

Gray Cardiff's

# *SOUND ADVICE*

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The November issue traditionally is an opportunity to highlight a handful of existing positions in our portfolio that we think are especially attractive. Our Five for 2007 recommendations begin on the facing page.

We've had good luck with these picks in the past, and this year was no exception. All five are up for the year (in one case it took a spin-off to make it profitable), and have produced a total return of 21%, which is comfortably ahead of the standard benchmarks. The Dow, which

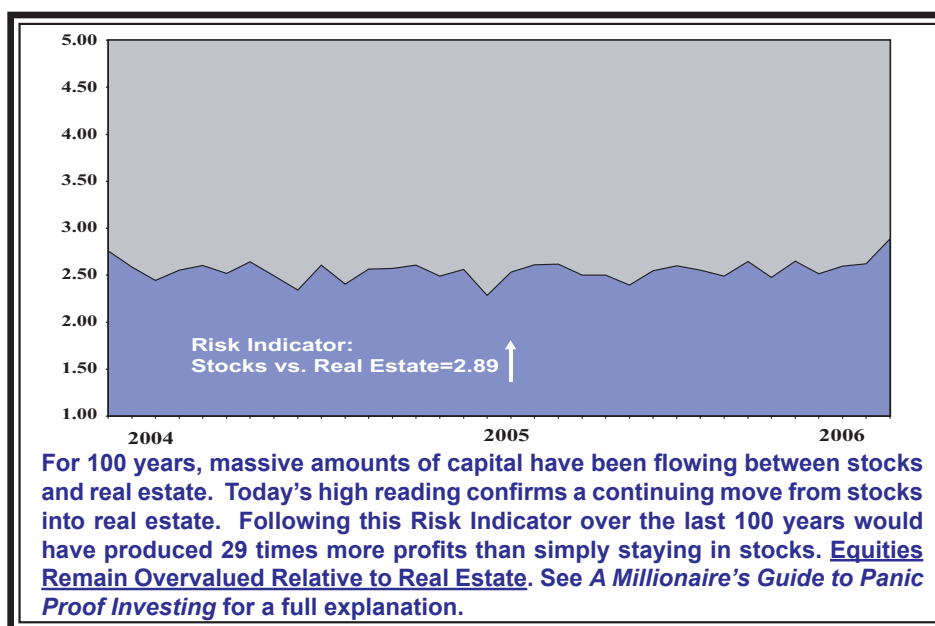
is hitting new historical highs, added 13.8% over the same period, the S&P 500 11.8%, and the Nasdaq 7.4%. The Dow Wilshire 5000, which captures the entire market's performance, is up 12%.

The five positions recommended 12 months ago were **American Century Global Gold Fund (BGEIX)**, **Perrigo (PRGO—Nasdaq)**, **Time Warner (TWX—NYSE)**, **Sara Lee (SLE—NYSE)**, and **Fidelity Japan Fund (FJPNX)**. In calculating our returns, we also include **Hanesbrands (HBI—NYSE)**, which **Sara Lee** spun off in early September.

Three of these stocks had suffered during 2004. **Perrigo** and **Sara Lee** on November 3, 2005 were both more than 20% off over the previous 12 months. **American Century Global Gold**, which we introduced to the portfolio just a month before, had dropped 6% by the November letter, and was flat for the previous 12 months. **Time Warner** was a few pennies higher than it had been 12 months earlier, and had disappointed investors after yet another false rally. Only **Fidelity Japan Fund** had enjoyed a strong 12 months when we placed it in our November basket.

In part, we were betting on recoveries for stocks that had gone nowhere or had gone down. It's not just that such stocks have a tendency to bounce back as problems get resolved but also that by the middle of December, the previous year's losers tend to drop further as investors sell to create tax losses, and then get bought by those who believe in the "January Effect." In part, we were betting on market recognition that precious metals were the antidote to inflationary concerns and a weaker dollar. In part, we were betting that Japan still had farther to run.

Despite outperforming our benchmarks, these five positions were not the best performers in our portfolio from November to November, but we can agree that



a 21% return is OK. As for the rest of the portfolio, we'll reserve that inventory for the January issue.

### **THE GOOD AND THE BETTER**

**American Century Global Gold** now at \$18.79 turned in the best performance, up 50%, though earlier in the year—at the May zenith for commodities—it crested \$22. At the time, Wall Street buzzed with expectations that gold was going to \$1000. And why not? It had slashed through the \$600 and \$700 barriers with ease. Though in May we thought there were plenty of reasons for long-term bullishness about gold, we also were cautious about getting too caught up in the gilded euphoria. **Perrigo** has been a more consistently satisfying position, up 18.5%. During the first half of the portfolio's run, PRGO was working through problems that had dogged it in 2005: digesting both the costs and operations of Agis, the Israeli generic pharmaceutical company it had acquired, coping with federal and state laws restricting customer access to pseudoephedrine-based drugs (pseudoephedrine can be used to make amphetamines), and the costs of recalling products containing loratadine with compromised shelf-lives. Each has been addressed, in our opinion, successfully.

**Wal-Mart's** recent decision to expand its cheap generic-drug program beyond a single market in Florida augurs well for PRGO, since the company derives more than a fifth of its sales from Wal-Mart, and as this new program has its desired effect of drawing in more customer traffic, **Perrigo** should see more sales as well. **Time Warner** added 14.1% on hopes that its AOL division can become a money-maker. Certainly, the sale of 20% of that division to Google suggests there

*(continued on inside back cover...)*

# SOUND ADVICE



Investment recommendations are a highwire act. It all happens in real time before subscribers, and when we are wrong, our performance is diminished. It would be gratifying to appear right all the time.

When I was training as a stockbroker a lifetime ago, a "surefire" way to attract devoted clients was suggested: start with a list of 1000 folks who don't even know you exist. Divide it into 10 groups of 100. To each group send a letter introducing yourself and recommend a different stock idea. The recommended stocks should be likely to surge or collapse (who knew which?) over the next few weeks. After a month, check the stocks recommended, and for those that took off—let's assume a third of the names you chose—divide the recipients of those fortunate recommendations into 10 groups of 30, and send a second letter reminding them of the first brilliant idea, and make another recommendation specific to each group. Repeat that process and the 35 or so remaining prospects, all of whom now had three successive brilliantly profitable ideas, would become clients. Nobody said what to do next after creating such high expectations.

I never tried this strategy. Reading investment columns in which pundits recommend this or that but never in retrospect mention their failures, that "surefire" method comes to mind. The trick for investors is to find one or two sources whose approach suits you and whose track record can be measured, and commit to them. Otherwise, you'll waste your time and money.

--Gray Emerson Cardiff

## Five for 2007

### WHITHER THE DOLLAR?

Gold has been a lightning rod for investors. Those bullish in general about equities think that investing in precious metals is primitive, harkening back to a time when governments were unable or could not be trusted to control inflation and the value of their currencies. While we understand why Wall Street wants to believe that the Fed is capable of controlling interest rates—inflation is not helpful to most stock prices—we just don't accept the premise.

For those who worship "the market" as the infallible gauge of reality, their casual endorsement of the notion that the Fed can command not only the credit markets but also (if you believe in the "Greenspan Put") the stock market, seems out of character. Will Rogers noted that it's hard to get someone to understand something when their paycheck depends on their not understanding it. That's the way it is with Wall Street types and evidence of inflation.

Gold bulls are a diverse lot. There are perpetual gold bulls—better classified as gold bugs—for whom gold is gospel. They see it as the ultimate store of value in a world where fiat currencies can flood the economy whenever it suits governments. We don't attend that church.

We do, however, recognize that when a government and a nation lose control of their fiscal house—as we seem to have done over the last few years—its currency must suffer eventually. If inflation is really emerging, it is a time to own not just precious metals but all commodities.

Returning for a second year in our basket is **American Century Global Gold Fund (BGEIX)**. Its portfolio is anchored in North America's largest gold miners, Newmont Mining and Barrick Gold, and is filled out with a mix of miners that range from high-cost South African mines (when gold prices rise, the greatest benefit

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## Sound Advice: Five for 2007

accrues to high-cost miners) to smaller, more speculative miners. BGEIX is also the cheapest precious-metals mutual fund (0.68% expense ratio), though in May an ETF was launched by Van Eck with a 0.55% expense ratio. We prefer the American Century fund because its experienced managers have some discretion in shaping their portfolio, whereas the Van Eck ETF strictly follows the Amex Gold Miners Index.

BGEIX so far has had a fine 2006, up 21%, and as part of the now closed 2006 basket did even better, up 50%. We think there is more to come.

### **DODGE & COX INTERNATIONAL STOCK FUND**

**Dodge & Cox International Stock Fund (DODFX)** in part plays on a theme related to the prospects for precious metals: decline of the U.S. dollar. For the year, DODFX is up 18.7%, which nicely outperformed all domestic indexes. Against international indexes, it also outperformed modestly its benchmark, the MSCI EAFE Index. Over its four-year life, however, DODFX enjoys a wide outperformance margin over that index.

We introduced DODFX in March 2004, and it has racked up a 64% return since then. At the time we recommended DODFX,

it already had one year of sizzling performance. Were we to decide to spend the rest of our life reading novels rather than SEC filings, we would be content handing over our personal portfolio to its managers. We can say that of only two or three other mutual fund families.

The analysts and committee members are long on experience and committed to value investing. Indeed, the company launched this fund in May 2001 when domestic and foreign markets were in the middle of a devastating bear market—the best time to buy provided you have the nerve. As it happened, 2001 and 2002 ended with losses for the fund, though on a relative basis DODFX outperformed its benchmarks. In 2003, when global markets began a bull run, DODFX returned 49.6%, while the MSCI EAFE registered a 38.6% rise.

Since inception, Dodge & Cox domestic funds have beaten their benchmark indexes, so it's not unexpected for the international fund to do the same. Beyond the track record that results from the company's investment philosophy and discipline, we recommend DODFX for the specifics of its portfolio. In fact, as we sorted through the *Sound Advice* portfolio to fashion this year's basket of ideas, for a while we favored **Mitsubishi UFJ**, the biggest Japanese money center bank, since we think that Japan has a profit-

able future as it moves out of stagnation. We settled on this fund not only because Japanese corporations occupy a significant place (21.8% of the portfolio as of the end of September, of which 10% of that exposure is Mitsubishi UFJ) but also because it holds emerging markets, something the EAFE index does not.

As management notes in its semi-annual report to shareholders (6/30/06), two current trends are evident in the portfolio: first, emerging market shares are increasing, and second, shares in the largest global corporations are also on the rise. This barbell pairing might seem inconsistent: on one end companies in smaller economies and on the other mega-corporations. Dodge & Cox simply seeks value, and believe this is where it is to be found.

We think that DODFX not only remains timely but also deserves to be a core holding in any well-rounded value portfolio, because the other Dodge & Cox stock funds currently are closed to new investors. Finally, for a managed international fund, at 0.67%, DODFX is remarkably light on expenses, especially given the fund's outstanding performance.

### **SCHERING-PLOUGH**

We've been recommending SGP since Fred Hassan ar-

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rived as CEO in 2003 to revive what had been a major pharmaceutical company.

Since then, the shares have kept pace with the S&P's recovery (while significantly outpacing the major drug maker index) but it has yet to realize the potential we see. Now we think that Schering-Plough's time has come not only because it is a pharmaceutical company, and pharmaceuticals do well during a slowing economy, but also because Fred Hassan's plan to remake Schering is moving from cultivation to harvest.

We won't waste time on what is now ancient history except to note that before Hassan arrived, Schering essentially had been a one-trick company, deriving most of its sales from prescription Claritin. When Claritin went over-the-counter, SGP was caught without enough workhorse high-margin products to maintain itself. Hassan's task has been to correct his incredibly shortsighted predecessor's complacent management.

The core of that recovery has been Zetia, an anti-cholesterol drug that works differently than do statins. With Zetia and Vytorin, that contains both Zetia and Merck's Zocor, a statin, Schering-Plough and its partner, Merck, are enjoying blockbuster sales. SGP and Merck split the proceeds 50-50. Schering and Merck in 2006 each will book \$1.9 billion in Zetia/Vytorin sales. For Schering, with a market cap of \$33 billion, the impact is much greater than for Merck with its \$98 billion cap.

The anti-cholesterol drug has been a lifesaver for Schering, providing sales and profits while the company was grap-

pling with the problems that had wrecked its stock price. SGP fell from \$60 at the end of 2000 to just below \$16, at which time we recommended it in 2003.

Hassan's task has been to rejuvenate Schering's sales force and to give it strong products to supplement winners like Zetia and Vytorin. We are now seeing evidence of that success.

In the most recent quarter, Schering took Wall Street by surprise with profits of 19 cents a share, 27% above expectations. Operating and profit margins are rising. Indicators such as cash flow and sales are pointing in the right direction.

Hassan next must buttress the company's existing money-makers (in addition to Zetia/Vytorin, SGP is doing well with respiratory drugs, and with Remicade, a treatment for rheumatoid arthritis and other inflammatory problems). The product pipeline at Schering, unlike at several of its competitors, is in an upcycle, with several potentially powerful sellers in late Phase II testing. Hassan points to drugs useful for blood thinning, and others that treat HIV, hepatitis C, and rheumatoid arthritis. We believe the market isn't giving SGP its due.

A quick check of analysts shows that Schering still has more skeptics than supporters. Even after its impressive third-quarter numbers, Schering has 17 Hold (12) or Sell (5) recommendations against 11 Buy (7) or Strong Buy (4).

One cloud on the Schering-Plough horizon—or more correctly, on the big pharma horizon—is the likelihood that Republicans, who have been very friendly toward drug companies, might

lose control of Congress. Since we are composing this on the last week before the midterm elections, all we can say is that regardless of the election's outcome, drug companies will continue to do well. Even if there is a knee-jerk drop for the sector, we prefer to focus on the longer term value inherent in SGP.

### AIG

**American International Group (AIG—NYSE)**, like Schering-Plough, fell from grace when its most senior management screwed up. In contrast to SGP's CEO, who was not much of a manager, AIG's CEO, Maurice "Hank" Greenberg, created this industry giant, but also grasped too much for himself and his allies. AIG since its inclusion in April 2005 has outperformed the S&P, up 23%, though this year it has slipped 2%. We think that the best is yet to come.

Greenberg's firing was triggered by too-cute financial engineering intended to help AIG's reserves. Once that taint emerged, others followed such as off-shore companies controlled by Greenberg that were used to camouflage assets. Though the balance sheet costs to unwind the funny accounting amounted to a couple of billion dollars, AIG shares took a pounding to the tune of \$55 billion. That's when we bought in.

Since then, a new CEO has taken the reins, the books are whistle-clean, and the company is back to focusing on its very lucrative businesses.

To appreciate AIG, start with its girth. At \$174 billion in market

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cap, AIG is America's biggest insurer, and though classed as a property-casualty company, its lines of business extend to all sorts of risk management as well as more mundane financial service businesses.

Even more important than AIG's business mix is its geographic reach. AIG operates in 130 countries. The selling of insurance, one component of the business, is a mature enterprise in first-world economies, but is just getting started in emerging markets, where individuals and corporations only now recognize a role for transferring risk to a second-party insurer. In some of these markets, especially China, AIG is the sole foreign insurance company.

In mature markets, AIG is positioned to snare others' customers, since AIG, despite the recent accounting issues, is highly regarded. Though American International's insurance business had focused on the large and mid-sized corporate clients, it lately in the U.S. and other mature markets has spread to far smaller (\$25 million in sales) companies. Thus, between 2002 and last year AIG tripled its revenues from such companies from \$210 million to \$634 million.

In the most recent quarter, AIG came in a bit light on sales and earnings, which was due to weakness in its life insurance business and issues in a couple of Asian markets. None of this should be a problem going forward. Because of the debris after Greenberg's departure, American International's stock is, in our opinion, deeply undervalued. Consider that AIG trades at valuations below not only its own historical levels but also when compared to its com-

petitors, none of which has either AIG's international exposure or reputation. As anyone in the insurance industry knows, risk is part of life. However, at current prices AIG poses modest risks and abundant potential rewards.

### **TETRA TECH**

Have you noticed that water stocks are getting sexier as investors begin to talk about water being more valuable than oil, and, in terms of demand, in even shorter supply?

**Tetra Tech (TTEK—Nasdaq)** derives 63% of its revenues from resource management, which includes engineering, consulting, and construction services aimed at water quality and availability as well as environmental restoration, and restoring military properties to an environmentally safe state. Another 33% comes from infrastructure work involving civil, security, and communications systems. The balance comes from communication, which once was expected to dominate the company but turned out to be a fiasco.

We initially recommended TTEK in May 2005 when it was trading under \$11 just after it had made one of those kitchen-sink quarterly reports that bunched together the balance sheet and income statement consequences of every bad business decision management had made over the previous few years.

12 months later TTEK topped \$20. Since then, shares declined, rose a bit, and now trade at \$17.67, and have kept pace with the overall market so far this year. Still, TTEK seems to have exhausted

the oomph that came from management changes and getting back to its core competencies.

We think that the next push in share price will come from strong results from operations.

Now that TTEK has stopped losing money on ill-advised ventures and ceased bidding on fixed-cost contracts, TTEK has been winning lucrative deals, and has a burgeoning backlog.

A glance at the most recent income statement testifies to the dramatic change in Tetra Tech's circumstances: Gross Profits are up 38% for the first nine months of 2006 versus the same period last year. Thanks to massive write-offs from the kitchen-sink decision, TTEK had excruciating losses. This year profits have returned, and the balance sheet looks fine.

Some are concerned that because TTEK's primary clients are governments ranging from local to federal, should these customers get pinched by falling revenues or competing projects, future support for environmental problems might dry up. Admittedly, with two thirds of its revenues derived from public funds it is a concern.

But we believe pollution is a persistent and pressing problem that will force governments to address it. Furthermore, TTEK, though it currently derives less than 1% of its sales outside the United States, has the expertise to take its act on the road. If you think that the United States has water reclamation and environmental challenges, the rest of the world is in even worse shape. If you'd like to daydream about what could power TTEK into the sky, think about what opening an

## PORTFOLIO UPDATES

For the month, *the Sound Advice* portfolio rose 2.8%, while the Dow added 1.2%, the S&P 500 1.1%, and the Nasdaq 1.3%.

### **WisdomTree Dividend Top 100 Fund**

, recommended last month, is up 2%, outpacing the standard benchmarks. The jury, of course, will remain out for all WisdomTree ETFs until they have a sufficient track record, not only because we need to see how the constituent stocks weighted by yield perform, but also because we need to see how the dividend reinvestment mechanism amplifies returns. However, the back testing Jeremy Siegal performed suggests these ETFs are onto something.

**Telecom New Zealand** continues to move higher, tagging on another 14.3% since the October letter, or 33% since its introduction three months ago. The latest boost to share price is the result of the current quarter report that showed a 12% increase in profits thanks to robust revenues from cell phones, broadband, and its Yellow Pages group. Fixed wire and IT revenue declined. Though this is encouraging, the wildcard remains how New Zealand regulators implement the sweeping reform of telecom competition. Our working assumption is that regardless of what regulators do, the pessimism that was built into NZT's price exaggerates that outcome. For this quarter, the announced dividend works out on an annualized basis to 5.9%.

### **NATURAL RESOURCES**

The *SA* portfolio, however, owes its strong month to natural resource stocks, which for the last few months have been a drag. Of our top ten best performers since the October let-

ter, six are natural resource ideas: **Phelps Dodge** (+17.8%), **American Century Global Gold Fund**

demand for oil, gasoline and other distillates and natural gas leaped again. Furthermore, China contin-

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(+13.3%), **Coeur d'Alene** (+9.8%), **Icon Energy Fund** (+9.1%), **Transocean** (+8.4%), and **Royal Dutch** (+7.7%). **EnCana** was close behind, up 5.6%. **CSX** can be lumped here as well, since demand for coal by power plants is one of its two largest loads. For the quarter, operational profit was up 50%, and the share price vaulted 6%. The change for natural resources comes from a reconsideration of arguments that had pushed their prices lower. Political instability is back. The State Department warns Americans to avoid Nigeria as rebels threaten an all-out assault on energy assets in the Niger Delta. Royal Dutch is the only company we recommend that has significant assets in the Delta, though even with tensions rising, RDS continue to move with the rest of the energy sector. Iran is back to saber rattling. North Korea for the moment is quiet, but given its unstable leadership's appetite for brinkmanship, who knows when that will flare up again? Demand for energy remains high. China stunned observers last week when it announced that

ues to try to tamp down its furious growth by ordering banks to raise their loan reserves. As we suggested several months ago, we don't believe China is capable of controlling its own growth, an irony for what was once a "command" economy. Finally, the feel-good anticipation that the Fed would be cutting rates sometime soon lost its persuasiveness when employment figures revealed a tight labor market and rising wages, neither of which prompts the Fed to lower rates. The bond market dropped sharply on that report, and the dollar strengthened. However, gold and silver moved higher, which is not what they are supposed to do when the dollar rallies. We still maintain that inflation is a persistent but generally unrecognized threat to the American economy, and eventually will have an obvious impact on share prices.

Quarterly earning reports flooded the news the past few weeks, and depending on how Wall Street chose to respond, some stocks shot higher and others tumbled. **Getty Images**, which had run higher since

## Sound Advice: Portfolio Updates for November 2006

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its September introduction, got clipped after announcing results that reflected the problems that had taken the shares from \$90 to \$45, where we stepped in. We noted in the October updates that the quarterly results would have an impact: "Should they be good, expect to see the shares get another bump. Should they be so-so, watch closely, since if GYI can hold above \$45, it would be very good news." The numbers were hardly terrible (profits fell one cent below analysts' estimates [60 vs. 61 cents], and revenues were 4% shy of analysts' projection for \$203 million), but triggered wide selling that drove shares below \$42. Nibbling here and at even lower prices is worth the risk. When you are dealing as we do in distressed situations, if the bad news merely demonstrates what we already know—GYI is having problems with micropayment competitors and its transition from the traditional rights-managed contracts to royalty-free contracts for use of its images—we consider a price drop to be an opportunity to pick up shares. As we argued when introducing GYI, Getty is not menaced by micropayment competitors, since it acquired last year the biggest micropayment Internet image vendor, and is pushing ahead with royalty-free contracts. Furthermore, expansion internationally, especially in Asia, offers future growth. Since hitting an intraday low of \$41.35, GYI has recovered, and now stands at \$43.84, still 9.4% down for the month. **Symantec** also got bumped by less-than-expected quarterly results, dropping 10% over two days, but has recovered much of that decline, down 4.4% since the last letter. As with Getty Images, we think Symantec is worth buying. Good reports came from **Xerox**, and

helped push shares up 6.8%. Ditto for **Western Digital** up 10.6%. **Time Warner** had mixed results, but for the last few weeks has been drawing affectionate glances in part because Carl Icahn is back buying shares for what could be a return match with the TWX board over the company's direction. AOL also is drawing some buyout attention. Google acquired 5% of AOL, which would value the entire division at \$20 billion. Supposedly, Yahoo! is looking for a way to bulk up. We'll see. But the main driver, we think, is TWX's cable division, which, as it absorbs Adelphia properties acquired last year, is adding new subscribers hand over fist. Since the last letter, TWX is up 5.6%. Not surprisingly, **Comcast**, a pure cable company, has also been flying for months, adding another 7.8%, and, aside from positions closed after being acquired, is our best gainer for 2006, up 54%. As telecommunication companies of all sorts (telephone, cable, satellite, wireless) compete, they are overlapping more and more, which might explain why the same investor interest is being shown for **AT&T**, which moved up 6.1%, and is our second best performer this year. Gabelli Global Telecommunications Fund rounds out this sector for us, and is up 4.2%, and 21% for the year.

### **REITS**

**Friedman, Billings, Ramsey** reported its quarter. Since we already knew that the dividend had been slashed because of the crippled mortgage-backed-securities portfolio, further bad news came as no surprise. Management reported that the capital division, which arranges financing for clients, had a poor quarter. This added up to a 39 cent loss per share. FBR

shares fell 7.4% for the month. At present, FBR is a wounded company. We are willing to hold on, since there is value in its parts even if present circumstances are bleak. We're waiting for the yield curve to return to a favorable positive slope, which will boost the mortgage-backed portfolio, and for better days for FBR's other businesses. Elsewhere, REITs milled about after a sizzling first 10 months of the year. **Senior Housing Properties** and **HRPT Properties** paid their quarterly dividend. SNH was flat (for the first ten months:+38%), while HRP dropped 1% (+19%). **Crescent** (+12%), which has been the object of takeover rumors, lost 6.2% on no particular news. We can only speculate that takeover talk has quieted, and since that is what had driven the shares, it's reasonable for them to slip. Supposedly a Dubai investment group was willing to pay \$23 a share. Our advice when the shares rose was to not chase the them. Our view now is to wait and see whether the Dubai deal occurs. If not, continue to pick up the nice dividend. **Wal-Mart** is a hot topic after reporting near stagnant same-store-sales for the month. WMT also said it was cutting prices on a large number of popular electronics immediately rather than waiting for the holiday season, when such discounts often emerge. We expect Wal-Mart will get back to solid growth as its reforms take root: slow new store expansion at home but concentrate more on foreign markets. For the month, WMT slipped 1.6%. **Sony**, a Wal-Mart supplier, despite its ongoing laptop battery recall, moved up 7.2% bouncing off a bottom formed by investors unhappy about the battery recall, and slow rollout of its next Playstation. We're content to add shares. **SA**

# Sound Advice: Portfolio for November 2006

Income With Growth	Symbol	Exchange/ Phone	Price/ N.A.V.*	Yield**	Buy Limit	ACTION
HRPT Properties	HRP	NYSE	\$11.49	7.31%	\$12.40	BUY
Senior Housing Properties	SNH	NYSE	\$21.67	5.72%	<b>\$23.00</b>	BUY
<b>Diversified Growth</b>						
Agrium	AGU	NYSE/TSE	\$28.61	0.38%	<b>\$33.00</b>	BUY
American International	AIG	NYSE	\$67.02	0.75%	\$70.00	BUY
AT&T	T	NYSE	\$33.72	3.71%	<b>\$35.00</b>	BUY
Coca-Cola Enterprises	CCE	NYSE	\$20.21	0.79%	\$24.00	BUY
ConAgra	CAG	NYSE	\$25.58	4.27%	\$26.00	BUY
CSX Corporation	CSX	NYSE	\$35.73	1.12%	\$40.00	BUY
Disney	DIS	NYSE	\$31.89	0.75%	<b>\$34.00</b>	BUY
Dodge & Cox Intl.Fund	DODFX	800-621-3979	\$41.59	0.34%	N/A	BUY
Excelsior Value & Restructuring	UMBIX	800-446-1012	\$50.21	0.67%	N/A	BUY
Fidelity Japan Fund	FJPNX	800-544-8888	\$16.73	0.00%	N/A	BUY
Gabelli Global Telecom	GABTX	800-422-3554	\$21.18	0.00%	N/A	BUY
Getty Images	GYI	GYI	\$43.84	0.00%	\$49.00	BUY
Honeywell	HON	NYSE	\$41.71	1.80%	\$45.00	BUY
Johnson & Johnson	JNJ	NYSE	\$67.81	1.95%	\$69.00	BUY
Liberty Capital	LCAPA	NASDAQ	\$87.92	0.00%	\$90.00	BUY
Mattel	MAT	NYSE	\$22.65	1.77%	\$23.00	BUY
McDonald's	MCD	NYSE	\$41.24	0.56%	\$44.00	BUY
Molson Coors Brewing	TAP	NYSE	\$70.51	1.16%	\$72.00	BUY
Newell Rubbermaid	NWL	NYSE	\$28.55	2.31%	\$31.00	BUY
New York Times Co.	NYT	NYSE	\$23.55	2.80%	\$27.00	BUY
Perrigo	PRGO	NASDAQ	\$16.90	0.59%	\$20.00	BUY
Safeway	SWY	NYSE	\$28.55	0.00%	\$33.00	BUY
Sara Lee	SLE	NYSE	\$16.32	2.45%	\$17.00	BUY
Schering-Plough	SGP	NYSE	\$22.28	0.90%	\$24.00	BUY
Sony	SNE	NYSE	\$40.49	0.56%	\$44.00	BUY
Superior Industries	SUP	NYSE	\$17.51	3.66%	\$23.00	BUY
Telecom New Zealand	NZT	NYSE	\$25.25	9.7%***	<b>\$27.00</b>	BUY
Tetra Tech	TTEK	NASDAQ	\$17.67	0.00%	\$20.00	BUY
Third Avenue Value Fund	TAVFX	800-443-1021	\$60.21	2.58%	N/A	BUY
United Parcel	UPS	NYSE	\$73.20	1.15%	\$78.00	BUY
Wal-Mart Stores	WMT	NYSE	\$47.53	1.41%	\$52.00	BUY
WisdomTree Dividend Top 100 Fd	DTN	NYSE	\$56.08	3.16%	N/A	BUY
Xerox	XRX	NYSE	\$16.74	0.00%	\$18.00	BUY
<b>Energy/Natural Resources</b>						
American Cent. Gold Fund	BGEIX	800-826-8323	\$18.79	0.00%	N/A	BUY
Coeur d'Alene	CDE	NYSE	\$4.91	0.00%	\$5.50	BUY
EnCana	ECA	NYSE/TSE	\$48.03	1.25%	\$52.00	BUY
Icon Energy Fund	ICENX	800-764-0442	\$33.60	0.00%	N/A	BUY
Phelps Dodge	PD	NYSE	\$99.58	1.00%	<b>\$105.00</b>	BUY
Plum Creek Timber	PCL	NYSE	\$34.69	4.15%	\$41.00	BUY
Royal Dutch Petroleum	RDS.A	NYSE	\$69.21	1.92%	<b>\$74.00</b>	BUY
Transocean	RIG	NYSE	\$75.07	0.00%	<b>\$82.00</b>	BUY
<b>Aggressive Growth</b>						
Comcast	CMCSA	NASDAQ	\$40.02	0.00%	<b>\$45.00</b>	BUY
Crescent Real Estate	CEI	NYSE	\$20.61	7.28%	\$22.50	BUY
Discovery Holdings	DISCA	Nasdaq	\$14.95	0.00%	\$17.00	BUY
Electronic Data Systems	EDS	NYSE	\$25.61	0.78%	\$30.00	BUY
Friedman, Billings, Ramsey	FBR	NYSE	\$7.75	10.32%	\$9.00	BUY
Liberty Global	LBTYA	NASDAQ	\$25.99	0.00%	\$29.00	BUY
Mitsubishi UFJ Financial	MTU	NYSE	\$12.46	0.76%	\$16.00	BUY
The Prudent Bear Fund	BEARX	800-711-1848	\$5.95	5.55%	N/A	BUY
Time Warner	TWX	NYSE	\$19.84	0.00%	\$22.00	BUY
Symantec	SYMC	NASDAQ	\$19.91	0.00%	\$25.00	BUY
Western Digital	WDC	NYSE	\$18.94	0.00%	\$20.00	BUY

\*Prices as of the market close on Friday, November 3, 2006

\*\*Yield represents all distributions during current calendar year divided by share price.

**BUY, HOLD, SELL OR LIMIT IN BOLD SIGNALS CHANGE IN ACTION OR LIMIT**

# Sound Advice: Market Indicators for November 2006

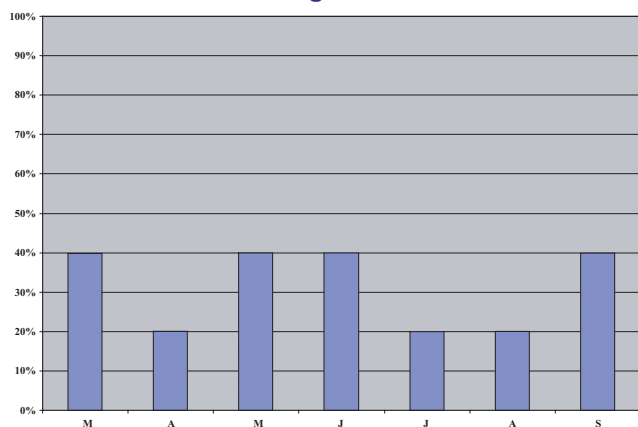
*Sound Advice* depends on three trustworthy indicators to determine our investment direction. The **Risk Indicator** (see inside front cover) measures investors' interest in real estate compared to stocks. Currently we see that the stock market is significantly overvalued versus real estate. The **Leading** and **Lagging Indicators** track the direction of the U.S. economy. We want to be aggressively buying the broad market when these indicators signal the economy has slowed, cautiously selective when counter trends exist, and out when storm warnings are up. The charts and explanations are updated monthly. To see how far ahead the Indicators would have put us had an investor made decisions based on these Indicators, review the performance statistics to the right, and compare these results against how the Standard & Poors 500 has done.

START DATE	ANNUAL COMPOUNDED RETURN
JAN 2003	20.55%
JAN 2000	11.60%
JAN 1992	11.74%
JAN 1980	18.31%
JAN 1975	19.53%
\$25,000 invested in 1975 would equal \$6,957,381 today using our buy/sell signals	

For years prior to 1992, the return percentages are calculated by purchasing the Twentieth Century Growth Fund on buy signals and investing in money market funds on sell signals. Following January 1992, the calculated returns assume funds were switched to the Sound Advice Model Portfolio. Signal Performance: 6.36 times better than the overall market since 1975. We recommend confining your investments to our portfolio selections.

The Diffusion Index of Leading Indicators chart compares each of five leading economic indicators with its level of six months earlier. A value of one point is given for each indicator that rises, one-half point for each unchanged, and zero for each indicator that drops. The sum of these points is divided by five and converted to a percentage. Buy signals are generated at zero readings, when all five leading indicators have fallen below their levels of six months earlier, revealing that the economy has softened sufficiently to cause a lasting decline in interest rates. Currently, the Diffusion Index of Leading Indicators stands at 40%. The Diffusion Index of Lagging Indicators chart is calculated in the same fashion. It generates sell signals when 100 percent of its four lagging indicators rise above their levels of six months earlier, revealing that the economy is heating up enough to cause a lasting rise in interest rates. **The Diffusion Index of Lagging Indicators in October hit 100% based on figures from The Conference Board. This constituted a Sell Signal.** Though this Index has fallen back to 25%, the Sell Signal remains in force as a caution light for us. We recommend avoiding the broad market, and restricting your portfolio to positions recommended in *Sound Advice*.

**Leading Indicators**



**Lagging Indicators**



**NEXT ISSUE MAILS ON DEC. 15TH**

is value to be realized, but the jury is very much still out on the issue. Meanwhile, the cable division has boosted investors' appreciation for TWX. Finally, Carl Icahn's renewed interest in TWX, while bad news for anyone with long-term hopes for a big profit, does kindle shorter-term hopes. **Fidelity Japan Fund** is up 9.1%, and like BGEIX peaked in early May. **Sara Lee**, which completed its restructuring with the spinoff of **Hanesbrands**. At \$16.32 SLE on a total return basis is unchanged from its original price, but thanks to the HBI spinoff the investment returned 16.2%

Can the 2007 basket produce comparably outsized returns? It would be foolish to guarantee that outcome. However, ever since the market woke up from its irrational exuberance, *Sound Advice* has averaged an annual total return of 12.3%. Over the

same period, the Dow has been barely able to return to where it stood at the end of 1999. The S&P is getting closer to where it was. The Nasdaq is far, far away. In short, we've made above-average returns, while the market has gone essentially nowhere.

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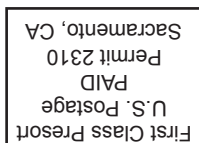


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