



The *Sound Advice* portfolio is up 26.4 percent so far this year, assuming an equal amount was invested in each position at the beginning of the year. After introducing 4 new recommendations and taking significant profits in 6 positions this year, the portfolio has an average gain of 66 percent based on the prices at which each stock, ETF, or mutual fund was originally recommended.

This month we are recommending **Hersha Hospitality Trust (HT)**. The rationale and details regarding this move are discussed in detail in this issue.

-Gray Emerson Cardiff

Hersha Hospitality Trust

We are recommending **Hersha Hospitality Trust (HT)** as a timely addition to our portfolio. Hotels in general are cyclical investments and benefit strongly from an economic expansion. The timing is particularly good right now for the Hersha portfolio of hotels because the company is making substantial improvements and additions to its portfolio.

Hersha has interests in 64 hotels concentrated in its core markets of New York, Washington DC, Boston, Philadelphia, San Diego, Los Angeles and Miami. The assets are characterized as a young, high-quality portfolio of hotels in metro areas with high barriers to entry. Eighty-five percent of Hersha's hotels are also well-branded as Hilton (27%), Intercontinental (24%), Marriott (21%), and Hyatt (13%).

Valuation

The value of commercial real estate is determined by the net operating income (income after operating expenses) that it produces. Currently the net operating income from Hersha's hotels is substantially below its potential because income has been temporarily interrupted by renovations on several significant properties. Also adversely affecting income is the fact that several new acquisitions are either not on stream yet or are still ramping up.

However, even based on the current (third quarter) net operating income, we calculate the value of the company's assets to be \$6.36 a share. This valuation is temporarily low. As Hersha's net operating income increases in future quarters, so will its net asset value.

The stock is currently trading at \$5.60, which is a 12 percent discount to its net assets of \$6.36 a share. In addition, the dividend of \$0.24 a year (slightly more than a 4 percent yield) is well-covered by funds from operations (FFO) of close to double the dividend payout.

Recent Developments

Hersha recently contracted to sell 16 hotels that have been a drag on revenues. The company projects the revenue per available room (RevPAR is the parlance in the financial reports) of its core portfolio of hotels is 70 percent higher than the 16 hotels being sold.

In addition, these 16 hotels were in markets that did not possess the promising growth trajectories present in HT's core markets. This and other recent sales allow Hersha to pay down debt and pursue more promising acquisitions in their core markets without having to access capital markets.

Although third quarter results were depressed, they are still encouraging. The same hotel RevPAR increased 3.5 percent to \$146.56 which marked a new company record. Average daily rates (ADR) increased 2 percent. Occupancy increased by 1.2 percentage points to 83.6 percent which exceeded Hersha's prior peak occupancy.

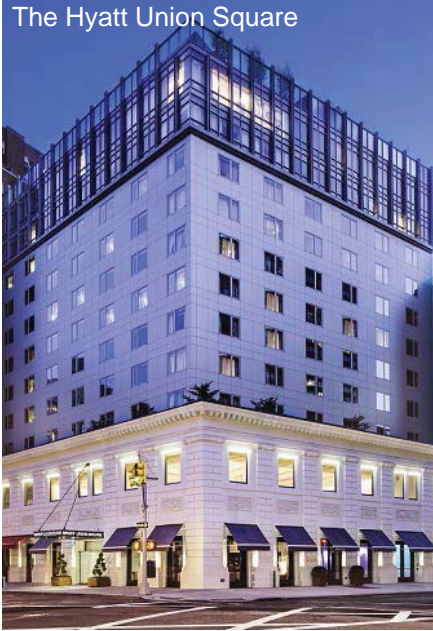
Third quarter was particularly impacted by disruptions in income and occupancy from renovating several major properties, especially the Courtyard in Miami, The Boxer in Boston, and The Rittenhouse in Philadelphia. However, these projects are scheduled to be finished in the first half of 2014 and will make significant additions to income.

There are also a number of other properties that will be contributing substantially to income growth in 2014 and the immediate years ahead.

New York, New York

Hersha's largest concentration of assets is in metropolitan New York where demand for hotel rooms is robust from international travelers as well as from leisure and business travelers.

The Hyatt Union Square



Also adversely affecting the third quarter were startup expenses at the Hyatt Union Square which was opened just 6 months ago. Hersha projects this property is about to be its largest income producer. This New York City iconic hotel was included in the Fodor's 100 Hotel Awards in October.

The Hyatt Union Square was purchased for \$105 million, or \$590,000 per room. This was well below the replacement cost

of \$700,000 to \$725,000 per room.

There have been 4 other comparable transactions in 2013 averaging \$688,017 per room, including the Helmsley Park Lane Hotel at \$1,090,604 per room.

Also adding to income will be the delivery and stabilization of the 205-room Hilton Garden Inn on 52nd street in Midtown East which is being purchased for \$361,000 per room -- 25 percent below the average for recent transactions. The barriers to entry have made this only the second hotel to open in this submarket in the last 15 years.

This hotel, along with the 81-room Hampton Inn on Pearl Street, is scheduled to open in the first quarter of 2014.

Miami

Miami metro has recovered more rapidly than almost all markets in the country. It has metrics similar to New York.

Hersha recently purchased The Courtyard Miami Beach Oceanfront for \$337,000 per room. Hersha has been expanding the property by adding a tower, and it is scheduled to reopen shortly.



Courtyard Miami Beach Oceanfront

Hersha is also purchasing the Residence Inn located in Coconut Grove, a high barrier-to-entry market that has not seen new lodging supply since 2000.



Residence Inn Coconut Grove

Hersha purchased this property for \$156,000 per room from a distressed seller, significantly below replacement cost. This property saw its RevPAR grow 16.4 percent in 2012 and 15.2 percent in 2013. After renovations, management is expecting an 11 percent yield from this property.

West Coast

Hersha is in the process of purchasing the 245-room Courtyard Downtown San Diego for \$290,000 per room. A \$6.4 million renovation (\$26,000 per room) was completed in May 2013. The two comparable transactions in 2013 averaged \$333,581.



Courtyard Downtown San Diego

San Diego is historically a resilient lodging market due to its climate that attracts strong convention and leisure demand. A one million square foot convention center addition is scheduled in 2016 which will boost hotel room demand.

Another west coast acquisition was announced in November, the Hotel Oceana in Santa Barbara, which is in one of the highest barrier-to-entry markets given the zoning regulations and lack of feasibly-priced land.



Hotel Oceana Santa Barbara

This property was purchased for \$344,000 per room, an attractive price especially considering it had a \$1.7 million renovation in 2008. Hersha's management is targeting a 9 percent yield for this property.

The Management

Hersha has a history of outperforming the industry and is poised to continue to do so. Hersha's average operating margin is 42 percent which leads the industry and is far above the average of 33.7 percent.

Part of the reason for its superior margins is the nature of the hotels themselves. In Manhattan, where Hersha derives 57 percent of its earnings, its hotels average 137 rooms versus the average of 210. The smaller size allows for more effective yield management and less reliance on group-related activity.

The hotels are also relatively young with 60 percent of rooms opening within the last 4 years. With 13 hotels (15 by early next year), there is synergy because business can be moved among hotels depending on room availability.

Other Notable Hersha Hotels



The Rittenhouse
Philadelphia



Courtyard Brookline
Boston



Courtyard Los
Angeles Westside



Hampton Inn
Washington DC

Conclusion

Hersha has an excellent risk/reward ratio. Risk is minimized with the stock below a currently depressed net asset value. The dividend is solid because it is well-covered by FFO. A yield of 4+ percent is attractive and limits downside movement in the stock price.

Upside is strong for several reasons. With income ramping up from portfolio additions and renovation conclusions, Hersha is poised for organic growth. In addition, hotel assets in general are sensitive to the business cycle and will benefit strongly from the economic recovery. With Hersha's history of out-performing the industry, capital gains should be high from the present price of the stock. Moreover, with its niche assets and attractive stock price, Hersha is a very attractive take-over target.

Our "No-Brainers"

Our "No-Brainers" are ETFs designed to benefit from rising long-term Treasury Bonds. We have dubbed these ETFs as "No-Brainers" because interest rates always rise after a recession during the recovery. It is as simple as that.

So far, we have a 38 percent gain in the [Direxion Daily 20 Plus Year Bear 3 Shares \(TMV\)](#) which uses 3:1 leverage.

We have a 28 percent gain in the [Proshares Ultrashort Lehman 20 Plus Year Treasury \(TBT\)](#), which uses 2:1 leverage.

We have a 11 percent gain in the [Proshares Short 20 Plus Year Treasury \(TBF\)](#), which uses no leverage.

These are nice gains but we believe there are considerably more to come.

Treasury bond yields rose sharply a few months ago when the Fed mentioned it may start tapering its bond-buying program if the economy continued to show strength. Then came the Government wrangling and shutdown which

brought an economic cloud and caused yields to pull back somewhat.

Then, last week, bond yields jumped again as the minutes were released from the latest Federal Reserve meeting and revealed more taper talk. The minutes showed that Federal Reserve officials could decide to start tapering at one of its next few meetings provided this was warranted by economic growth.

Taper talk always gives the bond market the willies because yields are bound to rise as the Federal Reserve's bond-buying is scaled back. Just exactly when the tapering will start is dependent on economic data.

We still have the government in the way during the next few months. The 29 members of the Budget Conference Committee are charged with the mission of avoiding another Government shutdown and resolving budget issues. By December 13, the Committee is to present a finalized budget plan for fiscal year 2014. Republicans remain opposed to tax increases, and Democrats want more revenue in exchange for spending cuts. We are bound to see another round of political brinksmanship, to January 15, when Congress must extend government funding to avoid another shutdown.

As these deadlines approach, we should be prepared for market volatility. However, we need to keep the big picture in mind: The economy is recovering despite the headwinds of Government grid-lock, sequestration, and other Government bungling.

That means tapering is on the horizon and it is an event that markets will anticipate. That means more upside for our No-Brainers.

The most recent time long-term Treasury bond yields rose significantly was from December 18, 2008 to June 10, 2009, (118 trading days) when 30-year Treasury bond yields rose from 2.55 percent to 4.75 percent, or 220 basis

points. The pattern of this rise is shown on the top chart.

Our No-Brainer ETFs did not exist during this entire period, so we don't have historical track records to view. However, we know how these ETFs work, and can model them to get an idea of the profit potential.

The price action of these ETFs is based on the changes in long-term treasury bonds, specifically BlackRock's iShares 20+ Year Treasury Bond ETF (symbol TLT) which holds a portfolio exclusively of long-term Treasury bonds with an average maturity length of 27.5 years. The prices of our No-Brainer ETFs fluctuate in accordance with the daily fluctuations of TLT, only in the opposite direction, multiplied by the leverage each uses. For example, a decline of say, 1.0 percent in TLT will cause TMV to increase by 3.0 percent, TBT by 2.0 percent, and TBF by 1.0 percent. Conversely, an increase in TLT will cause our No-Brainers to drop in the same fashion.

To construct our models, we start with a projection of an increase in 30-year Treasury bond yields. A conservative approach would be to assume that long-term Treasury bond yields will not rise beyond 4.75 percent -- not any higher than the last peak. We can use the pattern of the last 31 days of the 220 basis point rise when yields rose from today's yield of 3.83 percent to the peak of 4.75 percent. In that scenario, our No-Brainers would rise to the following levels:

- TMV** would climb to \$105, for a 51 percent gain.
- TBT** would climb to \$102, for a 35 percent gain.
- TBF** would climb to \$37.5, for a 16 percent gain.

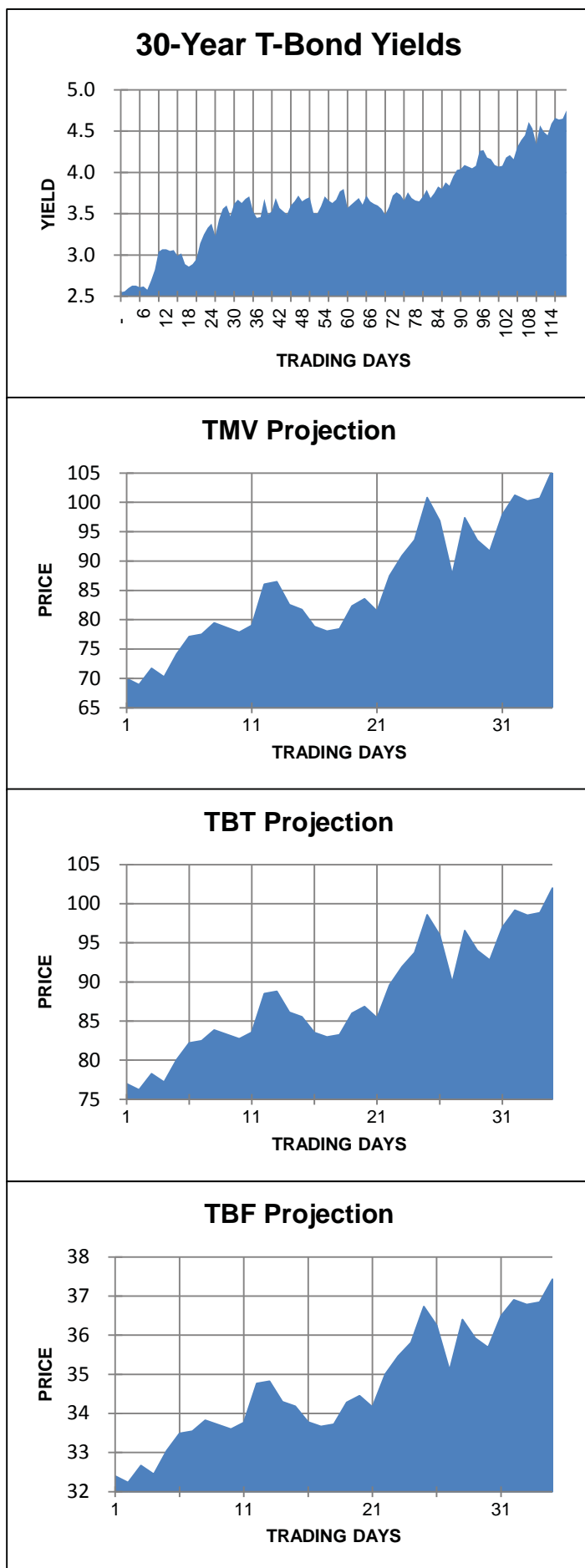
See the charts on the right which display these projections.

While the pattern of today's rise is unlikely to be exactly the same as the previous rise, we believe this projection serves as a minimum expectation. After yields rose to 4.75 percent on the last rise, the economy was considerably weaker than it is today and went into a decline.

However, this time bond yields are likely to continue marching substantially higher in view of many years of stimulus from the Federal Reserve.

We include the chart on the next page showing the yields of long-term Treasury bonds for the added perspective that today's yields are still historically low, and that the only significant room for movement is upward.

If you are not already fully invested in our No-Brainers, we recommend accumulating more on any weakness. There are still large gains to be made.



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 historically low.

Source: Yahoo! Finance

Portfolio Updates

Here are updates on the rest of our recommendations in alphabetical order. The table on page 9 details our buy limits and other information on each recommendation, and organizes them by investment objective. Also see our website for live pricing.

Agrium (AGU) is down 12 percent this year, trimming our profit to 660 percent. AGU has a broad mix of fertilizers as well as other agricultural products and services. Earnings have been impeded this year by downward volatility in the world potash market primarily because of the break-up of the Russian potash cartel called the Belarusian Potash Company.

During the third quarter, AGU bolstered its retail side of the business by completing its acquisition of Viterra assets which added 210 retail farm centers in Canada. This added a significant source of immediate growth. The third quarter marked the first time that earnings from the retail side surpassed all other sources of earnings. Also in the third quarter, AGU doubled the dividend to \$3.00 a share.

At less than 10 times earnings, AGU is an excellent value with promising growth ahead from a broad array of agricultural products and services for which there is growing worldwide demand while arable land continues

to disappear and the need for higher food production per acre increases. Growth is also fueled by an expanding worldwide population along with increasing per-capita income.

AMN Healthcare (AHS) is up 20 percent this year, extending our profit to 161 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 was 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.

As the stock advanced and its price/earnings (P/E) ratio expanded, ultimately climbing over 25, we recommended holding off on purchases. In October, the stock dipped into our buy range. If you picked up more shares you have a profit because the stock price rose above our upper buy limit again.

Associated Estates Realty Corp (AEC) is essentially unchanged this year, leaving our gain at 13 percent. AEC is selling at a discount to its peers.

If we are considering investing in a REIT, the first question to ask is "What am I paying for the real estate?"

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In other words, what is the stock market paying for the real estate based on the current price of the REIT?

We can determine what the stock market is paying for the underlying real estate by starting with the market capitalization of the REIT. That is simply the market price of the stock times the number of outstanding shares. We then back out the non-real estate assets and liabilities, including any debt. What remains is the price that the stock market is currently paying for the real estate.

Currently the market is pricing the underlying real estate of the other nine apartment REITs at a 6.2 capitalization (cap) rate.

If we value AEC's apartment properties at a 6.2 percent cap rate, AEC is worth \$21.67 per share which is 40 percent more than the current stock price. This is an excellent value with a nice dividend.

Boston Scientific (BSX) is up this year extending our profit to 27 percent. 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.

As we reported in detail last month, BSX is showing strong progress in all of its product markets.

Emerging markets only accounted for 4 percent of revenue in 2012, so there is considerable room for growth. In September, BSX opened its first Chinese branch in Shanghai of the Boston Scientific Institute for Advancing Science (IAS) as well as its new Innovation Center. Through these facilities, BSX will foster local talent to develop new technologies uniquely suited to the China market.

Chesapeake Energy (CHK) is up 60 percent this year giving us an equivalent gain since we added it to the portfolio last year. CHK is the second largest producer of natural gas and pioneered the use of fracking technology to produce oil and liquids from shale. We added CHK to the portfolio because it was cheap due to 3 primary problems: low natural gas prices, poor corporate governance, and a financial squeeze, all of which were temporary or could be remedied.

Natural gas prices have risen substantially. Shortly after we recommended CHK, Carl Icahn purchased a substantial stake and was instrumental in changing the corporate governance by removing the founder, Aubrey McClendon, as chairman of the board and replacing several other board members. Doug Lawler officially took over as CEO in June, coming from Anadarko Petroleum and its predecessor Kerr-McGee, and is reorganizing and reducing expenses. In September, the company announced that no more asset sales will be required to overcome the financial squeeze.

With these problems and distractions behind it, the company will be able to put more of its capital budget toward drilling and focus on improving production and revenue.

The majority of CHK's oil and gas assets remain

unexploited, and the company's new management team should be able to develop these assets into cash generating projects. This will increase shareholder value from here.

Commonwealth REIT (CWH) is up this year since activists Corvex Management and Related Fund Management began their proxy fight to oust the management, extending our profit to 19 percent.

These activists stated that they believe CWH is worth at least \$40 a share, and \$50 with better management and commenced a proxy fight to remove management and the entire Board of Trustees. Over 70 percent of the outstanding stockholders voted with the activists.

CWH management contested the validity of the consent solicitation. To entrench their position, management instituted a new rule that only shareholders with at least 3 percent ownership for 3 years could seek changes to the company's board.

The arbitration panel just ruled that the 3-year rule was invalid, and that the previous proxy solicitation was also not valid. However, it set specific rules for how a new vote may proceed.

Activist Corvex and Related Funds said that they will "expeditiously notify Commonwealth, its trustees and the arbitration panel of their intent to pursue a new solicitation and promptly file a preliminary consent solicitation statement with the SEC." Needless to say, we recommend voting in favor of the activists to replace management and the board.

The discount of the price of the stock to the underlying value of this REIT's net assets has been the primary reason for our recommendation. Based on the company's most recent financials, we evaluate net equity of the company's real estate to be over \$40 per share.

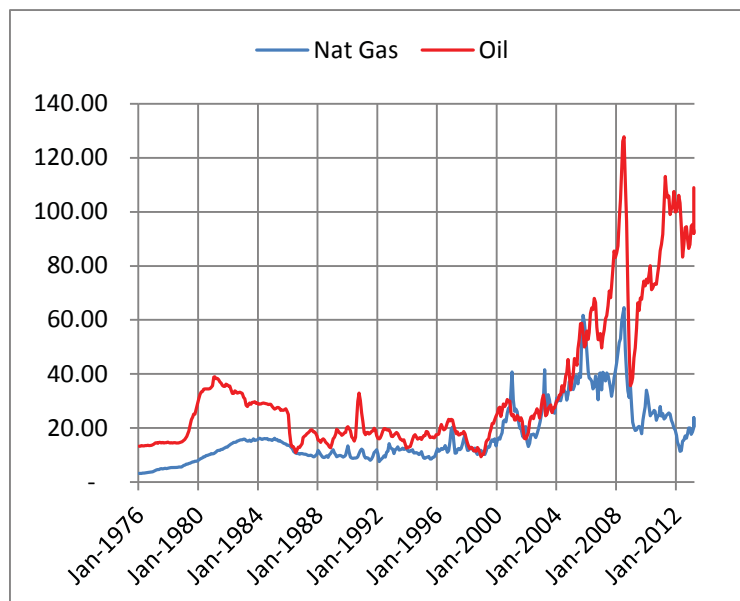
Fidelity Select Natural Gas Fund (FSNGX) is up 26 percent this year which is close to our profit. This is the only mutual fund that concentrates on the natural gas industry, and a diversified play on the gap between the energy equivalents of oil and natural gas.

Our primary reason for recommending this fund is simply that natural gas provides energy vastly cheaper than other sources of energy, which translates into an inexorably vibrant and expanding natural gas industry.

One barrel of oil provides approximately 5.8 million British Thermal Units (BTUs) of energy. One barrel of oil today is close to \$100, so that is the cost of 5.8 million BTUs of energy. On the other hand, with a market price for natural gas at \$3.50 for one million BTUs, 5.8 million BTUs will cost \$20.30 (5.8x3.50). So the same amount of energy is available for approximately 20.47 cents on the dollar -- if it is in the form of natural gas.

To illustrate the point, we continue to display the historic relationship between the costs of these two forms of energy in the chart because it demonstrates that today's disparity is not a normal situation.

The Cost of Energy Equivalents of Oil and Natural Gas



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.

The US is self-sufficient in natural gas with only 9 percent imported from Canada. At 20.30 cents on the dollar versus oil, natural gas is bound to have a growing role in America's energy needs as well as creating independence from importing oil. This fund is well positioned to benefit from an expanding natural gas industry.

Freeport-McMoRan Copper & Gold (FCX) is up 18 percent since it was recommended in the September issue as a timely addition to the portfolio. We had a good ride during the recovery coming out of the previous recession with Phelps Dodge, earning 643 percent from March 2003 to December 2006. FCX subsequently purchased Phelps Dodge and now has those valuable copper assets, along with oil and gas, some gold, and other precious metals. The current recovery should bring good fortunes as well.

In addition, China's needs for copper are voracious as their economy grows, and is bolstered by the use of copper in the power lines being constructed across the country to transport power from the western coal deposits to the eastern population centers. Revivals of the much larger Europe and US economies will be even more powerful sources of demand for copper, as well as FCX's other natural resources.

Hambrecht & Quist Life Sciences Fund (HQL) is up 42 percent this year, extending our profit to 114 percent. The

most explosive profits in the entire healthcare industry can be found in biotech companies.

The Fund's holdings have a number of promising drugs and treatments that have received FDA approvals for treatments of a variety of cancers, leukemia, and multiple sclerosis. Some of the Fund's holdings are reporting positive clinical data for key products treating pancreatic cancer, hepatitis C, cystic fibrosis, and cancer in the breast, ovaries, and lung.

There are bound to be some home runs among these holdings. HQL is a superior way to gain exposure to biotech on a diversified basis. A distribution of \$0.40 a share was announced in November.

ICON Energy Fund Class S (ICENX) is up 9 percent since it was added to the portfolio in the April issue. The demand for energy accelerates with an economic expansion because 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 centers. The best time to invest is when the economy is coming out of a slump, before demand increases. In addition, there is always the possibility of geopolitical disturbances threatening supplies and driving up energy prices.

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 all energy funds over the last 10 years. (See the April 1, 2013, Issue for a complete analysis of all no-load energy funds.)

Pfizer (PFE) is up 30 percent this year, extending our profit to 95 percent. PFE's strongest potential for blockbusters is from its oncology drugs. Recent introductions of oncology drugs include *Xalkori* for lung cancer, *Inlyta* for kidney cancer and *Bosulif* for chronic myelogenous leukemia. *Palbociclib*, an experimental treatment for advanced breast cancer, is a potential blockbuster.

Bococizumab is also promising, a cardiovascular drug for those whom statins are not effective.

Other promising drugs include the blood thinner *Eliquis*, *Xeljanz* for arthritis, *Lyrica* for nerve pain, and *Plevnar*, a vaccine against pneumococcal bacteria.

Retail Opportunities Investment Corp (ROIC) is up 17 percent this year, extending our profit to 40 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.

ROIC buys distressed retail properties with high-quality demographics, refurbishes them, and then leases them at a premium. So far this year, ROIC has acquired ten grocery-anchored shopping centers for \$368 million.

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.

Stryker (SYK) is up 35 percent so far this year, extending our profit to 80 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.

More profits are assured by accelerating demand for joint replacements on aging US baby boomers. As life expectancies continue to increase, and obesity trends continue, more and more hip, knee, and spinal procedures will be needed.

As the economies improve here and elsewhere, revenue growth is bound to continue increasing from elective surgeries. In addition, there were a significant number postponed during the recession and uncertain economic times that will become more affordable.

Stryker's cash-rich balance sheet with \$5.1 billion of cash and marketable securities, and robust cash flow, gives SYK multiple avenues for growth through mergers and acquisitions.

Symantec (SYMC) is up 24 percent this year, extending our profit to 39 percent. SYMC is the dominant supplier of software for computer security and protection against viruses and other nuisances through its leading flagship brand, Norton and its relatively 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 cyber espionage 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 cyber criminals aren't slowing down.

Tellabs (TLAB) is leaving our portfolio. The acquisition of TLAB is moving forward at \$2.45 per share and scheduled to close on December 2. The primary condition is that a majority of the stock is tendered which seems likely in view of the large holdings of officers and directors along with a few other large holders. Assuming a majority of the stock is tendered, any shares not tendered will be acquired through a second step merger at the same price paid in the tender offer.

We recommended TLAB at this price because it was below the net asset value. We were planning on a much larger gain.

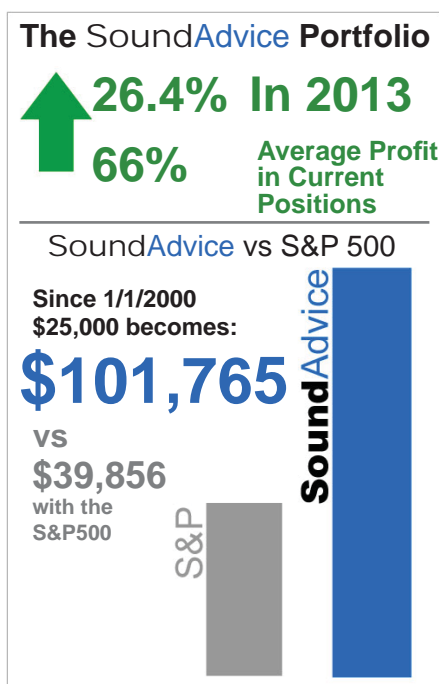
Within 2 weeks of the tender offer announcement in late October, 16 lawsuits were filed claiming the Tellabs Board of Directors breached their fiduciary duties by failing to take steps to maximize the value to shareholders.

While we agree with the claim and spirit of these lawsuits, they are common in tender offers and rarely prevent them from going through. Moreover, they generally do not produce significant benefits for stockholders. However, an immediate benefit would occur if these lawsuits prompt an increase in the \$2.45 price.

If you have not tendered your shares, you can simply wait for the second step merger to automatically exchange cash for your shares in your brokerage account at the tender offer price.

Tetra Tech (TTEK) is up 8 percent this year, extending our profit to 85 percent. TTEK is a leading company in water technologies and environmental remediation with a healthy balance sheet and a backlog of approximately \$2 billion in signed contracts to clean up military bases across the US.

While there is plenty to clean up domestically, the greatest growth potential continues to be outside the United States in China and India, where environmental concerns have been 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. The board of directors recently authorized a \$100 million common stock repurchase program.



Third Avenue Real Estate Value Investor Fund (TVRVX) is up 2.6 percent since we introduced it in the October issue as the best real estate mutual fund. It has been leading the pack of all real estate mutual funds during the last 3 years. The return during the last year was 18.11 percent, more than doubling the 8.1 percent return of the second place fund. (See the October issue for the complete report.)

Management looks for 4 fundamental characteristics before they make investments:

- 1) The issuer has an especially strong financial position.
- 2) The common stock is selling at a price that reflects at least a 20% discount from Net Asset Value ("NAV").
- 3) There is comprehensive disclosure including reliable audited financial statements; and the common stock trades in markets where regulations provide substantial protections for investors.
- 4) The prospects are that over the next three to seven years, NAV will be increasing by at least 10 percent

Income With Growth	Sym	Exchange	Price	Yield	Limit	Action
Associated Estates Realty Corp	AEC	NYSE	\$ 15.89	4.78%	\$ 17.00	BUY
CommonWealth REIT	CWH	NYSE	\$ 24.35	4.11%	\$ 25.00	BUY
Hersha Hospitality Trust	HT	NYSE	\$ 5.60	4.29%	\$ 7.00	BUY
Retail Opportunity Investment Corp	ROIC	NASDAQ	\$ 14.43	3.88%	\$ 16.00	BUY
Diversified Growth						
Pfizer	PFE	NYSE	\$ 32.14	2.74%	\$ 30.00	HOLD
Stryker Corp.	SYK	NYSE	\$ 74.74	1.14%	\$ 76.00	BUY
Third Avenue Real Estate Value Investor	TVRVX	NYSE	\$ 29.11	2.89%	\$ 32.00	BUY
Xerox	XRX	NYSE	\$ 11.23	1.51%	\$ 12.00	BUY
Energy/Natural Resources						
Agrium	AGU	NYSE	\$ 89.12	2.24%	\$ 95.00	BUY
Chesapeake Energy Corp	CHK	NYSE	\$ 26.27	1.33%	\$ 30.00	BUY
Fidelity Select Nat. Gas Fund	FSNGX	800-544-8888	\$ 38.51	0.14%	\$ 42.00	BUY
Freeport-McMoRan	FCX	NYSE	\$ 35.79	3.49%	\$ 40.00	BUY
ICON Energy Fund Class S	ICENX	800-435-5697	\$ 23.53	0.00%	\$ 25.00	BUY
Tetra Tech	TTEK	NASDAQ	\$ 28.51	0.00%	\$ 30.00	BUY
USAA Precious Metals & Minerals	USAGX	800-862-6909	\$ 13.56	3.28%	\$ 16.00	BUY
Aggressive Growth						
AMN Healthcare	AHS	NYSE	\$ 13.95	0.00%	\$ 12.00	HOLD
Boston Scientific	BSX	NYSE	\$ 11.89	0.00%	\$ 13.00	BUY
ETF - Direxion Daily 20+ Yr Bear 3X	TMV	NYSE	\$ 69.92	0.00%	\$ 79.00	BUY
ETF - ProShares Short 20+ Year Trsry	TBF	NYSE	\$ 32.43	0.00%	\$ 35.00	BUY
ETF - ProShares UltraShort 20+ Year Trsry	TBT	NYSE	\$ 77.06	0.00%	\$ 83.00	BUY
H&Q Life Sciences Fund	HQL	NYSE	\$ 19.51	0.00%	\$ 21.00	BUY
Symantec	SYMC	NASDAQ	\$ 23.10	0.00%	\$ 25.00	BUY
Tellabs	TLAB	NASDAQ	\$ 2.44	0.00%	\$ 2.42	HOLD

Prices are as of 11/25/2013. 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.

annually (including dividends).

Here is where the best real estate values can be found in a mutual fund.

USAA Precious Metals & Minerals Fund (USAGX) is down 42 percent this year as the price of precious metals suffered. However, signs of life have recently appeared in this sector as economic stagnation and slightly lower interest rates have softened the dollar.

When the economy gets more traction, the money created in recent years in the Federal Reserve's qualitative easing programs will be sloshing through the economy, putting upward pressure on the prices of commodities including precious metals.

USAGX is the best diversified way to invest in precious

metals. It is the top-performing fund in the sector, and has constantly out-performed precious metal equities for ten years.

Xerox (XRX) has climbed this year extending our profit to 31 percent. We have been recommending XRX because it has been transforming from a seller of printers and copiers to a company providing services on those machines. The strongest growth should come from the company's expansion into information technology (I.T.) services, especially in the healthcare industry where technology is needed to reduce costs.

At less than 10 times 2013 earnings, XRX is at a steep discount to the overall market and cheap in comparison to its competitors like IBM and Canon.

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 \$10,558,824 in stocks and to \$1,354,255 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 \$419,669,866, 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 SoundAdvice Risk Indicator is 1.71. 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 SoundAdvice 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 SoundAdvice 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. Our next signal will come from a zero reading from our Diffusion Index of Leading Indicators. The latest reading is 33 percent.

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, and to move to a cautious approach.

This has been a critical indicator in the past and has aided in avoiding severe declines, most notably the crash of 2008-09. However, since then, the Federal Reserve's Quantitative easing program has been holding short-term rates artificially low to stimulate the economy.

This index hit 100% in 2012 when the economy began to turn around, and marked the low-point of the long term Treasury bond yields. This indicator was instrumental in recommending our "No-Brainer" ETFs designed to profit from rising Treasury bond yields. We have continued to be bullish about stocks due to the Federal Reserve's extraordinary monetary policy which has been distorting the natural business cycle this time.

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 increased an average of 1.1 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%		1.1%

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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