



The *Sound Advice* portfolio is up 26.4 percent so far this year. This compares to 12.1 percent for the S&P 500. We have an average gain in the *Sound Advice* Model Portfolio of 44.3 percent based on the prices at which each stock or mutual fund was recommended. In this Issue, we update all of our current recommendations. We begin with our "No-Brainer", the reverse ETFs that will benefit strongly from a rise in yields on long-term Treasury bonds.

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

The economy is showing signs of strength even in the face of the uncertainties over the Fiscal Cliff. The strength in the housing market is significant.

At this writing it is difficult to tell if we will go over the Fiscal Cliff or not. As further confirmation of an economic recovery, we are continuing to see significant increases in the leading indicators, especially those that make up our Diffusion Index of Leading Indicators.

If Congress and the Administration get their respective acts together and make a sensible deal on the Fiscal Cliff, the cloud of uncertainty overhanging the economy will pass. An economic recovery will begin in earnest, pushed by the tailwinds from QE3. The upward thrust in long-term bond yields is bound to be breath-taking, and this is likely to be your last chance to invest in our "No-Brainer" ETFs at anything close to their current prices.

-Gray Emerson Cardiff

Your Last Chance?

The uncertainty over the Fiscal Cliff has given us another opportunity to invest in our "No-Brainer" ETFs at advantageous prices. We do not see much room for long-term rates to go lower -- even if we go over the Fiscal Cliff. Although an economic recovery would likely be delayed or be slower at first, the uncertainty will be over and the economy will still recover.

Even in the face of potentially going over the Fiscal Cliff, there are significant signs of strength in the economy. The S&P/Case-Shiller index, which is a three-month moving average of property values in 20 cities, increased again in September for the sixth month in a row, showing strong and persistent gains. Among the 20 cities tracked by the index, 13 posted monthly gains. There have also been recent gains in new construction, home-builder sentiment, and existing-home sales. In addition, there continues to be an increasing number of reports that homebuilders are not able to find enough lots on which to build homes in desirable areas.

Consumer confidence is also clearly on the rise. In September, the Thomson Reuters/University of Michigan, the sentiment gauge for consumer confidence, climbed again in October, to 83.1 -- its highest level since September 2007 which was before the recession began. This is an important indicator because consumer spending accounts for two-thirds of our GDP.

A recovery of the nation's real estate market and consumer sentiment bodes well for the economy. Sooner or later a recovery in the economy is certain to put upward pressure on interest rates which will bring huge profits from our "No-Brainer" ETFs because these are designed to profit greatly from an increase in long-term Treasury Bond yields. The greatest and most explosive movement will be upward, and the profit potential is enormous.

These ETFs did not exist the last time yields climbed significantly in 2009, but we can model them to get an idea of the profit potential.

The most responsive ETF is the **Direxion Daily 20 Plus Year Bear 3 Shares (TMV-NYSE)** which uses 3 to one leverage. From December 31, 2008 to June 2009, 30-year Treasury bond yields climbed from 2.69 percent (close to today's yields) to 4.75 percent in 110 days. Using the daily history of percentage changes in 30-year Treasury bond yields, and starting with today's price which is close to \$50 a share, TMV would climb from \$50 to \$219.55 per share -- an increase of 339 percent.

For 2:1 leverage, you can invest in **Proshares Ultrashort Lehman 20 Plus Year Treasury (TBT-NYSE)**. In the same scenario, TBT would climb from \$60 to \$173.43 per share -- an increase of 189 percent.

The **Proshares Short 20 Plus Year Treasury (TBF-NYSE)** which uses no leverage would climb from \$28 to \$49.44 per share -- an increase of 77 percent.

Although there are efforts to reduce our federal deficits, our national debt has grown alarmingly in recent years -- now close to 100 percent of our GDP. That means the Treasury needs to sell that much more in Treasury bonds to finance that debt. Yields on long-term Treasuries are likely to climb significantly higher than 4.75 percent.

Keep in mind that QE3 is an open-ended commitment to buy \$40 billion of mortgage backed securities every month (packages of home loans created by Fannie Mae and Freddie Mac), along with about \$45 billion in monthly exchanges of shorter-term debt for longer-term debt. This commitment has been promised to continue

Over please ...

until the employment situation improves “substantially” even after the economy begins to recover.

The Federal Reserve is creating (printing) the money to make these massive purchases. It’s difficult to imagine that the Federal Reserve will be able to smoothly drain the trillions of dollars of new money and credit it has pumped into the economy.

In the aftermath of any recession, interest rates always rise. It is as simple as that. This will be especially true for yields on long-term Treasury bonds because their yields carry the highest premium for the uncertainties of inflation for the upcoming decades.

You can manage your risk by the amount you invest. You can also invest in stages, buying at different times and averaging your cost basis. **We are recommending that you add to your position again now.** If Congress and the Administration get their respective acts together and make a deal on the Fiscal Cliff, this is likely to be your last chance to invest in these ETFs at these prices.

Portfolio Updates

The *Sound Advice* portfolio is up 26.4 percent so far this year. This compares to 12.1 percent for the S&P 500. We have an average gain of 44.3 percent based on the prices at which each stock or mutual fund was recommended. Here are updates on the rest of our recommendations, in alphabetical order. See the table on page 7 for buy limits and other information on each recommendation.

Agrium (AGU) is up 50 percent this year, extending our profit to 736 percent. This is the largest farm products retailer in North America and a wholesaler to the rest of the world. In order for emerging markets to meet their needs, they will have to import foodstuffs from the more advanced countries or use fertilizer to improve their crop yields. Either way means more use of fertilizers.

The Midwest drought led to lower crop output during most of 2012 which means fertilizer demand for the next planting season will rise rapidly. AGU’s strong revenue growth rate has averaged 30 percent annually over the last five years and is bound to continue at a high growth rate.

AGU recently announced it has doubled its dividend to \$2.00 annually and switched to paying it quarterly.

AMN Healthcare (AHS) is up 156 percent this year. We have a 114 percent gain and expect considerably more.

AMN Healthcare provides temporary healthcare staffing services to the healthcare industry, ranging from nurses to physicians. The rationale for buying AMN Healthcare is a two-fer. AHS is not just an opportunity to invest in healthcare, which is traditionally a non-cyclical industry, but it is also a chance to

buy into a healthcare business that will benefit from a recovery in the economy.

In October, an AMN company, Staff Care, was selected to be the single-source provider for temporary physician staffing by Novation, the healthcare industry’s supply chain and contracting company for the members of VHA Inc., UHC, Children’s Hospital Association, and Provista. Most of the company’s 5300 healthcare professionals are doctors and nurses which are always in short supply and command a premium for temporary positions or for permanent placements.

An estimated 10,000 people are now turning 65 every day in the US. As the aging of the population continues, healthcare will grow substantially from the current 18 percent portion of the GDP. We have seen projections that 40 percent of GDP will be healthcare by 2050. Georgetown University’s Center on Education and Workforce estimates that 5.6 million new healthcare jobs will be needed by 2020.

Associated Estates Realty Corp (AEC) is the most undervalued apartment REIT in the sector. It was once a low-income apartment REIT but that is no longer the case. AEC has disposed of its older properties, most of which were sold during real estate’s more buoyant years, and has replaced them with class- A apartment properties.

During the third quarter AEC added three more class-A apartment properties to the portfolio, two in North Carolina and one in Dallas, Texas. The company’s properties are showing high occupancies (97.3 percent) at the end of the third quarter with increasing net operating incomes. Funds from operations (FFO) ended the third quarter 18.5 percent higher than one year ago.

The equity of its apartment portfolio translates into a stock value of \$27 per share. So the stock is trading at a steep discount. It pays a nice yield as well. We have a small profit, and expect much more ahead.

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

BSX expects to see significant revenues from its Subcutaneous Implantable Defibrillator (S-ICD) which is implanted under the skin without touching the heart or blood vessels. The company’s ICDs recently received approval from the FDA and they are currently being used widely in Europe. There are vast new markets for ICDs in India and China. The company’s oncology product line continues to be strong. It recently launched two well-received products: the Renegade HI-FLO Fathom microcatheter and guidewire system, and the Interlock - 35 Fibered IDC Occlusion System for peripheral embolization.

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We do not have a profit in BSX, but expect to within the next 12 months. BSX is buying back its own stock in an aggressive share-repurchase program. This alone will boost earnings. Gains from the current price should be substantial.

CGM Real Estate Fund (CGMRX) is up 6 percent this year, extending our profit to 50 percent. We got back into it again after the 2008-09 crash in REIT prices.

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

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

Chesapeake Energy (CHK) is up slightly since it was included in the portfolio earlier this year and expect a large profit.

We added it because it has natural gas assets worth in excess of \$27 a share. The shares were cheap for three reasons: low natural gas prices, poor corporate governance, and a cash shortfall. There has been substantial progress on all of these aspects.

Since our recommendation, natural gas prices have climbed significantly. Regarding corporate governance, Carl Icahn bought a 7.5 percent stake in September and has been instrumental in removing the founder, Aubrey McClendon, as chairman of the board and replacing several other board members. Mr. Icahn and his related entities added about 9.6 million shares (\$951 million) last week to increase his portion to 8.98 percent. There is now pressure on the board to maximize shareholder value. The first step was to reduce executive compensation.

To straighten out its cash squeeze, CHK has sold \$11.6 billion of \$14 billion in targeted divestments.

CHK's remaining natural gas and oil assets are extensive and offer a large upside. CHK has more than one million acres in the Utica Shale including 87 wells, which is a larger holding than any other energy company.

The Utica Shale extends over six states, from West Virginia to Ohio, across Pennsylvania and into New York. The U.S. Geological Survey (USGS) estimates the Utica Shale contains about 38 trillion cubic feet of undiscovered natural gas, 940 million barrels of oil, and nine million barrels of natural gas liquids like ethane and propane.

The Utica Shale lies approximately 2000 feet below the Marcellus Shale which is the largest known shale formation in the US. The Utica Shale slopes up closer to the surface in Ohio, allowing for cheaper drilling and production and where CHK stands best to gain.

CHK is also a play on the yawning gap between the energy equivalents of oil and natural gas. In comparison to oil, an

equal amount of energy in the form of natural gas costs less than 20 cents on the dollar.

Commonwealth REIT (CWH) reported its third quarter results since our last issue. Net operating income from the real estate portfolio was higher by 1.2 percent over the previous quarter. Funds from operations (FFO) were also higher by 1.6 percent.

The company observed that the conditions in the majority of the local markets appear to be stabilizing but remain weak. During the quarter CWH renewed leases for 942,000 square feet and entered into new leases for 385,000 square feet, at weighted average rental rates that were approximately 2% below rents previously charged for the same space. Overall occupancy was essentially unchanged at 84.5 percent.

Funds from operations FFO was well in excess of the dividend, which is the normal guide and source of funds for dividends. However, CWH management recently began using the company's cash available for distribution (CAD) to determine the dividend. Unlike FFO, cash available for distribution includes capital expenditures (which include tenant improvements, leasing costs, building improvements, and development activities.) Normally, capital expenditures are amortized over a number of years which is why they are not included in the FFO calculation.

The third quarter's CAD was comfortably higher by \$5.9 million than the dividend payment of \$20.9 million. Based on the third quarter results the equity in the underlying real estate portfolio works out to be \$32.76 per share, even using a 9 percent capitalization rate which is conservative these days. Share prices have considerable upside from here and should start to move when sustained growth in FFO begins to materialize.

Comcast (CMCSA) is up 55 percent this year, extending our profit to 104 percent. This is considered the best managed cable company. Earnings are growing nicely. Third quarter earnings were up 15 percent.

Growth in the number of subscribers using the company's multiple products that include video, high-speed internet and phone services (triple-play customers) is boosting in the average monthly revenue per subscriber. The recently launched X1 product, a cloud-based platform aimed at triple-play customers, has shown good results in 5 markets and will be expanding to other markets.

CMCSA added 287,000 internet customers in the third quarter, an increase from the 261,000 added in the same quarter last year. Growth is also due to the higher internet speeds offered. The "xFinity blast" now offers download speeds of 50Mbps at no additional cost, up from 25 Mbps. "Extreme 305" customers now receive speeds up to 305Mbps at no additional charge. This is the seventh time since 2002 that the company has hiked speeds for its subscribers.

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

Fidelity Select Natural Gas Fund (FSNGX) is a diversified play on the yawning gap between the energy equivalents of oil and natural gas. One barrel of oil provides approximately 5.8

million British Thermal Units (BTUs) of energy. So if a barrel of oil is say, \$100, that is the cost of 5.8 million BTUs of energy.

On the other hand, the market price for natural gas is close to \$3.00 for one million BTUs. To buy 5.8 million BTUs will cost \$17.40 (5.8x\$3.00). So the same amount of energy is available for approximately 17.40 cents on the dollar -- if it is in the form of natural gas.

As the chart shows, this is not a normal situation. 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. Note the current yawning gap between the costs of these two forms of equivalent amounts of energy. For 5.8 million BTUs, it costs approximately \$100 if it is in the form of oil, but only \$17.40 in the form of natural gas.

Energy is energy. The price per BTU should be approximately the same.

The US is self-sufficient in natural gas with only 9 percent imported from Canada. At 17.4 cents on the dollar versus oil, natural gas is bound to have a growing role in America's energy needs as well as independence from importing oil.

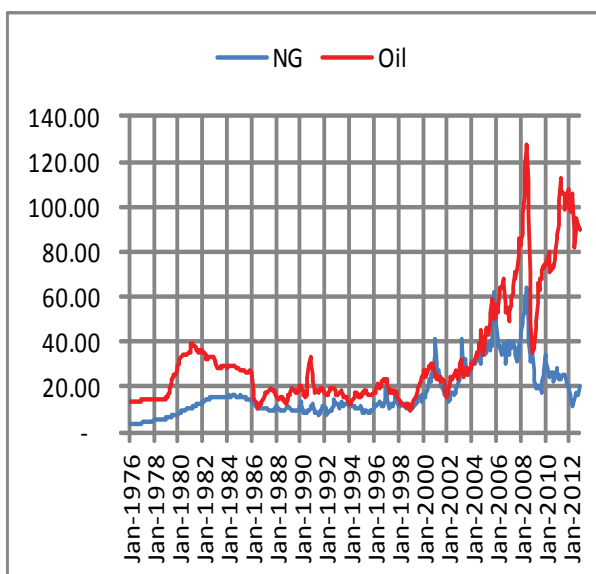
This is the only mutual fund that concentrates on the natural gas industry. It is one of Fidelity's stable of tightly focused sector funds. The fund has a relatively new manager, Ryan Oldham, who has been at the helm since mid-2010, and who is no stranger to energy. He worked as an analyst for Canadian energy companies and global exploration and development firms.

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

Hambrecht & Quist Life Sciences Fund (HQL) is up 15 percent this year, extending our profit to 50 percent. The most explosive profits in the entire healthcare industry can be found here in biotech companies. This is a volatile sector, so diversification is crucial. HQL is a superior way to gain exposure to biotech on a diversified basis. This mutual fund has climbed inexorably most of the year, and should continue to do so.

Leucadia (LUK) is essentially unchanged for the year, leaving us with a 12 percent profit. This is a holding company with a portfolio in excess of \$9 billion of assets that is as focused as the wide-ranging eyes of its two principals, Ian Cumming and Joseph Steinberg, who have been compared to Warren Buffett in their success at identifying lucrative investments

The Cost of Energy Equivalents of Oil and Natural Gas



that can be purchased substantially below their intrinsic value. In fact, Buffet continues to team up with the Leucadia team on joint venture investments.

LUK saw a massive jump in revenue during the third quarter from its controlling interest in National Beef Packaging Company which it acquired in December 2011. Earnings per share were 44 cents versus a loss of 81 cents in the previous quarter and a loss of \$1.20 in the 2011 third quarter.

Skillful investing has produced double digit growth rates in its assets since 1979. After a bad year in 2008, assets have since grown by 150 percent according to Morningstar. The nature of their most recent investments in start-up

biotech and energy companies offer a very large profit potential while affording relatively low risk. Several holdings are directly partnered with Warren Buffett.

We think that Leucadia is valued well below the market prices of its disparate parts.

Masco (MAS) is up 54 percent this year, extending our profit to 119 percent. MAS manufactures a wide range of products for home construction and remodeling --everything from kitchen cabinets and faucets to windows and paint.

We added MAS to the portfolio in October 2011 at \$7.49 after the shares got hammered during the recession. Masco has been consolidating debt, closing unprofitable plants, and streamlining global supply chains in an effort to save \$150 million of costs.

These efforts are showing up in positive results. Revenues and earnings are growing again. MAS is an excellent way to ride the recovery in the housing market.

Maxim Integrated Products (MXIM) is up 12 percent for the year, extending our profit to 49 percent. We expect more. Maxim's reputation is built on its top-notch engineering, especially in analog circuits. It is easy to think that everything is digital these days, but analog circuits are essential for receiving and interpreting digital inputs. After a signal has been processed, usually through a digital circuit, the signal has to be retransmitted into an analog format that we can interpret. A cell phone is a perfect example. After receiving a digital signal, it must be transformed into an analog format so that we can hear it.

The expertise to develop these analog chips is not easily duplicated and takes years to develop, which is an entry barrier for new competition. The designs don't require cutting-edge production techniques, so these chips have long and profitable product lives.

MXIM is in excellent financial health with \$1.0 billion of cash and plenty of cash flow to support operations, as well as pay its quarterly dividend of \$0.22 per share -- for an annual yield of

more than 3 percent of the current share price. MXIM is on a strong growth path with essential products and engineering for the new world of technology we are entering. It is a good value because the stock is trading below its average historical price ratios.

Paychex (PAYX) is up 9 percent this year, extending our profit to 23 percent, but there is a larger profit ahead with a recovery in the economy. Its core business is payroll services for small to medium sized companies with more than 100 offices serving approximately 567,000 payroll clients. Accordingly, its revenues and earnings directly mirror the employment situation. Downside is limited because the balance sheet is pristine with no long-term debt exposure.

This is a classic “buying straw hats in winter” opportunity that offers considerable potential for capital appreciation, along with safety, and a nice yield of close to 4 percent.

PAYX just launched its enhanced “BuildMyBiz”, an online resource for entrepreneurs and small business owners. The website includes a marketplace for entrepreneurs to connect with services that assist them in growth, including discounts on printing solutions, credit reports, and online business software. A “Social Sign In” allows signing in through Facebook, Twitter, LinkedIn, or a Google account to participate in an exchange of advice and experiences with each other. The “Small Biz News” provides a feed of the latest small business news.

PAYX recently increased its dividend and announced a share buy-back program of \$350 million of the common stock through May 31, 2014.

Pfizer (PFE) is up 18 percent this year, extending our profit to 53 percent. PFE is still cheap because the patent expired on its blockbuster drug, Lipitor, and earnings have been dropping sharply as a result. However, there are many new, potential blockbusters in the pipeline across several therapeutic areas.

Two potential blockbusters stand out of the late-stage pipeline: *Eliquis* is a treatment for stroke prevention, and *Tofacitinib* is a treatment for rheumatoid arthritis.

Another drug, *Xalkori* is proving to extend the lives of lung-cancer patients, without their disease worsening, for twice as long as the standard therapies.

As an indication of the value of this stock, PFE is buying back its own shares.

Retail Opportunities Investment Corp (ROIC) is up 8 percent this year, extending our profit to 20 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, with no debt and no problems. It is a simple model: buy distressed retail properties with high-quality demographics, refurbish them, and then lease

them at a premium.

On November 30, 2012, ROIC announced the appointment of Michael B. Haines as Executive Vice President and Chief Financial Officer, Treasurer and Secretary, replacing John Roche. ROIC also announced Laurie Sneve was appointed as Senior Vice President and Controller replacing Joseph LoParrino. Stuart A. Tanz, President and Chief Executive Officer worked with this team during his very successful 11 years at Pan Pacific.

At the end of the third quarter, ROIC’s property portfolio included 40 shopping centers, all of which have high occupancy and total approximately 4.3 million square feet.

Funds from operations (FFO) more than cover the dividend. As new properties are added, along with tenant upgrades, FFO should continue to rise, along with the dividend and price of this REIT.

Stryker (SYK) is up 9 percent this year, extending our profit to 31 percent. SYK is best known for its orthopedic devices: artificial knees and hips, but it’s much more. SYK provides a diverse array of innovative medical technologies, including reconstructive, medical and surgical, and neuro-technological and spine products.

More profits are assured by accelerating demand for joint replacements on aging baby boomers. Such reconstructive implants accounts for most of SYK’s revenues. Moreover, as life expectancy continues to increase, more and more hip, knee, and spinal procedures will be needed as baby boomers age.

Stryker spokeswoman Yin Becker recently said: “The targeted reductions and other restructuring activities are being initiated to provide efficiencies and realign resources in advance of the new Medical Device Excise Tax [2.3 percent as mandated by ObamaCare] scheduled to begin in 2013,

as well as to allow for continued investment in strategic areas and drive growth despite the ongoing challenging economic environment and market slowdown in elective procedures.”

SYK recently launched its latest Trevo Pro Vue stent retriever, a one-of-a-kind fully visible stent retriever device used to treat acute ischemic strokes. In addition, SYK just completed the acquisition of Surpass Medical, which has the NeuroEndoGraft family of the state-of-the-art flow diversion stent technology to treat brain aneurysms. This launch expands SYK’s neurovascular division and is bound to improve growth in this segment which saw a 10.8 percent increase in the third quarter from one year ago.

Stryker’s balance sheet with piddling debt and robust cash flow permits the company to acquire businesses that either deepen its existing strengths or add complementary lines. Management has been buying back shares and has steadily increased its dividend.



Symantec (SYMC) recently reported better than expected earnings that were 15 percent higher than one year ago. Revenue has now increased 4 consecutive quarters. We have a 13 percent profit and expect more.

SYMC is the dominant supplier of software for computer security and protection against viruses and other nuisances. New markets are opening up for SYMC as the world moves to smart phones and other mobile devices, and as hackers search for security holes. SYMC's flagship brand, Norton, should see strong growth in the mobile phone and tablet markets.

Recent acquisitions of Nukona, Inc, a provider of mobile application management, and Odyssey Software, a leading provider of mobile device management, enable SYMC to offer mobile apps that protect against hackers by authenticating users and encrypting sensitive files. SYMC is also collaborating with Red Hat to deliver solutions that help customers deploy agile private and hybrid clouds, as well as create resilient data centers.

On November 29, SYMC announced "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. The beta test version is out now and the full-featured version is scheduled to be released in 2013.

Growth is assured from the expanding use in cloud computing along with the commensurate need for security software.

Tellabs (TLAB) joined the list of companies paying a special dividend to reward shareholders before a potential tax hike on dividends becomes effective next year. A cash dividend of \$1 per share will be paid December 21st. Without an agreement on the Fiscal Cliff, dividends will be taxed as ordinary income in 2013 (as high as 43.4 percent) as opposed to the special 15 percent rate currently. The stock price jumped by 38 cents on the announcement.

Daniel Kelly, was officially made TLAB's chief executive officer and president after being in those positions temporarily since June. Kelly is 51 and has more than 25 years of experience of research and development roles at Tellabs. He was previously executive vice president.

On November 20, the company also announced that it plans to use part of its \$942 million in cash and equivalents to repurchase up to \$224.6 million of TLAB shares.

TLAB designs and manufactures hardware for the telecommunications industry, which in a world of exploding demand for wireless communications should be a bonanza of a business. However, Tellabs has been slow to move its product lines as telecom service migrates into wireless.

Now that the explosion of smart phones, tablet computers and wireless communication is testing the limits of telecom infrastructure, Tellabs should be able to gain a significant portion of that market.

Even if it should fail to complete the transition in its products, it remains an attractive takeover candidate. Consider that Tellabs' balance sheet holds \$2.91 per share in cash and cash equivalents (short-term government debt or commercial

paper) with no long-term debt. Other assets and liabilities on the balance sheet offset each other. Subtract that \$2.91 from the current share price and you are buying the entire business for very little.

We also believe that an acquirer would be happy to get the company for next to nothing if only to capture its client base. At its current price, the shares trade cheaply. We think there is very little downside risk and loads of upside.

Tetra Tech (TTEK) is up 20 percent this year, extending our profit to 68 percent, and we see more profits ahead. In November, TTEK recently reported its fiscal fourth-quarter net income \$0.47 per share compared to \$0.42 per share last year.

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

TTEK has a healthy balance sheet, and water and environmental remediation are definitely growth industries.

In October, TTEK was awarded a \$108 million contract to provide technical support for the U.S. Environmental Protection Agency (EPA) Office of Water's Assessment and Watershed Protection Division in its efforts to monitor water quality conditions. This watershed protection program is one of the principal technical support focuses of the EPA.

Other recent contracts include remediating NASA's Kennedy Space Center and Cape Canaveral Air Force Station, along with environmental remediation services at U.S. Navy, Marine Corps, and other Department of Defense locations primarily in California and the southwestern United States.

The biggest potential business lies outside the United States in countries like China and India, where environmental concerns have been at best an afterthought. Only now are their governments starting to recognize the consequences. As governments around the world make this a priority, Tetra Tech should be a prime beneficiary.

USAA Precious Metals & Minerals Fund (USAGX) is down 12 percent this year, which has trimmed our profit to 9 percent.

USAGX will benefit from the Federal Reserve's bold QE-3 program which promises to make massive purchases of Treasuries and mortgage-backed securities well into the economic recovery. However, in order to make these purchases, the Federal Reserve creates the money to do so – it basically prints the money. Of course, all these extra dollars will raise inflationary expectations and cause the value of U.S. currency to decline. Precious metals will be a direct beneficiary.

USAGX is the best diversified way to invest in precious metals. It regularly ranks among the top-performing funds. Morningstar also rates it highly.

The fund's management has been effective over the years in shifting the weight of investments to and from large-cap and small cap companies. After the market bottomed in 2008, investments in battered small-cap mining companies

Income With Growth	Sym	Exchange	Price	Yield	Limit	Action
Associated Estates Realty Corp	AEC	NYSE/Nasdaq	\$ 15.09	4.77%	\$ 17.00	BUY
CommonWealth REIT	CWH	NYSE	\$ 15.25	6.56%	\$ 18.00	BUY
Retail Opportunity Investment Corp	ROIC	NASDAQ	\$ 12.78	3.13%	\$ 14.00	BUY
Diversified Growth						
CGM Realty Fund	CGMRX	800-343-5678	\$ 28.53	0.91%	\$ -	BUY
Comcast	CMCSA	NASDAQ	\$ 36.88	1.76%	\$ 39.00	BUY
Leucadia National Corp.	LUK	NYSE	\$ 23.19	1.08%	\$ 25.00	BUY
Masco	MAS	NYSE	\$ 16.21	1.85%	\$ 16.00	HOLD
Paychex	PAYX	NASDAQ	\$ 32.97	3.88%	\$ 35.00	BUY
Pfizer	PFE	NYSE	\$ 25.64	3.43%	\$ 27.00	BUY
Stryker Corp.	SYK	NYSE	\$ 54.36	1.56%	\$ 58.00	BUY
Xerox	XRX	NYSE	\$ 6.97	2.44%	\$ 8.00	BUY
Energy/Natural Resources						
Agrium	AGU	NYSE/TSE	\$ 100.48	1.99%	\$ 108.00	BUY
Chesapeake Energy Corp	CHK	NYSE	\$ 16.97	2.06%	\$ 20.00	BUY
Fidelity Select Nat. Gas Fund	FSNGX	800-544-8888	\$ 30.63	0.18%	\$ -	BUY
Tetra Tech	TTEK	NASDAQ	\$ 25.98	0.00%	\$ 29.00	BUY
USAA Precious Metals & Minerals	USAGX	800-862-6909	\$ 27.37	0.29%	\$ -	BUY
Aggressive Growth						
AMN Healthcare	AHS	NYSE	\$ 11.34	0.00%	\$ 12.50	BUY
Boston Scientific	BSX	NYSE	\$ 5.57	0.00%	\$ 6.50	BUY
ETF - Direxion Daily 20+ Yr Bear 3X	TMV	NYSE	\$ 49.82	0.00%	\$ -	BUY
ETF - ProShares Short 20+ Year Trsry	TBF	NYSE	\$ 28.48	0.00%	\$ -	BUY
ETF - ProShares UltraShort 20+ Year Trsry	TBT	NYSE	\$ 59.80	0.00%	\$ -	BUY
H&Q Life Sciences Fund	HQL	NYSE	\$ 14.76	7.32%	\$ 17.00	BUY
Maxim Integrated	MXIM	NASDAQ	\$ 29.20	3.01%	\$ 32.00	BUY
Symantec	SYMC	NASDAQ	\$ 18.87	0.00%	\$ 20.00	BUY
Tellabs	TLAB	NASDAQ	\$ 3.37	2.37%	\$ 4.00	BUY

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

Prices are as of 12/5/2012. See our website for live pricing and buy limits.

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

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

brought in strong gains during the boom in mergers and acquisitions that followed. Then, after the run-up and those acquisitions became fully-valued, management moved out of those and into large-cap companies which held up better during the 2011 downturn. Now, management is moving back into small-caps again, where bargains are better.

Dan Denbow, the co-manager of the fund since 2008, has replaced manager Mark Johnson, who recently retired after managing the fund for the past 17 years. We expect Mr. Denbow will carry on the management style. But we will be watching just to be sure.

Xerox (XRX) is focusing on the high end of the color printing market which still rewards technological improvements. XRX is developing software tools needed to make printing more competitive against the traditional offset printing process. Speed and print quality are still key metrics in driving the

cost-per-page down, and XRX is developing presses that facilitate digital printing on uncoated, lightweight paper where bleed-through is an issue.

Beyond hardware, Xerox has aggressively shifted into synergistic services markets, including services in conjunction with its copiers as well as business process outsourcing and information technology outsourcing.

XRX is transforming from a seller of printers and copiers to a company providing services on those machines. The revenue from services is more profitable and less cyclical. Half of XRX's revenues now come from services. Earnings are expected to be in the range of \$1.07 to 1.12 per share this year. At close to 7 times earnings, and 30 percent below book value, these shares are really cheap, and any kind of recovery will bring a high capital gain. Morningstar's fair value estimate of the stock is \$11 per share.

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

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

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

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

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

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

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

The figures show that over the entire century-plus, stock prices have outperformed housing prices. Just based on the price growth of each investment market and assuming no leverage was used, a \$25,000 investment would have grown to \$8,289,882 in stocks and to \$1,319,149 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 \$329,488,774, 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 1.36. This reading reveals that stock prices are below average in relation to house prices. The February 2009 reading of 0.77 marked the low for this cycle as well as the beginning of Supercycle 6.

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



Business Cycles and Stocks: The SoundAdvice Diffusion Indexes

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

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

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

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

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

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

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

Our next signal will come from a zero reading from our Diffusion Index of Leading Indicators. The latest reading is 66.7 percent.

Each month we project into future months the current readings for our hand-picked individual leading economic indicators that go into our Diffusion Index of Leading Indicators. We do this to see if a zero reading will be recorded assuming the readings stayed the same. However, due to significant increases in all of the leading indicators, we will not see a new signal (zero reading) in the months ahead unless the leading indicators (and the economy) show significant renewed weakness.

Track Record of the SoundAdvice Diffusion Indexes

If we had followed the signals from our Diffusion Indexes over the years, we would have done very well indeed. The results are shown below. After each "Aggressive" signal, the S&P 500 climbed an average of 34.4 percent. During "Caution" signals, the S&P 500 declined an average of 1.0 percent.

Aggressive	S&P	Caution	S&P
Sep-74	68.1	Apr-76	101.9
Jul-76	104.2	Dec-76	104.7
Oct-78	100.6	Jun-79	101.7
Nov-79	100.0	Oct-83	167.7
Aug-84	164.5	Jun-85	188.9
Jul-86	240.2	Aug-87	329.4
Feb-88	258.1	Jun-88	270.7
Mar-89	280.0	Mar-93	449.7
Mar-95	493.2	Dec-98	1,141.0
Jun-00	1,429.4	Dec-00	1,320.3
Jun-03	974.5	May-05	1,191.5
Jun-06	1,276.7	Mar-08	1,325.4
Apr-09	848.2	Mar-12	1,370.3
Ave +/-	34.4%		-1.0%

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

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

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

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

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

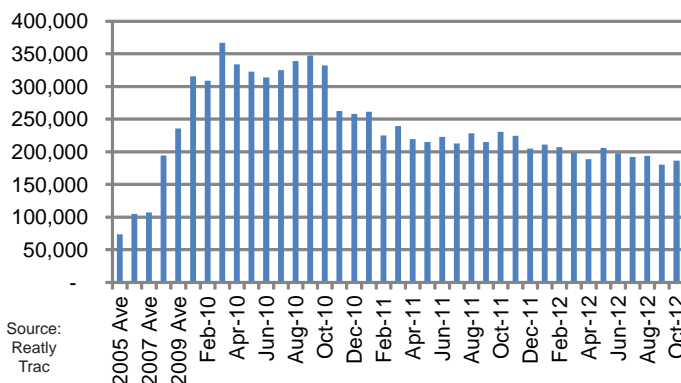
The Key Indicator

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

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

The following chart shows US foreclosure rates. In 2005,

US Foreclosure Rates - Monthly Averages



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

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

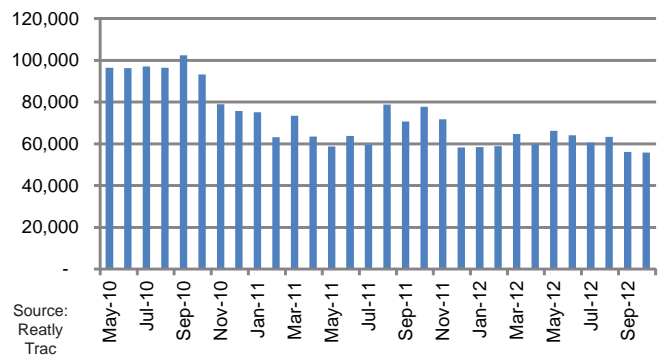
Dissecting the Foreclosure Process

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

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

The following chart shows new default filings in the US by month since May 2010. Through October 2010, new default notices were hovering around 100,000 per month. In October 2010 they began declining but remained stubbornly high until September 2012 when new default filings dropped 11 percent. New filings were down slightly in October.

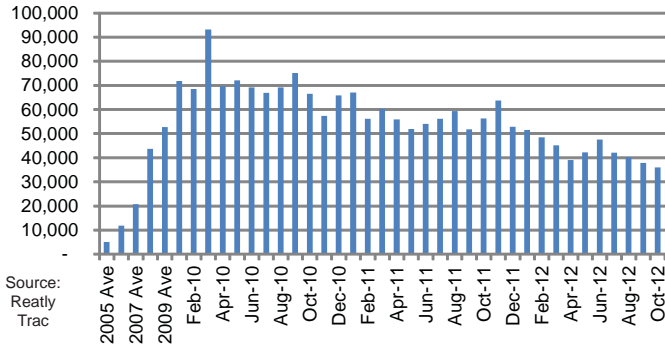
US New Default Notices



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

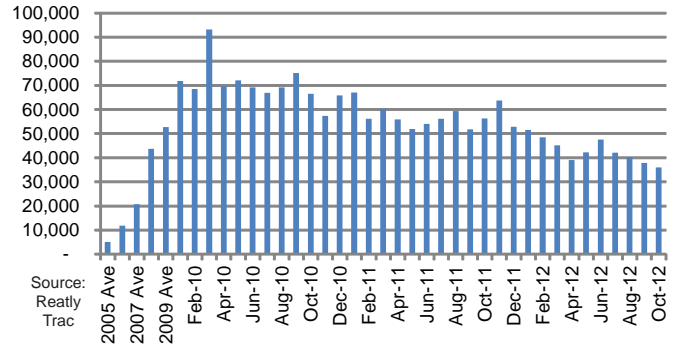
In 2005, California foreclosures averaged 5,138 properties per month. Foreclosures doubled in 2006, and again in 2007, and again in 2008. By 2010, foreclosures were close to 70,000 each month, with a spike of 93,000 in March. Foreclosure rates remained high in 2011 and began declining during the last several months, July (-11.4%), August (-4.5%), September (-5.7%), and October (-4.9%).

California Foreclosures - Monthly Averages



Source: Realty Trac

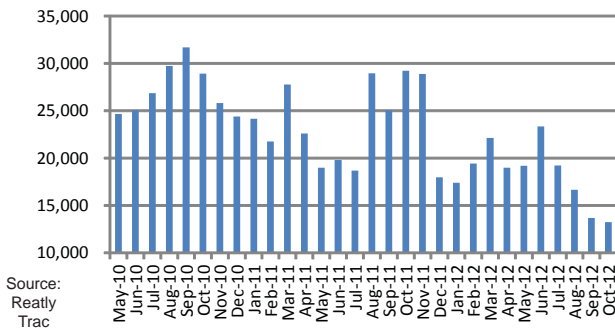
Florida New Default Filings



Source: Realty Trac

The following chart shows new default notices in California. After declining somewhat earlier this year, new default notices dropped sharply in the last three months: July (-18%), August (-13%), September (-18%), and October (-3%).

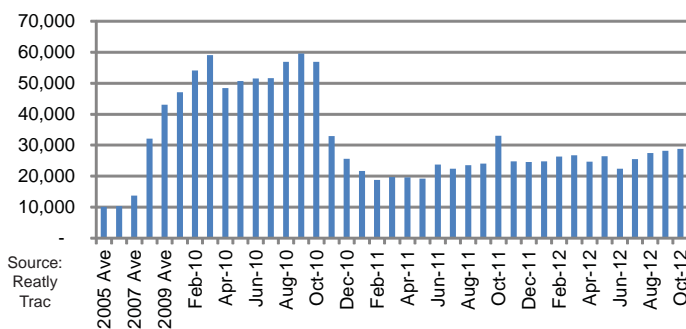
California New Default Filings



Source: Realty Trac

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

Florida Foreclosures - Monthly Averages

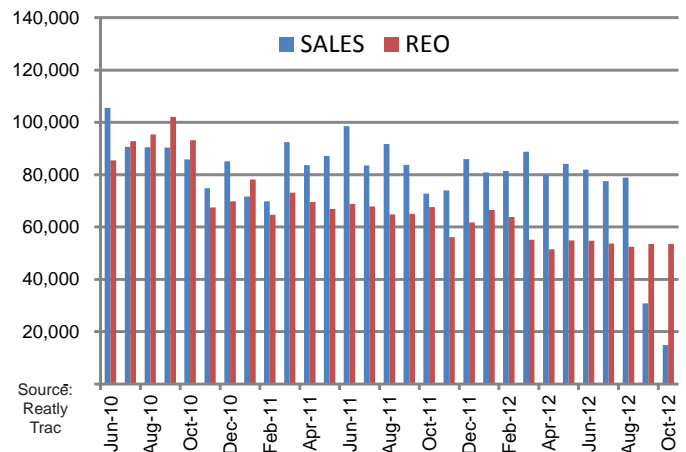


Source: Realty Trac

The following chart shows new default notices in Florida which dropped sharply in late 2010 and early 2011. However, there has been no progress in 2012.

The Inventory

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



Source: Realty Trac

On balance, there have been 346,728 more properties sold than have been added to the REO inventory, or 22 percent of the current inventory of 1,580,381 foreclosure properties listed for sale.

Conclusions

The latest readings for October show moderate progress following significant declines in September in both foreclosure rates as well as new default filings. California's declining foreclosure rates and steep drops in new default filings bodes well for 25% of the inventory. Although we would like to see more declines in Florida, we consider the significant improvements nationally and in California to signal the beginning of the end of the foreclosure crisis. The strong data on home prices discussed earlier is also encouraging because the inventory overhanging the market is being sold off.

We will be tracking foreclosure metrics closely both nationally and in key states in these pages of SoundAdvice for further confirmation. Stay tuned.

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