSX	NYSE	5.80	0.00%	6.50	BUY
ETF - Direxion Daily 20+ Yr Bear 3X	TMV	NYSE	53.12	0.00%	N/A	BUY
ETF - ProShares Short 20+ Year Trsry	TBF	NYSE	28.99	0.00%	N/A	BUY
ETF - ProShares UltraShort 20+ Year Trsry	TBT	NYSE	15.51	0.00%	N/A	BUY
H&Q Life Sciences Fund	HQL	NYSE	14.98	7.21%	17.00	BUY
Maxim Integrated	MXIM	NASDAQ	25.49	3.45%	27.00	BUY
Symantec	SYMC	NASDAQ	14.50	0.00%	17.00	BUY
Tellabs	TLAB	NASDAQ	3.36	2.38%	4.00	BUY
Dispositions						
Seligman Premium Growth Fund	STK	NYSE	16.28	11.36%	N/A	SELL
Third Avenue Focused Credit Fd	TFCVX	800-443-1021	9.84	7.71%	N/A	SELL

ROWS IN **BOLD** INDICATE A CHANGE IN ACTION OR LIMIT

Prices are as of 7/2/2012. 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.

average volatility". *Morningstar* gauges that the fund has outdistanced other precious metals funds by 4.4% annually over the last decade.

Mark Johnson, who has managed the fund for the past 17 years, has shown a talent at making the right decisions during his tenure, and, since we consider funds managed by industry veterans superior to index funds, we cannot think of a better way to play gold and precious metals than this fund.

Fidelity Select Natural Gas Fund (FSNGX). Although the price of oil has declined recently, and natural gas prices have climbed from historic lows, there is still a yawning gap between the energy equivalents of oil and natural gas. In comparison

to oil, an equal amount of energy in the form of natural gas costs less than 20 cents on the dollar.

The US is self-sufficient in natural gas with only 9 percent imported from Canada. At pennies 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. Yet defensive holdings in utilities along with companies with oil interests has provided diversification and balanced risk. When natural gas prices declined, this fund did not suffer -- evidence of a well-managed fund.

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 \$8,012,706 in stocks and to \$1,247,340 in houses.

But though an investment begun 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 \$318,472,148, 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 SoundAdvice Risk Indicator is 1.42. This reading reveals that stock values are below 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 SoundAdvice 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 .

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 (reported in April), telling us to move to a cautious approach. This signal came very close to the 2012 peak of the market.

Our next signal will come from a zero reading our Diffusion Index of Leading Indicators. The latest reading for May was 33 percent.

UPDATE: The Commerce Department discontinued its Index of supplier deliveries for vendor performance, one of the underlying indicators we used in our SoundAdvice Diffusion Index of Leading Indicators. The Department substituted a new index, (ISM New Orders). We back-tested the substitution to see how it would have helped or hindered the historical results. The result is that the substitute index hinders the historical results. Accordingly, we will not using the new index going forward. Instead, the SoundAdvice Diffusion Index of Leading Indicators will be comprised of the remaining three leading indicators it was using previously, and the table below shows those historical results..

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 1.8 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

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.)

The rising swell of home foreclosures began in 2007 as a symptom of faltering real estate markets across the country. But as the swell turned into a tidal wave, falling real estate prices have compromised the assets of the US banking system and the fabric of the US and worldwide economies. Indeed, the state of the nation's real estate markets and the economy have become one and the same. We cannot have a sustainable recovery in the economy without the removal of the bulk of foreclosed homes overhanging the market.

We have seen all this before. It was back in the 1980s. After years of loose and questionable lending practices, regulators were forced to liquidate hundreds of savings and loans and dump their foreclosed real estate onto an already-depressed real estate market. As values dropped, the downward spiral continued until most of the real estate was sold at steep discounts. The crash was worse in some parts of the country, but the damage to the whole US economy was substantial. Does this sound familiar?

We have the same situation today. It's like the old good news/bad news jokes, except this is no laughing matter. The bad news is that today's crash has been damaging to both real estate prices and the national economy.

The good news is that we have the tools to determine when the bad news will be over. This will give us a tremendous opportunity not only to invest in real estate for pennies on the dollar at the right time, but also in other investments as well as those that benefit from a recovering economy.

The Key Indicator

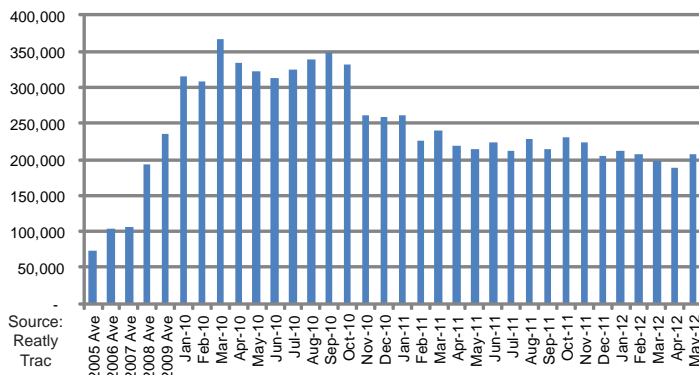
The secret is to focus on foreclosure rates. Realty Trac in Irvine, California has an extensive database. You can access foreclosure information on local markets from their website www.realtytrac.com. We use some of their data here to gauge the state of the nation and its real estate, and plan to continue to do so in future issues of SoundAdvice.

What we are looking for is a significant decline in the number of foreclosures. When this happens, the bulk of the overhanging inventory of foreclosed properties will have been digested, and the real estate recovery can then begin as well as in the economy. In the late 1980s, this was the best indicator for knowing when the recovery was near. As foreclosure rates dropped, the ensuing recovery began. For nearly two decades, fortunes were made from real estate purchased for pennies on the dollar during the S&L Crises of the 1980s.

The following chart shows US foreclosure rates. In 2005, foreclosure rates averaged 74,892 properties per month. In 2006 and 2007, foreclosures were slightly above 100,000 per month. However, by January 2010, foreclosures climbed to over 300,000 per month, and foreclosures continued at over 300,000 each month through October.

We saw the beginnings of a decline in the 2010 fourth quarter. At first, the decline was due largely to a freeze in foreclosures by several major lenders. The downtrend continued as Federal and state foreclosure prevention efforts allowed distressed homeowners to stave off foreclosures.

US Foreclosure Rates - Monthly Averages



However, foreclosure rates remained stubbornly high.

Dissecting the Foreclosure Process

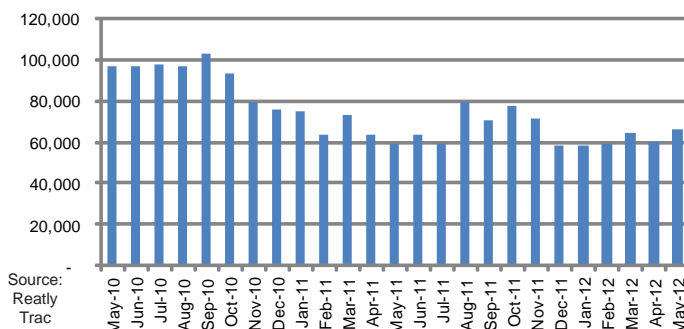
It's important to keep in mind that the foreclosure process is comprised of three distinct stages: new default filings by lenders; then auctions as lenders attempt to sell these properties; and finally, bank repossessions of those properties not sold through auctions. The sheer number of foreclosures is actually the aggregate of the number of properties in each of these three stages.

We can get an early glimpse of a change in trends by focusing on changes in the first step of the foreclosure process: new default filings. After all, a significant change in the first step of the foreclosure process must ultimately lead to a significant change in the aggregate number.

The following chart shows new default filings in the US by month since May 2010. Through October 2010, new default notices were hovering around 100,000 per month. However in November 2010 they began declining but have remained stubbornly high during the last several months.

One fourth of the nation's foreclosures have been in

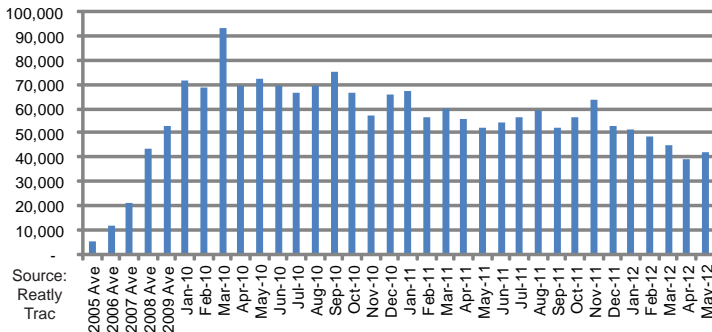
US New Default Notices



California for the last few years. The following chart shows all stages of the foreclosure process in California (including auctions and bank repossessions).

In 2005, California foreclosures averaged 5,138 properties per month. Foreclosures doubled in 2006, and again in 2007, and again in 2008. By 2010, foreclosures were close to 70,000 each month, with a spike of 93,000 in March. Foreclosure rates remained high in 2011 and began modest

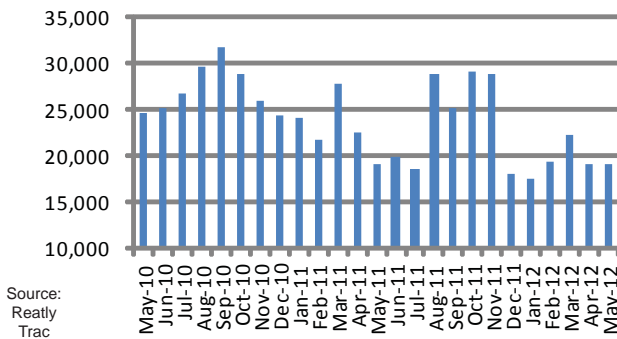
California Foreclosures - Monthly Averages



declines during the first five months of 2012. May saw a slight increase

Below is a chart of new default notices in California. In August 2011, new default notices in California jumped a whopping 55 percent to 28,961. After a decline in September by 13 percent, new default notices in California increased in October to 29,240 and in November to 28,897, but then dropped sharply in December and January. However, February saw a 12% increase followed by a 14% increase

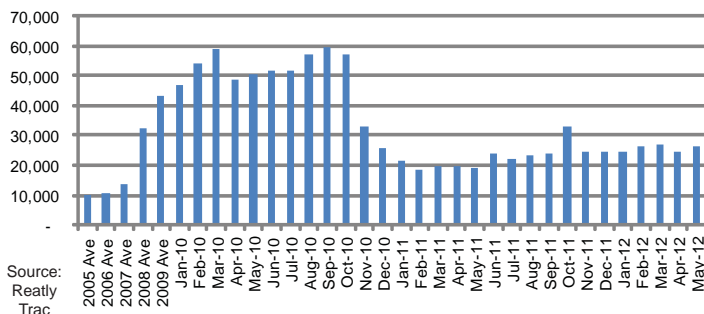
California New Default Filings



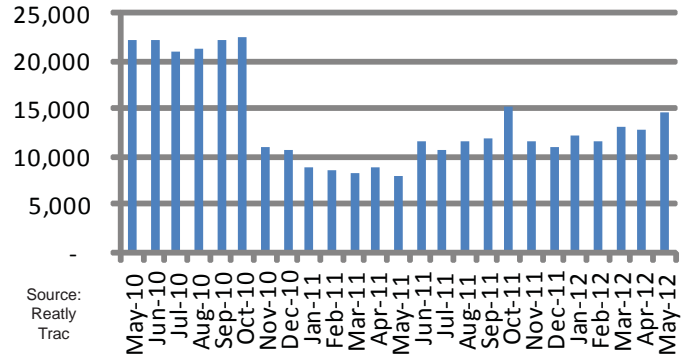
in March, and then a 14% decrease in April. May was essentially unchanged.

Florida is the next highest foreclosure state with 11 percent of the nation's foreclosures. See the chart below. Foreclosure rates climbed from 10,000 per month in 2005 and 2006 to 47,000 in January 2010, and stayed in the 50-60,000 range through October. Then the monthly rates dropped sharply through May 2011. Foreclosure rates spiked in October 2011 and have been creeping up since.

Florida Foreclosures - Monthly Averages



Florida New Default Filings

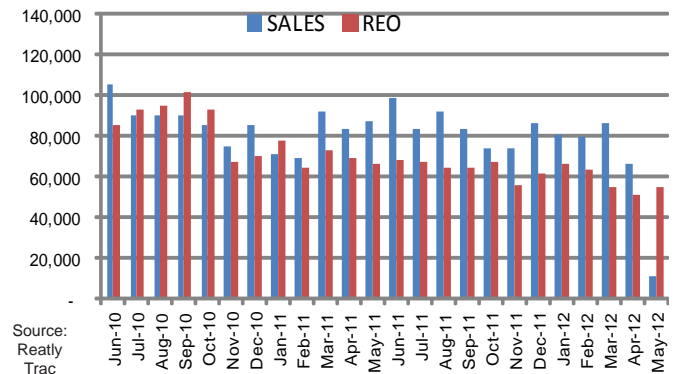


New default notices have been uptrending in Florida during 2012, jumping 15.5% in May.

The Inventory

At the other end of the foreclosure process is what the banks have not been able to sell. This inventory is called "real estate owned", or REO for short. Each month more REO is added to the inventory. However, each month there are a number of properties sold from the inventory. Below is a chart of the REO (in red) and sales (in blue) since June, 2010.

On balance, there have been 243,174 more properties sold than have been added to the REO inventory, or 17% of the current inventory of 1,426,587 foreclosure properties listed for sale.



Conclusions

The latest readings for May show that new default filings were essentially unchanged, which means that a drop in foreclosure rates is not in the immediate future. However, the marked increases in pending home sales and home prices we noted on page 1 is an indication of an increase in demand which should absorb some of the existing supply.

We will be tracking foreclosure metrics closely both nationally and in key states in these pages of SoundAdvice to be among the first to know when the end of the foreclosure crisis is at hand. Stay tuned.

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