



At a small café in Monterey back in January, my wife and I were enjoying a leisurely breakfast, and I was giving in to one of my character flaws: eavesdropping on five middle-aged coffee drinkers, one of whom was reveling in her investment in Netflix. That morning, NFLX had announced spectacular results. The shares, which already had quadrupled over the last 12 months, had shot up another 19% before I could decide whether it would be the eggs benedict or the French toast. The euphoric shareholder confessed that after being destroyed by collapsing hot stocks in 2000-2002, she had sworn to sell shares that had doubled, but was making an exception for Netflix. That morning, her instinct had been rewarded. Hmm, thought I, I'll be writing about this moment some time soon. But I was wrong. By mid-July NFLX, which belonged to a small group of fast-rising shares that remained torrid even as the overall market weakened, was another 42% higher at just under \$300 a share.

Don't get me wrong: I love Netflix, and, in the same wistful way you wish you'd bought that motorcycle when you were young, wish that back in 2006 I'd not just subscribed but also bought shares. However, I'm terrible when it comes to a novel business model and even more, I refuse to pay a cover charge to attend a show that could end even before I take my seat. Netflix eventually did come down to earth after management made several profoundly unpopular business decisions and is trading under \$120.

And yet I'm comfortable owning shares in companies and sectors that have been in free fall and that are considered "dead money." The rationale is simple: unlike cult companies such as Netflix that are going where no company has gone before, devastated shares do have a history that provide a context against which you can gauge their current situation such as Masco, this month's subject, during a housing bust.

**-Gray Emerson Cardiff**

## Indicators and The Economy

Most subscribers glance at the direction our diffusion indexes point (Buy or Sell) and move on. Since the spring of 2009, we've had a Buy signal, which means that all four of our indicators pulled from the Conference Board's monthly compilation of Leading Indicators had reached zero, which reflected an economy that had slowed markedly compared to where those indicators had stood six months before. Our Sell signal, which remains silent, depends on all three of its components being higher than they were six months before. Effectively, we want to be buying cyclical stocks during a period of contraction, and once the economy begins to pick up speed, to start buying shares in more defensive companies. There always will be exceptions when special situations emerge such as a healthcare company stubbing its toe during a period of contraction, or a cyclical stock getting into trouble during a period of expansion. None of this comes naturally to investors, who instinctively move toward cyclical stocks during economic expansions and toward defensive names during times of contraction. Not surprisingly companies that prosper in an expanding economy are deeply now in the doldrums.

To appreciate how weak our economy currently is, consider that more than two years after we got our last Buy signal in early 2009 and 27 months after the National Bureau of Economic Research, the arbiter of when recessions begin and end, declared the Great Recession had ended, the American economy is barely trading water. The latest data released by the Conference Board (September 22nd) shows only one of our Buy signal indicators, building permits, is higher than it was six months before. Among our Sell signal indicators, the only evidence suggesting an expanding economy is the rising ratio of consumer credit to personal income. Unfortunately, neither is all that encouraging.

Building permits are projected to total 620,000 (but compare this to our projections for housing starts on Page 8), a 3.2% increase over the previous month's projection and a far cry from the April 2009 low of 498,000. This is positive news, but to really understand how pathetically weak this number is consider that between 1965 and December 2008 the Census Bureau had never projected so few permits. Over that 43 year period, we weathered six recessions and a financial crisis involving Savings & Loan banks that cratered the real estate market. Never was the construction industry so moribund.

As for consumer credit, rising credit can mean that consumers are feeling confident enough to take on fresh debt to fuel consumption. But the raw number, 18.79, hasn't been this low since 1998, and could just as well reflect hard pressed consumers relying on credit for basics.

In fact, no measure of economic "recovery" is encouraging. Consider that duration of unemployment now is 40.3 weeks. To move that data point for our Sell signal requires it to fall to 38.2, not much really. But that still would be nearly double what had been the longest duration tallied since 1965. We are in a deep hole.

Aside from corporate profits, most everything is depressed, which for *Sound Advice* means we should be buyers. We accept that most do not agree. **SA**



## Staw Hats in Winter

Even after the collapse in housing prices, homes remain the single largest asset for most Americans. Before that collapse, housing sat at the very center not just of families' assets but of the American economy: a generator of jobs in construction, finance and services, an assurance of prosperity, a refinancing piggy bank that allowed the middle class to splurge, a gift to localities that generated revenues from fees and taxes, a gold mine for Wall Street to extract billions in profits through derivatives abstracted from homes and, of course, a bonanza for everyone else who provided the building materials, appliances, furniture, carpeting and so forth.

Today, housing has not surrendered that central role, though instead of being an engine it's a quagmire, which explains why the U.S. economy still stinks. *Value Line* considers the least likely of its 98 industry groups to enjoy price performance over the next 12 months. Talking heads on CNBC expect recovery won't happen until anywhere from (take your choice) 2014 to 2016, and in some extreme cases, never. Before the homebuilders can recover, home buyers must buy up the deep inventory of foreclosed properties held by banks, a process that is slowly gaining ground but for the foreseeable future is likely to be overwhelmed by a renewed tide of bank-owned properties that had been dammed up by legal proceedings.

As our own statistics show (see pages 8-9), when that turn occurs is unclear. The market for shares for anything involved with home building is wintery frigid, hardly the time for most investors to consider shopping. For us instinctually it is the best time to start getting some exposure to the residential market. We begin not with a builder but with a housing materials company, **Masco Corporation (MAS—NYSE)**, which manufactures everything from kitchen cabinets to faucets to windows to paint and whose brands such as Delta, Milgard and Behr, anyone who spends time at the hardware store knows well. *Value Line* considers Masco's category, Building Materials, to be just above homebuilders in terms of expected price performance for the next 12 months.

### Masco in a Housing Recession

The numbers are appropriately discouraging. In early 2006, even as the share price had begun to slide, revenues remained hefty: Masco's sales totaled \$12.8 billion. Last year, they were \$7.6 billion, a drop of 41%--and they're shaping up this year as weak again. In its most recent 10Q covering Q2 (June quarter), Masco reported that sales fell another 1% to \$2 billion compared to the same quarter last year. From the 2006 zenith, cash flow last year had plummeted 68%. For the most recent quarter, cash flow has been strangled as Masco dealt with diminishing sales and the costs of shuttering facilities and shrinking its work force.

Earnings per share almost have disappeared, down 94% since 2006. Operating margins went from 13.8% that year to 9.5%, a 31% retreat, while net profit margins fell by 90% as the company went on the corporate equivalent of survival rations. As for the share price, MAS bottomed at \$3.67 in March 2009, then rallied along with the overall market to \$18.35 in April 2010 and now, with a dismal Q2 behind and little reason to expect better news when Q3 is announced later this month, it now trades at \$7.09. This is slightly better than share prices for the homebuilders, which peaked a few months after MAS did and then dropped even more precipitously. But all of these dispiriting numbers are nothing more than what should happen to a company like Masco in a decimated housing market, especially after investors gave up on the notion that the general economy was healing. Even if we acknowledge that the housing abyss is deep and will take longer to resolve than any since the Great Depression, investors willing to be patient are going to be richly rewarded.

**Masco best fits the portfolio of the patient type who can watch a stock do nothing for a while in exchange for a big payoff when the economy returns to some semblance of normal.**

### Housing

At this point, we usually dive into what our subject company does, but understandably we'll start with the 800-pound gorilla that has left the room: the housing market. *Sound Advice* got some attention this summer when Mark Hulbert noted on CNBC ([http://www.cnbc.com/id/43794248/Do\\_Real\\_Estate ETFs\\_Know\\_Something\\_We\\_Don\\_t\\_Hulbert](http://www.cnbc.com/id/43794248/Do_Real_Estate ETFs_Know_Something_We_Don_t_Hulbert)) that *Sound Advice* had offered tentative evidence for a change in the housing market. He cited the July issue, in which we noted that mortgage defaults had begun to decline starting in November. We very tentatively suggested this was promising. We were wrong. As noted on Page 9, default notices again are exploding along with foreclosures.

That decline now seems to have resulted from a pause not a reversal in the default and foreclosure tide. As Realty.Trac.com, on whose data we rely, noted at the time: "It would be nice to report that foreclosure activity is dropping as a result of improvements in the economy or the housing market... Unfortunately, with unemployment rates inching back up, consumer confidence weak and home sales and prices continuing to languish, this doesn't appear to be the case." Instead, this downturn in foreclosures reflects paralysis in the processing of foreclosures after multiple abuses were revealed. It now seems that the decline in defaults reflected not greater stability for the housing market but a decision on the part of lenders to slow the recognition of defaults in order to avoid further burdening the foreclosure market.

With a glut of existing homes sitting on the books of lenders, construction is moribund. New home starts for the first eight months of 2011 total 398,200 down from 2010's 414,100 for the same period, pathetic compared to the bloated 1.4 million started at the 2005 peak. But there are sparks of life. The

Case Shiller Home Index for home prices showed through July, the most recent reported period, that prices nationally had risen for four consecutive months, though the worst hit regions such as Las Vegas and Tampa set new lows and others remain at depressed levels. But April and May are among the strongest months for home sales, which makes it difficult to judge these increases can continue. Furthermore, consumer confidence remains abysmal. But all in all, even with defaults again rising along with foreclosures, we believe that the worst part of the housing crisis has passed. Indeed, as regards the general economy, even if the U.S. is barely moving forward and might slip back into recession, we see no comparison to what occurred in 2008-2009.

## Masco

Masco got its start just as the Great Depression began, opening its doors in Detroit in 1929 as a supplier to the auto industry. So it's a survivor, and has known when to expand or contract operations depending on the business climate. You know Masco from its brands, which reach end-users either through the building trade or through hardware retailers, especially Home Depot and Lowe's. Masco's relationship with Home Depot, which sells 26% of production, is especially important. In fact, many consumers presume that Masco products, such as Behr paints and stains, are Home Depot brands. Were Home Depot to switch suppliers, the impact on Masco would be severe. We see no evidence of that in the relationship between Masco and these two major big-box customers. However, last year Wal-Mart, a not insignificant customer for Masco-produced paints, did switch suppliers.

The company puts its products and services into five segments: Cabinets and Related Products (Kraftmaid and six other brands), Plumbing Products (Delta and 17 other brands), Installation and Other Services (Masco and several regional service companies, which provide insulation, does framing and is most closely tied to new construction), Decorative Architectural Products (Behr and Masterchem are the two primary paint brands) and Other Specialty Products (Milgard windows and doors, Arrow Fastener and five other brands). Last year, plumbing products accounted for 35.5% of Masco's \$7.6 billion in net sales, Cabinets and Related Products 19.3%, Decorative Architectural Products 22.3% and Installation and Other Services 15.1% with Speciality Products providing the balance.

The challenge for Masco is that the fixed costs of production are high and maintaining its service crews and facilities expensive, and when demand is low, those costs have to be spread over smaller revenues, which destroys margins. Hence, last year operational profitability sunk 6.6% led downward by Installation and Other Services (-72.7%), followed by cabinets at -17.1%. Plumbing and paints were profitable at respectively +12.3% and +20.4%. Other Specialty Products eked out a 3.2% profit margin.

Masco operates internationally with 21.9% of sales outside the U.S. Most of this is in western Europe with just 11% in emerging markets and another 9% in eastern Europe. Thanks primarily to favorable exchange rates (a weak dollar),

international operating margins were 9.2% and helped avoid even uglier results for last year. So far 2011 has not been any kinder to Masco as U.S. GDP growth is barely showing a pulse. The company continues to downsize itself to cut costs.

In its most recent conference call (July 26th), management conceded that sales along with the economy are turning out "much less robust than we anticipated." Going into 2011, Masco expected 690,000 new housing starts but by the end of Q1 had trimmed that to 640,000 and by July hoped merely to match last year's 587,000. Our projections suggest management must move that target lower. For the first six months of 2011 only the plumbing and decorative architectural segments (=paint) were profitable and only the plumbing segment showed any growth (+9.4%) compared to the same period in 2010. There's no mystery as to why paint and plumbing are doing better: a coat of paint is cheap and works wonders on sprucing up a property; updating faucets, shower heads and other external plumbing is easy and also relatively cheap to do. But installing cabinetry or insulation and framing usually occur in new construction or during major remodels, which are easily postponed. When you look at which divisions have accounted for the greatest reductions in sales, profits and book value, it's these.

At the same time that demand has declined, raw material costs have risen, especially for metals used in the plumbing division and for paint ingredients. It would be good were Masco able to pass these higher costs along to consumers, but that is not easily done in a thin market.

## How To Cope With Contraction

Masco is doing a solid job of responding to its terrible market. In fact, management did not wait for the housing crash. Even as the housing market was about to crest six years ago, the company was anticipating a slowdown. In 2005, as new home starts hit their peak, residential sales began to stutter with some months up and others declining; the inventory of unsold homes had begun to rise. Mortgage rates were moving up as well. Masco's share price hit its cycle (and all time) high in early February at \$38.03. Despite these giddy numbers, Masco began to shift away from growing the company through acquisitions toward concentrating on organic growth through its existing businesses by investing in making production and distribution more efficient.

Masco historically had been a serial acquirer. In the 1990s, it aimed to increase revenues overall by about 9%, of which more than half was to come from acquisitions. That pace slackened in 2003 when management decided to emphasize higher profit margins rather than sales. During the last decade, with the exception of 2007 when Masco acquired several installation companies for \$202 million (but still only about half of what it was spending per year in the mid-1990s), it was trimming away businesses it viewed as non-core.

As times got tougher, Masco cut not just non-core lines but began reducing capacity even for its core businesses. "We expect," observed management last year, "to maintain

a balanced growth strategy with emphasis on cash flow, organic growth with fewer acquisitions and growth through new product development, start-up businesses related to home energy services and Greenfield locations related to certain Installation and Other Services businesses. As part of our strategic planning, we continue to review all of our businesses to determine which businesses may not be core to our long term growth strategy.”

The most recent reductions involved the lower-margin ready-to-assemble kitchen cabinet lines Masco marketed through big-box retailers like Home Depot and Lowes. It's also doing more with less, reducing its head count to 32,500. In 2005, the company had 62,000 workers. Closures, cutting jobs and terminating entire lines of business help to keep operating costs down but, as we'll see below, is reflected in impairments to goodwill, which in turn have an impact both on the balance sheet and the income statement.

The other significant cut was to the dividend. In 2009's second quarter, after decades of increased dividends, Masco cut the annual distribution from 94 cents to 30 cents, a 68% reduction, which today represents a 4% yield. The reduction has saved the company about \$240 million annually.

If life is hard for Masco, it's tougher for competitors, which means MAS is gaining market share at both the wholesale and retail levels from less well capitalized and less efficient competitors. For instance, the company is expanding the Milgard windows brand, which had been primarily distributed on the west coast, into western Canada and Texas. No one enjoys times of economic contraction or stagnation but just like bear markets are the best time to buy stocks, the best time for good companies to gain an advantage is during lean times. For a company that opened its doors as the Great Depression began, such advantage-taking seems part of its DNA.

One last comment on the company's acquisition history that in a perverse way tempers the harsh losses on the income statement over the last few quarters. In the current market, the assumptions Masco had made about how valuable its acquired assets would be have soured, which has led to serial reductions in the goodwill value (“goodwill” is the difference between what an acquirer pays and the acquisition's tangible value) of assets on the balance sheet. These reductions in book value also trigger charges against earnings on the income statement. Thus, last year Masco took a \$721 million pre-tax (\$523 post-tax) charge against earnings for impaired goodwill. In 2009 the charge against earnings for impaired goodwill was \$262 million pre-tax; in 2008 it was \$465 million pre-tax. So far this year, Masco has not taken impairment charges, though we would be surprised were they not to occur. The point is that earnings, if we can exclude the impairment charges, are not as grim as they appear, and once hard times recede, earnings will look all the better as impairments cease.

## Balance Sheet and Valuations

As the share price has declined, the ratio of long-term debt to market cap has expanded. Lately it is running at around 75%, historically high but not overly burdensome. The company negotiated a \$1.25 billion line of credit last year, which at the end of Q2 remained untapped. But next year about \$800 million in debt matures, though as it did last year, Masco will find willing lenders prepared to roll over that debt in an even cheaper interest rate environment.

When we look at valuations, the damage done by decreased sales, lower margins and write-downs have taken their toll, especially on the P/E ratio, which presently is meaningless. Write-downs also have blasted Price/Book. The only ratio that suggests there is life at Masco is Price/Sales, which at 0.3% lower than it's been over the last decade.

Indeed, at the moment the market is valuing Masco as if everything except the plumbing and paint divisions don't exist, which in terms of profits is true. However, that won't be the case when the economy does recover, but for a world that prides itself on anticipating the future, Wall Street never fails to impress me with how shortsighted it can be.

## Who Else Likes Masco?

Investors small and big have been bailing out of Masco ever since housing went south. Carl Icahn took a position earlier this year, then thought better of it and dumped the shares. However, David Tepper, whom we referenced last year for his on-target macro view that anticipated the second-half rally, is the exception, opened a position this winter. As of March 31, 2011, Tepper owned 394,614 Masco shares (\$5.5 million), a small part of a new investment in homebuilders with a total value of \$323 million. As of June 30th as MAS and housing shares continued to fall, Tepper had more than quadrupled his Masco position to 2.5 million shares, which aside from one arbitrage bet, was the largest share increase among his portfolio's 72 positions. *Sound Advice* doesn't mind being alone when recommending deeply out of favor companies, but it's nice when you have Tepper as a companion.

## Summary

Buying what is out of favor, particularly now in an overall market that has gotten weak at the knees, is never easy. To state the obvious: we can't know when the market will start to mark up shares of housing-related companies. Masco best fits the portfolio of the patient type who can watch a stock do nothing for a while in exchange for a big payoff when the economy returns to some semblance of normal. At *Sound Advice*, when recommending troubled shares in wounded companies, we like to say that unless an investment idea makes us a bit queasy, it probably won't payoff. On the queasiness scale, this one qualifies. You are wagering that every bust has a recovery. We believe the 4% dividend will hold, which makes owning MAS less onerous and recommend buying MAS up to \$9.50. **SA**

# Portfolio Updates

For the first time in more than a decade, we are trailing the overall averages. Since the last issue was priced on September 2nd, the Dow is off 1.2%, the S&P 1.6%, the Nasdaq 0.7% and the pan-market Wilshire 5000 2.2%. The Sound Advice portfolio dropped over that same period 4.5% due primarily to losses in natural resource shares, which are taking a special pasting as investors anticipate a global slowdown, perhaps a recession or even worse that won't be tempered by expansion in the emerging markets, particularly in China. We're wagering that there won't be a significant recession and accordingly that these shares are on sale. If our approach is to buy solid companies when they're selling at a pessimism discount, this is the time to buy shares in cyclical companies. Since we can't know when events and circumstances reverse market perceptions, it's inevitable that our positions must absorb some punishment before that occurs.

In the September letter we highlighted healthcare positions, suggesting that in a difficult market they offered the prospect of stability. We were right about most but wrong about two. **Johnson & Johnson** slipped 1.5% and **Pfizer** 0.1%. **Hambrecht & Quist Life Science Fund** eked out a 1% gain. **Stryker**, which has been under some pressure as orthopedic surgeries have slowed as those who are not desperately in need of new knees or other part postpone surgeries to save money and hospitals slow their capital expenditures for SYK's beds, operating room equipment and other goods. Nonetheless, SYK is up 1.7% since the September letter. **UnitedHealth Group**, the HMO, dropped 1.5%. But in a shaky market, investors dump shares in suspect companies like **Boston Scientific** (-12.5%) without any need for fresh negative news and have minimal confidence in small caps like **AHM Healthcare**, a provider of temporary nurses, physicians, pharmacists and other medical professionals, which declined 16.9% also without any turbulent headlines

Add to concerns over a synchronous global slowdown a stronger dollar that has benefitted from chaos in Euroland and you have the mirror image of what drove commodity shares higher over the last decade. **Anglo American** lost 9.5%, for example. **Leucadia** can trade in tandem with mining shares because LUK has exposure to several natural resource companies such as Inmet, a Canadian copper miner, of which LUK owns 16%. LUK fell 16.1%. One tantalizing aspect of Leucadia is its partnership with Berkshire Hathaway (Berkadia) that was created several years ago to wind down a bankrupt financial company. Leucadia supplied the smarts and Berkshire the credit rating, taking on troubled financial services entities to wind them down or to build an ongoing enterprise. Berkadia is now building a commercial loan origination business out of distressed companies. How could anyone put capital into originating commercial mortgages in this economy? Look at a chart of LUK's shares over time, that's why.

**USAA Precious Metals & Minerals Fund** has followed bullion lower after the metal went parabolic as it ran over \$1900 an ounce. As we close this issue on 10/7, the spot price is \$1638.70, a 13% drop since we priced the portfolio for the September issue when gold closed at \$1884.20. Over that same period, USAGX dropped 16.2%. We continue to think that exposure to some gold remains prudent even as the dollar has rallied higher in the face of global economic insecurity.

Oil, which is extremely sensitive to slowdown concerns, is bobbing around \$80 a barrel. USO, a standard ETF for U.S. crude oil is off 4.8% since we priced the last issue. One pressure unique to energy is the emergence of oil and natural gas from non-traditional sources (shale and oil sands). Vast amounts of energy can be extracted from these sources. Still, expectations are for higher energy prices, but for the present, everyone involved in the energy business is hurting. **Transocean**, as its liability for the BP Gulf of Mexico disaster diminishes, is now being hurt even more by the faltering energy sector. There has been no significant news concerning RIG since the last issue, but the shares are down 13.5%. Compare this to the Oil Services HOLDRS ETF (-14.5%) to see how brutal the last month has been to all energy service companies. We are content to continue buying, especially because the recently instituted dividend translates into a 6.9% yield. For production companies, the news is no better. **EnCana**, the Canadian natural gas company, has seen its share price plummet 23% since the last letter. Natural gas, which has been the runt of the energy litter ever since shale gas production came into play, has suffered more than oil. Again, all the news is macro. **Fidelity Select Natural Gas Fund** is down 9.4%, a fraction of ECA's drop, which reflects the simple fact that many of the names in FSNGX's portfolio do more than develop natural gas. Thus, the largest position is Apache, which last year derived 71% of its revenues not from natural gas but from oil. Other major positions also get some portion, though perhaps not as much, from oil rather than natural gas.

**Agrium**, which uses natural gas as a feedstock for nitrogen-based fertilizers, you might conclude from falling natural gas prices, could benefit. That isn't the case. Instead, shares have dropped sharply as two factors have emerged: first, crops are coming in better than had been anticipated and, perhaps even more important, economic stagnation blunts demand for agricultural products. Since the last letter, AGU is down 20.9%.

**Plum Creek Timber** is down 2.9%, less than other timber companies such as Weyerhaeuser, perhaps because PCL is seen these days as less a producer and more as a land bank. Though holding land to be sold for higher purposes such as real estate development in the current environment isn't a hot item, demand for wood for construction, packaging and other purposes is even bleaker.

Of our two water-related positions, **Tetra Tech** (+1.4%) moved a bit higher but **PowerShares Water Resources ETF** (-4.7%) didn't. TTEK continues to take advantage of a poor environment for companies dependent on government and private sector infrastructure work by acquiring assets, most recently Pro-telligent, a contractor focused on planning, implementing construction projects and then supporting them primarily for the Department of State. Acquiring Pro-telligent extends TTEK's international involvement as a contractor for the U.S. government. The PowerShares ETF's underlying portfolio is tied closely to general industrial companies that derive some revenue from water-related businesses rather than niche water-resource players like TTEK, moves with industrials suffered as investors moved away from industrials.

As for REITs, the prospect of a slowing economy now has hit all sectors with RWR, a standard ETF, down 8.3%. **Associated Estates**, the apartment REIT, is down 11.8%. Apartment REITs had led REIT sectors over the four years as the allure of home ownership was destroyed at the same time as foreclosed upon homeowners flocked to rentals. **Commonwealth REIT**, the office and light industrial REIT that is rejiggering its portfolio away from suburban to central-business-district properties, is off 10%. Office and light industrial properties are very sensitive to changes in economic expectations Commonwealth has sufficient funds from operations (FFO) to cover its 11.5% yield and should be bought. **CGM Real Estate Fund** is off 11.1%. If anyone can structure his real estate portfolio to take advantage of a rebound, it is Heebner. We're waiting to see what his most recent shifts are. **Retail Opportunities Investments**, the strip mall REIT, slipped 3.1% on no significant news.

Tech stocks have led the market higher and then lower this year, and that pattern is on display again. **Microsoft's** newest operating system was well received. The next version is on the horizon. MSFT is also being seen as more a potential beneficiary than a victim of cloud computing. On the negative side, MSFT will see a decline in sales of local versions of its applications, but stands to gain from selling cloud versions as well as other applications from the cloud. That's the future. Recent hard news has Microsoft teaming up with the biggest telecom and cable companies to make what they provide to subscribers available from one device: the Microsoft Xbox. Microsoft has now made its product a hub for all forms of home entertainment. This should boost Xbox sales, and perhaps even more importantly change Microsoft's story from a boring software and operating system seller. MSFT is up 1.7%. **Tellabs**, which still has to prove it can transition to higher-margin products to take advantage of wireless demand, remarkably increased in value since the last letter, up 13.5%. **Symantec** went without any headlines, but added 4.5%. **Xerox**, which has had a hard year, is moving toward being as much a service as a hardware company. It just bought XL World, a European customer-care company focused on services such as social media analytics, inbound call center support, help desk services and back office processing. Since the last letter, XRX is down 8.8%. **Maxim Integrated**, which designs and fabricates analog, digital and mixed chips, increased 9.4% even as consumer confidence

and growth numbers told Wall Street that demand would be slipping. Finally, the **Columbia Seligman Premium Technology ETF** is down 7%. Structured to benefit from slow markets into which it sells options, which the managers hope to see expire unused, the fund's primary virtue is a regular dividend. But the Nasdaq has been especially volatile on both the up and down sides, which has meant an options strategy suitable for less hectic markets has hurt.

With the Fed using Operation Twist's to force long-term interest rates lower, the 10-Year Treasury Note now yields 2.07% and has traded as low as 1.75%, which has damaged severely the **ProShares UltraShort Lehman 20+ Treasury ETF**. We had expected interest rates would rise as investors recognized the damage vast amounts of money created to meet both the banking crises of 2008-2009 and the recession would undermine the dollar and the value of U.S. government debt. S&P has lowered the credit worthiness of U.S. government debt but that has been no match against both Fed policies and international buying of U.S. paper. At some point, the chickens will come home to roost, and thus we have not exited TBT. Since the last letter, TBT down 12.2%. Other credit sensitive positions have also been affected. **PowerShares Senior Loan Portfolio ETF**, which holds adjustable-rate syndicated bank loans mostly to companies with sub-investment grade ratings, declined 2% as concerns over creditworthiness in a slowing economy was the dominant theme. The **Third Avenue Focused Credit Fund**, which invests in high-yield debt, dropped 5.8% in response to the same concerns that hit the adjustable rate fund.

Telecom and media stocks have not escaped damage, though telecom shares' relatively high yields have provided a cushion. **Telecom New Zealand** declined 2.7% as the U.S. dollar has strengthened against the New Zealand dollar. NZT is in the process of demerging its copper-wire business and physical plant, which will be known as New Chorus (NC), from its retail and broadband assets, which will continue to be owned by NZT, that will be voted on by shareholders toward the end of this month. Shareholders will retain the same number of NZT shares and will get one share of NC for every five shares of NZT owned.

Our decision on the demerger plan (which we presume will be approved by shareholders) turns on two matters: first, the NC shares, though they will trade as ADRs in the U.S. on the pink sheets, won't be required to make periodic SEC filings, which will make them more difficult to follow. Once we've gotten a handle on the deal, we'll share that opinion. One piece of advice regardless of what we recommend: should you decide to sell your shares in either NZT or New Chorus, try not to get caught up in trading immediately following the demerger, since we expect that there will be a rush to sell regardless of value. The **GAMCO Global Telecommunications Fund** dropped 7.6% in part to strength in the U.S. dollar, since more than half the portfolio is outside the U.S. and most of that is in developed economies. **Comcast**, the cable and now with its acquisition of NBC Universal also a content company, is up 5.2%, while **TimeWarner**, which is purely a content investment, moved up 0.8%. **SA**

Income With Growth	Symbol	Exchange	Price *	Yield**	Buy Limit	ACTION
Associated Estates Realty Corp	AEC	NYSE/Nasdaq	\$15.12	4.50%	\$18.25	BUY
CommonWealth REIT	CWH	NYSE	\$17.40	11.49%	<b>\$24.00</b>	BUY
Retail Opportunity Investment Corp	ROIC	NASDAQ	\$10.53	3.13%	\$12.00	BUY
Telecom New Zealand	NZT	NYSE	\$9.95	8.70%	\$11.00	BUY
Diversified Growth						
Agrium	AGU	NYSE/TSE	\$68.71	0.32%	\$100.00	BUY
CarMax	KMX	NYSE	\$25.58	0.00%	\$34.00	BUY
CGM Realty Fund	CGMRX	800-343-5678	\$22.72	2.72%	N/A	BUY
Comcast	CMCSA	NASDAQ	\$22.06	2.05%	\$28.00	BUY
Dodge & Cox Intl.Fund	DODFX	800-621-3979	\$29.38	3.39%	N/A	BUY
Dodge & Cox Stock Fund	DODGX	800-621-3979	\$94.11	1.37%	N/A	BUY
Fastenal	FAST	NASDAQ	\$33.55	2.12%	\$38.00	BUY
Gabelli Global Telecom Fund	GABTX	800-422-3554	\$18.16	1.98%	N/A	BUY
Honeywell	HON	NYSE	\$45.49	2.93%	\$58.00	BUY
International Speedway Corp.	ISCA	NASDAQ	\$21.89	0.73%	\$30.00	BUY
Johnson & Johnson	JNJ	NYSE	\$63.13	3.61%	\$71.00	BUY
Leucadia National Corp.	LUK	NYSE	\$23.02	1.09%	\$35.00	BUY
<b>Masco</b>	<b>MAS</b>	<b>NYSE</b>	<b>\$7.49</b>	<b>4.01%</b>	<b>\$9.50</b>	<b>BUY</b>
Mattel	MAT	NASDAQ	\$26.75	3.44%	\$29.00	BUY
Microsoft	MSFT	NASDAQ	\$26.25	2.44%	\$31.00	BUY
Molson Coors Brewing	TAP	NYSE	\$41.01	2.34%	\$50.00	BUY
Paychex	PAYX	NASDAQ	\$27.11	4.57%	\$35.00	BUY
Pfizer	PFE	NYSE	\$18.44	4.34%	\$23.00	BUY
Stryker Corp.	SYK	NYSE	\$47.88	1.50%	\$60.00	BUY
Superior Industries	SUP	NYSE	\$16.50	3.88%	\$22.00	BUY
Tetra Tech	TTEK	NASDAQ	\$18.84	0.00%	\$28.00	BUY
Third Avenue Value Fund***	TVFVX	800-443-1021	\$39.89	2.42%	N/A	BUY
Time Warner	TWX	NYSE	\$30.85	3.05%	\$40.00	BUY
United Parcel	UPS	NYSE	\$66.26	3.14%	\$74.00	BUY
UnitedHealth Group	UNH	NYSE	\$44.89	4.63%	\$53.00	BUY
Wal-Mart Stores	WMT	NYSE	\$53.70	2.72%	\$60.00	BUY
Xerox	XRX	NYSE	\$7.17	2.40%	\$10.00	BUY
Energy/Natural Resources						
Anglo-American PLC	AAUKY.PK	PINK SHEETS	\$17.96	0.00%	\$25.00	BUY
EnCana	ECA	NYSE/TSE	\$18.99	4.21%	\$31.00	BUY
Fidelity Select Nat. Gas Fund	FSNGX	800-544-8888	\$27.28	0.20%	N/A	BUY
Plum Creek Timber	PCL	NYSE	\$34.77	4.83%	\$44.00	BUY
PowerShares Water Resources ETF	PHO	NYSE	\$15.47	2.60%	\$21.00	BUY
USAA Precious Metals & Minerals	USAGX	800-862-6909	\$38.00	12.12%	N/A	BUY
Aggressive Growth						
AMN Healthcare	AHS	NYSE	\$3.98	0.00%	\$7.00	BUY
Boston Scientific	BSX	NYSE	\$5.62	0.00%	\$8.50	BUY
Davis Financial Fund	DFIBX	800-279-0279	\$22.67	0.00%	N/A	BUY
H&Q Life Sciences Fund	HQL	NYSE	\$10.52	8.27%	<b>\$11.75</b>	BUY
Maxim Integrated	MXIM	NASDAQ	\$24.11	3.65%	\$29.00	BUY
PowerShares Senior Loan Portfolio ETF	BKLN	NYSE	\$22.84	4.13%	\$27.00	BUY
Seligman Premium Growth Fund	STK	NYSE	\$15.31	12.10%	<b>\$20.00</b>	BUY
Symantec	SYMC	NASDAQ	\$17.10	0.00%	\$22.00	BUY
Tellabs	TLAB	NASDAQ	\$4.30	1.86%	\$5.50	BUY
Third Avenue Focused Credit Fd	TFCVX	800-443-1021	\$9.70	9.20%	N/A	BUY
Transocean	RIG	NYSE	\$46.49	0.00%	\$75.00	BUY
UltraShort 20+ Treasury ProShares	TBT	NYSE	\$20.08	0.00%	N/A	BUY

\* Prices as of Friday, October 7, 2011

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

\*\*\* Note ticker symbol changed to TVFVX

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

The rising swell of home foreclosures began in 2007 as a symptom of faltering real estate markets across the country. But as the swell turned into a tidal wave, falling real estate prices have compromised the assets of the US banking system and the fabric of the US and worldwide economies. Indeed, the state of the nation's real estate markets and the economy have become one and the same. Clearly, the recession cannot be fully put behind us and a recovery kick into full gear until the inventory of foreclosed homes stops overhanging the market.

We have seen all this before. It was back in the 1980s. After years of loose and questionable lending practices, regulators were forced to liquidate hundreds of savings and loans and dump their foreclosed real estate onto an already-depressed real estate market. As values dropped, the downward spiral continued until most of the real estate was sold at steep discounts. The crash was worse in some parts of the country, but the damage to the whole US economy was substantial. Does this sound familiar?

We have the same situation today. It's like the old good news/bad news jokes, except this is no laughing matter. The bad news is that today's crash has been damaging to both real estate prices and the national economy.

The good news is that we have the tools to determine when the bad news will be over. This will give us a tremendous opportunity not only to invest in real estate for pennies on the dollar at the right time, but also in other investments as well as those that benefit from a recovering economy.

### The Key Indicator

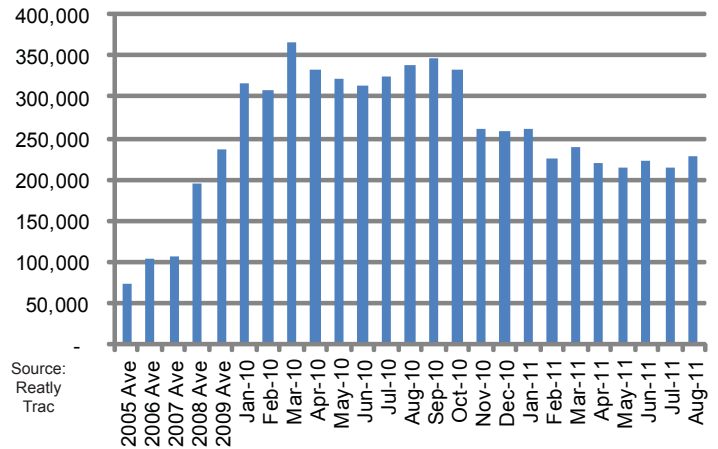
The secret is to focus on foreclosure rates. Realty Trac in Irvine, California has an extensive data base. You can access foreclosure information on local markets from their website [www.realtytrac.com](http://www.realtytrac.com). We use some of their data here to gauge the state of the nation and its real estate, and plan to continue to do so in future issues of **SoundAdvice**.

What we are looking for is a significant decline in the number of foreclosures. When this happens, the bulk of the overhanging inventory of foreclosed properties will have been digested, and the real estate recovery can then begin as well as in the economy. In the late 1980s, this was the best indicator for knowing when the recovery was near. As foreclosure rates dropped, the ensuing recovery began. For nearly two decades, fortunes were made from real estate purchased for pennies on the dollar during the S&L Crises of the 1980s.

The following chart shows US foreclosure rates. In 2005, foreclosure rates averaged 74,892 properties per month. In 2006 and 2007, foreclosures were slightly above 100,000 per month. However, by January 2010, foreclosures climbed to over 300,000 per month, and foreclosures continued at over 300,000 each month through October.

We saw the beginnings of a decline in the 2010 fourth quarter. At first, the decline was due largely to a freeze in foreclosures by several major lenders. The downtrend continued as Federal and state foreclosure prevention efforts allowed distressed homeowners to stave off foreclosures.

## US Foreclosure Rates - Monthly Averages



Source: Realty Trac

These efforts have included mortgage assistance programs for the unemployed and mediations that have been resulting in loan modifications. However, the latest data available for August showed a 7.2 percent increase.

### Dissecting the Foreclosure Process

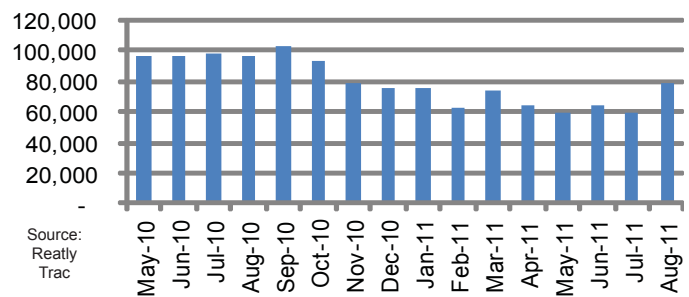
It's important to keep in mind that the foreclosure process is comprised of three distinct stages: new default filings by lenders; then auctions as lenders attempt to sell these properties; and finally, bank repossessions of those properties not sold through auctions. The sheer number of foreclosures is actually the aggregate of the number of properties in each of these three stages.

We can get an early glimpse of a change in trends by focusing on changes in the first step of the foreclosure process: new default filings. After all, a significant change in the first step of the foreclosure process must ultimately lead to a significant change in the aggregate number.

The following chart shows new default filings in the US by month since May 2010. Through October 2010, new default notices were hovering around 100,000 per month. However in November they began declining and dropped to a low of 58,815 in May, and July was almost that low at 59,516

However, in a marked turnaround, August default filings leaped by 33 percent, to 78,880. Until this latest reading, it appeared that the problem was no longer getting worse. But that no longer is the case. This latest jump signals that the crisis will be getting worse in the immediate future.

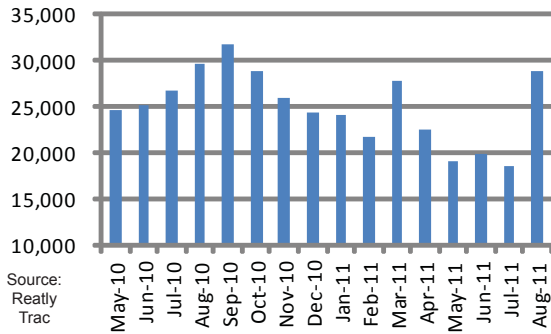
## US New Default Notices



Source: Realty Trac

Further confirmation comes from our largest state, California. Below is a chart of new default notices there.

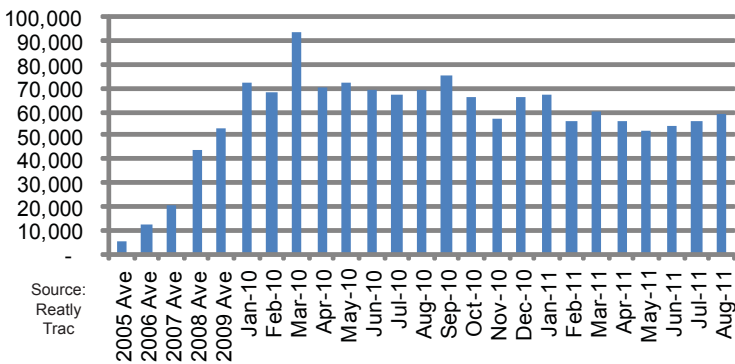
**California New Default Filings**



For the month of August (the latest reading) new default notices in California jumped a whopping 55 percent.

The chart below shows all stages of the foreclosure process in California (including auctions and bank repossessions).

**California Foreclosures - Monthly Averages**



In 2005, California foreclosures averaged 5,138 properties per month. Foreclosures doubled in 2006, and again in 2007, and again in 2008. By 2010, foreclosures were close to 70,000 each month, with a spike of 93,000 in March. Foreclosure rates were declining until August when they rose 5.7 percent to 59,383. However, we know from the jump in new default filings that foreclosure rates in California will be climbing in the months ahead. This is significant because 26 percent of the nation's foreclosures were in California in August, and approximately that much for the last few years.

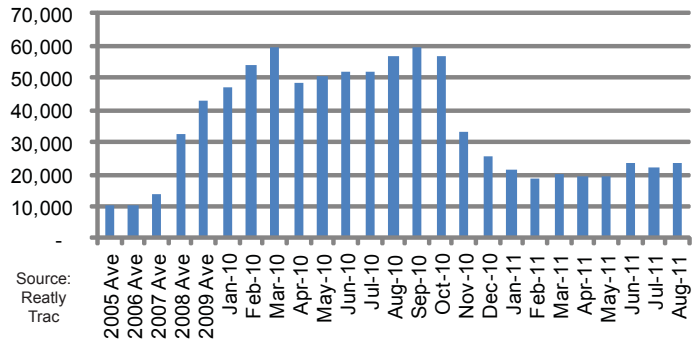
California was not the only state to see a jump in new default filings in August. Lesser increases, but still significant were in Michigan (33.3%), Nevada (31.0%), Illinois (25.5%), Ohio (14.0%), and Florida (9.8%)

While all of these increases are alarming, the most significant states are California and Florida because these states account for more than a third of all the national foreclosures.

We have already focused on California, but Florida is the second largest foreclosure state with 10.3 percent of the nation's foreclosures in August.

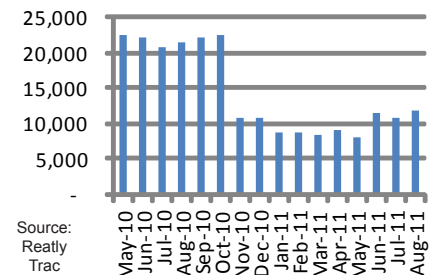
In Florida, foreclosures climbed from 10,000 per month in 2005 and 2006 to 47,000 in January 2010, and stayed in the 50-60,000 range through October. Then the rate dropped sharply. See the chart below:

**Florida Foreclosures - Monthly Averages**



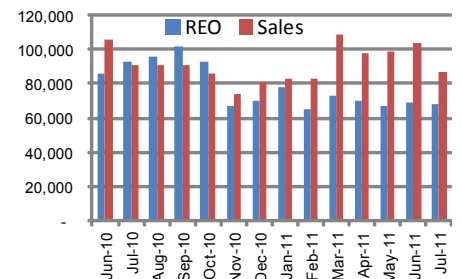
However, with new default notices in Florida increasing 9.8 percent in August (see chart), we believe the downtrend has reversed.

**Florida New Default Filings**



**The Inventory**

At the other end of the foreclosure process is what the banks have not been able to sell. This inventory is called "real estate owned", or REO for short. Each month more REO is added to the inventory. However, each month there are a number of properties sold from the inventory. Above is a chart of the REO (in blue) and sales (in red) during the last year.



On balance, there has been 199,915 more properties sold than have been added to the REO inventory, or 13.2 percent of the inventory of 1,517,992 foreclosure properties listed for sale. Not much progress.

**Conclusions**

The large increases in new default filings is evidence that lenders are starting to push through foreclosures delayed by past bungling (robo-signing) and moratoriums. That means the crisis will be getting worse before it gets better.

We will be tracking foreclosure metrics closely both nationally and in key states in these pages of **SoundAdvice** to be among the first to know when the end of the foreclosure crisis is at hand. Stay tuned.

## 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 a "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 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 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 \$6,796,824 in stocks and to \$1,112,234 in houses.

But though an investment begun 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 Risk Indicator he would have made \$270,145,818, 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 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. A recent example was during the 1998-2000 stock market mania, when most investors were chasing high-tech stocks, our *Sound Advice* portfolio was buying Real Estate Investment Trusts (REITs.) Most investors got killed with 75 percent-90 percent losses during the ensuing decline. However, REIT shares during the same period soared 25 percent, and had locked in nearly double-digit dividends. When the bear market ended in late 2002 and tech stocks recaptured some of their losses, REITs rolled to mind-boggling highs as speculation drove them to excess that climaxed in 2007.

### The SoundAdvice Risk Indicator

The latest reading for the **Sound Advice** Risk Indicator is 1.25. This reading reveals that stock values are slightly above their average relative to house prices. The February 2009 reading of 0.77 marked the low for this cycle as well as the beginning of Supercycle 6.

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



## Business Cycles and Stocks: The **SoundAdvice** Diffusion Indexes

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

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

To construct our 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 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.

An "Aggressive" signal coming at a time when the Risk Indicator is close to 1.0 reveals that Supercycle 5 has come to an end, and that Supercycle 6 is born. The current reading of this Diffusion Index is 25 percent, which does not change our market perspective. That will change only with a signal from the Lagging Indicators.

**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 which would reveal an overheating economy with immediate inflationary pressures ahead. Our next signal will come from this Index. This Diffusion Index currently stands at 66.7 percent.

### 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 average return of 20.7 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 during caution periods.

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		

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 subscription, and you will also receive an updated copy when you renew your subscription.)

Gray Cardiff's Sound Advice is published monthly by S.A. Newsletters, LLC. Editor-in-Chief: Gray Emerson Cardiff. Managing Editor: Steve Horwitz. Executive Editor: Linda Cardiff. Real Estate Consulting Editor: John Mason. Subscription rate: \$195 per year. Send subscription requests to: Sound Advice, 939 Hartz Way, Suite 210, Danville, CA 94526. Phone: (925) 838-6710. Fax: (925) 838-0522. Information presented in Sound Advice may be used provided the newsletter—its name, address, and website—is mentioned as the source. The information contained herein has been carefully compiled from sources believed to be reliable, but accuracy cannot be guaranteed. ©2010 S.A. Newsletters, LLC. When securities are initially recommended herein, the editors, affiliates, and associates of the editors do not have positions in such securities and are required to wait at least seven days from the date Sound Advice is mailed before placing orders for them. Editors and staff members may own stock of companies discussed herein.

**SoundAdvice**

939 Hartz Way  
Suite 210  
Danville, CA 94526



First Class Presort  
US Postage  
PAID  
Permit #162  
Danville, CA

Address Service Requested

**Next Issue: Nov. 18, 2011**

Enclosed: the October Issue of **SoundAdvice**

(cut along dotted line)

**Save 56% to 68% on your renewal to SoundAdvice**

Renew online: go to [www.soundadvice-newsletter.com](http://www.soundadvice-newsletter.com)

or fax or mail in the renewal coupon below.

SoundAdvice / 939 Hartz Way/ Suite 210 / Danville, CA 94526 Fax 925-838-0522, or call 800-866-0026

**BEST DEAL! 24 Month Renewal for only \$125 - A 68% savings! Plus, you will receive:**




The latest edition of *The Science of Making Money in Turbulent Markets*. A \$59.95 Value...**YOURS FREE**. This is the book that explains all of the **SoundAdvice** indicators, including the Diffusion Indexes and the famous Risk Indicator, and exactly how they work so that you can update them yourself.

*The Sound Advice Special Situations* A \$29.95 Value...**YOURS FREE**. Here is a complete update of each stock and mutual fund in the **SoundAdvice** model portfolio. This will give you a chance to review your investments alongside our recommendations, to make sure your money is working the hardest it can for your future.



**GREAT DEAL: 12 Month Renewal for only \$85 - a 56% savings! Plus, you will receive the latest edition of The Science of Making Money in Turbulent Markets. A \$59.95 Value...YOURS FREE.**

 **With either plan, you will receive: Our #1 Investment of the Year.** A \$29.95 Value ... **YOURS FREE**. If you could make only one investment, this is it. Time is of the essence. You should invest right now.

E-mail: \_\_\_\_\_ To receive your Printer-Friendly Issues and updates between Issues)

Send me my Issues by regular mail. Add \$50 to cover printing and postage costs (\$25 for a 12-month renewal).

Phone ( \_\_\_\_\_ ) \_\_\_\_\_ - \_\_\_\_\_ (In case we have a question about the order)

Enclosed please find my check payable to: **SoundAdvice**

Please charge my **Visa** or **MasterCard**: Card #: \_\_\_\_\_

Expiration Date: \_\_\_\_\_ Security Code \_\_\_\_\_ (the 3-4 Digit Number on the back of your credit card)

**Yes! Add 3 months to my choice above. I Qualify for the Early Bird Special.**