



The *Sound Advice* Portfolio is up 4.24 percent for the first quarter of 2015, as compared to 0.44 percent for the S&P 500.

As the editor of the *Hulbert Financial Digest*, Mark Hulbert's quest is to independently track and compare the results of investment recommendations from hundreds of investment advisors, and Warren Buffet is not immune. I would not have the nerve to make the audacious comparison between *Sound Advice* and *Warrant Buffet*, but Mark Hulbert just did.

In a recent column, Mr. Hulbert noted that the track record of 10 investment advisory services, which includes *Sound Advice*, have out-performed Warren Buffet's Berkshire Hathaway (BRK) since the top of the internet bubble 15 years ago. Hulbert calculated that the annualized growth rate of BRK was 9.4 percent from 2000 through 2014. Over the same period, Hulbert calculated the annualized growth rate of *Sound Advice* to be 11.3 percent. These returns compare to a 2.28 percent annualized return for the S&P 500.

Even after highlighting the 10 newsletters with superior 15-year records to Buffet's, Mr. Hulbert quickly points out that "we still need to honor and recognize the superiority of his investment approach. It's just that you don't need to look only to Buffet for ways to put that approach into practice."

I agree. At the risk of echoing the old E.F. Hutton slogan: When Warren Buffet speaks, I listen.

-- Gray Emerson Cardiff

Oil & Gas: The Big Picture

With oil prices down 50 percent from their peak since mid-2014, it is easy to forget that the US still imports 7.35 million barrels per day, which is 44 percent of its use, even with US oil wells pumping at their peak production levels. The US is still highly dependent on other sources of oil – whether from the Middle East or from deep water wells on ocean floors.

Over the long run, oil prices are certain to be significantly higher in the years ahead. Yet, with a chorus of pundits projecting that lower oil prices are still ahead, it is hard to determine if we have seen the lows in oil prices.

The Saudi Arabian attack on the rebels in Yemen last week caused oil prices to jump. While these geopolitical flare-ups in the Middle East can cause spikes in the price of oil, when the disturbances end, we are left with a less emotional market where underlying fundamentals still determine the longer term path of prices.

The Iranian Connection

As we went to press, the US-led negotiations in Iran were going into an extended session, and it became evident that many details remained to be worked out before a comprehensive agreement could be made for sanctions to be changed. If a deal is made, it then needs to get through a very contentious US Congress.

Iran's oil industry needs resuscitating. Decades with little foreign involvement and the devastatingly long Iran-Iraq war in the 1980s crippled Iran's oil industry. Its largest fields have been in production for more than 50 years without adequate attention and maintenance since the Islamic revolution in 1979. Production is now less than half of peak levels before the revolution.

Substantial amounts of foreign investment, on the order of \$50 to \$100 billion, along with western technology, will be required to raise Iran's production significantly. Large international oil companies will only come back to Iran if the conditions for making large, long-term capital investments are conducive and predictable. If and when there is a credible deal to lift sanctions, and large capital investments are made, substantial production will not be immediate. Estimates approximate an increase of 500,000 million barrels a day in 6 months, and perhaps 700,000 million barrels a day more in another year.

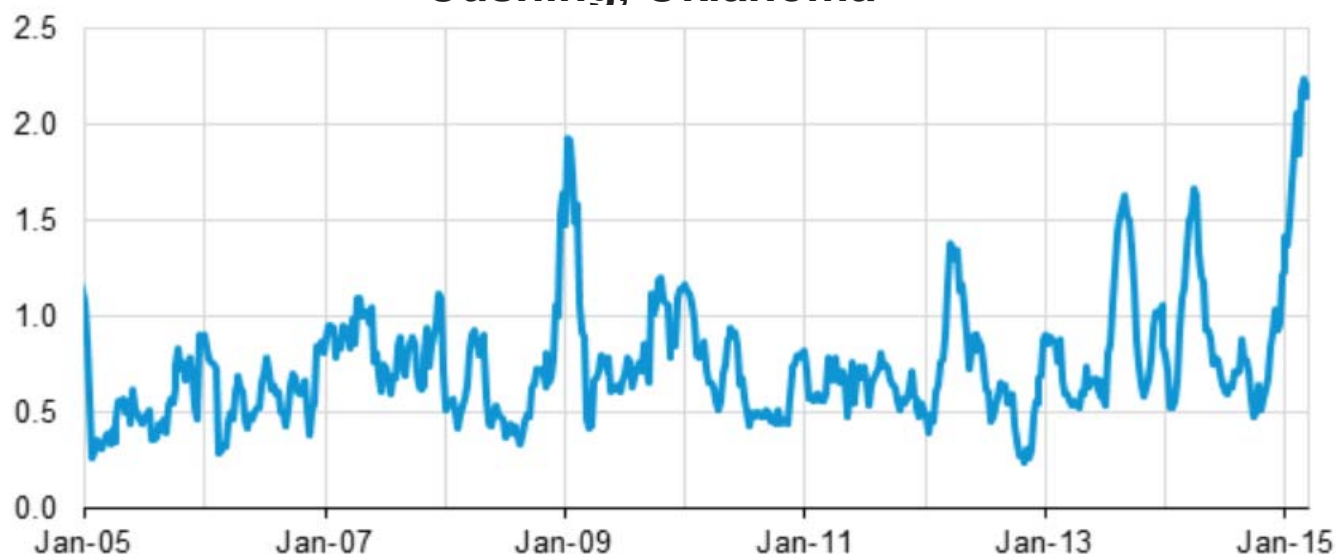
As long as there is uncertainty regarding which sanctions will be lifted and when, Iran will not be in position to add significant supplies to the world any time soon.

Dual Prices

It is important to distinguish between the two crude oil price benchmarks: West Texas Intermediate (WTI) and Brent. These two oil prices are measures of two different markets. WTI comes from the US, while Brent comes from the North Sea and is primarily for the European and overseas markets. (A Brent is a goose in the North Sea.) Both WTI and Brent are both "light, sweet" crude oils. "Light" refers to the density, which can be light, medium, or heavy. "Sweet" refers to the low amount of sulfur content, as opposed to "Sour" which has more sulfur. Light, sweet crude is most desirable because it requires less processing to convert it into usable products.

Most of the time, prices of WTI and Brent have been close, within a dollar of each other. However, recently the price spread has widened, with WTI substantially below Brent, reflecting the perceived glut of oil in the US. Our focus is on WTI because US production through new fracking technologies has led to the world-wide glut. Saudi Arabia blames the US, and it will not cut back oil production until it sees that the US has done so. At great cost to themselves, Saudi Arabia has let the price fall in order to stem US production.

Net Weekly Change in Commercial Crude Inventories at Cushing, Oklahoma



Source: U.S. Energy Information Administration, *Weekly Petroleum Status Report*

During the 2008-09 melt-down, the price of oil fell from an all-time high of \$145 a barrel to under \$40, and domestic oil rigs in use dropped by 50 percent. This time, as the price of oil started crashing, the domestic oil rig count peaked in October of last year at 1609, and has plummeted 49 percent to 813 through the week ending March 27, the latest data available at this writing.

Cushing, Oklahoma

You may not have heard of Cushing, or much less have been there. Normally it is a sleepy small town in the middle of the northern half of the state with a population of 15,000. However, these days Cushing is not so sleepy. Cushing is home to the largest oil hub in the US, where a network of pipelines converge into a sprawling array of huge crude oil storage tanks.

Prior to the oil shale fracking boom, the US was producing close to 5 million and importing 13 million barrels of oil per day. As the fracking boom increased US production by 4.4 million barrels per day, the pipelines to Cushing became choked to capacity. The flow of the 500-mile Seaway pipeline was reversed to carry oil from Cushing to Texas. A twin pipeline was also constructed to double Seaway's pipeline capacity to 850,000 barrels per day. In addition, a portion of the Keystone pipeline was constructed to transport 830,000 barrels per day from Cushing to refineries on the Gulf Coast.

The Contango Arbitrage

When the oil market has entered something traders call "contango", there is the expectation that prices will rise in the future. A contract to buy crude in, say, a month costs more than the current price, and it gets more expensive further out into the future. When a market is in contango, there is free money for those with a place to store oil. All they have to do is buy oil at the current relatively low price, store it, and sell a futures contract to deliver the oil later at a higher price. As long as the gross profit from the sale is greater than the cost of

storage, the net profit is locked in.

The contango arbitrage existed in the wake of the 2008-09 melt-down. During the oil price recovery, the current price of oil was consistently below the future price. As a result of the contango arbitrage, cheap crude oil flowed into Cushing's storage tanks, tripling the volume to 47 million by summer 2012, from 15 million barrels in September 2008.

Once again, the crude oil market is in contango. Cushing's storage tanks now hold a record high 55 million barrels of crude oil.

The chart above shows the net weekly change in the rate at which commercial crude flows into Cushing. Note the steep rise in the rates of weekly inflow rates since late last year. Flow rates have not been this rapid since oil prices crashed in 2008-09 after which the price of WTI advanced back over \$100 a barrel.

The US Petroleum Balance Sheet

While Cushing's storage tanks and the pipelines connected to them are emblematic of the crude oil supply situation, there are US storage tanks in other places, and the conditions of all US tanks conveys the full picture. Nationwide, crude oil storage for commercial uses (excluding the Strategic Petroleum Reserve) is at a record high of 471.4 million barrels.

The Cost of Production

As the price of WTI plunged into the \$40s, substantially below cost of fracking US shale, it was expected that oil production would slow down. The most significant production lies in the most expensive areas, including the Marcellus Dry shale where it costs \$54 a barrel. In the Eagle Ford, Bakken, and California shale it costs \$60. Production costs are higher in the Permian, Wolfcamp, Bone Springs, and Utica shale.

Yet, even though the price of oil has remained below the cost of fracking, US oil production has not waned. In fact, it has gone up. US oil production hit another new high of 9.422 million barrels per day during the week ending March 20. It slipped a tad to 9.39

million barrels during the week of March 27. The continued high rates of production has been particularly confounding in view of the steep drop in the number of domestic oil drilling rigs.

The Production Curve

Why is this happening? The answer lies in the typical production curve of a new oil well. Initially, an oil well spews many hundreds, or even thousands of barrels per day. However, within a few weeks, production drops exponentially. After the first year, production typically levels off at 20 to 25 percent of the initial production. It will then produce steadily for many years with small amounts of production linear decays of 5 to 10 percent per year. A field of oil wells will contain both new and older wells which are producing at various points in their production curves. Even though no new wells have been added recently, overall production can still be stable or even increase for a while due to the high initial production of the newer wells.

It normally takes 3 to 6 months for a new well to begin producing from fracked shale. This means that many of the new wells drilled from the tail end of the high rig counts in October, as well those drilled since then, are still spewing their initially-high production volumes. This is why we have not seen a decline in production yet.

However, we know from the sharp decline in domestic rig counts that the number of new wells has fallen correspondingly. We also know that the new wells drilled after the October peak in rig counts are close to experiencing the typical steep production decays, if they haven't already. This means oil US production will be declining soon – in matter of months at the most.

The Context

The production decline may not be substantial at first, but the first visible signs of a reduction in production will change the dynamics of the picture dramatically. The significance becomes easier to see when put into context.

Last year at this time, with oil in the vicinity of \$100, there were 380.1 million barrels of WTI in US storage tanks. Today's 471.4 million barrels is 91.3 million barrels more, which quantifies the glut that has pushed the WTI price down more than 50 percent.

Even just a 10 percent reduction in production is 6.6 million barrels per week, which equals 14 weeks of the 91.3 million barrel glut.

It is important to note that as long as the contango arbitrage exists, storage volumes can continue to expand even during the oil price recovery, as it did from 2009 into 2012.

Here is another way to look at it. Even at today's peak US production of 9.4 million barrels a day, the US still imports 7.35 million barrels per day. The 91.3 million barrel glut is less than 13 days of our imported oil needs.

Equally important is Saudi Arabia's attitude. Once it sees US production declining, it is likely to begin rising its oil prices.

Key Metrics

Although it is evident that US production should begin declining soon, based on the length of time since the peak of

the rig count last October and the sharp decline since then, as confirmation we can watch weekly changes in key metrics. The supply side of the US oil market can be measured with 3 key metrics: changes in production, storage quantities, and rig counts.

The US Energy Information Administration publishes timely oil production and storage information in its Weekly Petroleum Status Report which contains the latest week's production rates and storage quantities. The website is:

<http://www.eia.gov/petroleum/supply/weekly>

Weekly rig counts can be obtained from Baker Hughes data in The American Oil & Gas Reporter. The website is:

<http://www.aogr.com/web-exclusives/us-rig-count/2015>

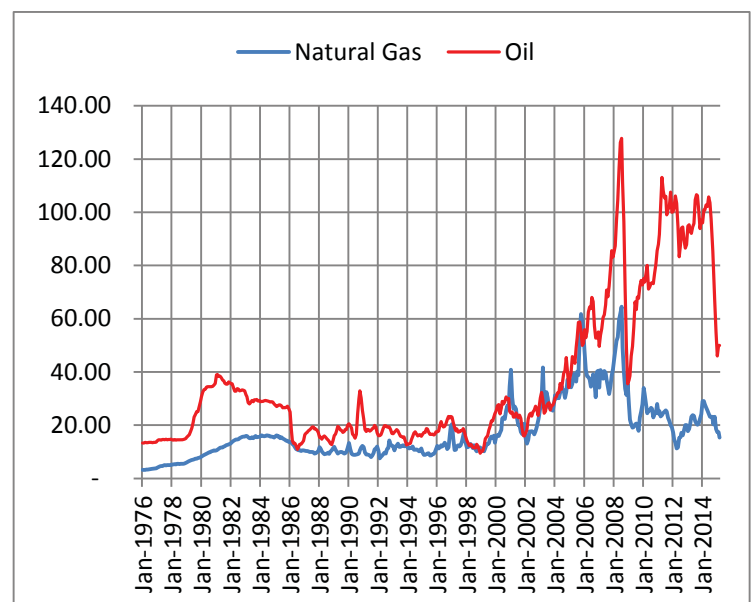
Natural Gas

Fracking for oil produces natural gas as a by-product. The drop in new fracking activity for oil which will also translate into a reduction of new supplies of natural gas, will bolster prices in the months and years ahead.

The precipitous drop in the price of oil brought the energy-equivalent costs of oil and natural gas closer, but a substantial disparity still exists. One barrel of oil provides approximately 5.8 million British Thermal Units (BTUs) of energy. At \$50 a barrel, that is the cost of 5.8 million BTUs. However, with a market price for natural gas close to \$2.65 for one million BTUs, 5.8 million BTUs will cost \$15.37 (5.8x\$2.65). So the same amount of energy is available for 31 cents on the dollar, if it is in the form of natural gas rather than oil.

The chart below shows the historic relationship between the costs of these two forms of energy. The red line shows the price of a barrel of oil since the mid-1970s. The blue line shows the price of natural gas multiplied by 5.8 to approximate the same amount of energy contained in a barrel of oil. Most of the time, the costs of the two forms of energy have been closely aligned. They have moved closer together recently, but remain substantially apart. This difference still translates into an expanding natural gas industry.

The Cost of Energy Equivalents of Oil and Natural Gas



Liquefied Natural Gas

Until now, natural gas usage has been confined to local markets because it is transported via pipeline. However, it can be compressed and chilled into liquid form for transportation overseas where demand is much higher.

Natural gas is poised to see the greatest growth in market share of all fuel types in the years ahead. As we point out below and the nearby chart illustrates, a substantial disparity still exists between the energy equivalent costs of oil and natural gas, which translates into an expanding natural gas industry.

The growth outlook is bolstered by the new facilities coming on line to transport US natural gas to the rest of the world. On the Louisiana coast, the largest super-cooling facility for natural gas is scheduled to be completed later this year. It's called the Sabine Pass liquefaction terminal, and will chill natural gas to -260F into liquefied natural gas (LNG) so it can be loaded onto tankers and sold to customers in Europe and Asia. This will be the first facility to export LNG from the contiguous US. Two more such facilities are scheduled for completion in 2018.

Demand for natural gas in Europe is very high as evidenced by prices that are three times higher than in the US. Prices are close to four times higher in Asia.

Accordingly, strong positive fundamental forces will be acting on the natural gas market: it provides energy at 31 cents on the dollar in comparison to oil, it is more environmentally friendly, and US natural gas is about to be exposed to much higher world-wide demand through exports of LNG.

The Sound Advice Energy Portfolio

We will be watching oil and gas metrics closely, and report meaningful changes in these pages and through our e-mail updates. Keep in mind we are not the only investors with this context and who are watching the metrics. In the usual fashion, the market will anticipate events ahead of time. Energy-related stocks may have seen their bottoms already. In any event, it is close.

We are presented with a rare opportunity to capture extraordinary values from the energy sector, and what are bound to be astonishing profits for the years ahead.

With this context in mind, let's review the energy-related holdings in the *Sound Advice* portfolio.

Chesapeake Energy (CHK) is the nation's second largest producer of natural gas next to Exxon Mobil, with 71 percent of its production volume coming from natural gas. As such, CHK will benefit from the growth prospects of the natural gas market. In terms of revenues, however, 58 percent of CHK's revenues still come from oil, which is primarily a result of one barrel of oil still selling for much higher than the energy equivalent of natural gas.

CHK is now below its low-point reached at the bottom of the 2008-09 crash, giving us a 10 percent loss. However, it is a much different and better company than it was then with free-spending chairman and CEO Aubrey McClendon at the helm. It is now run by an accomplished ex-Anadarko executive, Doug Lawler, who made reduction in capital expenditures and

overall expenses a priority. In 2014, CHK reduced production and G&A expenses by 9% and total capital expenditures by 14%. In 2015, capital expenditures will be reduced another 25 percent.

In June of 2014, Chesapeake spun off its oil field services business called Seventy Seven Energy which we recommended selling. In addition to avoiding the collateral damage related to the recent plunge in oil prices, this spin-off reduced long-term debt by \$1.5 billion and allowed Chesapeake to focus on production. More significant was the sale of non-core assets from the Southern Marcellus Shale and the eastern Utica Shale for \$5 billion, which materially improved the balance sheet.

Even with natural gas and oil prices in their current vicinities, CHK should have a positive cash flow in the neighborhood of \$3 billion in 2015 and again in 2016. It would still have a deficit after capital spending but the company's reduced budget and cash reserves make it affordable.

In mid-March, Morningstar lowered its fair value estimate for Chesapeake to \$27 per share from \$41 after incorporating the firm's fourth-quarter results and management's updated drilling plans and outlook for 2015, which call for a sharp reduction in activity across a number of Chesapeake's operating areas in response to less-than-favorable oil and natural gas prices.

Just as a crashing market will lower valuations, a rising market will increase them. Still, \$27 is nearly double the current price of CHK.

In late March, for the first time in 2 years, Carl Icahn raised his stake in CHK. He now holds more than 13 million shares which is close to 11 percent of the company.

Fidelity Select Natural Gas Fund (FSNGX) is down 3.6 percent this year, trimming our gain to 8.5 percent. This is a diversified way to participate in the recovery of the natural gas industry through strong companies. Because natural gas and oil often come from the same wells, many companies in this fund will also have interests in oil.

ICON Energy Fund Class S (ICENX) is also a diversified way to participate in the recovery with a basket of substantial companies.

In the past, this fund has achieved growth even during periods of declining energy prices. ICON management looks for changes within the energy sectors to capture value, rather than simply depending on rising oil prices. For example, the profit margins expand on pipelines when the price of oil is low, because the cost and price of storage and transportation have little to do with the price of oil.

The fund has not suffered nearly as much as the drop in the price of oil. It declined 5 percent in 2014, and is essentially unchanged this year, leaving our profit at 2.4 percent. This compares to a drop of close to 50 percent in the price of oil.

The changing landscape should provide opportunities ahead to capture values with this fund.

Transocean (RIG) has been hammered by the sharp drop in oil prices. It is down another 17.7 percent this year, extending our loss to 63 percent. In February, RIG decided to cut its dividend to 60 cents per share, which was not a surprise in view of the oil price crash. The current 60 cent dividend, which is not likely to be lowered again, is a solid 4 percent yield. This puts a floor in the

vicinity of the current stock price because any substantial drop in the stock price from here would cause the yield to increase materially, which would be out of line with the industry.

The reduction in the dividend helps the long-term growth potential of the stock price from here because it strengthens the company's balance sheet. The approximate \$900 million in savings can go toward debt reduction and reinvestment in the company, both of which help to preserve the company's investment grade rating.

Also adding to long-term growth potential is the fact that the west Texas (WTI) price of oil is below production costs for shale producers. Prior to the oil price decline that began last year, these areas accounted for approximately half of US oil production and were the primary contributors to the glut. As the price of oil languishes below fracking costs and US production diminishes, less production on land from shale means more production and demand for RIG's deep-water drilling platforms.

With RIG in particular, it is important to keep in mind that even at today's peak production, the US still imports 44 percent of its oil needs. Deep water drilling is still a necessary source for US and the world's oil needs.

In its mid-march update, Morningstar believes Transocean is selling well below its intrinsic value which it currently values at \$20 per share. This valuation incorporates 2014 results and 2015 company guidance, along with the company's most recent fleet status report and lower oil and gas price assumptions.

This valuation implies a price/earnings (P/E) multiple of 6.1 times 2015 earnings projected to be \$3.24 per share. This projection seems reasonable because it is based on the assumption RIG plans to scrap 12 rigs, a growing number of out-of-service days for the company's fleet in 2015 as older rigs come off contract, and that these and currently idle rigs will not win new contracts this year.

Of course, changing these parameters to less pessimistic assumptions will change the valuation substantially. Morningstar's valuation was \$34 just a few months ago. The stock price has not been this low since the early 1990s. Long term profits should be stellar from here and a good place to average down.

Portfolio Updates

Here are updates on the rest of the portfolio in alphabetical order.

Agrium (AGU) is up 10 percent this year, extending our profit to 664 percent. We include AGU in our portfolio because it has a broad mix of agricultural products and services that increases the efficiency of food production. AGU products will

be in growing demand as arable land continues to disappear around the world while worldwide population and per-capita income increases.

Agrium estimates 2015 earnings to be in the range of \$7.00-\$8.50 per share, for a median of \$7.75. The annual dividend recently increased to \$3.12 per share.

AGU remains a long-term buy. Based on the median forecast of \$7.75 for 2015 earnings, AGU is trading at a price/earnings (P/E) ratio below the P/E for the S&P 500.

Associated Estates Realty Corp (AEC) is up 7.1 percent this year, extending our gain to 81 percent. What originally attracted us to AEC was the fact that this high-quality apartment REIT was selling at a substantial discount to the value of its net assets.

Based on the price of apartment REITs, the market is currently paying an average capitalization (cap) rate of 4.75 percent for the underlying portfolio of apartment properties. If we value the AEC's apartment portfolio at a cap rate of 4.75 percent, the value translates into a value of \$36 for AEC based on the fourth quarter financials released in February. We have been using a more conservative valuation and target of \$28.50 per share which is based on a cap rate of 5.7 percent. We began recommending AEC at \$15.40. We have been watching it slowly move up while collecting a nice dividend.

It often takes the attention of an activist to unlock the value of a discounted stock. In this case, the activist is the Land & Building Fund, led by Jonathan Litt, which has invested \$1.1 billion in AEC, and is launching a campaign to replace the board of AEC on the grounds that management has not been responsive to dialogues regarding unlocking shareholder value. In a gesture to avoid a proxy fight, in late February, AEC appointed Jon Fosheim, as its newest director. Fosheim was a co-founder of Green Street Advisors. AEC has also offered two new seats on the board for Land & Building Fund's proposed nominees.

In March, AEC's president issued a letter stating Mr. Litt has rejected AEC's proposals, and that he intends to replace 3 current board members with his own hand-picked nominees at the 2015 annual meeting scheduled May 22.

Generally these proxy battles are positive for undervalued stocks like AEC because it brings market attention to the bargain. AEC hit a new 52-week high in late March. We had a similar experience with Commonwealth REIT when a proxy battle caused the stock to climb more than 50 percent.

Boston Scientific (BSX) is up 34 percent this year, extending our profit to 87 percent. BSX's medical products are well suited for an aging population in the US. The company's mission is to transform lives through innovative medical solutions that improve the health of patients around the world.

Sound Advice is published monthly by S.A. Newsletters, LLC. ©2015 S.A. Newsletters, LLC. Editor: Gray Emerson Cardiff. Executive Editor: Linda Cardiff. Subscription rate: \$195 per year. Send subscription requests to: Sound Advice, 140 Town & Country Drive, Suite E, 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. 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 2 business days from the date *Sound Advice* is posted before placing orders for them. After the initial recommendation, editors and staff members may own stock of any or all of the securities discussed herein. Gray Emerson Cardiff owns all of the stocks mentioned herein.

BSX has been a global medical technology leader for three decades by providing a range of high performance solutions aimed at addressing medical needs and reducing healthcare costs. BSX ended 2014 with 943 US patents.

In March, BSX finally received approval from the FDA to market in the US its Watchman Heart Device, a device that is implanted on the left atrial appendage of the heart and helps prevent blood clots from atrial fibrillation, and the first of its kind to serve as an alternative to blood thinners for stroke prevention. BSX climbed \$1 per share on the news. Also in March, for \$1.6 billion, BSX purchased from Endo International the American Medical Systems' urology portfolio which generated operating income of \$130 million and \$400 million in sales 2014. This purchase will bolster BSX's Urology and Women's Health Division.

BSX also received approval in March by the FDA and in Europe for its Subcutaneous Implantable Defibrillator. Planted under the skin, this provides protection against sudden cardiac arrest.

Ford (F) is up 4.9 percent this year, extending our gain to 13.6 percent. The stock price close is close to 10 times 2014 earnings which were depressed because of down time and preparation for 24 new or refreshed vehicles, including the all-aluminum F-150 truck which is likely to set a new industry standard. It weighs 700 pounds less and is projected to get close to 30 miles to the gallon. Growth prospects in 2015 look good.

Pent-up demand due to an abundance of older cars still on the road should keep showrooms busy for the next several years. Ford is also making significant cuts by reducing the number of platforms it uses to produce its models, from 27 in 2007 to 9 by 2016, which promises to save billions of dollars through economies of scale, and give Ford more agility to adapt to changes in demand.

Low interest rates and plentiful credit make it easy to buy. In addition, low gas prices are particularly good for Ford trucks. In addition, Ford's SUV Explorer is selling well, up more than 30% in the first two months of 2015 compared to last year.

Sales for other models are surging in China. Most popular are the Escort, Mondeo (Fusion), and Focus. Sales in China have been limited by Ford's ability to produce cars. However, in November Ford opened its assembly plant in Chongqing, which enables the production of 360,000 more cars in 2015. Another plant is scheduled to come online in Hangzhou in 2016 to produce another 250,000 cars. With four percent market share, China was Ford's second most profitable market in 2014, with sales of 22 percent of its cars. Ford expects China alone to generate 40% of total sales by 2020.

Freeport-McMoRan Copper & Gold (FCX) is down 17 percent this year, extending our loss to 33 percent. FCX is the world's largest copper producer. Copper is woven into the fabric of the world's developed economies, and its price moves dramatically in tandem with expansions and contractions. We made a 643 percent gain during the last expansion, from March 2003 until December 2006, on Phelps Dodge, the largest copper producer back then. As the world's economies continued to expand into 2008, so did FCX.

Today's quantitative easing programs and expansive

monetary programs around the world are bound to translate into expanding economies and increasing demand for copper. The stage is being set for another cyclical run in FCX.

FCX also suffered along with the general decline in energy stocks because of its 2013 acquisition of oil and gas assets in California, Texas, Louisiana, and the Gulf of Mexico. In March, FCX cut its dividend from 31 cents to 5 cents a quarter, citing the poor conditions of both the copper and oil markets. The stock price was not phased by the news.

FCX is a double play on the recovery both copper and oil prices.

Hersha Hospitality (HT) has declined 6.1 percent this year, trimming our gain to 22 percent. Our principal reason for recommending HT was because the stock is selling at a discount to its hotel assets which are sensitive to the business cycle and will benefit strongly from the economic recovery. In addition, nearly a third of its major properties have been undergoing renovations and not producing their full income potential. HT saw the beginning of completed renovations and new acquisitions during the third quarter of 2014.

We estimate the value of HT to be \$7.26 based on fourth quarter financials. We expect this value to increase as net operating income increases as new acquisitions and renovations come on line. Hersha's CEO, Jay Shah, also expects revenues to increase in 2015 for the same reasons.

NCR Corp (NCR), is up 1.3 percent this year, trimming our loss to 8.2 percent. Formerly known as National Cash Register, NCR makes automatic tellers (ATMs), retail point-of-sale (POS) workstations, self-service kiosks, and other self-service checkout systems. 485 million people use NCR products every day, and there is room for substantial growth in the US and around the world. A catalyst for growth comes from the fact that approximately 90 percent of ATMs in the US still run on Windows XP which Microsoft just stopped supporting. That will translate into increased demand for NCR's ATMs.

In 2013, NCR increased its debt load to make two significant purchases -- Retailix, a transaction software provider, and Digital Insight, an online and mobile-banking solution provider. The cost of the debt used for these acquisitions dampened earnings growth which caused the stock to slide to its current attractive level. These acquisitions pushed NCR much farther along its path from a hardware provider to more of a software and services provider where profit margins are substantially higher, and should be contributing to earnings substantially. Fourth quarter revenue reported in February was evidence that the acquisitions are beginning to prove beneficial.

NCR is in the vicinity of 10 times earnings – a steep discount to the market.

No-Brainier ETFs are designed to benefit from the inevitable rise in long-term Treasury bond yields. These ETFs differ in the amount of leverage used:

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

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

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

leverage.

You can choose one or all of these ETFs, depending on your investment objectives and risk tolerance.

The price action of these ETFs is based on the changes in long-term treasury bonds, specifically BlackRock's iShares 20+ Year Treasury Bond ETF (symbol TLT) which holds a portfolio exclusively of long-term Treasury bonds with an average maturity length of close to 27 years. The prices of our No-Brainer ETFs fluctuate in accordance with the daily fluctuations of TLT, only in the opposite direction, multiplied by the leverage each uses. For example, a decline of say, 1.0 percent in TLT will cause TMV to increase by 3.0 percent, TBT by 2.0 percent, and TBF by 1.0 percent. Conversely, an increase in TLT will cause these ETFs to drop in the same fashion. We can project the movements of these ETFs based on any given scenario.

We have dubbed these ETFs as "No-Brainers" because interest rates and bond yields always rise during an economic recovery. The ascent has never been smooth and this time has proved to be no exception. These ETFs have declined substantially since we recommended them, primarily due to decline in interest rates outside the US. However, under a conservative scenario, they will make up losses and still provide extraordinary profits.

The Federal Reserve has not changed its official forecast which projects that the Federal Funds rate will increase from zero currently by 2.5 percent by the end of 2016. What is not clear is when the ascent will begin.

In her most recent speech on March 27, Chair Janet Yellen indicated that rates would need to begin gradually moving up sometime this year, even before inflation picks up.

However, a head wind to raising rates is the fact that interest rates are low outside the US, most notably in Europe where a massive quantitative easing (QE) program has been instituted recently. Just as our QE kick-started the US economy, it is bound to have the same impact on Europe. China and Japan also have expansionary monetary programs. As economies around the world respond to stimulations to their economies, foreign interest rates will change, along with outlooks for economic growth and inflation rates. These changes will also lead to changes in currency rates and capital flow rates out of the US bond market. All of this is likely to take place over a number of years, but early changes will alter perceptions and markets will, in their usual fashion, anticipate events ahead of time.

A conservative forecast would be to assume that long-term Treasury bond yields decline throughout 2015 to the lowest point reached, a yield of 2.25 percent, and then increase by 2.5 percent by the end of 2016, in accordance with the Federal Reserve's forecast. This forecast still puts Federal funds on the low end of historical ranges.

Assuming Treasury bond yields move in tandem with the Federal Funds rate, long-term Treasury bond yields will rise from 2.54 percent today to 5.04 percent by the end of 2016.

This seems like a reasonable forecast because investors normally require a real return of 3 percent. As inflation returns to the Federal Reserve's target of 2 percent, long term

Treasury bond yields should be in the vicinity of 5 percent.

Here is what would happen to each ETF:

TMV would decline to \$23 by the end of 2015, and then climb to \$91 by the end of 2016.

TBT would decline to \$38 by the end of 2015, and then climb to \$95 by the end of 2016.

TBF would decline to \$23 by the end of 2015, and then climb to \$36 by the end of 2016.

Pfizer (PFE) is up 11 percent this year, extending our profit to 125 percent. PFE has an arsenal of new pharmaceutical products with more than 80 drugs in the development stage and 90 in the discovery stage. Ten drugs are currently in phase 3 trials and several of which are "biosimilars", which means they could be substituted for existing blockbuster drugs. Biosimilars were created under the Affordable Care Act passed in 2010 which provides an abbreviated approval process for biological products that are demonstrated to be similar (hence the name "bio similar") to or interchangeable with an existing FDA approved biological product. The market for biosimilars is growing rapidly. Pfizer has created biosimilars for Remicade (used to treat rheumatoid arthritis, psoriatic arthritis, ulcerative colitis and Crohn's disease), Rituxan (used in combination with other cancer medicines to treat non-Hodgkin's lymphoma), and Herceptin (a therapy for HER2 Positive Metastatic Breast Cancer and HER2 Positive Gastric Cancer). If approved, PFE could see substantial revenues from their biosimilar products.

In February, *Palbociclib* received FDA approval two months ahead of schedule. The drug, trade-named "Ibrance", treats one of the deadliest forms of breast cancer by inhibiting two enzymes that promote the growth of cancer cells. It is expected to be a blockbuster for PFE, producing \$4 billion in sales by 2020. Pfizer's current top selling drugs include *Lyrica* (for pain and fibromyalgia), and *Pprevnar* vaccines (for pneumonia and other infections).

Retail Opportunities Investment Corp (ROIC) is up 8.8 percent this year, extending our profit to 86 percent. This REIT began as an IPO in October 2009, just after the REIT sector had been decimated by the 2008 melt-down. It started with a fresh slate in a real estate market replete with bargains. ROIC buys distressed retail properties with high-quality demographics, refurbishes them, and then leases them at a premium.

As new properties are added, along with tenant upgrades, funds from operations (FFO) are bound to continue to rise, along with the dividend, and push the price of this REIT upward. Meanwhile, ROIC pays an attractive dividend that lowers its risk profile.

Stryker (SYK) is down 1.9 percent this year, trimming our profit to 128 percent. SYK provides a diverse array of innovative medical technologies, including reconstructive, medical and surgical, as well as neuro-technological and spine products, although SYK is best known for its orthopedic devices for artificial knees and hips. Continued growth is assured by accelerating demand for joint replacements on aging US baby boomers. As life expectancies continue to increase (and obesity trends continue), more and more hip, knee, and spinal procedures will be needed.

Stryker's cash-rich balance sheet and strong cash flow gives SYK avenues for continued diversified growth through acquisitions. Recent acquisitions include Small Bone Innovations, Pivot Medical, Berchtold Holding, and MAKO Surgical acquisition, as well as Trauson Products, China's largest manufacturer of orthopedic implants.

In March, Stryker announced it will be buying \$2 billion of SYK, following the purchase of \$100 million in 2014.

Symantec (SYMC) is down this year by 8.3 percent, trimming our profit to 45 percent. If there ever was a more certain growth industry, protection from cyber espionage is it. SYMC is the dominant supplier of software for computer security and protection against viruses and other nuisances through its leading flagship brand, Norton. SYMC has 20,000 employees residing in 50 countries working on new solutions in growing markets including backup appliances, mobile, cloud, advanced threat protection, data loss prevention, and managed security services. Nearly all of the Fortune 500 companies are Symantec customers.

By the end of this year, SYMC will spin off its relatively small storage business which will allow both companies to be more competitive and responsive to their respective industries. The spin-off will make the balance of SYMC a more attractive acquisition to large I.T. companies with its strong balance sheet, and good cash flow and margins.

Tekla Life Sciences Investors (formerly Hambrecht & Quist Life Sciences Fund) (the symbol is still HQL) is up 10.8 percent this year,

extending our profit to 106 percent. This Fund is in our portfolio because the most explosive profits in the entire healthcare industry can be found in biotech companies. Over the last 10 years, biotechnology has become a major industry which now provides the world's top drugs. This sector has outperformed the broad market during the last one, five, and ten year periods.

Biotech companies tend to be high risk and high reward investments which makes diversification essential. This fund is an excellent way to invest in this sector.

Tetra Tech (TTEK) is down 9.7 percent this year, trimming our profit to 58 percent. TTEK is a leading company in water technologies and environmental remediation with a healthy balance sheet including \$500 million of capital for growth in strategic markets. TTEK has a backlog of approximately \$1.87 billion in signed contracts to clean up military bases across the US. TTEK recently announced a two-year, \$200 million share repurchase program which will enhance earnings.

Third Avenue Value Funds have a similar approach to ours because management is very price conscious, especially in relation to net asset value, in making decisions on whether to buy, hold, or sell a particular company. The managers expend great effort analyzing financial statements, visiting companies

and their properties, and assessing management teams to come up with their estimates of intrinsic value. Specifically, the management team looks for 4 fundamental characteristics before making investments:

- 1) The issuer has an especially strong financial position.
- 2) The common stock is selling at a price that reflects at least a 20% discount from Net Asset Value ("NAV").
- 3) There is comprehensive disclosure including reliable audited financial statements.
- 4) The prospects are that over the next three to seven years, NAV will be increasing by at least 10 percent annually (including dividends).

An additional similarity to *Sound Advice* is that members of management eat their own cooking – they invest a substantial amount of their personal assets into their recommendations by investing into the funds they manage.

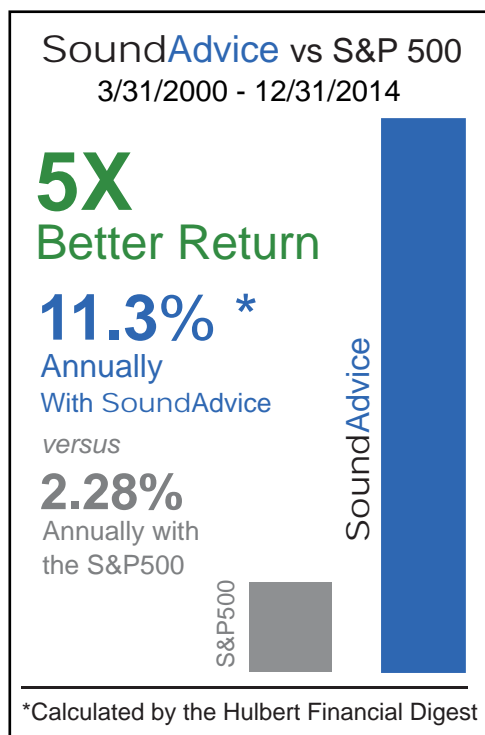
Third Avenue Real Estate Value Investor Fund (TVRVX) is up 3.1 percent this year, extending our profit to 21.5 percent. This fund is replete with stellar values substantially below NAV with strong growth prospects.

TVRVX has a number of distinguishing characteristics. TVRVX is a global real estate fund. Management looks for growth more than current income by focusing on real estate operating companies which, unlike REITs, can reinvest profits back into the business. Management also looks for opportunities in different points of a real estate company's capital structure by investing in senior debt in addition to a company's equity. Also unlike the

typical REIT, management will go to cash when asset prices are generally high. Cash is preserved for scooping up opportunities in distressed times.

Third Avenue Small-Cap Value Investor Fund (TVSVX) is up 5.7 percent since we introduced it last year. This fund invests in companies with small capitalizations using the same value-oriented approach as it does with its real estate value fund. TVSVX management scours the investment universe for companies that combine the three main features: creditworthiness, a meaningful discount to a conservatively estimated net asset value (NAV), and the ability to consistently compound NAV, with an initial targeted holding period of three to five years. A patient and price conscious acquisition is a critical first step in both protecting capital and in realizing an attractive investment return.

Small-cap stocks perform better than large-cap stocks over the longer term because they are pure plays on the early stages of new industries and inventions. They have more dynamic and entrepreneurial management, and they are much more likely to be the target of an acquisition or merger which is usually profitable. Not only do small caps perform better over the long run, they generally benefit strongly from a recovering economy.



Income With Growth	Sym	Exchange	Price	Yield	Limit	Action
Associated Estates Realty Corp	AEC	NYSE	\$ 24.68	3.40%	\$ 27.00	BUY
Hersha Hospitality Trust	HT	NYSE	\$ 6.47	4.33%	\$ 7.80	BUY
Retail Opportunity Investment Corp	ROIC	NASDAQ	\$ 18.30	3.28%	\$ 19.00	BUY
Third Avenue Real Estate Value Investor	TVRVX	800-443-1021	\$ 32.25	1.36%	\$ 34.00	BUY
Vanguard REIT Index Fund	VGSIX	NYSE	\$ 28.02	1.27%	\$ 35.00	BUY
Diversified Growth						
Agrium	AGU	NYSE	\$ 104.27	2.99%	\$ 110.00	BUY
Ford Motor Company	F	NYSE	\$ 16.14	3.10%	\$ 18.00	BUY
Freeport-McMoRan	FCX	NYSE	\$ 18.95	1.06%	\$ 22.00	BUY
NCR Corp	NCR	NYSE	\$ 29.51	0.00%	\$ 35.00	BUY
Pfizer	PFE	NYSE	\$ 34.79	2.99%	\$ 36.00	BUY
Stryker Corp.	SYK	NYSE	\$ 92.25	1.15%	\$ 97.00	BUY
Tetra Tech	TTEK	NASDAQ	\$ 24.02	1.17%	\$ 25.00	BUY
Third Avenue Small-Cap Value Investor Fund	TVSVX	800-443-1021	\$ 23.73	0.00%	\$ 27.00	BUY
Xerox	XRX	NYSE	\$ 12.85	1.95%	\$ 14.50	BUY
Energy/Natural Resources						
Chesapeake Energy Corp	CHK	NYSE	\$ 14.16	2.47%	\$ 18.00	BUY
Fidelity Select Nat. Gas Fund	FSNGX	800-544-8888	\$ 31.14	1.06%	\$ 34.00	BUY
ICON Energy Fund Class S	ICENX	800-828-4881	\$ 13.97	0.64%	\$ 18.00	BUY
Transocean	RIG	NYSE	\$ 14.67	4.09%	\$ 20.00	BUY
Aggressive Growth						
Boston Scientific	BSX	NYSE	\$ 17.75	0.00%	\$ 19.00	BUY
ETF - Direxion Daily 20+ Yr Bear 3X	TMV	NYSE	\$ 26.70	0.00%	\$ 55.00	BUY
ETF - ProShares Short 20+ Year Trsry	TBF	NYSE	\$ 23.99	0.00%	\$ 30.00	BUY
ETF - ProShares UltraShort 20+ Year Trsry	TBT	NYSE	\$ 41.87	0.00%	\$ 65.00	BUY
Symantec	SYMC	NASDAQ	\$ 23.37	2.57%	\$ 27.00	BUY
Teklka Life Sciences Fund	HQL	NYSE	\$ 27.57	0.00%	\$ 30.00	BUY

Notes to the table:

Prices are as of 3/31/2015. See our website for live pricing and buy limits:

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

Yields on funds may include capital gain distributions.

Vanguard REIT Index Investor Fund (VGSIX) is recommended recently because it reflects the REIT industry. It produced a return of 30.31 percent in 2014. As an alternative, the **Vanguard REIT ETF (VNQ)** can be used, which produced a slightly better return of 30.41 percent in 2014. The performances of both are substantially identical during the last 3, 5, and 10 years. VNQ trades like a stock and is purchased through your broker who will charge a commission.

VGSIX can be purchased directly from Vanguard (800-841-7999) with no fee, or through your broker who may charge a fee. If you are investing \$10,000 or more, the **Vanguard REIT Index Fund Admiral Shares (VGSIX)** is the same fund except with a lower expense ratio of 0.10 percent (versus 0.24 percent with VGSIX). VNQ also has the same low expense ratio of 0.10 percent.

The performance of all three choices should be above-average REIT performers because most funds do not perform

better than the averages over the years, and REITs usually out-perform the market.

Xerox (XRX) is down 6.3 percent this year, trimming our profit to 59 percent. We have been recommending XRX because it has been transforming from a seller of printers and copiers to a company providing business services in the form of business process outsourcing, information technology (IT) services, and document outsourcing (printing as a service). The strongest growth is coming from the expansion into IT services where services are performed under long-term contracts. Renewal rates have been generally high.

XRX delivered strong profit and cash flow in 2014 with encouraging growth throughout the year. Most importantly, revenue from services improved through the year along with improved margin performance. Document outsourcing revenues climbed over \$1 billion which included a multimillion-dollar contract late in the year with the Government of Canada.

Capital Competition: Real Estate versus Stocks: The SoundAdvice Risk Indicator

There are few forces that are more important to a market's destiny than the amount of capital that is available to it. In a normal situation, capital will flow easily between markets as their underlying conditions change. But if a market becomes dangerously superheated, it will absorb a larger proportion of available investment capital than economic conditions and market demand can justify. This change will be reflected not only in the rising market's prices but also in the prices of competing markets, which will be lower than their underlying fundamentals would indicate they should be. Over the last 100+ years, we can see this titanic struggle between the stock market and its foremost competitor for investment dollars: real estate.

To reveal this phenomenon, we have set up an equation in which we divide the Standard and Poor's 500 Stock Index average by the median price of a new house for each month over the last 100+ years. This equation exhibits an elegant financial minuet as each market has taken turns outperforming the other.

As we look at the historical data, we find that there is a range in which the price disparities are so strong that they are too great to be accounted for by the fundamental economic conditions underlying each market. Every time prices get into these danger zones it has meant that the prices in one market or the other have gone too high, and that they are in imminent danger of falling.

We can, therefore, label this new tool the SoundAdvice "Risk Indicator," since it will allow us to locate the point at which prices are so high when compared to competing markets that they have come loose from their moorings

and are on the verge of declining or underperforming the other market.

What is too high? When stock prices are very high relative to house prices, the SoundAdvice Risk Indicator will rise over the line marked 2.0, revealing a high-risk time for stocks. In contrast, when the indicator drops below the line marked 1.0, it means that it is a very low-risk time to buy stocks. Notice from the chart how the SoundAdvice Risk Indicator has oscillated back and forth, revealing the ongoing struggle between Stocks and houses for investment capital. We have labeled these long vacillations Supercycles.

The figures show that over the entire century-plus, stock prices have outperformed housing prices. Just based on the price growth of each investment market and assuming no leverage was used, a \$25,000 investment would have grown to \$12.16 million in stocks and to \$1.54 million in houses.

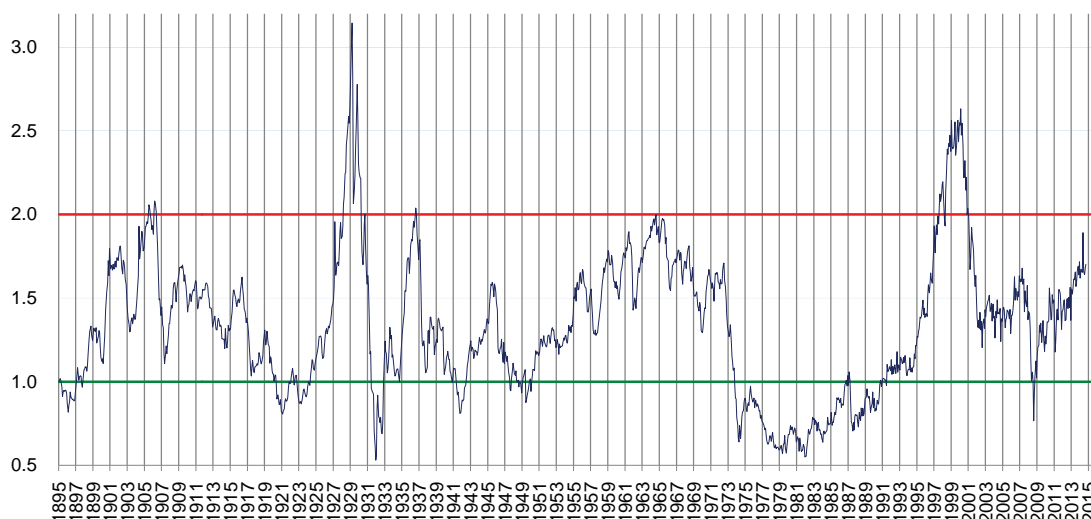
But though an investment beginning with \$25,000 in 1895 could have made money being in either stocks or housing and simply leaving it there over such a long period of time, had the investor followed the signals of the SoundAdvice Risk Indicator he would have made \$483.5 million, or 39.7 times more money—the difference between profits the buy-and-hold stock market strategy would have yielded by itself and the profits that the SoundAdvice Risk Indicator would have provided.

These figures illustrate why it is so important to remain aware of the Supercycles that are at work within markets.

The SoundAdvice Risk Indicator

The latest reading for the SoundAdvice Risk Indicator is 1.64. This reading reveals that stock prices are substantially above average in relation to house prices. The February 2009 reading of 0.77 marked the low for this cycle as well as the beginning of Supercycle 6.

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



Business Cycles and Stocks: The SoundAdvice Diffusion Indexes

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

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

To construct our SoundAdvice Diffusion Indexes, we observe changes in each of our selected indicators over a six-month period. For every indicator that is unchanged from its value during the six month span, we will attach a value of one half point (0.5). If an indicator falls below its level six months prior, it will be given a value of zero. If an indicator is higher than it was six months before, it is assigned a value of 1.0. The sum of all of these figures will be expressed as a percentage of the total number of indicators. If, for example, one indicator is up (+1) at the end of a six-month period, one is unchanged (+0.5), and one is down (0), the diffusion index will be $(1.5)/3$ or 50 percent.

When the SoundAdvice Diffusion Index of Leading Indicators drops to zero, it is time to buy stocks aggressively, regardless of how negative the atmosphere may be. This is not just an empirical coincidence. It is also logical. In order for all of the leading economic indicators to be giving off a zero value compared to six months before, it is nearly certain that the economy as a whole must be very soft, which is the atmosphere necessary to produce a lasting decline in interest rates.

The SoundAdvice Diffusion Index of Leading Indicators: As far back as February and March 2009 we were projecting that our Diffusion Index of leading indicators soon would hit zero and mark an important buying opportunity. We made that projection by assuming that the leading indicators would not improve in the current economic environment. In fact that signal arrived in March, very close to the bottom, officially giving us an "Aggressive" signal. The market subsequently climbed 61 percent.

An "Aggressive" signal coming at a time when the Risk Indicator was below 1.0 revealed that Supercycle 5 came to an end, and that Supercycle 6 was born. Our next signal will come from a zero reading from our Diffusion Index of Leading Indicators. The latest reading is 67.7 percent.

The SoundAdvice Diffusion Index of Lagging Indicators gives "Caution" signals when all three of its individual lagging economic indicators rise above their respective levels of six months earlier, providing a 100 percent reading which reveals that the economy is about to put upward pressures on interest rates, and to move to a cautious approach.

This has been a critical indicator in the past and has aided in avoiding severe declines, most notably the crash of 2008-09. However, since then, the Federal Reserve's Quantitative easing program has been holding short-term rates artificially low to stimulate the economy.

This index hit 100% in 2012. Although we operated under the "Caution" signal, we earned a 25.74 percent investment return in 2013. We continued to be bullish about stocks because of the Federal Reserve's expansive monetary policy and its Quantitative Easing program which has been distorting the natural business cycle this time.

This index hit 100 percent for the fourth month in a row in June 2014 which told us that the economy has become strong enough to push up inflation and long-term interest rates along with bond yields. The latest reading was 100 percent again for February, 2015.

Track Record of the SoundAdvice Diffusion Indexes

If we had followed the signals from our Diffusion Indexes over the years, we would have done very well indeed. The results are shown below. After each "Aggressive" signal, the S&P 500 climbed an average of 34.4 percent. During "Caution" signals, the S&P 500 increased an average of 2.7 percent.

Aggressive	S&P	Caution	S&P
Sep-74	68.1	Apr-76	101.9
Jul-76	104.2	Dec-76	104.7
Oct-78	100.6	Jun-79	101.7
Nov-79	100.0	Oct-83	167.7
Aug-84	164.5	Jun-85	188.9
Jul-86	240.2	Aug-87	329.4
Feb-88	258.1	Jun-88	270.7
Mar-89	280.0	Mar-93	449.7
Mar-95	493.2	Dec-98	1,141.0
Jun-00	1,429.4	Dec-00	1,320.3
Jun-03	974.5	May-05	1,191.5
Jun-06	1,276.7	Mar-08	1,325.4
Apr-09	848.2	Mar-12	1,370.3
Ave +/-	34.4%		2.7%

See *The Science of Making Money in Turbulent Markets* for a complete explanation of the SoundAdvice Diffusion Indexes and their track record. (You received a copy of this book with your paid subscription, and you will also receive an updated copy when you renew your subscription.)

SoundAdvice
140 Town & Country Drive, Suite E
Danville, CA 94526



Address Service Requested

Enclosed: The April 2015 Issue of SoundAdvice

Save 56% to 68% on your renewal to SoundAdvice
Renew online: go to www.soundadvice-newsletter.com
or fax or mail in the renewal coupon below.

SoundAdvice / 140 Town & Country Drive/ Suite E/ Danville, CA 94526 Fax 925-838-0522, or call 800-866-0026

- BEST DEAL!** 24 Month Renewal for only \$125 - A 68% savings!
- GREAT DEAL:** 12 Month Renewal for only \$85 - a 56% savings!
- Yes!** Add 3 months to my choice above. I Qualify for the Early Bird Special.



With Either Choice, you will receive the latest edition of:
The Science of Making Money in Turbulent Markets. 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.



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)

(cut along dotted line)