Sound**Advice**

Hulbert's Honor Roll in 2011, 2012, 2013
For Best Risk-Adjusted Returns in Both Up & Down Markets

Advising Investors for 25 years

November Issue

October 29, 2013

The *Sound Advice* portfolio is up 24.6 percent so far this year, assuming an equal amount was invested in each position at the beginning of the year. After introducing 3 new recommendations and taking significant profits in 6 positions this year, the portfolio has an average gain of 64 percent based on the prices at which each stock, ETF, or mutual fund was originally recommended.

We are recommending selling **Maxim Integrated Products (MXIM).** The rationale and details regarding this move are discussed in detail in this issue.

-Gray Emerson Cardiff

The Goldilocks Syndrome

Stocks hit new record highs in October despite a disappointing September jobs report. The market sees those numbers as not strong enough to force the Fed to stop its massive bond-buying and begin tapering, nor weak enough to suggest economic gloom: It's the Goldilocks syndrome – not too hot and not too cold.

Tepid growth is bound to continue as long as the Government grid-lock hangs over the economy and brinksmanship continues until February 7, when the borrowing authority expires from the temporary extension. Once we get past this deadline and the drama, things will be different. Are the bears waiting for Goldilocks?

The bears will come eventually, but not for a while. They are going to have to wait for the economy to recover significantly. Why? As long as the economy remains soft, the Federal Reserve will continue to keep interest rates low and continue its massive infusions of money into the economy through its bond-buying program. As long as the economy is not over-heating, the specter of inflation will remain out of sight. This is a bullish scenario for the stock market. Although stocks may no longer be cheap, we must abide by the axiom "never fight the Fed" and ride the bull market.

Signs of economic strength are bound to re-appear early next year after the cloud of Government drama passes. At some point, likely in the first half of 2014, the Federal Reserve will likely begin tapering its bond buying which will result in a resumption of the rise in bond yields. This may scare the stock market for a while, but the prospects for earnings growth from the strengthening economy will be a bullish force.

When the economy begins over-heating, the bears will come. That is when the specter of inflation appears, and interest rates rise in earnest. However, the economy needs to recover before that can happen.

Euro Zone Update

The health of the Eurozone is very important to the health of the world economy, and therefore, to the US economy. The $12.6 trillion Eurozone GDP is second to the $15 trillion GDP of the US, and towers over China's third largest GDP of $7.2 trillion.

Banks in Europe have a much larger function in the Economy than they do in the US. In Europe, 75 to 80 percent of the total credit is extended by the banks, as compared to 30 percent in the US. Accordingly, banks are crucial to the health of the European economy.

Similar to the US only to a larger extent, Euro banks were compromised by the financial meltdown which has limited their ability and desire to extend credit. This has been a huge drag on the European economy.

In October, Mario Draghi, president of the European Central Bank (ECB), instituted a stress test for 128 of Europe's largest banks, which involves a close examination of their balance sheets under hypothetically adverse scenarios. The purpose of these tests is to ensure the public as well as would-be investors, that these banks have adequate capital, that their financial conditions are transparent, and that they are safe places for deposits as well as new investment capital.

As the largest eurobanks are given a clean bill of health and are attracting new capital, their vitality will spur Europe's recovery, which will have a positive impact on the US recovery.

Our "No-Brainers"

Our "No-Brainers" are ETFs designed to benefit from rising long-term Treasury Bonds. We have dubbed these ETFs as "No-Brainers" because interest rates always rise after a recession during the recovery. It is as simple as that.

After a sharp rise in Treasury bond yields a few months ago when the Fed announced it may start tapering its bond-buying program, yields have drifted lower, along with our No-Brainers under the cloud placed over the economy by continued Government wrangling. However, once this cloud passes, bond yields are certain to resume their cyclical upward trend.

Keep in mind that the continuation of the Federal Reserve's stimulation ensures that the US economic recovery will remain firmly on track. An ultimately stronger recovery is certain to lead to higher long-term bond yields next year.

The most recent time long-term Treasury bond yields rose significantly was from December 18, 2008 to June 10, 2009, (118 trading days) when 30-year Treasury bond yields rose from 2.55 percent to 4.75 percent, or 220 basis points. The pattern of this rise is shown on the following chart.

Our No-Brainer ETFs did not exist during this entire period, so we don't have historical track records to view. However, we know how these ETFs work, and can model them to get an idea of the profit potential.

The price action of these ETFs is based on the changes in long-term treasury bonds, specifically BlackRock's iShares 20+ Year Treasury Bond ETF (symbol TLT) which holds a portfolio exclusively of long-term Treasury bonds with an average maturity length of 27.5 years. The prices of our No-Brainer ETFs fluctuate in accordance with the daily fluctuations of TLT, only in the opposite direction, multiplied by the leverage each uses. For example, a decline of say, 1.0 percent in TLT will cause TMV to increase by 3.0 percent, TBT by 2.0 percent, and TBF by 1.0 percent. Conversely, an increase in TLT will cause our No-Brainers to drop in the same fashion.

To construct our models, we start with a projection of an increase in 30-year Treasury bond yields. A conservative approach would be to assume that long-term Treasury bond yields will not rise beyond 4.75 percent -- not any higher than the last peak. We can use the pattern of the last 47 days of the 220 basis point rise when yields rose from today's yield of 3.6 percent to the peak of 4.75 percent. In that scenario, our No-Brainers would rise to the following levels:

TMV would climb to $104, for a 62 percent gain.

TBT would climb to $101, for a 39 percent gain.

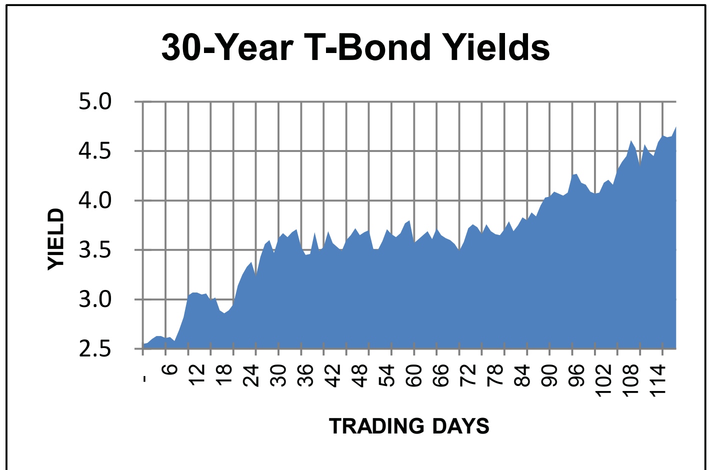
TBF would climb to $37.5, for an 18 percent gain.

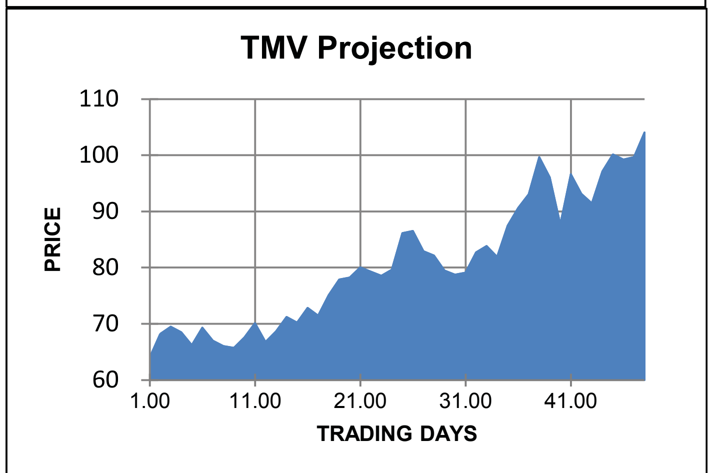
See the charts on the right which display these projections.

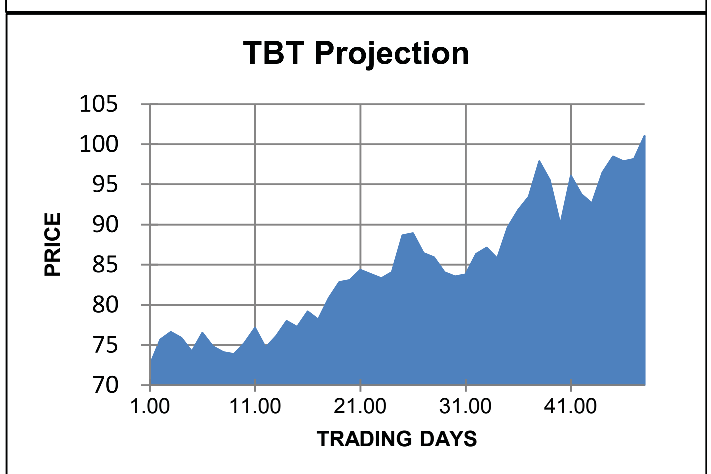
While the pattern of today's rise is unlikely to be exactly the same as the previous rise, we believe this projection serves as a minimum expectation. After yields rose to 4.75 percent on the last rise, the economy was considerably weaker than it is today and went into a decline.

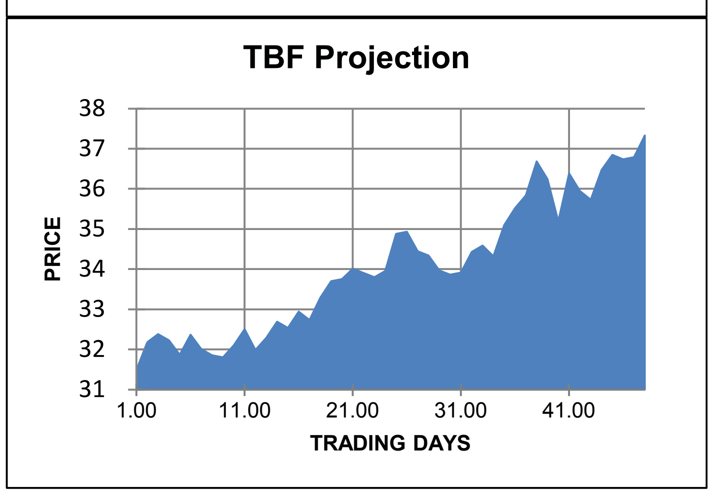
However, this time bond yields are certain to continue marching substantially higher in view of many years of stimulus from the Federal Reserve, and the inevitability of the end of its quantitative easing program. When that happens, the Fed will start tapering its bond buying.

More importantly, we must keep in mind that the Federal Reserve has accumulated a massive amount of Treasury bonds during the many years of quantitative easing. On its balance sheet is now $3.6 trillion of Treasuries. This compares to $879 million in 2007. With its inventory bloated by 4 fold, the Federal Reserve will ultimately be a large seller of Treasuries. Accordingly, it is not unreasonable to assume the current cyclical upswing in long-term Treasury bond yields will not end at 4.75 percent.









The History of 30-Year Treasury Bond Yields

This graph shows the yields of 30-year Treasury bonds since 1977. As you can see, yields are still close to historic lows.
Source: Yahoo! Finance

We include the chart above showing the yields of long-term Treasury bonds for the added perspective that today's yields are still historically low, and that the only significant room for movement is upward.

If you are not already fully invested in our No-Brainers, we recommend accumulating more on any weakness while the Goldilocks syndrome exists. There are still large gains to be made.

Portfolio Updates

Here are updates on the rest of our recommendations in alphabetical order. The table on page 9 details our buy limits and other information on each recommendation, and organizes them by investment objective. Also see our website for live pricing.

Agrium (AGU) is down 12 percent this year, trimming our profit to 638 percent. AGU has a broad mix of agricultural products and services that are poised to benefit from growing demand as arable land continues to disappear around the world and the need for higher food production per acre increases. Growth is fueled by an expanding worldwide population along with increasing per-capita income.

Potash markets have been volatile following the breakup of the Russian cartel Uralkali, one of the world's two large potash groups. For decades, 70 percent of the world's potash market has been controlled by two cartels – one in Canada called Canpotex with 3 North American members: Potash Corp., Mosaic Co., and Agrium, and the other in Russia called the Belarusian Potash Company (BPC) with two members: Uralkali and Belaruskali. These partnerships have allowed their producers to command better prices for potash than if they competed against each other.

At the end of July, Uralkali decided to pull out, ending the BPC cartel, and focus on volume rather than price. The breakup turned into a Russian soap opera with Russia opening a criminal investigation into the chief executive of Uralkali.

The breakup of the Russian cartel has depressed the price of potash, and to some extent the price of AGU, which is currently presenting an excellent value.

Potash sales accounted for 12 percent of AGU's 2012 revenue which is far less than its competitors. A decline in potash margins is easily compensated by sales from AGU's other products and services.

Nitrogen based fertilizers account for 41 percent of sales where it has a competitive advantage through its access to cheap natural gas for many years to come. It also has a competitive advantage for producing phosphates (10 percent of sales) through its access to low cast sulfur and ammonia in its Conda and Redwater sites.

Thirty-seven percent of AGU's revenues come from sources other than nutrients, including crop protection products, seeds, and other agricultural merchandise and services. In October, AGU finally completed its acquisition of the Viterra assets which added 210 retail farm centers in Canada. This added a significant source of immediate growth.

In October it was announced that Chuck Magro, company COO, will replace Mike Wilson on January 1, as the new CEO. AGU also recently announced an increase in the dividend by 50% to an annualized $3 per share for a 3.5 percent yield.

JANA Partners, which recently launched an unsuccessful recent proxy solicitation, said that it is pleased with AGU's dividend hike as well as the change in top management which it expects to lead to increased openness and responsiveness to proposals for value-creating changes.

AGU is now projected to earn $9.15 in 2013 and $9.75 in 2014. At less than 10 times current earnings, this is an excellent value with promising growth ahead from a broad array of agricultural products and services for which there is growing worldwide demand.

AMN Healthcare (AHS) is up 10 percent this year, extending our profit to 140 percent. AMN Healthcare provides temporary healthcare staffing services to the healthcare industry, ranging from nurses to physicians. We recommended this stock at an average price of $5.35 based on the rationale that it was a two-fer. AHS was 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 healthcare business which will benefit from a recovery in the economy.

As the stock advanced and its price/earnings (P/E) ratio expanded, ultimately climbing over 25, we recommended holding off on purchases. In October, the stock dipped into our buy range. If you picked up more shares you have a profit because the stock price rose above our upper buy limit again.

Associated Estates Realty Corp (AEC) is essentially unchanged this year, leaving our gain at 12 percent. AEC announced third quarter earnings in October. Funds from Operations (FFO) were $0.32 per common share, plenty to cover the $0.19 quarterly dividend. Net operating income (NOI) was higher by 6.1 percent for the same apartment properties owned during the last year. Operationally and strategically, it was another good quarter. Occupancy was 96% on the entire apartment portfolio.

AEC continued to diversify. It recently acquired a 152-unit apartment community in an affluent Uptown neighborhood of Dallas. AEC already owns two apartment communities in North Dallas. AEC is also purchasing a seven-asset portfolio of Class-A apartment communities in high growth submarkets of Raleigh, Charlotte, Atlanta and Tampa.

This continues to be the most undervalued apartment REIT in the sector. The net equity of its apartment portfolio translates into a stock value of $27 per share. So the stock is still trading at a steep discount. It pays a nice yield of 5 percent as well.

Boston Scientific (BSX) is up this year extending our profit to 24 percent. BSX's medical products are well suited for an aging population in the US as well as emerging markets around the world, especially in India, China, Brazil, and Russia. Emerging markets only accounted for 4 percent of revenue in 2012, so there is considerable room for growth.

The third quarter was strong with earnings of $0.17, which was above expectations and a growth rate of 6 percent on a year-over-year basis. Cash flow was also strong, $75 million of which was used to buy back 6.8 million shares of stock during the quarter.

All sectors of BSX were strong.

Endoscopy (technologies for diagnosing and treating diseases of the digestive system, airways, and lungs) showed 8% worldwide revenue growth with hemostasis continuing to lead. Biliary devices continued to grow faster than the market, fueled by the Endoscopic Ultrasound platform. Metal stent devices continued to lead the industry.

The Urology/Women's Health division achieved 8% worldwide revenue growth, faster than the market, driven by international expansion and new product launches.

Neuromodulation delivered an impressive 32% growth, with micro-electronic implantable devices aimed at managing chronic neuropathic pain and neurological diseases. The spinal cord stimulation business continued to perform well above market, driven by the Precision Spectra Spinal Cord Stimulator System.

The core Interventional Cardiology (IC) business grew 3%. BSX recently launched Emerge 1.2 millimeter balloon catheter, Guidezilla Guide Extension catheter, and the OptiCross catheter. Performance in the core IC business should continue to improve with the expansion and rollout of these new products.

The Peripheral Interventions division delivered above-market performance of 7% growth. These are products aimed at treating vascular system blockages in areas such as the carotid and renal arteries and the lower extremities. Growth was led by balloon stents, and there was significant progress in the product pipeline.

The Cardio Rhythm Management business returned to growth which was encouraging. This growth was despite limited availability of the BSX's subcutaneous implantable defibrillator (S-ICD), the world's first and only one of its kind. This defibrillator utilizes a pulse generator without touching the heart which greatly reduces risks. BSX recently resumed a controlled rollout of the S-ICD and continues to build further supply capacity. The S-ICD was awarded the prestigious Prix Galien award for the Best Medical Technology. This award was a great honor for BSX team, and it recognized the truly meaningful innovation that the S-ICD System delivers to patients and physicians.

The *Watchman*, BSX's left atrial appendage closure device, aimed at reducing the risk of stroke in patients with atrial fibrillation, continued to show strong growth in international markets, with international revenues and implants growing by more than 45% compared to the third quarter of last year. This is the only left atrial appendage device with long term clinical data and is expected to gain FDA approval in the US during the first half of 2014.

In September, BSX opened its first Chinese branch in Shanghai of the Boston Scientific Institute for Advancing Science (IAS) as well as its new Innovation Center. Through these facilities, BSX will foster local talent to develop new technologies uniquely suited to the China market.

Chesapeake Energy (CHK) is up 72 percent this year giving us an equivalent gain since we added it to the portfolio last year. CHK is the second largest producer of natural gas

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and pioneered the use of fracking technology to produce oil and liquids from shale. We added CHK to the portfolio because it was cheap due to 3 primary problems: low natural gas prices, poor corporate governance, and a financial squeeze, all of which were temporary or could be remedied.

Natural gas prices have risen substantially. Shortly after we recommended CHK, Carl Icahn purchased a substantial stake and was instrumental in changing the corporate governance by removing the founder, Aubrey McClendon, as chairman of the board and replacing several other board members. Doug Lawler officially took over as CEO in June, coming from Anadarko Petroleum and its predecessor Kerr-McGee, and is reorganizing and reducing expenses. In September, the company announced that no more asset sales will be required to overcome the financial squeeze.

With these problems and distractions behind it, the company will be able to put more of its capital budget toward drilling and focus on improving production and revenue.

The majority of CHK's oil and gas assets remain unexploited, and the company's new management team should be able to develop these assets into cash generating projects. This will increase shareholder value from here.

CommonWealth REIT (CWH) is up this year since activists Corvex Management and Related Fund Management began their proxy fight to oust the management, extending our profit to 21 percent, These activists stated that they believe CWH is worth at least $40 a share, and $50 with better management.

The discount of the price of the stock to underlying value of this REIT's net real estate assets has been the primary reason for our recommendation. Based on the company's most recent financials, we evaluate the value net equity of the company's real estate by applying an 8 percent capitalization (cap) rate to the net operating income of the real estate, and determined the net assets translate to $40.35 per common share.

Corvex Management and Related Fund Management received approvals from holders of over 70 percent of the outstanding CWH to remove the entire Board of Trustees. CWH management contested the validity of the consent solicitation, and the matter went into arbitration.

To entrench their position, management instituted a rule that only shareholders with at least 3 percent ownership for 3 years could seek changes to the company's board. In August the arbitration panel struck down that rule and the stock responded favorably. The arbitration panel resumed deliberations on October 7 but news has been quiet.

Along the same lines, a shareholder class action lawsuit was filed in October alleging stock dilution, entrenchment, failure to maintain adequate disclosure systems, and elimination of shareholders' rights related to the board's alleged plan to wrest control of the company. The suit claims that because the founders and trustees of the REIT are also the 100 percent owners of its manager, REIT Management & Research LLC, they have unresolvable conflicts of interest that prevent the board from protecting the company from the founders' self-dealing.

We recommend holding CHW on the basis that management will either be ousted or its practices altered to allow more of the underlying value to be realized by shareholders.

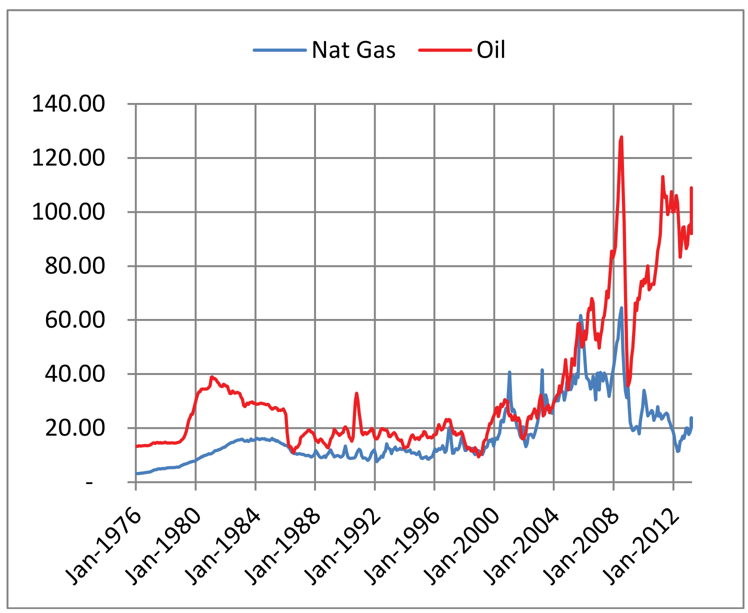
Fidelity Select Natural Gas Fund (FSNGX) is up 26 percent this year which is close to our profit. This is the only mutual fund that concentrates on the natural gas industry, and a diversified play on the gap between the energy equivalents of oil and natural gas.

Our primary reason for recommending this fund is simply that natural gas provides energy vastly cheaper than other sources of energy, which translates into an inexorably vibrant and expanding natural gas industry.

One barrel of oil provides approximately 5.8 million British Thermal Units (BTUs) of energy. One barrel of oil today is close to $100, so that is the cost of 5.8 million BTUs of energy. On the other hand, with a market price for natural gas at $3.50 for one million BTUs, 5.8 million BTUs will cost $20.30 (5.8x3.50). So the same amount of energy is available for approximately 20.47 cents on the dollar -- if it is in the form of natural gas.

To illustrate the point, we continue to display the historic relationship between the costs of these two forms of energy in the chart because it demonstrates that today's disparity is not a normal situation.

The Cost of Energy Equivalents of Oil and Natural Gas



The red line shows the price of a barrel of oil since the mid-1970s. The blue line shows the price of natural gas multiplied by 5.8 to approximate the same amount of energy contained in a barrel of oil. Note that for most of the time (36 years), the two forms of energy are closely aligned. This stands to reason. After all, energy is energy, and it should cost approximately the same regardless of the form in which it comes. However, that is not the case today.

The US is self-sufficient in natural gas with only 9 percent imported from Canada. At 20.30 cents on the dollar versus oil, natural gas is bound to have a growing role in America's energy needs as well as creating independence from importing oil. This fund is well positioned to benefit from an expanding natural gas industry.

Freeport-McMoRan Copper & Gold (FCX) is up 23 percent since it was recommended in the September issue as a timely addition to the portfolio. We had a good ride during the recovery coming out of the previous recession with Phelps Dodge, earning 643 percent from March 2003 to December 2006. FCX subsequently purchased Phelps Dodge and now has those valuable copper assets, along with oil and gas, some gold, and other precious metals. The current recovery should bring good fortunes as well.

We thought the addition of FCX to the portfolio was particularly timely because it was cheap at $30.50 per share for several reasons. It had just had a bad quarter when operations were shut-down due to an accident at its Grasberg complex in New Guinea - the largest single recoverable reserve of both copper and gold in the world. In addition, FCX had recently completed a massive purchase of oil and gas properties and the revenue from that resource had yet not kicked in to earnings.

On October 22, FCX announced earnings of $0.79/share, which was higher than expectations. During the third quarter operations returned to normal at Grasberg for a full quarter of results. FCX also sold over 1 billion pounds of copper, 13% above the year ago period. Gold sales were 50% above last year's third quarter due to higher ore grades in Indonesia. Sales of oil and gas totaled 16.5 million barrels of oil equivalent which was 10% higher than expected.

In addition, positive economic data from China has been boosting FCX. China's needs for copper are voracious as their economy grows, and is bolstered by the use of copper in the power lines being constructed across the country to transport power from the western coal deposits to the eastern population centers. Revivals of the much larger Europe and US economies will be even more powerful sources of demand for copper, as well as FCX's other natural resources.

Hambrecht & Quist Life Sciences Fund (HQL) is up 40 percent this year, extending our profit to 111 percent. The most explosive profits in the entire healthcare industry can be found here in biotech companies.

The Fund's holdings have a number of promising drugs and treatments that have received FDA approvals, including: Medivation's *Xtandi* for use in prostate cancer, Amarin's *Vascepa* for use in hypertriglyceridemia, Ironwood Pharmaceuticals/ Forest Laboratories' *Linzess* for use in irritable bowel syndrome, Biogen's *Tecfidera* for use in Multiple Sclerosis, and Celgene's *Pomalyst* for use in Chronic Myeloid Leukemia.

The Fund's holdings reporting positive clinical data for key products include: Celgene's *Abraxane* in pancreatic cancer, Gilead's *Sofosbuvir* in Hepatitis C, and Vertex Pharmaceuticals in multiple drugs for Cystic Fibrosis.

Celldex's principal product demonstrated a survival benefit in the metastatic breast cancer setting.

MEI Pharma demonstrated an impressive response rate in patients with myelodysplastic syndrome when its product was combined with Celgene's *Vidaza*.

Oncogenex Pharmaceuticals began a pivotal trial in non-small cell lung cancer patients.

Endocyte, Inc. is in for approval (in concert with Merck) for its ovarian cancer drug in the EU.

There should be some home runs among these holdings. HQL is a superior way to gain exposure to biotech on a diversified basis.

ICON Energy Fund Class S (ICENX) is up 8 percent since it was added to the portfolio in the April issue. The demand for energy accelerates with an economic expansion because it takes energy to make everything, and especially large amounts to make the most vital materials and substances, such as chemicals, plastics, and to run data centers. The best time to invest is when the economy is coming out of a slump, before demand increases. In addition, there is always the possibility of geopolitical disturbances threatening supplies and driving up energy prices.

This fund's management looks for unrecognized values within the energy industry. All forms of energy are considered – oil, coal, natural gas, and how these commodities impact the industry.

The objective is to find value, regardless of the direction of energy prices. While the price of energy in its different forms is important, the real opportunities come from how the stock market reacts to changes within the industry: whether the market realizes the change too fast and becomes over-priced, or conversely, whether there is still opportunity to invest. This Fund focuses on the values created by changes, even by falling prices.

For example, for the three years ending September 30, 2013, there were wide fluctuations in the prices of oil and natural gas. From beginning to end, the S&P Crude Oil Index only increased 2.7 percent annually, and the S&P Natural Gas Index declined 26.7 percent annually. Yet this energy fund returned 12.7 percent per year.

Most energy mutual funds have not been able to match the performance of the Energy Equity Index. However, this fund not only beat the Energy Equity Index resoundingly, it has turned in the best performance – by far – of all energy funds over the last 10 years. (See the April 1, 2013, Issue for a complete analysis of all no-load energy funds.)

Maxim Integrated Products (MXIM) is up 3 percent this year, extending our profit at 57 percent. **We are recommending taking your profit now on MXIM.**

The recent rise in the price puts it close to 19 times 2014 projected earnings which is expensive by historical standards. It is also above the market average price/earnings (P/E) ratio which makes it expensive in relation to the market.

The recent rise in the stock price is based on the closing of the purchase of Volterra which should provide a source of growth down the road. However, the Volterra contribution to MXIM's earnings is only close to 6 percent, and meaningful growth is not likely to materialize for two years. Moreover, the $23 per share offer represented a 55% premium to Volterra's closing share price in August.

Aside from the potential prospects of Volterra, there is ongoing weakness in the upper end of the smartphone business, which means demand for some of the company's key integrated circuits is likely to decline. MXIM is continuing to emphasize high-end smartphones because that is where the innovation takes place and R&D cost can best be amortized. As new technologies are developed, MXIM plans to leverage and selectively migrate the technology to lower and midrange-priced smartphones and tablets. However, that transition is not yet evident and may not happen profitably.

Samsung is MXIM's largest customer by far, accounting for close to one-third of total company sales. For many months, Apple and Samsung have been going at it regarding several patent issues. In August, Apple scored a victory by winning a $1.049 billion judgment over Samsung regarding the design of some of its Galaxy S phones.

At the current price, it boils down to a less favorable risk/reward ratio. The risk of negative surprises is greater, and at a rich P/E ratio, they are expensive.

Pfizer (PFE) is up 27 percent this year, extending our profit to 90 percent. PFE just reported third quarter revenue of $12.64 billion and earnings of $2.59 billion, or 39 cents per share. Earnings were down but better than was expected, and the stock climbed higher on the news.

The bright spot was that sales of its oncology drugs jumped 24 percent in the quarter to $407 million. Oncology has become one of Pfizer's biggest priorities and is counting on these drugs to replace several blockbusters whose patents have expired or will be in the next few years, including *Lipitor* in 2011, *Viagra* in most major markets in Europe in June of 2013, *Celebrex* in 2014, *Zyvox* in 2015, and *Lyrica* in 2018.

Recent introductions of oncology drugs include *Xalkori* for lung cancer, *Inlyta* for kidney cancer and *Bosulif* for chronic myelogenous leukemia. *Palbociclib*, an experimental treatment for advanced breast cancer, is a potential blockbuster. Data is showing that the drug stopped disease progression for more than two years. Revenues increased 186 percent for *Inlyta* on nearly triple sales volume, a treatment for late-stage kidney cancer, and revenues increased 92 percent for *Xalkori*, a drug for metastatic non small-cell lung cancer.

Beyond oncology, PFE is starting final stage trials of *bococizumab*, a cardiovascular drug for those whom statins are not effective. The blood thinner *Eliquis*, which is split with Bristol-Myers, was approved last year and expected to be a significant contributor to PFE.

Xeljanz for arthritis was also approved last year, sold $35 million during the quarter. Physician responses have been encouraging with 75 percent of their patients repeating prescriptions.

Lyrica for nerve pain, PFE's largest revenue producer, rose 10 percent to $1.14 billion in the third quarter.

Prevnar, a vaccine against pneumococcal bacteria sold $959 million, an improvement from the prior quarter.

PFE expects earnings to be in the vicinity of $3.10. However, that earnings forecast includes the gain from Zoetis. Recall that we recommended not taking PFE's offer to exchange your PFE stock for Zoetis. In addition to other reasons, we could see that the sale was highly beneficial to PFE, which meant that it would not be beneficial for you. Confirming that view, 2013 earnings are projected to be $2.10 to $2.20 without the gain from Zoetis, and represent a better estimate going forward into next year.

We added PFE to the portfolio when it became dirt cheap as the expiration date approached on its blockbuster drug, *Lipitor*. However PFE is no longer cheap, and we recommend not chasing it. The P/E is close to the market averages and worth holding for now.

Retail Opportunities Investment Corp (ROIC) is up 18 percent this year, extending our profit to 42 percent. 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.

ROIC buys distressed retail properties with high-quality demographics, refurbishes them, and then leases them at a premium.

During the third quarter ROIC committed $186.2 million to acquire three grocery-anchored shopping centers. So far this year, ROIC has acquired ten grocery-anchored shopping centers for $368 million.

As new properties are added, along with tenant upgrades, FFO is bound to continue to rise, along with the dividend, and push the price of this REIT upward.

Stryker (SYK) is up 37 percent so far this year, extending our profit to 82 percent.

SYK is best known for its orthopedic devices: artificial knees and hips. SYK also provides a diverse array of innovative medical technologies, including reconstructive, medical and surgical, as well as neuro-technological and spine products.

Third quarter earnings of $0.98 per share announced in October were strong, showing an increase of 6.1 percent year-over year. There was strong organic sales growth from all 3 company sectors in the US.

The reconstructive growth sector saw revenues from hips and knees increase 9.3 percent, along with trauma and extremities increasing 22.7 percent. MedSurg saw an increase in Endoscopy of 10.5 percent, and Neurotechnology grew by 14 percent.

European business was also positive and along with emerging markets as China, Brazil, and India delivered double-digit growth.

The recent agreement to acquire MAKO Surgical is significant. It puts SYK in a leading position for robotic-assisted surgery and the potential for break-through innovations. This is likely to be an important source of longer-term growth.

More profits are assured by accelerating demand for joint replacements on aging US baby boomers. As life expectancies continue to increase, and obesity trends continue, more and more hip, knee, and spinal procedures will be needed.

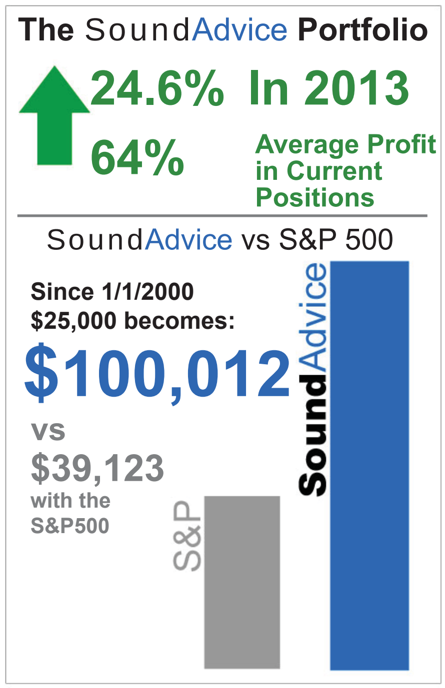
As the economies improve here and elsewhere, revenue growth is bound to continue increasing from elective surgeries. In addition, there were a significant number postponed during the recession and uncertain economic times that will become more affordable.

Stryker's cash-rich balance sheet with $5.1 billion of cash and marketable securities, and robust cash flow, gives SYK multiple avenues for growth through mergers and acquisitions.

Symantec (SYMC) is up 17 percent this year, extending our profit to 32 percent. SYMC is the dominant supplier of software for computer security and protection against viruses and other nuisances through its leading flagship brand, Norton and its relatively new product "Norton Zone" which allows users to safely access, sync, and share photos, videos and documents from any of their PC, Mac, Android, or iPhones and iPads.

Until last week we have had SYMC on hold because the rise in the stock price this year brought it to the point where the valuation was a little too high. On October 24, the stock dropped into our buy range on a disappointing quarterly earnings report of 45 cents per share versus the expectation of 51 cents.

SYMC has been re-focusing their sales people from generalists to more specialized personnel for specific products. This transition was the primary reason for lower sales during the quarter. However, the transition is temporary and should lead to stronger growth ahead.



In the earnings conference call, CEO and President Steve Bennett said: *"When the dust settles from the transition of our sales force gains traction, momentum builds from our improved sales force focus… We also believe we will see improved commercial execution as we build out our marketing organization and better enable our salespeople and partners to be more effective and productive. We are making solid progress providing our sales team and partners with the messaging and tools required to better share our exciting new story with the market."*

Protection from cyber espionage is definitely a growth industry. There was a 42 percent surge in attacks during 2012. Mobile malware increased by 58 percent, and 32 percent of all mobile threats attempted to steal information, such as e-mail addresses and phone numbers. This year's data shows that cyber criminals aren't slowing down.

Tellabs (TLAB) is up 8 percent this year. TLAB designs and manufactures hardware and systems for the telecommunications industry. We have been recommending TLAB because it is trading below its net asset value and Capital gain potential is very large from the current depressed price.

LAst month we noticed that the shrewd management team at Third Avenue agreed with our assessment because they have been adding shares of TLAB to their portfolios.

On October 21, we heard from Marlin Equity Partners who evidently also agrees because they announced they are acquiring all shares in an all-cash offer for $2.45 per share. A number of law firms subsequently announced investigations concerning whether the Tellabs Board of Directors breached their fiduciary duties to stockholders by failing to adequately shop the Company before agreeing to enter into this transaction, and whether Marlin Equity Partners is underpaying for Tellabs shares.

We agree that $2.45 is cheap, and we were planning on a much larger gain. Although we do not put much faith in class-action suits for producing significant benefits for stockholders, perhaps the threat or filing of class-action lawsuits will prompt an increase in the $2.45 price. At any rate, the proposed date for the cash acquisition of all shares is December 2. We will keep you posted through our internet blogs on any decisions you need to make.

Tetra Tech (TTEK) is up 2 percent this year, extending our profit to 75 percent. TTEK is a leading company in water technologies and environmental remediation with a healthy balance sheet and a backlog of approximately $2 billion in signed contracts to clean up military bases across the US.

After the stock price fell after one-time charges translated into disappointing earnings for the second quarter, we viewed the dip as a buying opportunity. It has since recovered 15 percent.

During September and October, TTEK has received new contracts to assist the EPA regional Superfund Program for a six-state region from Minnesota through Ohio worth $48 million. Dan Batrack, Tetra Tech Chairman and CEO, commented, *"With this contract, Tetra Tech now supports EPA's emergency response and other START program activities in nearly 20 states across the country."*

While there is plenty to clean up domestically, the greatest growth potential continues to be outside the United States in China and India, where environmental concerns have been an afterthought. Only now are these governments starting to recognize the consequences. As these and other governments around the world make this a priority, Tetra Tech should be a prime beneficiary. The board of directors recently authorized a $100 million common stock repurchase program.

Third Avenue Real Estate Value Investor Fund (TVRVX) is up 4.4 percent since we introduced it last month as the best real estate mutual fund. It has been leading the pack of all real estate mutual funds during the last 3 years. The return during the last year was 18.11 percent, more than doubling the 8.1 percent return of the second place fund. (See the October issue for the complete report.)

Management looks for 4 fundamental characteristics before they make investments:

1) The issuer has an especially strong financial position.

2) The common stock is selling at a price that reflects at least a 20% discount from Net Asset Value ("NAV").

3) There is comprehensive disclosure including reliable audited financial statements; and the common stock trades in markets where regulations provide substantial protections for investors.

4) The prospects are that over the next three to seven years, NAV will be increasing by at least 10 percent annually (including dividends).

Here is where the best real estate values can be found in a mutual fund,

USAA Precious Metals & Minerals Fund (USAGX) is down 39 percent this year as the price of precious metals suffered. However, signs of life have recently appeared in this sector as economic stagnation and slightly lower interest rates have

Income With Growth	Sym	Exchange	Price	Yield	Limit	Action
Associated Estates Realty Corp	AEC	NYSE	$ 15.43	4.93%	$ 17.00	BUY
CommonWealth REIT	CWH	NYSE	$ 24.78	4.04%	$ 25.00	BUY
Retail Opportunity Investment Corp	ROIC	NASDAQ	$ 14.77	3.79%	$ 16.00	BUY
Diversified Growth						
Pfizer	PFE	NYSE	$ 31.25	2.82%	$ 30.00	HOLD
Stryker Corp.	SYK	NYSE	$ 74.53	1.14%	$ 76.00	BUY
Third Avenue Real Estate Value Investor	TVRVX	NYSE	$ 29.61	2.84%	$ 32.00	BUY
Xerox	XRX	NYSE	$ 9.81	1.73%	$ 12.00	BUY
Energy/Natural Resources						
Agrium	AGU	NYSE/TSE	$ 85.90	2.33%	$ 95.00	BUY
Chesapeake Energy Corp	CHK	NYSE	$ 28.32	1.24%	$ 30.00	BUY
Fidelity Select Nat. Gas Fund	FSNGX	800-544-8888	$ 38.98	0.14%	$ 42.00	BUY
Freeport-McMoRan	FCX	NYSE	$ 37.68	3.32%	$ 40.00	BUY
ICON Energy Fund Class S	ICENX	800-435-5697	$ 23.59	0.00%	$ 25.00	BUY
Tetra Tech	TTEK	NASDAQ	$ 26.96	0.00%	$ 28.00	BUY
USAA Precious Metals & Minerals	USAGX	800-862-6909	$ 16.24	2.74%	$ 20.00	BUY
Aggressive Growth						
AMN Healthcare	AHS	NYSE	$ 12.78	0.00%	$ 12.00	BUY
Boston Scientific	BSX	NYSE	$ 11.79	0.00%	$ 13.00	BUY
ETF - Direxion Daily 20+ Yr Bear 3X	TMV	NYSE	$ 63.92	0.00%	$ 79.00	BUY
ETF - ProShares Short 20+ Year Trsry	TBF	NYSE	$ 31.41	0.00%	$ 35.00	BUY
ETF - ProShares UltraShort 20+ Year Trsry	TBT	NYSE	$ 72.34	0.00%	$ 83.00	BUY
H&Q Life Sciences Fund	HQL	NYSE	$ 19.39	0.00%	$ 21.00	BUY
Maxim Integrated	MXIM	NASDAQ	$ 29.55	3.25%	$ 30.00	**SELL**
Symantec	SYMC	NASDAQ	$ 22.13	0.00%	$ 23.00	BUY
Tellabs	TLAB	NASDAQ	$ 2.45	0.00%	$ 2.45	BUY

Prices are as of 10/29/2013. 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.

This table has live prices, charts & buy limits on our website: http://www.soundadvice-newsletter.com/members

softened the dollar.

When the economy gets more traction, the money created in recent years in the Federal Reserve's qualitative easing programs will be sloshing through the economy, putting upward pressure on the prices of commodities including precious metals.

USAGX is the best diversified way to invest in precious metals. It is the top-performing fund in the sector, and has constantly out-performed precious metal equities for ten years.

Xerox (XRX) has climbed this year extending our profit to 15 percent. We have been recommending XRX because it has been transforming from a seller of printers and copiers to a company providing services on those machines. The strongest growth should come from the company's expansion into information technology (I.T.) services, especially in the healthcare industry where technology is needed to reduce costs.

XRX reported that it expects third quarter earnings of $0.26 a share which was slightly above expectations, and that it expects 2013 earnings to be $1.08 to $1.10, a slight reduction from the previous forecast of $1.09 to $1.15. The company expects to take charges related to restructuring in its outsourcing business in the fourth quarter.

The stock dropped approximately 10 percent on the news, which we regard as a buying opportunity.

Chief Financial Officer and Executive Vice President, Kathryn Mikells, says the company has a strong position against competitors and that the company is continuing to evolve through synergies between its Services business and its Document Technology business through its Managed Print services and Document Outsourcing divisions.

At less than 10 times 2013 earnings, XRX is at a steep discount to the overall market and cheap in comparison to its competitors like IBM and Canon.

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 $9,947,059 in stocks and to $1,354,255 in houses.

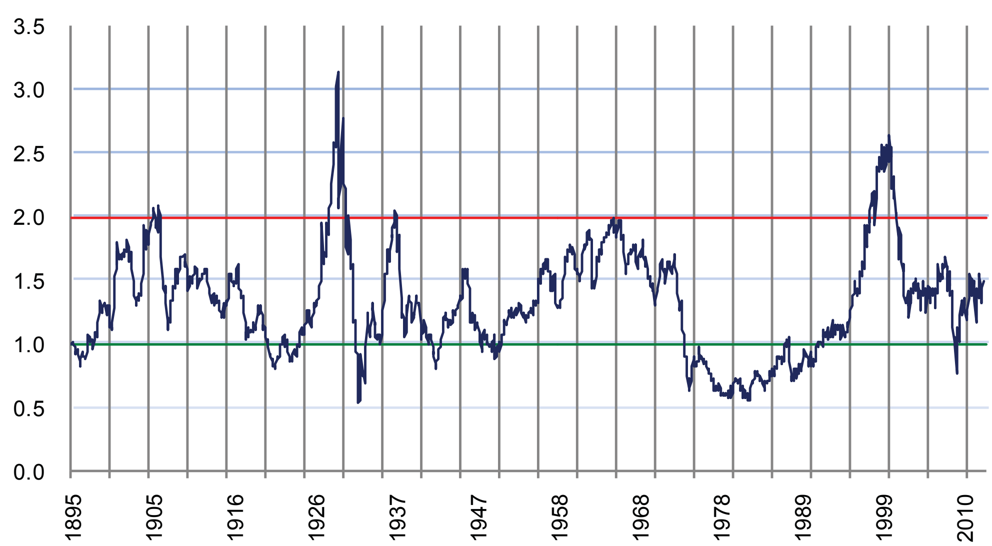
But though an investment beginning with $25,000 in 1895 could have made money being in either stocks or housing and simply leaving it there over such a long period of time, had the investor followed the signals of the SoundAdvice Risk Indicator he would have made $395,354,732, or 39.7 times more money—the 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 Sound Advice Risk Indicator is 1.60. This reading reveals that stock prices are slightly above average in relation to house prices. The February 2009 reading of 0.77 marked the low for this cycle as well as the beginning of Supercycle 6.

See ***The Science of Making Money in Turbulent Markets*** for a complete explanation of the **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.)



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 SoundAdvice 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. Our next signal will come from a zero reading from our Diffusion Index of Leading Indicators. The latest reading is 100 percent.

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, and to move to a cautious approach.

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

This index hit 100% in 2012 when the economy began to turn around, and marked the low-point of the long term Treasury bond yields. This indicator was instrumental in recommending our "No-Brainer" ETFs designed to profit from rising Treasury bond yields. We have continued to be bullish about stocks due to the Federal Reserve's extraordinary monetary policy which has been distorting the natural business cycle this time.

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 increased an average of 0.5 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%		0.5%

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

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