SoundAdvice

Volume XXV, Number 5

www.soundadvice-newsletter.com

May 13th 2011

Berkshire Hathaway's latest shareholder meeting in most ways was like every other: a love fest between shareholders, many of whom are wealthy from buying BRK long ago, and their hero, Warren Buffett, whose business acumen created that wealth. Indeed, Buffett is a hero to most Americans, because his common sense wisdom strikes a chord. On these pages we've ridiculed his critics who come out when Buffett's portfolio has hit a rough patch and vanish when his holding company recovers.

But Buffett is catching hell from others, and this time we're unable to defend him. One of Buffett's top lieutenants, David Sokol, resigned after it was discovered he had bought $10 million in Lubrizol stock just before advising Buffett to buy Lubrizol. Berkshire did the deal. Then Sokol abruptly resigned. In announcing the resignation, Buffett said:" Neither Dave nor I feel his Lubrizol purchases were in any way unlawful." Buffett then declared the matter closed.

Hardly. By standing shoulder to shoulder with Sokol, Buffett might have believed he was defending a friend. Instead he came off either as condoning Sokol or being oblivious to unethical and also perhaps illegal behavior. Just before the annual meeting, Berkshire's audit board published a scathing report on Sokol. At the meeting, Buffett now termed Sokol's actions "inexplicable and inexcusable," and conceded "mistakes" were made. I'm sorry. Buffett is far too easy on himself. Worse still, Buffett remains blind to the problems inherent when an octogenarian lets lieutenants function with few controls. Buffett's reputation can't protect him.

We still have our heroes who refuse to play games. Ian Cumming and Joseph Steinberg run **Leucadia** and now and again even team up with Berkshire but make their big money from a grab bag of investments that they outline in this year's letter to shareholders (http://www.leucadia.com/c-p_letters/luk_c-p2010.pdf). The duo are brutally frank about successes and failures. Thus, in describing one project, they write: "If we had known what we were getting into, we would not have done it." Even if you aren't a Leucadia shareholder, the letter is worth your time. Maybe you'll buy some shares. Remember LUK has outperformed BRK over its long life. **S**A

-Gray Emerson Cardiff

As the Market Turns

As we close this issue on May 6th, the last week has rattled investors with the broad averages dropping from their late April highs. More unsettling was the implosion in silver prices even for those who had not piled into silver while its parabolic rise caught small investors' attention. That rise also caught the attention of regulators, who slapped on and then slapped on twice again higher margin requirements that made speculating in silver more perilous. Silver's unraveling brought home how confusing markets can be. One day something seems as close to a sure thing as you might imagine, and the next it is a disaster. Gold and oil also seemed unstoppable until they weren't, though a telltale sign that perhaps these commodities' upward path was unsustainable came from the shares of companies that extract them, which rose but did not keep pace at all with the prices of what they produce. What pulled the plug on commodities had more to do with the internal dynamics of markets, with greed and fear than with real world events but these too conspired to frighten off investors. Higher unemployment claims, a dour jobs report from ADP, increasing concern that our torpid recovery was stalling out, all made investors large and small ask whether the economy's fitful recovery and the stock market rally were over.

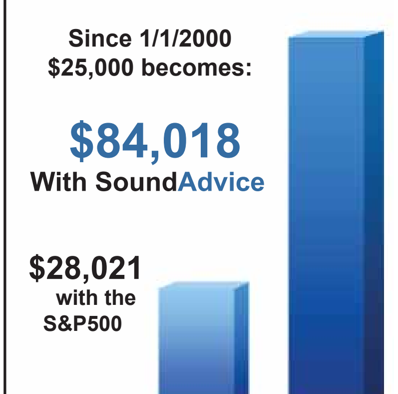
We can't remember a rising market in which small investors were as distrustful and cynical about Wall Street. Who wouldn't be after this tortuous decade that has had two violent bear episodes interspersed with two sharp recoveries? Last week was the one-year anniversary of the Flash Crash when share prices for many bellwether stocks went haywire to the downside. We still don't understand what happened that day, but it reinforces the dark lessons of the 2008 bear market that those who call the tune on Wall Street have their own agendas that distort markets. The insider trading cases now in the courts to say nothing of the recent inexplicable stupidity at Berkshire Hathaway, only deepen that sense, though frankly the few million that went into the pockets of these already fabulously rich men is chump change compared to the compensation financial services executives reaped from mortgages and their derivatives on their way to nearly destroying the economy.

What do we think? We're resigned to a period of staggering about as investors, faced with the sort of contradictory data we saw last week, struggle to decide whether they're more fearful than they are greedy. The biggest issues, when employment numbers will become encouraging, how long till we see a recovery in housing (see Pages 8-10) and when the Federal Reserve starts to tighten are murky. The *Sound Advice* indicators remain positive (Page 11), so we remain opportunistic, taking advantage whenever any of our recommendations' get hit. Buying what others throw away and avoiding what others treasure has worked in the past, and we see no reason for that approach to fail. See the Portfolio Updates section (Pages 5-6) for where we think those opportunities are now **S**A.

The SoundAdvice Portfolio

24.7% Since 1/1/2009

SoundAdvice vs S&P500



Mutual Funds

We're continuing our review of diversified investments in our portfolio with three managed general funds and our precious metals mutual fund. General funds give their managers free rein, which means they can and do shift focus, and it's important for shareholders to understand what the funds hold and why. With gold and silver at the center of the market crucible, seeing what Mark Johnson is doing at his fund is timely.

Third Avenue Value Fund (TVFVX) [Note a change in ticker symbols. Third Avenue has carved out an institutional version of this fund, which retains the original ticker TAVFX. The new investor class fund carries the ticker TVFVX] is a mid to large cap value fund that *Morningstar* categorizes as "world stock," that is in addition to U.S. shares they hold a significant portion in non-U.S. firms. The average world stock fund holds 55% of its assets in non-U.S. corporations. TVFVX currently holds 69%, but we think lumping TVFVX here is misleading. Yes, Marty Whitman's managers are "investors without borders" who let their portfolio go wherever they see value, which more and more over the last six years has focused on Asia, and in particular on Hong Kong. Thanks to the "aggressive conservative" discipline Third Avenue practices in all its funds, TVFVX leads world stock funds with a 12.9% annualized return since its start in 1990. Indeed, the fund also has outperformed the S&P 500 along the way.

We consider Third Avenue funds to be core holdings, since we deeply respect the managers' balance-sheet approach to investing. Rather than viewing TVFVX as a "world fund," we suggest you treat it as a mid to large-cap value fund with a passport.

Despite the *Morningstar* classification, don't expect Third Avenue Value to keep up its exposure to non-U.S. investments. Indeed, it was only last year that Third Avenue felt it appropriate to use anything substituted the MSCI World Index for the Russell 2500 but it still retains the S&P 500 as a secondary benchmark. The only thing you can be certain about as is that Third Avenue goes, like Willy Sutton said in answer to why he robbed banks, "where the money is." For now it is Asia, in particular Hong Kong and China. We don't presume to know where the fund might land next.

If you are looking for a broadly diversified portfolio, Third Avenue Value Fund is not your cup of tea. As Marty Whitman observes in his latest letter to shareholders: "diversification is only a surrogate, and usually a damn poor surrogate, for knowledge, control and price consciousness." At its core, all Third Avenue funds intend to own assets that are trading at a significant discount to what its managers deem to be "readily ascertainable net asset values (NAV)." This results in an ever-changing portfolio that is dominated by a relative handful of companies. Thus, in its most recent portfolio report (as of January 31, 2011) nine companies—all of them rooted in Asia—accounted for almost half of the portfolio.

This has been a developing story. Were you to go back to 2000, you would find that TVFVX concentrated its holdings in U.S. companies, though it did have 13% of its assets in Asian firms, primarily Japanese non-life insurers, whose portfolios Third Avenue believed—correctly—held shares in other operating companies at significant discounts not just from their potential value but from their current market value as well. Jump to the middle of that decade, and the fund had waded deeper into Asia with Asian holding companies representing 13.9% of assets, while Japanese non-life insurers retained a diminished but still hefty 8% of assets. As the managers explained, these companies' real values were understated on the books of the holding companies and real estate firms.

This trend accelerated over the rest of the decade. In the most recent filing of its holdings, the lion's share are in Hong Kong real estate and holding companies, whose own portfolios are built around real estate, and this is after the fund had trimmed some positions. Ian Lapey, who is the lead manager for the fund, notes that primarily because of redemptions, he needed to liquidate portions of its Asian holdings. Thus, the fund sold 5.4 million shares (11.2% of previously reported position) of Cheung Kong Holdings, 4.3 million shares (30%) of Toyota Industries, 4.6 million shares of Wharf Holdings (12.8%) and 6.4 million shares (9.5%) of Wheelock Holdings. The sharp cut in Toyota reflects ongoing problems the company had faced in the last few years, and predated the Fukushima earthquake and tidal wave that have hurt production of both vehicles and parts.

Lapey acknowledges several clouds over Chinese (mainland and Hong Kong) real estate, most of which relate to the central government's goal of cooling real estate speculation as part of its larger need to bring inflation down. On the one hand, rapidly rising residential real estate prices fed by cheap financing can be intoxicating for an economy, but the hangover, in the form of a collapsed housing bubble, as we ourselves have seen and Japan experienced since 1990, triggered deep recessions, something the Chinese government fears.

Third Avenue is sanguine about a slowing Chinese residential real estate market, and believes its companies' stronger exposure to commercial real estate gives them an advantage, because this class of property continues to appreciate but has avoided a speculative frenzy. Lapey also notes that his holding companies hold more than real estate and operate in everything from telecom, to port management, to gas distribution. Finally, since Third Avenue makes bullet-proof balance sheets a necessity for its assets, each of its Asian holding companies is suited to weather even a severe market contraction.

Beyond these sales, the fund looks much as it did 12 months ago. Third Avenue might have taken profits in some of its Asian real estate holdings, but it remains keenly interested in buying Asian real estate at what it perceives to be a discount.

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If changes are small, they are not insignificant. For instance, Third Avenue is taking a time-honored vulture approach to the American housing market, having acquired a 50% interest in Fleetwood Enterprises, the bankrupt manufactured housing company. TVFVX has about $50 million (1% of the portfolio) invested and is about to put more into the industry. Fleetwood manufactured, sold and financed both factory-built homes and mobile homes and went into bankruptcy during the recession after the market for manufactured housing, the cheapest form of residential real estate, took a nosedive amid a storm of defaults and foreclosures. As for the mobile home market, which might not have catered almost exclusively to subprime borrowers but does need a healthy economy with tolerable gasoline prices to sell its products, Third Avenue was not interested at all. No, Marty Whitman is not managing Fleetwood. Instead, Third Avenue partnered with Cavco Industries, a publicly traded manufactured housing company, to acquire Fleetwood's housing assets, and in 2010 turned a profit. TVFVX clearly likes the future for manufactured housing, since it's again partnering with Cavco to take over another bankrupt player, Palm Harbor Homes, for about $84 million, which will double Third Avenue's exposure to about 2% of the portfolio.

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Dodge & Cox International Fund (DODFX), unlike the Third Avenue Value Fund, does have a mandate to invest internationally, and since inception in 2001 has placed in the top 10 such funds with a 9.43% annualized return versus 4.72% for the MSCI EAFE (Europe, Australasia, Far East) Index. Dodge & Cox shares with Third Avenue a disciplined, very distinct method in building a portfolio. Neither shop concerns itself with headlines, short-term and even middling-term challenges or investing fashions. Each seeks out companies deemed cheap, though there is some difference between the two as to what constitutes "cheap." For Third Avenue the focus is on the balance sheet and, when debt issues are involved, in understanding their intricacies. For Dodge & Cox the analysis takes into account the balance sheet and debt but there is more of an emphasis on a corporation's potential for recovery, since what Dodge & Cox buys is invariably out-of-favor.

Since the last time we took apart the fund's portfolio (May 2010) and used its end of 2009 portfolio, there have been some shifts. Based on the most recent report (as of December 31, 2010), these changes for the most part have been modest, not surprising for a fund that has an extremely low turnover ratio (15% versus the sector average of 63%).

On the sector level, the weightings remain roughly the same with the largest portion of the portfolio in financials, followed by consumer discretionary and healthcare and the smallest exposure in consumer staples and utilities. Of more interest is how Dodge & Cox has weighted its holdings when compared to its benchmark the MSCI EAFE Index. The biggest overweighting is in Information Technology (275% of the MSCI Index's exposure), Telecom Services (170%) and Healthcare (170%) and the smallest in Utilities (6.2%) and Consumer Staples (16.5%). Geographically the fund also remains constant with Europe and the United Kingdom occupying the top spots at 46% and 15% of the portfolio. Of note is the fund's overweighting for Africa, which in the Index represents just 0.8% but in DODFX has a 6.7% weighting. DODFX also includes companies in both Latin America (6.1%) and the United States (4.8%), neither of which is included in the Index.

When it comes to specific companies, the single largest position is in Naspers (4.5%), a South African media company centered on pay TV, which is expanding into broadband and print. Though its core businesses are in sub-Saharan Africa, it also works in central Europe and Brazil. As for changes in the fund, the only significant new position is MTN Group, another South African media company but one that focuses on building a cellular network in sub Saharan Africa, and represents 1.8% of the portfolio. There were no significant positions liquidated over the period under discussion.

Finally, though by its charter DODFX can hedge its currency risk, the managers are not hedged, which means that dollar weakness enhances the fund's performance. Of course, this is a two-edged sword but for the foreseeable future, we are comfortable with an unhedged fund.

Like the Dodge & Cox Stock Fund that follows, we consider DODFX to be a cornerstone position that we would sell only if it were closed to new investors, a policy we explain below.

Dodge & Cox Stock Fund (DODGX) has had two turns in our portfolio separated by a period during which it was closed to new investors after management decided it could not invest effectively the flood of money from new shareholders clamoring to get a piece of its extraordinary gains in the previous years. *Sound Advice*'s policy is to not recommend funds that close to new investors, since that means it is off limits to our subscribers. A further consideration: we wonder whether a decision to close a fund because the managers are unable to deploy new cash efficiently might be a signal that a sector or even the market in general has become overheated and it's time to cash out.

DODGX's run of outperformance ended abruptly in 2007 and 2008 when its overweighting in financial services stocks, in particular AIG and Wachovia, clobbered the fund and sent packing those momentum buyers who had gotten into the its shares before it was closed to new money. Since then, the fund has climbed back to respectability and again is outpacing the S&P 500. As the managers note in the 2010 annual report: "We would be remiss if we did not acknowledge that the Fund's recent relative performance has been disappointing. While 2010 absolute returns were positive, the Fund trailed the S&P 500 for the one-, three-, and five-year periods, [a] lthough the Fund has outperformed the S&P 500 by 4.0 and 2.3 percentage points annualized over the past 10 and 20 years….Simply put, there are periods when the Fund lags."

Of all the funds we have ever included in *Sound Advice*, the Dodge & Cox Stock Fund comes closest, at least in our mind, to being a cornerstone investment, one that should be bought and held forever. This might have something to do with the not coincidental overlap between DODGX positions and specific stocks that we have come up with and then realized were or eventually come to be owned by DODGX. Currently there are nine such positions in the DODGX portfolio. Another nine in the DODGX portfolio have been in our own portfolio in the past.

Morningstar classifies DODGX as a large cap value fund with an average market cap for its positions of $22 billion (versus $11 billion for the S&P 500). Dodge & Cox runs just five funds and this is the flagship having debuted in 1965. As with all D&C funds, management fees are extraordinarily modest (0.52% vs. 1.27% for its peers), and as with all D&C funds portfolio turnover is glacial. Last year, for instance, it was 12% (versus 57% for its peers). Only when the portfolio has been stressed during a very rough year (2000 and 2007-2008) has turnover spiked at 32%, 27% and 31% respectively.

Nonetheless, there were changes. At the sector level, the biggest shift occurred in financial services companies, which increased to 16.9% of the portfolio from 13.3% a year ago. Healthcare, which had been the largest sector last year (23%, nearly double its portion of the S&P), fell to second behind Information Technology (20.9%, slightly higher than last year's 20.6%). The biggest changes on a stock basis were the removal of two HMOs (Wellpoint and **UnitedHealth**), which combined accounted for 3.5% of last year's portfolio and a drug and medical supply distributor, Cardinal Health, which represented 3.1% of the portfolio. We think DODGX took its profits too soon on the two HMOs.

Charles Schwab at 1.1% is the only significant addition. But new entrants reveal less about the fund's direction than do changes in existing positions. Thus, 13 (of 81) holdings increased in size by 50% or more, and favored financials (Genworth Financial, Aegon and Bank of New York Mellon) and Telecom (Nokia and Vodafone). As for positions we currently share with DODGX **Symantec**, **Xerox**, **Boston Scientific** and **Comcast** all increased in size by 25% or more, though as noted, **UnitedHealth** was liquidated.

USAA Precious Metals & Minerals Fund (USAGX) Investors had become gold-obsessed this year, especially after bullion pierced the $1500 level, retreated and then revisited.

Was it just two years ago when the great debate was whether gold would ever get as high as $1000? Quaint. *Sound Advice* had exposure to precious metals well before the mania began but that increased when we got seriously concerned about reflation. Some viewed the collapse in silver prices as evidence that precious metals' run was done. We think that silver's wild ride was a distortion in both directions: small investors used leverage to get in just at the crest. At present, we see no reason to reconsider the rationale for owning this fund, since the fiscal and monetary events of the last four years have only made hard assets, in particular precious metals, more compelling. We're not gold bugs and, when we think precious metals have had their day, we'll act.

Though the fund can invest across the precious metals and minerals spectrum, it is essentially a gold fund (82.2% of assets) with a touch of silver (7.9%) and platinum (5.4%). And when we say gold fund, we mean that it holds the shares of mining companies, not the bullion. Historically mining shares have magnified whatever is happening with bullion itself. The ratio usually runs double or even triple, but remember that is true both on the up and the down side.

But not lately. Instead, it had been gold and not gold mining shares that glittered, which suggests that investors didn't trust the recent turbocharged run up in bullion prices. Year to date, GLD, the gold-bullion ETF, is up 4.7% while both GDX (-8.8%), the gold mining ETF and USAGX (-8.4%) are in the red. Another ETF that covers junior gold mining companies, GDXJ, has dropped 7.6% so far in 2011.

Mark Johnson, with 17 years of experience running this fund, in his most recent shareholder report posted at the start of 2011, explains the recent underperformance: "Fund returns were constrained by our focus on larger, more established gold producers. These stocks lagged for much of the six months as the market for gold stocks was driven by takeover speculation with respect to junior companies with relatively unproven reserves. During the reporting period, two small companies became the subject of acquisition discussions and a transaction was finalized for a third. The flurry of deals sparked an increase in takeover speculation that benefited smaller-capitalization stocks generally during the reporting period. This willingness on the part of large, producing companies to pay premium prices for junior companies on a somewhat speculative basis is reflective of the current high price of gold." We'd go further in noting that speculation among not just larger acquisitive companies but among gold investors has favored smaller companies, not so much because they are seen as potential take outs but because they are perceived as the most likely to appreciate should their prospects pan out.

A comparison with GDX, the biggest gold mining ETF, both mirrors Johnson's large cap experience and also demonstrates that a well managed fund can improve on an ETF's performance. Thus, if we look back to May 2009, we see that GDX, which uses a cap-weighted portfolio whose largest positions lately mirror USAGX's, has returned 53.6% while the USAA fund's return has been 80.5% thanks to Johnson's ability to refocus his portfolio rather than, as GDX must, follow a fixed index. However, the junior mining share ETF, GDXJ, debuting on November 11, 2009, has outperformed both Johnson and GDX. Junior gold mining shares' performance is seductive, but, at least for our purposes, these shares carry not just higher results but at current valuations also considerably greater risk.

Unless valuations for junior mining shares were to plummet, we don't expect USAGX to change the direction Johnson has set. His value-oriented approach defined the performance bar ever since this fund began in 1994, and over the long haul we believe USAGX will continue to meet that standard. We continue to see this fund as the most consistently successful way to navigate gold's future.**S**A

Portfolio Updates

After hitting highs for the year in the last few days of April, the market took a multi-day dive that punished energy and metals, sectors that lately had been the hottest. Some cite the elimination of Osama bin Laden for taking pressure off of oil prices, a view we don't endorse. Rather, we wonder if concern that regulators in the energy markets might follow what regulators in the silver market did, raise margin requirements, and thus crush speculation and speculative prices. But there are enough real events to explain the sharp drop in both energy and metals. The dollar enjoyed a big bounce (3.2% last week) in response to turmoil in the European Union over Greece and where interest rates are headed there. China continues to adjust its borrowing costs higher to curb inflation. We had conflicting news about employment and economic growth here at home. All pushed commodity prices lower.

Still, the Dow is up 2.4% and the Nasdaq 2.3% while the S&P 500 and the pan-market Wilshire 5000 were up 16% and 1.3%. The *Sound Advice* portfolio added 0.7%. Tempering the damage commodities did to our portfolio were gains in healthcare.

The **PowerShares Senior Loan Portfolio ETF**, the April recommendation, is performing as intended, which is to say that is essentially unchanged after making its initial distribution (+0.3%). Short-term interest rates have been stable, though longer-term rates have fallen as the world worries about geopolitical tensions, the credit quality of U.S. sovereign debt and the unresolved problems with PIIG (Portugal, Italy, Ireland, Greece) sovereign debt.

Transocean, which has been center stage in the Gulf of Mexico BP debacle, dropped 10.3% not because of any substantive concern that its liability might increase, but because it is part of the deepwater drilling sector, where concerns over regulation of marine drilling along the U.S. coast, especially in the Gulf of Mexico is a hot topic. There is also a short-term overhang of rigs in part due to the lack of demand from natural gas exploration and development companies. Last, the drop in oil prices dampened enthusiasm for drillers. RIG's quarterly results reflected these conditions with sales and profits falling short of expectations. We're happy to pick up shares at this level.

Agrium, the Canadian fertilizer manufacturer and distributor, had been rising with its peers but after announcing quarterly results, saw its shares fell 4.3% and for the month is 4.8% weaker. How bad was the quarter? It was excellent with sales and profits both shooting higher. However, management was cautious about this quarter not because they anticipated a lack of demand but because wet weather conditions are slowing planting. We'd be a buyer here.

The inevitable softening of energy prices following months of rampage has impacted the entire sector. **Fidelity Select Natural Gas** is off 2.8% and **EnCana**, the Canadian natural gas exploration and development company, is down 1.6%.

Plum Creek fell a penny short of analysts' projections for earnings for the last quarter, and paid the price. PCL is 1.6% lower. Until demand for wood products and for land increase in a healthier economy that needs everything from wood pulp for printing to raw land for residential construction, PCL will remain in limbo as a reasonable dividend payer (3.9%).

USAA Precious Metals & Minerals Fund has dropped 6.4% as gold and especially silver did a fast retreat from their rampage higher over the past few weeks. Historically gold mining shares amplify changes in the metal by a 2:1 or even 3:1 ratio. We noticed that while bullion prices were rocketing, mining shares did not maintain that relationship. This implied that stock buyers did not share the same bullishness as did those who were buying the underlying metals. See our remarks on USAGX on Page 4.

The **PowerShares Water Resources ETF** (-1%) contains companies directly involved in water resources such as **Tetra Tech,** but such companies are few and their impact is diluted by inclusion of companies in the portfolio that are only partially exposed to the sector. TTEK eked out a 0.7% gain. **Tetra Tech** itself going into its earnings announcement had been weak, which we found puzzling, because it keeps on booking new contracts and yet the shares ignored that trend, which suggested no one has faith that the company's core clients, governments in particular, will be in a fiscal position to finance the engineering projects TTEK specializes in. But quarterly results confounded that pessimism when TTEK announced higher than expected earnings and anticipates even better results for the rest of the year. And it wasn't government work that explained the outperformance. Instead international and commercial contracts were responsible. On the news TTEK jumped 3.9%. We like TTEK's upside potential.

Leucadia added 1.3%, though it slid toward the end, we believe, because LUK has significant exposure to industrial metals through its investment in Inmet, a Canadian copper mining company, and in Fortescue Metals, an Australian iron ore miner. LUK owns about 8% of Fortescue. We always like to buy LUK on weakness, and now is no exception. **Anglo-American**, another holding company that owns only mining assets, fell 2.8% along with its peers.

But healthcare, which we've been adding to in our portfolio especially after shares got dumped during the civil war over healthcare reform, is flourishing. **Johnson & Johnson**, which has serially disappointed us, might be getting back on track. The $21.5 billion acquisition for Synthes, a Swiss maker of devices for fractures and other orthopedic procedures, opens JNJ to the operating room in a big way. At the annual meeting, management appropriately wore sack cloth and rubbed on ashes to convince shareholders they understood their mistakes, especially in the consumer products division, and were righting the company. We'll need evidence, or at least an end to the rat-tat-tat of product recalls, that they really have fixed their problems. Meanwhile, the company has increased its dividend from 54 to 57 cents. Since the last letter, JNJ is up 7.8%.

Boston Scientific, which competes against JNJ's Cordis stent division, is up 9% as it continues to make modest advances in its products. Quarterly results were better than expected, though its core business, drug-coated stents, saw a 7% decline in sales. However, "better than expected" did not mean profitable, since earnings declined 1.8% for the quarter. We're waiting for Boston Scientific to get FDA approval for the sale of its next iteration of drug-coated stents, which already are doing well outside the U.S.

UnitedHealth, the HMO, continues to advance (+11.4%). HMOs have been surprising with earnings. Long-term, we see UNH as gaining from healthcare reform as new insureds emerge. Thanks to its size, both in clients and in geographic range, UNH is well positioned. With the economy still weak, UNH insureds are reluctant to use their policies because of copayments. Hence, UNH is paying out less than anticipated, which flows to the bottom line. Frankly we did not anticipate this sad plus for the HMOs.

Stryker reported profits in line with expectations but noted that sales of its orthopedic replacement devices fell slightly short of expectations. We think the market is not paying adequate attention to the company's other facets, especially hospital equipment. The shares are down 1.7% since the April letter.

Pfizer is flat after several weeks of strong performance. We're waiting to see what divisions PFE management will sell off to concentrate the company on its core pharmaceutical lines.

AMN Healthcare, the temp agency for nurses, doctors, pharmacists et al. reported strong results for the quarter with earnings at six cents a share compared to the one cent analysts had expected. The shares added 9.2%. Since its recommendation in February these shares are our best performer, up 41%. Demographics and increasing demand for workers in healthcare still make this a compelling opportunity.

Finally, **Hambrecht & Quist Life Sciences Fund**, our closed-end biotech and healthcare fund, continues to move higher, adding another 3.4%. The portfolio is not all that defensive, unlike individual companies like JNJ or PFE.

Other sectors that are showing better than average returns as the market reconsiders what to do include both REITs and telecom shares. **Associated Estates**, the apartment REIT, is up 4.2% and **CommonWealth REIT**, primarily an office REIT with some light industrial properties, slipped 1.2% going into earnings, while the **CGM Real Estate Fund** is 2.1% to the good. We're wondering how Heebner will respond to weakness in metals, since he has salted his portfolio with a few miners.

As for telecom, the **Gabelli Global Telecommunications Fund** is 1.3% higher, but the biggest move comes from **Telecom New Zealand**, which we suggested was a value a few months ago after the devastating Christchurch earthquake. Since then it has recouped losses that ensued. From the bottom hit on March 16th ($7.12), the shares are up 20.4%, and 7.5% since the April letter. Why the recovery? Kneejerk selling in NZT after the quake was overdone. The New Zealand dollar rallied along with the Australian dollar .but that might be over for now. The New Zealand government has awarded NZT and Vodafone, its major competitor in the telecom sector, the contract to develop a high-speed broadband network to serve rural New Zealand. A few months ago a much smaller portion of that project had been awarded to other firms, which pushed NZT shares lower. At the time, we believed that "setback" was just a distraction and that the much bigger prize would come with the national award.

As for tech, it was mixed. **Xerox** is off 4.5% even after reporting fine earnings for the quarter. Sales increased 16%, boosted by revenue from its ACS acquisition. The color copying division continues to grow, though at the expense of its black-and-white printers. **Maxim Integrated**, the chip maker, and **Symantec**, the security and large-scale data management company added respectively 11.7% and 4.9%. MXIM benefitted from not only better quarterly results but also from Texas Instruments' bid to acquire National Semiconductor, which competes against MXIM in certain product lines.

The **ProShares UltraShort 20+ Treasury ETF** fell 6.3% as long-term Treasury rates retreated under the pressure of rising bond prices. TBT remains a hedge against the day Treasury yields begin to move up. But that hasn't happened, yet.

Superior Industries, the wheel and rim manufacturer, after a sizzling rise beginning in mid-March came down to earth and settled 3.2% lower. Quarterly earnings disappointed after SUP factored in its tax liability versus the same quarter last year that benefited from a tax adjustment. From an operations perspective, sales were up 26%. The diminished Big Three are emerging from a near-death experience and sales are rising again. We continue to think that SUP will be a prime beneficiary of this recovery.

Molson Coors also had been advancing nicely since mid-March but fell back after quarterly earnings dropped 21%. The weak comparison was against earnings that had been boosted by a gain from a legal settlement, so it is less vexing than it appears. Still, slow sales in economically stagnant U.S. and western European markets are an issue, and the challenge remains whether TAP can develop sales in emerging markets to augment its much larger exposure to mature markets. Since the last letter, TAP is off 5.9%.

Fastenal (+2.6%) has split its shares 2:1 for shareholders of record as of May 2nd. The change in posted prices will occur on May 20th. As with all splits, you end up with more shares that are priced proportionately lower. It's a wash, but shareholders seem to love these events.**S**A

Portfolio Updates for May 2011

Income With Growth	Symbol	Exchange/ Phone	Price/ N.A.V.*	Yield**	Buy Limit	ACTION
Associated Estates Realty Corp	AEC	NYSE/Nasdaq	$16.48	4.13%	**$18.00**	BUY
CommonWealth REIT	CWH	NYSE	$26.05	7.68%	$30.00	BUY
Telecom New Zealand	NZT	NYSE	$8.57	8.38%	$10.00	BUY
Diversified Growth					.	
Agrium	AGU	NYSE/TSE	$84.19	0.26%	$100.00	BUY
CarMax	KMX	NYSE	$31.81	0.00%	$38.00	BUY
CGM Realty Fund	CGMRX	800-343-5678	$29.12	2.12%	N/A	BUY
Comcast	CMCSA	NASDAQ	$25.44	1.78%	$28.00	BUY
Dodge & Cox Intl.Fund	DODFX	800-621-3979	$37.65	1.31%	N/A	BUY
Dodge & Cox Stock Fund	DODGX	800-621-3979	$116.25	1.11%	N/A	BUY
Fastenal	FAST	NASDAQ	$66.36	4.13%	**$72.00**	BUY
Gabelli Global Telecom Fund	GABTX	800-422-3554	$21.99	1.64%	N/A	BUY
Honeywell	HON	NYSE	$60.95	2.17%	**$65.00**	BUY
International Speedway Corp.	ISCA	NASDAQ	$29.68	0.54%	$32.00	BUY
Johnson & Johnson	JNJ	NYSE	$65.27	3.31%	$71.00	BUY
Leucadia National Corp.	LUK	NYSE	$36.29	0.69%	$40.00	BUY
Mattel	MAT	NASDAQ	$26.65	3.45%	$29.00	BUY
Microsoft	MSFT	NASDAQ	$25.87	2.47%	$31.00	BUY
Molson Coors Brewing	TAP	NYSE	$45.02	2.13%	$54.00	BUY
Paychex	PAYX	NASDAQ	$31.99	3.88%	$40.00	BUY
Pfizer	PFE	NYSE	$20.55	3.50%	$23.00	BUY
Stryker Corp.	SYK	NYSE	$59.69	1.21%	$70.00	BUY
Superior Industries	SUP	NYSE	$23.43	2.73%	$27.00	BUY
Tetra Tech	TTEK	NASDAQ	$23.46	0.00%	$30.00	BUY
Third Avenue Value Fund***	TVFVX	800-443-1021	$52.69	1.84%	N/A	BUY
Time Warner	TWX	NYSE	$36.25	2.59%	$40.00	BUY
United Parcel	UPS	NYSE	$74.10	2.81%	$79.00	BUY
UnitedHealth Group	UNH	NYSE	$50.12	1.00%	**$55.00**	BUY
Wal-Mart Stores	WMT	NYSE	$55.02	2.65%	$60.00	BUY
Xerox	XRX	NYSE	$10.25	1.68%	$14.00	BUY
Energy/Natural Resources						
Anglo-American PLC	AAUKY.PK	PINK SHEETS	$24.74	0.00%	$30.00	BUY
EnCana	ECA	NYSE/TSE	$32.41	2.47%	$37.00	BUY
Fidelity Select Nat. Gas Fund	FSNGX	800-544-8888	$34.89	0.16%	N/A	BUY
Plum Creek Timber	PCL	NYSE	$41.69	4.03%	$48.00	BUY
PowerShares Water Resources ETF	PHO	NYSE	$19.62	0.52%	$21.00	BUY
USAA Precious Metals & Minerals	USAGX	800-862-6909	$39.28	11.72%	N/A	BUY
Aggressive Growth						
AMN Healthcare	AHS	NYSE	$8.70	0.00%	**$9.25**	BUY
Boston Scientific	BSX	NYSE	$7.72	0.00%	$8.50	BUY
Davis Financial Fund	DFIBX	800-279-0279	$28.19	0.00%	N/A	BUY
H&Q Life Sciences Fund	HQL	NYSE	$12.83	6.70%	**$13.20**	BUY
Maxim Integrated	MXIM	NASDAQ	$27.88	3.01%	$29.00	BUY
PowerShares Senior Loan Portfolio ETF	BKLN	NYSE	$25.27	3.50%	$27.00	BUY
Seligman Premium Growth Fund	STK	NYSE	$19.68	9.41%	$22.00	BUY
Symantec	SYMC	NASDAQ	$19.42	0.00%	$20.00	BUY
Third Avenue Focused Credit Fd	TFCVX	800-443-1021	$11.72	7.13%	N/A	BUY
Transocean	RIG	NYSE	$67.79	0.00%	**$85.00**	BUY
UltraShort 20+ Treasury ProShares	TBT	NYSE	$34.38	0.00%	N/A	BUY

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

* Prices as of Friday, May 6, 2011

** Yield represents all distributions during previous 12 months divided by current share price. Note that all fund distributions fluctuate annually.

*** Note ticker symbol changed to TVFVX

BUY, HOLD, SELL OR LIMIT IN **BOLD** INDICATES A CHANGE IN ACTION OR LIMIT

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. Clearly, the recession cannot be fully put behind us and a recovery kick into full gear until the inventory of foreclosed homes stops 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 to not only invest in real estate for pennies on the dollar at the right time, but also in other investments as well that benefit from a recovering economy.

The Key Indicator

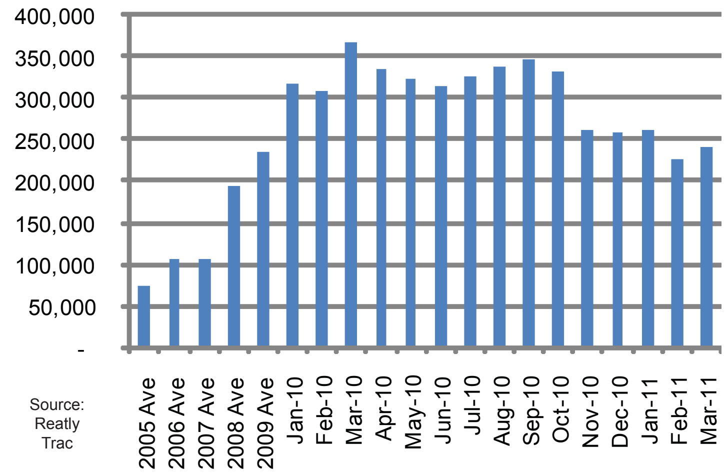
The secret is to focus on foreclosure rates. Fortunately, Realty Trac in Irvine California has an extensive data base. You can access foreclosure information on local markets from their website www.realtytrac.com. We use some of their data here to gauge the state of the nation and its real estate, and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

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.

No new data has been publihsed from RealtyTrac since our last Issue. In these pages we do a quick review of the national situation, and we add coverage in three more states. In addtion to California, Florida, Arizona, and Michigan, we have added Nevada, Illinois, and Texas, all of which are large contribuers to the national folecloser situation.

The following chart shows US foreclosure rates. In 2005, foreclosure rates averaged 74,892 properties per month. In 2006 and 2007, foreclosures were slightly above 100,000 per month. However, by the time January 2010 rolled around, foreclosures climbed to over 300,000 per month, and foreclosures continued to persist over 300,000 each month through October.

US Foreclosure Rates - Monthly Averages



We saw the beginnings of a decline in the fourth quarter. However, there was a freeze by Bank of America on 102,000 foreclosure actions. JP Morgan Chase also had a freeze on 56,000 actions. The GMAC unit of Ally Financial also had a freeze.

Then in the first quarter the industry was plagued by bungled paperwork and lost documents, which has severely restricted the ability to process foreclosures.

In January, foreclosures increased by 1.4 percent, declined in February by 13.9 percent, and increased again in March by 6.5 percent. While the result for the first quarter was a net decline of 7.0 percent, the volatility indicates that there is no clear trend yet. When the paperwork mess is resolved for the most part, which may take several months, data will be more reliable and a clear trend should emerge.

Where are the Foreclosures?

While the foreclosure crisis is a nationwide problem, the bulk of foreclosed properties are not evenly scattered across the country. The table below shows where 70 percent of the foreclosed properties were in March.

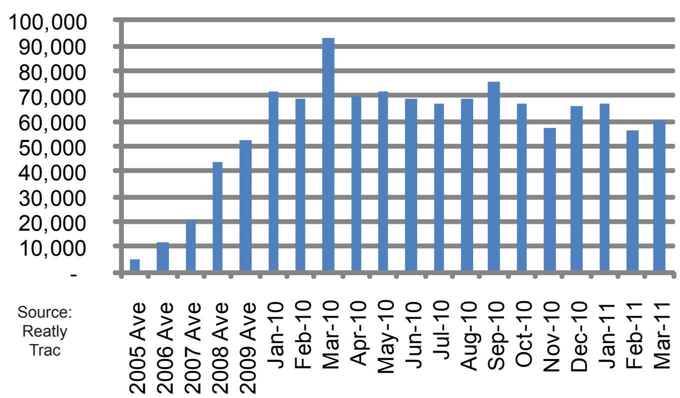
Foreclosure Activity - March 2011

	Number of Properties	Percent of Total	One in Every	Monthly Change
US	239,795	100.0%	542	6.5%
CA	60,241	25.1%	223	7.1%
FL	19,710	8.2%	449	5.1%
AZ	15,705	6.5%	175	1.4%
MI	14,615	6.1%	311	4.4%
GA	13,052	5.4%	311	1.9%
NV	12,900	5.4%	88	35.0%
IL	12,053	5.0%	439	25.7%
TX	11,018	4.6%	883	-4.7%
OH	9,112	3.8%	559	6.0%

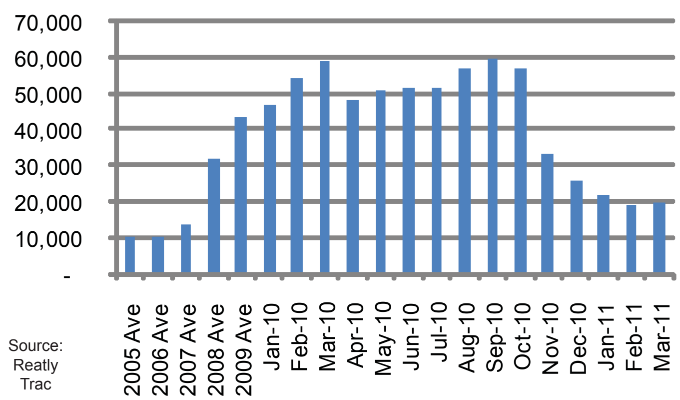
Nevada (NV) has earned a reputation as the foreclosure capital. That is because it has the highest number of foreclosures in relation to the number of houses there. The table shows that 1 of every 88 houses was foreclosed upon in March, which is the highest concentration of foreclosures in the nation. While that may be important to a homeowner or real estate investor in Nevada, other states are a larger burden on the national economy. California accounts for the most foreclosures by a large margin.

We will be tracking foreclosure metrics closely nationally and in key states in these pages of **Sound**Advice to be among the first to know when the end of the foreclosure crisis is at hand. That will mean you can make enormous profits in real estate, as well as other investments that benefit from a robust economic recovery. Stay tuned.

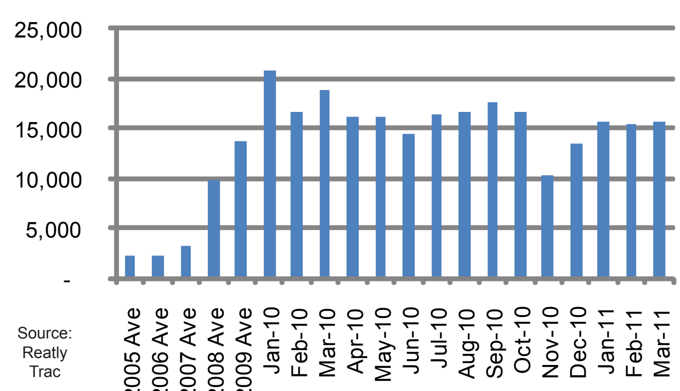
California Foreclosures - Monthly Averages



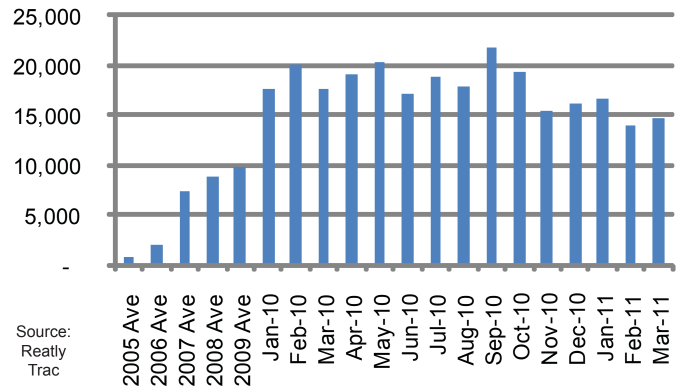
Florida Foreclosures - Monthly Averages



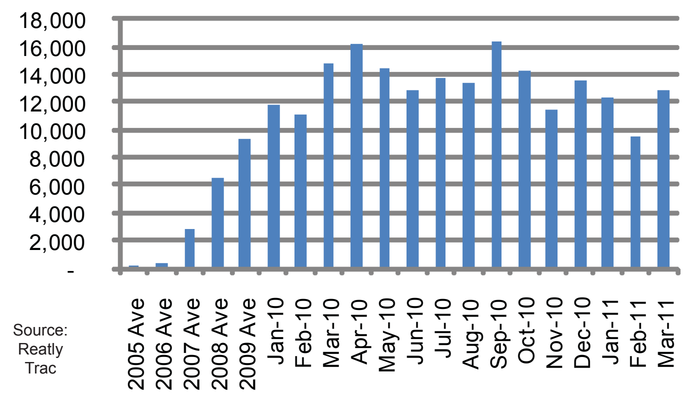
Arizona Foreclosures - Monthly Averages



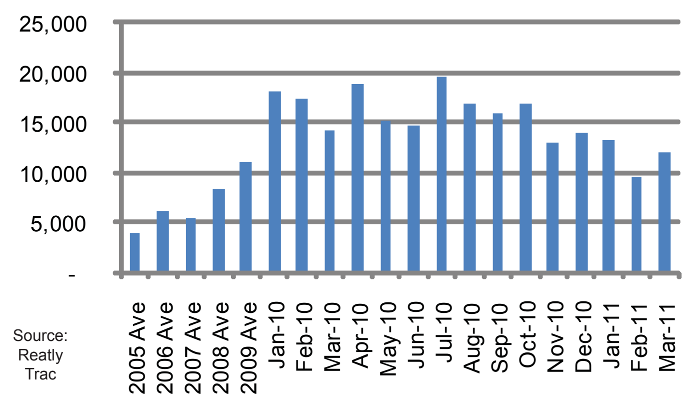
Michigan Foreclosures - Monthly Averages



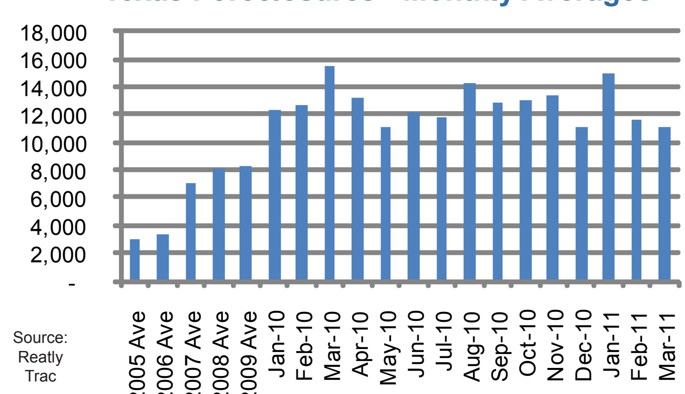
Nevada Foreclosures - Monthly Averages



Illinois Foreclosures - Monthly Averages



Texas Foreclosures - Monthly Averages



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

There are few forces that are more important to a market's destiny than the amount of capital that is available to it. In a normal situation, capital will flow easily between markets as their underlying conditions change. But if a market becomes dangerously superheated, it will absorb a larger proportion of available investment capital than economic conditions and market demand can justify. This change will be reflected not only in the rising market's prices but also in the prices of competing markets, which will be lower than their underlying fundamentals would indicate they should be. Over the last 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 a "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 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 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 $7,883,529 in stocks and to $1,104,787 in houses.

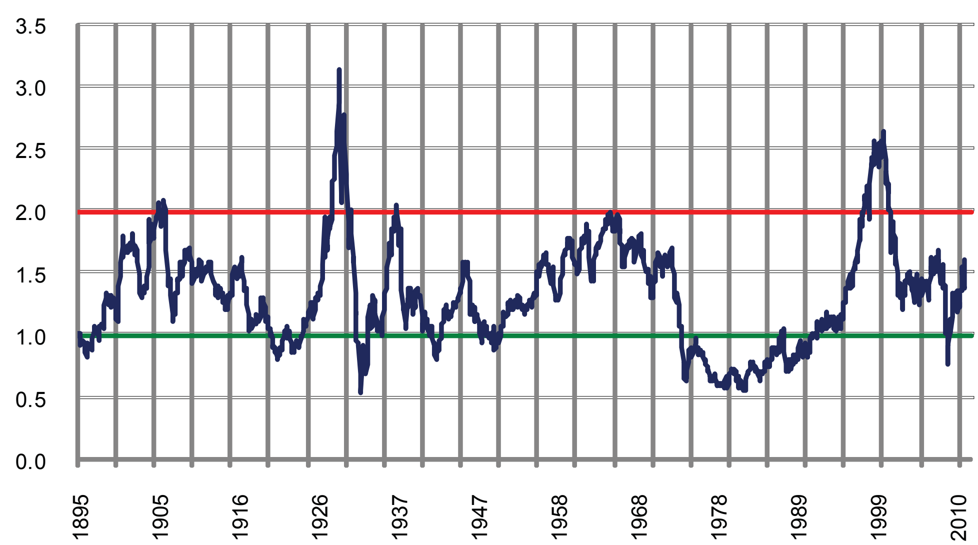
But though an investment begun with $25,000 in 1895 could have made money being in either stocks or housing and simply leaving it there over such a long period of time, had the investor followed the signals of the Risk Indicator he would have made $313,337,914, or 39.7 times more money—the difference between profits the buy-and-hold stock market strategy would have yielded by itself and the profits that the 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. A recent example was during the 1998-2000 stock market mania, when most investors were chasing high-tech stocks, our *Sound Advice* portfolio was buying Real Estate Investment Trusts (REITs.) Most investors got killed with 75 percent-90 percent losses during the ensuing decline. However, REIT shares during the same period soared 25 percent, and had locked in nearly double-digit dividends. When the bear market ended in late 2002 and tech stocks recaptured some of their losses, REITs rolled to mind-boggling highs as speculation drove them to excess that climaxed in 2007.

The **Sound**Advice Risk Indicator

The latest reading for the **Sound** Advice Risk Indicator is 1.60. This reading reveals that stock values are slightly above their average relative 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 explaination 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 **Sound**Advice 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 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 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.

An "Aggressive" signal coming at a time when the Risk Indicator is close to 1.0 reveals that Supercycle 5 has come to an end, and that Supercycle 6 is born. The current reading is 75 percent, which does not change our market perspective. That will change only with a signal from the Lagging Indicators.

The Diffusion Index of Lagging Indicators gives "Caution" signals when all three of its individual lagging economic indicators rise above their respective levels of six months earlier, providing a 100 percent reading. This reveals a strengthening economy and inflationary pressures ahead. Our next signal will come from this Index. This Diffusion Index currently stands at 33.3 percent.

Track Record of the 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 produces an annual average return of 23.7 percent. During "Caution" signals, the market was all over the place — sometimes crashing, sometimes meandering, and occasionally advancing. On average, the S&P 500 increased at an annual rate of only 1.62 percent during caution periods.

Aggressive	S&P	Caution	S&P
Sep-74	68.12	Apr-76	101.90
Nov-79	100.00	Oct-83	167.65
Dec-84	164.48	Jun-85	188.89
Jul-86	240.18	Aug-87	329.36
Mar-88	265.74	Jun-88	270.68
Mar-89	280.00	May-89	313.93
Oct-89	347.40	Mar-93	449.74
Feb-97	798.38	Dec-98	1,141.00
Oct-00	1,429.40	Dec-00	1,320.28
Jun-03	974.50	May-05	1,191.50
Jul-06	1,276.66	Mar-08	1,325.43
Apr-09	865.33		

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 subscription, and you will also receive an updated copy when you renew your subscription.)

Gray Cardiff's Sound Advice is published monthly by S.A. Newsletters, LLC. Editor-in-Chief: Gray Emerson Cardiff. Managing Editor: Steve Horwitz. Executive Editor: Linda Cardiff. Real Estate Consulting Editor: John Mason. Subscription rate: $195 per year. Send subscription requests to: Sound Advice, 939 Hartz Way, Suite 210, Danville, CA 94526. Phone: (925) 838-6710. Fax: (925) 838-0522.

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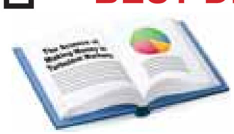

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