Sound*Advice*

Hulbert's Honor Roll in 2011, 2012, 2013, 2014
#1 for the Best Risk-Adjusted Returns in Both Up & Down Markets since 2000

Advising Investors for 25 years

February 3, 2014

Hulbert's independent rankings of investment newsletters featured *Sound Advice* in the 2014 Hulbert Honor Roll for its top performance in both up and down markets since March, 2000. This follows our induction into Hulbert's Honor Roll in 2011, 2012, and 2013.

In addition, *Sound Advice* was ranked #1 out of the 12 investment newsletters that made Hulbert's 2014 Honor Roll for the highest investment return since March, 2000.

The criteria behind Hulbert's Honor Roll is the performance in both up and down markets. Hulbert says, "*it is a list of newsletters that you likely will be able to live with through both thick and thin."*

"It shouldn't be that difficult...But it is. A newsletter that consistently does well when the stock market is going up tends to be a big loser when the market heads south -- and vice versa. This in turn suggests that making it into the Honor Roll really means something..."

"On average over the last year, the Letters on the Honor Roll have outperformed those that were not...We have seen a similar pattern every year since the mid-1990s."

Since 2000, a $25,000 investment in the S&P 500 stocks would have grown to $39,530. However, if that same investment followed all of the *Sound Advice* recommendations, it would have grown to $102,702 -- or 2.6 times more.

-Gray Emerson Cardiff

Is the Bull Market Over?

Just after we made the #1 spot in Hulbert's 2014 Honor roll for the best track record in both up and down markets, the stock market put us to the test. The S&P 500 was down 3.6 percent in January. However, the *Sound Advice* portfolio was down substantially less, by 1.6 percent. We would like to have been profitable, but we held our ground better than the market.

Our Diffusion Index of Lagging Indicators (see page 11) has been telling us to be cautious since 2012. The market continued to do well throughout 2013 mainly because the Federal Reserve's Quantitative Easing program was holding interest rates and bond yields artificially low. Although we were operating under the caution flag, we still earned 25.74 percent in 2013 from our model portfolio.

As we said in our January blog called "The Great Investment Paradox", the conventional view is that risk and reward go hand in hand; that you must take a high degree of risk to earn an exceptional investment return. We have found this not to be true. In fact, in what seems to be an investment paradox, taking less risk will produce better investment returns over the long run. This isn't just our opinion. Hulbert's independent tracking confirms our experience.

In addition to performance, Hulbert also measures the amount of risk to which a newsletter exposes its subscribers. Through the so-called "Sharp Ratio", Hulbert compares the volatility of a newsletter's recommendations to that of the overall market. Using this measurement, Hulbert has determined that *Sound Advice* has a favorable Sharp Ratio and thus a low risk profile. We believe our Diffusion Indexes are the keys to knowing when to be aggressive and when to be cautious.

Now that the Quantitative Easing program is unwinding, so is the market and the bubbles it created around the world, as evidenced by the currency crises we are all hearing about. During the last several years, when US interest rates were expected to remain low for the indefinite future, venturesome investors and money managers went overseas to emerging countries where interest rates were higher. However, for various political and economic reasons, investing in many emerging countries has become more risky. When investors move their money out of a country, they sell the local currency. When they sell en masse, it causes the currency to drop sharply, causing a currency crisis. When the majority of the selling is over, the currency stops dropping rapidly and the crisis is over. Depending on the severity of the underlying problem in a particular country, the currency may continue to deteriorate until the underlying political or economic problem is corrected. However, when the panic selling is over and the currency stops plunging, the crisis ends.

We have had currency crises before. The most memorable was in 1997 which started with a crash in the Thailand baht. The crisis spread throughout Asia. The Chinese economy was considerably smaller back then, one-fourth the size it is today, as were all of the Asian economies, and the crisis was contagious. After several weeks of currency devaluations, and consternation, the crisis ended. The US economy was essentially unaffected, and the US stocks resumed the bull market, and stock prices marched substantially upward to new highs well into 2000.

The current currency crisis is unlikely to last long. While fundamental problems may linger in some of these countries, the crisis is a temporary condition.

Meanwhile, even in the midst of the current currency crisis, the Federal Reserve continued to taper its massive Treasury bond buying program, tapering purchases by $10 billion for February to $65 billion, after a $10 billion reduction in January. The Federal Reserve's decision was based on "growing underlying strength in the broader economy." This decision was clear because it was the first unanimous decision made by the Federal Open Market Committee since 2011.

The Federal Reserve is confident about the US economy. However, it did not change its intention to keep stoking the economy by keeping short-term interest rates near zero "well past the time that the unemployment rate falls below 6.5 percent." This adds certainty to the recovery path of the US economy.

It is because the Federal Reserve is continuing to maintain a very easy monetary policy that we can safely conclude that the bull market is not over. Although it seems over simplified, the old axiom is worth keeping in mind "Never Fight the Fed." While there are always zigs and zags along the way, the Federal Reserve determines the major trend in the stock market. Accordingly, we believe the dip is temporary and provides a buying opportunity.

Here are two of the positions in our portfolio that are particularly timely and deserve investment at this time.

Two Timely Investments for 2014

The first are our "No-Brainers", ETFs designed to benefit from rising long-term Treasury Bonds. We have dubbed these ETFs as "No-Brainers" because interest rates always rise after a recession during the recovery. It is as simple as that.

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

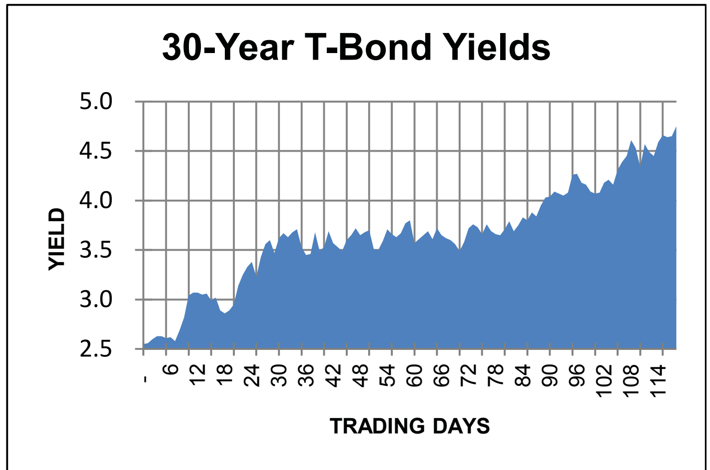
The **Proshares Ultrashort Lehman 20 Plus Year Treasury (TBT)**, which uses 2:1 leverage.

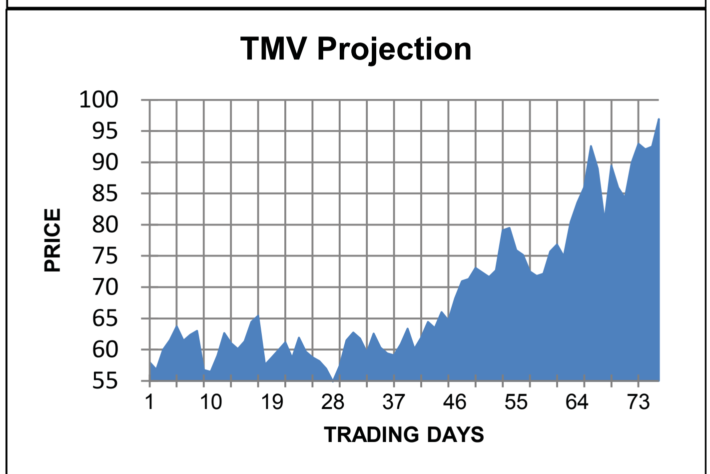
The **Proshares Short 20 Plus Year Treasury (TBF)**, which uses no leverage.

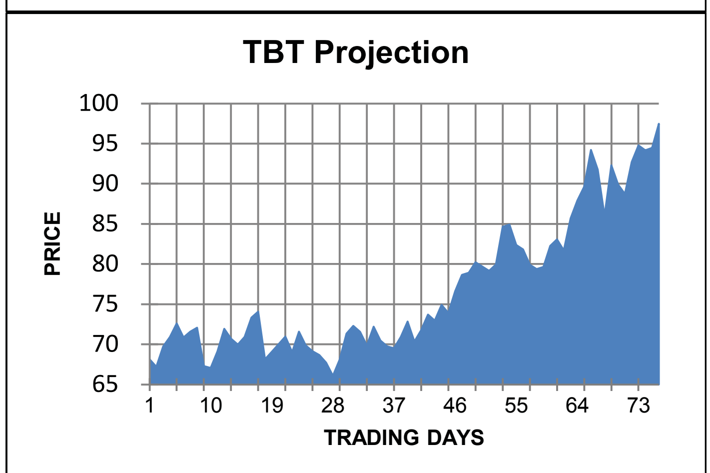
We still have substantial gains in these ETFs since we recommended them. However, they have retreated since the first of the year and are timely investments now. A continued US economic expansion is certain to push up bond yields and the prices of these ETFs.

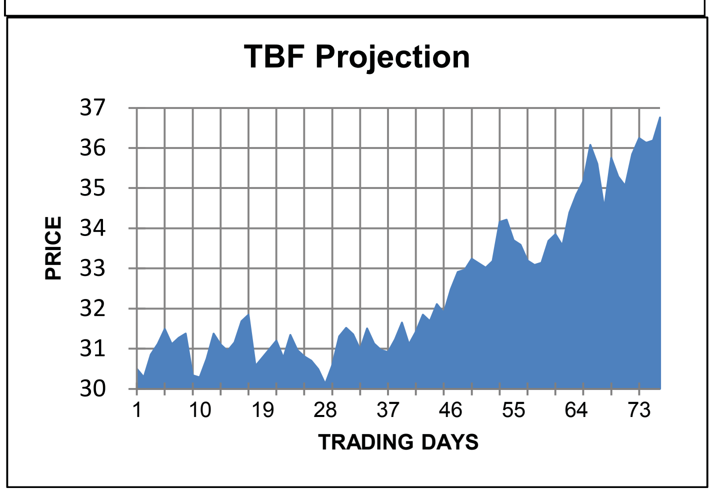
The most recent time long-term Treasury bond yields rose significantly was from December 18, 2008 to June 10, 2009, (118 trading days) when 30-year Treasury bond yields rose from 2.55 percent to 4.75 percent, or 220 basis points. The pattern of this rise is shown on the top chart.

Our No-Brainer ETFs did not exist during this entire period, so we don't have historical track records to view. However, we know how these ETFs work, and can model them to get









an idea of the profit potential.

The price action of these ETFs is based on the changes in long-term treasury bonds, specifically BlackRock's iShares 20+ Year Treasury Bond ETF (symbol TLT) which holds a portfolio exclusively of long-term Treasury bonds with an average maturity length of close to 27 years. The prices of our No-Brainer ETFs fluctuate in accordance with the daily fluctuations of TLT, only in the opposite direction, multiplied by the leverage each uses. For example, a decline of say, 1.0 percent in TLT will cause TMV to increase by 3.0 percent, TBT by 2.0 percent, and TBF by 1.0 percent. Conversely, an increase in TLT will cause these ETFs to drop in the same fashion.

To construct our models, we start with a projection of an increase in 30-year Treasury bond yields. A conservative approach would be to assume that long-term Treasury bond yields will not rise beyond 4.75 percent -- not any higher than the last peak. We can use the pattern of the last 75 days of the 220 basis point rise when yields rose from today's yield of 3.53 percent to the peak of 4.75 percent. In that scenario, our No-Brainers would rise to the following levels:

TMV would climb to $96.9, for a 67 percent gain.

TBT would climb to $9.5, for a 43 percent gain.

TBF would climb to $36.8, for a 20 percent gain.

See the charts to the left which display these projections.

While the pattern of today's rise is unlikely to be exactly the same as the previous rise, we believe this projection serves as a minimum expectation. After yields rose to 4.75 percent on the last rise, the economy was considerably weaker than it is today and subsequently went into a decline.

This time, after many years of stimulus from the Federal Reserve, bond yields are likely to continue marching substantially above the previous mid-2009 peak.

All three of these No-brainers constitute our first of two timely investments. You can invest in all three ETFs or pick the one that best suits your investment objective.

* * * * *

Our second timely investment is **Freeport-McMoRan Copper & Gold (FCX)**. We originally added it to the portfolio in late August at $30.42 per share. It didn't stay there long and rose above $37. It has recently settled back to $31. At the current price, the stock is trading under 10 times 2014 projected earnings of $3.15 per share. The dividend was recently increased again, for the fourth time since 2009, and is now a well-covered $1.25 a share, for a 3.8 percent yield.

Copper is woven into the fabric of every developed economy, and its price moves dramatically in tandem with expansions and contractions. FCX is particularly opportune now because the US, along with most of the developed world, is emerging from recessions.

Close to 200 pounds of copper goes into the average new house constructed in the US. Both residential and commercial construction accounts for 40 percent of the US demand for copper. It also has many uses in industry because it is ductile and easily combined with other metals to make alloys such as bronze and brass which are stronger and corrosion resistant. In addition to being an excellent electrical conductor, it is also one of the best thermal conductors. It is also non-magnetic which is important in many applications. In addition, it also has anti-bacterial properties for use in medical devices. While other metals can sometimes be used as alternatives, copper is often substantially less expensive for industrial uses. It can also be easily recycled.

As we emerged out of the last recession in March 2003, we added Phelps Dodge to our portfolio, which at the time was the largest copper producer. As the world economies expanded and demand for copper accelerated, so did the price of Phelps Dodge. We held it until December 2006 and sold it for a 643 percent gain.

In March 2007, FCX purchased Phelps Dodge, and as the world's economies continued to expand into 2008, FCX soared to new heights to $63.60 a share with its newly-acquired copper mines and production. When the 2008 meltdown and following recession undermined the demand for copper, FCX plunged. Although FCX has recovered from its lows, it remains a stellar value with a great deal of upside profit potential.

Since the Phelps Dodge transaction, FCX has added 45 billion pounds of copper to reserves and continues to have opportunities to add reserves because of its large resource base and ongoing exploration program. Management estimates FCX has over 100 billion pounds of mineralized material that has not yet qualified as reserves.

Production Growth

FCX is the largest copper producer in North America and this is where FCX derives more than half of its revenue. FCX owns seven US copper mines, 5 of which are in Arizona (Morenci, Bagdad, Sierrita, Safford, and Miami), and two of which are in New Mexico (Tyrone and Chino). FCX has recently completed projects to increase production at the Morenci and Chino mines, including restarting some mining and milling operations.

The company's second largest copper producer is in Papua, New Guinea, a province of Indonesia, located in the Grasberg minerals district. This is the largest single recoverable reserve of both copper and gold in the world. FCX has several projects in progress related to the development of large-scale, high-grade underground ore bodies, which include the Common Infrastructure project, the Grasberg Block Cave underground mine, and the development of the Deep Mill Level Zone ore body. The ramp-up of these projects and the increased quality of ore are expected to increase production substantially.

The production increases began to show up in 2013 when consolidated copper sales in the fourth quarter totaled 1.1 billion pounds and 17% above the prior year's fourth quarter. This compares to 1.35 billion pounds in all of 2012. Production was higher throughout the global operations, and particularly at Grasberg, where copper sales were a little over 40% above last year's fourth quarter.

The China Connection

During the last decade, China's expansion exerted a voracious demand for copper, accounting for 40 percent of the world's demand for refined copper. The expansion of the Chinese economy is not likely to be at the double-digit growth rates of the past decade. It is a much larger economy now which by its sheer size cannot grow at the high rates of small emerging economies. In addition, China is trying to rebalance to a more consumer-based economy which will translate into a slower growth rate. However, China still has millions leaving their destitute farms for work in the cities. To avoid a social revolution, China's economy must continue to grow at lest 7.5 percent annually to provide jobs for its citizens. Moreover, as a more developed country now, its demand for industrial materials will now grow proportionately faster than its overall economy.

Regardless of China's growth rate, there is a large and defined source of future Chinese demand for copper. The size and geography of China is similar to the US, with most of its population on its east coast. However, its natural resources, specifically coal which still supplies 80 percent of its power needs, is on the west coast. Transporting coal has overloaded barges, trucks, and trains to the point that transportation bottlenecks are responsible for brownouts in major areas.

In a 5-year plan announced in 2013, the Chinese Energy Department is calling for developing 14 large "energy bases" where power plants and petrochemical facilities will be combined with coal mines. The power generated from these plants will then be sent over a massive network of long-distance power lines called the "West-East Electricity Transfer Project."

Of course, nothing has anything close to the conductivity of refined copper, and by necessity, copper is the material needed. Even with large copper cables, some power will be attenuated over such a long distance, but it will be far more efficient than physically transporting coal. The three main transmission routes are now operational, but new networks of feeders are needed, along with upgrades to older networks. The overall cost is estimated at $100 billion. The capacity of the electrical power projected to be transferred by 2020 is 120 gigawatts, the equivalent to the production of 60 Hoover Dams. The Hoover Dam is a major supplier of power to Southern California, Arizona, and Nevada.

Although China's growth has put it on the map as an economic force, the US GDP at $15 trillion is double China's $7.2 trillion and will be the most powerful force in the demand for copper. Japan's expansion of its $5.9 trillion GDP will also be significant. Europe, with its GDP of $12.6 trillion, is also emerging from its recession, and any growth from the world's second largest GDP will be a tremendous source of demand for copper.

In their January 22 earnings conference call regarding the company's 2013 fourth quarter earnings, Management said, *"In the copper business, we are seeing some recovery in Europe, the beginnings of it. Worldwide, the copper market remains very tight. Exchange stocks have dropped dramatically during the second half of 2013. Today they are lower than they have been in 15 months...longer-term fundamentals remain particularly strong because of constraints on supply globally and the demand for copper throughout the world."*

Recent Diversification

In 2012, 79.3 percent of FCX's revenues came from copper products. The rest came from producing gold (9.7 percent), molybdenum (6.6 percent), and the balance (4.4 percent) from cobalt, silver and other metals including rhenium and magnetite. Accordingly, FCX was nearly a pure copper play.

In 2013, in an effort to diversify, FCX purchased oil and gas producing operations in California, Texas, Louisiana, and the Gulf of Mexico. These assets have significant exploration potential, and the current revenue from these assets now amounts to 25 percent of FCX's revenues. FCX became more of a natural resource company in 2013, with its dominant source of revenue still coming from copper, with a little help from gold, and a significant amount of help from oil and gas.

Insider Buying

In 2013, Chairman of the Board, James R. Moffett purchased $28.5 million of FCX stock. A few days earlier, his Vice Chairman purchased $14.3 million. Such large purchases are evidence that these two top company leaders also think the stock is a good investment.

Portfolio Updates

Here are updates on the rest of our recommendations in alphabetical order. The table on page 9 details our buy limits and other information on each recommendation, and organizes them by investment objective. Also see our website for live pricing.

Agrium (AGU) was volatile in 2013 and in January, but we still have a profit of 650 percent.

AGU has a broad mix of agricultural products and services that are poised to benefit from growing demand as arable land continues to disappear around the world and the need for higher food production per acre increases. Growth is also fueled by an expanding worldwide population along with increasing per-capita income.

In January, AGU agreed to sell potash to China through its offshore selling arm Canpotex. China is one of the largest importers of potash because it is the world's biggest grower of wheat and second-largest corn producer. This agreement is significant because it is the first large purchase of potash since last July when the Russian cartel dissolved as one of its members pulled out to undercut prices and gain volume. This purchase is likely to mark the end of the slide in potash prices.

In late 2013, AGU acquired Viterra which added 210 retail farm centers in Canada, adding a significant source of immediate growth.

AGU also doubled the dividend to $3.00 a share in late 2013. With a solid 3%+ dividend yield, and the stock price at close to

10 times earnings, AGU is an excellent value with promising growth ahead.

AMN Healthcare (AHS) was up 2 percent in January, extending our profit to 183 percent. AMN Healthcare provides temporary healthcare staffing services to the healthcare industry, ranging from nurses to physicians. We recommended this stock at an average price of $5.35 based on the rationale that it was a two-fer. AHS was not just an opportunity to invest in healthcare, which is traditionally a non-cyclical industry, but it was also a chance to buy into a healthcare business that would benefit from a recovery in the economy.

As the stock advanced in 2013 and its price/earnings (P/E) ratio expanded, ultimately climbing over 25, we recommended holding off on purchases.

Associated Estates Realty Corp (AEC) declined 2 percent in January, reducing our gain to 13.7 percent.

AEC is a REIT that owns 54 apartment communities with 13,964 apartment units in ten states. During 2013, AEC made significant moves to reduce its debt and diversify into California, both of which are certain to benefit the bottom line.

What originally attracted us to AEC was the fact that it was selling at a substantial discount to the value of its net assets. The underlying equity of AEC is worth $21.67 per share which is 40 percent more than the current price. This is an excellent value with a nice dividend that is close to 5 percent.

Boston Scientific (BSX) was up 9.7 percent in January, extending our profit to 38 percent. BSX's medical products are well suited for an aging population in the US.

After making substantial investments during the last several years, all of BSX's divisions are now growing, and should continue to do so for the foreseeable future. These divisions include Endoscopy (technologies for diagnosing and treating diseases of the digestive system, airways, and lungs), Urology/Women's Health, Neuromodulation (micro-electronic implantable devices aimed at managing chronic neuropathic pain and neurological diseases), Interventional Cardiology (catheters and stents), Peripheral Interventions (products aimed at treating vascular system blockages), and the Cardio Rhythm Management business that returned to growth in 2013 because of BSX's subcutaneous implantable defibrillator (S-ICD), the world's first and only one of its kind. This defibrillator utilizes a pulse generator without touching the heart.

In September 2013, BSX opened its first Chinese branch in Shanghai of the Boston Scientific Institute for Advancing Science (IAS) as well as its new Innovation Center. Through these facilities, BSX will foster local talent to develop new technologies uniquely suited to the China market.

Chesapeake Energy (CHK) was essentially unchanged in January, leaving our gain at 65 percent. CHK is the second largest producer of natural gas and pioneered the use of fracking technology to produce oil and liquids from shale. We added CHK to the portfolio because it was at a substantial discount to its net assets. The stock price was cheap because of low natural gas prices, poor corporate governance, and because it was in the midst of a financial squeeze. We could see all of these conditions were likely to be remedied, and indeed they were.

CHK is the top producing company from the Utica Shale, which extends over six states, from West Virginia to Ohio, across Pennsylvania and into New York. In the third quarter of 2013, CHK's production increased 91 percent from 166 producing wells.

The majority of CHK's Utica Shale oil and gas assets remain unexploited. The Company holds 564 of the 1,042 drilling permits issued in the Utica shale. Oil and gas production was recently valued at approximately $1.0 million per well with revenue potential of more than $500 million for CHK in 2014.

CommonWealth REIT (CWH) is at substantial discount to the underlying value of its net assets. At the beginning of 2013, when the stock was selling below $17 a share, we calculated its net assets to be at least $32.76 per share. Based on the company's most recent 2013 third quarter financials, we evaluate net equity of the company's real estate to be close to $40 per share.

The stock jumped 50 percent in early 2013 when activists Corvex Management and Related Fund Management began their proxy fight to oust the management. These activists stated that CWH is worth at least $40 a share, and $50 with better management. Corvex is headed by a former associate of Carl C. Icahn, Keith Meister. Related Fund Management is the investing department of the large real estate company, Related Companies, headed by Jeff T. Blau.

A November 2013 arbitration verdict cleared the way for the activists to conduct a stockholder solicitation to remove management and the entire Board of Trustees. In a recent presentation, Corvex and Related reiterated their argument against the current management run by the Portnoy family who own very little stock and whose fees increased by 40 percent from 2007 to 2013 while stock fell 68 percent.

On January 30, Corvex and Related began the consent solicitation process, proposing the election of a new independent board of directors, as well as adopting changes

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for more stockholder-friendly by-laws including removing the existing "poison pill" provisions unless approved by stockholders. We agree with the activists and strongly recommend voting for their proposal when you receive the proxy.

Fidelity Select Natural Gas Fund (FSNGX) was down 0.7 percent in January, trimming our gain to 17.5 percent. This is the only mutual fund that concentrates on the natural gas industry, and a diversified play on the gap between the energy equivalents of oil and natural gas.

Our primary reason for recommending this fund is simply that natural gas provides energy vastly cheaper than other sources of energy, which translates into an inexorably vibrant and expanding natural gas industry.

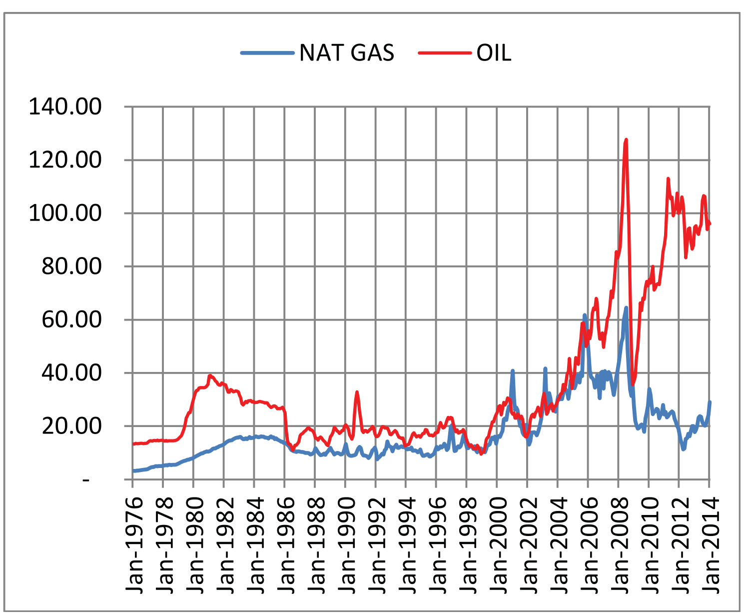
One barrel of oil provides approximately 5.8 million British Thermal Units (BTUs) of energy. With one barrel of oil at $95, that is the cost of 5.8 million BTUs of energy. On the other hand, with a market price for natural gas at $5.00 for one million BTUs, 5.8 million BTUs will cost $29 (5.8x5). So the same amount of energy is available for 30 cents on the dollar -- if it is in the form of natural gas.

To illustrate the point, we continue to display the historic relationship between the costs of these two forms of energy in the chart below because it demonstrates that today's disparity is not a normal situation.

The red line shows the price of a barrel of oil since the mid-1970s. The blue line shows the price of natural gas multiplied by 5.8 to approximate the same amount of energy contained in a barrel of oil. Note that for most of the time (36 years), the two forms of energy are closely aligned. This stands to reason. After all, energy is energy, and it should cost approximately the same regardless of the form in which it comes. However, that is not the case today.

The US is self-sufficient in natural gas with only 9 percent imported from Canada. At pennies on the dollar versus oil, natural gas is bound to have a growing role in America's energy needs as well as creating independence from importing oil. This fund is well positioned to benefit from an expanding natural gas industry.

The Cost of Energy Equivalents of Oil and Natural Gas



Hambrecht & Quist Life Sciences Fund (HQL) was up 2 percent in January, extending our profit to 126 percent. We have been recommending this Fund because the most explosive profits in the entire healthcare industry can be found in biotech companies, and this fund is an excellent way to participate in a promising future.

Among the Fund's holdings that have promising drugs and treatments that have received FDA approvals include: Medivation's *Xtandi* for use in prostate cancer, Amarin's *Vascepa* for use in hypertriglyceridemia, Ironwood Pharmaceuticals/Forest Laboratories' *Linzess* for use in irritable bowel syndrome, Biogen's *Tecfidera* for use in Multiple Sclerosis, and Celgene's *Pomalyst* for use in Chronic Myeloid Leukemia.

Among the Fund's holdings reporting positive clinical data for key products include: Celgene's *Abraxane* in pancreatic cancer, Gilead's *Sofosbuvir* in Hepatitis C, and Vertex Pharmaceuticals in multiple drugs for Cystic Fibrosis.

Celldex's principal product demonstrated a survival benefit in the metastatic breast cancer setting.

MEI Pharma demonstrated an impressive response rate in patients with myelodysplastic syndrome when its product was combined with Celgene's *Vidaza*.

Oncogenex Pharmaceuticals began a pivotal trial in non-small cell lung cancer patients.

Endocyte, Inc. is in for approval (in concert with Merck) for its ovarian cancer drug in the EU.

There are bound to be home runs among these holdings. HQL is a superior way to gain exposure to biotech on a diversified basis.

Hersha Hospitality (HT) was down 2 percent in January which brings it 3.6 percent below our initial recommendation in the December issue. HT has an excellent risk/reward ratio. Risk is minimized with the stock below a currently depressed net asset value. The dividend is solid because it is well-covered by FFO. A yield of more than 4 percent is attractive and limits downside movement in the stock price.

Upside is strong for several reasons. With income ramping up from portfolio additions and renovation conclusions, Hersha is poised for organic growth. In addition, hotel assets in general are sensitive to the business cycle and will benefit strongly from the economic recovery. With Hersha's history of out-performing the industry, capital gains should be high from the present price of the stock under $6. Moreover, with its niche assets and attractive stock price, Hersha is a very attractive take-over target.

ICON Energy Fund Class S (ICENX) was down 1.4 percent in January, which eliminated most of our gain. We added it to the portfolio because the demand for energy accelerates with an economic expansion. It takes energy to make everything, and especially large amounts to make the most vital materials and substances, such as chemicals, plastics, and to run data centers. The best time to invest is when the economy is coming out of a slump, before demand increases.

Aside from the cyclical timing, above average investment returns can be earned over the long run. Over the last 10 years, the Energy Equity Index produced an average of 12.6 percent annually, far outstripping the performance of the S&P 500. The superior performance is due to the fact that energy is in the fabric of the economy.

In addition, there is always the possibility of geopolitical disturbances threatening supplies and driving up energy prices. Repercussions in Syria may spark an explosion in oil prices.

Most energy mutual funds have not been able to match the performance of the Energy Equity Index. However, this fund not only beat the Energy Equity Index resoundingly, it has turned in the best performance – by far – of energy funds.

Pfizer (PFE) was down 1.7 percent in January, trimming our profit to 83 percent. We added PFE to the portfolio when it became dirt cheap as the expiration date approached on its blockbuster drug, *Lipitor*. However, its future was brighter due to the arsenal of new pharmaceutical products with more than 80 drugs in the development stage and 90 in the discovery stage.

In the final days of January, PFE reported fourth quarter earnings of $0.56 per share which was $0.04 better than expected. The stock erased its losses from the previous day when it was announced that trials failed on its cancer drug, Dacomitinib. However, PFE will continue to test the drug.

Pfizer is making significant progress on several potential blockbusters for the treatment of cancer, heart disease, and immunology. The brightest spot is from sales of its oncology drugs which Pfizer is counting on to replace several blockbusters whose patents have expired or will be in the next few years, including *Lipitor* in 2011, *Viagra* in most major markets in Europe in June of 2013, *Celebrex* in 2014, *Zyvox* in 2015, and *Lyrica* in 2018.

Recent introductions of oncology drugs include *Xalkori* for lung cancer, *Inlyta* for kidney cancer and *Bosulif* for chronic myelogenous leukemia. *Palbociclib*, an experimental treatment for advanced breast cancer, is a potential blockbuster and could produce $3 billion in annual sales. Data is showing that the drug stopped disease progression for more than two years.

Revenues increased sharply in 2013 for *Inlyta* on nearly triple sales volume, a treatment for late-stage kidney cancer, and revenues increased 92 percent for *Xalkori*, a drug for metastatic non-small cell lung cancer.

Beyond oncology, PFE started final stage trials of *Bococizumab*, a cardiovascular drug for those whom statins are not effective. The blood thinner *Eliquis*, which is split with Bristol-Myers, is expected to be a significant contributor to PFE's bottom line.

Xeljanz for arthritis also sold well in 2013 as physician responses were encouraging as 75 percent of their patients repeated prescriptions.

Lyrica for nerve pain was PFE's largest revenue producer in 2013.

Prevnar, a vaccine against pneumococcal bacteria was also a large revenue producer with improvement in 2013.

Pfizer is the world's largest pharmaceutical firm, with annual sales near $60 billion. Pfizer's large size gives it economies of scale and the resources to finance the research and development of new drugs.

PFE recently announced a $5 billion share buy-back program along with an 8.3 percent dividend increase to $0.26 quarterly.

Retail Opportunities Investment Corp (ROIC) was down 3 percent in January, reducing our profit to 35 percent. This REIT began as an IPO in October 2009, just after the REIT sector had been decimated by the 2008 melt-down. It started with a fresh slate in a real estate market replete with bargains.

ROIC buys distressed retail properties with high-quality demographics, refurbishes them, and then leases them at a premium. During 2013, ROIC has acquired ten grocery-anchored shopping centers for $368 million. Funds from operations (FFO) increased during the year as these properties were added.

As new properties are added, along with tenant upgrades, FFO is bound to continue to rise, along with the dividend, and push the price of this REIT upward. Meanwhile, ROIC pays a 4+ percent dividend that is bound to increase in the years ahead.

Stryker (SYK) was up 2.7 percent in January, extending our profit to 87 percent.

SYK is best known for its orthopedic devices: artificial knees and hips. SYK also provides a diverse array of innovative medical technologies, including reconstructive, medical and surgical, as well as neuro-technological and spine products. Continued growth is assured by accelerating demand for joint replacements on aging US baby boomers. As life expectancies continue to increase, and obesity trends continue, more and more hip, knee, and spinal procedures will be needed. In late January, SYK reported fourth quarter earnings of $1.23 per share which brought 2013 earnings to $4.00. Earnings growth was close to 11% for the year. There was favorable organic sales growth from all 3 segments: Reconstructive segment saw sales increase 9 percent in the US with a 10% increase in hips and 8% growth in knees. The MedSurg segment saw Instruments sales increase 8 percent and Endoscopy increase 12 percent. The Neurotechnology and Spine segment was up roughly 5 percent in the U.S.

SYK's purchase of Trauson Products in 2013 offers another source of substantial growth. Trauson is China's largest manufacturer of orthopedic implants where 194 million people are now over the age of 60, and whose numbers are climbing rapidly (expected to double by 2050). This demographic bulge is also gaining wealth, so the number of potential candidates is mushrooming. In addition to giving SYK access to the Chinese market, Trauson also broadens SYK's customer base. Trauson devices are generally purchased by lower-income hospitals that cannot afford Stryker's more expensive products. With the diversity of products, SYK can serve both of China's developing and developed areas.

In addition to the purchase of Trauson Products, the 2013 acquisition of MAKO Surgical puts SYK in a leading position for robotic-assisted surgery and the potential for break-through innovations. This is likely to be an important source of longer-term growth.

Stryker's cash-rich balance sheet with $5 billion of cash and marketable securities, and robust cash flow, gives SYK multiple avenues for continued growth through mergers and acquisitions.

Symantec (SYMC) was down 2 percent in January, trimming our profit to 39 percent. SYMC is the dominant supplier of software for computer security and protection against viruses and other nuisances through its leading flagship brand, Norton.

We added SYMC to our portfolio when it was cheap and when the company was suffering from operational inefficiency and lack of direction. Steve Bennett has since taken over and has streamlined operations while giving SYMC stronger direction by emphasizing 3 areas: (1) leverage all of the company's technology assets along with partnering and/or acquiring to deliver innovative offerings; (2) build capabilities to improve sales and marketing effectiveness and efficiency; and (3) improve execution by strengthening our processes and infrastructure so that Symantec is easier to do business with.

The benefits of these changes began to show up in the most recent quarter as business activity improved in the third quarter across all geographies and business segments.

Protection from cyber espionage is definitely a growth industry. In 2013, SYMC reported that there was a 42 percent surge in malicious attacks. SYMC also reported that mobile malware increased by 58 percent.

The latest is called "creep ware", the growing threat of remote-access malware that secretly installs tools to control computers remotely. Once installed, pranksters can take control of the entire system, including the webcam. "Many have heard the stories about people being spied on using their own computer or people being blackmailed using embarrassing or incriminating video footage unknowingly recorded from compromised webcams," Symantec said in a statement.

SYMC also reported that 32 percent of all mobile threats attempted to steal information, such as e-mail addresses and phone numbers. While Apple's iOS had the most documented vulnerabilities, Android's market share was the go-to platform for attackers because of its open platform and the multiple distribution methods available to distribute malicious apps.

If there ever was a more certain growth industry, protection from cyber espionage is it, and Symantec is the industry leader.

Tetra Tech (TTEK) was up 2 percent in January, extending our profit to 85 percent. TTEK is a leading company in water technologies and environmental remediation with a healthy balance sheet and a backlog of approximately $2 billion in signed contracts to clean up military bases across the US.

On January 30, TTEK reported earnings of $0.42 for the quarter ending Dec 29, 2013, an increase over the prior year earnings. TTEK's business from its oil and gas customers increased 20 percent.

The company's backlog increased slightly to $1.9 billion with a couple of contracts from the US Army Corps of Engineers and the Coast Guard worth $120 million. Other contracts in TTEK's backlog include contracts to assist the EPA regional Superfund Program for a six-state region from Minnesota through Ohio worth $48 million; the $100 million U.S. Navy Unrestricted Remedial Action Contract for environmental remediation services in 9 states; and cleaning up the McClellan Business Park in California (formerly the McClellan Air Force Base), and remediating the Naval Facilities in 5 states as well as Africa and Puerto Rico.

While there is plenty to clean up domestically, the greatest growth potential continues to be outside the United States, especially in China and India, where environmental concerns have been an afterthought. Only now are these governments starting to recognize the consequences. For example, in late December, TTEK was awarded a $74 million contract to design and oversee the completion of a new water supply treatment plant in Sri Lanka, including storage tanks, pumping stations, a dam and impoundment reservoir, water intake structures, and transmission and distribution pipelines.

As these and other governments around the world make this a priority, Tetra Tech should be a prime beneficiary. Late in 2013, the board of directors authorized a $100 million common stock repurchase program.

Third Avenue Real Estate Value Investor Fund (TVRVX) was essentially unchanged in January and since we introduced it in the October 2013 issue as the best real estate mutual fund. It has been leading the pack of all real estate mutual funds during the last 3 years. The return during the latest year was 18.11 percent, more than doubling the 8.1 percent return of the second place fund. (See the October issue for the complete report.)

Management looks for 4 fundamental characteristics before they make investments:

1) The issuer has an especially strong financial position.

2) The common stock is selling at a price that reflects at least a 20% discount from Net Asset Value ("NAV").

3) There is comprehensive disclosure including reliable audited financial statements; and the common stock trades in markets where regulations provide substantial protections for investors.

4) The prospects are that over the next three to seven years, NAV will be increasing by at least 10 percent annually (including dividends).

Here is where the best real estate values can be found in a mutual fund.

USAA Precious Metals & Minerals Fund (USAGX) was up 12.6 percent in January as the currency crisis spread. This has been our best performing position so far this year. It will continue to benefit from currency turmoil.

Income With Growth	Sym	Exchange		Price	Yield		Limit	Action
Associated Estates Realty Corp	AEC	NYSE	$	15.77	4.82%	$	17.00	BUY
CommonWealth REIT	CWH	NYSE	$	25.25	3.96%	$	25.00	BUY
Hersha Hospitality Trust	HT	NYSE	$	5.31	4.52%	$	6.50	BUY
Retail Opportunity Investment Corp	ROIC	NASDAQ	$	14.05	4.27%	$	16.00	BUY
Diversified Growth								
Pfizer	PFE	NYSE	$	30.60	3.40%	$	32.00	BUY
Stryker Corp.	SYK	NYSE	$	76.47	1.39%	$	79.00	BUY
Third Avenue Real Estate Value Investor	TVRVX	NYSE	$	28.18	2.34%	$	32.00	BUY
Xerox	XRX	NYSE	$	10.41	2.21%	$	11.50	BUY
Energy/Natural Resources								
Agrium	AGU	NYSE	$	86.38	2.32%	$	95.00	BUY
Chesapeake Energy Corp	CHK	NYSE	$	25.99	1.35%	$	30.00	BUY
Fidelity Select Nat. Gas Fund	FSNGX	800-544-8888	$	36.82	0.90%	$	39.00	BUY
Freeport-McMoRan	FCX	NYSE	$	31.08	4.02%	$	36.00	BUY
ICON Energy Fund Class S	ICENX	800-435-5697	$	21.71	3.41%	$	25.00	BUY
Tetra Tech	TTEK	NASDAQ	$	28.41	0.00%	$	30.00	BUY
USAA Precious Metals & Minerals	USAGX	800-862-6909	$	14.33	0.14%	$	16.00	BUY
Aggressive Growth								
AMN Healthcare	AHS	NYSE	$	14.99	0.00%	$	12.00	HOLD
Boston Scientific	BSX	NYSE	$	13.01	0.00%	$	13.00	HOLD
ETF - Direxion Daily 20+ Yr Bear 3X	TMV	NYSE	$	58.00	0.00%	$	70.00	BUY
ETF - ProShares Short 20+ Year Trsry	TBF	NYSE	$	30.50	0.00%	$	33.00	BUY
ETF - ProShares UltraShort 20+ Year Trsry	TBT	NYSE	$	68.15	0.00%	$	76.00	BUY
H&Q Life Sciences Fund	HQL	NYSE	$	20.51	0.00%	$	23.00	BUY
Symantec	SYMC	NASDAQ	$	20.75	2.89%	$	25.00	BUY

Prices are as of 2/3/2014. See our website for live pricing and buy limits. Yields on funds may include captial gain distriutions.

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

This table has live prices, charts & buy limits on our website: http://www.soundadvice-newsletter.com/members

When the economy gets more traction, the money created in recent years will be sloshing through the economy, putting upward pressure on the prices of commodities including precious metals. This fund will also benefit from inflation as the economy recovers. During one of Mr. Bernanke's 2013 congressional testimonies, Congressman Keith Rothfus asked, "Where does the Fed get the money to buy [assets] … Do you create the reserves?" After receiving a simple "yes" from Bernanke, Rothfus asked, "Are you printing money?" Bernanke answered, "Not literally."

USAGX is the best diversified way to invest in precious metals. It is the top-performing fund, and has constantly out-performed precious metal equities for ten years.

Xerox (XRX) pulled back in January by 12 percent, reducing our profit to 24 percent. In Late January, XRX reported fourth-quarter earnings of $0.29 per share on $5.6 billion in revenue, which was down slightly from $0.30 per share and $5.9 billion from one year ago. The Company expects earnings to be $0.24 per share in the current quarter which is in line with Wall Street expectations. XRX raised the next quarterly dividend by 8.7% to $0.0625 per share ($0.25 annually).

We have been recommending XRX because it has been transforming from purely a seller of printers and copiers to a company providing services on those machines along with developing information technology (I.T.) services. In 2013, the strongest growth came from the expansion into information technology (I.T.) services, especially in the healthcare industry where technology is needed to reduce costs. In September, XRX signed a 3-year; $89 million contract to manage the medical bills for the Department of Labor's Office Worker's Compensation Programs. XRX also launched its Pharmacy Benefits Management Program with Healthcare Solution's Cypress Care division which is saving the insurer 33 percent on processing claims. The Department of Homeland Security awarded XRX a three-year, $16 million contract in September.

At close to 10 times earnings, XRX is at a steep discount to the overall market and cheap in comparison to its competitors like IBM and Canon.

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

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

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

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

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

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

The figures show that over the entire century-plus, stock prices have outperformed housing prices. Just based on the price growth of each investment market and assuming no leverage was used, a $25,000 investment would have grown to $10.6 million in stocks and to $1.4 million in houses.

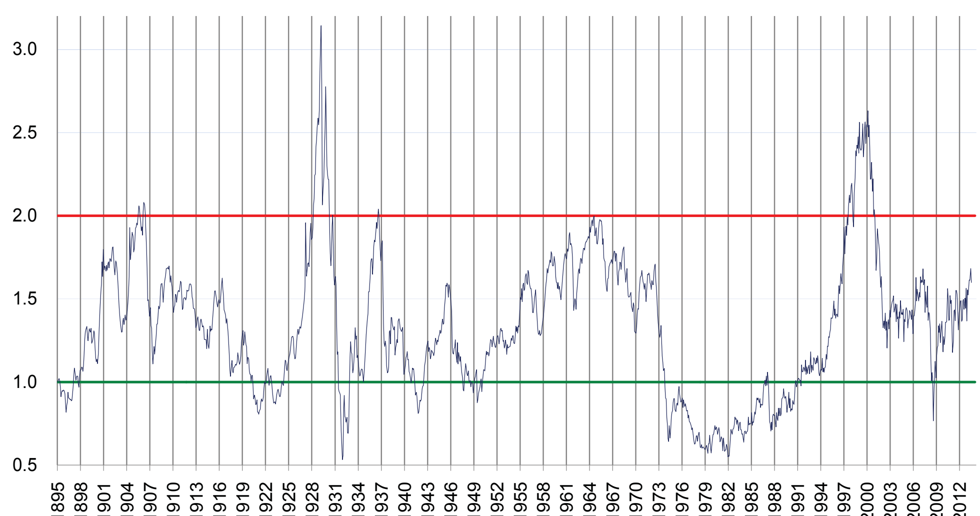
But though an investment beginning with $25,000 in 1895 could have made money being in either stocks or housing and simply leaving it there over such a long period of time, had the investor followed the signals of the SoundAdvice Risk Indicator he would have made $423 million, or 39.7 times more money—the difference between profits the buy-and-hold stock market strategy would have yielded by itself and the profits that the SoundAdvice Risk Indicator would have provided.

These figures illustrate why it is so important to remain aware of the Supercycles that are at work within markets.

The SoundAdvice Risk Indicator

The latest reading for the Sound Advice Risk Indicator is 1.60. This reading reveals that stock prices are above average in relation to house prices. The February 2009 reading of 0.77 marked the low for this cycle as well as the beginning of Supercycle 6.

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



Business Cycles and Stocks:
The SoundAdvice Diffusion Indexes

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

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

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

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

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

An "Aggressive" signal coming at a time when the Risk Indicator was below 1.0 revealed that Supercycle 5 came to an end, and that Supercycle 6 was born. Our next signal will come from a zero reading from our Diffusion Index of Leading Indicators. The latest reading is 67 percent.

The SoundAdvice Diffusion Index of Lagging Indicators gives "Caution" signals when all three of its individual lagging economic indicators rise above their respective levels of six months earlier, providing a 100 percent reading which reveals that the economy is about to put upward pressures on interest rates, and to move to a cautious approach.

This has been a critical indicator in the past and has aided in avoiding severe declines, most notably the crash of 2008-09. However, since then, the Federal Reserve's Quantitative easing program has been holding short-term rates artificially low to stimulate the economy.

This index hit 100% in 2012 when the economy began to turn around, and marked the low-point of the long term Treasury bond yields. This indicator was instrumental in recommending our "No-Brainer" ETFs designed to profit from rising Treasury bond yields. We have continued to be bullish about stocks due to the Federal Reserve's extraordinary monetary policy which has been distorting the natural business cycle this time.

Track Record of the SoundAdvice Diffusion Indexes

If we had followed the signals from our Diffusion Indexes over the years, we would have done very well indeed. The results are shown below. After each "Aggressive" signal, the S&P 500 climbed an average of 34.4 percent. During "Caution" signals, the S&P 500 increased an average of 1.2 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
Ave +/-	34.4%		1.2%

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

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