



The Best Energy Fund



The *Sound Advice* portfolio is up 16.21 percent so far this year, assuming an equal amount was invested in each position on December 31, 2012. This return compares to 10.03 percent for the S&P 500. If we look back to the beginning of last year, the portfolio is up 46.4 percent as compared to 24.8 percent for the S&P500. We have an average gain of 63.5 percent based on the prices at which each stock, ETF, or mutual fund was originally recommended.

How many times have you heard the axiom "buy low and sell high"? Of course, the real question is how high is high and how low is low?

I often quantify the answer by measuring the risk/reward ratio. A perfect example right now are long-term Treasury bonds. The graph on page 4 shows the history of yields since 1977. The absolute lows were hit when yields plunged to a shade under 3 percent. That occurred in late 2008 during the financial meltdown and the massive capital flight to safety. The low was reached again late last year, in the midst of the Federal Reserve's quantitative easing bond-buying program.

Long-term Treasury bond yields are only slightly higher today at 3.1 percent. And yet, we are not in the midst of a financial meltdown. In fact, we are in the midst of an inexorable economic recovery - a time when long-term bond yields always stage a major increase.

Our "No-Brainer" reverse ETFs, offer tremendous upside profits and very little risk now with bond yields historically low.

These are perfect examples of "Buying Low".

-Gray Emerson Cardiff

Our portfolio would benefit from more exposure to the energy sector. We believe the timing is particularly good because the demand for energy accelerates with an economic expansion. 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 14.58 percent annually while the S&P 500 produced an annual return of 7.24 percent. (See the graph on the top of page 2.)

The superior performance is due to the fact that energy is in the fabric of the economy. 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. There is always the possibility of the added "bonus" of geopolitical disturbances threatening supplies and driving up energy prices.

The best way to add energy to your portfolio is with a diversified no-load mutual fund that specializes in picking out the best energy companies for the immediate future. Choosing the best energy mutual fund is not easy. There are 17+ no-load energy funds from which to choose, and sorting them out is a project. We have just done that, and here are the results.

Over the long run, simply finding an energy mutual fund that matches the Energy Equity Index is bound to bring you superior more reliable investment returns than from the stock market as a whole. However, as hard as that is, it is even harder to find an energy mutual fund that does consistently better than the index.

Which Fund is the Best?

Sadly, most energy mutual funds have not been able to match the 14.58 percent annual performance of the Energy Equity Index. These funds include the following:

Invesco Energy Fund Class A (IENAX), and the **Invesco Energy Investor Class (FSTEX)** were very close, each with an average 14.49 percent annual return during the last ten years.

Next was the **Fidelity Select Energy Fund (FSENX)** with an annual return of 13.97 percent.

Close behind was the **Invesco Energy Fund Class C (IEFCX)** with an annual return of 13.67 percent.

The annual returns from the five **Rydex Series Trust Energy Funds** ranged from 11.33 percent to 13.17 percent, and the **Fidelity Select Energy Service Fund (FSESX)** provided an annual return of 11.85 percent during the last ten years.

Only Five Energy Funds performed better than the Energy Index during the last 10 years.

The **Invesco Energy Fund R5 Class (IENIX)** did slightly better, with an annual return of 14.83 percent.

The **ICON Energy Fund Class C (ICEEX)** provided an annual return of 14.95 percent.

The **Vanguard Energy Fund Investor Shares (VGENX)** was slightly better, delivering an impressive annual return of 15.34 percent.

Energy Equities Versus S&P 500



ICON Energy Fund Class A (ICEAX) reported an annual return of 15.83 percent. However, this fund has a steep front-end transaction fee of 5.75 percent.

The best performer -- by far -- was the **ICON Energy Fund Class S (ICENX)**. The ten year performance is shown on the chart on the top of page 3 by the blue line. The orange line is the Energy Equity Index. This no-load fund furnished an annual return of 16.14 percent during the last ten years. Investing \$10,000 in this fund grew into \$44,646. It also has the lowest annual expenses of all of the ICON Energy Funds.

This Fund's performance also led the pack in shorter durations – 5 year, 3 year, and 1-year. The performance of all of the Energy Funds discussed for these durations are

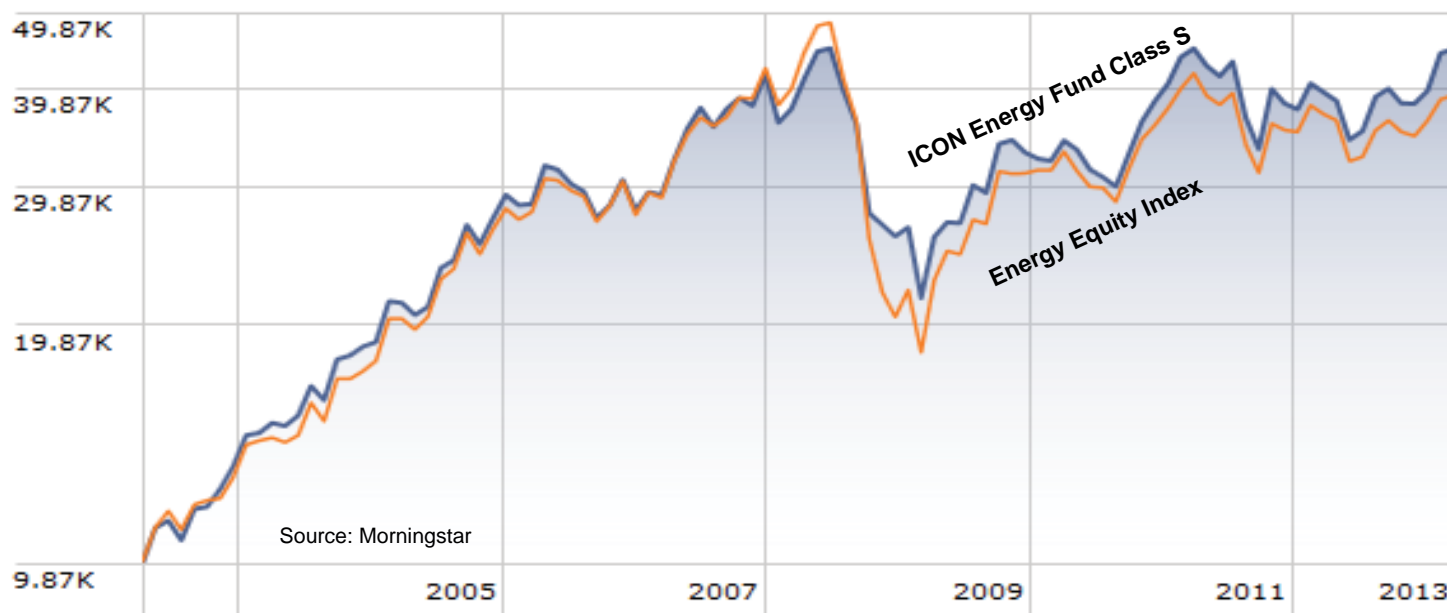
summarized on the table.

Derek Rollingson has managed the Fund since May 2007. He joined ICON in 2000 as a junior member of the Investment Committee and was promoted to Portfolio Manager in 2003.

Rollingson emphasizes value. He looks for unrecognized values within the energy industry. He watches the various forms of energy – oil, coal, natural gas, and how these commodities impact the industry. Rollingson says he relies on analysts to make their adjustments to the forward-looking earnings and growth rates, and then he asks the most important question: how are they priced in the market place – has the market over- or under-reacted to the positive or negative movements in those adjustments.

Rank	Fund Name	Symbol	1 Year	3 Year	5 Year	10 Year
1	ICON Energy Fund Class S	ICENX	10.14%	10.11%	4.01%	16.14%
2	ICON Energy Fund Class A	ICEAX	9.80%	9.78%	3.70%	15.83%
3	Vanguard Energy Fund Investor Shares	VGENX	1.00%	6.64%	0.27%	15.34%
4	ICON Energy Fund Class C	ICEEX	8.88%	8.93%	2.92%	14.95%
5	Invesco Energy Fund R5 Class	IENIX	-1.87%	5.00%	-0.10%	14.83%
6	Energy Equity Index		3.51%	6.15%	-0.19%	14.58%
7	Invesco Energy Fund Class A	IENAX	-0.43%	4.61%	-0.51%	14.49%
8	Invesco Energy Investor Class	FSTEX	-0.44%	4.61%	-0.51%	14.49%
9	Fidelity Select Energy	FSENX	3.64%	8.37%	-1.06%	13.97%
10	Invesco Energy Fund Class C	IEFCX	-1.18%	3.82%	-1.26%	13.67%
11	Rydex Series Trust Energy Fund Class Investor	RYEIX	3.57%	7.83%	0.51%	13.17%
12	Rydex Series Trust Energy Fund Class Advisor	RYEAX	3.54%	7.29%	0.01%	12.64%
13	Rydex Series Trust Energy Services Fund Class A	RYESX	1.47%	7.14%	-0.88%	12.18%
14	Rydex Series Trust Energy Fund Class C	RYECX	2.52%	6.75%	-0.49%	12.07%
15	Fidelity Select Energy Service	FSESX	4.50%	7.13%	-2.78%	11.85%
16	Rydex Series Trust Energy Services Fund Class C	RYVCX	0.71%	6.33%	-1.63%	11.33%
17	S&P 500		13.07%	12.37%	6.33%	7.24%

Growth of \$10,000 in Energy Equities



In addition, Rollingson focuses on segments within the energy industry. These efforts are to find value, regardless of the direction of energy prices. For example, the price of oil actually fell by 6.5 percent from the end of 2011 to September 2012. At the same time the “crack spread”, the difference between the price per barrel and the price we pay at the pump, rose by 140 percent. This had a positive impact on forward-looking earnings of companies in the refining and marketing sectors. Most importantly, the stock prices of these companies had not reacted to this positive force. By September 2012, the Fund had increased the weight of these companies to 12 percent from the normal 5.6 percent industry benchmark. That over-weighting gave the Fund a strong performance in 2012, particularly in the fourth quarter.

This Fund has a long history of finding value, as well as avoiding over-valued segments. If the market had already recognized the abnormally high crack spread, Rollingson says he would not have invested as heavily.

While the price of energy in its different forms is important, the real opportunities come from how the stock market reacts to changes within the industry: whether—the market realizes the change too fast and becomes over-priced, or conversely, whether there is still opportunity to invest. This Fund focuses on the values created by changes, even by falling prices.

We are recommending the **ICON Energy Fund Class S (ICENX)**, and will be tracking in our model portfolio.

Cords of Strength

The most recent reading of the Conference Board's composite index of leading economic indicators rose significantly in February, following an equally significant gain in January. Eight of the ten individual economic indicators climbed.

All of the hand-picked leading economic indicators we use for the *Sound Advice* Diffusion Index of Leading Indicators (page 11) also rose. In addition, all of the lagging economic indicators used in the *Sound Advice* Diffusion Index of Lagging Indicators also climbed. Both of the *Sound Advice* leading and lagging Diffusion Indexes, which measure 6-month spans, read 100% in February. Such a dual reading is rare, and only happens during a steady recovery.

The leading economic indicators have accurately predicted the trend in economic activity in the upcoming three to six months because they measure trends in the ingredients of consumer confidence and wealth. Since consumer spending accounts for 70 percent of the US gross domestic product (GDP), consumer confidence and wealth are primary drivers.

Primary sources of wealth of consumers come from their houses and stocks. Crashes in the real estate and financial markets were the heart of the 2008-09 melt-down and recession, and they need to be at the heart of the recovery.

In March, the Dow-Jones and S&P 500 recently climbed into new, all-time highs, and further evidence of a strong the

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The History of 30-Year Treasury Bond Yields



This graph shows the yields of 30-year Treasury bonds since 1977. As you can see, the recent lows are historic. Yields have been close to the recent lows only once before -- after the 2008-09 meltdown as systemic risks in the banking system fueled a capital flight to safety.

Source: Yahoo! Finance

housing market recovery came from the latest reading on the Standard & Poor's/Case-Shiller index, which measures house prices in the 20 largest cities. This housing price index climbed 8.1% in January from one-year ago, the largest increase since mid-2006.

The largest obstacle to more homes sales is a lack of inventory available for sale. In last month's Issue, we saw how foreclosure rates are plunging. This was a key indicator that marked the recovery from the S&L crises in the 1980s.

The economic recovery has been in the face of substantial headwinds from several sources. One is from Europe, which got stronger from the debacle in Cypress. While this small island country is of insignificant size, the threat of a run on the banks is significant, and underscores the need for a central banking system for the Eurozone. The Eurozone has a large impact on the world economy and will be a headwind for the foreseeable future.

Another major headwind is coming from Washington, where grid-lock and debates continue to cast a cloud of uncertainty over the US business community. Additional taxes and the effects of the sequester also pose a drag.

These headwinds are unlikely to go away soon; they are more like a trade wind. However, like most conditions that seem permanent, we get use to them and learn to work around them, and they become less of an obstacle. Meanwhile the Federal Reserve continues to pump \$85 billion a month into mortgage-backed securities and Treasury securities to stimulate the economy, and the economy continues to recover as evidenced by strength in economic indicators and key sources of wealth.

Further evidence came in March from the Detroit Three, General Motors, Ford, and Chrysler, which had the best performance of car sales in February since before the 2008-2009 recession.

As the economy gathers strength, long-term bond yields

will increase. They always do after a recession. It is as simple as that. Demand for money and credit increases with economic expansions which pushes up interest rates. Fears of inflation also resurface which pushes up long-term interest rates in earnest. Long-term Treasury bond yields rise to a premium over the anticipated inflation rate to provide a "real" return of approximately 3 percentage points over the perceived inflation rate.

The graph above shows the history of Treasury bond yields since 1977. As you can see, today's yields are historically low. The only room for movement is up.

As we have pointed out in previous Issues, even a relatively small upward movement in bond yields will produce huge profits in our "No-Brainers": the reverse ETFs that are designed to benefit strongly from a rise long-term Treasury bond yields.

The most responsive ETF, the **Direxion Daily 20 Plus Year Bear 3 Shares (TMV-NYSE)** uses 3 to one leverage. Although Treasury bond yields are only slightly higher than they were at the beginning of the year, TMV is up 4.9 percent.

The **Proshares Ultrashort Lehman 20 Plus Year Treasury (TBT-NYSE)**, which uses 2:1 leverage, is up 3.6 percent this year.

The **Proshares Short 20 Plus Year Treasury (TBF-NYSE)** which uses no leverage, is up 1.8 percent this year.

As we have pointed out in recent issues, the rise in long-term Treasury bond yields does not have to be large to bring us exceptional profits. With a rise in yields to 4.75 percent, TMV should more than triple. TBT should more than double, and TBF should rise more than 50 percent.

From the graph above, we can see that 4.75 percent is still historically low. Gains could be considerably higher.

Here are updates on the rest of our recommendations in alphabetical order. The table on page 7 details buy limits and

other information on each recommendation, and organizes them by investment objective.

Portfolio Updates

Agrium (AGU) is down slightly this year, after climbing 48 percent in 2012. We have a profit of 716 percent. This is the largest farm products retailer in North America and a wholesaler to the rest of the world.

Agrium's largest shareholder (7.6 percent), the JANA hedge fund, has been pressuring stockholders to break up the company, contending that its retail division would sell at a higher multiple. JANA also wants AGU to make operational changes that will lower costs and increase efficiencies. JANA's goal is to get a slate of boardroom directors elected at the April 9th annual meeting that can push management into implementing JANA's ideas.

AGU management argues that the company works better as a whole because the retail arm increases operating efficiencies, provides market intelligence, and furnishes counter-cyclical cash flow.

JANA has had successes in similar situations. In 2010, JANA proposed to split the integrated company, Marathon Oil Corporation into two separate companies to divide its upstream and downstream operations. JANA also wanted some operations restructured in order to cut costs and return more cash to shareholders. JANA prevailed and Marathon was split into Marathon Oil and Marathon Petroleum Corporation. Stockholders saw close to a double in the value of their holdings.

ConocoPhillips liked JANAs ideas for Marathon and voluntarily did the same thing by splitting off its downstream operations into a separate company (Phillips 66). The results were very close to the Marathon Oil spin-off.

JANA also proposed a breakup plan to The McGraw-Hill Companies which also increased shareholder value until federal government sued Standard & Poor's, a division of McGraw-Hill, in a \$5 billion fraud case alleging S&P gave artificially high ratings on mortgage-backed securities during the housing bubble.

However, in management's letter to shareholders, it points out the August 2010 case where JANA decimated shareholder value by 68 percent by forcing a break-up of TNT NV (an international express and mail delivery service based in the Netherlands).

Management also contends that JANA's slate of directors would have a conflict of interest. While directors have a fiduciary duty to stockholders, JANA directors have been promised a slice of the profit from the sale of JANA's stake after the break-up.

As a whole, AGU is close to 10 times earnings. This price earnings (P/E) ratio is below average and very low for a company with a history of growth and future growth prospects. If left as a whole, we are bound to see further profits ahead over the longer run.

If AGU is broken up, it seems unlikely that the pieces will be worth less than the whole. If JANA is right, the pieces will be worth more than the whole, and we will have a short-term windfall.

AMN Healthcare (AHS) is up 19 percent this year, extending our profit to 159 percent.

AMN Healthcare provides temporary healthcare staffing services to the healthcare industry, ranging from nurses to physicians. The rationale for buying AMN Healthcare was a two-fer. AHS is not just an opportunity to invest in healthcare, which is traditionally a non-cyclical industry, but it is also a chance to buy into a healthcare business which will benefit from a recovery in the economy.

AHS reported significant earnings per share improvement in the most recent quarter of \$0.11 a share compared to a deficit of \$1.49 in the same quarter a year ago. Growth has been positive since we recommended this stock at an average price of \$5.35 and expect more growth over the longer run. However, we believe the market has become overly excited about the growth.

We expect earnings to be in the vicinity of \$0.42 to \$0.50 a share this year, which is in line with Street estimates. At the current price, the price/earnings (P/E) ratio is close to 30 which already anticipates a very high growth rate.

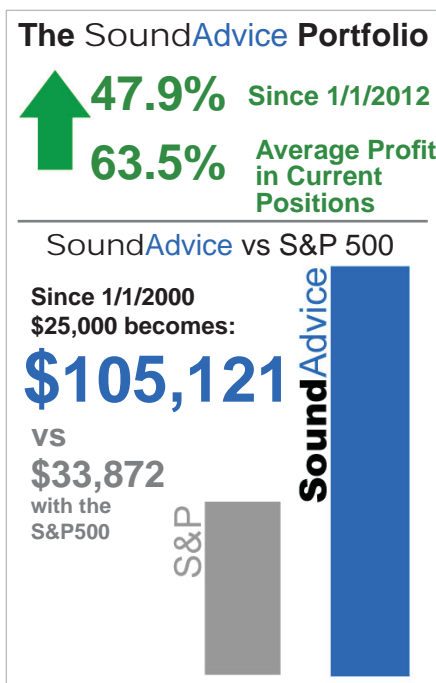
Associated Estates Realty Corp (AEC) is up 16.9 percent this year, extending our profit to 30 percent.

This is the most undervalued apartment REIT in the sector. The equity of its apartment portfolio translates into a stock value of \$27 per share. So the stock is still trading at a steep discount. It pays a nice yield as well.

Boston Scientific (BSX) is up 36 percent this year, but still cheap. This a classic turnaround story. A brighter day lies ahead. Based on the depressed price of this stock, gains from the current low price should be substantial.

A new CEO is focused on growth, and BSX's medical products are well suited for an aging population in the US as well as emerging markets around the world, especially in India, China, Brazil, and Russia. Emerging markets only accounted for 4 percent of revenue in 2012, so there is considerable room for growth.

CGM Real Estate Fund (CGMRX) is up 6.7 percent this year, extending our profit to 65 percent. We believe that this fund is poised for considerably more gains ahead as the economy recovers.



Most of the time, above average investment returns can be earned in REITs. Over the last 10 years, an investment of \$10,000 in the S&P 500 would have grown to \$20,126. That same investment in the Morgan Stanley Capital International (MSCI) Index of US REITs, a benchmark index that measures the performance of publicly traded equity US REITs, would have grown to \$27,384. However, in CGMRX, that investment would have grown to \$50,705.

CGMRX has been the best performer of REIT funds over the last ten years. Unfortunately, CGMRX does not have an agreement with Fidelity and other brokerage firms. You will need to call the fund directly to invest at 800-343-5678.

Chesapeake Energy (CHK) is up 22 percent this year. CHK is the second largest producer of natural gas. We added it to the portfolio last year because it was greatly undervalued. Natural gas prices were historically low at the time, close to \$2.00 for one million BTUs. In addition the company had poor corporate governance, and was suffering from a severe cash squeeze. Natural gas prices have nearly doubled since our recommendation. Carl Icahn has been instrumental in removing the founder, Aubrey McClendon, as chairman of the board and replacing several other board members. CHK has sold most of the targeted divestments to straighten out its cash squeeze. In March, CHK announced an offering of senior notes to replace existing senior notes at higher interest rates.

CHK's remaining natural gas and oil assets are extensive and offer a large upside. Morningstar's fair value estimate is still \$26 a share.

Comcast (CMCSA) is up 12.4 percent this year, after climbing 57 percent last year, extending our profit to 132 percent.

Comcast has become the nation's largest Internet service provider. In mid-march it announced increased the speeds of two of its most popular XFINITY Internet speed plans, Blast! and Extreme 50. Recently CMCSA bought the remaining 49 percent of NBC Universal with 30 news and entertainment cable networks (including the CNBC news channel) which offer a mix of revenues and operating leverage to CMCSA. This content, along with fast internet speeds, enable CMCSA to be even more competitive with its peers.

CommonWealth REIT (CWH) is up 49.8 percent this year, primarily due to the one-day jump of 50 percent in February when two hedge funds offered \$25 (and then \$27) for all outstanding shares because they believe the shares are worth \$40 per share (\$50 with better management). These hedge funds (Corvex and Related Fund Management) along with CWH's other largest shareholders are also interested in removing the management. On March 28, these hedge funds made another offer at \$24.50 for all outstanding shares.

To fend off these activist investors, CWH management changed the CWH bylaws on March 1 to make it harder for an investor to replace board members by requiring a shareholder or group of investors own 3 percent of the company for at least three years before they can take action to remove a trustee. Corvex and Related Companies filed suit in Maryland state court to void the bylaw amendments

claiming they "unlawfully eviscerate" the legal rights of shareholders and were not subject to shareholder approval or ratification. Corvex and Related also filed documents with the SEC on March 13 asking shareholders to consent to the board's removal. The annual meeting on May 14 will be interesting.

We have been recommending CWH because of the stock's tremendous discount to the value of its net real estate assets. We have valued the real estate conservatively by using a 9 percent capitalization rate, which translates the value of CWH's real estate net assets to \$31.52 a share based on the latest (fourth quarter) financials released on February 25th. However, capitalization rates are significantly lower today, in the vicinity of 7 percent. Even using an 8 percent rate, for example, brings the value to \$41.36 per share.

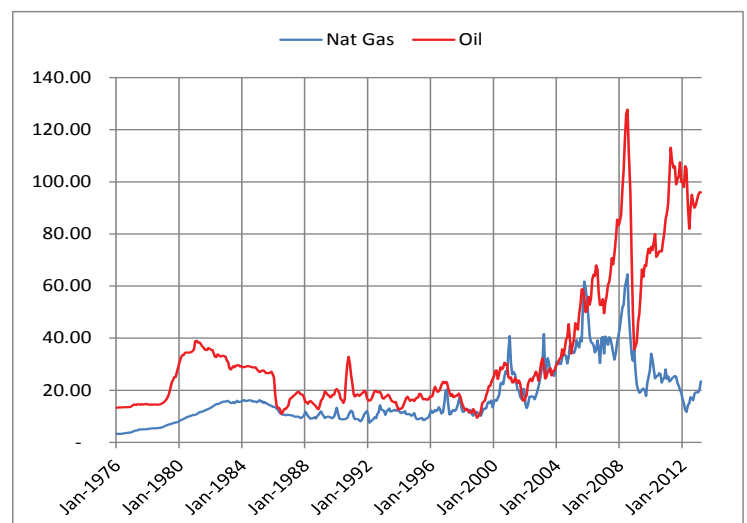
Whatever the outcome, this battle has brought attention to the underlying value of this REIT's portfolio.

Fidelity Select Natural Gas Fund (FSNGX) is up 11.3 percent this year. 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.

One barrel of oil provides approximately 5.8 million British Thermal Units (BTUs) of energy. So if a barrel of oil is say, \$100, that is the cost of 5.8 million BTUs of energy. On the other hand, with the market price for natural gas at \$4.00 for one million BTUs, 5.8 million BTUs will cost \$23.20 (5.8x4.00). So the same amount of energy is available for approximately 23.20 cents on the dollar -- if it is in the form of natural gas.

As the chart below shows, this 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. For 5.8 million BTUs of energy, it costs approximately \$100 if it is in the form of oil, but only \$23.20 in the form of natural gas.

The Cost of Energy Equivalents of Oil and Natural Gas



Income With Growth	Sym	Exchange	Price	Yield	Limit	Action
Associated Estates Realty Corp	AEC	NYSE/Nasdaq	\$ 18.64	4.08%	\$ 19.00	BUY
CommonWealth REIT	CWH	NYSE	\$ 22.44	4.46%	\$ 20.00	BUY
Retail Opportunity Investment Corp	ROIC	NASDAQ	\$ 14.02	4.00%	\$ 15.00	BUY
Diversified Growth						
CGM Realty Fund	CGMRX	800-343-5678	\$ 31.33	0.83%	\$ -	BUY
Comcast	CMCSA	NASDAQ	\$ 41.98	1.55%	\$ 39.00	BUY
Leucadia National Corp.	LUK	NYSE	\$ 27.43	3.65%	\$ 28.00	BUY
Masco	MAS	NYSE	\$ 20.25	1.48%	\$ 16.00	HOLD
Paychex	PAYX	NASDAQ	\$ 35.06	3.65%	\$ 32.00	BUY
Pfizer	PFE	NYSE	\$ 28.86	3.05%	\$ 28.00	BUY
Stryker Corp.	SYK	NYSE	\$ 65.24	1.30%	\$ 65.00	BUY
Xerox	XRX	NYSE	\$ 8.60	1.98%	\$ 10.00	BUY
Energy/Natural Resources						
Agrium	AGU	NYSE/TSE	\$ 97.50	2.05%	\$ 120.00	BUY
Chesapeake Energy Corp	CHK	NYSE	\$ 20.41	1.71%	\$ 22.00	BUY
Fidelity Select Nat. Gas Fund	FSNGX	800-544-8888	\$ 34.08	0.16%	\$ -	BUY
ICON Energy Fund Class S	ICENX	800-435-5697	\$ 21.87	0.00%	\$ -	BUY
Tetra Tech	TTEK	NASDAQ	\$ 30.49	0.00%	\$ 30.00	BUY
USAA Precious Metals & Minerals	USAGX	800-862-6909	\$ 21.89	0.37%	\$ -	BUY
Aggressive Growth						
AMN Healthcare	AHS	NYSE	\$ 15.83	0.00%	\$ 11.00	HOLD
Boston Scientific	BSX	NYSE	\$ 7.81	0.00%	\$ 8.50	BUY
ETF - Direxion Daily 20+ Yr Bear 3X	TMV	NYSE	\$ 56.90	0.00%	\$ -	BUY
ETF - ProShares Short 20+ Year Trsry	TBF	NYSE	\$ 29.91	0.00%	\$ -	BUY
ETF - ProShares UltraShort 20+ Year Trsry	TBT	NYSE	\$ 65.71	0.00%	\$ -	BUY
H&Q Life Sciences Fund	HQL	NYSE	\$ 17.44	6.19%	\$ 16.00	BUY
Maxim Integrated	MXIM	NASDAQ	\$ 32.64	2.70%	\$ 33.00	BUY
Symantec	SYMC	NASDAQ	\$ 24.68	0.00%	\$ 24.00	BUY
Tellabs	TLAB	NASDAQ	\$ 2.09	3.83%	\$ 3.00	BUY

Prices are as of 3/28/2013. See our website for live pricing and buy limits.

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

Yields on funds do not include distributions of capital gains. Note that all fund distributions fluctuate annually.

The US is self-sufficient in natural gas with only 9 percent imported from Canada. At 23.2 cents on the dollar versus oil, natural gas is bound to have a growing role in America's energy needs as well as independence from importing oil. This fund is well positioned to benefit from an expanding natural gas industry.

Hambrecht & Quist Life Sciences Fund (HQL) is up 29.1 percent this year, extending our profit to 86 percent. The most explosive profits in the entire healthcare industry can be found here in biotech companies. This is a volatile sector, so diversification is crucial. HQL is a superior way to gain exposure to biotech on a diversified basis.

The climb in the price of HQL has brought the price/earnings (P/E) ratio of the underlying portfolio above 25. Although these are typically young promising companies which tend to carry high multiples, we are not anxious to chase a high P/E. Accordingly, we recommend accumulating

shares on weakness.

Leucadia (LUK) is up 11.9 percent this year, extending our profit to 34 percent. This is a holding company with a portfolio in excess of \$9 billion of assets in beef processing, manufacturing, gaming entertainment, real estate activities, medical product development, and winery operations.

Its management has been compared to Warren Buffett in their success at identifying lucrative investments that can be purchased substantially below their intrinsic value. In fact, Buffet continues to team up with the Leucadia team on joint venture investments, and several holdings are directly partnered with Warren Buffett.

Skillful investing has produced double digit growth rates in its assets since 1979. After a bad year in 2008, assets have since grown by 150 percent according to Morningstar.

We think that LUK is valued well below the market

prices of its disparate parts, with a very low debt-to-equity ratio. LUK's holdings currently translate into a P/E ratio of 11.9, substantially below the market averages. It remains undervalued.

Masco (MAS) was up 59 percent last year and up another 21.5 percent this year, extending our profit to 174 percent. MAS manufactures a wide range of products for home construction and remodeling --everything from kitchen cabinets and faucets to windows and paint.

We added MAS to the portfolio at \$7.49 after the shares got hammered during the recession. However, the share price has rocketed, bringing the price/earnings ratio to 33 times the 2013 earnings estimate of \$0.60 a share. This high price/earnings ratio is already anticipating a steep growth rate. We continue to recommend waiting for a pullback to accumulate more shares.

Maxim Integrated Products (MXIM) is up 15.8 percent this year, extending our profit to 67 percent. MXIM specializes in analog circuits which are essential for receiving and interpreting digital inputs. A cell phone is a perfect example. After receiving a digital signal, it must be transformed into an analog format so that we can hear it. MXIM also makes integrated power management chips (PMIC) for portable devices makers to extend battery lives.

The strong demand for cell phones has boosted MXIM's consumer business. Samsung's cell phones and tablets are now contributing to 40 percent of MXIM's revenues and 30 percent of earnings. While the importance of Samsung is growing, MXIM is starting to sell integrated power management chips to other smartphone manufacturers who are aiming for growth in lower-priced handsets in emerging markets.

MXIM is in excellent financial health with \$1.0 billion of cash and plenty of cash flow to support operations. The investment and resources necessary to develop MXIM's high-performance analog chips takes years to develop which is an entry barrier for new competition. Once developed, these chips have long and profitable product lives.

Paychex (PAYX) is up 12.7 percent this year, extending our profit to 30 percent. PAYX is the second-largest provider of payroll services to small to medium sized companies serving a total of approximately 567,000 payroll clients. Accordingly, its revenues and earnings directly mirror the employment situation.

The balance sheet is pristine with no long-term debt exposure. There is further growth ahead with a recovery in the economy. Morningstar's fair value estimate is \$38 per share.

PAYX recently increased its dividend (close to 4 percent) and announced a share buy-back program of \$350 million of the common stock through May 31, 2014.

The price/earnings ratio is currently 22 based on 2013 earnings estimated at \$1.60. While we are still comfortable at this price, we would recommend not chasing it higher and accumulate on weakness.

Pfizer (PFE) is up 17.6 percent this year, extending our profit to 72 percent. Pfizer is the world's largest pharmaceutical firm, with annual sales near \$60 billion. Pfizer's large size gives it economy of scale and the resources to finance the research and development of new drugs. It has more than 80 drugs in the development stage and 90 in the discovery stage.

PFE has an extensive sales force to market its products in nations where growth and increasing wealth is strong, including Brazil, Russia, India, China, and Turkey, and PFE has devoted the resources to arm its sales force with plenty of data for marketing.

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. Pfizer is poised to launch several blockbusters in cancer, heart disease, and immunology.

Retail Opportunities Investment Corp (ROIC) is up 9.1 percent this year, extending our profit to 31 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. It is a simple model: buy distressed retail properties with high-quality demographics, refurbish them, and then lease them at a premium.

ROIC's initial IPO also issued 49.4 million warrants with an exercise price of \$12 for common stock through October 23, 2014. As the stock price crossed \$12 this year, warrant holders began exercising their warrants and purchasing stock.

These warrants have likely been holding the price of the stock down as significant amounts of the stock have likely been sold after warrants have been exercised. In late March, ROIC announced that 57.3% of the warrants have been exercised, which amounts to 26.5 million shares of common stock. Even in the likely headwind of selling, the stock managed to rise slightly above \$14 a share.

As the balance of the warrants are exercised, the overhang will vanish, allowing more upside in the price of the stock. Based on its peers (Regency Centers, Acadia Realty Trust, and Kimco Properties), ROIC should trade close to \$18 a share in today's market.

Stryker (SYK) is up 19 percent so far this year, extending our profit to 56 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.

Reconstructive implants account for 45 percent of SYK's revenues, and more profits are assured by accelerating demand for joint replacements on aging baby boomers. As life expectancies continue to increase, and obesity trends continue, more and more hip, knee, and spinal procedures will be needed.

Stryker's cash-rich balance sheet (with over \$2 billion in net cash) and robust cash flow, gives SYK multiple avenues for growth through mergers and acquisitions. In March the company

took advantage of today's low interest rate environment by selling \$600 million of senior unsecured notes due 2018 that bear interest at 1.3% per year. It also sold \$400 million of senior unsecured notes due 2043 that bear interest at 4.1% per year. The Company intends to use the net proceeds from the offering for working capital and other general corporate purposes, including acquisitions, stock repurchases and other business opportunities.

We notice that hedge funds have been adding SYK to their portfolios recently.

Symantec (SYMC) is up 31.1 percent this year, extending our profit to 47 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. In July, 2012, Steve Bennett took over as the new CEO and has streamlined operations while giving SYMC stronger direction.

SYMC is expanding its cloud computing customer base through its new product "Norton Zone" which allows users to safely access, sync, and share photos, videos and documents from any of their PC, Mac, Android, or iPhones and iPads.

In March, SYMC reported that 25 state government entities have chosen its Clearwell eDiscovery Platform, an electronic discovery software that enables organizations to investigate and manage legal and regulatory matters using a single application.

Tellabs (TLAB) designs and manufactures hardware for the telecommunications industry. It is down 8 percent this year to \$2.09 per share, which is a steal at this price.

According to TLAB's latest financial statements, the company has current (liquid) net assets of \$1.84 per share. Adding in its other assets, including properties and equipment (less depreciation), the net assets total \$2.71 per share. (In our calculation, we have excluded paper asset entries that are held on the Company's balance sheet which include Goodwill and Intangible assets amounting to \$0.29 per share.) At the current stock price, we are buying the company's current net assets at a discount, and at a larger discount to all of its assets.

The company has begun buying back its shares, and plans to reduce the float by 20 percent. Like most value-oriented investors, we like to see companies buying back their own shares. Management knows their company better than anyone, and we like to see that management agrees with our assessment regarding their stock.

In a world of exploding demand for wireless communications should be a bonanza for TLAB. However, Tellabs has been slow to move its product lines as telecom service migrates into wireless.

Now that the explosion of smart phones, tablet computers and wireless communication is testing the limits of telecom infrastructure, Tellabs should be able to gain a significant portion of that market. We think there is very little downside risk and nothing but upside.

Tetra Tech (TTEK) is up 15.2 percent so far this year, extending

our profit to 98 percent. TTEK is a leading company in water technologies and environmental remediation with a healthy balance sheet.

In March, TTEK was awarded a \$100 million remedial action contract by the Naval Facilities Atlantic Division covering the Atlantic area including North Carolina, Virginia, Maryland, Connecticut, Maine, West Virginia, Africa, and Vieques, Puerto Rico.

TTEK currently has a record backlog of work totaling \$2.2 billion. Large contracts include technical support for the U.S. Environmental Protection Agency (EPA) to monitor water quality conditions. Other recent contracts include remediating NASA's Kennedy Space Center and Cape Canaveral Air Force Station, along with environmental remediation services at US Navy, Marine Corps, and other Department of Defense locations primarily in California and the southwestern United States.

The greatest growth potential lies outside the United States in China and India, where environmental concerns have been at best an afterthought. Only now are these governments starting to recognize the consequences. As these and other governments around the world make this a priority, Tetra Tech should be a prime beneficiary.

USAA Precious Metals & Minerals Fund (USAGX) is down 18.1 percent this year as the price of gold has suffered.

USAGX is the best diversified way to invest in precious metals. It is the top-performing fund, and has constantly outperformed precious metal equities for ten years. Even after the poor markets and declines of precious metals, USAGX still provided an annualized return of 16.54 percent over the last ten years as of March 28.

When the economy gets more traction, USAGX will benefit from the Federal Reserve's monetary stimulus programs which have been printing money to make massive purchases of Treasuries and mortgage-backed securities. All these extra dollars will raise inflationary expectations, and precious metals will be a direct beneficiary.

Xerox (XRX) has climbed 26.1 percent this year. XRX has been transforming from a seller of printers and copiers to a company providing services on those machines. The revenue from services is more profitable and less cyclical, and it now accounts for half of XRX's revenues.

In late March, XRX announced appointment of Kathryn Mikells as chief financial officer and an executive vice president of the corporation. According to Ursula Burns, Xerox chairman and chief executive officer, Mikells brings extensive experience in financial management coupled with broad global business acumen in both services and technology...and will help us further advance our services-led growth initiatives.

XRX is expected to post earnings close to \$1.00 per share this year. The current stock price is 9.1 times earnings, which is incredibly low for a company with growth prospects. Any kind of recovery will bring a large capital gain. Morningstar's fair value estimate of the stock is currently \$11 per share.

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 \$9,229,412 in stocks and to \$1,312,766 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 \$366,831,209, 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 SoundAdvice Risk Indicator is 1.60. This reading reveals that stock prices are slightly 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 SoundAdvice 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 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.

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. This index hit 100% in March 2012 (reported in April - close to the peak of the market) telling us to move to a cautious approach.

Our next signal will come from a zero reading from our Diffusion Index of Leading Indicators. The latest reading is 100 percent.

Each month we project into future months the current readings for our hand-picked individual leading economic indicators that go into our Diffusion Index of Leading Indicators. We do this to see if a zero reading will be recorded assuming the readings stayed the same. However, due to significant increases in all of the leading indicators, we will not see a new signal (zero reading) in the months ahead unless the economy shows significant weakness.

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 declined an average of 0.1 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%		-0.1%

See *The Science of Making Money in Turbulent Markets* for a complete explanation of the SoundAdvice 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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