SoundAdvice

Advising Investors for 32+ years | September 2020 Issue | August 31, 2020

The Velocity of Money

Gray Cardiff, Editor

Investment returns in prior years have been calculated independently by the Hulbert Financial Group and concur with ours. From 2000 through 2019, the *Sound Advice* model portfolio averaged a 9.8% annual return versus 4.0% from the S&P 500.

At the end of August, the Federal Reserve announced an unprecedented policy shift: that it will let inflation run hotter than its traditional 2 percent limit as the economy recovers. This change has profound implications for our investing strategy.

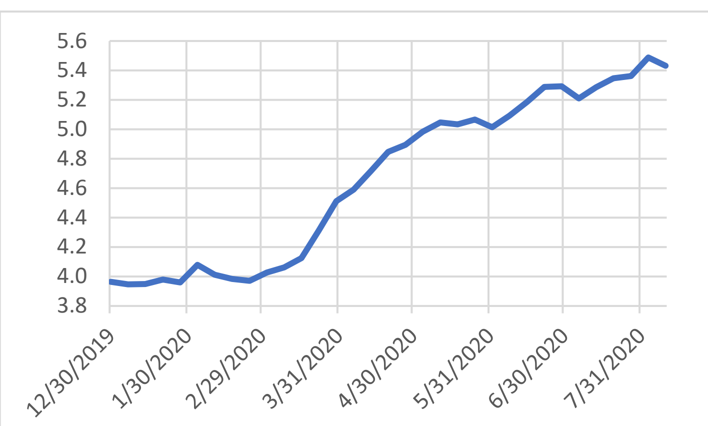
Chairman Powell announced that the current low inflation situation can lead to an unwelcome fall in longer-term inflation expectations, which, in turn, can pull actual inflation even lower, resulting in an adverse cycle of ever-lower inflation and inflation expectations. As a result, policymakers would be left with little room to lower rates again during future times of economic stress.

As we all know, inflation is a stock and bond market killer because it drives up long-term interest rates. However, no one is worried about inflation now, even though the Federal Reserve has been pumping up the money supply to soften the blow from the COVID-19 pandemic.

Money Supply and Inflation

For the last two centuries, economists have observed the strong correlation between changes in the money supply and changes in the inflation rate in the US, UK, and many other developed countries. Since the beginning of this year, the money supply has increased by 37 percent. The graph below shows the growth.

US Money Supply (M1 - $Trillions)



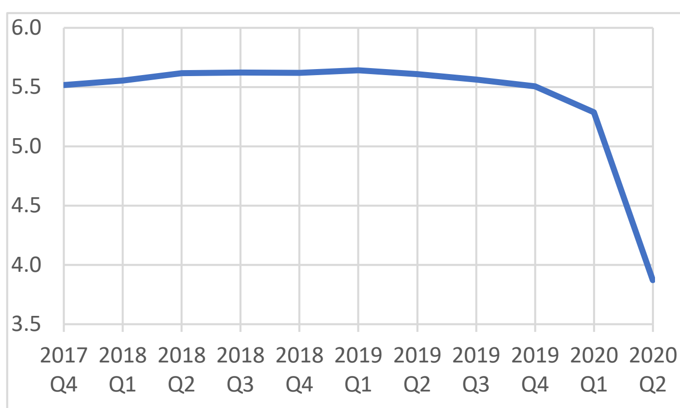
According to the widely held correlation, this money supply growth should bake in a corresponding increase in inflation. Why haven't we seen it?

Velocity

The correlation of increases in money supply and increases in inflation are based on the assumption that the velocity of money remains relatively stable, as it has been most of the time historically. Changes in the velocity of money are important because the rate at which money flows is as important as the quantity of it.

The velocity of money is defined as the frequency at which one unit of currency is used to purchase goods and services within a given period of time. The velocity of the money supply is reported quarterly and is expressed as a ratio of the total money supply. During the second quarter, the velocity was 3.87, which meant the money supply was used 3.87 times during the quarter. That sounds like a lot, but it was a substantial drop from the historical norm. Below is a graph of the quarterly velocity of money for the last couple of years.

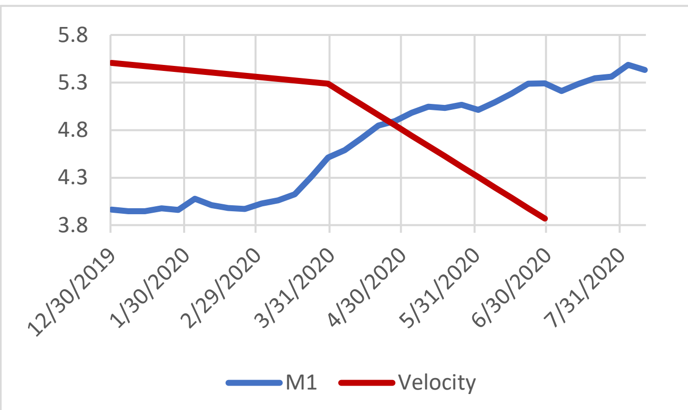
The Velocity of Money



Until the last two quarters, the velocity of money has been steady at close to 5.5, meaning that the money supply is normally used 5.5 times during a typical quarter. However, the velocity has dropped this year substantially. This reveals a sharp change in spending patterns. Instead of spending at the usual rate, people are holding on to more cash. This is understandable under the specter of the pandemic and its impact on the economy. The recent slowdown in velocity is also consistent with past recessions when velocity has slowed markedly.

The following graph superimposes the money supply and velocity since the beginning of the year.

Money Supply Versus Velocity



So far, the effect of the slowdown in velocity has offset the increase in the money supply. Of course, this is a temporary condition. As the economy recovers and confidence returns, consumer spending will increase, which accounts for 70 percent of GDP. The velocity of money is bound to return to normal levels. As a result, the increased money supply will begin turning over more rapidly, pushing up inflation.

On the day the Federal Reserve announced its new policy, long-term bond yields jumped higher. This stands to reason. Although short-term interest rates will be remaining low for the near term, aimed at stoking economic activity, this year's increase in the money supply will ultimately lead to an increase in inflation. The bond market began anticipating this inevitability immediately on the announcement.

An ETF for Rising Bond Yields

The prospects of increasing inflation means that bond yields will rise from today's historically low yields. We are adding ETFs to the portfolio that will benefit from rising long-term Treasury bond yields. These ETFs differ in the amount of leverage used. You can choose among them depending on your investment objectives and risk tolerance.

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

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

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

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

We have had these ETFs in the portfolio previously but abandoned them earlier this year when it became clear that the breakout of COVID-19 was going to deflate the economy. However, the subsequent increase in the money supply and ultimate increase in money velocity makes these investments viable again.

We can see from the table below that historically since 1980, investors have demanded a real return of 3.1% on long-term treasury bonds. That means 30-year treasury bonds should be yielding close to 5 percent with an inflation rate in the vicinity of 2 percent.

Historical Real Rates of Return

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

If we only look at recent history, since 2000, which has been a low inflationary period, investors have demanded a lower real return of 1.9 percent. This would still put the yield on long-term treasury bond yields close to 4 percent with an inflation rate in the vicinity of 2 percent.

Of course, the Federal Reserve's new policy allowing higher rates of inflation, above its previous upper limit of 2 percent, raises the prospects for higher long-term Treasury bond yields and the upside from these ETFs.

Clearly, the yield on long-term Treasuries are far too low and belong much higher.

Target Date	Bond Yields	TBF	ETF Prices TBT	TMV
8/31/2020	1.50	15.63	16.25	53.33
12/31/2021	3.00	19.33	23.37	83.88
12/31/2021	4.00	21.18	27.21	102.80
12/31/2021	5.00	22.67	30.32	118.09

The table above shows the approximate upside potential of our selected ETFs at the end of 2021 at various long-term Treasury bond yields. The first row shows today's ETF prices at today's long-term Treasury bond yields. Note that the price of these ETFs would rise dramatically as Treasury bond yields rise.

With long-term bond yields bouncing off historic lows, the downside of these ETFs is limited and the upside potential is significant, which provides an attractive reward/risk ratio.

The Erosion Factor

These ETFs suffer from erosion because they decline slightly faster than they increase with an equivalent change in bond yields, particularly with higher leverage. To gauge this factor, we can assume that Treasury bond yields simply tread water, rising and falling by an unusually large amount, say, 0.03 percentage points (3 basis points) every day, and thus go nowhere. By the end of 2021, TMV would decline by 5.4 percent, TBT by 2.5 percent, and TBF by 0.7 percent. While not insignificant, this erosion factor is nominal in comparison to the price swings caused by a change in bond yields.

An ETF for Downside Protection

The **Sound Advice Risk Indicator** (page 10) remains substantially above 2.0, revealing that the risk in the stock market is high. Moreover, the **Diffusion Index of Lagging Indicators** (page 11) is still in caution mode.

Beyond the *Sound Advice* indicators, we can see that the market is substantially over-valued.

Distorted and Bloated

A handful of stocks has been distorting the S&P 500 index in recent years. They are popularly referred to as the FANG stocks – Facebook, Amazon, Netflix, and Google. In 2013, these stocks accounted for just 3 percent of the S&P 500. Since then, two other stocks gained $1 trillion in market capitalization: Microsoft and Apple. Now, these six stocks are distorting the S&P 500 index. The acronym for these six stocks has been expanded to FANGMA. After weighting for their market capitalization, these six stocks comprise 25 percent of the S&P 500 index (and nearly one-half of the NASDAQ index).

The run-up of these six stocks has distorted the S&P 500 index and pushed it to new highs while the vast majority of stocks are still well below their previous highs. This is why most portfolios have under-performed the S&P 500 index.

On average, these six FANGMA stocks are now sporting a TTM P/E above 60, which assumes a growth rate that is inconceivable to fulfill. By conventional standards, a P/E of 30 is high and assumes a robust and uninterrupted growth rate. Any minor disappointments, or just slower growth, will cause serious downdrafts in these stock prices. Because of their heavy weighting, the S&P 500 index will also be adversely impacted.

A Constant Measure

As we have noted in past issues, a reliable way to evaluate the S&P 500 index is to measure it against the operating earnings of the individual 500 stocks that make up the index.

We use "operating" earnings, which are cash earnings without special, non-cash charges included in "reported" earnings which include write-offs such as depreciation, impairment charges due to falling commodity prices, or charges for bad loan reserves. In their regular quarterly earnings reports, companies normally state both: so-called GAAP (generally accepted accounting principles) earnings which include non-cash charges, as well as operating earnings which reflect actual cash results.

During economic downturns, GAAP earnings become much more volatile because they contain relatively large non-cash adjustments. Investors tend to view these as one-off accounting adjustments, and not as important as actual cash operating earnings.

Notably, during periods of contracting earnings, the trailing twelve month (TTM) price/earnings (P/E) ratio based on operating earnings remains very stable.

During the last recession, the P/E on the TTM operating earnings averaged 17.8 while staying within a narrow range, with a low of 17.09 and a high of 18.36. TTM operating earnings declined 46 percent through the fourth quarter of 2008, and this is close to the amount stock prices dropped.

Since the last recession, the P/E of the S&P 500 has averaged 18.03 based on the TTM operating earnings. To see a likely path of stock prices ahead, we can apply this P/E to the rolling TTM total of operating earnings that are projected in the quarters ahead.

During the 2020 first quarter, operating earnings declined by 48.7 percent from the same quarter one year ago (year over year - Y/Y). Operating earnings for the second quarter that just ended saw a decline of 33.7 percent. Operating earnings are expected to decline in the third and fourth quarters as well.

The operating earnings projections shown in the following table are from S&P Senior Index Analyst, Howard Silverblatt, who publishes extensive data of the S&P 500 companies.

Earnings Projections for the S&P 500

Quarter Ending	Quarterly Earnings	Actual/ Projected	Change Y/Y	Trailing 4Q Earnings	Change Y/Y	S&P 500 @18.03 P/E
6/30/2019	40.14	Actual	3.9%	154.54	10.1%	
9/30/2019	39.81	Actual	-3.8%	152.97	1.7%	
12/31/2019	39.18	Actual	11.8%	157.12	3.6%	
3/31/2020	19.50	Actual	-48.7%	138.63	0.0%	
6/30/2020	26.63	Actual	-33.7%	125.12	-19.0%	
9/30/2020	31.86	Projected	-20.0%	117.17	-23.4%	2113
12/31/2020	35.48	Projected	-9.4%	113.47	-27.8%	2046

Earnings projections are by S&P Senior Index Analyst, Howard Silverblatt who publishes extensive data of the S&P 500 companies. See https://us.spindices.com/documents/additional-material/sp-500-eps-est.xlsx

Based on an average P/E of 18.03, the downside risk for the S&P index is a decline to 2,046 – a potential drop of 40 percent. Whether this decline materializes is probable but not certain. However, what is certain is that the market is in the clouds, with a P/E above 27 based on TTM operating earnings. This is not a good time for aggressive long-term investing.

Because of the unusually high downside risk in the S&P 500, we are including the **ProShares UltraShort S&P 500 (SDS)** as a necessary holding in the *Sound Advice* model portfolio. This ETF essentially short-sells the market and will benefit from down-drafts in the S&P 500. It is designed to produce two times the daily fluctuations of the S&P 500 index. A decline of say, 1.0 percent in the S&P 500 will cause SDS to increase by 2.0 percent. Conversely, an increase in the S&P 500 will cause SDS to decline in the same fashion. We have been tracking SDS and confirmed that it is performing as it should, with daily premiums and discounts within 0.5 percent. It is also very liquid.

The Portfolio

All recommendations are summarized in the table on page 9 and sorted by investment objective categories and then in alphabetical order. Our portfolio recommendations are made in accordance with our current cautionary mode.

Real Estate Stocks

We are recommending three cumulative preferred stocks. Preferred stocks are inherently safer than common stocks because they must be paid out full first in the event of a liquidation of the company, based on the stated “liquidation preference” of the preferred stock. Moreover, as “cumulative” preferred stocks, any unpaid dividends must be retroactively restored first before any common dividends can be paid. They have a relatively small number of outstanding shares, so we recommend using limit orders rather than market orders.

Hersha’s Preferred D (HTPRD) has tremendous upside potential. The ticker symbols on this cumulative preferred D vary from HT.PD, HT’D for an iPhone, and Fidelity uses HTPRD.

These preferred shares have a liquidation preference of $25 per share which comes before the common stock. At the end of 2019, value of the company’s properties provided equity to fund the $25 liquidation preference with enough left over to provide equity of approximately $24 for each share of common stock. Of course, the COVID-19 pandemic impacted the hospitality industry adversely, raising fears that Hersha could fall into liquidation. However, even if the properties were valued at 68 cents on the dollar, there would still be sufficient equity for the $25 liquidation preference for the preferred shares, with nothing for the common.

Evidently, the market is not viewing Hersha’s situation that drastically because the price of common stock (HT) reflects substantial equity, well beyond the $25 liquidation preference of the preferred stocks. However, our recommended preferred D is trading at 60 percent of its liquidation preference value. A partial explanation of the undervaluation is the suspension of the dividend payments on both company’s preferred and common stocks for the balance of 2020 to enhance liquidity. However, this preferred stock is cumulative, which means that all unpaid preferred dividends must be restored before dividends

Sound Advice is published monthly by S.A. Newsletters, LLC. ©2020 S.A. Newsletters, LLC. Editor: Gray Emerson Cardiff. Executive Editor: Linda Cardiff. Subscription rate: $99 per year. Send subscription requests to: Sound Advice, 140 Town & Country Drive, Suite E, Danville, CA 94526. Phone: (925) 838-6710. Fax: (925) 838-0522. Information presented in Sound Advice may be used provided the newsletter—its name, address, and website—is mentioned as the source. The information contained herein has been carefully compiled from sources believed to be reliable, but accuracy cannot be guaranteed. When securities are initially recommended herein, the editors, affiliates, and associates of the editors do not have positions in such securities and are required to wait at least 1 business day from the date *Sound Advice* is posted before placing orders for them. After the initial recommendation, editors and staff members may own stock of any or all of the securities discussed herein.

on the common stock can be resumed. The preferred dividends in 2019 amounted to 26 percent of the company's FFO, which means that it will be much easier to restore the preferred stock dividends as we come out of the current recession.

Hersha has received a waiver of its debt covenants through June 30, 2021. Beyond then, in the event that these covenants are not met (or not re-negotiated), lenders have the right to escrow funds for the purpose of paying debt service on a property-by-property basis. Management believes that the company will be able to generate sufficient liquidity to satisfy its obligations through that extension period.

The resumption and payment of unpaid dividends of $1.64 per share (annually) on the preferred D would provide above an 11 percent current annual yield based on today's stock price. In addition, just the prospect of a resumption of the dividend would propel a steep recovery in the price of the stock. Returning to its liquidation value of $25 would mean a 67 percent profit.

RLJ Lodging Trust (RLJ) has also been able to negotiate a waiver of its debt covenants through the 2021 first quarter.

We are recommending the company's **$1.95 Series A Cumulative Convertible Preferred Shares (RLJPRA)** which is often quoted as RLJ.PA, but on the iPhone it is RLJ'A, and Fidelity uses RLJPRA. In any case, this is the only RLJ preferred stock.

This preferred stock has a liquidation preference of $28.50 per share. Although RLJ reduced its dividend on the common stock to enhance liquidity, it is continuing to pay the dividend on the preferred stock at the annual rate of $1.95 per share.

In the event that any dividends are suspended on this preferred stock, they would have to be made up before any dividends on the common stock could be paid. However, a suspension of the preferred dividend appears extremely unlikely. The preferred dividend in 2019 amounted to only 6.8 percent of the company's FFO.

Additionally, because this preferred stock is a small portion of the company's capitalization, the value of the company's real estate portfolio would have to drop to 27 cents on the dollar from its 2019 value for the full liquidation preference of this stock to be jeopardized. The market does not think that will happen because the common stock is reflecting substantial equity. As long as there is any equity in the common stock, the implication is that the preferred stock is worth its full liquidation preference value of $28.50. Yet it is trading substantially below that value and yielding close to 8 percent. A rise to the liquidation value would provide a 14 percent profit.

RPT Realty 7.25% Series D Cumulative Convertible Perpetual Preferred pays an annual dividend of $3.62, which is a yield slightly above 9 percent. It is a convertible preferred stock, convertible into 3.7758 shares of the common stock (RPT). The ticker symbol of this preferred stock varies depending on the device you are using or the brokerage service. It is often quoted as RPT.PD, but on the iPhone it is RPT'D, and Fidelity uses RPTPRD. In any case, this is the only RPT preferred stock for RPT Realty.

RPT Realty is a real estate investment trust (REIT) that owns 49 shopping centers across the eastern US, consisting of urban-infill neighborhoods, and power center properties with national chain store tenants, market-leading supermarket tenants, as well as a strong lineup of smaller national retailers. Centers also include entertainment components, including theaters, fitness centers, and restaurants.

This preferred stock has a liquidation preference of $50 per share which was well-covered at the company's 2019 property values. Because this preferred stock is a small portion of the company's capitalization, the value of the company's real estate portfolio would have to drop to 36 cents on the dollar from its 2019 value for the full liquidation preference to be jeopardized.

Like our other preferred selections, evidently the market does not think that will happen. The common stock is reflecting significant equity, which means the preferred stock is worth its full liquidation preference value of $50. A rise to that value would provide a profit of 28 percent.

To preserve liquidity, RPT has suspended the dividend on the common stock, but is maintaining the dividend on the preferred stock. The preferred dividend only absorbed 6.6 percent of the company's funds from operations (FFO) in 2019, which means it is relatively secure. If it is suspended, all unpaid preferred dividends must be paid first, and paid in full before any dividends are paid on the common stock.

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

Management has a similar approach to ours because it is very price conscious, especially in relation to net asset value. Just as we do at *Sound Advice*, they eat their own cooking – they invest a substantial amount of their personal assets into their funds.

Financials

The Federal Reserve's new policy announcement is bullish for banks. Prospects for higher inflation rates is bound to push up long-term interest rates. The cost of borrowing is based on short-term interest rates (deposits & CDs), and the income from lending is based on long-term interest rates. An increasing spread will add to profit margins.

Our two selections, **JP Morgan Chase (JPM)** and **Wells Fargo (WFC),** are still substantially below their peak levels and are presenting compelling values. They have both took substantial loan loss charges in the first and second quarters to account for potential future losses, which means any surprises ahead should reflect positively on reported earnings.

Medically-Related Selections

Both of our selections make medical devices and products which are well-suited for an aging population. They have both been impacted by deferrals of elective surgical procedures during the COVID-19 outbreak. These deferrals have built up a pent-up demand because most of these procedures are essential and need to be performed sooner or later to treat debilitating, painful, and sometimes life-threatening conditions.

Boston Scientific (BSX) has been a global medical technology leader for three decades by providing a range of high-performance solutions aimed at addressing medical needs and reducing healthcare costs in a wide range of critical areas, including cardiac rhythm and intervention, oncology, urology, and neuromodulation. The company's stream of new inventions acquisitions continues to add to promising growth prospects.

Stryker (SYK) provides a diverse array of innovative medical technologies, including reconstructive, medical and surgical, as well as neuro-technological and spine products. Its orthopaedic devices for artificial knees and hips lead the industry. SYK has a very high return on equity which is propelled by its strong balance sheet and its ability to make strategic acquisitions.

The Best in Biotech ETFs

Biotechnology has become a major industry and the source of the world's top breakthrough drugs. Biotech companies offer the most explosive profits in the healthcare industry. However, stocks of individual biotech companies are often volatile. Diversification is essential and can be accomplished by investing in a diversified biotech electronically traded fund (ETF) investing exclusively in a portfolio of biotech companies.

We are recommending two top performers. Both of our selections have been strong and surpassed previous peak prices reached earlier this year; before the Coronavirus pandemic arrived. This relative strength underscores the vitality of the industry and these selections.

ARK Genomic Revolution Multi-Sector (ARKG) is an actively managed biotech ETF investing in companies expected to benefit by incorporating technological and scientific developments and advancements stemming from mapping the human genome. Breakthroughs and advancements have cut the cost substantially of mapping the human genome which is opening new opportunities and putting this sector on the cutting edge of new innovations.

Virtus LifeSci Biotech Products (BBP) is a passively managed biotech ETF that weighs the portfolio selections essentially equally, as opposed to the more typical practice of weighing selections according to market capitalization. This is an important aspect because biotech ETFs who weigh their portfolio selections essentially equally have been the best performers by far because they have larger investments in smaller biotechnology companies which are acquisition targets for large pharmaceutical companies looking for ways to revitalize their drug portfolios by scooping up smaller companies.

Small Caps

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

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

Special Situations

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

Apple (AAPL) had a 4:1 split at the end of August, giving owners four times as many shares at one-quarter of the price. While AAPL is a great stock, it is over-valued currently, along with the rest of the FANGMA stocks. AAPL is the least over-valued of the Wall Street darlings, especially considering the $206 billion in cash in the company's coffers, which amounts to $11.50 per share. However, subtracting this cash from today's stock price still does not make it a good long-term value currently. The stock price needs to retreat from peak levels to make AAPL a value proposition. Our target is $100 per share.

Intel (INTC) has stabilized after its 16 percent drop following the disappointing second quarter earnings report in late July. INTC is now a much better value.

As we have been pointing out in recent issues, Intel is developing a key role in providing infrastructure for 5G networks. The company recently added 18 new products in this segment. These are bound to be vital for the 6 million 5G base stations forecasted to be in place by 2024. Estimations are that Intel will capture 40 percent of this market by the end of 2021.

Intel has the size, diversity, industry dominance, and financial health to make a relatively safe investment in a high-growth, and often high-risk business. Intel can leverage new technology into its existing large platform without introducing unacceptable risks.

International Business Machines (IBM) is showing strong growth from its Cloud and Cognitive Software segment, which includes Red Hat, offering technology consulting services to customers modernizing legacy cloud services to work on scalable public platforms, including IBM Cloud, Amazon AWS, Microsoft Azure, Google Cloud, and even Alibaba.

The company is also capitalizing on its OpenShift platform along with the company's artificial intelligence (AI) platform, it calls "Watson", which can "think" like a human.

The dividend yield is close to 5 percent.

NCR Corp (NCR) makes automatic tellers (ATMs), retail point-of-sale (POS) workstations, self-service kiosks, and other self-service checkout systems. Until stay-in-place orders vacated retail centers, 485 million people used NCR products every day. When the crisis passes and shoppers return, there is room for substantial growth in the US and around the world. Last year, NCR earned $3.54 per share. Based on those normalized earnings, the current price of this stock is incredibly cheap.

Invesco S&P 500 Equal Weight Consumer Staples ETF (ticker symbol: RHS) tracks a collection of 33 consumer staple stocks within the S&P 500 index. This ETF is unique because it invests equal amounts in these 33 stocks and rebalances the investments at the beginning of each calendar quarter. This practice has given RHS a superior performance because it gives investors exposure to many consumer staple stocks that are under-weighted in most portfolios, making them targets for new investment capital. The current portfolio is shown in the table.

Invesco (RHS) Portfolio of Consumer Staples

Company Name	Weight %
Church & Dwight Co Inc	3.34
McCormick & Co Inc Non-Voting	3.34
Walmart Inc	3.23
Conagra Brands Inc	3.23
Clorox Co	3.18
Monster Beverage Corp	3.18
Costco Wholesale Corp	3.15
The Kraft Heinz Co	3.15
Procter & Gamble Co	3.13
The Kroger Co	3.12
Philip Morris International Inc	3.09
General Mills Inc	3.08
Mondelez International	3.08
The Hershey Co	3.07
Hormel Foods Corp	3.07
Coca-Cola Co	3.06
Kimberly-Clark Corp	3.05
Kellogg Co	3.04
Altria Group Inc	3.04
PepsiCo Inc	3.03
Constellation Brands Inc A	3.02
Lamb Weston Holdings Inc	3.02
Campbell Soup Co	3.01
Archer-Daniels Midland Co	2.99
Brown-Forman Corp Class B	2.97
JM Smucker Co	2.95
The Estee Lauder Companies	2.93
Sysco Corp	2.92
Colgate-Palmolive Co	2.92
Walgreens Boots Alliance Inc	2.82
Tyson Foods Inc Class A	2.78
Molson Coors Beverage Co B	2.70
Coty Inc Class A	2.42

Consumer staples are those unexciting products we use every day without much thought, ranging from food, beverages (including alcohol), household goods (including cleaning supplies), hygiene products, and tobacco. These are products that people are unable (or unwilling) to remove from their budgets regardless of their financial situation. The nature of these products makes this sector defensive and much less vulnerable to recessions and bear markets.

Earnings of consumer staple stocks are expected to continue to grow or remain steady while earnings of most other stocks are crashing and expected to be even worse throughout 2020.

The current coronavirus outbreak has given us a lesson on why consumer staples stocks generally provide stable investments, and this pandemic is giving cleaning products a larger boost than a typical recession, a demand that will likely reflect a "new-normal".

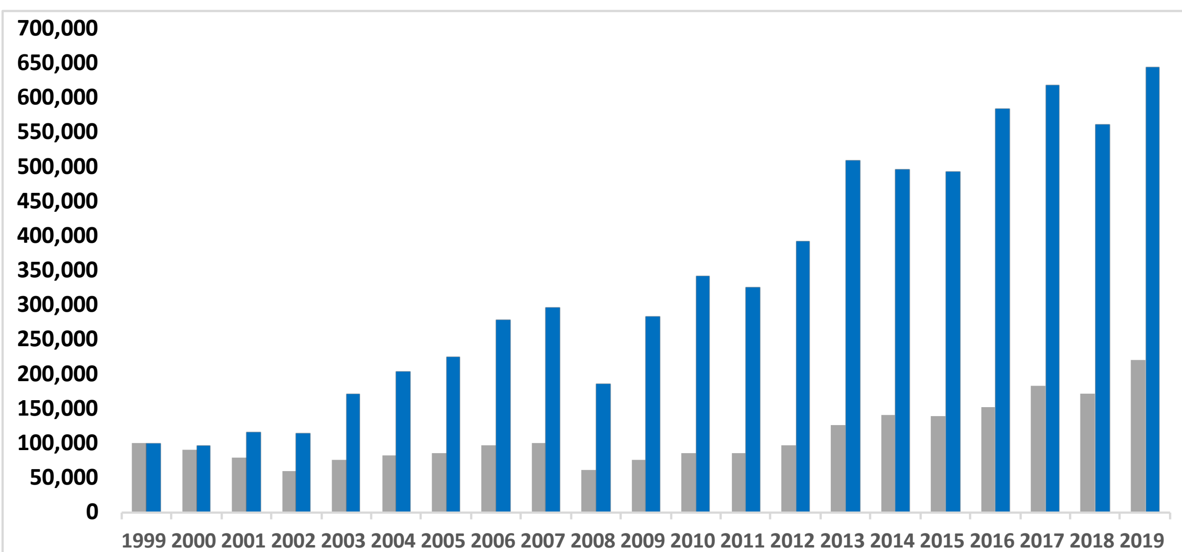
Valero Energy (VLO) is in a joint-venture partner with Diamond Green Diesel, which is producing renewable diesel at large profitable margins even during the COVID-19 pandemic. Renewable diesel is made from animal or plant waste material which reduces greenhouse gas emissions up to 80 percent because it only releases as much carbon dioxide that the material originally contained. Renewable diesel does not gel at low temperatures which means it can be easily transported through pipelines. Use for sustainable aviation fuel is expected to be a primary escalating demand factor.

Outside of renewable diesel, Valero has the flexibility to refine substantial quantities of a variety of crude oil types. The company also has access to the US pipeline network for delivery to its gulf coast locations. This flexibility and access allows Valero to capture the highest margins among its competitors because it can take advantage of the temporary local gluts of crude, whether it's low or high-quality crude, or light sweet (low sulfur) or heavy sour (high sulfur), and receive the best discounts for its feedstocks.

Declining oil prices adds profits to petroleum-based products because profits come from the "crack-spread", the difference between the cost of oil as a feedstock and the price of refined products, predominantly gasoline and jet fuel. A lid is bound to be kept on oil prices for the foreseeable future as major oil producers compete for their portions of the petroleum market, including OPEC nations, Russia, and US frackers.

Sound Advice versus the S&P 500

This chart shows the growth of $100,000 invested in the S&P 500 (in gray), which would have grown to $219,925, versus $643,554 if it was invested in the *Sound Advice* recommendations (in blue).



Portfolio Summary Table

This table is updated and live on our website:
www.soundadvice-newsletter.com

Income with Growth	Symbol	Price / NAV	Yield	Action	Limit
Hersha Hospitality Trust - Preferred D *	HTPRD	$14.63	0.00%	BUY	$19.00
International Business Machines	IBM	$123.31	5.29%	BUY	$129.48
RLJ Lodging Trust - Preferred A *	RLJPRA	$24.19	8.06%	BUY	$28.00
RPT Realty 7.25% Preferred D *	RPTPRD	$38.12	9.51%	BUY	$50.00
Valero	VLO	$52.59	6.85%	BUY	$55.22
Wells Fargo	WFC	$24.15	1.66%	BUY	$25.36
Growth with Moderate Income					
Intel	INTC	$50.95	2.59%	BUY	$53.50
Invesco Consumer Staples ETF	RHS	$148.70	2.13%	BUY	$156.14
JP Morgan Chase	JPM	$100.19	3.59%	BUY	$105.20
Growth					
Apple	AAPL	$129.04	2.26%	HOLD	$100.00
Boston Scientific	BSX	$41.02	0.00%	BUY	$43.07
Genomic Revolution Multi-Sector	ARKG	$61.91	0.00%	BUY	$65.01
NCR Corp	NCR	$20.44	0.00%	BUY	$21.46
Stryker Corp	SYK	$198.16	1.16%	BUY	$208.07
Third Avenue Real Estate Value Investor *	TVRVX	$21.34	0.00%	BUY	$23.00
Third Avenue Small-Cap Value Investor Fund *	TVSVX	$14.75	0.00%	BUY	$17.00
Virtus LifeSci Biotech Products	BBP	$46.92	0.00%	BUY	$49.27
ETFs for Rising Bond Yields					
Direxion Daily 20+Treaury Bear Shares 3X Leverage	TMV	$52.24	0.00%	BUY	$54.85
Proshares Short 20+Treasury - 2X Leverage	TBT	$16.04	0.00%	BUY	$16.84
Proshares Short 20+Treasury - No Leverage	TBF	$15.53	0.00%	BUY	$16.31
Hedges					
S&P 500 ProShares Ultra Short ETF	SDS	$15.00	0.00%	BUY	$15.75

Notes to the table: The right hand column is the highest recommended price limit for purchases.

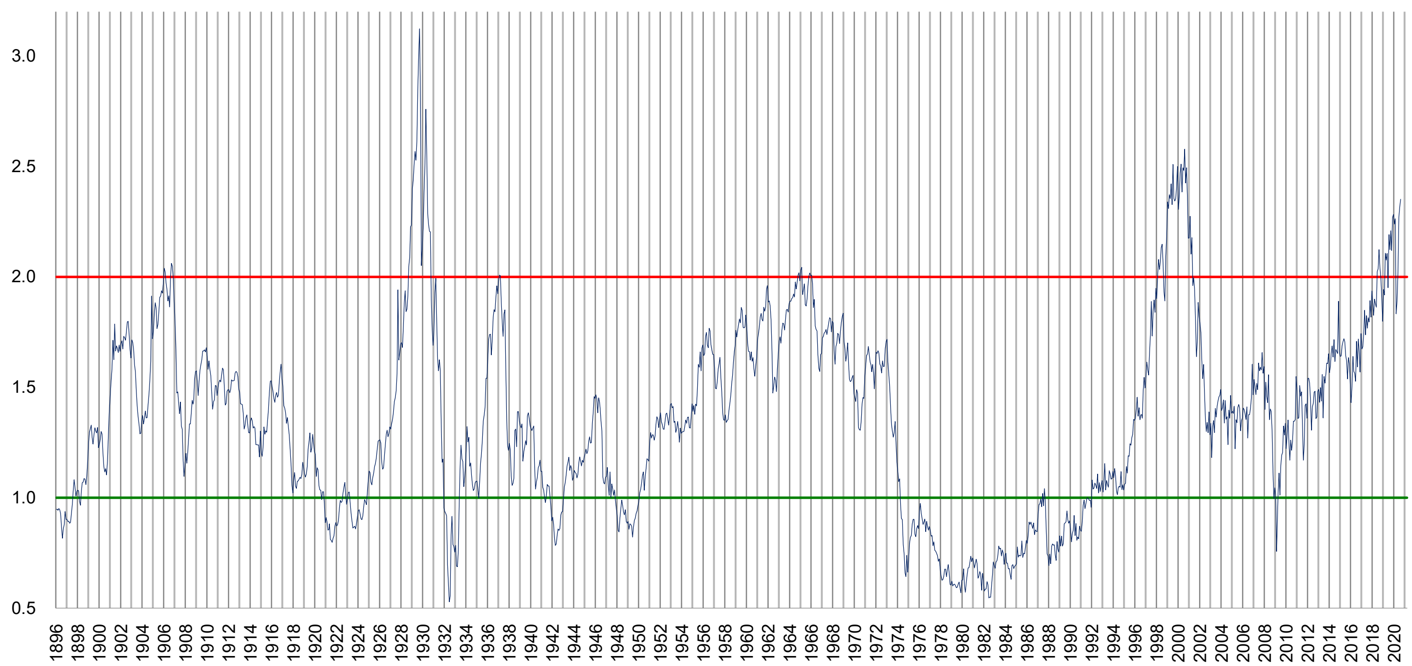
* It is not possible to offer live pricing.

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

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

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

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



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

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

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

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

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

But though an investment beginning with $25,000 in 1895 could have made money being in either stocks or housing, had an investor followed the signals of the ***Sound Advice*** Risk Indicator he or she would have made $499 million, or 26.5 times more money than by simply holding stocks though the ups and downs.

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

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

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

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

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

It would not be until March 1998 when the Risk Indicator would cross 2.0 again, after stocks were up by more than tenfold. The Dot-Com bubble would push stocks higher into early 2000, but then began another 50 percent retracement. A switch to houses would produce a 44 percent gain through the end of 2008 while stock prices were lower by 17 percent. In February 2009, with the Dow careening below 700 once again, the Risk Indicator quietly dropped below 1.0 to 0.77 as the S&P tumbled under 700. Since then, the stock market has delivered stunning gains as the S&P 500 has quadrupled. For the sixth time in the last 125 years, the Risk Indicator rose above 2.0 again in July 2018. The Risk Indicator remained above 2.0 through the high-point of the market in February 2020.

With the latest median house price at $337,000 in June (the latest data) and with the S&P 500 at 3500, the *Sound Advice* Risk Indicator reads 2.35, revealing the risk in stocks is very high.

As remarkable as the ***Sound Advice*** Risk Indicator has been, it does not pinpoint the exact time. In the past 125 years, its signal has ranged from being only one month after the zenith to as much as four years early. While the Risk Indicator has been early, it has never been wrong. An expensive crash was inevitable. This time, the signal was 8 months prior to the peak.

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

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

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

After each "Aggressive" signal, the S&P 500 climbed an average of 30.8 percent. During "Caution" signals, the S&P 500 either crashed, meandered, or climbed, recording an average increase of 4.2 percent.

Aggressive	S&P	Caution	S&P
Sep-74	68.1	Apr-76	101.9
Jul-76	104.2	Dec-76	104.7
Oct-78	100.6	Jun-79	101.7
Nov-79	100.0	Oct-83	167.7
Aug-84	164.5	Jun-85	188.9
Jul-86	240.2	Aug-87	329.4
Feb-88	258.1	Jun-88	270.7
Mar-89	280.0	Mar-93	449.7
Mar-95	493.2	Dec-98	1,141.0
Jun-00	1,429.4	Dec-00	1,320.3
Jun-03	974.5	May-05	1,191.5
Jun-06	1,276.7	Mar-08	1,325.4
Apr-09	848.2	Mar-12	1,370.3
Mar-15	2,080.0	May-15	2,111.9
Sep-17	2,492.8	Jan-18	2,823.8
Ave +/-	30.8%		4.2%

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.

Over Please...

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

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

This Diffusion Index gave us a zero reading in April, 2009, close to the bottom, officially giving us an “Aggressive” signal. That signal came at a time when the Risk Indicator was below 1.0, which revealed that Supercycle 5 came to an end, and that Supercycle 6 was born.

The ***Sound Advice*** **Diffusion Index of LAGGING Indicators** gives “Caution” signals when all three of its individual lagging economic indicators rise above their respective levels of six months earlier, providing a 100 percent reading. This reading reveals that the US economy is strong enough to put upward pressures on interest rates.

Current Status

The Diffusion Index of LAGGING Indicators has been in caution mode. The most recent 100 percent reading was in January 2020, confirming previous 100 percent readings. **The latest data for July (reported in late August) caused a 33 percent reading.**

Our next signal will come from the Diffusion Index of LEADING Indicators, when it drops to zero. **The latest reading for July was 67 percent.**

(cut along dotted line)

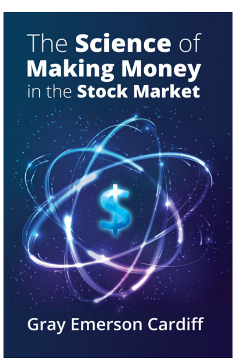
To Renew Your Subscription to SoundAdvice

Renew online: go to www.soundadvice-newsletter.com

or fax or mail in this renewal coupon order.

* Top rated by Hulbert for the best track record in both up and down markets 2000-17

* 9.8% annual return with ***Sound Advice*** versus 4.0% with the S&P 500



☐ **GREAT DEAL: 12 Month Renewal for $99.**

☐ **BEST DEAL: 24 Month Renewal for $169.**

With your renewal, you will receive the latest edition of:
The Science of Making Money in the Stock Market
This is the book that explains all of the **Sound**Advice indicators, including the Diffusion Indexes and the famous Risk Indicator, and exactly how they work so that you can update them yourself.

E-mail: ____
To receive your Printer-Friendly Issues and updates between Issues)

Phone (_______)_________-________________________ (In case we have a question about your order)

☐ Enclosed please find my check payable to: **Sound**Advice

☐ Please charge my **Visa** or **MasterCard**: Card #: ______________________________

Expiration Date:___________________ Security Code: _________ (the 3 Digit Number on the back of your credit card)

SoundAdvice */ 140 Town & Country Drive/ Suite E/ Danville, CA 94526* ***Fax 925-838-0522,*** *or call 1-800-825-7007*