April, 2019

# THE GLOBAL INVESTMENT PULSE

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*Legend Financial Advisors, Inc.® & EmergingWealth Investment Management, Inc.®*

(888) 236 - 5960 www.legend-financial.com

## PARTYING LIKE IT'S 1998 - 1999

**By Doug Ramsey, CFA, CMT, Chief Investment Officer, The Leuthold Group, LLC**

At The Leuthold Group, LLC we thought Jerome Powell's "Christmas Capitulation" would be tough to beat, but he accomplished that with what could be called his "Spring Surrender". That, in turn, has rekindled hopes of a stock market melt-up along the lines of 1998-99, which, as old-timers will remember, followed a late-cycle correction that was nearly identical to the one seen last year.

From an economic perspective, we don't see the parallels. The 1998 correction occurred in the midst of an 18-quarter stretch in which year-over-year real Gross Domestic Product (GDP) growth never dropped below 4.0%. Yet Alan Greenspan was frightened into cutting the Funds rate three times that fall, then gunned an already healthy M2 growth rate up to 8.5% in the months right after the market setback. It was truly a case of pouring gasoline on the fire. In the current episode, of course,

Partying, *continued on page 4*

## UP/DOWN EARNINGS RATIO IS BELOW AVERAGE

**By Phil Segner, CFA, Research Analyst, The Leuthold Group, LLC**

Rolling in the final month of the Fourth Quarter of 2018 earning reports, The Leuthold Group, LLC's Up/Down (Earnings Up or Down) Ratio reads 1.46. As the chart illustrates, this final "three-month" reading is below the long-term average. Using this method of one firm/one vote, the argument can be made that the 2018 earnings-growth bonanza started in the Fourth Quarter of 2017 and ended in the Third Quarter of 2018. And things were really starting to get ugly toward the end of the First Quarter of 2019—March's standalone Up/Down figure was 1.02. Be prepared for this chart to spit out some pretty unpleasant results in the next few quarters.

Up/Down, *continued on page 15*

## UNDERSTANDING THE COMPLEX WORLD OF FUTURES TRADING

**By Louis P. Stanasolovich, CFP®, CCO, CEO and President of Legend Financial Advisors, Inc.® and EmergingWealth Investment Management, Inc.®**

Derivative investment vehicles continue to be extremely popular among many global financial markets and the traders who trade those markets due to increased liquidity in markets in which investors are seeking attractive investment opportunities. Although there are many forms of derivative instruments, they primarily seek two purposes. The first purpose is asset protection, or hedging. Many professional investors relate this technique to purchasing an insurance policy. The second purpose is for speculation, in which case professional investors seek to gain access to an exploitable market and capture an upward or downward trend. Although derivative instruments come in several different forms, they are primarily defined as contracts between two or more parties which either create the option for the contract owner to purchase or sell the underlying asset prior to the contract maturity (Option Contract), or an obligation to deliver the underlying

Futures Trading, *continued on page 8*

## A HEDGE FUND PRIMER

**By Louis P. Stanasolovich, CFP®, CCO, CEO and President of Legend Financial Advisors, Inc.® and EmergingWealth Investment Management, Inc.®**

A hedge fund is a private investment partnership invested primarily in publicly-traded securities or financial futures. The Securities & Exchange Commission (SEC) limits hedge funds to 99 investors, at least 65 of whom must be "accredited" because they are private investment partnerships. Accredited investors are defined as investors having a net worth of at least $1,000,000. Super accredited investors are defined as investors having a net worth of at least $5,000,000.

Hedge, *continued on page 10*

*Editor*
Louis P. Stanasolovich, CFP®
CCO, CEO, and President

Legend Financial Advisors, Inc.®
5700 Corporate Drive, Suite 350
Pittsburgh, PA 15237-2829
legend@legend-financial.com
(412) 635-9210
(888) 236-5960

*Newsletter Production Manager*
Lori. L. Albert
legend@legend-financial.com

EmergingWealth Investment Management, Inc.®
5700 Corporate Drive, Suite 360
Pittsburgh, PA 15237-2829

Postmaster: Send all address changes to:
Legend Financial Advisors, Inc.®
5700 Corporate Drive, Suite 350
Pittsburgh, PA 15237-2829



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5. Legend emphasizes low-cost investments where possible and attempts to trade and allocate investments in an income tax-efficient manner.

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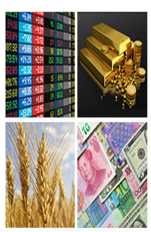

EmergingWealth Investment Management, Inc.® (EmergingWealth), is the sister firm of Legend Financial Advisors, Inc.® (Legend) and is a Non-Commission, Fee-Only Securities and Exchange Commission (SEC) registered investment advisory firm. EmergingWealth provides Investment Management services to individuals as well as business entities, medical practices and non-profit organizations whose wealth is emerging. All investment portfolios are sub-advised by Legend. Both Legend and EmergingWealth share a common advisory team, Investment Committee and Fee Schedule.

# LOUIS P. STANASOLOVICH, CFP®, EDITOR

Louis P. Stanasolovich, CFP® is founder, CEO and President of Legend Financial Advisors, Inc.® (Legend) and EmergingWealth Investment Management, Inc.® Lou is one of only four advisors nationwide to be selected 12 consecutive times by Worth magazine as one of "The Top 100 Wealth Advisors" in the country. Lou has also been selected 13 times by Medical Economics magazine as one of "The 150 Best Financial Advisors for Doctors in America", twice as one of "The 100 Great Financial Planners in America" by Mutual Funds magazine, five times by Dental Practice Report as one of "The Best Financial Advisors for Dentists In America" and once by Barron's as one of "The Top 100 Independent Financial Advisors". In 2018, Lou was selected for the inaugural "Investopedia 100", an award recognizing the top 100 influential advisors in the country. Lou was selected by Financial Planning magazine as part of their inaugural Influencer Awards for the Wealth Creator award recognizing the advisor who has made the most significant contributions to best practices for portfolio management. He has been named to Investment Advisor magazine's "IA 25" list three times, ranking the 25 most influential people in and around the financial advisory profession as well as being named by Financial Planning magazine as one of the country's "Movers & Shakers" recognizing the top individuals who have done the most to advance the financial advisory profession.

# GOVERNMENT SPENDING – IT KEEPS GETTING WORSE!

By Diane M. Pearson, CFP®, PPC™, CDFA®, Legend Financial Advisors, Inc.® and
EmergingWealth Investment Management, Inc.®

The United States Government is spending $12.4 billion a day. If the government ran a $1 billion profit per day, i.e., its tax revenues in excess of its outlays or expenditures, and used that daily surplus to pay down the $22 trillion in debt, the United States of America would be debt free in 60 years and four months **(Source of Information: Treasury Department)**.

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# LONG-TERM PREDICTION

By James J. Holtzman, CFP®, Legend Financial Advisors, Inc.® and
EmergingWealth Investment Management, Inc.®

In January 2019, the Congressional Budget Office (CBO) forecasted annual budget deficits for the U.S. Government of at least $1 trillion for eight consecutive years beginning with Fiscal Year 2022, i.e., 2022 to 2029. The U.S. Government has suffered an annual budget deficit of at least $1 trillion during just four fiscal years in history, i.e., 2009 to 2012 [1]. The U.S. was recovering from the Financial Crisis then. Actually, it was a Severe Recession [Where Gross Domestic Product (GDP) declines by 5.0% or more. Actually, GDP declined by 5.1%.].

[1] **Source of Information: CBO, Treasury Department**

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# EQUAL-WEIGHTED VERSUS CAPITALIZATION WEIGHTED S&P 500

By Louis P. Stanasolovich, CFP®, CEO and President of Legend Financial Advisors, Inc.® and
EmergingWealth Investment Management, Inc.®

The 13 largest stocks in the traditional S&P 500 Index make up 25.0% of the total stock market capitalization (Number of shares outstanding times price of the stock) of the index as of the close of trading on Friday, April 5, 2019. Thus, 3.0% of the stocks in the Index represent 25.0% of the total value of the index. The S&P 500 is a Market-Cap Weighted Index **(Source of Information: Standard & Poor's)**.

By contrast, the Equal-Weighted S&P 500 Index is weighted as follows: Each stock represents 0.20% of the Index. It is quite literally Equal-Weighted

PULSE

# BARELY MOVED

By Diane M. Pearson, CFP®, PPC™, CDFA®, Legend Financial Advisors, Inc.® and
EmergingWealth Investment Management, Inc.®

The Federal Reserve Board (Fed) began an Interest Rate-Tightening Cycle on December 16, 2015, that has resulted in nine rate hikes. In the 39 months since the initial rate hike on December 16, 2015 through March 22, 2019, the yield on the ten-year Treasury note has increased just 0.14 percentage points from 2.30% to 2.44% **(Source of Information: U.S. Treasury Department)**.

PULSE

# COUNTRY WITH MOST OIL RESERVES

By James J. Holtzman, CFP®, Legend Financial Advisors, Inc.® and
EmergingWealth Investment Management, Inc.®

Venezuela has the largest estimated oil reserves in the world (301 billion barrels), nearly eight times the estimated reserves of the United States (39 billion barrels) **(Source of Information: World Atlas)**.

PULSE

Partying, *continued from page 1*

the Funds rate has been left untouched, and M2 growth has slipped below 4.0% after a mild bump following the December stock market lows.

Despite the disparities in underlying economic conditions, there are striking market parallels between the post-Christmas rally and the first three months of the October 1998 market low. It's almost as if traders are using the period as a roadmap: U.S. Large Cap Growth (led by Technology) is again the big winner, while Small Caps, Value, Cyclicals, and EAFE can't keep up.

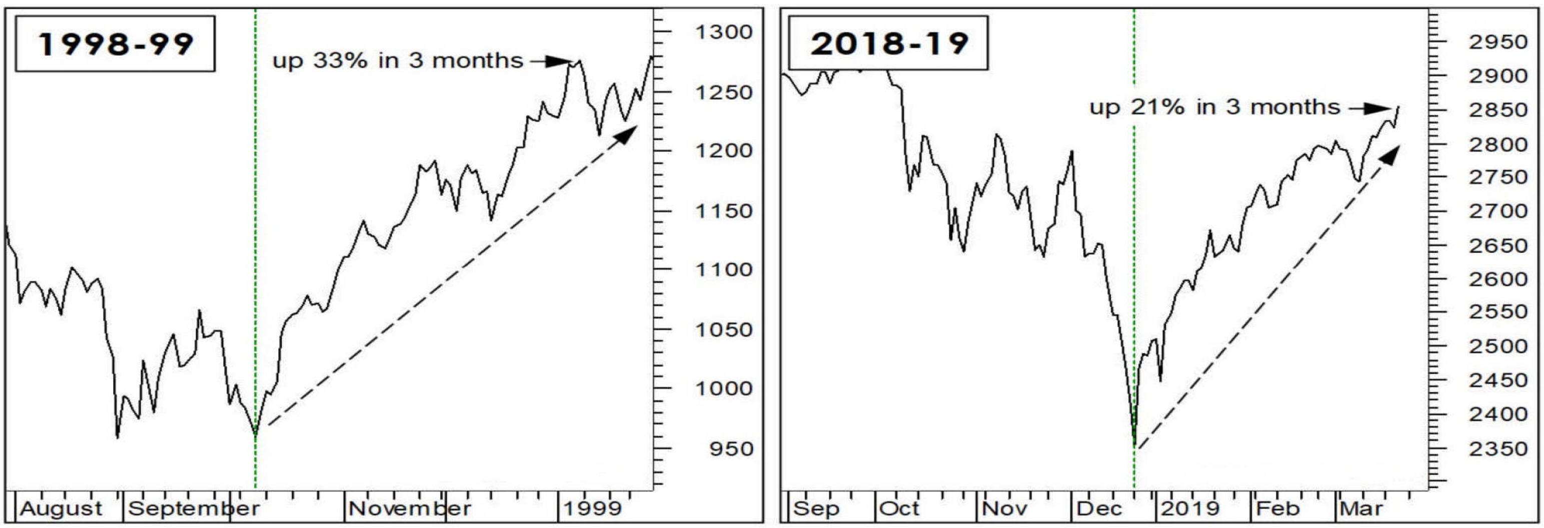
Those 1998-99 leadership trends probably aren't a bad road map for those expecting a 2019 melt-up. We can easily envision the Dollar continuing to trade higher in that environment, as foreign investors in regions on the brink of recession increasingly covet U.S. assets.

These aren't recommendations or forecasts. They are pure speculation. So was 1999.

**Source: This article was excerpted from "Partying Like It's 1998-99", by Doug Ramsey, CFA, CMT, Chief Investment Officer, The Leuthold Group, LLC, (*Chart of the Week*, March 22, 2019)**



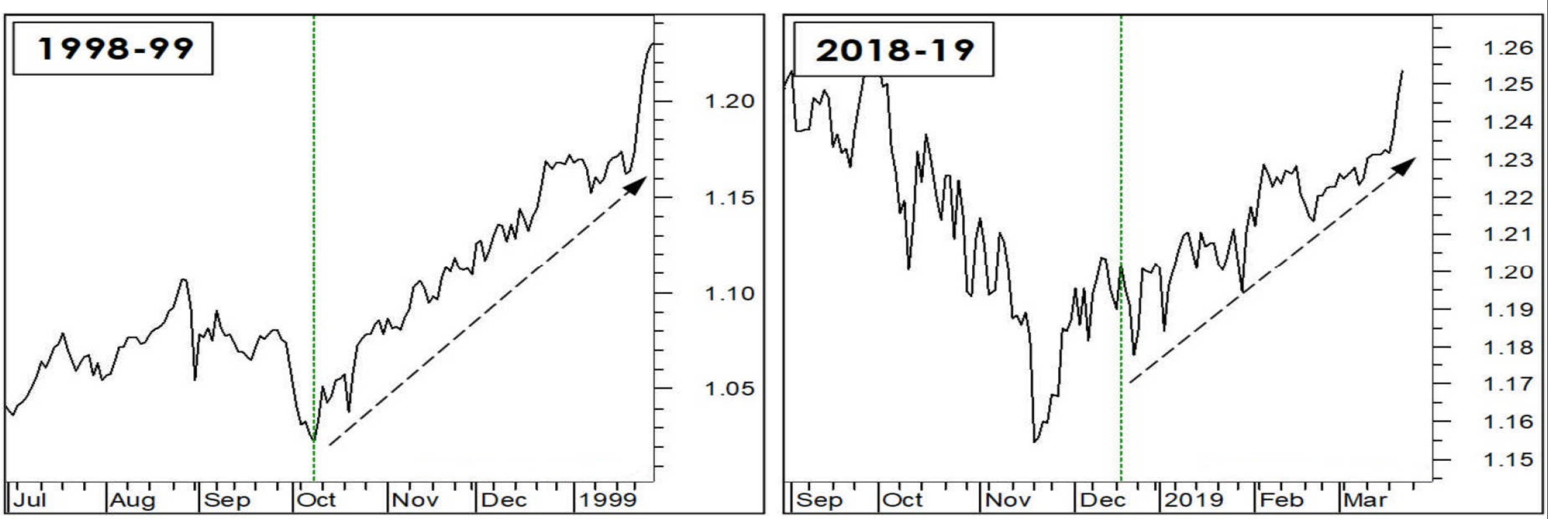
## S&P 500




As of: March 22, 2019


Source: The Leuthold Group, LLC, *Chart of the Week*, March 22, 2019


## RUSSELL 1000 GROWTH RELATIVE TO RUSSELL 1000 VALUE



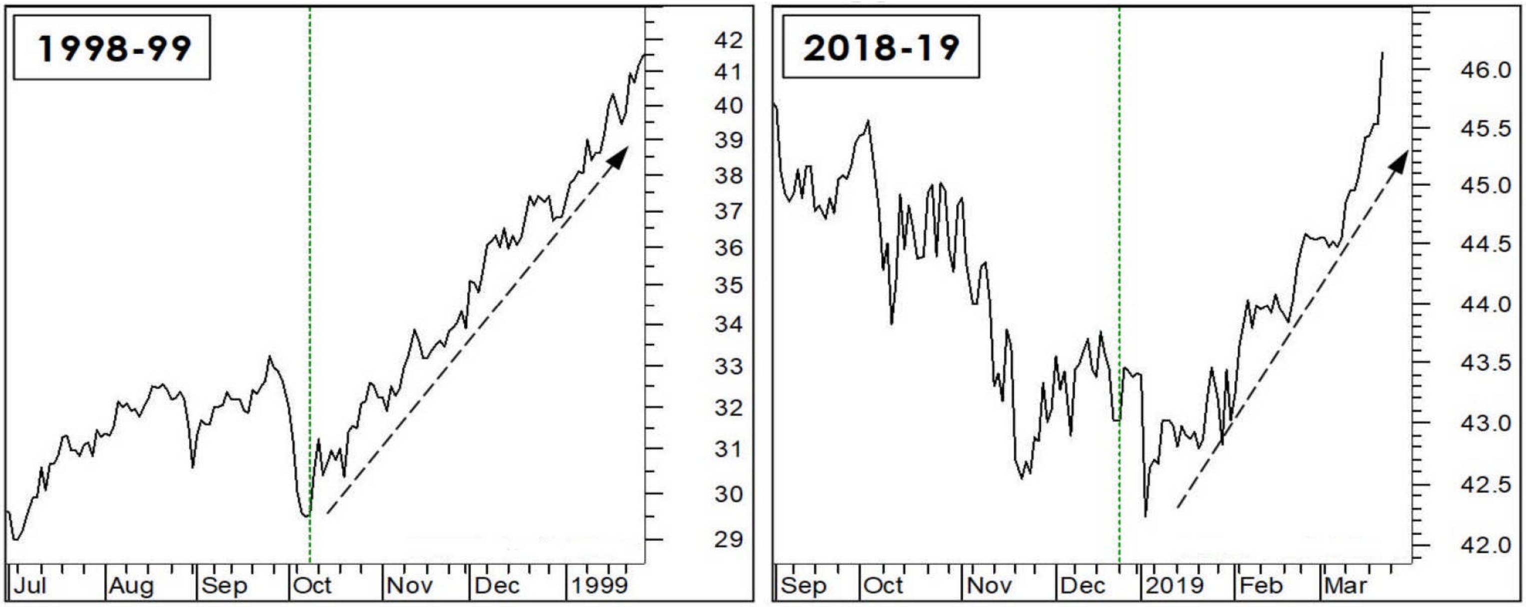

As of: March 22, 2019


Source: The Leuthold Group, LLC, *Chart of the Week*, March 22, 2019


Partying, *continued on page 5*

Partying, *continued from page 4*

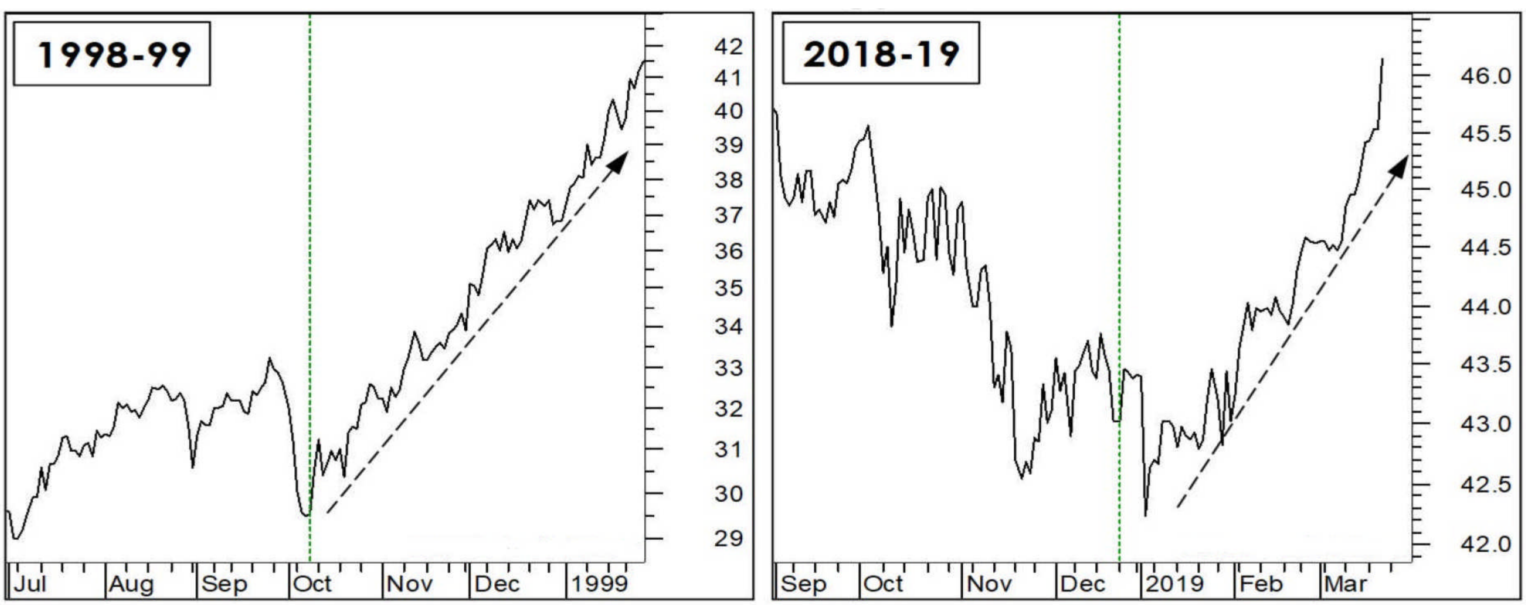
# S&P 500 INFORMATION TECHNOLOGY RELATIVE TO S&P 500




As of: March 22, 2019


Source: The Leuthold Group, LLC, *Chart of the Week*, March 22, 2019


# S&P 500 INFORMATION TECHNOLOGY RELATIVE TO S&P 500




As of: March 22, 2019
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Source: The Leuthold Group, LLC, *Chart of the Week*, March 22, 2019
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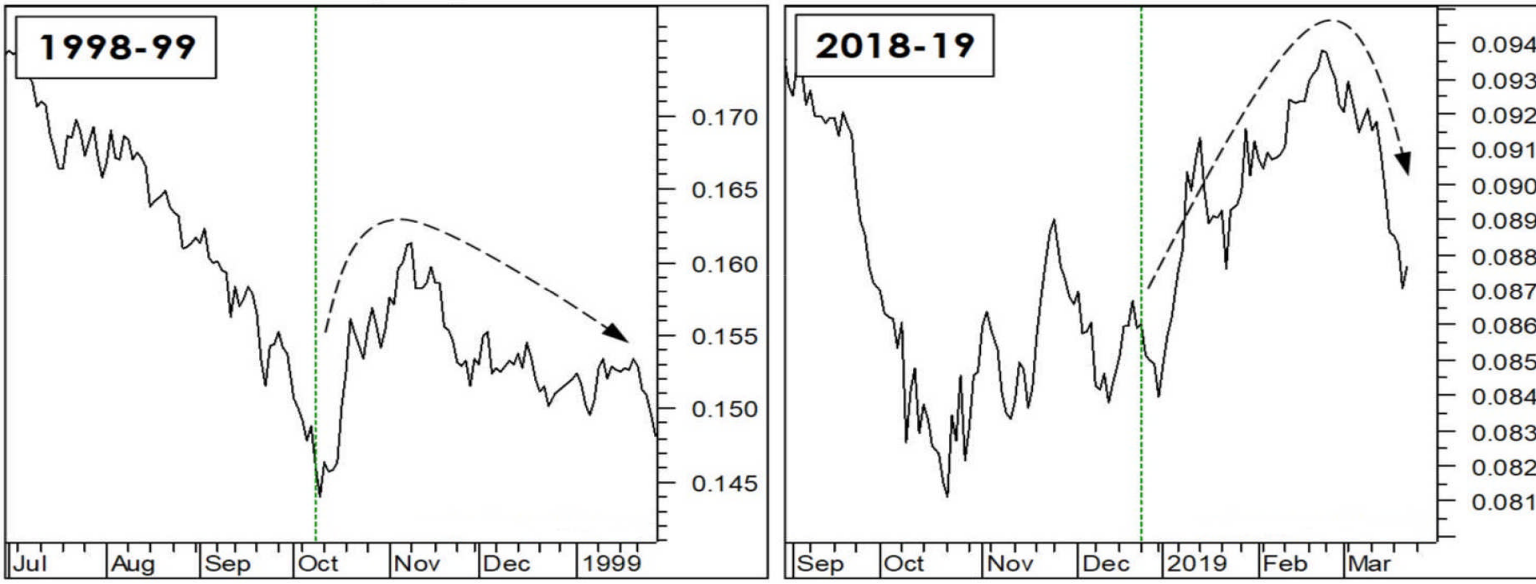
Partying, *continued on page 6*

Partying, *continued from page 5*

## EARLY CYCLICAL INDUSTRIES* RELATIVE TO S&P 500

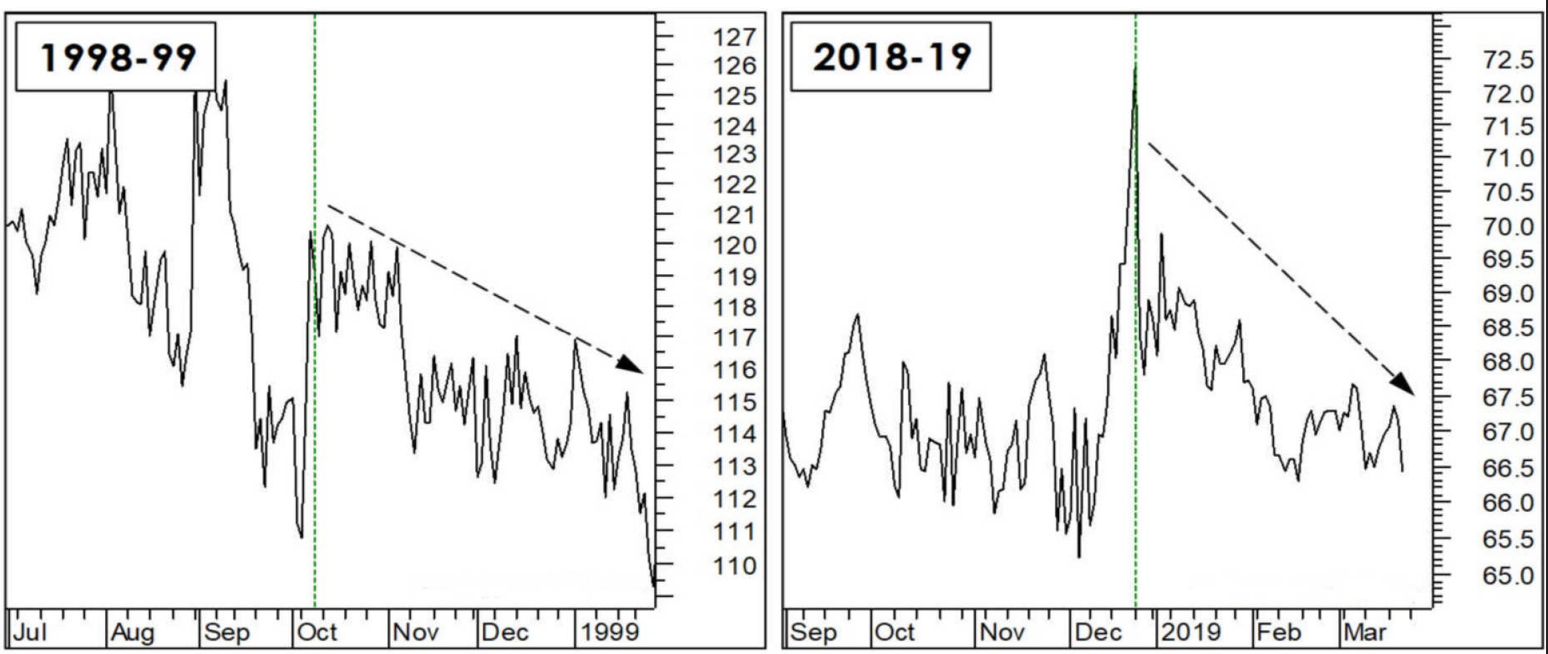



* Composite of S&P 500 Auto Manufacturers, Auto Parts & Equipment, Building Products, Home Furnishings, Household Appliances, and Homebuilding

As of: March 22, 2019


Source: The Leuthold Group, LLC, *Chart of the Week*, March 22, 2019


## EAFE RELATIVE TO S&P 500




As of: March 22, 2019


Source: The Leuthold Group, LLC, *Chart of the Week*, March 22, 2019


PULSE

# FED WATCH

## INTEREST RATES AS OF APRIL 30, 2019

**Fed Funds Rate Range:** 2.25 – 2.50%

**Fed Discount Rate:** 2.50%

## 2019 UPCOMING FED MEETING SCHEDULE

| | | | | | |
|---|---|---|---|---|---|
| May | 1-2 | Jul/Aug | 31-1 | November | 7-8 |
| June | 12-13 | September | 25-26 | December | 18-19 |

Source: Bloomberg Investment Services

Futures Trading, *continued from page 1*

asset at a future date. The latter contract can be constructed through two different types of contracts: Futures and Forward Contracts. Although the two are very similar, there are several essential components that distinguish the two significantly.

Futures contracts are traditionally non-negotiated, standardized contracts that provide for delivery or receipt on a futures exchange, at a future date and time agreed upon at purchase. When made on a contract market or other organized exchange, futures contracts provide for the future delivery of a variety of assets, ranging from agricultural and nonagricultural commodities to currencies and other types of financial instruments at a specific time and place and require a margin deposit of approximately 2.0% to 10.0% of the value of the underlying contract at purchase. Contract markets are the most highly regulated category of futures exchanges in the United States, provide centralized marketing for trading in specific futures. They are regulated by the Commodity Futures Trading Commission (CFTC), as well as being subject to the provisions of the Commodity Exchange (CE) Act of 1974. To ensure the commitment of both parties, the contracts are marked-to-market every day, and daily realized gains or losses are incurred to ensure that the margin deposit remains at the specified percentage. One category of futures contracts are stock index futures contracts, which are based on the future value of different indices of securities. Delivery of the stock index contracts, the process of satisfying a futures contract by transferring ownership of a specific quantity and part of the underlying index to another purchaser, is only affected by a cash settlement. The universe of securities, which are vast, are used to formulate the various stock indices and therefore, must, by law, be predominantly comprised of unaffiliated issuers. The indices also must be widely published and reflect a large segment of the market for all publicly-traded equity or debt securities.

When the underlying asset is not delivered, the contract will be closed out. This is known as establishing an offsetting transaction, in which case the contractual obligations from the sale of a contract on a futures exchange may be fulfilled at any time as long as it is before the last delivery date of the underlying asset subject to the purchase of one contract on the asset on the same exchange. The profit or loss for the trader is determined after finding the difference between the price at which the futures were bought (premium) and the price at which they were sold (futures price), as well as, subtracting the transaction and brokerage fees.

**Forward contracts are cash market contracts, traded off-exchange**

Forward contracts are cash market contracts, traded off-exchange, where the buyer and seller agree to the purchase and sale of a set quantity of a particular asset, and the time and terms are agreed upon through negotiation, as opposed to the supply and demand on an exchange. They are made private by the very nature of their negotiation off exchanges, and are for future delivery. In addition, forward contracts do not require a margin deposit. Therefore, they are not marked-to-market every day. One example of a forward contract involves the purchase and sale of currencies for future delivery through local banks. When banks act as principals by including a profit margin, they differentiate themselves from the standard International Monetary Market by being, more or less, favorable in regards to the prices quoted for their forward contracts.

In 1982, trading on U.S. exchanges in options on futures contracts and physical commodities began. Futures contracts also became available for trading at this time. Options, or rights to either buy (call) or sell (put) a certain commodity or futures contract, are sold at a specific price during a specific time period. The price paid, otherwise known as the premium, reflects market value and is paid upon the purchase, or received upon sale of an option. If the price of the underlying futures contract or asset commodity is stagnant, therefore not making it advantageous to exercise an option, it will then expire valueless. This then results in a total loss of the premium paid by the purchaser. In order to obtain a profit from an option, it is critical to offset the option with the purchase or sale of an “opposite” option position on the same exchange. An additional way in which to see a profit would, in the case of the purchaser, require exercising the option while concurrently having the option expire in the hands of the seller. The seller of an option assumes the risk of its exercise by the purchaser, while also being exposed to the high risk of fluctuations in the price of a futures contract or underlying commodity, but is still required to maintain margins based on the market value of the commodity or contract. However, the purchaser of an option may lose no more than the cost of the option premium. The CFTC requires the entire amount of a premium due for an option be paid at the time of purchase.

Futures contracts can be established in long or short positions. The owner of the contract is long and the issuer is short. Prior to a trader closing out his or her long or short position by an offsetting purchase or sale, his or her outstanding contracts are known as open trades. They are also called open positions, and the aggregate amount held by traders is known as the open interest in the contract.

There are two categories of individuals who trade in futures – hedgers and speculators. Hedging, primarily reserved for commercial interests in real commodities, is designed to minimize losses from price fluctuations between the time a merchandiser makes a contract to sell or purchase a raw or processed commodity and the time that the contract is actually performed. For example, if the merchandiser is practicing the hedging technique, they will purchase futures contracts for a commodity after contracting to sell it at a future date. Then decisions can be made whether to accept delivery under the futures contracts, buy the actual commodity, or sell the futures contracts, dependent on the market value and price fluctuations. The objective is normally to protect the profit a farmer expects to earn from his operations, rather than to attempt to profit from the futures contracts.

Speculation, which is needed for hedging to exist, is utilized to exploit trends and pricing inefficiencies in the asset underlying the contract through the minimal cash lock-up of the margin deposit. Due to the fact that a speculator may take a long or short position in the futures market, it is highly possible for them to make profits or incur losses, regardless of the actual direction of prices.



PULSE

# 2019 YEAR-TO-DATE PERFORMANCE

## January 1, 2019 to March 31, 2019
## (3 months)

| | 2019 Year-to-Date Return |
|---|---|
| Consumer Price Index (Inflation) | 1.18% |
| 90-Day Treasury Bills Index-Total Return | 0.59% |
| Bloomberg Intermediate Term Corporate Bond Index | 3.82% |
| Barclays Aggregate Bond Index-Total Return | 2.94% |
| High Yield Corporate Bond Index – Total Return | 6.94% |
| S&P Leveraged Loan Index – Total Return | 3.96% |
| S&P 500 Index (U.S. Stock Market) | 13.65% |
| Russell 2000 Index (U.S. Small-Caps) | 14.57% |
| MSCI EAFE Index (Developed Foreign Equities) | 10.15% |
| MSCI Emerging Market Index (Equities) | 9.90% |
| Newedge CTA Index (Managed Futures) | 1.93% |
| HFRX Global Hedge Fund Index | 2.60% |
| Dow Jones–UBS Commodity Index-Total Return (USD)** | 5.70% |
| Dow Jones U.S. Real Estate Index-Total Return (USD)** | 17.08% |
| Gold Bullion | 0.91% |

As of: March 31, 2019

Compound and Total Returns include reinvested dividends. Newedge Index is equally-weighted.
** USD = U.S. Dollar
Source: Bloomberg Investment Service

Hedge, continued from page 11

The General Partner of the fund usually receives 20.0% of the profits, in addition to a fixed management fee, generally 1.0% of the assets (although 2.0% is not unheard of) under management. Hedge funds are estimated to be a $5.0 trillion industry and growing at approximately 20.0% per year with over 15,000 active hedge funds.

Hedge funds often hedge against downturns in the markets, which is especially important when there is increased volatility and anticipation of additional corrections when stock markets are overheated. The primary aim of most hedge funds is to reduce volatility and risk while attempting to preserve capital and deliver positive returns under all market conditions. Historically, many hedge funds have not been successful in accomplishing this objective.

**Hedge funds may own traditional stock and bond investments.**

Hedge funds may own traditional stock and bond investments. They also combine these investments with short sales, arbitrage and leverage not generally found in traditional stock and bond market investment strategies.

Short sales involve the sale of borrowed securities considered overvalued with the intent to purchase them later at lower prices to make a profit. This strategy attempts to make money when an investment declines in value.

Arbitrage strategies attempt to exploit temporary price discrepancies between similar securities through buying the cheaper one and selling short the more expensive one.

Leverage involves borrowing money to increase the effective size of the portfolio. Leverage increases risk and profit potential.

Not all hedge funds are the same. Investment returns, volatility, and risk vary among different hedge fund strategies. Some strategies which are not correlated (move similarly) to equity markets are able to deliver consistent returns with extremely low risk of loss, while others may be as, or more volatile than, mutual funds. A successful fund of funds, a hedge fund that invest in other hedge funds, recognizes these differences and blends various strategies and asset classes together to create more stable long-term investment returns than any of the individual funds.

**There are four major types of hedge funds:**

1. Market neutral or relative value funds encompass a range of funds that invest in bonds and/or equities, but are not dependent on the direction of market movements. Portfolio Managers seek to exploit market inefficiencies or mis-pricing and balance long and short market exposures. Returns are typically uncorrelated with other asset classes.

2. Event driven funds pursue strategies largely unaffected by the direction of equity and bond markets with investment based on the actual or anticipated occurrence of a particular event, such as a merger, bankruptcy or corporate re-organization. Returns tend to have low correlation with other asset classes.

3. Long/short strategies invest in equity and/or bond markets combining long investments with short sales to reduce, but not eliminate, market exposure and isolate the performance of the fund from the performance of the asset class as a whole. Returns can be more correlated with other asset classes due to bias towards long-market exposure. Therefore, losses can occur when the stock market has a downturn.

4. Tactical trading funds speculate on the direction of market prices of currencies, commodities, equities and/or bonds in the futures and cash markets. This is the most volatile hedge fund category in terms of performance. Correlation of returns with traditional asset classes is low.

**There are many benefits of hedge funds including:**

A. Hedge fund strategies have the ability to generate positive returns in both rising and falling equity and bond markets.

B. Inclusion of hedge funds in a balanced portfolio can reduce overall portfolio risk and volatility which, hopefully, results in increased returns.

C. There are a huge variety of hedge fund investment styles – many of which are non-correlated with each other – which provides investors with a wide choice of hedge fund strategies to meet their investment objectives.

D. Academic research has proven hedge funds have higher returns and lower overall risk than traditional investment funds.

E. Hedge funds provide an ideal long-term investment solution due to their active management, eliminating the need to correctly time entry and exit from financial markets.

F. Adding hedge funds to an investment portfolio provides diversification not otherwise available in traditional investing and therefore attempts to reduce risk.

While hedge funds do have many positives, they have dangers as well. They are far less regulated than mutual funds, and their managers are free to use leverage and other risky techniques. Even if investors can obtain entry, they may want to think twice before tying up a large chunk of their wealth in a single hedge fund. An investment option may be a fund of funds investment strategy. Actually, the allure of a few funds great track records raises investors' attentions on all hedge fund's track records as being good to great. This is simply not true. In reality, the best track records have high minimum investments such as $5,000,000.00 or $10,000,000.00 or even more. Therefore, all but the wealthiest investors cannot invest in hedge funds with great track records.



PULSE

# U.S. NATIONAL DEBT

**As Of: April 30, 2019, 12:00 P.M. EST**

**The U.S. National Debt Grows At A Rate Of $45,486 Per Second!**

# $25,637,039,388,116

Source: USDebtClock.com

## EGAD! NOW THIS IS VOLATILITY!

**These Are The Movements During The 1929 To 1932 Stock Market Crash**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| -36.0 | in | 43 | Days | -32.9 | in | 80 | Days |
| +18.2 | in | 2 | Days | +27.1 | in | 22 | Days |
| -26.9 | in | 7 | Days | -43.1 | in | 82 | Days |
| +28.7 | in | 16 | Days | +30.6 | in | 28 | Days |
| -11.3 | in | 11 | Days | +34.5 | in | 45 | Days |
| +28.6 | in | 91 | Days | +18.2 | in | 9 | Days |
| -25.2 | in | 60 | Days | +15.9 | in | 22 | Days |
| -12.7 | in | 63 | Days | +19.7 | in | 21 | Days |
| -34.0 | in | 80 | Days | -51.0 | in | 71 | Days |
| +25.8 | in | 58 | Days | | | | |

* Although the New York Stock Exchange used to be open for a partial day of trading on Saturdays, this practice was discontinued in 1952.

As of: January 14, 2019


Source: Oddstats via 361 Capital, LLC, *Viewpoints*, January 14, 2019, www.361capital.com


**Regardless of valuation levels, periods of high unemployment were followed by strong S&P 500 gains, whereas full employment combined with top-quintile valuations produced just +2.9% on a 7-year forward basis. Today's cyclical backdrop suggests it's a very poor time to "risk up".**

## S&P 500 7-YEAR FORWARD ANNUALIZED RETURNS BASED ON STARTING UNEMPLOYMENT RATE & S&P 500 NORMALIZED PRICE-TO-EARNINGS RATIO (P/E)

| Unemployment Rate Quintile | S&P 500 Normalized P/E Quintile: 1 (7.7x - 11.8x) | 2 (11.9x - 16.9x) | 3 (17.0x - 19.4x) | 4 (19.5x - 21.3x) | 5 (21.4x - 34.0x) |
|---|---|---|---|---|---|
| 1 (2.5% - 4.2%) | 17.7 | 12.9 | 4.4 | 2.0 | 2.9 |
| 2 (4.3% - 5.1%) | 20.3 | 11.1 | 8.3 | 5.4 | 4.9 |
| 3 (5.2% - 5.8%) | 18.0 | 13.6 | 9.4 | 6.9 | 4.6 |
| 4 (5.9% - 7.1%) | 17.4 | 14.1 | 12.8 | 13.5 | 8.2 |
| 5 (7.2% - 10.8%) | 17.1 | 13.0 | 16.1 | 16.5 | N/A |

As of: March 15, 2019


Source: CMG Capital Management Group, LLC, *On My Radar*, March 15, 2019

# THE P/E DECLINE HAS BEEN GREATLY EXAGGERATED

By Doug Ramsey, CFA, CMT, Chief Investment Officer, The Leuthold Group, LLC

The S&P 500 has bounced back to levels seen at the January 2018 spike high, yet is valued more cheaply than it was 14 months ago. How much cheaper is a key debate. Perma-bulls can point to a 23.0% reset in the S&P 500 P/E on 12-month trailing operating Earnings Per Share (EPS). The entire P/E bounce from the December lows, in fact, is contained within a trading range that held during the 2013-2015 period. We'll concede that Chart 1, to the right, is not, on the face of it, one that would send many investors running for the market exits.

A more balanced "weight of the evidence" valuation approach also shows the market cheaper than in early 2018, but by a considerably smaller margin than perma-bulls might have investors believe.

Table 1, to the right, shows the decline in valuations using five metrics for the S&P Industrials Index, which are part of our "Estimating the Downside" section published in the Appendix of every Green Book. Based on the average of these measures, this index (which strips out Transports, Financials, and Utilities from the S&P 500) is about 9.0% cheaper than in January 2018—which, in turn, was the most overvalued point in stock market history outside of the several months surrounding the March 2000 market peak.

The average of the five ratios for the S&P 500 are trading about 10.0% below the levels of fourteen months ago. That's progress, but recall that January 2018 was the highest level ever recorded by this "broad market" valuation work, with four of the five measures trading at either their 99th or 100th percentiles!

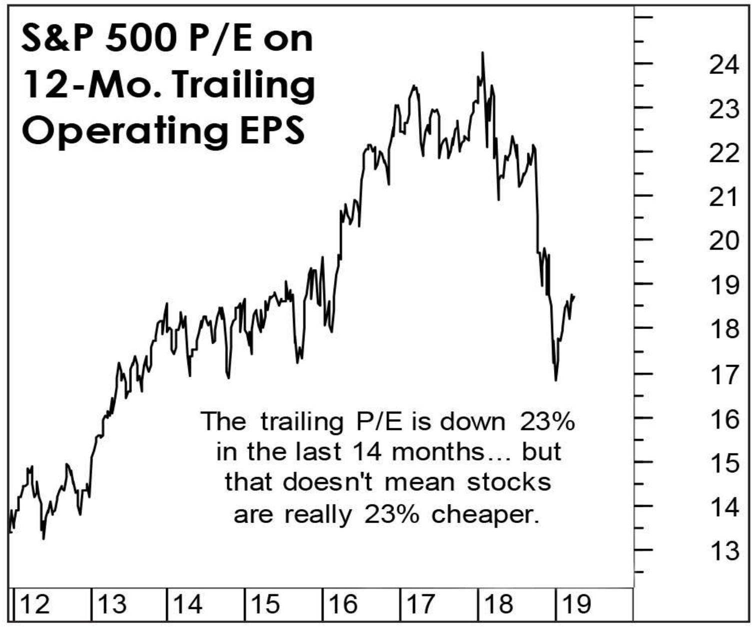
Valuations are down, but not to compelling levels—nor even "interesting" ones.

Don't be fooled by valuations distorted by cyclically pumped-up fundamentals.

**Source: This article was excerpted from "The P/E Decline Has Been Greatly Exaggerated", by Doug Ramsey, CFA, CMT, Chief Investment Officer, The Leuthold Group, LLC, (*Perception Express*, April 5, 2019), http://leuth.us/stock-market**



**CHART 1**




As of: April 5, 2019


Source: The Leuthold Group, LLC, *Perception Express*, April 5, 2019, http://leuth.us/stock-market


**TABLE 1**

## S&P INDUSTRIAL INDEX
## TODAY VERSUS JANUARY 2018 VALUATION PEAK

| Dates | Trailing Op. P/E | Normalized P/E | Price/ Cash Flow | Price/ Sales | Price-to-Book | Average |
|---|---|---|---|---|---|---|
| March 29, 2019 | 20.9 x | 28.7 x | 13.7 x | 2.05 x | 4.34 x | |
| January 31, 2018 | 25.8 | 30.2 | 15.8 | 2.22 | 4.32 | |
| **Pct. Below January 2018** | **-19.0 %** | **-5.0 %** | **-13.3 %** | **-7.7 %** | **0.5 %** | **-8.9 %** |

As of: April 5, 2019


Source: The Leuthold Group, LLC, *Perception Express*, April 5, 2019, http://leuth.us/stock-market


**TABLE 2**

## S&P 500 MEDIAN STOCK
## TODAY VERSUS JANUARY 2018 VALUATION PEAK

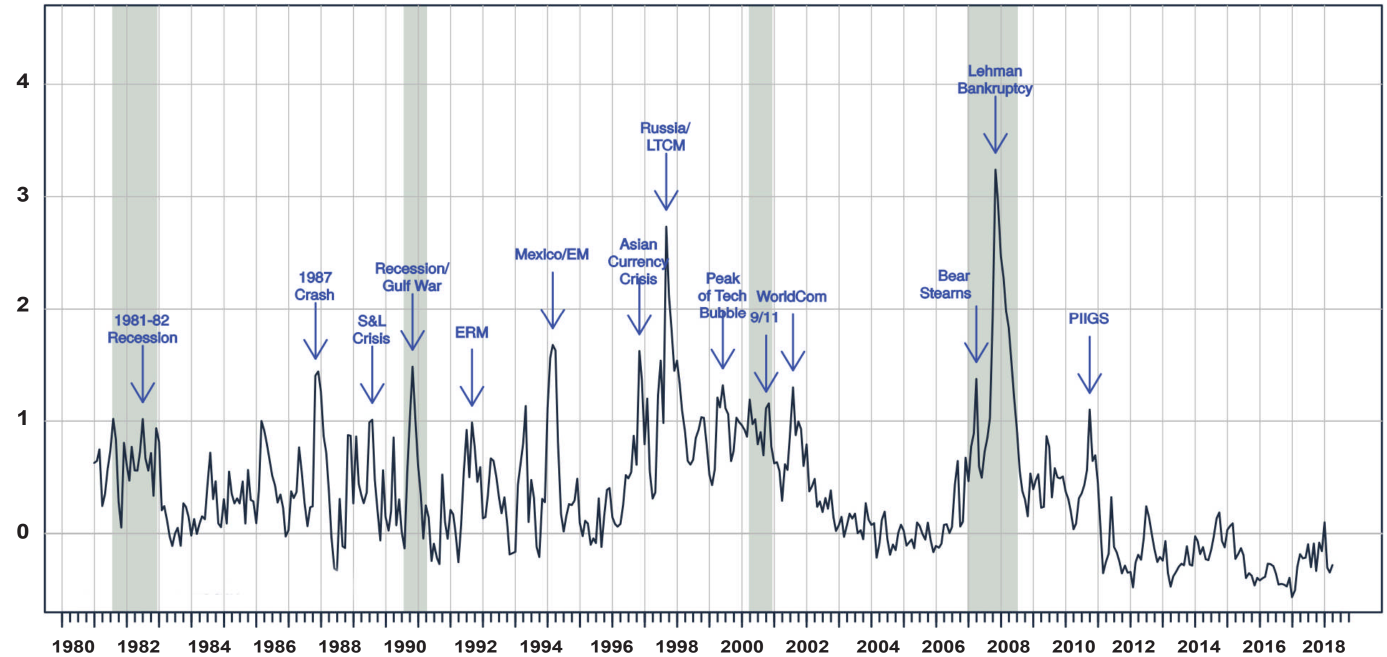
| Dates | Trailing P/E | Normalized P/E | Price/ Cash Flow | Price/ Sales | Price-to-Book | Average |
|---|---|---|---|---|---|---|
| March 29, 2019 | 21.1 x | 26.4 x | 13.6 x | 2.60 x | 3.19 x | |
| January 31, 2018 | 25.5 | 28.2 | 16.2 | 2.63 | 3.45 | |
| **Pct. Below January 2018** | **-17.2 %** | **-6.4 %** | **-16.0 %** | **-1.1 %** | **-7.5 %** | **-9.7 %** |

As of: April 5, 2019


Source: The Leuthold Group, LLC, *Perception Express*, April 5, 2019, http://leuth.us/stock-market

## MONTHLY RISK AVERSION INDEX (RAI)
### RISK INDEX INCREASES SLIGHTLY-STILL NEAR LOWEST LEVEL EVER

**Note: The Risk Aversion Index combines ten market-based measures including various credit and swap spreads, implied volatility, currency movements, commodity prices and relative returns among various high- and low-risk assets.**



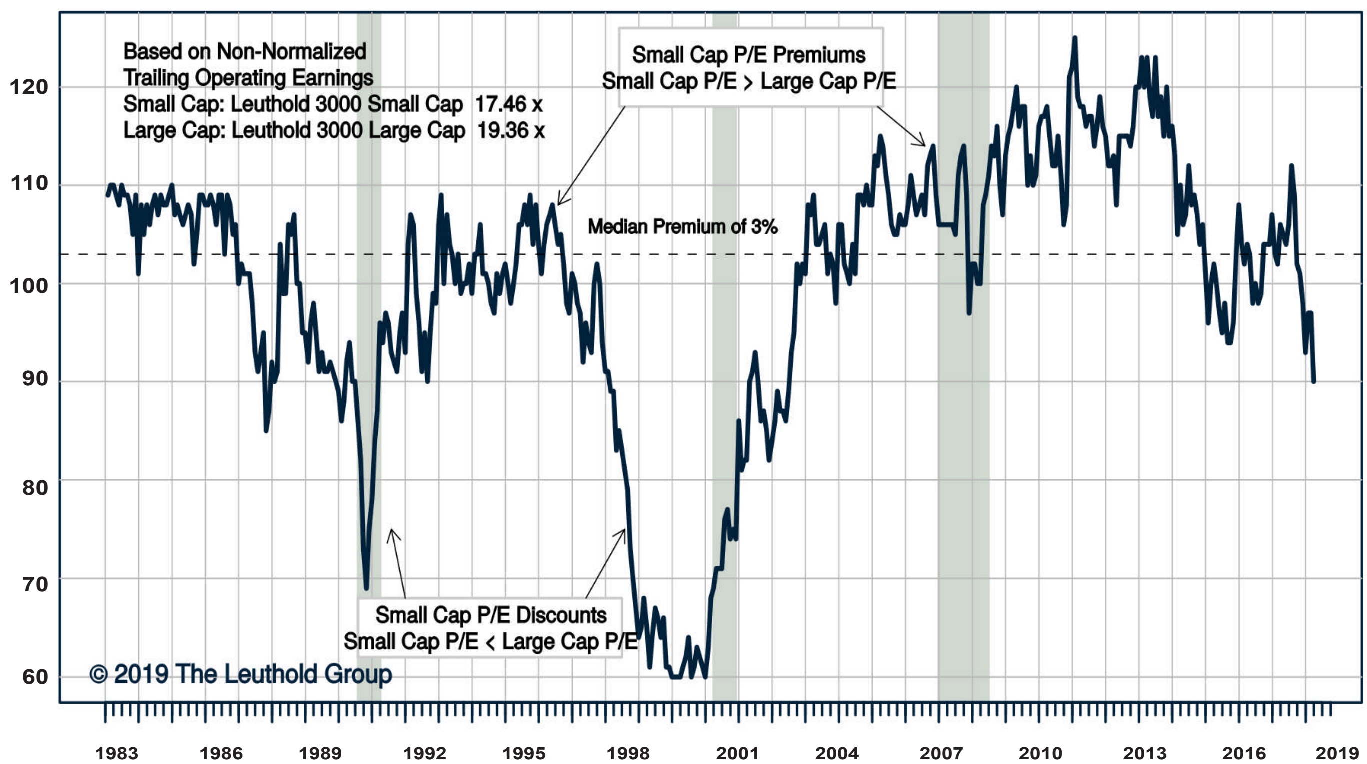

As of: April 5, 2019



Source: The Leuthold Group, LLC, *Perception Express*, April 5, 2019, http://leuth.us/macro-monitor



## U.S. SMALL CAP TO U.S. LARGE CAP HISTORICAL PRICE TO EARNINGS (P/E) RATIO
### U.S. Small Cap Valuations 10.0% Less Expensive Than U.S. Large Stocks




As of: April 5, 2019

Source: The Leuthold Group, LLC, *Perception Express*, April 5, 2019, http://leuth.us/market-internals

# SECULAR BEAR MARKET WATCH

## April 1, 2000 to March 31, 2019
## (19 years and 0 months)

| | Annual Compound Return | Total Return |
|---|---|---|
| Consumer Price Index (Inflation) | 2.10% | 48.48% |
| 90-Day Treasury Bills Index-Total Return | 1.58% | 34.69% |
| Bloomberg Intermediate Term Corporate Bond Index | 5.34% | 168.88% |
| Barclays Aggregate Bond Index-Total Return | 4.88% | 147.24% |
| High Yield Corporate Bond Index – Total Return | 8.64% | 383.46% |
| S&P Leveraged Loan Index – Total Return | 4.84% | 145.51% |
| S&P 500 Index (U.S. Stock Market) | 5.44% | 173.77% |
| Russell 2000 Index (Small-Caps) | 7.08% | 266.93% |
| MSCI EAFE Index (Developed Foreign Equities) | 3.49% | 91.94% |
| MSCI Emerging Market Index (Equities) | 6.79% | 248.71% |
| Newedge CTA Index (Managed Futures) | 4.12% | 115.29% |
| HFRX Global Hedge Fund Index | 2.15% | 49.73% |
| Dow Jones–UBS Commodity Index-Total Return (USD)** | -1.02% | -17.70% |
| Dow Jones U.S. Real Estate Index-Total Return (USD)** | 10.64% | 583.29% |
| Gold Bullion | 8.42% | 364.44% |

As of: March 31, 2019

Compound and Total Returns include reinvested dividends. MSCI Indexes do not include dividends prior to 2002. Newedge Index is equally-weighted.

** USD = U.S. Dollar

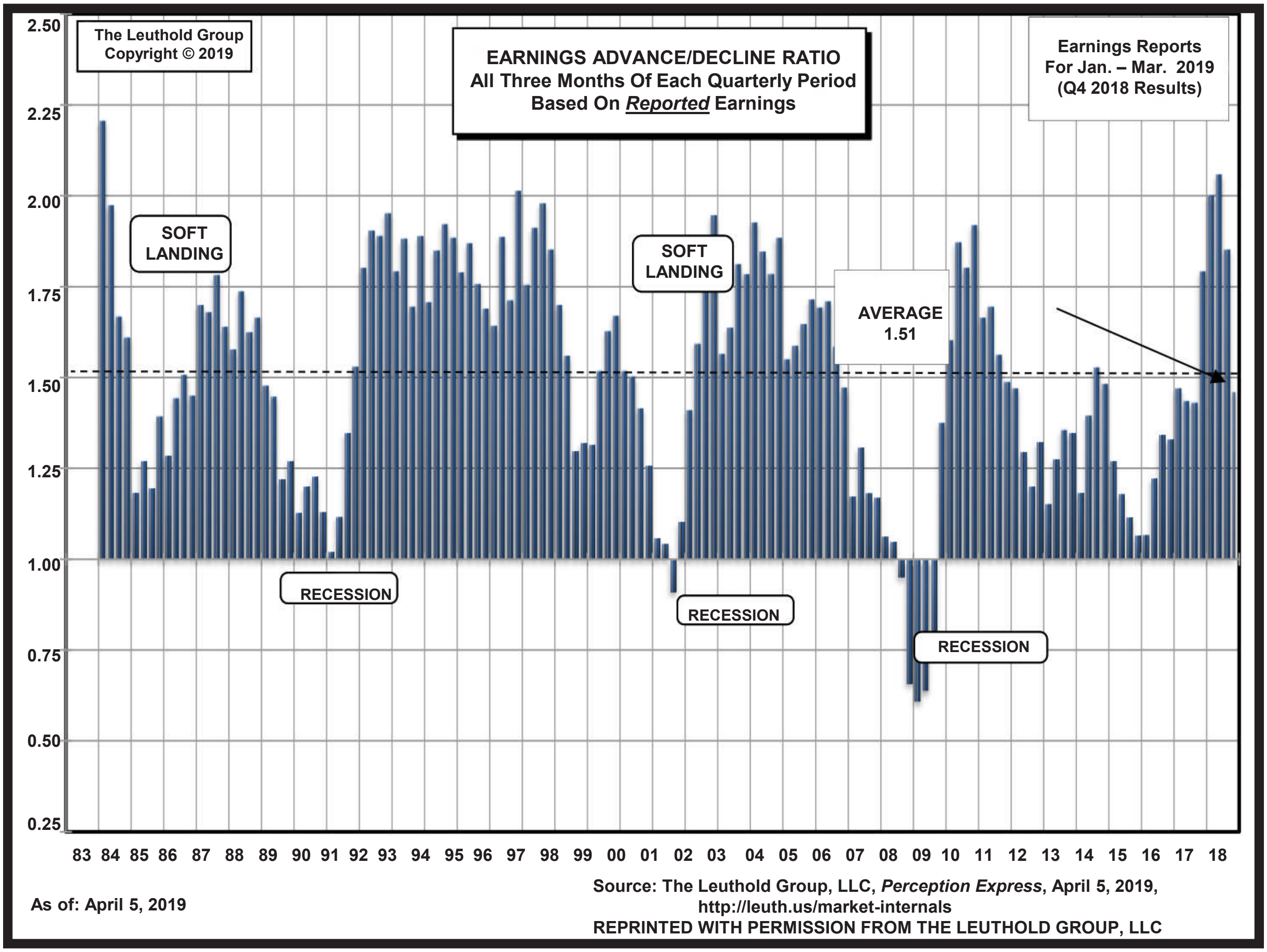
Source: Bloomberg Investment Service



**Note:** During Secular Bear markets U.S. Stocks have historically returned a little more than inflation or a little less than inflation—plus or minus 1.50%—and generally last between 15 to 25 years. The last Secular Bear market (1966 to 1982) lasted 17 years and underperformed inflation by approximately one-half of one percent per year. The other Secular Bear markets since 1900 were 1901 to 1920 and 1929 to 1949. In both cases, the U.S. Stock market outperformed inflation by approximately 1.50% per year. All of the aforementioned performance numbers are pre-tax.

The performance of the U.S. Stock market so far in the current period (April 1, 2000 to the present) certainly appears to indicate that we are in a Secular Bear market. Long-term returns (over the next 10 years) for the S&P 500 will probably be slightly worse than the last 19 years and 0 months. Current 10 year normalized P/Es (long-term valuations) indicate approximate annual compound returns of slightly less than 3.00% over the next 10 years. Of course during the next 10 years, returns during various periods will be significantly higher and lower than the expected return. For example, the more the stock market rises in the near term, the less returns after that period will be and vice versa.

Up/Down, *continued from page 1*




## Current Up/Down Earnings Ratio: 1.46

## Reporting Period: January to March (Fourth Quarter 2018 Results)

## Earnings Reported:

| | Number of Companies |
|---|---|
| **Companies Reporting Higher Earnings** | **2,746** |
| **Companies Reporting Lower Earnings** | **1,881** |
| **Total Companies Reporting Through March 31, 2019:** | **4,627** |

Each day all company earnings reports published by Investor's Business Daily are logged. These are segmented into the "up" earnings (higher year over year earnings per share) and the "down" earnings (lower year over year earnings per share).

Source: This article was excerpted from "Up/Down Earnings: Gasp, Below Average", by Phil Segner, CFA, Research Analyst, The Leuthold Group, LLC, (*Perception Express*, April 5, 2019), http://leuth.us/market-internals



PULSE

# LEGEND FINANCIAL ADVISORS, INC.® & EMERGINGWEALTH INVESTMENT MANAGEMENT, INC.'S® INVESTMENT MANAGEMENT SERVICES

Legend Financial Advisors, Inc.® (Legend) and EmergingWealth Investment Management, Inc.® (EmergingWealth) offer Personalized Investment Management Services to individuals and institutions. Investment portfolios are developed to match the client's return and risk requirements, which are determined by the clients' completion of a Risk Comfort Zone Questionnaire, with the guidance of a Legend Wealth Advisor or EmergingWealth Advisor, respectively. Each type of investment portfolio is managed to achieve the short, intermediate and long-term investment objectives of the client, as may be applicable.

## INVESTMENT PROCESS

**Investment Portfolios:**

Unlike most financial advisory firms that offer one style of investment or portfolio type, we offer a wide array of investment portfolios that usually fit with the large majority of client needs. If necessary, we will create customized solutions as well. For the types of investment portfolios, please see our Investment Portfolios, Potential Return and Risk Spectrum Chart on the next page. For a detailed description of our portfolios, please contact Louis P. Stanasolovich, CFP®, founder, CEO and President of both firms for a confidential discussion at (412) 635-9210 or e-mail us at legend@legend-financial.com.

**Investment Research:**

Our Investment Committee performs extensive research to identify opportunities, mitigate risks and structure investment portfolios. Emphasis is placed on developing portfolios that maximize the potential return relative to the amount of risk taken.

In-depth due diligence including face-to-face interviews in many instances with portfolio managers for open-end mutual funds is performed on each investment we select for a portfolio. Factors (both from a qualitative and quantitative standpoint) that we conduct a thorough analysis of each investment include, but is not limited to, liquidity (including the primary investment and/or the underlying investments, if utilizing pass through vehicles such as open-end mutual funds or exchange-traded products), income taxation, all related costs, return potential, drawdown potential (historical declines from peak-to-trough), volatility and management issues (Anything having to do with the management team of a stock, open-end mutual fund or an exchange-traded product.).

All portfolios for EmergingWealth are subadvised by Legend.

**Client Education:**

Education is very important to us. We are dedicated to educating each client about the different investment portfolio types and how they relate to market volatility, time horizons, and investment returns. It is our goal to ensure that the client understands and agrees with our investment philosophy. Furthermore, we assist each client in selecting a risk tolerance level with which they are comfortable. Ultimately, an investment portfolio is designed to meet the client's objectives.

## PERFORMANCE REPORTING

Many investment firms only offer monthly brokerage statements, which provide minimal information; typically only account and investment balances. We, on the other hand, provide detailed quarterly reports that outline performance, income and management fees (among other items) in a simple, easy-to-read report. In addition, each performance report is sent with an extensive index page that illustrates the investment environment during the reporting period.

## FEES

To find out more about the fees for either Legend or EmergingWealth's Investment Management services, please contact Louis P. Stanasolovich, CFP®, founder, CEO and President of both firms for a confidential discussion at (412) 635-9210 or e-mail us at legend@legend-financial.com.