Sound**Advice**

Advising Investors for 29 years | September 2017 Issue | September 1, 2017

Adding Intel to the Portfolio

Gray Emerson Cardiff, Editor

The *Sound Advice* Portfolio is up 4.5 percent so far this year. We have an average profit of 67 percent based on the prices at which each position was recommended. We have been, and remain in a cautious and defensive mode.

The *Sound Advice* investment returns in prior years have been calculated independently by the Hulbert Financial Group. They are as follows:

18.69% in 2016 vs.
9.54% from the S&P 500

From 2000-2016
10.30% Annually vs.
2.37% from the S&P 500

We usually shy away from hi-tech stocks, and certainly new companies with cutting edge products. While they sound interesting and exciting, it is usually just a matter of time before competition floods the market with the next, newly improved generation.

Although, **Intel (INTC)** is a high-tech company, it is anything but new. In fact, it is a well-established leader in micro-processing chip innovation and production. With its extensive research and development (R&D), Intel has a one to two year lead over the rest of the chip industry.

Why Now?

Despite Intel's leadership in micro-processing, the company missed the mobile revolution while focusing on a declining PC market. In 2016, Intel laid off 15,000 jobs, and spun off 51 percent of McAfee, its PC-based anti-virus system.

Lackluster earnings growth in recent years has pulled the stock price down to where it is now. It is cheap, especially in relation to the rest of the market.

With its most recent second quarter earnings report, the company provided a 2017 earnings guidance of $3.00 per share. That puts the current price/earnings (P/E) ratio below 12, which is a low P/E by itself, and considerably below the rest of the market. The current dividend yield is also above 3%, which lowers the risk profile, and is even more than the yield on 30-year Treasury bonds.

Of course, just because INTC is cheap is not a good enough reason to invest. However, the company has been making significant changes that are now leading to renewed growth, and is bound to generate stronger growth in the foreseeable future. These stronger growth prospects make INTC undervalued at its current price.

Second Quarter Growth

Emerging growth was visible in the second quarter earnings report. Overall, sales were up 9 percent on increasing revenue. The Client Computing Group posted a 12 percent increase in sales. The Data Center Group posted a 9+ percent growth rate, with cloud-based revenue up 35 percent. The Internet of Things Group (devices connected to the internet ranging from autos to home thermostats) saw sales climb more than 25 percent. The Non-Volatile Memory Solutions Group had sales soar 58 percent. (Non-Volatile Memory has the task of long-term storage, as opposed to the "volatile" form of random access memory [RAM] that is lost when a computer is shut down.)

Recent Acquisitions

The company has made significant acquisitions recently that position the company for what is bound to be substantially stronger growth. In 2015, Intel purchased Altera, which makes programmable logic devices which provide data centers to adapt with better abilities to customize their computer servers. The benefits of this acquisition became apparent from the second quarter growth of the Data Center Group.

The Altera acquisition exemplifies Intel's strategy of leveraging the technology of an acquired company into its own platform. Processors for data center servers employ similar technologies to those designed for personal computers (PCs). Accordingly, the overhaul is minimal for shifting from PC micro-processors, with declining volume and profit margins, to those used in data centers where profit margins are higher and growth is well-entrenched from the expanding use of cloud computing.

Mobileye

The other significant acquisition is for Mobileye, a leading provider of assisted-driving software. The announcement of the acquisition, earlier this year, put a damper on INTC because the $15.3 billion purchase price was high in relation to Mobileye's relatively small current revenue. However, Intel management expects Mobileye's revenues to have an immediate positive effect on Intel's earnings. As in the Altera acquisition, Intel is planning to leverage Mobileye's technology with Intel's, providing a boost to most of Intel's business sectors.

The Mobileye acquisition launches Intel into the burgeoning assisted-driving and autonomous vehicle arena, and extends to markets for autonomous ships, plans, drones, and a wide range of weapons.

Mobileye EyeQ software chips are currently used by 90 percent of the world's auto makers. Current uses include automatic braking in emergencies, along with tracking driving lanes and providing warnings when a vehicle strays. Mobileye has also been selling its chips to auto makers for high-definition mapping, in order to locate a car's proximity to traffic signs, lane markers, and other features.

As Tesla, Model S and Model X, drivers will attest, hands-free driving is already in use on well-marked roads and freeways. Tesla, along with Audi and Cadillac, relies on Mobileye's camera-based software.

As data is gathered by the cameras and sensors on more and more modern cars driving around, and the data is crunched into digital maps that are readable by micro-processors, automated driving will burgeon. This is a pathway to growth for the Intel's new Mobileye technology.

Artificial Intelligence (AI)

In addition to its acquisitions for synergistic technology, Intel is investing heavily in artificial intelligence (AI), and has begun offering products from its AI Products Group. These products include Intel's Xeon Scalable Processors used to optimize workloads in high-demand cloud computing infrastructures, its Nervana hardware used to optimize density for AI workloads, and its Movidous Neural Compute Stick for compiling, tuning, and accelerating neural networks.

The Debt

Acquisitions and R&D come at a price, and prices are often paid for by the issuance of debt. Intel is no exception, which means we should be cognizant of Intel's debt load, which currently stands at $32 billion. The Mobileye acquisition is expected to close this year, which will add $13 billion of debt, bringing the total to $45 billion.

As large as this number sounds, it is relatively modest in comparison to Intel's $23.4 billion of annual EBITDA (earnings before interest, taxes, depreciation, and amortization). This ratio is a commonly used yard-stick for putting a company's debt into context.

Safe Growth

The size, diversity, and industry dominance of Intel offers a relatively safe investment in a high-growth, and often high-risk business. Intel can leverage new technology into its existing large platform without introducing unacceptable risks. A history of established cash flow and an attractive dividend, along with the currently low P/E ratio, diminishes the risk profile of the stock. Yet, substantial growth prospects have been introduced that now justify a higher P/E and thus, a higher stock price.

We are adding **Intel (INTC)** to the portfolio because it has a favorable risk/reward ratio – low risk with high growth potential.

Portfolio Updates

We must keep in mind that the market delivers returns in waves, and not in measured doses. We have already had a long wave up. The *Sound Advice* portfolio is currently designed with a cautious approach, as suggested by the "Caution" signal in force by the *Sound Advice* Diffusion Index of Lagging Indicators (page 11) which is telling us that the stage is set for rising interest rates.

Energy & Natural Resource Selections

The US Energy Information Administration (EIA), the agency in charge of collecting data, projects that worldwide demand will be increasing in 2018. However, improved technology in the US oil patch is bringing down costs and continues to stimulate production. This EIA calculates that increasing demand will absorb the added supplies, but not by a large margin. This outlook translates to flat oil prices for the foreseeable future. However, beneath this stagnant forecast, there are trends that should be beneficial to certain sectors of the industry, and our portfolio selections are selected with these in mind.

Chesapeake Energy (CHK) has a portfolio of close to 8 million net acres of oil and gas assets inside the US, in the Powder River Basin, Eagle Ford, the Marcellus and Utica shale, along with the Haynesville/Bossier and Anadarko Basin regions. The company expects oil output to grow by

10 percent this year with the goal of doubling it in 2018.

CHK is well situated to participate in the resurgence of the shale drilling boom because it is a domestic producer. CHK has reported total earnings of 57 cents for the previous four quarters. The consensus is that CHK will earn 65 cents per share in 2017. A forward P/E ratio of 10 puts the stock at $6.5. A forward P/E ratio of 15 puts the stock close to $10.

Chevron (CVX) has a huge reserve base and production is set to increase from several areas, including the two massive Australian projects, the Gorgon and Wheatstone, both of which have required large capital outlays that are no longer needed in CVX's forward-going cap-ex budget. Other significant revenue is bound to come from CVX's large, 1.5 million acre position in the prolific Permian Basin which could likely see an eightfold increase to 700,000 barrels of oil per day.

Chicago Bridge & Iron (CBI) reported a substantial second quarter loss in early August. As we noted in our update the day after the announcement, the expectation among analysts was that CBI would earn 85 cents per share. We were blindsided by the unexpected loss, along with analysts and the market. CB&I announced the elimination of its dividend, new cost-cutting measures, and the sale of its Technology segment which the company believes "will unlock significant value for stakeholders." The sale proceeds will be used to reduce senior debt to "significantly enhance CB&I's financial strength and flexibility".

The loss in the second quarter stemmed from $548 million in charges which swamped positive earnings and resulted in a net loss of $304 million, or $3.02 per share. The charges were related to four Engineering & Construction projects. (The remainder of the $10.4 billion backlog of projects continued to perform profitably.)

The underlying problem with two of the projects (the IPL Eagle Valley project in Indiana, and the Calpine in Pennsylvania) was low productivity with the direct-hire union workforce. The company has been replacing this workforce with specialty subcontractors which is resulting in improvements. In the company's earning call, CEO Patrick Mullen made assurances that steps are being taken to stop the pattern of recurring charges.

The losses for the other 2 projects (in Hackberry, Louisiana, for Cameron LNG and in Freeport, Texas, for Freeport LNG) were because of lower labor productivity, weather-related delays, increased costs for fabrication and craft labor, along with subcontractor and indirect costs associated with extensions of schedule. Most of the losses were with the Cameron LNG project. The company is working with Cameron towards finalizing claims for the recovery of certain costs. The problems related to the Freeport LNG project are substantially over.

Patrick Mullen took over as CEO on July 1 and is "resetting" the company culture by enhancing execution and the risk management processes, optimizing interface management, and accelerating innovation. He is also focusing on driving growth by improving customer collaboration.

The other primary objective is to strengthen the company's balance sheet. The company has decided to sell its Technology business which will likely result in sale proceeds in excess of $2 billion which, after taxes, could be used to virtually eliminate the company's $1.8 billion of debt. The intent is to negotiate a long-term strategic alliance with the ultimate buyer.

As we said in our August update, naturally, we are disappointed with the performance of this stock. What once appeared to be a solid investment, with the company and analysts projecting 2017 earnings north of $3.00 per share, has now reported losses in both the first and second quarter. Based on the company's plans for moving forward, we expect earnings prospects to improve, especially for 2018. At this point we believe that the best course of action is to hold on for now, and wait for a brighter day ahead.

ICON Energy Fund Class S (ICENX) is also a diversified way to participate in the expansion of the energy sector with a basket of substantial companies. The hallmark of this fund has been its ability to look for changes within the energy sector to capture value, rather than simply depending on rising oil prices. This fund is a good way to capture today's values and profit from the recovery and changing landscape on a diversified basis with professional management.

Valero Energy (VLO) climbed as hurricane Harvey approached the Gulf coast and threatened the domestic hub of refineries located there. Although Valero has refineries in the region, the market saw a greater benefit to VLO coming from the widening crack spread – the difference between the price of oil and the price of gasoline and other refined products. As the storm approached, gasoline prices rose in anticipation of refineries shutting down. Oil prices also declined as demand from refiners was expected to decline. Of course, these near-term events are impossible to predict but interesting to watch because the moving parts of an industry are revealed.

For the longer run, Valero is in a unique position to benefit from a US conundrum. Prior to the US shale revolution, most US refineries were constructed to process imported oil which is a heavy (thick) and sour (high sulfur) grade. The oil from fracking US shale cannot be processed at these refineries because it is light sweet crude. Additionally, refineries on the east and west coast do not have access to the US crude oil pipeline network, so they must rely on imported oil arriving in US ports for their feedstocks. This is evidenced by the fact that we are still importing nearly half of our oil needs, while US storage tanks in Cushing, Oklahoma, are brimming with the light sweet crude fracked from US shale.

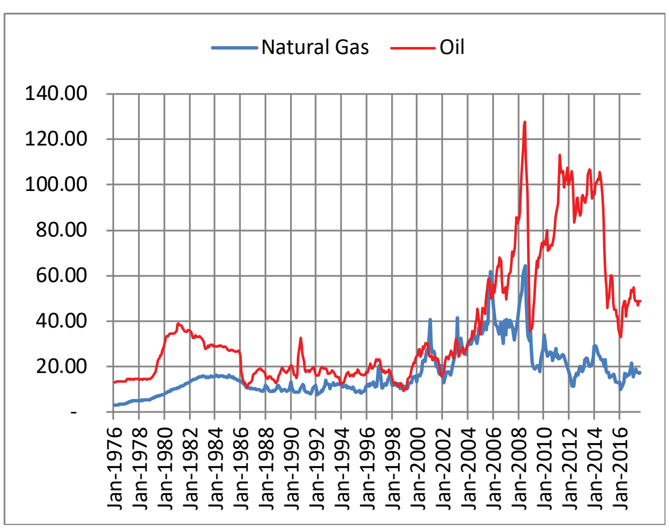
Valero is well-positioned to take advantage of this conundrum because it has the flexibility to refine substantial quantities of both US light sweet as well as heavy sour crude. It also has access to the US pipeline network for delivery to its gulf coast locations.

This flexibility allows VLO to capture the highest margins among its competitors. It can take advantage of the best discounts for its feedstocks, whether it's low or high-quality crude, or light sweet or heavy sour.

Fidelity Select Natural Gas Fund (FSNGX) is a diversified way to participate in the growth of the natural gas industry through strong companies. Natural gas provides the same energy as oil for pennies on the dollar, and natural gas is more environmentally friendly. One barrel of oil provides approximately 5.8 million British Thermal Units (BTUs) of energy. At the current price of $47 a barrel, that is the cost of 5.8 million BTUs. However, with the current market price for natural gas at $3.04 for one million BTUs, 5.8 million BTUs will cost $17.63. Thus, the same amount of energy is available for approximately 36 cents on the dollar, if it is in the form of natural gas rather than oil.

The updated chart 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 Cost of Energy Equivalents of Oil and Natural Gas



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. The fact that natural gas provides energy for pennies on the dollar will translate into an expanding natural gas industry.

Real Estate Selections

Commercial real estate prices are historically high because low interest rates have pushed down real estate cap rates to historically low levels (like bond yields). Accordingly, our posture is still defensive with regard to real estate stocks. The *Sound Advice* portfolio only includes real estate stocks offering an extraordinary value now. Two currently exist in the hospitality industry.

Hersha Hospitality (HT) has completed its upgrading cycle. As future quarters are included, the trailing income will include upgrades to the portfolio, which is bound to cause the net operating income and the net asset value to increase.

During the last several years, Hersha has reported several hotel transactions at cap rates ranging from 5.4 to 8 percent. To be on the conservative side, we can establish a "Main Street" cap rate at the high end of this range of 7.5 percent for valuation purposes.

Based on the latest trailing four quarters' financials, including the most recent 2017 second quarter, and using a 7.5 percent cap rate to evaluate the company's real estate portfolio, we value HT at $19.55 per share which is higher than the current price. The dividend yield is attractive and lowers the risk profile.

RLJ Lodging Trust (RLJ) is selling at a steeper discount to its hotel assets than HT. Based on the latest trailing four quarters' financials reported, including the most recent 2017 second quarter, and using a 7.5 percent cap rate to evaluate the company's portfolio, we value RLJ at $41.25 per share which is considerably higher than the current price. The high dividend yield is attractive and lowers the risk profile.

In August, the merge with FelCor Lodging Trust (FCH) was approved by 78 percent of RLJ stockholders. The combined company will have an ownership interest in 160 hotels, providing RLJ a footprint on the West Coast and strengthening its position across the eastern and southern United States. The company's 31,467 room portfolio will cut across 26 states and D.C., with brands including Marriott, Hilton, Hyatt, and Wyndham. As part of the merger, RLJ is expected to save roughly $22 million from the elimination of duplicative corporate general and administrative costs.

Each share of FelCor common stock will be converted into 0.362 shares of newly issued common shares of RLJ stock. Accordingly, the price on the above table for FCH is 0.362 times the current price of RLJ, which is the effective

Hospitality REITs Comparison Table

Company Name	Symbol	Recent Stock Price	Dividend Yield	Stock Market Cap Rate	Value @ 7.5% Cap Rate ($Millions)	Stock Value	Discount (-) Premium (+)
RLJ Lodging	RLJ	20.18	6.5%	13.1%	6,264.6	41.75	-51.7%
Felcor Lodging	FHC	7.31	6.5%	9.0%	2,617.1	11.17	-34.6%
Hospitality Properties	HPT	27.36	7.5%	10.5%	11,445.5	47.26	-42.1%
Hersha	HT	18.54	6.0%	8.8%	2,286.7	19.55	-5.2%
Host Hotels & Resorts	HST	18.12	4.4%	10.3%	22.2	26.30	-31.1%
Apple Hospitality	APLE	18.18	6.6%	8.3%	5,862.4	20.62	-11.8%

The table above shows the "Stock Market Cap Rate" (what the stock price is paying for the underlying real estate portfolio) for several comparable hospitality stocks. The "Stock Value" column shows the current value of the stock assuming the underlying portfolios are valued using a cap rate of 7.5 percent, which is close to the average cap rate on recent hotel transactions. The last column shows the discount or premium at which the stock is trading based on a 7.5 percent cap rate valuation of each company's real estate portfolio.

Hospitality Properties (HPT) has the second largest discount. However, this company is externally managed by RMR which charges high fees and suppresses value. As long as RMR continues to externally manage HPT, we do not expect to see significant growth. **Host Hotels and Properties (HST)** is very small, with only 749 thousand shares outstanding, which may lead to excessive volatility. Growth may be limited by its small capitalization.

price RLJ is paying. The merge is expected to close in September.

Third Avenue Real Estate Value Investor Fund (TVRVX) is a global real estate fund which means it is not confined to US real estate with low cap rates. 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 searches for opportunities in different aspects of a real estate company's capital structure by investing in senior debt in addition to equity. Also unlike the typical REIT, management will go to cash when asset prices are generally high. Cash is preserved for scooping up opportunities.

TVRVX is loaded with good values substantially below net asset value (NAV) with strong growth prospects. Management has a similar approach to ours because it is very price conscious, especially in relation to net asset value. Just as we do at *Sound Advice,* they eat their own cooking – they invest a substantial amount of their personal assets into their funds.

Medically-Related Selections

The cloud of uncertainty still blankets the healthcare industry as long as the repeal and replacement of the Affordable Care Act (Obamacare) is still ongoing. We are comfortable with our current recommendations in this sector based on their own individual merits.

Boston Scientific (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's medical products are well suited for an aging population.

Stryker (SYK) is best known for its orthopedic devices for artificial knees and hips, the company provides a diverse array of innovative medical technologies, including reconstructive, medical and surgical, as well as neuro-technological and spine products.

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 give it avenues for continued diversified growth through acquisitions.

Tekla Life Sciences Investors (HQL) is an excellent way to invest in the most explosive profits in the healthcare industry with a portfolio of biotech companies. Over the last 15 years, biotechnology has become a major industry and the source of the world's top breakthrough drugs. Biotech companies tend to be high risk and high reward investments which makes diversification essential.

Financials

The Federal Reserve's most recent "Stress Test" on US banks revealed that US banks have sufficient levels of capital to weather severe situations similar to those of the 2008-09 melt-down. Our two recommended banks were given the stamp of approval to proceed with their respective dividend increases and share buyback programs.

JP Morgan Chase (JPM) reported strong earnings for the second quarter, mainly as a result of strong loan growth and higher interest rates. The earnings estimate for 2017 is now $6.82 per share. Strong growth is expected in the immediate years ahead. JPM is expected to earn $7.72 per share in 2018. At a forward P/E ratio of 15, JPM would be $116 by the end of 2018. JPM is still currently cheap in comparison to the rest of the market.

JPM has maintained solid capital levels and has a strong balance sheet. The company has a common equity “Tier 1 ratio”, well exceeding minimum requirements. JPM did not have a losing quarter during the 2008-09 meltdown. As a result of passing the latest Federal Reserve Stress Test, JPM increased its quarterly dividend to 56 cents per share and is proceeding with a $19.4 billion share buyback program.

Wells Fargo (WFC) also had a favorable second quarter earnings report, and raised its expected earnings to be $4.16 per share in 2017. Earnings are expected to be $4.48 per share for 2018. At a forward P/E ratio of 15, WFC would be $67 in 2018.

After passing the latest Stress Test, WFC increased its quarterly dividend to 39 cents per share and is proceeding with its $11.5 billion share buyback program.

Small Caps

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 quite profitable. Numerous studies show that small caps perform better over the long run than the market as a whole.

Third Avenue Small-Cap Value Investor Fund (TVSVX) invests in companies with small capitalizations using the same value-oriented approach as it does with its real estate value fund (TVRVX). Management scours the investment universe for companies that combine the three main features: creditworthiness, a meaningful discount to a conservatively estimated net asset value, and the ability to consistently grow 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.

Special Situations

The rest of our portfolio falls into other market sectors, with companies that are presenting extraordinary values within their respective industries. Here they are in alphabetical order.

Apple (AAPL) is close to releasing its new iPhone 8, inaugurating a badly-needed upgrade cycle. The iPhone 8 is rumored to recognize the face of its authorized user. To compete with Samsung, Apple’s fiercest competitor, the iPhone 8 will be waterproof.

The company has a pristine balance sheet, with as much cash as long-term debt. The company carries the highest A++ financial rating.

Conduent (CNDT) was the growth side of the old Xerox, with expertise in transaction-intensive processing, analytics, and automation. This side of the business had an 86 percent contract renewal rate. CNDT is a turnaround company with fresh new management and specific growth goals. Carl Icahn still holds 9.77 percent of the stock, which means he has influence and a reason to see growth. Icahn has 3 directors on the 9-person board with a focus on shareholder performance.

International Business Machines (IBM) was included in the August release of a 32-page paper written by Morgan Stanley analysts, that cited IBM has having one of the most credible road maps to quantum computing. Unlike binary computing that performs one calculation at a time, quantum computing can theoretically perform millions at the same time by simultaneously observing multiple states of atoms, ions, photons, and electrons. Such computing power will ultimately be a leap forward into the use of computers that is not possible now.

IBM is not priced like a growth stock, but it is turning into one. Watson, the Company’s super computer, is the closest thing to artificial intelligence because it can “think” like a human. Watson cognitively scans a world of data and applies relevant information to what it learns about a company’s business and systems to create new revenue streams, reduce expenses, and make existing operations more efficient. IBM is the leader in that field and on a solid path to provide a growing abundance of opportunities in the months and years ahead.

The company now expects 2017 earnings to be $13.80 per share, which is in line with the consensus of analysts.

Sound Advice is published monthly by S.A. Newsletters, LLC. ©2017 S.A. Newsletters, LLC. Editor: Gray Emerson Cardiff. Executive Editor: Linda Cardiff. Subscription rate: $99 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.

IBM is a good value now. The $6.00 annual dividend provides a dividend close to 4 percent and puts a floor under the stock because the yield would become even greater if the price of the stock declined. The stock is selling at a P/E ratio substantially below the market. A P/E ratio of 15 puts the stock above $200 per share.

NCR Corp (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.

The company's 2017 earnings guidance is in the range of $3.32–$3.42 per share. At a P/E ratio of 15, the stock belongs close to $50 per share.

Symantec (SYMC) is the world's leading cyber security company offering organizations strategic, integrated solutions to defend against sophisticated attacks across endpoints, cloud, and infrastructure. Symantec operates one of the world's largest civilian cyber intelligence networks, allowing it to see and protect against the most advanced threats. If there ever was a more certain growth industry, protection from cyber espionage is it.

In August, Symantec introduced a special kind of router, called Norton Care, that is designed to protect everything from your PC (and Mac) to your smartphone, and even other Internet of Things connected to the internet, from attacks from hackers or malware. It also features parental controls to prevent your kids from accessing inappropriate websites.

Tetra Tech (TTEK) is a leading company in water technologies and environmental remediation. The acquisitions of Coffey and INDUS corporations have swelled TTEK's backlog of contracts and increased prospects for more Federal contracts in the IT sector. The company's backlog is now $2.3 billion, which reveals a robust pipeline with major governmental organizations like the US Department of State, Environmental Protection Agency (EPA), US Army Corps of Engineers, and the US Air Force, which should continue to bolster growth. TTEK has a very healthy balance sheet.

In August, Tetra Tech received two more contracts from the EPA, one for $60 million and the other for $113 million.

Xerox (XRX) is rolling out 29 new products aimed at mid-size companies which are stronger growth targets than large-scale businesses. An area of focus is "smart-label" technology directed at food and drug companies. Smart labels are printed electronic circuits that allow items to be identified and tracked in real time. They can be produced for a fraction of the cost of silicon sensors and used on small packages. This is a wide-open and high-growth market.

Xerox has new separate leadership and goals, since the spin-off of Conduent (CNDT), which is bound to translate into better focus execution. CEO, Jeff Jacobson, is bringing a new enthusiastic corporate culture and a three-year strategy for growth. XRX is still cheap relative to the rest of the market, especially with new growth paths to be implemented under the watchful eyes of Carl Icahn who holds 9.77 percent of the stock. The company's full year 2017 earnings guidance is from $3.20 to $3.50. At the current stock price, the price/earnings ratio is below 10 which is substantially below the market average. The dividend yield is also attractive.

ETFs for Rising Interest Rates

To pull the economy out of the 2008-09 melt-down, the Federal Reserve instituted three massive rounds of "Quantitative Easing" (QE) programs. These involved buying large quantities of Treasury bonds and mortgage-backed securities.

In addition to pumping new money into the economy, these purchases pushed up the prices of these securities which forced their yields down. The downward pressure on bond yields and interest rates also stimulated the financial markets. As the Federal Reserve purchased these Treasury bonds and mortgage-backed securities, they were added to the Fed's balance sheet as assets. The Fed's assets grew by more than 5 times, from under $900 million in 2008 to $4.5 trillion.

Now the plan is to start reducing the Fed's current inventory of $2.8 trillion of Treasury bonds and $1.8 trillion of mortgage-backed securities. The reversal of quantitative easing will amount to quantitative tightening. The Fed's holdings include a preponderance of longer term bonds. The reduction of the Federal Reserve's long-term bond holdings will add a disproportionate amount of upward pressure to long-term bond yields. This means that upward pressure will be more pronounced on the long end of the yield curve. This is important because our recommended ETFs for rising interest rates are based on long-term bond yields.

Our recommended ETFs are designed to benefit from the normalization of the Federal Reserve's balance sheet and increase in long-term bond yields from their current historically low levels. They differ in the amount of leverage used. You can choose among them depending on your investment objectives and risk tolerance.

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.

The price action of these ETFs is based on the changes in long-term treasury bonds, as measured by benchmark bond indexes, only in the opposite direction, and then multiplied by the leverage each ETF uses. For example, a decline of say, 1.0 percent in their respective benchmarks will cause TMV to increase by 3.0 percent, TBT by 2.0 percent, and TBF by 1.0 percent. Conversely, an increase in their respective benchmarks 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 been using the Federal Reserve's prediction, which was as good as any. As part of the Federal Reserve's quarterly Federal Open Market Committee (FOMC) meetings, each of the 17 committee members makes a prediction regarding the future path of interest rates. Those predictions are plotted in the so-called "Dot Plot".

The most recent Dot Plot was taken at the June 14 meeting. As usual, there was a wide difference in the predictions among this group of informed experts. The median prediction was that the Federal funds rate would be 1.375 percent at the end of 2017, 2.125 percent at the end of 2018, and 3.00 percent at the end of 2019. These medians were unchanged from the March 15 meeting.

Assuming long-term Treasury bond yields move in accordance with these target points (to preserve the same yields as today's real return), long-term Treasury bonds would be yielding 3.10% by the end of 2017, and 3.85% by the end of 2018, and 4.73% by the end of 2019.

Here is what would happen to each ETF:

TMV would rise from $17.93 to $21.95 by the end of 2017, to $32.15 by the end of 2018, and to $48.33 by the end of 2019.

TBT would rise from $34.00 to $38.91 by the end of 2017, to $50.18 by the end of 2018, and to $65.87 by the end of 2019.

TBF would rise from $21.95 to $23.43 by the end of 2017, and to $26.61 by the end of 2018, and to $30.48 by the end of 2019.

The Erosion Factor

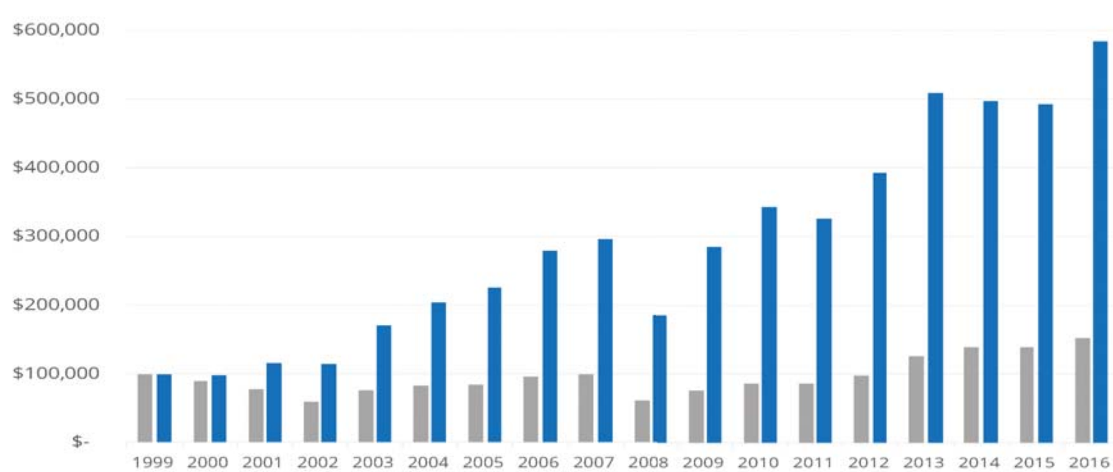
As we point out regularly, these ETFs suffer from erosion because they decline slightly faster than they increase with an equivalent change in bond yields, particularly with higher leverage. To gauge this factor, we can assume that Treasury bond yields simply tread water, rising and falling by an unusually large amount, say, 0.04 percent (4 basis points) every day, and thus go nowhere through the end of 2017. By the end of 2017, TMV would decline to $17.50 (2.4%), TBT would decline to $33.60 (1.2%), and TBF would decline to $21.82 (0.4%). While not insignificant, this erosion factor is nominal in comparison to the price swings caused by a change in bond yields.

Hedging the Portfolio

Our **Sound**Advice **Diffusion Index of LAGGING Indicators** (page 11) is warning us to be cautious. Accordingly, we are also recommending a reverse ETF that essentially short-sells the market and will benefit from down-drafts in the S&P 500.

The **ProShares UltraShort S&P 500 (SDS)** is designed to produce two times the daily fluctuations of the S&P 500 index. A decline of say, 1.0 percent in the S&P 500 will cause SDS to increase by 2.0 percent. Conversely, an increase in the S&P 500 will cause SDS to decline in the same fashion. We have been tracking SDS and confirmed that it is performing as it should, with daily premiums and discounts within 0.5 percent. It is also very liquid.

Sound Advice vs the S&P 500



This chart shows the growth of $100,000 invested in the S&P 500 (in gray), which would have grown to $152,379, versus $100,000 invested in the *Sound Advice* recommendations (in blue), which would have grown to $584,161.

Energy/Natural Resources	Symbol	Price / NAV	Yield	Action	Limit
Chesapeake Energy Corp	CHK	$3.64	0.00%	BUY	$5.50
Chevron	CVX	$107.62	4.01%	BUY	$112.00
Chicago Bridge & Iron	CBI	$12.34	2.27%	BUY	$25.00
Fidelity Select Nat. Gas Fund	FSNGX	$22.17	0.56%	BUY	$28.00
ICON Energy Fund Class S	ICENX	$11.23	0.48%	BUY	$14.50
Valero	VLO	$68.10	3.52%	BUY	$70.00
Real Estate					
Hersha Hospitality Trust	HT	$18.54	6.04%	BUY	$20.00
RLJ Lodging Trust	RLJ	$20.18	6.54%	BUY	$24.00
Third Avenue Real Estate Value Investor	TVRVX	$33.50	0.49%	BUY	$35.00
Medically Related					
Boston Scientific	BSX	$27.55	0.00%	BUY	$29.00
Stryker Corp.	SYK	$141.37	1.20%	BUY	$150.00
Tekla Life Sciences Fund	HQL	$21.72	0.00%	BUY	$24.00
Financials					
JP Morgan Chase	JPM	$90.89	2.46%	BUY	$98.00
Wells Fargo	WFC	$51.07	3.05%	BUY	$57.00
Small Caps					
Third Avenue Small-Cap Value Investor Fund	TVSVX	$21.36	0.30%	BUY	$24.00
Special Situations					
Apple	AAPL	$164.00	1.39%	BUY	$165.00
Conduent	CNDT	$16.51	0.00%	BUY	$18.50
Intel	**INTC**	**$35.07**	**3.11%**	**BUY**	**$38.00**
International Business Machines	IBM	$143.03	4.19%	BUY	$160.00
NCR Corp	NCR	$36.53	0.00%	BUY	$40.00
Symantec	SYMC	$29.98	1.07%	BUY	$31.00
Tetra Tech	TTEK	$42.60	0.85%	BUY	$46.00
Xerox	XRX	$32.27	0.87%	BUY	$35.00
ETFs for Rising Interest Rates					
ETF - Direxion Daily 20+ Yr Bear 3X	TMV	$17.93	0.00%	BUY	$25.00
ETF - ProShares Short 20+ Year Trsry	TBF	$21.90	0.00%	BUY	$26.00
ETF - ProShares UltraShort 20+ Year Trsry	TBT	$34.00	0.00%	BUY	$40.00
Hedges					
S&P 500 ProShares Ultra Short ETF	SDS	$48.50	0.00%	BUY	$56.00

This table has live prices, charts & buy limits on our website: http://www.soundadvice-newsletter.com/members

Notes to the table: The right hand column is the highest recommended price limit for purchases. Prices are as of 8/31/2017. See our website for live pricing and buy limits:

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

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.

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 under performing 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.

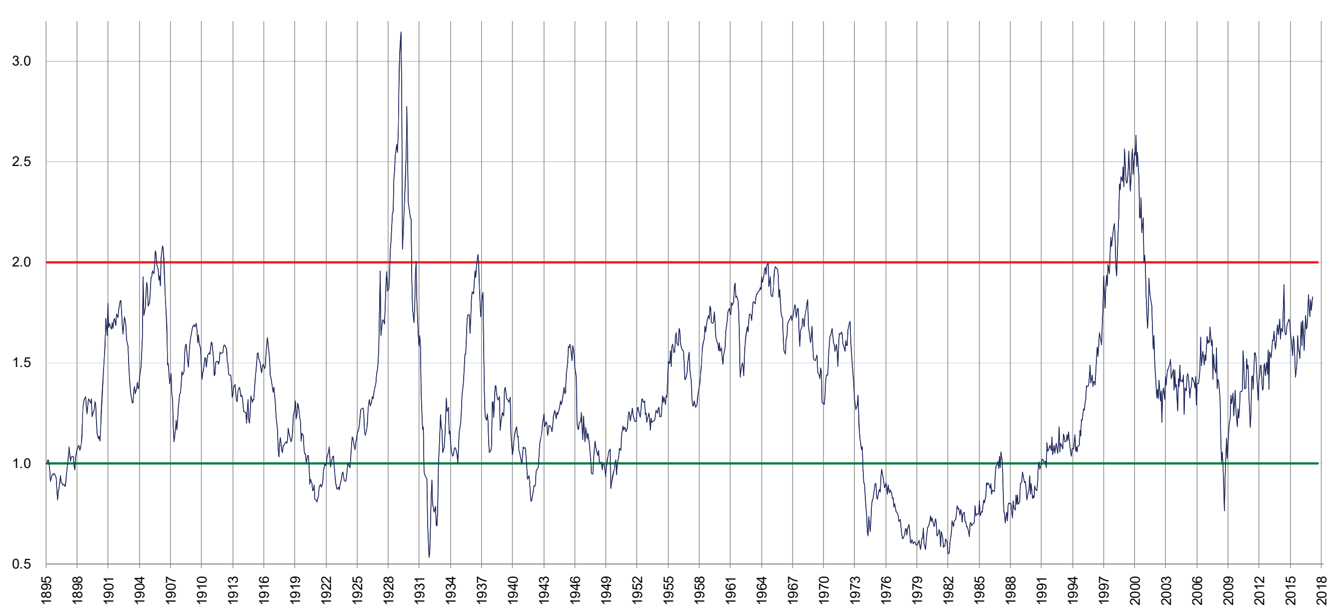
The figures show that over the entire century-plus, stock prices have outperformed housing prices. Just based on the price growth of each investment market and assuming no leverage was used, a $25,000 investment would have grown to $14.5 million in stocks and to $1.65 million in houses.

> The New York Times
>
> ***"Cardiff's equation reveals an elegant financial minuet as each market takes turns outperforming the other."***

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 $575 million, or <u>39.7 times</u> 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.

The February 2009 reading of 0.77 marked the low for this cycle as well as the beginning of Supercycle 6. **The latest reading is 1.83.** This reading reveals that stock prices are above average in relation to house prices.

The SoundAdvice Risk Indicator



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, and take the percentage of those increasing.

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 soft economy is providing an atmosphere for stable or declining interest rates.

This Diffusion Index gave us a zero reading in April, 2009, 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 **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. This reading reveals that the US economy is strong enough to put upward pressures on interest rates.

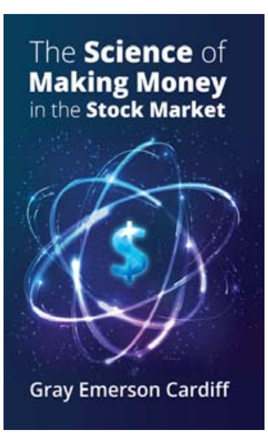
We have been operating under a "Caution" signal since the June 2015 release of the May lagging economic indicators.

The SoundAdvice Diffusion Index of LAGGING Indicators was 66.7 percent in July (the most recent data).

Our next signal will come from the SoundAdvice **Diffusion Index of LEADING Indicators** when it drops to zero. **The latest reading for July was 66.7 Percent**.

Track Record of the SoundAdvice Diffusion Indexes

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
Mar-15	2,080.0	May-15	2,111.9
Ave +/-	32.1%		3.7%



Now Available for Kindles and Ipads

The Science of Making Money in the Stock Market

This is the book that explains all of the SoundAdvice indicators, including the Diffusion Indexes and the Risk Indicator, and exactly how they work, along with a detailed history to back up the track records.

Visit the web address below or type "*The Science of Making Money in the Stock Market*" into Amazon.com's search box:

https://www.amazon.com/Science-Making-Money-Stock-Market/dp/153334471X/

Only $2.99 (Free for Kindle Unlimited). Free to share with friends and relatives.

Address Service Requested

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

Enclosed: The September 2017 Issue of SoundAdvice

(cut along dotted line)

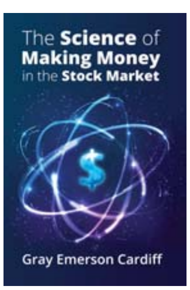
To Renew Your Subscription to SoundAdvice

Renew online: go to www.soundadvice-newsletter.com

or fax or mail in the renewal coupon below.

* Top rated by Hulbert for the best track record in both up and down markets 2000-15
* 11.3% annual return with Sound Advice versus 2.3% with the S&P 500

☐ **GREAT DEAL: 12 Month Renewal for $99.**
☐ **BEST DEAL: 24 Month Renewal for $169.**



With your renewal, you will receive the latest edition of:
The Science of Making Money in the Stock Market
This is the book that explains all of the **Sound**Advice 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 $25 ($50 for two years) to cover printing and postage costs.** (But keep me posted by e-mail between Issues about important events.)

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 Digit Number on the back of your credit card)

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