



Market veterans love to observe that whatever the next bubble will be (don't we all wish we knew?), it won't be the same that drove the last market higher and then over the edge. Ditto for what kills each bull run. But from my perspective, the root cause has been exactly the same. The only differences are how it manifests itself.

Everyone "knows" that 2008's violent bear market started with housing's implosion. Moralists cluck about greedy investors, lenders and buyers, as if self-interested self-delusion alone explained housing prices that levitated beyond reason.

Certainly self-deception and greed were instrumental, but what provided investors the wherewithal to indulge these passions was the ability to borrow at low rates that set enormous debt traps for borrowers (and thus lenders) should any of the illusions underpinning general confidence fail.

But beyond how individuals who comprise markets responded to the most basic of market cues, cheap or even free credit, stands credit creation itself. You'll recall Greenspan's endless meditations about the "conundrum" of how even though he was raising rates, long rates, the ones that individuals, businesses and speculators used, refused to rise. The truth was that the world was awash in cash that had to go someplace and at some price, and that price was very cheap. Where that cash to lend came from, well, it's a story too long to fit in this space, but one place to look would be the bloated foreign exchange reserves held by Asian exporters who happily fed America's insatiable appetite for cheap imported stuff and then had to recycle the cash..

-Gray Emerson Cardiff

2009 - That's Better

We can now close the book on 2009, a very satisfying year, though to get here we first had to absorb the beating 2008 inflicted and still continue to do what we've always done: buy companies that are solid but out of favor and then hold on. Of course, after the almost 18-month train wreck that started in October 2007 and continued until March 9th, what wasn't cheap and not out of favor at the end? A blindfolded monkey throwing darts could have assembled a portfolio of out-of-favor equities at the end of 2008 and done well. The Dow finished the year up 18.8%, the S&P 26.5%, the techcentric Nasdaq 43.9% and the pan-market Wilshire 5000 26.5%. The *Sound Advice* portfolio, in which all positions were equally weighted at the outset, ended up 51.5%. We doubt most investors captured even S&P 500-like returns, since by March 9th the consensus was profoundly pessimistic about the market, the economy and the future of mankind. Amid that gloom only fools had not already capitulated. We pretty much had the field to ourselves.

The chart on the next pages summarizes our performance, which in part depended on being overweighted in certain sectors, in part on our selections within those sectors and in part on luck. For instance, regardless of how certain we were that panic was pricing shares, how could anyone have anticipated something like the **Ford preferred** almost quadrupling from where it began the year (and more than octupling from where it bottomed on March 6th at \$4.59)? We benefited from several triple-digit gainers. It was a very good year.

The chart on the following pages presumes that at the close of trading on December 31, 2008 we purchased \$10,000 worth of each security, and sold all positions at the close on December 31, 2009. In reality our current portfolio is not evenly weighted. Consider, for example, that our position in **Agrium**, which we established in November 1998 at \$10.75, having more than tripled in price by the end of 2008, would have had an even greater impact on performance had we not set all positions to an arbitrary value of \$10,000. But we want to show you how each recommendation fared during 2009.

We've divided up our portfolio by S&P sectors with the following caveats. While Standard & Poor's separates energy from materials, we've lumped them together respectively under "Natural Resources." Also, S&P's classifications sometimes seem off the mark to us. For example, **Leucadia**, a holding company that S&P classifies as a financial services company, lately has looked more like a miner. We've taken the liberty of moving it to Natural

Since 1/1/2000, \$25,000 Becomes:

\$74,828

with **SoundAdvice**

versus

\$23,338

with the

S&P 500



Sound Advice Portfolio Performance Divided by S&P Sector

<i>SA POSITIONS AS % of SA PORTFOLIO AND OF S&P 500</i>	<i>HOLDING PERIOD</i>	<i>TOTAL RETURN</i>
NATURAL RESOURCES (22.2% vs 15% for S&P)		
Anglo-American (AAUKY.PK)	FULL YEAR	86.57%
Agrium (AGU)	FULL YEAR	80.52%
Fidelity Select Natural Gas (FSNGX)	BOUGHT 9/4/09	12.41%
Icon Energy Fund (ICENX)	SOLD 9/4/09	10.45%
Leucadia (LUK)	BOUGHT 4/3/09	41.27%
Plum Creek Timber (PCL)	FULL YEAR	13.53%
PowerShares Water Resources Fund (PHO)	FULL YEAR	18.46%
Transocean (RIG)	FULL YEAR	75.24%
USAA Precious Metals & Minerals Fund (USAGX)	FULL YEAR	62.33%
SA RETURN FOR ENERGY/MATERIALS		48.79%
XLE (SPDR ENERGY ETF)		21.51%
XLB (SPDR BASIC MATERIALS)		47.63%
FINANCIAL SERVICES (15.6% vs 14.4% for S&P)		
CGM Realty Fund (CGMRX)	FULL YEAR	33.20%
Davis Financial Fund (DFIBX)	BOUGHT 9/4/09	10.37%
Duke Real Estate Preferred-0 Series (DRE-PO)	BOUGHT 1/9 SOLD 10/2/09	52.61%
HRPT Properties Trust (HRP)	FULL YEAR	106.23%
Icon Financial Services Fund (ICFSX)	SOLD 9/4/09	2.74%
Public Storage of America Preferred-M Series (PSA-PM)	BOUGHT 1/9-- SOLD 10/2/09	27.36%
DWS Reef Real Estate Fund (SRO)	SOLD 3/6/09	-57.40%
SA RETURN FOR FINANCIAL SERVICES		29.19%
XLF (SPDR FINANCIAL SERVICES ETF)		15.90%
CONSUMER DISCRETIONARY (11.1% vs 9.6% for S&P)		
Comcast (CMCSA)	FULL YEAR	1.46%
CarMax (KMX)	FULL YEAR	207.74%
Liberty Media (LBTYA)	FULL YEAR	37.50%
Mattel (MAT)	FULL YEAR	29.56%
Time Warner (TWX)	FULL YEAR	59.52%
SA RETURN FOR CONSUMER DISCRETIONARY		67.16%
XLY (SPDR CONSUMER DISC. ETF)		40.10%
CONSUMER STAPLES (4% VS 11.4% for S&P)		
Molson Coors (TAP)	FULL YEAR	-5.81%
Wal-Mart (WMT)	FULL YEAR	-1.44%
SA RETURN FOR CONSUMER STAPLES		-3.63%
XLP (SPDR CONSUMER STAPLES ETF)		9.50%
INFORMATION TECHNOLOGY (11.1% vs 19.6% for S&P)		
Microsoft (MSFT)	FULL YEAR	59.47%
Maxim Integrated (MXIM)	FULL YEAR	84.94%
Symantec (SYMC)	FULL YEAR	32.32%
Western Digital (WDC)	SOLD 11/20/09	223.58%
Xerox (XRX)	FULL YEAR	8.31%
SA RETURN FOR INFORMATION TECHNOLOGY		81.72%
XLK (SPDR TECHNOLOGY ETF)		50.40%

HEALTHCARE (17.8% vs 12.6% for S&P)

Boston Scientific (BSX)	FULL YEAR	16.28%
Hambrecht & Quist Life Sciences (HQL)	BOUGHT 12/11/09	5.47%
Johnson & Johnson (JNJ)	FULL YEAR	10.88%
Odyssey Healthcare (ODSY)	FULL YEAR	68.50%
Perrigo (PRGO)	BOUGHT 6/12/09	50.98%
Schering Plough (SGP)	SOLD 4/3/09	38.60%
Stryker (SYK)	BOUGHT 2/6/09	26.71%
UnitedHealth Group (UNH)	FULL YEAR	14.70%
SA RETURN FOR HEALTHCARE		29.01%
XLV (SPDR HEALTHCARE ETF)		19.20%

INDUSTRIAL (13.3% vs 10.2% for S&P)

Fastenal (FAST)	FULL YEAR	21.55%
Ford Convertible Preferred (F-PS)	FULL YEAR	342.57%
Honeywell (HON)	FULL YEAR	23.09%
Superior Industries (SUP)	FULL YEAR	51.52%
Tetra Tech (TTEK)	FULL YEAR	12.51%
United Parcel (UPS)	FULL YEAR	14.70%
SA RETURN FOR INDUSTRIALS		77.66%
XLI (SPDR INDUSTRIAL ETF)		21.42%

TELECOMMUNICATIONS (4% VS 3.2% FOR S&P)

Gabelli Global Telecommunications (GABTX)	FULL YEAR	24.60%
Sprint-Nextel (S)	SOLD 8/7/09	107.10%
SA RETURN FOR TELECOM		65.85%
VOX (VANGUARD TELECOM ETF)		29.45%

GENERAL FUNDS

Federated Prudent Bear Fund (BEARX)	SOLD 10/2/09	-12.71%
Dodge & Cox International Fund (DODFX)	FULL YEAR	50.89%
Dodge & Cox Stock Fund (DODGX)	FULL YEAR	29.86%
WisdomTree Divident Top 100 Fund (DTN)	SOLD 9/4/09	7.72%
Third Avenue Value Fund (TAVFX)	FULL YEAR	44.43%
SA RETURN FOR GENERAL FUNDS		24.04%
Morningstar Average Stock Fund		31.65%

Resources. We've done the same with **Plum Creek Timber**, which S&P also treats as a financial services firm, but which is really a natural resource enterprise. For mutual funds with general portfolios, we've put them in a separate category and compare their returns to the *Morningstar's* calculation for the average equity fund in 2009.

Not to distort the average returns in the financial services and the natural resources sectors, we have combined the returns for ICFSX and DFIBX, and ICENX and FSNGX. Let me explain why. In the September issue, we sold the two Icon funds and replaced them with the Davis fund and the Fidelity Select Natural Gas Fund. Had we included both the replacement and the replaced funds in these sectors in the divisor, the average would have been misleading. For example, by considering ICENX and FSGNX in Natural Resources as one unit, the divisor becomes eight rather

than nine and shows an average return of 48.8% rather than the misleading 43.4%.

For positions that were either sold or bought during the year, we have not made any attempt to adjust them to reflect their briefer impact on performance. For instance, in the healthcare sector, three positions were added during 2009 (one as recently as December). Had we annualized their returns, this sector would have an average return of 49.7% rather than the reported 29%.

Having a banner year is all well and good, but we're now back to zero, though as we close the book on the first issue for 2010, we can report that the portfolio since the last issue is up 6.2% compared to our benchmark indexes, none of which has done better than the Nasdaq's 5.8%. So far, so good. **SA**

Under The Caution Flag

If the “Great Recession,” a sly way of acknowledging how close we came to a replay of the Great Depression of the 1930s, is receding, the benefits of that recovery are unevenly distributed. For that matter, whether this recovery won’t revert to further contraction cannot be excluded. Yes, stock prices as measured by the S&P have rebounded to where they were in 2008 but also in 2004, 2002, 2001, or 1998 and corporate profits are rising, consumers during the holiday season spent more than was expected and hiring patterns suggest employers, even if they right now are relying on temporary hires, are becoming more confident. But, as last week’s unemployment figures revealed, 10% of those seeking jobs can’t find them and another 7% have stopped trying to find work. For those who did not lose their jobs and those who had assets to take advantage of the market recovery, times are decidedly better. For some sectors of the economy such as those let go in manufacturing or construction, recovery to say nothing of prosperity is so far off that for many it seems recovery never will come. *Sound Advice* anticipates the recovery will gain traction.

We’re not macro investors. We are very much company specific and seek underpriced assets, though it should come as no surprise that such situations reflect larger economic trends. This month we’re recommending **International Speedways (ISCA—NASDAQ)**, which owns and operates 13 motor racing tracks primarily in the Southeast and Midwest that host NASCAR as well as other auto-related events. Its core fans have been particularly hard hit by hard times.

In the mid 2000s, International Speedway was a quintessential growth stock as NASCAR exploded out of its regional strictures into a national spectacle with major broadcast and cable TV exposure, sponsorships by Fortune 500 companies and took its place as part of American culture. The shares last peaked in 2005 and took a particularly sharp beating once the economy tanked.

Revenues and especially earnings plummeted. But ISCA shares have rallied back (what hasn’t?) yet we think there is more to come once a recovering economy brings back fans to fill the stands, buy the souvenirs, drink the beer and eat the barbecue. Finally, there are new ways for International Speedway to expand its audience and revenue streams. Provided we see a sustained economic recovery that creates jobs that engender consumer confidence and even a

modest return to discretionary spending, International Speedway shares will be back on the road again.

International Speedway

ISC owns or operates 13 of America’s major tracks, which, as the 2008 annual report notes, hosted “100 stock car, open wheel, sports car, truck, motorcycle and other racing events.” The only significant competitor, Speedway Motorsports, which operates five tracks, but has lighter resources and higher debt levels, is in a much more precarious position than its bigger competitor. Add to this that NASCAR, which is owned entirely by the same group that has a controlling interest in International Speedway Corp and determines which major events occur at which venue, Speedway Motorsports labors at a disadvantage.

However, ISC and Speedway Motorsports are not always competitors. They have teamed up to market NASCAR-related souvenirs, clothing and other items, a business, as we note below, that is suffering in a difficult economic climate. However, whereas this is a serious consideration for ISC, for Speedway Motorsports it cuts to the bone. We expect the smaller company, like ISC, will survive this downturn, but we also suspect ISC will emerge stronger.

ISC’s 13 venues grandstands can seat more than one million spectators and are complemented by over 550 luxury suites. Ticket sales during the first nine months of this fiscal year accounted for just under 30% of revenues, another 8% came from food and beverage sales and 61% from the mysterious category “motorsports related,” which is a catchall for fees from sponsors and media rights, particularly TV contracts that have fueled ISC’s revenue and profit history.

Indeed, if you look at ISCA’s price history, shares hit their all-time high late in 1999 when NBC, Fox Sports and the Turner cable network (TNT) were in negotiation with NASCAR to broadcast races from 2001 to 2006. The price tag was \$2.4 billion. The subsequent deal, covering 2007 to 2014 (eight years vs. six) with ABC/ESPN replacing NBC, carried a \$4.8 billion price tag.

International Speedway, which controls the lion’s share of venues for these events, receives a cut from the contracts, whose cash flow escalates each year. This accounts for the growing proportion of revenues on the income statement from “motorsports related,” which in 1995 when TV exposure was spotty amounted

to just 30% of revenues, to 45% in 2001, the first year under the big contract and to 58% in 2006, its last year. Through the first nine months of the 2009 fiscal year, “motorsports related” accounts for 61% of revenues while ticket sales represent just 29%.

Over the last 15 years, thanks to TV revenue and sponsorships—another lucrative revenue component of “motorsports-related” revenue—ticket sales and ancillary sources of income have swapped roles, which nicely captures how ISCA’s has grown but also what limits share price growth. Once a contract is in place, media revenues can be anticipated. Ticket sales can vary, though the upper limit is determined by the capacity of each track. Generally major NASCAR events are sell-outs, which brings us to how recessions impact revenues and profits.

Just as occurred in the 2001-2002 recession, starting in 2008 all revenue sources shrunk except this time the drops were sharper. The TV income continued to escalate thanks to the contracts, but sponsorships, ticket sales and other sources shifted into reverse. Indeed, in 2007 perhaps as an early warning sign, even as ticket revenues increased by 7%, once those fans were at the tracks, they spent less on food and beverages. In 2008, ticket revenue was off 6.9%, food and beverages 7.2% and motorsports-related revenue decreased by less than 1% as corporate sponsors with diminished advertising budgets pulled back. Through the first nine months of 2009 total revenues collapsed by 15.6% with ticket sales down by 16.5% to \$143 million, motor sports-related by 12.3% to \$301 million and food and beverages by 33% to \$39 million.

Shrinking top line results devastated profits, because most expenses in running this business are fixed. Also impacting earnings were assorted one-time write-offs. Hence, ISC for the first three quarters of the current fiscal year reported per share profits evaporated from \$2.02 for the same period last year to a loss of four cents a share. No one expects better news for the final quarter. As Don Houser, ISC’s CFO observed in the October conference call: “while the recession may have officially ended, we remain cautious on how quickly the economy will improve. Many are feeling better as the stock market is increasing, home prices are stabilizing

and the economy is improving as well. However, for consumer sentiment to make substantial gains there will need to be a recovery in the labor market. When people have confidence they are going to have a job and their income is stable that is when we believe we will see a boost in consumer spending.”

Why Buy ISCA?

The TV contracts provide some stability, but that impact is easy to measure and thus won’t create any surprises that might refuel investor interest in the company. In fact, investors drive the shares higher when speculation about the new value of the TV contract rolls around as in 2005. Indeed, if fan interest in NASCAR and related motor sports should wane, it’s likely the sports’ media sugar daddies’ generous contracts could stagnate. We doubt that will happen. From our perspective the best outcome depends on two factors: new sources of revenues and, as we have built into many of our positions, we anticipate that the U.S. economy is now on the mend and that eventually job creation will return. Indeed, any improvement in the jobs situation likely would be especially noticeable for NASCAR fans.

Unemployment figures (10% as of last Friday), as bad as they are for the nation as a whole, are worse in regions where ISC’s major tracks are located. If we rank the 13 tracks ISC operates in terms of potential visitor days (seating capacity x number of major events), the two Florida operations account for 32.7% of the company’s capacity. The unemployment rate in Florida for November stands at 11.5%. Virginia, where ISC also has two tracks, represents 12.7% of total days. Though the state’s unemployment rate is a respectable 6.6%, that is double where it stood at the same time in 2005, when ISCA shares and consumer confidence were high. The third largest operation, in Alabama, has seen unemployment triple to 10.5%. Can we lay on another reason to be gloomy about ISCA in this economy? International Speedway when promoting itself to advertisers and sponsors tries to move its primary audience away from a blue-collar market, and there is some truth to that. However, those sitting in the stands are predominantly male,

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between the ages of 18 and 44 with incomes below \$75,000. The largest segment has incomes below \$50,000. Indeed, the most severely impacted among likely NASCAR customers are younger males, where the unemployment rate runs higher than in the general population. Again, it will take a jobs recovery that replenishes everyone's pocketbook before NASCAR's core customers feel comfortable to buy tickets, trinkets and drink that expensive beer.

If you are wondering when good times will return, so is Wall Street, which means that even after the shares are 75% above their March 2009 low, the recovery potential is substantial. Here is why. If you are willing to accept the premise that this recession is now ending and that jobs over time will return, growth in revenues and profits from existing operations will resume. ISC wants to expand its footprint and has recently tried to develop tracks in both the Pacific Northwest (outside Seattle) and in the Northeast (on Staten Island, a New York City borough), and in both cases failed due primarily to local resistance.

We can expect renewed attempts to develop new tracks and expand the existing business once the economy heals. But we believe the existing tracks have remarkable but untapped potential. If you want to see what could be ISC's future, look at its track in Kansas, where commissioners last month granted International Speedway and its partner, Penn National Gaming, a license to build a casino adjacent to its Kansas City location. The casino is scheduled to open in 2012, and, presuming it prospers, will be complemented with a 250 room hotel in 2014. Another expansion project at the premier Daytona Speedway started in 2008 in partnership with the Cordish Company, now has 220,000 sq. feet of office space, and will offer a 265,000 sq. foot shopping center, movie theatres, restaurants and a hotel. We like being able to buy into the future of these projects at a time when the market deems them a drag.

Another way for ISC to increase revenues is to attract events not related to internal combustion engines. Since these tracks are all outdoor venues, seasons' weather limits sites' availability. But even during the best weather seasons, the 13 tracks are idle most of the time. Management wants to bring other forms of live entertainment to all venues. Needless to say, any such plans' success depends on consumers with cash

for fun, which is discretionary.

Valuations

With International Speedway Corp running under a caution flag, valuations are cheap. Admittedly ISC has traded as a public company only since 1996 and with a history as a go-go stock in the late 1990s and again when its TV contract came up for renewal in 2005, numbers can be deceptive. But even if we exclude 1999 and 2005 when valuations leaped along with the share price, current ratios are close to or even below their historical average lows. Price/Earnings are meaningless given the large write-offs this year, but Price/Sales, which over the company's life have averaged around 2.8 at their historical lows now are at 2. Price/Book historically has bottomed around 1.8. Currently it stands at 1.1. Price/Cash Flow, which at lows has averaged 10.4 is now at 8.4 Solid cash flow has been deployed to reduce long-term debt, though it probably will curtail ISC's share buyback program until profits return.

“[F]or consumer sentiment to make substantial gains there will need to be a recovery in the labor market. When people have confidence they are going to have a job and their income is stable that is when we believe we will see a boost in consumer spending.” Don Hauser, ISC's CFO.

Issues

If this sounds attractive, let me add a few other points. The A shares, which we are recommending, trade in reasonable volume (136,000 per day). There are also B shares, which trade by appointment (average volume of 1000 shares). The B shares, which carry five times the authority of the A shares, are mostly in the hands of the France family, descendants of Bill France, who built the first speedways to promote stock car racing and created NASCAR to provide a structure for the sport. Not only does the France family control 66% of ISC's voting shares, they also own NASCAR, which determines which venue gets which events. On the one hand, France-controlled NASCAR would not hurt International Speedway's interests, which is a plus. On the other hand, there is the potential for the family to favor their private interests over those of the public. For example, they might oppose a takeover by another entity to preserve their control of the enterprise. We don't consider this to be a substantial risk.

We do see plenty of opportunities for International Speedway Corp to raise revenues from its traditional sources as the economy improves and some very good opportunities in previously unexplored areas. We recommend buying ISCA up to \$31. **SA**

Portfolio Updates

January took the baton from December and kept on running. With one week of the New Year behind us, the portfolio is up 6.2% since we priced the last issue on December 11th, while the best of our benchmark indexes, the Nasdaq Composite, added 5.8%. However, we need to remember that markets, even very strong bull markets, do not move in a straight line. Just look back at 2009 if you need a refresher for that essential perspective. We are optimistic about both the economy and stock prices, but remain realistic. Without that always in the back of our minds, complacency and a misplaced sense of this-is-our due can bushwack any investor.

Hambrecht & Quist Life Sciences, the December recommendation bested our average, up 8.8% on no particular news. Under most circumstances an 8.8% move in less than a month of trading would be a world beater, but that puts HQL 11th among our 40 positions. HQL's move mostly comes from price appreciation of its underlying assets (its 10 largest positions moved up 7.95%). The discount from NAV also shrunk a bit, evidence that investors are getting cozier with biotech. Let's hope that mood grows from vague interest to passion.

The biggest mover since the December issue, and we must admit that it amazes us given how far these shares moved in 2009, was the **Ford Convertible Preferred**, which leaped 22.8% on a race of good news compounded by what must be "I gotta own that stock" frenzy. The good news was that Ford has won best car of the year (Ford Fusion Hybrid) and best truck of the year (Ford Connection) at the North American Car Show in Detroit. Runner-ups were from GM, Volkswagen and Subaru. More important than this accolade (based on votes from U.S. based automotive journalists) is this: sales for December rose 33%. You'll recall that first GM was supposed to survive, not Ford. Then all three U.S. automakers were supposed to go into bankruptcy. And during the economic chaos that followed Lehman's bankruptcy, that apocalyptic outcome seemed all too possible. Yet we held on. Now Ford is being hailed as the greatest comeback in corporate history. The dividend still remains deferred, but it will be restored when it suits Ford management.

We can afford to wait.

CarMax, which operates a national chain of used-car stores, nearly kept pace with Ford, advancing 15.8%. KMX has been reporting improved sales and profits, but that hardly explains last year's 208% leap. As with



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Ford (and most other recovering shares), investors last year moved share prices away from end-of-the-world valuations, which does not preclude further appreciation.

Before we leave things automotive, **Superior Industries**, which makes wheels for auto manufacturers, is up 5.1% for the month. The company continues to show quarterly losses, but these continue to shrink as cost-cutting lowers operating expenses. SUP still has a debt-free balance sheet, and if Ford and other automakers are starting to see better days, sales by suppliers like SUP can be expected to pick up.

Other cyclical stocks that responded to expectations that we were coming out of recession included **Fastenal**, which operates hardware stores that market to commercial and building customers rather than the DIYers that Home Depot and Lowe's caters to. FAST added 20.4%, a hunk of which came after analyst upgrades drew attention to the name.

Not surprisingly, natural resource stocks attracted broad interest. Even with the dollar no longer in freefall, these shares surged. **Fidelity Select Natural Gas Fund** added 19% as oil moved above \$80 a barrel. Exxon Mobil's bid to acquire XTO, a natural gas company specializing in extracting NG from shale, shocked the industry, since the price paid was far above current



This table is updated with live prices, charts & buy limits on our website:

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Income With Growth	Symbol	Exchange/ Phone	Price/ N.A.V.*	Yield**	Buy Limit	ACTION
HRPT Properties	HRP	NYSE	\$6.49	7.40%	\$7.20	BUY
Diversified Growth						
Agrium	AGU	NYSE/TSE	\$68.56	0.16%	\$72.00	BUY
Boston Scientific	BSX	NYSE	\$9.00	0.00%	\$12.00	BUY
CarMax	KMX	NYSE	\$24.31	0.00%	\$27.00	BUY
CGM Realty Fund	CGMRX	800-343-5678	\$21.43	2.69%	N/A	BUY
Dodge & Cox Intl.Fund	DODFX	800-621-3979	\$32.94	6.84%	N/A	BUY
Dodge & Cox Stock Fund	DODGX	800-621-3979	\$99.42	1.83%	N/A	BUY
Fastenal	FAST	NASDAQ	\$46.98	1.49%	\$50.00	BUY
Gabelli Global Telecom Fund	GABTX	800-422-3554	\$19.05	1.73%	N/A	BUY
Honeywell	HON	NYSE	\$42.12	2.88%	\$46.00	BUY
International Speedway Corp.	ISCA	NASDAQ	\$26.84	0.49%	\$31.00	BUY
Johnson & Johnson	JNJ	NYSE	\$64.21	3.05%	\$68.00	BUY
Leucadia National Corp.	LUK	NYSE	\$25.69	0.00%	\$30.00	BUY
Mattel	MAT	NASDAQ	\$19.77	3.79%	\$23.00	BUY
Microsoft	MSFT	NASDAQ	\$30.66	1.70%	\$33.00	BUY
Molson Coors Brewing	TAP	NYSE	\$44.50	2.16%	\$52.00	BUY
Odyssey Healthcare	ODSY	NASDAQ	\$16.51	0.00%	\$18.00	BUY
Perrigo	PRGO	NASDAQ	\$37.78	0.58%	\$42.00	BUY
Stryker Corp.	SYK	NYSE	\$55.42	0.72%	\$60.00	BUY
Superior Industries	SUP	NYSE	\$15.75	4.06%	\$18.00	BUY
Tetra Tech	TTEK	NASDAQ	\$27.33	0.00%	\$35.00	BUY
Third Avenue Value Fund	TAVFX	800-443-1021	\$48.15	2.37%	N/A	BUY
United Parcel	UPS	NYSE	\$60.17	2.99%	\$70.00	BUY
UnitedHealth Group	UNH	NYSE	\$32.70	0.09%	\$38.00	BUY
Wal-Mart Stores	WMT	NYSE	\$53.33	2.05%	\$60.00	BUY
Xerox	XRX	NYSE	\$8.57	2.01%	\$10.00	BUY
Energy/Natural Resources						
Anglo-American PLC****	AAUKY.PK	PINK SHEETS	\$23.30	0.00%	\$26.00	BUY
Fidelity Select Nat. Gas Fund	FSNGX	800-544-8888	\$28.05	0.00%	N/A	BUY
Plum Creek Timber	PCL	NYSE	\$39.00	4.31%	\$43.00	BUY
PowerShares Water Resources ETF	PHO	NYSE	\$17.70	0.45%	\$19.00	BUY
Transocean	RIG	NYSE	\$93.00	0.00%	\$100.00	BUY
USAA Precious Metals & Minerals	USAGX	800-862-6909	\$36.76	0.03%	N/A	BUY
Aggressive Growth						
AOL Inc.	AOL	NYSE	\$31.25	0.00%	\$35.00	BUY
Comcast	CMCSA	NASDAQ	\$16.19	2.35%	\$21.00	BUY
Davis Financial Fund	DFIBX	800-279-0279	\$22.46	7.82%	N/A	BUY
Ford Motor Convertible Pfd	F.PRS	NYSE	\$44.68	7.27%***	\$48.00	BUY
H&Q Life Sciences Fund	HQL	NYSE	\$9.74	0.00%	\$10.70	BUY
Liberty Global	LBTYA	NASDAQ	\$23.94	0.00%	\$28.00	BUY
Maxim Integrated	MXIM	NASDAQ	\$20.00	4.00%	\$22.00	BUY
Symantec	SYMC	NASDAQ	\$18.37	0.00%	\$20.00	BUY
Time Warner	TWX	NYSE	\$30.58	2.49%	\$34.00	BUY

* Prices as of Friday, January 8th, 2010

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

*** Dividend Deferred

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

pricing. **Transocean**, the ultra-deepwater driller, naturally benefitted from rising energy prices, adding 15.9%. **Plum Creek Timber**, structured as a REIT, increased 6.7% on no company specific news. Again, the story here is expectations for an economic revival, particularly in housing, which would restore demand not just for timber but also for the raw land PCL might be able to sell to developers. **Anglo-American**, the mining conglomerate, added 11.9%. Wall Street lately treats **Leucadia**, because it holds minority interests in several mining companies, as a natural resource stock. At least LUK seems to be moving in tandem with the group. However, Leucadia has deep expertise in handling distressed financial assets, and has teamed in the past with Berkshire Hathaway to realize value in financial service companies' distressed assets. Another deal is now on. Again Berkshire provides the cash and credit, while Leucadia does the shovel work. "Berkadia" is taking on paper from Capmark Financial Group's mortgage origination and servicing business. To get an idea of the size of the project, consider that Berkshire has arranged a \$1 billion secured credit facility. On the month, LUK added 14.3%.

Agrium, the fertilizer manufacturer whose attempts to acquire CF Industries over the last year have been met with a shrug from CF, jumped last month after the Federal Trade Commission reviewed the proposal and concluded the deal could be completed after Agrium divested some small assets. We doubt that will ever happen. If you want to get an overview of how Agrium stacks up against other fertilizer makers, we came across a useful summary of the five major fertilizer producers, which has good things to say about AGU's prospects on TheStreet.com's site (<http://www.thestreet.com/story/10657017/1/fertilizer-2010-five-stocks-to-watch.html>). Since the last letter, AGU is up 9.1%. **USAA Precious Metals & Minerals Fund** lagged the pack, up 6.7%. We've now seen what a weak dollar can do for gold. The next chapter will be to see what inflation does.

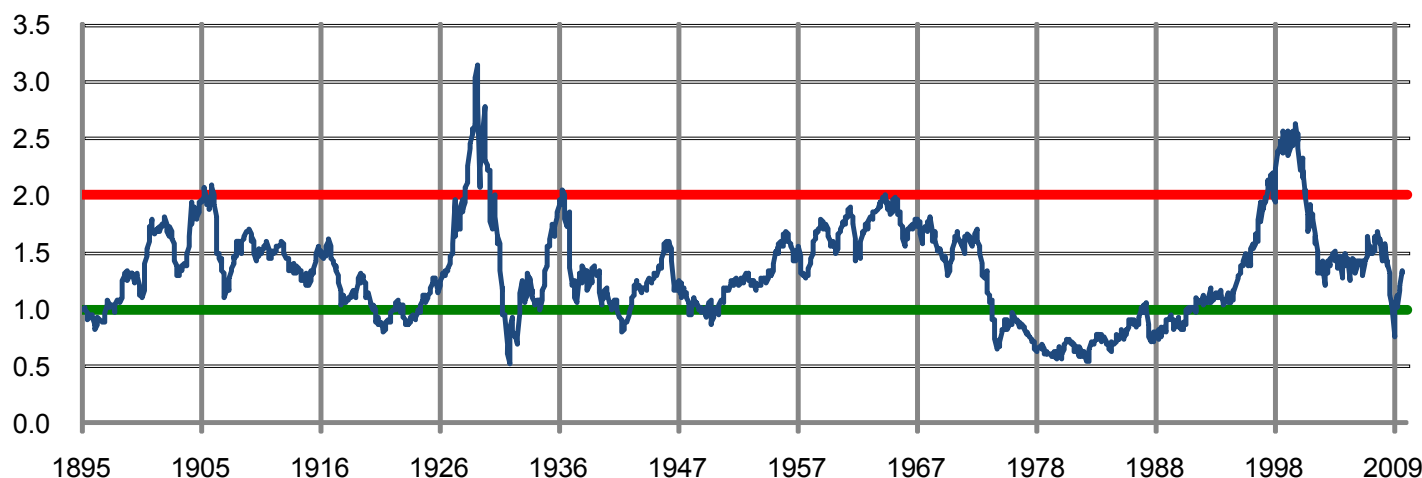
Healthcare also had its share of outsized gainers. You might want to look at an interesting article Reuters published just before the Senate vote on the healthcare bill. "Winners, losers in U.S. Senate health bill," (<http://www.reuters.com/article/idUSN2124819620091221>). The clear winners, according to Reuters, will be drug makers (**Johnson & Johnson**, **Perrigo**), device makers (**Boston Scientific**, **Stryker**), hospitals, brand biologic drugmakers and cosmetic product makers) and home healthcare providers (**Odyssey**). But Perrigo lost 4.6% since December 11th, perhaps just a reaction to the shares recently hitting a 52-week high. Perrigo

enjoyed an excellent 2009 as investors understood that its over-the-counter store-branded products were insulated from any healthcare reforms. JNJ slipped 1%, but the others did well: BSX added 3.8%, SYK 8.4% and ODSY 10.7%. **UnitedHealth** is up 7.3% this month and has outpaced not just the S&P 500 off of the March lows but also the SPDR Healthcare ETF. Much of this outperformance occurred beginning in early October when it became clear no public option would be included in the Senate bill. After that, those who had been anxious about what a public option would do to the insurers breathed a sigh of relief and got back in. Nice for us to have never left.

REITs put in a credible month. **HRPT Properties Trust** is up 4.7%, and **CGM Realty Fund** added 6%. Financial stocks, among which REITs are lumped, had a good run. The **Davis Financial Fund** is up 4.1%. Other funds also ran: **Dodge & Cox Stock Fund** added 3.9%, though its foreign cousin, the **D&C International Stock Fund** could add just 3%. The best performer among our general funds was the **Third Avenue Value Fund**, which with its year-end distribution is up 5.4%. The most important news from Third Avenue is that its founder and guiding mind, octogenarian Marty Whitman, has relinquished active management. Though we've always started our analysis of Third Avenue funds with an appreciation of Whitman's genius, we think he has ingrained his method in a team whose talents can continue to execute his aggressive conservative approach to investing. Indeed, we're tantalized by a new Third Avenue fund focused exclusively on distressed assets.

Not everyone prospered. As Wall Street begins to feel friskier about the future, it's hardly surprising that consumer staples shares should lag. If you look at the tables on pages 2-3, you can see that not only did consumer staples shares in general lag the market last year, but also that our own slim exposure to the sector lagged as well. Since the December letter, both **Molson Coors** and **Wal-Mart** are down respectively 2.4% and 1.8%.

Our only significant casualty since December 11th has been **Time Warner**, which dropped 9.1%, but its spinoff, **AOL**, increased 5.5%. **Comcast**, which had been strong through November and most of December, dropped back in January, and is down 3%, **Liberty Global**, whose cable networks are in foreign markets, added 13.4%. We are waiting to see how Comcast's plans to acquire NBC Universal play out. We can anticipate that CMCSA will have to sell off more assets than it likes to accommodate anti-trust concerns before the deal can be completed. **SA**



The Risk Indicator measures the overall risk in the stock market by plotting the ratio of stock prices to home prices. See *The Science of Making Money in Turbulent Stock Markets* for a full explanation of the Risk Indicator and the Diffusion Indexes. Median home prices have been flat for the last ten months, so the risk indicator is primarily a reflection of stock prices. The latest reading is 1.39. This reading reveals that stocks are still below their average relative to house prices, and present a good value. February’s reading of 0.79 will likely mark the low for this cycle as well as the beginning of Supercycle 6.

The SoundAdvice Diffusion Indexes

The Diffusion Index of Leading Indicators gives “Aggressive” signals when all four of its individual leading economic indicators drop below their respective levels

of six months earlier, providing a zero percent reading. This reveals a soft economy and a ripe atmosphere for a lasting decline in interest rates.

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 return of 19.7 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.

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		

As far back as February and March we were projecting that our Diffusion Index of leading indicators would hit zero in March, 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. See *The Science of Making Money in Turbulent Markets* (which you received with your subscription) for a history of Supercycles. You will also receive an updated copy when you renew your subscription.

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 percent.

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