

## Assessing the Pandemic

We have been one of the few advisory services warning that the market was 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 is the “accident”. Although we were in a defensive mode and waiting for a substantial correction, we were still surprised by the gravity of crisis and the astonishingly rapid drop in stock prices.

Projections of the ultimate number of people likely to become infected are still rising. According to a recent “worst case” projection from economists at the Federal Reserve’s St. Louis district, total employment reductions could reach 47 million, which would translate to a 32.1% unemployment rate.

We will be able to assess the economic damage only when the COVID-19 pandemic has been contained. Corporations have withdrawn their earnings guidance for 2020 and are not making new earnings predictions. Simply put, the economic fallout has yet to be measurable. However, we can make some assessments to gain some context and perspective.

### The CARES Act

Signed into law just last Friday, the \$2.1 trillion *Coronavirus Aid, Relief, and Economic Security Act*, also known as the CARES Act, provides assistance to large and small businesses, which can be leveraged to approximately \$4 trillion through the banking system. Distressed companies accepting aid may be required to give up an equity stake for the benefit of taxpayers. Any company accepting aid will not be allowed to pay out dividends until one year after the aid is paid back or forgiven. Companies may not use assistance to buy back their stocks.



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 were given special attention because they employ close to half of all US employees. A small business is defined as making less than \$35 million in annual revenue with under 500 employees. Loans spent on payroll, rent or utilities, will convert into grants that don’t have to be repaid. To the extent furloughed ex-employees are not put back on a payroll, the conversion to grants would be curtailed.

Economists at Moody’s Analytics predict the act will stem the drop in second-quarter GDP to a 17 percent annual rate, instead of at a 30 percent annual rate. Of course, the actual economic damage will depend on the severity and length of the pandemic. It is safe to say that the pandemic is going to get worse before it gets better.

### Has a Recession Begun?

Recessions are labeled in hindsight because they are defined as 2 consecutive quarters of declining GDP. However, with most of the economy at a standstill, it seems obvious that an economic contraction has begun, and that it will ultimately become labeled as a recession.

While the CARES Act will certainly buffer the overall economic damage, it will not prevent a drop in corporate earnings. Corporate earnings always drop during

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recessions. The last recession was no exception.

Prior to the last recession, operating earnings peaked in the second quarter of 2007 at \$24.06 per share for the S&P 500. The market peaked during the following quarter when earnings started declining. Earnings dropped throughout the following year to the point where earnings turned negative. In the fourth quarter of 2008, the earnings of the 500 companies that made up the S&P 500 index averaged a loss of \$0.09 per share.

So, the obvious question is: will this time be that bad?

In the fourth quarter of 2019, S&P earnings were \$39.16 per share, which is 63 percent higher than the last peak. That would be a much bigger drop to zero into the negative zone. And now, we have a much larger rescue package than we did back then, and it is much more targeted. Moreover, the last recession was a systemic financial meltdown that threatened the survival of the banking system.

In the end, this time the answer lies in the behavior of lenders. US banks are in much better financial positions than the last recession. The Federal Reserve has made them beef up their balance sheets and pass simulated stress tests to ensure that the last financial debacle will not be repeated. Unlike the last recession, lenders will not be calling in loans because they themselves are compromised. Hopefully, with bolstered balance sheets this time, common sense will be allowed to prevail, and lenders will not be forced into indiscriminate foreclosures. Towards this end, the CARES Act relaxed some lending requirements.

Aimed at lowering the possibility of a credit crunch, the CARES Act immediately softens 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.

### Finding the Market Bottom

During the last recession, with the S&P 500 index down 59 percent by the fourth quarter of 2008, earnings then started to recover in the first quarter of 2009. That is also when the market saw its bottom, only one quarter from the earnings trough.

Back then, we had our **Diffusion Index of Leading indicators** (Page 11), as we do now. Back in April 2009, this Diffusion Index dropped to zero, rendering a buy signal. The S&P 500 averaged 848.20 for the month. This was not the exact bottom, but from then on, 10 years of profits from the bull market followed.

### The Sound Advice Risk Indicator

There are times when the **Sound Advice Risk Indicator** (page 10) and the Diffusion Indexes concur, signaling the same thing at roughly the same time. This happens when the Risk Indicator is above 2.0, indicating a high-risk time for stocks, and when the **Diffusion Index of Lagging Indicators** is in caution mode, indicating the end of a business cycle. This concurrence indicates that a more vicious and potentially longer-lasting bear market, or series of bear markets, is bound to follow, eventually taking stock prices down substantially. Until February 2020, we had this concurrence. However, that is no longer the case.

Because of the market drop and the relative stability of house prices in January, the **Sound Advice Risk Indicator** (page 10) dropped to 1.81, indicating that stocks are no longer in high-risk territory, but risk is still above average. Ideally, we would like to see the Risk Indicator below 1.0, revealing an extraordinary value in stocks. However, swings from above 2.0 to below 1.0 can take a generation. There have been significant and profitable bull markets during those swings that lasted for many years. They are signaled by the **Diffusion Index of Leading Indicators**. We will be watching this indicator for one of those times.

## The Portfolio

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

**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).

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.

Of course, shopping centers have been shunned during the COVID-19 pandemic. However, 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 12.3 percent based on today's stock price.

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.

### Hospitality Stocks

The COVID-19 crisis has been extremely detrimental to the prospects of the hospitality

industry. The CARES Act prescribes 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.

As we pointed out in our March 23 update, the precipitous drop of **Hersha's Preferred D (HTPRD)** has called into question Hersha's survivability. However, the provisions in the CARES Act have reduced this risk.

Prior to enactment, the company issued a press release on March 19 which said that the company has experienced an unprecedented pace of cancellations along with a rapid deterioration of forward booking related to the outbreak and spread of COVID-19.

The company said that its top priority is to maintain adequate liquidity. Management is in active dialogue with its lending partners to shore up capital available from its credit facility. As a part of the plan to preserve cash, the company is revoking the previously declared dividends on March 5 for its common and preferred shares. Management said that it anticipates suspending dividend distributions on all stocks for the balance of the year to generate additional cash liquidity of approximately \$72.5 million. The company confirmed that unpaid dividends on preferred shares will accrue, and that no cash dividends may be paid on common shares unless all accrued but unpaid dividends on its preferred shares have been paid.

The company has taken measures to enhance liquidity with a number of initiatives, including a comprehensive containment of operating expenses through deep cost cuts; select closing of hotels; reducing floor operations; closing restaurants and bars; suspending \$10 million to \$15 million of planned capital expenditures; reducing CEO & COO salaries by 50%; and the Board of Trustees their compensation in stock for the remainder of 2020.

The survival of Hersha appears to be dependent on negotiations with its lenders and is now enhanced with the application of the CARES Act. Assuming Hersha survives, the preferred stocks will benefit first because 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 27 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.

**Recommendation:** A more reliable way to recover is to move up the credit chain by selling all shares of **Hersha Hospitality (HT)** and investing the proceeds in **Hersha's Preferred D (HTPRD)**. During more stable times in 2019, the dividends on Hersha's preferred stocks were 26.3 percent of the company's funds from operations (FFO). This indicates that the resumption of the preferred dividends during a recovery will be considerably earlier than the restoration of the common stock dividends.

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.

**RLJ Lodging Trust (RLJ)** could also qualify for aid under the CARES Act. Prior to passage, the company issued a press release on March 11:

*"... we have experienced a notable increase in transient and group cancellations that is negatively impacting our business and ability to achieve our financial targets ... In light of the ongoing uncertainty and evolving situation surrounding the Coronavirus, we believe it is prudent to suspend our financial outlook until we have improved clarity. In the meantime, RLJ is extremely well-positioned to navigate through this period of uncertainty with a seasoned management team, a solid balance sheet and significant liquidity that allow us to continue to generate meaningful shareholder value."*

Then on March 18, the company announced that due to the unprecedented uncertainty created by the rapidly evolving impact of COVID-19 on the travel industry, the Company has decided to reduce the Company's regular quarterly dividend on the common stock for the first quarter to \$0.01 per common share for the first quarter (from \$0.33 per share). However, the company maintained the regular quarterly cash dividend of \$0.4875 per share on the Company's Series A Preferred Shares.

Leslie D. Hale, President and Chief Executive Officer stated, "In light of the uncertain environment that we are operating in, preserving liquidity and maintaining a flexible balance sheet are our top priorities ... We have a solid balance sheet and no near-term debt maturities, which should help us navigate these uncertain times."

**Recommendation:** We recommend selling all shares of **RLJ Lodging Trust (RLJ)** and investing the proceeds in 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 resume it during a recovery.

Assuming the likelihood that the company survives the crisis, the preferred dividends may be delayed but they would ultimately be paid, providing a current yield in excess of 11 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. We recommend using limit orders to purchase this preferred stock because the float is relatively small.

**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

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. Their stock prices have dropped sharply, making them good long-term values.

## Energy & Natural Resource Selections

The Coronavirus pandemic arrived close to the same time as Saudi Arabia decided to have an oil price war with Russia, giving the world oil market a double

whammy. According to the International Monetary Fund (IMF), Saudi Arabia needs more than \$80 a barrel to cover its fiscal costs. Not only is the oil price war threatening the country's revenues and economic diversification programs, it is also destabilizing to the already precarious position of Saudi Crown Prince Mohammed bin Salman. The war cannot go on indefinitely.

Sadly, the CARES Act contains no major provisions for assisting the US energy industry. Energy producers sought aid through preferential tax treatment, direct subsidies, and a \$3 billion purchase of oil by the federal government for the Strategic Petroleum Reserve. The renewable energy industry sought extensions to tax benefits for wind and solar projects. However, partisan views collided to no avail.

**Chevron (CVX)** has been updating its business plans to adapt to the shock. The company has suspended its share repurchase program and cut its capital spending budget by 20 percent.

For decades, management has held the dividend sacrosanct, and gone to great lengths not to cut it. Management recently delivered the message that the dividend is being maintained at \$5.16 per share annually. This appears likely in view of the company's strong balance sheet, pending asset sales of \$500 million, reduction in operating costs, and its refining diversification.

Chevron is an integrated oil company, which means it has operations in production as well as refining. This gives CVX diversification because the company's oil and gas production (upstream) benefits from rising oil and gas prices while the refining operations (downstream) tend to benefit from lower oil prices. This diversification adds financial stability during times of volatile oil prices.

Based on today's stock price, the dividend yield is more than 7 percent.

**Exxon Mobil (XOM)** is also an integrated oil company, which means it has operations in both drilling and producing oil (upstream operations) as well as refining that production (downstream operations). This balancing effect may carry different weights at times, but generally one hedges the other and offers a safer investment.

The current dividend is \$3.48 per share. Management has not commented about the future of the dividend, but based on the company's history, it does not want to cut it. Exxon and our other major oil recommendation, Chevron, are the only energy companies to maintain dividend increases over many years. Exxon's dividend has increased each year for 37 consecutive years

during wild swings in oil prices, ranging as low as \$10 a barrel in 1998.

Based on today's stock price, the dividend yield is more than 9 percent.

**Valero Energy (VLO)** has been compromised by the drop in demand for gas which has collapsed the "crack spreads" – the difference between the price of oil and the cost of refining it from the cost of oil. Ordinarily this spread relies on ordinary demand for gasoline. Valero has been cutting back in most of its refineries and plans for more reductions in view of the near-term uncertainty.

Beyond the crisis, we are still optimistic about VLO, especially at today's depressed stock price. A return to more normal crack spreads will also restore profits for VLO. The company also 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.

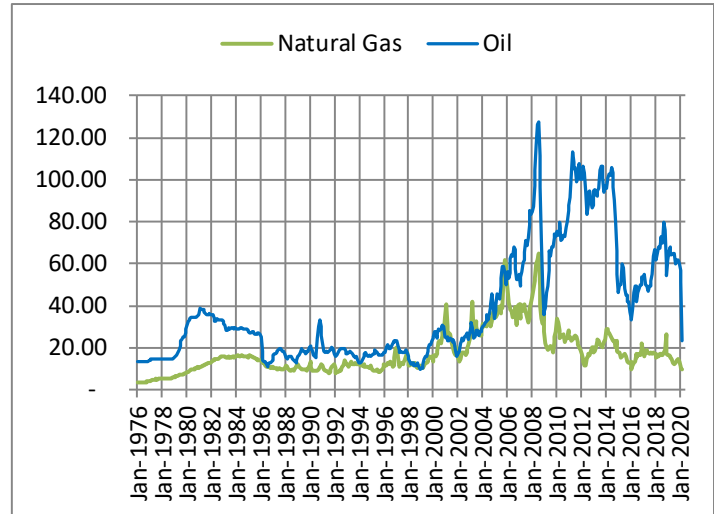
**Fidelity Select Natural Gas Fund (FSNGX)** is an open-end fund which means it trades at the NAV of its portfolio set at the close of the market each day. It is a diversified way to participate in the growth of the natural gas industry through strong companies. In December, FSNGX paid out a distribution of \$0.197 per share.

Natural gas provides the same energy as oil for pennies on the dollar, and natural gas is more environmentally friendly. One barrel of oil provides approximately 5.8 million British Thermal Units (BTUs) of energy. However, with the current market price for

natural gas at \$1.64 for one million BTUs, 5.8 million BTUs will cost \$9.51. Although Brent crude oil has dropped to \$23 a barrel, natural gas still delivers the same amount of energy for 41 cents on the dollar.

The updated chart above shows the historic relationship between the costs of these two forms of energy. The red line shows the price of a barrel of oil since the mid-1970s. The green line shows the price of natural gas multiplied by 5.8 to approximate the same amount of energy contained in a barrel of oil. The fact that natural gas provides energy for pennies on the dollar translates into an expanding natural gas industry.

The Cost of Energy Equivalents of Oil and Natural Gas



**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 crisis which indicates that they will respond well during a recovery.

**Boston Scientific (BSX)** is attractively valued based on 2019 earnings. The primary concern is that 17 percent of total sales were generated from the Asia pacific region. However, that area may be one of the earliest to recover.

The Company has committed \$1.3 million to aid COVID-19 relief efforts, mostly in the form of supplies to local hospitals -- protective masks, goggles, gloves and other protective equipment for healthcare providers.

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 only problem with this fine company has been its relatively high stock valuation. However, the recent market crash has changed that. We recommend taking advantage of market corrections by buying this stock under \$150.

**The Best in Biotech ETFs**

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

**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 up new opportunities and making this sector the cutting edge of new innovations.

We recommend purchasing shares under \$30 per share.

**Virtus LifeSci Biotech Products (BBP)** is a passively managed biotech ETF that weighs the portfolio selections essentially equally, as opposed to weighing selections according to market capitalization. This is an important aspect because biotech ETFs weighing 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.

We recommend purchasing shares under \$35 per share.

## 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 on hold while we waited for a substantial correction from recent prices we believed were lofty. Our target price has been \$262 per share. The overall market drop has changed that, bringing AAPL into our buy range. 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)** was excluded from benefits from the CARES Act because of two restrictions: it does not have the majority of its workers based in the US, and it is not incorporated in the US (Panama).

It is no secret that the COVID-19 pandemic has had a material adverse impact. The company has officially paused most scheduled cruises for thirty days. Instead of offering refunds, the company is offering future cruises. An encouraging sign is that future cruises are becoming booked up, and many are wait-listed.

The company says it has enough liquidity and credit facilities to fund the originally planned ship deliveries for the remainder of this year and beyond. Substantially all the Corporation's assets are currently available to be pledged as collateral.

On March 31, the company announced that it will make an offering of \$1.25 billion of common stock, along with senior notes. Along with this announcement, there was no comment regarding reducing future dividend payments. The regular quarterly dividend was paid in February. If the company planned on reducing or cutting the dividend, it should have been disclosed in recent announcements. Still, we believe the sustainability of the dividend is questionable.

We recommend holding CCL for now. Assuming the company makes it through the crises, a brighter future lays ahead because of company's dominance in the industry, efficiencies of scale, and favorable demographic trends.

**Intel (INTC)** has held up remarkably well during the market downdraft. That is likely due to its key role providing infrastructure for 5G networks. We mentioned last month that Intel 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 have been designated by the US government as "essential technologies" with the restrictions placed on the Chinese provider, Huawei.

Intel is also establishing partnerships with others to advance developments in artificial intelligence (AI).

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

**International Business Machines (IBM)** is collaborating with the White House Office of Science and Technology Policy to launch the COVID-19 High Performance Computing Consortium to provide

supercomputing power to researchers developing predictive models to analyze the coronavirus progression and to identify potential treatments.

IBM has jumped into the enormous and growing hybrid data center market with its Red Hat acquisition. IBM recently began offering technology consulting services for 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 capitalizing on its OpenShift platform along with the company’s artificial intelligence (AI) platform, it calls “Watson”, which can “think” like a human.

**NCR Corp (NCR)** makes automatic tellers (ATMs), retail point-of-sale (POS) workstations, self-service kiosks, and other self-service checkout systems. Until quarantines 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.

**ETFs for Rising Bond Yields**

We are abandoning these ETFs for now:

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

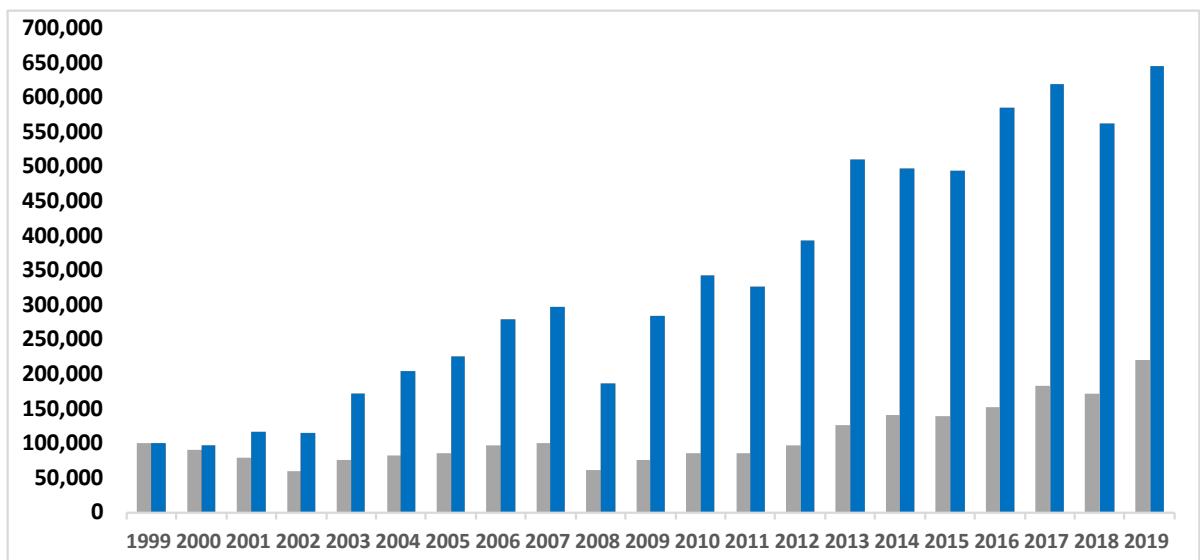
The **Proshares UltraShort Lehman 20 Plus Year Treasury (TBT)** (uses 2:1 leverage).

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

The economic fallout from the COVID-19 pandemic will certainly be undermining economies around the world and suppressing interest rates and bond yields for the foreseeable future. In addition, central banks around the world have embarked on massive monetary policies by lowering interest rates indefinitely. If bond yields drop precipitously, it is theoretically possible for these ETFs to cease to exist.

**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	\$72.46	6.18%	BUY	\$76.08
Exxon Mobil	XOM	\$37.97	9.17%	BUY	\$39.87
Hersha Hospitality Trust	HT	\$3.58	0.00%	SELL	
Hersha Hospitality Trust - Preferred D *	HTPRD	\$6.00	0.00%	BUY	\$10.00
International Business Machines	IBM	\$110.93	5.84%	BUY	\$116.48
RLJ Lodging Trust	RLJ	\$7.72	0.52%	SELL	
RLJ Lodging Trust - Preferred A *	RLJPRA	\$17.50	11.14%	BUY	\$25.00
RPT Realty 7.25% Preferred D *	RPTPRD	\$29.50	12.29%	BUY	\$36.00
Valero	VLO	\$45.36	7.94%	BUY	\$47.63
Wells Fargo	WFC	\$28.70	7.11%	BUY	\$30.14
Growth with Moderate Income					
Intel	INTC	\$53.99	2.44%	BUY	\$56.69
JP Morgan Chase	JPM	\$90.03	4.00%	BUY	\$94.53
Growth					
Apple	AAPL	\$254.19	1.15%	BUY	\$262.00
Boston Scientific	BSX	\$32.63	0.00%	BUY	\$34.26
Carnival Cruise Lines	CCL	\$13.17	15.19%	HOLD	
ETF - Direxion Daily 20+ Yr Bear 3X	TMV	\$5.33	0.00%	SELL	
ETF - ProShares Short 20+ Year Trsry	TBF	\$15.52	0.00%	SELL	
ETF - ProShares UltraShort 20+ Year Trsry	TBT	\$16.08	0.00%	SELL	
Fidelity Select Nat Gas Fund *	FSNGX	\$7.90	0.00%	BUY	\$9.00
Genomic Revolution Multi-Sector	ARKG	\$31.28	0.00%	HOLD	\$30.00
NCR Corp	NCR	\$17.70	0.00%	BUY	\$18.59
Stryker Corp	SYK	\$166.49	1.38%	HOLD	\$150.00
Third Avenue Real Estate Value Investor *	TVRVX	\$18.00	0.00%	BUY	\$20.00
Third Avenue Small-Cap Value Investor Fund *	TVSVX	\$12.60	0.00%	BUY	\$14.00
Virtus LifeSci Biotech Products	BBP	\$37.44	0.00%	HOLD	\$35.00
Hedges					
S&P 500 ProShares Ultra Short ETF	SDS	\$30.45	0.00%	BUY	\$31.97

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

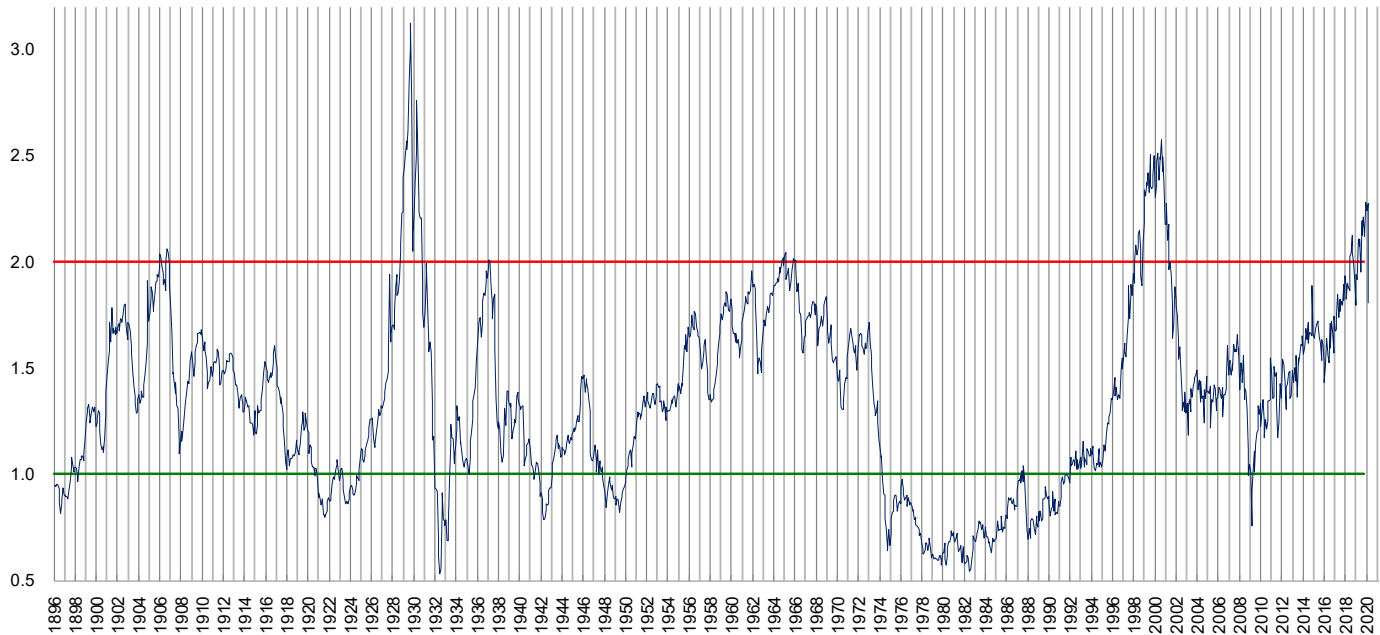
\* It is not possible to offer live pricing..

**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 \$325,300 in December and with the S&P 500 at 2584.59 at the end of March, the Sound Advice Risk Indicator reads 1.81, revealing the risk in stocks is no longer high but above average.**

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 3.0 percent.

Aggressive	S&P	Caution	S&P
Sep-74	68.1	Apr-76	101.9
Jul-76	104.2	Dec-76	104.7
Oct-78	100.6	Jun-79	101.7
Nov-79	100.0	Oct-83	167.7
Aug-84	164.5	Jun-85	188.9
Jul-86	240.2	Aug-87	329.4
Feb-88	258.1	Jun-88	270.7
Mar-89	280.0	Mar-93	449.7
Mar-95	493.2	Dec-98	1,141.0
Jun-00	1,429.4	Dec-00	1,320.3
Jun-03	974.5	May-05	1,191.5
Jun-06	1,276.7	Mar-08	1,325.4
Apr-09	848.2	Mar-12	1,370.3
Mar-15	2,080.0	May-15	2,111.9
Sep-17	2,492.8	Jan-18	2,823.8
Ave +/-	30.8%		3.0%

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 February caused a 67 percent reading.**

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

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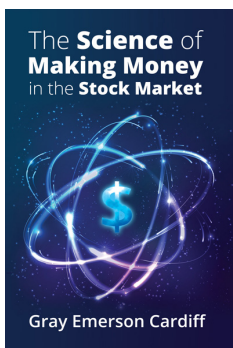
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