

SoundAdvice

Advising Investors for 36+ years

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M2 Versus GNP

At the end of March, inflation rose to an annual rate of 2.8 percent as measured by core personal consumption expenditures (CPE) which is the Federal Reserve's favorite inflation index. It was also reported the consumer confidence fell sharply again in March, by 11.9 percent from two- February and by 28.2 percent from one year ago. With consumer spending accounting for two-thirds of the US economy, the sharp drop in consumer confidence is bound to lead to a softer economy. Of course, the market has not been happy about these trends because they portend stagflation.

Despite the broad market sell-off, our Model Portfolio held its ground and was up 1.5 percent for the first quarter, thanks to substantial profits from our downside hedges (page 3) and resilience of our energy holdings (page 5).

We introduced the stagflation specter in last month's issue. Stagflation is defined as an economic condition when inflation increases while economic growth decreases. This condition creates a policy quandary for the Federal Reserve because measures to reduce inflation can increase unemployment, and vice versa, whereby measures to reduce unemployment can stoke inflation.

It is difficult to predict how much of the cost increases from tariffs will be passed on to consumers or absorbed by producers, but it will certainly be an unhappy mixture of both, leading to a degree of stagflation. However, inflation is not likely to be as bad as feared. Here is why.

We have all heard the old axiom: inflation is caused by too much money chasing too few goods. A broad measure of the money supply, M2, is a key indicator of potential inflation. An increase in M2, if not matched by a corresponding increase in economic output, leads to rising inflation.

This correlation was evidenced by the explosion of M2 from the beginning of 2020 through March 2022, when M2 increased by 41 percent, far outpacing economic output growth of 13.2 percent (as measured by Gross National Product - GNP). This mismatch stoked the steep rise of inflation peaking above 9 percent in the months that followed.

In contrast, however, the picture since then has been quite the opposite. Since March 2022, M2 has actually declined by 1.8 percent while GNP has increased by 16.9 percent. Therefore, the substantial increase of goods and services with less money for purchases, means that inflation is bound to be constrained in the months ahead.

Of course, this conclusion is aside from the initial impact of tariffs.

During his press conference following the March Federal Open Market Committee (FOMC) meeting, Chairman Powell said tariff-induced inflation could be "transitory ... I think that's kind of the base case We'll be working with other forecasters to separate nontariff inflation from tariff inflation."

The Federal Reserve chairman went on to say: "Looking ahead, the new [Trump] Administration is in the process of implementing significant policy changes in four distinct areas: trade, immigration, fiscal policy, and deregulation. It is the net effect of these policies that will matter for the economy and for the path of monetary policy."

As investors, it is imperative that we recognize what the Federal Reserve deems important because the direction of interest rates is a governing force on the financial markets. Of course, the Federal Reserve is well aware of money



*Gray Emerson Cardiff,
Editor Since 1988*

Since the beginning of 2000 through the end of 2024, the *Sound Advice* Model Portfolio produced an average annual return of 8.9 percent versus 5.9 percent for the traditional S&P 500 Index, compounding to 1.9 times more capital growth.

supply growth, and the lack thereof, and believes that tariffs may be transitory. Imported goods amount to approximately 16 percent of US economic output. While not overwhelming, the Federal Reserve believes it is important to separate tariff inflation from non-tariff inflation. It is also important to observe the impact the new administration's significant policy changes will have on GNP, because productivity and the supply of goods and services is the other critical part of the inflation equation.

Looking beyond the short-term, the imposition of tariffs are prompting foreign and international companies to commit trillions of dollars to construct production facilities inside the US to avoid tariffs, which will benefit ETFs investing in certain industries (page 7).

Regarding the near term, whether or not the impact of tariffs will be transitory remains to be seen. This uncertainty explains the Federal Reserve's current "wait and see" posture.

The Federal Reserve left short-term interest rates to unchanged for now but expects two rate cuts later this year and two more next year, according to the "Dot Plot" whereby each member of the FOMC exhibits his or her projection of short-term interest rates with dots at the end of each future calendar on a graph. The aggregate prediction of the FOMC members coincides with our expectation. We see interest rates declining in the months ahead due to a tepid economy ahead for two primary reasons:

The first reason is quantitative. The lack of M2 expansion means that price increases in one area will lead to declines in demand elsewhere. With a limited amount of money, consumers will need to budget. Increased expenditure on some items will make others less affordable, thus undermining economic growth.

The second reason is statistical -- our Diffusion Indexes.

The Sound Advice Diffusion Indexes

To sort out the most probable near-term scenario, we rely on the *Sound Advice* Diffusion Indexes (page 9) because they have an accurate track record of predicting major stock market trends for the last 50 years. They work by observing changes in the most sensitive leading and lagging economic indicators. During "Aggressive" signals over the last 50 years, the S&P 500 climbed an average of 31.5 percent. The market has undergone corrections but has never crashed. All market crashes have occurred during "Caution" signals. When the stock market was not crashing, the S&P 500 either meandered, climbed moderately, or declined in an extended bear market, recording an average decline of 0.6 percent.

At the beginning of 2022, we were in "Caution" mode which proved prophetic. The S&P 500 Index ended the year down 19.4 percent. As a result of heeding our caution signal and positioning our holdings accordingly, the Sound Advice portfolio gained 4.0 percent in 2022. In addition to telling us the general direction of stocks ahead, the "Caution" signal told us where to invest, such as areas that would benefit from rising inflation and interest rates while hedging for downside profits.

Our Diffusion Indexes changed from "Caution" to "Aggressive" at the beginning of 2023. That signal proved prophetic as we began a new bull market. Our Diffusion Index signals have not changed since our bull market signal at the beginning of 2023. Although there may be corrections along the way, the bull market is still in force.

The Sound Advice Recommendations

We eat our own cooking. The [Sound Advice Diversified Growth Fund](#) invests exclusively in the *Sound Advice* Model Portfolio recommendations. The editor of *Sound Advice* for 36+ years, Gray Cardiff, manages the *Sound Advice* Fund and is also an investor on a side-by-side basis with the other investors. You can request a prospectus for Sound Advice Fund on the log-in page you used to download this issue of *Sound Advice*.

The Model Portfolio

Our individual stock recommendations are special situations offering a compelling value proposition. We are also recommending liquid electronically traded funds (ETFs) investing in sectors that are bound to benefit in the months and years ahead. All recommendations, as well as their dividend yields and buy/hold/sell recommendations, are summarized in the table on page 8 and sorted by investment objective categories and then in alphabetical order.

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Downside Hedges

Our downside hedges have been very profitable during the recent market decline. We include downside hedges as part of the portfolio to reduce risk and dampen volatility by profiting during adverse market conditions. Minimizing losses, even at the expense of limiting the upside, has been our key strategy for outperforming the market over the long run.

ProShares UltraShort S&P 500 (SDS) rose by 14 percent in March. SDS is designed to produce two times the daily fluctuations of the traditional S&P 500 Index, only in reverse. For example, a decline of say, 1.0 percent in the Index will cause SDS to increase by 2.0 percent. Conversely, an increase in the Index will cause SDS to decline by 2.0 percent.

We have included SDS as a hedge because the S&P 500 Index has been inflated and distorted by its top ten holdings that still comprise a 35 percent of the S&P 500 Index. They are Apple, Microsoft, Amazon, Nvidia, Alphabet Class A (Google Class A & C), Tesla, Meta Platforms Class A, Broadcom, Berkshire Hathaway, and JP Morgan. Because of their large capitalization, these 10 stocks are responsible for distorting the S&P 500 Index. On average, the price/earnings (P/E) ratio of these 10 stocks is 46. This P/E has retreated from the end of February at 55, but it is still a high value by historical standards.

Still priced for future high growth rates, any more disappointments are bound to let the air out of these lofty price/earnings ratios. Since the beginning of the last bull market in 2009, the TTM P/E ratio of the traditional S&P Index has averaged 21.9. At today's earnings of \$218 for the Index, the average TTM P/E ratio equates to a value of 4,774 for the S&P Index, which is still 15 percent lower than it is today.

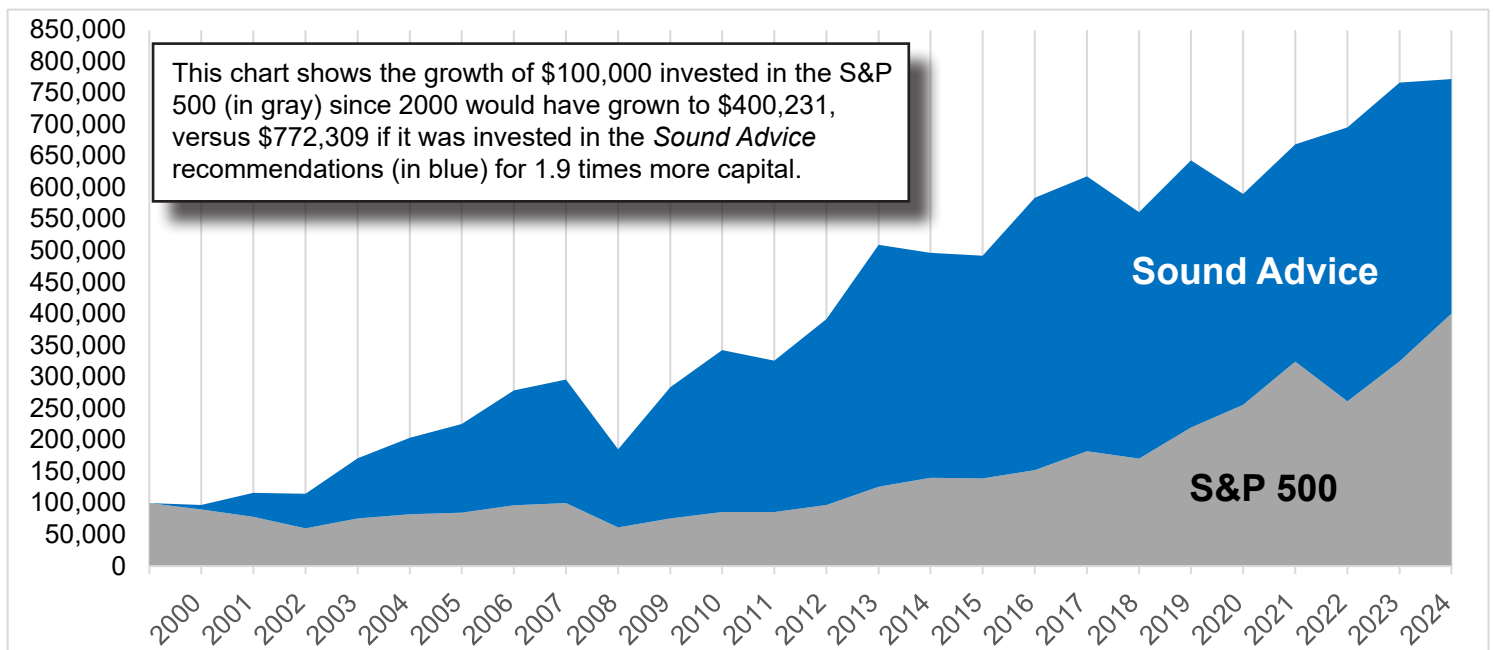
One standard deviation from the average TTM P/E since 2009 is 5.0 percentage points, which means this P/E ratio has been within plus or minus this amount 68 percent of the time, for a range of 16.9 to 26.9. The current P/E ratio of 25.7 is close to one standard deviation above the average, which means this Index currently has hidden risks with limited upside.

Another sign that the traditional S&P 500 Index is inflated is revealed from the *Sound Advice* Risk Indicator (page 11), which compares the Index to house prices for more than 125 years. The latest reading is 2.89, which puts the S&P 500 Index far above the high-risk watermark of 2.0.

The Russell 2000 Index

The Russell Index is comprised of small and mid-sized domestic companies which tend to be more volatile than the overall market, especially during market corrections. The following two ETFs below can also be used as a downside hedge because they short sell the Russell 2000 index. They differ in the leverage employed, which you can choose one according to your investment objectives and risk tolerance.

Sound Advice versus the S&P 500



ProShares UltraShort Russell2000 (TWM) climbed by 27 percent in March. TWM is designed to produce two times the daily fluctuations of the Russell 2000 index (IWM). A decline of say, 1.0 percent in the Russell 2000 will cause TWM to increase by 2.0 percent. Conversely, an increase in the Russell 2000 will cause TWM to decline in the same fashion. TWM had a reverse 5:1 split on November 7, which reduce the number of shares to one-fifth and raised the price by 5 times.

ProShares UltraShort Pro Russell2000 (SRTY) jumped by 41 percent in March. SRTY is designed to produce three times the daily fluctuations of the Russell 2000 index.

Special Situations

The following stocks are individual companies presenting extraordinary values within their respective industries. Here they are in alphabetical order:

Cisco Systems (CSCO) is a value play in AI because it supplies the backbone of data center networking equipment and software. The longer-term upside growth potential is not anticipated by the current stock price, as evidenced by a relatively low P/E and an attractive dividend yield.

Forty percent of NVIDIA's revenues come from four companies - Amazon, Meta Platforms, Microsoft, and Alphabet. In an effort to diversify, NVIDIA is collaborating with Cisco to attract more artificial intelligence (AI) customers in data centers, offering potential customers with scalable and automated AI cluster management, automated troubleshooting, and "best-in-class" customer experiences.

In mid-February, Cisco reported solid earnings supported by strong AI business and product order growth. Management is confident that AI will continue to be a driver of growth.

JP Morgan Chase (JPM) is a good value for what is considered the world's highest quality banking enterprise with diversified businesses and prudent underwriting policies. Deregulation of the industry will be a substantial benefit to JPM. The annual dividend increased again in 2024 to \$4.60, continuing a long history of growing dividends.

Moderna (MRNA) is a pure investment play on Messenger RNA (mRNA) technology. This revolutionary technology is on a path to provide solutions for not only vaccines, but for cures and treatments for the most deadly and debilitating diseases haunting humanity.

The sharp decline in recent months bound to be providing a long-term buying opportunity. Management believes that the company's cash reserves will be sufficient to sustain the business while it develops other vaccines and treatments through its 40+ programs in development. Overall, Moderna's mRNA platform is expected to involve 15 revolutionary RNA vaccines, drugs, and treatments during the next five years.

Perhaps the most substantial upside potential is from developments regarding the ability to see fragments of cancer cells in a blood draw, allowing the detection of cancer in early stages, before it graduates into more serious later stages. Data will be transmitted through the cloud to Moderna's IT system, and AI algorithms will be used to compare an individual's particular cancer cell mutation to the hundreds of thousands of possibilities and to the treatments that are currently effective. Management says Moderna will be able to analyze and develop a treatment customized for an individual patient within 30 days of the blood draw, and over time with more and more data, the process will become more efficient and accurate.

RLJ Lodging Trust (RLJ) recently raised its dividend to 60 cents per share for a yield above 7 percent. The increased dividend is well-covered by the company's cash flow. In a demonstration of confidence, President and CEO, Leslie Hale, purchased \$3.84 million of RLJ stock on March 20, 2025.

RLJ has a large and diversified portfolio of hotel properties, with 97 premium-branded, high-margin, focused-service and compact full-service hotels located in 23 states and Washington DC. This is a low-leveraged REIT because the company's debt is only 46 percent of its (book value) assets. The portfolio's net operating income (NOI) for the trailing four quarters ending in the most recent fourth quarter of 2024 was \$384 million. Using a conservative cap rate of 7.5 percent produces a portfolio value of \$5.126 billion. Adding other assets and subtracting liabilities leaves the company equity of \$3.22 billion. After subtracting the liquidation value of the company's only preferred stock of \$328 million leaves equity for the common shareholders of \$2.85 billion. Dividing that equity by the 155 million shares of RLJ outstanding translates to a net asset value of \$18.32 per share – more than double the current price of the stock price.

RLJ's \$1.95 Series A Cumulative Convertible Preferred (RLJPRA) is RLJ's only preferred stock, with a liquidation preference of \$25 per share, which is the maximum value that would be received from an acquisition of the company. Use limit orders at \$25 or lower to accumulate this preferred stock for a safe annual yield close to 8 percent. The dividends for this preferred only consume 10.1 percent of the company's cash income and must be paid before common dividends, making the yield highly secure.

Special Situations in Energy

Our chosen energy selections have remained resilient during the general market sell-off.

To directly benefit the industry, the Trump Administration is removing regulations which will bring down production and operating costs, along with allowing new pipelines to transport oil and gas products to more domestic markets and to the US coasts for exporting to overseas markets. Additionally, Biden's ban on LNG exports has been reversed to allow US supplies to travel to the rest of the world where it is desperately needed, especially if Russian and Iranian supplies are to be avoided.

The Trump Administration promises to lower the cost of energy by increasing supply through "Drill Baby Drill". The objective is to increase US oil production by three million barrels per day (bpd) by 2028. It is important to put this goal into perspective.

The US was the world's largest oil producer at nearly 14 million bpd in 2024. Realistically, it will take time to increase production by three million bpd. Meanwhile, the enforcement of sanctions on Iran, Venezuela, and Russia, as well as diminishing supplies from Canada and Mexico, could easily curtail supplies very soon and completely offset this goal before the US is able to ramp up production. The result is more likely to be an increase in the price of oil in the near term, rather than a decrease as is hoped by the Trump Administration to undermine inflation.

On March 20, 2025, the US announced a fourth round of sanctions on Iran, targeting vessels and entities supplying crude oil from Iran to China, including an independent Chinese refiner. The move is estimated to cut Iranian exports by 1.0 million barrels per day (bpd), half of Iran's total exports.

As the funding source of funding to Hamas, Hezbollah, and the Houthis, Iran is a likely target of more financial sanctions and stronger enforcements against illicit shipping of oil to China. Moreover, Iran's continued production of weapon-grade uranium makes it an imminent military target. Israel took out Iran's defense system, which exposes its refineries and oil fields. Any military action against Iran could remove another \$1.0 million bpd or more from world supplies.

Also in March, Trump proposed a 25 percent US tariff on goods coming from any country purchasing oil from Venezuela, which produces close to 1.0 million bpd.

Supplies may also be reduced from our neighbors. The US has been importing 3.8 million barrels per day from Canada on which Trump proposes a 10 percent tariff, and 450 thousand barrels per day from Mexico on which Trump proposes a 25 percent tariff. These tariffs will make this imported oil more expensive and probably less available.

Reducing Russia's ability to export by just ten percent of its ten million bpd of production with sanctions would remove another 1.0 million bpd.

Also in March, to make up for producing more than agreed levels in the recent past, seven OPEC+ members announced output cuts ranging between 189,000 bpd to 435,000 bpd, lasting until June 2026.

Seventy-four percent of US energy consumption comes from oil and gas, and that is not likely to change anytime soon. Our following energy selections present stellar values for long-term profits and increasing dividend income.

Chevron (CVX) started hitting new annual highs in late March. Even after the rise, CVX still yields slightly more than 4 percent after the latest dividend increase to \$6.84 annually per share.

In late March, the Trump administration extended a deadline to May 27 for Chevron to wind down operations in Venezuela. Offsetting that loss of approximately 200,000 bpd is the recent ramp up of production in Chevron's 50 percent ownership of the giant Tengiz oil field in Kazakhstan.

With a history of dividend increases, future dividend increases are bound to be supported by production growth from assets in Kazakhstan and the Permian Basin.

Exxon Mobil (XOM) has low production costs. Production from its immense Guyana field is boosting earnings despite lower oil prices and lower refining margins. The benefits are starting to appear from the 2023 acquisition of Pioneer National Resources, evidenced by new production growth in the Permian Basin. XOM also has an attractive dividend yield with a history of dividend increases.

Halliburton (HAL) is a premier oil field services company. With a substantial presence in the US, Halliburton derives a larger share of its revenues from North America than its primary competitors, SLB Inc and Baker Hughes. The Trump Administration's "Drill Baby Drill" policies are bound to benefit HAL.

Prior to the election, HAL was already having a decent year thanks to its technological innovations that are tailor made

for the unconventional reservoirs in the US. Halliburton's recently introduced directional drilling system, the iCruise CX system, is a rotary steerable tool and LOGIX drilling automation platform that makes it possible to reliably drill in curves and laterally in a single run. This new technology has been rapidly deployed in the Permian Basin. Growth is bound to be substantial as drilling activity increases throughout the US.

Other relatively new Halliburton technologies include the Zeus platform, electric pumping units, Octiv Auto Frac, and Sensori subsurface measurement. These systems increase efficiency and replace outdated and costly diesel generators as power sources for onsite drilling with generators capable of using natural gas, LNG, and a variety of other fuels that are available on the drilling site.

Valero Energy (VLO) was added to the portfolio several years ago at \$60.41 per share. As earnings have grown, VLO is still a bargain with a relatively low P/E and attractive dividend yield. Valero makes its money from the "crack spread", which is the profit margin derived from purchasing crude oil, turning it into refined products such as gasoline and jet fuel, and selling those refined products.

Valero has the unique ability to achieve discounts for its crude oil feedstocks because it can refine a variety of crude oil types. This flexibility and access allow Valero to capture the highest margins among its competitors because it can take advantage of the temporary gluts of crude, whether it's low or high-quality crude or light sweet (low sulfur) or heavy sour (high sulfur) crude, to obtain the best available discounts for its feedstocks. The company's refineries also have access to the US pipeline network from its gulf coast locations.

Valero's "green energy" joint venture with Diamond Green Diesel is producing renewable diesel at large profit margins. Renewable diesel is made from animal or plant waste material which reduces greenhouse gas emissions up to 80 percent because it only releases as much carbon dioxide as the material originally contained. Renewable diesel does not congeal at low temperatures which means it can be easily transported through pipelines.

Equally Weighted S&P 500

Invesco S&P 500 Equal Weight ETF (ticker symbol RSP) invests in all the S&P 500 stocks but on an equally weighted basis and rebalances its portfolio each quarter to maintain its equal weights. This rebalancing process preserves value by reducing stocks that have recently outperformed while adding recent laggards. This preservation of value explains the superior performance over the traditional S&P 500 Index recently and over the long-term.

From the beginning of 2000 through the end of 2024, RSP has outperformed all the major indexes, with an annual percentage rate (APR) of 6.9%. This compares to the Dow Jones Industrials with an APR of 5.7%; the Russell 2000 with an APR of 5.2%; the Nasdaq Composite with an APR of 6.6%; as well as the traditional S&P 500 Index with an APR of 5.9%. These returns compare to the APR of 8.9% from the Sound Advice recommendations over the same period.

Sector ETFs

Included in the *Sound Advice* model portfolio are the following electronically traded funds (ETFs) investing in sectors that are bound to benefit in the months and years ahead from fundamental changes in geopolitical, medical, and economic landscapes. These ETFs contain a portfolio of stocks, much like a mutual fund but ETFs are liquid and trade like stocks with their own ticker symbols. Their prices are determined by the value of the portfolio of stocks they hold.

Artificial Intelligence

Global Robotics and Automation Index ETF (ROBO) is investing in the key to making the world's companies more efficient -- robotics and automation. Approximately half of the portfolio is in robotics technologies, and the other half is in the technology controlling the robots – sensing, computing actuation, and artificial intelligence (AI). This is a diversified way of investing in AI which is the next technological frontier and will be playing an increasingly greater role in the way companies operate around the world.

Biotech ETFs

Biotech companies offer explosive profits because they are the source of the world's top breakthrough vaccines and treatments. Their stocks are often volatile, making diversification essential. This can be accomplished by investing in a diversified electronically traded fund (ETF) investing exclusively in a portfolio of biotech companies.

ARK Genomic Revolution Multi-Sector (ARKG) is an actively managed biotech ETF investing in companies expected to benefit by incorporating technological and scientific developments, along with advancements stemming from mapping the human genome. Technological breakthroughs in artificial intelligence and other high-tech advancements have cut the cost substantially of opening new opportunities and putting this sector on the cutting edge of many new innovations.

Balanced Sector ETFs

The following ETFs rebalance their holdings quarterly to equalize the values, which offers a greater degree of evenly weighted diversification and adds stability as well as safety to a portfolio. This practice often provides a superior performance because it offers upside from stocks that are often under-weighted in the portfolios of other ETFs and mutual funds.

Virtus LifeSci Biotech Products (BBP) is a passively managed biotech ETF that weighs the portfolio selections essentially equally, as opposed to the more typical practice of weighing selections according to market capitalization. This is an important aspect because biotech ETFs who weigh their portfolio selections essentially equally have been the best performers because they have larger investments in smaller biotechnology companies which have become acquisition targets for large pharmaceutical companies looking for ways to expand.

Health Care

Health care stocks have several traits that make them desirable long-term investments. They are well-suited for an aging population, which exerts disproportionate demands on the health care industry. As the world's population continues to age, this trend is inexorable, making the health care sector defensive in nature and more insulated from economic cycles than other sectors. Health care companies are also prime candidates for new AI technologies that are bound to improve efficiency and accelerate growth.

One of the main criticisms of most health care ETFs is that they are dominated by a relatively small number of large companies, such as Johnson & Johnson, which distort the performance of the typical health care ETF portfolio.

Invesco's S&P 500 Equal Weight Health Care ETF (RSPH) tracks the S&P 500 Equal Weight Health Care Index, which tracks 65 health care stocks represented in the S&P 500, but weights each holding evenly. Both the Index and RSPH are rebalanced quarterly. This approach has given RSPH a superior performance to the large health care ETFs.

Consumer Staples

Invesco S&P 500 Equal Weight Consumer Staples ETF (RSPS) invests in consumer staple stocks within the S&P 500 Index. Consumer staples are those unexciting products we use every day without much thought, ranging from food, beverages (including alcohol), household goods (including cleaning supplies), and hygiene products. These are products that people are unable (or unwilling) to remove from their budgets regardless of their financial situation. The nature of these products makes this sector defensive and much less vulnerable to periods of soft or negative economic growth.

Tariffs & US Manufacturing

Tariffs are aimed at incentivizing production inside the US. If produced inside the US, even if by international companies, there will be no tariffs. Looking beyond the near term, the companies in the following ETFs are bound to be direct beneficiaries of increased capital expenditures for US production facilities.

Since the announcement of tariffs, a long list of companies have announced trillions of dollars of immediate capital investments for production facilities inside the US, including: \$500 billion from Apple; \$500 billion from Project Stargate led by Japan-based Softbank and U.S.-based OpenAI and Oracle; \$100 billion from Taiwan Semiconductor Manufacturing Company (TSMC); \$20 billion from Eli Lilly; \$20 billion from United Arab Emirates-based DAMAC Properties; \$20 billion from France-based shipping giant CMA CGM; \$20 billion from Hyundai which includes \$5.8 billion for a new steel plant. The list goes on including substantial investments from all of the world's major automobile manufacturers along with scores of international companies in other major and supporting industries.

Invesco S&P SmallCap Industrials ETF (PSCI) is based on the S&P SmallCap 600 Capped Industrials Index which is designed to measure the overall performance of the securities of US industrial companies with small capitalizations (caps). These domestic companies are engaged in the business of providing domestic industrial products and services, including engineering, heavy machinery, construction, electrical equipment, aerospace, and defense, as well as general manufacturing. They will reflect the positive impacts more strongly than larger companies from an increase in domestic capital spending. Small cap construction companies typically operate inside the US on local construction projects that tend to employ local companies as subcontractors, even when general contractors may be national companies.

Invesco S&P 500 Equal Weight Materials ETF (RSPM) invests in the companies that comprise the S&P 500 Equal Weight Materials Index. The portfolio contains prime examples of basic materials companies outside of the oil and gas industries. Increased capital expenditures on new US production facilities will translate into demand for basic materials.

Portfolio Summary Table

Growth with Income	Symbol	Price	Yield	Action	Limit *
Chevron	CVX	\$167.29	4.09%	BUY	\$175.65
Cisco Systems	CSCO	\$61.71	2.59%	BUY	\$64.80
Halliberton	HAL	\$25.37	2.68%	BUY	\$26.64
Invesco Consumer Staples ETF	RSPS	\$30.82	2.79%	BUY	\$32.36
Exxon Mobil	XOM	\$118.93	3.33%	BUY	\$124.88
RLJ Lodging	RLJ	\$7.89	7.60%	BUY	\$10.75
RLJ Preferred A	RLJPRA	\$24.40	7.99%	HOLD	\$25.00
Valero	VLO	\$132.07	3.24%	BUY	\$138.67
Growth	Symbol	Price	Yield	Action	Limit *
Genomic Revolution Multi-Sector	ARKG	\$20.76	0.00%	BUY	\$21.80
Golbal Robotics & Automation ETF	ROBO	\$51.50	0.23%	BUY	\$54.08
Invesco Basic Materials ETF	RSPM	\$31.74	2.14%	BUY	\$33.33
Invesco Health Care ETF	RSPH	\$29.75	0.67%	BUY	\$31.24
Invesco Small Cap Industrials ETF	PSCI	\$118.80	0.80%	BUY	\$124.74
JP Morgan Chase	JPM	\$345.30	1.45%	BUY	\$362.57
Moderna	MRNA	\$28.35	0.00%	BUY	\$29.77
S&P 500 Equal Weight ETF	RSP	\$173.23	1.53%	BUY	\$181.89
Virtus LifeSci Biotech Products	BBP	\$58.62	0.00%	BUY	\$61.55
Hedges	Symbol	Price	Yield	Action	Limit *
ProShares UltraShort S&P 500	SDS	\$21.48	0.00%	BUY	\$22.55
ProShares UltraShort Russell2000	TWM	\$53.85	0.00%	BUY	\$56.54
ProShares UltraShort Pro Russell2000	SRTY	\$24.73	0.00%	BUY	\$25.97

* **Note to the table:** The right hand column is the highest recommended price limit for purchases.

General Comments: Our statistics are based on the assumption that \$10,000 is invested in each position. When a new position is added, we assume the same \$10,000 amount is invested in the new recommendation. When we recommend adding to a particular position, as we have done over the years, we assume another \$10,000 is invested again in that position.

If you are picking and choosing, you can focus on the sector of the portfolio that matches your investment objectives. Alternatively, you may have a higher degree of comfort with certain industries, funds, or stocks because of past experience or your profession. In that case, you may want to invest more heavily in one sector, or in one or more individual recommendations.

As always, broad diversification will temper volatility, add to safety, and improve long-term performance.

Business Cycles and Stocks: The SoundAdvice Diffusion Indexes

Track Record of the SoundAdvice Diffusion Indexes

Drugging the last 49+years, after each “Aggressive” signal, the S&P 500 climbed an average of 31.5 percent. During “Caution” signals, the S&P 500 either crashed, meandered, or climbed, recording an average decrease of 0.6 percent.

Signal Dates (Month-Year)			
Aggressive	S&P 500	Caution	S&P 500
Sep-74	68.12	Apr-76	101.9
Jul-76	104.20	Dec-76	104.7
Oct-78	100.58	Jun-79	101.7
Nov-79	100.00	Oct-83	167.7
Aug-84	164.48	Jun-85	188.9
Jul-86	240.18	Aug-87	329.4
Feb-88	258.13	Jun-88	270.7
Mar-89	280.00	Mar-93	449.7
Mar-95	493.15	Dec-98	1,141.0
Jun-00	1,429.40	Dec-00	1,320.3
Jun-03	974.50	May-05	1,191.5
Jun-06	1,276.66	Mar-08	1,325.4
Dec-08 (1)	865.58	Apr 10 (2)	1,197.3
Sep 10 (3)	1,122.08	Jun 12 (4)	1,359.8
Sep-12 (5)	1,437.82	Nov 14 (6)	2,044.6
Mar-15	2,079.99	May-15	2,111.9
Sep-17	2,492.84	Feb-18	2,705.2
Mar-20 (7)	2,761.98	Nov 21 (8)	4,667.4
Dec-22	3,912.38		
Ave +/-	31.5%		-0.6%

Quantitative Easing (QE) Overriding Signals

- (1) QE-1 announced 4 months before Aggressive signal
- (2) QE-1 terminated into existing Caution signal
- (3) QE-2 announced but already in Aggressive mode
- (4) QE-2 terminated into existing Caution signal
- (5) QE-3 announced, changed to Aggressive mode
- (6) QE-3 terminated into existing Caution signal
- (7) QE-4 announced, changed to Aggressive mode
- (8) QE-4 terminated into existing Caution signal

The Risk Indicator (page 11) reveals long macro cycles. An analogy can be made to the way radio waves work. Long radio waves have frequencies which are assigned to various radio stations, allowing you to distinguish them on your radio. Riding along the path of these long waves are short waves that produce the sound you actually hear on a particular station. These short waves are like the bull and bear markets revealed by the Diffusion Indexes.

While the path of the long cycles revealed by the Risk Indicator may be in a certain direction, there are bull and bear markets along the way. Of course, these relatively short bull and bear markets are significant during our investing careers. Even during times when the Sound Advice Risk Indicator is above the “low risk” reading, such as it is now, there have been substantial bull markets. We will rely on our Diffusion Indexes to reveal when that will be.

The data we need is contained in the leading and lagging economic indicators. 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.

To construct our *Sound Advice* Diffusion Indexes, we observe changes in each of our selected indicators over a five-month period, and take the percentage of those increasing.

When the *Sound Advice* 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. When all three the leading economic indicators decline compared to five months earlier, it reveals that the soft economy is providing an atmosphere for declining short-term interest rates. This Diffusion Index gave us a zero reading in December 2008, close to the bottom, officially giving us an “Aggressive” signal. That signal came at a time when the Risk Indicator was below 1.0, which revealed that Supercycle 5 came to an end, and that Supercycle 6 was born.

The *Sound Advice* 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 reading reveals that the US economy is strong enough to put upward pressures on interest rates.

A Powerful Overriding Force

Most of the time, the Diffusion Indexes are excellent detectors of the natural business cycle and a path to the science of making money in the stock market. However, the forces of the natural business cycle can be dominated by extraordinary changes in monetary policy during emergency situations.

The COVID-19 pandemic was the most recent example. In mid-March 2020, the Federal Reserve declared the institution of its fourth “Quantitative Easing” (QE) program whereby it dropped the Federal Funds rate to zero and commenced buying massive amounts of US Treasury bonds. With its mighty power, the Fed drove down interest rates and infused massive amounts of liquidity into the US economy. The money supply mushroomed.

At times like this, we need to ignore readings from the Diffusion Indexes. Interest rates are dropping by the Federal Reserve’s mandate, just as if the Diffusion Index of Leading Indicators had plunged

to zero. Conversely, whenever the Federal Reserve declares an end to its QE program, we return to our Diffusion Indexes to follow their readings. If the Diffusion Index has moved to a “Caution” signal during the QE program, we should follow that reading. This is the most likely pattern of events because the economy will likely have strengthened in order for the Federal Reserve to end its QE program.

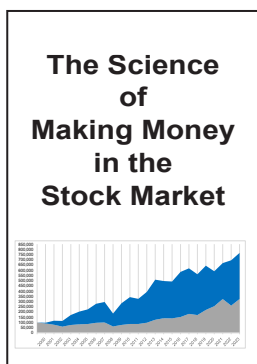
The impact of the Federal Reserve’s four QE programs on existing Diffusion Index signals are noted in the footnotes under the track record table.

Current Status

The latest leading leading and lagging economic indicators were published in late March for the month of February

Our current “Aggressive” mode was established by a zero reading for the Diffusion Index of LEADING Indicators in December 2022 based on the indicators for November 2022. The latest reading is 84 percent.

Our next signal will be a “Caution” signal from a 100 percent reading on the Diffusion Index of LAGGING Indicators which recorded 67 percent based on the latest indicators.



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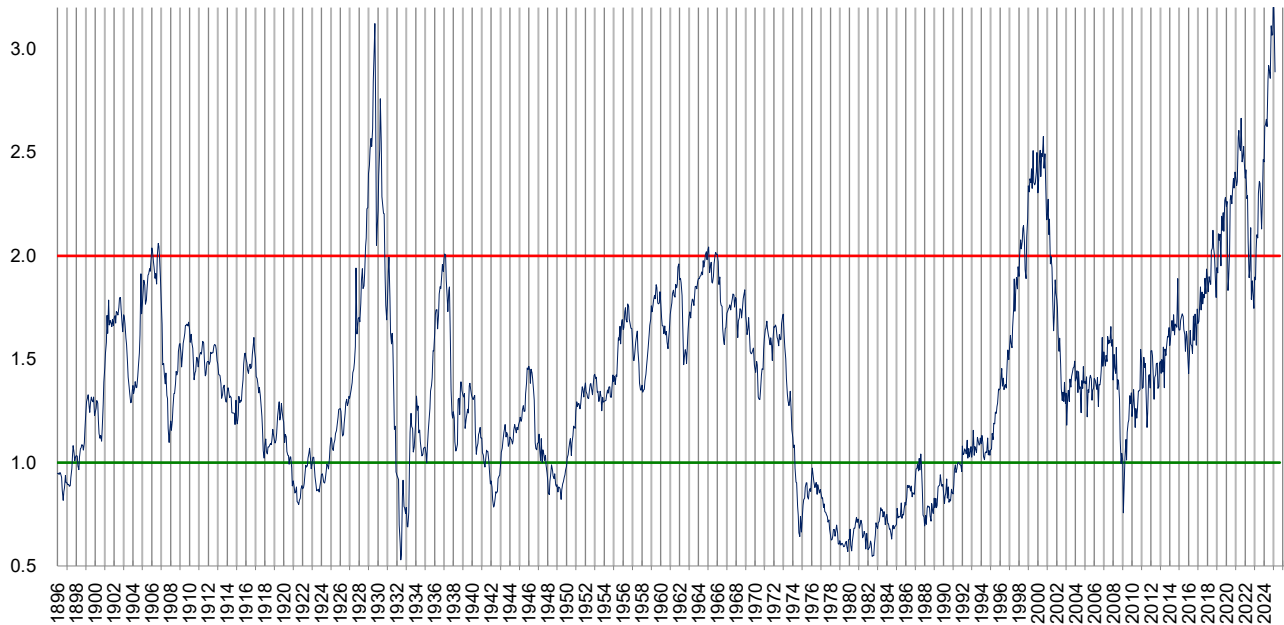
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Capital Competition: Real Estate versus Stocks: The SoundAdvice Risk Indicator



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 120+ 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 based on the ratio of the S&P 500 Stock Index to median price of new houses 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 label this new tool the **Sound Advice** "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 under performing the other market.

What is too high? When stock prices are very high relative to house prices, the **Sound Advice** 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 **Sound Advice** 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.

But though an investment beginning with \$25,000 in 1895 could have made money being in either stocks or housing, had an investor followed the signals of the **Sound Advice** Risk Indicator, he or she would have made \$593 million versus \$33 million by simply holding stocks through the ups and downs, or 17 times more money.

With the latest median house price at 427,400 in January 2025 (the latest data) and with the S&P 500 averaging 5,684 in March, the **Sound Advice** Risk Indicator read 2.89.

The New York Times

"Cardiff's equation reveals an elegant financial minuet as each market takes turns outperforming the other."