

SoundAdvice

Advising Investors for 30+ years

May 2020 Issue

April 30, 2020

Does CARES Care About Investors?

The market rallied off its lows in April, based primarily on hopes that injecting more money into the economy through the CARES Act would insure a speedy economic recovery. We think this confidence is misplaced.

Gross domestic product (GDP) contracted 1.2 percent in the first quarter and is projected to contract another 7.5 percent in the second quarter. To put this into context, during the last recession, which was the most brutal since the Great Depression in the 1930s, GDP fell 4.3 percent from its peak in the fourth quarter of 2007 to its trough in the second quarter of 2009.

GDP is a measure of the output of goods and services, and there is a long-standing strong correlation between changes in GDP and corporate earnings. Accordingly, it is undeniable that corporate earnings will fall sharply in 2020.

The Provisions of the CARES Act

While the well-intentioned Cares Act is aimed at providing immediate relief for those most in need, it is only a stop-gap measure. It is based on the assumption that the economy will snap back within 2.5 months. In order to be forgivable, the amount of the payroll protection plan (PPP) loans to small businesses are limited to 2.5 months of documented employee payroll. At least 75 of the PPP loan percent must be spent on employee payroll for 2.5 months.



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.

Small businesses employ half of all US employees. A maximum of 25 percent of the PPP loan can be used for rent, utilities, and other overhead during that time. Apart from that, the Act does not provide direct benefits for the small business employers themselves. There are no provisions to help sustain their businesses and continue to employ people beyond 2.5 months.

For large companies, who employ the other half of all US employees, Secretary Mnuchin has been clear that the program is not a bailout for stockholders. He has emphasized that the government is not going to lose money on loans to large companies and will not lend to large companies with poor credit ratings with financial problems before the pandemic began. (Macy's serves as one example.) To prevent losses, like any banker would require, loans will be collateralized with pledges of stock or other assets. No dividends will be allowed or company stock buy-backs for one year after the loan is paid back.

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.

The Last Contraction

During the last recession, operating earnings for the S&P 500 began declining in the third quarter of 2007 and dropped sharply during 2008. Earnings would eventually decline below zero in the fourth quarter of 2008. The S&P 500 index of stock prices eventually declined by more than 50 percent into early March 2009.

Whether the current contraction will be worse than the last one is a subject of debate. The last recession became systemic and rolled into the banking system. Since then, US banks have been forced to bolster their balance sheets and have undergone “stress tests” to prove that they could weather such a crisis again. Additionally, the economic stimulation provided by the CARES Act is much greater than the stimulus provided last time (TARP program).

However, despite these arguments, the 2020 contraction of the US GDP is projected to be greater than in the last recession in just the first half of 2020.

2020 Earnings Projections

Based on a consensus of three credible analysts (footnoted below), operating earnings of the S&P 500 companies are projected to fall during each of the four quarters of 2020. As the S&P 500 companies continue to report first quarter results, earnings are projected to end up declining by 14.8 percent from the same quarter one year ago. The second quarter is expected to see another 33.3

percent decline. Earnings are expected to decline in the third and fourth quarters as well, but by smaller amounts. The table below summarizes these projections.

A Constant Measure

Quarterly earnings drop sharply during recessions. These drops pull down the latest trailing four-quarter total which is widely used to calculate the price-to-earnings (P/E) ratio of the market. Surprisingly, during these periods, the P/E ratio remains relatively stable.

This stands to reason because investors are facing great uncertainty and the future is much less predictable than usual. However, investors can look back and measure the market against earnings during the most recent four quarters. Although quarterly earnings are dropping and the end of the decline is unknown, investors know that earnings always recover after recessions. Sooner or later, the most recent four quarters of earnings will recur. Accordingly, investors are willing to pay a reasonable P/E based on those earnings.

During the earnings decline in the last recession, the P/E on the trailing four quarter’s earnings averaged 17.8 while staying within a narrow range, with a low of 17.09 and a high of 18.36.

A Likely Projection

Since the peak of the last recession, the P/E of the S&P 500 has averaged 18.03 based on the total of the trailing four quarters of earnings. To see

S&P 500 Earnings Projections
(Year over Year Changes)

Q Ending	S&P Analyst (1)	Factset (2)	Lipper (3)	Average
3/31/2020	-16.0%	-15.8%	-14.8%	-15.5%
6/30/2020	-26.8%	-31.9%	-33.3%	-30.7%
9/30/2020	-10.4%	-16.9%	n/a	-13.7%
12/31/2020	-0.2%	-7.4%	n/a	-3.8%

Footnotes:

(1) S&P Senior Index Analyst, Howard Silverblatt publishes extensive data of the S&P 500 companies.

See <https://us.spindices.com/documents/additional-material/sp-500-eps-est.xlsx>

(2) See <https://insight.factset.com/sp-500-earnings-season-update-april-24-2020>

(3) See <https://lipperalpha.refinitiv.com/2020/04/this-week-in-earnings-9/>

a likely path of stock prices ahead, we can apply this P/E to the earnings that are projected in the quarters ahead. This will reveal where the S&P 500 stock index is likely to go.

We can add two columns to our table: The calculation of the trailing four-quarter earnings based on the above projections, and the value of the S&P 500 index based on a P/E of 18.03.

Q Ending	Quarterly Earnings	Trailing 4Q Earnings	S&P 500 18.03 P/E
6/30/2019	40.14	(Actual)	
9/30/2019	39.81	(Actual)	
12/31/2019	39.18	(Actual)	
3/31/2020	32.09	151.22	2,726.52
6/30/2020	24.29	135.37	2,440.78
9/30/2020	35.73	131.28	2,367.15
12/31/2020	37.19	129.29	2,331.28

Based on these projections, we can expect the S&P to decline to an average of 2,331 during the fourth quarter of 2020.

The S&P 500 reached a low of 2,386 on March 16. Typically, markets “re-test” their lows, and this time it looks like it will be no exception.

The Sound Advice Stock Market Indicators

We are still in caution mode. The April rally has pushed the **Sound Advice Risk Indicator** (page 10) above 2.0 again, revealing that the risk in the stock market is high. Moreover, the **Diffusion Index of Lagging Indicators** (page 11) is still in caution mode.

The Portfolio

For many months prior to the recent correction, we have been one of the few advisory services warning that the market was significantly over-valued, and that you should be defensive while keeping a substantial amount of cash on the sidelines. Our concern was that the market was vulnerable to “an accident waiting to happen”. Of course, no one could have predicted this COVID-19 crisis, but this was the “accident”.

Our investing approach continues to be defensive. We continue to recommend that you keep a

substantial amount of cash on the sidelines. We cannot tell you how much, because we are not familiar with your particular financial situation, but it should be substantial to you. 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 with regard to the money you have allocated to the stock market, and in accordance with our current cautionary mode. To add downside protection, we continue to recommend hedging your portfolio.

ProShares UltraShort S&P 500 (SDS)

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

Real Estate Stocks

As the COVID-19 crisis gained momentum and it became more clear that it would become extremely detrimental to the prospects of the hospitality industry, we recommended moving up the credit chain with both of our recommendations by selling the common shares and reinvesting the proceeds on the preferred stocks of each company. We recommend using limit orders to purchase preferred stocks because floats are relatively small.

Hersha’s Preferred D (HTPRD) has tripled from its low-point, far out-pacing the common stock, and there is still tremendous upside potential. The ticker symbols on this preferred D vary from HT.PD, HT’D for an iPhone, and Fidelity uses HTPRD. We recommend using limit orders to purchase this preferred stock because the float is relatively small.

As we pointed out last month, the CARES Act provides aid for this industry under the small business provisions. The act defines each individual

hotel as its own small business because hotel owners with several properties, if taken together, would not qualify as a small business.

In April, Hersha was able to restructure covenants regarding its debt which greatly enhances the company's future. It was able to amend its bank credit facility by obtaining waivers on all financial covenants through March 31, 2021. These covenants required the company to sequester funds if certain financial ratios were not met. Additionally, the company accessed an additional \$100 million on its line of credit.

To enhance liquidity, the company has also suspended all dividend payments for the balance of 2020. These events were critical to the company's near-term survival prospects.

This preferred stock is cumulative, which means that all unpaid preferred dividends must be restored before dividends on the common stock can be resumed. The resumption and payment of unpaid dividends of \$1.64 per share (annually) on the preferred D would provide close to a 15 percent annual yield based on today's stock price. Of course, just the prospect of a resumption of the dividend would propel a steep recovery in the price of the preferred D stock.

The preferred dividend 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.

RLJ Lodging Trust (RLJ) took the proactive step in April to further enhance its liquidity position by drawing \$400 million under its \$600 million corporate line of credit, adding to its existing cash balance of approximately \$800 million. By preemptively drawing this capital, the Company believes that it has significant liquidity to meet its obligations over an extended period of time. The Company has no scheduled debt maturities until 2022.

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.

RLJ may not need or want assistance under the CARES Act. If it does accept assistance, all dividends would need to be suspended under the provisions of the act, which would include the \$1.95 annual dividend for each preferred share. However, any suspended dividends would have to be made up before any dividends on the common stock could be paid. The preferred dividend in 2019 amounted to only 6.8 percent of the company's FFO. If this dividend is suspended, the company is bound to be able to pay it in full during a recovery.

The preferred dividends may be delayed but they would ultimately be paid, providing a current yield of 8.66 percent based on today's stock price. Because of the priority of dividend payments, the preferred stock is likely to outperform the common on a total return basis.

RPT Realty 7.25% Series D Cumulative Convertible Perpetual Preferred pays an annual dividend of \$3.62. 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.

Under the CARES Act, nearly all tenants in shopping centers qualify as small businesses and are therefore entitled to assistance under the act for paying their rent. Tenants qualifying for rental assistance also includes most franchised retailers who would not otherwise qualify as a small business. The CARES Act allows businesses with up to 500 workers in a single location to apply for loans as a small business. As such, loans would convert into grants that don't have to be repaid for amounts spent on payroll, utilities, and rent. As a result of these provisions, RPT Realty may

see some delays in rent payments, but it should ultimately receive most of it.

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. The current yield on this preferred stock is 10.6 percent.

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. In December, TVRVX paid out a distribution of \$4.4966 per share.

Financials

Aimed at lowering the possibility of a credit crunch, the CARES Act softened a number of requirements for lenders. The act delays the enforcement of a new accounting rule requiring banks to escrow reserves all at once for any estimated loan losses. Instead, lenders will continue to be able to spread out estimated losses over the life of the loan. This change was made to free up bank funds for lending to struggling businesses. Additionally, banks will also have more latitude on how they account for troubled consumer loans, allowing them to be more flexible with delinquent borrowers. Loan size restrictions have also been relaxed.

The relaxation of lending requirements will be beneficial to our two selections: **JP Morgan Chase (JPM)** and **Wells Fargo (WFC)**. Both have bolstered their balance sheets since the last recession, allowing them to make opportune loans in the months ahead.

Both also report multi-billion dollar charges in April against first quarter earnings because of expected defaults, predominantly on credit cards. Their stock prices have dropped sharply, making them good long-term values.

Energy & Natural Resource Selections

The Coronavirus pandemic has decimated the demand for oil and gas products to the point that the world is running out of places to store all of the excess production. When the recovery begins, it will certainly be a long time until all of this inventory is absorbed. Even when that happens and the price of oil recovers to some extent, US frackers will be at it again, producing as much oil and gas as they can. That will re-ignite the oil price war between Saudi Arabia and Russia because it is aimed at knocking out US producers who can produce a comparable amount of oil and gas as either one of them.

Moreover, the CARES Act contains no major provisions for assisting the US energy industry, and there is clearly no political motivation to do so. The viability of the energy industry has become questionable for the foreseeable future.

Accordingly, we are removing most of our energy selections from the portfolio, including **Chevron (CVX)** and **Exxon Mobil (XOM)**. These were in the portfolio because they are integrated oil companies, with operations in both drilling and producing oil (upstream operations) as well as refining that production (downstream operations). This diversification offered a degree of safety. However, the overwhelming glut promises to undermine both ends of the business.

Both companies viewed their dividends as sacrosanct and are making deep cuts in capital spending, as well as eliminating stock buy-backs, in an effort to preserve their dividends. Whether these dividends can be preserved is now more of a question, especially at current levels. At any

rate, the severe cut-backs in capital spending have obliterated any growth prospects for many years to come.

Fidelity Select Natural Gas Fund (FSNGX)

is also being removed. This was in the portfolio because natural gas provides the same energy as oil for pennies on the dollar, and natural gas is more environmentally friendly. However, with demand decimated for both products, the spread has narrowed substantially and is no longer enough of a compensating factor.

Valero Energy (VLO) is the only energy-related company we believe is worth keeping. Beyond the crisis, we are still optimistic about VLO, especially at today's depressed stock price. The company is well-positioned to produce renewable diesel 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.

The new marine fuel regulations took place in January, requiring all vessels sailing in international waters to use the more environmentally friendly low-sulfur diesel fuel which needs extensive refining and is more profitable for refiners.

We continue to point out that Valero has the flexibility to refine substantial quantities of both US light sweet (low sulfur) as well as heavy sour crude. This bodes well under the new regulations and over the longer term. Valero also has access to the US pipeline network for delivery to its gulf coast locations. This flexibility allows the company to capture the highest margins among its competitors because it can take advantage of the temporary local gluts of crude, whether it's low or high-quality crude, or light sweet or heavy sour, and receive the best discounts for its feedstocks.

Medically-Related Selections

Both of our selections make medical devices and products which are well-suited for an aging

population. They are defensive in nature because they are not largely dependent on economic conditions. Our stocks in this sector have held up reasonably well during the market turmoil.

Boston Scientific (BSX) is attractively valued based on 2019 earnings. Boston Scientific 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. 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

Both of our selections rallied back strongly in April. Stock prices of both have even 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.

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.

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

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.

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.

In December, TVSVX paid out a distribution of \$1.4277 per share.

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) has been impacted by supply production delays in China as well as a drop in demand stemming from the rise in US unemployment. In April, the company introduced a second-generation iPhone SE costing \$399 which is cheaper to produce because it uses parts from other previous models.

Our target price remains at \$262 per share. The stock price dropped below that in March and should do so again. The company has \$206 billion in cash in the company's coffers which amounts to \$46 per share. Accordingly, we are actually paying that much less per share for the company, making AAPL a value proposition.

Carnival Cruise Lines (CCL) bounced in mid-April on the news that it secured expensive financing from the Saudi Sovereign Wealth fund who took an 8.2 percent stake in the company. The stock price has nearly doubled from its low and we are taking this opportunity to sell CCL for now. The company has completely tapped its other sources of financing, and it is difficult to determine how long the company can survive without income. We will consider investing in CCL again if the company makes it through the crises.

Intel (INTC) delivered its best quarter ever when it announced first quarter earnings at the end of April. Although first quarters are typically not good for Intel, revenue was up by 23 percent despite supply-chain issues caused by the COVID-19 pandemic.

As we have been pointing out in recent issues, Intel has been 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.

In addition, part of Intel's silicon portfolio has been designated by the US government as "essential technologies" because of the restrictions placed on the Chinese provider, Huawei.

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)

reported first quarter earnings in April. Revenue was down which was understandable as customers deferred software purchases to preserve capital during the COVID-19 shutdown.

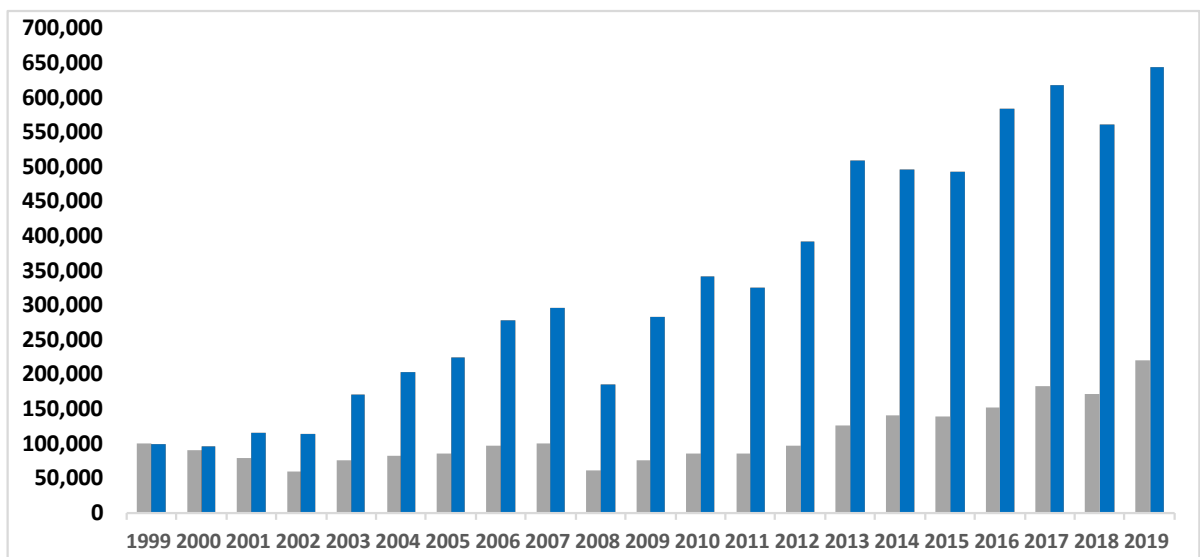
An encouraging sign was the 18 percent growth in revenue from the hybrid data center market stemming from its Red Hat acquisition. IBM can offer technology consulting services, via Red Hat, to customers modernizing legacy cloud services to work on scalable public platforms, including IBM Cloud, Amazon AWS, Microsoft Azure, Google Cloud, and even Alibaba. IBM 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.

As with most companies, IBM is not offering earnings guidance for 2020. However, the company raised the dividend slightly in April, sending a message that that the company is still okay. The dividend is 5 percent based on the current stock price.

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 reflects an incredibly cheap P/E under 6.

Sound Advice vs the S&P 500

This chart shows the growth of \$100,000 invested in the S&P 500 (in gray), which would have grown to \$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
Chevron	CVX	\$94.62	4.73%	SELL	
Exxon Mobil	XOM	\$47.46	7.33%	SELL	
Hersha Hospitality Trust - Preferred D *	HTPRD	\$10.65	0.00%	BUY	\$13.00
International Business Machines	IBM	\$128.69	5.07%	BUY	\$135.12
RLJ Lodging Trust - Preferred A *	RLJPRA	\$22.51	8.66%	BUY	\$25.00
RPT Realty 7.25% Preferred D *	RPTPRD	\$34.12	10.62%	BUY	\$39.00
Valero	VLO	\$66.28	5.43%	BUY	\$69.59
Wells Fargo	WFC	\$30.00	6.80%	BUY	\$31.50
Growth with Moderate Income					
Intel	INTC	\$61.80	2.14%	BUY	\$64.89
JP Morgan Chase	JPM	\$97.86	3.68%	BUY	\$102.75
Growth					
Apple	AAPL	\$287.73	1.01%	HOLD	\$262.00
Boston Scientific	BSX	\$37.43	0.00%	BUY	\$39.30
Carnival Cruise Lines	CCL	\$16.69		SELL	
Fidelity Select Nat Gas Fund *	FSNGX	\$10.31	0.00%	SELL	
Genomic Revolution Multi-Sector	ARKG	\$41.81	0.00%	BUY	\$43.90
NCR Corp	NCR	\$21.91	0.00%	BUY	\$23.01
Stryker Corp	SYK	\$192.68	1.19%	BUY	\$202.31
Third Avenue Real Estate Value Investor *	TVRVX	\$20.21	0.00%	BUY	\$21.00
Third Avenue Small-Cap Value Investor Fund *	TVSVX	\$14.10	0.00%	BUY	\$15.00
Virtus LifeSci Biotech Products	BBP	\$44.70	0.00%	BUY	\$46.94
Hedges					
S&P 500 ProShares Ultra Short ETF	SDS	\$22.48	0.00%	BUY	\$23.60

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

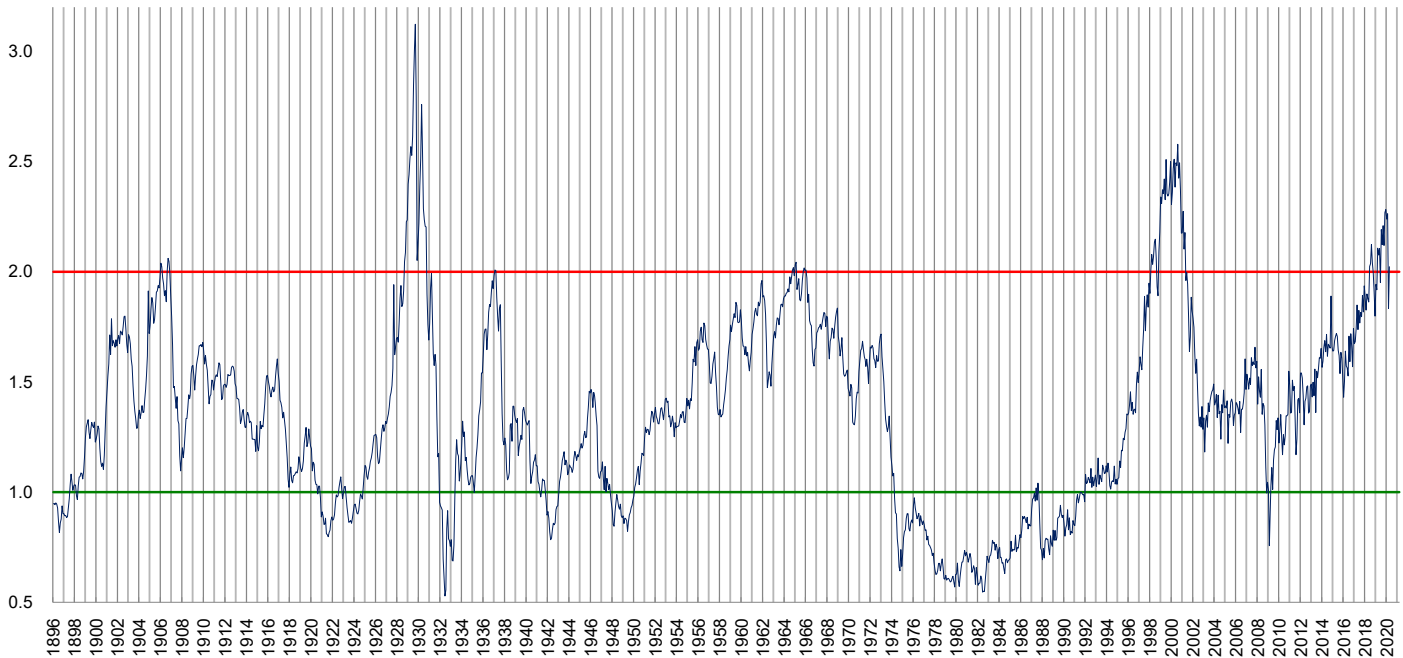
* It is not possible to offer live pricing..

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 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 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 \$404 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 \$330,100 in December and with the S&P 500 at 2931.51 at the end of April, the *Sound Advice* Risk Indicator reads 2.02, revealing the risk in stocks is high.

As remarkable as the *Sound Advice* Risk Indicator has been, it does not pinpoint the exact time. In the past 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 SoundAdvice Diffusion Indexes

Track Record of the SoundAdvice 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 3.8 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%		3.8%

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

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

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

When the *Sound Advice* Diffusion Index of **LEADING Indicators** drops to zero, it is time to buy stocks aggressively,

regardless of how negative the atmosphere may be. This is not just an empirical coincidence. It is also logical. In order for all of the leading economic indicators to be giving off a zero value compared to six months before, it is nearly certain that the soft economy is providing an atmosphere for stable or declining interest rates.

This Diffusion Index gave us a zero reading in April, 2009, close to the bottom, officially giving us an "Aggressive" signal. That signal came at a 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 March 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 March was 33 percent.**

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

* 9.6% annual return with **Sound Advice** versus 3.2% with the S&P 500

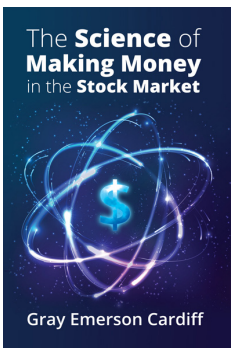
GREAT DEAL: 12 Month Renewal for \$99.

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 **SoundAdvice** 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: **SoundAdvice**

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 800-866-0026

(cut along dotted line)