SoundAdvice

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The Best in Biotech

Gray Emerson Cardiff, Editor

So far this year, the *Sound Advice* model portfolio is up 11.0 percent.

The *Sound Advice* investment returns in prior years have been calculated independently by the Hulbert Financial Group and concur with ours. They are as follows:

From 2000-2018
9.5% Annually versus.
2.8% from the S&P 500

Biotech is the best performing sector in the US year to date. Over the last 15 years, biotechnology has become a major industry and the source of the world's top breakthrough drugs. Biotech companies offer the most explosive profits in the healthcare industry. However, stocks of individual biotech companies are often volatile and can have unforeseen risks, which makes diversification essential. This diversification can be accomplished by investing in a diversified biotech electronically traded fund (ETF) investing exclusively in a portfolio of biotech companies.

There are approximately 50 healthcare ETFs available, but only 20 specialize in biotech stocks. We can look at those ETFs holding companies that are developing drugs that are still in FDA trials, or those companies already selling approved drugs, or by companies according to the type of drugs they produce, such as those that employ immunology to target drug development. However, the best way to start is to separate biotech ETFs by their basic management structures, either passive or active.

Passive Management

Of course, management fees will be lowest in passively managed funds because investment selections are weighted by a formula. There are two basic formulas ETFs utilize: they either weigh their investments on the basis of the market capitalization of each selection, or they simply allocate an approximately equal investment in each selection (like the Sound Advice Model Portfolio - see page 9). This distinction has made a profound difference in performance records. Over the last 10 years, those biotech ETFs that weighted their portfolio selections essentially equally are the best performers by far, with an astonishing 50% greater investment return. (1)

This difference stands to reason. The biotech industry has been a hotbed of merger and acquisition (M&A) activity, as smaller biotechs tend to be purchased by the larger ones, often resulting in extraordinary profits in the smaller biotech firms. An ETF allocating its investments based on market capitalization will have disproportionately larger investments in the largest firms and much less in the smaller firms. However, an ETF allocating evenly will have larger allocations in the smaller biotech companies which are generally more likely to benefit from extraordinarily profitable acquisitions. Among the equal weighted biotech ETFs, the top four performers are shown in the following table. As you can see, there is a large disparity in the results ranging from 12% to slightly above 29%.

Passively Managed Biotech ETFS With Equal Weighting	YTD % Return	Price
Virtus LifeSci Biotech Products (BBP)	29.4%	44.81
SPDR S&P (XBI)	26.2%	90.54
First Trust (FBT)	17.3%	150.85
Loncar Cancer (CNCR)	12.0%	21.02

The top performer by far is **Virtus LifeSci Biotech Products (BBP)**. This ETF seeks investment results that correspond to the price and yield performance of the LifeSci Biotechnology Products Index, which tracks the performance of biotechnology companies, and covers companies that design drugs ranging from entrepreneurial start-ups to global giants that have completed multiple human clinical trials and have received FDA approval to sell and market at least one drug.

According to management, many large pharmaceutical companies continue to shrink their internal research and development (R&D) efforts.

(1) This information was obtained from an interview on Bloomberg News with James Sayffart, Global Data ETF and Hedge Fund and Mutual Fund Analyst at Bloomberg News, 25 East 78 St., New York, New York, 10075

Over the past year, Novartis, Bayer, Pfizer, and GlaxoSmithKline all announced R&D layoffs. To revitalize their drug portfolios, large pharmaceutical companies are turning to acquiring biotechnology companies.

Mergers and acquisition (M&A) activity was strong in the first half of 2018, but extremely quiet in the third quarter and much of the fourth quarter. Starting in December 2018, activity levels revved back up. Three of the fund's holdings have since been acquired. Tesaro was acquired by GlaxoSmithKline for $4.5 billion in December. In January, Celgene was acquired by Bristol-Myers Squibb for $89 billion and Loxo Oncology was purchased by Eli Lilly for $7 billion.

Active Management

Turning to the actively managed biotech ETFs, the three top performers are shown in the table.

Actively Managed Biotech ETFs (Management allocates weighting)	YTD % Return	Price
ARK Genomic Revolution MS (ARKG)	39.0%	32.88
iShares NASDAQ Biotechnology (IBB)	16.2%	111.80
Tekla Life Sciences Investors (HQL)	13.4%	17.13

ARK Genomic Revolution Multi-Sector (ARKG) focuses on the revolution stemming from mapping the human genome. Breakthroughs and advancements have cut the cost substantially of mapping the human genome which is opening up new opportunities and making this sector the cutting edge of new innovations. This ETF invests in companies that are expected to substantially benefit from extending and enhancing the quality of human and other life by incorporating technological and scientific developments and advancements in genomics into their business. The companies held in ARKG may develop, produce or enable:

CRISPR (a genome editing tool that is faster, cheaper, and more accurate than previous techniques of editing DNA. It holds promise for the treatment and prevention of more complex diseases, such as cancer, heart disease, mental illness, and human immunodeficiency virus (HIV) infection);

Targeted Therapeutics (one of the major modalities of molecular medicine for blocking cancer cells by interfering with specific targeted molecules needed for tumor growth);

Bioinformatics (a field that develops methods and software tools for understanding biological data);

Molecular Diagnostics (a collection of techniques used to analyze biological markers in an individual's genetic code);

Stem Cells (offer the potential to develop into many different types of replacement cells that serve as a repair system for the body);

Agricultural Biology (the study of plant and animal life domesticated for production).

Investment Recommendation

While our current biotech fund holding, **Tekla Life Sciences Investors (HQL)**, has done well for us, we believe we will see better results by selling HQL and investing in two of the best performing biotech funds: the passively managed **Virtus LifeSci Biotech Products (BBP)**, and the actively managed **ARK Genomic Revolution Multi-Sector (ARKG)**.

We will be putting each of the new funds in the *Sound Advice* Model Portfolio with an approximate weighting equal to other selections. We started off the year by rebalancing each holding by investing $10,000 in each one. While that weighting has changed since the first of the year because of price movement, we will be adding both of the new biotech funds assuming a $10,000 investment in each.

The Portfolio

We have been in Caution Mode since January 2018 when our *Sound Advice* Diffusion Index of Lagging Indicators (page 11) gave us a new Caution Signal. Subsequently, our *Sound Advice* Risk Indicator (page 10) climbed over 2.0 in July 2018, revealing a high-risk time for stocks. After these signals, the market corrected substantially in the fourth quarter, bringing stocks down 20 percent, to the brink of a bear market. Since the Christmas low point, the stock market has bounced back, fueled primarily by a more

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accommodative Federal Reserve monetary policy. However, the market remains significantly below its peak reached prior to fourth quarter's drop.

We continue to recommend that you keep a substantial amount of cash on the sidelines. Our portfolio recommendations are made regarding the money you have allocated to the stock market, and in accordance with our current cautionary mode. We believe that they are exceptionally strong values; trading at a significant discount to the rest of the market, which should give them buoyancy in both good and bad market conditions over the longer term.

As long as we are in a Caution Mode, we continue to recommend hedging your portfolio.

ProShares UltraShort S&P 500 (SDS) essentially short-sells the market and will benefit from down-drafts in the S&P 500. It is designed to produce two times the daily fluctuations of the S&P 500 index. A decline of say, 1.0 percent in the S&P 500 will cause SDS to increase by 2.0 percent. Conversely, an increase in the S&P 500 will cause SDS to decline in the same fashion. We have been tracking SDS and confirmed that it is performing as it should, with daily premiums and discounts within 0.5 percent. It is also very liquid.

ETFs for Rising Bond Yields

In our quest for investments that are exhibiting extraordinary value, we find cases where fear and greed have pushed prices beyond historical norms. In this case, it is long-term Treasury bonds, where yields are out of bounds, both from a historical perspective and from just plain common sense. Yields are barely above the inflation rate, which is presenting a short-selling opportunity.

Our recommended ETFs are essentially short-selling bonds and will prosper from rising bond yields. They differ in the amount of leverage used. You can choose among them depending on your investment objectives and risk tolerance.

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

The **Proshares UltraShort Lehman 20 Plus Year Treasury (TBT)** uses 2:1 leverage.

The **Proshares Short 20 Plus Year Treasury (TBF)** uses no leverage.

The price action of these ETFs is based on the changes in long-term Treasury bond indexes, only in the opposite direction, and then multiplied by the leverage each ETF uses. For example, a decline of say, 1.0 percent in their respective benchmark bond indexes will cause TMV to increase by 3.0 percent, TBT by 2.0 percent, and TBF by 1.0 percent.

Fears over slow global economic growth, along with the federal reserve's relaxed monetary stance, have pushed down bond yields recently. This makes the opportunity in these ETFs greater, even without an increase in interest rates in the foreseeable future.

Long-term treasury bonds are yielding less than 3%, not much more than the yield on shorter term treasury bonds. This makes no sense. Why would investors buy 30-year treasury bonds for nearly the same yield as on 10-year treasury bonds?

Additionally, long-term treasury bonds offer almost nothing in real terms, after adjusting for inflation. This has not been the case historically. Take a look at the following table.

Years	30 Yr Note (Avg. Yield)	CPI Annual Increase	Real Rate
1980-84	12.0	7.6	4.4
1985-89	8.4	3.6	4.8
1990-94	7.7	3.7	4.0
1995-99	6.3	2.4	3.9
2000-04	5.7	2.6	3.1
2005-09	4.5	2.6	1.9
2010-14	3.6	2.0	1.6
2015-18	2.9	1.9	0.9
Average			3.1
Current Inflation Rate			2.0
Theoretical Target Yield			5.1
Average Since 2000			1.9
Current Inflation Rate			2.0
Theoretical Target Yield			3.9

We can see from the history since 1980, that investors have demanded a real return of 3.1% on long-term treasury bonds. With today's inflation rate in the vicinity of 2 percent, 30-year treasury bonds should be yielding 5.1 percent, not 2.8 percent. If we only look at recent history, since 2000, a low inflationary period, investors have demanded a real return of 1.9 percent. This would put the yield on long-term treasury bond yields at 3.9 percent. Accordingly, even in a low inflationary environment, the yields on long-term treasuries are too low at 2.8 percent. They belong much higher, even without a rising interest-rate environment.

The table below shows the impact on the prices of our selected ETFs at various long-term treasury bond yields. The first row shows today's ETF prices with long-term Treasury bonds yielding 2.8 percent. Note that the price of these ETFs would rise dramatically with yields at 4 percent, and even more so at 5 percent.

Bond		ETF Prices	
Yields	TBF	TBT	TMV
2.80	21.51	32.26	16.01
3.50	23.95	39.58	21.46
4.00	25.83	45.79	26.51
4.50	27.81	52.81	32.61
5.00	29.89	60.73	39.94

The Erosion Factor

As we point out regularly, these ETFs suffer from erosion because they decline slightly faster than they increase with an equivalent change in bond yields, particularly with higher leverage. To gauge this factor, we can assume that Treasury bond yields simply tread water, rising and falling by an unusually large amount, say, 0.03 percentage points (3 basis points) every day, and thus go nowhere. By the end of 2019, TMV would decline to $15.82 (4.4 percent), TBT would decline to $32.14 (2.4 percent), and TBF would decline to $21.52 (0.9 percent). While not insignificant, this erosion factor is nominal in comparison to the price swings caused by a change in bond yields.

Energy & Natural Resource Selections

Production cuts by OPEC and its allies have helped support oil prices. So far this year, output has dropped by 1.2 million barrels per day. Saudi Arabia needs at least $70 a barrel to support its public spending. Supplies have actually declined more than that because of US sanctions against Iran and Venezuela. The cutbacks are also aimed at offsetting the reopening of Libya's El Sharara oilfield, which has been closed since December.

The US became a net exporter of oil late in 2018, which will also support oil prices. We are still importing nearly half of our oil needs because most US refineries were constructed prior to the US shale boom and designed to process imported crude oil which is a heavy (thick) and sour (high sulfur) grade. Additionally, refineries on the east and west coast do not have access to the US crude oil pipeline network, so they must rely on imported oil arriving in US ports for their supplies. Meanwhile, US storage tanks in Cushing, Oklahoma, are brimming with the light sweet crude fracked from US shale which is now available for exporting.

For the above reasons, the global oil market should be relatively stable in the months ahead.

Adams Natural Resources (PEO) is a candidate for steady income. This fund has been in operation since 1929 and has 80+ years of distribution history. PEO has an objective and recent history of making quarterly distributions that add up to at least 6 percent annually. These distributions are usually a mix of dividends and long-term capital gains.

This is a closed-end fund, which means it trades like a stock and can be bought and sold during market hours. The price of PEO is not tied directly to the NAV of the underlying portfolio, so it can trade at a discount or a premium. This is an advantage now because PEO is currently trading at a substantial discount to its NAV. Although PEO has typically traded at a discount over the last several years, the discount now is as large as it gets, at 16.9 percent. In addition, PEO also has a lower expense ratio of 0.78 percent, versus the industry average of 1.14 percent.

Chesapeake Energy (CHK) earned 85 cents per share in 2018. At $3.20 per share, the P/E ratio of 3.8 is a substantial discount from the industry's average of 10.7

Last month, Chesapeake acquired approximately $1.4 billion in principal debt from the closing of the WildHorse acquisition, which included large acreage positions in the Brazos Valley area where CHK expects to place up to 83 wells in production in 2019. The company expects to see capital and operational efficiencies there. Within the first month of operations, there have been savings ranging from $200,000 to $350,000 per well.

At today's oil and gas prices, CEO Doug Lawler expects cash flow to be meaningfully stronger in 2019, as the company continues to leverage capital efficiency and costs.

Chevron (CVX) is an integrated oil company, which means it has operations in production as well as refining. This gives CVX diversification because the company's oil and gas production (upstream) benefits from rising oil and gas prices while the refining operations (downstream) tend to benefit from lower oil prices. This diversification adds financial stability during times of volatile oil prices.

CVX has an attractive annual dividend of $4.48 per share. The company's dividend is sacrosanct and has a history of increasing annually through thick and thin. At a price of $50 per barrel of oil, because of its diversified and low-cost operations, Chevron can generate enough cash to pay the current dividend, fund its capital spending plan, and buy back some of its stock which is planned at $3 billion per year.

Fidelity Select Natural Gas Fund (FSNGX) is an open-end fund which means it trades at the NAV of its portfolio set at the close of the market each day. It is a diversified way to participate in the growth of the natural gas industry through strong companies.

Natural gas provides the same energy as oil for pennies on the dollar, and natural gas is more environmentally friendly. One barrel of oil provides approximately 5.8 million British Thermal Units (BTUs) of energy. However, with the current market price for natural gas at $2.73 for one million BTUs, 5.8 million BTUs will cost $15.83. Thus, with a barrel of Brent crude oil costing $66, the same amount of energy is available for approximately 23 cents on the dollar if it is in the form of natural gas rather than oil.

The updated chart shows the historic relationship between the costs of these two forms of energy. The red line shows the price of a barrel of oil since the mid-1970s. The green line shows the price of natural gas multiplied by 5.8 to approximate the same amount of energy contained in a barrel of oil. The fact that natural gas provides energy for pennies on the dollar will translate into an expanding natural gas industry.

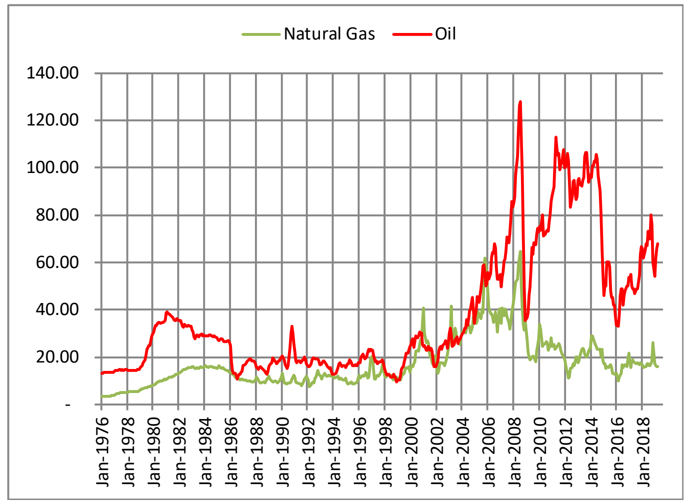
Valero Energy (VLO) has the flexibility to refine substantial quantities of both US light sweet as well as heavy sour crude. It also has access to the US pipeline network for delivery to its gulf coast locations. This flexibility allows VLO to capture the highest margins among its competitors because it can take advantage of the temporary local gluts of crude, whether it's low or high-quality crude, or light sweet or heavy sour, and receive the best discounts for its feedstocks.

In 2018, Valero spent $2.7 billion towards completing projects including the Diamond Green Diesel expansion, the Diamond and Sunrise pipelines, and the Wilmington cogeneration unit, which added $340 million of income. Other Valero capital expenditures, expected to contribute at least $900 million in annual income, include the Houston alkylation project and the Central Texas pipeline sand terminals, which are scheduled to be completed in mid-2019. Projects scheduled for completion in 2020 include the St. Charles alkylation units, the Pasadena terminal, and the Pembroke co-generation units. The Diamond Green Diesel train 2 is scheduled for late 2021, and the Port Arthur coker in 2022.

Real Estate Selections

We continue to be selective when choosing real estate stocks. The *Sound Advice* portfolio only includes real estate stocks offering an extraordinary value now. Commercial real estate prices remain historically high as low interest rates have pushed down real estate capitalization (cap) rates to historically low levels (like bond yields).

The Cost of Energy Equivalents of Oil and Natural Gas



Our two recommended REITs in the hospitality industry offer excellent values, high dividend yields, and new growth trends. They also pay attractive dividend yields which also reduces risk by putting a floor under the stock price.

A major drag on the hospitality industry has been the proliferation of Airbnb and similar competition. However, this is changing in major metro areas. New York City is the most recent to pass a measure prohibiting transient rentals of fewer than 30 days at a time without the host being present. San Diego, Los Angeles, San Francisco, Boston, Washington DC, Philadelphia and Miami have also passed similar measures.

Both of our selected hospitality REITs have reported several hotel transactions in recent years. Hersha sold 20 properties from 2016 through 2018 for an average cap rate of 6.5 percent. In the spirit of being conservative and to anticipate a rise in capitalization (cap) rates along with interest rates in general, we use a cap rate of 7.0 percent for valuation purposes.

Hersha Hospitality (HT) has a bi-coastal portfolio of 48 high-quality hotels. The company reported fourth quarter results at the end of February. Funds from operations (the standard measure of performance for a REIT) was 22 percent higher than one year ago.

Based on the trailing four quarters, and using a 7.0 percent cap rate, HT is worth $36.51 per share which is substantially greater than the current price of the stock. This value should be a conservative estimate because

Hospitality REITs Comparison Table

Company	Symbol	Recent Stock Price	Dividend Yield	Stock Market Cap Rate	Portfolio Value @ 7% Cap Rate ($Millions)	Stock Value	Discount (-) Premium (+)
RLJ Lodging	RLJ	17.57	7.5%	11.7%	9,069	38.43	-54.3%
Hersha	HT	17.14	6.5%	9.5%	2,873	36.51	-53.1%
Hospitality Properties	HPT	26.31	7.8%	10.9%	12,888	54.40	-51.6%
Host Hotels & Resorts	HST	18.90	4.2%	9.8%	22	27.51	-31.3%
Apple Hospitality	APLE	16.30	7.4%	9.1%	6,695	23.02	-29.2%

The table above shows the "Stock Market Cap Rate" (what the stock price is paying for the underlying real estate portfolio) for several comparable hospitality stocks. The "Stock Value" column shows the current value of the stock assuming the underlying portfolios are valued using a cap rate of 7.0 percent, which is close to the average cap rate on recent hotel transactions. The last column shows the discount or premium at which the stock is trading based on a 7.0 percent cap rate valuation of each company's real estate portfolio.

Hospitality Properties (HPT) is trading at a large discount. However, this company is externally managed by RMR which charges high fees and suppresses value. As long as RMR continues to externally manage HPT, we do not expect to see significant growth. **Host Hotels and Properties (HST)** is very small, with only 749 thousand shares outstanding, which may lead to excessive volatility. Growth may be limited by its small capitalization.

Hersha's two premier hotels in Miami, the Courtyard Cadillac Hotel and the Parrot Key Hotel, were closed because of Hurricane Irma. Bringing them back on line will add substantially to revenues in the next four quarters. The company projects these two hotels will contribute $8 to $10 million annually and account for 19 percent of the income from the entire portfolio by 2020.

RLJ Lodging Trust (RLJ) is worth $38.43 per share which is also substantially higher than the current price. We anticipate improvement in net operating income (and thus the value of the stock) because of the company's mission to sell its non-core assets since the merger with FelCor, and to renovate and upgrade significant properties.

Third Avenue Real Estate Value Investor Fund (TVRVX) is a global real estate fund which means it is not confined to US real estate with low cap rates. Management looks for growth more than current income by focusing on real estate operating companies which, unlike REITs, can reinvest profits back into the business. Management also searches for opportunities in different aspects of a real estate company's capital structure by investing in senior debt in addition to equity. Also, unlike the typical REIT, management will go to cash when asset prices are generally high. Cash is preserved for scooping up opportunities.

This fund is loaded with good values substantially below their net asset values (NAV) with strong growth prospects. Management has a similar approach to ours because it is very price conscious, especially in relation to net asset value. Just as we do at *Sound Advice,* they eat their own cooking – they invest a substantial amount of their personal assets into their funds.

This fund distributed $2.64 in December, $2.23 of which was a long-term capital gain and the balance was a dividend.

Medically-Related Selections

Boston Scientific (BSX) has been a global medical technology leader for three decades by providing a range of high-performance solutions aimed at addressing medical needs and reducing healthcare costs. BSX's medical products are well suited for an aging population, and the company's stream of new inventions acquisitions add to promising growth prospects.

The company has made acquisitions that have added numerous products with significant growth potential, including Claret Medical, VENITI, and Augmenix. The most recent takeover of Millipede is another strategic fit because it is synergistic with Boston Scientific's heart-valve repair and replacement segment. Millipede has begun sending patients to the company's latest Lotus heart valve studies. A prior version has been recently made available in Europe with encouraging results.

Stryker (SYK) is best known for its orthopaedic devices for artificial knees and hips. The company also provides a diverse array of innovative medical technologies, including reconstructive, medical and surgical, as well as neuro-technological and spine products. Of course, demand for Stryker's products will grow as America and the rest of the world ages.

Stryker has a strong balance sheet which gives it the ability to make strategic acquisitions, many of which are coming to fruition. Mako's surgical robots are now being used in the majority of knee surgeries. Earnings are expected to grow 11 percent this year, far above the industry average of 2.8 percent. **Financials**

JP Morgan Chase (JPM) is very cheap in comparison to the rest of the market. At $104 per share, the trailing P/E is 11.55. At the relatively modest P/E ratio of, say 14, JPM would be $126 which is substantially above the current stock price.

Wells Fargo (WFC) is also currently cheap in comparison to the rest of the market. At $50 per share, the trailing P/E is 11.7. At a P/E ratio of 14, WFC would be $59.90, substantially above the current stock price.

Small Caps

Numerous studies show that small caps perform better over the long run than the market as a whole. Small Caps are pure plays on the early stages of new industries and inventions. They have more dynamic and entrepreneurial management, and they are much more likely to be the target of an acquisition or merger, which is usually quite profitable.

Third Avenue Small-Cap Value Investor Fund (TVSVX) invests in companies with small capitalizations using the same value-oriented approach as it does with its real estate value fund (TVRVX). Management scours the investment universe for companies that combine the three main features: creditworthiness, a meaningful discount to a conservatively estimated net asset value, and the ability to consistently grow NAV, with an initial targeted holding period of three to five years. A patient and price conscious acquisition is a critical first step in both protecting capital and in realizing an attractive investment return.

TVSVX distributed $2.05 in December, $1.98 of which was a long-term capital gain and the balance was a short-term capital gain.

Special Situations

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

Apple (AAPL) unveiled four new services in the last week of March, aimed at its massive installed base of 1.4 million devices. The first new service introduced was Apple News+, a $10-per-month subscription that includes access to over 300 magazines, numerous digital subscriptions, and the *Los Angeles Times* and *The Wall Street Journal*. The second is Apple Card, a credit card as a companion to Apple Pay. Apple Card will give 2% back on Apple Pay contactless payments, 3% on Apple purchases, and 1% back on other purchases. Apple Arcade is the third offering, a gaming service that will include access to a large library of high-quality games that are exclusive to the platform. The fourth was Apple TV+ with original content and several celebrities, including Oprah, introducing new shows.

Financial details have not been presented, making the growth prospects impossible to evaluate. At any rate, AAPL is a good value, especially in view of the $245 billion in cash in the company's coffers. This amounts to $51 per share. Subtracting this cash from $185 per share means we are actually paying $134 per share for the company. Trailing twelve-month earnings are $11.93 per share, which means we are paying a P/E of 11.2, substantially below the rest of the market.

Carnival Cruise Lines (CCL) reported disappointing earnings in late March for the fourth quarter. Net income totaled 48 cents per share, down from 54 cents last year. However, earnings per share were 49 cents, ahead of expectations of 44 cents. For the full year, Carnival expects earnings per share to be in the range of $4.35 to $4.55. Using the mid-piont of $4.45, the P/E is 11.7 with the stock price at $52 per share, which is cheap relative to the market.

During the last 5 years, the median P/E has been 19. Looking at another measure of value, CCL has traded at an average enterprise value multiple of 11 during the last five years. A common practice is to multiply a company's EBITDA (earnings before interest, taxes, depreciation, and amortization) by such a multiple to calculate its enterprise value. Based on the most recent four quarters of EBITDA, an enterprise value multiple of 11 puts the enterprise value at $87 per share, which is substantially above the current stock price.

Growth prospects are good because of the company's dominance in the industry, efficiencies of scale, and favorable demographic trends driving a lasting increase in demand.

Intel (INTC) is under-valued at its current price because it deserves a higher P/E. At a P/E of 15, which is less than the rest of the market, the stock price would be $68 per share.

INTC is projected to earn $4.50 per share in 2019, which means it is trading at a P/E ratio of under 12. Such a low P/E anticipates very little or no growth. However, Intel has the size, diversity, and industry dominance to offer a relatively safe investment in a high-growth, and often high-risk business. Intel can leverage new technology into its existing large platform without introducing unacceptable risks. A history of established cash flow and an attractive dividend, along with the currently low P/E ratio, diminishes the risk profile of this stock.

International Business Machines (IBM) is also trading at a modest P/E ratio which anticipates little or no growth. IBM is expected to earn $13.92 per share in 2019. At a P/E of 12, which is still modest, the stock would be over $165 per share. The $6.00 per share dividend provides an attractive yield.

The company is at an inflection point as the growth portion of the company is more than half of the company's revenue from its so-called "Strategic Imperatives" which includes cloud-computing revenue, analytics, mobile and security. Within those imperatives is IBM's cognitive-solutions segment, which includes software, analytics and its artificial intelligence platform, it calls "Watson", which can "think" like a human. Watson works in ten industries, including agriculture, customer service, human resources, gold mining, supply chain, manufacturing, building management, automotive, marketing and advertising.

IBM is set to acquire Red Hat in the latter half of 2019. Red Hat reported strong earnings growth in late March of 31 percent higher than one year ago. CEO Ginni Rometty and many analysts believe the acquisition will be transformative because it launches IBM into the enormous and growing hybrid modern data center market, which means offering cloud computing services for both public data centers, such as those offered by Amazon's AWS and Microsoft's Azure, as well as data centers that are private for regulatory reasons.

NCR Corp (NCR) makes automatic tellers (ATMs), retail point-of-sale (POS) workstations, self-service kiosks, and other self-service checkout systems. 485 million people use NCR products every day, and there is room for substantial growth in the US and around the world.

NCR owns nearly three-quarters of the burgeoning self-checkout market. Using their smartphones, or a handheld scanner provided by the store, customers scan items from the shelves as they add them to their cart. At checkout, they input either device into the register, and it spits out the tally.

NCR remains a good value with a P/E close to 10, a considerable discount to the rest of the market. Earnings per share are expected to be between $2.75 and $2.85 in 2019. NCR is continuing its cost saving initiatives, which are expected to result in savings of about $100 million in 2019.

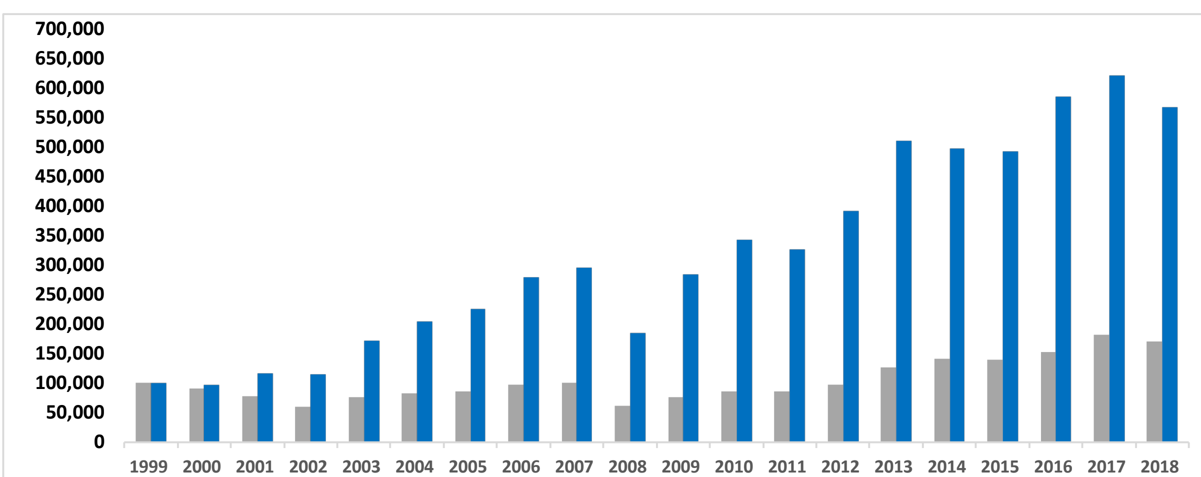
NCR's latest acquisition of cloud-based JetPay is already adding to earnings and will lead to recurring revenues from services.

Symantec (SYMC) is the world's leading cyber security company offering organizations strategic, integrated solutions to defend against sophisticated attacks across endpoints, cloud, and infrastructure. Symantec operates one of the world's largest civilian cyber intelligence networks, allowing it to see and protect against the most advanced threats. Our mantra with this stock has been, "If there ever was a more certain growth industry, protection from cyber espionage is it."

On average, corporations increased budgets by 20 percent in 2018 to shield against cyber-crime. Symantec also increased its share buyback authorization to $1.3 billion.

Sound Advice vs the S&P 500

This chart shows the growth of $100,000 invested in the S&P 500 (in gray), which would have grown to $170,645, versus $100,000 invested in the *Sound Advice* recommendations (in blue), which would have grown to $561,174.



See our website for live pricing and buy limits: **http://www.soundadvice-newsletter.com/members**

Energy/Natural Resources	Symbol	Price / NAV	Yield	Action	Limit
Adams Natural Resource Fund	PEO	$16.77	6.00%	BUY	$17.61
Chesapeake Energy Corp	CHK	$3.10	0.00%	BUY	$3.26
Chevron	CVX	$123.18	3.64%	BUY	$129.00
Fidelity Select Nat. Gas Fund *	FSNGX	$21.00	0.38%	BUY	$22.50
Valero	VLO	$84.83	4.24%	BUY	$89.07
Real Estate					
Hersha Hospitality Trust	HT	$17.14	6.53%	BUY	$18.00
RLJ Lodging Trust	RLJ	$17.57	7.51%	BUY	$18.45
Third Avenue Real Estate Value Investor *	TVRVX	$28.60	1.43%	BUY	$29.90
Medically Related					
Boston Scientific	BSX	$38.38	0.00%	BUY	$40.30
Genomic Revolution Multi-Sector	**ARKG**	**$32.88**	**0.00%**	**BUY**	**$34.52**
Stryker Corp.	SYK	$197.52	1.05%	BUY	$199.00
Tekla Life Sciences Fund	**HQL**	**$17.13**	**0.00%**	**SELL**	
Virtus LifeSci Biotech Products	**BBP**	**$44.81**	**0.00%**	**BUY**	**$47.05**
Financials					
JP Morgan Chase	JPM	$101.23	3.16%	BUY	$106.29
Wells Fargo	WFC	$48.32	3.56%	BUY	$50.74
Small Caps					
Third Avenue Small-Cap Value Investor Fund *	TVSVX	$17.65	0.39%	BUY	$19.00
Special Situations					
Apple	AAPL	$189.95	1.54%	BUY	$199.45
Carnival Cruise LInes	CCL	$50.72	3.94%	BUY	$53.26
Intel	INTC	$53.70	2.23%	BUY	$56.39
International Business Machines	IBM	$141.10	4.25%	BUY	$148.16
NCR Corp	NCR	$27.29	0.00%	BUY	$28.65
Symantec	SYMC	$22.99	1.22%	BUY	$24.00
ETFs for Rising Interest Rates					
ETF - Direxion Daily 20+ Yr Bear 3X	TMV	$16.01	0.00%	BUY	$16.81
ETF - ProShares Short 20+ Year Trsry	TBF	$21.51	0.00%	BUY	$22.59
ETF - ProShares UltraShort 20+ Year Trsry	TBT	$32.26	0.00%	BUY	$33.87
Hedges					
S&P 500 ProShares Ultra Short ETF	SDS	$33.29	0.00%	BUY	$34.95

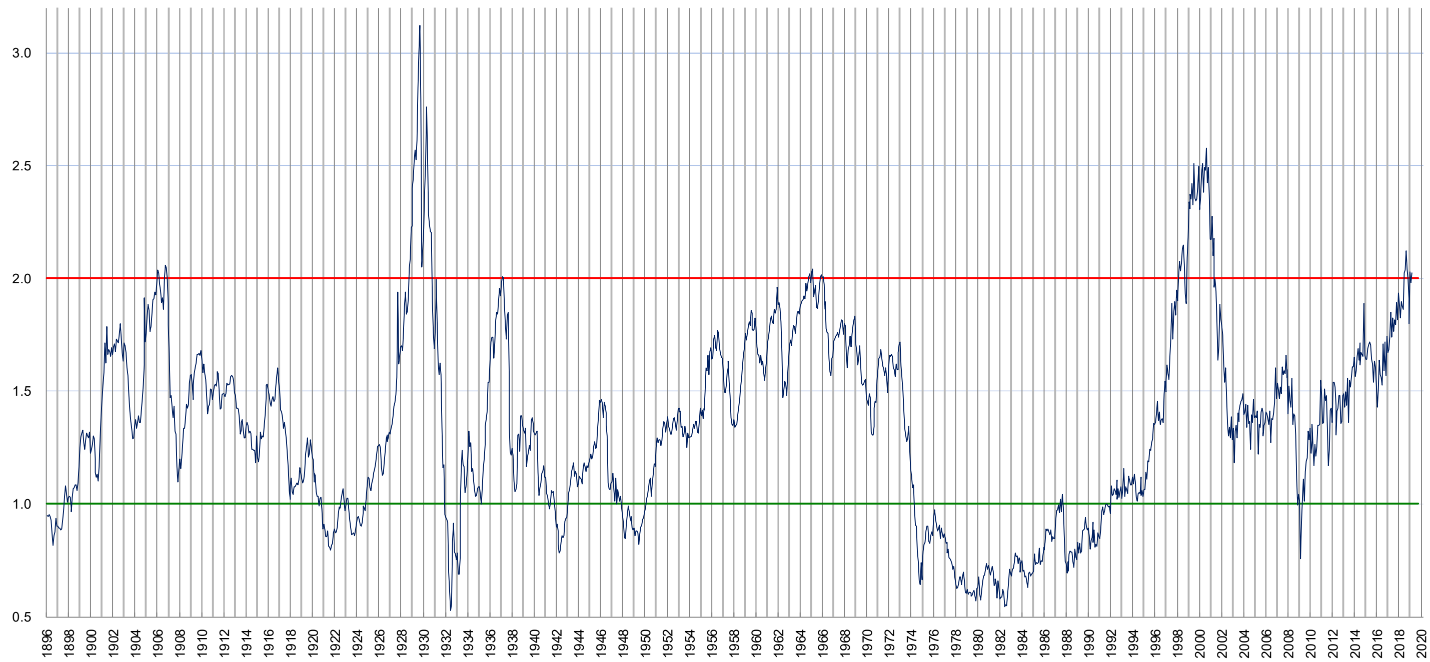
Notes to the table: The right hand column is the highest recommended price limit for purchases.
* It is not possible to offer live pricing on our recommended mutual funds.

General Comments: Our statistics are based on the assumption that $10,000 is invested in each position. When a new position is added, we assume the same $10,000 amount is invested in the new recommendation. When we recommend adding to a particular position, as we have done over the years, we assume another $10,000 is invested again in that position.

If you are picking and choosing, you can focus on the sector of the portfolio that matches your investment objectives. Alternatively, you may have a higher degree of comfort with certain industries, funds, or stocks because of past experience or your profession. In that case, you may want to invest more heavily in one sector, or in one or more individual recommendations.

As always, broad diversification will temper volatility, add to safety, and improve long-term performance.

Capital Competition: Real Estate versus Stocks: The **Sound**Advice Risk Indicator



There are few forces that are more important to a market's destiny than the amount of capital that is available to it. In a normal situation, capital will flow easily between markets as their underlying conditions change. But if a market becomes dangerously superheated, it will absorb a larger proportion of available investment capital than economic conditions and market demand can justify. This change will be reflected not only in the rising market's prices but also in the prices of competing markets, which will be lower than their underlying fundamentals would indicate they should be. Over the last 120+ years, we can see this titanic struggle between the stock market and its foremost competitor for investment dollars: real estate.

To reveal this phenomenon, we have set up an equation based on the ratio of the S&P 500 Stock Index to median price of new houses for each month over the last 100+ years. This equation exhibits an elegant financial minuet as each market has taken turns outperforming the other.

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

We label this new tool the ***Sound Advice*** "Risk Indicator," since it will allow us to locate the point at which prices are so high when compared to competing markets that they have come loose from their moorings and are on the verge of declining or under performing the other market.

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

But though an investment beginning with $25,000 in 1895 could have made money being in either stocks or housing, had an investor followed the signals of the ***Sound Advice*** Risk Indicator he or she would have made $437 million, or 26.5 times more money than by simply holding stocks though the ups and downs.

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

> The New York Times
>
> ***"Cardiff's equation reveals an elegant financial minuet as each market takes turns outperforming the other."***

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

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

As U.S. corporations expanded to meet growing demand, and the economy came to a rolling boil during the Eisenhower years, the stately rise would multiply stock prices by ten times until November 1964, when the Risk Indicator crossed over 2.0 again. The stock market would continue to climb into 1968, and then crash in1975, wiping out the inflation-adjusted gains scored by investors since 1954. However, a switch to an investment in houses would avoid all that and double in price by the time the next signal came for stocks in May 1974, as the Risk Indicator fell below 1.0 again, as the Dow careened below 700.

It would not be until March 1998 when the Risk Indicator would cross 2.0 again, after stocks were up by more than tenfold. The Dot-Com bubble would push stocks higher into early 2000, but then began another 50 percent retracement. A switch to houses would produce a 44 percent gain through the end of 2008 while stock prices were lower by 17 percent. In February 2009, with the Dow careening down through the 700s once again, the Risk Indicator quietly dropped below 1.0 to 0.77 as the S&P tumbled under 700. Since then, the stock market has delivered stunning gains as the S&P 500 has quadrupled. ***For the sixth time in the last 123 years, the Risk Indicator rose above 2.0 again in July 2018.***

With the median house price at $317,200 in January and with the S&P 500 at 2800, the *Sound Advice* Risk Indicator reads 2.03, revealing the risk in stocks is high.

As remarkable as the ***Sound Advice*** Risk Indicator has been, it does not pinpoint the exact time. In the past 123 years, its signal has ranged from being only one month after the zenith to as much as four years early. While the Risk Indicator has been early, it has never been wrong. An expensive crash was inevitable. A 50 percent decline took a 100 percent recovery just to break even.

To help us narrow down the timing as well as gage the potential severity of an upcoming decline, we have our Diffusion Indexes.

Business Cycles and Stocks: The **Sound**Advice Diffusion Indexes

Track Record of the **Sound**Advice Diffusion Indexes

After each "Aggressive" signal, the S&P 500 climbed an average of 30.0 percent. During "Caution" signals, the S&P 500 either crashed, meandered, or climbed, recording an average increase of 3.3 percent.

Aggressive	S&P	Caution	S&P
Sep-74	68.1	Apr-76	101.9
Jul-76	104.2	Dec-76	104.7
Oct-78	100.6	Jun-79	101.7
Nov-79	100.0	Oct-83	167.7
Aug-84	164.5	Jun-85	188.9
Jul-86	240.2	Aug-87	329.4
Feb-88	258.1	Jun-88	270.7
Mar-89	280.0	Mar-93	449.7
Mar-95	493.2	Dec-98	1,141.0
Jun-00	1,429.4	Dec-00	1,320.3
Jun-03	974.5	May-05	1,191.5
Jun-06	1,276.7	Mar-08	1,325.4
Apr-09	848.2	Mar-12	1,370.3
Mar-15	2,080.0	May-15	2,111.9
Sep-17	2,492.8	Jan-18	2,823.8
Ave +/-	30.0%		3.3%

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 ***Sound Advice*** Diffusion Indexes, we observe changes in each of our selected indicators over a six-month period, and take the percentage of those increasing.

When the ***Sound Advice* Diffusion Index of LEADING Indicators** drops to zero, it is time to buy stocks aggressively, regardless of how negative the atmosphere may be. This is not just an empirical coincidence. It is also logical. In order for all of the leading economic indicators to be giving off a zero value compared to six months before, it is nearly certain that the soft economy is providing an atmosphere for stable or declining interest rates.

This Diffusion Index gave us a zero reading in April, 2009, close to the bottom, officially giving us an "Aggressive" signal. That signal came at a

Over Please...

time when the Risk Indicator was below 1.0, which revealed that Supercycle 5 came to an end, and that Supercycle 6 was born.

The ***Sound Advice*** **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. This reading reveals that the US economy is strong enough to put upward pressures on interest rates.

Most of the time, this Diffusion Index has been a timely indicator of oncoming bear markets because a rising interest rate environment is a dangerous time for stocks. The times when this Index has not performed in a timely fashion is when monetary policy has been established and enforced, regardless of fluctuations in economic strength. A prime example is the quantitative easing (QE) programs that were used to bail out the economy from the 2008-09 meltdown. In recent years, the economy has strengthened, sufficiently at times to push this Diffusion Index to 100 percent. However, interest rates did not rise because they were being held artificially low by the Fed's massive QE bond-buying activities. During the QE programs, the Fed's assets grew by more than 5 times, from under $900 billion in 2008 to $4.6 trillion.

That has changed now because quantitative easing has been reversed into quantitative tightening. Intead of buying, the Federal Reserve has started reducing its current inventory of $2.8 trillion of Treasury bonds and $1.8 trillion of mortgage-backed securities. This means that we will no longer have a QE program holding interest rates artificially low.

Current Status

The Diffusion Index of LAGGING Indicators climbed to 100 percent for December, giving us a new Caution Signal in January, very close to the peak in the market. The latest data for February caused a 100 percent reading.

Our next signal will come from the Diffusion Index of LEADING Indicators, when it drops to zero, which would take a surprising softening in the US economy. The latest reading for this Diffusion Index is 33.3 percent.

Concurrence

There are times when signals from the ***Sound Advice*** Risk Indicator and the Diffusion indexes are out of sync, when one is signaling caution and the other is not. This occurred in August 1987, when the Diffusion Index of Lagging Indicators switched into caution mode, just prior to the October 1987 Crash that took stocks sharply for a brief period. Non-concurrence also occurred in March of 2008, when the Diffusion Index of Lagging Indicators switched into caution mode, just prior to the 2008-09 bear market crash. Both of these crashes were brutal, but relatively short-lived. Once the Risk Indicator plunged below 1.0, a very profitable bull market followed.

Then there are times when both indicators concur, signaling the same thing at roughly the same time. This happens when the Risk Indicator is above 2.0, indicating the end of a supercycle, and the Diffusion Index of Lagging Indicators switches into caution mode, indicating the end of a business cycle. Of course, this concurrence indicates that a more vicious and potentially longer-lasting bear market, or series of bear markets, is bound to follow, eventually taking stock prices down substantially – usually by 50 percent -- until the Risk Indicator falls below 1.0 again. We have this concurrence today.

(cut along dotted line)