

Stock Market Breadth



The *Sound Advice* Portfolio is up 5.7 percent this year, compared to 2.2 percent for the S&P 500. We have an average profit of 60 percent in the *Sound Advice* portfolio, based on the prices that each position was recommended.

Best regards,

-- Gray Emerson Cardiff, Editor

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 going up as money managers and mutual funds 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.

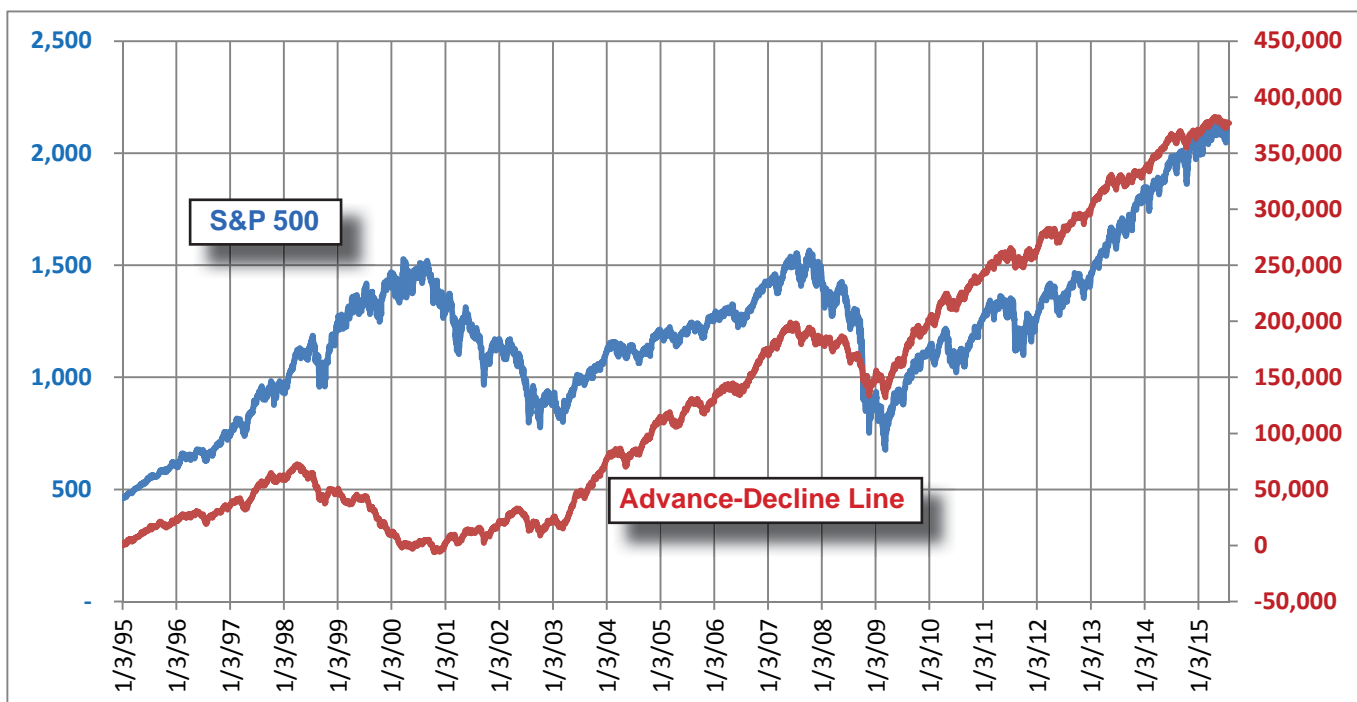
We can measure the breadth of the market by tracking the number of stocks that advance on the New York Stock Exchange, and subtract the number that decline. By keeping a cumulative total, we construct an "advance-decline line" or ADL.

The blue line on the chart below shows the S&P 500. The red line shows the ADL, starting from zero at the beginning of 1995.

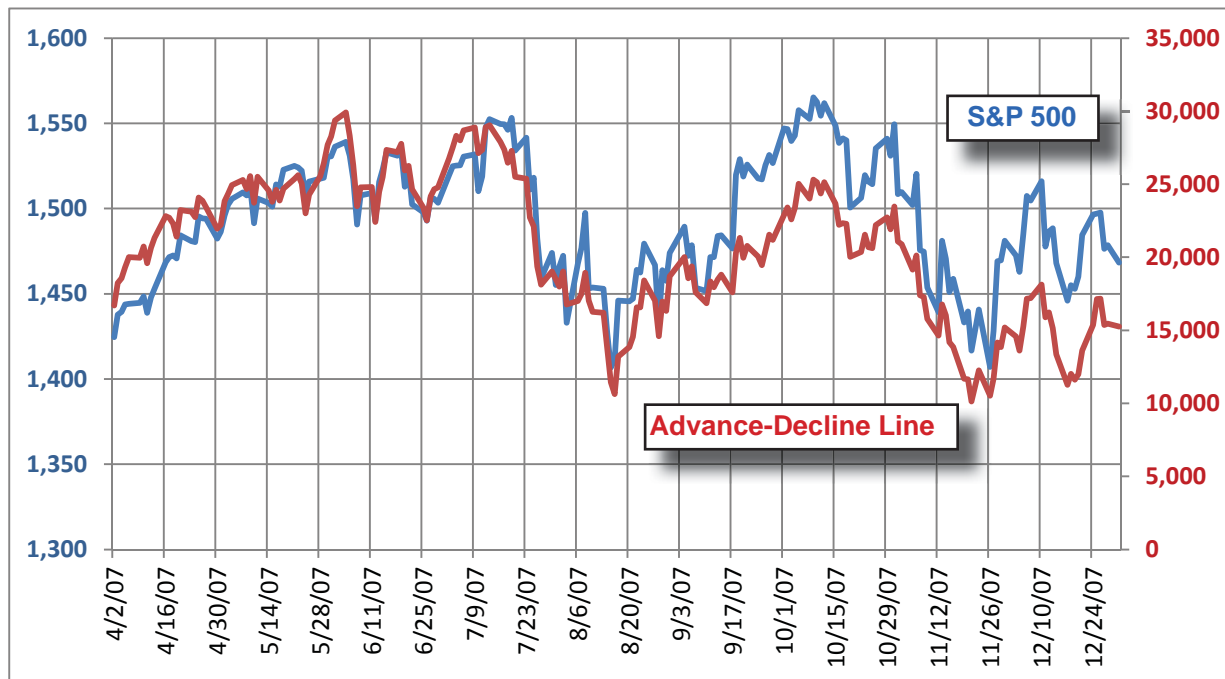
The first time we see a divergence is in 1998, when the ADL breaks downward. This means that breadth is deteriorating as fewer and fewer stocks join the climb. This is the most graphic example of negative divergence. Not only is there a sharp break in the ADL while the S&P 500 climbs to new highs, the divergence lasts nearly 2 years. The S&P finally peaked in mid-2000 and plunged close to 50 percent.

Divergence can also be positive, revealing that a bear market is close to being over and a new bull market is around the corner. As the S&P hit new lows in late 2002, the ADL did not. This showed that breadth was improving, and a strong bull market followed.

Stock Market Breadth 1995- July, 2015



Stock Market Breadth 2007

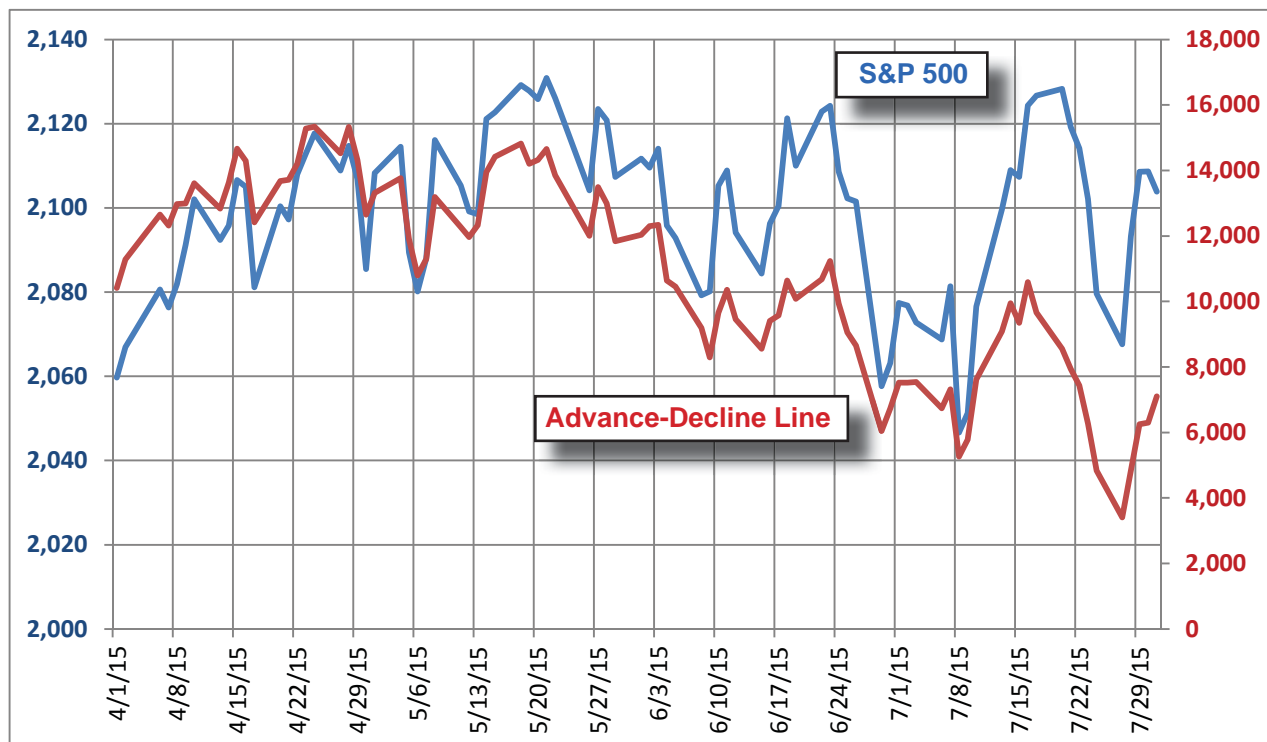


The next divergence begins in mid-2007, and it is negative. See the chart above.

As the S&P climbs to new highs in October, the ADL does not join the party, revealing that breadth had deteriorated. A severe bear market followed.

Now we come to 2015, when negative divergence has begun to appear again. The following chart shows the detail. Notice how the ADL has been dropping off since April. As the S&P 500 rose to new highs in May, the ADL did not. As the S&P rose again in June, the ADL had fallen off substantially. Again in July, as the S&P rose close to a new high, the ADL did not even reach its previous peak. The divergence has become larger each time the S&P has risen.

Stock Market Breadth 2015, April - July



The negative breadth we are seeing today could last for a considerable time, and does not necessarily indicate that a bear market is around the corner. As we pointed out, in the late 1990s, negative divergence persisted for nearly two years before that bear market began.

Significant corrections or bear markets are often sparked by rising interest rates. We rely heavily on our Diffusion Indexes (page 11) because they have been extremely reliable in guiding us through major movements in stocks caused by the business cycle and interest rates.

Our Diffusion Index of Lagging Indicators (Page 10) hit 100 percent for the third month in a row, based on the latest leading indicators for June reported in late-July. This confirms our existing Caution Signal given last month.

The director of Business Cycles and Growth Research at The Conference Board commented: "The upward trend in the US leading indicators seems to be gaining more momentum with another large increase in June pointing to continued strength in the economic outlook for the remainder of the year. Housing permits and the interest rate spread drove the latest gain in the leading economic indicators."

This comment is relevant on several fronts. First, it confirms the economic strength revealed by our Diffusion Indexes. The comment about the strength in the housing market coincides with comments from the construction industry regarding the shortage of skilled construction workers. It also lines up with the fact that the number of Americans filing new applications for unemployment benefits in mid-July fell to its lowest level in more than 41 years.

These confirming signs point to a rise in interest rates ahead. Adding confirmation was the 0.3 percent increase the Consumer Price Index (CPI) in June, following a 0.4 percent increase in May. These readings are above the 2 percent annual rate the Federal Reserve is looking for to start moving off the zero-bound interest rates implemented in 2008 to bail out the economy from the melt-down.

The missing piece is still wage inflation. In past issues, we have noted that Chair Yellen wants to see a steady 3 percent annual growth rate in wage inflation before setting sail for interest rate increases. That has yet to happen. However, a tightening labor market and low unemployment are certain to lead to wage inflation, at which time the Federal Reserve will be out of excuses to begin raising rates.

Last month we pointed out the historically high reading of the market cap to GDP ratio -- the ratio of the total capitalization of the stock market (stock prices of all publically traded companies multiplied by their respective amounts of shares outstanding) to the gross domestic product (GDP) of the US.

This ratio rose above 1.2 in the late 1990s prior to the 2000-02 bear market that took stocks down nearly 50 percent. It also rose above 1.1 just prior to the 2008-09

bear market which took stocks down nearly 50 percent again. Currently, this ratio is close to 1.3.

From this presentation so far, one could conclude that a market crash is around the corner. If the bond market were falling apart, that would be likely. However, the bond market has not caved in yet, so a full-fledged crash would be an extreme prediction. Still, from this perspective, we can conclude that stocks in general are dangerously high, particularly with rising interest rates on the horizon and our Diffusion Index of Lagging Indicators flashing a caution signal. Accordingly, last month we introduced an ETF that will benefit from a declining stock market.

The **ProShares UltraShort S&P 500 (SDS)** is a reverse ETF that is designed to produce two times the daily fluctuations of the S&P 500 index. It works in the same way as our reverse Treasury bond yield ETFs. For example, 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 performs as it should, with daily premiums and discounts within 0.5 percent. It is also very liquid.

As with any reverse ETF, SDS will erode slightly over a long period of time because it will decline slightly more than it will increase with an equal movement in the S&P 500. The erosion factor is nominal in comparison to normal market movements, but it can add up over an extended period. The 2:1 leverage amplifies this erosion factor as well.

Accordingly, SDS is not a long-term holding proposition. However, for the near term, it will serve as a counter-balance to the rest of our portfolio in a general market correction. The 2:1 leverage factor means that it will better serve this purpose without making a large investment. It is also in the aggressive segment of our portfolio. See the table on page 9.

Portfolio Updates

When stock prices are generally high, it is exceedingly important to emphasize value. Here are updates on the rest of our portfolio.

Energy Selections

As one of the few deeply discounted values left in the market, carefully chosen energy stocks are bound to enhance the long-term performance of our portfolio, even in a declining market. Oil and gas stocks have been pressured by a glut of oil. As of the week ending 7/24/15 (the latest week reported) there are currently 460 million barrels of oil in US tanks, which is 92 million barrels more than one year ago when there was no glut. This difference is 13 days of our imported oil needs, which remain at 7 million barrels a day. Even every drop of the entire 460 million barrels in all US storage tanks equates to less than 70 days of imported oil.

Demand has increased in recent months as evidenced

by the fact that input to US refineries has grown to record weekly highs of 16.8 million BPD, and this has drained 4 million barrels out of the supply in US storage tanks. This draw occurred even while production remained at record high levels. However, production is bound to be declining substantially soon.

When production declines even marginally, the draws from storage tanks are certain to be substantial. The near doubling in US production in recent years has come largely from fracking shale. However, production falls off sharply from fracked wells, typically down by 70 percent during the first year. New wells need to be added at a high rate to maintain overall production levels. We know that is not happening because of the 50 percent plunge in the domestic drilling rig count since last October. When production declines even marginally, the draws from storage tanks are certain to be substantial.

Here are updates to our energy portfolio, in alphabetical order.

Chevron (CVX) reported disappointing earnings of 97 cents per share on the last day of July. Adding in nonrecurring charges, earnings were reduced to 30 cents, the worst in 13 years. These earnings were emblematic of the damage the decline in the price of oil has done to the industry, especially the major oils. (Exxon had similar results.) The annual dividend, which is \$4.28 per share company, was emphatically pronounced by the company as sacrosanct after the earnings report. The depressed price of the stock puts the yield close to 54 percent. This yield does not happen often. The last time was during and shortly after the 2008-09 melt-down. Chief Executive John Watson said “Multiple efforts to improve future earnings and cash flows are underway.”

CVX is a vertically integrated oil company which means it has operations in all phases, from exploring and drilling for oil, to transporting and refining, and even to retail sales at its gas stations. Profits from these various stages of production will change with the price of oil. When oil prices are high, margins are high from drilling, while margins are low from refining. However, the reverse is also true when oil prices are low. This dip presents a long-term buying opportunity.

Chesapeake Energy (CHK) is the nation’s second largest producer of natural gas next to Exxon Mobil. In July, CHK cut its dividend, sending the stock to new lows. The cut saves \$240 million per year which can be directed to debt reduction and asset development.

Chesapeake has over 9 million net acres of oil and gas assets in prolifically producing areas, including the Marcellus and Utica Shale, as well as the Eagle Ford and Anadarko Basin. CHK is forging ahead on its drilling plans to hold and develop production from this prime acreage. CHK’s commitment to forge ahead to develop its prime properties while other producers are cutting back is making the market nervous. But hanging on to these assets gives CHK long-term value. At the end of July, under CHK’s current financial situation and using more conservative assumptions,

Morningstar’s recast its fair value estimate for Chesapeake to be \$25 per share (down from \$27 per share), nearly triple the current price of this stock.

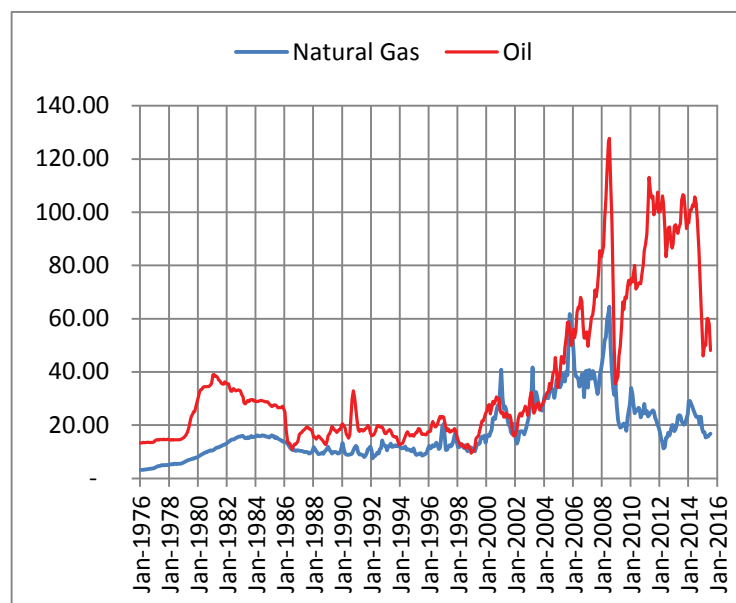
Fidelity Select Natural Gas Fund (FSNGX) is a diversified way to participate in the recovery of the natural gas industry through strong companies. Natural gas provides the same energy as oil for pennies on the dollar, and natural gas is more environmentally friendly.

The growth outlook is bolstered by new facilities coming on line to transport US natural gas to the rest of the world. On the Louisiana coast, the largest super-cooling facility for natural gas (the Sabine Pass liquefaction terminal) is scheduled to be completed later this year, and will chill natural gas into liquefied natural gas (LNG) so it can be loaded onto tankers and sold to customers in Europe and Asia. This will be the first facility to export LNG from the contiguous US. Two more such facilities are scheduled for completion in 2018.

The drop in the price of oil brought the energy-equivalent costs of oil and natural gas closer, but a substantial disparity still exists. One barrel of oil provides approximately 5.8 million British Thermal Units (BTUs) of energy. At \$49 a barrel, that is the cost of 5.8 million BTUs. However, with the current market price for natural gas close to \$2.90 for one million BTUs, 5.8 million BTUs will cost \$16.82 (5.8x\$2.90). So the same amount of energy is available for 35 cents on the dollar, if it is in the form of natural gas rather than oil.

The following chart below shows the historic relationship between the costs of these two forms of energy. The red line shows the price of a barrel of oil since the mid-1970s. The blue line shows the price of natural gas multiplied by 5.8 to approximate the same amount of energy contained in a barrel of oil. Most of the time, the costs of the two forms of energy have been closely aligned. They moved closer together when the price of oil dropped, but remain substantially apart. This difference still translates into an expanding natural gas industry.

The Cost of Energy Equivalents of Oil and Natural Gas



ICON Energy Fund Class S (ICENX) is also a diversified way to participate in the recovery with a basket of substantial companies.

In the past, this fund has achieved growth even during periods of declining energy prices. ICON management looks for changes within the energy sectors to capture value, rather than simply depending on rising oil prices. For example, the profit margins expand on pipelines when the price of oil is low, because the cost and price of storage and transportation have little to do with the price of oil.

The fund did not drop along with the price of oil. It declined 5 percent in 2014 but is up by that much this year; all during a 50 percent drop in the price of oil.

This fund is a great way to capture today's values and profit from the recovery and changing landscape on a diversified basis.

Transocean (RIG) has been hammered by the sharp drop in oil prices. In February, RIG cut its dividend to 60 cents per share, which was not a surprise in view of the oil price crash. The current 60 cent dividend, which is not likely to be lowered again, is a solid 3 percent yield. This puts a floor in the vicinity of the current stock price because any substantial drop in the stock price from here would cause the yield to increase materially, which would be out of line with the industry.

It is important to keep in mind that the US still imports 7 million barrels per day. Deep water drilling is still a necessary source for the US and the world's oil needs. Long-term profits from RIG should be stellar from here.

Valero Energy (VLO) is the largest oil refiner in the US. It owns 15 refineries with a capacity for 2.9 million barrels per day. VLO is an extraordinary investment value and in a highly-unique position to profit from the oil glut that is plaguing the US oil industry. The company also has 7,400 retail outlets in the US, Canada, UK and Ireland, under the brands Valero, Beacon, Ultramar, Shamrock, and Texaco. Valero Energy is one of the few energy companies that can benefit from lower oil prices because margins expand during such times. However, high demand for gasoline during times when oil prices are rising provide good margins too.

Most US refineries are not set up to handle the light, sweet, crude oil that is coming from fracking US shale, which is a primary cause of the US oil glut.

Valero's refineries are notable exceptions because they are the most flexible refineries, allowing Valero to capture the highest margins among its competitors. Valero's

refineries are also well positioned geographically, even for accessing the low-cost Maya crude from Mexico, a heavy sour oil that Valero bought in 2014 for an average \$13 per barrel discount, which was an even larger discount than from US oil.

Valero also has its highly successful Master Limited Partnership, **Valero Energy Partners LP (VLP)** that gives VLO the ability to "drop-down" assets to VLP at higher prices that could likely be obtained on the open market, effectively "unlocking value" for VLO shareholders. Despite its success, VLO remains an under-valued stock. In the final days of July, VLO reported second quarter earnings of \$2.66 per share, more than double the \$1.22 per share a year earlier. Earnings are expected to be \$6.85 per share in 2015, which puts the price/earnings ratio (P/E) at 8.6, far below the industry average of 12.6, and far below the S&P 500 average of close to 17. VLO raised its quarterly dividend two quarters ago, to 40 cents per share. Valero bought \$5.4 million of VLO in 2014, and \$7.1 million more so far this year.

Reverse Treasury Bond Yield ETFs

We are recommending three ETFs designed to benefit from the inevitable rise in long-term Treasury bond yields. These ETFs differ in the amount of leverage used:

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.

You can choose one or all of these ETFs, depending on your investment objectives and risk tolerance. We have dubbed these ETFs as "No-Brainers" because interest rates and bond yields always rise during an economic recovery. The ascent has never been smooth and this time has been no exception.

The price action of these ETFs is based on the changes in long-term treasury bonds, specifically BlackRock's iShares 20+ Year Treasury Bond ETF (symbol TLT) which holds a portfolio exclusively of long-term Treasury bonds with an average maturity length of close to 27 years. The prices of our No-Brainer ETFs fluctuate in accordance with the daily fluctuations of TLT, only in the opposite direction, multiplied by the leverage each uses. For example, a decline of say, 1.0 percent in TLT will cause TMV to increase by 3.0 percent, TBT by 2.0 percent, and TBF by 1.0 percent. Conversely, an increase in TLT will cause these ETFs to

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drop in the same fashion. We can project the movements of these ETFs based on any given scenario.

As part of the Federal Reserve's economic projections, each member of the Federal Open Market Committee (FOMC) makes a prediction regarding the future path of interest rates. Those predictions are plotted in the so-called "Dot Plot", and medians are taken to formulate the Federal Reserve's official prediction.

The most recent Dot Plot predicts that the Federal funds rate will be 0.625% at the end of 2015, up from zero currently. The Federal funds rate is predicted to be 1.625 percent at the end of 2016, and 2.875% by the end of 2017. Over the longer run, the consensus was unchanged, ranging between 3.25% and 4.25%, with the median of 3.75%. These projections seem plausible in view of the strength of the US economy along with the massive quantitative easing (QE) program underway in Europe. Although China's economy is growing, the recent manipulations and gyrations of China's stock market, along with the unreliable and secretive nature of government information, makes the predictability of China's growth rate somewhat uncertain.

Assuming Treasury bond yields move in accordance with the latest Dot Plot predictions of the Federal Funds rate, here is what would happen to each ETF:

TMV would rise to \$41 by the end of 2015, to \$66 by the end of 2016, and to \$114 by the end of 2017.

TBT would rise to \$56 by the end of 2015, to \$78 by the end of 2016, and to \$112 by the end of 2017.

TBF would rise to \$28 by the end of 2015, to \$33 by the end of 2016, and to \$39 by the end of 2017.

Real Estate Selections

A rising economy will push up rental rates which will more than compensate for added interest expenses caused by rising interest rates. The problem is that low interest rates for so many years have pushed down capitalization (cap) rates (the yield before debt payments are considered) on commercial real estate, and prices correspondingly upward. As in the case with bond yields, cap rates on commercial real estate have declined to historically low levels, pushing commercial real estate prices historically high. Now that an uptrend in interest rates is on the horizon, commercial real estate in general does not present a particularly good value.

Accordingly, we are confining our real estate selections to where extraordinary values exist.

Hersha Hospitality (HT) reported in late July that second quarter revenue was 13.9 percent higher than one year ago. Based on the net operating income of the most recent four quarters, we estimate the net asset value (NAV) of Hersha's hotel properties is at least \$28.42. However, HT is selling at a discount to its hotel assets because most of its major properties have been undergoing renovations and not producing their full income potential. We expect the value of HT to increase in the immediate quarters ahead.

Retail Opportunities Investment Corp (ROIC) reported a strong 9.5 percent increase in FFO for the second quarter, with occupancy of 97.3 percent at the end of the quarter.

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. ROIC buys distressed retail properties with high-quality demographics, refurbishes them, and then leases them at a premium. The portfolio continued to expand in the second quarter, with emphasis on the west coast. So far in 2015, ROIC has purchased \$278.2 million of grocery-anchored shopping center acquisitions.

As new properties are added, along with tenant upgrades, funds from operations (FFO) is bound to continue to rise, along with the dividend, and push the price of this REIT upward. ROIC pays an attractive dividend of close to 4 percent, which lowers its risk profile.

Third Avenue Real Estate Value Investor Fund (TVRVX) is replete with stellar values substantially below NAV with strong growth prospects.

Management has a similar approach to ours because management is very price conscious, especially in relation to net asset value, in making decisions on whether to buy, hold, or sell a particular company. The managers expend great effort analyzing financial statements, visiting companies and their properties, and assessing management teams to come up with their estimates of intrinsic value. Specifically, the management team looks for 4 fundamental characteristics before making investments:

- 1) The issuer has an especially strong financial position.
- 2) The common stock is selling at a price that reflects at least a 20% discount from Net Asset Value ("NAV").
- 3) There is comprehensive disclosure including reliable audited financial statements.
- 4) The prospects are that over the next three to seven years, NAV will be increasing by at least 10 percent annually (including dividends).

An additional similarity to *Sound Advice* is that members of management eat their own cooking – they invest a substantial amount of their personal assets into their recommendations by investing into the funds they manage.

TVRVX has a number of distinguishing characteristics. This is a global real estate fund. 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 looks for opportunities in different points of a real estate company's capital structure by investing in senior debt in addition to a company's equity. Also unlike the typical REIT, management will go to cash when asset prices are generally high. Cash is preserved for scooping up opportunities in distressed times.

Medically-Related Selections

Generally this sector is defensive, even though price/earnings ratios may be higher than the S&P 500. Medical needs persist regardless of financial conditions, and the world's inexorable demographic aging trends and the commensurate increase in medical care needs translates into strong growth prospects for this industry.

Boston Scientific (BSX) has medical products that are well suited for an aging population in the US. The company's mission is to transform lives through innovative medical solutions that improve the health of patients around the world. BSX has been a global medical technology leader for three decades by providing a range of high performance solutions aimed at addressing medical needs and reducing healthcare costs. BSX has more than 900 US patents.

In late July, BSX announced earnings of 22 cents, 4.8% up from one year ago. This was better than expected with today's currency headwinds, but in line with the company's guidance range. BSX reiterated that it expects 2015 earnings to be in the range of 88–92 cents.

Pfizer (PFE) has an arsenal of new pharmaceutical products, with 88 in clinical development and 30 in late stage development or registration. PFE has rebuilt its pipeline and transformed its R&D approach. The company is well positioned with several break-through drugs and treatments.

Pfizer's second quarter's earnings declined slightly by 3 percent to 56 cents a share on declining sales of 7 percent. Pfizer now sees full-year earnings of \$2.01-\$2.07 per share. Although results were weighted down by foreign-exchange headwinds, the progress from PFE's most significant new drugs were encouraging. The most recent to receive approval earlier this year, *Palbociclib*, has sales of \$140 million. Trade-named "Ibrance", it treats one of the deadliest forms of breast cancer. It is expected to be a blockbuster for PFE, producing \$4 billion in sales by 2020.

Pfizer's *Prevenar* vaccines (for pneumonia and other infections) had sales of \$300 million.

Stryker (SYK) provides a diverse array of innovative medical technologies, including reconstructive, medical and surgical, as well as neuro-technological and spine products, although SYK is best known for its orthopedic devices for artificial knees and hips. Continued growth is assured by accelerating demand for joint replacements on aging US baby boomers. As life expectancies continue to increase (and obesity trends continue), more and more hip, knee, and spinal procedures will be needed.

In July, based on higher sales and stringent cost management, SYK reported second quarter earnings of \$1.20 per share, which were 11.1 percent higher than one year ago. Stryker's cash-rich balance sheet and strong cash flow gives SYK avenues for continued diversified growth through acquisitions. Recent acquisitions include

Small Bone Innovations, Pivot Medical, Berchtold Holding, and MAKO Surgical, as well as Trauson Products, China's largest manufacturer of orthopedic implants.

Stryker is buying back \$2 billion of SYK in 2015, following the purchase of \$100 million in 2014.

Tekla Life Sciences Investors (formerly Hambrecht & Quist Life Sciences Fund - the symbol is still HQL) is in our portfolio because the most explosive profits in the entire healthcare industry can be found in biotech companies. Over the last 10 years, biotechnology has become a major industry which now provides the world's top drugs. This sector has outperformed the broad market during the last one, five, and ten year periods.

Biotech companies tend to be high risk and high reward investments which makes diversification essential. This fund is an excellent way to invest in this sector.

Small Caps

Numerous studies show that small caps perform better over the long run than the market as a whole. This is especially true during a recovering economy. They also tend to be domestic companies. Without substantial overseas exposure, small caps are not buffeted by currency fluctuations, and they are not suffering from the negative effects of a strong dollar that are likely to continue to haunt larger companies. Of course, attention to value is paramount.

Third Avenue Small-Cap Value Investor Fund (TVSVX) invests in companies with small capitalizations using the same value-oriented approach as it does with its real estate value fund. TVSVX management scours the investment universe for companies that combine the three main features: creditworthiness, a meaningful discount to a conservatively estimated net asset value (NAV), 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.

Small-cap stocks perform better than large-cap stocks over the longer term because they are pure plays on the early stages of new industries and inventions. They have more dynamic and entrepreneurial management, and they are much more likely to be the target of an acquisition or merger which is usually quite profitable.

Special Situations

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

Agrium (AGU) has a broad mix of agricultural products and services that increases the efficiency of food production. AGU products will be in growing demand as arable land continues to disappear around the world while population and per-capita income increases. The

combination of worldwide population growth, without commensurate expansion of farmland, translates into a need for greater crop output per acre through the use of the products that Agrium provides.

Ford (F) reported earnings in the final days of July of 47 cents per share, beating estimates and substantially higher than last year's 32 cents. Earnings are still depressed because of down time and preparation for 24 new or refreshed vehicles. Ford's new all-aluminum F-150 truck weighs 700 pounds less than last year's model, and gets close to 30 miles to the gallon. The F-150 is Ford's best-selling vehicle in the US and the company's most profitable product. Sales have been held back this year because production capacity for the F-150 has not caught up with demand. On the cost side, Ford is reducing the number of platforms it uses to produce its models, from 27 in 2007 to 9 by 2016, which will save billions of dollars through economies of scale, and give Ford more agility to adapt to changes in demand.

Ford is selling at close to 10 times earnings, a deep discount to the rest of the market, with good growth prospects.

Freeport-McMoRan Copper & Gold (FCX) is the world's largest copper producer. Copper is woven into the fabric of the world's developed economies, and its price moves dramatically in tandem with expansions and contractions. We made a 643 percent gain during the last expansion, from March 2003 until December 2006, on Phelps Dodge, the largest copper producer back then. As the world's economies continued to expand into 2008, so did FCX.

In July, FCX posted a quarterly loss due to a \$2 billion write-down related to oil-and-gas properties it acquired two years ago. Revenue also fell 23% to \$4.25 billion due to sagging copper prices. The stock sold off and then recovered after management announced it will be targeting significant additional reductions in capital spending and operating and administrative costs in response to weak market conditions and to reduce costs to preserve its most valuable resources for anticipated improved market conditions in the future.

FCX still plans to spin off the oil and gas properties through a public offering with the ticker symbol FMOG. We will be evaluating the spin-off when it occurs, and advise whether to hold it or not.

After the spin-off, FCX will become a pure copper company again. Expanding economies around the world are bound to be exerting increasing demand for copper.

NCR Corp (NCR) makes automatic tellers (ATMs), retail point-of-sale (POS) workstations, self-service kiosks, and other self-service checkout systems. 485 million people use NCR products every day, and there is room for substantial growth in the US and around the world. At the end of July, NCR reported earnings of 66 cents per share, beating estimates of 60 cents. NCR expects 2015 earnings in the range of \$2.60 to \$2.80 per share.

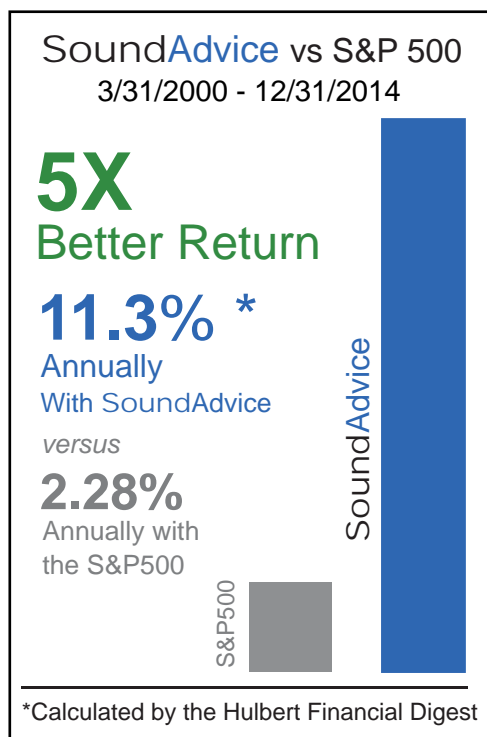
At close to 10 times earnings which is a steep discount to the market, NCR is a value play. NCR is declining to comment regarding potential suiters for the company. However, several activists have been rumored to be in pursuit, including the Blackstone Group, the Carlyle Group, Marcato Capital, and Jana Partners.

Symantec (SYMC) is the dominant supplier of software for computer security and protection against viruses and other nuisances through its leading flagship brand, Norton. SYMC has 20,000 employees residing in 50 countries working on new solutions in growing markets including backup appliances, mobile, cloud, advanced threat protection, data loss prevention, and managed security services. Nearly all of the Fortune 500 companies are Symantec customers. According to Symantec's latest annual Internet

Security Threat Report, cyber attacks against large corporations have jumped by 40% this year. If there ever was a more certain growth industry, protection from cyber espionage is it.

By the end of the year, SYMC will spin off its relatively small storage business, Veritas, as a separate company which will allow both companies to be more competitive and responsive to their respective industries. Veritas will be operated as a separate company prior to the spin-off by October 3, 2015. The separation will make SYMC a more attractive acquisition to large information technology (IT) companies, with its strong balance sheet, along with its good cash flow and margins.

Tetra Tech (TTEK) reported third-quarter fiscal 2015 (second calendar quarter) results of 43 cents per share, 39 percent higher than one year ago. Increased demand for the company's water and environmental services from both commercial and government clients contributed to the improvement in bottom line.



Income With Growth	Sym	Exchange	Price	Yield	Limit	Action
Hersha Hospitality Trust	HT	NYSE	\$ 27.12	4.13%	\$ 31.20	BUY
Retail Opportunity Investment Corp	ROIC	NASDAQ	\$ 17.15	3.50%	\$ 18.00	BUY
Third Avenue Real Estate Value Investor	TVRVX	800-443-1021	\$ 32.21	1.37%	\$ 34.00	BUY
Diversified Growth						
Agrium	AGU	NYSE	\$ 102.26	3.05%	\$ 110.00	BUY
Ford Motor Company	F	NYSE	\$ 14.83	3.37%	\$ 17.00	BUY
Freeport-McMoRan	FCX	NYSE	\$ 11.75	1.70%	\$ 24.00	BUY
NCR Corp	NCR	NYSE	\$ 27.54	0.00%	\$ 33.00	BUY
Pfizer	PFE	NYSE	\$ 36.06	2.88%	\$ 37.00	BUY
Stryker Corp.	SYK	NYSE	\$ 102.27	1.04%	\$ 105.00	BUY
Tetra Tech	TTEK	NASDAQ	\$ 26.64	1.05%	\$ 27.00	BUY
Third Avenue Small-Cap Value Investor Fund	TVSVX	800-443-1021	\$ 23.51	0.00%	\$ 27.00	BUY
Xerox	XRX	NYSE	\$ 11.02	2.27%	\$ 12.50	BUY
Energy/Natural Resources						
Chesapeake Energy Corp	CHK	NYSE	\$ 8.66	0.00%	\$ 15.00	BUY
Chevron	CVX	NYSE	\$ 88.48	4.84%	\$ 108.00	BUY
Fidelity Select Nat. Gas Fund	FSNGX	800-544-8888	\$ 26.35	1.25%	\$ 34.00	BUY
ICON Energy Fund Class S	ICENX	800-828-4881	\$ 12.49	0.72%	\$ 16.00	BUY
Transocean	RIG	NYSE	\$ 13.26	4.52%	\$ 19.00	BUY
Valero	VLO	NYSE	\$ 65.60	2.44%	\$ 70.00	BUY
Aggressive Growth						
Boston Scientific	BSX	NYSE	\$ 17.34	0.00%	\$ 19.00	BUY
ETF - Direxion Daily 20+ Yr Bear 3X	TMV	NYSE	\$ 29.44	0.00%	\$ 38.00	BUY
ETF - ProShares Short 20+ Year Trsry	TBF	NYSE	\$ 25.01	0.00%	\$ 30.00	BUY
ETF - ProShares UltraShort 20+ Year Trsry	TBT	NYSE	\$ 45.23	0.00%	\$ 55.00	BUY
S&P 500 ProShares Ultra Short ETF	SDS	NYSE	\$ 20.10	0.00%	\$ 23.00	BUY
Symantec	SYMC	NASDAQ	\$ 22.74	2.64%	\$ 27.00	BUY
Tekla Life Sciences Fund	HQL	NYSE	\$ 29.86	0.00%	\$ 31.00	BUY

Notes to the table:

Prices are as of 7/31/2015. See our website for live pricing and buy limits:

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

Yields on funds may include capital gain distributions.

TTEK is a leading company in water technologies and environmental remediation with a healthy balance sheet including \$500 million of capital for growth in strategic markets. TTEK has a backlog of approximately \$1.9 billion in signed contracts to clean up military bases across the US. TTEK recently announced a two-year, \$200 million share repurchase program which will enhance earnings.

Xerox (XRX) reported second-quarter earnings in July of 22 cents per share. The company provided earnings per share guidance of \$0.95-1.01, which puts the stock price close to 11 times earnings, very cheap relative to the rest of the market.

XRX is transforming from a seller of printers and copiers to a company providing business services in the form of business process outsourcing, information technology (IT) services, and document outsourcing (printing as a service). The strongest growth is coming from the expansion into IT services where services are performed under long-term contracts. Renewal rates have been generally high.

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 \$12.3 million in stocks and to \$1.55 million in houses.

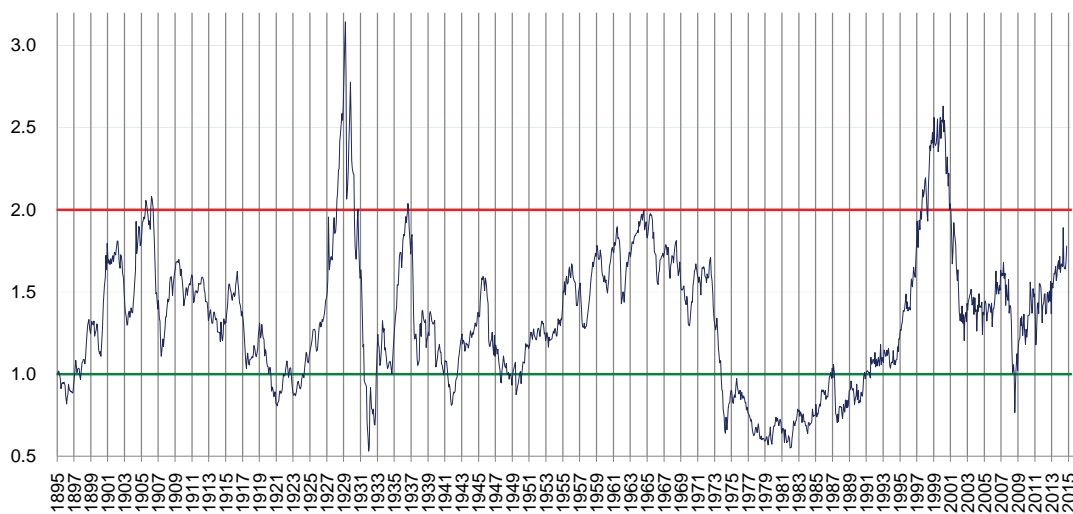
But though an investment beginning with \$25,000 in 1895 could have made money being in either stocks or housing and simply leaving it there over such a long period of time, had the investor followed the signals of the SoundAdvice Risk Indicator he would have made \$491 million, or 39.7 times more money—the difference between profits the buy-and-hold stock market strategy would have yielded by itself and the profits that the SoundAdvice Risk Indicator would have provided.

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

The SoundAdvice Risk Indicator

The latest reading for the SoundAdvice Risk Indicator is 1.71. This reading reveals that stock prices are substantially above average in relation to house prices. The February 2009 reading of 0.77 marked the low for this cycle as well as the beginning of Supercycle 6.

See *The Science of Making Money in Turbulent Markets* for a complete explanation of the 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 soft economy is providing an atmosphere for stable or declining interest rates.

This Diffusion Index gave us a zero reading in March, 2015.

The previous zero reading was in April, 2009, close to the bottom, officially giving us an "Aggressive" signal. That signal came at a time when the Risk Indicator was below 1.0, which revealed that Supercycle 5 came to an end, and that Supercycle 6 was born.

However, the March 2015 signal was usurped.

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 has been a critical indicator in the past and has aided in avoiding severe declines, most notably the crash of 2008-09. However, since then, the Federal Reserve's Quantitative easing program has been holding short-term rates artificially low to stimulate the economy.

This index hit 100% in 2012. Although we operated under the "Caution" signal, we have continued to be bullish about stocks because of the Federal Reserve's expansive monetary policy and its quantitative easing program, which has been distorting the natural business cycle.

The most recent lagging economic indicators released in June (for May) causes the SoundAdvice Diffusion Index of Lagging indicators to hit 100 percent, giving us a new caution signal.

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 32 percent. During "Caution" signals, the S&P 500 increased an average of 2.8 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
Mar-15	2,080.0	May-15	2,111.9
Ave +/-	32.0%		2.8%

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

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