



Capital Flight and Operation Twist



The **SoundAdvice** portfolio is up 17.4 percent so far this year. This compares to 10.9 percent for the S&P 500. We have an average gain in the **SoundAdvice** Model Portfolio of 38.3 percent based on the prices at which each stock or mutual fund was recommended.

In this Issue, we update all of our current recommendations. We begin with the ETFs we recommended last month. While they may bounce around some more, over the longer term, these are as close to a "No-Brainer" as it gets.

We then update all of our other recommended positions in alphabetical order. See the table on page 7 for buy limits and other information on each recommendation.

The recent economic weakness is showing up in our Diffusion Indexes. We are likely to get the green light soon from our Diffusion Index of Leading Indicators. See page 10. If so, this will reverse the cautionary signal given by our Diffusion Index of Lagging Indicators in April, close to the peak of the market.

Our Risk Indicator continues to tell us that stocks are an above average value relative to houses. See page 9.

On page 10 and 11, we examine the foreclosure situation. The most recent disappointing news that home prices dropped over 8% in June, wiping out May's gain, along with continued high levels of new default notices, tell us that the problem will not be over soon.

-Gray Emerson Cardiff

If you are a European, and still have a substantial amount of your capital in Europe, you have to be worried. Not only is your currency sinking against other currencies around the world, you have to be concerned about the safety of your cash in European banks – especially because there is no European version of FDIC insurance.

These concerns have been driving capital into US Treasury securities. The yield Europeans are receiving is not of particular consequence in view of perceived safety. In fact, they are actually profiting as the dollar appreciates against the euro. This capital flight has been assisting the Federal Reserve in its Operation Twist – the massive program of purchasing of long-term Treasuries in an effort to flatten, or twist the yield curve, thus lowering interest rates on mortgages to stimulate the housing market along with the economy.

We have to go back to the depths of the 2008-9 financial crisis to find Treasury yields close to this low. That was when the entire banking system was facing systemic risks, and there was a massive capital flight to safety as capital poured into Treasuries. However, after that capital flight, 30-year Treasury bond yields climbed above 4.5 percent. Then, during the last two years, under Operation Twist, 30-year Treasury bond yields have been forced back down again to historic lows.

We must keep in mind that "Operation Twist" is an artificial situation, and not permanent. Moreover, capital flights are just that – flights that come and go. A flat yield curve is abnormal. Long-term rates are usually much higher to account for the uncertainties of inflation in the decades ahead.

Last month, in our feature called "Operation Un-Twist", we introduced three reverse ETFs that are designed to benefit strongly with an increase in yields on long-term Treasury bonds with varying amounts of leverage:

Proshares Short 20 Plus year Treasury (TBF-NTSE) uses no leverage;

Proshares Ultrashort Lehman 20 Plus year Treasury (TBT-NTSE) uses 2:1 leverage;

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

When yields on Long-term Treasury Bonds start heading back up, these ETFs will rise substantially. They are bound to provide large gains with merely a return to 4.5% on 30-year Treasury bond yields -- not high by historical standards (see the chart on page 2). Normally, these yields are 3 percentage points above the inflation rate, offering a real return after adjusting for inflation.

The economy will recover someday, and expectations of increasing inflation will return. This alone will force long-term interest rates upward.

This time, there will be additional upward pressure. This is because our national debt has grown alarmingly in recent years. It is close to \$15 trillion when external debt is included (debt owed to creditors outside the country) bringing the total close to 100 percent of our GDP.

The History of 30-Year Treasury Bond Yields



This graph shows the yields of 30-year Treasury bonds since 1977. As you can see, the recent lows are historic. Yields have been close to the recent lows only once before -- after the 2008-09 meltdown as systemic risks in the banking system fueled a capital flight to safety. The yield reached a low of 2.69 percent in December, 2008. After climbing to 4.7 percent in March 2010, yields plunged below 2.5 percent in July, 2012. Source: Yahoo! Finance

The growth in the national debt is producing annual Federal deficits, and these deficits need to be financed through the sale of Treasury bonds -- and there will be historically high amounts of sales. This will add downward pressure to Treasury bond prices which raises their yields.

Although it is hard to imagine Treasury yields declining significantly from here, we may see these ETFs bounce around some more. However, taking a longer view, we believe this comes as close as you can get to a "No-Brainer".

It is simply a matter of time when today's historically low yields on long-term Treasuries will be just that -- history.

Here are updates on the rest of our recommendations, in alphabetical order:

Agrium (AGU) is the largest farm products retailer in North America. Shares of fertilizer companies have been on the upswing recently as the recent heat wave and drought hitting the Midwest has pushed up corn prices. High grain prices and poor volume this year point to the need for large corn and soybean crops next year. That means higher demand for fertilizers.

AGU recently more than doubled its dividend, less than six months after it was quadrupled. We have a 693% profit in this stock, and believe there is more to go.

Elsewhere in the world, farming techniques often resemble what we used to do 40 years ago, or worse. Compare the situation in the US to that of China. The US accounts for 5% of the world's population but has 13% of its arable land. China, which holds 21% of the world's people has only 9% of arable land.

If emerging markets are to meet their populations' need for food, they will either have to import foodstuffs from the more advanced countries or, better for the fertilizer industry, use fertilizer to improve their crop yields. Either way means more use of fertilizers.

AMN Healthcare (AHS) provides temporary health care staffing services to the healthcare industry, ranging from nurses to physicians.

When we first recommended this stock, it rocketed 45% in three months compared to a 3% gain for the Wilshire 5000 and 10% for the XLV, the SPDR healthcare ETF. The share price has since pulled back, affording another buying opportunity.

The initial run up in price provides a road map for how we expect AHM will play out. At that time, the shares tracked optimism about the economy, and especially job creation.

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The rationale for buying AMN Healthcare is a two-fer. AMN is not just an opportunity to invest in healthcare, which is traditionally a non-cyclical industry, but it is also a chance to buy into a health care business that will benefit from a recovery in the economy.

We have a 13% gain but expect considerably more.

Associated Estates Realty Corp (AEC) is the most undervalued apartment REIT in the sector. AEC's portfolio consists of 50 apartment properties containing 13,163 units located in ten states. Apartments is one of the most successful REIT sectors over the last two years as demand for apartments has surged thanks to the abrupt fall in home ownership.

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

The equity of its apartment portfolio translates into a stock value of \$27 per share – nearly double the current stock price. We have a small profit, and expect much more ahead.

Boston Scientific (BSX) is a classic turnaround story. It has had flat earnings this year due to lower demand for surgeries that require the company's devices produced by its cardiology and cardiac rhythm Management segments. However, a brighter day is ahead from innovations and acquisitions.

BSX just received approval in Europe for use of its INGENIO™ and ADVANTIO™ pacemakers for patients needing MRI scans. Many patients with pacemakers are restricted from undergoing MRI procedures because the scans typically interfere with pacemaker functionality. However, these new BSX pacemakers are not impacted by MRI procedures.

This is an important advancement because a significant number of patients with pacemakers have other conditions requiring MRI scanning. These pacemakers were first approved in Europe in April 2012 to treat chronotropic incompetence (a form of bradycardia in which the heart is unable to regulate its rate appropriately in response to physical activity) which affects 42 percent of pacemaker patients.

BSX's INGENIO family of pacemakers is compatible with its new LATITUDE™ NXT Remote Patient Management system, which enables physicians to monitor patients with pacemakers remotely, as well as to conduct remote monitoring of general heart health status, blood pressure, respiratory events, and sleep apnea trends.

Other BSX innovations include its Epic Vascular Self-Expanding Stent System, which was recently approved by

the FDA and launched to market. These Stents are designed to open blocked arteries in patients with iliac artery stenosis (a form of peripheral vascular disease associated with severe leg pain caused by insufficient blood flow).

The recent acquisition of Cameron will enhance its cardiac rhythm management business. Cameron has a defibrillator (S-ICD) that is implanted without touching the heart or blood vessels. The device is pending likely FDA approval.

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

The new CEO, Mike Mahoney, is from Johnson and Johnson, and is committed to following through with the current austerity program aimed at curbing operating expenses through a restructuring program which is targeted to save between \$650 million and \$750 million annually.

We do not have a profit in BSX, but expect to within the next 12 months. That's not just our opinion -- BSX is buying back its own stock in an aggressive share-repurchase program. This alone will boost earnings, not to mention the introduction of new innovative products. Gains from the current price should be substantial.

CGM Real Estate Fund (CGMRX) is up 11.3% this year, extending our profit to 57%.

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

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

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

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

This added attention has been positive because the spotlight is now on the board to maximize shareholder value. Archie Dunum is the new chairman of the board, is well respected, and comes from Conoco Phillips. The Corporate governance should be changing. If not, stock holders now have the power to vote board members out at the next annual meeting in June. So there is new pressure for performance.

Note that futures prices for natural gas have continued moving up to the vicinity of \$3.00 per million BTUs during the last several months. The price was under \$2.00 per million BTUs when we recommended this stock. As the corporate governance gets straightened out, this stock should rebound handsomely based on its natural gas assets.

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

The benefit of repositioning into CBD office properties began to appear in 2011. Weakness in funds from operations was attributable to the suburban properties while strength appeared in the CBD properties. Leasing activity (new leases and renewals) in the suburban office portfolio resulted in a decline in rents while leasing activity increased in the CBD portfolio.

This trend continued into the first quarter. Funds from operations (FFO) was 19% higher than the previous quarter, and annualized 7.4% higher than FFO in 2011.

We are essentially at a break-even in CWH, but when Wall Street sees the first signs of sustainable growth, the discount is certain to shrink which will bring us a significant capital gain.

Meanwhile, we can collect a secure 10%+ dividend -- a yield that is off the charts these days in comparison to other investments.

Comcast (CMCSA) is considered the best managed cable company. Earnings are growing nicely – up 23% from a year ago. We have a 93% profit, and expect more.

With its acquisition of AT&T's vast cable assets in 2004, and then its joint deal with Time Warner to acquire bankrupt Adelphia's cable business, it became the largest cable company with 21.5 million subscribers.

More recently Comcast purchased a controlling interest in GE's NBC Universal division, which in addition to TV stations, owns several lucrative cable channels as well as other content assets. Its 51% stake in NBC Universal, which runs the NBC broadcast and cable networks, sold a record \$1 billion of U.S. television and digital advertising for the 2012 London Olympics. This was close to \$150 million more than its total for the 2008 Beijing Olympics. Digital ad sales surpassed \$60 million, about three times more than the total for Beijing, reflecting the growth in demand for live streaming on mobile devices of all the athletic events.

Although it remains to be seen how profitable the Olympics will be, the NBC Universal unit is a growth engine. CMCSA is adding new and original program content, along with sports offerings, as an attraction to existing and new customers.

Its bundling package for voice, Internet, and TV appeals to cost-conscious subscribers.

CMCSA also offers a package for full home control, which includes security, and energy management. Called XFINITY, it should be another source of growth, once it is marketed in an understandable way. It offers customers the ability to maneuver between video, phone, voice and home security, using any device -- from a phone or laptop to their television. CMCSA has embarked on a new advertising program to clarify, and correct the vague campaigns of the last two years.

CMCSA reinstated its dividend in 2008, which along with revenues, profits, and cash flow, has increased each year since.

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

Fidelity Select Natural Gas Fund (FSNGX) is essentially unchanged this year, and we are at break-even, which is remarkable considering the drubbing natural gas took.

Although the price of oil has declined recently, and natural gas prices have climbed from historic lows, there is still a yawning gap between the energy equivalents of oil and natural gas. In comparison to oil, an equal amount of energy in the form of natural gas costs less than 20 cents on the dollar.

The US is self-sufficient in natural gas with only 9 percent imported from Canada. At pennies on the dollar versus oil, natural gas is bound to have a growing role in America's energy needs as well as independence from importing oil.

This fund is well positioned to benefit from an expanding natural gas industry, and should bring strong profits in the months ahead.

Hambrecht & Quist Life Sciences Fund (HQL) is up 31% this year, extending our profit to 50%.

HQL is a closed-end fund (CEF), which means it trades not at its Net Asset Value (NAV) but at whatever price the market sets, which can create a discount or a premium to NAV. HQL is currently trading at a discount to its NAV.

We think HQL is a superior way to gain exposure to biotech, which is a volatile sector. However, the most explosive profits in the entire healthcare industry can be found here.

The Fund began purchasing up to 12% of its own shares on the open market beginning in July. The share repurchase program is intended to increase the Fund's net asset value per share and to reduce the discount the stock has from the net asset value.

HQL is an attractive way to participate on a diversified basis, especially given the discount from NAV. This mutual fund has climbed inexorably most of the year, and should continue to do so.

Leucadia (LUK) is a holding company with a portfolio in excess of \$9 billion of assets acquired by its two principals, Ian Cumming and Joseph Steinberg, who have been compared to Warren Buffett in their success at identifying lucrative investments that can be purchased substantially below their intrinsic value. In fact, Buffet continues to team up with the Leucadia team on joint venture investments.

Skillful investing has produced double digit growth rates in its assets since 1979. After a bad year in 2008, assets have since grown by 150 percent according to Morningstar.

We think that Leucadia is valued well below the market prices of its disparate parts. We have a small profit due to the recent pull-back, but this stock is bound to recover with the economy.

Masco (MAS) is up 71% since we added it to the portfolio.

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

We added MAS to the portfolio in October last year at \$7.49, when it was languishing in the doldrums. MAS offered several attractions. For example, the price to sales ratio had not been that low in over a decade. Although losses had wiped out earnings, a significant portion of those losses represented the writing off of goodwill, which represented the price paid for acquisitions in excess of their tangible book value. However, we believed that the worst was over and the risk was out of the stock. Masco is moving to consolidate debt, close unprofitable plants, formulate and implement new systems, streamline global supply chains and cut personnel to cut costs. MAS expects to save \$150 million of gross cost reduction before inflation with these policies.

Maxim Integrated Products (MXIM) is up 6% this year, extending our profit to 38%.

Even if MXIM's price ratios merely rise to the valuations of its average years, the share price should easily double from here.

MXIM makes highly integrated analog and mixed-signal semiconductors. MXIM is a member of the Russell 3000, and it is one of the largest included in that index. It has recently won accolades for its solid state battery that harvests ambient energy. The device captures low-level energy forms, such as from photovoltaic cells, vibrations captured by a piezoelectric element, and heat captured by a

thermoelectric generator. This device can eliminate the need to run expensive power cables to remote locations or reduce the frequency of battery replacements.

The company is in excellent financial health with \$1.0 billion of cash and plenty of cash flow to support operations, as well as pay its quarterly dividend of \$0.22 per share.

Paychex (PAYX) is up 7.7% this year, extending our profit to 20%.

Its core business is payroll services for small to medium sized companies. Accordingly, its revenues and earnings directly mirror the employment situation. Downside is limited because the balance sheet is pristine with no long-term debt exposure.

Based on the current price, the yield is close to 4%. This is a classic "buying straw hats in winter" opportunity that offers considerable potential for capital appreciation, along with safety, and a nice yield.

Pfizer (PFE) is up 12% this year, extending our profit to 44%.

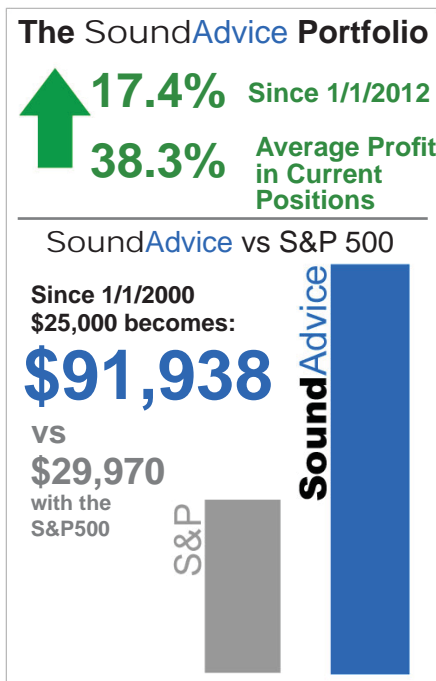
PFE is still cheap because the patent expired on its blockbuster drug, Lipitor. However, there are many new, potential blockbusters in the pipeline, especially Tofacitinib, its drug for rheumatoid arthritis, as well as Bapineuzumab, its high-risk but high reward drug for Alzheimer's. Also of interest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

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

Retail Opportunities Investment Corp (ROIC) is up 4% this year, extending our profit to 14%.

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, with no debt and no problems. It is a simple model: buy distressed retail properties with high-quality demographics, refurbish them, and then lease them at a premium.

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



Stryker (SYK) is up 6% this year, extending our profit to 27%.

SYK is best known for its orthopedic devices: artificial knees and hips, but it's much more. SYK provides a diverse array of innovative medical technologies, including reconstructive, medical and surgical, and neuro-technological and spine products.

SYK recently announced the release of their System 7 – the next generation of surgical power tools. It has many other new products with over 100 patents. Future growth is assured by aging baby boomers as they need joint replacements.

Symantec (SYMC) is the dominant supplier of software for computer security and protection against viruses and other nuisances. New markets are opening up for SYMC as the world moves to smart phones and other mobile devices, and hackers are starting to find security holes.

Until late July, SYMC shares have been under pressure due to a reduction in tech spending and PC purchases by both public and private sectors. In addition, competition has been stiff from **McAfee** (now owned by **Intel**). Smaller companies, such as **Kaspersky**, are coming up which has also intensified the competition. Economic turmoil in Europe has also been a damper.

On July 25, the company announced that its CEO and president, Enrique Salem, was replaced by the company's chairman of the board (since February 2011), Steve Bennett. The market's reaction was very positive because Bennett had a strong track record at Intuit and General Electric. He was quoted as saying "My view is that Symantec's assets are strong and yet the company is under-performing against the opportunity ... I'm looking forward to working with the team to build upon the significant assets in place to help Symantec accelerate value creation for all of its stakeholders."

SYMC recently reported first quarter earnings per share of 39 cents, ahead of expectations of 33 cents. The company's investment in cloud security and for mobile devices is starting to pay off.

Its recent acquisitions of Nukona, Inc, a provider of mobile application management, and Odyssey Software, a leading provider of mobile device management, are starting to enable SYMC to offer mobile apps that protect against hackers by authenticating users and encrypting sensitive files.

SYMC is also extending its collaboration with Red Hat to deliver solutions that help customers deploy agile private and hybrid clouds, as well as create resilient data centers.

SYMC is essentially unchanged for the year so far, and we are close to a break-even. However, the future looks brighter. Evidently the company agrees. It repurchased 19 million shares during the first quarter (for an average price of \$15.59).

Tellabs (TLAB) has drifted down 18 percent this year. However, this is a low-priced stock and small movements

result in high percentages. The current price is very close to the company's net assets of \$2.91 per share in cash and cash equivalents (short-term government debt or commercial paper). There is no long-term debt, and other assets and liabilities offset each other. Subtract that \$2.91 from the current share price and you are buying the entire business for practically nothing.

TLAB announced it expects third quarter revenue to be in the range of \$280-\$305 million, which is in line with expectations of \$291 million. This should result in a small loss or break-even in net earnings.

Results have been sluggish due to declining capital expenditures from telecom companies and a weak pricing environment. However, this is not a permanent situation. The upside potential is good, especially from the wireless sector. Eleven of the Fortune 50 companies now rely on services provided through Tellabs' equipment.

Tetra Tech (TTEK) is up 19% this year, extending our profit to 67%.

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

In July, TTEK was awarded a \$91 million contract to provide engineering services to investigate, design and remediate NASA's Kennedy Space Center and Cape Canaveral Air Force Station. This follows the award in June to complete the feasibility study for a remediation project in Port Hope, Ontario, Canada. In May, TTEK was one of four firms selected for a \$200 million Environmental Multiple Award Contract (EMAC) for environmental remediation services at U.S. Navy, Marine Corps, and other Department of Defense locations primarily in California and the southwestern United States.

TTEK has a healthy balance sheet, and water and environmental remediation are definitely growth industries both here and internationally. The biggest potential business lies outside the United States in countries like China and India, where environmental concerns have been at best an afterthought. Only now are their governments starting to recognize the consequences. As governments around the world make this a priority, Tetra Tech should be a prime beneficiary.

USAA Precious Metals & Minerals Fund (USAGX) is down 18 percent this year, which has erased our profit. This sector has been under pressure due to weakness in the economy and recent strength in the dollar. However, we do not expect this situation to continue much longer.

USAGX is widely recognized as the best diversified way to invest in precious metals. Lipper rates it as the best performer in its sector over the past ten years, and it regularly has been included among the top-performing funds over shorter durations. *Morningstar* also rates it highly and it has accomplished these ratings without taking on oversized risk.

Income With Growth	Sym	Exchange	Price	Yield	Limit	Action
Associated Estates Realty Corp	AEC	NYSE	\$ 15.39	4.68%	\$ 17.00	BUY
CommonWealth REIT	CWH	NYSE	\$ 18.51	10.80%	\$ 22.00	BUY
Retail Opportunity Investment Corp	ROIC	NASDAQ	\$ 12.40	3.23%	\$ 13.00	BUY
Diversified Growth						
CGM Realty Fund	CGMRX	800-343-5678	\$ 29.85	0.87%	\$ -	BUY
Comcast	CMCSA	NASDAQ	\$ 34.94	1.86%	\$ 36.00	BUY
Leucadia National Corp.	LUK	NYSE	\$ 21.63	1.16%	\$ 23.00	BUY
Masco	MAS	NYSE	\$ 12.57	2.39%	\$ 14.00	BUY
Paychex	PAYX	NASDAQ	\$ 32.43	3.95%	\$ 34.00	BUY
Pfizer	PFE	NYSE	\$ 24.26	3.63%	\$ 26.00	BUY
Stryker Corp.	SYK	NYSE	\$ 52.94	1.61%	\$ 58.00	BUY
Xerox	XRX	NYSE	\$ 6.98	2.44%	\$ 8.00	BUY
Energy/Natural Resources						
Agrium	AGU	NYSE	\$ 95.24	0.47%	\$ 99.00	BUY
Chesapeake Energy Corp	CHK	NYSE	\$ 17.70	1.98%	\$ 21.00	BUY
Fidelity Select Nat. Gas Fund	FSNGX	800-544-8888	\$ 31.18	0.18%	\$ -	BUY
Tetra Tech	TTEK	NASDAQ	\$ 25.81	0.00%	\$ 28.00	BUY
USAA Precious Metals & Minerals	USAGX	800-862-6909	\$ 25.27	0.32%	\$ -	BUY
Aggressive Growth						
AMN Healthcare	AHS	NYSE	\$ 6.01	0.00%	\$ 7.00	BUY
Boston Scientific	BSX	NYSE	\$ 5.26	0.00%	\$ 6.50	BUY
ETF - Direxion Daily 20+ Yr Bear 3X	TMV	NYSE	\$ 50.69	0.00%	\$ -	BUY
ETF - ProShares Short 20+ Year Trsry	TBF	NYSE	\$ 28.53	0.00%	\$ -	BUY
ETF - ProShares UltraShort 20+ Year Trsry	TBT	NYSE	\$ 15.02	0.00%	\$ -	BUY
H&Q Life Sciences Fund	HQL	NYSE	\$ 15.04	7.18%	\$ 17.00	BUY
Maxim Integrated	MXIM	NASDAQ	\$ 27.59	3.19%	\$ 29.00	BUY
Symantec	SYMC	NASDAQ	\$ 16.87	0.00%	\$ 19.00	BUY
Tellabs	TLAB	NASDAQ	\$ 3.29	2.43%	\$ 4.00	BUY

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

Prices are as of 8/6/2012. 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.

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

Xerox (XRX) is down 12 percent this year which has eliminated our profit. The stock dropped in July, sending it to the low end of its trading range, on the announcement that its earnings would be in the range of \$1.07 to \$1.12 per share this year versus the previously projected range of \$1.13 to \$1.18. The company cited poor sales in Europe as the primary cause for the downward revision.

XRX is transforming from a seller of printers and copiers, which have thin profit margins and are highly dependent on economic conditions, to a company providing services on those machines. The revenue from services is more profitable and less cyclical. Now, half of XRX's revenues come from services.

Although the exposure to Europe is a negative factor, at close to 6 times earnings, these shares are really cheap, and any kind of recovery will bring a high capital gain.

Capital Competition: Real Estate versus Stocks: The SoundAdvice Risk Indicator

There are few forces that are more important to a market's destiny than the amount of capital that is available to it. In a normal situation, capital will flow easily between markets as their underlying conditions change. But if a market becomes dangerously superheated, it will absorb a larger proportion of available investment capital than economic conditions and market demand can justify. This change will be reflected not only in the rising market's prices but also in the prices of competing markets, which will be lower than their underlying fundamentals would indicate they should be. Over the last 100+ years, we can see this titanic struggle between the stock market and its foremost competitor for investment dollars: real estate.

To reveal this phenomenon, we have set up an equation in which we divide the Standard and Poor's 500 Stock Index average by the median price of a new house for each month over the last 100+ years. This equation exhibits an elegant financial minuet as each market has taken turns outperforming the other.

As we look at the historical data, we find that there is a range in which the price disparities are so strong that they are too great to be accounted for by the fundamental economic conditions underlying each market. Every time prices get into these danger zones it has meant that the prices in one market or the other have gone too high, and that they are in imminent danger of falling.

We can, therefore, label this new tool the SoundAdvice "Risk Indicator," since it will allow us to locate the point at which prices are so high when compared to competing markets that they have come loose from their moorings

and are on the verge of declining or underperforming the other market.

What is too high? When stock prices are very high relative to house prices, the SoundAdvice Risk Indicator will rise over the line marked 2.0, revealing a high-risk time for stocks. In contrast, when the indicator drops below the line marked 1.0, it means that it is a very low-risk time to buy stocks. Notice from the chart how the SoundAdvice Risk Indicator has oscillated back and forth, revealing the ongoing struggle between Stocks and houses for investment capital. We have labeled these long vacillations Supercycles.

The figures show that over the entire century-plus, stock prices have outperformed housing prices. Just based on the price growth of each investment market and assuming no leverage was used, a \$25,000 investment would have grown to \$8,201,353 in stocks and to \$1,237,234 in houses.

But though an investment begun with \$25,000 in 1895 could have made money being in either stocks or housing and simply leaving it there over such a long period of time, had the investor followed the signals of the SoundAdvice Risk Indicator he would have made \$325,970,094, 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 1.45. This reading reveals that stock values are slightly below average in relation to house prices. The February 2009 reading of 0.77 marked the low for this cycle as well as the beginning of Supercycle 6.

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



Business Cycles and Stocks: The SoundAdvice Diffusion Indexes

If the Supercycles identified by our Risk Indicator are the solemn, inexorable seasons that roll across the market's landscape, business cycles are the highly visible, sometimes serene but frequently blustery fronts and storms that we actually perceive as weather. The Risk Indicator has given us a reliable tool to determine the investment season in the stock market. This information is all-important; there will be no heat waves in January, no blizzards in July. But in our search for fair winds, we need to know more than the season. We also must be able to predict the shorter-term weather -- the bull and bear markets that fluctuate along the path of Supercycles.

The data we need is contained in the leading and lagging economic indicators published monthly by The Conference Board. We have hand picked the most sensitive of these economic indicators to produce our "Diffusion Indexes" which function with amazing accuracy as predictors of the birth of cyclical bull and bear markets in stocks.

To construct our SoundAdvice Diffusion Indexes, we observe changes in each of our selected indicators over a six-month period. For every indicator that is unchanged from its value during the six month span, we will attach a value of one half point (0.5). If an indicator falls below its level six months prior, it will be given a value of zero. If an indicator is higher than it was six months before, it is assigned a value of 1.0. The sum of all of these figures will be expressed as a percentage of the total number of indicators. If, for example, one indicator is up (+1) at the end of a six-month period, one is unchanged (+0.5), and one is down (0), the diffusion index will be $(1.5)/3$ or 50 percent.

When the SoundAdvice Diffusion Index of Leading Indicators drops to zero, it is time to buy stocks aggressively, regardless of how negative the atmosphere may be. This is not just an empirical coincidence. It is also logical. In order for all of the leading economic indicators to be giving off a zero value compared to six months before, it is nearly certain that the economy as a whole must be very soft, which is the atmosphere necessary to produce a lasting decline in interest rates.

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

An "Aggressive" signal coming at a time when the Risk Indicator was below 1.0 revealed that Supercycle 5 came to an end, and that Supercycle 6 was born.

The SoundAdvice Diffusion Index of Lagging Indicators gives "Caution" signals when all three of its individual lagging economic indicators rise above their respective levels of six months earlier, providing a 100 percent reading which reveals that the economy is about to put upward pressures on interest rates. This index hit 100% in March (reported in April), telling us to move to a cautious approach. This signal came very close to the 2012 peak of the market.

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

It is worth noting that a zero reading is likely in the months immediately ahead. If all of the underlying leading indicators remained at their June levels for the next two months, we would have a zero reading for August. A drop of 7 percent in building permits for July would produce a zero reading for July.

Track Record of the SoundAdvice Diffusion Indexes

If we had followed the signals from our Diffusion Indexes over the years, we would have done very well indeed. The results are shown below. After each "Aggressive" signal, the S&P 500 climbed an average of 34.4 percent. During "Caution" signals, the S&P 500 declined an average of 1.1 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
Ave +/-	34.4%		-1.1%

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

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

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

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

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

The Key Indicator

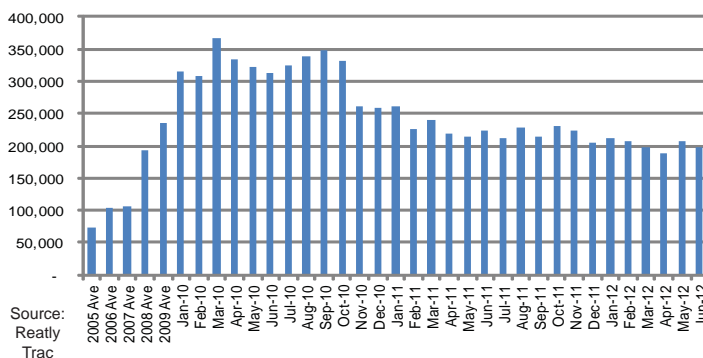
The secret is to focus on foreclosure rates. Realty Trac in Irvine, California has an extensive database. You can access foreclosure information on local markets from their website www.realtytrac.com. We use some of their data here to gauge the state of the nation and its real estate, and plan to continue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

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

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

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

US Foreclosure Rates - Monthly Averages



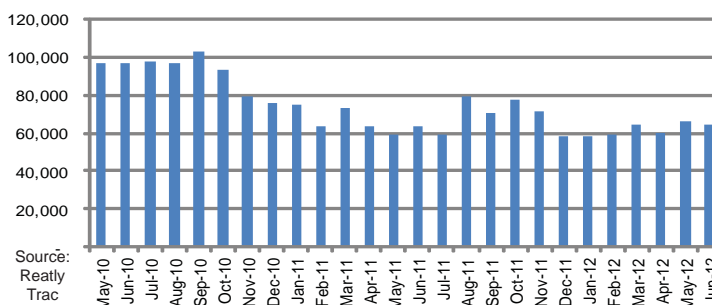
Dissecting the Foreclosure Process

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. In November 2010 they began declining but have remained stubbornly high during the last several months.

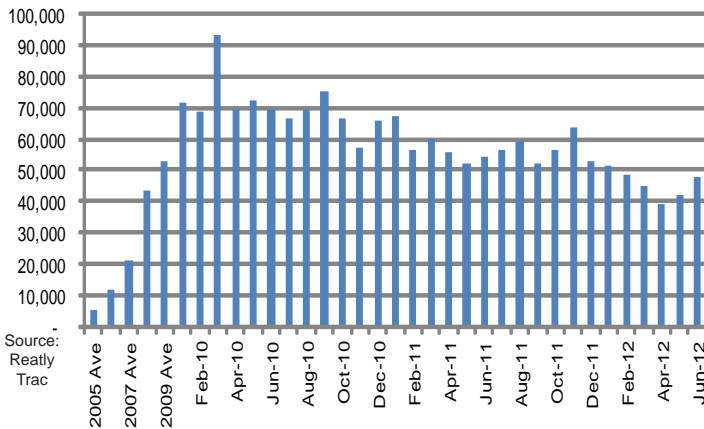
US New Default Notices



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).

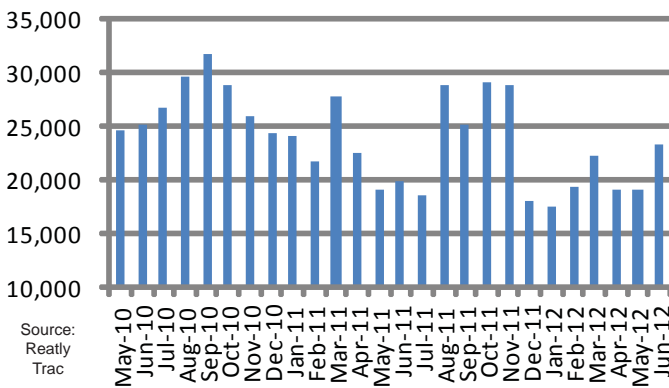
In 2005, California foreclosures averaged 5,138 properties per month. Foreclosures doubled in 2006, and again in 2007, and again in 2008. By 2010, foreclosures were close to 70,000 each month, with a spike of 93,000 in March. Foreclosure rates remained high in 2011 and began modest declines during the first five months of 2012. May saw a slight increase.

California Foreclosures - Monthly Averages



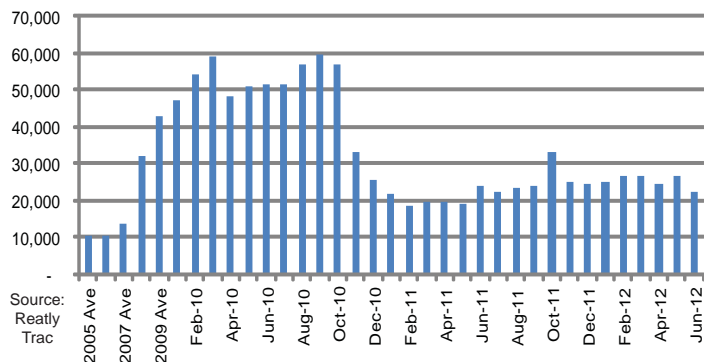
The following chart shows new default notices in California. After declining somewhat earlier this year, new default notices rose sharply in June by 22 percent.

California New Default Filings

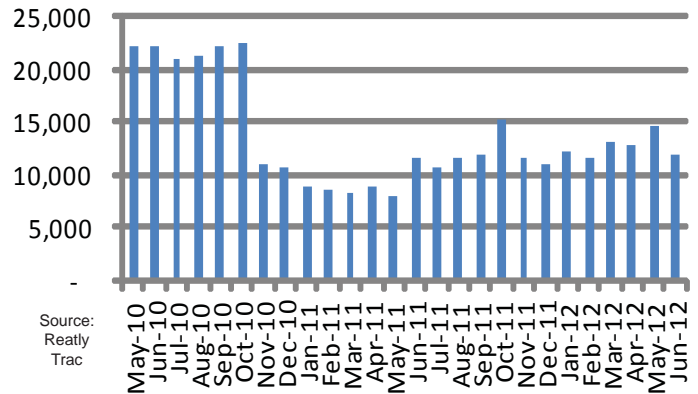


Florida is the next highest foreclosure state with 11 percent of the nation's foreclosures. See the chart below. Foreclosure rates climbed from 10,000 per month in 2005 and 2006 to 47,000 in January 2010, and stayed in the 50-60,000 range through October. After dropping sharply in late 2010 and early 2011, foreclosures have since remained above 20,000 per month.

Florida Foreclosures - Monthly Averages



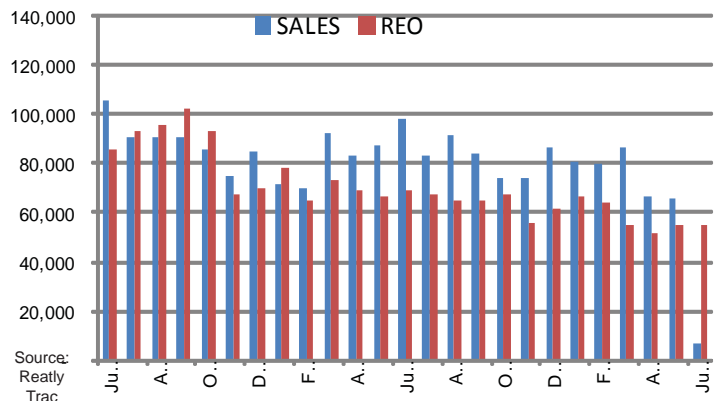
Florida New Default Filings



The chart above shows new default notices in Florida which dropped sharply in late 2010 and early 2011. They have since been uptrending, although June saw a 19 percent drop.

The Inventory

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



On balance, there have been 249,115 more properties sold than have been added to the REO inventory, or 16.5% of the current inventory of 1,506,499 foreclosure properties listed for sale.

Conclusions

The latest readings for June show that new default filings nationally were essentially unchanged. The spike in California does not bode well for 25% of the inventory. The only bright spot was the decline in Florida after the spike in May. On balance, the mixed results do not point to a significant drop in foreclosure rates in the immediate future.

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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