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So Far, So Good

With just a couple of weeks left in 2009, we can expect to finish with solid returns for the *Sound Advice* portfolio (+53.7% as of 12/11), which repairs the damage 2008 inflicted (-33.3%). The overall market cannot make the same claim. We not only turned bullish in March and then held on during the June swoon and even spurned bailing out during the dread months of September and October, but also were in the right places. We remain constructive about where stocks are headed both in the intermediate term (based on our diffusion indexes) and the long term (based on our Risk Indicator). However, even after the overall market as measured by the Wilshire 5000 has risen 24.8% this year, most investors remain phobic about stocks, an understandable mindset after watching the market decimate portfolios twice during this decade. The most recent bear market was the worst of the two. It spared nothing.

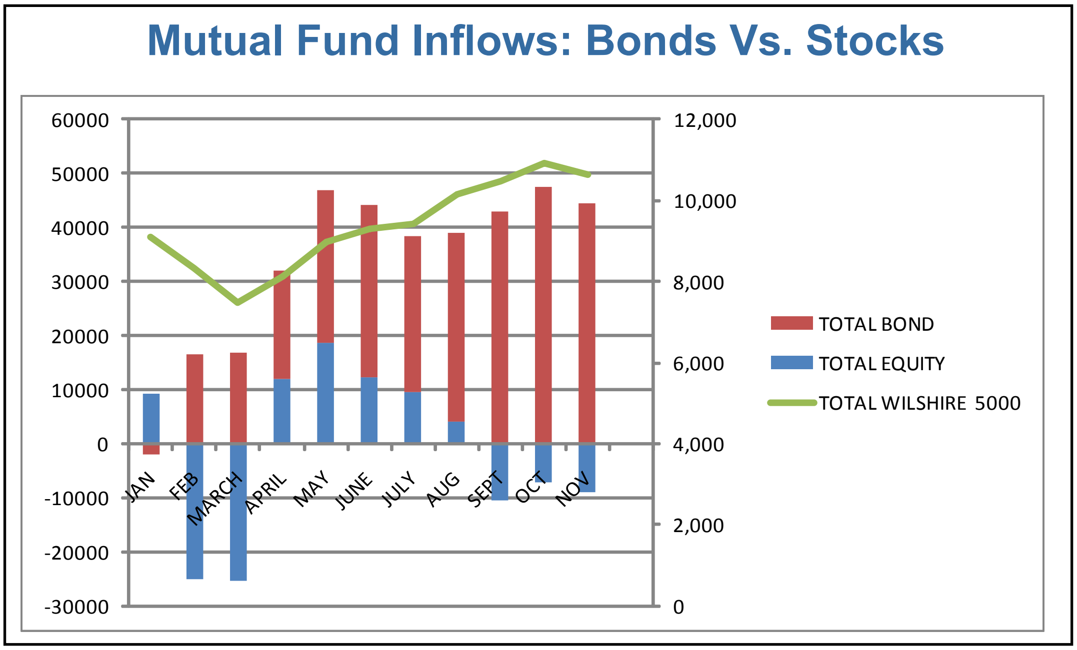
Usually when interest rates have been pressed to nearly nothing, as they are now, and cash is considered trash, investors eventually migrate out of the riskless shelter of money market funds and other cash equivalents into debt instruments with higher yields or equities with the promise of substantial returns. But this time, though some money is grudgingly trickling into stocks, far more is flowing into bonds, both government and corporate. We are certain that bond prices, particularly for Treasuries, are headed for a bad end. No one can deny that current interest rates (and thus bond prices) are artificial, the result of government and central bank policies that at some point must be reversed either by design or by market forces. The end of easy money would be significant for stocks as well, but the effect on bonds once rates start to rise will be automatic. The same cannot be predicted for stocks.

As the latest bear market unfolded, those promoting the end of the world, used the 1929 Crash and its aftermath as a bogey man to terrify investors. Are we seeing today the same response investors had to that episode once it was behind them? We wonder whether just as after the 1929-1932 bear market that vaporized 86% of the Dow's value an entire generation of investors has concluded that stocks are too toxic. Today, just as

We'd like to suggest an informal indicator of market bottoms that is at least as useful as the covers of business and general news magazines when they bemoan how miserable and endless a current bear market is. As contrarians and cynics know, such covers are as close to a sure thing to knowing the bear market is about over. It also works in reverse for the tops in bull markets. But magazine editors have caught on and these days try to avoid such covers. To fill that gap, can we suggest a new contrarian tell we'll call the "Warren Buffett is Past His Prime" Indicator? The WBIPHP effect emerges whenever Buffett during a bear market starts buying things that don't immediately turn into gold. The media, which loves to build heroes up but enjoys even more knocking them down, at such points can always find someone to declare Buffet has lost it.

Back in 2008 when Wall Street was teetering, Berkshire bought billions in preferred shares in Goldman Sachs and GE. Not only did they come with a 10% yield, they also included warrants to buy the common at a lower price. First, everyone celebrated Buffett's boldness, then, as the shares fell under the strike price, catcalls were heard. Now with Goldman well above the warrant price (but GE still under), Buffett is reputable again. Berkshire has made billions from the Goldman deal and continues to draw that 10%. As for GE, the dividend continues and, we expect, GE shares will do fine. Recently Buffett admitted regret, not that he got into these deals but that he didn't wait for the ultimate collapse in March.

-Gray Emerson Cardiff



then, revelations about the risks Wall Street took with shareholders' money, the pure sense of entitlement these players even today demonstrate, the Madoff and mini-Madoff Ponzi schemes and insider trading scandals only deepens public pessimism and cynicism about stocks.

Look at the chart above that traces net inflows to mutual funds against the Wilshire 5000's advance this year. Only six months have seen net inflows to equity funds, and those inflows peaked in June. Yet even that month fell short of net inflows to bond funds ($18.5 billion versus $31.7). On balance to this point, equity funds as measured by net inflows have <u>shrunk</u> by $31.3 billion and bond funds have swelled by $355.1 billion). So much for the much vaunted "wisdom of crowds."

Consider what happened during the 19 months following the ultimate trough hit on July 8, 1932: in the depths of the Great Depression with a banking crisis ongoing, the Dow rose 121%, then dropped 23% over the next five months and finally peaked in March 1937 at 194.4, 76% higher than at the previous high and 372% above the July 1932 bottom. No, we are not predicting that stocks will almost quadruple over the March 2009 bottom, but if bears can point to the 1929-1932 as a model for what could occur during a vicious bear market, it's only fair to conjure up what did happen <u>after</u> that bear of all bears.

If memories of the Great Depression and the Great Bear Market have paralyzed today's investor class, they hardly have silenced the financial punditariat. Investors still want to hear about where the market is heading, even if they are too anxious to do anything about it. Turn on CNBC, open *Barron's*, *Money Magazine*, *Fortune* or *Forbes* to say nothing of the hundreds of investment newsletters, or the gazillion Internet soothsayers and spammers glad to share their insights and tips with whoever cares to look. Indeed, even were the average investor inclined to inch back into stocks, such guides, conflicting as they are when it comes to predicting market direction and what to do in either case, rather than dispel confusion seem to add to it. As they say, "A man with two watches never can be sure what time it is."

If you are a veteran subscriber to *Sound Advice* or are new and finding it useful, you probably came with instincts similar to ours, or have absorbed our approach that relies not just on our economic indicators but also requires an indifference to consensus and a willingness to buy 'em when they're cold. We believe that the best time to buy is when the economy has tanked and investors are fearful. Indeed, we like what the market disdains. We've had success with broad sectors such as commodities, REITs, and (we think now) healthcare and with the stocks of individual companies that Wall Street either lost interest in (tech commodity stocks like **Western Digital**) or thought doomed (**Ford**). If we think the payoff is sufficient to justify the risk, we are willing to consider a company's stock, though we must confess that Ford lacked the strong balance sheet that we prefer. On the other hand, the reward has been disproportionate to the risk.

Finally, we hope you've noted that we don't feign infallibility. We're amused when we read Internet gurus' boasts that they've never had a losing week, or have made hundreds of trades without a loser. We know that there are investors in search of the perfect newsletter that can promise such perfection. We can't. What we can offer is a superb track record, the distillate of a method and a discipline honed by experience. We hope that is enough to earn your trust. So far, so good. Have a happy holiday season. **S**A

Biotech

Sound Advice has been recommending healthcare stocks in the face of persistent pessimism about this many faceted industry's future. Our thesis has been simple: the aging demographic tide represented by Baby Boomers (born between 1946 through 1964) that is only beginning to crest will increase demand for products and services. Furthermore, just as emerging markets are consuming more natural resources and consumer goods, their participants will expect improved medical care. Finally, despite problems at the dominant pharmaceutical companies whose internal development of new products has waned, smaller companies, particularly in biotechnology and innovative device development are filling that void. As for the market's obsession with that bogeyman "healthcare reform," we have promoted the minority opinion that whatever does become law, once you factor in pluses and minuses, will provide significant new revenues for the entire industry. We don't mind being in the minority, since the Sky-Is-Falling crowd has been selling us their shares at attractive prices. Now we want to expand our portfolio to emphasize one part of our thesis that heretofore has been under represented: biotech.

H&Q Life Sciences Fund (HQL—NYSE) gives *Sound Advice* members, depending on their exposure to healthcare, either an entry point or a way to diversify existing holdings with a bias toward biotechnology rather than big pharmaceutical companies like **Johnson & Johnson**, managed care companies like **UnitedHealth Group**, or medical equipment companies like **Stryker** and **Boston Scientific**. Like most healthcare funds, HQL's portfolio contains big name biotech companies like Amgen and Biogen, but has much broader and deeper exposure to smaller companies such as Vertex and Illumina. In addition, the fund traditionally holds non-tradable positions in companies that are not public, which effectively means shareholders are exposed to venture capital projects that entail high risk along with high reward.

HQL and T. Rowe Price

To get a feel for how HQL differs from a typical healthcare fund, consider the top 25 positions at T. Rowe Price Health Sciences Fund, an admirable competitor. Of these, 11 are also in HQL's portfolio, though only eight are in its top 25. The overlapping names with one exception are all in biotech or biopharma. In these eight instances HQL has much greater exposure to the biotech names (for example, almost 4% of HQL's portfolio is in Amgen versus 2% in the T. Rowe Price fund).

Or look at how the two funds own insurers. Each has about the same portion of assets in the general sector (7.1% for HQL and 8.4% for the T. Rowe Price fund), but the specifics show very different emphasis. The T. Rowe Price fund is heavily committed to managed care companies dominated by Cigna, Humana, **UnitedHealth**, Aetna and WellPoint, while HQL holds only WellPoint and Aetna, which combined account for only 1.5% of its assets. In fact, HQL lumps its only two insurers under the heading "Healthcare Services," whose dominant positions are VCA Antech (1.6% of portfolio), which is building a national chain of veterinary hospitals and Zix Corporation (1%), an Internet encryption company that emphasizes medical and pharmacy message security. If you decide to start accumulating HQL, understand that you are venturing away from most healthcare funds, but also understand that *Sound Advice's* two previous experiences with the fund have been successful.

We owned HQL a decade ago, and sold it just as the bull market raced toward implosion. Indeed, to give you an idea of how fast that market was moving, we decided in February 2000 that HQL shares were fully valued and should be sold (they were trading at a slight premium to NAV), priced them when we closed the issue on February 11th, and booked a 151% total return over 28 months. Over the next five days, while the issue was at the printer's, HQL shot up by another 44%. Those were the days.

Closed-End Funds

Before getting into HQL's portfolio, a brief discussion of closed-end funds (CEFs) might be helpful. CEFs are an endangered species, pressed on one side by mutual funds and on the other by Exchange Traded Funds (ETFs). The essential difference between these other two fund structures and CEFs is that closed-end funds, like most stocks, come to market in an IPO with a limited number of shares. After that, CEFs trade like any other stock, and though the shares outstanding can increase through secondary offerings, their number remains fairly stable. Mutual funds also come to market as IPOs, but after are bought and sold only through the fund itself. Consequently, when buyers seek more shares, the fund immediately generates new shares. When sellers dump shares, the fund redeems them at one share's worth of whatever the net asset value of the portfolio is at that day's market close.

ETFs also debut as IPOs, but thereafter are traded throughout the day as stocks. New demand for any ETF's shares is immediately met by the fund itself, which in transactions with institutional investors swaps large blocks of newly created shares for baskets of the stocks underlying the ETF's index. Institutional investors then sell these newly minted ETF shares into the market. ETFs market prices can diverge from the value of their underlying shares, but only by pennies and that gap is quickly arbitraged away.

CEFs habitually trade at significant discounts (and occasionally at premiums) from the fund's NAV. HQL currently trades at a 19.7% discount from the value of its portfolio. For novice investors, that CEFs' market prices diverge from the underlying value of their portfolios, is confusing. Frankly, this essential quirk is a puzzle for market veterans. At *Sound* Advice we've just accepted the divergences as mostly an expression of how fickle and inefficient the stock market is.

One other consequence of how CEFs trade is worth mentioning. In volatile down markets mutual fund managers are often forced by anxious shareholders to liquidate positions to meet raging redemptions, which in turn forces the fund to liquidate positions in the worst possible environment. Managers of CEFs, because their shares are exchange traded, not redeemed, are insulated from such market passions. Though during market dislocations CEF managers can voluntarily reshape their portfolios, their hands are not forced.

HQL

HQL's current discount from NAV stands slightly below its average for the last year but well off the panic-driven 29% hit during early March's end-of-the-world market collapse. When biotech stocks are in fashion (the last time was in 2000) that discount can turn into a premium. However, even during a drifting period such as the last turn we had with HQL, the fund can do well.

Three years ago, when the market for biotech companies was healthier and the general market more confident, the discount from NAV stood at 4.7%, but expanded in 2007 to 11.8% and rose till this March. Not surprisingly, the fund holds more cash during difficult periods. Note that at the end of September, HQL had 7.6% of its NAV in cash equivalents, down from last year's 9.2% but well above the slim 2.8% cash position in 2007.

Consider HQL's sector exposure. In the most recent SEC filing (as of 9/30/09), HQL distributes its holdings as follows:

This distribution is even more pronounced in the top 10 positions that account for a third of the portfolio:

Celgene, in 2006 reentered the portfolio after

Biotechnologies/Biopharmaceuticals	**44.70%**
Medical Devices and Diagnostics	**10.20%**
Healthcare Services	**8.50%**
Short Term Investments (Cash Equivalents)	**7.60%**
Generic Pharmaceuticals	**7.50%**
Drug Delivery	**2.10%**
Drug Discovery Technologies	**8.70%**
Pharmaceuticals	**0.30%**

Celgene Corporation (Biotech/Biopharma)	**5.04%**
Amgen Inc. (Biotech/Biopharma)	**3.96%**
Biogen Idec Inc. (Biotech/Biopharma)	**3.61%**
Genzyme Corporation (Biotech/Biopharma)	**3.35%**
Vertex Pharmaceuticals Inc. (Biotech/Biopharma)	**3.35%**
Teva Pharmaceutical Industries, Ltd. (Generic Drugs)	**3.25%**
Illumina, Inc. (Medical Devices/Diagnostics)	**3.11%**
United Therapeutics Corporation (Biotech/Biopharma)	**2.57%**
Cephalon, Inc. (Biotech/Biopharma)	**2.46%**
Concentric Medical, Inc. (Medical Devices/Diagnostics)	**2.13%**

a brief absence. It's portion grew by nearly 80% this year as management boosted the position in the spring when CELG shares were weak. Since then they are up about 50%. Celgene develops and markets orally administered drugs for cancer and inflammatory diseases, and has moved from promise to lucrative products such as Revlimid, a drug used to treat blood cancers, and Vidaza, also used to treat blood disorders. Though other drugs are in development, Celgene's growth at present depends on applying versions of such drugs to other diseases. For example, Revlimid, Celgene's primary product has been expanded more recently for treatment of multiple myeloma, a cancer that attacks blood plasma. Celgene is working on applications to use Revlimid on solid tumor cancers as well. The FDA also has expanded Vidaza to treat certain forms of leukemia. In the most recent quarter ended September 30th, Revlimid sales increased by 31% over the same quarter last year, accounting for nearly 65% of revenue. Vidaza nearly doubled in sales for the first nine months, though off of a smaller base.

HQL, when it decides to add a position, can be aggressive. For instance, in the most recent SEC filing (9/30/09) several new positions added since the June 30th filing appeared, two of which made it into the fund's top 10 holdings: Cephalon (2.46% of the portfolio), which develops drugs to treat sleep disorders, cancer and pain, and Illumina (3.11%), which develops tools to analyze rapidly large arrays of genes. Both were weak during the summer, and we presume that HQL's knowledgeable analysts saw an opportunity. So far, Illumina has recovered. Cephalon remains weak, though news last week might reverse that. Treanda, which Cephalon developed to slow growing tumors in non-Hodgkin Lymphoma, is now being considered as treatment for immune system cancer, which would turn it from a profitable drug into a blockbuster.

Difficult Market

If Wall Street because it feared what Washington might do had been wary of healthcare in general for the last year, HQL's smaller cap companies were in even worse condition, since financing to grow or even sustain smaller firms proved almost impossible to raise. As management commented in its June 30th report to shareholders: "such companies tend to be early stage unprofitable companies highly reliant on the markets to raise operating capital. While a few such companies have done well over time and the small cap group occasionally outperformed as a whole, in general these companies have underperformed their larger counterparts over a relatively long period of time. The Fund ended March 2009 underweight small cap stocks."

However, as we've seen in our own portfolio, the best performing shares since the market bottomed in March have been the less-than-blue chip ones, the very companies HQL moved out of its own portfolio. Using the Nasdaq Biotech Index (NBI) as a benchmark, the annual report observes that small cap companies (market cap of $500 million or less) since March rose on average 76% while large cap companies experienced only a 15% increase. "Being underweight this group of stocks hurt performance," the report dryly concludes. New positions in the fund this year have focused on mid-cap stocks. Cephalon and Illumina, for instance, are $4.4 billion and $3.4 billion market cap companies, while other significant newcomers are **Perrigo** ($3.6), Cubist ($1.1) and Warner Chilcott ($6.8).

HQL in recent years has distributed shares quarterly to shareholders as one way of cutting down the discount to NAV. However, this spring, since the fund had incurred net capital losses when selling shares, the board suspended these distributions, since they would have represented not a distribution of gains but a return of capital. It's been a rough period for HQL, its sector and its shareholders. But for those just now considering HQL, we believe it is an opportunity.

We'd never consider investing in individual small or even medium sized biotech companies regardless of each's individual prospects. If you don't have a PhD in molecular biology or other disciplines, diversification is the only way to invest in these stocks.

Venture Capital Portfolio

If management was trimming its small cap positions to limit risk, it continues to maintain significant exposure to its venture portfolio, which consists of restricted shares in non-publicly traded companies. These currently account for 12% of assets, though by charter venture positions can reach 40%.

Looking at the most recently reported roster (9/30/2009), a casual reader would consider the results dismal, since they show a 32% loss from the original cost of these holdings, some of which reach back a decade or more. Indeed, if you wade through those same reports since 2000, there is only a single year (2001) that shows the current value higher (+2.7%) than the cost. Fortunately these figures are misleading.

Daniel Omstead, who manages the portfolio, notes that these tables omit positions that succeeded and were cashed out, so it's hardly surprising that the annual rosters look so poor. Think of this as a perverse example of survivor bias. Consider the 2009 list that shows flame-outs like OmniSonics Medical Technology (-99%) that's now being liquidated in bankruptcy. OmniSonics was developing ultrasonic technologies to break up blood clots that triggered strokes Also on the current list are successful positions in start ups like Concentric Medical, which shows a 23% gain. Its tools address the same clots OmniSonics' technology attacked, but apparently with more success. As a pair, these two outcomes nicely illustrate the mortally competitive precarious nature not just in junior companies. Mid and even large cap companies' share prices can turn on how even one product fares as it moves through development and FDA scrutiny. Even when products come successfully to market, such as Merck's Vioxx, adverse results can decimate the share price. For lesser sized companies, the damage can be terminal. That is why we'd never consider investing in individual small or even medium sized biotech companies regardless of each's individual prospects. If you don't have a PhD in molecular biology or other disciplines, diversification is the only way to invest in these stocks. It also helps to have a practiced hand guiding the portfolio.

Omstead, considering the scores of venture capital positions his fund has taken, notes that the venture portfolio has been a positive for HQL's NAV.

Summary

The investing climate for healthcare has taken a sharp turn to the better, and Hambrecht & Quist Life Sciences' portfolio puts it at the cutting edge: exposure to publicly traded small and medium sized companies that are best owned as a diversified group and to private companies the manager deems likely to succeed. We have profited twice when buying shares while biotech was out of favor and the discount from NAV hefty. We're there again. For those who want to add an aggressive investment to their healthcare portfolio, HQL is a worthy choice. Buy up to a 10% discount from NAV ($11.15), which translates now to $10. **S**A

Portfolio Updates

Since we priced the November issue on 11/20, the market has done nicely. The Dow is up 1.5%, the S&P 1.4%, the Nasdaq 2.1% and the pan-market Wilshire 5000 1.5%. The *Sound Advice* portfolio on an unweighted basis grew 2.9% including distributions. Especially pleasing has been the performance of last month's Five for 2010 recommendations, which with one exception outpaced the rest of the portfolio. As a group, they've sprinted out of the gate, up 7.4%.

Comcast led the entire portfolio, up 17.5% after it agreed with GE to buy 51% of NBC Universal, which over the next few years it will come to own completely as General Electric phases out of its non-core businesses.

The market's view of Comcast literally turned on a dime. Since late September, rumors of the deal began to swirl and were used to hammer CMCSA's share price as negotiations dragged on, but once the deal was done, the shares shot higher. Why Wall Street could hate Comcast on the basis of <u>perhaps</u> a deal being made, but then love it once the deal was made leaves us mere mortals wondering why Wall Street market strategists, analysts, money managers and traders are paid small fortunes for their "brilliance."

Maxim Integrated added 9.2% as investors began to feel better about a recovery in the U.S. and global economies. Nonetheless, it's been choppy, as first one chip maker reported better-than-expected business, which drove all the chip makers higher, and then another reported just the opposite, which drove all the chip makers lower. Still, the drops were smaller than the rises.

Boston Scientific moved 7.2% on not much news. The company did announce a $2 billion debt issue that came to the market last Monday, but we doubt that meant much to most investors. The real fuel could be the direction in which healthcare reform is heading. It now appears that whatever the President signs will be far less damaging to the many industries within the overarching "healthcare" industry. Though we are certain there will be surprises before it's done, we now expect that in the end more Americans will be eligible for health insurance, but that there won't be any serious attempt to pressure either the insurers or those whom they pay for services to rein in prices. This is a recipe for better profits for BSX and everyone else in the business and yet another failed opportunity for America to do something about healthcare that is killing us fiscally.

Johnson & Johnson moved 4.1% higher along with the rest of the healthcare business, and for no special reasons.

The quintet's only loser so far has been **Molson Coors**, which lost 1.1%. There's no particular reason, just the market being the market.

Keeping with the healthcare theme, our other medical companies, some, just in response to the better market attitude toward the industry, and in some cases because of specific news, had a good month. **Stryker** is buying Ascent Healthcare, a private company, for $525 million in cash, which expands SYK's non-orthopedic business further into hospital equipment and services. Ascent is the leading reprocessor of single-use medical devices used in orthopedic/arthroscopic surgery, general surgery, cardiovascular and other procedures. Management also announced a $750 million share

Income With Growth	Symbol	Exchange/ Phone	Price/ N.A.V.*	Yield**	Buy Limit	ACTION
HRPT Properties	HRP	NYSE	$6.35	7.56%	$7.20	BUY
Diversified Growth						
Agrium	AGU	NYSE/TSE	$62.88	0.17%	**$65.00**	BUY
Boston Scientific	BSX	NYSE	$8.67	0.00%	$12.00	BUY
CarMax	KMX	NYSE	$20.99	0.00%	$24.00	BUY
CGM Realty Fund	CGMRX	800-343-5678	$20.21	4.06%	N/A	BUY
Dodge & Cox Intl.Fund	DODFX	800-621-3979	$31.99	7.04%	N/A	BUY
Dodge & Cox Stock Fund	DODGX	800-621-3979	$95.72	1.90%	N/A	BUY
Fastenal	FAST	NASDAQ	$39.01	1.79%	$46.00	BUY
Gabelli Global Telecom Fund	GABTX	800-422-3554	$18.99	1.74%	N/A	BUY
Honeywell	HON	NYSE	$40.87	2.97%	**$44.00**	BUY
Johnson & Johnson	JNJ	NYSE	$64.85	3.02%	$68.00	BUY
Leucadia National Corp.	LUK	NYSE	$22.48	0.00%	$30.00	BUY
Mattel	MAT	NASDAQ	$19.88	3.77%	$23.00	BUY
Microsoft	MSFT	NASDAQ	$29.85	1.74%	$33.00	BUY
Molson Coors Brewing	TAP	NYSE	$45.06	2.13%	$52.00	BUY
Odyssey Healthcare	ODSY	NASDAQ	$14.92	0.00%	$18.00	BUY
Perrigo	PRGO	NASDAQ	$39.60	0.56%	$42.00	BUY
Stryker Corp.	SYK	NYSE	$51.26	0.78%	**$56.00**	BUY
Superior Industries	SUP	NYSE	$15.86	4.04%	$18.00	BUY
Tetra Tech	TTEK	NASDAQ	$26.21	0.00%	$35.00	BUY
Third Avenue Value Fund	TAVFX	800-443-1021	$46.75	0.39%	N/A	BUY
United Parcel	UPS	NYSE	$58.01	3.10%	**$64.00**	BUY
UnitedHealth Group	UNH	NYSE	$30.48	0.10%	**$38.00**	BUY
Wal-Mart Stores	WMT	NYSE	$54.65	2.00%	$60.00	BUY
Xerox	XRX	NYSE	$7.93	2.17%	$10.00	BUY
Energy/Natural Resources						
Anglo-American PLC****	AAUKY.PK	PINK SHEETS	$20.83	0.00%	$25.00	BUY
Fidelity Select Nat. Gas Fund	FSNGX	800-544-8888	$28.05	0.00%	N/A	BUY
Plum Creek Timber	PCL	NYSE	$36.53	4.60%	$39.00	BUY
PowerShares Water Resources ETF	PHO	NYSE	$16.54	0.48%	$19.00	BUY
Transocean	RIG	NYSE	$80.27	0.00%	$90.00	BUY
USAA Precious Metals & Minerals	USAGX	800-862-6909	$34.45	0.03%	N/A	BUY
Aggressive Growth						
AOL Inc.	**AOL**	**NYSE**	**$24.35**	**0.00%**	**$30.00**	**BUY**
Comcast	CMCSA	NASDAQ	$17.64	1.54%	**$21.00**	BUY
Davis Financial Fund	DFIBX	800-279-0279	$22.46	8.13%	N/A	BUY
Ford Motor Convertible Pfd	F.PRS	NYSE	$36.39	8.78%****	$40.00	BUY
H&Q Life Sciences Fund	**HQL**	**NYSE**	**$8.95**	**0.00%**	**$10.00**	**BUY**
Liberty Global	LBTYA	NASDAQ	$21.11	0.00%	$28.00	BUY
Maxim Integrated	MXIM.PK	NASDAQ	$18.91	4.23%	$22.00	BUY
Symantec	SYMC	NASDAQ	$17.61	0.00%	$19.00	BUY
Time Warner	TWX	NYSE	$30.58	2.49%	$34.00	BUY

* Prices as of the market close on Friday, December 11th, 2009
** Yield represents all income during previous 12 months divided by current share price.
Note that all fund distributions fluctuate annually.
*** Dividend Deferred
**** Note change in ticker symbol
BUY, HOLD, SELL OR LIMIT IN **BOLD** INDICATES A CHANGE IN ACTION OR LIMIT

buyback program. Stryker, because its balance sheet shows zero long-term debt, can fund acquisitions (there were two other, smaller deals this year) and boost its dividend (the dividend on an annualized basis will rise by 20%). Unlike some aspirational acquisitions that other managements trumpet as "transformational" for the company, Stryker's deals tend to be bolt-on affairs that extend or deepen existing activities. Though Stryker paid a premium for Ascent, it's an excellent addition. For the month SYK is up 5.2%.

UnitedHealth, which along with other HMOs was at the very crux of the healthcare debate, now looks to be in the catbird's seat if the latest Senate proposal gains acceptance. The public option now sees out of the picture, which takes pressure off of HMOs. Expansion of healthcare insurance will give them fatter revenues. The latest scheme, to expand Medicare to those between 55 and 64, allowing them to purchase their own coverage from existing insurers, which also must sound good to HMOs. UNH added 6.7%.

Perrigo, which has not been affected by worries over healthcare reform, because its primary products are nonprescription and the rest are generic, has flourished since we recommended it back in June, nudged up 0.9%.

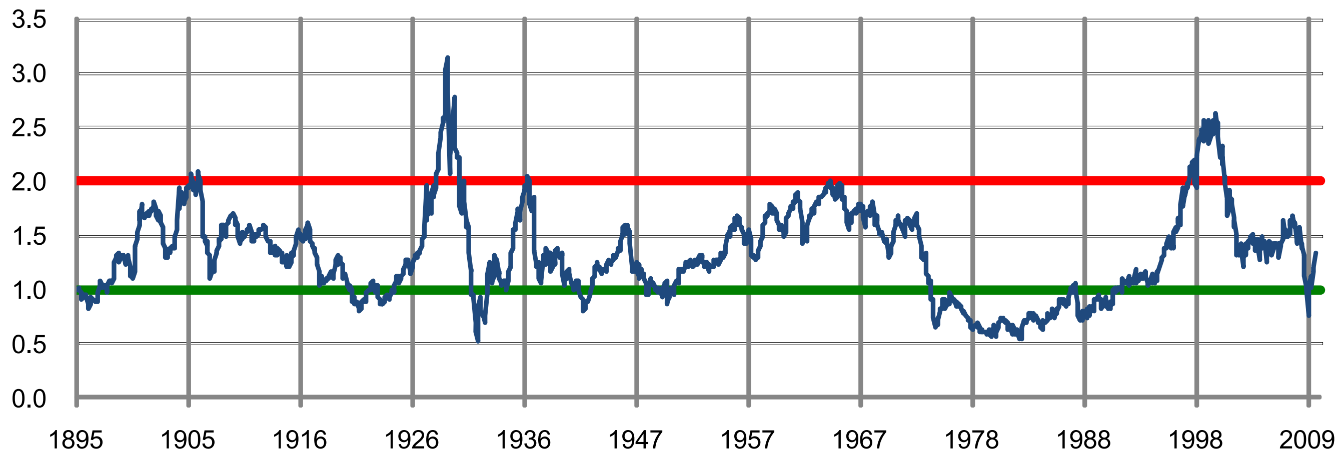
The only healthcare position not to advance is **Odyssey**, which slipped 0.5% on no news. It's been a superb recovery for ODSY this year, more than rising back to its 2006 high. We think that hospice care, provided Congress appreciates its value and funds it accordingly, is key to controlling costs and providing superior care once it is clear that at life's end heroic and expensive measures are not needed.

A companion story to the Comcast-GE deal for NBC is the spin-off of **AOL** by **Time Warner**. The terms are that one share of AOL will be issued for every 11 shares owned of TWX on the record date (11/27). Fractional shares will be paid in cash. The merger between what was once the dominant Internet service provider and the biggest print media conglomerate at the very zenith of the dot.com boom is now considered the worst merger in American history. We came along after that conclusion was widely accepted and scraped up the remains. It's been a profitable trade, and now we think it can become more profitable as TWX concentrates on its traditional strengths and AOL discovers whether it can compete against Google, Yahoo! and **Microsoft** (MSN). We are holding on to our AOL, which since it began trading last week, is up 2.9%. Time Warner since the last letter, once we factor in the regular dividend of 19 cents, the value of the spin-off ($2.158 per share) and the reduction in share price after the spin-off added 4.1%. If Comcast was willing to pay a premium to buy NBC Universal for its content, especially its cable channels, what does that say about the hidden value in Time Warner's publications, movie business and cable assets?

Agrium's unending quest to acquire its competitor, CF Industries, looks to be over as CF seems about to gain control of another competitor, Terra. The market seemed not too upset about Agrium's frustration. Since the last letter AGU has added 9.7%.

Other natural resource shares did not fare as well. The dollar for the moment has ceased declining, which removes a major prop for these assets. Hence, oil has dropped to just under $70 and gold has slipped from the $1220's to $1120, **Anglo-American** is off less than 1%, **USAA Precious Metals & Minerals Fund** lost 3.1%, **Transocean** 4.2% and the **Fidelity Select Natural Gas Fund** slipped 0.6%. One stock in the group to move higher has been **Plum Creek Timber**, up 6.8%. There is only pessimism about the timber industry and with PCL dependent on real estate sales to boost revenues, there is no expectation that can provide support. So it bounced higher.

Ford, which continues to get good news about its prospects and its current products, saw its Preferred shares move up another 5.7%. When will the car maker reinstate the dividend for these shares? In a recent TV interview Ford's CEO avoided answering just that question. It suits Ford to hold on to cash now even if the distributions must be repaid later. Ford has survived and the preferreds are good. **Superior Industries**, which makes rims and wheels (among other parts) for the auto industry, added 5.8% as investors seem to be endorsing a recovery even in the auto industry. Our third auto position, **CarMax**, which operates a national chain of used car stores, reported nothing special since the last letter, but moved 4.4% higher, a beneficiary of the same forces pushing both Ford and Superior higher. **S**A



The Risk Indicator measures the overall risk in the stock market by plotting the ratio of stock prices to home prices. See ***The Science of Making Money in Turbulent Stock Markets*** for a full explanation of the Risk Indicator and the Diffusion Indexes. Median home prices have been flat for the last ten months, so the risk indicator is primarily a reflection of stock prices. The latest reading is 1.33. This reading reveals that stocks are still below their average relative to house prices, and present a good value. February's reading of 0.79 will likely mark the low for this cycle as well as the beginning of Supercycle 6.

The **Sound**Advice Diffusion Indexes

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

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

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

The Diffusion Index of Lagging Indicators gives "Caution" signals when all three of its individual lagging economic indicators rise above their respective levels of six months earlier, providing a 100 percent reading. This reveals a strengthening economy and inflationary pressures ahead. Our next signal will come from this Index. The Commerce Department as not released the underlying indicators at this writing. This Diffusion Index currently stands at 33 percent.

Track Record of the Diffusion Indexes

If we had followed the signals from our Diffusion Indexes over the years, we would have done very well indeed. The results are shown below. After each "Aggressive" signal, the S&P 500 produces an annual return of 19.7 percent. During "Caution" signals, the market was all over the place — sometimes crashing, sometimes meandering, and occasionally advancing. On average, the S&P 500 increased at an annual rate of only 1.62 percent.

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

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