



We Have “No-Brainer” Liftoff

The *Sound Advice* portfolio is up 15.2 percent so far this year, assuming an equal amount was invested in each position on December 31, 2012. This return compares to 14.3 percent for the S&P 500. If we look back to the beginning of last year, the portfolio is up 41.1 percent as compared to 33 percent for the S&P500. We have an average gain of 57.2 percent based on the prices at which each stock, ETF, or mutual fund was originally recommended.

Last month we pointed out April 30th CNBC survey that showed the consensus among Wall Street professionals that the Federal Reserve would be extending its quantitative easing into February 2014, at which time the Fed will start to reduce its bond-buying program, and that it will stop completely by July 2014.

We said then, and will say again, “If we have learned anything over the years, it is that the consensus is usually wrong. After all, it is only human nature to assume that the current trends are more or less permanent. That’s why market turns are always a surprise to most investors and investing professionals. It comes sooner than the consensus expected it would.”

Here it is, one month later, and the consensus is already proven wrong. It seems safe to say that the significant rise in bond yields during May has marked the bottom in yields and the peak in bond prices. Now the only question is how steep the rise in yields will be.

In any event, our “No-Brainer” ETFs are just getting started. There are significant gains ahead. It is going to be a ride, so hang on.

-Gray Emerson Cardiff

Since the Federal Reserve started its quantitative easing program, its inventory of Treasury securities has expanded to \$3.35 trillion. This compares to \$879 billion six years ago in May, 2007. Federal Reserve officials have recently been debating the risks on continuing their massive quantitative easing bond-buying program for fear it will ignite future inflation or blow up asset bubbles.

Of course, the size of these holdings is raising concerns about how the Federal Reserve is going to unwind its position without disrupting the financial markets. Before the Fed can start selling Treasuries, it will need to start tapering purchases from the current program of \$85 billion a month.

What happens on this front is extremely important. As the Federal Reserve begins to taper its massive purchases and then unwind its holdings, interest rates and bond yields are certain to rise. This will be highly beneficial to our “No-Brainer” ETFs designed to benefit strongly from a rise in long-term bond yields. However, the tapering and unwinding will have a profound impact on the stock market and the rest of our portfolio.

Although news of improvements in the economy have caused bond yields to rise, the stock market has been responding favorably because an improving economy means earnings growth down the road. However, there will be a time when the economy continues to expand and pushes interest rates and bond yields up significantly. When that begins, the response from the stock market will not be favorable. In fact, when the rise in interest rates become strong – as it always eventually does -- the market will suffer even in the face of glowing reports of economic expansion. When that time comes, we are certain to have tremendous profits in our “No-Brainer” ETFs, but will need to be more selective with our stock picking.

As usual, we must keep in mind that the financial market is comprised of smart, competitive investors who anticipate events ahead of time. Accordingly, the markets will move before the Federal Reserve actually takes any action. Also keep in mind that, the markets are far larger than the Federal Reserve’s coffers, which means that the market can push Treasury bond yields higher even while the Fed is still maintaining its bond-buying program.

We have seen evidence of this phenomenon already. Yields on long-term Treasury bonds have climbed from 2.86 to 3.31 percent since our May 1 Issue, just one month ago. This is a significant rise, and it has happened even though Federal Reserve continued its massive bond-buying.

Mixed Opinions at the Fed

According to the minutes of the latest Federal Reserve meeting on May 1, “Most observed that the outlook for the labor market had shown progress, and the Federal Open Market Committee (FOMC) “is prepared to increase or reduce the pace of its purchases to maintain appropriate policy accommodation as the outlook for the labor market or inflation changes.”

Since the May meeting, some regional Fed bank presidents have indicated that

they may be inclined to pare back the purchases if economic data continues to show the expansion gaining strength, while others said continued stimulus is still necessary.

A “number” of officials were willing to taper bond buying as early as the next meeting in June if economic reports show “evidence of sufficiently strong and sustained growth.” The next meeting is June 18-19.

Philadelphia Federal Reserve President Charles Plosser called for shrinking purchases at the Fed’s next meeting. “Unless we see a significant reversal in current trends that jeopardizes my forecast of near 7 percent unemployment rate by the end of this year, then I anticipate that we could end the program before year-end,”

Federal Reserve Bank of San Francisco President John Williams, emphasized the need for policy flexibility, and the central bank “could reduce somewhat the pace of our securities purchases, perhaps as early as this summer,” adding that summer begins in mid-June.

Federal Reserve Bank of Dallas President Richard Fisher said the U.S. economy is on better footing and the central bank can begin to taper part of the program that allowed it to recover.

Federal Reserve Bank of New York President William C. Dudley said he has not decided whether the Fed’s next move should be to enlarge or shrink its bond buying program as he called for a fresh look at its eventual retreat from record asset purchases. “Three or four months from now I think you’re going to have a much better sense of, is the economy healthy enough to overcome the fiscal drag or not.”

Responding from questions from Congressional members, Bernanke said “If we see continued improvement and we have confidence that that is going to be sustained, then we could in -- in the next few meetings -- we could take a step down in our pace of purchases.”

Consumer Confidence

Consumer spending accounts for 70 percent of the US gross domestic product (GDP) and is the primary driver of the US economy. The Conference Board reported that its consumer confidence index for May jumped to 76.2, a five-year high -- the best level since February 2008 prior to the meltdown. May’s increase follows an upwardly revised 69 in April.

“Back-to-back monthly gains suggest that consumer confidence is on the mend and may be regaining the traction it lost due to the fiscal cliff, payroll tax hike and sequester,” Lynn Franco, director of economic indicators at The Conference Board, said in a statement.

The confidence of consumers come from their sense of wealth. Primary sources of consumer wealth come from their houses and stocks. Crashes in the real estate and financial markets were the heart of the 2008-09 melt-down and recession, and they need to be at the heart of the recovery. Both houses and stocks are in strong uptrends.

The Eurozone

Meanwhile over in Europe, in an effort to stimulate growth, the European Central Bank (ECB) cut its main refinancing rate to a record low of 0.5 percent in late May and extended its provision of unlimited funds to banks for another year. In addition, the ECB is considering weighing measures to expand lending throughout the Eurozone by allowing banks to loan larger amounts against their collateral.

The recession in the Eurozone has been a drag on the US economy because it accounts for approximately 20 percent of our exports. Renewed life over there will bolster US growth.

Our “No-Brainers”

Our No-Brainer ETFs are up substantially since our May 1 Issue entitled “No-Brainer Buying Opportunity”. We emphasized that any signs of economic strength cause Treasury bond yields to rise from their historic lows, which in turn will send our no-brainer ETFs soaring.

The positive economic news since then did just that.

The most responsive ETF, [Direxion Daily 20 Plus Year Bear 3 Shares \(TMV-NYSE\)](#) which uses 3:1 leverage, climbed 20.6 percent as a result.

The [Proshares Ultrashort Lehman 20 Plus Year Treasury \(TBT-NYSE\)](#), which uses 2:1 leverage, climbed 15.8 percent.

The [Proshares Short 20 Plus Year Treasury \(TBF-NYSE\)](#) which uses no leverage, climbed 3.4 percent.

Although the economic news is an indication of improvement, it was just a start. However, we have a glimpse of how responsive these ETFs are, and the profit that lies ahead when long term bond yields rise in earnest during the upswing of the current business cycle.

In last month’s Issue, we showed what would happen to TMV from the same rise in bond yields that took place from January 1 to June 10, 2009, when long-term Treasury bond yields rose to 4.75 percent. TMV would nearly quadruple to \$191 a share. TBT would more than double to \$140, and TBF would climb to \$46.

The graph on the opposite page shows the history of Treasury bond yields since 1977. As you can see, 4.75 percent is still close to historic lows. There is no reason for the climb in yields to stop at 4.75 percent. Gains could be considerably higher.

Portfolio Updates

Here are updates on the rest of our recommendations in alphabetical order. The table on page 7 details our buy limits and other information on each recommendation, and organizes them by investment objective.

[Agrimium \(AGU\)](#) is down 7.5 percent this year, after climbing 48 percent in 2012. We have a profit of 677 percent. This

The History of 30-Year Treasury Bond Yields



This graph shows the yields of 30-year Treasury bonds since 1977. As you can see, yields are still close to historic lows.

Source: Yahoo! Finance

is the largest farm products retailer in North America and a wholesaler to the world.

AGU recently reported first quarter earnings of \$1.03 a share, which was below expectations of \$1.13. Retail sales to farmers declined 13 percent and wholesale sales of nitrogen, potash and phosphate fertilizer also declined.

CEO Mike Wilson said, "The continuation of cold, wet weather in April is likely to result in a somewhat compressed spring application season this year." AGU expects demand during the second quarter to be weak as well due to late spring weather causing a delay in North American plantings.

At close to 9 times earnings, AGU remains an excellent value. Weather conditions are temporary and so is this buying opportunity. Agrium also recently announced it would repurchase as much as 5 percent of its stock.

Growth potential has not changed. In North America, Australia and Western Europe, but especially here, the scientific use of fertilizer is commonplace. Elsewhere farming techniques often resemble what we used to do 40 years ago, or worse. The US accounts for 5% of the world's population but has 13% of its arable land. Conversely, China holds 21% of the world's people but has only 9% of its arable land. If emerging markets are to meet their populations' need for food, they will either have to import foodstuffs from the more

advanced countries or, better for the fertilizer industry, use fertilizer to improve their crop yields. Either way means more use of fertilizers.

AMN Healthcare (AHS) is up 15.9 percent this year, extending our profit to 152 percent.

AMN Healthcare provides temporary healthcare staffing services to the healthcare industry, ranging from nurses to physicians. We recommended this stock at an average price of \$5.35 based on the rationale that it was a two-fer. AHS is not just an opportunity to invest in healthcare, which is traditionally a non-cyclical industry, but it is also a chance to buy into a healthcare business which will benefit from a recovery in the economy.

AHS reported first-quarter earnings of \$0.16 a share which exceeded expectations. Although we expect more growth over the longer run, we believe the market has become overly excited about this stock.

We expect earnings to be in the vicinity of \$0.42 to \$0.50 a share this year, which is in line with Street estimates. At the current price, the price/earnings (P/E) ratio is close to 28 which already anticipates a very high growth rate.

We recommend holding for now and waiting for a pull-back to buy more.

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Associated Estates Realty Corp (AEC) is up 2 percent this year, extending our profit to 15.8 percent.

AEC is issuing 6.5 million new common shares in order to pay down mortgage debt. The debt reduction will allow 70 percent of the net operating income to come from properties without mortgages.

Jeffrey Friedman, the company's president and chief executive officer, said "I believe, and I think others would agree, that debt has been the mother of all problems for real estate companies ... The reason we made it through (2008 and 2009) so well is because we had no debt issues."

AEC is diversifying into California. The first site there was a 175 unit apartment property in Los Angeles. AEC recently formed a joint venture with Legendary Developments, to build 472 apartments, retail and underground parking in that city's arts district. Legendary Developments contributed the land to the joint venture.

AEC also recently bought a 3.36-acre site in San Francisco prepared for a 408-unit apartment development. Friedman said the potential returns from the California developments "are stunning."

This is the most undervalued apartment REIT in the sector. The equity of its apartment portfolio translates into a stock value of \$27 per share. So the stock is still trading at a steep discount. It pays a nice yield as well.

Boston Scientific (BSX) is up 61 percent this year. Growth prospects have become more favorable from numerous new products as well as those currently in clinical trials. One of the most exciting products is *Watchman* which is a device that decreases the chances of a blood clot in patients with erratic heartbeats. The *Watchman* is approved in Europe and in for FDA approval for use in the US.

Also nearing regulator approval is the *Lotus*, an aortic valve replacement device. A renal denervation system for the multi-billion dollar hypertension market called *Vessix* also shows substantial potential for BSX.

BSX's medical products are well suited for an aging population in the US as well as emerging markets around the world, especially in India, China, Brazil, and Russia. Emerging markets only accounted for 4 percent of revenue in 2012, so there is considerable room for growth.

CGM Real Estate Fund (CGMRX) is up 7.2 percent this year, extending our profit to 69 percent. We believe that this fund is poised for considerably more gains ahead as the economy recovers.

Most of the time, above average investment returns can be earned in REITs. The Morgan Stanley Capital International (MSCI) Index of US REITs is a benchmark index that measures the performance of publicly traded equity US REITs. Over the

last 10 years, an investment of \$10,000 in the MSCI REIT index would have grown to \$19,503 through the end of May. However, in CGMRX, that investment would have grown to \$46,491, for an annual return of 16.61 percent.

By far, CGMRX has been the best performer of REIT funds over the last ten years. (See the February 1 Issue of *Sound Advice* for the complete rundown of all REIT Funds.)

Unlike the other mutual funds we recommend, CGMRX is not cleared through brokerage firms. You will need to call the fund directly to invest at 800-343-5678.

Chesapeake Energy (CHK) is up 31.4 percent this year giving us a gain of 31.5 percent since we added it to the portfolio.

CHK is the second largest producer of natural gas. We added it to the portfolio last year because it was greatly undervalued. Natural gas prices were historically low at the time, close to \$2.00 for one million BTUs. In addition the company had poor corporate governance, and was suffering from a severe cash squeeze. Natural gas prices have nearly doubled since our recommendation. Carl Icahn has been instrumental in removing the founder, Aubrey McClendon, as chairman of the board and replacing several other board members. CHK has sold most of the targeted divestments to straighten out its cash squeeze. Over the last four quarters, revenue has increased 14.2% on average year-over-year.

Aubrey McClendon officially retired in May and was replaced by Doug Lawler as CEO from Anadarko Petroleum and will also become a member of the board. We believe Lawler's appointment is another step in the right direction. He is a petroleum engineer with a successful career at Anadarko in asset development and operations, and with complex matters that he is certain to find at CHK.

CHK's natural gas and oil assets are extensive, close to 15 million net acres of oil and gas assets, and offer a large upside. Morningstar's fair value estimate is \$31 a share.

Comcast (CMCSA) is up 7.5 percent this year, after climbing 57 percent last year, extending our profit to 86 percent.

CMCSA is the nation's largest cable TV provider. But it is no longer just a cable company. It also provides internet and telephone service. CMCSA now has sole ownership of NBC Universal which operates major broadcast and cable networks (NBC, Bravo, USA), as well as film studios (Universal Pictures), digital media content, and resort theme parks. CMCSA's synergistic array of products are providing a solid growth path. Earnings have increased every year since 2003, and so have dividends since they commenced in 2008.

Management and the board are committed to increasing



shareholder value. During 2012, the company repurchased 96 million shares of common stock for \$3 billion. In 2013, the company is expected to buy \$2 billion worth of shares.

We have raised our buy limit to \$42 based on improved earnings estimates of \$2.50 for 2013 and \$2.75 for 2014. CMCSA is close to a price/earnings ratio of 16 which is to the market average. We originally recommended CMCSA at an average cost of \$22.90 and have seen earnings grow steadily. We expect it to exhibit above-average growth ahead.

Commonwealth REIT (CWH) is up 29 percent this year, primarily due to the one-day jump in February when two activist shareholder hedge funds offered \$25 (and then \$27) for all outstanding shares.

CWH reported its first-quarter funds from operations (FFO) increased to \$79.68 million from \$73.44 million in the year ago quarter. However, due to an increased number of common shares, FFO per share was \$0.85, down from \$0.87 in the prior's year quarter. As a result of the announcement, the stock price has dipped below our upper buy limit of \$22.

Net operating income increased by 10.3 percent over the previous quarter and was 12.4 percent higher than the same quarter last year. Using a 9 percent capitalization rate, which is very conservative these days, the net equity of the company's real estate translates to \$41.44 per share. At a more typical 7 percent capitalization rate, the net equity translates to \$63.74 per share.

The deep discount of the stock price is at the heart of the battle lead by Corvex and Related Companies who believe CWH is worth at least \$40 a share, and \$50 with better management. In the current consent solicitation, 40 percent of CWH stockholders so far have voted in favor of the activists to remove the current management. The consent solicitation is ongoing, and so are the legal battles which have been moved to arbitration. The activists are still optimistic. Whatever the outcome, the battle is putting a spotlight on the underlying value.

Fidelity Select Natural Gas Fund (FSNGX) is up 12.1 percent this year. This is the only mutual fund that concentrates on the natural gas industry, and a diversified play on the gap between the energy equivalents of oil and natural gas.

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, with the market price for natural gas at \$4.00 for one million BTUs, 5.8 million BTUs will cost \$23.20 (5.8x4.00). So the same amount of energy is available for approximately 23.20 cents on the dollar -- if it is in the form of natural gas.

As the chart to the right 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. For 5.8 million BTUs of energy, it costs approximately \$100 if it is in the form of oil, but only \$23.20 in the form of natural gas.

The US is self-sufficient in natural gas with only 9 percent imported from Canada. At 23.2 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. This fund is well positioned to benefit from an expanding natural gas industry.

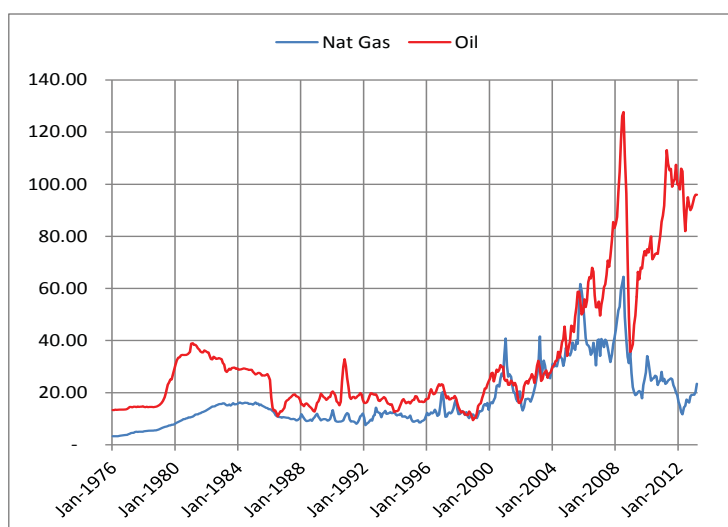
Hambrecht & Quist Life Sciences Fund (HQL) is up 31.3 percent this year, extending our profit to 101 percent. The climb in the price of HQL has brought the price/earnings (P/E) ratio of the underlying portfolio above 25. Although these are typically young promising companies which tend to carry high multiples, we are not anxious to chase a high P/E. Accordingly, we recommend accumulating shares on weakness.

The most explosive profits in the entire healthcare industry can be found here in biotech companies. This is a volatile sector, so diversification is crucial. HQL is a superior way to gain exposure to biotech on a diversified basis.

ICON Energy Fund Class S (ICENX) is up 2.4 percent since we added it to the portfolio two months ago. This is a no-load open-end mutual fund we added recently because the demand for energy accelerates with an economic expansion. The best time to invest is when the economy is coming out of a slump, before demand increases.

Aside from the cyclical timing, above average investment returns can be earned over the long run. Over the last 10 years, the Energy Equity Index produced an average 13.48 percent annually through the end of May while the S&P 500 produced an annual return of less than 8 percent. The superior performance is due to the fact that energy is in the fabric of the economy. It takes energy to make everything, and especially large amounts to make the most vital materials and substances, such as chemicals, plastics, and to run data

The Cost of Energy Equivalents of Oil and Natural Gas



centers. There is always the possibility of the added “bonus” of geopolitical disturbances threatening supplies and driving up energy prices.

Sadly, most energy mutual funds have not been able to match the performance of the Energy Equity Index. However, this fund not only beat the Energy Equity Index resoundingly, it has turned in the best performance – by far – of energy funds. This no-load fund furnished an annual return of 15.18 percent during the last ten years through the end of May. Investing \$10,000 in this fund grew into \$41,087. It also has the lowest annual expenses of all of the ICON Energy Funds.

This Fund’s performance also led the pack in shorter durations – 5 year, 3 year, and 1 year.

Derek Rollingson, who has managed the Fund since May 2007, emphasizes value. While the price of energy in its different forms is important, the real opportunities come from how the stock market reacts to changes within the industry: whether the market realizes the change too fast and becomes over-priced, or conversely, whether there is still opportunity to invest. This Fund focuses on the values created by changes, even by falling prices.

See the April 1, 2013, Issue for a complete analysis of all no-load energy funds.

Leucadia (LUK) is up 31.9 percent this year, extending our profit to 53 percent. The stock price has not moved significantly since we recommended selling LUK in our May 14 blog. If you did not see the blog, we still recommend selling LUK.

To reiterate, the company is in a state of flux and has become more complicated as a result of the recent purchase of the investment banking group, Jefferies. In addition, the roles of Leucadia’s founders and brains, Ian Cumming and Joseph Steinberg, are changing.

The Chief Executive Officer and Chairman of Jefferies, Richard Handler, is replacing Ian Cumming Chief Executive Officer of Leucadia, and Ian Cumming is retiring. Although Joseph Steinberg will continue to work full-time as an executive and become Chairman of the Board, the make-up of the board is changing as a result of the efforts of Mr. Handler.

Mr. Handler, once a junk bond trader at Drexel Burnham Lambert prior to building Jefferies’ bond trading business in the 1990s, is proposing to cut down the LUK board from 14 to 9, and re-shape the board by replacing 7 LUK directors with five legacy Jefferies directors and two new nominees. This is very unusual. In most merger and acquisition transactions, the acquiring entity often retains a majority of board positions with a minority (or none at all) from the acquired entity.

The two new nominees are Robert Beyer, former CEO of The TCW Group, Inc. and Stuart Reese, former CEO of Massachusetts Mutual Life Insurance Company, both of whom have close ties to Mr. Handler. Mr. Beyer was a former colleague of Mr. Handler at the Beverly Hills California investment bank which collapsed in 1990. Mr. Reese ran Massachusetts

Mutual, a firm with whom Jefferies created a lending joint venture in 2004.

LUK is no longer the company in which we originally invested nor is it headed by the same people. The changes could be good, but it is not clear and LUK has become more complicated which makes it difficult to analyze. Accordingly, we believe it is time to take our 55 percent profit and look for better-defined opportunities elsewhere.

Masco (MAS) was up 59 percent last year and up another 26 percent this year, extending our profit to 185 percent. MAS manufactures a wide range of products for home construction and remodeling—everything from kitchen cabinets and faucets to windows and paint.

We added MAS to the portfolio at \$7.49 after the shares got hammered during the recession. However, the share price has rocketed, bringing the price/earnings ratio to 32 times the 2013 earnings estimate of \$0.60 a share. This high price/earnings ratio is already anticipating a steep growth rate. We continue to recommend waiting for a pullback to accumulate more shares.

Maxim Integrated Products (MXIM) is unchanged this year, leaving our profit at 52 percent. MXIM specializes in high-performance electronic chips that convert digital signals into analog format. Such chips are in every cell phone. After receiving a digital signal, it must be transformed into an analog format so that we can hear it.

MXIM also makes integrated power management chips (PMIC) for portable devices makers to extend battery lives.

Revenues and earnings are growing sharply. Samsung’s cell phones and tablets are now contributing to 40 percent of MXIM’s revenues and 30 percent of earnings.

The Samsung Galaxy S4 smartphone went on sale the last week of April and is the top-selling phone. In second place Samsung’s previous model, the Galaxy SIII. In third place is Apple’s iPhone.

The importance of Samsung is both a benefit and a risk. To diversify, MXIM is starting to sell integrated power management chips to other smartphone manufacturers who are aiming for growth in lower-priced handsets in emerging markets.

MXIM is in excellent financial health with more than \$1.5 billion of cash and plenty of cash flow to support operations. The investment and resources necessary to develop MXIM’s analog chips, and the years it takes to develop them, is an entry barrier for new competition. Once developed, these chips have long and profitable product lives.

Paychex (PAYX) is up 19.7 percent this year, extending our profit to 38 percent.

PAYX is the second-largest provider of payroll services to small to medium-sized companies serving a total of approximately 567,000 payroll clients. Accordingly, its revenues and earnings directly mirror the employment situation. There is definitely further growth ahead with a

Income With Growth	Sym	Exchange	Price	Yield	Limit	Action
Associated Estates Realty Corp	AEC	NYSE/Nasdaq	\$ 16.43	4.63%	\$ 19.00	BUY
CommonWealth REIT	CWH	NYSE	\$ 20.44	4.89%	\$ 22.00	HOLD
Retail Opportunity Investment Corp	ROIC	NASDAQ	\$ 14.05	3.99%	\$ 17.00	BUY
Diversified Growth						
CGM Realty Fund	CGMRX	800-343-5678	\$ 31.48	0.83%	\$ 35.00	BUY
Comcast	CMCSA	NASDAQ	\$ 40.17	1.62%	\$ 42.00	BUY
Leucadia National Corp.	LUK	NYSE	\$ 31.38	3.19%	\$ -	SELL
Masco	MAS	NYSE	\$ 21.02	1.43%	\$ 18.00	HOLD
Paychex	PAYX	NASDAQ	\$ 37.23	3.44%	\$ 34.00	HOLD
Pfizer	PFE	NYSE	\$ 27.23	3.23%	\$ 30.00	BUY
Stryker Corp.	SYK	NYSE	\$ 66.39	1.28%	\$ 70.00	BUY
Xerox	XRX	NYSE	\$ 8.79	1.93%	\$ 10.00	BUY
Energy/Natural Resources						
Agrium	AGU	NYSE/TSE	\$ 92.38	2.16%	\$ 110.00	BUY
Chesapeake Energy Corp	CHK	NYSE	\$ 21.84	1.60%	\$ 24.00	BUY
Fidelity Select Nat. Gas Fund	FSNGX	800-544-8888	\$ 34.57	0.16%	\$ 36.00	BUY
ICON Energy Fund Class S	ICENX	800-435-5697	\$ 22.39	0.00%	\$ 25.00	BUY
Tetra Tech	TTEK	NASDAQ	\$ 27.57	0.00%	\$ 26.00	HOLD
USAA Precious Metals & Minerals	USAGX	800-862-6909	\$ 17.02	0.47%	\$ 18.00	BUY
Aggressive Growth						
AMN Healthcare	AHS	NYSE	\$ 13.39	0.00%	\$ 11.00	HOLD
Boston Scientific	BSX	NYSE	\$ 9.24	0.00%	\$ 9.50	BUY
ETF - Direxion Daily 20+ Yr Bear 3X	TMV	NYSE	\$ 59.30	0.00%	\$ 65.00	BUY
ETF - ProShares Short 20+ Year Trsry	TBF	NYSE	\$ 30.46	0.00%	\$ 34.00	BUY
ETF - ProShares UltraShort 20+ Year Trsry	TBT	NYSE	\$ 68.09	0.00%	\$ 72.00	BUY
H&Q Life Sciences Fund	HQL	NYSE	\$ 19.04	5.67%	\$ 18.00	HOLD
Maxim Integrated	MXIM	NASDAQ	\$ 29.49	2.98%	\$ 33.00	BUY
Symantec	SYMC	NASDAQ	\$ 22.39	0.00%	\$ 25.00	BUY
Tellabs	TLAB	NASDAQ	\$ 2.08	0.00%	\$ 2.50	BUY

Prices are as of 4/30/2013. See our website for live pricing and buy limits.

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

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

recovery in the economy. Another attractive feature is its pristine with no long-term debt exposure.

However, in its typical fashion, the market has been anticipating future growth by bidding up the stock price. The price/earnings ratio is currently 22 based on 2013 earnings estimated at \$1.60. A P/E of 22 is above the market average of approximately 14 and not a bargain, so we would recommend not chasing it higher.

We recommend that you hold for now and wait to accumulate any more shares on weakness.

Pfizer (PFE) is up 8.6 percent this year, extending our profit to 63 percent.

We added PFE to the portfolio when it became dirt cheap as the expiration date approached on its blockbuster drug, Lipitor. However, its future was brighter due to the arsenal of new

pharmaceutical products. Pfizer is poised to launch several blockbusters in cancer, heart disease, and immunology.

Pfizer is the world's largest pharmaceutical firm, with annual sales near \$60 billion. Pfizer's large size gives it economy of scale and the resources to finance the research and development of new drugs. It has more than 80 drugs in the development stage and 90 in the discovery stage.

To take advantage of the current low interest rate environment, in May PFE sold \$4 billion in bonds which was its first debt offering since 2009 (the last time interest rates were this low). The bonds were priced with yields approximately 50 basis point (one-half of one percent) over Treasury bond yields of similar maturity lengths.

Also in May, PFE joined forces with CVS Pharmacy to sell one of its most profitable drugs, Viagra, online in order to combat its most counterfeited medication.

PFE evaluated the top 22 websites and conducted chemical analysis of the pills. The study found that about 80 percent of the online sales were counterfeit pills and contained only 30 percent to 50 percent of the amount of active ingredient, sildenafil citrate.

Matthew Bassiur, vice president, Pfizer Global Security, said “We have seen counterfeit medicines manufactured in filthy and deplorable conditions, yet some people do not realize the risks that this poses to their health and safety, our top priority. Counterfeit medicines often contain the wrong or incorrect levels of active ingredient, as well as potentially dangerous contaminants. Samples of counterfeit Viagra tested by our labs have contained pesticides, wallboard, commercial paint and printer ink. These findings motivate us to continue our aggressive global efforts to stop those who prey on unsuspecting patients.”

This may be one of many collaborations with pharmacies to increase revenue by reducing competition from counterfeiters.

Also in May, PFE management announced that it is considering splitting PFE into two separate companies: one for brand drugs and one for generic drugs. The CFO believes it is a “viable plan.” CEO Ian Read said “It would take two to three years for separating the businesses. We’d like to start operating those businesses more independently and give investors more visibility and then assess the advantages and disadvantages.”

PFE has an extensive sales force to market its products in nations where growth and increasing wealth is strong, including Brazil, Russia, India, China, and Turkey. PFE has devoted the resources to arm its salesforce with plenty of data for marketing.

Retail Opportunities Investment Corp (ROIC) is up 9.3 percent this year, extending our profit to 33 percent. This REIT began as an IPO in October 2009, just after the REIT sector had been decimated by the 2008 melt-down. It started with a fresh slate in a real estate market replete with bargains.

It is a simple model: buy distressed retail properties with high-quality demographics, refurbish them, and then lease them at a premium. As new properties are added, along with tenant upgrades, FFO is bound to continue to rise, along with the dividend, and push the price of this REIT upward.

In May, ROIC reported solid first-quarter earnings. Its same-center cash net operating income increased 7.9 percent over the same quarter last year.

Stuart Tanz, President and Chief Executive Officer said “We are fully on track with achieving our targeted acquisition, management and leasing goals for the year. Thus far, we have acquired \$122.8 million of grocery-anchored shopping centers year-to-date and our pipeline of acquisition opportunities continues to be active. In terms of property operations, we again posted strong results during the first quarter. We leased 171,200 square feet, increased occupancy by 110 ba-

sis points, from a year ago, to 93.4% ... our financial position continues to be strong. Accordingly, we are well-positioned to continue growing our portfolio and business.”

Based on its peers (Regency Centers, Acadia Realty Trust, and Kimco Properties), ROIC should trade close to \$18 a share in today’s market.

Stryker (SYK) is up 21 percent so far this year, extending our profit to 60 percent. SYK is best known for its orthopedic devices: artificial knees and hips. SYK also provides a diverse array of innovative medical technologies, including reconstructive, medical and surgical, as well as neuro-technological and spine products.

Reconstructive implants account for 45 percent of SYK’s revenues, and more profits are assured by accelerating demand for joint replacements on aging 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 (with over \$2 billion in net cash) and robust cash flow, gives SYK multiple avenues for growth through mergers and acquisitions. The stock hit a new 52-week high in May.

Symantec (SYMC) is up 19 percent this year, extending our profit to 34 percent. SYMC is the dominant supplier of software for computer security and protection against viruses and other nuisances through its leading flagship brand, Norton.

We added SYMC to our portfolio when it was cheap and when the company was suffering from operational inefficiency and lack of direction. In July, 2012, Steve Bennett took over as the new CEO and has streamlined operations while giving SYMC stronger direction.

SYMC is expanding its cloud computing customer base through its new product “Norton Zone” which allows users to safely access, sync, and share photos, videos and documents from any of their PC, Mac, Android, or iPhones and iPads.

Protection from cyberespionage is definitely a growth industry. There was a 42 percent surge in attacks during 2012. Mobile malware increased by 58 percent, and 32 percent of all mobile threats attempted to steal information, such as e-mail addresses and phone numbers. This year’s data shows that cybercriminals aren’t slowing down. They continue to devise new ways to steal information.

In May, SYMC reported its fourth quarter and fiscal year 2013 ending March 29 was up 4 percent year-over-year.

Steve Bennett said “In a year of significant leadership changes and development of a new company strategy, the team remained focused on running the business to deliver better than expected results. Our focus on operational change and repositioning the business in fiscal year 2014 will set the foundation to drive better execution long-term. Never have I been more optimistic about the opportunity in front of us to make a difference for our employees, customers and shareholders.”

James Beer, executive vice president and chief financial officer, said “We achieved better than expected March quarter results driven by double digit growth in our backup business and continued strength in data loss prevention and our other information security products.”

Tellabs (TLAB) designs and manufactures hardware for the telecommunications industry. It is down slightly this year, still near its all-time low and is a bargain at this price.

The company’s balance sheet at the end of its most recent quarter shows cash and equivalents of \$1.13 billion, which works out to \$3.14 per share. Adding in its other assets, including properties and equipment (less depreciation), but excluding the paper assets of Goodwill and Intangibles, TLAB’s assets total \$1.42 billion, or \$3.95 a share.

The company has no debt, but short-term liabilities total \$507 million, leaving net assets of \$912 million, or \$2.54 per share.

TLAB has been hurt by falling demand in Europe along with falling revenues from its largest customer, AT&T.

The company’s deficits are getting smaller with each quarter. The most recent quarter saw a net loss of \$55.9 million or 16 cents per share, as compared to a net loss of \$139.8 million or 38 cents per share in the previous quarter.

TLAB is restructuring its operations and has discontinued unprofitable products while new products (the 8600 and 8800 routers) show promise and are expected to lead to the company’s profitability in 2014.

The company has plenty of cash to survive until it can turn a profit, even if profits are delayed substantially. TLAB has begun buying back its shares, and plans to reduce the float by 20 percent.

At a discount to its net assets, there is very little downside risk. As profitability comes into focus, the market will anticipate a brighter day ahead and bid up share prices.

Tetra Tech (TTEK) is up 4.2 percent this year, extending our profit to 79 percent. TTEK is a leading company in water technologies and environmental remediation with a healthy balance sheet.

In May, TTEK reported second-quarter earnings of \$0.38 a share, up 9 percent over the same quarter last year. Cash generated from operations was \$44.3 million, up 33.8 percent.

Dan Batrack, Chairman and CEO, commented, “We generated second quarter results that were in-line with our expectations and guidance. We continue to experience strong demand for our water and environmental services from commercial clients, especially with our oil & gas customers.” TTEK currently has a record backlog of work totaling \$2.03 billion which includes cleaning up the McClellan Business Park in California (formerly the McClellan Air Force Base), remediating the Naval Facilities in North Carolina, Virginia, Maryland, Connecticut, Maine, West Virginia, Africa, and Vieques, Puerto Rico.

The greatest growth potential lies outside the United States in China and India, where environmental concerns have been at best an afterthought. Only now are these governments starting to recognize the consequences. As these and other governments around the world make this a priority, Tetra Tech should be a prime beneficiary.

USAA Precious Metals & Minerals Fund (USAGX) is down 34 percent this year as the price of gold suffers. However, a brighter day is ahead.

When the economy gets more traction, USAGX will benefit from the Federal Reserve’s monetary stimulus programs which have been printing money to make massive purchases of Treasuries and mortgage-backed securities. All these extra dollars will raise inflationary expectations, and precious metals will be a direct beneficiary.

USAGX is the best diversified way to invest in precious metals. It is the top-performing fund, and has constantly outperformed precious metal equities for ten years. Even after the poor markets and declines of precious metals, USAGX still provided an annualized return of 11.5 percent over the last ten years through the end of May.

Xerox (XRX) has climbed 29 percent this year. XRX has been transforming from a seller of printers and copiers to a company providing services on those machines as well as I.T. services in a variety of other areas. The revenue from services is more profitable and less cyclical, and it now accounts for half of XRX’s revenues.

The addition of a substantial amount of new service clients in 2012 were a drag on earnings because they required start-up expenses. However, revenues began to show up in the fourth quarter, resulting in higher than expected earnings, even off-setting poor European results.

Net growth is expected to continue from services as well as technological advances in its color output equipment. Xerox has quietly been ushering in the next generation of new digital color-output equipment which should benefit 2014’s bottom line.

Meanwhile, XRX continues to buy back its own stock. After buying \$700 million in 2011 and \$1.1 billion in 2012, stock purchases will likely be within this range in 2013 and 2014.

XRX is expected to earn \$1.00 per share and at least \$1.10 next year. At 8.4 times 2013 earnings, XRX is at a steep discount to the market’s price earnings ratio of 15. XRX is still dirt cheap.

Morningstar’s fair value estimate of the stock is currently \$11 per share which is still only 11 times 2013 earnings. However, even \$11 is 28 percent above the current price.

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

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

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

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

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

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

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

The figures show that over the entire century-plus, stock prices have outperformed housing prices. Just based on the price growth of each investment market and assuming no leverage was used, a \$25,000 investment would have grown to \$9,729,412 in stocks and to \$1,444,681 in houses.

But though an investment beginning with \$25,000 in 1895 could have made money being in either stocks or housing and simply leaving it there over such a long period of time, had the investor followed the signals of the **SoundAdvice** Risk Indicator he would have made \$386,704,155, or 39.7 times more money—the difference between profits the buy-and-hold stock market strategy would have yielded by itself and the profits that the **SoundAdvice** Risk Indicator would have provided.

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

The SoundAdvice Risk Indicator

The latest reading for the **Sound Advice** Risk Indicator is 1.61. This reading reveals that stock prices are above average in relation to house prices. The February 2009 reading of 0.77 marked the low for this cycle as well as the beginning of Supercycle 6.

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

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

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

An "Aggressive" signal coming at a time when the Risk Indicator was below 1.0 revealed that Supercycle 5 came to an end, and that Supercycle 6 was born.

The SoundAdvice Diffusion Index of Lagging Indicators gives "Caution" signals when all three of its individual lagging economic indicators rise above their respective levels of six months earlier, providing a 100 percent reading which reveals that the economy is about to put upward pressures on interest rates. This index hit 100% in March 2012 (reported in April - close to the peak of the market) telling us to move to a cautious approach.

Our next signal will come from a zero reading from our Diffusion Index of Leading Indicators. The latest reading is 100 percent.

Each month we project into future months the current readings for our hand-picked individual leading economic indicators that go into our Diffusion Index of Leading Indicators. We do this to see if a zero reading will be recorded assuming the readings stayed the same. However, due to significant increases in all of the leading indicators, we will not see a new signal (zero reading) in the months ahead unless the economy shows significant weakness.

Track Record of the SoundAdvice Diffusion Indexes

If we had followed the signals from our Diffusion Indexes over the years, we would have done very well indeed. The results are shown below. After each "Aggressive" signal, the S&P 500 climbed an average of 34.4 percent. During "Caution" signals, the S&P 500 declined an average of 0.1 percent.

Aggressive	S&P	Caution	S&P
Sep-74	68.1	Apr-76	101.9
Jul-76	104.2	Dec-76	104.7
Oct-78	100.6	Jun-79	101.7
Nov-79	100.0	Oct-83	167.7
Aug-84	164.5	Jun-85	188.9
Jul-86	240.2	Aug-87	329.4
Feb-88	258.1	Jun-88	270.7
Mar-89	280.0	Mar-93	449.7
Mar-95	493.2	Dec-98	1,141.0
Jun-00	1,429.4	Dec-00	1,320.3
Jun-03	974.5	May-05	1,191.5
Jun-06	1,276.7	Mar-08	1,325.4
Apr-09	848.2	Mar-12	1,370.3
Ave +/-	34.4%		-0.1%

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.)

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