SoundAdvice

Hulbert's Honor Roll in 2011, 2012, 2013, 2014
#1 for the Best Risk-Adjusted Returns in Both Up & Down Markets since 2000

Advising Investors for 25 years

May Issue

May 2, 2014

A New Caution Signal

One of the reasons we are the top rated newsletter in Hulbert's Honor Roll rankings since 2000 is because we have held our ground during down markets. This year has been another test, and our portfolio is slightly positive for the year.

Of course, we would have preferred a large positive return, but chances are we would have had to take a large risk. Over the long run, the battle for investment survival is won by losing less during down markets. This concept is often lost in the fray. It's not just our opinion, just simple math.

A decline of say 20 percent will reduce a $100,000 portfolio to $80,000. The next upswing of say 20 percent will bring you back to $96,000, still 4 percent down. (20% of $80,000 = $16,000) However, instead of losing 20 percent during the downswing, you lost 10 percent, which brings your portfolio down to $90,000. The same 20 percent upswing will bring your portfolio up to $108,000, (20% of $90,000 = $18,000) which means you are now 8 percent ahead versus a 4 percent loss.

This is why our value-oriented approach pays off over the long run. Losing less during down markets does wonders for a track record.

-Gray Emerson Cardiff

The SoundAdvice **Diffusion Index of Lagging Indicators** gave us a "Caution" signal in May based on the latest data for March. This occurs when its underlying individual lagging economic indicators rise above their respective levels of six months earlier, providing a 100 percent reading. (See page 11.) We use this as a caution signal because it reveals that the economy is strong enough to put upward pressure on interest rates.

We have been operating under a "Caution" signal since this index hit 100% in 2012. We continued to be bullish on stocks because of the Federal Reserve's expansive monetary policy and its Quantitative Easing program. Although we were cautious, we still earned a 25.74 percent investment return in 2013.

First quarter GDP growth was a scant 0.1 percent, confirming the impact of the unusually severe weather throughout most of the country. However, Spring has sprung, and the economic landscape is changing.

In mid-April, we saw the first signs of a thaw when US capacity utilization was reported to rise significantly to 79.2 percent in March from 78.4 percent in February. During the first days of May, we saw more signs of economic vibrancy.

The Institute for Supply Management (ISM) index of national factory activity increased to 54.9 in April, up from 53.7 in March, the best reading since December. (Readings above 50 indicate expansion.) There were also gains in the employment sub-index, which jumped more than expected to 54.7 from March's 51.1. Residential construction spending also showed improvement along with personal income. Job growth in April was also surprisingly strong with unemployment dropping to 6.3 percent from 6.7 percent in March.

Most importantly, there was a sharp rise in consumer spending during March. This is significant because consumer spending accounts for two-thirds of GDP.

One of the major components lacking in the economic recovery so far is capital spending. Instead of investing in future expansion for additional growth to improve stockholder value, the trend has been to implement cost-cutting programs along with buying back significant amounts of company stock. This trend is typical in the early stages of a recovery because it is positive for bottom-line earnings improvement. However, as the economy continues to expand and existing capacity is consumed, capital spending starts to improve as confidence grows. Based on the history of past cycles, the threshold occurs when capacity utitization rises above 80 percent. We are getting close with the 79.2 percent reading for March.

The "No-Brainers"

The sluggish economy since the first of the year has also pulled down long-term bond yields. An upswing in the economy will be bad news for bond prices and good news for our No-Brainer ETFs designed to profit from rising bond yields.

Our "No-Brainers" are ETFs designed to benefit from rising long-term Treasury bond yields. 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.

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.

These ETFs have retreated since the first of the year because of concerns over mixed economic reports. However, Spring is here, and the Federal Reserve is stoking the economy by holding short-term interest rates close to zero. This adds certainty to the economic recovery. A few days ago, the Fed once again decided to continue tapering its Treasury bond purchases another $10 billion to $45 billion.

In a statement on its latest policy move, the Federal Open Market Committee wrote, *"Information received since the Federal Open Market Committee met in March indicates that growth in economic activity has picked up recently, after having slowed sharply during the winter in part because of adverse weather conditions."*

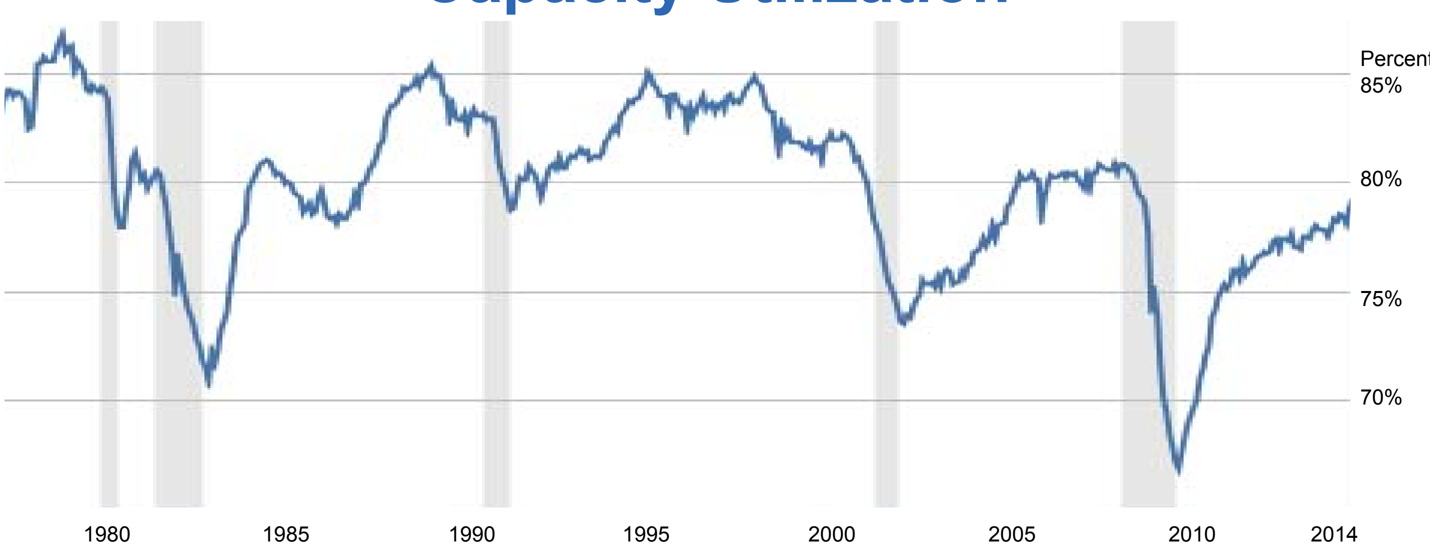
In recent weeks, Federal Reserve Chair, Janet Yellen, has said that the Committee will *"take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments."*

According to Janet Yellen's speech on April 14, an inflation rate below 2 percent is not threatening. However, anything above that threshold would prompt a change in monetary policy, meaning the Federal Reserve would begin raising the Federal Funds rate, almost regardless of the unemployment rate at the time.

Several credible studies over the years have concluded that there is a strong correlation between capacity utilization and

30-Year Treasury Bond Yields

Capacity Utilization

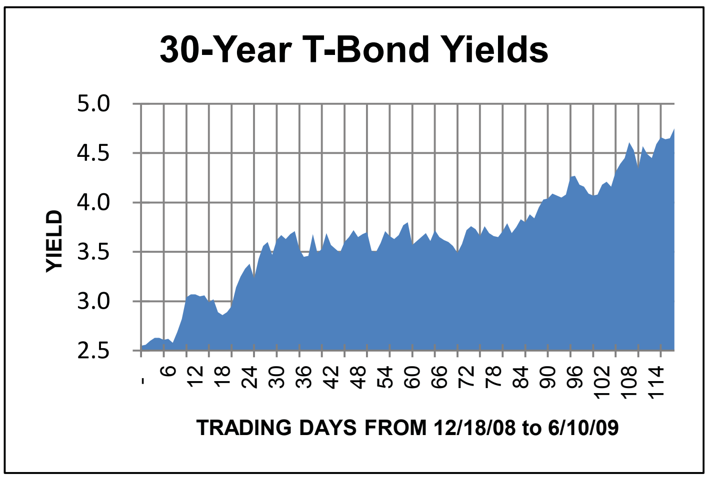


inflation. These studies basically agree that when utilization rises above 80%, increases in producer prices will begin rising and lead to increases in inflation.

We are not above 80 percent yet, but we do not need to be there to make large profits from our No-Brainer ETFs. History shows that investors in long-term treasury bonds want a real rate of return (after inflation) of 3 percent. Accordingly, 1 to 2 percent inflation means Treasury bond yields of 4 to 5 percent.

We can also correlate long term Treasury bond yields to the capacity utilization rate. Take a look at the two graphs to the left. They are lined up by year with 30-year Treasury bond yields on top and capacity utilization below. The shaded areas on the capacity utilization graph show periods of recession, during which capacity utilization drops. However, after recessions the capacity utilization rate rises above 80 percent. Note that during the times when capacity utilization is above 80 percent, 30-year Treasury bond yields are above 5 percent – sometimes substantially above 5 percent.

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 chart below shows the pattern.

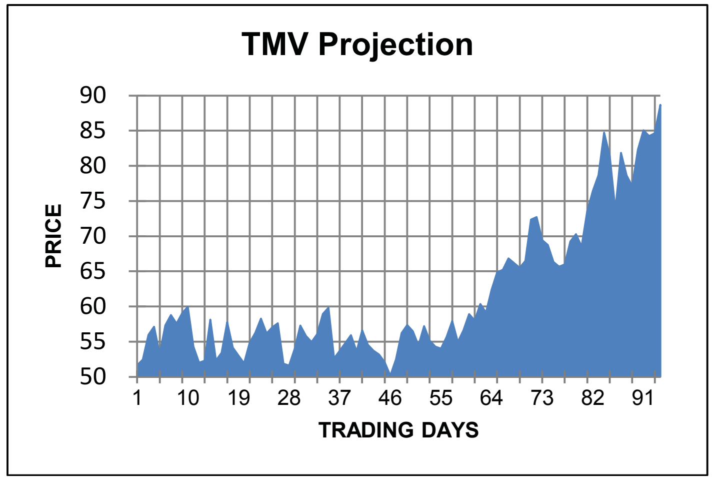


Our No-Brainer ETFs did not exist during this entire period, so we don't have historical track records to view. However, we know how these ETFs work, and can model them to get an idea of the profit potential.

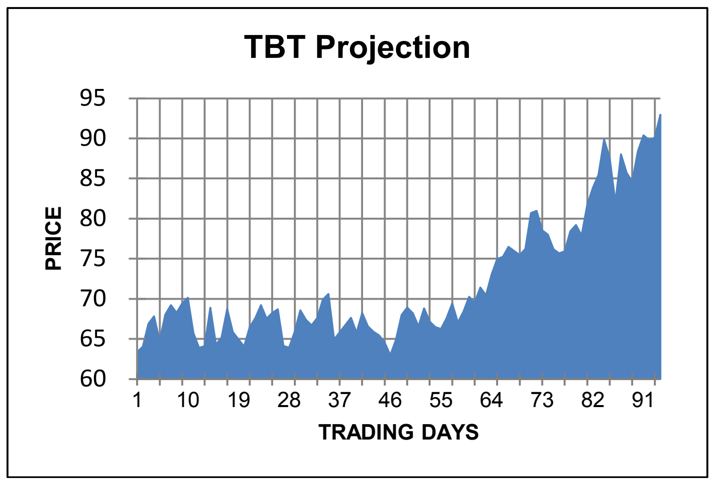
The price action of these ETFs is based on the changes in long-term treasury bonds, specifically BlackRock's iShares 20+ Year Treasury Bond ETF (symbol TLT) which holds a portfolio exclusively of long-term Treasury bonds with an average maturity length of close to 27 years. The prices of our No-Brainer 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 these ETFs 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 91 days of the 220 basis point rise when yields rose from today's yield of 3.4 percent to the peak of 4.75 percent. In that scenario, our No-Brainers would rise to the following levels:

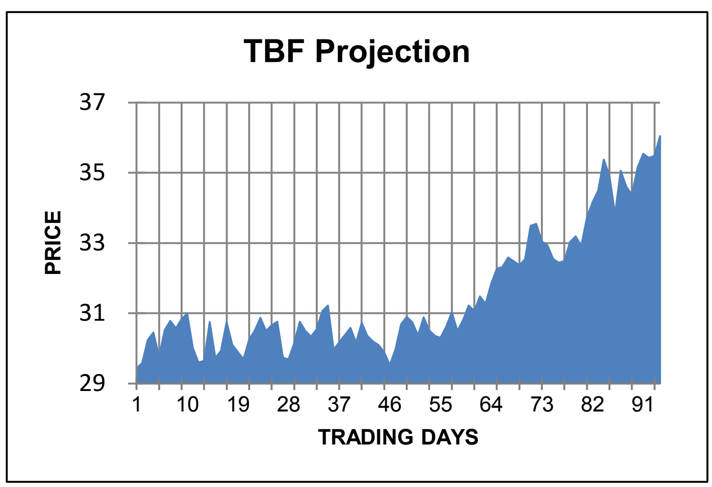
TMV would climb to $88.6, for a 71 percent gain.



TBT would climb to $93, for a 47 percent gain.



TBF would climb to $36, for a 22.5 percent gain.



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

Note that a target of 4.75 percent does not require a full recovery to the inflationary stage of the business cycle. Our objective is only for Treasury bond yields to recover to normal levels, of approximately 4.75 percent, from the artificially low yields caused by the 2008-09 economic meltdown and the subsequent massive bond purchases under the Federal Reserve's unprecedented quantitative easing (QE) programs.

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 up 5.3 percent this year, extending our profit to 725 percent. AGU has a broad mix of agricultural products and services that are poised to benefit from growing demand as arable land continues to disappear around the world and the need for higher food production per acre increases. Growth is also bolstered by an expanding worldwide population along with increasing per-capita income.

In April, management announced that AGU's first quarter earnings were going to be flat as a result of Spring's late start and the delay on railroad deliveries. The stock did not react adversely to the announcement.

AGU is buying back its own stock and recently doubled the dividend to $3.00 a share. With a solid 3%+ dividend yield and with the stock price close to 10 times earnings, AGU is an excellent value with promising growth ahead.

AMN Healthcare (AHS) is down 14 percent this year, trimming our profit to 137 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 was also a chance to buy into a healthcare business that would benefit from a recovery in the economy.

As our growth forecast was panning out, the stock advanced sharply in 2013. As its price/earnings (P/E) ratio expanded above 20, we recommended holding off on purchases. Since then, the stock price has been slipping and getting close to our price of $12.

Associated Estates Realty Corp (AEC) is up 18.2 percent so far this year, extending our gain to 22 percent.

AEC's apartment portfolio ended the first quarter with a 96 percent occupancy. Net operating income (NOI) increased 1.8 percent from the same quarter last year. NOI growth was impeded by higher operating expenses due to harsh weather. Normal operating expenses would have allowed NOI to grow a robust 3.6 percent.

AEC sold three properties during the first quarter for an average capitalization (cap) rate of 5.4 percent which is a favorable cap rate in relation to the average apartment property. (The capitalization rate is the yield of the NOI based on the sale price.)

What originally attracted us to AEC was the fact that it was selling at a substantial discount to the value of its net assets. The underlying equity of AEC is worth close to $22 per share which is 29 percent more than the current price. AEC pays a nice dividend that is close to 5 percent.

AEC is a REIT that owns 54 apartment communities with 13,964 apartment units in ten states. During 2013, AEC made significant moves to reduce its debt and diversify into California, both of which are certain to benefit the bottom line.

Boston Scientific (BSX) is up 5 percent so far this year, extending our profit to 33 percent. BSX's medical products are well suited for an aging population in the US. The Company's mission is to transform lives through innovative medical solutions that improve the health of patients around the world. BSX has been a global medical technology leader for three decades by providing a range of high performance solutions aimed at addressing medical needs and reducing healthcare costs.

In April, BSX announced better than expected earnings which were boosted by higher sales from its Interventional Cardiology division which produces catheters and stents, and BSX's largest division. Earnings were also boosted by a 23 percent jump from its Neuromodulation division which includes micro-electronic implantable devices aimed at managing chronic neuropathic pain and neurological diseases.

BSX also raised its earnings expectations for the year to $0.80 per share which gives the stock a price/earnings (P/E) ratio close to 16. This is a reasonable value in view of future growth potential, but not extraordinary. Accordingly, we recommend purchasing below $12.5 per share.

Chesapeake Energy (CHK) is up 5.6 percent this year, extending our gain to 74 percent. CHK is the second largest producer of natural gas and pioneered the use of fracking technology to produce oil liquids and natural gas from shale. We added CHK to the portfolio because it was at a substantial

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discount to its net assets. The stock price was cheap because of low natural gas prices, poor corporate governance, and because it was in the midst of a financial squeeze. We could see all of these conditions were likely to be remedied, and indeed they were.

While company founder Aubrey McClendon was instrumental in "wildcatting" the company's considerable oil and gas assets, the operations of the company have become rational under its new chief Douglas Lawler who came over from Anadarko. Spending levels are within budget, head counts are reduced, and capital allocations have become more properly allocated.

In April, CHK announced the sale of some of its natural gas compression assets for $520 million. This was a favorable move because revenue loss was minimal while the cash will improve the company's balance sheet.

Also in April, Value Line increased its fair value estimate of CHK to $38 from $32. With the stock under 30, it is a good value.

CommonWealth REIT (CWH) is up 11 percent this year, extending our gain to 162 percent. We originally introduced CWH when it was selling for close to a 50 percent discount to its NAV.

After receiving an astonishing 81 percent from shareholders to oust the board and management, Corvex/Related recently sent out a green proxy card to elect the Corvex/Related slate of trustee nominees – James Corl, Edward Glickman, David Helfand, Peter Linneman, Jim Lozier, Kenneth Shea, and Samuel Zell. We recommend agreeing to all nominees by checking all the boxes, signing the proxy, and retuning it in the envelope provided. The election will occur on Friday, May 23.

Based on the latest financials, we currently value CWH stock at approximately $32.50 per share. Corvex/Related has contended the stock is worth more than $40 per share with better management.

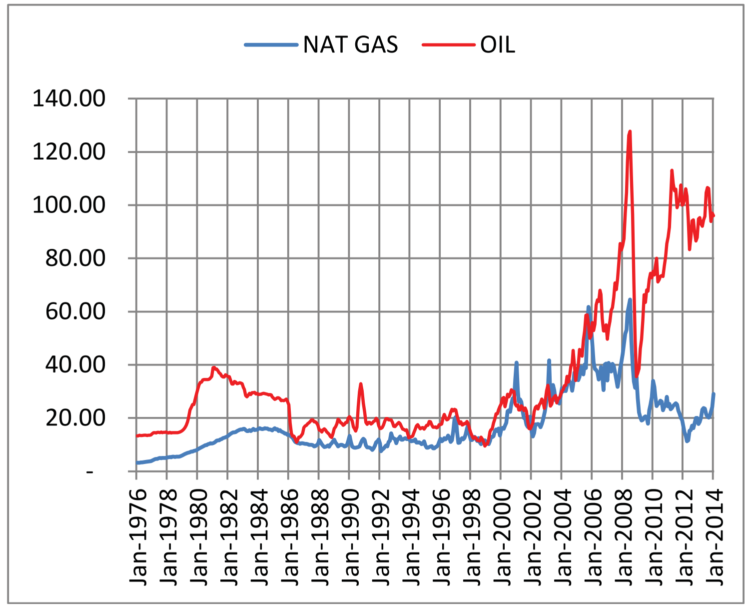
Fidelity Select Natural Gas Fund (FSNGX) is up 16 percent this year, extending our gain to 37 percent. This fund concentrates on the natural gas industry, and it is a diversified play on the gap between the energy equivalents of oil and natural gas.

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

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. With one barrel of oil at $95, that is the cost of 5.8 million BTUs of energy. On the other hand, with a market price for natural gas at $5.00 for one million BTUs, 5.8 million BTUs will cost $29 (5.8x5). So the

The Cost of Energy Equivalents of Oil and Natural Gas



same amount of energy is available for 30 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 below because it demonstrates that today's disparity is not a normal situation.

The red line shows the price of a barrel of oil since the mid-1970s. The blue line shows the price of natural gas multiplied by 5.8 to approximate the same amount of energy contained in a barrel of oil. Note that for most of the time (36 years), the two forms of energy are closely aligned. This stands to reason. After all, energy is energy, and it should cost approximately the same regardless of the form in which it comes. However, that is not the case today.

Freeport-McMoRan Copper & Gold (FCX) was originally added to the portfolio in late August at $30.42 per share. FCX is up 21 percent since we recommended it.

Copper is woven into the fabric of every developed economy, and its price moves dramatically in tandem with expansions and contractions. We made a 643 percent gain during the last expansion, from March 2003 until December 2006, on Phelps Dodge, the largest copper producer back then. In March 2007, FCX purchased Phelps Dodge and became the world's largest copper producer in North America. As the world's economies continued to expand into 2008, so did FCX.

Since the Phelps Dodge transaction, FCX has added substantially to its copper reserves and continues to have opportunities to add reserves because of its large resource base and ongoing exploration program.

Another feature that attracted us to FCX was its recent 2013 acquisition of substantial oil and gas assets in California, Texas, Louisiana, and the Gulf of Mexico. Diversification into these oil and gas assets was a departure for FCX which was previously known as a copper producer. This diversification was another reason for recommending FCX because the upside and stability from this sector was a definite attribute that was not built into the price of the stock (and it still isn't).

In April, FCX reported strong first-quarter results, bolstered by its oil and gas production from its 2013 acquisitions. One of these drilling sites is a deep-water platform in the Gulf of Mexico, called Lucius, and described as a "world class reservoir" in which FCX has a 23.3 percent interest. The operator is Anadarko which holds a 27.8 percent interest while five other partners hold the remaining interests. The initial production is expected in the second half of this year which means upside is ahead from revenues not on stream now.

FCX also has promising natural gas prospects where it and its partners have started drilling, and the initial wells indicate geological formations similar to those in the Gulf of Mexico and Gulf Coast region. These assets offer a major source of low-cost natural gas for a long time.

The boost from its oil and gas production was fortuitous because poor economic conditions did not fuel progress in copper revenues. However, the US and Europe are the largest consumers of copper, and economic recoveries will have a powerful impact on the demand for copper.

FCX is priced modestly in view of the current earnings and the growth that is around the corner. Meanwhile the dividend yield is attractive and reduces risk by providing a floor under the price of the stock.

Hambrecht & Quist Life Sciences Fund (HQL) is up 5.3 percent this year, extending our profit to 133 percent. In February, HQL declared another stock distribution of $0.42 per share, which is comprised of capital gains.

We have been recommending this Fund because the most explosive profits in the entire healthcare industry can be found in biotech companies, and this fund is an excellent way to participate in a promising future on a diversified basis. There are bound to be home runs among its holdings, and all of the Fund's holdings that have promising drugs and treatments. These include: Medivation's *Xtandi* for use in prostate cancer, Amarin's *Vascepa* for use in hypertriglyceridemia, Ironwood Pharmaceuticals/Forest Laboratories' *Linzess* for use in irritable bowel syndrome, Biogen's *Tecfidera* for use in Multiple Sclerosis, and Celgene's *Pomalyst* for use in Chronic Myeloid Leukemia.

Positive clinical data for key products have been reported by Celgene's *Abraxane* for pancreatic cancer, Gilead's *Sofosbuvir* for Hepatitis C, and Vertex Pharmaceuticals for multiple drugs for Cystic Fibrosis.

Celldex's principal product demonstrated a survival benefit in the metastatic breast cancer setting.

MEI Pharma demonstrated an impressive response rate in patients with myelodysplastic syndrome when its product was combined with Celgene's *Vidaza*.

Oncogenex Pharmaceuticals began a pivotal trial in non-small cell lung cancer patients.

Endocyte, Inc. is in for approval (in concert with Merck) for its ovarian cancer drug in the EU.

Hersha Hospitality (HT) is up 3.9 percent since our recommendation in December 2013. Our principle reasons for recommending HT was because hotel assets in general are sensitive to the business cycle and will benefit strongly from the economic recovery.

In addition, the price of the stock is depressed and selling at a discount to its net asset value because many of its major properties have been undergoing renovations, and the income potential has not yet been realized.

Based on the most recent fourth quarter financials, we value HT's NAV at $7.52 per share, which is more than 25 percent higher than the current price of the stock. This NAV is a substantial increase from the previous quarter's value of $6.36 per share. The value improved because of increases in net operating income. We expect to see further increases in the immediate quarters ahead as income from new acquisitions are realized along with increased income from completed renovations.

HT is also selling off sub-par properties and redeploying capital. During the first quarter, HT completed the sale of 16 properties that were performing below the average of the rest of the portfolio.

In April, HT closed the sale of Hotel 373 in midtown Manhattan for $37.0 million, or approximately $529,000 per key. Part of the sale proceeds were used to repurchase 2.6 million common shares.

HT 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 funds from operations (FFO). A yield close to 4 percent is attractive and limits downside movement in the stock price.

ICON Energy Fund Class S (ICENX) is up 6.9 percent this year, extending our profit to 9.6 percent. We added it to the portfolio last year because the demand for energy accelerates with an economic expansion, and we expect to see stellar gains as the economic recovery gains traction. 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.

Aside from the cyclical timing, above average investment returns can be earned over the long run. Over the last 10 years, the Energy Equity Index has produced superior investment returns to that of the S&P 500. That performance is because energy is in the fabric of the economy.

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.

ICON management looks for changes within the energy industry to capture value, rather than simply depending on rising prices. Management points out that it has achieved growth even during periods of declining energy prices. The track record of this fund bears this out. For example, from March 31, 2011, through March 31, 2014, both oil and natural gas prices declined while the fund produced positive growth.

Pfizer (PFE) is up 2.6 percent this year, extending our profit to 92 percent. We added PFE to the portfolio when it became dirt cheap as the expiration date approached on its blockbuster drug, *Lipitor*. However, its future was brighter due to the arsenal of new pharmaceutical products with more than 80 drugs in the development stage and 90 in the discovery stage.

In late April, PFE announced its attempt to buy its British rival AstraZeneca (AZN) for $100 billion. This is the largest price tag since PFE purchased Warner Lambert for $85 billion.

Both stocks responded positively, especially AZN. The merger would help cost cutting and bolster growth for patent expirations both companies are striving to overcome. AZN's large portfolio of cancer drugs would be synergistic with PFE's roster without much overlap. In addition, AZN has been developing a cancer drug that uses the body's immune system to fight the battle. AZN rejected as too low but negotiations will likely continue.

A merger would also allow PFE to put some of its $69 billion overseas cash to work which would otherwise incur a repatriation tax if brought into the US. The merger is another so-called "inversion" whereby PFE acquires AZN and then incorporates the combined company in the UK while keeping the Headquarters in NY. PFE paid taxes at the rate of 27.6 percent in 2013 while the top UK tax rate for corporations is currently 21 percent, declining to 20 percent next year. Tax savings are projected to be in the hundreds of millions.

In addition to a lower corporate tax rate from the 35 percent in the US, PFE would benefit from the UK's more favorable tax treatment on income from patents and other intellectual properties. Of course avoiding the repatriation tax is significant. This is a common problem with other companies as well. For example, Apple has $17 billion overseas which would be taxed if brought in. Instead, Apple is selling bonds to fund its stock repurchase program.

Inversions have been becoming more and more common. In December, Perrigo (PRGO) bought Elan and re-domiciled in Ireland. Walgreens (WAG) is currently being pressured to relocate outside the US by its largest shareholders including Goldman Sachs, Jana Partners, and Corvex. There is a score of prior inversions including Chiquita Brands, Activis, Anheuser-Busch, Ingersoll Rand, and Copper Industries.

Of course, the inversion trend is alarming Washington and there have been stalled efforts to stop it. However, this will require overall tax reform which is not likely to occur anytime soon.

Retail Opportunities Investment Corp (ROIC) is up 5.8 percent this year, extending our profit at 50 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. During 2013, ROIC acquired ten grocery-anchored shopping centers for $368 million. Funds from operations (FFO) increased during the year as these properties were added.

Results continued on a positive path during the first quarter. Net operating income on the centers owned during the past year increased 4.3 percent, which marks the ninth consecutive quarter of increasing same-center income.

So far this year, ROIC has purchased $112 million of shopping center assets. FFO has climbed 10.5 percent during the last four quarters from increases in rental income and from the addition of new centers.

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. Meanwhile, ROIC pays a 4+ percent dividend that is bound to increase in the years ahead.

Stryker (SYK) is up 3.6 percent this year, extending our profit to 89 percent.

SYK is best known for its orthopedic devices for 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. Continued growth is assured by accelerating demand for joint replacements on aging US baby boomers. As life expectancies continue to increase, and obesity trends continue, more and more hip, knee, and spinal procedures will be needed.

SYK's announced first quarter earnings were impeded by unusually bad weather resulting in a high number of cancelled surgeries. However, these surgeries have been rescheduled. Even with the cancellations, SYK reported year-over-year growth in all of its key business segments.

The Reconstructive segment saw especially strong revenue growth of 34 percent from feet and ankles. Hip revenue grew 6 percent and revenue from knees grew 4 percent.

US MedSurg was led by a robust 13 percent growth in instruments.

Neurotechnology had 11% growth, and Interventional Spine had double-digit growth.

With the first quarter earnings of $1.06 per share, management confirmed its earnings projection of $4.75 to $4.90 for 2014.

Starting in April, SYK unified its sales force which management views as a key step in leveraging its considerable sales and distribution capabilities to drive sales growth.

Stryker's cash-rich balance sheet with $4 billion of cash and marketable securities, along with robust cash flow, gives SYK multiple avenues for continued growth through acquisitions.

The recent acquisition of Pivot Medical provides SYK with a platform of innovative instrumental implants to efficiently access and restore the mobility of the hip through arthroscopy with minimal incision. This is currently the fastest growing procedure in Sports Medicine.

SYK also recently acquired Berchtold Holding, which has a product portfolio of surgical infrastructure equipment including surgical tables and lighting systems.

Another significant recent acquisition was MAKO Surgical, which puts SYK in a leading position for robotic-assisted surgery and the potential for break-through innovations.

The 2013 purchase of Trauson Products, China's largest manufacturer of orthopedic implants, is bound to be an important source of growth. With 194 million Chinese over the age of 60, this demographic bulge is gaining wealth. Trauson gives SYK access to the Chinese market and broadens SYK's customer base. Trauson's devices are purchased by 3,000 Chinese hospitals, generally lower-income hospitals that cannot afford Stryker's more expensive products. With the diversity of products, SYK can serve both China's developing and developed areas.

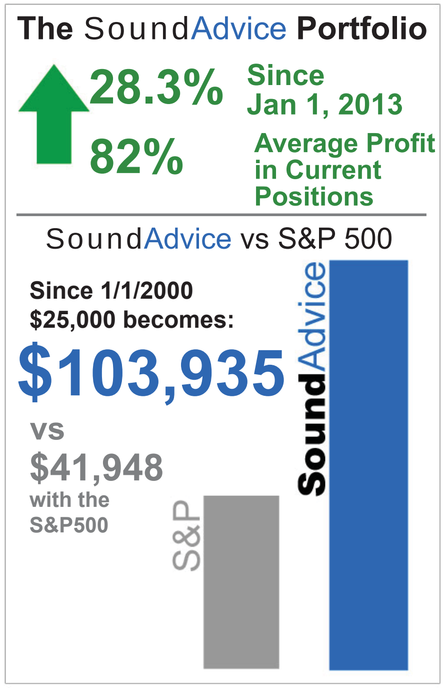
Symantec (SYMC) is down 14 percent this year, trimming our profit to 23 percent. SYMC is the dominant supplier of software for computer security and protection against viruses and other nuisances through its leading flagship brand, Norton. If there ever was a more certain growth industry, protection from cyber espionage is it.

We have been recommending SYMC because it is undervalued. For several years, SYMC has been operating with a bloated cost structure which its latest president and chief executive officer, Steve Bennett, made considerable progress in slashing. However, last month Mr. Bennett was terminated under the strains of reorganizing the company. However, despite management problems, SYMC's balance sheet is healthy, and the company continues to have robust cash flow.

Much of the management difficulty stems from the fact that SYMC is really three separate companies which SYMC identifies in its investor presentations. The User Productivity & Protection segment features its Norton anti-virus products for mobile products and otherwise. The Information Security offers products for data loss prevention for websites, mail, and data center hosting activities. The third segment, Information Management, offers products for data backup and recovery. Each of these segments has its own competitors, the metrics of which make it feasible to evaluate each of SYMC's segments.

Reuters reports that analysts covering SYMC have conducted "sum-of-the-parts" valuations. Even with its disastrous state of upper management and under-performance, valuations range from $25 to $28 per share, a 20+ percent premium over the current price of the stock.

Reuters reports that a number of private equity firms, including Bain Capital, Blackstone, and Carlyle, are assessing SYMC. These firms engage in leverage buyouts where they purchase the stock of a financially healthy but under-performing company for a reasonable premium above the market, then carry out the necessary restructuring in private to boost the value. They then re-list it for what is planned to be a tidy profit.



SYMC is certainly a good candidate. SYMC may think so too, as evidenced by the recent hiring of JP Morgan and an advisor regarding the threats of activists and private equity firms.

Whether or not such a buyout occurs, or other activist investors appear, the news would be good. At any rate, we have an indication that today's value is significantly higher than the current price of the stock. Barring any outside interest, SYMC should be able to get its upper management act together. The reaction should be good when new leadership is announced.

Tetra Tech (TTEK) is down 1.7 percent this year, trimming our profit to 78 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.

In the final days of April, TTEK announced its profit for the second quarter rose over 15 percent to $31.7 million from $24.8 million in the prior year quarter. TTEK also announced it is initiating a quarterly dividend of 7 cents per share.

TTEK's strongest growth markets are in oil & gas, solid waste, and industrial water. The company's strategy is to reduce risk by exiting fixed-price construction markets in favor of those where earn-out adjustments can be captured. TTEK's balance sheet has $500 million of capital for growth in strategic markets. Late in 2013, the board of directors authorized a $100 million common stock repurchase program.

There is plenty to clean up domestically, and the greatest growth potential continues to be outside the United States, especially in China and India, where environmental concerns have been an afterthought. As these and other governments around the world make this a priority, Tetra Tech should be a prime beneficiary.

Third Avenue Funds are in our portfolio because the management team looks for 4 fundamental characteristics before making 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.

4) The prospects are that over the next three to seven years, NAV will be increasing by at least 10 percent annually (including dividends).

Last October, we introduced the **Third Avenue Real Estate Value Investor Fund (TVRVX)** into our portfolio, and it has since grown 16.1 percent. It has led the pack of all real estate mutual funds during the last 3 years. This is still where the

Income With Growth	Sym	Exchange	Price	Yield	Limit	Action
Associated Estates Realty Corp	AEC	NYSE	$ 16.98	4.48%	$ 18.50	BUY
CommonWealth REIT	CWH	NYSE	$ 25.30	3.95%	$ 27.00	BUY
Hersha Hospitality Trust	HT	NYSE	$ 5.82	4.12%	$ 6.50	BUY
Retail Opportunity Investment Corp	ROIC	NASDAQ	$ 15.42	3.89%	$ 16.00	BUY
Third Avenue Real Estate Value Investor	TVRVX	800-443-1021	$ 30.62	2.16%	$ 33.00	BUY
Diversified Growth						
Pfizer	PFE	NYSE	$ 31.18	3.34%	$ 33.00	BUY
Stryker Corp.	SYK	NYSE	$ 77.57	1.37%	$ 82.00	BUY
Third Avenue Small-Cap Value Investor Fund	TVSVX	800-443-1021	$ 27.22	0.00%	$ 32.00	BUY
Xerox	XRX	NYSE	$ 12.18	2.05%	$ 12.00	BUY
Energy/Natural Resources						
Agrium	AGU	NYSE	$ 95.54	3.14%	$ 100.00	BUY
Chesapeake Energy Corp	CHK	NYSE	$ 28.65	1.22%	$ 30.00	BUY
Fidelity Select Nat. Gas Fund	FSNGX	800-544-8888	$ 43.05	0.77%	$ 42.00	BUY
Freeport-McMoRan	FCX	NYSE	$ 34.37	3.64%	$ 36.00	BUY
ICON Energy Fund Class S	ICENX	800-828-4881	$ 23.86	3.10%	$ 25.00	BUY
Tetra Tech	TTEK	NASDAQ	$ 27.51	1.02%	$ 29.00	HOLD
USAA Precious Metals & Minerals	USAGX	800-862-6909	$ 15.32	0.13%	$ 18.00	BUY
Aggressive Growth						
AMN Healthcare	AHS	NYSE	$ 12.60	0.00%	$ 12.00	HOLD
Boston Scientific	BSX	NYSE	$ 12.60	0.00%	$ 12.50	BUY
ETF - Direxion Daily 20+ Yr Bear 3X	TMV	NYSE	$ 51.90	0.00%	$ 62.00	BUY
ETF - ProShares Short 20+ Year Trsry	TBF	NYSE	$ 29.48	0.00%	$ 32.00	BUY
ETF - ProShares UltraShort 20+ Year Trsry	TBT	NYSE	$ 63.61	0.00%	$ 71.00	BUY
H&Q Life Sciences Fund	HQL	NYSE	$ 21.10	0.00%	$ 25.00	BUY
Symantec	SYMC	NASDAQ	$ 20.18	2.97%	$ 21.00	BUY

Prices are as of 5/1/2014. See our website for live pricing and buy limits. Yields on funds may include captial gain distriutions.

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

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

best real estate values can be found in a mutual fund. It is replete with stellar values substantially below NAV with strong growth prospects.

Last month, we introduced the **Third Avenue Small-Cap Value Investor Fund (TVSVX)** which invests in companies with small capitalizations using the same value-oriented approach. Small cap stocks perform better than large cap stocks over the longer term because they are pure plays on the early stages of new industries and inventions. They have more dynamic and entrepreneurial management, and they are much more likely to be the target of an acquisition or merger which is usually profitable. Not only do small caps perform better over the long run, they generally benefit strongly from a recovering economy.

USAA Precious Metals & Minerals Fund (USAGX) is up 20 percent this year, our best gainer so far for 2014. When the economic recovery gets more traction, the money created in recent years will be sloshing through the economy, putting upward pressure on the prices of commodities including precious metals. This fund will also benefit from inflation when the economy begins to overheat. USAGX is the best diversified way to invest in precious metals. It is the top-performing fund, and has constantly out-performed precious metal equities for ten years.

Xerox (XRX) is essentially unchanged this year, leaving our profit at 44 percent. We have been recommending XRX because it has been transforming from purely a seller of printers and copiers to a company providing services on those machines along with developing information technology (IT) services. In 2013, the strongest growth came from the expansion into IT services, especially in the healthcare industry where technology is needed to reduce costs. In late April, XRX reported $0.27 earnings per share for the quarter, beating the consensus estimate of $0.24 by $0.03. XRX expects to post earnings of $1.07 to $1.13 per share for the year. After spending $275 million on stock buy-backs during the first quarter, the company raised its 2014 stock buyback forecast to at least $700 million from at least $500 million. Beyond 2014, XRX plans to repurchase another $1.0 billion of its stock.

At close to 10 times earnings, XRX is at a steep discount to the overall market and cheap in comparison to its competitors like IBM and Canon. XRX raised the next quarterly dividend by 8.7% to $0.0625 per share ($0.25 annually).

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 $11.1 million in stocks and to $1.39 million in houses.

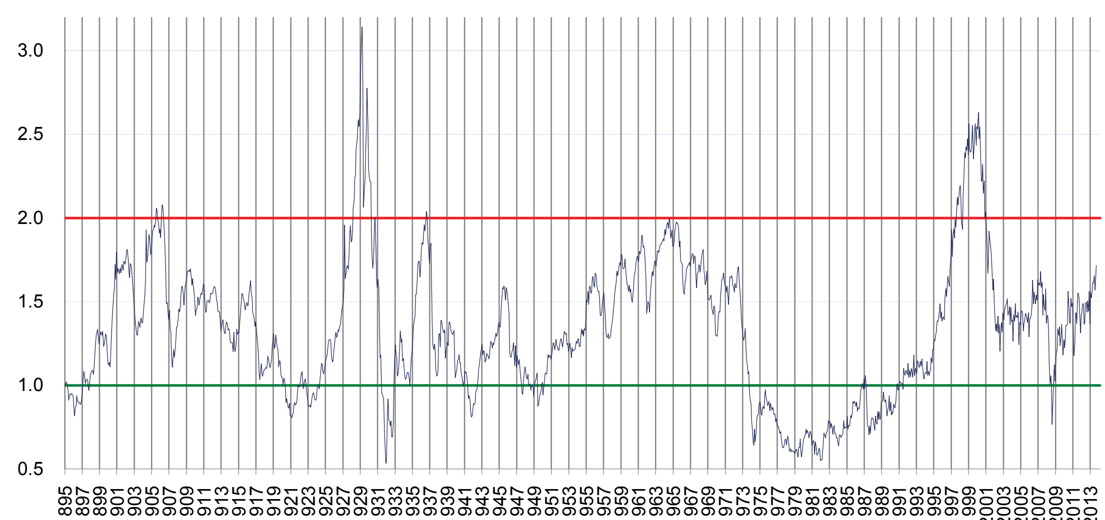
But though an investment beginning with $25,000 in 1895 could have made money being in either stocks or housing and simply leaving it there over such a long period of time, had the investor followed the signals of the SoundAdvice Risk Indicator he would have made $440 million, or 39.7 times more money—the difference between profits the buy-and-hold stock market strategy would have yielded by itself and the profits that the SoundAdvice Risk Indicator would have provided.

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

The SoundAdvice Risk Indicator

The latest reading for the Sound Advice Risk Indicator is 1.74. This reading reveals that stock prices are above average in relation to house prices. The February 2009 reading of 0.77 marked the low for this cycle as well as the beginning of Supercycle 6.

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



Business Cycles and Stocks: The SoundAdvice Diffusion Indexes

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

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

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

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

The 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 66.7 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. Although we operated under the "Caution" signal, we earned a 25.74 percent investment return in 2013. We continued to be bullish about stocks because of Federal Reserve's expansive monetary policy and its Quantitative Easing program which has been distorting the natural business cycle this time.

This index hit 100% in again in May, 2014, based on the March data. With the Quantitative Easing program winding down, this confirms our "Caution Signal" .

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 1.5 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
Ave +/-	34.4%		1.5%

See ***The Science of Making Money in Turbulent Markets*** for a complete explanation of the **Sound**Advice 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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