

Adding Cisco Systems

Based on favorable trends and developments, **Cisco Systems (CSCO)** is being added to the *Sound Advice* Model Portfolio. Cisco is the world's largest manufacturer of networking switches and routers. It is considered a blue-chip high-tech stalwart that develops and manufactures networking hardware as well as software, telecommunications equipment, and other high-technology products.

Despite strong industry trends, Cisco's revenue has been stagnant since 2014. For this reason, CSCO is presenting an excellent value, with a price-earnings ratio of 16 and a dividend yield of 2.5 percent. This is opposed to most other tech stocks, particularly the so-called FANGMA stocks (Facebook, Amazon, Netflix, Google, Microsoft, Apple) which sport an average P/E ratio close to 40 and dividend yields that are virtually nil.

Cisco's earnings are poised to move out of stagnation, to steady growth in the months and years ahead because of the following favorable trends and developments:

Adding Software Dimension

For six years, Cisco has been transitioning from a network equipment seller into a contractual subscription and services company that generates substantial recurring revenues from the equipment it sells, leading to a more reliable income stream. During the past five years, CSCO's annual recurring subscription revenues and services have more than doubled to \$22 billion and now represent 44% of total revenues. CSCO is bound to exhibit a steady growth of earnings.

New Upgrade Cycle

The industry is in the early stages of a major new upgrade cycle as it rolls into 5G and WiFi 6. These powerful new technologies promise to accelerate growth in an industry that has already seen internet traffic double every three years. Cisco will be a direct beneficiary as demand for faster equipment accelerates.

Although CSCO's cloud offerings are a small portion of the market dominated by Microsoft's Azure and Amazon's AWS, the expanding upgrade cycle is bound to spill over to CSCO. An additional factor is the ban on Huawei in the US and several other countries, which leaves additional market share for Cisco to pick up.



Gray Cardiff, Editor

Investment returns in prior years have been calculated independently by the Hulbert Financial Group and concur with ours. From 2000 through 2020, the *Sound Advice* model portfolio averaged a 8.8% annual return versus 4.6% from the S&P 500.

Cyber Security

If there was ever an inexorable growth market, cyber security is it. Ransome-ware, hacking, data pilfering, phishing, and other cyber-crimes are not going away, and protection will become more and more vital. Cisco has a substantial and growing Cyber Security division. It is interesting to note that CSCO is the largest holding of the largest Cyber Security ETF, ETFMG Prime Cyber Security ETF (ticker symbol = HACK).

Acquisition Opportunities

Cisco has a strong balance sheet which has been improving in recent years as assets have grown faster than liabilities. The company is flush with cash, even after making 5 synergistic acquisitions so far in 2021. The company is in an acquisition mode to boost growth.

Re-Opening

The pandemic was a negative factor for Cisco and its industry because customers deferred purchasing and expanding operations. Demand for Cisco's products and services is certain to increase as the US economy continues to re-open. Traditionally, close to 60% of revenues come from the North American region.

Although the pandemic will less of a concern going forward, it is doubtful that office buildings stuffed with employees again. As more employees across all industry sectors continue to work at home, their companies will be forced to spend more on connectivity and cyber security, which will add demand for Cisco's equipment and services.

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Growing Dividend

Cisco has a history of returning a substantial portion of its free cash flow to investors in the form of increasing its dividend annually along with stock buy-backs. Even during Cisco's stagnant earnings years, management has increased the dividend each year since it was introduced in 2011. Increases should be more substantial as earnings grow.

Conclusion

Slow growth in the past several years has masked Cisco's underlying transition. It is now leveraging its leading position as an equipment provider by contracting reliable revenue streams for software and services stemming from its equipment sales. The transition has now become substantial, which is bound to lead to significantly better and more reliable growth in the immediate future.

Management is forecasting new growth for the company. It is worth noting that management delivered on its growth promises made four years ago regarding its planned transition, which adds to the credibility of its current forecasts.

Tailwinds are numerous, including an industry entering a major upgrade cycle into 5G and WiFi 6, growing needs for cyber security, acquisition opportunities, as well as the re-opening of the economy with a substantial portion of employees working from home.

The stock is considerably undervalued, which presents a low-risk and defensive opportunity for capital appreciation along with a currently attractive dividend with highly probable growth potential. As earnings begin to show steady growth, CSCO should command a higher P/E based on higher earnings, which has a multiplying impact on boosting the stock price.

The Sound Advice Risk Indicator

The **Sound Advice Risk Indicator** (page 10) remains substantially above 2.0, revealing that the risk in the stock market is still historically high.

P/E Metrics

In addition to the *Sound Advice* indicators, we can see that the market is substantially over-valued by traditional measures. As we note regularly, a reliable way to evaluate the S&P 500 index is to measure it against the trailing twelve-months (TTM) of "operating" earnings of the individual 500 stocks that make up the index.

Operating earnings are actual cash earnings, as opposed to so-called GAAP (generally accepted accounting principles) earnings which include non-cash write-offs such as depreciation, impairment charges because of falling commodity prices, or charges for bad loan reserves. Each quarter, companies report both GAAP earnings and *operating* earnings which reflect actual cash results.

With the S&P 500 Index at 4,307, the TTM price/earnings (P/E) ratio is close to 22, based on the TTM operating earnings of the S&P 500 companies. This is a high TTM P/E, which confirms that it is a very high-risk time for most stocks.

Since the 1980s, the TTM P/E based on operating earnings has averaged 19.06. To gauge a reasonable value for the market currently as well as a likely path of stock prices ahead, we can reasonably apply a P/E of 19 to the rolling TTM total of operating earnings. The operating earnings projections for the companies comprising the S&P 500 are shown in the table on the previous page.

It is worth noting that based on an average P/E of 19, the current downside risk for the S&P index is substantial. The TTM operating earnings of the companies that comprise the S&P 500 index are estimated to be \$185.94 for the third

Operating Earnings Projections for the S&P 500

Quarter Ending	Quarterly Operating Earnings	Actual/Projected	TTM Operating Earnings	Value of the S&P 500 @TTM 19 P/E	Difference From Today's S&P 500
12/31/2019	39.18	Actual	157.12		
3/31/2020	19.50	Actual	138.63		
6/30/2020	26.79	Actual	125.28		
9/30/2020	37.90	Actual	123.37		
12/31/2020	38.18	Actual	122.37		
3/31/2021	47.41	Actual	150.28		
6/30/2021	52.03	Actual	175.52		
9/30/2021	48.32	Projected	185.94	3533	-18%
12/31/2021	50.56	Projected	198.32	3768	-13%

Earnings projections are by S&P Senior Index Analyst, Howard Silverblatt who publishes extensive data of the S&P 500 companies. See <https://us.spindices.com/documents/additional-material/sp-500-eps-est.xlsx>

quarter. At a P/E of 19, the S&P 500 index would be 3,533, which is 18 percent lower than today's level. However, the market is still anticipating a recovery in earnings.

For 2021, TTM operating earnings are projected to increase to \$198.32, substantially above the pre-Covid operating earnings recorded in the fourth quarter of 2019. Even assuming this projection is not optimistic, a P/E of 19 still puts the S&P 500 index 13 percent below today's level.

Breadth Update

Last month we revealed that breadth has been deteriorating since mid-June. The deterioration continued in September.

One of the most reliable stock market indicators is its breadth. A healthy bull market will have broad participation among a wide range of stocks. Conversely, near major tops, participation will narrow. The largest capitalized stocks will still be rising as money managers look for places to put the onslaught of money coming to them from eager investors. Because large cap stocks carry more weight in the popular market averages, they will be hitting new highs. However, the overall breadth of the market will be declining.

We can measure the breadth of the market by tracking the number of stocks that advance on the New York Stock Exchange each trading day, and then subtracting the number that decline. By keeping a cumulative total, we construct an "advance-decline line" or ADL.

The orange line on the chart shows the ADL since the beginning of the year. The blue line shows the S&P 500.

From mid-June through August, the S&P 500 climbed to new highs while the ADL drifted downward, revealing that

breadth was deteriorating as fewer and fewer stocks joined the climb. In September, the deterioration continued as the ADL declined faster than the S&P 500. This divergence is a rare occurrence and a significant warning sign.

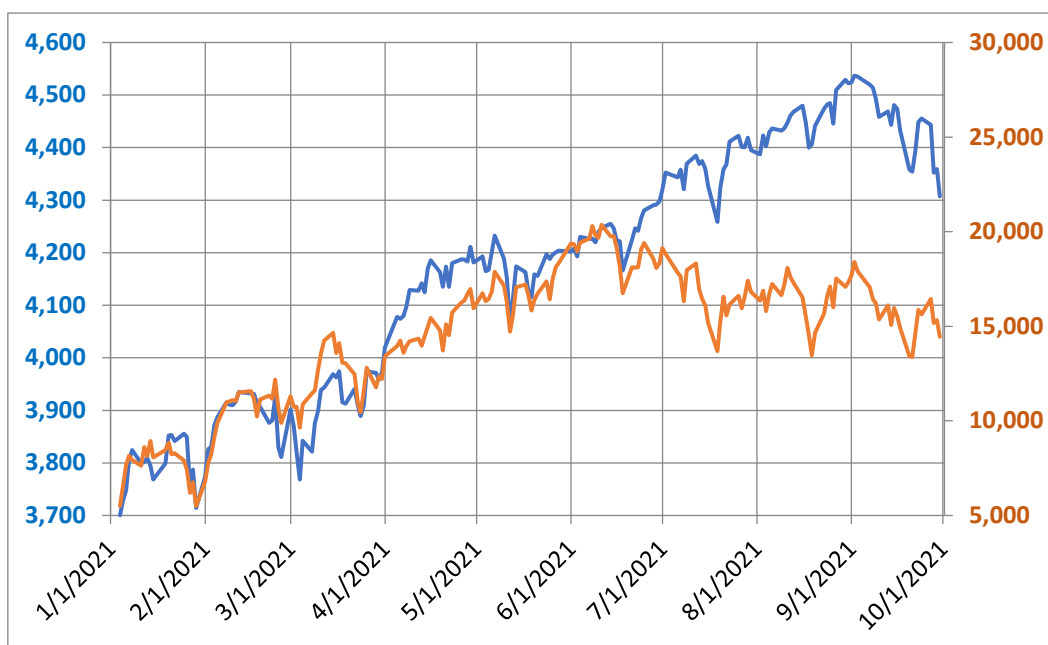
The Sound Advice Portfolio

All of the *Sound Advice* model portfolio recommendations are summarized in the table on page 9 and sorted by investment objective categories and then in alphabetical order. Our portfolio recommendations are made in accordance with our current cautionary mode. Our individual stock recommendations are special situations offering a compelling value proposition. We are also recommending liquid electronically traded funds (ETFs) and mutual funds investing in sectors that are bound to benefit in the months and years ahead from fundamental changes in geopolitical, medical, and economic landscapes.

ETFs for Rising Bond Yields

The Federal Reserve has been allowing the money supply to explode. Since the beginning of 2020, the broad measure of the money supply, M2, has increased by 33 percent. Since 1980, M2 has averaged an annual growth rate of 6 percent, rarely increasing by low double-digit rates.

For centuries, there has been an undeniably strong correlation between changes in the money supply and changes in the inflation rate in developed countries. According to the widely held correlation, this unprecedented money supply growth will lead to increases in inflation in the months and years ahead.



Barchart.com is the data source of the NYSE advancing and declining stocks. ETFs and Unit Investment Trusts are excluded.

Inflation has surged in recent months, climbing over a five percent annual rate. In the midst of all this, long-term Treasury bond rates have declined below two percent, back down to historically low rates.

So, what is holding down yields? The primary culprit is the Federal Reserve’s massive bond buying. After the late-September Federal Reserve meeting, Chairman Powell announce that the Fed will vote on commencing tapering its “quantitative easing” (QE) program whereby every month it is purchasing \$80 billion of Treasury securities and \$40 billion of mortgage-backed securities. Unless unforeseen adverse events alter the economic landscape, it is virtually certain that the majority of the voting members will vote to commence tapering in December.

It is no secret that the Fed’s massive bond buying has been pushing down bond yields artificially low. As the Federal Reserve cuts back its bond buying, bond yields are bound to rise, eventually to normal levels. As other sources of demand see the Fed is winding down QE, it stands to reason that they will cut back too.

The question is not whether bond yields will be rising in the months ahead, but how much will they rise? Will it be substantial? If so, it is certain to disrupt the stock and bond markets.

We can look back at history to find the answer. Bond investors have traditionally demanded a positive real return, which means higher than the inflation rate. The table below shows that since 1980, long-term Treasury bonds have yielded close to 3 percent above the inflation rate. If we only look at recent history, since 2000, which has been a low inflationary period, long-term Treasury bonds have yielded a lower real return of 1.79 percent.

Historical Real Rates of Return

Years	30 Yr Note (Avg. Yield)	CPI Annual Increase	Real Rate
1980 - 2000	8.61	4.33	4.28
2000-04	5.70	2.60	3.10
2005-09	4.52	2.60	1.92
2010-14	3.57	2.00	1.57
2015-18	2.87	1.93	0.94
2019	2.58	1.81	0.77
2020	1.56	0.62	0.94
Average			2.98
Average Since 2000			1.79

The Federal Reserve believes that the recent inflation surge is “transitory” and that inflation will be returning toward more normal levels. The Fed’s definition of acceptable inflation is in the range of 2 to 2.5 percent. This means that the yield on long-term treasury bonds should be at least 3.79 percent, not under 2 percent as it is today.

Of course, if inflation is running hotter, bond yields will be commensurately higher. What is often forgotten is that while

inflation surges may come and go, higher prices tend to be sticky. Prices don’t often come down significantly. Vendors don’t lower their prices unless faced with extraordinary conditions – like recessions. However, that is the last thing the Federal Reserve will allow in the foreseeable future. Additionally, profligate Congressional spending is quite the opposite, aimed at pumping up the economy, not slowing it down.

The three ETFs listed below are designed to benefit from rising long-term Treasury bond yields. 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 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 benchmark bond indexes will cause TMV to increase by 3.0 percent, TBT by 2.0 percent, and TBF by 1.0 percent.

Target Date	Bond Yields	ETF Prices		
		TBF	TBT	TMV
9/30/2021	1.87	16.40	17.38	57.70
12/31/2022	2.00	16.72	18.05	61.04
12/31/2022	2.50	17.88	20.51	73.31
12/31/2022	3.00	18.95	22.78	84.58

The table above shows the approximate upside potential of our selected ETFs at the end of 2022 at various levels of long-term Treasury bond yields. The first row shows today’s ETF prices at today’s long-term Treasury bond yields. Note that the approximate price of these ETFs would rise dramatically as Treasury bond yields rise. With long-term bond yields bouncing off historic lows, the upside potential is significant.

The Erosion Factor

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, 0.03 percentage points (3 basis points) every day, and thus go nowhere. By the end of 2022, TMV would decline by 5.2 percent, TBT by 2.3 percent, and TBF by 0.6 percent. While not insignificant, this erosion factor is nominal in comparison to the price swings caused by a change in bond yields.

A Downside Hedge

Because of the unusually high downside risk in the S&P 500, we are including the **ProShares UltraShort S&P 500**

(SDS) as a necessary holding in the *Sound Advice* model portfolio. This ETF essentially short-sells the market and will benefit from down-drafts in the S&P 500. It 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.

US Infrastructure

The infrastructure bill has bi-partisan support. Despite Congressional shenanigans, this bill is bound to pass relatively soon, which will benefit both PSCI and RTM during the next 10 years.

Invesco S&P SmallCap Industrials ETF (ticker symbol PSCI) is based on the S&P SmallCap 600[®] Capped Industrials Index which is designed to measure the overall performance of the securities of US industrial companies with small capitalizations (caps). These domestic companies are engaged in the business of providing industrial products and services, including engineering, heavy machinery, construction, electrical equipment, aerospace and defense, as well as general manufacturing. They will reflect the positive impacts more strongly than larger companies from an increase in infrastructure spending. Small cap construction companies are also typically domestic companies operating inside the US. It is likely that a government-sponsored program will stipulate that US companies are to be employed to perform the services. Even absent such stipulations, construction projects tend to employ local companies as subcontractors even when general contractors are national companies.

The portfolio consists of 96 securities and assets, and it is more dispersed than the typical peer in the category. Management has maintained an emphasis on stocks with low financial leverage and strong returns on equity. This ETF rebalances its investments quarterly to maintain an equal weighting in its holdings. This strategy tends to improve and maintain diversification as well as deliver a stronger longer-term performance.

Since the inception of the PSCI in April 2010, this ETF has had an annual return of 13.5 percent. During the last 5 years, the annual return has been 16.6 percent. The accent is on growth. The current income is small, currently close to one percent.

Basic Materials

Invesco S&P 500 Equal Weight Materials ETF (RTM) invests in the common stocks that comprise the S&P 500 Equal Weight Materials Index. All 29 sections are prime examples of basic materials companies outside of the oil and gas industries. Basic materials companies are particularly sensitive to economic changes. They thrive when the economy strengthens and are bound to benefit

substantially in the months and years ahead as economic activity increases along with increased infrastructure spending. Basic materials are also classic inflation hedges. Prices are typically pushed upward by increasing inflation, benefiting the entire sector.

This ETF rebalances holdings quarterly to equalize their values. Calendar rebalancing ensures a greater degree of evenly weighted diversification which adds stability and safety to a portfolio. This practice often provides a superior performance because it offers exposure to many stocks that are under-weighted in most other portfolios and are therefore targets for new capital.

This ETF has enjoyed high ratings from Morningstar, an investment advisory service noted for its ratings of mutual funds and ETFs. Morningstar's ratings are based on a risk-adjusted return measure, which takes into account variations in monthly performance. RTM has consistently had Morningstar's highest ratings of 4 and 5 stars over various periods during the last 10 years.

RTM has done well over the last decade. For ten years through the end of 2020, RTM returned a compounded annual return of 11.6 percent. For the five years through the end of 2020, RTM returned a compounded annual return of 15.2 percent. In 2020, RTM had an investment return of 24.2 percent.

RTM has been a good investment during years when the timing for investing in basic materials was not particularly good. It should prove to be an even better investment now that the timing is good.

Real Estate

Our three cumulative preferred stocks are inherently safe because any unpaid dividends must be retroactively restored first before any common dividends can be paid. Additionally, in the event of a liquidation of the company, these preferred stocks have a "liquidation preference" which must be paid out in full before any proceeds are paid to common stockholders. In all three cases, there is substantial equity in the common stocks of all three companies, evidencing that the market does not expect liquidation to be plausible.

These preferred stocks are trading below the company's call price (the right of the company to purchase the preferred at a certain "call" price), or have no call feature at all, which is very unusual for preferred stocks. These preferred stocks have a small number of outstanding shares, which is typical for preferred stocks in general. Accordingly, we recommend using limit orders rather than market orders.

Hersha's Preferred D (HTPRD) was recommended when the stock price was under \$4.00 a share as the pandemic was gaining momentum in early 2020 and the company suspended all dividends to preserve liquidity. We believed that the eventual resumption and payment of dividends would prompt this stock back to its call price and liquidation preference value of \$25. That officially happened in March

when the company announced that it is making up for unpaid preferred dividends and resuming regular quarterly dividends in April at the annual rate of \$1.64 per share.

During the first quarter, Hersha secured a financing commitment from affiliates of Goldman Sachs that eliminates term loan maturities until August 2022 and waives all financial covenants through March 31, 2022. The new financing also enabled HT to pay down the accrual of its unpaid preferred dividends and keep them current. Also restoring liquidity were recent asset sales that generated net proceeds totaling \$142 million.

The company achieved positive cash flow of \$334,000 at the corporate level in June. This was the first month of positive cash flow at the corporate level since March 2020. With cash flow now positive at the corporate level, it is unlikely that the company will need to take on additional debt. This adds security to the company's preferred stocks.

The price of this preferred is slightly below its call price of \$25. The current yield is close to 6.8 percent for solid income. More can be accumulated on dips, but don't purchase above the call price of \$25.

RLJ's \$1.95 Series A Cumulative Convertible Preferred (RLJPRA) is paying a current yield of 6.7 percent. This is the only RLJ preferred stock and the dividend in 2019 amounted to less than 7 percent of the company's pre-covid funds from operations (FFO). Since the beginning of the year, improving trends enabled the company's portfolio to achieve positive cash flow.

RLJ-A is convertible into 0.2806 common shares in RLJ. This sets the conversion price at \$89.09 per common share. RLJ cannot force conversion unless their common shares are trading at 130% of the conversion price, or at a price of \$115.82. This means that the preferred is essentially not callable without a seven-fold rise in the price of the common stock (RLJ). This is an opportunity to lock in a safe extraordinary current yield. It is hard to imagine that this yield will remain this high as the economy recovers, which means the price of this preferred stock will rise significantly.

RPT Realty 7.25% Series D Cumulative Convertible Perpetual Preferred (RPTPRD) is simply not callable by the company. This means that we can lock in a very high yield for as long as we desire. It pays an annual dividend of \$3.62, which is a current yield slightly above 6 percent. This is the only RPT preferred stock for RPT Realty. This is a convertible preferred stock, convertible into 3.47 shares of the common stock (RPT) at the holder's option.

RPT Realty is a real estate investment trust (REIT) that owns 49 shopping centers across the eastern US, consisting of urban-infill neighborhoods, and power center properties with national chain store tenants, market-leading supermarket tenants, as well as a strong lineup of smaller national retailers. Since the beginning of the year,

90+ percent of all tenants have been open and all rental payments are current.

In 2020, the company maintained the dividend on its preferred stock but suspended the dividend on its common stock. The dividend on the common stock was resumed for the first quarter of 2021. That means the preferred dividend is more secure because common dividends cannot be paid without paying the preferred dividend.

Third Avenue Real Estate Value Investor Fund (TVRVX) is up 17.9 percent so far in 2021. It has an advantage over other mutual funds during recessions. Unlike the typical REIT, management will go to cash when asset prices are generally high. Cash is preserved for scooping up opportunities. It is a global real estate fund which means it is not confined to US real estate with low cap rates which translate to high valuations. 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.

Management 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 their personal assets into their funds.

Medically-Related Selections

Both of our stock selections make medical devices and products which are well-suited for an aging population. They have both been negatively impacted by deferrals of elective surgical procedures during the COVID-19 pandemic. However, these deferrals are now presenting pent-up demand because most of these procedures are essential and need to be performed sooner or later to treat debilitating, painful, and sometimes life-threatening conditions. In recent months, both of these companies have seen surges in revenue and earnings as demand for deferred procedures has increased.

Boston Scientific (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 in a wide range of critical areas, including cardiac rhythm and intervention, oncology, urology, and neuromodulation. The company's stream of new inventions acquisitions continues to add to promising growth prospects.

Stryker (SYK) has a diverse array of innovative medical technologies, including reconstructive, medical and surgical, as well as neuro-technological and spine products. Its orthopaedic devices for artificial knees and hips lead the industry. SYK has a very high return on equity which is propelled by its strong balance sheet and its ability to continue to make strategic acquisitions.

The Best in Biotech ETFs

Biotech companies offer the most explosive profits because they are the source of the world's top breakthrough drugs. Their stocks are often volatile, making diversification essential. This can be accomplished by investing in a diversified electronically traded fund (ETF) investing exclusively in a portfolio of biotech companies. We are recommending three top performers.

ARK Genomic Revolution Multi-Sector (ARKG)

was our stellar performer in 2020, delivering a 178 percent profit. This is an actively managed biotech ETF investing in companies expected to benefit by incorporating technological and scientific developments and advancements stemming from mapping the human genome. Breakthroughs and advancements have cut the cost substantially of mapping the human genome which is opening new opportunities and putting this sector on the cutting edge of new innovations. ARKG

Virtus LifeSci Biotech Products (BBP) is a passively managed biotech ETF that weighs the portfolio selections essentially equally, as opposed to the more typical practice of weighing selections according to market capitalization. This is an important aspect because biotech ETFs who weigh their portfolio selections essentially equally have been the best performers by far because they have larger investments in smaller biotechnology companies which are acquisition targets for large pharmaceutical companies looking for ways to revitalize their drug portfolios by scooping up smaller companies.

Invesco DWA Healthcare Momentum Portfolio ETF (PTH) has been a stellar performer in recent years and has consistently had Morningstar's highest ratings of 4 and 5 stars over various periods during the last 10 years.

The secret to the strong performance of PTH is its focus on relative strength -- the measurement of a security's performance in a given sector over time as compared to the performance of all other securities in that sector.

PTH bases its holdings on the Dorsey Wright Healthcare Technical Leaders Index which is designed to identify companies that are showing relative strength (momentum) and is composed of at least 30 securities from the NASDAQ US Benchmark Index. Many of PTH holdings are involved in developing COVID vaccines and much more.

Small Caps

Small caps and this fund are bound to continue to benefit from a shift to value as investors look for undiscovered bargains. Small caps are relatively small companies that 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. Numerous studies show that small caps perform better over the long run than the market as a whole.

Third Avenue Small-Cap Value Investor Fund (TVSVX) is up 20.1 percent so far in 2021. This mutual fund invests

in companies with small capitalizations using the same value-oriented approach. Management looks 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.

Consumer Staples

Invesco S&P 500 Equal Weight Consumer Staples ETF (RHS) is unique because it invests equal amounts in a collection of 33 consumer staple stocks within the S&P 500 index.

Consumer staples are those unexciting products we use every day without much thought, ranging from food, beverages (including alcohol), household goods (including cleaning supplies), hygiene products, and tobacco. These are products that people are unable (or unwilling) to remove from their budgets regardless of their financial situation. The nature of these products makes this sector defensive and much less vulnerable to recessions and bear markets.

RHS rebalances the investments at the beginning of each calendar quarter, which has given RHS a superior performance over other consumer staples funds because it has given investors exposure to many consumer staple stocks that are under-weighted in most other portfolios, making those stocks targets for new capital.

Special Situations

The rest of our portfolio are stocks of individual companies that are presenting extraordinary values within their respective industries. Here they are in alphabetical order:

Apple (AAPL) was added to the portfolio in 2016 at \$29.08 per share (adjusted for the 4:1 split in 2020). We are recommending continuing to hold and add to the position at our buying target of \$100 per share. At that price, the TTM P/E would be close to 20, which is still higher than we like to bet on, but it is much more reasonable than the current ratio.

Crown and Castle International (CCI) is a conservative way to invest in the bright future of 5G, the fifth generation of wireless technology, which is able to download data 100 times faster than the previous generation of 4G. This is a game-changer in today's world of ever-increasing demand for digital streaming and massive amounts of data. This powerful new technology promises to expand the reach of the digital world, not to just faster cell phones, but to billions of other digital devices (the Internet of Things) and to artificial intelligence networks which can be scaled more readily with the power of 5G. The upgrade to 5G requires a higher density of cell tower sites and related infrastructure throughout the US.

CCI presents a relatively low risk way of investing in this high-tech area because of its ownership of hard

assets comprised of more than 40,000 cell towers and approximately 80,000 small cells on buildings, as well as 80,000 route miles of fiber concentrated in the top US markets.

These assets are difficult to create because of scarce locations in urban areas, zoning and governmental regulations, and sheer cost. As a result, there are high barriers to entry for competitors. Furthermore, income is secure and growth is assured because these assets are leased to credit-worthy tenants with pre-determined escalating rent clauses.

Intel (INTC) has the size, diversity, industry dominance, and financial health to make a relatively safe investment in a high-growth, and often high-risk business. Intel can leverage new technology into its existing large platform without introducing unacceptable risks. INTC is trading at a modest TTM P/E ratio, which is normally reserved for companies with poor growth prospects and weak balance sheets. This makes INTC a good value.

International Business Machines (IBM) is a high-tech behemoth with the financial strength to make the per share \$6.56 dividend solid, for an attractive yield. IBM processes one-half of the world's wireless connections, close to 90% of credit card transactions, 80% of the travel industry's reservations, and twenty-nine billion ATM transactions are processed annually with IBM systems.

The important segments of company growth are IBM's Hybrid Cloud services and Artificial Intelligence (AI). For every \$1 of revenue the company lands on a hybrid cloud platform, it sees \$9 to \$13 in additional revenue from the firm's software and services offerings.

The company expanded its suite of Security Services in 2021 for customers using Amazon Web Services (AWS), Google Cloud, IBM Cloud and Microsoft Azure, among others. The services leverage IBM's artificial intelligence (AI) services, bolstered by its super-computer called "Watson" that can "think" like a human, to help identify and prioritize risks, respond to potential threats across an organization's cloud environments, and connect that data with their broader security operations and on-premises systems.

JP Morgan Chase (JPM) is up 60 percent since the vaccines were introduced in early November 2020. However, JPM remains a good value. Earnings are expected to be in the vicinity of \$12.50 per share in 2021, which puts the P/E ratio close to 13. That is far below the market average and relatively cheap by historical standards.

JPM is bound to continue benefiting from an economic recovery which typically steepens the yield curve as long-term bond and mortgage yields rise faster than short-term interest rates, widening profit margins. Meanwhile, JP Morgan's credit portfolio continues to be a strong engine of

growth. Delinquencies have dropped to pre-COVID levels, freeing up more capital reserves.

NCR Corp (NCR) makes automatic tellers (ATMs), retail point-of-sale (POS) workstations, self-service kiosks, and other self-service checkout systems. Prior to the Covid pandemic, 485 million people used NCR products every day. Of course, the Covid crisis scared shoppers as well as stockholders.

Even during 2020, NCR earned \$3.54 per share. Based on those normalized earnings, the current price of this stock is incredibly cheap. As economies open up in the US and around the world, NCR is bound to see substantial growth.

Valero Energy (VLO) is diversifying from a pure oil refiner to a "green" company through its joint-venture with Diamond Green Diesel, which is producing renewable diesel at large profit margins even during the COVID-19 pandemic. Renewable diesel is made from animal or plant waste material which reduces greenhouse gas emissions up to 80 percent because it only releases as much carbon dioxide that the material originally contained. It does not gel at low temperatures which means it can be easily transported through pipelines.

Cash flow, from diesel production turned positive in 2016 and is increasing. More than half of the company's growth capital is for renewables projects. Renewable diesel volumes are expected to quadruple production capacity by 2023, from 290 million gallons per day to 1.2 billion gallons per day. Use for sustainable aviation fuel is expected to be a primary escalating demand factor.

Meanwhile, VLO is up 24.7 percent since the beginning of the year as economic re-opening has raised expectations of increasing demand for refined products, especially gasoline and jet fuel. Management maintained the dividend throughout the pandemic, which annualizes to \$3.92 per share and is still close to 5.8 percent.

Valero has the unique flexibility to refine substantial quantities of a variety of crude oil types. Low oil prices add profits because profits come from the "crack-spread", the difference between the cost of oil as a feedstock and the price of refined products, predominantly gasoline and jet fuel. Over the longer term, a lid is bound to be kept on oil prices for the foreseeable future as major oil producers compete for portions of the petroleum market, including OPEC nations, Russia, and US frackers.

The company also has access to the US pipeline network for delivery to its gulf coast locations. This flexibility and access allow Valero to capture the highest margins among its competitors because it can take advantage of the temporary local gluts of crude, whether it's low or high-quality crude, or light sweet (low sulfur) or heavy sour (high sulfur), and receive the best discounts for its feedstocks.

Portfolio Summary Table

This table is updated and live on our website:

www.soundadvice-newsletter.com

Income with Growth	Symbol	Price / NAV	Yield	Action	Limit
Hersha Hospitality Trust - Preferred D *	HTPRD	\$24.40	6.72%	BUY	\$25.00
International Business Machines	IBM	\$138.93	4.72%	BUY	\$145.88
RLJ Lodging Trust - Preferred A *	RLJPRA	\$29.10	6.70%	BUY	\$29.50
RPT Realty 7.25% Preferred D *	RPTPRD	\$59.62	6.08%	BUY	\$61.00
Valero	VLO	\$70.57	5.55%	BUY	\$74.10
Growth with Moderate Income					
Cisco Systems	CSCO	\$54.43	2.72%	BUY	\$58.00
Crown and Castle	CCI	\$173.32	3.07%	BUY	\$181.99
Intel	INTC	\$53.31	2.61%	BUY	\$55.97
Invesco Consumer Staples ETF	RHS	\$154.04	2.10%	BUY	\$161.74
JP Morgan Chase	JPM	\$163.69	2.44%	BUY	\$171.87
Growth					
Apple	AAPL	\$141.37	0.58%	HOLD	\$100.00
Boston Scientific	BSX	\$43.39	0.00%	BUY	\$45.56
Genomic Revolution Multi-Sector	ARKG	\$74.72	0.00%	BUY	\$78.46
Invesco Basic Materials ETF	RTM	\$160.01	1.00%	BUY	\$168.01
Invesco DWA Healthcare Momentum ETF	PTH	\$161.21	0.00%	BUY	\$169.27
Invesco Small Cap Industrials ETF	PSCI	\$92.77	1.06%	BUY	\$99.00
NCR Corp	NCR	\$38.76	0.00%	BUY	\$40.70
Stryker Corp	SYK	\$263.72	0.87%	BUY	\$276.91
Third Avenue Real Estate Value Investor *	TVRVX	\$26.99	0.00%	BUY	\$29.00
Third Avenue Small-Cap Value Investor Fund *	TVSVX	\$20.72	0.00%	BUY	\$23.00
Virtus LifeSci Biotech Products	BBP	\$50.90	0.00%	BUY	\$53.45
ETFs for Rising Bond Yields					
Direxion Daily 20+Treasury Bear Shares 3X Leverage	TMV	\$62.30	0.00%	BUY	\$65.42
Proshares Short 20+Treasury - 2X Leverage	TBT	\$18.35	0.00%	BUY	\$19.27
Proshares Short 20+Treasury - No Leverage	TBF	\$16.68	0.00%	BUY	\$17.51
Hedges					
S&P 500 ProShares Ultra Short ETF	SDS	\$8.86	0.00%	BUY	\$9.30

Notes to the table: The right hand column is the highest recommended price limit for purchases.

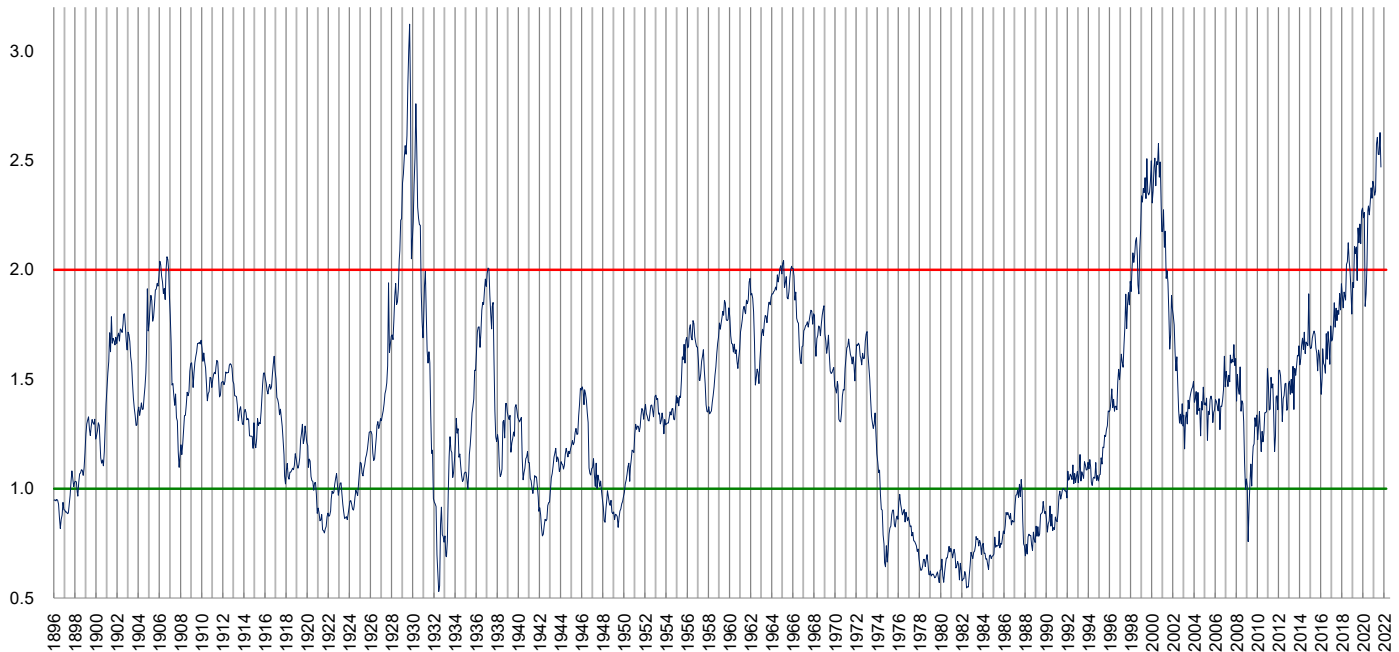
* It is not possible to offer live pricing.

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 120+ 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 based on the ratio of the S&P 500 Stock Index to median price of new houses 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 label this new tool the **Sound Advice** "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 **Sound Advice** 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 **Sound Advice** 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.

But though an investment beginning with \$25,000 in 1895 could have made money being in either stocks or housing, had an investor followed the signals of the **Sound Advice** Risk Indicator, he or she would have made \$702 million, or 26.5 times more money than by simply holding stocks though the ups and downs.

A brief walk through history shows just how reliable this indicator is. The first recorded time the Risk Indicator rose above 2.0 was in February 1906, after the eight-year-old Dow-Jones average doubled since 1903. The market peaked in September of 1906. A massive sell-off in October would later be labeled the Panic of 1907. Stock prices trended downward for 14 more years until the end of 1921 while, searing inflation after World War I boosted house prices 48 percent. The combination of falling stock prices and rising real estate prices forced the Risk Indicator to fall below 1.0 in 1920, just in time for the Roaring 20's when stock prices tripled. Then, in October 1928, the Risk Indicator rose above 2.0 again. On Tuesday, September 3, 1929,

The New York Times

"Cardiff's equation reveals an elegant financial minuet as each market takes turns outperforming the other."

the Dow peaked at 318.17. The October crash marked the beginning of a decline that lasted until July 8, 1932. Houses had declined only by 15 percent compared with the 85 percent loss in stocks. The relative superior performance of houses caused our Risk Indicator to fall below 1.0 at the beginning of 1932.

As America's GNP began posting positive gains and with 46 percent growth in three short years, stock prices would triple. Then the Risk Indicator crossed 2.0 in March 1937. This time, the signal came only one month after the zenith in stock prices. As stock prices retreated 50 percent, house prices remained relatively steady, causing the Risk Indicator to fall below 1.0 again in June 1941, within 9 months from the bottom.

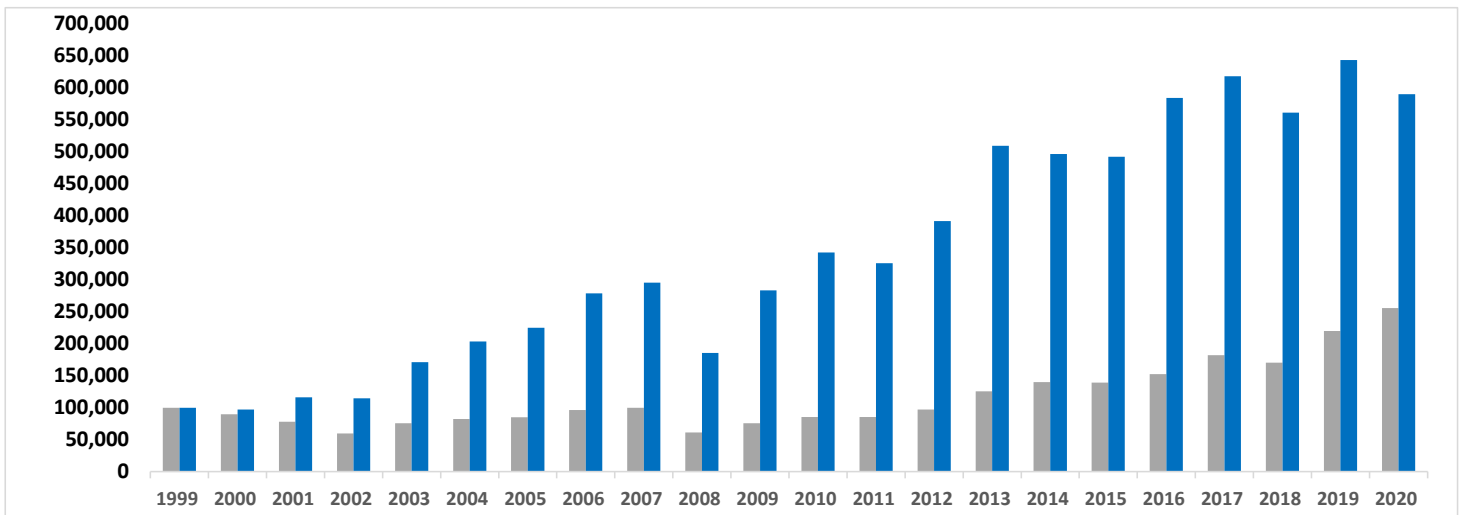
As U.S. corporations expanded to meet growing demand, and the economy came to a rolling boil during the Eisenhower years, the stately rise would multiply stock prices by ten times until November 1964, when the Risk Indicator crossed over 2.0 again. The stock market would continue to climb into 1968, and then crashed into late 1974, wiping out the inflation-adjusted gains scored by investors since 1954. However, a switch to

an investment in houses would avoid all that and double in price by the time the next signal came for stocks in May 1974, as the Risk Indicator fell below 1.0 again, as the Dow careened below 700.

It would not be until March 1998 when the Risk Indicator would cross 2.0 again, after stocks were up by more than tenfold. The Dot-Com bubble would push stocks higher into early 2000, but then began another 50 percent retracement. A switch to houses would produce a 44 percent gain through the end of 2008 while stock prices were lower by 17 percent. In February 2009, with the Dow careening below 700 once again, the Risk Indicator quietly dropped below 1.0 to 0.77 as the S&P tumbled under 700. Since then, the stock market has delivered stunning gains as the S&P 500 has quadrupled. For the sixth time in the last 125 years, the Risk Indicator rose above 2.0 again in July 2018. The Risk Indicator remained above 2.0 through the high-point of the market in February 2020.

With the latest median house price at \$390,900 in July (the latest data) and with the S&P 500 at 4,307 at the end of September, the Sound Advice Risk Indicator reads 2.47, revealing the risk in stocks is very high.

Sound Advice versus 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 \$255,682, versus \$590,204 if it was invested in the Sound Advice recommendations (in blue).