

# *SOUND ADVICE*



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### How Did the 2006-2007 Basket Perform?

After so grim a month, here is a basket of positive results as we tally the performance of last November's five recommendations selected from the existing *Sound Advice* portfolio. In most years, these November baskets have outperformed their benchmarks handily, and the class of 2006-2007 is no exception. As a group the five positions, two mutual funds and three stocks, returned 19.4% versus 8.8% for the Dow, 6.6% for the S&P 500, and 12.8% for the Nasdaq.

**American Century Global Gold Fund**, which was a return recommendation from the 2005-2006 November basket, is up 30.4%. Like DODFX that we describe below, BGEIX was above all a bet against the U.S. dollar. We are not goldbugs, but we do recognize cheap assets. Recommending gold miners simply extended a portfolio theme that natural resource stocks were positioned to rise thanks to new demand and dwindling production. We saw that commodity prices ranging from copper to oil to timber to precious metals were scraping historical lows, that capital expenditures by mining and energy companies were lagging, that mines, smelters and mills were being shuttered, and that investors literally thought these industries were dead. We also saw everyone from our friends in Washington to our neighbors down the street thinking that debt had no consequences. Spend and there will be more seemed to be the mantra. BGEIX simply was a bet that the dollar was about to come unglued.

**Dodge & Cox International Fund** reinforced the dwindling dollar theme, and has put in a 16.6% performance. We also admit that we are fans of everything that **Dodge & Cox** does. Since this is currently the only D&C equity fund open to new investors, it also represented a great way to benefit from their patient value investing approach. They didn't disappoint.

The single best performance came from **Schering-Plough**, up 32.5%, which was recommended in 2003 when a new CEO had been recruited to rescue a miserably managed company that was awaking to a nightmare: its bread-and-butter prescription drug, Claritin, was about to go generic, and there was really nothing ready to replace the rich profits it provided.

Until late this spring, we continually featured SGP to new subscribers as "Our Single Best Idea," which, we suspect, might have caused that type of investor who is looking not for sound advice but the next Google to cancel. As we confessed to new subscribers, our "best idea" was "a company that is ignored by Wall Street in

a sector that most investors neglect [but] offers us a superb shot at extraordinary profits, provided we are willing to buy now when it is cheap, [and] accept that it will take several years to reach its potential." So far, Schering has returned 96% over four years but most of that happened over the last 12 months.

**Tetra Tech**, which we recommended when TTEK made what in the trade is known as a "kitchen sink" write-off, in which it took just about every expense imaginable, dumping businesses it had bought in a misguided attempt to tap into the fiber optic broadband business. Twelve months ago, we already had a nice profit but thought that TTEK was only just getting started. Over the last 12 months, TTEK is up 30.7% as new business comes in and investors begin to focus on what could be the 21<sup>st</sup> century's liquid gold, water. Indeed, we are starting to read about "peak water," which echoes anxiety about available oil, which in the United States certainly has reached a point of diminishing returns and is tending toward a similar fate elsewhere, particularly in the Mideast. You might want to take a look at "The Future is Drying Up" in the *New York Times* Sunday magazine (10/21/2007 for an extended article on water shortages in the western U.S. The state of Georgia just declared a state of emergency after years of drought have brought the water supply for Atlanta to a crisis level and impacted every part of the state as well.

Tetra Tech, though it has its corporate hand in many environmentally related lines, at core is in the water remediation business, taking water that has been rendered unusable, even toxic, and returning it to a useful state. Here at home, there is plenty to do, but the jackpot—and we don't know if Tetra Tech will hit it—is in the rich emerging markets such as China and India, which in addition to neglected infrastructure issues endemic to third-world economies, have turned a blind-eye to the environmental costs of their helter-skelter rush to become the globe's lowcost manufacturers of everything from screws to motherboards.

The final position, the only loser, is **American International Group**, the insurance company, which scuffled along most of the year until the credit markets started to wobble under the burden of mortgage-related debt. Then it fell sharply. We think the selling was panicky and qualifies the shares as a bargain. AIG is off 13.3% over the last 12 months but, in our opinion, merits another chance to prove itself in this year's basket. **SA**

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Volume XX, Number 11

Subscription Rate: \$195 per year

November 16, 2007



If you think rising prices for commodities are the result mostly of momentum, consider the spurned offer from BHP Billiton, the Australian mining company—and the biggest in the world—for Rio Tinto, another miner that when leaked boosted Rio Tinto's shares by 24%, and rippled through mining companies like Anglo-American, which jumped 14%. BHP Billiton's bid acknowledges that mining for metals on Wall Street makes as much, and sometimes more, sense than mining for it in the real world. On the news, which coincided with testimony from Ben Bernanke that the U.S. economy would slow and that neither the mortgage nor the housing problems would go away anytime soon, prices exploded for all things material. Oil, natural gas, copper, fertilizer—stuff and the companies that produce stuff were in demand. Yes, the U.S. economy is slowing. Yet, no one seems to be noticing. Demand elsewhere, especially in Asia, continues to overwhelm supply. China, the prime driver, continues to expand at a breakneck pace. The cost of labor in China is responding to internal inflationary pressure, particularly from workers keen to be paid more. Finally, if Secretary of the Treasury Paulson's complaints about the China's currency being too cheap are heard and the Chinese recognizes that one way to curb domestic inflation would be to let the Yuan trade higher, the U.S. dollar will slip further, and peel away some of our own insulation from inflation. The dilemma we face is that we have relied too long on the "kindness" of foreign central banks and economies. Now that relationship is fraying.

—Gray Emerson Cardiff

## Five for 2008

After the market turbulence that has turned charts of the Dow, S&P and Nasdaq into scary roller coaster patterns with a trend lower, putting money into the market, especially into companies that had performed poorly even before the general market swooned, might not be attractive to most investors. The easy call would be more energy, more metals, more natural resources of all sorts. We think that will continue to work for our portfolio. The returns so far have been extraordinary.

However, we are wired differently, and look for opportunity amid distress. As opposed to last year's November basket of recommendations, all of which had done well so far that year, this year's group includes only weak performers. We think each of these has a high ratio of reward to risk, not only because they have been so beaten up but because each has potential the market, we believe, neglects. In each case, the price ratios, which we depend upon to flag stocks whose fundamentals are holding up better than their prices, sit at levels not seen in a decade or more. Could these recommendations stumble lower? Of course, but we are confident that over the next 12 months each has the potential to start to outperform the market.

**Maxim Integrated Products (MXIM.PK—Pink Sheets)**, if you see only where MXIM trades, it looks like an outlaw stock, consigned to this electronic trading platform for crimes unknown. That is the wrong conclusion. Maxim, which designs and fabricates analog and mixed-signal chips, has committed no worse sin than being slow in restating its quarterly results as far back as 2000, which became necessary after management got caught backdating options. As for the real sin of backdating options, this company hardly is alone in finagling when options were granted in order to maximize their value to their recipients at the shareholders' expense. We expect that Maxim will file the revised reports early in the new year and then be relisted on the Nasdaq.

One consequence of the delisting has been to make MXIM a technical pariah. For example, *Value Line*, whose opinion and data we value, dropped Maxim from coverage last month, stating that because not only data from earlier quarters was now in limbo but also current quarterly information cannot be filed with the SEC, the potential for excessive

<b>IN THIS ISSUE...</b>	
<b>Five For 2008.....</b>	<b>Pg. 1</b>
<b>Sound Advice Portfolio Updates.....</b>	<b>Pg. 5</b>
<b>Sound Advice Portfolio.....</b>	<b>Pg. 6</b>
<b>Sound Advice Indicators.....</b>	<b>Pg. 7</b>

## Sound Advice on Five for 2008

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volatility makes handicapping the shares too risky. At the same time, the analyst, Greg McGowan, still believes MXIM is “a solid company” and suspects MXIM is doing just as well as its peers. McGowan, indeed, has projected eye-popping projections for MXIM over the next few years.

Since *VL* cancelled its coverage, MXIM has continued to slide, something that makes little sense given the numbers it did publish for the last quarter at the start of November that showed sales higher by 4% over the same quarter in the previous fiscal year. Inventory and capital costs declined in the quarter, and product yields as well as production cycles improved. In short, if we can believe the company while it remains outside the normal reporting calendar, Maxim is doing better than its shares.

Maxim provides analog and mixed-signal (analog plus digital) chips for computers, cell phones and a myriad of electronic devices. Unlike companies like AMD or Intel, which produce digital chips that move quickly through their life cycle from cutting edge to obsolete, analog chips tend to have long lives, which makes their creators’ businesses more stable. Maxim has a deserved reputation for innovation and cost efficiency, and also is sitting on a balance sheet without debt. If we look at the price ratios—and we recognize that without SEC-approved documents we are assuming there will be no significant change to numbers reported previously—Maxim today is as cheap as it has been over the last decade. We recommend buying MXIM up to \$28.

**Time Warner (TWX—NYSE)** is best known as the result of the worst merger in U.S. history, which was completed in early 2001 when Time Warner, a media company that owned everything from iconic magazines like Time and Sports Illustrated to movie studios to cable transmission systems and cable channels like HBO merged with (or was acquired by) America On Line, at the time America’s biggest Internet Service Provider. The two companies combined market cap was \$263 billion. Today, Time Warner has a market cap of \$67 billion. TWX this year has been a dog, losing 20%, as

the company struggles with how to realize the value of its many different parts.

Time Warner is at a turning point. Certainly the board of directors thinks the time has come to begin the next stage of rehabilitating TWX, since on November 5th, Richard Parsons, the CEO tasked in 2002 with restoring some measure of stability to the combined companies, announced his retirement. His successor is Jeffrey Bewkes, who turned the HBO division into a blockbuster cable entertainment provider and more recently has been Chief Operating Officer, and CEO-in-waiting.

If any single issue crystallizes TWX’s challenges it is what to do with the AOL division. This year, management radically changed AOL’s business model shifting from being subscription-based to advertising-based, and bulked up its advertising assets as it aims to act more like Yahoo! and Google in how it generates revenues.

The results for the last quarter, announced on November 7<sup>th</sup>, were excellent: the movie segment increased sales by 33% (Harry Potter helped), cable increased by 6%, and though revenue from magazines was flat, this was after TWX had shut down two publications and sold off four others. AOL continues to hurt. Paid subscriptions, now that the subscription model has been jettisoned, are shrinking rapidly while advertising is still struggling. The company increased advertising revenues by \$61 million, but that was dwarfed by subscription revenue that eroded by \$360 million.

Bewkes can be expected to shake things up, and though Parsons swore he would not sell off the AOL division, Bewkes might, since he was one of the most persistent opponents of the original combination. He also could dissolve not just the AOL-Time Warner marriage but also parcel out Time Warner’s many old media businesses. As we are seeing at IACI, where Barry Diller, who also worshipped synergy, breaking up a media conglomerate can liberate cash for shareholders.

TWX shares did well in 2006 as Carl Icahn turned the screws on management, and there were hopes AOL was ready to generate higher revenues. In decline since

Gray Cardiff’s Sound Advice is published monthly by S.A. Newsletters, LLC. Editor-in-Chief: Gray Emerson Cardiff. Managing Editor: Steve Horwitz. Executive Editor: Linda Cardiff. Office Manager: Angela Castellano. Subscription rate: \$195 per year. Send subscription requests to: Sound Advice, 939 Hartz Way, Suite 210, Danville, CA 94526. Phone: (925) 838-6710. Fax: (925) 838-0522. Information presented in Sound Advice may be used provided the newsletter—its name and address—is mentioned as the source. The information contained herein has been carefully compiled from sources believed to be reliable, but accuracy cannot be guaranteed. ©2007 S.A. Newsletters, LLC.

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## Sound Advice on Five for 2008

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then, price ratios are well below where the combined companies have traded in their six-year history. We recommend buying TWX up to \$20.

**Electronic Data Systems (EDS—NYSE)** did fine for us last year as it dug itself out of difficulties that first drew us to the shares in 2004. As it prepared to issue its quarterly results this April, EDS seemed about to regain its investor audience. Burdensome contracts previous management had signed were either ended or renegotiated, downsizing and other cost savings were helping the income statement, centers were being set up in Asia, and debt was being reduced on the balance sheet.

As an information technology company that consults on, designs and manages computer and data networks, EDS benefits as companies and governments expand or refine their reliance on electronic data systems. This year, however, though the recovery continues, there were glitches that brought down the wrath of Wall Street: analyst disenchantment. There is also a new CEO, Ron Rittenmeyer, who steps up from the Chief Operating Officer and President slots to replace Michael Jordan (no, not that one), which injects some uncertainty into the mix. Rittenmeyer, though he has been at EDS since only 2005, has a history of managing corporate turnarounds, which, in the case of EDS, is well on its way thanks to Jordan.

What were the “glitches?” In May, despite reporting higher sales and profits, management warned that the next quarter might fall short of expectations. When the next quarter’s results were announced in early August, despite what were positive numbers, the shares again got hit as analysts worried that contracts they expected to have been signed during the quarter were not completed, and that revenues therefore would fail to meet projections. As best as we can tell, the problem is more one of scheduling than lack of success. EDS is sticking to what it anticipated earlier in the year: regardless that only \$7.7 billion in contracts had been signed during the first six months, management says it will hit its target of \$14.3 billion during the second half.

Over the last three years, EDS under Jordan revived the company by ending contracts that never should have been undertaken by his desperate predecessor. The company has downsized in the U.S., offshoring many

significant portions of its workforce. We acknowledge that the heady growth that EDS and its peers enjoyed during the 1980s and 1990s will not be seen again, but we also understand that even as a relatively slow-growth business, there’s plenty of room for profitability that the current share price and valuations fail to reflect. EDS has fallen from \$29 to the low \$20s since April. As you know, the only thing significant for us in a share price is how it relates to valuation metrics, though we admit that a sharp drop in price always catches our eye. In EDS case, if we set aside the disastrous 2002-2004 stretch when IT was in the dumper and the company was besieged by bad contracts, Price to Earnings, Price to Sales, Price To Cash Flow, and Price to Book are under where the shares historically have bottomed. Though there is no warranty that they can’t fall lower (or that earnings, sales, cash flow or book value can’t drop and thus increase the particular ratio), we think this is an excellent moment to start or add to an existing position in EDS. And if we are right in accepting management’s expectation that big contract wins will materialize before year’s end, then EDS should do well not only over the next 12 months but for years to come. We recommend buying EDS up to \$24.

**American International Group (AIG—NYSE)** has been under suspicion along with all financial companies as Wall Street tries to gauge how badly the housing debacle has damaged their income statements and balance sheets. As an insurance company, AIG did not assume the same risks that the investment banks and brokerages did, which is clear when you look at what AIG had to write-off this month when it announced third quarterly result that reflected write-offs for mortgage-related lines of business.

There were three types of damage: \$352 million for anticipated losses on its credit-swap portfolio, a \$215 million loss from its mortgage insurance division, and a \$864 million loss on its investment portfolio, of which \$164 million represented direct losses from its subprime mortgage portfolio. The \$864 million write-off, we suspect, is of the kitchen-sink variety that flushes out all sorts of weak assets, the reasoning being that if management is delivering bad news, it throws in everything. AIG has recent experience in writing-down as-

**Fund Distributions can occur any time but usually happen in December. If you hold mutual funds in non-retirement accounts, understand that if you buy Fund WXYZ late in the year and it then makes a distribution, you incur a tax liability for that distribution regardless of whether you held the shares when the fund accumulated those gains. Before buying, check with the fund to avoid any surprises.**

## Sound Advice on Five for 2008

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sets, which it had to do after Hank Greenberg, AIG's iconic CEO, was pushed out. The company did not dither, and took its medicine in one large gulp, which helped knock the share price low enough at that time to draw *Sound Advice's* interest.

The effect on AIG shares was considerable as the share price tumbled 10% from the morning before results were announced till they bottomed on the following day. If there was any single overreaction to worrisome news about mortgage debt, we believe, the market's reaction to AIG takes the cake.

Consider that the real mortgage miscreants among the financial biggies such as Merrill Lynch, which took charges of \$10 billion but itself has a market cap now of merely \$46 billion. CitiGroup, which at a market cap of \$169 billion is in a league with AIG at \$147 billion, wrote off more than \$10 billion. AIG's total write-off is \$1.4 billion, of which the largest part represents an accounting adjustment for mortgage insurance that is still not close to triggering payouts to the insured. Most think AIG won't pay a dollar on these policies.

So, how seriously is AIG damaged by the write-down? Not, in our opinion, much. AIG going into the quarterly number had huge excess equity to invest. Indeed, if AIG acts as we anticipate, its deep pockets put it in position to benefit from other people's miseries. We expect it will be playing the damaged debt market to its advantage. Meanwhile, Hank Greenberg, who remains the single largest shareholder in his old company (12%), is rumbling about forcing the men who manage AIG, all of whom he loathes for exiling him, to create value for shareholders. Who knows how that might accelerate the stock's rise. The main point that stands out is that AIG is the biggest royal blue chip in our basket, and is valued at almost unthinkable levels. We recommend buying shares up to \$62.

**Boston Scientific (BSX—NYSE)** continues to swim against a tide of negativity that, we continue to believe, is way overdone. BSX operates in three primary businesses that account for 80% of revenues: stents, the wire-mesh scaffolding that surgeons insert after clearing vascular blockages to relieve angina and to prevent the buildup of new plaque, heart-rhythm devices such as pace makers and defibrillators, and endosurgical tools used in minimally invasive surgery. Over the first three quarters of this year, Boston Scientific had an 8% increase in sales, but that number disguises the crushing decline for sales of its flagship product, drug-coated stents, which fell 16.2%, a short-

fall that reminded Wall Street that the stent business right now stinks. Overlooked was the heart-rhythm device products the Guidant acquisition introduced that jumped 79.1% from depressed earlier quarters, and the third biggest business, endosurgical tools, that increased 9.4%.

The Boston Scientific story is fairly simple: Boston overpaid to acquire Guidant. If the price was irrational, the underlying need made sense: BSX relied too much for its sales and profits on stents. Guidant's heart-rhythm devices provided a cozy fit. Unfortunately Boston got a double whammy: Guidant, whose production problems Boston management thought they understood when they got into a bidding war over the company with JNJ, saw those problems worsen, which when combined with the costs of integrating Guidant into Boston's operations damaged BSX. Second, bad news concerning drug-coated stents did even greater damage to Boston's bread-and-butter business.

Today, you can buy Boston Scientific along with Guidant, which together have a market cap of \$19 billion for much less than the \$27.2 billion Boston Scientific paid for Guidant. Maybe that makes sense to those who continue to hammer BSX down to price ratios that are eye-poppingly cheap, ranging from 60% to 70% of their average annual historical lows, but for us it indicates a bargain. Boston has been using cash flow to reduce the debt burden, trimming net debt this year by 4.4% or \$314 million.

Not only has Guidant solved most of its problems and is back to growing sales and profits, but also that bad news in retrospect seems to have been excessive. Indeed, some of the most damaging academic studies that suggested drug-coated stents could increase the likelihood of vascular problems were preliminary findings, and now that more complete figures have been published, support drug-coated stents. MDs are rethinking their decision to cut back on drug-coated stents

Not surprisingly investors remain skeptical. There are other issues to consider: Boston's drug-coated stents compete in the U.S. with JNJ's, and hold the upper hand as they do in Japan. However, the next generation of drug-coated stents coming from Abbott will take market share away from Boston Scientific and JNJ. Though Boston has a license from Abbott to market the next generation of stents, its profit margins will be small after paying royalties. Nonetheless, in the leap-frog world of stent development, Boston has a good chance to resume the lead in the future. We recommend buying BSX up to \$16. *SA*

## Portfolio Updates

The *Sound Advice* portfolio this month outperformed its benchmarks handily, which when the Dow loses 7.3%, the S&P 6.7% and the Nasdaq 5.5% hardly merits a drum roll. In addition to broad concerns about the overall economy, earning season announcements have triggered extraordinary moves, some positive, some negative. The past month, particularly the last week, has been extraordinarily volatile, even violent. Since the October issue was priced on 10/5, our positions are down 3.8%. In this turbulent market, the difference for us was a relatively small group of big positive surprises and the continued strength in energy and natural resource positions, which result from continuing demand, the weakening dollar, and geopolitical anxieties as well as speculative pressure.

**Ford 6.5% Cumulative Preferred**, the October recommendation, was flat after including an 81 cent distribution. Without forcing a strike—as occurred with GM and Chrysler—the UAW has reached a tentative contract with Ford. At this point, all we have are generalities: a trust fund administered by the UAW to cover medical care for its members, a two-tiered wage structure to cover existing and new hires, and targets for employment. Ford also had a not-so-bad quarter with smaller losses than in the same quarter last year, and more importantly less than analysts expected. Almost all of the loss came from one-time charges resulting from reduced headcounts at its premier auto group. Management also says it expects to have sold off its Jaguar and Land Rover brands by early next year—good riddance to an ego-driven distraction. By using the convertible preferred, we are seatbelted in for what undoubtedly will be a very bumpy ride. Provided Ford remakes itself, we get an 8.7% yield while controlling almost three shares of Ford common.

Though, as we will see, natural resources had a fine month, the best performance by far came from **Perrigo**, the over-the-counter drug and food supplement company that last year added generic prescription drugs to its business. PRGO, after reporting stronger-than-expected quarterly results, exploded 39.7% higher over the last month, bringing its return for the year to 75%. We are

selling Perrigo because we suspect it has gotten ahead of itself. Over the five years we've owned PRGO, it's run up 115% compared to the S&P's 43%. Don't be surprised, should PRGO correct lower, to see it back in our portfolio, which would be its third appearance.

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**Microsoft**, which is as prominent as Perrigo is obscure, also reported superior results, and finally grabbed investors' attention. The higher sales and profits came from sales of Halo 3, a new sequel to a popular video game but even more from sales of Vista, the new PC operating system. We believe this is just the start for a resurgence at MSFT, whose shares added 13% despite the weakness in tech stocks.

**Western Digital**, if Microsoft is selling more copies of Vista in new computers, also is selling more hard drives, and added 3.8%. However, for the first time in its history, Western is selling more drives in non-computer products, the prospect for which kept us recommending these shares even when they traded south of \$10 as recently as three years ago.

**Getty Images**, which crashed in July on fears that its success at making the Internet an ideal medium to market photos and other graphics had opened the door for even cheaper competitors, has come back to life, adding 13.7% after reporting numbers in line with expectations but suggesting that next year will see results better than previously expected.

Not all of our tech positions prospered. **Maxim Integrated** dropped 18.1% as chip stocks had a rough month. MXIM, still relegated to the Pink Sheets until it can provide revised filings to the SEC, fell despite suggesting good results for the quarter. See page one for more on MXIM. **Symantec** has agreed to acquire

# Sound Advice Portfolio for November 2007

Income With Growth	Symbol	Exchange/ Phone	Price/ N.A.V.*	Yield**	Buy Limit	ACTION
HRPT Properties	HRP	NYSE	\$8.70	9.66%	<b>\$10.00</b>	BUY
<b>Diversified Growth</b>						
Agrium	AGU	NYSE/TSE	\$58.71	0.19%	<b>\$60.00</b>	BUY
American International	AIG	NYSE	\$57.06	0.88%	<b>\$62.00</b>	BUY
Boston Scientific	BSX	NYSE	\$12.66	0.00%	\$16.00	BUY
Coca-Cola Enterprises	CCE	NYSE	\$25.01	0.96%	\$26.00	BUY
Disney	DIS	NYSE	\$32.74	0.95%	\$37.00	BUY
Dodge & Cox Intl.Fund	DODFX	800-621-3979	\$48.50	1.18%	N/A	BUY
Excelsior Value & Restructuring	UMBIX	800-446-1012	\$57.32	0.84%	N/A	BUY
Fastenal	FAST	NASDAQ	\$40.11	1.05%	\$50.00	BUY
Fidelity Japan Fund	FJPNX	800-544-8888	\$16.78	0.00%	N/A	BUY
Gabelli Global Telecom	GABTX	800-422-3554	\$26.73	0.52%	N/A	BUY
Honeywell	HON	NYSE	\$57.76	1.57%	\$64.00	BUY
Insituform Technologies	INSU	NASDAQ	\$12.96	0.00%	<b>\$16.00</b>	BUY
Johnson & Johnson	JNJ	NYSE	\$65.16	2.30%	\$69.00	BUY
Liberty Capital	LCAPA	NASDAQ	\$120.23	0.00%	\$130.00	BUY
Mattel	MAT	NYSE	\$19.96	3.26%	\$26.00	BUY
Microsoft	MSFT	NASDAQ	\$33.73	1.19%	<b>\$36.00</b>	BUY
Molson Coors Brewing	TAP	NYSE	\$52.87	1.55%	\$59.00	BUY
Newell Rubbermaid	NWL	NYSE	\$27.13	3.10%	\$32.00	BUY
New York Times Co.	NYT	NYSE	\$18.54	3.78%	<b>\$24.00</b>	BUY
Odyssey Healthcare	ODSY	NASDAQ	\$9.99	0.00%	\$12.00	BUY
Perrigo	PRGO	NASDAQ	\$29.91	0.60%	N/A	<b>SELL</b>
Sara Lee	SLE	NYSE	\$15.83	2.53%	\$20.00	BUY
Schering-Plough	SGP	NYSE	\$29.40	0.75%	\$37.00	BUY
Sony	SNE	NYSE	\$47.00	0.46%	\$59.00	BUY
Sprint Nextel	S	NYSE	\$19.01	0.53%	\$24.00	BUY
Superior Industries	SUP	NYSE	\$18.50	3.46%	\$24.00	BUY
Tetra Tech	TTEK	NASDAQ	\$23.09	0.00%	\$26.00	BUY
Third Avenue Value Fund	TAVFX	800-443-1021	\$63.91	5.23%	N/A	BUY
United Parcel	UPS	NYSE	\$70.71	2.15%	\$82.00	BUY
Wal-Mart Stores	WMT	NYSE	\$42.90	1.56%	\$52.00	BUY
Whole Foods Markets	WFMI	NASDAQ	\$43.38	1.57%	<b>\$52.00</b>	BUY
WisdomTree Dividend Top 100 Fd	DTN	NYSE	\$57.38	3.16%	N/A	BUY
Xerox	XRX	NYSE	\$15.88	0.00%	<b>\$18.00</b>	BUY
<b>Energy/Natural Resources</b>						
American Cent. Gold Fund	BGEIX	800-826-8323	\$24.51	0.20%	N/A	BUY
Anglo-American PLC	AAUK	NASDAQ	\$36.64	2.67%	<b>\$39.00</b>	BUY
EnCana	ECA	NYSE/TSE	\$71.55	0.84%	\$75.00	BUY
Icon Energy Fund	ICENX	800-764-0442	\$41.54	8.09%	N/A	BUY
Plum Creek Timber	PCL	NYSE	\$42.96	3.72%	\$46.00	BUY
Royal Dutch Petroleum	RDS.A	NYSE	\$83.42	2.93%	\$87.00	BUY
Transocean	RIG	NYSE	\$125.36	0.00%	<b>\$130.00</b>	BUY
<b>Aggressive Growth</b>						
Comcast	CMCSA	NASDAQ	\$19.38	0.00%	<b>\$25.00</b>	BUY
Discovery Holdings	DISCA	Nasdaq	\$25.37	0.00%	<b>\$33.00</b>	BUY
Electronic Data Systems	EDS	NYSE	\$20.09	1.00%	<b>\$24.00</b>	BUY
Ford Motor Convertible Pfrd.	F.PRS	NYSE	\$37.25	8.72%	\$41.00	BUY
Getty Images	GYI	GYI	\$32.38	0.00%	<b>\$36.00</b>	BUY
Liberty Global	LBTYA	NASDAQ	\$36.47	0.00%	<b>\$45.00</b>	BUY
Maxim Integrated***	MXIM.PK	NASDAQ	\$24.12	1.89%	\$28.00	BUY
The Prudent Bear Fund	BEARX	800-711-1848	\$6.48	1.54%	N/A	BUY
Symantec	SYMC	NASDAQ	\$16.90	0.59%	\$22.00	BUY
Time Warner	TWX	NYSE	\$17.24	1.28%	<b>\$20.00</b>	BUY
Western Digital	WDC	NYSE	\$26.37	0.00%	\$28.00	BUY

\*Prices as of the market close on Friday, November 9, 2007

\*\*Yield represents all distributions during current calendar year divided by share price.

\*\*\*Maxim Integrated shares are now trading on the Pink Sheets with the Ticker Symbol MXIM.PK

**BUY, HOLD, SELL OR LIMIT IN BOLD SIGNALS CHANGE IN ACTION OR LIMIT**

# Sound Advice Market Indicators for November 2007

Vontu, a large-scale data security company for \$350 million. Vontu is a nice fit for its Veritas division, which management continues to work on integrating. Wall Street despises SYMC, and until performance changes that perception, the shares will continue to suffer. Since the last letter SYMC is off 17%.

**Sprint-Nextel's** board pushed its CEO, Gary Forsee into retirement. Forsee as CEO of Sprint had been the moving force for the merger with Nextel as well as the patron for S's huge investment in WiMax. So it came as no surprise that the partnership between Sprint-Nextel and Clearwire, the largest pure WiMax company, fell apart at the same time Forsee lost control. Shares got pummeled, down 14%, as Wall Street tries to handicap where Sprint-Nextel is heading. For us, S is valuable asset in need of mending, and worth owning. Financial stocks were massacred as anxiety over the bond market, especially derivatives based on mortgages, generated huge write-offs and the dismissal of prominent CEOs as well as heads of bond and risk departments. **American International Group** got caught in the backwash, and dropped 17.8%. See page three for why this is a great buy right now.

**HRPT Properties Trust**, our last traditional REIT, is being hit for reasons we do not grasp. Looking at the balance sheet and income statements, we see no reason to think that the quarterly distribution is at risk, and yet at its current price, the yield approaches 10%. Listening to the November conference call, there was from analysts no skepticism about the company and no doubts about the distribution. For income-oriented investors, HRP presents a compelling price and yield.

The only broad theme that keeps moving higher remains natural resources and energy. **American Century Global Gold Fund** added 12.3% as the dollar seems unable to stabilize. **Anglo-American** is up 7.7%, and **Agrium** the Canadian fertilizer company 9.7%. **EnCana**, the Canadian natural gas exploration and development company, added 14.3%, and **Royal Dutch** 5%. **Transocean**, the deepwater driller, jumped 11.1%. **Icon Energy Fund** was flat, and **Plum Creek Timber** dipped 2.6%. Finally, the **Prudent Bear Fund**, which combines short positions for stocks and indexes with long positions in junior mining companies, the best of both worlds in a tumbling market concerned about inflation, added 12.5%. **SA**

## The Sound Advice Market Indicators

**The Diffusion Index of Lagging Indicators** gives "Sell" signals when all of its individual lagging economic indicators rise above their respective levels of six months earlier, providing a 100 percent reading. This reveals a strengthening economy and inflationary pressures ahead. Currently 33 percent of the indicators are above their levels of six months earlier.

**The Diffusion Index of Leading Indicators** gives "Buy" signals when its individual leading economic indicators drop below their respective levels of six months earlier, providing a zero percent reading. This reveals a softening economy and a ripe atmosphere for a lasting decline in interest rates. The latest reading came in December 2005 as a "Buy".

Currently 50 percent of the indicators are above their level of six months earlier.

If we had followed the signals from our Diffusion Indexes over the years, we would have done very well

indeed. The results are shown above. Between each "Buy" signal and each "Sell" signal, the S&P 500 rose substantially without exception. The average gain was 32 percent, not counting dividends. On an annualized bases the gain was 16.9 percent per year. Confining

stock investing to these times would have produced substantially more profits than a single buy-and-hold strategy.

During the intervening periods between "Sell" signals and "Buy" signals, the market was all over the place — sometimes crashing, sometimes meandering, and occasionally advancing. On average, the S&P 500 increased 7.2 percent during these

times. On an annualized basis, not counting dividends, the gain was less than one percent per year, a return that could have easily been beaten many times over with safe investments such as

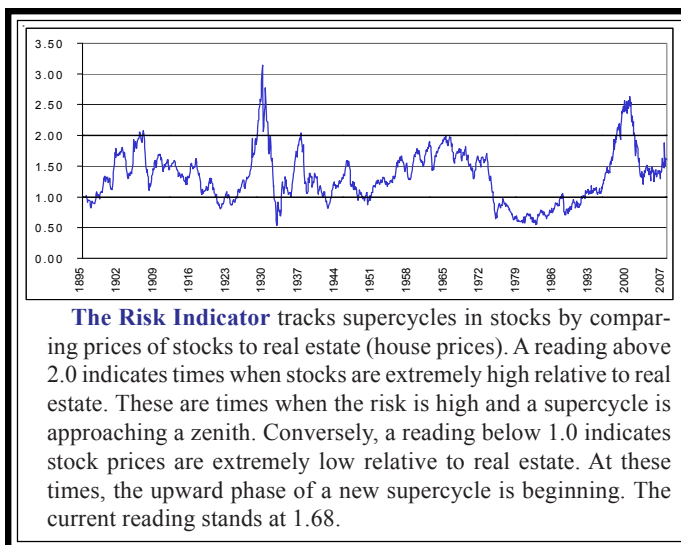
Buy Signals		Sell Signals	
Date	S&P 500	Date	S&P 500
Sep-69	94.51	Feb-69	101.50
Nov-74	71.74	May-73	107.20
Jan-81	132.97	Aug-77	97.75
Sep-85	184.06	Dec-83	164.36
Mar-89	280.00	Oct-87	280.16
Oct-92	415.10	Sep-89	347.33
Feb-97	798.38	Jan-95	464.72
Feb-03	841.15	Sep-99	1,383.60
<b>Dec-05</b>	<b>1,248.29</b>	Jul-05	1,234.18

# Sound Advice Market Indicators for November 2007

Treasuries, short-term bonds or other low-risk investments.

To assess whether a market crash is likely after a "Sell" signal, we turn to the Risk Indicator. If the Risk Indicator is close to or above 2.0, we know the market is relatively high and contains a high degree of risk. This was indeed the case in September 1999 when the Diffusion Index of Lagging Indicators flashed a "Sell" signal and the Risk Indicator was (substantially) above 2.0. The peak came in six months, marking the end of the bull market as well as the peak of Supercycle Five. The market subsequently crashed. The S&P 500 dropped 39 percent until the next "Buy" Signal was given by the Diffusion Index of Leading Indicators in February 2003 (which was the exact month that bear market low point was reached). During that decline, most stocks suffered greater losses. The NASDAQ dropped nearly 80 percent.

Conversely, the market does not suffer lasting declines after "Sell" signals when the risk level is low. For example, the "Buy Signal" in November 1974 was one month from the bottom of that bear market, and came at a time when the Risk Indicator was below 1.0. Consequently, this "Buy" signal also marked the beginning of Supercycle Five. As the upward phase of Supercycle Five ensued and the Risk Indicator remained relatively low, the market did not experience lasting downturns after "Sell" signals. Instead, the bull run was merely interrupted with short declines, sideways movements, and sometimes even advances. Even the three-day decline in October of 1987, which became known as the "Crash of 87", was followed by a stampede of buyers snapping up bargains. I remember seeing individual investors lined up to invest outside discount brokerage offices because the phones were log-jammed with buyers.



However, as previously noted, when Supercycle Five reached its peak and the Risk Indicator climbed above 2.0, the decline was severe after the September 1999 "Sell" signal due to the excessive heights to which prices had previously been propelled.

We recommend remaining fully invested in the *Sound Advice* model portfolio at all times. We use the *Sound Advice* Market Indicators to influence our approach and nature of our recommendations. When "sell" signals are in force, our recommendations are more defensive in nature. We will be looking for special situations and are likely to recommend taking profits more readily. Conversely, during "buy" signals, our recommendations will be more aggressive. We believe that these proprietary indicators have been important factors in our ability to consistently outperform the market averages (111% more profits than the S&P 500 since 1/1/2000). The chart below shows how *Sound Advice* recommendations have performed over time versus the S&P 500. **SA**

Since 1-1-2000

## Sound Advice versus the S&P 500

An Investment of \$25,000 becomes:

Start Date	S&P 500		Sound Advice*		
	Annual Return	Return	Annual Return	Advantage Over S&P	Return
From 1/1/2000	\$28,194	1.5%	<b>\$59,591</b>	<b>11.7%</b>	<b>\$31,397</b>
From 1/1/2003	\$45,179	13.0%	<b>\$56,799</b>	<b>18.6%</b>	<b>\$11,600</b>
From 1/1/2006	\$30,162	10.7%	<b>\$33,789</b>	<b>18.2%</b>	<b>\$3,626</b>

\* These returns assume an equal amount is invested in all *Sound Advice* Model portfolio positions at the time of the initial recommendation.

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