SoundAdvice

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For Chicago Bulls fans, Michael Jordan could do no wrong. NBA referees, at least in my opinion, often shared that view. On the court Jordan did things, had he done them in the street, would have gotten him arrested for jaywalking and even assault.

The *Wall Street Journal* reports evidence that supports the notion that premier teams get treated better by refs than do their opponents. Of course, top tier basketball coaches dismiss the notion. Success breeds a sense of entitlement. For some reason, I found myself thinking about Bernie Madoff and Lloyd Blankfein.

Madoff recently told authorities that he was dumbfounded the SEC made so little effort to scrutinize his operations during normal examinations.

He attributed his good luck to his iconic reputation on Wall Street. Blankfein, Goldman Sachs' CEO glibly (and regrettably) brushed off criticism of Goldman's rich bonuses by saying he was merely a banker "doing God's work." Those bonuses resulted, he lectured analysts in London, from how productive Goldman workers are compared to its competitors'.

What Blankfein misses is that even Goldman would have followed Lehman into bankruptcy had we taxpayers not poured billions into keeping the U.S. and global credit markets from imploding. We think that move was necessary, though clumsily executed. Blankfein and other dominant players on Wall Street seem to think they are immune from the rules and responsibilities the rest of the world follows. Maybe they're right.

--Gray Emerson Cardiff

Five for 2009 Was No Turkey

The Five for 2009 portfolio exceeded not just the market but our own expectations. As a group, they are up 78.1%. Over the same 53-week period (November 14, 2008 to November 20, 2009), the pan-market Wilshire 5000 has gained 28.1%. The Nasdaq turned in a 41.5% rise.

What were our criteria in putting this group together? We can do no better than quote last November's issue written with the market in yet another tailspin and our Five for 2008 selections in tatters. We saw no reason to change our approach: " We always look for stocks that were serious laggards. Stocks without blemishes or investor concerns do not become cheap and worth considering, hence each had a defect we believed could and would be fixed."

"We still are willing to buy what others are selling. We still are willing to use historical performance as a guide. We still are willing to do the same thing over and over and we still expect different results, because one failure does not negate our much longer history of market-beating results—but it sure does induce some humility about those successes."

Let's look at the Five for 2009, starting with the best performer, **HRPT Properties Trust (HRP—NYSE)**, which leaped 168.3%, more than quadruple what the SPDR REIT Index ETF returned over the same period.

The pressures on HRP were no different than those crushing other stocks. One pressure was fundamental (in a recessionary economy, vacancies rise and rents decline), another psychological (many professionals were shouting that we were on the verge of another Great Depression) and another technical (forced selling by leveraged holders created a downward spiral). We factored in the fundamental issues HRP faced, welcomed investors' anxiety and understood the artificial (though very real in dollars and cents) nature of the forced selling.

By the March bottom, REITs

SoundAdvice
Versus the S&P 500

FIVE FOR 2009 VS. BENCHMARKS: 11/14/08-11/20/09

	11/14-12/31/08	11/14/08-3/9/09	3/9/09-11/20/09	11/14/08-11/20/09
HRP	25.7%	0.0%	144.8%	162.7%
USAGX	39.3%	33.6%	74.2%	149.7%
DODGX	5.2%	-24.8%	81.3%	38.1%
PHO	16.8%	-17.7%	60.0%	32.3%
JNJ	-0.4%	-22.4%	33.7%	7.7%
Averarge Performance	17.3%	-6.3%	78.8%	78.1%
Dow	3.3%	-23.0%	57.6%	21.4%
S&P	3.4%	-22.5%	61.3%	25.0%
Nasdaq	4.0%	-16.4%	69.2%	41.5%
Wilshire 5000	4.2%	-21.4%	62.9%	28.1%

had achieved pariah status. The story line was that some REITs, which during the 2005-2006 bidding boom for commercial real estate frenzy had paid far too much for the properties and used relatively short-term loans, were about to default on their loans, lose their properties and be forced into bankruptcy. One or two did just that, but the fear extended to the entire industry, even to conservative REITs like HRP.

Volatility was crushing. 40% moves in the last half hour of trading for REITs panicked shareholders into selling. Instead, we focused on the value of HRP's properties, their stable tenants and the strong balance sheet. When HRP announced it would trim its dividend from 16 to 12 cents to strengthen its balance sheet and to have cash on hand to take advantage of bargains, we approved. In its most recent quarter, HRP said occupancy rates had declined modestly, while costs of retaining or enticing tenants were increasing. This is what happens during recessions. Our response to excessive weakness provoked by normal events is to buy, not sell.

USAA Precious Metals & Minerals Fund (USAGX) was and remains a thematic investment based on expectations that the U.S. dollar was overvalued and would fall, and that at some point inflation would surge. The dollar, as measured by the PowerShares DB US Dollar Index (UUP—NYSE), since last November has fallen 16.3%.

Mark Johnson, USAGX's fund manager, has shifted the portfolio over the last couple of quarters toward higher cost producers, a strategy that anticipates rising gold prices. GLD, the gold bullion ETF, is up 54.1% since November 14th, but, as you know, mining stocks leverage the price of gold, moving two to three times faster than the underlying metal. Johnson beat the gold mining stock index ETF (GDX), and for the record, also outperformed the **American Century Global Gold Fund** that USAGX replaced in our portfolio after the American Century fund became a load fund for new investors.

Dodge & Cox Stock Fund (DODGX) like other deep value funds got killed in 2008 primarily because they bulked up on financial services stocks well before the Lehman bankruptcy. What most investors missed was how vulnerable these financial services companies were to derivatives related to residential and commercial real estate. This fund during the first three quarters of 2008 doubled up on five positions (AIG, Wachovia, Citigroup, SLM Corp and Wells Fargo). Amid the post-crash rubble, DODGX upped exposure to technology and healthcare, positions that have worked . DODGX is up 38.1%, beating not just the S&P 500 but the IVE a benchmark for large cap value funds that rose 22.6%.

PowerShares Water Resources Fund (PHO—NYSE) despite its name is essentially an industrial/infrastructure fund. Since for the foreseeable future there are too few companies that are primarily involved in water, the fund includes companies that derive only a portion, sometime a small portion, of their revenues from water-related products and services.

Johnson & Johnson did next to nothing (+7.7%), which takes into account five dividends. We examine what happened (or didn't happen) over the last 12 months when we discuss the Five for 2010, which again includes JNJ. *SA*

Five for 2010

As much as when we're in the middle of a bear market makes us wonder why we didn't just put it all in a CD and sleep at night, bear runs are the launching pad for significant profits. The success of the 2009 quintet of recommendations (see page 2) made just as the market was bouncing off the last ledge before hitting bottom in March (between then and March 9th the pan-market Wilshire 5000 fell another 21.4%) is Exhibit A.

That was then. We've now been through one of the most compact, abrupt and dramatic reversals of market direction since the early 1980s, and there is little that has not risen lustily. In some cases positions have approached or even surpassed their historical highs. Hence, we should address the 2010 selection process with caution and not a little humility. We can't expect stocks to rise forever on mere relief that the world did not end last March. If this year's group is to prosper over the next 12 months, the tepid start of the current economic recovery must pick up heat. We also can't expect to repeat the profits the class of 2009 enjoyed. Having confessed this, we can dream. Let's go.

As we've argued all year, we like healthcare stocks. To say that Wall Street is anxious about how healthcare stocks will fare is understatement. Even before Democrats took the White House and gained strong majorities in both houses of Congress in November, it was clear that healthcare would be high on the political and economic agenda. The consensus on Wall Street was that reform would hurt every part of the industry, especially the insurers should a public option cram competition into what has been a very cozy business. Given this pessimism, it's not surprising that even during a panic period for stocks, healthcare, traditionally a safe harbor, lagged the overall market, and when share prices bottomed in March, these shares generally have continued to lag. We highlight the chances for two healthcare laggards.

Johnson & Johnson (JNJ—NYSE) is back for another turn after having an extraordinarily so-so as part of the Five for 2009 portfolio (+7.7%). Among the 30 Dow components (and in the rest of the market), shares of companies seen as defensive (healthcare, consumer staples, telecom) fared better on the downside as the market tumbled through early March and lagged the upside as the market rebounded.

For that matter, shares of the largest U.S. companies during the post-March rally have lagged the overall market, perhaps because generally they did not fall as far during the collapse.

Finally, the uncertainties caused by political battles in Washington over healthcare have kept many investors on the sidelines or, better yet, generated pessimism sufficient to suppress medical companies' shares. Speaking broadly, we expect healthcare companies to prosper in part because a demographic tsunami consisting of baby boomers will push demand and in part because whatever reform does come out of Washington will increase the number of the insured, which also will fuel demand for everything from bed pans to high-tech medical devices.

Aside from owning one of the six strongest balance sheets in corporate America, Johnson & Johnson's divisions cover almost every aspect of healthcare (except for insurance), and in most of those businesses they rank number one or number two. However, through 2009's first three quarters revenues and profits have been hurt by problems in several of JNJ's major divisions: revenues from consumer products domestically dropped 3% and internationally 7.1% (5.3% combined), and pharmaceuticals domestically dropped 14.9% and internationally 8.8% (12.5% combined). Medical devices and diagnostics rose domestically 3% but dropped internationally 4.8% (combined -1.3%). Operating profits, however, did rise for consumer and medical devices but fell for pharmaceuticals, which resulted in a 1.9% overall decline. This shocked investors, since Johnson & Johnson had produced clockwork growth for decades.

There were no mysteries about why JNJ slipped. Recessions do that, even to healthcare companies. But it was not just more cautious spending on healthcare that hurt JNJ. Specifically several prescription drugs

lost ground to generics, and in the device area JNJ's Cypher stents continue to lose market share to both stents from Abbott and Boston Scientific.

JNJ is not wringing its hands over these declines. Instead, it's gone out and acquired a couple of small private companies and made more substantial additions through Omrix Biopharmaceuticals (produces biologic hemostats and other surgical devices) and Mentor (manufactures breast implants and other cosmetic products). JNJ also gave $1.1 billion to Elan Pharmaceuticals for an 18% interest in order to access Elan's Alzheimer research. Add this to JNJ's own internal R&D and you have every reason to expect it to bounce back from 2009's adversity. Valuations are compelling. Historically JNJ P/E has traded at a premium to the overall market. Today it's at a discount, and when compared to its own price ratios over the last decade, they are scraping bottom, ranging from a 57% discount (Price/Book) to a 71% (Price/Sales).

Boston Scientific (BSX—NYSE) was performing admirably until late summer, when it began to slip, and then last month took a beating after reporting satisfactory results through the first three quarters but predicting difficult times for its primary business lines: drug-coated stents and cardio-rhythm devices.

At the start of the conference call, CFO Sam Leno listed the headwinds his company faces: weakness in the global economy, government focus on bringing down healthcare costs and a gradual slowdown in growth for its primary products that harms top and bottom line results. In the U.S., which is Boston's biggest market, imposition of a special tax on device makers, part of proposed legislation, reflects governments' intention to tamp down margins. Moving from macro to company specific issues, Leno noted that despite increasing domestic unit sales volume in the quarter (+7%) revenues slipped as prices were cut in response to market conditions.

Despite lately playing second fiddle in drug-coated stent technology to Abbott, Boston Scientific, thanks to its mix of stents that includes a version of the Abbott stent that BSX sells through a royalty arrangement, dominates the business with 41% of global sales versus 27% for Abbott and 12% each for **Johnson & Johnson** and Medtronic.

For its cardiac rhythm monitor (CRM) business, which Boston acquired when it purchased Guidant back in 2005, the pattern was stronger, though numbers did not meet expectations, which Boston attributes to costs incurred in building up its sales force. In short, the quarter was OK given the general climate but results came in below guidance provided earlier in the year. Management decided not to make the same mistake, and projected more cautious numbers for the rest of the year, next year and the foreseeable future.

Investors responded as if BSX had announced that its stents caused cancer and its cardiac rhythm devices were electrocuting patients. They dumped shares mercilessly, driving them under $8, not much above where they sank at the March 9th bottom. At current levels, Boston Scientific's valuations are at or below levels seen at major bottoms for the shares. Though this is no guarantee that the shares have reached a solid floor, such numbers in the past marked prices investors have always been willing start accumulating.

Leno finished his remarks by noting that Research & Development expenses were holding firm at about $1 billion a year. This commitment to improving existing products and developing new ones is fundamental to our expectations for Boston Scientific.

Historically medical device companies tend to leapfrog each other by developing (or acquiring) technology to support the next product generation. In BSX's core stent business, the future most likely will involve biodegradable stents, a technology BSX acquired when it allied itself this January with Labcoat, an Irish developer. Guidant also is back to introducing improved devices.

There are plenty of risks in owning any device or pharmaceutical company: FDA scrutiny, obsolescence, product liability issues and expensive product developments that never make it to market are the most common.

We think that a combination of factors will push Boston Scientific higher over the next year (and beyond). First, last month's pessimistic guidance raises the likelihood that future quarters' results will exceed those lowered expectations. Second, once healthcare legislation is signed, we expect that healthcare shares will begin to reflect reality rather than fear. Finally, we expect that new products, first from the Guidant division and then the stent division, will have a positive impact on sales and earnings. We think BSX by the

end of 2010 can be a $13 to $14 stock.

Comcast (CMCSA—Nasdaq) has the distinction of being one among three current *Sound Advice* holdings whose shares are in the red this year (the other two are **Wal-Mart** and **Molson Coors**), down 9.5%. Indeed, Comcast shares broke down in mid-summer 2007, before the market itself crested in October, and along with telecom stocks like AT&T and Verizon has underperformed ever since.

That both Comcast and telecom companies are out of favor is no coincidence, since Comcast as the largest cable company in the United States competes head on for customers with the two telephone companies that if combined nearly recreate the national monopoly Ma Bell enjoyed till it was broken up into regional Baby Bells. Both Comcast and the telecoms compete for the so-called "triple play" service: voice, Internet and TV. Comcast is at a disadvantage since it does not offer wireless service (both Verizon and AT&T do), though it anticipates an alliance with Sprint Nextel should that company's WiMax technology go national.

If this year's group is to prosper over the next 12 months, the tepid start of the current economic recovery must pick up heat. We also can't expect to repeat the profits the class of 2009 enjoyed. Having confessed this, we can dream.

Competition during a deep recession can be expensive. Not only are revenues stagnant (how many stories have you read about penny-pinchers buying rabbit ears for the TVs to avoid paying subscription fees , or going to the public library for Internet access rather than pay the monthly fee) but service providers continue to spend heavily to upgrade their systems and to compete for each others subscribers. In 2007, for example, Comcast on a year-over-year basis more than doubled its per share capital expenditures to $2.05. Last year it was $2 and this year it will run $1.95. Most of this spending was devoted to an aggressive upgrade of its system's speed, which is crucial to its competitive position.

Nonetheless, Comcast increased earnings 4.8% for the first nine months mostly thanks to lower tax rates. However, if you look more closely at where it expanded its revenues and customer base, it's apparent that the key to earnings growth is Comcast's ability to sell additional services to its cable TV customers, which constitute CMCSA's core business. In fact, we expect that Comcast will exploit this opportunity at the expense of its telephone company competitors, especially as broadband demands from households become ever more voracious.

The cable business earlier in the 1990s and through 2006 was a hot item on Wall Street as expectations for rapid growth ruled. Now, with most of the domestic market served by cable, phone or satellite companies, the game has changed from expanding services to customers who lacked high speed connections to how well players can sell existing subscribers more services (and to steal competitors' customers when possible).

Comcast is also looking to the future by acquiring content through acquisitions. It failed five years ago to convince Disney to merge, but is currently negotiating purchase of a majority interest in GE's Universal NBC division to complement its dominant role as a distributor. As an aside, we think that investors are starting to value companies' content, which is good news for our position in **TimeWarner**.

We think that Comcast shares, provided the U.S. economy is in the very preliminary stages of a recovery, can play catchup with not just the overall market but with its own historical valuations, since it is trading at a deep discount from the price ratios at which it has traded in the past. We needn't see a return to the stratospheric valuations CMCSA enjoyed in its heyday. We'd be quite satisfied with the historical mean.

Molson Coors (TAP—NYSE) has been in the *Sound Advice* portfolio since 2004 when it was simply Coors. It's done well for us (+60% versus minus 3% for the S&P 500), but not in 2009. It stands 5.5% below where it began the year, and 21% off its 2008 high. Also, compared to the combination of InBev and Budweiser, which was consummated in July 2008, TAP has lagged. However, we think that Molson Coors, especially after it combined its U.S. operations with those of SABMiller, is setting itself up for better results.

In fact, despite declining unit sales, TAP is showing strong operational profits thanks to this alliance

primarily because Coors, which had produced almost all of its beer in Colorado and as a national brand incurred extraordinary shipping costs, is now producing at SABMiller breweries around the U.S. With 12 months of the alliance's operations now on the books, TAP has more than achieved the efficiencies it projected when it announced the deal. We expect TAP can extend them in coming years.

How managements deal with tough times is instructive. In TAP's case, rather than sacrifice profits to maintain market share, Molson Coors has been able to increase profits despite slippage in unit sales. This was particularly true in the United Kingdom, where sales declined by 6% but operational profits increased 12%. Finally, through the third quarter, currency conversions from the UK and Canada hurt results as reported in dollars. Given the steep decline in the greenback, we expect this headwind will become a tailwind.

As was the case with Budweiser, Molson Coors operates in a mature market for beer. InBev,which began as a combination of Belgian and Brazilian brewers, did business in mature markets in Europe but also had wide exposure in emerging markets, which promise real growth. SABMiller resembles InBev in that respect, and for the same reason that InBev found a full merger with Budweiser one way to increase its market share, even in a mature market, <u>we expect SABMiller eventually will absorb Molson Coors</u>. In fact, though bears think that the InBev/ Budweiser will pressure Molson Coors in the U.S., we believe, should that occur, it would make SABMiller's acquisition of TAP all the more attractive. It's unlikely that this will happen during the life of the Five for 2010 portfolio but there's enough reason to expect TAP to beat the market over that period to justify including it..

Maxim Integrated (MXIM—Nasdaq) carved out its identity as a designer and manufacturer of high performance analog chips primarily for the telecom and industrial sectors. These products required exquisite engineering and were produced in realtively small lots. As CFO Bruce Kiddoo noted in a recent interview, some of the products MXIM ships today came to market 20 years ago, though the average life for these MXIM's products runs five to 10 years.

Starting three years ago, Maxim has entered another part of the integrated circuit world, high volume chips used in consumer goods such as cell phones, digital cameras, laptops and other devices for which power management is critical.

These still are high performance chips, but the life cycles of the products into which they go rarely extend longer than two years, which requires MXIM be not just innovative but also nimble, since demands change as new products are introduced.

Also, since consumer product makers need large runs, volume pricing puts some pressure on MXIM's profit margins. In addition, since Maxim does most of its own manufacturing, a commitment to consumer products has required a significant investment in production facilities, which, should demand dry up, would leave MXIM with fallow capacity.

Nonetheless, this new facet for MXIM's business model is emerging as a major profit center. If the economic recovery builds in the coming year, we can expect MXIM will be a prime beneficiary. The shares this year are up 59.5%, better than the Nasdaq's 36.1% rise to date. Currency translation could also provide a major tailwind to sales and earnings, since the company ships 82% of its products to foreign end users, primarily in Asia. Hence, as the dollar declines, foreign sales are magnified when translated back into dollars.

Maxim has survived a rough few years not just because the tech collapse clipped its sales but particularly because senior management backdated options that distorted quarterly results filed with the SEC. Those executives are gone but delays in restating those results caused headline damage and led to MXIM being delisted from the Nasdaq for a year (October 2007-October 2008) and having to trade on the Pink Sheet, which barred certain institutional investors from owning shares.

Despite this shadow, Maxim continues to enjoy industry-wide respect, and has maintained its generous dividend yield (currently 4.6%). It keeps honing its business model. At this point in the business cycle, MXIM is trading at historically low price ratios.

At the risk of repeating ourselves, <u>if we are at a turning point in the economic cycle</u>, MXIM is a tech bargain. ***SA***

Portfolio Upates

Since the last issue was priced on October 2nd, equities have had a strong run. As we close the book for this issue (11/20), the Dow has added 8.8%, the more representative S&P 500 6.5%, the tech-centric Nasdaq 4.8% and the pan-market Wilshire 5000 5.8%. The *Sound Advice* portfolio increased 7.9%, though all were higher just a few days before. The dynamic that propelled share prices higher (and then took them down a peg) remains blatantly obvious: the dollar's value. The counterforce to the buoyancy the falling dollar provides remains concern that the U.S. economy, which last month showed a 3.5% rise in GDP, is just a ward of the state, dependent on zero interest rates and loans, government stimulus and targeted programs such as those aimed at housing and auto purchases. Like a car whose engine can't turn over, the U.S. economy, according to this dour perspective, can keep moving only so long as it's being shoved ahead. Stop pushing, and it will stop. Optimists pray that the economy's engine will catch and will motor ahead on its own. We lean toward the optimistic view.

For the last few months, the cheap dollar theme has dominated, but whenever the dollar stops declining, as it did over the last three days before we closed the portfolio, equities fall, which suggests that Wall Street has little faith that the U.S. economy on its own can pick up speed. Glance at the chart below that compares price movement between 11/16-11/20 for the UUP, an ETF that tracks the dollar, and ETFs for the Wilshire 5000, S&P 500, Dow and Nasdaq. Couldn't be clearer.

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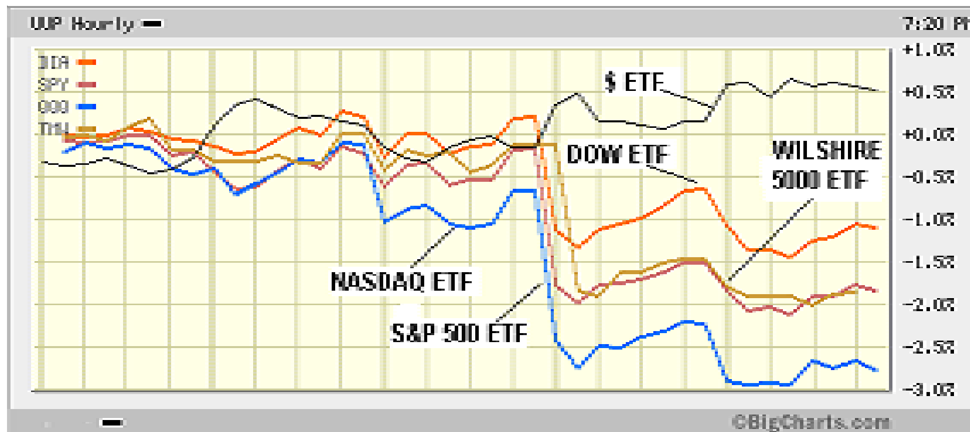
Look at the three funds we covered in the October issue. The **Gabelli Global Telecommunications Fund** increased 4.5% and the **PowerShares Water Resources Fund** added 2.3%. The **USAA Precious Metals & Minerals Fund** jumped 19.7% as spot gold prices soared to $1150 an ounce, a new historical high (when adjusted for inflation, however, gold still remains well short of $2000, its 1980 peak). Telecom and media stocks that make up the Gabelli fund will move with expectations of economic recovery. The PowerShares fund, though water might be its theme, remains a portfolio of industrial companies that also move with the general economy. But precious metals reflect concerns about both the dollar and economic and/or social instability. Put simply, the market is hot but gold is molten. It's not just the precious metals that responded to dollar weakness. If you look at the best performers in our portfolio, the precious metals fund takes a backseat to **Anglo-American**,

Dollar Versus Stocks: 11/16-11/20



SoundAdvice: Portfolio for November 2009

***For live portfolio updates log on to*: www. soundadvice-newsletter.com**

Income With Growth	Symbol	Exchange/ Phone	Price/ N.A.V.*	Yield**	Buy Limit	ACTION
HRPT Properties	HRP	NYSE	$6.56	7.32%	$7.20	BUY
Diversified Growth					.	
Agrium	AGU	NYSE/TSE	$57.32	0.19%	**$61.00**	BUY
Boston Scientific	BSX	NYSE	$8.09	0.00%	**$12.00**	BUY
CarMax	KMX	NYSE	$20.01	0.00%	$24.00	BUY
CGM Realty Fund	CGMRX	800-343-5678	$20.19	4.06%	N/A	BUY
Dodge & Cox Intl.Fund	DODFX	800-621-3979	$31.59	7.13%	N/A	BUY
Dodge & Cox Stock Fund	DODGX	800-621-3979	$96.96	1.88%	N/A	BUY
Fastenal	FAST	NASDAQ	$37.01	1.89%	$46.00	BUY
Gabelli Global Telecom Fund	GABTX	800-422-3554	$18.66	1.77%	N/A	BUY
Honeywell	HON	NYSE	$38.04	3.19%	$42.00	BUY
Johnson & Johnson	JNJ	NYSE	$62.31	3.15%	$68.00	BUY
Leucadia National Corp.	LUK	NYSE	$21.91	0.00%	$30.00	BUY
Mattel	MAT	NASDAQ	$20.01	3.75%	**$23.00**	BUY
Microsoft	MSFT	NASDAQ	$29.62	1.76%	**$33.00**	BUY
Molson Coors Brewing	TAP	NYSE	$45.57	2.14%	$52.00	BUY
Odyssey Healthcare	ODSY	NASDAQ	$15.00	0.00%	**$18.00**	BUY
Perrigo	PRGO	NASDAQ	$39.31	0.56%	**$42.00**	BUY
Stryker Corp.	SYK	NYSE	$48.73	0.82%	**$51.00**	BUY
Superior Industries	SUP	NYSE	$14.99	4.27%	$18.00	BUY
Tetra Tech	TTEK	NASDAQ	$26.22	0.00%	$35.00	BUY
Third Avenue Value Fund	TAVFX	800-443-1021	$44.68	0.41%	N/A	BUY
United Parcel	UPS	NYSE	$57.51	3.13%	$60.00	BUY
UnitedHealth Group	UNH	NYSE	$28.56	0.11%	$32.00	BUY
Wal-Mart Stores	WMT	NYSE	$54.28	2.01%	$60.00	BUY
Xerox	XRX	NYSE	$7.83	2.20%	$10.00	BUY
Energy/Natural Resources						
Anglo-American PLC****	AAUKY.PK	PINK SHEETS	$21.00	0.00%	**$25.00**	BUY
Fidelity Select Nat. Gas Fund	FSNGX	800-544-8888	$28.05	0.00%	N/A	BUY
Plum Creek Timber	PCL	NYSE	$34.20	4.91%	**$39.00**	BUY
PowerShares Water Resources ETF	PHO	NYSE	$16.22	0.49%	$19.00	BUY
Transocean	RIG	NYSE	$83.80	0.00%	$90.00	BUY
USAA Precious Metals & Minerals	USAGX	800-862-6909	$35.54	0.03%	N/A	BUY
Aggressive Growth						
Comcast	CMCSA	NASDAQ	$15.01	1.81%	$19.00	BUY
Davis Financial Fund	DFIBX	800-279-0279	$22.46	8.07%	N/A	BUY
Ford Motor Convertible Pfd	F.PRS	NYSE	$37.01	8.78%****	**$40.00**	BUY
Liberty Global	LBTYA	NASDAQ	$20.39	0.00%	$28.00	BUY
Maxim Integrated	MXIM.PK	NASDAQ	$17.31	4.62%	$22.00	BUY
Symantec	SYMC	NASDAQ	$17.72	0.00%	$19.00	BUY
Time Warner	TWX	NYSE	$31.64	2.40%	$34.00	BUY
Western Digital	WDC	NYSE	$37.05	0.00%	**N/A**	**SELL**

***Prices as of the market close on Friday, November 20, 2009**

****Yield represents all income during previous 12 months divided by current share price.**
Note that all fund distributions fluctuate annually.

*****Dividend Deferred**

******Note change in ticker symbol**

BUY, HOLD, SELL OR LIMIT IN BOLD INDICATES A CHANGE IN ACTION OR LIMIT

a holding company focused on mining resources (copper, iron, coal, platinum, diamonds), which soared 40.7% over the same period. AAUKY lately has outperformed its peers, in part because it is playing catchup with other metals miners and in part because an unfavorable offer to merge with Xstrata, a Swiss holding company, has been terminated. The strengthening dollar reduced energy stocks gains. **Transocean** went from a 13.3% increase to 2.8% and **Fidelity Select Natural Gas Fund** went from up 22.3% to 5.1%. But **Plum Creek Timber**, which has taken a double blow (timber demand is down and sales of its raw land for development have seized up) did add 17.5%. **Agrium**, the fertilizer manufacturer, leaped 22.3% despite getting rocked last month when results showed a 93% decline in earnings, the result of poor demand for its products. Behind this jump is a complicated three-way takeover battle that has AGU trying to acquire a resistant CF Industries, which in turn wants to take over Terra. Though AGU has attracted 62% of CF's shares in a tender offer, should CF win Terra, AGU's bid would be neutralized. CF now seems able to capture Terra. Apparently investors are relieved.

The best performing group this month have been healthcare stocks (See page 3). The Senate has gotten past the initial hurdle in passing a bill, and we expect legislation will get to the White House early in 2010. Yes, in the short-run there will be turmoil, but a combination of demographics, politics and influence insures that everyone—and that includes the insurers—will prosper. This remains a distinctly minority opinion. **UnitedHealth**, the HMO that in September tumbled as Wall Street again decided UNH would be harmed by reform of how Americans are insured, surged back, adding 17.6%. **Odyssey**, the hospice provider, added 20.4% after reporting very good results for the first three quarters. Integration of its acquisition of Vistacare has been ahead of schedule. Hospice care offers a humane alternative to what hospitals can provide to dying patients. Physicians and hospitals, broadly speaking, are not wired to accept death and dying, and exhaust every tool to postpone death regardless of whether those measures sustain the patient's quality of life. The fatuous and cynical political storm that raged this summer about "death panels" distorted all that is right about hospice care as an integral part of the human condition. Hospice care also is less costly than heroic medical procedures. Odyssey represents the ultimate bet on the needs of the baby boomer generation.

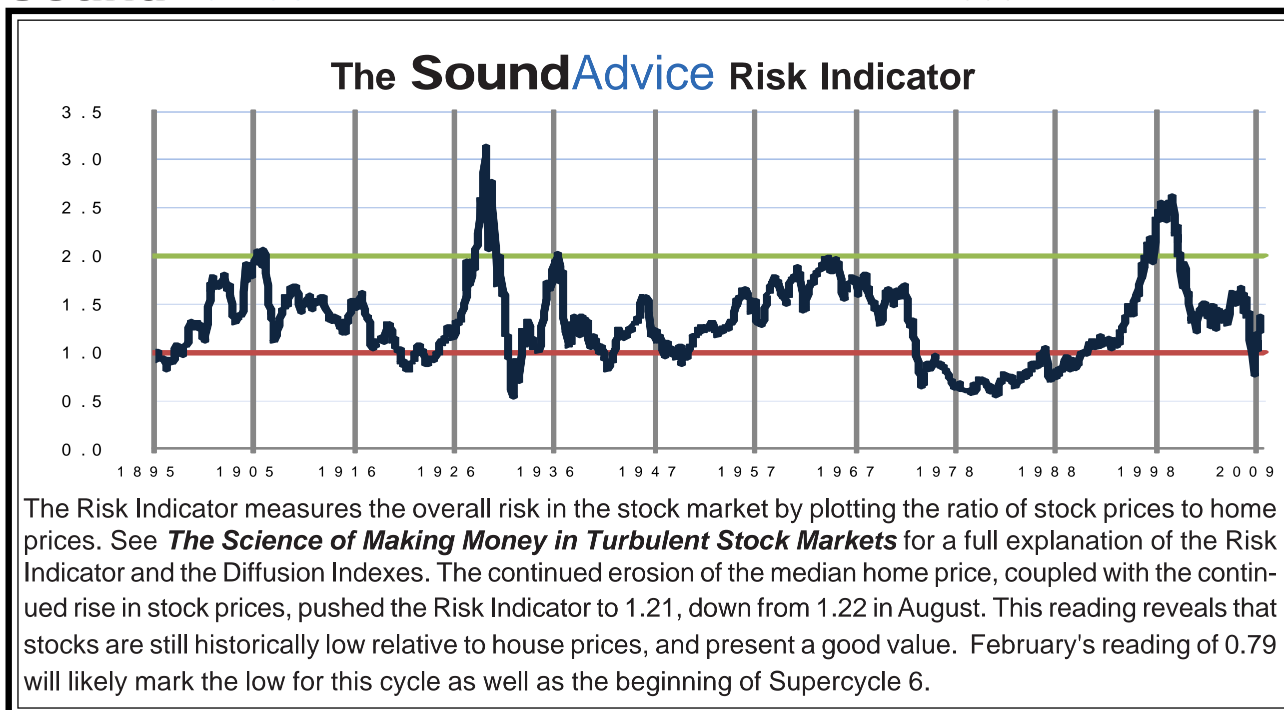
Stryker, which after second-quarter results pushed the share price down we underlined as the most attractive position among our healthcare holdings, experienced crosswinds in October as the company announced much better than expected quarterly results but also was indicted for how it marketed its bone growth products. On the earnings news the shares surged on October 20 and on the legal news fell on October 28. As with any legal problems, it's impossible to know the outcome, but our habit is to presume that the market invariably will exaggerate the outcome. So too here. The shares finished the month up 11.2%.

Perrigo, the store-brand over-the-counter medication and food supplement company that added generic prescription drugs to its mix of products, is up 16.7% since the last letter, and 50% since we reintroduced it to the portfolio in the June issue. Healthcare reform will encourage use of generic prescription drugs and consumers will continue to recognize that compared to national brands store-branded generics offer comparable effectiveness with prices that run about 30% cheaper. **Boston Scientific** had a miserable month(Seepage 4). Technology stocks absolutely are having a good month ranging upward from **Maxim Integrated**'s 2%, to **Western Digital**'s 4.9%, to **Xerox**'s 7% and **Symantec**'s 10.9%. **Microsoft** topped them all with a 18.7% gain since the last letter. Investors anticipate the new Windows 7 Operating System will be a hit, a relief after its predecessor.

The common theme in tech (and pretty much everywhere other than metals) seems to be that though for most companies revenues and/or profits are down and management sees little evidence yet that demand is about to pick up, investors are looking beyond the horizon. Either investors are correctly anticipating a pickup in demand and profits that even management is unwilling to concede, or investors are just reacting to having avoided a financial Armageddon. We are selling **Western Digital**, which this year is up 224%.Had you bought Western when Google had its IPO (August 2004), you'd come close to matching GOOG's near quintuple. Since GOOG peaked two years ago, it's down 23%. WDC is up 34%. The standard benchmarks matched GOOG. We think that is all we can ask of WDC.

Finally, the **Ford Convertible Preferred** kept on rolling, (+21.6%), helped by surprisingly good earnings, top ratings for design and safety and a big vote of confidence from George Soros, who is accumulating shares. Unlike Western, we think Ford has further to roll. The likelihood that Ford will follow GM and Chrysler into bankruptcy is next to zero, which means that at some point the deferred dividend (now worth $3.25) will be paid. Just another reason to keep F.PS in the portfolio. ***SA***

SoundAdvice: Market Indicators for November 2009



The Risk Indicator measures the overall risk in the stock market by plotting the ratio of stock prices to home prices. See ***The Science of Making Money in Turbulent Stock Markets*** for a full explanation of the Risk Indicator and the Diffusion Indexes. The continued erosion of the median home price, coupled with the continued rise in stock prices, pushed the Risk Indicator to 1.21, down from 1.22 in August. This reading reveals that stocks are still historically low relative to house prices, and present a good value. February's reading of 0.79 will likely mark the low for this cycle as well as the beginning of Supercycle 6.

The SoundAdvice Diffusion Indexes

The 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 reveals a strengthening economy and inflationary pressures ahead. This Diffusion Index currently stands at 33 percent.

The Diffusion Index of Leading Indicators gives "Aggressive" signals when all four of its individual leading economic indicators drop below their respective levels of six months earlier, providing a zero percent reading. This reveals a soft economy and a ripe atmosphere for a lasting decline in interest rates.

As far back as February and March we were projecting that our Diffusion Index of leading indicators would hit zero in March, 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.

An "Aggressive" signal coming at a time when the Risk Indicator is close to 1.0 reveals that Supercylce 5 has come to an end, and that Supercylce 6 is born. See *The Science of Making Money in Turbulent Markets* (which you received with your subscription)for a history of Supercycles. You will also receive an updated copy when you renew your subscription.

Track Record of the 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 produces an annual return of 19.7 percent. During "Caution" signals, the market was all over the place — sometimes crashing, sometimes meandering, and occasionally advancing. On average, the S&P 500 increased at an annual rate of only 1.62 percent.

Aggressive	S&P	Caution	S&P
Sep-74	68.12	Apr-76	101.90
Nov-79	100.00	Oct-83	167.65
Dec-84	164.48	Jun-85	188.89
Jul-86	240.18	Aug-87	329.36
Mar-88	265.74	Jun-88	270.68
Mar-89	280.00	May-89	313.93
Oct-89	347.40	Mar-93	449.74
Feb-97	798.38	Dec-98	1,141.00
Oct-00	1,429.40	Dec-00	1,320.28
Jun-03	974.50	May-05	1,191.50
Jul-06	1,276.66	Mar-08	1,325.43
Apr-09	865.33		

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