



Chesapeake Energy



The *Sound Advice* portfolio is up 17.9% so far this year, compared to the 11.5% rise in the S&P500. Twenty of the 24 *Sound Advice* model portfolio positions are up, two are unchanged, and two are down slightly. We have an average gain of 38.8% based on the prices at which each stock or mutual fund was recommended. See page 4 for a progress report on each of our recommendations.

New subscribers often ask how to approach investing in the portfolio recommendations. If you are investing in the entire portfolio, we recommend spreading allocations evenly. When we recommend adding to your position, then add the same dollar amount you first invested.

If you are picking and choosing, we advise focusing on the sector of the portfolio that matches your investment objectives; income with growth, diversified growth, energy/natural resources, or aggressive growth. Alternatively, you may have a degree of comfort with certain industries or stocks due to past experience or your profession.

Our statistics are based on an even amount invested in each recommendation. We use \$10,000 each time. If and when the stock or mutual fund is recommended again, we assume another \$10,000 is invested.

Accordingly, the investment return we quote is weighted in accordance with the number of times each position has been recommended. This is how we can best represent the track record of our recommendations.

-Gray Emerson Cardiff

The price of natural gas has continued its slide to historic lows, even dipping below \$2.00 per million British Thermal Units (BTUs) as a result of significant over-supply and low domestic demand because of a relatively mild winter. We think this is providing an excellent opportunity to lock in a great investment bargain; the kind that may not be seen in a lifetime.

Chesapeake Energy (CHK - NYSE), is an independent exploration and production company, dominant in the mid-continent region with expanding interests in the Appalachian Basin, the Barnett Shale, the Arkansas/Louisiana/Texas border area, as well as in south and west Texas, including the Permian Basin.

Chesapeake's production assets are almost entirely natural gas, which makes it a nearly pure natural gas investment. In fact, it is only second to Exxon as the country's largest natural gas producer. Of course, due to the current state of the natural gas industry, CHK has been hammered, and is trading near the low end of its 52 week trading range of \$16.72 to \$35.75 a share. In fact, the stock hasn't been this low since the melt-down in 2008 and early 2009. It was above \$35 a share as recently as mid-2011.

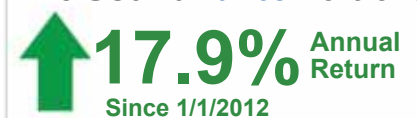
Earnings per share fell 5.7% in 2011, and were also disappointing for the first quarter, primarily due to low natural gas prices. Given the depressed state of the natural gas industry, earnings estimates have been slashed to approximately \$2.00 per share for 2012, although most analysts are projecting earnings to begin rising again in 2013 with an improving economy and strong growth in production from some of Chesapeake's assets, especially from its Marcellus, Eagle Ford, and Anadarko Basin acreage.

In 2011, CHK began a substantial shift from its emphases on natural gas to oil. Its Eagle Ford field is now producing approximately 45,000 barrels of oil per day and is ramping up its oil production so that it will likely account for close to one-third of its asset production over the next 5 years. In the event natural gas prices remain low, the increased oil production should substantially offset the stress from the natural gas sector.

Based on the increased oil production, even with protracted low natural gas prices, Morningstar recently raised its fair value estimate for Chesapeake's stock to \$32 per share.

To help reduce costs, Chesapeake invests directly in its service providers. It holds interests in the fifth-largest rig contractor in the U.S, the third-largest hydraulic fracturing company, and the second-largest compression business, along with its midstream pipeline systems. It also operates its own testing center for core sampling.

The SoundAdvice Portfolio



SoundAdvice vs S&P 500

Since 1/1/2000

\$25,000 becomes:

\$82,232

VS
\$29,836

with the
S&P500



Recent Drama

CHK announced plans to hold the controversial program that gave Aubrey McClendon, the company's founder, chairman of the board, and CEO, a 2.5% ownership program in some of the company wells by not extending the program beyond 2015. McClendon has borrowed up to \$1.1 billion dating back to 2009 to help him meet his obligations under the 2.5% ownership program. This follows the news from 2008 when McClendon had margin calls that caused him to lose most of his CHK stock. These mishaps clouded the intent of the program which was to be side-by-side with Chesapeake.

The stock surged over \$20 per share on Tuesday, May 1, when it was announced that under pressure from CHK's largest shareholders, the 2.5% ownership program was to be terminated immediately, 18 months early. This announcement was accompanied by the announcement that Mr. McClendon was to relinquish his position as Chairman of the Board while continuing to function as CEO, thus eliminating his unusual dual role.

Mr. McClendon said he supports the board's plan. "This action reflects our determination to uphold strong corporate governance standards and will also enable me to focus my full time and attention on execution of the company's strategy, the implementation of our transformation into a major oil producer and the completion of our asset monetization and joint venture objectives."

Another controversy has to do with a \$200 million hedge fund (Heritage Investors) McClendon ran while holding his position at CHK in the 2000s. Potential conflicts may have existed when the fund was long on natural gas when CHK was generally short during its hedging needs. As a producer, hedging is an industry practice, much like farmers selling futures contracts to hedge against movements in crop prices. Hedging profits have amounted to \$8.4 billion for CHK since 2006.

The Natural Gas Disparity

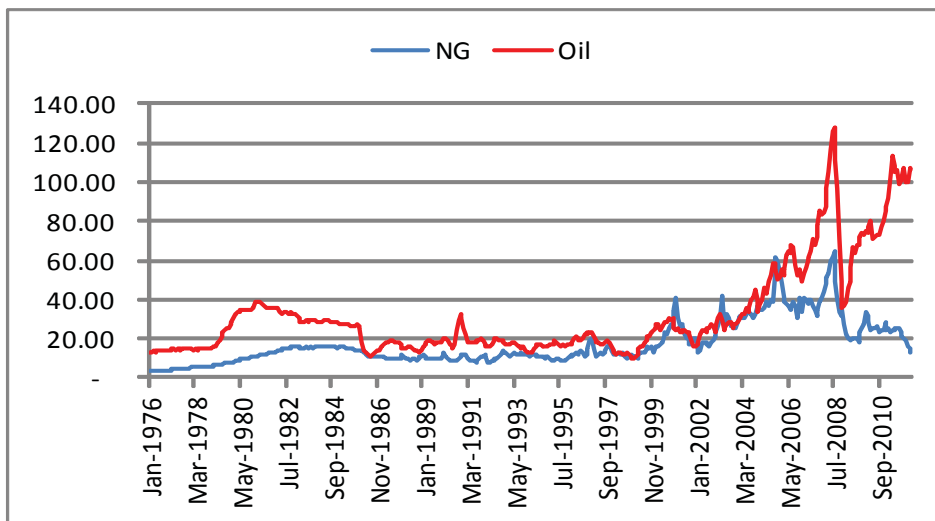
In our March Issue, we pointed out the disparity in natural gas prices in terms of its energy content versus petroleum. One barrel of oil provides approximately 5.8 million British Thermal Units (BTUs) of energy. So if a barrel of oil is say,

\$100, that is the cost of 5.8 million BTUs of energy.

On the other hand, the market price for natural gas today is \$2.00 for one million BTUs. To buy 5.8 million BTUs will cost \$11.60 (5.8x\$2.00). So the same amount of energy is available for approximately 11.6 cents on the dollar -- if it is in the form of natural gas.

As the chart below shows, this is not a normal situation. The red line shows the price of a barrel of oil since the mid-1970s. The blue line shows the price of natural gas multiplied by 5.8 to approximate the same amount of energy contained in a barrel of oil. Note that for most of the time (36 years), the two forms of energy are closely aligned. This stands to reason. After all, energy is energy, and it should cost approximately the same regardless of the form in which it comes. However, that is not the case today. Note the current yawning gap between the costs of these two forms of equivalent amounts of energy. For 5.8 million BTUs, it costs approximately \$100 if it is in the form of oil, but only \$13.17 in the form of natural gas.

The Cost of Energy Equivalents of Oil and Natural Gas



One explanation for the disparity is the fact that the market for oil is a world market, where the market for natural gas is not. Oil is transportable which makes its price subject to the world's supply and demand balance. Natural gas is not as readily transportable around the world, which makes it a continental market.

Still, energy is still energy. To the extent one form can be substituted for another, the price per BTU should be approximately the same over the long run.

The US is self-sufficient in natural gas with only 9 percent

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imported from Canada. At approximately 11.6 cents on the dollar versus oil, natural gas is bound to have a growing role in America's energy needs as well as independence from importing oil.

In view of low natural gas prices, US major producers have been cutting production. The number of rigs drilling for natural gas has dropped to the lowest level since 2009. In addition, major producers have sharply reduced capital investment for natural gas development. The drop in demand due to the warm winter is, of course, a temporary condition. The odds are that next winter will be different – they usually are.

And then there is the prospect of an improving economy. However slow and frustrating the recovery is, the fact remains that the Federal Reserve is maintaining a very loose monetary policy, and another quantitative easing is not out of the question. A significant increase in industrial demand will change the market forces substantially on natural gas prices.

Conclusions

The risk/reward ratio on Chesapeake is very favorable right now. It is no secret that the natural gas market is glutted with over-supply, and expectations are that the situation will not improve anytime soon. This means that the price of the stock already reflects a pessimistic view. This is evidenced by the fact that the stock is trading near the low end of its 52-week range of \$17.03 to \$35.75 a share.

Take a look at the chart below. The annual range of natural gas prices for each year since 2006 are over-layed in the shaded area. Prices for 2011 are shown by the blue line, and prices so far this year are shown by the red line. The current market defies history. It is hard to imagine how the outlook could be any more bleak for the natural gas industry, which means the news can only get better. That should bring us a large profit in Chesapeake Energy.

Even under dismal conditions, CHK has a lucrative asset base and a promising future. It is also trading at less than 10 times projected 2012 earnings, the estimates of which have been slashed to approximately \$2.00 per share. Value Line projects 2013 earnings to be \$3.20 per share with continued

Chesapeake Energy (CHK) Closing Stock Prices



growth thereafter.

While earnings are important, forecasts are always being adjusted and this situation will not likely be an exception. The stock is dirt cheap now, not so much because of its price relative to earnings, but rather because of the price in relation to its assets.

While the long term forces make this stock certain to be a real winner, the near term is impossible to predict and this stock may continue to be volatile over the near term.

It looks like all of the conceivable bad news is reflected in the price of the stock at this point. At this writing, the stock is back down in the area of its 52-week low.

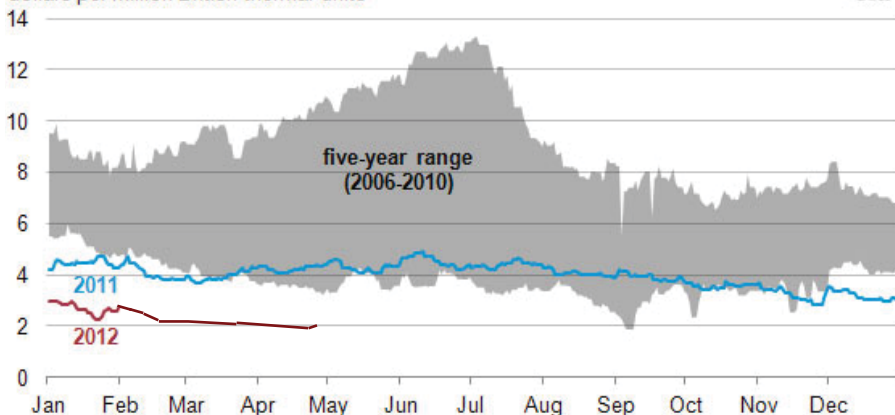
Generally volatile stocks are good candidates for dollar cost averaging (the process of investing equal amounts of money at different times as the stock moves around). We like to add to positions as prices and fundamentals dictate, so we may be recommending CHK again. For now, we recommend buying under \$20 per share.

Eurozone Update



In January we trimmed our portfolio by selling positions that would be sensitive to poor economic conditions in Europe. Conditions in Europe have deteriorated since then and are accelerating downward. Purchasing Manufacturers Indexes (PMI) dropped substantially in April across Europe, including Spain, Italy, Greece, France, and even Germany, all of which indicates Europe is going into a deep and harsh recession. Eurozone companies cut workers at the fastest rate in more than 2 years after new orders fell for the 11th straight month. Unemployment was 10.9 percent in the Eurozone in March (the latest reading available), which matches the record high of 15 years ago.

Spot Henry Hub natural gas price
dollars per million British thermal units



Portfolio Updates

The *Sound Advice* portfolio is up 17.9% so far this year, compared to the 11.5% rise in the S&P500. Twenty of the 24 *Sound Advice* model portfolio positions are up, two are unchanged, and two are down slightly. We have an average gain of 38.8% based on the prices at which each stock or mutual fund was recommended. Here is a progress report on our current recommendations. We begin with our stock recommendations (in alphabetical order), and then the mutual funds.

AMN Healthcare (AHS) is up 42% this year, giving us a profit of 18.5%, but it is still a bargain. It is the nation's innovator in healthcare workforce solutions, including managed services programs, recruitment process outsourcing solutions, recruitment and placement of healthcare professionals into temporary and permanent positions, and consulting services.

During the recession the constriction of healthcare jobs and the lessening of hospital admissions, plus the uncertainty of the future of healthcare policy, depressed the stock. But in the fourth quarter of 2011 healthcare employment growth accelerated significantly, setting the stage for an opportunity.

AHS has well rounded open job listings and a well respected stable of competent healthcare professionals to step in the breach. In addition, they have developed cutting edge resource tools to help hospitals and non profits find and manage their staffs. For example, two of AHS' companies, Merritt Hawkins and Staff Care Healthcare, were recently selected by THT (a nonprofit in Austin) to provide hospital trustees with resources pertaining to workforce related issues. One of the tools they will use is a web based educational component.

AHS has attractive valuation and strong growth fundamentals. We believe it should continue to perform well.

Agrium (AGU) is up 32.5% this year, bringing our profit to 637%. It is tempting to take our profit, but this stock is still strong and the fundamentals still look good.

Agrium has been working on improving its fertilizer products. Products such as ESN Controlled-Release environmentally-smart nitrogen fertilizer and Ultra Yield micronutrients from Agrium Advanced Technologies are proving to be very beneficial on increasing yields for many major crops, including corn, wheat, potatoes and forage crops.

After a significant industry wide consolidation during the recession, Agrium is planning to expand its potash production by 50% this year. Potash sales were depressed in 2011, but farmers can skip a year of potash use and still have an adequate yield, and they did so to survive the recession, depressing potash prices. On that assumption, sales are poised to jump this year in the US, Canada, and even in India.

Since there was a bumper crop of corn planted this year, companies that sell a high percentage of nitrogen, are poised to do well. In the case of AGU, over 58 percent of

total wholesale tons sold were nitrogen fertilizers. Global demand for crop nutrients continue to increase and the fundamentals of the fertilizer market, along with future farming growth globally make this a strong play. We look to continued profits.

Associated Estates Realty Corp (AEC) is up 7.5% this year, bringing our profit to 15.8%. AEC is benefitting from strong fundamentals in the apartment market. (Funds from operation increased 26.1% from the year-earlier quarter to 29 cents. FFO is a measure of performance of a real estate investment trust (REIT), FFO removes the profit-reducing effect that depreciation has on earnings.) During the quarter, the company repaid seven property mortgage loans totaling \$123.5 million. This leaves the Company with no remaining debt maturities in 2012. Thus 38 of the Company's 53 properties have no mortgage debt which were responsible for generating approximately 62 percent of first quarter 2012 net operating income. We look to more profits from AEC in the coming year.

Boston Scientific (BSX) is up 17% this year but we do not have a profit yet. BSX's fundamentals are starting to improve. In addition, several of its competitors, such as St Jude, have stumbled, and BSX is poised to profit from their mistakes. BSX's recent acquisition of Cameron (\$1.3 billion) will elevate their cardiac rhythm management business. We think this plus introduction of new products and global expansion will help them rise off the bottom of their trading range. Their new CEO, Mike Mahoney, is from Johnson and Johnson, and has committed to following through with the current austere strategic plan, and promises lead the charge in the current battle against Johnson and Johnson. This plan is already bearing fruit on Wall Street, and we expect to see more. BSX is the classic turnaround story.

Commonwealth REIT (CWH) is up 12.3% this year. We are close to a break-even at this depressed price. CWH went ex-dividend on April 19th. CWH is over \$1 billion in market cap is an excellent value. The value of the underlying real estate portfolio is worth double the price of the stock and the annual dividend in excess of a 10% yield is well supported by FFO.

Comcast (CMCSA) is up 15.1% this year, extending our profit to 65.6%. Total customers increased by 565,000 to 50.4 million during the first quarter. Meanwhile video customers declined by 37,000 to 22.9 million although the average revenue increased 7.8% per video subscriber. The housing recession has had a dampening effect on CMCSA as foreclosures and the accompanying financial stress has reduced customers. So CMCSA is an indirect play on the real estate recovery.

Video streaming is on the upswing, and CMCSA claims 99% of customers are not using their capacity of 250 GB. Comcast's acquisition of NBC Universal has given it an edge over its competition by controlling more content, especially video streaming. CMCSA is looking to use their content libraries as a way of boosting revenue.

Return on equity was 9.6% last year, up for a sixth straight year. We look to continued growth.

Leucadia (LUK) is up 11.3%, bringing our profit to 22.7%. This is a holding company with a well-managed portfolio of diverse assets and has a strong long-term track record for growth. Several holdings are directly partnered with Warren Buffett. One of these is Berkadia Commercial Mortgage LLC, which is a 50/50 joint venture with Berkshire Hathaway, and one of the largest non-bank owned commercial mortgage servicers and commercial mortgage loan originators in the country. Though the Berkadia portfolio contracted last year because of the recession, the company was restructured to hopefully become the lowest cost servicing provider in the industry. They are attempting to originate more loans and are making slow progress. Hopefully this will stabilize the servicing portfolio. We know there will be a real estate recovery and they are poised to do well.

The other significant acquisition is National Beef Packing. LUK paid \$867.9 million for 79% of the company, which holds a 14% share of the US fed beef market. Last year it produced \$6.8 billion of revenues and \$273.4 million of operating cash flow. Global protein consumption is growing at an accelerated rate. US beef exports were up over 22% in 2011 vs. 2010. This impressive number excludes China. The US is not allowed to export beef to China at present. As emerging markets in underdeveloped countries emerge from poverty and globalization progresses, we believe the demand for quality protein will expand exponentially, and LUK investors will benefit.

Masco (MAS) is up 38.7% since the first of January, increasing our gain to 95%. But it is still above our buy limit. Wait for a dip below \$11.50.

In a conference call this month, Tim Wadhams, President and CEO of Masco, home products manufacturing company, announced an uptick this month. With housing starts at 740,000 units; up 20%-plus over last year, the average metric has gone up 10,000 units per month. Last year exactly the reverse was true. Even with a modest recovery in the home market, sales should improve.

Maxim Integrated Products (MXIM) is up 11.9% this year, extending our profit to 46%. The company's highly integrated solutions help customers get to market faster with systems that are smaller and consume less power.

Maxim makes highly integrated analog and mixed-signal semiconductors. MXIM is a member of the Russell 3000, and it is one of the largest included in that index. Maxim reported revenue of approximately \$2.5 billion for fiscal 2011. It will be debuting a new system of innovative lighting products at the Lightfair@International conference in Las Vegas this month.

It has previously won an award for its solid state battery that harvests ambient energy. The device captures low-level energy forms, such as from photovoltaic cells, vibrations captured by a piezoelectric element, and heat captured by a thermoelectric generator. This device can eliminate the

need to run expensive power cables to remote locations or reduce the frequency of battery replacements. The company is in excellent financial health with \$1.0 billion of cash and plenty of cash flow to support operations and pay its quarterly dividend of \$0.22 per share. Even if MXIM's price ratios merely rise to the valuations of its average years, the share price should easily double from here.

Paychex (PAYX) is up 2.1% this year. We have a small profit of 11.4% but expect more ahead. The company's core business is payroll services and focuses on small to medium sized companies, so its revenues and earnings directly mirror the employment situation. It is currently giving giant ADP a run for its money. Based on the current price, the yield is close to 4%. It also has no long-term debt exposure. Fourth quarter earnings were up slightly in accordance with estimates. This is a classic "buying straw hats in winter" opportunity that offers considerable potential for capital appreciation as well as a nice yield.

Pfizer (PFE) is up only 4.7% which leaves our profit at 32.4%. Pfizer reported earnings for its first full quarter without its blockbuster profits from Lipitor, The stock was not impacted because the patent expiration has been known for a long time now and reflected in the price of the stock. Looking forward, of interest are the drugs in its pipeline, especially Tofacitinib, its drug for rheumatoid arthritis up for review in early May, as well as Bapineuzumab, its high-risk but high reward drug for Alzheimer's. Also of interest is Eliquis for heart disease and blood thinning, and Bosutinib for Leukemia.

PFE has restructuring plans which include the spin-off of its animal health unit. In late April, PFE completed the sale of its nutrition unit to Nestle for \$11.8 billion. Much of these proceeds are to be spent on share buy-backs which in itself should lead to a 5-6 cent increase in earnings per share. Pfizer is cheap at close to 10 times earnings and has nowhere to go but up.

Retail Opportunities Investment Corp (ROIC) is up slightly by 4.6% for the year. We have a small profit of 11.5%. Net institutional purchases in the current quarter stand at 6.9 million shares, which represent about 21.15% of the company's float of 32.63 million shares. We have a small profit of 8.2%. This REIT began as an IPO in October 2009, just after the REIT sector had been decimated by the 2008 melt-down. It started with a fresh slate in a real estate market replete with bargains. It started with no debt and no problems. It is a simple model: buy distressed retail properties with high-quality demographics, refurbish them, and then lease them at a premium. Since inception, it has purchased \$654 million of shopping centers which ended the year with a 91.3% occupancy. Fund from operations (FFO) were \$0.78 a share which more than covers the current \$0.48 annual dividend. As new properties are added, along with tenant upgrades, FFO should continue to rise, along with the dividend and price of this REIT.

Stryker (SYK) is up 10%, bringing our profit to 30%. The global orthopedic prosthetics market is projected to reach

US 23.5 billion by 2017 according to a new report. Stryker, as one of the strongest players in that market, provides a diverse array of innovative medical technologies, including reconstructive, medical and surgical, and neurotechnological and spine products. In late March Stryker announced the release of their System 7 – the next generation of surgical power tools.

Stryker's sales were \$8.45 billion in 2011, up from 7.3 billion in 2010. It trades at a forward P/E ratio of 12. SYK has had rapid accelerated sales. It has great operations; lean and mean. It has great new products, over 100 patents in 2010. It also has a great reputation as having a good working environment, and it was ranked 68th on *Fortune Magazine's* "100 Best Companies to Work For" list from 2011. It reminds us of the early days of the innovative giant 3M in its ability to encourage and implement new ideas in its product line. We expect continued future growth as the baby boomers age and need more joint replacements.

Symantec (SYMC) is up 5% this year and we are a breakeven. SYMC is the dominant supplier of software for computer security and protection against viruses and other nuisances. As the world moves to smart phones and other mobile devices, hackers are starting to find security holes, and SYMC is the company to plug them.

As we previously reported, SYMC recently signed an agreement to acquire Nukona, Inc, a provider of mobile application management. This acquisition complements the acquisition earlier in March of Odyssey Software, a leading provider of mobile device management. The combination will enable SYMC to help customers secure mobile apps and data while managing and protecting from hackers by authenticating users and encrypting sensitive files. These acquisitions advance Symantec's leadership in the mobile device market by enhancing capabilities of the device, applications, and data protection.

Tellabs (TLAB) is down 5.7% this year. We have a small loss of 3.8%. Tellabs designs and manufactures hardware and solutions for the telecommunications industry, which in a world of exploding demand for wireless communications should be a bonanza of a business.

Eleven of the Fortune 50 companies now rely on services provided through Tellabs' equipment. They have added a number of improvements to their product portfolio, offering customers solutions to everything from speed to maintaining connectivity in countries such as India where cable is routinely cut and mistaken for copper. Revenue came in at the low end of expectations at \$258 million, but according to Rob Pullen, CEO, that is "consistent with the industry". North America revenue was slower than expected. Half of TLAB revenue or 51% came from overseas for the third consecutive quarter. Revenue largely reflected lower customer spending, particularly in North America early in the quarter. Don't forget that Tellabs' balance sheet holds \$2.91 per share in cash and cash equivalents (short-term government debt or commercial paper) with no long-term debt. Other assets and liabilities on the balance sheet offset

each other. Subtract that \$2.91 from the current share price and you are buying the entire business for practically nothing.

Tetra Tech (TTEK) is up 25.1% this year, extending our profit to 75%. Tetra Tech is a leading provider of consulting, engineering, program management, construction management, and technical services. They have 13,000 employees worldwide. The Company supports government and commercial clients by providing innovative solutions to complex problems focused on water, environment, energy, infrastructure, and natural resources.

Tetra Tech is one of a consortium of 13 selected companies to join together on a \$950 million Air Force contract, according to Washington Technology. In addition they are a leading company in water technologies. Tetra Tech designs complex and intricate plans that are used by local and national governments to meet future water needs, including desalination. Tetra Tech is poised to grow with these globally much needed technologies.

Xerox (XRX) is down slightly by 1.6% this year, and we are down 10%. With sales approaching \$23 billion, XRX shares are selling at 8.9 times current earnings per share. The dividend yield is 2.1%. Xerox is having some success transitioning itself into more of a service company than an equipment one, but major revenue growth has yet to be experienced. Boeing recently contracted with Xerox to design a new company-wide document management system. This is indicative of this new strategy. However, earnings have been flat in about 40% of its business. There is some talk that Xerox may be a takeover target for companies like Dell and/or HP. With company consolidations in record numbers, it could happen, as the stock is still a bargain.

The Mutual Funds

CGM Real Estate Fund (CGMRX) is up 15.1% this year, extending our gain to 62%, and we think more profits are ahead. The good years of this fund are really good.

Hambrecht & Quist Life Sciences Fund (HQL) is up 25.1%, extending our profit to 41%. The Fund recently announced that it will be purchasing up to 12% of its own shares on the open market beginning in July. The share repurchase program is intended to increase the Fund's net asset value per share and to reduce the discount the stock has from the net asset value. HQL is a superior way to gain exposure to biotech. The most explosive profits in the entire healthcare industry can be found here.

Fidelity Natural Gas Fund (FSNGX) is up 2.1% for the year which is remarkable in view of the 10-year lows natural gas prices have been hitting. The current price is close to our cost. This fund has been judiciously investing in companies producing both oil and natural gas which have not been clobbered by the glut in natural gas. As we have pointed out, there is a huge gap between natural gas and oil in terms of the cost per unit of energy. This fund should benefit from that gap, and it has done a great job in maintaining its net asset value in light of the extreme circumstances that have existed this year.

Income With Growth	Sym	Exchange	Price	Yield	Limit	Action
Associated Estates Realty Corp	AEC	NYSE/Nasdaq	\$ 17.15	4.20%	\$ 18.25	BUY
CommonWealth REIT	CWH	NYSE	\$ 18.68	10.71%	\$ 22.00	BUY
Retail Opportunity Investment Corp	ROIC	NASDAQ	\$ 12.39	3.23%	\$ 13.50	BUY
Diversified Growth						
CGM Realty Fund	CGMRX	800-343-5678	\$ 30.87	0.84%	\$ -	BUY
Comcast	CMCSA	NASDAQ	\$ 30.42	2.14%	\$ 32.00	BUY
Leucadia National Corp.	LUK	NYSE	\$ 25.30	0.99%	\$ 30.00	BUY
Masco	MAS	NYSE	\$ 14.54	2.06%	\$ 11.50	HOLD
Paychex	PAYX	NASDAQ	\$ 30.74	4.16%	\$ 35.00	BUY
Pfizer	PFE	NYSE	\$ 22.66	3.88%	\$ 23.00	BUY
Stryker Corp.	SYK	NYSE	\$ 54.66	1.56%	\$ 60.00	BUY
Xerox	XRX	NYSE	\$ 7.83	2.17%	\$ 9.00	BUY
Energy/Natural Resources						
Agrium	AGU	NYSE/TSE	\$ 88.93	0.51%	\$ 90.00	BUY
Chesapeake Energy Corp	CHK	NYSE	\$ 16.74	2.09%	\$ 20.00	BUY
Fidelity Select Nat. Gas Fund	FSNGX	800-544-8888	\$ 31.05	0.18%	\$ -	BUY
Tetra Tech	TTEK	NASDAQ	\$ 27.00	0.00%	\$ 28.00	BUY
USAA Precious Metals & Minerals	USAGX	800-862-6909	\$ 28.46	0.28%	\$ -	BUY
Aggressive Growth						
AMN Healthcare	AHS	NYSE	\$ 6.29	0.00%	\$ 7.00	BUY
Boston Scientific	BSX	NYSE	\$ 6.25	0.00%	\$ 8.50	BUY
H&Q Life Sciences Fund	HQL	NYSE	\$ 14.35	7.53%	\$ 15.00	BUY
Maxim Integrated	MXIM	NASDAQ	\$ 29.13	3.02%	\$ 31.00	BUY
Seligman Premium Growth Fund	STK	NYSE	\$ 18.42	10.04%	\$ 20.00	BUY
Symantec	SYMC	NASDAQ	\$ 16.43	0.00%	\$ 20.00	BUY
Tellabs	TLAB	NASDAQ	\$ 3.81	2.10%	\$ 5.00	BUY
Third Avenue Focused Credit Fd	TFCVX	800-443-1021	\$ 10.08	7.52%	\$ -	BUY

ROWS IN **BOLD** INDICATE A CHANGE IN ACTION OR LIMIT

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

Yields on funds do not include distributions of capital gains. Note that all fund distributions fluctuate annually.

Seligman Premium Technology Fund (STK) is up 17.6%. This is a closed-end fund with a conservative twist that provides some cushion from the tech sector's often rough ride. This fund sells covered options against its portfolio which lowers volatility and produces cash income. The fund announced a first quarter distribution at the 9.25% annual rate.

Third Avenue Focused Credit Fund (TFCVX) is up 6.0% which about the profit we have so far. TFCVX specializes in distressed companies, from buying the still-performing loans of troubled companies to capital infusions, even to taking a company through bankruptcy; then emerging as equity owners. The firm announced that it is making an equity investment in Millstein & Co. This is a firm started in 2011 by Jim Millstein who is known for his work with the

U.S. Department of the Treasury as its chief restructuring officer, where he helped restructure the U.S. government's investment in American International Group(AIG). It is still near the low end of its trading range and sporting a 7.5% yield.

USAA Precious Metals & Minerals Fund (USAGX) is down 8% this year, reducing our profit to 13%. Eighty percent of this fund's assets are invested in equity securities of domestic and foreign companies principally engaged in the exploration, mining or processing of gold and other precious metals and minerals, such as platinum, silver and diamonds, seeking long-term capital appreciation. This fund is widely recognized as the best diversified way to invest in precious metals.

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 a "Risk Indicator," since it will allow us to locate the point at which prices are so high when compared to competing markets that they have come loose from their moorings and are on the verge of declining or underperforming the other market.

What is too high? When stock prices are very high relative to house prices, the 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 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 \$8,269,569 in stocks and to \$1,247,340 in houses.

But though an investment begun 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 Risk Indicator he would have made \$328,679,828, or 39.7 times more money—the difference between profits the buy-and-hold stock market strategy would have yielded by itself and the profits that the Risk Indicator would have provided.

These figures illustrate why it is so important to remain aware of the Supercycles that are at work within markets. A recent example was during the 1998-2000 stock market mania, when most investors were chasing high-tech stocks, our *Sound Advice* portfolio was buying Real Estate Investment Trusts (REITs.) Most investors got killed with 75 percent-90 percent losses during the ensuing decline. However, REIT shares during the same period soared 25 percent, and had locked in nearly double-digit dividends. When the bear market ended in late 2002 and tech stocks recaptured some of their losses, REITs rolled to mind-boggling highs as speculation drove them to excess that climaxed in 2007.

The SoundAdvice Risk Indicator

The latest reading for the **Sound Advice** Risk Indicator is 1.51. This reading reveals that stock values are below average in relation to house prices. The February 2009 reading of 0.77 marked the low for this cycle as well as the beginning of Supercycle 6.

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



Business Cycles and Stocks: The SoundAdvice Diffusion Indexes

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

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

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

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

The Diffusion Index of Leading Indicators: As far back as February and March 2009 we were projecting that our Diffusion Index of leading indicators soon would hit zero and mark an important buying opportunity. We made that projection by assuming that the leading indicators would not improve in the current

economic environment. In fact that signal arrived in March, very close to the bottom, officially giving us an "Aggressive" signal. Since that signal, the market climbed 61 percent.

An "Aggressive" signal coming at a time when the Risk Indicator is close to 1.0 reveals that Supercycle 5 has come to an end, and that Supercycle 6 is born.

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

This index hit 100% in April, telling us to move to a cautious approach. Our next signal will come from a zero reading our Diffusion Index of Leading Indicators, which currently stands at 75 percent

Track Record of the Diffusion Indexes

If we had followed the signals from our Diffusion Indexes over the years, we would have done very well indeed. The results are shown below. After each "Aggressive" signal, the S&P 500 produces an annual average return of 24.6 percent. During "Caution" signals, the market was all over the place — sometimes crashing, sometimes meandering, and occasionally advancing. On average, the S&P 500 increased at an annual rate of only 1.51 percent during caution periods.

Aggressive	S&P	Caution	S&P
Sep-74	68.12	Apr-76	101.90
Nov-79	100.00	Oct-83	167.65
Dec-84	164.48	Jun-85	188.89
Jul-86	240.18	Aug-87	329.36
Mar-88	265.74	Jun-88	270.68
Mar-89	280.00	May-89	313.93
Oct-89	347.40	Mar-93	449.74
Feb-97	798.38	Dec-98	1,141.00
Oct-00	1,429.40	Dec-00	1,320.28
Jun-03	974.50	May-05	1,191.50
Jul-06	1,276.66	Mar-08	1,325.43
Apr-09	865.33	April-12	1,370.26

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

The rising swell of home foreclosures began in 2007 as a symptom of faltering real estate markets across the country. But as the swell turned into a tidal wave, falling real estate prices have compromised the assets of the US banking system and the fabric of the US and worldwide economies. Indeed, the state of the nation's real estate markets and the economy have become one and the same. Clearly, the recession cannot be fully put behind us and a recovery kick into full gear until the inventory of foreclosed homes stops overhanging the market.

We have seen all this before. It was back in the 1980s. After years of loose and questionable lending practices, regulators were forced to liquidate hundreds of savings and loans and dump their foreclosed real estate onto an already-depressed real estate market. As values dropped, the downward spiral continued until most of the real estate was sold at steep discounts. The crash was worse in some parts of the country, but the damage to the whole US economy was substantial. Does this sound familiar?

We have the same situation today. It's like the old good news/bad news jokes, except this is no laughing matter. The bad news is that today's crash has been damaging to both real estate prices and the national economy.

The good news is that we have the tools to determine when the bad news will be over. This will give us a tremendous opportunity not only to invest in real estate for pennies on the dollar at the right time, but also in other investments as well as those that benefit from a recovering economy.

The Key Indicator

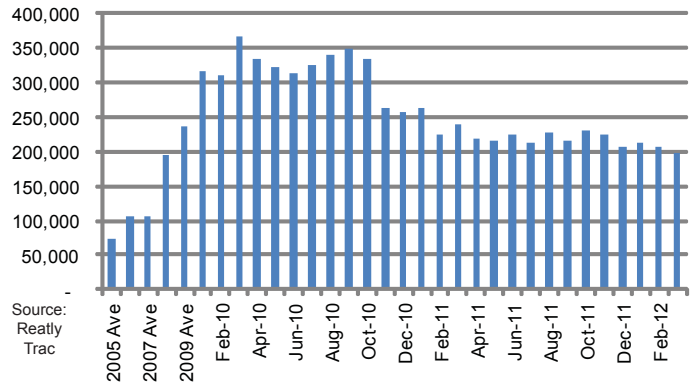
The secret is to focus on foreclosure rates. Realty Trac in Irvine, California has an extensive database. You can access foreclosure information on local markets from their website www.realtytrac.com. We use some of their data here to gauge the state of the nation and its real estate, and plan to continue to do so in future issues of **SoundAdvice**.

What we are looking for is a significant decline in the number of foreclosures. When this happens, the bulk of the overhanging inventory of foreclosed properties will have been digested, and the real estate recovery can then begin as well as in the economy. In the late 1980s, this was the best indicator for knowing when the recovery was near. As foreclosure rates dropped, the ensuing recovery began. For nearly two decades, fortunes were made from real estate purchased for pennies on the dollar during the S&L Crises of the 1980s.

The following chart shows US foreclosure rates. In 2005, foreclosure rates averaged 74,892 properties per month. In 2006 and 2007, foreclosures were slightly above 100,000 per month. However, by January 2010, foreclosures climbed to over 300,000 per month, and foreclosures continued at over 300,000 each month through October.

We saw the beginnings of a decline in the 2010 fourth quarter. At first, the decline was due largely to a freeze in foreclosures by several major lenders. The downtrend continued as Federal and state foreclosure prevention efforts allowed distressed homeowners to stave off foreclosures.

US Foreclosure Rates - Monthly Averages



However, foreclosure rates remained stubbornly high with only slight declines in February and March.

Dissecting the Foreclosure Process

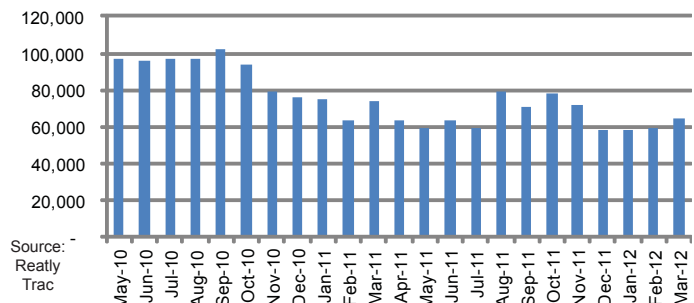
It's important to keep in mind that the foreclosure process is comprised of three distinct stages: new default filings by lenders; then auctions as lenders attempt to sell these properties; and finally, bank repossessions of those properties not sold through auctions. The sheer number of foreclosures is actually the aggregate of the number of properties in each of these three stages.

We can get an early glimpse of a change in trends by focusing on changes in the first step of the foreclosure process: new default filings. After all, a significant change in the first step of the foreclosure process must ultimately lead to a significant change in the aggregate number.

The following chart shows new default filings in the US by month since May 2010. Through October 2010, new default notices were hovering around 100,000 per month. However in November 2010 they began declining but have remained stubbornly high, with an increase of 10% in March.

One fourth of the nation's foreclosures have been in

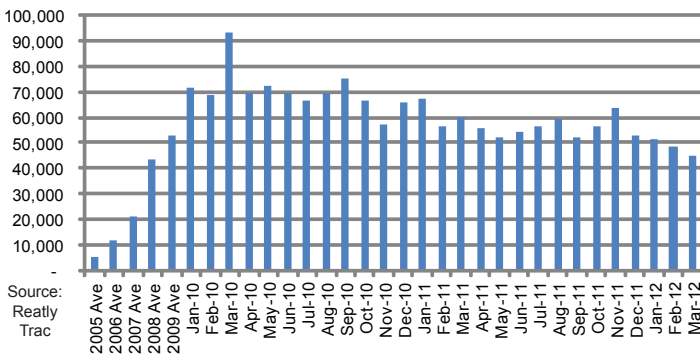
US New Default Notices



California for the last few years. The following chart shows all stages of the foreclosure process in California (including auctions and bank repossessions).

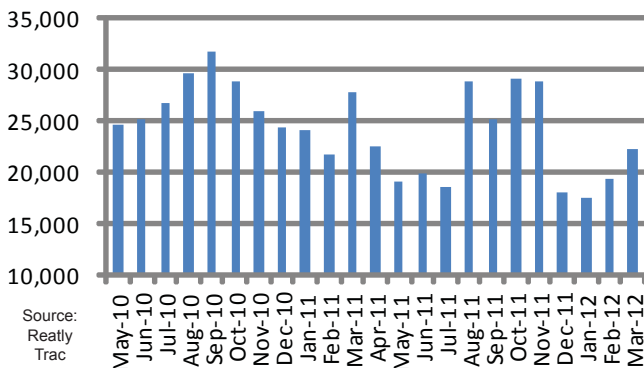
In 2005, California foreclosures averaged 5,138 properties per month. Foreclosures doubled in 2006, and again in 2007, and again in 2008. By 2010, foreclosures were close to 70,000 each month, with a spike of 93,000 in March. Foreclosure rates remained high in 2011 and began modest declines during the first quarter of 2012.

California Foreclosures - Monthly Averages



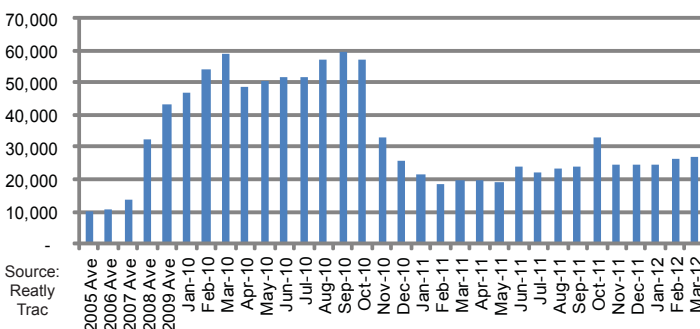
Below is a chart of new default notices in California. In August 2011, new default notices in California jumped a whopping 55 percent to 28,961. After a decline in September by 13 percent, new default notices in California increased in October to 29,240 and in November to 28,897, but then dropped sharply in December and January. However, February saw a 12% increase followed by a 14% increase in March.

California New Default Filings

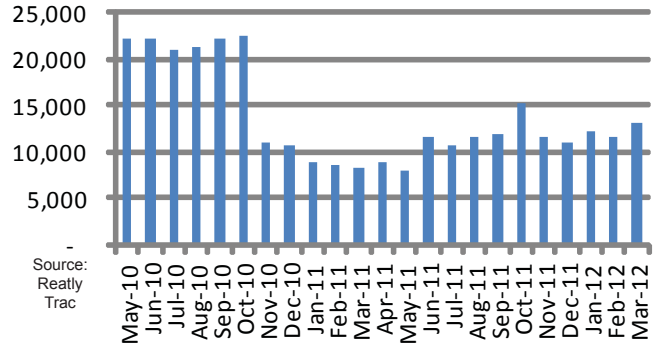


Florida is the next highest foreclosure state with 11 percent of the nation's foreclosures. See the chart below. Foreclosure rates climbed from 10,000 per month in 2005 and 2006 to 47,000 in January 2010, and stayed in the 50-60,000 range through October. Then the monthly rates dropped sharply through May 2011. Foreclosure rates spiked in October 2011 and have been creeping up since.

Florida Foreclosures - Monthly Averages



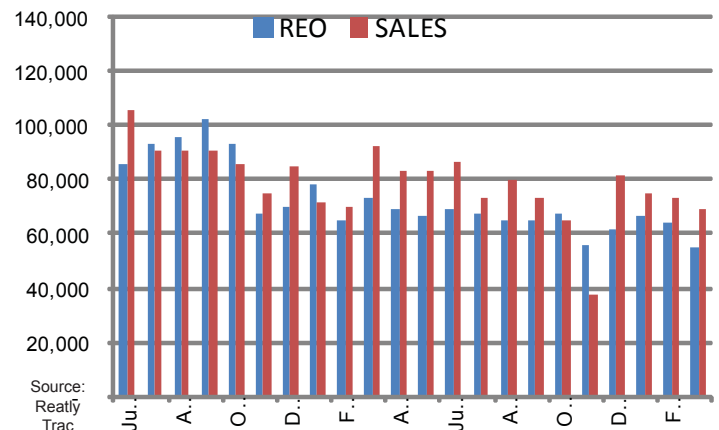
Florida New Default Filings



New default notices have been increasing in Florida during the second half of 2011, and continued to increase in the first quarter of 2012.

The Inventory

At the other end of the foreclosure process is what the banks have not been able to sell. This inventory is called "real estate owned", or REO for short. Each month more REO is added to the inventory. However, each month there



are a number of properties sold from the inventory. Below is a chart of the REO (in blue) and sales (in red) since June, 2010.

On balance, there have been 141,673 more properties sold than have been added to the REO inventory, or 10.4 percent of the current inventory of 1,360,149 foreclosure properties listed for sale.

Conclusions

Not much REO is selling. New default filings rose significantly in nationally as well as in California and Florida, which means we will not see a drop in foreclosure rates in the immediate months ahead. Accordingly, there is no conclusive evidence that the crisis is getting any better.

We will be tracking foreclosure metrics closely both nationally and in key states in these pages of **SoundAdvice** to be among the first to know when the end of the foreclosure crisis is at hand. Stay tuned.

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