SoundAdvice

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The 2018 Roller Coaster

Exuberance was high as 2018 dawned. Corporate tax cuts, coupled with robust economic growth, were going to propel earnings to new highs, and stock prices were certain to follow. The market rallied through most of January, confirming the bull market was still alive and well. On January 25, the Conference Board released its leading and lagging economic indicators, which caused our *Sound Advice* Diffusion Index of Lagging Indicators (page 10) to switch to a Caution Signal. The next day, Friday, January 26, the S&P 500 peaked at 2,872.87.

Our February 2018, issue of *Sound Advice* was published on the following Friday, February 2, and it was called *Caution: Storm Warning*. We recommended that you should have a substantial amount of cash on the sidelines and wait for a substantial correction. After that exuberant market close on January 26, the market was down 10 percent by April.

Then in July, the *Sound Advice* Risk Indicator (page 11) climbed over 2.0. A reading over 2.0 had only happened five times in the last 123 years. In each of the five previous times, this reading marked the beginning of a major peak in the stock market – in 1906, 1928, 1937, 1965, and 1998. Stock prices often stayed high for many months, sometimes even a couple of years. However, in all cases, it was the beginning of a major top. This year, the market peaked again in early October and fell another 10 percent into late November.

The concurrence of these two reliable indicators tells us that the risk in the market is higher than normal. This bull market will become 117 months old on December 9, making it longer than the longest bull market in post World War II history, which ended in March 2000, and lasted 113 months.

The *Sound Advice* Portfolio

We are continuing to recommend that you have a substantial amount of cash on the sidelines. Our portfolio recommendations are made regarding the money you have allocated to the stock market, and in accordance with our current cautionary mode. We believe that they are exceptionally strong values, trading at a significant discount to the rest of the market, which should give them buoyancy in both good and bad market conditions over the longer term.

After the roller coaster ride this year, the *Sound Advice* Portfolio is still up by 0.7 percent in 2018. The *Sound Advice* investment returns in prior years have been calculated independently by the Hulbert Financial Group. They are as follows:

From 2000-2017

9.6% Annually vs.

3.2% from the S&P 500

Gray Emerson Cardiff, Editor

Hedging the Portfolio

While we are in a Caution mode, we continue to recommend hedging your portfolio with the **ProShares UltraShort S&P 500 (SDS).** This is a reverse ETF that essentially short-sells the market and will benefit from down-drafts in the S&P 500. It is designed to produce two times the daily fluctuations of the S&P 500 index. A decline of say, 1.0 percent in the S&P 500 will cause SDS to increase by 2.0 percent. Conversely, an increase in the S&P 500 will cause SDS to decline in the same fashion. We have been tracking SDS and confirmed that it is performing as it should, with daily premiums and discounts within 0.5 percent. It is also very liquid.

ETFs for Rising Bond Yields

Federal Reserve Chairman, Jay Powell, said in a speech at the Economic Club of New York on November 28:

"Interest rates are still low by historical standards, and they remain just below the broad range of estimates of the level that would be neutral for the economy — that is, neither speeding up nor slowing down growth."

This means that the Fed will not be hampering economic growth in 2019 by tightening its monetary policy to slow down growth, thereby allowing a healthy and unfettered economy to push up long-term interest rates, in the typical fashion of a normal business cycle.

Our recommended ETFs are designed to benefit from an increase in long-term bond yields. They differ in the amount of leverage used. You can choose among them depending on your investment objectives and risk tolerance.

The **Direxion Daily 20 Plus Year Bear 3 Shares (TMV)** uses 3:1 leverage.

The **Proshares UltraShort Lehman 20 Plus Year Treasury (TBT)** uses 2:1 leverage.

The **Proshares Short 20 Plus Year Treasury (TBF)** uses no leverage.

The price action of these ETFs is based on the changes in long-term Treasury bond indexes, only in the opposite direction, and then multiplied by the leverage each ETF uses. For example, a decline of say, 1.0 percent in their respective benchmark bond indexes will cause TMV to increase by 3.0 percent, TBT by 2.0 percent, and TBF by 1.0 percent.

The Dot Plot

We can project the movements of these ETFs based on any given scenario. We have been using the Federal Reserve's prediction, which was as good as any. As part of the Federal Reserve's quarterly Federal Open Market Committee (FOMC) meetings, each of the committee members makes a prediction regarding the future path of interest rates. Those predictions are plotted in the so-called "Dot Plot".

The most recent dot plot was taken at the September 26 meeting. The median prediction from the members was that the Federal funds rate would be 3.125 percent by the end of 2019.

We are using the Fed's dot plots of Federal funds as a means to predict changes in long-term interest rates under the assumption that long-term interest rates will move in tandem with them. This should prove to be a conservative assumption because today's yield curve (the difference between short and long-term interest rates) is unusually flat, offering very little additional yield on longer term bonds. For the reasons discussed below, this abnormal condition is bound to change. However, in the spirit of trying to be conservative, we can assume that the yield curve will remain as flat as it is today, which means that long-term Treasury bond yields move in accordance with the dot plot, and will not rise any faster. Accordingly, long-term Treasury bonds would be yielding 4.165 percent by the end of 2019.

Here is what would happen to each ETF:

TMV would rise from $21.71 to $33.55 by the end of 2019.

TBT would rise from $39.39 to $52.65 by the end of 2019.

TBF would rise from $23.76 to $27.47 by the end of 2019.

These projections should prove to be conservative because the Federal Reserve's mandate is for inflation to be 2.0 percent annually. That means short-term interest rates should be close to that level, and they are. The Federal Funds rate is 2.25 percent. This is why Chairman Jay Powell is saying that interest rates are close to neutral.

However, when it comes to long-term interest, investors have historically demanded a premium of 2 to 3 percent over the inflation rate, to provide a "real" rate of return. That means long-term Treasury bonds should be yielding in the vicinity of 4.25 to 5.25 percent today, much higher than the present yield of 3.29 percent on the 30-year Treasury bond.

Additionally, the Federal Reserve has become a seller of Treasuries rather than a large buyer, as it reverses into quantitative tightening after many years of quantitative easing. During quantitative easing, the Federal Reserve's portfolio of Treasuries swelled by more than 5 times, from under $900 million in 2008 to $4.6 trillion. The Federal Reserve has a long way to go to get back to normal.

The Federal Reserve's swollen Treasury bond portfolio has a surfeit of longer-term bonds. That means that the reduction of its Treasury holdings will add a disproportionate amount of upward pressure to long-term bond yields.

The Erosion Factor

As we point out regularly, these ETFs suffer from erosion because they decline slightly faster than they increase with an equivalent change in bond yields, particularly with higher leverage. To gauge this factor, we can assume that Treasury bond yields simply tread water, rising and falling by an unusually large amount, say, 0.03 percentage points (3 basis points) every day, and thus go nowhere. By the end of 2019, TMV would decline to $20.70 (4.7 percent), TBT would decline to $38.45 (2.4 percent), and TBF would decline to $23.56 (0.8 percent). While not insignificant, this erosion factor is nominal in comparison to the price swings caused by a change in bond yields.

Energy & Natural Resource Selections

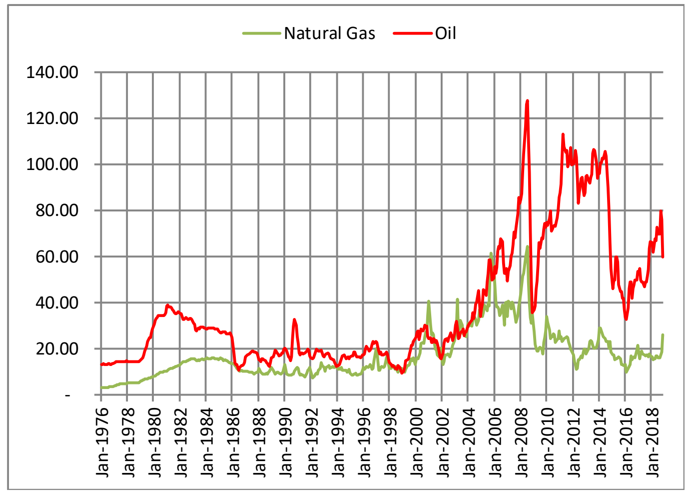
The oil market expected US sanctions to become effective on November 4, prohibiting the purchase of Iranian oil. Analysts predicted that the sanctions would remove 1 million to 1.5 million barrels a day from global oil markets. Saudi Arabia had been increasing production to make up for the shortage. The oil market was surprised by the last-minute announcement that eight countries received waivers, allowing Iran's largest customers to continue purchasing Iranian oil: China, India, Greece, Italy, Taiwan, Japan, Turkey, and South Korea. The reason for the waivers was to prevent economic shock to those countries. The resulting and unexpected over-supply caused by the waivers forced oil prices to drop throughout the month. Our selected energy-related stocks suffered, along with the entire sector.

The waivers are set for 180 days. The oil market is likely to stabilize during the next five months as the end of the waivers approaches. Beyond the end of the waivers, the curtailment of international investment will lead to a significant reduction of Iran's natural gas output for many years because Iran does not have the expertise to develop its resources alone. Another supply pressure comes from the economic meltdown in Venezuela, which has the world's largest oil reserves. Production there has fallen to 1.2 million barrels a day today from 3.2 million barrels in 2006.

Although major OPEC oil suppliers have increased production, they do not want to glut the market. In 2017, the OPEC countries needed an average of $77.68 per barrel (weighted by production) to balance their 2017 budgets. In 2018, Saudi Arabia needed $83 a barrel to pay for its 2018 public spending. The stabilization of the global oil market is bound to translate to favorable conditions for our selection of energy company investments in the months ahead.

Fidelity Select Natural Gas Fund (FSNGX) is a diversified way to participate in the growth of the natural gas industry through strong companies. Natural gas provides the same energy as oil for pennies on the dollar, and natural gas is more environmentally friendly. One barrel of oil provides approximately 5.8 million British Thermal Units (BTUs) of energy. However, with the current market price for natural gas at $4.50 for one million BTUs, 5.8 million BTUs will cost $26.10. Thus, with a barrel of Brent crude oil costing $60, the same amount of energy is available for approximately 44 cents on the dollar if it is in the form of natural gas rather than oil.

The Cost of Energy Equivalents of Oil and Natural Gas



The updated chart shows the historic relationship between the costs of these two forms of energy. 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. The fact that natural gas provides energy for pennies on the dollar will translate into an expanding natural gas industry.

Chesapeake Energy (CHK) announced at the end of October that it would acquire WildHorse Resource Development Corporation for $3.9 billion. WildHorse stockholders can trade each of their shares for either 5.989 shares of Chesapeake stock or a combination of 5.336 shares of Chesapeake stock and $3 in cash. Chesapeake plans to finance the cash portion of the deal, which is expected to be between $275 million and $400 million, through its revolving credit facility. The deal is expected to close in the first half of 2019 and is subject to shareholder approval.

The stock market reaction to the announcement was negative because the number of CHK shares outstanding will increase by 90 percent. However, the added value of the acquisition is projected by management to more than offset the dilution from the increase in CHK shares. The deal will add 420,000 acres in the prolific Eagle Ford and Austin Chalk formation, almost tripling CHK's assets in Texas, and help save between $200 million and $280 million in annual costs over the first five years. The added acreage will increase CHK's oil production and put it back in a growth mode.

In a mid-November conference call, CEO Lawler stated that the WildHorse acquisition strengthens and accelerates the delivery of the company's near-term strategic priorities of margin improvement, sustainable free cash flow, and a net debt-to-EBITDA ratio" of 2. Lawler also noted that the higher-margin oil that makes up the bulk of WildHorse's current production will bring the company's margins on a per-barrel of oil equivalent (BOE) basis up to 3 percent in the next year and to more than 50 percent by 2020. Lawler added that this transaction will more than double Chesapeake's oil production by the end of 2020 and increase the company's overall oil production mix to 30 percent from 19 percent currently.

For 2018, CHK is expected to earn 79 cents per share. At the current stock price, the price/earnings P/E ratio is astonishingly low. The drop in the stock price over the WildHorse news looks like an over-reaction and is presenting a buying opportunity, especially as the oil market stabilizes.

Chevron (CVX) announced in November that its "Big Foot" deep-water project in the Gulf of Mexico started oil and natural gas production. This site is a 15-slot drilling platform with a capacity of 75,000 barrels of oil and 25 million cubic feet of natural gas per day. It is estimated to contain more than 200 million oil-equivalent barrels with a projected production life of 35 years.

CVX has an attractive annual dividend that was increased (again) this year to $4.48 per share. The company's dividend is sacrosanct and has a history of increasing annually through thick and thin. Chevron is buying back $3 billion per year of its stock

ICON Energy Fund Class S (ICENX) is a diversified way to participate in the expansion of the energy sector with a basket of substantial companies. The hallmark of this fund has been its ability to look for changes within the energy sector to capture value, rather than simply depending on rising oil prices. This fund is a good way to capture today's values and profit from the recovery and changing landscape on a diversified basis with professional management.

Valero Energy (VLO) has been hit by the narrowing crack spreads – the difference between the price of oil and the cost of refining – primarily because of the decline in the price of oil. VLO is trading at less than 9 times forward earnings, which is below its peer averages. However, it is only a matter of time until the waivers expire.

On a longer-term basis, Valero is in a unique position to benefit from a US conundrum. Prior to the US shale revolution, most US refineries were constructed to process imported crude oil which is a heavy (thick) and sour (high sulfur) grade. The oil from fracking US shale cannot be processed at these refineries because it is light and sweet. Additionally, refineries on the east and west coast do not have access to the US crude oil pipeline network, so they must rely on imported oil arriving in US ports for their feedstocks. This is evidenced by the fact that we are still importing nearly half of our oil needs, while US storage tanks in Cushing, Oklahoma, are brimming with the light sweet crude fracked from US shale.

Valero is well-positioned to take advantage of this conundrum because it has the flexibility to refine substantial quantities of both US light sweet as well as heavy sour crude. It also has access to the US pipeline network for delivery to its gulf coast locations. This flexibility allows VLO to capture the highest margins among its competitors because it can take advantage of the temporary local gluts of crude, whether it's low or high-quality crude, or light sweet or heavy sour, and receive the best discounts for its feedstocks.

Real Estate Selections

We continue to be selective when choosing real estate stocks because commercial real estate prices are historically high as low interest rates have pushed down real estate capitalization (cap) rates to historically low levels (like bond yields). The *Sound Advice* portfolio only includes real estate stocks offering an extraordinary value now.

Our two recommended REITs in the hospitality industry offer an excellent value. Both have new growth trends and pay attractive dividend yields which also reduces risk by putting a floor under the stock price. A major drag on the industry was the proliferation of Airbnb and similar competition. However, this is changing in major metro areas. New York City is the most recent to pass a measure prohibiting transient rentals of fewer than 30 days at a time without the host being present. San Diego, Los Angeles, San Francisco, Boston, Washington DC, Philadelphia and Miami have also passed similar measures.

Both of our selected hospitality REITs have reported several hotel transactions in recent years at cap rates ranging from 4.9 to 6 percent. Hersha recently sold the Hyatt House in Gaithersburg MD, and the Holiday Inn Express in Chester NY, at a combined capitalization rate of 4.9 percent. So far this year, RLJ sold three legacy FelCor assets: the Fairmont Copley Plaza in Boston, the Embassy Suites Marlborough, and the Philadelphia Sheraton Society Hill, for a capitalization rate close to 6 percent. The Philadelphia Sheraton was also sold for $95.5 million, a 5.6% cap rate.

To be conservative and to anticipate a rise in capitalization (cap) rates along with interest rates in general, we use a cap rate of 7.0 percent for valuation purposes.

Hersha Hospitality (HT) is worth $26.64 per share which is substantially greater than the current price of the stock. This value should be a conservative estimate because Hersha's two premier hotels in Miami, the Courtyard Cadillac Hotel and the Parrot Key Hotel, were closed because of Hurricane Irma and have not been contributing to income during the last 4 quarters. Both hotels will add to revenues in the next four quarters.

RLJ Lodging Trust (RLJ) is worth $34.49 per share which is also substantially higher than the current price. We anticipate improvement in net operating income (and thus the value of the stock) because of the company's mission to sell its non-core assets since the merger with FelCor.

Third Avenue Real Estate Value Investor Fund (TVRVX) is loaded with good values substantially below net asset value (NAV) with strong growth prospects. Management has a similar approach to ours because it is very price conscious, especially in relation to net asset value. Just as we do at *Sound Advice,* they eat their own cooking – they invest a substantial amount of their personal assets into their funds.

This fund is a global real estate fund which means it is not confined to US real estate with low cap rates. Management looks for growth more than current income by focusing on real estate operating companies which, unlike REITs, can reinvest profits back into the business. Management also searches for opportunities in different aspects of a real estate company's capital structure by investing in senior debt in addition to equity. Also, unlike the typical REIT, management will go to cash when asset prices are generally high. Cash is preserved for scooping up opportunities.

Medically-Related Selections

Boston Scientific (BSX) has made acquisitions that have added numerous products with significant growth potential, including Claret Medical, VENITI and Augmenix. All of these are leaders in high-growth markets and will enhance the company's category leadership strategy and leverage existing capabilities. In November, Boston Scientific announced plans to buy BTG, plc, to augment its Peripheral Interventions ("PI") business which uses minimally-invasive procedures against cancer and vascular diseases along with acute care pharmaceuticals.

Boston Scientific has been a global medical technology leader for three decades by providing a range of high-performance solutions aimed at addressing medical needs and reducing healthcare costs. BSX's medical products are well suited for

Hospitality REITs Comparison Table

Company	Symbol	Recent Stock Price	Dividend Yield	Stock Market Cap Rate	Portfolio Value @ 7% Cap Rate ($Millions)	Stock Value	Discount (-) Premium (+)
RLJ Lodging	RLJ	20.34	6.5%	10.0%	8,174	34.49	-41.0%
Hersha	HT	19.10	5.9%	8.0%	2,466	26.64	-28.3%
Hospitality Properties	HPT	26.84	7.6%	10.0%	11,775	48.26	-44.4%
Host Hotels & Resorts	HST	19.00	4.2%	10.0%	24	28.56	-33.5%
Apple Hospitality	APLE	15.87	7.6%	9.4%	6,628	23.25	-31.7%

The table above shows the "Stock Market Cap Rate" (what the stock price is paying for the underlying real estate portfolio) for several comparable hospitality stocks. The "Stock Value" column shows the current value of the stock assuming the underlying portfolios are valued using a cap rate of 7.0 percent, which is close to the average cap rate on recent hotel transactions. The last column shows the discount or premium at which the stock is trading based on a 7.0 percent cap rate valuation of each company's real estate portfolio.

Hospitality Properties (HPT) is trading at a large discount. However, this company is externally managed by RMR which charges high fees and suppresses value. As long as RMR continues to externally manage HPT, we do not expect to see significant growth. **Host Hotels and Properties (HST)** is very small, with only 749 thousand shares outstanding, which may lead to excessive volatility. Growth may be limited by its small capitalization.

an aging population, and the company's stream of new inventions acquisitions add to promising growth prospects.

Stryker (SYK) is best known for its orthopaedic devices for artificial knees and hips. The company also provides a diverse array of innovative medical technologies, including reconstructive, medical and surgical, as well as neuro-technological and spine products.

The company's strong balance sheet allows it to make strategic acquisitions. The most recent was Invuity, the leader in lighted instruments that deliver enhanced visualization in surgeries. Other acquisitions are paying off. Since the acquisition in 2016, Mako's surgical robots are now being used in the majority of knee surgeries. The 2017 acquisition of Novadaq Technologies has enhanced Stryker's position in the endoscopy market. The acquisition of Vexim in 2017 expanded the portfolio of minimally invasive technologies and complemented Stryker's interventional spine business.

Tekla Life Sciences Investors (HQL) is a good way to invest in the most explosive profits in the healthcare industry with a portfolio of biotech companies. Over the last 15 years, biotechnology has become a major industry and the source of the world's top breakthrough drugs. Biotech companies tend to be high risk and high reward investments which makes diversification essential.

Financials

Bank stocks have been weak since the mid-term elections because House Representative Maxine Waters is now poised to take over the House Financial Services Committee when the new Congress convenes in January. This has negative implications for the banking industry because she has pledged that the Trump administration efforts to roll back banking reforms won't stand when the new Congress convenes. She said in a November hearing:

"Make no mistake, come January, in this committee the days of this committee weakening regulations and putting our economy once again at risk of another financial crisis will come to an end."

Despite the potentially negative political forces, our two choices are still good values. A rising interest rate environment along with a healthy economy are dominating positive forces. Warren Buffett agrees as evidenced by the addition of $13 billion of bank stock to Berkshire Hathaway in the third quarter, which now holds large stakes in both JP Morgan and Wells Fargo.

JP Morgan Chase (JPM) is expected to earn $9.26 in 2018. JPM is still cheap in comparison to the rest of the market. At the relatively modest P/E ratio of, say 15, JPM would be $139.

Wells Fargo (WFC) is also currently cheap in comparison to the rest of the market. WFC is expected to earn $4.50 in 2018. At a P/E ratio of 15, WFC would be $67.

Small Caps

Numerous studies show that small caps perform better over the long run than the market as a whole. Small Caps are pure plays on the early stages of new industries and inventions. They have more dynamic and entrepreneurial management, and they are much more likely to be the target of an acquisition or merger, which is usually quite profitable.

Third Avenue Small-Cap Value Investor Fund (TVSVX) invests in companies with small capitalizations using the same value-oriented approach as it does with its real estate value fund (TVRVX). Management scours the investment universe for companies that combine the three main features: creditworthiness, a meaningful discount to a conservatively estimated net asset value, and the ability to consistently grow NAV, with an initial targeted holding period of three to five years. A patient and price conscious acquisition is a critical first step in both protecting capital and in realizing an attractive investment return.

Special Situations

The rest of our portfolio falls into other market sectors, with companies that are presenting extraordinary values within their respective industries. Here they are in alphabetical order.

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Apple (AAPL) dropped more than 20 percent in November, after it reported strong earnings in late October. The problem was that its first-quarter guidance (for the fouth calendar quarter) was below expectations. The other problem was that the company said that it will no longer report unit sales, which spooked investors to question whether the company expects sales of iPhones to slow down.

Apple's CFO explained that the number of units sold in any 90-day period is not necessarily representative of the underlying strength of the company's business given the breadth of Apple's portfolio and the wider sales price dispersion within any given product line.

The mini-panic in AAPL has turned it into a value stock, especially in view of the $237 billion in cash in the company's coffers. This amounts to $47.42 per share. Taking that away from the price of the stock means we are paying $127.58 per share for the company. Earnings were $11.91 for the year that ended in September, which means we are paying a P/E of less than 11 for one of the premiere growth companies in the country.

Carnival Cruise Lines (CCL) announced in November that construction began on its latest class of ship that will offer 5,200 berths and operate on liquefied natural gas (LNG). To meet growing demand, the company is scheduled to receive 18 new ships between 2018 and 2022. In addition to increasing the advantages of scale, a newer fleet will command higher fares because of an improved mix of guest accommodations and a wide range of onboard amenities and features. These new ships are more fuel efficient, with many running on liquified natural gas (LNG). Some of the new ships will replace older ships in the fleet.

CCL is a good value, especially when compared to the rest of the market. Growth prospects are strong because of the company's dominance in the industry, efficiencies of scale, and favorable demographic trends driving a lasting increase in demand.

The consensus is that CCL will earn $4.52 during the next year, which puts the forward price/earnings (P/E) ratio close to 14. During the last 5 years, the median P/E has been 19.

CCL has traded at an average enterprise value multiple of 11 during the last five years. A common practice is to multiply a company's EBITDA (earnings before interest, taxes, depreciation, and amortization) by such a multiple to calculate its enterprise value. Based on the most recent four quarters of EBITDA, an enterprise value multiple of 11 puts the enterprise value at $87 per share, which is substantially above the current stock price.

Intel (INTC) is now the beneficiary of all of Apple's modem business, which means that all of Apple's iPhones use Intel's modems exclusively. The third quarter's earnings reflected a 130 percent jump in Intel's cellular modem sales over the same quarter last year.

This has prompted improving earnings estimates from a consensus of $4.13 per share to $4.53 per share today, an increase of close to 10 percent. Stronger growth prospects make INTC under-valued at its current price because it deserves a higher P/E. The current P/E is close to 10 which typically characterizes a company with poor growth prospects. At a P/E of say,15, which is closer to the rest of the market, the stock price would be $68 per share.

Intel has the size, diversity, and industry dominance to offer a relatively safe investment in a high-growth, and often high-risk business. Intel can leverage new technology into its existing large platform without introducing unacceptable risks. A history of established cash flow and an attractive dividend, along with the currently low P/E ratio, diminishes the risk profile of this stock.

International Business Machines (IBM) is a growth stock but is not priced like one. The growth portion of the company is more than half of the company's revenue from its so-called "Strategic Imperatives" which includes cloud-computing revenue, analytics, mobile and security. Within those imperatives is IBM's cognitive-solutions segment, which includes software, analytics and its artificial intelligence platform, it calls "Watson", which can "think" like a human.

In November, IBM announced another new application for its artificial intelligence (AI) services. Now Watson is mining for gold. In concert with Canada's Goldcorp, Watson searches and queries exploration databases to predict the potential for gold mineralization by extrapolating geological formations in a fraction of the typical time and cost of traditional methods.

Watson also works in nine other industries, including agriculture, customer service, human resources, supply chain, manufacturing, building management, automotive, marketing and advertising.

Late in October, IBM announced the acquisition of the leading hybrid cloud computing firm Red Hat. The initial stock reaction was negative because of the premium price paid. IBM CEO Ginni Rometty and many analysts believe the acquisition will be transformative because it launches IBM into the enormous and growing hybrid modern data center market, which means offering cloud computing services for both public data centers, such as those offered by Amazon's AWS and Microsoft's Azure, as well as data centers that are private for regulatory reasons. The company still expects its 2018 earnings to be "at least $13.80 per share", giving the stock a price/earnings ratio below 10, far below the rest of the market. The $6.00 per share dividend now provides a yield of 5 percent. This is a good time to invest in this long-term growth company at a good value.

NCR Corp (NCR) makes automatic tellers (ATMs), retail point-of-sale (POS) workstations, self-service kiosks, and other self-service checkout systems. 485 million people use NCR products every day, and there is room for substantial growth in the US and around the world.

NCR owns nearly three-quarters of the burgeoning self-checkout market and is well-positioned to benefit. Using their smartphones, or a handheld scanner provided by the store, customers scan items from the shelves as they add them to their cart. At checkout, they input either device into the register, and it spits out the tally. To augment this business, NCR announced in November that it has acquired StopLift Checkout Vision Systems, which is a leader in intelligent computer vision systems aimed at combating theft in retail businesses.

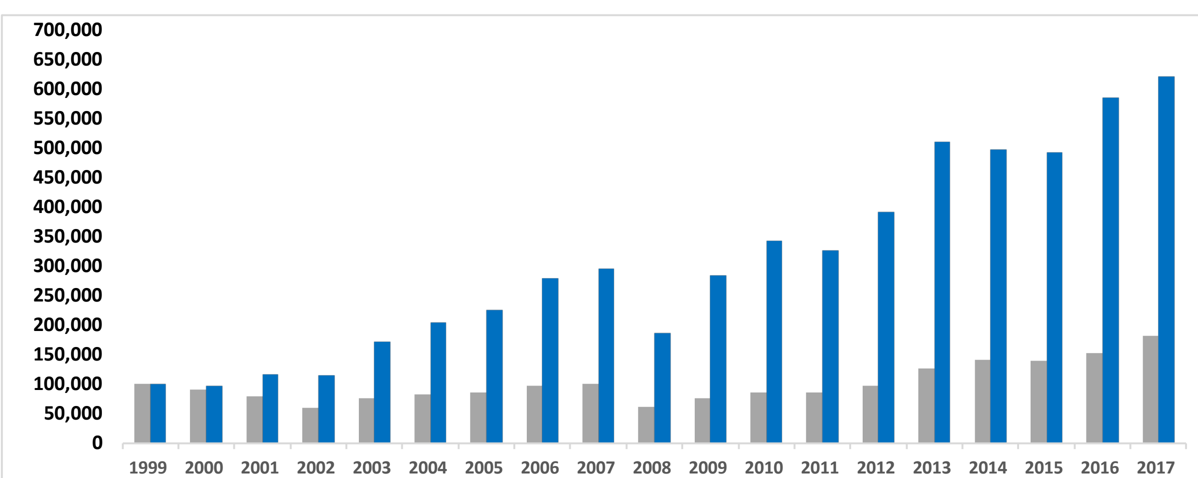
NCR remains a good value. The Company confirmed its 2018 earnings per share estimate of $2.55 to $2.75. This puts the current P/E under 10, a considerable discount to the rest of the market.

Symantec (SYMC) is the world's leading cyber security company offering organizations strategic, integrated solutions to defend against sophisticated attacks across endpoints, cloud, and infrastructure. Symantec operates one of the world's largest civilian cyber intelligence networks, allowing it to see and protect against the most advanced threats. Our mantra with this stock has been, "If there ever was a more certain growth industry, protection from cyber espionage is it."

In November, the private equity firm Thoma Bravo expressed interest in acquiring Symantec. SYMC jumped 18 percent on the news. Thoma Bravo has been seeking to expand its cybersecurity sector, with recent acquisitions of Imperva Inc and Veracode from Broadcom. Last year, Thoma Bravo acquired Symantec's web certificates business for close to $1 billion. The acquisition is not certain, but if it goes through, the speculation is that SYMC could be purchased in the range of $26 to $30 per share, which is substantially higher than it is now.

Sound Advice vs the S&P 500

This chart shows the growth of $100,000 invested in the S&P 500 (in gray), which would have grown to $181,977, versus $100,000 invested in the *Sound Advice* recommendations (in blue), which would have grown to $620,555.



See our website for live pricing and buy limits: **http://www.soundadvice-newsletter.com/members**

Energy/Natural Resources	Symbol	Price / NAV	Yield	Action	Limit
Chesapeake Energy Corp	CHK	$2.92	0.00%	BUY	$3.25
Chevron	CVX	$118.93	3.77%	BUY	$122.00
Fidelity Select Nat. Gas Fund *	FSNGX	$21.07	0.59%	BUY	$22.50
ICON Energy Fund Class S *	ICENX	$10.90	0.50%	BUY	$11.50
Valero	VLO	$79.88	3.00%	BUY	$84.00
Real Estate					
Hersha Hospitality Trust	HT	$19.14	5.85%	BUY	$20.00
RLJ Lodging Trust	RLJ	$20.33	6.49%	BUY	$22.00
Third Avenue Real Estate Value Investor *	TVRVX	$29.59	0.55%	BUY	$31.00
Medically Related					
Boston Scientific	BSX	$37.66	0.00%	BUY	$39.00
Stryker Corp.	SYK	$175.42	0.97%	BUY	$179.00
Tekla Life Sciences Fund	HQL	$17.68	0.00%	BUY	$19.50
Financials					
JP Morgan Chase	JPM	$110.91	2.02%	BUY	$115.00
Wells Fargo	WFC	$54.24	2.88%	BUY	$56.00
Small Caps					
Third Avenue Small-Cap Value Investor Fund *	TVSVX	$19.92	0.33%	BUY	$21.00
Special Situations					
Apple	AAPL	$178.58	1.64%	BUY	$185.00
Carnival Cruise LInes	CCL	$60.28	3.32%	BUY	$63.00
Intel	INTC	$49.21	2.44%	BUY	$50.00
International Business Machines	IBM	$124.25	4.83%	BUY	$128.00
NCR Corp	NCR	$27.71	0.00%	BUY	$29.00
Symantec	SYMC	$22.12	1.27%	BUY	$24.00
ETFs for Rising Interest Rates					
ETF - Direxion Daily 20+ Yr Bear 3X	TMV	$21.75	0.00%	BUY	$24.00
ETF - ProShares Short 20+ Year Trsry	TBF	$23.75	0.00%	BUY	$25.00
ETF - ProShares UltraShort 20+ Year Trsry	TBT	$39.40	0.00%	BUY	$44.00
Hedges					
S&P 500 ProShares Ultra Short ETF	SDS	$36.29	0.00%	BUY	$39.00

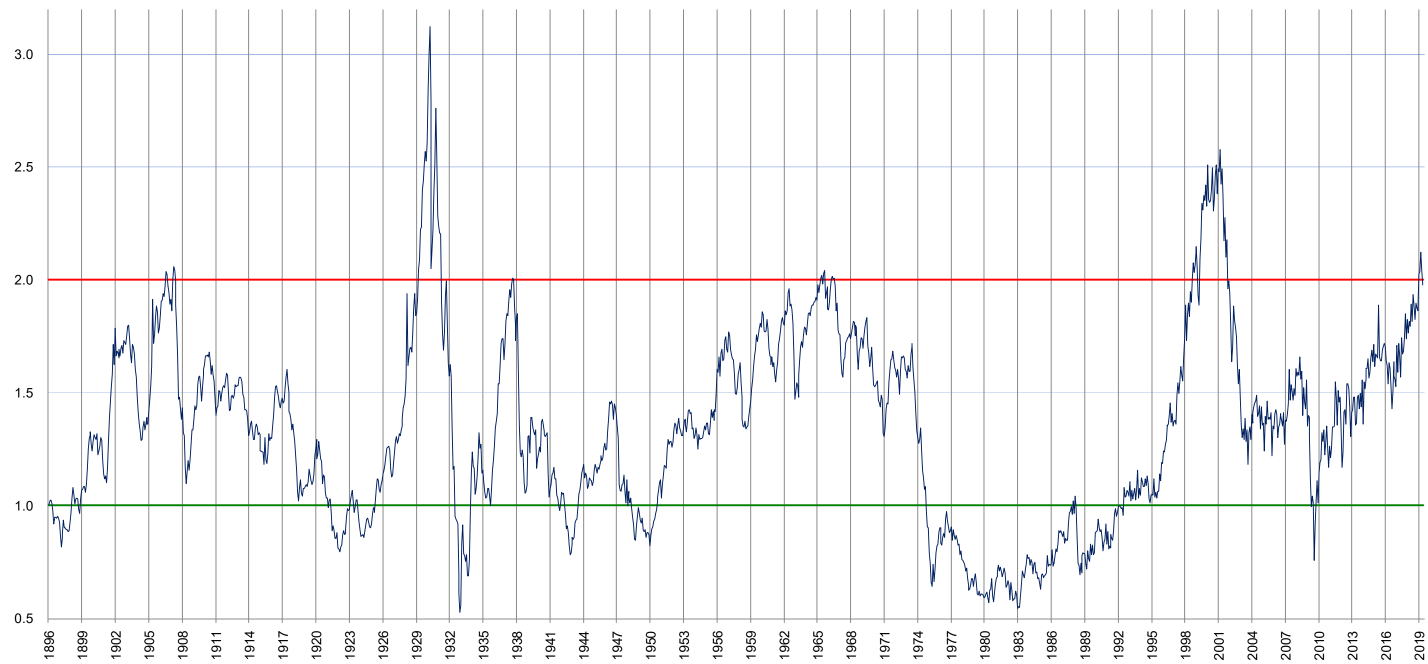
Notes to the table: The right hand column is the highest recommended price limit for purchases.
* It is not possible to offer live pricing on our recommended mutual funds.

General Comments: Our statistics are based on the assumption that $10,000 is invested in each position. When a new position is added, we assume the same $10,000 amount is invested in the new recommendation. When we recommend adding to a particular position, as we have done over the years, we assume another $10,000 is invested again in that position.

If you are picking and choosing, you can focus on the sector of the portfolio that matches your investment objectives. Alternatively, you may have a higher degree of comfort with certain industries, funds, or stocks because of past experience or your profession. In that case, you may want to invest more heavily in one sector, or in one or more individual recommendations.

As always, broad diversification will temper volatility, add to safety, and improve long-term performance.

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



There are few forces that are more important to a market's destiny than the amount of capital that is available to it. In a normal situation, capital will flow easily between markets as their underlying conditions change. But if a market becomes dangerously superheated, it will absorb a larger proportion of available investment capital than economic conditions and market demand can justify. This change will be reflected not only in the rising market's prices but also in the prices of competing markets, which will be lower than their underlying fundamentals would indicate they should be. Over the last 120+ 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 based on the ratio of the S&P 500 Stock Index to median price of new houses 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 label this new tool the ***Sound Advice*** "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 under performing the other market.

What is too high? When stock prices are very high relative to house prices, the ***Sound Advice*** 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 ***Sound Advice*** 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.

But though an investment beginning with $25,000 in 1895 could have made money being in either stocks or housing, had an investor followed the signals of the ***Sound Advice*** Risk Indicator he or she would have made $430 million, or 26 times more money than by simply holding stocks though the ups and downs.

A brief walk through history shows just how reliable this indicator is. The first recorded time the Risk Indicator rose above 2.0 was in February 1906, after the eight-year-old Dow-Jones average doubled since 1903. The market peaked in the first quarter of 1907. A massive sell-off in October would later be labeled the Panic of 1907. Stock prices trended downward for 14 more years until the end of 1921 while, searing inflation after World War I boosted house prices 48 percent. The combination of falling stock prices and rising real estate prices forced the Risk Indicator to fall below 1.0 in 1920, just in time for the Roaring 20's when stock prices tripled. Then, in October 1928, the Risk Indicator rose

> The New York Times
>
> ***"Cardiff's equation reveals an elegant financial minuet as each market takes turns outperforming the other."***

above 2.0 again. On Tuesday, September 3, 1929, the Dow peaked at 318.17. The October crash marked the beginning of a decline that lasted until July 8, 1932. Houses had declined only by 15 percent compared with the 85 percent loss in stocks. The relative superior performance of houses caused our Risk Indicator to fall below 1.0 at the beginning of 1932.

As America's GNP began posting positive gains and with 46 percent growth in three short years, stock prices would triple. Then the Risk Indicator crossed 2.0 in March 1937. This time, the signal came only one month before the zenith in stock prices. As stock prices retreated 50 percent, house prices remained relatively steady, causing the Risk Indicator to fall below 1.0 again in June 1941, within 9 months from the bottom.

As U.S. corporations expanded to meet growing demand, and the economy came to a rolling boil during the Eisenhower years, the stately rise would multiply stock prices by ten times until November 1964, when the Risk Indicator crossed over 2.0 again. The stock market would continue to climb into 1968, and then crash in1975, wiping out the inflation-adjusted gains scored by investors since 1954. However, a switch to an investment in houses would avoid all that and double in price by the time the next signal came for stocks in May 1974, as the Risk Indicator fell below 1.0 again, as the Dow careened below 700.

It would not be until March 1998 when the Risk Indicator would cross 2.0 again, after stocks were up by more than tenfold. The Dot-Com bubble would push stocks higher into early 2000, but then began another 50 percent retracement. A switch to houses would produce a 44 percent gain through the end of 2008 while stock prices were lower by 17 percent. In February 2009, with the Dow careening down through the 700s once again, the Risk Indicator quietly dropped below 1.0 to 0.77 as the S&P tumbled under 700. Since then, the stock market has delivered stunning gains as the S&P 500 has quadrupled. ***For the sixth time in the last 123 years, the Risk Indicator rose above 2.0 again in July 2018.***

Based on the latest median house price of $321,300 for September, and with the S&P 500 at 2,760, the *Sound Advice* Risk Indicator reads 1.98, revealing a historically high-risk time for stocks.

As remarkable as the ***Sound Advice*** Risk Indicator has been, it does not pinpoint the exact time. In the past 123 years, its signal has ranged from being only one month before the zenith to as much as two years early. While the Risk Indicator has been early, it has never been wrong. An expensive crash was inevitable. A 50 percent decline took a 100 percent recovery just to break even.

To help us narrow down the timing as well as gage the potential severity of an upcoming decline, we have our Diffusion Indexes.

Business Cycles and Stocks:
The **Sound**Advice Diffusion Indexes

Track Record of the **Sound**Advice Diffusion Indexes

After each "Aggressive" signal, the S&P 500 climbed an average of 31.0 percent. During "Caution" signals, the S&P 500 either crashed, meandered, or climbed, recording an average increase of 3.8 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
Mar-15	2,080.0	May-15	2,111.9
Sep-17	2,492.8	Jan-18	2,823.8
Ave +/-	30.6%		3.4%

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 ***Sound Advice*** Diffusion Indexes, we observe changes in each of our selected indicators over a six-month period, and take the percentage of those increasing.

When the ***Sound Advice*** **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 soft economy is providing an atmosphere for stable or declining interest rates.

This Diffusion Index gave us a zero reading in April, 2009, close to the bottom, officially giving us an "Aggressive" signal. That signal came at a

Over Please...

time when the Risk Indicator was below 1.0, which revealed that Supercycle 5 came to an end, and that Supercycle 6 was born.

The ***Sound Advice*** **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 reading reveals that the US economy is strong enough to put upward pressures on interest rates.

Most of the time, this Diffusion Index has been a timely indicator of oncoming bear markets because a rising interest rate environment is a dangerous time for stocks. The times when this Index has not performed in a timely fashion is when monetary policy has been established and enforced, regardless of fluctuations in economic strength. A prime example is the quantitative easing (QE) programs that were used to bail out the economy from the 2008-09 meltdown. In recent years, the economy has strengthened, sufficiently at times to push this Diffusion Index to 100 percent. However, interest rates did not rise because they were being held artificially low by the Fed's massive QE bond-buying activities. During the QE programs, the Fed's assets grew by more than 5 times, from under $900 million in 2008 to $4.6 trillion.

That has changed now because quantitative easing has been reversed into quantitative tightening. Intead of buying, the Federal Reserve has started reducing its current inventory of $2.8 trillion of Treasury bonds and $1.8 trillion of mortgage-backed securities. This means that we will no longer have a QE program holding interest rates artificially low.

Current Status

The Diffusion Index of LAGGING Indicators climbed to 100 percent for December, giving us a new Caution Signal in January, very close to the peak in the market. The latest data for October caused a 33.3 percent reading.

Our next signal will come from the Diffusion Index of LEADING Indicators, when it drops to zero, which would take a surprising softening in the US economy. The latest reading for this Diffusion Index is 33.3 percent.

Concurrence

There are times when signals from the ***Sound Advice*** Risk Indicator and the Diffusion indexes are out of sync, when one is signaling caution and the other is not. This occurred in August 1987, when the Diffusion Index of Lagging Indicators switched into caution mode, just prior to the October 1987 Crash that took stocks sharply for a brief period. Non-concurrence also occurred in March of 2008, when the Diffusion Index of Lagging Indicators switched into caution mode, just prior to the 2008-09 bear market crash. Both of these crashes were brutal, but relatively short-lived. Once the Risk Indicator plunged below 1.0, a very profitable bull market followed.

Then there are times when both indicators concur, signaling the same thing at roughly the same time. This happens when the Risk Indicator is above 2.0, indicating the end of a supercycle, and the Diffusion Index of Lagging Indicators switches into caution mode, indicating the end of a business cycle. Of course, this concurrence indicates that a more vicious and potentially longer-lasting bear market, or series of bear markets, is bound to follow, eventually taking stock prices down substantially – usually by 50 percent -- until the Risk Indicator falls below 1.0 again. We have this concurrence today.