SoundAdvice

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Exxon's Turnaround

The US has become the world's largest oil producer because shale oil producers continue to frack. Barring geopolitical events threatening other major supply sources, the added supply from US frackers is bound to keep oil prices meandering in the vicinity of current levels. This outlook has tarnished the energy sector and related stocks indiscriminately. In some cases, extraordinary values have been created.

We believe one of those is **Exxon Mobil (XOM)**, making it a good time to add it to the portfolio. XOM is close to a 10-year low because the company has failed to grow its production during the last decade. However, management has pulled a U-turn and has changed its strategy. The company recently started investing aggressively for growth in the Permian Basin and offshore Guyana, South America, and encouraging results are starting to show. Even with stagnant oil prices, the company's increasing production prospects are strong enough to produce significant earnings growth in the next five years.

The Permian

The Permian Basin, with 46 billion barrels of oil in reserves, is among the largest oil fields in the world and is comparable to Saudi Arabia's Ghawar Field. Exxon doubled its output in the Permian last year and the company's growth expectations have risen as a result of this recent activity. The company now expects to grow its output to more than one million barrels per day by 2025, which is 60 percent more than expected less than two years ago. In addition to being prolific, the Permian is also an economical area to recover oil. Exxon's break-even cost is $40 per barrel there. If the price of oil averages $60 per barrel, earnings from the Permian are expected to increase by four-fold by 2025 and comprise 25 percent of the entire company's earnings.

Guyana

Many years of extensive seismic studies since 2009 have led to Exxon's massive discoveries off the shore of Guyana. As in the Permian, recent activity and discoveries have increased the company's estimated reserves there, from 3 billion barrels less than two years ago to over 6 billion currently, ensuring at least 20 years of production.

Exxon just began producing oil in Guyana, which is relatively fast since its initial discovery. Exxon now expects its production in Guyana to exceed 750,000 barrels per day by 2025.

Exxon is partnering with Hess and the Chinese National Oil Corporation. Phase 1 operations are estimated to be 100,000 barrels per day for Exxon by the end of this year. Exxon plans to use its Phase 1 experience to commence Phase 2 in 2022 and double production. Exxon estimates its Phase 1 breakeven costs at roughly $35 per barrel and $25 for Phase 2.

Along with the oil from deep-water wells like these nearly always comes significant amounts of natural gas. The company has yet to publish estimates of natural gas production, but it will add to earnings.

The Dividend

The current dividend is $3.48 per share, which is greater than 5.5 percent. Exxon and our other major oil recommendation, Chevron, are the only energy companies to maintain dividend increases over many years. Exxon's dividend has increased each year for 37 consecutive years. Exxon has a top credit rating of AAA with the strongest balance sheet in the energy sector.

Refining

As in the case of Chevron, Exxon is an integrated oil company, which means it has operations in both drilling and producing oil (upstream operations) as well as refining that production (downstream operations). These segments often balance each other. Of course, upstream operations benefit from higher oil prices. However, because oil is a feedstock to downstream operations, and therefore a cost of production, downstream operations benefit from lower oil prices. This balancing effect may carry different weights at times, but generally one hedges the other and offers a safer investment.

Adding to 10 years of poor upstream production, earnings plunged from the downstream refining and chemical divisions in 2019. A period of declining oil prices would normally be a boost to downstream operations. To remedy the problem, Exxon is adding new projects and capacity in order to provide steady earnings growth. It is also divesting $15 billion of non-

Gray Cardiff, Editor

Investment returns in prior years have been calculated independently by the Hulbert Financial Group and concur with ours. From 2000 through 2019, the *Sound Advice* model portfolio averaged a 9.8% annual return versus 4.0% from the S&P 500.

core assets, starting with Vår Energi AS to Norway for $4.5 billion recently.

Fourth Quarter Earnings

XOM reported fourth quarter earnings on the last day of January. Excluding one-time gain from asset sales, earnings were 41 cents per share, slightly below Wall Street's estimate of 43 cents. Exxon ended the fourth quarter with production 54 percent higher than one year ago.

CEO Darren Woods said its natural gas, refining and chemicals businesses have suffered from prices near or at decade lows. Exxon will keep investing in new projects on the belief that a growing global middle class will drive demand for its products and described the margin weakness as "a short-term impact."

Valuation

Fueled by the production growth drivers in the Permian and offshore Guyana, the company projects overall earnings to more than double to $7.78 per share by 2025 with the price of oil averaging $60 per barrel.

If we eliminate the years when Exxon's earnings were depressed, the stock has traded at an average price/earnings (P/E) ratio of close to 12. With earnings of $7.78 per share, a 12 P/E brings the stock price over $90 per share, close to a 50 percent increase. Morningstar is currently maintaining a current fair value estimate of $85 per share.

The future value of XOM is clearly not recognized now. However, it is bound to be as production volumes from the Permian and Guyana begin to ramp up later this year and in 2021.

The impact of the Corona virus on world-wide demand for oil refined products has become a concern in late January and driven down the price of XOM, making it a timely investment for the longer term. We can lock in a solid dividend greater than 5.5 percent. With new growth prospects that will become noticeable this year, this stock is a good fit for our "Income and Growth" category.

Other Energy & Natural Resource Selections – Common Stocks

The concern over the impact of the Corona virus on world-wide demand for oil, refined petroleum products, and natural gas has driven down the price of all energy-related companies, making them a timely investment for the longer term. However, we recommend limiting choices to those who are bound to exhibit growth even with stagnant oil prices.

Chevron (CVX) reported fourth quarter earnings the last day of January. The company took $10 billion in write-downs on the value of oil and gas properties that were no longer economic to pump. Excluding write-downs, earnings were $1.49 a share which exceeded expectations.

Chevron is cultivating its assets to maximize production growth. Its large Australian projects, Gorgon and Wheatstone, are currently producing more than 400 thousand barrels of oil per annum and have room to grow. Chevron's assets in the prolific Permian Basin came to fruition in recent years, making them among the company's largest with room to expand. Chevron expects company-wide production to grow 3 to 4 percent during the next five years.

As we point out regularly, Chevron is an integrated oil company, which means it has operations in production as well as refining. This gives CVX diversification because the company's oil and gas production (upstream) benefits from rising oil and gas prices while the refining operations (downstream) tend to benefit from lower oil prices. This diversification adds financial stability during times of volatile oil prices.

CVX has an attractive and sacrosanct dividend that provides an attractive yield. This means we can continue to expect annual increases in the dividend which is already providing an attractive yield.

Valero Energy (VLO) rose significantly in late 2019 anticipating the commencement of the new marine fuel regulations taking place in January, requiring all vessels sailing in international waters to use the more environmentally friendly low-sulfur diesel fuel which needs extensive refining and is more profitable for refiners. In the usual stock market fashion, VLO declined in January after the anticipation.

Over the longer term, the new fuel regulations are expected to boost annual demand for low-sulfur diesel fuel by four-fold. Valero's earnings are expected to jump from close to $5.00 per share in 2019 to over $9.00 in 2020.

We continue to point out that Valero has the flexibility to refine substantial quantities of both US light sweet (low sulfur) as well as heavy sour crude. This bodes well under the new regulations and over the longer term. Valero also has access to the US pipeline network for delivery to its gulf coast locations. This flexibility allows the company to capture the highest margins among its competitors because it can take advantage of the temporary local gluts of crude, whether it's low or high-quality crude, or light sweet or heavy sour, and receive the best discounts for its feedstocks.

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Energy & Natural Resource Selections – Mutual Funds

Adams Natural Resources (PEO) is a candidate for steady income because it has an objective and recent history of making quarterly distributions that add up to at least 6 percent annually. These distributions are usually a mix of dividends and long-term capital gains. This fund has been in operation since 1929 and has 80+ years of distribution history.

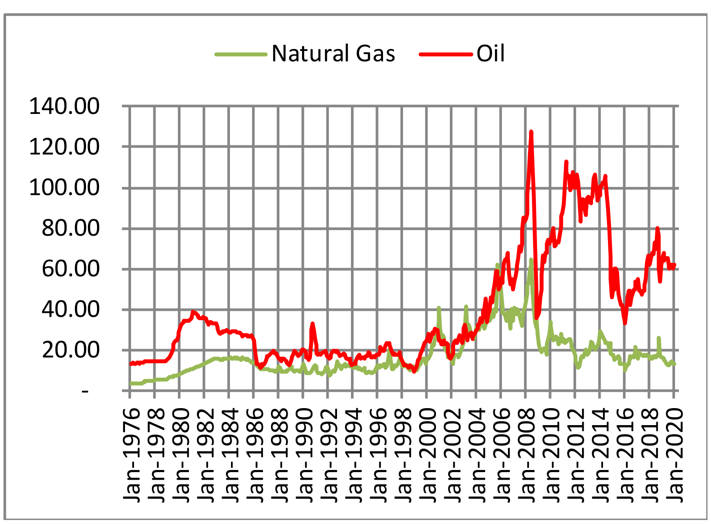
PEO is a closed-end fund, which means it trades like a stock and can be bought and sold during market hours. The price of PEO is not tied directly to the NAV of the underlying portfolio, so it can trade at a discount or a premium. This is an advantage now because PEO is currently trading at a substantial discount to its NAV. In addition, PEO also has a lower expense ratio of 0.78 percent, versus the industry average of 1.14 percent.

Fidelity Select Natural Gas Fund (FSNGX) is an open-end fund which means it trades at the NAV of its portfolio set at the close of the market each day. It is a diversified way to participate in the growth of the natural gas industry through strong companies. In December, FSNGX paid out a distribution of $0.197 per share.

Natural gas provides the same energy as oil for pennies on the dollar, and natural gas is more environmentally friendly. One barrel of oil provides approximately 5.8 million British Thermal Units (BTUs) of energy. However, with the current market price for natural gas at $1.84 for one million BTUs, 5.8 million BTUs will cost $10.73. Thus, with a barrel of Brent crude oil costing $56.62, the same amount of energy is available for 21 cents on the dollar if it is in the form of natural gas rather than oil.

The updated chart shows the historic relationship between the costs of these two forms of energy. The red line shows the price of a barrel of oil since the mid-1970s. The green line shows the price of natural gas multiplied by 5.8 to approximate the same amount of energy contained in a barrel of oil. The fact that natural gas provides energy for pennies on the dollar translates into an expanding natural gas industry.

The Cost of Energy Equivalents of Oil and Natural Gas



The Portfolio

Concerns over containing the Corona virus and the potential for slowing world-wide economic growth hit nearly all sectors of the stock market in late January. Until it is clear that containment efforts are working, the market is likely to suffer in the near term.

For the longer term, our Sound Advice Diffusion Index of Lagging Indicators (page 11) is still giving us a Caution Signal by revealing that the economy is strong enough to put upward pressure on interest rates. Our Sound Advice Risk Indicator (page 10) remains substantially above 2.0, revealing that it is a very high-risk time for stocks.

Moreover, the stock market as a whole is very expensive, with the P/E over 20 based on trailing 12-month earnings of the S&P 500 stocks. This is very close to the highest P/E since the bull market began in 2009. Accordingly, our investing approach continues to be defensive. We continue to recommend that you keep a substantial amount of cash on the sidelines. We cannot tell you how much, because we are not familiar with your particular financial situation, but it should be substantial to you. All recommendations are summarized in the table on page 9 and sorted by investment objective categories and then in alphabetical order. This table is updated and live on our website.

Our portfolio recommendations are made regarding the money you have allocated to the stock market, and in accordance with our current cautionary mode. We believe our selections are exceptionally strong values; trading at a significant discount to the rest of the market, which should give them buoyancy in both good and bad market conditions over the longer term. To add downside protection, we continue to recommend hedging your portfolio.

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

Real Estate Selections

The Sound Advice portfolio only includes real estate stocks offering an extraordinary value now. An established method of evaluating real estate is to measure the cash yield before any debt service. In real estate parlance, this is called a capitalization (cap) rate. Like a bond yield, a lower cap rate means a higher asset price. Currently, a cap rate of 7 percent is considered reasonable for the quality and location of the properties held by our recommended companies.

Real Estate Preferred Stocks

We are recommending three preferred stocks because they are inherently defensive and are yielding above 6 percent. They have first claim to the company's cash flow for their dividends. Only after the preferred dividend is satisfied, can the remaining cash flow be used to pay the dividend on the company's common stock. Additionally, these are cumulative preferred stocks, which means that any missed preferred dividends must be paid in full first before common stock dividends could be paid.

We continue to point out that most preferred stocks have a relatively small number of outstanding shares, which means the daily trading volume is thin. We recommend using limit orders that specify your purchase price (instead of market orders which can be executed at any price). There is usually a large spread between the "bid" and "ask" price. Placing your price close to the midpoint usually works, or you can place your limit lower and wait for a price dip. We also recommend being patient with your purchase. It could take a while to fill.

RPT Realty 7.25% Series D Cumulative Convertible Perpetual Preferred pays an annual dividend of $3.62 which provides a yield slightly above 6 percent. It is a convertible preferred stock, convertible into 3.7758 shares of the common stock (RPT). The value of RPT's real estate portfolio is $2.45 billion at a 7 percent cap rate. Adding the company's other assets and subtracting its liabilities leaves an equity of $19.48 per common share (RPT). Currently RPT is trading at 13.95 per share, a 28 percent discount to that value.

The conversion value of the common stock is close to the price of the preferred stock, which gives the preferred stock nearly the same upside as the common stock.

The ticker symbol of this preferred stock varies depending on the device you are using or the brokerage service. It is often quoted as RPT.PD, but on the iPhone it is RPT'D, and Fidelity uses RPTPRD. In any case, this is the only RPT preferred stock for RPT Realty.

The Company

RPT Realty is a real estate investment trust (REIT) currently owning 49 shopping centers across the eastern US, consisting of town center, urban-infill neighborhoods, and power center properties with national chain store tenants, market-leading supermarket tenants, as well as a strong lineup of smaller national retailers. Centers also include entertainment components, including theaters, fitness centers, and restaurants.

The company's culture and business objectives have changed as new CEO, Brian Harper, and his new executive team have been repositioning the company's portfolio of shopping centers by selling off those which are not scalable, or in less desirable locations, while expanding those in the best locations.

Unlike most preferred stocks, this preferred stock does not have a call feature, which is why it is "Perpetual." Each share has a "liquidation preference" of $50 per share in the event the company is liquidated due to bankruptcy, but that preference does not allow the company to call (redeem) the preferred shares. However, the company does have the right to convert the preferred shares into common shares if the common stock rises above 130 percent of the conversion price, which means the common stock would have to rise above $17.28 per share. At that price, the conversion value would raise the price of the preferred above $65. In the event such a conversion took place, a decision could be made at that time whether to keep the common stock or not.

RLJ $1.95 Series A Cumulative Convertible Preferred Shares is often quoted as RLJ.PA, but on the iPhone it is RLJ'A, and Fidelity uses RLJPRA. In any case, this is the only RLJ preferred stock.

Normally, preferred stocks have a call provision whereby the company can buy them back at a certain price (par value) at a certain date (call date). However, this preferred does not have this provision which means this stock has unusual upside potential.

The only way the company could redeem this preferred stock is if RLJ common rose to $115.82 per share, an enormous rise in RLJ from its current price, which we are not forecasting any time in the foreseeable future. Instead, the upside potential comes from a drop in the yield on this preferred, which is highly likely.

This preferred stock pays $1.95 annually per share (which must be paid before the common stock dividend) providing a yield of 6.7 percent. If the yield drops to, say 5 percent, which would still be a good value, the price of this preferred would rise substantially because there is no call provision. At a 5 percent yield, the price of this stock would be $39 per share, a 34 percent increase. Meanwhile, the yield is excellent. It is also quite secure.

Hersha's Preferred D is callable on 5/31/2021, which can be exercised later at the company's option, at $25 per share. The annual dividend is $1.64 per share which provides a yield of 6.6 percent. Ticker symbols also vary from HT.PD, HT'D for an iPhone, and Fidelity uses HTPRD. We recommend using a limit order at or below $25 and waiting to let the market come to you. To pay more than $25 would reduce your overall return.

Real Estate Common Stocks

In addition to their preferred stocks, we are also recommending the common stocks of RLJ Lodging Trust (RLJ) and Hersha Hospitality (HT) which are in the hospitality industry.

A major drag on this industry has been the proliferation of Airbnb and similar competition. However, this is changing in major metro areas. New York City is the most recent to pass a measure prohibiting transient rentals of fewer than 30 days at a time without the host being present. San Diego, Los Angeles, San Francisco, Boston, Washington DC, Philadelphia and Miami have also passed similar measures.

RLJ Lodging Trust (RLJ) is worth $33.86 per share which

Hospitality REITs Comparison Table

Company	Symbol	Recent Stock Price	Dividend Yield	Stock Market Cap Rate	Portfolio Value @ 7% Cap Rate ($Millions)	Stock Value	Discount (-) Premium (+)
RLJ Lodging	RLJ	15.62	8.5%	12.1%	7,684	34.58	-54.8%
Hersha	HT	13.24	8.5%	8.4%	2,378	23.60	-43.9%
Service Properties	SVC	21.78	9.5%	12.8%	12,418	55.98	-61.4%
Host Hotels & Resorts	HST	16.35	4.9%	10.6%	21	26.27	-37.8%
Apple Hospitality	APLE	15.00	8.0%	9.1%	6,372	21.59	-30.9%

The table above shows the “Stock Market Cap Rate” (what the stock price is paying for the underlying real estate portfolio) for several comparable hospitality stocks. The “Stock Value” column shows the current value of the stock assuming the underlying portfolios are valued using a cap rate of 7.0 percent, which is close to the average cap rate on recent hotel transactions. The last column shows the discount or premium at which the stock is trading based on a 7.0 percent cap rate valuation of each company’s real estate portfolio.

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

is substantially higher than the current price. RLJ has a large and diversified portfolio, with 151 hotel properties with 28,800 rooms located in 25 states and the District of Columbia. The majority are located in business districts within major metropolitan areas where business travelers represent the majority of the demand. We believe the net operating income (and thus the value of the stock) is primed to improve as the company executes its mission to sell its non-core assets since the August 2017 merger with FelCor, and to renovate and upgrade significant properties.

Hersha Hospitality (HT) is worth $22.23 per share, substantially greater than the current price of the stock. Net operating income from the real estate portfolio is bound to increase from major renovations to hotels in Philadelphia, Boston, and New York, along with the ramp up at Cadillac and Parrot Key after the 2017 Florida hurricanes. Of course, increases in net operating income will also increase the net asset value of the company’s portfolio along with the value of the stock.

Real Estate Mutual Fund

Third Avenue Real Estate Value Investor Fund (TVRVX) is a global real estate fund which means it is not confined to US real estate with low cap rates. Management looks for growth more than current income by focusing on real estate operating companies which, unlike REITs, can reinvest profits back into the business. Management also searches for opportunities in different aspects of a real estate company’s capital structure by investing in senior debt in addition to equity. Also, unlike the typical REIT, management will go to cash when asset prices are generally high. Cash is preserved for scooping up opportunities.

This fund is loaded with good values substantially below their net asset values (NAV) with strong growth prospects. Management has a similar approach to ours because it is very price conscious, especially in relation to net asset value. Just as we do at Sound Advice, they eat their own cooking – they invest a substantial amount of their personal assets into their funds. In December, TVRVX paid out a distribution of $4.4966 per share.

Medically-Related Selections

Both of our selections make medical devices and products which are well-suited for an aging population. They are defensive in nature because they are not largely dependent on economic conditions. They also avoid the current uncertainties over drug pricing and patent expirations facing pharmaceutical companies.

Boston Scientific (BSX) continues to be a global medical technology leader for three decades by providing a range of high-performance solutions aimed at addressing medical needs and reducing healthcare costs. The company’s stream of new inventions acquisitions continues to add to promising growth prospects.

Stryker (SYK) provides a diverse array of innovative medical technologies, including reconstructive, medical and surgical, as well as neuro-technological and spine products. Its orthopaedic devices for artificial knees and hips lead the industry. SYK has a very high return on equity which is propelled by its strong balance sheet and its ability to make strategic acquisitions.

SYK had strong fourth quarter results, with revenue rising 8 percent and operating income up 12 percent. Mako surgical robots continued to be a primary drive of growth. There were 63 knee replacements during the quarter versus 36 during the same quarter last year.

The Best in Biotech ETFs

Biotechnology has become a major industry and the source of the world's top breakthrough drugs. Biotech companies offer the most explosive profits in the healthcare industry. However, stocks of individual biotech companies are often volatile. Diversification is essential and can be accomplished by investing in a diversified biotech electronically traded fund (ETF) investing exclusively in a portfolio of biotech companies. We are recommending two top performers.

ARK Genomic Revolution Multi-Sector (ARKG) is an actively managed biotech ETF investing in companies expected to benefit by incorporating technological and scientific developments and advancements stemming from mapping the human genome. Breakthroughs and advancements have cut the cost substantially of mapping the human genome which is opening up new opportunities and making this sector the cutting edge of new innovations.

Virtus LifeSci Biotech Products (BBP) is a passively managed biotech ETF that weighs the portfolio selections essentially equally, as opposed to weighing selections according to market capitalization. This is an important aspect because biotech ETFs weighing their portfolio selections essentially equally have been the best performers by far because they have larger investments in smaller biotechnology companies which are acquisition targets for large pharmaceutical companies looking for ways to revitalize their drug portfolios by scooping up smaller companies.

Financials

Today's relatively flat yield curve is unusual and not a historical norm and will not remain flat indefinitely. As it steepens, banks will prosper. That eventual return to historical norms is why these stocks present an extraordinary value.

JP Morgan Chase (JPM) reported fourth quarter earnings in mid-January of $2.57 per share, significantly above expectations, and brought 2019 full-year earnings to $10.72.

JPM has risen substantially recently and has been one of our best performers, but it still presents a good value, especially in comparison to the rest of the market. At the relatively modest P/E ratio of, say 15, JPM would be $160 which is substantially above the current stock price.

Wells Fargo (WFC) also reported fourth quarter earnings in mid-January, but a disappointing $0.93 per share. Earnings were based on net income of $2.87 billion which included a $1.5 billion litigation accrual charge. WFC ended 2019 with earnings of $4.02 per share.

The litigation charge was evidently an attempt to account for the consequences of the company's shady business practices in recent years. The Federal Reserve's punishment of placing a limit on the company's asset growth expired at the end of 2019. Well Fargo's new management acknowledged it has plenty of work ahead:

"We're making significant changes to our management structure and processes to accomplish our work, changes that will make us more effective..."

With most if not all of the troubling recent past behind, the future can only be brighter for WFC, especially considering the stock is very cheap due to all of the recent unsettling news. At $47 per share, the P/E is slightly less than 12. This P/E is a steep discount from the rest of the market, and it is based on 2019's earnings which were depressed by a hefty litigation charge and Federal Reserve limits on asset growth.

While we wait for a brighter day, WFC has a dividend yield of 4.3 percent. This attractive income also puts a floor under the stock price.

Small Caps

Numerous studies show that small caps perform better over the long run than the market as a whole. Small Caps are pure plays on the early stages of new industries and inventions. They have more dynamic and entrepreneurial management, and they are much more likely to be the target of an acquisition or merger, which is usually quite profitable.

Third Avenue Small-Cap Value Investor Fund (TVSVX) invests in companies with small capitalizations using the same value-oriented approach as it does with its real estate value fund (TVRVX). Management scours the investment universe for companies that combine the three main features: creditworthiness, a meaningful discount to a conservatively estimated net asset value, and the ability to consistently grow NAV, with an initial targeted holding period of three to five years. A patient and price conscious acquisition is a critical first step in both protecting capital and in realizing an attractive investment return. In December, TVSVX paid out a distribution of $1.4277 per share.

Special Situations

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

Apple (AAPL) announced it is closing all of its corporate offices, stores, and contact centers in mainland China through February 9 "out of an abundance of caution".

AAPL has been one of our best performers, but it is now somewhat extended. The company has $206 billion in cash in the company's coffers which amounts to $46 per share. Subtracting this cash from the current price of $308 per share means we are actually paying close to $262 per share for the company. This puts the P/E above 20, based on the trailing 12 months earnings of $12.66 per share, which does not present a particularly good value. We prefer waiting for a pull-back to $262 which would put the cash-adjusted P/E close to 17. Accordingly, we are recommending holding for now and not adding to current positions.

Carnival Cruise Lines (CCL) dipped on news of the Corona virus. Prior to the Corona virus, the company expected earnings of $4.30 to $4.60 a share in its 2020 fiscal year. Estimates are that earnings will decline a penny per share from quarantine of the Costa Smeralda ship in Italy. If Carnival extends cruise cancellations from Chinese ports through the end of February, earnings per share are expected to decline another 10 cents per share.

If we lop off 11 cents per share from the low end of the pre-virus estimate of $4.30 per share, for a net of $4.19, the stock is selling slightly above a P/E of 10, which is very cheap and anticipates very little or no growth. During the last 5 years, the median P/E has averaged close to 19. At the reasonably conservative standard valuation of 15 times earnings, the stock belongs in the vicinity of $63 per share.

CCL has long-term growth prospects because of the company's dominance in the industry, efficiencies of scale, favorable demographic trends driving a lasting increase in demand, the company's extensive share repurchase program, and last but not least, the value the stock price is currently presenting.

Intel (INTC) has been another one of our top performers. The company reported very strong fourth quarter earnings in late January, bringing 2019 earnings to $4.73 per share. The company also gave strong guidance for its 2020 earnings of $5.00 per share. It also raised the annual dividend from $1.20 to $1.32 per share. The announcements sent INTC to a new all-time high.

Intel has been buying back massive amounts of its stock over the last three years, including $3.5 billion in the fourth quarter, reducing the number of outstanding shares by more than 9 percent.

Although INTC has risen in price, it is still trading at a relatively modest P/E of 12.8 based on the company's guidance of $5.00 per share in 2020.

Intel has the size, diversity, and industry dominance, to make a relatively safe investment in a high-growth, and often high-risk business. Intel can leverage new technology into its existing large platform without introducing unacceptable risks.

International Business Machines (IBM) jumped 7 percent on January 31 on the news that CEO Ginni Rometty is stepping down with new leadership that is more in tune with the company's future. IBM has named Arvind Krishna its new CEO, who has been with the company since 1990 and most recently the Senior Vice President for Cloud and Cognitive Software. Jim Whitehurst, the Red Hat CEO, was also promoted to company President. Leadership is now more focused on the growth strengths of the company. Rometty had encouraging comments regarding the new leadership:

"Arvind is the right CEO for the next era at IBM," said Rometty. "He is a brilliant technologist who has played a significant role in developing our key technologies such as artificial intelligence, cloud, quantum computing and blockchain. He is also a superb operational leader, able to win today while building the business of tomorrow. Arvind has grown IBM's Cloud and Cognitive Software business and led the largest acquisition in the company's history. Through his multiple experiences running businesses in IBM, Arvind has built an outstanding track record of bold transformations and proven business results, and is an authentic, values-driven leader. He is well-positioned to lead IBM and its clients into the cloud and cognitive era."

The Red Hat acquisition has launched IBM into the enormous and growing hybrid data center market, allowing customers to modernize legacy cloud services so that they can work on both private cloud platforms as well as economical and scalable public platforms including IBM Cloud, Amazon AWS, Microsoft Azure, Google Cloud, and even Alibaba. IBM is capitalizing on OpenShift by combining it with the company's artificial intelligence (AI) platform, it calls "Watson", which can "think" like a human. IBM recently began offering technology consulting services to cope with the strong demand for the platform.

IBM is offering an incredible value. The $6.00 per share dividend provides an attractive yield and puts a floor under the price of the stock. Any prospect of growth should propel the stock from here, and there are several prospects.

The company expects to earn at least $13 per share in 2020. The current P/E of close to 11 anticipates practically no appreciable growth. Even a modest P/E of 14 would propel the stock price over $180 per share.

NCR Corp (NCR) makes automatic tellers (ATMs), retail point-of-sale (POS) workstations, self-service kiosks, and other self-service checkout systems. 485 million people use NCR products every day, and there is room for substantial growth in the US and around the world.

NCR is expected to earn $0.74 for the fourth quarter and $2.78 for the current fiscal year. Even with the recent rise in stock price, the P/E is close to 12, far below the rest of the market.

ETFs for Rising Bond Yields

A significant source of upward pressure on interest rates is the sheer size and growth of the US federal deficit. A $1 trillion deficit looks likely which means additional sales of Treasury bonds will be necessary, adding upward pressure on yields.

Inflation is widely reported by changes in the consumer price index (CPI) which covers both goods and services, but this index is becoming outdated because too much emphasis is placed on goods rather than services. The services sector has become far greater throughout the world and now represents a majority of the world's GDP. In the US, the services sector represents 80 percent of GDP, and in this sector, inflation has been running higher than widely perceived. One of the Commerce Department's economic indicators is the Change in the CPI for Services, which over the last seven months has been logging in annual increases ranging from a low of 2.4 to a high of 3.2 percent. The latest reading for December was 3.1 percent.

Today's low yields of 2 percent on long-term treasury bonds are not sustainable because they offer nothing in real terms (after adjusting for inflation). This has not been the case historically, as can be seen from the following table.

Years	30 Yr Note (Avg. Yield)	CPI Annual Increase	Real Rate
1980-84	12.0	7.6	4.4
1985-89	8.4	3.6	4.8
1990-94	7.7	3.7	4.0
1995-99	6.3	2.4	3.9
2000-04	5.7	2.6	3.1
2005-09	4.5	2.6	1.9
2010-14	3.6	2.0	1.6
2015-18	2.9	1.9	0.9
Average			3.1

We can see from history since 1980, that investors have demanded a real return of 3.1% on long-term treasury bonds. That means 30-year treasury bonds should be yielding close to 6 percent with today's inflation rate in the vicinity of 3 percent.

If we only look at recent history, since 2000, which has been a low inflationary period, investors have demanded a lower real return of 1.9 percent. This would still put the yield on long-term treasury bond yields close to 5 percent.

Accordingly, even in a low inflationary environment, the yields on long-term treasuries are far too low and belong much higher.

Our recommended ETFs will prosper from rising yields on long-term (25 to 30 year) Treasury bonds. These ETFs differ in the amount of leverage used. You can choose among them depending on your investment objectives and risk tolerance.

The **Direxion Daily 20 Plus Year Bear 3 Shares (TMV)** uses 3:1 leverage.

The **Proshares UltraShort Lehman 20 Plus Year Treasury (TBT)** uses 2:1 leverage.

The **Proshares Short 20 Plus Year Treasury (TBF)** uses no leverage.

The price action of these ETFs is based on the changes in long-term Treasury bond indexes, only in the opposite direction, and then multiplied by the leverage each ETF uses. For example, a decline of say, 1.0 percent in their respective benchmark bond indexes will cause TMV to increase by 3.0 percent, TBT by 2.0 percent, and TBF by 1.0 percent.

The table below shows the impact on the prices of our selected ETFs at the end of 2020 at various long-term Treasury bond yields. The first row shows today's ETF prices with long-term Treasury bonds yielding 2 percent. Note that the price of these ETFs would rise dramatically as Treasury bond yields rise.

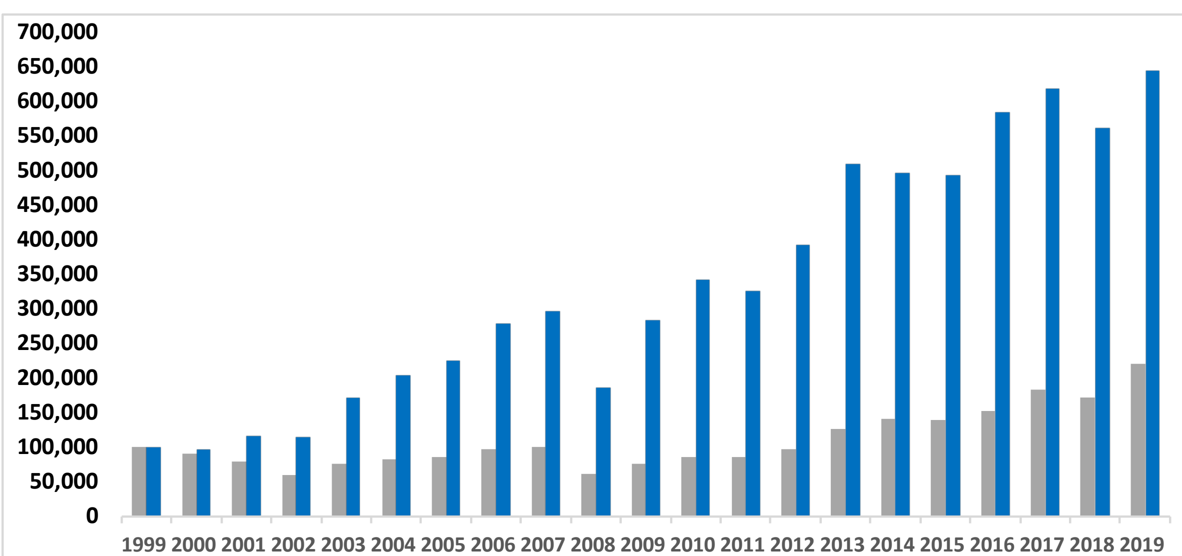
Bond	ETF Prices		
Yields	TBF	TBT	TMV
2.00	18.23	22.89	9.48
3.00	21.26	30.50	14.21
4.00	24.57	40.01	20.85
4.50	26.50	46.28	25.76
5.00	28.53	53.38	31.68
5.50	30.66	61.35	38.78
6.00	32.90	70.29	47.25

The Erosion Factor

As we point out regularly, these ETFs suffer from erosion because they decline slightly faster than they increase with an equivalent change in bond yields, particularly with higher leverage. To gauge this factor, we can assume that Treasury bond yields simply tread water, rising and falling by an unusually large amount, say, 0.03 percentage points (3 basis points) every day, and thus go nowhere. By the end of 2020, TMV would decline to $9.00 (5.1 percent), TBT to $22.31 (2.5 percent), and TBF to $18.08 (0.8 percent). While not insignificant, this erosion factor is nominal in comparison to the price swings caused by a change in bond yields.

Sound Advice vs the S&P 500

This chart shows the growth of $100,000 invested in the S&P 500 (in gray), which would have grown to $219,925, versus $643,554 if it was invested in the *Sound Advice* recommendations (in blue).



Portfolio Summary Table

This table is updated and live on our website:
www.soundadvice-newsletter.com

Income with Growth	Symbol	Price / NAV	Yield	Action	Limit
Adams Natural Resource Fund	PEO	$14.89	6.00%	BUY	$15.63
Carnival Cruise LInes	CCL	$42.76	4.68%	BUY	$44.90
Chevron	CVX	$106.26	4.22%	BUY	$111.57
Exxon Mobil	**XOM**	**$60.74**	**5.73%**	**BUY**	**$63.77**
Hersha Hospitality Trust	HT	$13.24	8.46%	BUY	$13.90
Hersha Hospitality Trust - Preferred D *	HTPRD	$25.91	6.29%	BUY	$24.96
International Business Machines	IBM	$146.27	4.10%	BUY	$153.58
RLJ Hospitality Trust	RLJ	$15.63	8.45%	BUY	$16.41
RLJ Lodging Trust - Preferred A *	RLJPRA	$28.89	6.75%	BUY	$29.50
RPT Realty 7.25% Preferred D *	RPTPRD	$57.17	6.34%	BUY	$60.00
Valero	VLO	$80.30	4.48%	BUY	$84.32
Wells Fargo	WFC	$47.13	4.33%	BUY	$49.48
Growth with Moderate Income					
Intel	INTC	$64.43	2.05%	BUY	$67.65
JP Morgan Chase	JPM	$133.34	2.70%	BUY	$140.01
Growth					
Apple	AAPL	$308.68	0.95%	HOLD	$262.00
Boston Scientific	BSX	$42.23	0.00%	BUY	$44.34
ETF - Direxion Daily 20+ Yr Bear 3X	TMV	$9.49	0.00%	BUY	$9.96
ETF - ProShares Short 20+ Year Trsry	TBF	$18.22	0.00%	BUY	$19.13
ETF - ProShares UltraShort 20+ Year Trsry	TBT	$22.90	0.00%	BUY	$24.04
Fidelity Select Nat Gas Fund *	FSNGX	$18.91	0.00%	BUY	$17.00
Genomic Revolution Multi-Sector	ARKG	$32.90	0.00%	BUY	$34.55
NCR Corp	NCR	$33.85	0.00%	BUY	$35.54
Stryker Corp	SYK	$211.67	1.09%	BUY	$222.25
Third Avenue Real Estate Value Investor *	TVRVX	$25.30	0.00%	BUY	$30.00
Third Avenue Small-Cap Value Investor Fund *	TVSVX	$17.08	0.00%	BUY	$19.50
Virtus LifeSci Biotech Products	BBP	$41.26	0.00%	BUY	$43.32
Hedges					
S&P 500 ProShares Ultra Short ETF	SDS	$24.53	0.00%	BUY	$25.75

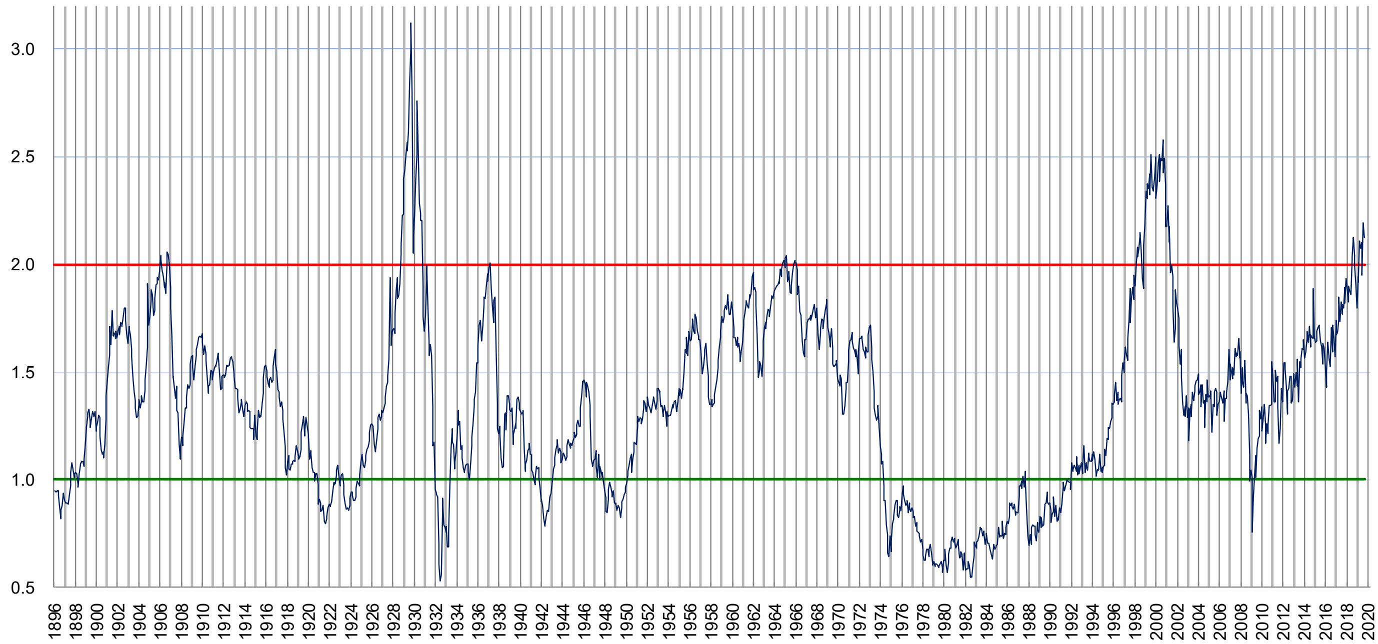
Notes to the table: The right hand column is the highest recommended price limit for purchases.
* It is not possible to offer live pricing..

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

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

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

Capital Competition: Real Estate versus Stocks: The **Sound**Advice Risk Indicator



There are few forces that are more important to a market's destiny than the amount of capital that is available to it. In a normal situation, capital will flow easily between markets as their underlying conditions change. But if a market becomes dangerously superheated, it will absorb a larger proportion of available investment capital than economic conditions and market demand can justify. This change will be reflected not only in the rising market's prices but also in the prices of competing markets, which will be lower than their underlying fundamentals would indicate they should be. Over the last 120+ years, we can see this titanic struggle between the stock market and its foremost competitor for investment dollars: real estate.

To reveal this phenomenon, we have set up an equation based on the ratio of the S&P 500 Stock Index to median price of new houses for each month over the last 100+ years. This equation exhibits an elegant financial minuet as each market has taken turns outperforming the other.

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

We label this new tool the ***Sound Advice*** "Risk Indicator," since it will allow us to locate the point at which prices are so high when compared to competing markets that they have come loose from their moorings and are on the verge of declining or under performing the other market.

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

But though an investment beginning with $25,000 in 1895 could have made money being in either stocks or housing, had an investor followed the signals of the ***Sound Advice*** Risk Indicator he or she would have made $503 million, or <u>26.5 times</u> more money than by simply holding stocks though the ups and downs.

A brief walk through history shows just how reliable this indicator is. The first recorded time the Risk Indicator rose above 2.0 was in February 1906, after the eight-year-old Dow-Jones average doubled since 1903. The market peaked in September of 1906. A massive sell-off in October would later be labeled the Panic of 1907. Stock prices trended downward for 14 more years until the end of 1921 while, searing inflation after World War I boosted house prices 48 percent. The combination of falling stock prices and rising real estate prices forced the Risk Indicator to fall below 1.0 in 1920, just in time for the Roaring 20's when stock prices tripled. Then, in October 1928, the Risk Indicator rose above 2.0 again. On Tuesday, September 3, 1929, the Dow

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

peaked at 318.17. The October crash marked the beginning of a decline that lasted until July 8, 1932. Houses had declined only by 15 percent compared with the 85 percent loss in stocks. The relative superior performance of houses caused our Risk Indicator to fall below 1.0 at the beginning of 1932.

As America's GNP began posting positive gains and with 46 percent growth in three short years, stock prices would triple. Then the Risk Indicator crossed 2.0 in March 1937. This time, the signal came only one month after the zenith in stock prices. As stock prices retreated 50 percent, house prices remained relatively steady, causing the Risk Indicator to fall below 1.0 again in June 1941, within 9 months from the bottom.

As U.S. corporations expanded to meet growing demand, and the economy came to a rolling boil during the Eisenhower years, the stately rise would multiply stock prices by ten times until November 1964, when the Risk Indicator crossed over 2.0 again. The stock market would continue to climb into 1968, and then crashed into late 1974, wiping out the inflation-adjusted gains scored by investors since 1954. However, a switch to an investment in houses would avoid all that and double in price by the time the next signal came for stocks in May 1974, as the Risk Indicator fell below 1.0 again, as the Dow careened below 700.

It would not be until March 1998 when the Risk Indicator would cross 2.0 again, after stocks were up by more than tenfold. The Dot-Com bubble would push stocks higher into early 2000, but then began another 50 percent retracement. A switch to houses would produce a 44 percent gain through the end of 2008 while stock prices were lower by 17 percent. In February 2009, with the Dow careening below 700 once again, the Risk Indicator quietly dropped below 1.0 to 0.77 as the S&P tumbled under 700. Since then, the stock market has delivered stunning gains as the S&P 500 has quadrupled. For the sixth time in the last 123 years, the Risk Indicator rose above 2.0 again in July 2018.

With the latest median house price at $320,900 in November and with the S&P 500 at 3225 at the end of January, the *Sound Advice* Risk Indicator reads 2.29, revealing the risk in stocks is high.

As remarkable as the ***Sound Advice*** Risk Indicator has been, it does not pinpoint the exact time. In the past 123 years, its signal has ranged from being only one month after the zenith to as much as four years early. While the Risk Indicator has been early, it has never been wrong. An expensive crash was inevitable. A 50 percent decline took a 100 percent recovery just to break even.

To help us narrow down the timing as well as gage the potential severity of an upcoming decline, we have our Diffusion Indexes.

Business Cycles and Stocks: The SoundAdvice Diffusion Indexes

Track Record of the SoundAdvice Diffusion Indexes

After each "Aggressive" signal, the S&P 500 climbed an average of 31.9 percent. During "Caution" signals, the S&P 500 either crashed, meandered, or climbed, recording an average increase of 4.5 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
Mar-15	2,080.0	May-15	2,111.9
Sep-17	2,492.8	Jan-18	2,823.8
Ave +/-	31.9%		4.5%

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

When the ***Sound Advice* Diffusion Index of LEADING Indicators** drops to zero, it is time to buy stocks aggressively, regardless of how negative the atmosphere may be. This is not just an empirical coincidence. It is also logical. In order for all of the leading economic indicators to be giving off a zero value compared to six months before, it is nearly certain that the soft economy is providing an atmosphere for stable or declining interest rates.

Over Please...

This Diffusion Index gave us a zero reading in April, 2009, close to the bottom, officially giving us an “Aggressive” signal. That signal came at a time when the Risk Indicator was below 1.0, which revealed that Supercycle 5 came to an end, and that Supercycle 6 was born.

The ***Sound Advice*** **Diffusion Index of LAGGING Indicators** gives “Caution” signals when all three of its individual lagging economic indicators rise above their respective levels of six months earlier, providing a 100 percent reading. This reading reveals that the US economy is strong enough to put upward pressures on interest rates.

Current Status

The Diffusion Index of LAGGING Indicators climbed to 100 percent for December 2018, giving us a new Caution Signal in January, very close to the peak in the market. **The latest data for December caused a 66.7 percent reading.**

Our next signal will come from the Diffusion Index of LEADING Indicators, when it drops to zero, which would take a surprising softening in the US economy. **The latest reading for this Diffusion Index is 66.7 percent.**

Concurrence

There are times when signals from the ***Sound Advice*** Risk Indicator and the Diffusion indexes are out of sync, when one is signaling caution and the other is not. This occurred in August 1987, when the Diffusion Index of Lagging Indicators switched into caution mode, just prior to the October 1987 Crash that took stocks sharply for a brief period. Non-concurrence also occurred in March of 2008, when the Diffusion Index of Lagging Indicators switched into caution mode, just prior to the 2008-09 bear market crash. Both of these crashes were brutal, but relatively short-lived. Once the Risk Indicator plunged below 1.0, a very profitable bull market followed.

Then there are times when both indicators concur, signaling the same thing at roughly the same time. This happens when the Risk Indicator is above 2.0, indicating the end of a supercycle, and the Diffusion Index of Lagging Indicators switches into caution mode, indicating the end of a business cycle. Of course, this concurrence indicates that a more vicious and potentially longer-lasting bear market, or series of bear markets, is bound to follow, eventually taking stock prices down substantially – usually by 50 percent -- until the Risk Indicator falls below 1.0 again. We have this concurrence today.