



Beware: Caution Signal



So far this year, the *Sound Advice* portfolio is up 12.8 percent versus the 9 percent gain in the S&P 500). Twenty-one of the 26 *Sound Advice* model portfolio positions are up, two are essentially unchanged, and three are down slightly. We have an average gain of 31.7% based on the prices at which each stock or mutual fund was recommended. See page 4 for a progress report on each of our recommendations.

Since April of 2009, very close to the bottom of the market, we have had the green light from our Diffusion Indexes. It has been a very profitable 3 years. The S&P500 has climbed 61 percent, and we have done just as well with our recommendations. However, all good things must come to an end. I am not sure why, but they just do.

Our Diffusion Index of Lagging Indicators has risen to 100 percent, telling us to start being more careful. It's not that we aren't always careful, but for the reasons we discuss, it has become a more dangerous time, and mistakes will be more costly.

We are trimming our portfolio by three positions. (See the Action Items on page 4.) These positions appear more risky to us now, and this is no time to take unnecessary risks.

There is no reason to panic. The economy has improved but still has plenty of headroom. Europe is still an undermining factor (see page 2) and China is slowing down. Slack in the economy means the Federal Reserve will continue its accommodative monetary policy.

-Gray Emerson Cardiff

The Sound Advice Risk Indicator tells us that nothing is more important to a market's destiny than the amount of capital that is available to it. For over 100 years, our Risk Indicator has oscillated back and forth, revealing the ongoing struggle between stocks and real estate for investment capital. We have labeled these long vacillations Supercycles. (See page 9).

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 handpicked 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 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 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

The SoundAdvice Portfolio

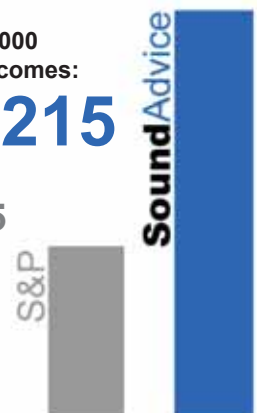
 **12.8%** Annual Return
Since 1/1/2012

SoundAdvice vs S&P 500

Since 1/1/2000
\$25,000 becomes:

\$80,215

VS
\$29,115
with the
S&P500



six months before, it is nearly certain that the economy as a whole must be very soft, which is the atmosphere necessary to produce a lasting decline in interest rates.

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

An “Aggressive” signal coming at a time when the Risk Indicator is close to 1.0 reveals that Supercycle 5 has come to an end, and that Supercycle 6 is born.

The 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.

Track Record of the 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 produces an annual average return of 24.6 percent. During “Caution” signals, the market was all over the place — sometimes crashing, sometimes meandering, and occasionally advancing. On average, the S&P 500 increased at an annual rate of only 1.62 percent during caution periods.

Aggressive	S&P	Caution	S&P
Sep-74	68.12	Apr-76	101.90
Nov-79	100.00	Oct-83	167.65
Dec-84	164.48	Jun-85	188.89
Jul-86	240.18	Aug-87	329.36
Mar-88	265.74	Jun-88	270.68
Mar-89	280.00	May-89	313.93
Oct-89	347.40	Mar-93	449.74
Feb-97	798.38	Dec-98	1,141.00
Oct-00	1,429.40	Dec-00	1,320.28
Jun-03	974.50	May-05	1,191.50
Jul-06	1,276.66	Mar-08	1,325.43
Apr-09	865.33	April-12	1,370.26

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.)

This index just hit 100%, telling us to move to a cautious approach.

We saw a whiff of economic strength in recent weeks when the weekly data on job growth was improving. As a result, yields on treasuries rose from their historic lows. The economy is improving, however slowly it may appear, and it will not take much economic strength to move Treasury yields up from their historic lows. Keep in mind that we have a large deficit to finance, which adds leverage to the economy, and magnifies the upward pressure on Treasury yields and interest rates in general.

Rising Treasury yields will not be good news for the market. However, it does not spell disaster, and we are not recommending that you sell everything and go into cash. Because the economy has not recovered fully, we have not completed the upward phase of the business cycle. With unemployment unacceptably high, and excess capacity in the economy, the Federal Reserve is bound to maintain its easy monetary policy until such is not the case.

As long as the Federal Reserve maintains its easy monetary stance, the major trend of the market will be up. However, upward pressure on bond yields always makes for a more nervous market, and there will be air-pockets and downdrafts. So we need to be more careful and discerning about our investment selections until we get another signal from our Diffusion Index of Leading Indicators which has a current reading of 75 percent. When we see a reading of zero, we will know it will be safe to become aggressive again. Meanwhile, we will exercise caution.

Eurozone Update

Things calmed down during the first quarter. The injection of funds from the European Central Bank (ECB) had a lot to do with that. So far, a banking crisis has been averted, and this risk is minimized by the willingness of the ECB to come to the rescue in the European version of Quantitative Easing. However, yields on sovereign bonds are going up again, heading toward 7%.

In our January 2012 Issue, we introduced the concept of Fiscal Space, a concept used by the International Monetary Fund (IMF). Fiscal space is defined as the amount by which a nation’s sovereign debt-to-GDP ratio can increase before a nation becomes a high default risk. Once having run out of fiscal space, the interest rate a country pays on its sovereign debt becomes very important (as measured by its 10-year bonds). There is a critical interest rate, above which

a nation's debt load spirals out of control because the cost of servicing its debt increases more quickly than its GDP. If a nation reached this "critical mass", the risk of default is high.

For the US to be considered a high default risk, its debt-to-GDP ratio would need to increase by 171 percentage points, from its current level of 65 percent to 236 percent, and 10-year Treasury rates would need to climb sustainably above 8.7 percent from roughly 2 percent currently.

Although the US debt-to-GDP ratio has grown by an alarming 30 percentage points during the last several years, we are not close to running out of fiscal space. Such is not the case for much of Europe.

Greece, Ireland, Italy, and Portugal have already run out of fiscal space, and are at critical mass. This means that the policy makers of these countries cannot conduct business as usual. They must take extraordinary steps in order to avoid a default. At their current debt loads and growth prospects, to change their status as a high default risk, the interest rate on the sovereign debt of these nations will need to drop sharply from current levels, the prospects of which are not likely in the near future.

Article 18

Italy's labor market has always had a colorful bent. From movies like Vittorio De Sica's "Brief Vacation" which highlights the miseries of Italian factory workers in the 1960s, promoting the adage that "sickness is the vacation of the poor" (Apollinaire) to the current national sport of avoiding paying income taxes, Italy has embodied the extremes of employment woes.

Until recently, you have probably not heard about Article 18 of the Italian Labor Code. There isn't any reason that you should have because it is completely foreign to our culture. However, it exemplifies the European culture and explains much of the problems the Eurozone is having. Passed in 1970, Article 18 of the Italian Labor Code provides job security to employees of companies with 15 or more employees. It mandates that no employees can be fired after a 3-month probationary period, even for economic reasons. Terminated employees can bring suit which is often successful and force the company to re-hire them,

pay all lost wages and social insurance contributions as well as a substantial fine. The only way to terminate and employee is on the basis of "just cause", the interpretation of which has varied widely depending on the particular court and judge involved. One instance concerned a bank employee's dismissal for money laundering which was not ruled as just cause.

Of course, Article 18 is seen by the labor unions as providing job security, but it has actually contributed to massive unemployment because the risk to companies in hiring more than 15 employees is very high. Fifty three percent of Italy's eligible workforce was officially unemployed at the end of 2011 versus 45% for the Eurozone as a whole.

Aside from the immediate sovereign debt problems, the ultimate long-term solution to Italy's vitality is to grow through a productive economy that can be competitive in the world market. However, with the culture exemplified by Article 18, the employment market will remain divided with most younger and lower-skilled workers only offered temporary contracts. As temporary employees, the investment is not made to train them to be efficient and productive. In addition, employers are discouraged from growing too fast which would require them to hire more than 15 employees. And incentives to achieve excellence are poor for those who become employees because they are virtually guaranteed a job for life, regardless of their performance or the economic circumstances of their employer. The so-called "fix" of Article 18 is contributing to the disease.

Prime Minister Mario Monti and the Italian government have been trying to reform the notorious Article 18 through negotiations with the second- and third-largest labor unions. The largest union is not participating in the negotiations and has threatened to sue the government if it makes changes. In early April, unions staged the largest general strike in 20 years which have stalled reforms for now.

As for the rest of Europe, recession is setting in. February's industrial production output in the 17 Eurozone countries was 1.8% lower than one year ago, which was the largest decline since December 2009. After declining in the fourth quarter of 2011, a decline in the first quarter GDP, which seems certain,

Gray Cardiff's Sound Advice is published monthly by S.A. Newsletters, LLC. Editor-in-Chief: Gray Emerson Cardiff. Managing Editor: Linda Cardiff. Real Estate Consulting Editor: John Mason. Subscription rate: \$195 per year. Send subscription requests to: Sound Advice, 939 Hartz Way, Suite 210, Danville, CA 94526. Phone: (925) 838-6710. Fax: (925) 838-0522. Information presented in Sound Advice may be used provided the newsletter—its name, address, and website—is mentioned as the source. The information contained herein has been carefully compiled from sources believed to be reliable, but accuracy cannot be guaranteed. ©2012 S.A. Newsletters, LLC. When securities are initially recommended herein, the editors, affiliates, and associates of the editors do not have positions in such securities and are required to wait at least seven days from the date Sound Advice is mailed before placing orders for them. Editors and staff members may own stock of companies discussed herein.

will make a euro-area recession official.

As the purchaser of 20 percent of our exports, the Euro crisis will continue to undermine the US economy.

Portfolio Updates

The *Sound Advice* portfolio is up 12.8% so far this year, compared to the 9% rise in the S&P500. Twenty-one of the 26 *Sound Advice* model portfolio positions are up, two are unchanged, and three are down slightly. We have an average gain of 31.7% based on the prices at which each stock or mutual fund was recommended. Here is a progress report on our recommendations. We begin three action items.

Action Items

We are trimming the portfolio by 3 positions. Two are in the healthcare industry.

UnitedHealth Group (UNH) is up 14.5% this year and we are taking our profit of 79%. We may revisit this stock after a correction. As you know, the Supreme Court is weighing the constitutionality of "Obama Care".

There are three possible outcomes, none of which are especially positive and one could be severely negative. If the Court leaves it alone, we do not think the reaction in the stock price will be particularly positive because that is the status quo and baked into the price already. Tossing the whole package out would be seen as negative because the industry would not have the benefit of a broader base of subscribers mandated to purchase coverage. Gutting the mandate and leaving the rest would be very negative because pre-existing conditions would have to be covered without the broader base of healthy subscribers to pay for the added costs.

Johnson & Johnson (JNJ) is down 3.1% this year and we are moving on. There has been a cascade of embarrassing recalls which has cost the company dearly, both monetarily and in its image. Now there is another problem that has the potential to multiply. An Arkansas judge fined the company and a subsidiary more than \$1.1 billion recently for misleading marketing of the drug Risperdal. The other 49 states are watching, and they need money. JNJ will also be influenced by the decision regarding Obama Care. We may revisit this stock down the road at a lower price.

Transocean (RIG) is up 27% this year and has been a wild ride. We are getting dizzy and selling RIG. This is a Swiss company and as such must declare the dividend annually. Recently the company's board did not approve its 2012 dividend "in order to keep its balance sheet strong." However, that dividend was a

comfort to us because it put a floor under the price of the stock. (The yield would keep the stock from dropping too much.) With earnings expected to be poor this year, we think the risk has increased substantially. We believe we can find better investments in oil and natural resources with a more favorable risk/reward ratio.

Updates

Here are updates on the balance of the portfolio. We begin with our stock recommendations (in alphabetical order), and then the mutual funds.

AMN Healthcare (AHS) is up 31.8% this year but it is still a bargain. It is the nation's innovator in healthcare workforce solutions, including managed services programs, recruitment process outsourcing solutions, recruitment and placement of healthcare professionals into temporary and permanent positions, and consulting services. Clients include acute-care hospitals, government facilities, community health centers and clinics, physician practice groups, and a host of other healthcare settings. The company just refinanced its existing credit facilities with a new \$250 million credit agreement. This move will give them financial flexibility. We expect continued success from this bright spot in the healthcare industry.

Agrium (AGU) is up 27.2% this year, bringing our profit to 607%. It is tempting to take our profit, but this stock is still strong and the fundamentals still look good.

This is North America's largest manufacturer of nitrogen-based fertilizers with more than 1,000 retail centers and the largest agricultural retailer in the United States. High prices for agriculture are driving farmers around the globe to invest in the products which aid them in growing their crops. Rising demand for agricultural commodities from developing countries has put rising pressure on land resources, pushing the need for fertilizer higher. This In North America, Australia and Western Europe, but especially here, the scientific use of fertilizer is commonplace.

Elsewhere farming techniques often resemble what we used to do 40 years ago, or worse. Compare the situation in the US to that of China. The US accounts for 5% of the world's population but has 13% of its arable land. China, which holds 21% of the world's people has only 9% of its arable land. If emerging markets are to meet their populations' need for food, they will either have to import foodstuffs from the more advanced countries or, better for the fertilizer industry, use fertilizer to improve their crop yields. Either way means more use of fertilizers.

Agrium's production facilities are located almost entirely in western Canada, where the cost of natural gas, the primary feedstock for producing nitrate-based fertilizers, is cheaper than in other areas of North America. Competitors elsewhere have higher costs.

Earnings more than doubled to \$9.40 per share in 2011, and are expected to increase strongly for the next several years. Although still a relatively low yield, the dividend quadrupled in 2011. At the current price, the stock has a price-to-earnings less than 10, which is attractive in view of the growth prospects.

AGU has performed better than its competition this year. It is the only one of its group with a positive return to shareholders.

Associated Estates Realty Corp (AEC) is up slightly by 1.4% extending our gain to 9.5%. AEC reported a 15.7% increase in funds from operations (FFO) in 2011 above the previous year. We are encouraged by the progress which is evidence of the ongoing effort to diversify and upgrade the properties. In April AEC closed on a property in Bethesda which it plans to develop into new multi-use development. The portfolio now has 53+ properties containing more than 13,908 units located in eight states. The price of this apartment REIT is 30% below the equity value of its portfolio. The dividend was increased from 17 to 18 cents. While not a huge increase, it is in the right direction.

Boston Scientific (BSX) is up 5.2% this year after being severely battered. The stock is still scraping the bottom of its historical price ratios. Price to sales has not been this low for the last decade, nor has price to book value. Their focus on globalization is encouraging as there is opportunity in emerging markets but it is a long-term strategy and brings no immediate gains. The recent approval in Europe for their pacemaker line is a boon, however overall pacemaker sales are off 2% globally last quarter, while the US market for pacemakers was off 13.5%.

CommonWealth REIT (CWH) is up 10.8% this year with a lot more upside. The value of the underlying real estate portfolio is worth double the price of the stock, and there is plenty of FFO to support the \$2.00 annual dividend which is above a 10% yield at the current stock price. Among REITs, CWH shares display both attractive valuation metrics and strong profitability metrics.

Comcast (CMCSA) is up 24.4% this year, extending our profit to 60%. Comcast shares fell recently on news that Bloomberg filed a complaint against them for favoring their own news channels. We don't feel this is a significant threat long-term, and look to

Comcast to maintain its strength as the most powerful cable enterprise. CMCSA reported favorable earnings for the fourth quarter. Its acquisitions of other cable businesses and channels, along with media content assets paid off.

Leucadia (LUK) is up 6.2%, bringing our profit to 17%. This is a holding company with a well-managed portfolio of diverse assets and has a strong long-term track record for growth. Fourth quarter earnings were lackluster but in line with expectations. Several holdings are directly partnered with Warren Buffett. LUK is still an appealing "Baby Berkshire".

Masco (MAS) is up 15.8% since the first of January, increasing our gain to 63%. But it is still above our buy limit. Wait for a dip below \$11.50.

MAS manufactures a wide range of products for home construction and remodeling. Masco covers everything from kitchen cabinets and faucets to windows and paint. Its brands such as Delta, Milgard, and Behr are well known to anyone who spends time at the hardware store. MAS just launched a new website in April making their product line more readily available to customers.

Not surprisingly the shares got hammered during the downturn. Management has been through tough times before, and began cutting costs even before the housing sector went into free-fall.

We added MAS to the *Sound Advice* portfolio in October last year at \$7.49, when it was languishing in the doldrums. Masco offered several attractions. For example, the price to sales ratio had not been that low in over a decade. Although losses had wiped out earnings, a significant portion of those losses represented the writing off of goodwill, which represented the price paid for acquisitions in excess of their tangible book value. However, we believed that the worst was over and the risk was out of the stock.

Maxim Integrated Products (MXIM) is up 4.7% this year, extending our profit to 37%. The company's highly integrated solutions help customers get to market faster with systems that are smaller and consume less power.

MXIM just received the "Energy Technology of the Year" Award in its 2012 Annual Creativity in Electronics (ACE) Awards for its solid state battery that harvests ambient energy. The device captures low-level energy forms, such as from photovoltaic cells, vibrations captured by a piezoelectric element, and heat captured by a thermoelectric generator. This device can eliminate the need to run expensive power cables to remote locations or reduce the frequency of battery replacements.

The company is in excellent financial health with \$1.0 billion of cash and plenty of cash flow to support operations and pay its quarterly dividend of \$0.22 per share. Even if MXIM's price ratios merely rise to the valuations of its average years, the share price should easily double from here.

Paychex (PAYX) is up 2.4% this year. We have a profit of 11.7% but expect more ahead. The company's core business is payroll services and focuses on small to medium sized companies, so its revenues and earnings directly mirror the employment situation. Based on the current price, the yield is close to 4%. It also has no long term debt exposure. Fourth quarter earnings were up slightly in accordance with estimates. This is a classic "buying straw hats in winter" opportunity that offers considerable potential for capital appreciation as well as a nice yield.

Pfizer (PFE) is up only 1% which leaves our profit at 27.7%. Pfizer took a hit this month when Federal court ruled they must face state courts regarding asbestos claims in the continuing 30 year battle over their now defunct Quigley division. PFE is still suffering from the loss of Lipitor patents and the ensuing competition they will face in that arena. However, the Lipitor loss has been known for a long time now and reflected in the price of the stock. Pfizer intends to cut \$1 billion in expenses from their 2012 budget. Pfizer is cheap at close to 10 times earnings and has nowhere to go but up.

Retail Opportunities Investment Corp (ROIC) is up slightly by 1.5% for the year. We have a small profit of 8.2%. This REIT began as an IPO in October 2009, just after the REIT sector had been decimated by the 2008 melt-down. It started with a fresh slate in a real estate market replete with bargains. It started with no debt and no problems. It is a simple model: buy distressed retail properties with high-quality demographics, refurbish them, and then lease them at a premium. Since inception, it has purchased \$654 million of shopping centers which ended the year with a 91.3% occupancy. Fund from operations (FFO) were \$0.78 a share which more than covers the current \$0.48 annual dividend. As new properties are added, along with tenant upgrades, FFO should continue to rise, along with the dividend and price of this REIT.

Stryker (SYK) is up 8.5%, bringing our profit to 28%. The global orthopedic prosthetics market is projected to reach US 23.5 billion by 2017 according to a new report. Stryker, as one of the strongest players in that market, provides a diverse array of innovative medical technologies, including reconstructive, medical and surgical, and neurotechnological and spine products.

In late March Stryker announced the release of their System 7 – the next generation of surgical power tools.

Stryker's innovative, and diversified nature is illustrated by their partnership with the well known designer Michael Graves. In 2009 Graves decided to focus on the healthcare environment from a patient's perspective. He had become paralyzed and experienced firsthand the unwieldy, dysfunctional and decidedly unattractive furniture and apparatus and surroundings in hospitals. He was quoted as saying "I can't die here, it is too ugly". As result of this partnership, SYK now offers hospitals a suite of furniture and equipment which is beautiful as well as functional, and gives better control to the patient of his surroundings. This line is also available in a one stop purchasing plan.

In the continuing difficulties with hip replacement problems with past devices, on April 3, Britain's Medicines and Healthcare Products Regulatory Agency has advised surgeons to stop using a type of metal-on-metal hip implant because of the high risk of the need for revision surgery when compared with other devices. The warning was issued for Mitch TRH cups/heads made by Finsbury Orthopedics, a now defunct unit of Johnson & Johnson, used in combination with Accolade femoral stems made by Stryker. But the current goal of Stryker is to market their newer ceramic devices. The use of these ceramic devices in hip replacement though initially fraught with some noise and breakage, has now become the industry standard and Stryker's devices are in high demand. It is interesting to note, however, that on April 10, Ronda Stryker, a director, sold 18,000 shares. We expect continued future growth as the baby boomers age and need more joint replacements.

Symantec (SYMC) is up 15.5% this year. SYMC is the dominant supplier of software for computer security and protection against viruses and other nuisances. As the world moves to smart phones and other mobile devices, hackers are starting to find security holes, and SYMC is the company to plug them.

In March, SYMC signed an agreement to acquire Nukona, Inc, a provider of mobile application management. This acquisition complements the acquisition earlier in March of Odyssey Software, a leading provider of mobile device management. The combination will enable SYMC to help customers secure mobile apps and data while managing and protecting from hackers by authenticating users and encrypting sensitive files. These acquisitions advance Symantec's leadership in the mobile device market by enhancing capabilities of the device, applications, and

Income With Growth	Symbol	Exchange	Price	Yield	Limit	Action
Associated Estates Realty Corp	AEC	NYSE/Nasdaq	16.18	4.45%	18.25	BUY
CommonWealth REIT	CWH	NYSE	18.44	10.85%	22.00	BUY
Retail Opportunity Investment Corp	ROIC	NASDAQ	12.02	3.33%	13.50	BUY
Diversified Growth						
CGM Realty Fund	CGMRX	800-343-5678	29.09	0.89%	-	BUY
Comcast	CMCSA	NASDAQ	29.50	2.20%	30.00	BUY
Leucadia National Corp.	LUK	NYSE	24.15	1.04%	30.00	BUY
Masco	MAS	NYSE	12.14	2.47%	11.50	HOLD
Paychex	PAYX	NASDAQ	30.83	4.15%	35.00	BUY
Pfizer	PFE	NYSE	21.85	4.03%	23.00	BUY
Stryker Corp.	SYK	NYSE	53.96	1.58%	60.00	BUY
Xerox	XRX	NYSE	7.84	2.17%	9.00	BUY
Energy/Natural Resources						
Agrium	AGU	NYSE/TSE	85.34	0.53%	90.00	BUY
Fidelity Select Nat. Gas Fund	FSNGX	800-544-8888	30.38	0.18%	-	BUY
Tetra Tech	TTEK	NASDAQ	26.19	0.00%	28.00	BUY
USAA Precious Metals & Minerals	USAGX	800-862-6909	29.15	0.28%	-	BUY
Aggressive Growth						
AMN Healthcare	AHS	NYSE	5.84	0.00%	7.00	BUY
Boston Scientific	BSX	NYSE	5.62	0.00%	8.50	BUY
H&Q Life Sciences Fund	HQL	NYSE	13.43	8.04%	15.00	BUY
Maxim Integrated	MXIM	NASDAQ	27.26	3.23%	29.00	BUY
Seligman Premium Growth Fund	STK	NYSE	18.22	10.15%	20.00	BUY
Symantec	SYMC	NASDAQ	18.08	0.00%	20.00	BUY
Tellabs	TLAB	NASDAQ	3.85	2.08%	5.00	BUY
Third Avenue Focused Credit Fd	TFCVX	800-443-1021	9.95	7.62%	-	BUY
Dispositions						
Johnson & Johnson	JNJ	NYSE	63.54	3.59%	-	SELL
UnitedHealth Group	UNH	NYSE	58.05	1.12%	-	SELL
Transocean	RIG	NYSE	48.74	0.00%	-	SELL

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

Prices as of Friday, April 13, 2012. See our website for live pricing and buy limits.

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

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

data protection.

Symantec continues to sign up top-name customers. Its most recent quarterly results were great as revenues and earnings beat expectations on the strength of having signed 135 transactions valued at more than \$1 million each. In comparison, it had just 56 transactions in the second quarter and 118 in the year-ago period. About 41% of the deals were over \$1 million. This encompasses both security and storage products. It has new products on the line and should grow at least 10% in 2012. Though tough competition from Intel's McAfee gives it a go, there is room for both and Symantec has the edge.

Tellabs (TLAB) is down 4.7% this year. Tellabs designs and manufactures hardware and solutions for the telecommunications industry, which in a world of exploding demand for wireless communications should be a bonanza of a business.

Tellabs is coming on strong internationally. Vodaphone in Hungary will move to an IP/Ethernet-based infrastructure and expand its geographic coverage. They have selected Tellabs as the carrier, saying "Tellabs' Mobile Backhaul Solution provides cost-efficient, reliable and innovative mobile data services to our customers." With Vodaphone as a partner the sky is the limit in Europe and elsewhere. Vodafone

is one of the world's largest mobile communications companies by revenue with approximately 382 million proportionate customers. Vodafone currently has equity interests in over 30 countries across five continents and over 40 partner networks worldwide. We expect good things to come with Tellabs.

Don't forget that Tellabs' balance sheet holds \$2.91 per share in cash and cash equivalents (short-term government debt or commercial paper) with no long-term debt. Other assets and liabilities on the balance sheet offset each other. Subtract that \$2.91 from the current share price and you are buying the entire business for practically nothing.

Tetra Tech (TTEK) is up 21.1% this year, extending our profit to 70%. Tetra Tech is a leading provider of consulting, engineering, program management, construction management, and technical services. The Company supports government and commercial clients by providing innovative solutions to complex problems focused on water, environment, energy, infrastructure, and natural resources.

Tetra Tech is one of a consortium of 13 selected companies to join together on a \$950 million Air Force contract, according to Washington Technology. In addition they are a leading company in water technologies. Tetra Tech designs complex and intricate plans that are used by local and national governments to meet future water needs, including desalinization. Tetra Tech is poised to grow with these globally much needed technologies.

Xerox (XRX) is down slightly by 1.5% this year. XRX shares are selling at 8.9 times current earnings per share. The dividend yield is 2.1%. It seems its acquisition of Affiliated Computer Services not only doubled the size of the company, but also pumped its bottom line with continuing revenue from ongoing contracts.

As a company known for innovation it seems to be going back to its roots of coming up with new products such as its new healthcare tool, *Xerox LiveKey*, which helps capture and share paper-based information in seconds, slashing steps that typically take up to 14 days to complete for processes such as medical claims or insurance billing. Its fourth quarter earnings of 33 cents were up 14 percent from the fourth-quarter 2010. This follows a gain on 18 percent in the previous quarter. Earnings are growing and the stock is still a bargain.

The Mutual Funds

CGM Real Estate Fund (CGMRX) is up 8.5% this year, extending our gain to 52%, and we think more profits are ahead. The good years of this fund are really good.

Hambrecht & Quist Life Sciences Fund (HQL) is up 17.1%, extending our profit to 32%. The Fund recently announced that it will be purchasing up to 12% of its own shares on the open market beginning in July. The share repurchase program is intended to increase the Fund's net asset value per share and to reduce the discount the stock has from the net asset value. HQL is a superior way to gain exposure to biotech. The most explosive profits in the entire healthcare industry can be found here.

Fidelity Natural Gas Fund (FSNGX) is essentially unchanged for the year which is remarkable in view of the 10-year lows natural gas prices have been hitting. This fund has been judiciously investing in companies producing both oil and natural gas which have not been clobbered by the glut in natural gas. As we pointed out last month, there is a huge gap between natural gas and oil in terms of the cost per unit of energy. This fund should benefit from that gap, and it has done a great job in maintaining its net asset value in light of the extreme circumstances that have existed this year.

Seligman Premium Technology Fund (STK) is up 16.3%. This is a closed-end fund with a conservative twist that provides some cushion from the tech sector's often rough ride. This fund sells covered options against its portfolio which lowers volatility and produces cash income. The fund announced a first quarter distribution at the 9.25% annual rate.

Third Avenue Focused Credit Fund (TFCVX) is up 4.6%, TFCVX specializes in distressed companies, from buying the still-performing loans of troubled companies to capital infusions, even to taking a company through bankruptcy; then emerging as equity owners. It is still near the low end of its trading range and sporting a 7.5% yield.

USAA Precious Metals & Minerals Fund (USAGX) is down 5.8% this year, reducing our profit to 15.7%. Eighty percent of this fund's assets are invested in equity securities of domestic and foreign companies principally engaged in the exploration, mining or processing of gold and other precious metals and minerals, such as platinum, silver and diamonds, seeking long-term capital appreciation. This fund is widely recognized as the best diversified way to invest in precious metals.

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 a "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 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 Risk Indicator has oscillated back and forth, revealing the ongoing struggle between Stocks and houses for investment capital. We have labeled these long vacillations Supercycles.

The figures show that over the entire century-plus, stock prices have outperformed housing prices. Just based on the price growth of each investment market and assuming no leverage was used, a \$25,000 investment would have grown to \$8,060,353 in stocks and to \$1,243,085 in houses.

But though an investment begun with \$25,000 in 1895 could have made money being in either stocks or housing and simply leaving it there over such a long period of time, had the investor followed the signals of the Risk Indicator he would have made \$320,365,923, 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 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. A recent example was during the 1998-2000 stock market mania, when most investors were chasing high-tech stocks, our *Sound Advice* portfolio was buying Real Estate Investment Trusts (REITs.) Most investors got killed with 75 percent-90 percent losses during the ensuing decline. However, REIT shares during the same period soared 25 percent, and had locked in nearly double-digit dividends. When the bear market ended in late 2002 and tech stocks recaptured some of their losses, REITs rolled to mind-boggling highs as speculation drove them to excess that climaxed in 2007.

The SoundAdvice Risk Indicator

The latest reading for the **Sound Advice** Risk Indicator is 1.57. This reading reveals that stock values are below average in relation to house prices. The February 2009 reading of 0.77 marked the low for this cycle as well as the beginning of Supercycle 6.

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



The rising swell of home foreclosures began in 2007 as a symptom of faltering real estate markets across the country. But as the swell turned into a tidal wave, falling real estate prices have compromised the assets of the US banking system and the fabric of the US and worldwide economies. Indeed, the state of the nation's real estate markets and the economy have become one and the same. Clearly, the recession cannot be fully put behind us and a recovery kick into full gear until the inventory of foreclosed homes stops overhanging the market.

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

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

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

The Key Indicator

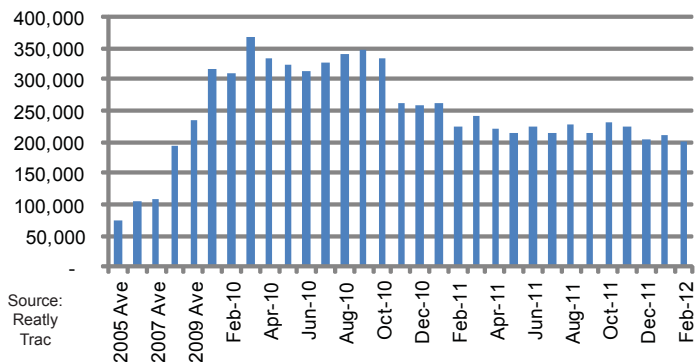
The secret is to focus on foreclosure rates. Realty Trac in Irvine, California has an extensive database. You can access foreclosure information on local markets from their website www.realtytrac.com. We use some of their data here to gauge the state of the nation and its real estate, and plan to continue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

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

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

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

US Foreclosure Rates - Monthly Averages



Source: Realty Trac

allowed distressed homeowners to stave off foreclosures. However, foreclosure rates remained stubbornly high.

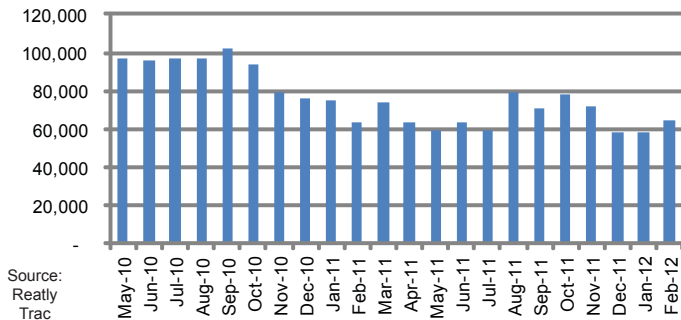
Dissecting the Foreclosure Process

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

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

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

US New Default Notices

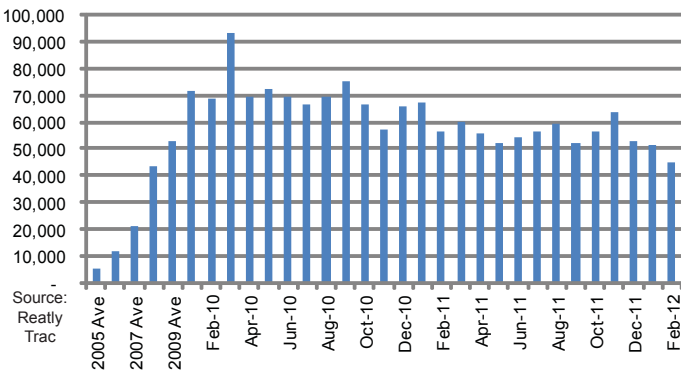


Source: Realty Trac

One fourth of the nation's foreclosures have been in California for the last few years. The following chart shows all stages of the foreclosure process in California (including auctions and bank repossessions).

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

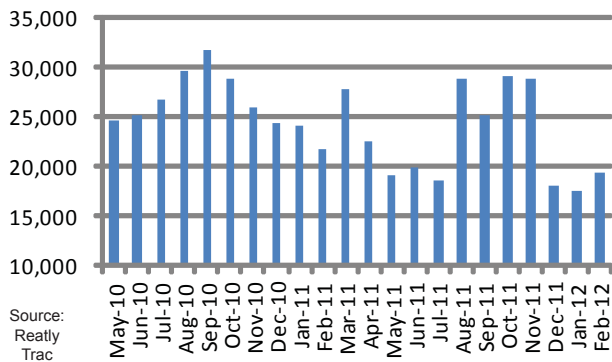
California Foreclosures - Monthly Averages



January 2012, with a decline in February.

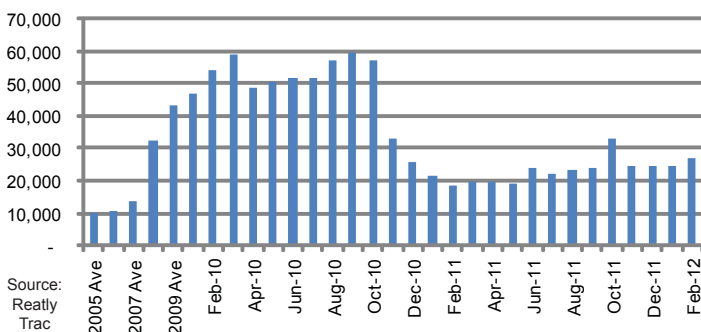
Below is a chart of new default notices in California. In August 2011, new default notices in California jumped a whopping 55 percent to 28,961. After a decline in September by 13 percent, new default notices in California increased in October to 29,240 and in November to 28,897, but then dropped sharply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

California New Default Filings

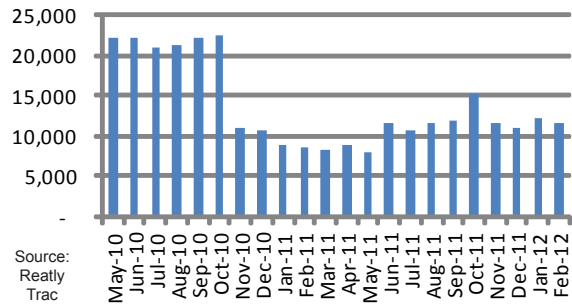


Florida is the next highest foreclosure state with 11 percent of the nation's foreclosures. See the chart below. Foreclosure rates climbed from 10,000 per month in 2005 and 2006 to 47,000 in January 2010, and stayed in the 50-60,000 range through October. Then the monthly rates dropped sharply through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

Florida Foreclosures - Monthly Averages



Florida New Default Filings

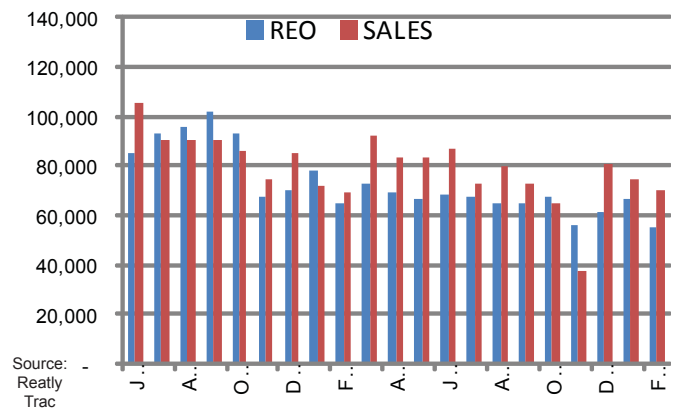


As an indication of what lies ahead, new default notices have been increasing in Florida during the second half of 2011, and continued to increase into February 2012.

The Inventory

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

On balance, there have been 132,341 more properties sold than have been added to the REO inventory, or 9.8 percent of the current inventory of 1,354,757 foreclosure properties listed for sale.



Conclusions

Not much REO is selling. New default filings have not declined in the US (or in California or Florida), which means we will not see a drop in foreclosure rates in the immediate months ahead. Accordingly, there is no conclusive evidence that the crisis is getting any better.

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

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