August, 2020

# THE GLOBAL INVESTMENT PULSE

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

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## SINCE LATE 2002, THE NASDAQ 100 HAS OUTPERFORMED THE S&P 500 BY A FACTOR OF 3.3 TO 1

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

The NASDAQ 100's [The index is composed of approximately 70.0% technology stocks, 20.0% consumer discretionary (retail stocks) and 10.0% healthcare.] collapse relative to the S&P 500 ended in late 2002.

Since then, the NASDAQ 100 has outperformed the S&P 500 by a factor of 3.3 times, yet valuations for the NASDAQ 100 are not highly valued primarily due to the profitability of its underlying stocks. Nevertheless, valuations are somewhat high, but considering how low interest rates currently are, valuations have room to expand.

NASDAQ, *continued on page 4*

## U.S. TREASURY INTEREST RATES START TO CLIMB

### Bond Investors Worst Fears May Be Coming True

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

Less than a month ago (August 4, 2020), U.S. Government securities' interest rates bottomed. Since then, interest rates have started to climb resulting in losses for U.S. Government bond investors, except for the shortest maturities. This is evidenced by the chart on page 6. Obviously, if interest rates fluctuate in a narrow range, this will barely impact returns.

U.S. Treasuries, *continued on page 6*

**See "The Future Investing Enviornment" Chart On Page 5**

## WILL LONG-TERM INFLATION EXCEED 2.0%?

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

On Thursday, August 27, 2020, Jerome Powell, the Federal Reserve Chairman, announced that The Federal Reserve Board (Fed) would let inflation (the Consumer Price Index or CPI) slightly exceed a 2.0% annual inflation rate periodically and would, therefore, not rush to increase interest rates if inflation would reach that level. Currently, the long-term

Inflation, *continued on page 8*

## APPRECIATING LUMBER PRICES: OH WOW!

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

Lumber prices have been skyrocketing in 2020. Since the start of 2020, wood has soared approximately 190.0% as lumber demand has surged on an increase in home renovations and new home building during coronavirus lockdowns and supply was constrained by closed mills. On August 28, 2020, lumber hit a new record high of $916.30 per board foot, almost three times higher than the 10-year average of $338.00.[1] So how does an investor invest in this asset class? The answer: Not easily!

Lumber, *continued on page 3*

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## FOUR REASONS TO CHOOSE LEGEND

1. Legend is a Fee-Only, Fiduciary advisory firm. Fee-Only means Legend is compensated exclusively by client fees. Unlike Legend, fee-based advisors and brokerage firms have numerous conflicts of interest due to the fact that they receive commissions.
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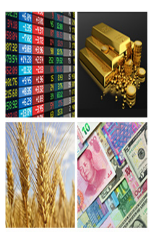
3. Legend designs dynamic, creative and personalized financial planning and investment solutions for its clients.
4. Legend emphasizes low-cost investments where possible and attempts to trade and allocate investments in an income tax-efficient manner.

## ABOUT EMERGINGWEALTH INVESTMENT MANAGEMENT, INC.®



EmergingWealth Investment Management, Inc.® (EmergingWealth), is the sister firm of Legend Financial Advisors, Inc.® (Legend) and is a 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. Mr. Stanasolovich is also the Chief Investment Officer at both Legend and EmergingWealth. Lou is the Editor of The Global Investment Pulse, a publication designed to guide investors on how to build better investment portfolios and improve their investment decision-making.

Mr. Stanasolovich earned the Certified Financial Planner™ designation in 1984 and was admitted to The Registry of Financial Planning Practitioners in 1986. He is a member of the Financial Planning Association (FPA), and is a Registered Financial Advisor with The National Association of Personal Financial Advisors (NAPFA), the nation's largest Fee-Only professional organization.

Lumber, *continued from page 1*

Lumber is not easy to transport and therefore, can't be invested in directly. It often is invested in through futures contracts. However, this is where most of the investing public throws up its hands and goes on to other asset classes.

One way to invest in this asset class, at least indirectly is through home improvement retailers like Home Depot, up 33.0% year-to-date, and Lowe's, up 40.0%, which have benefited from increased lumber prices.

Also, despite the increased lumber costs, it hasn't hurt the stock prices of most homebuilders either. Some homebuilders have appreciated over 70.0% since the February/March downturn.

Still another way to participate in appreciating lumber prices is by investing in forestry companies. Some of these have exceeded 50.0% to 80.0% since their March 2020 lows.

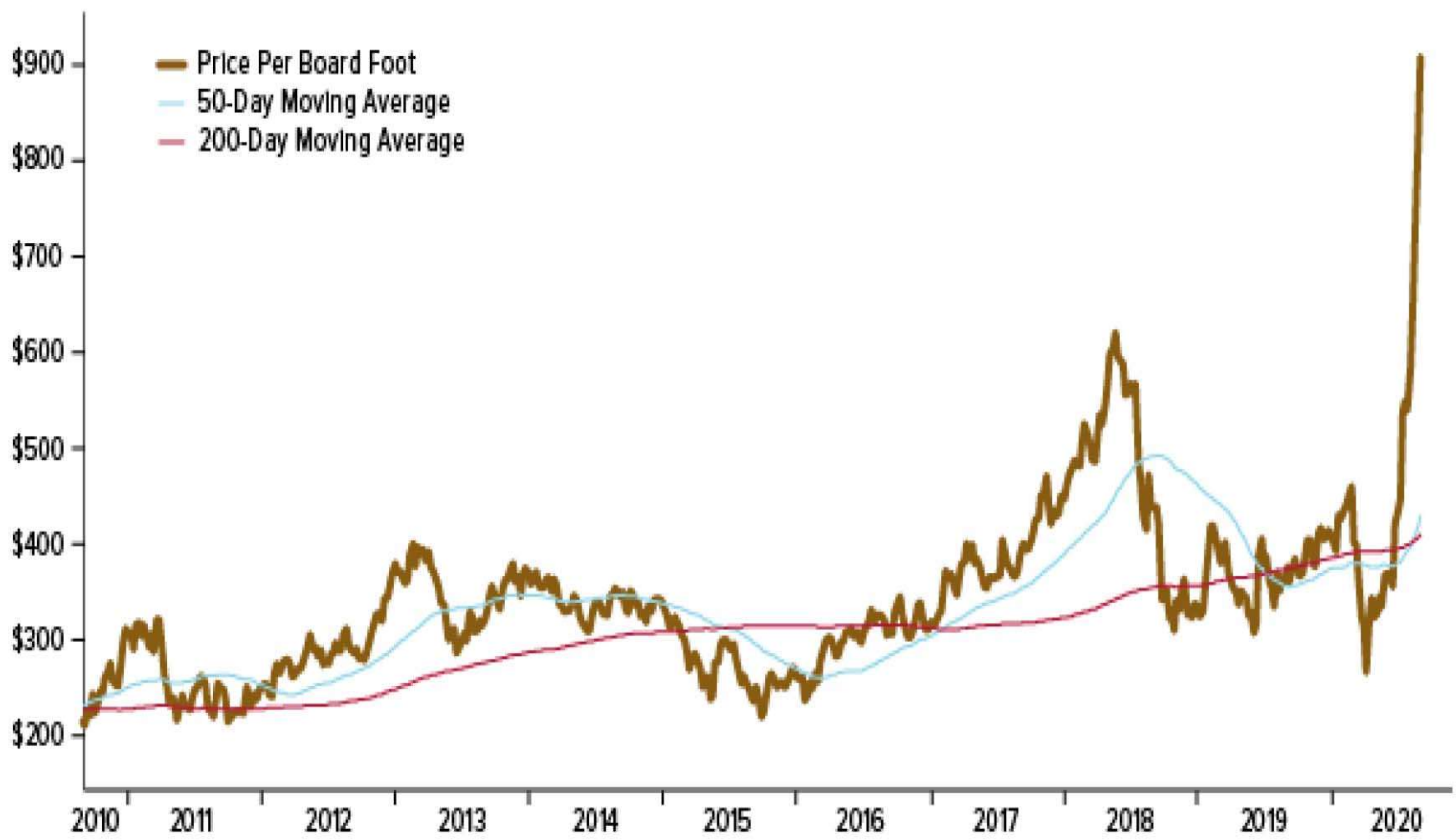
In short, no matter which method of investing in lumber in 2020 has been a winner.

See chart "Lumber Prices Have Continued to Soar to New Highs" below.

**[1] "Is Headline CPI Inflation "Fake News"?", by Frank Holmes, CEO and Chief Investment Officer, U.S. Global Investors, (Investor Alert, August 28., 2020), www. usfunds.com.**



**LUMBER PRICES HAVE CONTINUED TO SOAR TO NEW HIGHS**
**10-Year Period Through August 28, 2020**




**As of: August 28, 2020**


**Source: Bloomberg via U.S. Global Investors., *Investor Alert*, August 28, 2020, www.usfunds.com**

NASDAQ, *continued from page 1*

At this point in time, the following valuations reflect the make-up of the NASDAQ 100:

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| Sector | Approximate NASDAQ 100 Weight | Approximate Price-To-Earnings Ratio | Approximate Price-To-Cash Flow Ratio |
|---|---|---|---|
| Technology | 70.0% | ~32.0 | ~21.0 |
| Consumer Discretionary | 20.0% | ~47.0 | ~19.0 |
| Healthcare | 10.0% | ~22.0 | ~14.75 |

At some point in the future, the NASDAQ 100 will revert to its mean (Valuations for the S&P 500 and the NASDAQ 100 would be relatively equal, which last occurred in 2002.). However, given today's stock market climate, that event would not likely occur until we have a Recession that affects the above-mentioned three sectors. Based upon what drives our economy today, it does not appear that reverting to the mean appears to be in the cards anytime soon. If anything, technology-driven solutions for technology companies, retailers and healthcare providers would seem to continue driving the outperformance of the NASDAQ 100.

If there is any type of reversion to the mean or partial reversion in the next few years, the entire economy will have to be doing well and the profitability of the NASDAQ 100 companies will need to slow. Most investors have doubts of this occurring.



**NASDAQ 100 INDEX RELATIVE TO S&P 500 INDEX**
**Daily Data: December 31, 1997 to July 21, 2020**


As of: July 31, 2020

Source: Bloomberg Finance LP, S&P Dow Jones Indices via CMG Weatlh.com

# THE FUTURE INVESTING ENVIROMENT

1. Traditional Fixed Income Investment Return Expectation Next 10 Years

    A. Extremely Low (Barely Positive If Any Return) Single Digit Returns For High Quality-Rated Fixed Income Investments

    B. Lower Quality Fixed And Variable Rate Investments – Lower Mid-Single Digit Return Expectations

2. Expected Equity Investment Returns Next 10 Years

    A. U.S. Equity Returns For The S&P 500 – Approximately -1.0% to +3.0%

    B. Higher Returns Can Be Achieved By Taking Advantage Of Rising Trends, Sectors and Sub-Sectors And Avoiding Declining Negative Trends, Sectors and Sub-Sectors.

    C. In Large Declines Move to Cash to Prevent Losses

    D. REITs Offer Poor Returns – Given The Outlook For Office Space, Malls And Shopping Centers.

    E. Emerging Market and Developed Market Equities Offer 3.0% to 5.0% Returns With Increased Volatility If The U.S. Dollar Falls In Value.

    F. Commodities Offer Poor Returns Unless Economic Growth Rises Substantially!  Some Metals May Increase In Value.

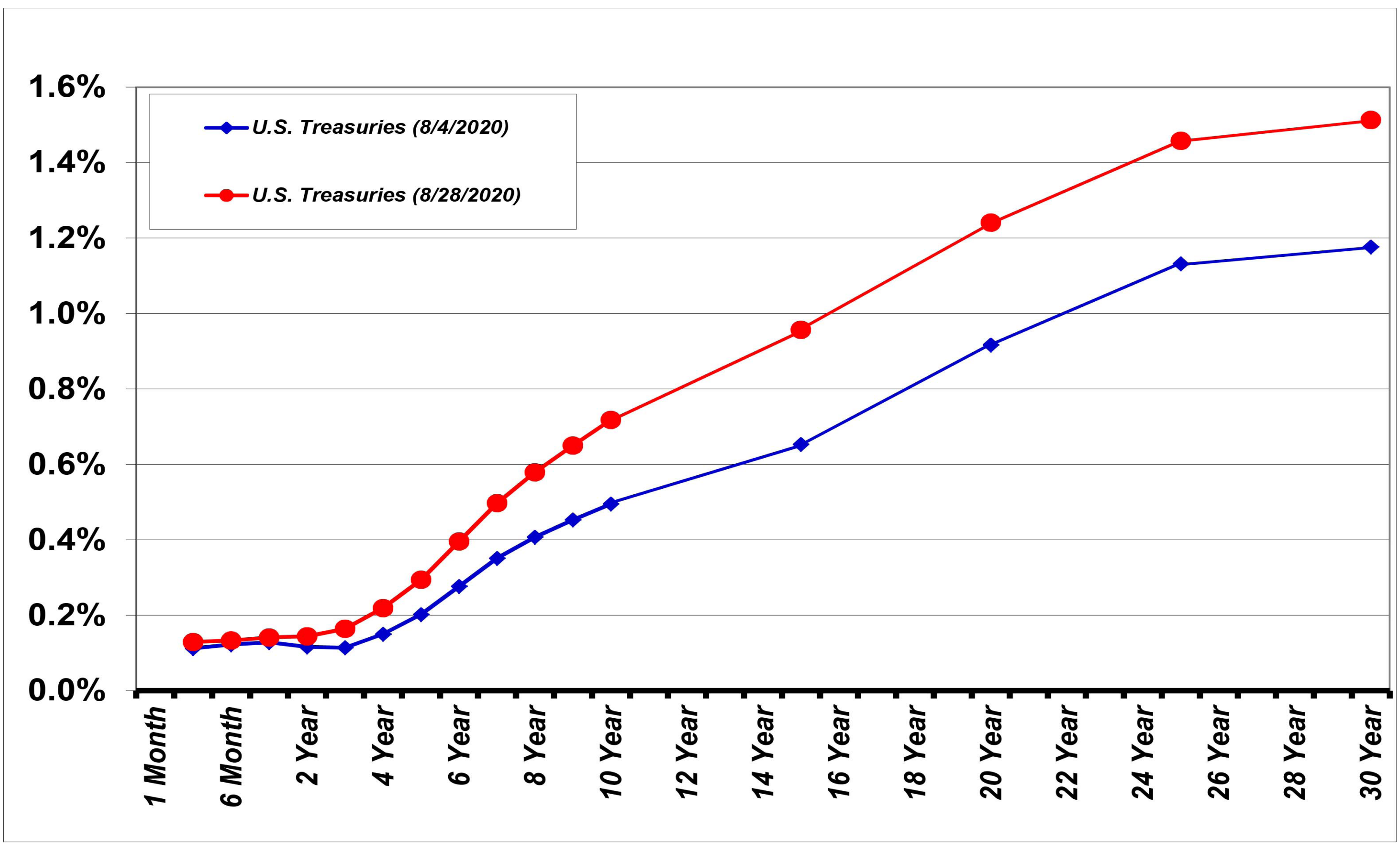
However, if interest rates continue to increase, returns could be negative. This situation would likely occur only if inflation creeps into the economic picture more than expected and/or the economy begins to rapidly expand.

Only if interest rates would fall, would there be any type of positive return for bond holders. The Federal Reserve has stated that they do not want negative interest rates. Therefore, any type of positive return would be negligible and only then, it would be driven by panicked stock market investors.

The current interest rate environment is the worst possible case for bond investors. Many top investment managers and economists have stated to avoid bonds. At this point in time, they are a lose-lose proposition. At best, these investors can hope to earn the meager coupon returns.



## U.S. TREASURIES INTEREST RATES INCREASING




**As of: August 28, 2020** **Source: Bloomberg Investment Services**

# CHARACTERISTICS OF CYCLICAL AND SECULAR STOCK MARKETS

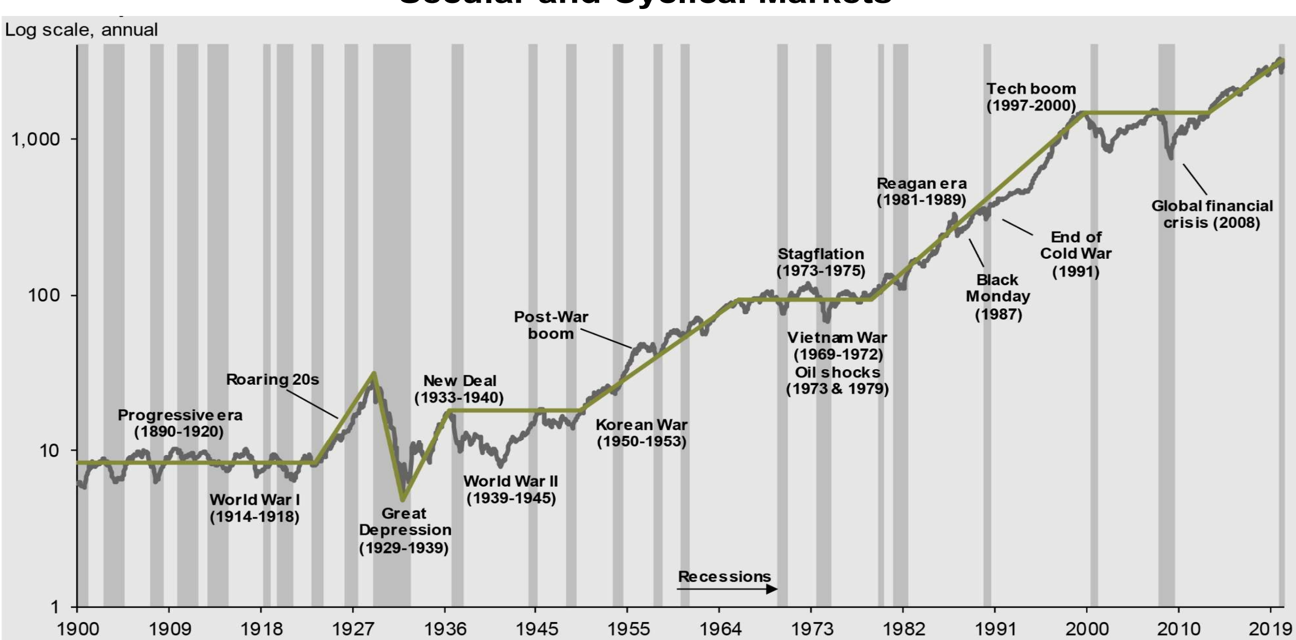
| | |
|---|---|
| **CYCLICAL BULL STOCK MARKET** | Generally 1 to 5 years in length<br>Positive returns far exceed inflation<br>Tend to be shorter within Secular Bear Market<br>Tend to be longer within Secular Bull Market |
| **CYCLICAL BEAR STOCK MARKET** | Generally 1 to 3 years in length<br>Characterized by negative returns<br>Tend to be longer within Secular Bear Market<br>Tend to be shorter within Secular Bull Market |
| **SECULAR BULL STOCK MARKET** | Generally 10 to 20 years in length<br>Positive returns provide nominal mid-teens type returns which far exceed inflation |
| **SECULAR BEAR STOCK MARKET** | Generally 15 to 25 years in length<br>Nominal returns are usually positive but barely out pace inflation over the entire period if they do at all. |

Source: Legend Financial Advisors, Inc.®



# S&P COMPOSITE INDEX

## Secular and Cyclical Markets




**All Gray Lines Represent Recessions**

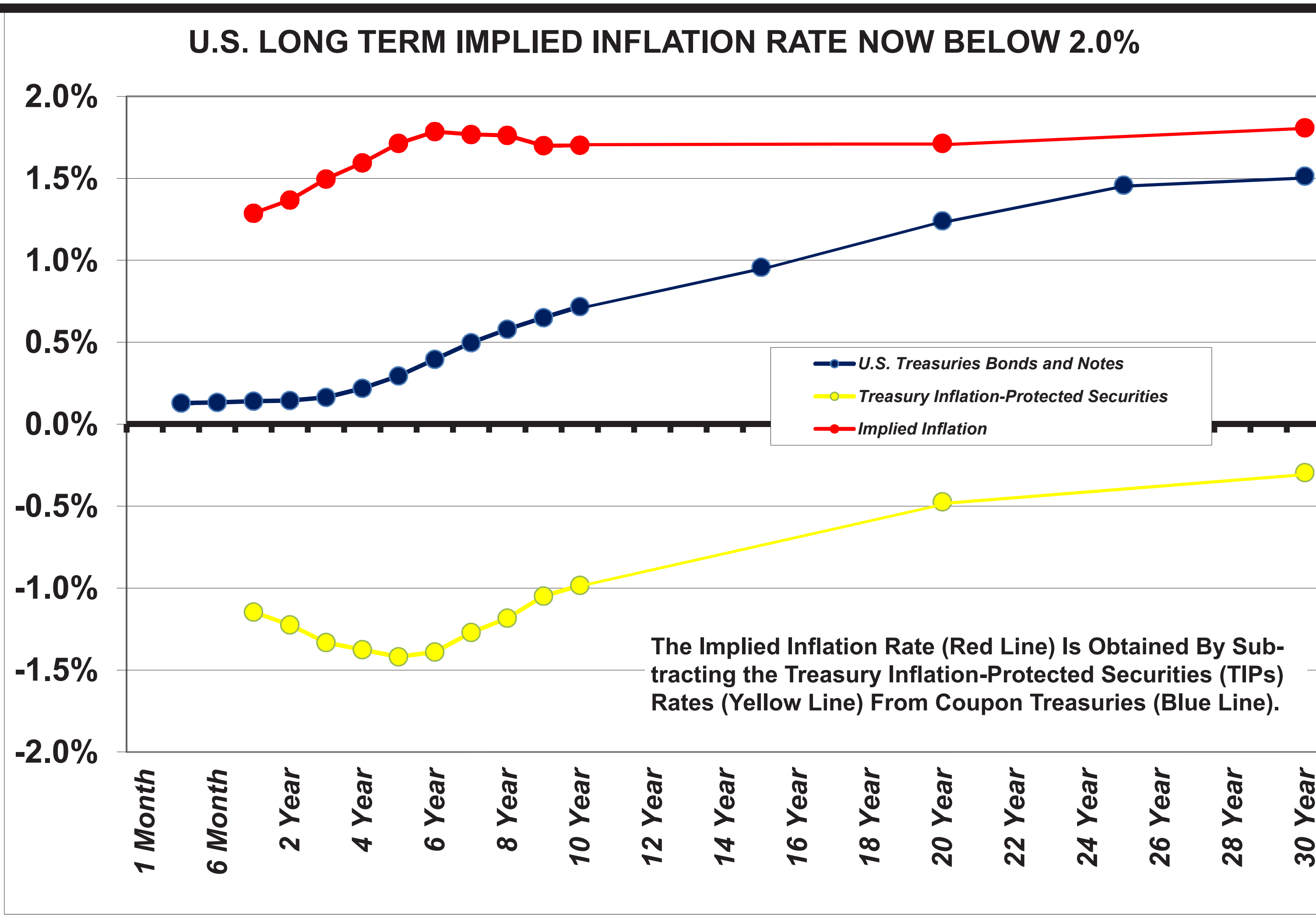
As of: June 30, 2020

Source: FactSet, NBER, Robert Shiller, J.P. Morgan Asset Management
Data shown in log scale to best illustrate long-term index patterns.

inflation rate is approximately 1.6%. In order to arrive at the Fed's goal for inflation, the economy could expand substantially without danger to the inflation rate. Unemployment numbers could drop to the 5.0% range from current levels of over 10.0%. Also, Gross Domestic Product (GDP) could rise considerably without pushing the U.S. economy above the 2.0% inflation rate.

All the above implications would be a positive for the long-term inflation goal and the growth of the U.S. economy.






**As of: August 28, 2020** **Source: Bloomberg Investment Services**

# FED WATCH

## INTEREST RATES AS OF AUGUST 28, 2020

| | |
|---|---|
| **Fed Funds Rate Range:** | **0 – 0.25%** |
| **Fed Discount Rate:** | **0.25%** |

## 2020 UPCOMING FED MEETING SCHEDULE

**September 15-16**

**November 4-5**

**December 15-16**

Source: Bloomberg Investment Services

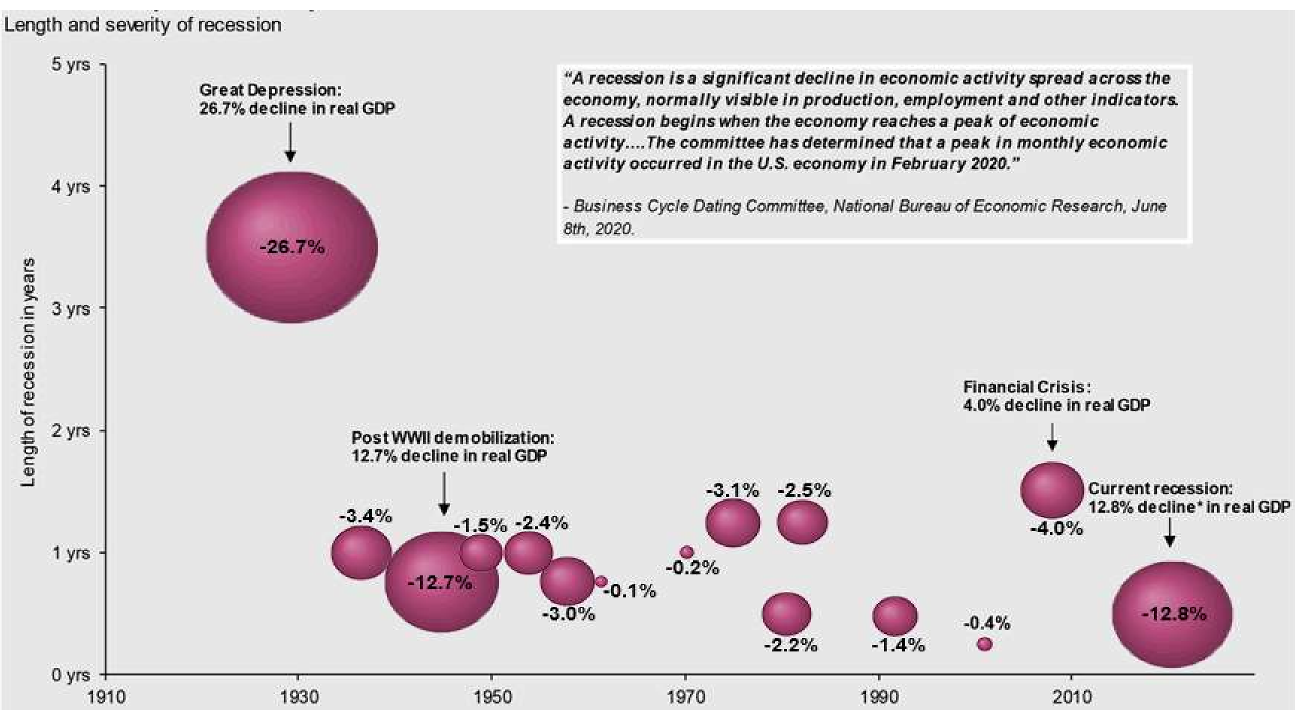
# ECONOMIC CONTRACTION DEFINITIONS

| | |
|---|---|
| **Recession:** | **Two or more consecutive quarters of contracting real GDP Of Between 0.0% and 5.0%.** |
| **Severe or Deep Recession:** | **A Recession where real GDP contracts between 5.0% and 10.0%.** |
| **Depression:** | **An Economic Contraction where real GDP contracts between 10.0% And 25.0%** |
| **Great Depression:** | **A Depression with peak-to-trough contraction in real GDP that exceeds 25.0%.** |

Source: Legend Financial Advisors, Inc.®



## THE GREAT DEPRESSION AND POST-WAR RECESSIONS LENGTH AND SEVERITY OF RECESSION

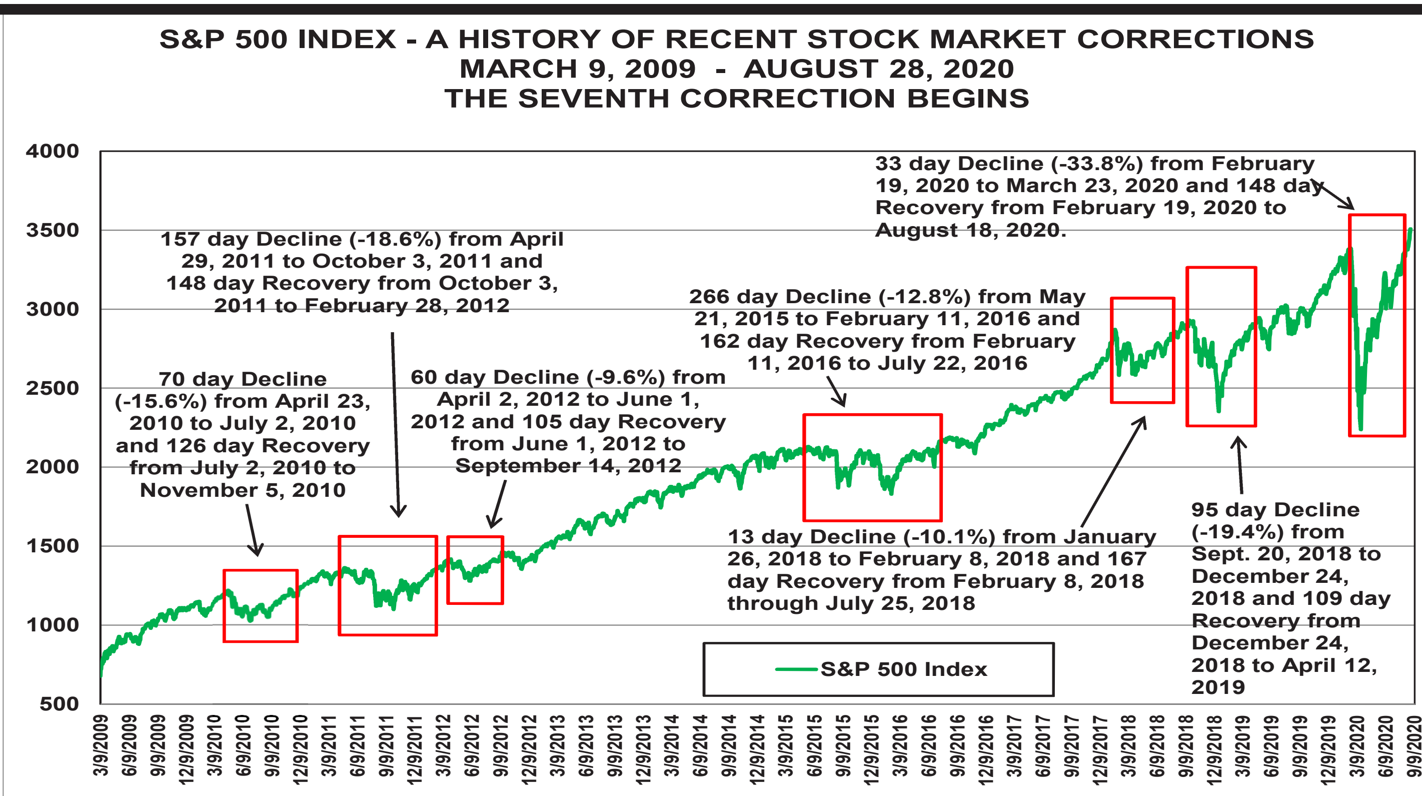



Note: Bubble size reflects the severity of the recession, which is calculated as the decline in real GDP from the peak quarter to the trough quarter except in the case of the Great Depression, where it is calculated from the peak year (1929) to the trough year (1933), due to a lack of available quarterly data. *Current recession reflects JPMAM estimate of peak to trough decline for the recession beginning after February 2020 according to the NBER.

Source: National Bureau of Economic Research (NBER), BEA, J.P. Morgan Asset Management



As of: June, 2020




As of: August 28, 2020

Source: Bloomberg Investment Services, L.P.



## ANNUAL ASSET CLASS PERFORMANCE

| | 2015 Annual Return | 2016 Annual Return | 2017 Annual Return | 2018 Annual Return | 2019 Annual Return | August 12, 2020 YTD Return |
|---|---|---|---|---|---|---|
| Consumer Price Index (Inflation) | 0.73% | 2.07% | 2.11% | 1.91% | 2.29% | 0.83%* |
| 90-Day Treasury Bills Index-TR | 0.05% | 0.32% | 0.93% | 1.94% | 2.06% | 0.32%* |
| Bloomberg Intermediate Term Corporate Bond Index | 0.65% | 5.35% | 3.92% | 0.88% | 10.14% | 5.82% |
| Barclays Agg. Bond IDX - TR | 0.55% | 2.65% | 3.54% | 0.01% | 8.72% | 7.21% |
| High Yield Corp. Bond IDX – TR | -2.52% | 15.68% | 6.88% | -1.97% | 16.34% | 7.30% |
| S&P Leveraged Loan IDX – TR | -0.69% | 10.14% | 4.11% | 0.47% | 8.64% | -1.95% |
| S&P 500 Index (U.S. Stocks) | 1.37% | 11.95% | 21.82% | -4.39% | 31.48% | 5.85% |
| Russell 2000 IDX (U.S. Small) | -4.41% | 21.28% | 14.63% | -11.03% | 25.49% | -4.33% |
| MSCI EAFE Index (Developed Foreign Equities) | -0.28% | 1.59% | 25.69% | -13.32% | 22.77% | -4.26% |
| MSCI EMRG MKT Equities IDX | -14.61% | 11.27% | 37.51% | -14.49% | 18.63% | -0.10% |
| Newedge CTA IDX (MGD FUT.) | 0.03% | -2.89% | 2.48% | -5.84% | 6.26% | -0.89% |
| HFRX Global Hedge Fund IDX | -3.64% | 2.50% | 5.99% | -6.72% | 8.62% | -0.85% |
| Dow Jones-UBS Commodity Index-Total Return (USD)** | -24.70% | 11.40% | 0.75% | -12.99% | 5.44% | -13.13% |
| Dow Jones-U.S. Real Estate Index-Total Return (USD)** | 2.14% | 7.56% | 9.84% | -4.03% | 28.92% | -9.69% |
| Gold Bullion | -10.46% | 8.63% | 13.68% | -2.14% | 18.87% | 27.04% |

*Data as of July 31, 2020

As of: August 12, 2020



1

# SECULAR BEAR MARKET WATCH

## April 1, 2000 to July 31, 2020
## (20 years and 4 month)

| | Annual Compound Return | Total Return |
|---|---|---|
| Consumer Price Index (Inflation) | 2.06% | 51.34% |
| 90-Day Treasury Bills Index-Total Return | 1.54% | 36.36% |
| Bloomberg Intermediate Term Corporate Bond Index | 5.58% | 201.79% |
| Barclays Aggregate Bond Index-Total Return | 5.21% | 181.26% |
| High Yield Corporate Bond Index – Total Return | 8.86% | 462.26% |
| S&P Leveraged Loan Index – Total Return | 4.60% | 149.53% |
| S&P 500 Index (U.S. Stock Market) | 5.95% | 224.30% |
| Russell 2000 Index (Small-Caps) | 6.49% | 259.37% |
| MSCI EAFE Index (Developed Foreign Equities) | 3.33% | 94.86% |
| MSCI Emerging Market Index (Equities) | 6.66% | 271.26% |
| Newedge CTA Index (Managed Futures) | 4.04% | 124.03% |
| HFRX Global Hedge Fund Index | 2.30% | 58.93% |
| Dow Jones–UBS Commodity Index-Total Return (USD)** | -1.76% | -30.29% |
| Dow Jones U.S. Real Estate Index-Total Return (USD)** | 9.84% | 575.20% |
| Gold Bullion | 10.07% | 605.03% |

As of: July 31, 2020

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 20 years and 4 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.

# 2020 YEAR-TO-DATE PERFORMANCE

## January 1, 2020 to July 31, 2020
## (7 months)

| | 2020 Year-To-Date Return |
|---|---|
| Consumer Price Index (Inflation) | 0.83% |
| 90-Day Treasury Bills Index-Total Return | 0.32% |
| Bloomberg Intermediate Term Corporate Bond Index | 5.80% |
| Barclays Aggregate Bond Index-Total Return | 7.72% |
| High Yield Corporate Bond Index – Total Return | 6.90% |
| S&P Leveraged Loan Index – Total Return | -2.74% |
| S&P 500 Index (U.S. Stock Market) | 2.38% |
| Russell 2000 Index (U.S. Small-Caps) | -10.58% |
| MSCI EAFE Index (Developed Foreign Equities) | -8.92% |
| MSCI Emerging Market Index (Equities) | -1.53% |
| Newedge CTA Index (Managed Futures) | -0.18% |
| HFRX Global Hedge Fund Index | 0.25% |
| Dow Jones–UBS Commodity Index-Total Return (USD)** | -15.10% |
| Dow Jones U.S. Real Estate Index-Total Return (USD)** | -10.26% |
| Gold Bullion | 28.87% |

As of: July 31, 2020

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

# 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.