June, 2019

THE GLOBAL INVESTMENT PULSE

Published By

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

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PLACING INVESTMENTS INCOME TAX-EFFICIENTLY

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

Investors need to decide not only what investment to purchase, but also what type of securities account that the investment needs to be held in as part of the investment decision process to minimize investment related income taxes.

Due to the complexity of the U.S. tax code and individual situations being very different, the following guidelines will not necessarily apply to everyone, but they do provide a framework for investors when deciding where to place different asset classes.

Tax-Efficient, *continued on page 10*

ECONOMIC CYCLES AND SECTOR PERFORMANCE

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

Do you remember back in 1999 how depressed all the value fund managers were? Everyone was all-in on tech. Everyone! Except managers with a value-based investment strategy. Value was nowhere for a number of years leading up to the March 2000 tech top. When tech (-75.0%) and the broad indices (-50.0%) crashed, value did well and continued to shine until 2010. Since then, it's been a downright depressing eight years for those folks.

Economic Cycles, *continued on page 12*

THE RISKS AND REWARDS OF HIGH YIELD (JUNK) BONDS

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

Returns on high yield bonds, a.k.a. junk bonds, can be very attractive especially relative to higher rated bonds. These corporate debt securities are essentially unsecured bonds that carry different risks than investment grade AAA, AA, A or even BBB bonds. These bonds are rated no higher than the BB by Standard and Poor's or Baa by Moody's. Unrated bonds may also be included in the junk category. It is best not to invest in individual junk bonds. Otherwise, an investors' risks will skyrocket.

High Yield, *continued on page 6*

ETF LIQUIDITY

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

Exchange-Traded Funds (or ETFs) have advanced the world of investing. Their popularity has exploded in recent years, some of the reasons why are the following: they are inexpensive (many are, but some aren't), income tax-efficient (equities are, but bonds are not), and now there are more than 2,000 to choose from.

The popularity of ETFs can, in part, be associated with the recent rise in popularity of index investing. Index investing has a long history dating back to the mid-1970s. There have been indexed mutual

ETF Liquidity, *continued on page 4*

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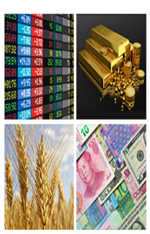

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LOUIS P. STANASOLOVICH, CFP®, EDITOR

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.

DON'T BOTHER WITH DIVERSIFICATION!

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

At a major industry conference approximately two years ago, an advisor was telling a story about a client who had just terminated their relationship because the advisor was approximately 1.0% behind the S&P 500 since the inception of their relationship. The advisor responded to the client when informed of the termination: "We just implemented your diversified portfolio. It was designed to provide better and smoother returns over the long-term." At which point the client responded, "I gave you three weeks! How much longer do you need?"

Fortunately, most investors do not have that type of ultra-short-term mentality, but many do have a short-term one. What is meant by that comment? Simply this. One can watch their investment accounts at least daily, if not minute by minute, read thousands of articles and comments at any point in time whether credible or not (think Social Media and the Internet), listen to sensationalized newscasters on CNBC, Bloomberg, Fox Business, etc. on television and then there is always radio. No wonder investors have a short-term viewpoint!

Years ago (the 1980s), according to one major mutual fund investment research firm, the average mutual fund investor frequently held onto mutual funds an average of ten plus years. Today, that number is about two years. Yet, investor returns, even in bull markets, are lower than before.

Why the drop in returns and average hold times? Again, a simple answer: Unbelievable amounts of information which causes investors to ignore fundamental investment principles and, instead, focus on so-called profit-making opportunities that focus on the short-term.

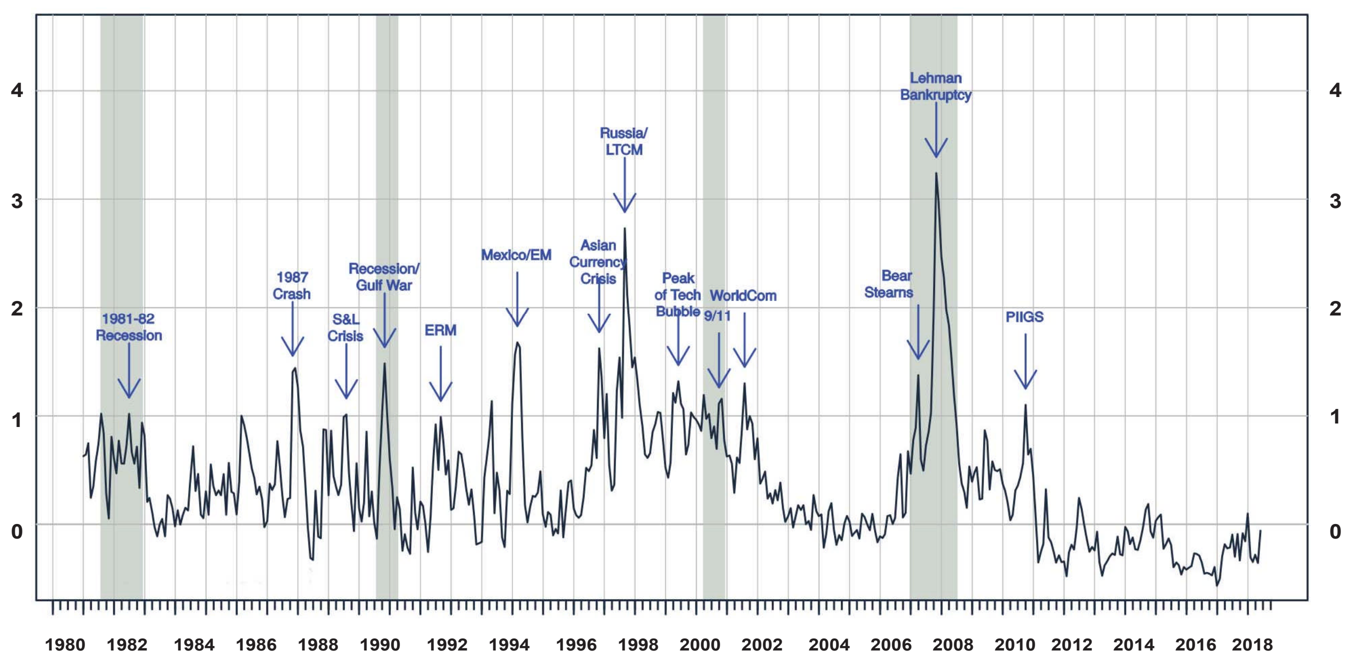
Investors usually earn better long-term returns when they focus on the long-term.

PULSE

MONTHLY RISK AVERSION INDEX (RAI)

RISK INDEX INCREASES SLIGHTLY-STILL NEAR LOWEST LEVEL EVER

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



As of: June 7, 2019

Source: The Leuthold Group, LLC, *Perception Express*, June 7, 2019, http://leuth.us/macro-monitor

PULSE

ETF Liquidity, *continued from page 1*

funds for over 45 years. ETFs, until recently, mainly tracked only the more popular indexes. Over the last several years, countries, regions, commodities, currencies, bonds, industries, sub-industries as well as leveraged and inverse (short) types of ETFs have become available in ETF format. More recent developments include ETFs based upon smart beta, different slices of indexes (fundamental investing), equally-weighted indexes and actively managed ETFs.

Most of these new types of ETFs are not detrimental to investors as a whole. However, if used incorrectly, they can be detrimental to individual investors. Purchasing ETFs is more convenient than purchasing an indexed open-end mutual fund. Trading costs are equal to the costs of trading stocks. Execution costs can exceed 2.0% in some circumstances. However, that's where investors can get into trouble—too much ease of use. Investors can easily buy and sell quickly and rapidly every day.

Having convenient access to otherwise illiquid markets can be problematic as well and can inappropriately allow investors to have a more casual approach to investments that are more complex, and they can create exposure to disasters.

ETF liquidity is based upon the underlying investments. Too much illiquidity of the underlying investments used by an investor that desires to have a great deal of liquidity can be a bad match. Not that everything that ETFs are designed to track has to be as liquid as stocks, but no investor should be under the impression that they can buy and sell every ETF as if the underlying investments have equally liquid markets. Furthermore, assets that are illiquid in their actual form should cause investors to exercise more caution when they enter into such transactions. The same concept can apply to parts of the investment markets that haven't historically been traded the way that ETFs do. For example, bank loans, high-yield bonds, commodities, precious metals, municipal bonds and foreign investments, such as emerging market securities are more illiquid. Trading in ETF form can create problems, especially for large investors. What happens when investors want out of the asset and the most convenient exit is the ETF, not the asset itself. It is during these times that the ETF sale price may fall below the value of the assets that are actually trading. Limit orders from a buying and selling standpoint can lower the possibility of creating problems for an investor, as can trading in the first half-hour or last half-hour of the trading day.

These can be complex investments. Buyer or seller beware!

PULSE

Fixed Income Yields, *continued from page 5*

everything is hard facts) contained within the calculations themselves. These significant differences need to be investigated or analyzed by investors or their advisors.

The investor, and hopefully their advisor, should not only monitor yields, but also contact the fund company for more information to understand the portfolio manager's view of the markets. The Portfolio Manager can make changes to the underlying securities changes due to interest rate changes, recessions, large cash inflows/outflows, defaults on securities, etc.

Investors and their advisor, if one is retained, should discuss if their bond funds are suitable for the next one to three years. Among numerous examples that could be offered, what if interest rates fell during a 12-month period, investors would expect a decline in the yield of their bond fund as well. What if the yield did not decline and the fund's current 30-Day SEC Yield is significantly higher than its 12-month distribution rate? This situation may indicate that the fund purchased higher-yielding securities with more credit risk, longer maturities, or both.

Furthermore, if interest rates are rising, should traditional bond funds be sold and funds that predominantly own variable rate securities be purchased instead?

Portfolio adjustments are inevitable over time, and investors and their advisor should regularly review their holdings to make sure their objectives and risk tolerance are being met.

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COMPARING FUND'S FIXED INCOME YIELDS

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

Investors often compare yields between different funds [not only open-end mutual funds, but Exchange-Traded Mutual Funds (ETFs)] as well as closed-end mutual funds to determine the level of income that a fund has been distributing. The 30-Day SEC Yield (The Securities and Exchange Commission required yield calculation for funds of all types) is a common calculation (more information about this calculation is discussed below) provided by bond funds, as well as other types of funds. However, there are other calculation methods such as "distribution rates" or "trailing yields" that might be published by fund groups or fund publications. These calculations explain slightly different information about each fund, which can help investors make better as well as more intelligent investment decisions.

Distribution rates of funds are usually based on fund distributions paid over a period of time. Twelve months is a common period used. To calculate this number, the fund's distributions per share are then divided by the fund's price per share to determine the distribution yield. This information provides investors with a historical calculation of how much the fund has paid on an historical basis. Recent distributions that are higher or lower may provide more meaningful information as well as establish a more recent trend. Beware: Unlike the SEC calculation, there is no standardized format, therefore, it is important to pay attention to how the calculation was made. For example, the income portion of the calculation may utilize a recent one-month distribution or a year's worth of distributions. A one-month distribution times 12 may cause investors to compare grapes with berries, so to speak. For example, to use income distributions averaged over a longer time frame, such as 12 months which is most common, the 12-month distribution rate will then be less likely to have erratic distributions, and therefore, have less large swings in the yield calculation.

The share price of the fund (the principal), could differ as well. Morningstar®, an independent mutual fund rating service, calculates its Trailing Twelve-Month yield (known as TTM yield) by utilizing a fund's distributions over the past 12 months as well as the ending price for that time period. Another mutual fund rating service or fund group could use the same 12 months of distributions, but calculate a fund's average fund price over that time frame. As a result, the yield figure will be more consistent over a period of time rather than using one price at a particular point in time. The former 12-month calculation period is believed to be more accurate.

The U.S. Securities and Exchange Commission (SEC) developed the 30-Day SEC Yield as a standardized method for comparing bond funds. It reflects the dividends and interest "earned" (not paid – this obviously has its faults as well since an investor may not receive the payout) by a mutual fund during the most recent 30-day period after deducting expenses. This value is multiplied by 12. It is then divided by the fund's Net Asset Value at the end of the period. This provides a view of the income-producing potential for a portfolio based upon its recent holdings. It is important to remember this calculation is not based on actual fund distributions. It is a calculation that assumes the yield an investor would receive if the fund's holdings and other components remain the same for the next 12 months (that's a big assumption given that many bond funds have annual turnover in the hundreds of percent).

None of the previously-mentioned calculation methods guarantee future income or return to be earned. However, by combining the 30-Day SEC yield and the various distribution rates, it offers a 360 degree of the fund's potential returns and distributions.

Still, another important point is if the difference between the 30-Day SEC Yield and the 12-month distribution rate is virtually the same, then the portfolio's holdings there is a strong probability of a fund yielding the same amount on a current basis as it has been for previous months. All bets are off if there is a large interest rate move or perhaps there are other changes in the bond marketplace that has taken place. This can include differences between the different types of yields. These differences could often be caused partially due to the underlying assumptions (not

Fixed Income Yields, *continued on page 4*

High Yield, *continued from page 1*

In the past, junk bonds were issued primarily by financially troubled corporations that were having difficulty raising capital elsewhere. Today, however, smart start-up companies, many in the high tech industry and many energy related companies make up the greatest number of new bond issuers. These firms often have extended lines of credit with financial institutions. Some prefer not to dilute ownership of earnings by issuing new stock.

Each bond, like the stock of a company, carries industry risks. For example, with energy, how stable these companies are depends upon how high the price of energy is. Of course, the higher the price of energy, the better. Recessions can push a number of these companies into bankruptcy.

Historical figures show that junk bonds are approximately 20 times more likely to default than high-grade bonds. In return for the higher risk, junk bonds usually pay 4.0% to 6.0% (although currently that number is approximately 3.5%) more per year than investment grade bonds.

Still, the annual rate of default is usually less than 2.0% of the outstanding value of the aggregate junk bonds market valuation, and because defaulted bonds normally retain a portion of their value, the annual net loss in the junk bond market amounts to as little as 1.0% of the total outstanding value of junk bonds. Also, defaults often occur in and around recessions.

Whether to include junk bonds in an investment portfolio depends largely on the investor's tolerance for risk. These bonds have demonstrated a relatively good track record over the past 25 years, but the risk is real. Past performance cannot be viewed as an accurate predictor of future performance. Should the investment industry experience a severe downturn, for example, defaults and substantial losses could be expected in the junk bond market.

Due to high risk factors, investors should avoid allocating substantial portions of their portfolio to junk bonds, whether purchased directly or indirectly. When purchasing junk bonds, it is best to purchase them in most cases through mutual funds. The underlying junk bonds of ETFs and ETNs are usually illiquid. Combined with the illiquid nature of ETFs and ETNs, this will cause investors to lose more money than a similarly managed mutual fund when liquidating their position.

Another factor to keep in mind that favors junk bonds over high grade bonds is that the higher interest rate payments from junk bonds usually protects investors' capital better than high grade bonds as interest rates rise. If interest rates stay level, junk bonds should also outperform high grade bonds due to their higher yields. If interest rates fall in smaller increments, junk bonds will also outperform. Only when interest rates fall dramatically will lower coupon high grade bonds outperform, but not always. In an extended economic recession such as the last recession in 2007 to 2009, defaults could drive long-term junk bonds' values down sharply.

PULSE

FED WATCH

INTEREST RATES AS OF JUNE 29, 2019

Fed Funds Rate Range:	**2.25 – 2.50%**
Fed Discount Rate:	**3.00%**

2019 UPCOMING FED MEETING SCHEDULE

Jul/Aug	**31-1**	**September**	**25-26**	**December**	**18-19**
		November	**7-8**		

Source: Bloomberg Investment Services

ETF CREATION UNITS: A COMPLEX BASIC PRIMER

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

In the process of researching Exchange-Traded Funds (ETFs), a common term mentioned is "Creation Unit." However, what exactly is a "Creation Unit"?

An ETF is a basket of stocks (or other investments) that trades on a stock exchange and is called a "Creation Unit". A more accurate statement, though, would be that ETF shares are fractions of creation units, which are baskets of stocks (or other investments) that trade on a stock exchange. In reality, if an investor wants to buy five shares of an Exchange-Traded Fund that represents the S&P 500, there is no way to do so without having an intermediary vehicle that represents the S&P 500 at a higher level, simply trading fractions of that larger investment. ETF shares are precisely this—small fractions of a much larger representation of an index, which are called "Creation Units". The way an ETF works is that when a company (commonly referred to as the "Sponsor", such as Barclays, iShares, Powershares, Blackrock, etc.) initiates a new Exchange-Traded Fund, they establish a relationship with an "Authorized Participant". The Authorized Participant is effectively the market maker that is enabled to create and redeem shares. Part of the agreement between the Sponsor and the Authorized Participant is the Creation Unit amount, which is the quantity of ETFs that will represent one creation unit. This number varies, but commonly is between 25,000 and 600,000 shares. From that point forward, the Authorized Participant is empowered to create and redeem shares by placing the securities the fund was designed to represent into a trust and then delivering the shares of the ETF. The key is that this process can only take place in denominations of whole creation units. Similarly, individual investors (typically only institutional investors) can redeem their ETF shares for the underlying investments.

While creation units are not highly relevant in the analysis of ETFs, it is important to understand that they are at the heart of what instills value in ETF shares. Without the ability to redeem ETF shares at some level, there is really no tie between the value of an index and an Exchange-Traded Fund designed to represent it.

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SECULAR BEAR MARKET WATCH

April 1, 2000 to May 31, 2019
(19 years and 2 months)

	Annual Compound Return	Total Return
Consumer Price Index (Inflation)	2.12%	49.59%
90-Day Treasury Bills Index-Total Return	1.59%	35.22%
Bloomberg Intermediate Term Corporate Bond Index	5.37%	172.91%
Barclays Aggregate Bond Index-Total Return	4.93%	151.69%
High Yield Corporate Bond Index – Total Return	8.62%	388.70%
S&P Leveraged Loan Index – Total Return	4.87%	149.11%
S&P 500 Index (U.S. Stock Market)	5.25%	166.79%
Russell 2000 Index (Small-Caps)	6.75%	249.89%
MSCI EAFE Index (Developed Foreign Equities)	3.36%	88.33%
MSCI Emerging Market Index (Equities)	6.43%	230.49%
Newedge CTA Index (Managed Futures)	4.09%	115.91%
HFRX Global Hedge Fund Index	2.13%	49.69%
Dow Jones–UBS Commodity Index-Total Return (USD)**	-1.23%	-21.13%
Dow Jones U.S. Real Estate Index-Total Return (USD)**	10.54%	583.03%
Gold Bullion	8.39%	369.04%

As of: May 31, 2019

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

** USD = U.S. Dollar

Source: Bloomberg Investment Service

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

The performance of the U.S. Stock market so far in the current period (April 1, 2000 to the present) certainly appears to indicate that we are in a Secular Bear market. Long-term returns (over the next 10 years) for the S&P 500 will probably be slightly worse than the last 19 years and 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.

2019 YEAR-TO-DATE PERFORMANCE

January 1, 2019 to May 31, 2019
(5 months)

	2019 Year-to-Date Return
Consumer Price Index (Inflation)	1.93%
90-Day Treasury Bills Index-Total Return	0.98%
Bloomberg Intermediate Term Corporate Bond Index	5.38%
Barclays Aggregate Bond Index-Total Return	4.80%
High Yield Corporate Bond Index – Total Return	8.10%
S&P Leveraged Loan Index – Total Return	5.49%
S&P 500 Index (U.S. Stock Market)	10.73%
Russell 2000 Index (U.S. Small-Caps)	9.25%
MSCI EAFE Index (Developed Foreign Equities)	8.08%
MSCI Emerging Market Index (Equities)	4.16%
Newedge CTA Index (Managed Futures)	2.22%
HFRX Global Hedge Fund Index	2.57%
Dow Jones–UBS Commodity Index-Total Return (USD)**	1.29%
Dow Jones U.S. Real Estate Index-Total Return (USD)**	17.03%
Gold Bullion	1.91%

As of: May 31, 2019

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

Investors need to have an understanding of how their different types of accounts are income taxed. There are three major types of accounts: taxable, tax-deferred and tax-free. For example, a taxable account (sometimes referred to as an individual account or a joint account) is fully taxable. Also, trusts of all types are taxable as well. Tax-Deferred accounts include Traditional IRAs, work sponsored retirement plans [such as 401(k) Profit-Sharing, 403(b) Plans, 457(f) Plans, etc.] as well as Self-Employed Retirement Accounts (SEP IRA, Individual 401(k), etc.). Due to the tax-deferred nature of these accounts, no income tax will be paid on earnings until the money is withdrawn from the account. Tax-free accounts are Roth IRAs or Roth 401(k)s or Roth 403(b)s.

One of the first steps that needs to be taken is to maximize contributions to tax-advantaged accounts, such as contributing up to the IRS limit for various retirement accounts for which an investor might be eligible.

Generally, taxable accounts are more suitable for equity investments rather than interest generating investments because most of the return from interest generating investments will come from the payment of interest and be taxed at an investor's ordinary income tax bracket. On the other hand, a large portion of equity investment returns will come from capital appreciation, which can be sold at long-term capital gain taxation rates if held longer than one year. A second part, although usually a lesser proportion, of equity returns will be obtained from the payout of dividends to investors. Qualified dividends are usually taxed at rates similar to long-term capital gains rates. Non-qualified dividends and short-term capital gains (equity investments held less than one year) are taxed at ordinary income tax rates.

Non-qualified dividends are income taxed at an investors' ordinary income tax bracket while qualified dividends and long-term capital gains are income taxed at the following rates:

1. Investors in a 15.0% or lower ordinary income tax bracket: 0.00%

2. Investors in the 25.0% to 35.0% ordinary income tax bracket: 15.00%

3. Investors in the 39.6% ordinary income tax bracket: 20.00%

Another issue that investors need to understand is if they are subject to the alternative minimum tax (AMT). The AMT tax rates start at 26.0% and increase to 28.0%. The author's purpose is not to review the finer points of the AMT calculation, but it is important to factor the possibility of this additional income tax into an investor's decision making.

The following is a list of various asset classes from the most tax-efficient to least tax-efficient:

Tax-Efficient Investments:

1. Equity-Focused Exchange-Traded Notes (ETNs)

2. Municipal Bond Funds (Suitable For Only High Income Tax Bracket Individuals)

3. Equity-Focused Exchange-Traded Funds

4. Tax-Managed U.S. Equity Funds

5. Tax-Managed Balanced Funds

6. Domestic Equity Funds

7. Foreign Equity Mutual Funds

8. Gold Equity Mutual Funds

9. Gold Bullion Mutual Funds

Moderately Tax-Efficient Investments:

1. High Dividend Paying Dividends

2. Preferred Stock Mutual Funds

3. Real Estate Mutual Funds

4. Managed Futures Funds

Somewhat Tax-Efficient Investments:

1. Asset Allocation Funds*

2. Balanced Funds (Combination Of Stocks And Bonds)

3. Long/Short Funds

4. Master Limited Partnership Exchange-Traded Funds (ETFs)

*This type of an investment is harder to determine in what type of an account it can be held. An Asset Allocation Fund can have different percentages invested in cash, stocks, bonds, REITs (which pay out non-qualified dividends), etc. and the allocation can change over time. One way to handle this is to place these types of investments into retirement accounts once all tax-inefficient investments are placed there.

Tax-Efficient, *continued on page 11*

Tax-Efficient, *continued from page 10*

Minimally Tax-Efficient:

1. Master Limited Partnership Exchange-Traded Notes (ETNs) That Distribute Income

2. Announced Merger/Arbitrage Funds

3. Convertible Bond Funds

Tax-Inefficient Investments:

1. Mortgage Real Estate Investment Trusts

2. High Yield Bond Funds

3. Bank Loan Funds

4. Corporate Bond Funds

5. Agency And Non-Agency Bond Funds

6. Treasury Bond Funds (Though Tax-Efficient For State Tax Purposes)

7. Treasury Inflation Protection Securities Funds (TIPS)

8. Foreign Developed Country Bond Funds

9. Emerging Market Bond Funds

10. Currencies In All Forms

Generally speaking, gaining access to any of the equity asset classes through Exchange-Traded Funds or especially Exchange-Traded Notes will be more tax-efficient than through mutual funds. However, there are many factors that an investor needs to understand regarding these types of investments that are beyond the scope of this article.

By placing equity investments that have more significant appreciation potential in taxable accounts, this can provide investors the opportunity to donate share of those investments to charity, thereby avoiding capital gains taxation altogether and achieving an income tax deduction.

Also, upon death, equity investments with more significant appreciation potential can also obtain a stepped-up cost basis.

One of the problems that an investor will face is that they might not have enough money in retirement accounts to shelter tax-inefficient investments from income taxes. Two schools of thought are commonplace in this instance.

One school believes it is best to place the lowest yielding investments in the taxable accounts and the highest yielding investments in the retirement accounts with the thinking being that the investor is not earning that much; therefore, they don't have that much to lose anyhow.

The second school of thought is just the opposite. Protecting the lowest yielding investments by placing them in shelters such as retirement accounts maximizes their returns.

In reality, it is best to analyze the amount of return lost to taxation in both situations and then attempt to minimize the overall taxation.

Another option is to invest in Municipal Bonds outside of sheltered accounts. They generally will not be taxed. However, yields are ridiculously low and these investments on a total return basis rarely outpace information.

As long as investors are following the guidelines outlined above and minimize the taxation on the most tax-inefficient investments first, the after-tax returns of their investment portfolio will be maximized.

PULSE

2017 INCOME TAX ACT SAVINGS ALMOST WIPED OUT BY TARIFFS

According to U.S. Global Investors Investor Alert, Bloomberg reports that the trade war has already wiped out most of the average American's household savings from the 2017 tax cuts. Only $100.00 remains of the average $930.00 tax break due to tariffs on Chinese imports. Additional proposed tariffs could cost middle income-earning households as much as $4,000.00.

PRINTED WITH PERMISSION OF U.S. GLOBAL INVESTORS *INVESTOR ALERT*, JUNE 7, 2019

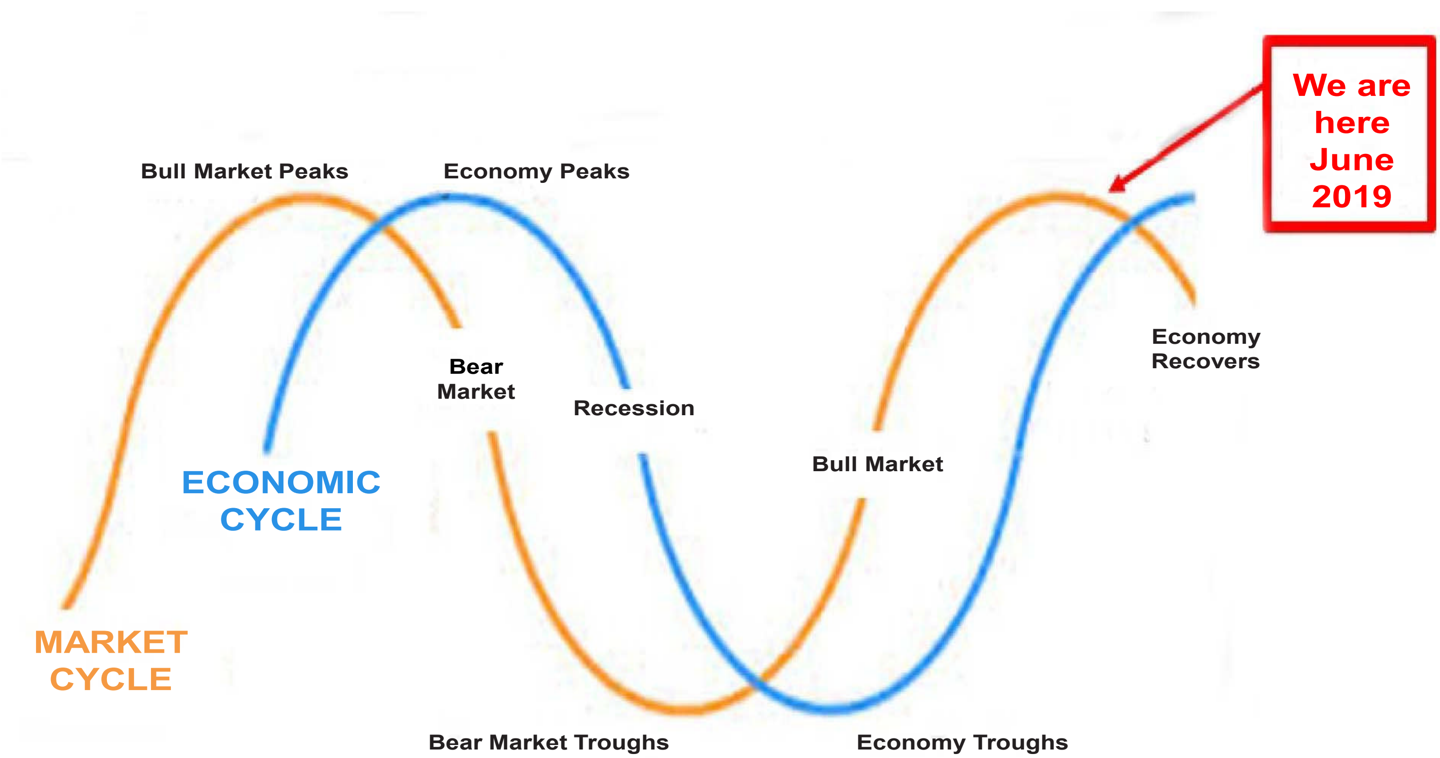
Economic Cycles, *continued from page 1*

ECONOMIC CYCLE

As of: June 15, 2019

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

ECONOMIC AND STOCK MARKET CYCLE RELATIONSHIP



As of: June 15, 2019

Source: timingcube.com via CMG Capital Management Group, LLC, *On My Radar*, June 15, 2019, www.cmgwealth.com

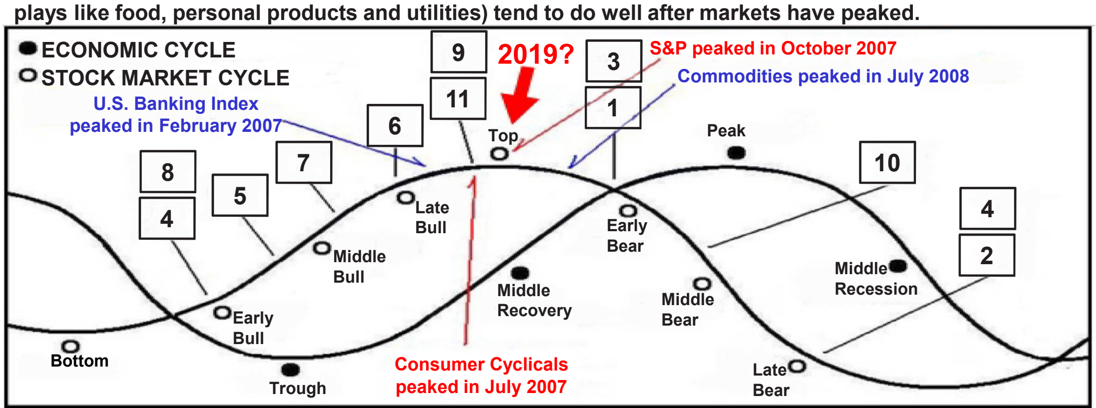
Economic Cycles, *continued on page 13*

Economic Cycles, *continued from page 12*

What can an investor do? Tactically shifting to value plays, consumer staples and health care made a lot of sense in 1999. The next chart, below, organizes which sectors tend to do best based on where we are in the cycle. For example, tech and financials tend to do well coming off market bottoms, while consumer non-cyclicals (value-based plays like food, personal products and utilities) tend to do well after markets have peaked. For discussion and educational purposes only. Again, this discussion is not a recommendation to buy or sell any security.

CYCLE INVESTING

The chart below organizes which sectors tend to do best based on where the cycle is. For example, tech and financials tend to do well coming off market bottoms, while consumer non-cyclicals (value-based plays like food, personal products and utilities) tend to do well after markets have peaked.

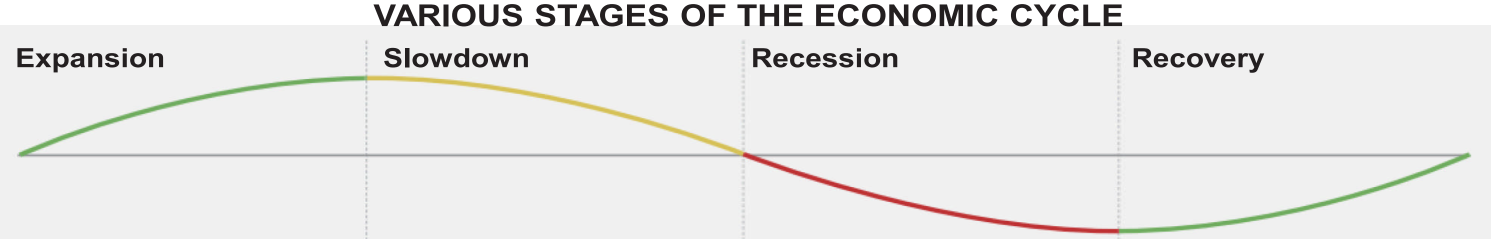


1	Consumer Non-Cyclicals	5	Technology	9	Energy
2	Consumer Cyclicals (durable and non)	6	Basic Industry	10	Utilities
3	Health Care	7	Capital Goods	11	Precious Metals
4	Financials	8	Transportation		

As of: June 15, 2019

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

HOW SECTORS OF THE STOCK MARKET PERFORM DURING VARIOUS STAGES OF THE ECONOMIC CYCLE



Expansion

- Growth reaches the peak
- Increasing Capital Expenditures to improve productivity and meet increasing demand
- Interest rates start rising from their relatively low level

++ Financials, Technology
+ Communication Services
- Consumer Staples
- - Health Care Utilities

Slowdown

- Capacity utilization peaks
- Positive output gaps
- Positive but decelerating growth
- More restrictive monetary policy

++ Consumer Staples, Health Care
+ Industrials
- Materials
- - Consumer Discretionary, Real Estate

Recession

- Declining economic outputs
- Falling demand from both consumer and business
- Increasing unemployment
- Low consumer confidence
- Easing monetary policy

++ Consumer Staples, Utilities
+ Health Care
- Communication Services
- - Real Estate, Technology

Recovery

- Economy rebounds but below trends
- Consumer expectations improve
- Discretionary spending increases
- Businesses stop cutting back on commercial activities
- Monetary policy remains accommodative

++ Consumer Discretionary, Real Estate
+ Materials
- Health Care
- - Consumer Staples Utilities

Source: SPDR Americas Research, as of 12/31/2018. ++/-- indicates the best/worst two performing sectors. +/- indicates the third best/worst performing sectors. For illustrative purposes only.

As of: June 15, 2019

Source: SPDR Americas Research via CMG Capital Management Group, LLC, *On My Radar*, June 15, 2019

Economic Cycles, *continued on page 14*

SECTOR BUSINESS CYCLE ANALYSIS

Recession	Cons. Disc.	Cons. Staples	Energy	Financials	Health Care	Industrials	Materials	Real Estate	Tech	Utilities
Average Monthly Return (%)	-1.5	-0.1	-0.2	-1.8	-0.5	-1.7	-1.4	-3.1	-2.5	-0.3
Average Monthly Excess Return (%)	0.1	1.5	1.4	-0.2	1.1	-0.1	0.2	-1.5	-0.9	1.3
Average Period Return (%)	-12.0	1.0	-3.5	-13.3	-2.9	-14.8	-11.5	-21.6	-20.3	-1.6
Average Period Excess Return (%)	1	14	9	0	10	-2	1	-9	-7	11
Hit Rate (% of Months Outperforming the Market)	49.3	70.4	53.5	53.5	59.2	46.5	47.9	43.7	39.4	60.6
Hit Rate (% of Periods Outperforming the Market)	29	86.0	71.0	43.0	86.0	29.0	43.0	14.0	14.0	100.0
Aggregated Z-Score	-2.0	8.3	4.6	-2.0	5.2	-3.4	-1.3	-8.6	-7.7	6.6

As shown in the table above, during a recession, non-cyclical sectors, like **Consumer Staples, Utilities** and **Health Care**, performed well, as their business ties to non-discretionary spending which is less sensitive to economic fluctuations. They outperformed the broader market on an average of more than 10.0% during six of seven recession periods. **Real Estate** and **Technology** are among the worst performing sectors across all the metrics. As their business ties to highly discretionary spending for both consumers and business, these sectors tend to be the first to experience spending cuts in a period of diminishing income and business activities.

As of: June 15, 2019

Source: Kenneth French Data Library, SPDR Americas Research via CMG Capital Management Group, LLC, *On My Radar*, June 15, 2019

SECTOR BUSINESS CYCLE ANALYSIS

Recovery	Cons. Disc.	Cons. Staples	Energy	Financials	Health Care	Industrials	Materials	Real Estate	Tech	Utilities
Average Monthly Return (%)	3.4	1.9	2.8	2.4	2.3	2.9	3.0	3.6	3.0	1.6
Average Monthly Excess Return (%)	1.1	-0.3	0.6	0.1	0.0	0.6	0.7	1.3	0.7	-0.6
Average Period Return (%)	33.1	18.0	27.1	23.1	21.4	27.4	29.3	39.2	28.4	14.7
Average Period Excess Return (%)	12	-3	6	2	0	6	8	18	7	-7
Hit Rate (% of Months Outperforming the Market)	64.5	43.5	53.2	54.8	46.8	56.5	61.3	58.1	53.2	45.2
Hit Rate (% of Periods Outperforming the Market)	86	29	57	57	43	71	71	57	71	29
Aggregated Z-Score	7.3	-7.5	0.8	-1.5	-4.1	2.2	3.8	7.2	2.3	-9.1

In a recovery phase, improvement in the labor market and consumer confidence leads to increases in discretionary spending on restaurants, travel and durable goods, benefiting **Consumer Discretionary** sectors. While recessions tend to hit the real estate market hard, the low interest rates and easing monetary policy following the recession make it cheaper and easier to purchase real estate. The recovery in commercial activities also lifts the value of commercial real estate, contributing to the **Real Estate** sector's outperformance. The outperformance of Consumer Discretionary is more consistent than Real Estate, given its higher hit rate on a monthly and periodic basis. On the other hand, sectors that are favored during the recession—**Consumer Staples, Utilities** and **Health Care**—lose their attraction as the market rebounds and investors embrace more cyclical sectors to capture upturns in the market.

As of: June 15, 2019

Source: Kenneth French Data Library, SPDR Americas Research via CMG Capital Management Group, LLC, *On My Radar*, June 15, 2019

Economic Cycles, *continued on page 15*

Economic Cycles, *continued from page 14*

SECTOR BUSINESS CYCLE ANALYSIS

Expansion	Cons. Disc.	Cons. Staples	Energy	Financials	Health Care	Industrials	Materials	Real Estate	Tech	Utilities
Average Monthly Return (%)	1.4	0.9	1.2	1.7	1.0	1.4	1.2	1.5	1.8	0.7
Average Monthly Excess Return (%)	0.1	-0.4	-0.2	0.4	-0.3	0.1	-0.2	0.1	0.5	-0.6
Average Period Return (%)	16.6	10.6	15.5	18.7	10.8	16.2	13.1	17.8	21.0	7.6
Average Period Excess Return (%)	1	-5	0	3	-4	1	-2	3	6	-8
Hit Rate (% of Months Outperforming the Market)	50.7	47.3	47.8	58.0	47.3	51.7	46.8	51.7	51.7	41.5
Hit Rate (% of Periods Outperforming the Market)	73	45	45	91	27	55	55	55	82	9
Aggregated Z-Score	2.8	-4.7	-0.9	8.0	-5.0	2.1	-1.9	3.3	7.6	-10.3

Expansion features narrow sector dispersion, as economic growth accelerates to its peak and more sectors benefit from the economic boom. Market returns are the second best among the four phases, following behind the recovery phase, but its duration tends to be longer. During this phase, capacity utilization tends to increase significantly to its peak.

Businesses feel more confident about the growth prospects and start expanding business and allocating more capital to improve productivity, such as investing in **Technology**. Interest rates also start moving up from a very low level. Increasing loan volume and higher interest rates from a relatively low level tend to benefit **Financials**. Technology and Financials' outperformance is quite consistent, as they beat the market in ten out of twelve expansion phases. Noncyclical sectors continue to be out of favor during the economic expansion.

SECTOR BUSINESS CYCLE ANALYSIS

Slowdown	Cons. Disc.	Cons. Staples	Energy	Financials	Health Care	Industrials	Materials	Real Estate	Tech	Utilities
Average Monthly Return (%)	0.8	1.3	1.0	1.0	1.3	1.1	0.9	0.5	1.0	1.0
Average Monthly Excess Return (%)	-0.1	0.3	0.0	0.0	0.3	0.1	-0.1	-0.4	0.0	0.1
Average Period Return (%)	5.5	14.6	8.5	13.7	15.0	11.9	6.5	2.4	10.1	11.8
Average Period Excess Return (%)	-5	4	-2	4	5	2	-4	-8	0	2
Hit Rate (% of Months Outperforming the Market)	46.9	57.9	51.4	48.0	54.2	53.1	48.3	44.7	48.9	50.3
Hit Rate (% of Periods Outperforming the Market)	36	73	55	36	73	73	36	27	45	55
Aggregated Z-Score	-5.4	8.1	-0.3	0.5	7.3	3.8	-3.8	-10.8	-0.9	1.4

As economic growth decelerates and input costs increase, corporate profitability growth comes under pressure, remaining positive but slowing down. Given capacity and efficiency constraints, companies spend more on capital expenditure to meet demand, but there is usually a lag between the deployment of Capex and rising productivity. The overall market return is the second worst among all phases. Investors start positioning more defensively and reducing their allocation to economic sensitive sectors in anticipation of the next economic downturn. This leads to the outperformance of **Health Care** and **Consumer Staples** and underperformance of **Consumer Discretionary** and **Real Estate**. **Industrials** is the third best performing sector, as it benefits from increasing investment in capital products. However, increases in Capex did not occur or were not significant every time when the economy growth slowed. During the two slowdowns, private nonresidential fixed investment declined significantly, leading to **Industrials'** underperformance in both periods.

Outliers

Materials and **Energy** are commonly expected to perform well in slowdowns as the positive output gap in this phase tends to lead prices of oil and basic materials higher and contribute to profitability. However, as these markets have become more integrated with the global market, the boom of commodity prices during U.S. economic slowdowns has occurred less frequently since the 1980s.

As of: June 15, 2019
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Source: This article was excerpted from "Peak Profit Margins—And What They Tell Us", By Stephen B. Blumenthal, Founder and CEO, CMG Capital Management Group, Inc., (On My Radar, March 15, 2019; Charts were revised as of June 15, 2019), www.cmgwealth.com

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