



The *Sound Advice* portfolio is up 27.5 percent so far this year. This compares to 15.0 percent for the S&P 500. We have an average gain in the *Sound Advice* Model Portfolio of 47.2 percent based on the prices at which each stock or mutual fund was recommended.

In this Issue, we update all of our current recommendations. We begin with our "No-Brainer", the reverse ETFs that will benefit strongly from a rise in yields on long-term Treasury bonds.

We then update all of our other recommended positions in alphabetical order. See the table on page 7 for buy limits and other information on each recommendation.

Due to an improvement in economic conditions and significant increases in the leading indicators, we will not get the green light soon from our Diffusion Index of Leading Indicators. See page 10. Accordingly the cautionary signal given by our Diffusion Index of Lagging Indicators in April, close to the peak of the market still stands.

We have done well under our cautionary signal. It just means we need to be more selective, and conservative -- a policy that always pays off -- it is just more critical now.

On page 10 and 11, we examine the foreclosure situation. Unfortunately, not much of an improvement has occurred, so we still cannot see a light at the end of the tunnel

-Gray Emerson Cardiff

The Fiscal Cliff

The Budget Control Act of 2011 is scheduled to go into effect on December 31, 2012. This is what Ben Bernanke has dubbed the "fiscal cliff."

Along with deep automatic cuts in over 1,000 government programs, especially in defense and Medicare, the Bush tax cuts expire, and new taxes for Obama's health care begin. Estimates range that the impact will reduce US GDP growth from 2.3 to 4 percent in 2013. If allowed to go through, it would certainly dampen growth, increase unemployment, and could push the US economy back into recession next year. The only good news is that it would cut the Federal deficit in half (as a percentage of GDP.)

Congress passed the Budget Control Act of 2011 to force themselves into cutting spending and/or increase taxes to achieve a deficit reduction of \$1.2 trillion over the next 10 years. Of course, that has not happened yet.

Although no one expects anything to happen before election-day, both presidential candidates and senior members of Congress agree that going over the cliff is irresponsible. In addition, Federal Reserve has been warning politicians not to allow the legislated cuts of the Budget Control Act of 2011 to take effect.

Accordingly, regardless of who wins the election, it is most likely that Congress will "kick the can" after the elections, and put everything off. Judging by the stock market, Wall Street agrees.

If Romney Wins?

If Mitt Romney wins, Congress is likely to put everything off until mid-2013 to give him time to craft a budget. It is hard to imagine that a defeated lame-duck President and Congress would blatantly sabotage the economy and defy the Federal Reserve's explicit warnings by letting the Country go over the cliff.

Even the most ardent opposition would realize that most, if not all of the tax hikes, and much of the spending cuts would be reversed shortly after inauguration.

If Obama Wins?

If President Obama is re-elected, it may mean more grid-lock, especially as Republicans continue to dominate Congress. However, the benefits of protecting the economy will have increased. Both parties will be facing 4 more years of cohabitation and be held responsible by voters. Neither will want to start the next term by pushing the economy over the cliff.

If no compromise can be made by year-end, the White House budget office has considerable flexibility in how to allocate the cuts over the year. In addition, the Treasury secretary could delay changing tax-withholding tables, softening the immediate blow, until Congress gets its act together.

Our "No-Brainers"

If we are heading over the fiscal cliff, it will mean slower economic growth, or even a recession. This will prolong the eventual rise in long-term interest rates. The impact will be negative for the reverse interest rate ETFs, we have dubbed our "No-Brainers", which are designed to benefit strongly from a rise in yields on

The History of 30-Year Treasury Bond Yields



This graph shows the yields of 30-year Treasury bonds since 1977. As you can see, the recent lows are historic. Yields have been close to the recent lows only once before -- after the 2008-09 meltdown as systemic risks in the banking system fueled a capital flight to safety. The yield reached a low of 2.69 percent in December, 2008. After climbing to 4.7 percent in March 2010, yields plunged below 2.5 percent in July, 2012. Source: Yahoo! Finance

long-term Treasury bonds.

However, even if we go over the cliff, and our holding period is extended, they are still no-brainers. These ETFs are as follows:

Proshares Short 20 Plus year Treasury (TBF-NTSE) which uses no leverage,

Proshares Ultrashort Lehman 20 Plus year Treasury (TBT-NTSE) which uses 2:1 leverage,

Direxion Daily 20 Plus Year Bear 3 Shares (TMV-NYSE) which uses 3:1 leverage.

Since our last Issue, the Federal Reserve's announced its bold new quantitative easing program (QE-3). The immediate impact was extremely positive for our model portfolio. It was especially positive for our no-brainer ETFs. For example, **Direxion Daily 20 Plus Year Bear 3 Shares (TMV-NYSE)** shot up 20 percent. These ETFs have since settled back, but are still slightly above the price we recommended doubling up.

As you undoubtedly know by now, QE-3 is an open-ended commitment to buy \$40 billion of mortgage backed securities every month (packages of home loans created by Fannie Mae and Freddie Mac), along with about \$45 billion in monthly exchanges of shorter-term debt for longer-term debt. The Federal Reserve has promised to continue these

purchases, even after the economy begins to recover, until the employment situation improves "substantially."

As we have noted in these pages of Sound Advice, the state of the nation's real estate markets and the economy have become one and the same. Evidently the Federal Reserve agrees. QE 3 is aimed squarely at pushing down mortgage interest rates and pumping liquidity into the mortgage market, giving banks and other lenders a greater incentive to make mortgage loans.

To make these massive purchases, the Federal Reserve creates the money to do so – it basically prints the money. Of course, all these extra dollars will raise inflationary expectations.

Keep in mind that there is a great deal of profit potential in these ETFs. Long-term Treasury bond yields will climb sharply when the economy recovers in earnest. Note the chart above of the history of long-term Treasury bond yields. We are still near historically low yields.

This time, the climb in yields will be boosted by the gargantuan amount of Treasury securities that will need to be sold to finance our ballooned national debt and Federal deficits. It is only a matter of time.

Portfolio Updates

Here are updates on the rest of our recommendations, in

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alphabetical order:

Agrium (AGU) is up 57 percent this year, extending our profit to 776 percent. We originally recommended this stock and continue to hold it because it is the largest farm products retailer in North America, and because it is a wholesaler to the rest of the world. In order for emerging markets to meet their needs for food, they will either have to import foodstuffs from the more advanced countries or, better for the fertilizer industry, use fertilizer to improve their crop yields. Either way means more use of fertilizers.

Barry Rosenstein, the co-founder of activist hedge fund Jana Partners LLC, and the largest shareholder with a 4.1 percent stake, is proposing a tax-free separation of the company's retail operations from its wholesale arm, and calling for AGU's management to boost capital returns, improve disclosure and reduce costs and working capital, all of which Jana claims may add \$50 per share value.

Agrium Chief Executive Officer Mike Wilson is rejecting Jana's proposal and hired Morgan Stanley as an adviser. Wilson said today in a statement on October 1st: "Agrium remains confident that shareholders will receive far greater value, with less risk, under the company's current strategy."

This may be the beginning of a battle. If so, it is likely to be positive because these things, at the very least, usually point out areas for improvements and force management to focus on them.

AMN Healthcare (AHS) is up 130 percent this year, and has been really strong recently. We have a 93 percent gain and expect considerably more.

AHS provides temporary healthcare staffing services to the healthcare industry, ranging from nurses to physicians.

When we first recommended this stock, it rocketed 45% in three months, jumping way ahead of the market based on optimism about the economy, and especially job creation. The initial run up in price provides a road map for how we expect AHS will play out.

The rationale for buying AMN Healthcare is a two-fer. AHS is not just an opportunity to invest in healthcare, which is traditionally a non-cyclical industry, but it is also a chance to buy into a healthcare business that will benefit from a recovery in the economy.

Associated Estates Realty Corp (AEC) is the most undervalued apartment REIT in the sector. It was once a low-income apartment REIT, but that is no longer the case. AEC has disposed of its older properties, most of which were sold during real estate's more buoyant years, and has replaced them with class A apartment properties. The equity of its apartment portfolio translates into a stock value that is nearly double the current stock price. It pays a nice yield as well. We have a small profit, and expect much more ahead.

Boston Scientific (BSX) is a classic turnaround story. It has had flat earnings this year due to lower demand for surgeries that require the company's devices produced by

its cardiology and cardiac rhythm Management segments. However, a brighter day is ahead from innovations and acquisitions.

For example, one of the recent acquisitions, Cameron Health, just received approval from the FDA for its Subcutaneous Implantable Defibrillator (S-ICD) which is implanted under the skin without touching the heart or blood vessels.

ICDs are currently being used widely in Europe and there are vast new markets in India and China. BSX expects to see significant revenues from their IDCs beginning in 2016. BSX's new LATITUDE™ NXT Remote Patient Management system enables physicians to monitor patients with pacemakers remotely, as well as to conduct remote monitoring of general heart health status, blood pressure, respiratory events, and sleep apnea trends.

Other BSX innovations include its Epic Vascular Self-Expanding Stent System, designed to open blocked arteries. The new CEO, Mike Mahoney, who came over from Johnson and Johnson, has embarked on an austerity program aimed at curbing operating expenses through a restructuring program which is targeted to save between \$650 million and \$750 million annually.

We do not have a profit in BSX, but expect to within the next 12 months. That's not just our opinion -- BSX is buying back its own stock in an aggressive share-repurchase program. This alone will boost earnings, not to mention the introduction of new innovative products. Gains from the current price should be substantial.

CGM Real Estate Fund (CGMRX) is up 8.2 percent this year, extending our profit to 53 percent. We got back into it again after the 2008-09 crash in REIT prices.

CGMRX is as good as it gets for a REIT fund. CGMRX put on quite a fireworks show between 2003 and 2007 (+89.7%, +35.5%, +27%, +29%, +34.4%). We made a 145% profit during that period.

Ken Heebner, has run the fund since its inception in 1995. He is known as "The Mad Bomber" because he has never been considered cautious. He either outperforms or underperforms significantly, and this fund can be volatile, but Heebner's good years are really good. We watch his portfolio choices closely, so that we can judge whether the holdings make sense to us.

Chesapeake Energy (CHK) is up 17.3 percent since it was included in the portfolio earlier this year and expect a great deal more.

. We added it because it has natural gas assets worth in excess of \$27 a share. The shares were cheap for two reasons: low natural gas prices and poor corporate governance.

Since then, natural gas prices have climbed 50 percent, and Carl Icahn bought a stake and has been instrumental in removing the founder, Aubrey McClendon, as chairman of

the board and replacing several other board members.

The spotlight is now on the board to maximize shareholder value.

Commonwealth REIT (CWH) as we reported in last month's Issue, management mentioned that a "dividend adjustment" may be coming during the next couple of quarters in order to retain more cash flow as we increase occupancy at our properties in the future.

Funds from operations FFO has been well in excess of the dividend payments, which is the normal guide and source of funds for dividends. However, in its statement, management referred to the current dividend being above 100 percent of the company's to cash available for distribution. Unlike FFO, cash available for distribution includes capital expenditures include (tenant improvements, leasing costs, building improvements, and development activities.)

Normally, capital expenditures are amortized over a number of years, and therefore are not included in the FFO calculation, which is the standard source of funds for dividend payments. However, the company's comments are including capital expenditures in the reference to CAD and dividend coverage. By these comments, we must assume a dividend adjustment is likely.

If the second quarter's FFO and capital expenditures are assumed to continue without improvement, the dividend would need to be adjusted to \$0.37 a share from \$0.50 currently, in order to have CAD be less than 100%. This would be a 9.3% yield on the current stock price.

The current price of the stock already assumes that the dividend will be reduced, based on the current yield. Accordingly, we do not see significant downside from here even with a reduction of the dividend. In fact, the stock price is likely to improve with a dividend adjustment because the cloud of uncertainty will be removed, and the new dividend will be dependable going forward.

We regard this latest decline in the stock as a buying opportunity. The underlying real estate portfolio is worth more than double the current capitalization of the company.

Comcast (CMCSA) is up 51 percent this year, extending our profit to 97 percent. This is considered the best managed cable company. Earnings are growing nicely – up 23% from a year ago. With its acquisition of AT&T's vast cable assets in 2004, and then its joint deal with Time Warner to acquire bankrupt Adelphia's cable business, it became the largest cable company.

Its more recent purchase of the controlling interest in GE's NBC Universal division, is a growth engine. CMCSA is adding new and original program content, along with sports offerings, as an attraction to existing and new customers.

CMCSA reinstated its dividend in 2008, which along with revenues, profits, and cash flow, has increased each year since.

CMCSA is also an indirect play on the real estate recovery. The housing recession has had a dampening effect as foreclosures and the accompanying financial stress has reduced customers. New signs of life in the housing market will be a strong benefit.

Fidelity Select Natural Gas Fund (FSNGX) is a play on the yawning gap between the energy equivalents of oil and natural gas. In comparison to oil, an equal amount of energy in the form of natural gas costs less than 20 cents on the dollar.

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 independence from importing oil.

This fund is well positioned to benefit from an expanding natural gas industry, and should bring strong profits in the months ahead.

Hambrecht & Quist Life Sciences Fund (HQL) is up 34.5 percent this year, extending our profit to 57 percent. This is a closed-end fund (CEF), which means it trades not at its Net Asset Value (NAV) but at whatever price the market sets, which can create a discount or a premium to NAV. HQL is currently trading at a discount to its NAV.

We think HQL is a superior way to gain exposure to biotech on a diversified basis, which is a volatile sector. However, the most explosive profits in the entire healthcare industry can be found here. This mutual fund has climbed inexorably most of the year, and should continue to do so.

The Fund began purchasing up to 12% of its own shares on the open market beginning in July. The share repurchase program is intended to increase the Fund's net asset value per share and to reduce the discount the stock has from the net asset value.

Leucadia (LUK) is essentially unchanged for the year, leaving us with a small 11 percent profit.

This is a holding company with a portfolio in excess of \$9 billion of assets acquired by its two principals, Ian Cumming and Joseph Steinberg, who have been compared to Warren Buffett in their success at identifying lucrative investments that can be purchased substantially below their intrinsic value. In fact, Buffet continues to team up with the Leucadia team on joint venture investments.

Skillful investing has produced double digit growth rates in its assets since 1979. After a bad year in 2008, assets have since grown by 150 percent according to Morningstar.

We think that Leucadia is valued well below the market prices of its disparate parts. This stock is bound to recover with the economy.

Masco (MAS) manufactures a wide range of products for home construction and remodeling --everything from kitchen cabinets and faucets to windows and paint.

Not surprisingly the shares got hammered during the

downturn. Management had been through tough times before, and began cutting costs even before the housing sector went into free-fall.

We added MAS to the portfolio in October last year at \$7.49, when it was languishing in the doldrums. It has since doubled.

Masco is moving to consolidate debt, close unprofitable plants, formulate and implement new systems, streamline global supply chains and cut personnel to cut costs. MAS expects to save \$150 million of gross cost reduction before inflation with these policies.

Maxim Integrated Products (MXIM) is in excellent financial health with \$1.0 billion of cash and plenty of cash flow to support operations, as well as pay its quarterly dividend of \$0.22 per share – for an annual yield of more than 3 percent of the current share price.

Maxim’s reputation is built on its topnotch engineering, especially in analog circuits. Though it’s easy to think that digital has vanquished analog circuits, analog circuits are essential for receiving inputs from the non-digital world in which we live. After a signal has been processed, usually through a digital circuit, the signal has to be retransmitted into an analog format that we can interpret. A cell phone is a perfect example. After receiving a digital signal, it must be transformed into an analog format so that we can hear it.

The expertise to develop these analog chips is not easily duplicated and takes years to develop, which is an entry barrier for new competition. The designs don’t require cutting-edge production techniques, so these chips have long and profitable product lives.

On the data center front, MXIM just introduced its new transmitter chipset (40G) which supplies 4 times the bandwidth with very little electrical power. This is an important development because electrical power is the most critical constraint in data centers – those floors of computer servers that supply the “Cloud” we are all going to in droves for data and applications.

MXIM recently won notoriety for its solid state battery that harvests ambient energy. The device captures low-level energy forms, such as from photovoltaic cells, vibrations captured by a piezoelectric element, and heat captured by a thermoelectric generator. This device can eliminate the need to run expensive power cables to remote locations or reduce the frequency of battery replacements.

We have a profit of 38 percent but expect more. Even if MXIM’s price ratios merely rise to the valuations of its

average years, the share price should easily double from here.

Paychex (PAYX) a classic “buying straw hats in winter” opportunity that offers considerable potential for capital appreciation, along with safety, and a nice yield of close to 4 percent

Its core business is payroll services for small to medium sized companies. Accordingly, its revenues and earnings directly mirror the employment situation. Downside is limited because the balance sheet is pristine with no long-term debt exposure.

PAYX is up 9.6 percent this year, extending our profit to 22 percent, but there is a larger profit ahead with a recovery in the economy.

Pfizer (PFE) is still cheap because the patent expired on its blockbuster drug, Lipitor. However, there are many new, potential blockbusters in the pipeline.

For example, Xalkori is proving to extend the lives of lung-cancer patients, without their disease worsening, for twice as long as the standard therapies.

PFE is buying back its own shares with much of the proceeds of the Nestle sale. We agree with that decision. We have a profit of 49 percent and expect more. The stock is cheap and has nowhere to go but up.

Retail Opportunities Investment Corp (ROIC) is up 9.2 percent this year, extending our profit to 20 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, with no debt and no problems. It is a simple model: buy distressed retail properties with high-quality demographics, refurbish them, and then lease them at a premium.

ROIC’s shopping centers have high occupancy. Funds from operations (FFO) more than cover the dividend. As new properties are added, along with tenant upgrades, FFO should continue to rise, along with the dividend and price of this REIT.

Stryker (SYK) is up 10 percent this year, extending our profit to 31 percent. More profits are assured by joint replacements on aging baby boomers.

SYK is best known for its orthopedic devices: artificial knees and hips, but it’s much more. SYK provides a diverse array of innovative medical technologies, including reconstructive, medical and surgical, and neuro-technological and spine products.

Investor concern centers on the reluctance by hospitals



to make capital investments and patients who postpone procedures. These are both cyclical issues, and will reverse once the economy improves. Stryker's balance sheet with piddling debt and robust cash flow permits the company to acquire businesses that either deepen its existing strengths or add complementary lines. Management has been buying back shares and has steadily increased its dividend.

Symantec (SYMC) is up 14.6 percent this year. This is the dominant supplier of software for computer security and protection against viruses and other nuisances. New markets are opening up for SYMC as the world moves to smart phones and other mobile devices, and as hackers search for security holes.

SYMC's flagship brand, Norton, should see strong growth in the mobile phone and tablet markets. Windows 8 release will also add demand to SYMC security software.

Recent acquisitions of Nukona, Inc, a provider of mobile application management, and Odyssey Software, a leading provider of mobile device management, enable SYMC to offer mobile apps that protect against hackers by authenticating users and encrypting sensitive files. SYMC is also collaborating with Red Hat to deliver solutions that help customers deploy agile private and hybrid clouds, as well as create resilient data centers.

Growth is assured from the expanding use in cloud computing along with the commensurate need for security software.

Shares got a boost in late July when the company replaced its CEO and president with Steve Bennett who had a strong track record at Intuit and General Electric.

SYMC repurchased 19 million of its own shares during the first quarter. More recently on August 30, one of SYMC's directors (Geraldine Laybourne) purchased 897 shares at a price of \$17.88.

Tellabs (TLAB) designs and manufactures hardware for the telecommunications industry, which in a world of exploding demand for wireless communications should be a bonanza of a business. However, Tellabs has been slow to move its product lines as telecom service migrates into wireless, and has been one of the worst performers in the S&P, but seems to have found a floor.

Now, however, Tellabs is fast-tracking development of new products for wireless service. There's no question that the explosion of smart phones, tablet computers and wireless communication is testing the limits of telecom infrastructure. Tellabs should be able to gain a significant portion of that market.

Even if it should fail to complete the transition in its products, it remains an attractive takeover candidate. Consider that Tellabs' balance sheet holds \$2.91 per share in cash and cash equivalents (short-term government debt or commercial paper) with no long-term debt. Other assets and liabilities on the balance sheet offset each other. Subtract that \$2.91 from the current share price and you are buying

the entire business for very little.

We also believe that an acquirer would be happy to get the company for next to nothing if only to capture its client base. At its current price, the shares trade cheaply. If we look back over the last 23 years and calculate valuations at the shares' highs and lows each year, we can get a sense of how much or little investors have been willing to pay for Tellabs.

Price-to-Sales over the last 23 years, which includes the bubble years when the ratio ran as high as the low teens, has had an average historical low of 2. Currently Price-to-Sales stands at 1.07. Price to Cash Flow over the same period has averaged at its high 33.8 and at its low 14.2. Currently P/CF is 11.7. As for Price/Book Value, historically it has run as high as 12 (2000); its average high has been 5.3 and its historical low average has been 2.8. Currently it's 0.9. We think there is very little downside risk and loads of upside.

Tetra Tech (TTEK) is up 21 percent this year, extending our profit to 70 percent, and we see more profits ahead.

TTEK is a leading company in water technologies. It designs complex and intricate plans that are used by local and national governments to meet future water needs, including desalinization.

TTEK has a healthy balance sheet, and water and environmental remediation are definitely growth industries. Recent contracts include remediating NASA's Kennedy Space Center and Cape Canaveral Air Force Station, along with environmental remediation services at U.S. Navy, Marine Corps, and other Department of Defense locations primarily in California and the southwestern United States.

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

USAA Precious Metals & Minerals Fund (USAGX) is only up 3.2 percent this year, extending our profit to 27 percent. USAGX jumped on the QE-3 announcement. As we noted in our mid-Issue internet update, the Federal Reserve's bold QE-3 program promises to make massive purchases of Treasuries and mortgage-backed securities. However, in order to make these purchases, the Federal reserve creates the money to do so – it basically prints the money. Of course, all these extra dollars will raise inflationary expectations and cause the value of U.S. currency to decline. Of course, precious metals are a direct beneficiary.

USAGX is the best diversified way to invest in precious metals. It regularly ranks among the top-performing funds. Morningstar also rates it highly and it has accomplished these ratings without taking on oversized risk.

Mark Johnson, who has managed the fund for the past 17 years, has shown a talent at making the right decisions

Income With Growth	Sym	Exchange	Price	Yield	Limit	Action
Associated Estates Realty Corp	AEC	NYSE	\$ 15.11	4.77%	\$ 17.00	BUY
CommonWealth REIT	CWH	NYSE	\$ 14.25	14.04%	\$ 20.00	BUY
Retail Opportunity Investment Corp	ROIC	NASDAQ	\$ 12.93	3.09%	\$ 13.00	BUY
Diversified Growth						
CGM Realty Fund	CGMRX	800-343-5678	\$ 29.14	0.89%	\$ -	BUY
Comcast	CMCSA	NASDAQ	\$ 35.84	1.81%	\$ 37.00	BUY
Leucadia National Corp.	LUK	NYSE	\$ 22.97	1.09%	\$ 25.00	BUY
Masco	MAS	NYSE	\$ 15.37	1.95%	\$ 16.00	BUY
Paychex	PAYX	NASDAQ	\$ 33.01	3.88%	\$ 37.00	BUY
Pfizer	PFE	NYSE	\$ 25.12	3.50%	\$ 27.00	BUY
Stryker Corp.	SYK	NYSE	\$ 54.67	1.55%	\$ 58.00	BUY
Xerox	XRX	NYSE	\$ 7.35	2.31%	\$ 8.00	BUY
Energy/Natural Resources						
Agrium	AGU	NYSE	\$ 105.36	0.43%	\$ 108.00	BUY
Chesapeake Energy Corp	CHK	NYSE	\$ 19.54	1.79%	\$ 23.00	BUY
Fidelity Select Nat. Gas Fund	FSNGX	800-544-8888	\$ 31.63	0.17%	\$ -	BUY
Tetra Tech	TTEK	NASDAQ	\$ 26.19	0.00%	\$ 29.00	BUY
USAA Precious Metals & Minerals	USAGX	800-862-6909	\$ 31.78	0.25%	\$ -	BUY
Aggressive Growth						
AMN Healthcare	AHS	NYSE	\$ 10.23	0.00%	\$ 11.50	BUY
Boston Scientific	BSX	NYSE	\$ 5.66	0.00%	\$ 6.50	BUY
ETF - Direxion Daily 20+ Yr Bear 3X	TMV	NYSE	\$ 52.88	0.00%	\$ -	BUY
ETF - ProShares Short 20+ Year Trsry	TBF	NYSE	\$ 29.01	0.00%	\$ -	BUY
ETF - ProShares UltraShort 20+ Year Trsry	TBT	NYSE	\$ 15.50	0.00%	\$ -	BUY
H&Q Life Sciences Fund	HQL	NYSE	\$ 15.43	7.00%	\$ 17.00	BUY
Maxim Integrated	MXIM	NASDAQ	\$ 27.22	3.23%	\$ 30.00	BUY
Symantec	SYMC	NASDAQ	\$ 17.94	0.00%	\$ 20.00	BUY
Tellabs	TLAB	NASDAQ	\$ 3.43	2.33%	\$ 4.00	BUY

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

Prices are as of 10/2/2012. See our website for live pricing and buy limits.

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

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

during his tenure. Since we consider funds managed by industry veterans superior to index funds, we cannot think of a better way to play gold and precious metals than this fund.

Xerox (XRX) has new management, and a new focus that builds on the company's hardware, which has always been innovative, but emphasizes how that technology is used by its customers. As in the past, XRX knows that to maintain its dominance in its strong sectors, and to forge dominance in sectors it does not control, demands technological innovation. However, management has rightly concluded that the best way to make that technology profitable is to make it the core of its clients' business operations, and

generate revenues from servicing those needs.

XRX is transforming from a seller of printers and copiers, which have thin profit margins and are highly dependent on economic conditions, to a company providing services on those machines. The revenue from services is more profitable and less cyclical. Half of XRX's revenues now come from services.

Earnings are expected to be in the range of \$1.07 to \$1.12 per share this year. At close to 7 times earnings, these shares are really cheap, and any kind of recovery will bring a high capital gain.

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 \$8,470,588 in stocks and to \$1,229,255 in houses.

But though an investment beginning with \$25,000 in 1895 could have made money being in either stocks or housing and simply leaving it there over such a long period of time, had the investor followed the signals of the SoundAdvice Risk Indicator he would have made \$3369,671,091, 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 1.53. This reading reveals that stock values are close to average in relation to house prices. The February 2009 reading of 0.77 marked the low for this cycle as well as the beginning of Supercycle 6.

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



Business Cycles and Stocks: The SoundAdvice Diffusion Indexes

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

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

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

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

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

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

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

Our next signal will come from a zero reading from our Diffusion Index of Leading Indicators. The latest reading is 33.3 percent.

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

Track Record of the SoundAdvice Diffusion Indexes

If we had followed the signals from our Diffusion Indexes over the years, we would have done very well indeed. The results are shown below. After each "Aggressive" signal, the S&P 500 climbed an average of 34.4 percent. During "Caution" signals, the S&P 500 declined an average of 0.9 percent.

Aggressive	S&P	Caution	S&P
Sep-74	68.1	Apr-76	101.9
Jul-76	104.2	Dec-76	104.7
Oct-78	100.6	Jun-79	101.7
Nov-79	100.0	Oct-83	167.7
Aug-84	164.5	Jun-85	188.9
Jul-86	240.2	Aug-87	329.4
Feb-88	258.1	Jun-88	270.7
Mar-89	280.0	Mar-93	449.7
Mar-95	493.2	Dec-98	1,141.0
Jun-00	1,429.4	Dec-00	1,320.3
Jun-03	974.5	May-05	1,191.5
Jun-06	1,276.7	Mar-08	1,325.4
Apr-09	848.2	Mar-12	1,370.3
Ave +/-	34.4%		-0.9%

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

The rising swell of home foreclosures began in 2007 as a symptom of faltering real estate markets across the country. But as the swell turned into a tidal wave, falling real estate prices have compromised the assets of the US banking system and the fabric of the US and worldwide economies. Indeed, the state of the nation's real estate markets and the economy have become one and the same. We cannot have a sustainable recovery in the economy without the removal of the bulk of foreclosed homes overhanging the market.

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

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

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

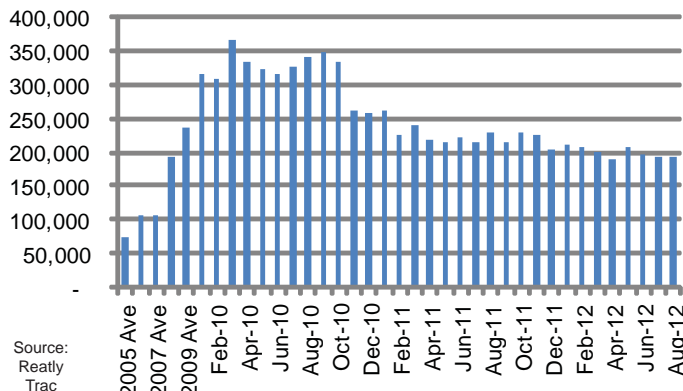
The Key Indicator

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

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

The following chart shows US foreclosure rates. In 2005,

US Foreclosure Rates - Monthly Averages



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

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

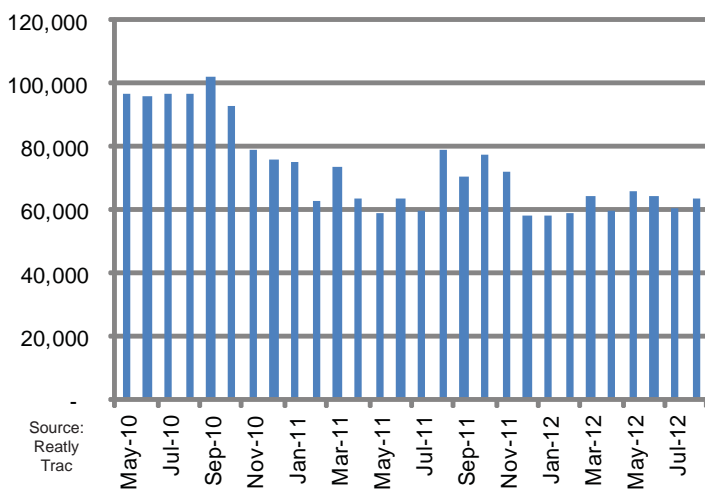
Dissecting the Foreclosure Process

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

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

The following chart shows new default filings in the US by month since May 2010. Through October 2010, new default notices were hovering around 100,000 per month. In November 2010 they began declining but have remained stubbornly high during the last several months.

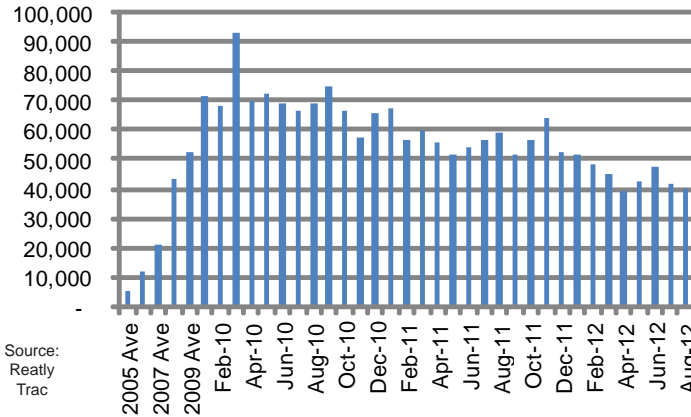
US New Default Notices



One fourth of the nation's foreclosures have been in California for the last few years. The following chart shows all stages of the foreclosure process in California (including auctions and bank repossessions).

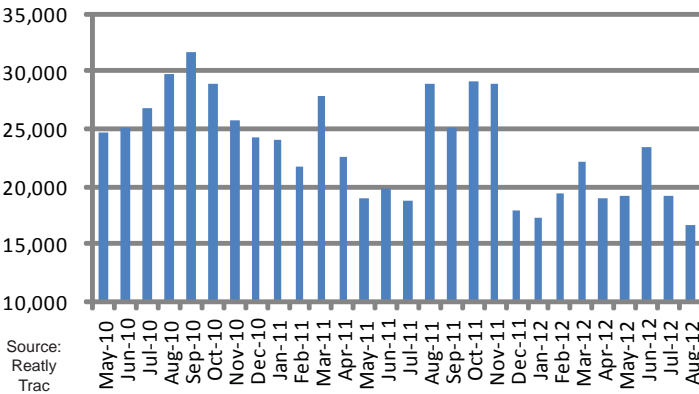
In 2005, California foreclosures averaged 5,138 properties per month. Foreclosures doubled in 2006, and again in 2007, and again in 2008. By 2010, foreclosures were close to 70,000 each month, with a spike of 93,000 in March. Foreclosure rates remained high in 2011 and began modest declines during the first five months of 2012. However, there has not been much of an improvement since.

California Foreclosures - Monthly Averages



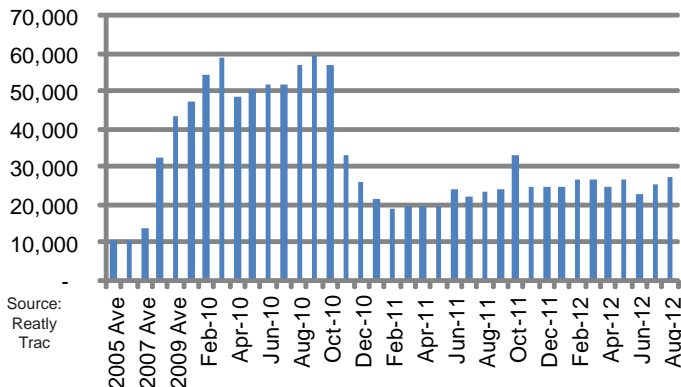
The following chart shows new default notices in California. After declining somewhat earlier this year, new default notices dropped sharply in July and August.

California New Default Filings



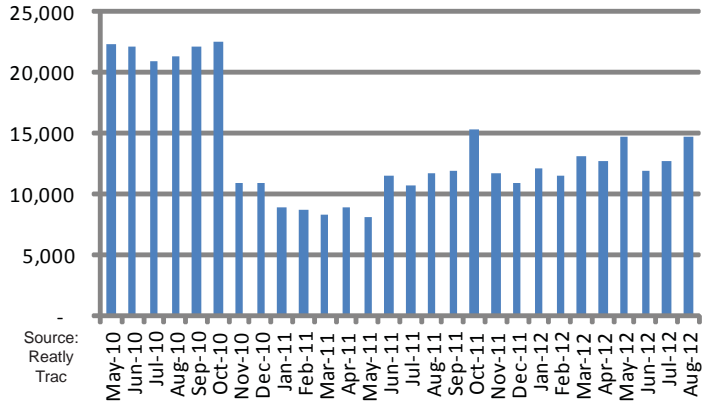
Florida is the next highest foreclosure state with 11 percent of the nation's foreclosures. See the chart below. Foreclosure rates climbed from 10,000 per month in 2005 and 2006 to 47,000 in January 2010, and stayed in the 50-60,000 range through October. After dropping sharply in late 2010 and early 2011, foreclosures have since remained above 20,000 per month.

Florida Foreclosures - Monthly Averages



The following chart shows new default notices in Florida which dropped sharply in late 2010 and early 2011. However, there has been no progress in 2012.

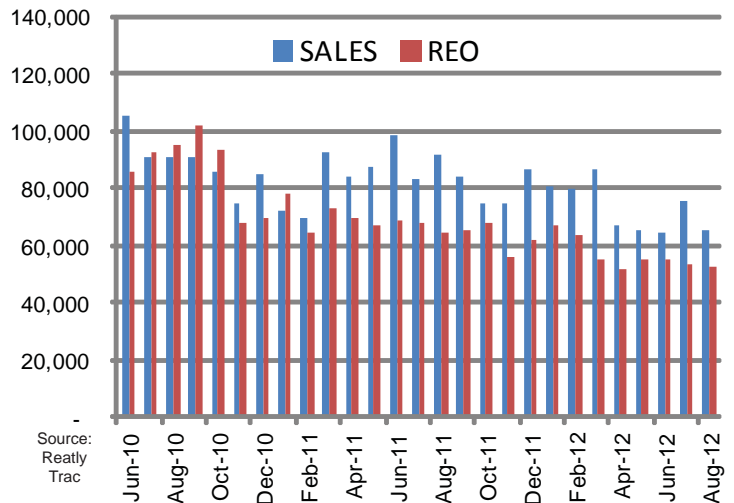
Florida New Default Filings



The Inventory

At the other end of the foreclosure process is what the banks have not been able to sell. This inventory is called "real estate owned", or REO for short. Each month more REO is added to the inventory. However, each month there are a number of properties sold from the inventory. Below is a chart of the REO (in red) and sales (in blue) since June, 2010.

On balance, there have been 341,548 more properties sold than have been added to the REO inventory, or 17.9% of the current inventory of 1,505,989 foreclosure properties listed for sale.



Conclusions

The latest national readings show that new default filings nationally were essentially unchanged. The drop in California bodes well for 25% of the inventory. However, we will need to see more declines before we can count on a trend. The increase in Florida is not encouraging. On balance, the mixed results do not point to a significant drop in foreclosure rates in the immediate future.

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

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