



January, 2019

# THE GLOBAL INVESTMENT PULSE

Published By  
**Legend Financial Advisors, Inc.<sup>®</sup> &  
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## EUROPE'S STRICT EMISSION STANDARDS DRIVE PALLADIUM

By Frank Holmes, CEO and Chief Investment Officer, U.S. Global Investors

As Edited By Louis P. Stanasolovich, CFP<sup>®</sup>, CCO, CEO and President of Legend Financial Advisors, Inc.<sup>®</sup> and EmergingWealth Investment Management, Inc.<sup>®</sup>

### PALLADIUM STRENGTHENS ON INCREASED DEMAND FROM AUTOMOBILE MANUFACTURERS

More Than 80.0% Of World Supply Is Used In The Production Of Catalytic Converters

Palladium might not fill headlines the way gold does, but it's been on fire lately. Not only has the precious metal been the best performing commodity for two years straight, but its price also just shot past gold for the first time since 2001. For the first time ever, it recently broke through \$1,400.00 an ounce this week before pulling back some-

*Palladium, continued on page 4*

## "OPPORTUNITIES FOR DEBT INVESTMENTS OVER THE NEXT THREE YEARS" FREE WEBCAST

Presenter: Louis P. Stanasolovich, CFP<sup>®</sup>, CEO & President of Legend Financial Advisors, Inc.<sup>®</sup>

### "Opportunities For Debt Investments Over The Next Three Years"

**Thursday, February 21st at 7:00 p.m. Eastern Time**

**Wednesday, March 7th at Noon Eastern Time**

To Register: [www.legend-financial.com/webcasts](http://www.legend-financial.com/webcasts)

Urgent Deadline – Limited Registrations Available

Lou will discuss the following topics and more:

- What to invest in until the next Recession occurs
- What to invest in during the Next Recession
- What to invest in once the Recession peaks

Lou is a winner of over 35 major national "Best Advisor" type awards (See Lou's bio on page 2) and is the CEO and President of Legend Financial Advisors, Inc.<sup>®</sup> and EmergingWealth Investment Management, Inc.<sup>®</sup>

Registration is **free**. Please feel free to invite relatives, friends, colleagues, etc. to attend.



## SENIOR FLOATING RATE BANK LOAN INVESTMENTS CONTINUE TO BE ATTRACTIVE

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

Given that U.S. interest rates have been slowly increasing for the past two years, but have stabilized recently, Senior Floating Rate Bank Loans (they are also called Bank Loans or Leveraged Loans) make a lot of sense in the current environment of slowly rising interest rates or for that matter, stable interest rates. Why? Because their interest rate coupons, which are variable, adjust upward or downward in conjunction with interest rates rising and falling. Coupons usually adjust every 30 to 90 days, so at times there may be a slight lag in the interest rate adjustments.

*Floating Rate, continued on page 8*



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](mailto:legend@legend-financial.com)  
(412) 635-9210  
(888) 236-5960

Newsletter Production Manager  
Lori L. Albert  
[legend@legend-financial.com](mailto: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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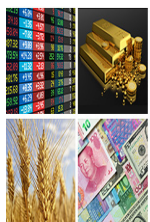
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## LOUIS P. STANASOLOVICH, CFP®, EDITOR

Louis P. Stanasolovich, CFP® is founder, CCO, 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". 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.



# CURRENT UNEMPLOYMENT LEVEL IMPLIES LOW RETURNS

By Stephen B. Blumenthal, Founder and CEO, CMG Capital Management Group, Inc.

The chart below plots the level of “Unemployment.” Yes, unemployment is very low currently (See the “We are here” annotation). The gray bars mark periods of recession.

In short, when unemployment is at a low point, a recession has followed in every situation since 1950. Those periods are bad for stock investors as the biggest losses come when the economy is in recession. High unemployment occurs after a recession because businesses lay off workers. Many businesses fail. Defaults rise. Earnings decline and stocks drop in price. The red line tracks unemployment.

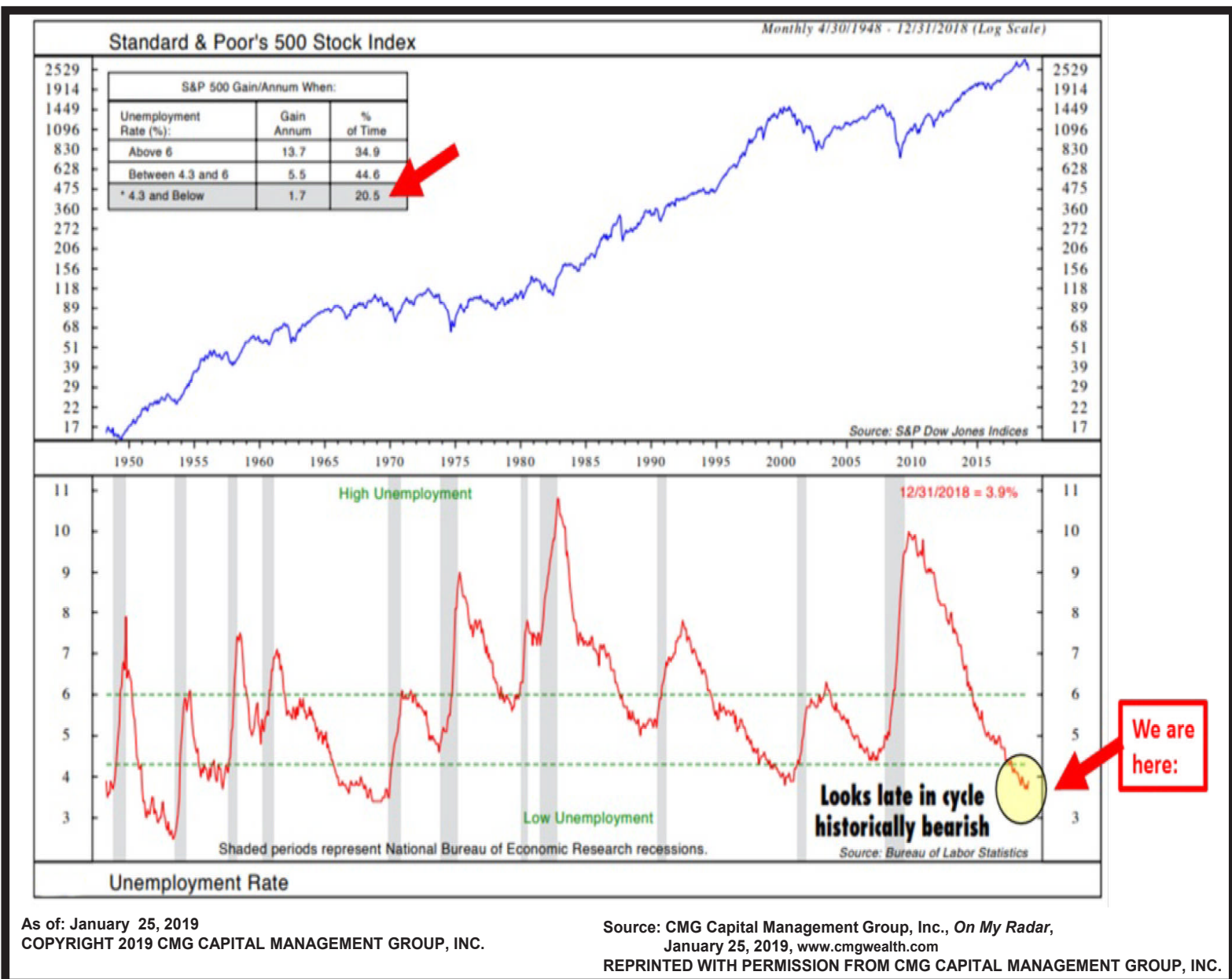
Now focus on the data box in the upper left (red arrow). It points to the “gain per annum” of the S&P 500 Index when unemployment is low... a 1.7% annualized return if the unemployment rate is 4.3% and below. The 20.5% number tells us that unemployment has been in the low zone (below the green dotted line) 20.5% of the time for the period 1948 to present.

The Bottom Line: The economy is now late in the cycle and the best opportunity for stock gains will be after the next recession when unemployment is high.

Source: This article was excerpted from “More Money Than Fools Or More Fools Than Money” by Stephen B. Blumenthal, Founder and CEO, CMG Capital Management Group, Inc., (*On My Radar*, January 25, 2019), [www.cmgwealth.com](http://www.cmgwealth.com)

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what. From its 52-week low set in August, palladium has climbed almost 70.0%. It's added about 16.0% in the past 30 trading days alone.

Supply is tight, however, thanks to Europe's Auto Emission Standards (government policy) for the palladium rally. In this case, governments in Europe need to be thanked, which have recently strengthened their vehicle emission standards. The "Euro standard," as it's called, classifies vehicles on a scale from one to six, with one being the most polluting and six being the least polluting.

Some European cities have already banned the dirtiest "Euro 1" vehicles from their streets. Old diesel cars and trucks were outlawed in Brussels effective January, 2018. In May, 2018, Hamburg became the first German city to do the same.

**Palladium Has Been The Beneficiary:**

So what does all of these have to do with palladium? The metal, as readers probably know, is used in the production of catalytic converters, which "scrub" pollutants from the exhaust of internal combustion engines. Due to Europe's enforcement of strict new standards, demand for these devices is surging, along with palladium itself.

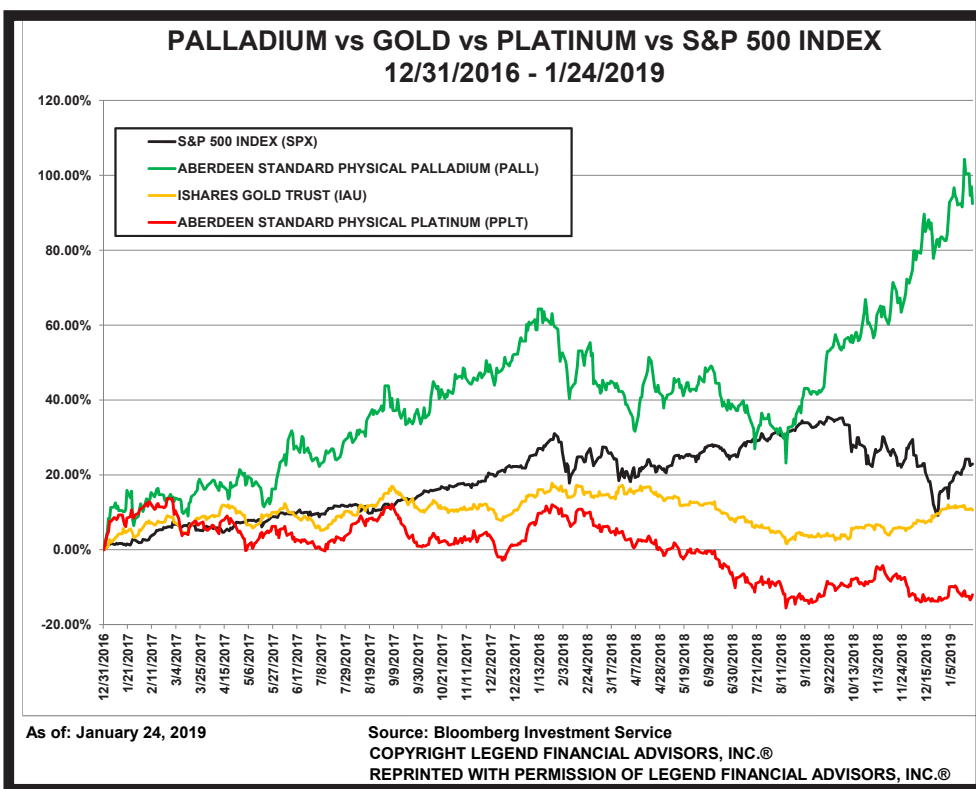
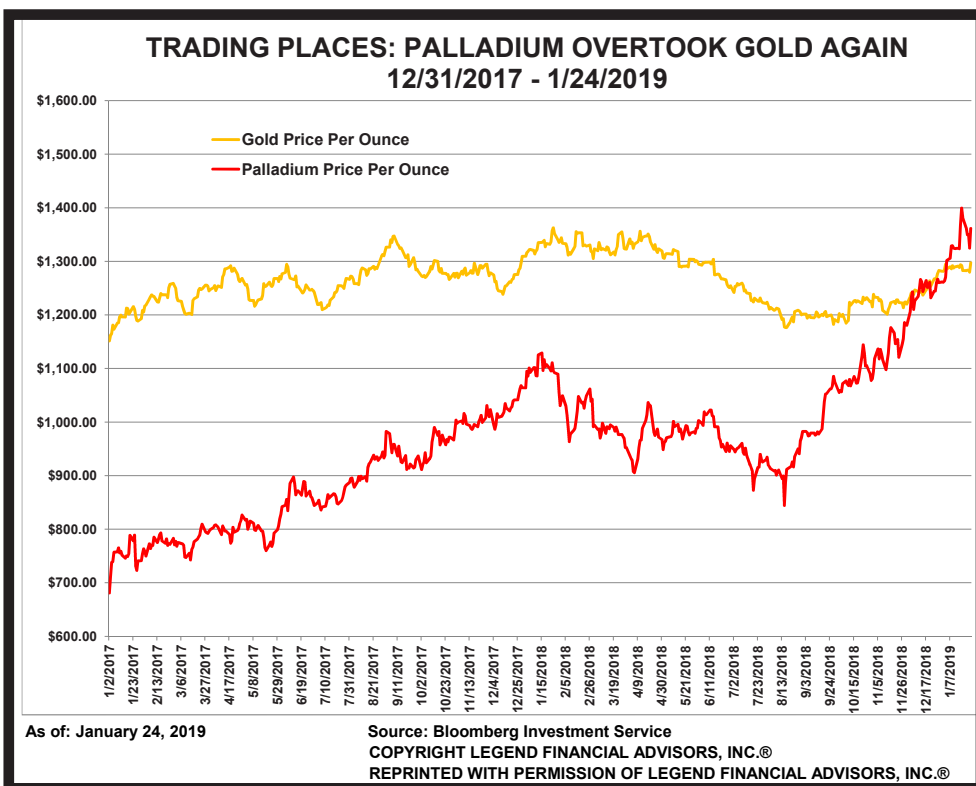
Demand is so high, in fact, that there are now reports in the United Kingdom and United States of thieves stealing catalytic converters, sometimes in broad daylight, to extract the precious metal. Recently, it traded as high as \$1,434.50, according to CNBC.

**Supply Worries Have Remained High:**

There's more to the story of palladium's bull run. For the past several years, supply has been in deficit (There is more being used than is being mined and inventory levels worldwide are being depleted). That's mostly because around 80.0% of all palladium (and platinum) production is concentrated in two countries—South Africa and Russia. The geopolitical risks are high. When South African laborers when on strike in 2014, all production of the platinum metals, including palladium, grinded to a halt.

Besides supply issues, the biggest risk facing palladium right now is substitution risk. With palladium trading above \$1,400.00 an ounce, how long will it be before auto manufacturers switch to its sister metal, platinum, which is currently trading at around \$800.00 an ounce. However, platinum is used for diesel engines primarily.

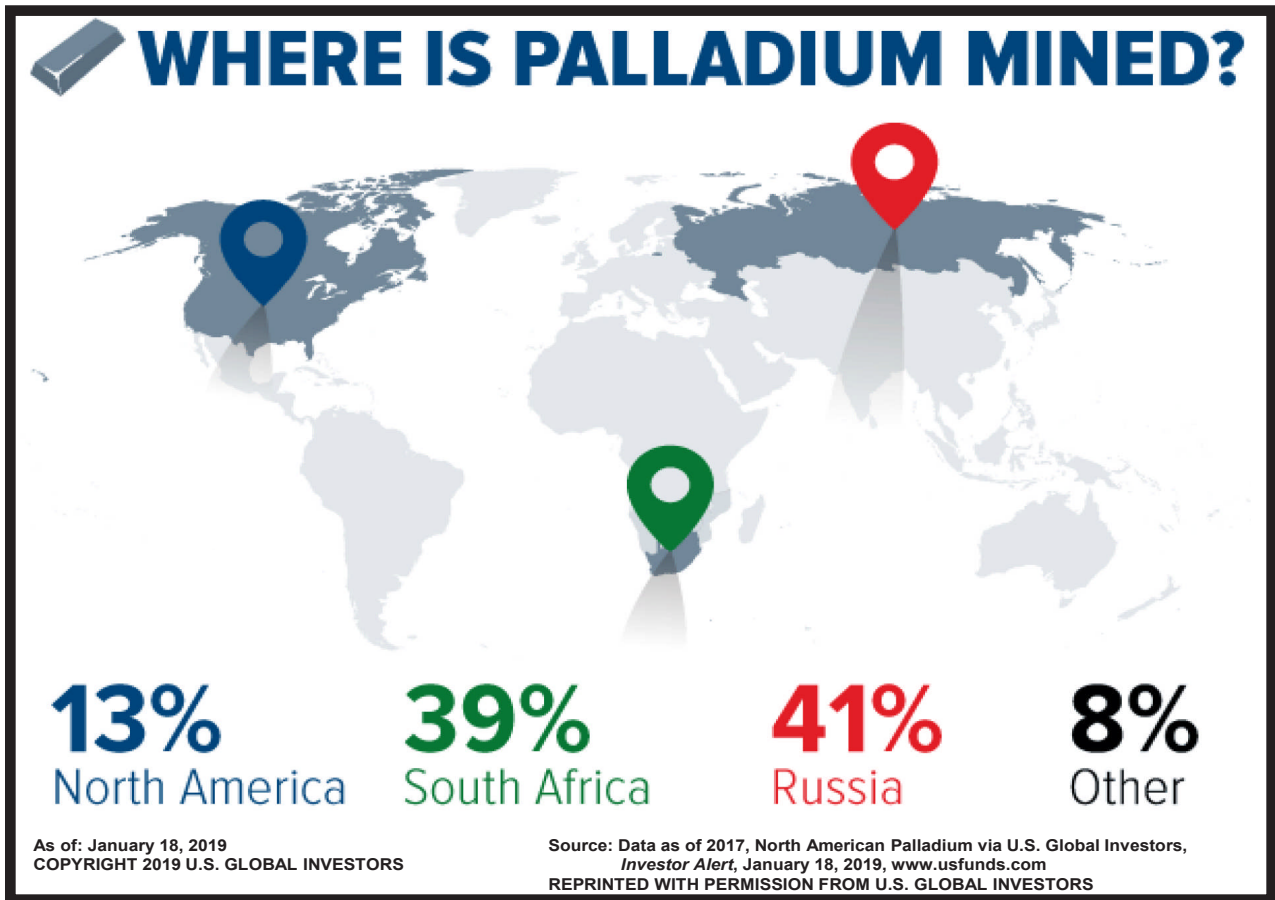
In the interim, there could be money to be made.



Source: This article was excerpted from "Europe's Strict Emission Standards Drive Palladium Past Gold", by Frank Holmes, CEO and Chief Investment Officer, U.S. Global Investors, (*Investor Alert*, January 18, 2019), [www.usfunds.com](http://www.usfunds.com)

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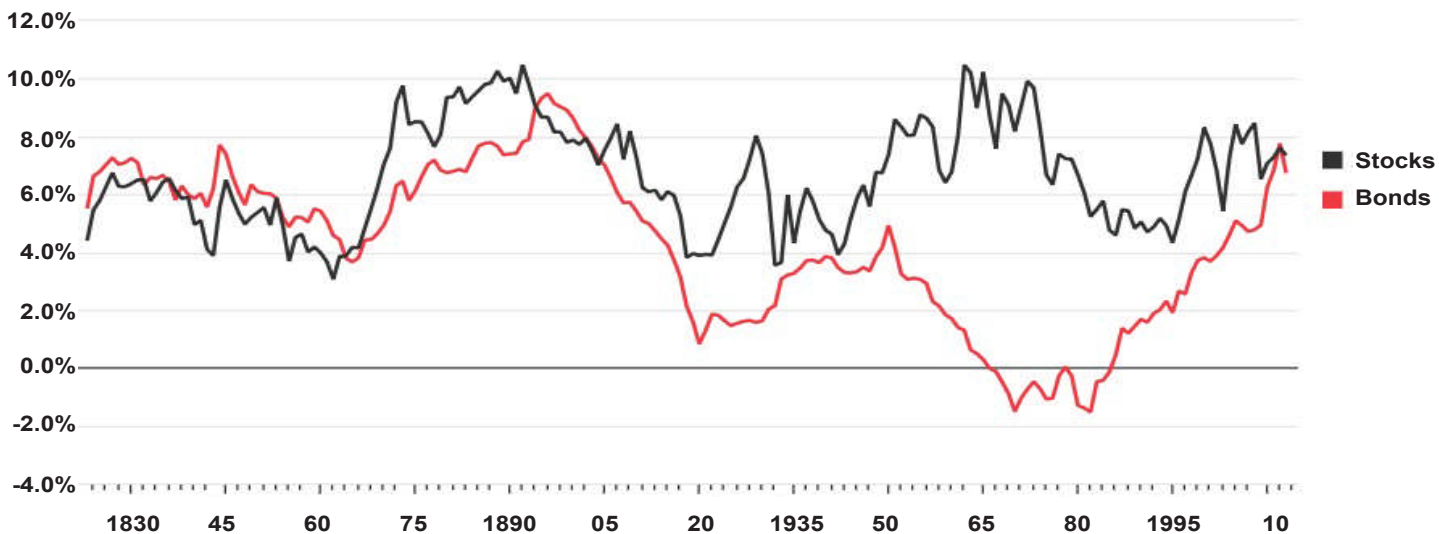


**PULSE**

### STOCKS FOR THE LONG RUN, FOR NOW

Bonds have underperformed stocks for most of history, but not always. New measures suggest the long-term advantage of stocks may be weaker than many investors think.

Total real returns, with income reinvested, rolling 30-year average



Note: Returns on bonds based on data from the early U.S. Securities Price database at the Economic History Association plus original archival research. Returns on stocks are preliminary and subject to revision. All returns annualized and adjusted for inflation.

As of: November 5, 2018  
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Source: Edward McQuarrie, Santa Clara University via 361 Capital, *Weekly Research Briefing*, November 5, 2018, www.361capital.com  
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# UNDERSTANDING THE YIELD CURVE

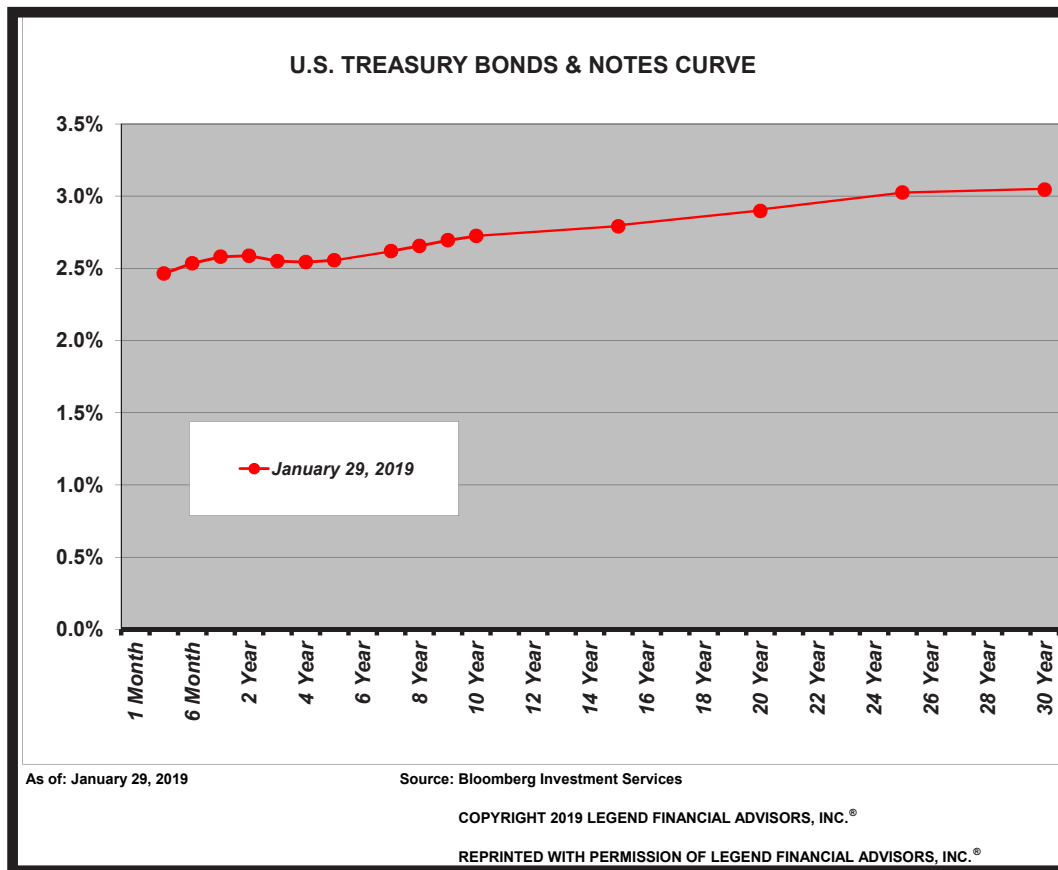
By Diane M. Pearson, CFP®, PPC™, CDFA®, Legend Financial Advisors, Inc.® and EmergingWealth Investment Management, Inc.®

A typical yield curve chart for U.S. Treasuries (although this is the most common one, it can be for any type of bond) is a graphical representation showing the yields for each bond's maturity. This graph usually ranges from three-months to 30 years. Plotting these yields on a graph with the y-axis (running up and down; in other words, vertically) being the yield and the x-axis (running left to right; in other words, horizontal) being the time to maturity and then connecting a specific point produces the "yield curve" for that point in time. The shape of the yield curve changes over time due to market forces and other factors such as monetary and fiscal policy. Many investors and most intelligent ones monitor the curve to gather information about future economic growth.

The three types of yield curves are upward sloping, flat, and downward sloping also known as "inverted". Listed below is the information explained by the various types of yield curves.

In so-called normal or good economic times, the yield curve generally slopes upward to the right with shorter-term yields lower than longer-term yields. From purely a risk/reward viewpoint; investors should be compensated more for investing longer term periods of time. In other words, higher yields for longer maturities. When the Federal Reserve cuts interest rates to revive an economic slowdown, it forces down interest rate yields on short-term bonds so that they are lower relative to longer-maturity bonds. A growing economy may also result in higher inflation. Inflation endangers long-term bond holders since it can significantly decrease the value of bonds. Traditional bonds don't adjust for inflation unless they are inflation-linked bonds like Treasury Inflation Protection Securities (TIPS). To entice buyers to buy long-term bonds, yields would have to increase. In either case, an upward-sloping yield curve generally means the economy is doing well or expected to do well in the future.

A flat yield curve means there is very little difference between short-term yields and longer-term yields. In other words, investors essentially receive about the same interest rate whether they purchase a two-year bond or a 30-year bond. Why would an investor invest in a long-term bond with the same yield as a two-year bond? One of the reasons could be the Federal Reserve would increase short-term interest



rates in an attempt to slow the economy and keep inflation in check. As a result, if enough investors believe that the economy is going to slow down substantially, many will invest in higher yields of longer-term U.S. Treasuries. Such a so-called rush into U.S. Treasuries could accelerate this "Flattening" effect as investor demand increases for longer-term bonds. Therefore, interest rates decrease.

Another important point to make about a flat yield curve is that it does not mean that, economically speaking, that we are about to fall off the recession cliff. The graph at the end of this article indicates the difference between the two-year and 10-year U.S. Treasuries. Whenever the spread is negative [the yield on the two-year U.S. Treasury Bond exceeds the 10-year U.S. Treasury Bond, we will soon have a gray bar (The gray bar indicates a recession.)]. In normal times, 10-year U.S. Treasury yields exceed two-year U.S. Treasury yields. This means the U.S. economy is starting the recovery process or has recovered. It also should be noted

that the spread can be narrow (flatter curve) for some time without a recession.

Referring again to the graph at the end of the article, the yield curve is considered inverted if the spread drops below zero, meaning the yield on the two-year Treasury is greater than the yield on the 10-year Treasury.

Currently, the yield curve for U.S. Treasuries is upward-sloping (considered a "normal" yield curve) as the economy continues to grow. Short-term interest rates will eventually rise. However, the longer interest rate end of the yield curve can be, and usually are, influenced by investors' expectations about economic growth.

Given the history of interest rates and the corresponding yield curve, investors should always monitor interest rates for signs of trouble or opportunities.

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# FED WATCH

## INTEREST RATES AS OF JANUARY 29, 2018

Fed Funds Rate Range: 2.25 – 2.50%

Fed Discount Rate: 2.50%

### 2019 UPCOMING FED MEETING SCHEDULE

March	20-21	June	12-13	November	7-8
May	1-2	Jul/Aug	31-1	December	18-19
		September	25-26		

Source: Bloomberg Investment Services  
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In the immediate future, bank loan funds should perform well. These vehicles provide steady returns and safety except in recessions.

Senior Floating Rate Bank Loans are relatively short and intermediate term loans (usually no more than 10 years to maturity) typically made to companies that have below-investment-grade credit ratings. The loans' interest rates generally reset based on changes to an interest rate benchmark such as the London Interbank Offered Rate (LIBOR)—the rate at which banks loan each other money in the London wholesale money market. This resetting feature will usually help protect investors from the risk of rising interest rates.

In addition, investors, as holders of such loans, have a higher priority claim ("seniority") on a borrower's cash flows or assets than holders of conventional bonds. This means that if a company defaults on its loan obligations, and declares bankruptcy, these investors are higher on the list of creditors to be paid back. Hence, these are called senior loans. Finally, such bank loans are usually backed by collateral such as real estate, manufacturing plants, equipment, etc., which can help lenders recover up to all of their loans' value in the event of a default.

Since Senior Floating Rate Bank Loans are typically made to companies whose credit rating is below investment-grade and carry relatively high credit risk, investors are paid a premium over the interest rate, or "yield" they would receive if they invested in higher rated bonds. This additional yield is provided to compensate investors for assuming a higher risk of default.

For a fixed-rate instrument like a conventional bond, the coupon rate does

not change during the life of the bond, so a rise in prevailing interest rates can lower the value of the bond. For floating rate loans, the coupon rate is not fixed; it floats, as mentioned earlier. Therefore, if the benchmark interest rate rises, the yield of a floating rate loan will reset accordingly, helping to preserve the value of the investment and allowing investors to benefit from higher interest rates. Since the market price of a loan plays a muted role in floating rate instruments, they tend to be less volatile on a day-to-day basis. Additionally, since interest rates have historically tended to rise in periods of rising inflation, investing in loans that are tied to benchmark interest rates may help offset the effects of inflation.

While all investments carry some degree of risk, Senior Floating Rate Bank Loans involve specific risks, (explained below), which investors should understand how the loans work before investing.

Credit risk is the risk that the borrower will default on its obligation to pay interest and repay principal. If a borrower defaults, a lender may lose money. If the borrower has posted collateral, loan issuers can seize and liquidate the collateral to recoup their investments. It is important to note that such collateral may be insufficient to pay the lender back completely, or could prove difficult to liquidate. Additionally, the courts may, in some cases, prevent liquidation of assets to satisfy debt obligations.

Another key difference between traditional bonds and senior floating rate bank loans is that when interest rates fall, prices of already-issued fixed rate debt securities (like bonds) generally rise, and vice versa. Due to the fact that interest rates on bank loans fluctuate, interest rate risk is not really of concern to bank loan investors. If interest rates fall (or

rise), yields on bank loans will also fall (or rise), and there will typically be a more modest change or no change in the price of the loans. Senior Floating Rate Bank Loans' interest rates may not correlate to prevailing interest rates between the loans' adjustment periods. That may cause the value of the loans to decline in the short run until the coupons adjust.

Though bank loans are not subject to the same interest rate risks as conventional bonds, the prices of loans may fluctuate due to "spread" risk. Spreads, which are determined by the market, are the additional interest rate premiums investors receive (versus a risk-free rate such as U.S. Treasuries) as compensation for assuming credit risk. If spreads change, the price of the loan will also change and the investor's return will reflect current market rates.

Senior Floating Rate Bank Loans, of course, are not insured by the Federal Deposit Insurance Corporation (FDIC), or any other entity. Consequently, their value will fluctuate over time, and investors could lose principal.

In an environment of rising rates and inflation, owning Senior Floating Rate Bank Loans may help protect investors' purchasing power—keep up with inflation (since such loans pay more income as interest rates rise), while seeking to maintain stable prices.

While interest rates may rise for these types of loans, they may increase to a point probably over 10.0% where some companies will begin defaulting on the loans. In short, interest rates that are too high on these loan types may be dangerous to investors' capital.

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**PULSE**

## HOORAH! – NO STATE INCOME TAX

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

There are only seven states without an income tax. The seven states are: Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming.

Source: Parts of this article were excerpted from "11 Reasons Why Everyone Wants To Move To Texas", by Frank Holmes, CEO and Chief Investment Officer, U.S. Global Investors, (*Advisor Alert*, August 26, 2016), [www.usfunds.com](http://www.usfunds.com)

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**PULSE**



# THE “EPIC” OPPORTUNITY IN HIGH YIELD!

By Stephen B. Blumenthal, Founder and CEO, CMG Capital Management Group, Inc.

The reason it will be so big is because of the record poor quality of recovery protection investors get from the bond issuers. The chart below shows just how much more risk bond investors are taking today versus at the top of the last economic cycle peak in 2008.

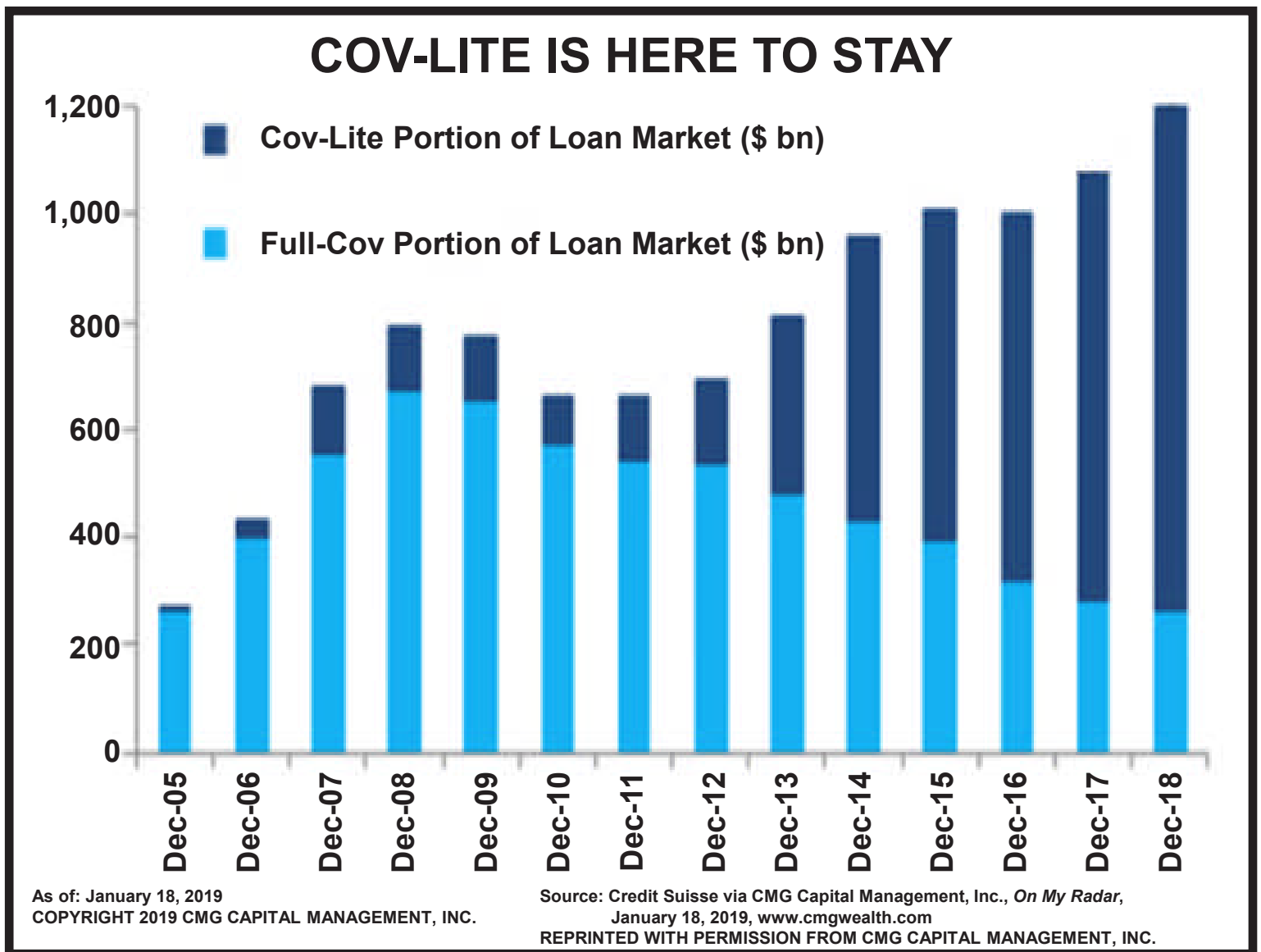
- Full covenant protection (“Full-Cov”) means investors have lent their money on terms favorable to them and the likelihood of getting much of their money back in the event of default is good.
- “Cov-Lite” means investors have lent money on less favorable terms and, in the event of default, they will not recover as much of their money.

Simply compare the light blue versus dark blue in 2007/2008 versus today.

Source: This article was excerpted from “RIP Jack Bogle Welcome Home”, by Stephen B. Blumenthal, Founder and CEO, CMG Capital Management Group, Inc., (*On My Radar*, January 18, 2019), [www.cmgwealth.com](http://www.cmgwealth.com)

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# SAFETY FIRST?

By John Murphy

Via Stephen B. Blumenthal, Founder and CEO, CMG Capital Management Group, Inc.

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

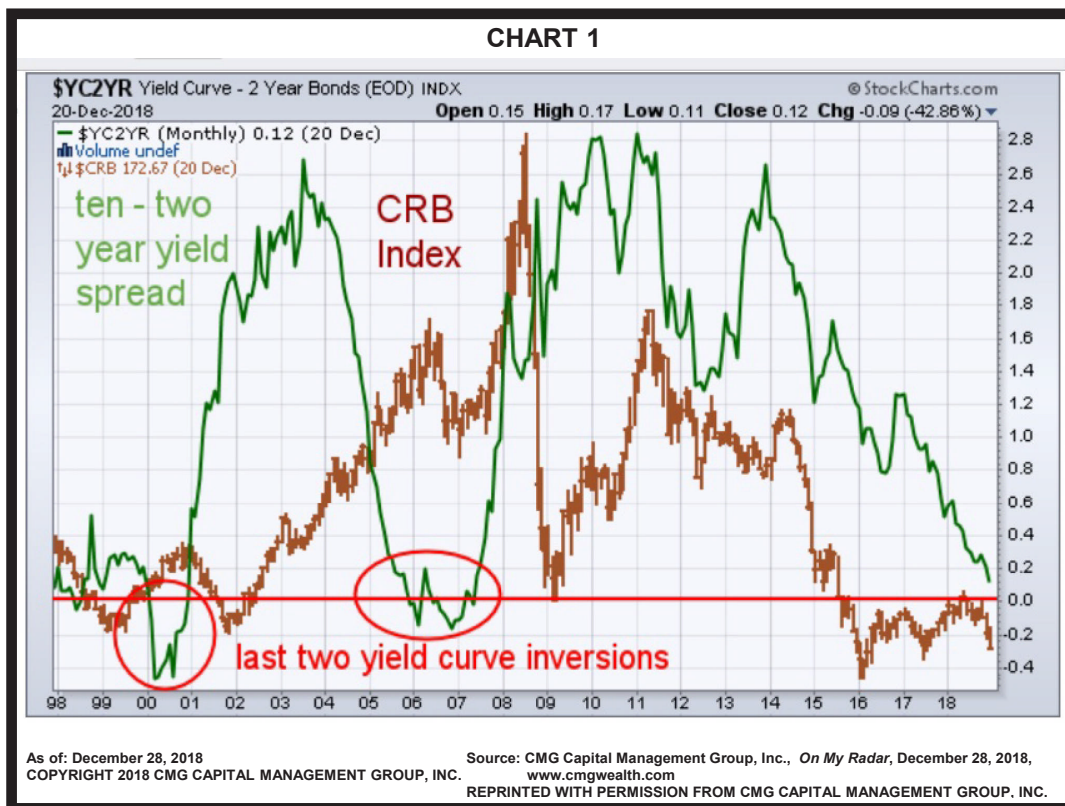
Previous instances of the Federal Reserve Board (Fed) tightening (raising interest rates) accompanied rising commodity prices – The Fed is raising interest rates on Treasury securities now while commodities are plunging—weak Chinese market is pulling commodities lower – and reflects a slowing global economy. Cash may be the new King.

## Last Two Yield Curve Inversion Resulted From Rising Commodity Prices:

A sharp drop in the price of oil and other commodities argues for a more dovish tone (slower or no interest rate increase) from the Fed. That message also explained previous Fed tightening cycles (periods where the Fed raised interest rates) were usually done to combat rising inflation and higher commodity prices. Here is a look at the two most recent times that happened. Chart 1, to the top right, compares the CRB Commodity Index (brown bars) to the spread between ten and two-year Treasury yields (green line) over the last twenty years. That period includes the two recent yield curve inversions (shorter term interest rates are higher than long-term interest rates) that took place during 2000 and again in the period between 2006 and 2007. Both yield inversions are marked by red circles and occurred when the ten-year yield dropped below the two-year [which pushed the spread (the difference between interest rates) below zero]. The chart shows commodity prices rising in both instances. Both times the Fed raised short-term interest rates to slow the commodity price advance.

## Rising Commodity Prices Led To 2000 Yield Inversion:

The green line in Chart 2, to the bottom right, shows the ten—two-year yield spread (difference in interest rates) falling below zero near the start of 2000 (when the ten-year yield fell below the two year). The rising brown bars show commodity prices (including oil) rising sharply during the second half of 1999 which encouraged the Fed to raise short-term rates to slow the inflation threat. That



Safety First, continued on page 11

led to the yield inversion near the start of 2000. In case you don't remember, the NASDAQ peaked in the Spring of that year and the S&P 500 that October after which the economy entered a Recession the following Spring.

**Rising Commodities Prices Also Contributed To 2006 Inversion:**

Chart 3, to the top right, shows the most recent yield curve inversion (two-year interest rates are higher than ten-year interest rates) between the ten and two-year Treasury yields taking place near the start of 2006 and lasting into the start of 2007. There again, rising commodity prices during 2005 and the first half of 2006 encouraged the Fed to raise short-term interest rates enough to push the two-year yield above the ten-year and pushed their spread below zero (green circle). That inversion helped set the stage for the stock market peak in October of 2007. That, in turn, preceded the start of the last Recession that started two months later in December of that year. [For the record, commodity prices kept rising into the middle of 2008 before finally peaking. Another look at the brown bars in Chart 1 indicates commodity prices have been in decline since then.]

Which brings us to 2018.

**The Opposite Is Occurring This Time - Commodity Prices Are Plunging:**

Chart 4, to the bottom right, compares the same ten—two-year yield spread (green line) to the CRB Commodity Index (brown bars) over the last two years. Two things are different in Chart 4. First of all, the yield curve hasn't inverted yet (This is called positively sloped. Short-term interest rates are lower than long-term interest rates.). The ten-year yield is currently 12 basis (0.12%) points over the two-year. That's the lowest level in more than a decade (since 2007), but is still positive. The second thing that's different this time is that commodity prices are plunging (brown circle). This is the first time the Fed is raising interest rates in the face of falling commodity prices in the last fifty years. Which makes one wonder what the Fed is thinking. It kept rates historically low over the past decade in an attempt to lift the global economy out of a deflationary spiral by boosting inflation. More interest rate hikes could weaken commodity prices



even more which threatens recent progress on achieving 2.0% inflation. A strong U.S. Dollar resulting from more interest rate hikes would also weaken commodity prices in the coming year. At the same time, boosting short-term interest rates (while bond yields are falling) could itself

cause the yield curve to invert which could threaten the U.S. Economy. In addition, commodity prices could result from reduced foreign demand. The Wall Street Journal points that two-thirds of foreign commodity demand comes from emerging Asia, and most of that from China.

# 2018 ANNUAL PERFORMANCE

January 1, 2018 to December 31, 2018  
(12 months)

	<u>2018 Annual Return</u>
Consumer Price Index (Inflation)	1.91%
90-Day Treasury Bills Index-Total Return	1.94%
Bloomberg Intermediate Term Corporate Bond Index	0.88%
Barclays Aggregate Bond Index-Total Return	0.01%
High Yield Corporate Bond Index – Total Return	-1.97%
S&P Leveraged Loan Index – Total Return	0.47%
HFRX Global Hedge Fund Index	-6.72%
S&P 500 Index (U.S. Stock Market)	-4.39%
MSCI EAFE Index (Developed Foreign Equities)	-13.32%
MSCI Emerging Market Index (Equities)	-14.49%
Newedge CTA Index (Managed Futures)	-5.84%
Dow Jones–UBS Commodity Index-Total Return (USD)**	-12.99%
Dow Jones U.S. Real Estate Index-Total Return (USD)**	-4.03%
Gold Bullion	-2.14%

As of: December 31, 2018

Compound and Total Returns include reinvested dividends. Newedge Index is equally-weighted.

\*\* USD = U.S. Dollar

Source: Bloomberg Investment Service

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# SECULAR BEAR MARKET WATCH

April 1, 2000 to December 31, 2018  
(18 years and 9 months)

	<u>Annual Compound Return</u>	<u>Total Return</u>
Consumer Price Index (Inflation)	2.07%	46.75%
90-Day Treasury Bills Index-Total Return	1.57%	33.90%
Barclays Aggregate Bond Index-Total Return	4.78%	140.17%
High Yield Corporate Bond Index – Total Return	8.37%	352.09%
S&P Leveraged Loan Index – Total Return	4.69%	136.15%
HFRX Global Hedge Fund Index	2.04%	45.94%
S&P 500 Index (U.S. Stock Market)	4.80%	140.92%
MSCI EAFE Index (Developed Foreign Equities)	3.00%	74.24%
MSCI Emerging Market Index (Equities)	6.33%	216.52%
Newedge CTA Index (Managed Futures)	4.07%	111.22%
Dow Jones–UBS Commodity Index-Total Return (USD)**	-1.32%	-22.14%
Dow Jones U.S. Real Estate Index-Total Return (USD)**	9.86%	483.63%
Gold Bullion	8.48%	360.24%

As of: December 31, 2018

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

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**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 18 years and 9 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.

# CRYPTOCURRENCIES—BUYER BEWARE!

Excerpted From “Blockchain And Digital Currencies” from U.S. Global Investors, *Investor Alert*, December 28, 2018

By Frank Holmes, CEO and Chief Investment Officer, U.S. Global Investors

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

Many professional investors, including us at Legend Financial Advisors, Inc.®, are skeptical of the Bitcoin Currency and other similar currencies. These currencies have received a great deal of press over the last few years and probably will the next few years as well.

So far, there has not been any realistic way to invest in Bitcoin or similar currencies. The one company, who shall remain nameless for now, that was seeking approval from the Securities and Exchange Commission (SEC) to offer an Exchange-Traded Fund (ETF) was turned down. Usually, these types of investments are eventually resurrected. If approved, it won't probably be launched until late 2019 or 2020. Buyer Beware!

Listed below is an excerpt from a publication we receive from U.S. Global Investors that was published for the week ending December 28, 2018. It is a sub-section of the publication, which discusses Cryptocurrencies. The section entitled “Blockchain And Digital Currencies” discusses the pros and cons of cryptocurrencies such as “Bitcoin”. Again, Buyer Beware!

## Blockchain And Digital Currencies

### Strengths

- Of the cryptocurrencies tracked by CoinMarketCap, the best performing for the week ended December 28, 2018 was ETERNAL TOKEN, up 483.94% in a week!
- In an interview with Bloomberg Daybreak, Henri Arslanian, fintech and crypto leader for Asia at PricewaterhouseCoopers, says he believes there will be many more institutional players entering the digital currency space in 2019, despite the pain felt in 2018. He explains that many players will develop their own solutions, while others will likely partner up with existing names. Arslanian also comments that he sees more “regulatory clarity” in 2019, which will provide additional “comfort” to the speculative space.

- In a new report by blockchain research company, Clovr, there has been a spike in the use of cryptocurrencies to send remittances. As Bitcoin.com reports, this growth is partially due to the high costs incurred when using more traditional methods like Paypal. Out of over 700 people surveyed for the “Sending Money Back Home” report, 15.8% use cryptocurrency to send funds back home, coming in fourth behind online services, money transfers or a traditional wire transfer.

### Weaknesses

- Of the cryptocurrencies tracked by CoinMarketCap, the worst performing for the week ending December 28, 2018 was Leadcoin, down 44.51%.
- Months after filing its application to go public on the Hong Kong Stock Exchange, cryptocurrency mining giant, Bitmain, is undergoing a series of business changes, reports Coindesk. On December 25, 2018, the company confirmed “there has been some adjustment to our staff this year as we continue to build a long-term, sustainable and scalable business.” Bitmain staff has written on Maimai (China's Linked In equivalent) verifying that layoffs will begin next week and that some departments will be let go entirely.
- Research from the Wall Street Journal (WSJ) published on December 27, 2018 shows extensive plagiarism and fraud in cryptocurrency offering documents. The WSJ examined 3,291 whitepapers issued by cryptocurrency projects and found that 16.0% of those showed signs of fraudulent activity, improbable returns and plagiarism. It was also discovered that more than 2,000 of the whitepapers contained sentences with luring terms such as “nothing to lose, guaranteed profit, return on investment, highest returns, funds profit”, among others, reports Coin Telegraph.

### Opportunities

- An interdisciplinary committee set-up by the Indian government to investigate cryptocurrencies is not in favor of an outright ban of the industry, reports Coindesk. According to an anonymous senior official who attended the committee meeting and reported back to the New Indian Express, there have already been two meetings. “There is a general consensus that cryptocurrency cannot be dismissed as completely illegal. It needs to be legalized with strong riders, so deliberations are on.”
- Coindesk reports that the U.S. Department of Defense believes blockchain has big potential in helping to improve disaster relief efforts. The continuous Process Improvement (CPI) office of the Troop Support division of the Defense Logistics Agency hosted a meeting earlier this month to discuss applications of the technology where CIP management analyst Elijah Londo said, “the potential is absolutely enormous.”
- Although 2018 as a whole has been tumultuous for cryptocurrencies, one fact remains that blockchain technology has been proven in many applications, says Carlos Domingo, founder and CEO of Securitize, a platform for issuers seeking to tokenize assets. “Digital securities are not theoretical concepts anymore, but rather a foundation for real applications on the blockchain,” writes Dominigo on Coindesk.

### Threats

- Electrum Wallet Network notified users on December 27, 2018 of a possible phishing attack that stole around 245 bitcoins, worth around \$880,000.00, reports Coindesk. The firm explained that the attack was conducted by creating multiple fake servers on the network disguised as an update to the wallet.

- Two cryptocurrency exchanges, Kucoin and Huobi, announced this week that a number of tokens will be delisted from the platforms due to chronically low trading value. Among the affected tokens are Bread, We-Power, Bitclave and Ethlend.

- One of the largest cryptocurrency hedge funds, BlockTower Capital manages more than \$130 million in assets. The fund made a bet late last year that the price of Bitcoin would go above \$50,000.00 by the end of 2018. However, the price of Bitcoin is currently below \$4,000.00, after falling significantly from its peak of close to \$20,000.00.

Source: This article was excerpted from "Gold Beat The Market For The Month, Quarter, Year and Century", by Frank Holmes, CEO and Chief Investment Officer, U.S. Global Investors, (*Investor Alert*, December 28, 2018), [www.usfunds.com](http://www.usfunds.com)

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**PULSE**

**Weak Chinese Stocks Are Pulling Commodity Prices Lower:**

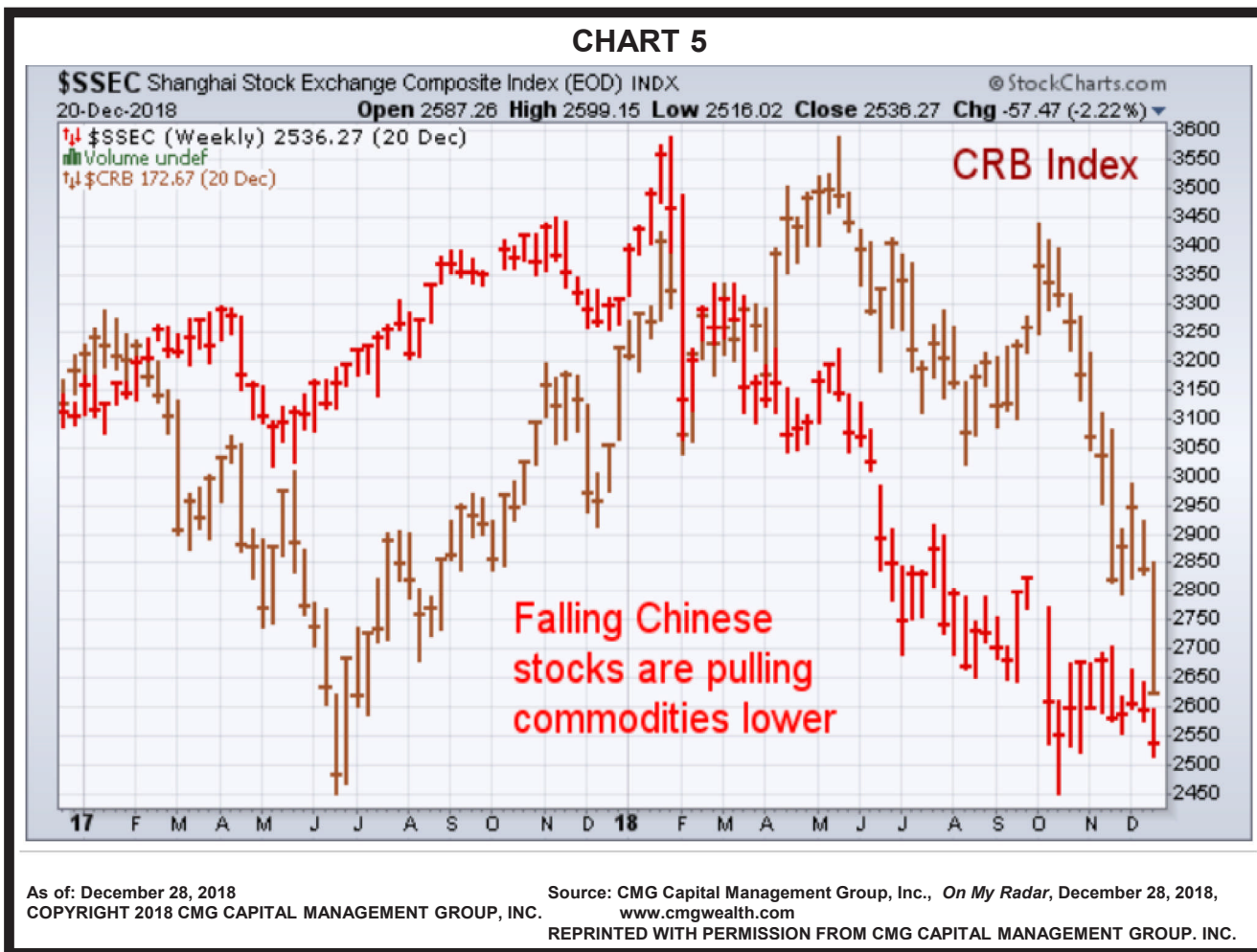
Nothing happens in a vacuum. A lot of what's happening in the U.S. financial markets is being influenced by deteriorating conditions in foreign markets. Like China. The red bars in Chart 5 show the Shanghai Stock Composite Index in sharp decline this year. In fact, it has lost 28.0% from its January high which qualifies as a Bear Market. That reflects weakness in that country's economy which is the second biggest in the world. And that's bad

for commodities. The brown bars in Chart 5, below, show commodity prices following Chinese stocks lower. That's because China is the world's biggest buyer of those commodities. It's also worth noting that the two weakest commodity groups this year have been energy and industrial metals. Both are considered bellwethers of the global economy. Right now they are sending a message of global weakness. The U.S. is part of that global economy. Shouldn't economists be factoring that into their rosy forecasts for next year?

Source: This article was excerpted from "A History Of Early Stage Bear Markets", by Stephen B. Blumenthal, Founder and CEO, CMG Capital Management Group, Inc., (*On My Radar*, December 28, 2018), [www.cmgwealth.com](http://www.cmgwealth.com)

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**PULSE**

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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, CCO, CEO and President of both firms for a confidential discussion at (412) 635-9210 or e-mail us at [legend@legend-financial.com](mailto: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, CCO, CEO and President of both firms for a confidential discussion at (412) 635-9210 or e-mail us at [legend@legend-financial.com](mailto:legend@legend-financial.com).