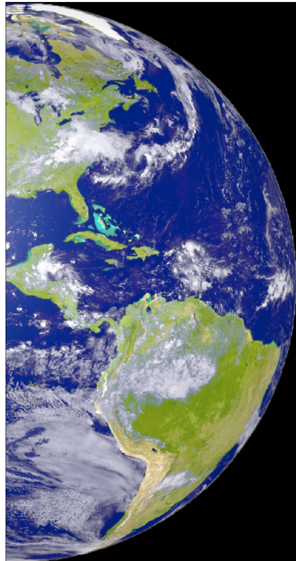
June, 2018



THE GLOBAL INVESTMENT PULSE

Published By
Legend Financial Advisors, Inc.® & EmergingWealth Investment Management, Inc.®
(412) 635 - 9210 www.legend-financial.com

DOES COMBINING COMMODITIES WITH U.S. STOCKS PROVIDE GOOD DIVERSIFICATION?

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

This question can best be answered by viewing the chart on the top of page 4. The chart illustrates 10-year rolling returns for the Bloomberg Commodities Index and S&P 500. The 10-year rolling returns provide a look at longer term performance over time. As indicated on the chart, commodities and U.S. stocks move similarly at times, but often move in opposite directions for long periods of time. That is generally because commodity cycles tend to be longer over time (historically 20-year up or down cycles are not unusual). The U.S. Stock Market, on the other hand, has more severe up and down cycles that often don't coincide with commodity returns.

As a result, historically, commodities and U.S. stocks in most time periods offer good diversification possibilities.

Diversification, *continued on page 4*

UNDERSTANDING DAILY TIPS INTEREST ACCRUALS—A BIT COMPLEX

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

Recently, several investment pundits have been recommending Treasury Inflation Protection Securities (TIPS) as a fixed income investment because of rising interest rates. TIPS interest calculation mechanics are calculated in an unusual manner relative to the typical bond. The principal accrual is calculated daily by applying the second prior month's (two months before the current month—in other words, a two-month lag) non-seasonally adjusted CPI-U percentage (commonly known as inflation) change proportionately to each day (meaning the daily rate is applied to the number of days) of the current calendar month. The CPI-

TIPS, *continued on page 4*

WHY NO BONDS?

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

Bonds are undesirable securities at this point in history. Why is this time so different? It's simple… The Fed. In most circumstances, bond funds are no longer used within Legend and EmergingWealth's portfolios.

Please see the Variable Interest Rate Securities Versus Traditional Bonds chart. The types of securities we favor have a low duration [For every year of duration (duration is an approximate measure of a bond's price sensitivity to changes in interest rates), there will be approximately a 1.0% movement in the opposite direction that interest rates are moving. Example: Investment Grade Corporate Bonds, which have a duration of approximately 7.5 will decline in value 7.5% if interest rates rise by 1.0%.].

Bonds, *continued on page 6*

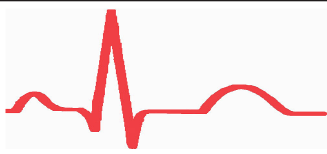
2018's ASSET CLASS RETURNS ARE MEDIOCRE THROUGH MAY 31ST

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

When reviewing the performance returns of the primary asset classes for 2018 through May 31, 2018, the reader will notice that performance returns have mostly been negative. The Dow Jones – UBS Commodity Total Return Index is the leading returning asset class with a 2.89% return. In fact, that asset class and the S&P Leveraged Loan Total Return Index (an index of corporate bank loans), which has returned 2.07% are the only two asset classes that have exceeded the inflation rate (Consumer Price Index) of 2.05%.

The S&P 500 has provided an almost as good as inflation rate of return of 2.02%. The only other asset class with a positive return is the 90-Day U.S. Treasury Bill Total Return Index. It has provided a 0.69% return.

Asset Class, *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

Newsletter Production Managers
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

Copyright 2018 by Legend Financial Advisors, Inc.® and EmergingWealth Investment Management, Inc.® Reproduction, photocopying or incorporating into any information-retrieval system for external or internal use is prohibited unless permission in each case for a specific article. The subscription fee entitles the subscriber to one original copy only.

Unauthorized copying is considered theft.

ABOUT LEGEND FINANCIAL ADVISORS, INC.®

Legend Financial Advisors, Inc.® (Legend) is a Non-Commission, Fee-Only, Fiduciary U.S. Securities and Exchange Commission registered investment advisory firm with its headquarters located in Pittsburgh, Pennsylvania. Legend provides Personalized Wealth Management Services Including Financial Planning And Investment Management Strategies to affluent and wealthy individuals as well as business entities, medical practices and non-profit organizations as well as retirement plans. Legend and its award-winning advisors are Fiduciaries.

FIVE REASONS TO CHOOSE LEGEND

1. Legend is a Non-Commission, 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.

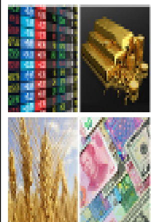
2. Members of Legend's Financial Advisory Team have been selected by National Publications such as Worth, Medical Economics and Barron's more than 60 times as "The Best Financial Advisors In America".

3. Unlike most advisory firms and all brokerage houses, Legend and its advisors have chosen to be governed by the Fiduciary Standard of Law. Fiduciaries are required to work in their clients' best interests at all times.

4. Legend designs dynamic, creative and personalized financial planning and investment solutions for its clients.

5. Legend emphasizes low-cost investments where possible that are allocated and traded 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 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, 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.

REINVESTING DIVIDENDS OR CAPITAL GAINS USUALLY DOES NOT MAKE SENSE

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

Think that reinvesting dividends and capital gains distributions from mutual funds is always the right thing to do? Think again. Historically (at least pre-1990), advisors and investors had always been taught to reinvest distributions. These reasons are as follows:

1. To avoid paying commissions on the reinvestment of distributions.

2. To compound the return of the individual mutual fund.

3. To ensure that the distribution is not spent by the investor.

4. Convenience for the investor.

All of these reasons came about in an era when investors bought a loaded (commissioned) mutual fund or funds from one mutual fund family, held it forever, put money into it blindly, rarely diversifying among asset classes and never rebalanced. Today, utilizing discount brokerage accounts eliminates all of these reasons whether or not those accounts are taxable or either IRA or retirement accounts.

Today, most sophisticated advisors rarely use loaded funds (A, B, C or D share classes of a mutual fund). Usually they have all of their clients' funds structured within a portfolio utilizing different asset classes spread out across at least several mutual funds from different fund families (no single mutual fund family has all the offerings needed to buy a truly diversified portfolio—for examples of this, simply look at American Century, Fidelity, American Funds, T. Rowe Price, Vanguard, Janus, etc. - none of which have a single mutual fund that shorts or employs a long-short investment strategy, and most of those families don't offer a commodities fund). Usually, large mutual fund groups do not offer small stock mutual funds unless they are indexes. Furthermore, Exchange-Traded Funds (ETFs) and Exchange-Traded Notes (ETNs) are often part of many investors' portfolios these days as well.

Today, most Fee-Only, Fiduciary (Legend is such a firm) advisors have all of their clients' securities housed at discount brokerage firms. More sophisticated advisors understand this thought process and follow this plan themselves. As a result of these changes, advisors and investors can now harvest gains by not reinvesting distributions from their investments. In most cases, this creates a forced sale of winning funds. Instead, the distributions are paid into the discount brokerage account's money market fund where they can then be used to distribute cash for the investor to live on, or the cash can be actively rebalanced among the components of the portfolio. This process, coupled with the low transaction costs of most discount brokerage firms' trading platforms, prevents or at least minimizes the need for generating additional taxable gains because the advisor would not have to sell off appreciated funds to rebalance and/or generate cash flow for the client.

Reinvesting mutual fund distributions back into the mutual fund that made the distribution for reasons (to avoid reinvestment commissions and to avoid sending small commission checks to investors) developed in the 1950s, 1960s and 1970s, but rarely makes sense today. After all, when one thinks about it, no mutual fund manager ever purchases stocks through a Dividend Reinvestment Plan (also known as a DRIP plan). Why then should an individual investor?

COPYRIGHT 2018 LEGEND FINANCIAL ADVISORS, INC.®

PULSE

FED WATCH

INTEREST RATES AS OF JUNE 29, 2018

Fed Funds Rate Range:	**1.75 – 2.00%**
Fed Discount Rate:	**2.50%**

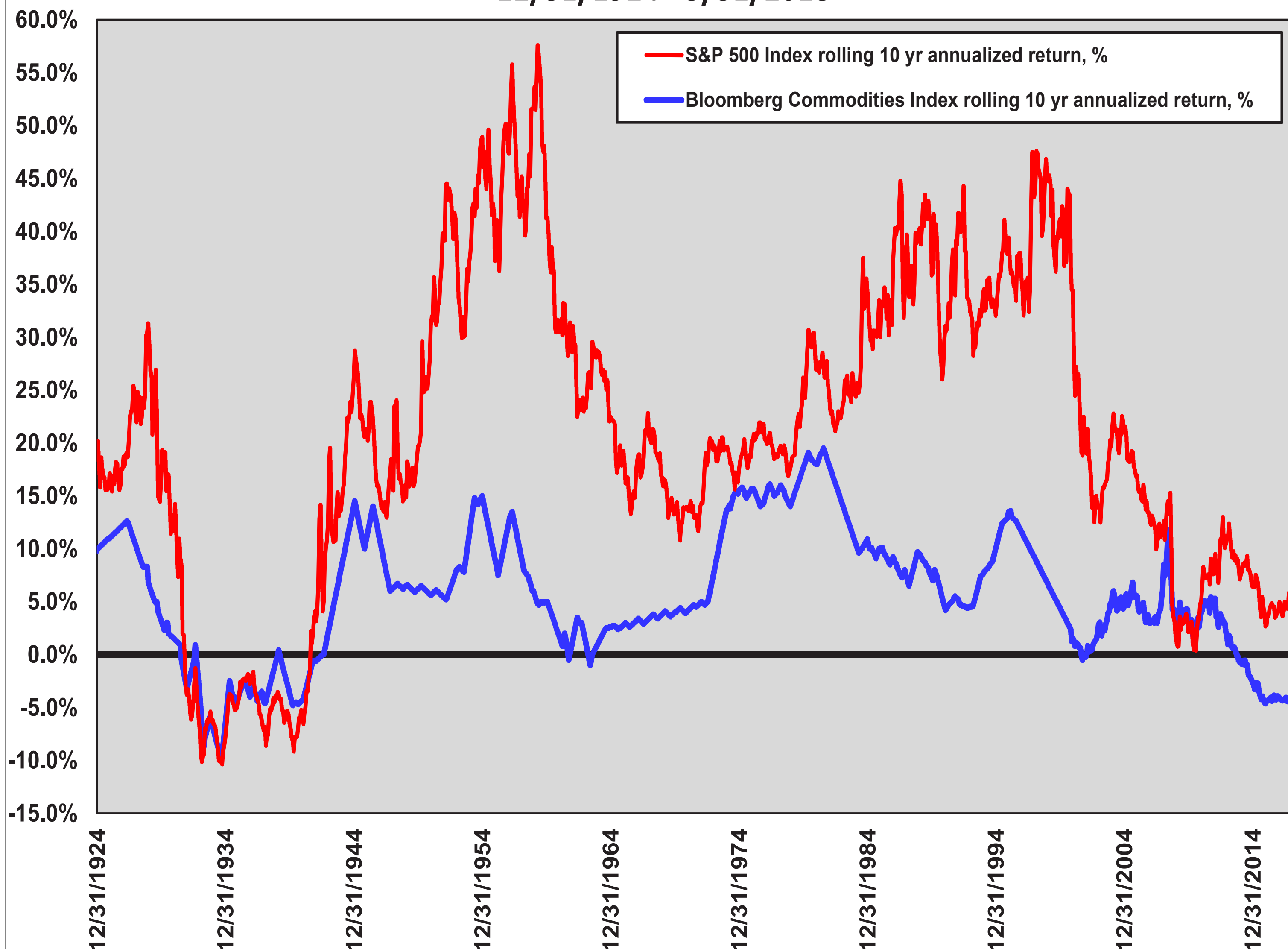
2018 UPCOMMING FED MEETING SCHEDULE

July/August 31 -1	**November 7-8**
September 25-26	**December 18-19**

Source: Bloomberg Investment Services

COPYRIGHT 2018 LEGEND FINANCIAL ADVISORS, INC.®
REPRINTED WITH PERMISSION OF LEGEND FINANCIAL ADVISORS, INC.®

Diversification, *continued from page 1*



COPYRIGHT 2018 LEGEND FINANCIAL ADVISORS, INC.®

PULSE

TIPS, *continued from page 1*

U index is the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers. For example, during each day of November, let's suppose the daily principal accruals were 0.0233% as September's CPI-U was +0.7% (0.7% / 30 days = 0.0233%) and was prorated throughout the month of November. This is the multiple that would then be used to value TIPS throughout the month.

Given the complicated nature of the above calculation, it is best to own TIPS or TIPS mutual funds and/or Exchange-Traded Funds (ETFs) within IRAs and/or retirement plans.

COPYRIGHT 2018 LEGEND FINANCIAL ADVISORS, INC.®

PULSE

WHAT ARE SHORTING EXPENSES?

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

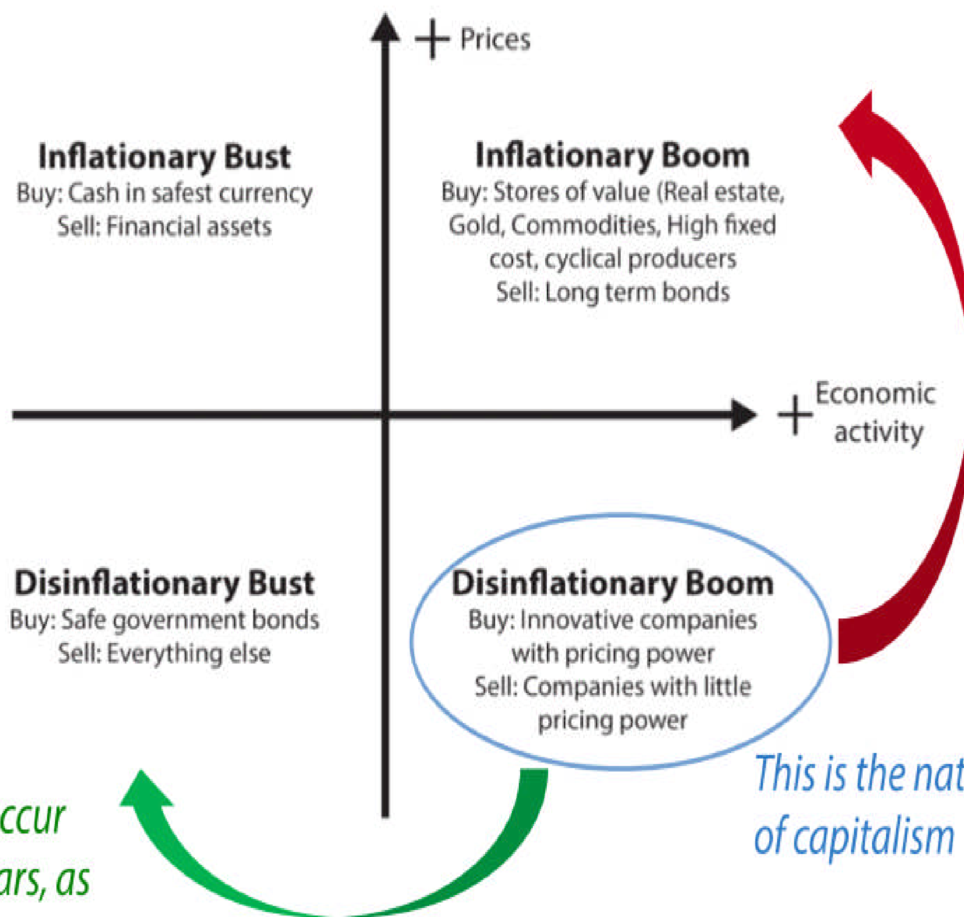
Mutual funds that short have a higher expense ratio on average than ones that don't. Why is this? Shorting entails additional expenses to obtain this hedging feature. To short a stock, a margin account must be opened, which entails the payment of interest. Individuals pay a higher interest rate than institutions, such as mutual funds do. In addition, when the shorted stock pays dividends, the short seller must return those dividends to the party from whom the stock was borrowed in order to be sold short so that the lender of the stock is made whole. Together, these interest and dividend expenses constitute "shorting expense".

There is one more expense, though – an indirect expense. To the extent that the stocks shorted do pay dividends, their price typically falls by less than the value of the dividend. Therefore, when short-selling a dividend-paying stock, one might have to buy it back at a premium – sometimes as much as 25% – if the stock pays a dividend during the period in which one shorts it.

COPYRIGHT 2018 LEGEND FINANCIAL ADVISORS, INC.®

PULSE

WHICH DIRECTION IS THE ECONOMY HEADED? A SHIFT TO THE LEFT? OR A SHIFT TO THE TOP?



As of: May 11, 2018

COPYRIGHT 2018 CMG CAPITAL MANAGEMENT GROUP, INC.

Source: CMG Capital Management Group, Inc., *On My Radar*, May 11, 2018,www.cmgwealth.com

REPRINTED WITH PERMISSION FROM CMG CAPITAL MANAGEMENT GROUP, INC.

Bonds, continued from page 1

Obviously, when interest rates are rising one would want to avoid high duration securities such as Corporate Bonds. At Legend and EmergingWealth, Leveraged Loans (Bank Loans) also known as Floating-Rate Loans and Variable Interest Rate Non-Agency Mortgages are favored. Another possibility that might make sense if they are priced right, are High-Yield Bonds. Please note that all three types of securities are above the blue line on the chart.

So far in 2018 through June 26th, bond return indexes have provided the following returns:

Consumer Price Index (CPI) – Inflation	+2.05%
Bloomberg Intermediate Term Corporate Bond Index	-1.74%
Barclays Aggregate Bond Total Return Index	-1.84%
High Yield Corporate Bond Total Return Index	-1.62%
Bloomberg Emerging Market Bond Total Return Index	-5.46%
Bloomberg Global Bond Total Return Index	-1.58%
Bloomberg Treasury Inflation Protected Securities (TIPS)	-0.27%
Bloomberg U.S. Government Bond Total Return Index	-1.46%
Bloomberg U.S. Treasury Bond Index	-1.26%

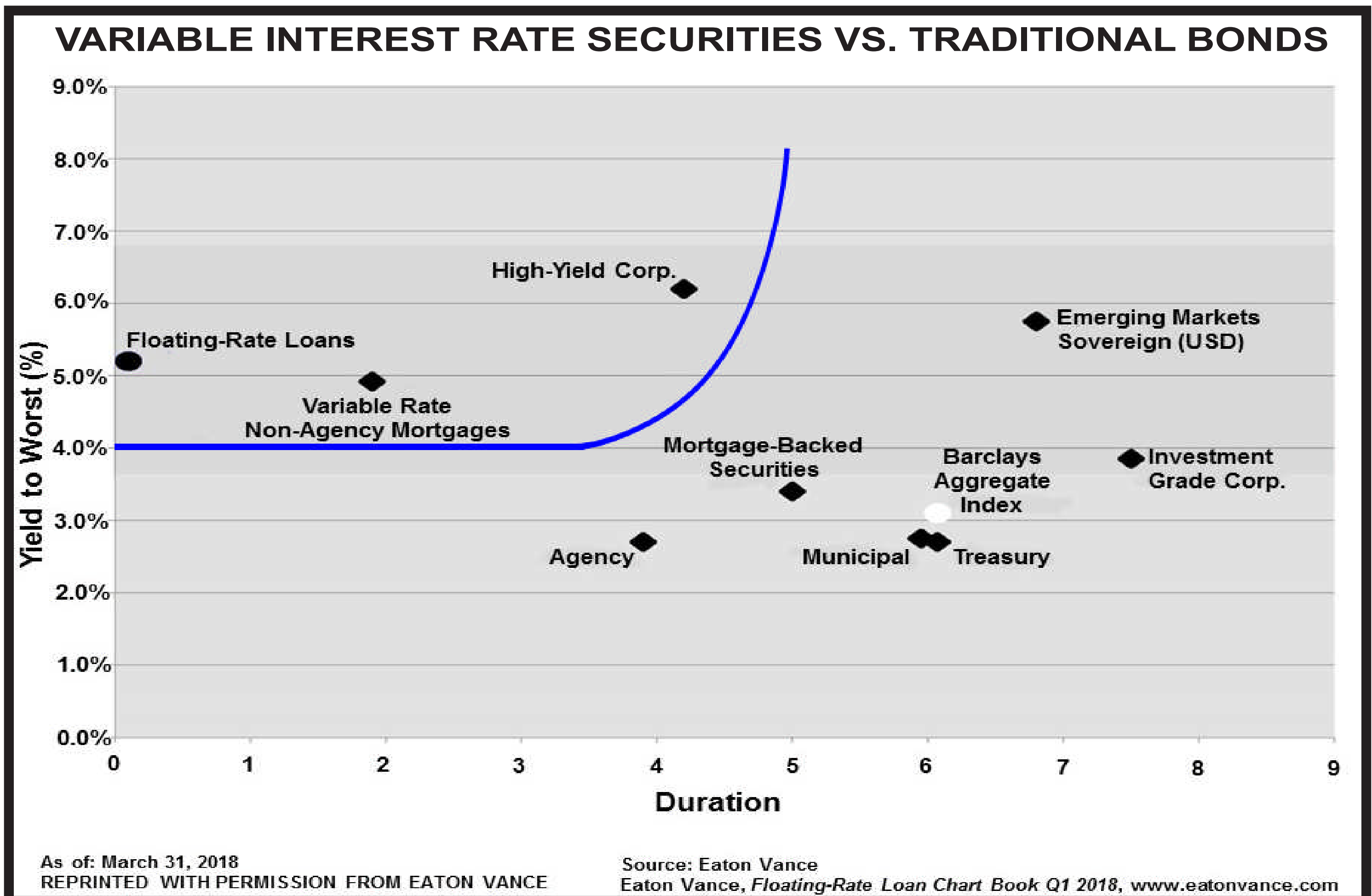
Please note that none of the bond return indexes have outperformed inflation and all have provided negative total returns for 2018 through June 26th. This is due to interest rates rising because the Federal Reserve Board (Fed) has increased interest rates three times (0.25% per increase) since December 2017. The Fed is expected to increase interest rates twice more in quarter percent increments in September and December of this year. That fact plus the information that Fed is expected to increase interest rates three more times in 2019 and twice more in 2020 would imply that bonds will perform poorly over at least the next few years on a total return basis.

On the other hand, Leveraged Loans (Bank Loans) are expected to perform well in this type of rising interest rate environment because the loans have variable interest rates that adjust every 30 to 90 days. Therefore, the principal is generally stable (unless we move into a recession) while the coupon adjusts upward. This is exactly the opposite of how bonds perform. Please contrast the return of Leveraged Loans (Bank Loans) through June 26th below:

S&P Leveraged Loan Index	+2.31%

Please note that Leveraged Loans (Bank Loans) delivered positive returns and outperformed inflation. Therefore, it makes sense to have a large majority of debt positions in Leveraged Loans (Bank Loans) funds. Also, Variable Interest Rate Non-Agency Mortgages make sense in the current interest rate environment. These securities offer a slightly lower interest rate than Leveraged Loans (Bank Loans), but sell at a substantial discount to their maturity price. These discounts will eventually narrow to zero when they mature. This should provide a much higher return than even Leveraged Loans (Bank Loans).

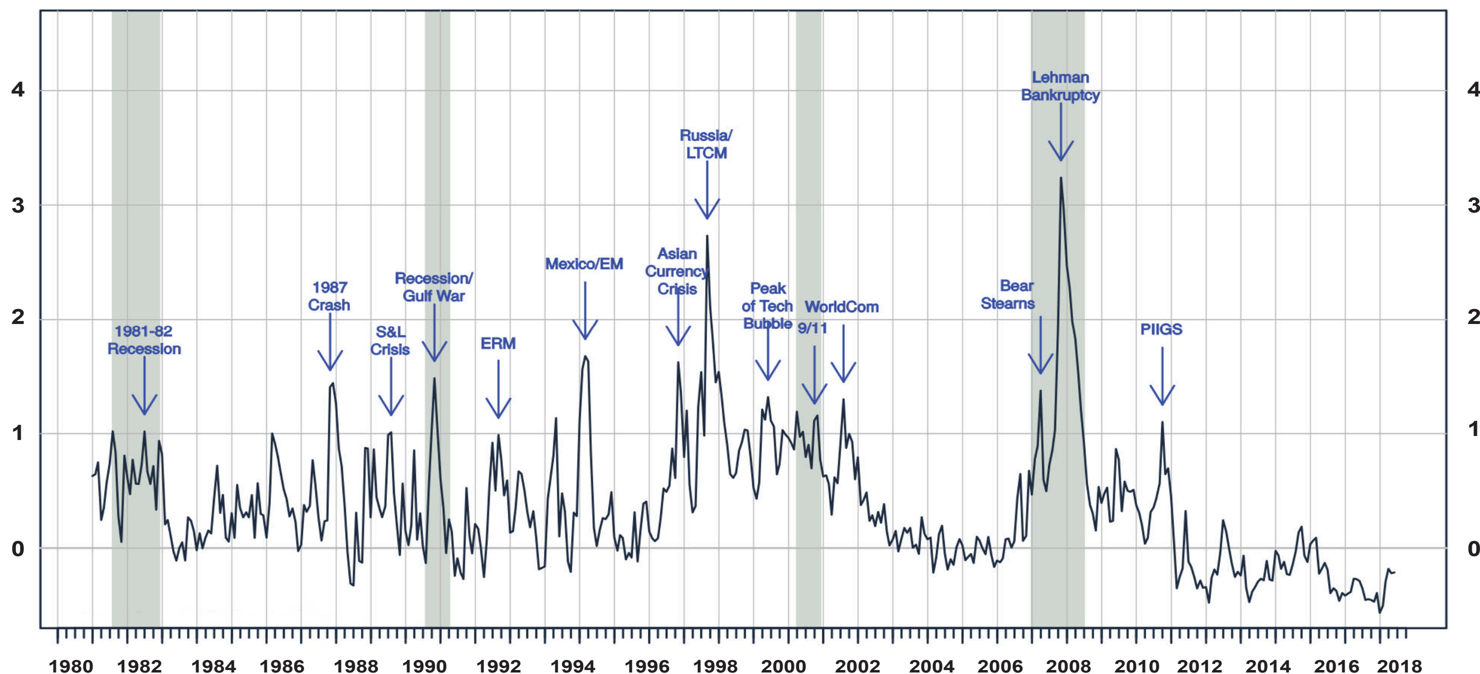
COPYRIGHT 2018 LEGEND FINANCIAL ADVISORS, INC.®



MONTHLY RISK AVERSION INDEX (RAI)

RISK INDEX DECREASES 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: June 7, 2018

COPYRIGHT 2018 THE LEUTHOLD GROUP, LLC

Source: The Leuthold Group, LLC, *Perception Express*, June 7, 2018, http://leuth.us/bond-market

REPRINTED WITH PERMISSION FROM THE LEUTHOLD GROUP. LLC

BARCLAYS U.S. HIGH YIELD BOND YIELD MINUS TREASURY BOND YIELD

Differential
Median: 5.04

Perhaps High Yield's Low Yield Advantage Over Similar Maturity U.S. Treasury Bonds Had Bottomed Out

May-18: 3.78

20
15
10
5

1987 1989 1991 1993 1995 1997 1999 2001 2003 2005 2007 2009 2011 2013 2015 2017

As of: June 7, 2018

COPYRIGHT 2018 THE LEUTHOLD GROUP, LLC

Source: The Leuthold Group, LLC, *Perception Express*, June 7, 2018, http://leuth.us/bond-market

REPRINTED WITH PERMISSION FROM THE LEUTHOLD GROUP, LLC

GLOBAL DEBT REACHING EPIC PROPORTIONS
How Bad Is The Global Debt Problem?

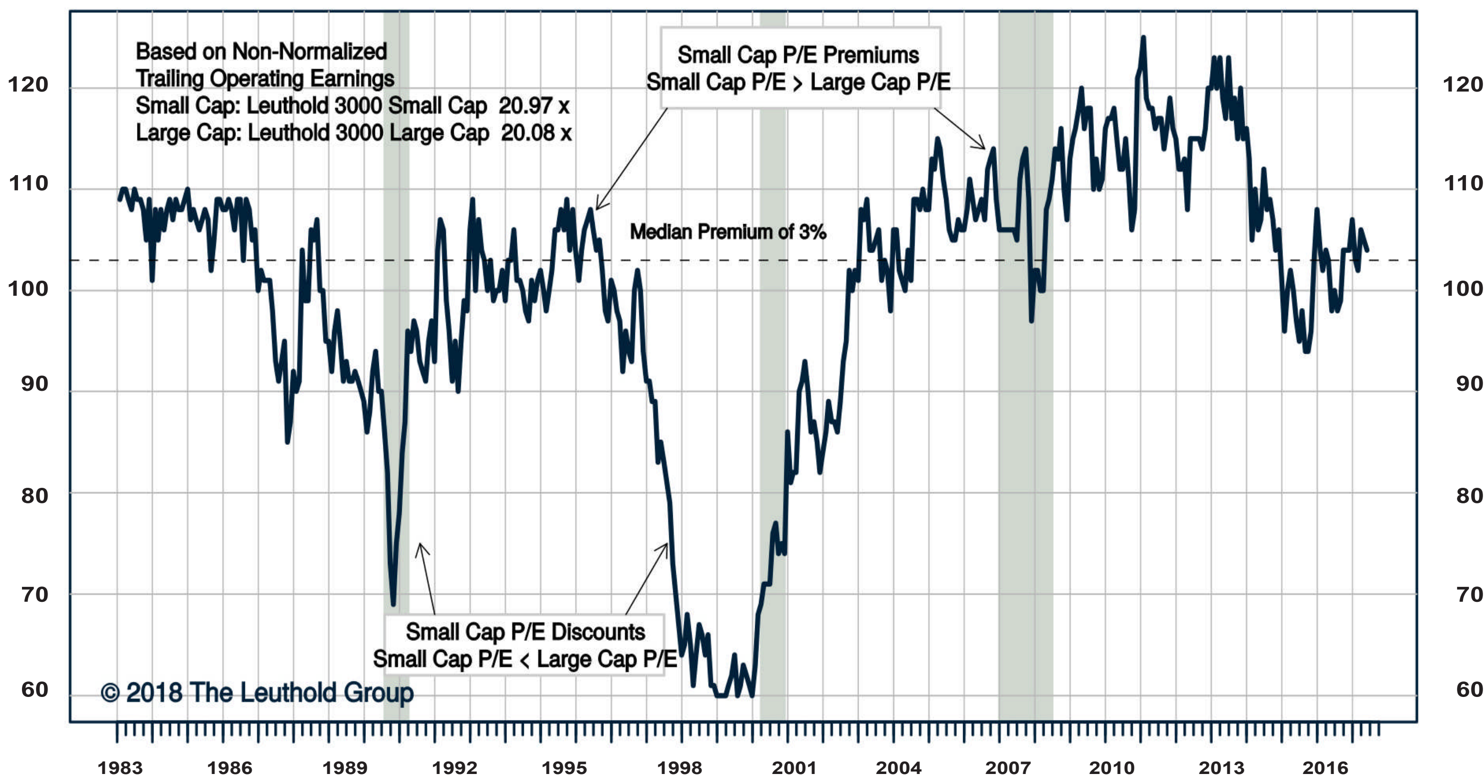
Below Is The Most Recent Debt-To-Gross Domestic Product (GDP)

Country	Debt-to-GDP
Japan	590%
France	480%
Germany	279%
Greece	360%
South Korea	357%
Netherlands	725%
Denmark	585%
Canada	332%
Italy	360%
Portugal	488%
Ireland	828%
Spain	397%
Sweden	467%
Switzerland	382%
United Kingdom	476%
China	256%
United States	329%

As of: May 11, 2018
COPYRIGHT 2018 CMG CAPITAL MANAGEMENT GROUP, INC.

Source: CMG Capital Management Group, Inc., *On My Radar*, May 11, 2018,www.cmgwealth.com
REPRINTED WITH PERMISSION FROM CMG CAPITAL MANAGEMENT GROUP, INC.

U.S. SMALL CAP TO U.S. LARGE CAP HISTORICAL PRICE TO EARNINGS (P/E) RATIO
U.S. Small Cap Valuations More Expensive Than U.S. Large Stocks By 4.0%



As of: June 7, 2018

Source: The Leuthold Group, LLC, *Perception Express*, June 7, 2018, http://leuth.us/market-internals
REPRINTED WITH PERMISSION FROM THE LEUTHOLD GROUP, LLC

MUNICIPAL TAX EQUIVALENT YIELD / BARCLAYS U.S. CORPORATE BOND YIELD

Yield Ratio
Median: 1.15

Municipal's After-Tax Yield Advantage Continuing To Wither

1.8
1.6
1.4
1.2
1.0
0.8

May-18: 1.14

1980 1983 1986 1989 1992 1995 1998 2001 2004 2007 2010 2013 2016

As of: June 7, 2018
COPYRIGHT 2018 THE LEUTHOLD GROUP, LLC

Source: The Leuthold Group, LLC, *Perception Express*, June 7, 2018, http://leuth.us/bond-market
REPRINTED WITH PERMISSION FROM THE LEUTHOLD GROUP, LLC

Please note that the three bond return indexes, Bloomberg Intermediate Term Corporate Bond Index, Barclays Aggregate Bond Total Return Index and High Yield Corporate Bond Total Return Index, have all turned in negative total returns for 2018 through May 31st. This is due to the fact that interest rates have risen because the Federal Reserve Board (Fed) has increased interest rates three times (0.25% per increase) since December 2017. The Fed is expected to increase interest rates twice more in quarter percent increments in September and December of this year. That fact plus the information that Fed is expected to increase interest rates three more times in 2019 and twice more in 2020 would imply that bonds will perform poorly over at least the next few years on a total return basis.

On the other hand, Leveraged Loans (Bank Loans) are expected to perform well in this type of rising interest rate environment because the loans have variable interest rates that adjust every 30 to 90 days. Therefore, the principal is generally stable (unless we move into a recession) while the coupon adjusts upward. This is exactly the opposite of how bonds perform.

COPYRIGHT 2018 LEGEND FINANCIAL ADVISORS, INC.®

2018 YEAR-TO-DATE PERFORMANCE

January 1, 2018 to May 31, 2018
(5 months)

	2018 Year-To-Date
Consumer Price Index (Inflation)	2.05%
90-Day Treasury Bills Index-Total Return	0.69%
Bloomberg Intermediate Term Corporate Bond Index	-0.91%
Barclays Aggregate Bond Index-Total Return	-1.50%
High Yield Corporate Bond Index – Total Return	-1.57%
S&P Leveraged Loan Index – Total Return	2.07%
HFRX Global Hedge Fund Index	-0.66%
S&P 500 Index (U.S. Stock Market)	2.02%
MSCI EAFE Index (Developed Foreign Equities)	-1.23%
MSCI Emerging Market Index (Equities)	-2.57%
Newedge CTA Index (Managed Futures)	-5.19%
Dow Jones–UBS Commodity Index-Total Return (USD)**	2.89%
Dow Jones U.S. Real Estate Index-Total Return (USD)**	-2.55%
Gold Bullion	-0.70%

As of: May 31, 2018

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

COPYRIGHT 2018 LEGEND FINANCIAL ADVISORS, INC.®
REPRINTED WITH PERMISSION OF LEGEND FINANCIAL ADVISORS, INC.®

SECULAR BEAR MARKET WATCH

April 1, 2000 to May 31, 2018
(18 years and 2 months)

	Annual Compound Return	Total Return
Consumer Price Index (Inflation)	2.14%	46.96%
90-Day Treasury Bills Index-Total Return	1.55%	32.26%
Barclays Aggregate Bond Index-Total Return	4.85%	136.55%
High Yield Corporate Bond Index – Total Return	8.68%	353.97%
S&P Leveraged Loan Index – Total Return	4.93%	139.91%
HFRX Global Hedge Fund Index	2.46%	55.42%
S&P 500 Index (U.S. Stock Market)	5.33%	157.08%
MSCI EAFE Index (Developed Foreign Equities)	3.85%	98.55%
MSCI Emerging Market Index (Equities)	7.31%	260.65%
Newedge CTA Index (Managed Futures)	4.24%	112.67%
Dow Jones–UBS Commodity Index-Total Return (USD)**	-0.45%	-7.92%
Dow Jones U.S. Real Estate Index-Total Return (USD)**	10.28%	492.63%
Gold Bullion	8.85%	366.99%

As of: May 31, 2018

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

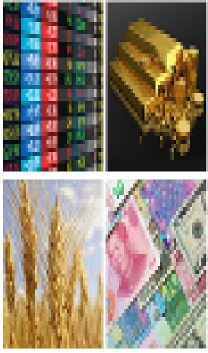
** USD = U.S. Dollar

Source: Bloomberg Investment Service

COPYRIGHT 2018 LEGEND FINANCIAL ADVISORS, INC.®
REPRINTED WITH PERMISSION OF LEGEND FINANCIAL ADVISORS, INC.®

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 2 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.



EmergingWealth
Investment Management, Inc.®

Legend
Financial Advisors, Inc.®

Fee-Only, Non-Commission, Fiduciaries

"Do You Want A Second Opinion?"

To see if your investment portfolio is built to navigate the pitfalls and opportunities ahead, call us today for a "Free Second Opinion" at (888) 236-5960

www.legend-financial.com