



The *Sound Advice* portfolio is up 20.4 percent so far this year, assuming an equal amount was invested in each position at the beginning of the year. If we look back to the beginning of last year, the portfolio is up 46 percent. We have an average gain of 61 percent based on the prices at which each stock, ETF, or mutual fund was originally recommended.

-Gray Emerson Cardiff

Freeport-McMoRan

We are recommending **Freeport-McMoRan Copper & Gold (FCX)** as a timely addition to our portfolio. FCX is the largest publicly traded copper company in the world. We believe investing in FCX is particularly timely now because the US, along with most of the developed world is emerging from a deep recession, and expanding economies exert a strong demand for copper.

As we emerged out of the last recession in March 2003, we added Phelps Dodge to our portfolio, which then was the largest copper producer. As the world economies expanded and demand for copper accelerated, so did the price of Phelps Dodge. We held it until December 2006 and sold it for a 643 percent gain.

In March 2007, FCX purchased Phelps Dodge, and as the world's economies continued to expand into 2008, FCX soared to new heights to \$63.60 a share with its newly-acquired copper mines and production. When the 2008 meltdown and following recession undermined the demand for copper, FCX plunged. Although FCX has recovered from its lows, it remains a stellar value with a great deal of upside profit potential.

A Solid Valuation

One reason FCX is currently trading at such a low value is because of a cave-in at its Grasberg complex in New Guinea. While the accident has not compromised longer-term production, the mine was shut down for 2 months. Operations resumed in July but are not expected to reach full production in 2013. The shut-down also led to higher production costs of \$1.85 a pound in the second quarter compared to \$1.57 in the first quarter. However, the company expects costs to return to approximately \$1.57 for the balance of the year.

Recently, low prices for copper have also depressed the stock price.

With reduced operations in 2013, along with depressed prices for copper, FCX is projected to earn \$3.25 a share in 2013. At the current price, the stock is trading under 10 times earnings. The dividend was recently increased again, for the fourth time since 2009, and is now a well-covered \$1.25 a share, for a 4 percent yield.

FCX is currently trading at historically low valuations by other measurements as well. Based on the second quarter financials, FCX has a book value of \$25.15. The current price of the stock is 1.21 times its book value which is below the industry average of 2.2 and considerably below FCX's own 5-year average of 3.7. Other measures are also currently well below average, including price/sales and price/cash flow.

FCX is a solid investment at the current price. The dividend yield and favorable valuation offer a relatively low risk profile. However, a good value doesn't always mean profits are ahead. That comes from growth.

Production Growth

FCX is the largest copper producer in North America and this is where FCX derives more than half of its revenue. FCX owns seven copper mines, 5 of which are in Arizona (Morenci, Bagdad, Sierrita, Safford, and Miami), and two of which are in New Mexico (Tyrone and Chino). In 2012, Copper sales totaled 1.35 billion pounds from these mines at an average price of \$3.64 per pound. FCX has recently completed projects to increase production at the Morenci and Chino mines, including restarting some mining and milling operations. FCX expects 2013 copper sales from North America to increase to 1.45 billion pounds.

The company's second largest copper producer is in Papua, New Guinea, a province of Indonesia, located in the Grasberg minerals district. This is the largest single recoverable reserve of both copper and gold in the world. In 2012, FCX sold 716 million pounds of copper from this mine. FCX has several projects in progress related to the development of large-scale, high-grade underground ore bodies, which include the Common Infrastructure project, the Grasberg Block Cave underground mine, and the development of the Deep Mill Level Zone ore body. The ramp-up of these projects and the

increased quality of ore are expected to increase production substantially. At the end of 2012, FCX expected 2013 sales from Indonesia to increase to approximately 1.1 billion pounds of copper. The accident and 2-month shut-down lowered the 2013 expectation, but substantial production growth should resume in 2014.

A Ph.D.

Even without an increase in the price of copper, FCX should see growth from increased production. However, we are also bound to see increases in the price of copper as the world's economies emerge from recession. Copper is known as the metal with a Ph.D. in economics because its price directly reflects economic activity.

During the last decade, China's expansion exerted a voracious demand for copper, accounting for 40 percent of the world's demand for refined copper. Since the latest recession, demand from China is showing signs of picking up again and is linked to the recent upticks of copper prices.

In late August, the Flash HSBC Purchasing Managers' Index reported that China rose just above 50 in July which indicates a return to growth in manufacturing activity. On the day of that announcement, copper prices jumped and FCX climbed 3.6 percent.

The expansion of the Chinese economy is not likely to be at the double-digit growth rates of the past decade. It is a much larger economy now which by its sheer size cannot grow at the high rates of small emerging economies. In addition, China is trying to rebalance to a more consumer-based economy which will translate into a slower growth rate. However, China still has millions leaving their destitute farms for work in the cities. To avoid a social revolution, China's economy must continue to grow rapidly to provide jobs for its citizens. Moreover, as a more developed country now, its demand for industrial materials will now grow proportionately faster than its overall economy.

Regardless of the ambiguities of China's growth rate, there is a large and defined source of future Chinese demand for copper. The size and geography of China is similar to the US, with most of its population on its east coast. However, its natural resources, specifically coal which still supplies 80 percent of its power needs, is on the west coast. Transporting coal has overloaded barges, trucks, and trains to the point that transportation bottlenecks are responsible for brownouts in major areas.

In a 5-year plan announced in January, the Chinese Energy Department is calling for developing 14 large "energy bases" where power plants and petrochemical facilities will be combined with coal mines. The power generated from these plants will then be sent over a massive network of long-distance power lines called the "West-East Electricity Transfer Project."

Of course, nothing has anything close to the conductivity of refined copper, and by necessity, copper is the material needed. Even with large copper cables, some power will be attenuated over such a long distance, but it will be far more

efficient than physically transporting coal. The three main transmission routes are now operational, but new networks of feeders are needed, along with upgrades to older networks. The overall cost is estimated at \$100 billion. The capacity of the electrical power projected to be transferred by 2020 is 120 gigawatts, the equivalent to the production of 60 Hoover Dams. The Hoover Dam is a major supplier of power to Southern California, Arizona, and Nevada.

Although China's growth has put it on the map as an economic force, the US GDP at \$15 trillion is double China's \$7.2 trillion. A powerful increase in demand for copper will come from the expansion of the US economy.

A US real estate rebound will have a substantial impact on demand for copper. Close to 200 pounds of copper goes into the average new house constructed in the US. Both residential and commercial construction accounts for 40 percent of the US demand for copper. It also has many uses in industry because it is ductile and easily combined with other metals to make alloys such as bronze and brass which are stronger and corrosion resistant. In addition to being an excellent electrical conductor, it is also one of the best thermal conductors. It is also non-magnetic which is important in many applications. In addition, it also has anti-bacterial properties for use in medical devices. While other metals can sometimes be used as alternatives, copper is often substantially less expensive for industrial uses. It can also be easily recycled.

Accordingly, copper is woven into the fabric of every developed economy, and its price moves dramatically in tandem with expansions and contractions.

The expansion of the US and China economy will be the most important factors. Japan's expansion of its \$5.9 trillion GDP will also be significant. Europe, with its GDP of 12.6 trillion, is also emerging from its recession. While the rate of its recovery is bound to be protracted because of complications with the euro, any growth from the world's second largest GDP will be a tremendous source of demand for copper. In East Berlin, for example, there is currently a forest of construction cranes. In late August, data showed Germany's private sector expanded at its fastest rate since January.

Recent Diversification

In 2012, 79.3 percent of FCX's revenues came from copper products. The rest came from producing gold (9.7 percent), molybdenum (6.6 percent), and the balance (4.4 percent) from cobalt, silver and other metals including rhenium and magnetite. Accordingly, FCX was nearly a pure copper play.

In an effort to diversify, FCX recently purchased oil and gas producing operations in California, Texas, Louisiana, and the Gulf of Mexico. These assets have significant exploration potential. However, the current revenue from these assets in now amounts to 25 percent of FCX's revenues. (The second quarter only saw one month of this revenue.) Using the 2012 revenue mix from mining operations, copper now accounts for approximately 60 percent of total revenues. Gold accounts

for 7.3 percent. Of course, the 2012 mining revenue mix will change somewhat from 2012, but not materially.

FCX just became more of a natural resource company, with its dominant source of revenue still coming from copper, with a little help from gold, and a significant amount of help from oil and gas.

Earnings are expected to be \$4.15 a share next year. At a price/earnings (P/E) ratio close to today's overall market average of 15, FCX would be trading at double today's price. Higher copper prices and successful exploration of the oil and gas assets would add to the upside.

Insider Buying

At the end of July, Chairman of the Board, James R. Moffett purchased \$28.5 million of FCX stock. A few days earlier, his Vice Chairman purchased \$14.3 million of FCX. Such large purchases recently are evidence that these two top company leaders also think the stock is a good investment.

Action Item: Sell PAYX

We recommend selling [Paychex \(PAYX\)](#). If you own PAYX, you can use all or part of the proceeds to purchase FCX.

As the second-largest provider of payroll services to small to medium-sized companies, we originally recommended PAYX in the depths of the recession as a classic "buying straw hats in winter" opportunity. It had been battered and represented a good value that offered considerable potential for capital appreciation as well as a nice yield.

As the economy showed signs of improving, PAYX climbed, giving us a nice profit of 47 percent. In its typical fashion, the market was anticipating future growth by bidding up the stock price. As the stock climbed and the price/earnings ratio expanded above the market averages, we moved PAYX from a "buy" to a hold. Now, based on 2013 projected earnings of \$1.56 per share, the price/earnings ratio is close to 25, which is substantially above the market. The risk/reward ratio is no longer favorable and we believe there are better places for your capital.

Our "No-Brainers"

Economic indicators were mixed in late August for the first time in several months with some weakness in home sales and durable goods. The news that the US would invade Syria sent capital back into bonds in a flight to safety. In addition, the cloud of the debt ceiling is back on the horizon, making markets nervous. After zooming upward, our No-Brainers settled back on the news.

So far, we have a 40 percent gain in the [Direxion Daily 20 Plus Year Bear 3 Shares \(TMV\)](#) which uses 3:1 leverage.

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

We have a 14 percent gain in the [Proshares Short 20 Plus Year Treasury \(TBF\)](#), which uses no leverage.

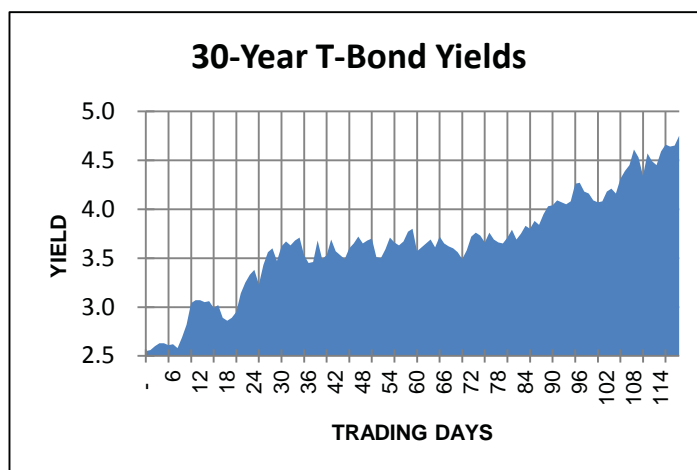
These are nice gains but we believe there is considerably

more to come. It is only going to be a matter of time when bond yields commence rising again. The fight over the debt ceiling will be over by the deadline in October at the latest. The flight to safety over the invasion of Syria is also temporary. In the worst case, fires in the middle-east are ignited and send oil prices up substantially. This would fuel inflationary fears which would send bond yields up again.

Meanwhile, the Federal Reserves has vowed to continue to pump up the economy by injecting massive sums of money into the economy until a significant recovery is underway. The only question was how soon and how fast the economy will gain traction. When it does, long-term Treasury bond yields are certain to rise substantially.

The most recent time long-term Treasury bond yields rose significantly was from December 18, 2008 to June 10, 2009, (118 trading days) when 30-year Treasury bond yields rose from 2.55 percent to 4.75 percent, or 220 basis points. The pattern of this rise is shown on the following chart.

Our No-Brainer ETFs did not exist during this entire period,



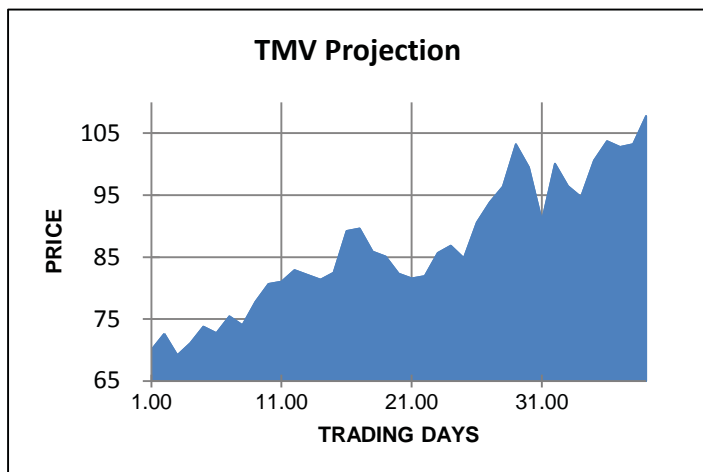
so we don't have historical track records to view. However, we know how these ETFs work, and can model them to get an idea of the profit potential.

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

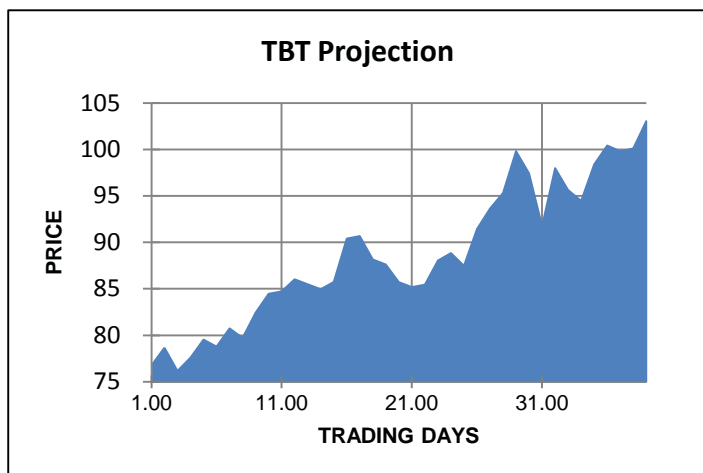
To construct our models, we start with a projection of an increase in 30-year Treasury bond yields. A conservative approach would be to assume that long-term Treasury bond yields will not rise beyond 4.75 percent -- not any higher than the last peak. We can use the pattern of the last 38 days of the 220 basis point rise when yields rose from today's yield

of 3.71 percent to the peak of 4.75 percent. In that scenario, our No-Brainers would rise to the following levels:

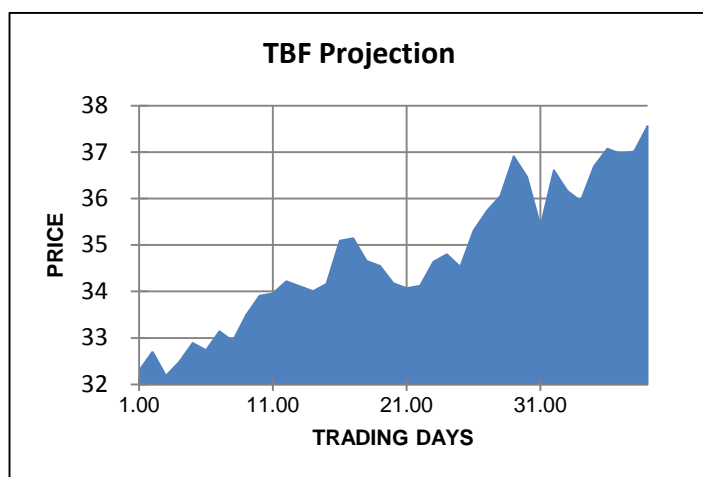
TMV, would climb to \$107.8, for a 54 percent gain. See the chart below.



TBT would climb to \$103.4, for a 34 percent gain. See the chart below.



TBF would climb to \$37.5 for a 16 percent gain. See the chart below.



While the pattern of today's rise is unlikely to be exactly the same as the previous rise, we believe this projection serves as a minimum expectation. After yields rose to 4.75 percent on the last rise, the economy was considerably weaker than it is today and went into a decline. However, this time it is likely that bond yields will be marching substantially higher in view of many years of stimulus from the Federal Reserve, and the inevitability of the end of its quantitative easing program. When that happens, the Fed will start tapering its bond buying, and ultimately start selling off its massive portfolio of Treasury bonds. Accordingly, it is not unreasonable to assume the current upswing in long-term Treasury bond yields will not end at 4.75 percent.

Portfolio Updates

Here are updates on the rest of our recommendations in alphabetical order. The table on page 7 details our buy limits and other information on each recommendation, and organizes them by investment objective. Also see our website for live pricing.

Agrium (AGU) is down 12 percent this year, trimming our profit to 632 percent. This is the largest farm products retailer in North America and a wholesaler to the world.

For decades, 70 percent of the world's potash market has been controlled by two cartels –Canpotex Ltd. and Belarusian Potash Company (BPC). Canpotex has 3 North American members, Potash Corp., Mosaic Co., and Agrium. Until recently, BPC had two members, Russia's Uralkali and Belaruskali. These partnerships have allowed their producers to command better prices for potash than if they competed against each other.

At the end of July, Uralkali decided to pull out, ending the BPC cartel, and focus on volume rather than price. The move is expected to lower potash prices by 25 percent, and the stocks of companies producing potash declined by varying degrees on the news. AGU dropped 10 percent but has since recovered about half the decline.

Potash sales accounted for 12 percent of AGU's 2012 revenue which is far less than its competitors. A decline in potash margins is easily compensated by sales from AGU's other products and services.

Nitrogen based fertilizers account for 41 percent of sales where it has a competitive advantage through its access to cheap natural gas for many years to come. It also has a competitive advantage for producing phosphates (10 percent of sales) through its access to low cost sulfur and ammonia in its Conda and Redwater sites.

Thirty-seven percent of AGU's revenues come from sources other than nutrients, including crop protection products, seeds, and other agricultural merchandise and services.

AGU has a broad mix of agricultural products and services that are poised to benefit from a growing need as arable land continues to disappear around the world and the need for higher food production per acre is needed. Growth is also

fueled by an expanding worldwide population and growing per-capita income exerts demand for crops.

AGU is now projected to earn \$9.40 in 2013. At less than 10 times earnings, this is an excellent value with promising growth ahead from a broad array of agricultural products and services.

AMN Healthcare (AHS) is up 20 percent this year, extending our profit to 162 percent. AMN Healthcare provides temporary healthcare staffing services to the healthcare industry, ranging from nurses to physicians. We recommended this stock at an average price of \$5.35 based on the rationale that it was a two-fer. AHS was not just an opportunity to invest in healthcare, which is traditionally a non-cyclical industry, but it is also a chance to buy into a healthcare business which will benefit from a recovery in the economy.

As the stock advanced and its price/earnings (P/E) ratio expanded, ultimately climbing over 25, we recommended holding off on purchases. The stock price has declined from its peak recently but still remains above our upper buy limit. We continue to recommend holding for now and waiting for a pull-back below \$12 a share to buy more.

Associated Estates Realty Corp (AEC) is down 11 percent this year trimming our gain to 1.1 percent. In recent months we have noted AEC has been reducing debt and diversifying into California, both of which are certain to benefit the bottom line.

Second quarter showed an increase of 14 percent in revenue from the same quarter last year. Vice President Jason Friedman acquired another 1,400 shares on August 19th at \$14.26 per share, bringing his total holding to 83,575 shares.

This continues to be the most undervalued apartment REIT in the sector. The net equity of its apartment portfolio translates into a stock value of \$27 per share. So the stock is still trading at a steep discount. It pays a nice yield as well.

Boston Scientific (BSX) is up 86 percent this year. In late July, the stock jumped over \$11 a share, its highest level since September 2009, after the company reported better-than-expected earnings from sales of its stents and other cardiovascular devices which currently account for

approximately half of the company's revenue. Second quarter earnings were 10 cents per share, compared with a net loss of \$2.51 per share one year ago.

In August, BSX received FDA approval for its IntellaTip MiFi XP catheter used to pinpoint locations on the heart where electrical stimulation is needed for restoring normal heart rhythm. BSX also received clearance for its Zurpa 8.5F steerable sheath, which is used for the placement of catheters in a variety of procedures.

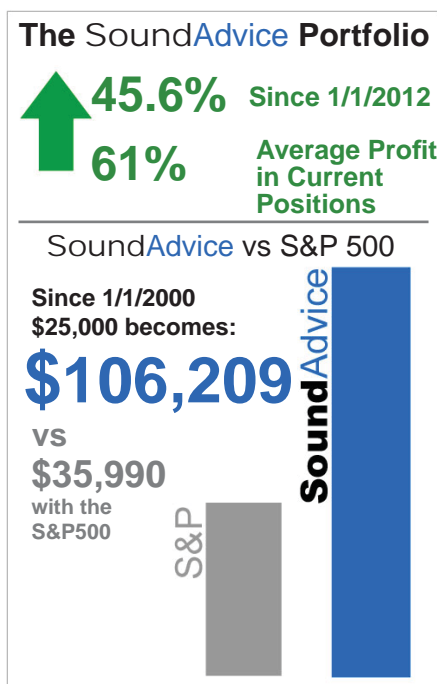
BSX's medical products are well suited for an aging population in the US as well as emerging markets around the world, especially in India, China, Brazil, and Russia. Emerging markets only accounted for 4 percent of revenue in 2012, so there is considerable room for growth.

CGM Real Estate Fund (CGMRX) is down 3 percent this year, trimming our profit to 51 percent. We believe that this fund is poised for considerably more gains ahead as the economy recovers.

Most of the time, above average investment returns can be earned in REITs. By far, CGMRX has been the best performer of REIT funds over the last ten years. (See the February 1st Issue of *Sound Advice* for the complete rundown of all REIT Funds.) CGMRX has produced an annual return of 15.02 percent over the last ten years through August. By comparison, the S&P 500 produced an annual return of close to 8 percent over the same period.

Unlike the other mutual funds we recommend, CGMRX is not cleared through many brokerage firms. You may need to call the fund directly to invest at 800-343-5678.

Chesapeake Energy (CHK) is up 60 percent this year giving us an equivalent gain since we added it to the portfolio last year. CHK is the second largest producer of natural gas and pioneered the use of fracking technology to produce oil and liquids from shale. Shortly after we recommended CHK, Carl Icahn purchased a substantial stake and was instrumental in changing the corporate governance by removing the founder, Aubrey McClendon, as chairman of the board and replacing several other board members. Doug Lawler officially took over as CEO in June, coming from Anadarko Petroleum and its predecessor Kerr-McGee.



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In August, as part of the reorganization and effort to reduce expenses, Lawler announced that four more top executives are leaving the company: the chief operating officer, the executive vice president, the senior vice president of drilling, and the vice president of human resources. CHK has been responding positively to the news.

Comcast (CMCSA) is up 12 percent this year, extending our profit to 94 percent. This is the nation's largest cable TV provider. But it is no longer just a cable company. It also provides internet and telephone service. CMCSA now has sole ownership of NBC Universal which operates major broadcast and cable networks (NBC, Bravo, USA), as well as film studios (Universal Pictures), digital media content, and resort theme parks. CMCSA's synergistic array of products provides a solid growth path. Earnings have increased every year since 2003, and so have dividends since they commenced in 2008.

At the heart of Comcast is its high-speed broadband through which it delivers internet and cable TV along with its library of digital media, content as well as additional bundled services, including home thermostat controls and security systems with alarms and cameras, all of which can be accessed from a smart phone or tablet. The bundled packages are often less expensive than if delivered from separate providers. The housing recovery is also a source of growth for CMCSA.

We have an upper buy limit of \$40 a share which puts it closer to the average market price/earnings ratio.

Commonwealth REIT (CWH) is up 55 percent this year since activists Corvex Management and Related Fund Management began their proxy fight to oust the management. These activists stated that they believe CWH is worth at least \$40 a share, and \$50 with better management. In June, Corvex Management and Related Fund Management announced they had consents from holders of over 70 percent of the outstanding shares approving their proposal to remove the entire Board of Trustees. CWH management contested the validity of the consent solicitation, and the matter went into arbitration.

In August the arbitration panel struck down a rule recently adopted by management that only shareholders with at least 3 percent ownership for 3 years could seek changes to the company's board. The stock responded favorably to the news. The panel scheduled a hearing for further deliberations beginning on October 7.

The discount of the price of the stock to underlying value of this REIT's net real estate assets has been the primary reason for our recommendation.

Based on the company's recently released second quarter financials, we evaluated the value net equity of the company's real estate by applying an 8 percent capitalization (cap) rate to the net operating income of the real estate, and determined the net assets translate to \$40.35 per common share.

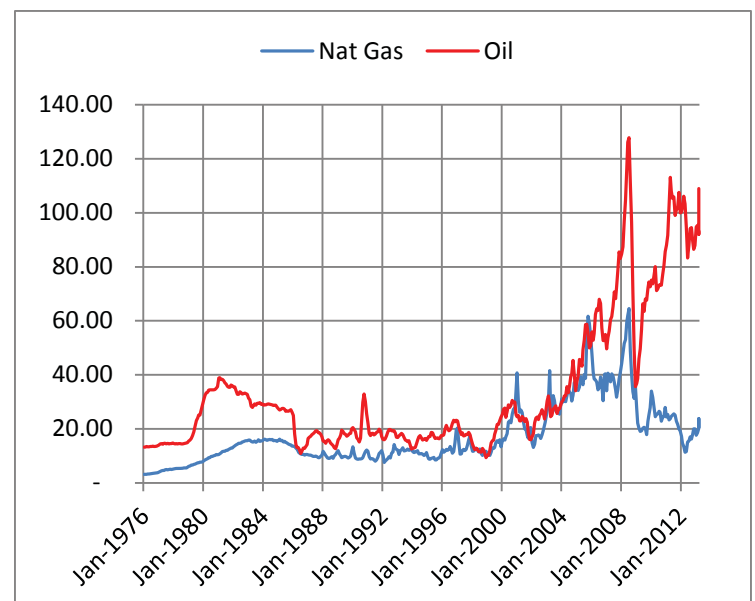
Fidelity Select Natural Gas Fund (FSNGX) is up 14.6 percent this year which is close to our profit. This is the only

mutual fund that concentrates on the natural gas industry, and a diversified play on the gap between the energy equivalents of oil and natural gas.

One barrel of oil provides approximately 5.8 million British Thermal Units (BTUs) of energy. One barrel of oil today is \$109, so that is the cost of 5.8 million BTUs of energy. On the other hand, with a market price for natural gas at \$3.50 for one million BTUs. So 5.8 million BTUs will cost \$20.47 (5.8x3.50). So the same amount of energy is available for approximately 20.47 cents on the dollar -- if it is in the form of natural gas.

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

The Cost of Energy Equivalents of Oil and Natural Gas



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

The US is self-sufficient in natural gas with only 9 percent imported from Canada. At 20.47 cents 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.

Hambrecht & Quist Life Sciences Fund (HQL) is up 31 percent this year, extending our profit to 95 percent. At the end of June, HQL paid a quarterly stock distribution of \$0.34 per share, derived from long-term capital gains.

The most explosive profits in the entire healthcare industry can be found here in biotech companies. This is a volatile

Income With Growth	Sym	Exchange	Price	Yield	Limit	Action
Associated Estates Realty Corp	AEC	NYSE/Nasdaq	\$ 13.98	5.44%	\$ 16.00	BUY
CommonWealth REIT	CWH	NYSE	\$ 24.65	4.06%	\$ 25.00	BUY
Retail Opportunity Investment Corp	ROIC	NASDAQ	\$ 13.20	4.24%	\$ 15.00	BUY
Diversified Growth						
CGM Realty Fund	CGMRX	800-343-5678	\$ 28.35	1.69%	\$ 31.00	BUY
Comcast	CMCSA	NASDAQ	\$ 42.44	1.53%	\$ 40.00	HOLD
Masco	MAS	NYSE	\$ 19.04	1.58%	\$ 15.00	HOLD
Paychex	PAYX	NASDAQ	\$ 38.59	3.32%	\$ 34.00	SELL
Pfizer	PFE	NYSE	\$ 28.10	3.13%	\$ 30.00	BUY
Stryker Corp.	SYK	NYSE	\$ 66.91	1.27%	\$ 71.00	BUY
Xerox	XRX	NYSE	\$ 10.04	1.69%	\$ 11.00	BUY
Energy/Natural Resources						
Agrium	AGU	NYSE/TSE	\$ 86.09	2.32%	\$ 95.00	BUY
Chesapeake Energy Corp	CHK	NYSE	\$ 25.95	1.35%	\$ 27.00	BUY
Fidelity Select Nat. Gas Fund	FSNGX	800-544-8888	\$ 35.67	0.15%	\$ 37.00	BUY
Freeport-McMoRan	FCX	NYSE	\$ 30.42	4.11%	\$ 33.00	BUY
ICON Energy Fund Class S	ICENX	800-435-5697	\$ 22.23	0.00%	\$ 25.00	BUY
Tetra Tech	TTEK	NASDAQ	\$ 22.99	0.00%	\$ 26.00	BUY
USAA Precious Metals & Minerals	USAGX	800-862-6909	\$ 17.13	2.60%	\$ 20.00	BUY
Aggressive Growth						
AMN Healthcare	AHS	NYSE	\$ 14.07	0.00%	\$ 12.00	HOLD
Boston Scientific	BSX	NYSE	\$ 10.66	0.00%	\$ 11.50	BUY
ETF - Direxion Daily 20+ Yr Bear 3X	TMV	NYSE	\$ 69.73	0.00%	\$ 79.00	BUY
ETF - ProShares Short 20+ Year Trsry	TBF	NYSE	\$ 32.30	0.00%	\$ 35.00	BUY
ETF - ProShares UltraShort 20+ Year Trsry	TBT	NYSE	\$ 76.56	0.00%	\$ 83.00	BUY
H&Q Life Sciences Fund	HQL	NYSE	\$ 18.60	0.00%	\$ 20.00	BUY
Maxim Integrated	MXIM	NASDAQ	\$ 27.90	3.44%	\$ 33.00	BUY
Symantec	SYMC	NASDAQ	\$ 26.05	0.00%	\$ 23.00	HOLD
Tellabs	TLAB	NASDAQ	\$ 2.21	0.00%	\$ 2.50	BUY

Prices are as of 8/29/2013. See our website for live pricing and buy limits.

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

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

sector, so diversification is crucial. HQL is a superior way to gain exposure to biotech on a diversified basis.

ICON Energy Fund Class S (ICENX) was added to the portfolio a few months ago because the demand for energy accelerates with an economic expansion. The best time to invest is when the economy is coming out of a slump, before demand increases.

Aside from the cyclical timing, above average investment returns can be earned over the long run. Over the last 10 years, the Energy Equity Index produced an average above 13 percent annually through the end of August, far outstripping the performance of the S&P 500. The superior performance is due to the fact that energy is in the fabric of the economy. It takes energy to make everything, and especially large amounts to make the most vital materials and substances, such as chemicals, plastics, and to run

data centers.

In addition, there is always the possibility of geopolitical disturbances threatening supplies and driving up energy prices. Repercussions in Syria may spark an explosion in oil prices.

Most energy mutual funds have not been able to match the performance of the Energy Equity Index. However, this fund not only beat the Energy Equity Index resoundingly, it has turned in the best performance – by far – of energy funds. This no-load fund furnished an annual return of 14.9 percent during the last ten years through the end of August. This Fund's performance also led the pack in shorter durations – 5 year, 3 year, and 1 year. (See the April 1, 2013, Issue for a complete analysis of all no-load energy funds.)

Derek Rollingson, who has managed the Fund since May 2007, emphasizes value. While the price of energy in

its different forms is important, the real opportunities come from how the stock market reacts to changes within the industry: whether the market realizes the change too fast and becomes over-priced, or conversely, whether there is still opportunity to invest. This Fund focuses on the values created by changes, even by falling prices.

Masco (MAS) is up 11 percent this year, extending our profit to 151 percent. MAS manufactures a wide range of products for home construction and remodeling--everything from kitchen cabinets and faucets to windows and paint.

We added MAS to the portfolio at \$7.49 after the shares got hammered during the recession. However, after the share price rocketed we put the stock on "Hold" because the price/earnings ratio got too rich, ultimately approaching 30 times the 2013 earnings estimate of \$0.70 a share. This high price/earnings ratio is already anticipating a steep growth rate.

We continue to recommend waiting for a pullback to accumulate more shares. The stock has been pulling back recently, but still above our upper buy price limit. We have an upper buy limit of \$15 a share which would put it closer to the average market price/earnings ratio.

Maxim Integrated Products (MXIM) is down 5.7 percent this year, reducing our profit to 43 percent. MXIM specializes in high-performance electronic chips that convert digital signals into analog format so that we can hear them. Such chips are in every cell phone. MXIM also makes integrated power management chips (PMIC) for portable devices makers to extend battery lives.

During the last four quarters, revenue from Samsung accounted for 28% of total company sales. For about that long, Apple and Samsung have been going at it regarding several patent issues. In August, Apple scored a victory by winning a \$1.049 billion judgment over Samsung regarding the design of some of its Galaxy S phones.

Recognizing the risk with so much riding on one customer, MXIM has been diversifying and noted that second quarter revenue grew in 22 out of 24 of its market segments.

MXIM will continue to emphasize high-end smartphones because that is where the innovation takes place. However, as new technologies are developed, MXIM plans to leverage and selectively migrate the technology to lower and midrange-priced smartphones and tablets, and see growth from the mobility sector resume in calendar 2014.

MXIM is in excellent financial health with more than \$1.5 billion of cash and plenty of cash flow to support operations. The investment and resources necessary to develop MXIM's analog chips, and the years it takes to develop them, is an entry barrier for new competition. Once developed, these chips have long and profitable product lives.

In July, MXIM announced an increase in its dividend by 8% along with a new \$1 billion share repurchase program.

Pfizer (PFE) is up 13 percent this year, extending our profit to 68 percent. We added PFE to the portfolio when it became dirt cheap as the expiration date approached on its blockbuster drug, Lipitor. However, its future was brighter

due to the arsenal of new pharmaceutical products. Pfizer is now poised to launch several blockbusters in cancer, heart disease, and immunology.

Pfizer is the world's largest pharmaceutical firm, with annual sales near \$60 billion. Pfizer's large size gives it economy of scale and the resources to finance the research and development of new drugs. It has more than 80 drugs in the development stage and 90 in the discovery stage.

The company's two most promising new products are Xeljanz for rheumatoid arthritis and its blood-thinner, Eliquis, for stroke prevention. Both were approved in late 2012 for use in the US and both could be Pfizer's next blockbusters. Plevnar 13, the best-selling vaccine in history was recently approved in Europe for preventing ear infections, meningitis and other pneumococcal infections. Pfizer's latest generation of cancer drugs: Palbociclib, was recently designated by the FDA as a breakthrough therapy for breast cancer, which is bound to speed up final testing. Three other cancer drugs – Xalkori, Inlyta and Bosulif – also show promise.

PFE announced it will split operations into three units on January 1 to increase efficiency and focus. One unit will focus on therapeutic treatments. Another unit will focus on vaccines and cancer treatments. The third unit will focus on major products losing patents during the next two years and how to best position the company in growing foreign markets.

Ian Read, the chief executive and chairman, said "*Our new commercial operating model will provide each business with an enhanced ability to respond to market dynamics, greater visibility and focus, and distinctive capabilities optimized to deliver value to patients and shareholders in the coming years.*"

Retail Opportunities Investment Corp (ROIC) is up 6.6 percent this year, extending our profit to 29 percent. This REIT began as an IPO in October 2009, just after the REIT sector had been decimated by the 2008 melt-down. It started with a fresh slate in a real estate market replete with bargains.

ROIC buys distressed retail properties with high-quality demographics, refurbishes them, and then leases them at a premium. As new properties are added, along with tenant upgrades, FFO is bound to continue to rise, along with the dividend, and push the price of this REIT upward.

In August, ROIC reported solid second quarter earnings with a 9.5 percent increase in same-center cash net operating income over last year's second quarter, and the fifth consecutive quarterly increase. The overall portfolio occupancy ended the quarter at 93.5 percent.

Based on its peers (Regency Centers, Acadia Realty Trust, and Kimco Properties), ROIC should trade close to \$18 a share.

Stryker (SYK) is up 28 percent so far this year, extending our profit to 70 percent. SYK is best known for its orthopedic devices: artificial knees and hips. SYK also provides a diverse array of innovative medical technologies, including

reconstructive, medical and surgical, as well as neuro-technological and spine products.

Reconstructive implants account for 45 percent of SYK's revenues, and more profits are assured by accelerating demand for joint replacements on aging baby boomers. As life expectancies continue to increase, and obesity trends continue, more and more hip, knee, and spinal procedures will be needed.

As the economy improves, revenue growth should increase from the elective hip-and-knee surgeries that were postponed during the recession and uncertain economic times. Stryker's cash-rich balance sheet (with over \$2 billion in net cash) and robust cash flow, gives SYK multiple avenues for growth through mergers and acquisitions.

Symantec (SYMC) is up 36 percent this year, extending our profit to 53 percent. SYMC is the dominant supplier of software for computer security and protection against viruses and other nuisances through its leading flagship brand, Norton and its relatively new product "Norton Zone" allows users to safely access, sync, and share photos, videos and documents from any of their PC, Mac, Android, or iPhones and iPads.

Protection from cyber espionage is definitely a growth industry. There was a 42 percent surge in attacks during 2012. Mobile malware increased by 58 percent, and 32 percent of all mobile threats attempted to steal information, such as e-mail addresses and phone numbers. This year's data shows that cyber criminals aren't slowing down.

We added SYMC to our portfolio when it was cheap and when the company was suffering from operational inefficiency and lack of direction. Steve Bennett has since taken over and has streamlined operations while giving SYMC stronger direction. The stock has advanced recently to the point where the valuation is a little too high. We have an upper buy limit of \$23 a share which would put it closer to the average market price/earnings ratio.

Tellabs (TLAB) is down 3 percent this year. TLAB designs and manufactures hardware and systems for the telecommunications industry. It is still trading below its net asset value.

The company's balance sheet at the end of its most recent quarter shows cash and equivalents of \$1.13 billion, which works out to \$3.14 per share. Adding in its other assets, including properties and equipment (less depreciation), but excluding the paper assets of Goodwill and Intangibles, TLAB's assets total \$1.42 billion, or \$3.95 a share. The company has no debt, but short-term liabilities total \$507 million, leaving net assets of \$912 million, or \$2.54 per share.

TLAB's fiber optical systems and products accounted for 41 percent of TLAB's total revenue in 2012. The company's fiber optical systems combine all of a building's communications networks into one, improving security and eliminating the need for future re-cabling. They save 80% of energy consumption over conventional copper wire Ethernet network systems in addition to saving up to 70% of the cost of ownership.

The recent alliance with Wesco's strong distribution network should be a substantial boost to sales and revenues.

At a discount to its net assets, there is very little downside risk. As profitability comes into focus, the market will anticipate a brighter day ahead and bid up share prices. Capital gain potential is very large from the current depressed price.

Tetra Tech (TTEK) is down 12 percent this year, trimming our profit to 51 percent. The stock price fell after one-time charges translated into disappointing earnings for the second quarter. We view the dip as a buying opportunity.

TTEK is a leading company in water technologies and environmental remediation with a healthy balance sheet and a backlog of approximately \$2 billion in signed contracts to clean up military bases across the US.

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

The board of directors recently authorized a \$100 million common stock repurchase program.

USAA Precious Metals & Minerals Fund (USAGX) is down 35 percent this year as the price of precious metals suffered. Rising interest rates (as lead by rising bond yields) have strengthened the dollar which has adversely impacted all commodity prices. However, this is not a permanent situation.

When the economy gets more traction, the money created in recent years will be sloshing through the economy, putting upward pressure on the prices of commodities including precious metals. USAGX is the best diversified way to invest in precious metals. It is the top-performing fund, and has constantly out-performed precious metal equities for ten years.

Xerox (XRX) has climbed 45 percent this year. We have been recommending XRX because it has been transforming from a seller of printers and copiers to a company providing services on those machines. The strongest growth should come from the company's expansion into information technology (I.T.) services. The I.T. services to the healthcare industry are particularly strong as the industry is modernizing in order to reduce costs. XRX also provides I.T. services and consulting to a variety of other areas. The revenue from services is more profitable and less cyclical, and it now accounts for more than half of XRX's revenues.

XRX is now expected to earn between \$1.09 per share and \$1.15 this year. At less than 10 times 2013 earnings, XRX is at a steep discount to the overall market's price/earnings ratio of approximately 15. XRX is also cheap in comparison to its competitors like IBM with a P/E ratio of 13.5 and Canon at a P/E ratio of 15. XRX is continuing to buy back its own stock. At a P/E of 15, XRX would be 50 percent higher than it is today.

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 \$9,588,235 in stocks and to \$1,368,085 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 \$381,092,971, or 39.7 times more money—the difference between profits the buy-and-hold stock market strategy would have yielded by itself and the profits that the SoundAdvice Risk Indicator would have provided.

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

The SoundAdvice Risk Indicator

The latest reading for the SoundAdvice Risk Indicator is 1.53. This reading reveals that stock prices are slightly above average in relation to house prices. The February 2009 reading of 0.77 marked the low for this cycle as well as the beginning of Supercycle 6.

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



Business Cycles and Stocks: The SoundAdvice Diffusion Indexes

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

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

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

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

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

An "Aggressive" signal coming at a time when the Risk Indicator was below 1.0 revealed that Supercycle 5 came to an end, and that Supercycle 6 was born. Our next signal will come from a zero reading from our Diffusion Index of Leading Indicators. The latest reading is 66.7 percent.

The SoundAdvice Diffusion Index of Lagging Indicators gives "Caution" signals when all three of its individual lagging economic indicators rise above their respective levels of six months earlier, providing a 100 percent reading which reveals that the economy is about to put upward pressures on interest rates, and to move to a cautious approach.

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

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

Track Record of the SoundAdvice Diffusion Indexes

If we had followed the signals from our Diffusion Indexes over the years, we would have done very well indeed. The results are shown below. After each "Aggressive" signal, the S&P 500 climbed an average of 34.4 percent. During "Caution" signals, the S&P 500 increased an average of 0.2 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%		0.2%

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

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