November, 2019

THE GLOBAL INVESTMENT PULSE

Published By

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

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GEAR UP FOR SHORT-TERM VOLATILITY, BUT TRY TO IGNORE THE NOISE

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

The U.S. and global equity markets have been shaken since May with worldwide weak pronounced slowdowns in factory activity, employment (not in the U.S. from an employment standpoint) and trade. The manufacturing sector is very globally interconnected, with very few sophisticated products being assembled in a single country, so the synchronized slowdown comes as no surprise. There are cyclical forces at work here, but the adverse impact of the trade war is also starting to show up in the numbers.

Short-Term Volatility, *continued on page 4*

GROWING THE GLOBAL REIT MARKET

By Sandeep Mathrani, CEO Brookfield Properties Retail

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

As the REIT approach to real estate investment continues to take hold globally, investors from all walks of life have greater access to income-producing real estate and the benefits it provides. Nareit is dedicated to both advocating for the REIT approach to real estate investment around the world and to encouraging investment in U.S. REIT's by domestic and foreign investors.

REIT, *continued on page 6*

MUTUAL FUND TAXATION VERSUS EXCHANGE-TRADED FUND TAXATION

By Matthew J. Bartolini, CFA, Head of SPDR Americas Research

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

Legend's Commentary: ETFs are becoming more of an investment tool used by investors especially professional investors such as financial advisors and hedge fund managers. ETFs offer several advantages over mutual funds. Listed below is a quick summary of the two fund types as well as their pros and cons.

Mutual Funds vs. ETFs, *continued on page 6*

THE THREE BIG ISSUES AND THE 1930s ANALOGUE

By Ray Dalio, Co-Chief Investment Officer & Co-Chairman of Bridgewater Associates, L.P.

The most important forces that now exist are:

1. The End of the Long-Term Debt Cycle (When Central Banks Are No Longer Effective)
2. The Large Wealth Gap and Political Polarity
3. A Rising World Power Challenging an Existing World Power

The Bond Blow-Off, Rising Gold Prices, and the Late 1930s Analogue:

In other words, now 1) central banks have limited ability to stimulate, 2) there is large wealth and political polarity and 3) there is a conflict between China as a rising power and the U.S. as an existing world

1930s, *continued on page 10*

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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.

STOCK BUYBACKS ARE FADING!

By Blaine Rollins, CFA, 361 Capital, LLC

Companies in the S&P 500 repurchased about $166 billion of their own stock in the second quarter, S&P Dow Jones Indices projects, down from $205.8 billion in the first quarter and $190.6 billion in the same period a year ago. That marks the lowest total since the fourth quarter of 2017 and the second consecutive quarter of contraction.

What has alarmed some investors is that companies eased up on share repurchases even as volatility surged in the midst of a heightened trade dispute between Washington and Beijing. The S&P 500 slumped almost 7.0% in May, but the buyback data suggest companies didn't step in to support their stock prices the way they did during the final months of 2018.

That is a sign that corporations are potentially tightening their wallets as executives grapple with new tariff threats in the long-simmering trade dispute with China; weakening corporate earnings; signs of a downturn in global growth; and uncertainty over the Federal Reserve's interest-rate policy.

Source: This article was excerpted from "Who Is Going To Hit The Button?" By Blaine Rollins, CFA, 361 Capital, LLC, (*Weekly Research Briefing*, August 26, 2019), https://www.wsj.com/articles/slowing-share-buybacks-remove-a-pillar-of-stock-market-11566379801 via www.361capital.com

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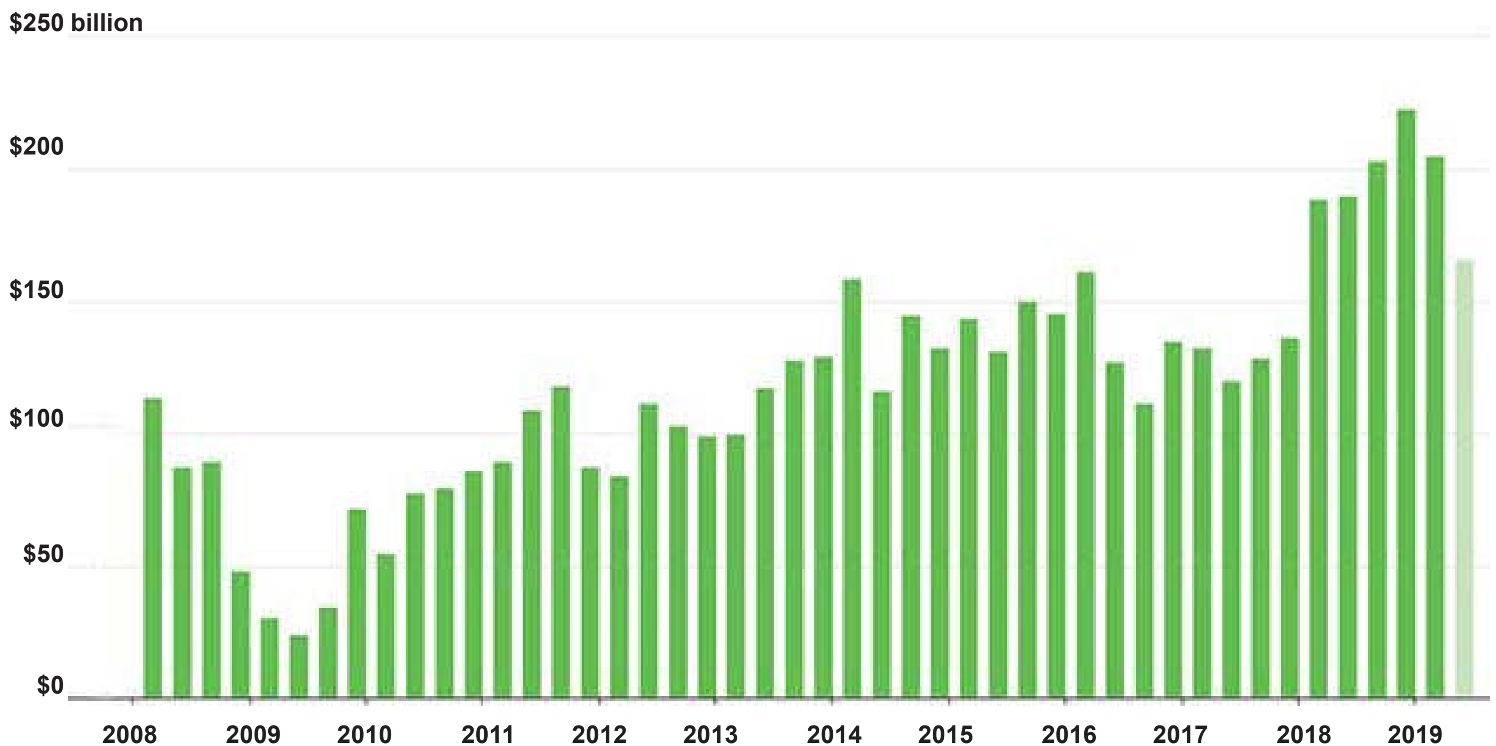

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Recently regarding the impeachment inquiry of Donald Trump also flooding the airwaves last week, it may feel that in the short-term, all the noise is likely to contribute to higher levels of volatility. It's probably not time to shift portfolios or turn fully defensive.

Ignoring the noise and considering the broad range of fundamentals, the picture for the stock market and the U.S. economy do not look as bleak.

We may enter a late cycle Bull Market.

Manufacturing Versus The U.S. Consumer, Labor Markets, And Services:

Manufacturing is an important component of the U.S. economy and has historically been a leading indicator. Recent news has made it appear as though factory activity is a bellwether for the U.S. economy. It isn't. The manufacturing sector only accounts for around 10.0% of the U.S. economy, and that number has been shrinking progressively over recent decades.

This shrinking trend does not signal any kind of economic downfall and should not be viewed in a negative light—it is simply part of a longer-term transition, where the U.S. has moved from being an industrial economy to now being a services and consumption-based economy. In today's economy, skilled labor has more value and pays higher wages than unskilled labor, which has led to overall increases in wealth over time. However, winners and losers have been created in the process.

Services Account For A Growing Share Of The U.S. Economy:

According to Credit Suisse, since 1947 services has steadily grown from 48.0% of the economy to approximately 70.0% of the economy. Manufacturing, in the interim, has steadily declined from roughly 26.0% of the economy down to approximately 10.0% of the economy.

To be fair, if the Institute for Supply Management (ISM) services data last week had indicated contracted activity in the U.S. economy, my tone here might be a bit different. However, the ISM Non-Manufacturing Purchasing Managers Index (PMI), which measures services in the U.S. economy remained comfortably in expansion territory and relatively healthy. Many news reports have noted that services data was less expansionary than expected, and that it surprised to the downside, but at the end of the day growth is growth.

Macroeconomic data in the labor market and retail sales U.S. consumers offer evidence that it is not all doom-and-gloom in the U.S. economy. Job growth remains strong. The U.S. jobless rate (3.5%) is at its lowest level in 50 years.

Small businesses are often considered a key growth engine for the U.S. economy and have been increasingly indicating they have labor shortages. Fifty-seven percent of owners have said they are hiring or trying to hire new workers. A majority of theses business owners have reported finding few, if any, qualified applicants for open positions, which might at once point to strength in economic activity, but also a skilled labor shortage. The NFIB Small Business Jobs Report has reported that hiring has slowed down, but it is due to the inability to find qualified workers, not because of a lack of customers.

The U.S. consumer is another indicator that points to the health of the U.S. economy as well as solid spending for the holiday shopping season.

Bottom Line For Investors:

Recession risks are rising, and growth across the global economy is slowing. U.S. corporate earnings are expected to post their third straight quarter of negative growth for the July 1st to September 30th period, which hasn't happened since 2015 – 2016. Investors, therefore, should expect any bit of bad news to invoke a volatile response in the stock market.

On the sunny side, the base case is that the U.S. economy is still growing. The all-important services sector remains in expansionary territory, the U.S. consumer is still spending at a nice clip, the jobs market is quite healthy, and interest rates are falling. Recessions do not tend to happen when these factors are positive.

Source: Portions of this article were excerpted from "Gear Up for Short-Term Volatility, But Try to Ignore the Noise", by Mitch Zacks, Senior Portfolio Manager, Zacks Investment Management, (*Mitch on the Markets*, October 12, 2019), www.zacks.com

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FED WATCH

INTEREST RATES AS OF NOVEMBER 19, 2019

Fed Funds Rate Range:	1.50 – 1.75%
Fed Discount Rate:	2.25%

2019 UPCOMING FED MEETING SCHEDULE

December 10-11

2020 UPCOMING FED MEETING SCHEDULE

January 28-29	June 9-10	November 4-5
March 17-18	July 28-29	December 15-16
April 28-29	September 15-16	

Source: Bloomberg Investment Services

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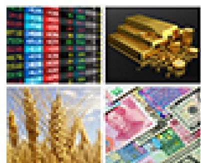

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REIT, continued from page 1

While the U.S. remains the largest real estate market, the market is increasingly becoming more global. Today, 39 countries and regions around the world, including all of the G7 nations, have a REIT regime in place. Most recently, Portugal passed its REIT legislation in January, adding it to the growing list of countries that have adopted the U.S. approach. Globally, 15 of the 30 largest listed real estate companies in the world are REITs, which include 13 U.S. REITs. REITs also comprise 75.2% of the market capitalization in the FTSE EPRA/Nareit global universe.

The growth of REITs and listed real estate globally is good for real estate markets and investors. Recent research shows that an allocation to global listed real estate improved the returns of diversified investment portfolio. For many, global real estate focused mutual funds and exchange-traded funds often offer an easy and efficient way for investors to add global allocations to portfolios.

Nareit's outreach message has three key components: real estate is a fundamental asset class; portfolio allocation to real estate should be in the range of 5.0% to 15.0%; and REITs are the low cost/liquid means of accessing the real estate asset class. As a key element in making the case for adding listed real estate to investor portfolios, Nareit uses research that demonstrates that on a net basis, REIT returns have exceeded those of private real estate by nearly 3.0% per year.

Source: Portions of this article was excerpted from "Growing the Global REIT Market", by Sandeep Mathrani, CEO Brookfield Properties Retail, (*REIT Magazine*, September/October 2019)

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Mutual Funds vs. ETFs, continued from page 1

Based on the capital gains and dividend trends witnessed throughout the years—and which were exemplified in 2018—when it comes to tax efficiency, Exchange-Traded Funds (ETFs) offer greater value than mutual funds do. Given the persistency of the trend, a portfolio's structural on-going tax efficiency is worth considering ahead of capital gain announcements from fund companies this fall.

Mutual Funds:

When an investor buys mutual fund shares, cash flows into the fund which the portfolio manager then invests in various securities. In return, the fund issues shares to the investor. When an investor decides to sell the mutual fund shares, the portfolio manager sells securities to raise the cash needed to meet the redemption request.

Key takeaway: This cash dependency leads to tax inefficiencies, particularly when a mutual fund must meet large and/or unexpected redemptions. If the mutual fund sells underlying securities that have increased substantially in price, that capital gain is passed on to the investor.

Exchange-Traded Funds (ETFs):

The creation and redemption process for ETFs takes place in the primary market and is facilitated by authorized participants (APs). APs are U.S.-Registered, self-clearing broker dealers who regulate the supply of ETF shares in the secondary market. APs buy the securities that an ETF holds and then transfer them to the ETF sponsor in return for shares of the actual ETF. Once the ETF shares are transferred to the AP, they can sell the ETF shares to investors on the secondary market. This is how ETF shares are created. The process also works in reverse: If an AP buys enough shares of the ETF, they can transfer the ETF shares to the sponsor in return for the underlying securities held in the ETF.

Key takeaway: The creation/redemption process is centered on in-kind securities transfers between the AP and the ETF sponsor. In most cases, no cash is required to facilitate this transaction. In effect, this limits transactions within the ETF itself by the portfolio manager, drastically reducing the possibility of realizing a capital gain. This critical difference in fund structure makes the ETFs a more tax-efficient vehicle for investors with non-qualified assets to manage.

Investors can reduce income taxes from mutual funds by instead buying ultra-low-cost ETF strategies. Income tax-and fee-conscious investors who are

Mutual Funds vs. ETFs, continued on page 7

STOCK MARKET VALUATIONS LIKELY TO CAUSE PROBLEMS FOR PENSIONS

By 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.®

There has been a lot of talk about the coming pension crisis. Recently, General Electric plans to freeze their defined benefit pension plan. This is just one warning sign on the road.

The average state pension is 50.0% underfunded, and the coming returns are not going to hit the 7.0% return bogeys most plans are expecting. The next chart from Crestmont Research for 10-year equity market returns are in the -1.8% to 3.6% range (annualized). With Baby Boomers nearing retirement and return probabilities well below the 7.0% targets, the pension crisis advances.

IMore GE-like announcements are coming in the future. Higher state and local taxes are coming to cover those underfunded promises. More likely than not, benefits will be lower too.

Source: This article was excerpted from "A Game of Poker", by Stephen B. Blumenthal, Founder and CEO, CMG Capital Management Group, Inc., (*On My Radar*, October 18, 2019), www.cmgwealth.com

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S&P 500 INDEX TOTAL RETURN BY DECILE
10 Year Periods Ending 1909 to 2018 (110 Periods)

DECILE	TOTAL RETURN BY DECILE RANGE FROM	TO	RETURN DECILE AVG	AVG BEGIN P/E	AVG END P/E
1	-1.8%	3.6%	1.3%	27.0	14.8
2	3.7%	5.4%	4.7%	16.3	9.5
3	5.4%	6.5%	5.9%	17.8	12.6
4	6.5%	7.6%	7.1%	19.3	18.0
5	7.6%	8.7%	8.0%	17.3	15.6
6	8.8%	10.0%	9.3%	17.0	15.7
7	10.6%	13.0%	11.6%	14.5	19.3
8	13.7%	14.7%	14.2%	12.2	20.1
9	14.7%	16.3%	15.6%	10.2	18.9
10	16.4%	19.2%	17.3%	11.4	24.0

Notes: Total Return Includes Dividend Yield; P/E is CAPE P/E 10

As of: October 18, 2019
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Mutual Funds vs. ETFs, *continued from page 6*

unhappy with their current mutual fund strategy can consider rotating into a smart beta ETF strategy seeking to harness similar return premia or a low-cost ETF strategy that provides similar market exposure, each with the added potential benefit of lower costs and the probability of improved tax efficiency.

Source: This article was excerpted from "ETFs vs. Mutual Funds: Who Wins The Capital Gains Fight?", by Matthew J. Bartolini, CFA, Head of SPDR Americas Research, (*SPDR Blog*, October 1, 2019), www.spdr.com

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SECULAR BEAR MARKET WATCH

April 1, 2000 to October 31, 2019
(19 years and 7 months)

	Annual Compound Return	Total Return
Consumer Price Index (Inflation)	2.10%	50.32%
90-Day Treasury Bills Index-Total Return	1.57%	35.58%
Bloomberg Intermediate Term Corporate Bond Index	5.47%	183.90%
Barclays Aggregate Bond Index-Total Return	5.03%	161.42%
High Yield Corporate Bond Index – Total Return	8.76%	417.97%
S&P Leveraged Loan Index – Total Return	4.81%	151.06%
S&P 500 Index (U.S. Stock Market)	5.71%	196.73%
Russell 2000 Index (Small-Caps)	6.98%	275.23%
MSCI EAFE Index (Developed Foreign Equities)	3.73%	104.79%
MSCI Emerging Market Index (Equities)	6.62%	251.13%
Newedge CTA Index (Managed Futures)	4.20%	123.91%
HFRX Global Hedge Fund Index	2.26%	55.02%
Dow Jones–UBS Commodity Index-Total Return (USD)**	-1.11%	-19.58%
Dow Jones U.S. Real Estate Index-Total Return (USD)**	10.85%	652.90%
Gold Bullion	9.03%	444.11%

As of: October 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

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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 19 years and 7 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 October 31, 2019
(10 months)

	2019 Year-to-Date Return
Consumer Price Index (Inflation)	2.43%
90-Day Treasury Bills Index-Total Return	1.80%
Bloomberg Intermediate Term Corporate Bond Index	9.62%
Barclays Aggregate Bond Index-Total Return	8.85%
High Yield Corporate Bond Index – Total Return	14.57%
S&P Leveraged Loan Index – Total Return	6.31%
S&P 500 Index (U.S. Stock Market)	23.16%
Russell 2000 Index (U.S. Small-Caps)	17.16%
MSCI EAFE Index (Developed Foreign Equities)	17.52%
MSCI Emerging Market Index (Equities)	10.66%
Newedge CTA Index (Managed Futures)	6.00%
HFRX Global Hedge Fund Index	6.22%
Dow Jones–UBS Commodity Index-Total Return (USD)**	3.29%
Dow Jones U.S. Real Estate Index-Total Return (USD)**	29.00%
Gold Bullion	18.22%

As of: October 31, 2019

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

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1930s, continued from page 1

power. If/when there is an economic downturn, that will produce serious problems in ways that are analogous to the ways that the confluence of those three influences produced serious problems in the late 1930s.

Before I get into the meat of what I hope to convey, I will repeat my simple timeless and universal template for understanding and anticipating what is happening in the economy and markets.

My Template:

There are four important influences that drive economies and markets:

1. Productivity
2. The short-term debt/business cycle
3. The long-term debt cycle
4. Politics (within countries and between countries).

There are three equilibriums:

1. Debt growth is in line with the income growth required to service the debt,
2. The economy's operating rate is neither too high (because that will produce unacceptable inflation and inefficiencies) nor too low (because economically depressed levels of activity will produce unacceptable pain and political changes), and
3. The projected returns of cash are below the projected returns of bonds, which are below the projected returns of equities and the projected returns of other "risky assets."

And there are two levers that the government has to try to bring things into equilibrium:

1. Monetary policy
2. Fiscal policy

The equilibriums move around in relation to each other to produce changes in each like a perpetual motion machine, simultaneously trying to find their equilibrium level. When there are big deviations from one or more of the equilibriums, the forces and policy levers react in ways that one can pretty much expect in order to move them toward their equilibriums. For example, when growth and inflation fall to lower than the desired equilibrium levels, central banks will ease monetary policies which lowers the short-term interest rate relative to expected bond returns, expected returns on equities, and expected inflation. Expected bond returns, equity returns, and inflation themselves change in response to changes in expected conditions (e.g. if expected growth is falling, bond yields will fall and stock prices will fall). These price changes happen until debt and spending growth pick up to shift growth and inflation back toward inflation. And, of course, all this affects politics (because political changes will happen if the equilibriums get too far out of line), which affects fiscal and monetary policy. More simply and most importantly said, the central bank has the stimulant which can be injected or withdrawn and cause these things to change most quickly. Fiscal policy, which changes taxes and spending in politically motivated ways, can also be changed to be more stimulative or less stimulative in response to what is needed but that happens in lagging and highly inefficient ways.

For a simpler explanation of this template see my 30-minute animated video "How the Economic Machine Works" and for a more comprehensive explanation see my book Understanding the Principles of Big Debt Crises, which is available free as a PDF here or in print on Amazon. Also, to learn more about our extensive debt cycle research, please visit our debt crises research library on Bridgewater.com.

Looking at What is Happening Now in the Context of That Template:

Regarding the above template and where we are now, in my opinion, the most important things that are happening (which last happened in the late 1930s) are a) we are approaching the ends of both the short-term and long-term debt cycles in the world's three major reserve currencies, while b) the debt and non-debt obligations (e.g., healthcare and pensions) that are coming at us are larger than the incomes that are required to fund them, c) large wealth and political gaps are producing political conflicts within countries that are characterized by larger and more extreme levels of internal conflicts between the rich and the poor and between capitalists and socialists, d) external politics is driven by the rising of an emerging power (China) to challenge the existing world power (the U.S.), which is leading to a more extreme external conflict and will eventually lead to a change in the world order, and e) the excess expected returns of bonds is compressing relative to the returns on the cash rates central banks are providing.

As for monetary policy and fiscal policy responses, it seems to me that we are classically in the late stages of the long-term debt cycle when central banks' power to ease in order to reverse an economic downturn is coming to an end because:

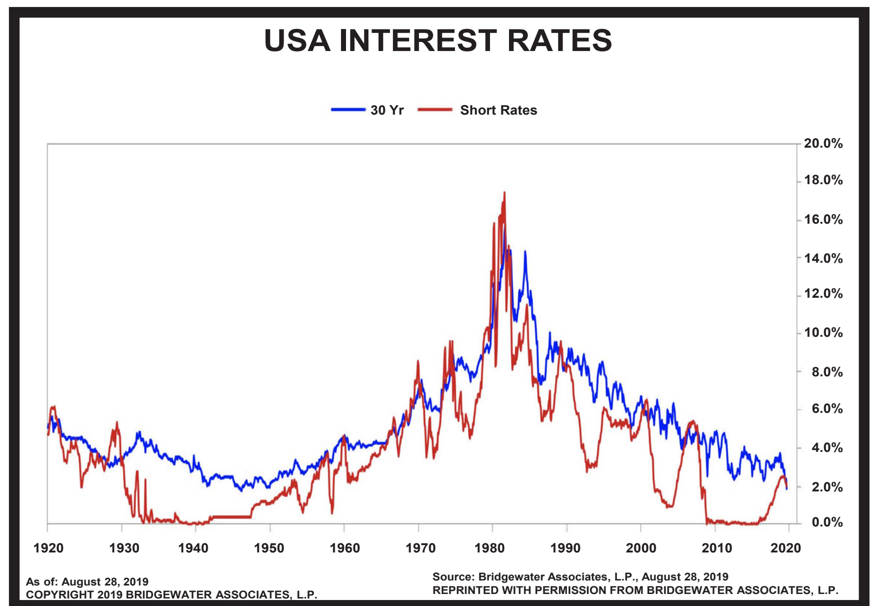
Monetary Policy 1 (i.e., the ability to lower interest rates) doesn't work effectively because interest rates get so low that lowering

1930s, continued on page 11

1930s, *continued from page 10*

them enough to stimulate growth doesn't work well, Monetary Policy 2 (i.e., printing money and buying financial assets) doesn't work well because that doesn't produce adequate credit in the real economy (as distinct from credit growth to leverage up investment assets), so there is "pushing on a string." That creates the need for…
Monetary Policy 3 (large budget deficits and monetizing of them) which is problematic especially in this highly politicized and undisciplined environment.

More specifically, central bank policies will push short-term and long-term real and nominal interest rates very low and print money to buy financial assets because they will need to set short-term interest rates as low as possible due to the large debt and other obligations (e.g. pensions and healthcare obligation) that are coming due and because of weakness in the economy and low inflation. Their hope will be that doing so will drive the expected returns of cash below the expected returns of bonds, but that won't work well because a) these rates are too close to their floors, b) there is a weakening in growth and inflation expectations which is also lowering the expected returns of equities, c) real rates need to go very low because of the large debt and other obligations coming due, and d) the purchases of financial assets by central banks stays in the hands of investors rather than trickles down to most of the economy (which worsens the wealth gap and the populist political responses). This has happened at a time when investors have become increasingly leveraged long due to the low interest rates and their increased liquidity. As a result, we see the market driving down short term rates while central banks are also turning more toward long-term interest rate and yield curve controls, just as they did from the late 1930s through most of the 1940s.



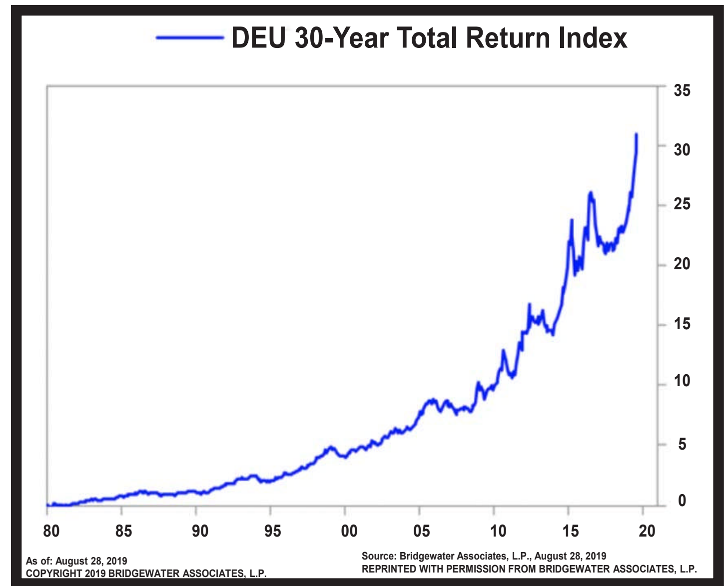
To put this interest rate situation in perspective, see the long-term debt/interest rate wave in the following chart. As shown above, there was a big inflationary blow-off that drove interest rates into a blow-off in 1980-82. During that period, Paul Volcker raised real and nominal interest rates to what were called the highest levels "since the birth of Jesus Christ," which caused the reversal.

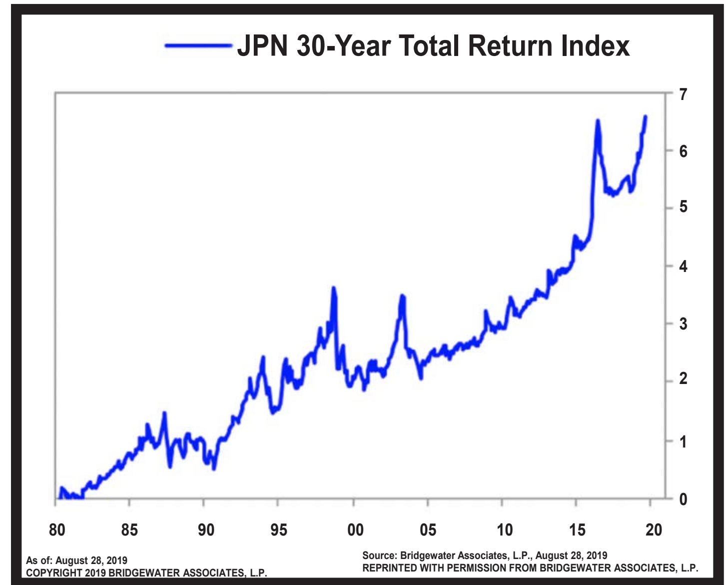
During the period leading into the 1980-82 peak, we saw the blow-off in gold. The below chart shows the gold price from 1944 (near the end of the war and the beginning of the Bretton Woods monetary system) into the 1980-82 period (the end of the inflationary blow-off). Note that the bull move in gold began in 1971, when the Bretton Woods monetary system that linked the U.S. Dollar to gold broke down and was replaced by the current fiat monetary system. The de-linking of the dollar from gold set off that big move. During the resulting inflationary/gold blow-off, there was the big bear move in bonds that reversed with the extremely tight monetary policies of 1979-82.

1930s, *continued on page 12*

1930s, *continued from page 11*

Since then, we have had a mirror-like symmetrical reversal (a dis/deflationary blow-off). Look at the current inflation rates at the current cyclical peaks (i.e. not much inflation despite the world economy and financial markets being near a peak and despite all the central banks' money printing) and imagine what they will be at the next cyclical lows. That is because there are strong deflationary forces at work as productive capacity has increased greatly. These forces are creating the need for extremely loose monetary policies that are forcing central banks to drive interest rates to such low levels and will lead to enormous deficits that are monetized, which is creating the blow-off in bonds that is the reciprocal of the 1980-82 blow-off in gold. The charts to the right show the 30-year T-bond returns from that 1980-82 period until now, which highlight the blow-off in bonds.





To understand the current period, I recommend that you understand the workings of the 1935-45 period closely, which is the last time similar forces were at work to produce a similar dynamic.

Please understand that I'm not saying that the past is prologue in an identical way. What I am saying that the basic cause/effect relationships are analogous: a) approaching the ends of the short-term and long-term debt cycles, while b) the internal politics is driven by large wealth and political gaps, which are producing large internal conflicts between the rich and the poor and between capitalists and socialists, and c) the external political conflict that is driven by the rising of an emerging power to challenge the existing world power, leading to significant external conflict that eventually leads to a change in the world order. As a result, there is a lot to be learned by understanding the mechanics of what happened then (and in other analogous times before then) in order to understand the mechanics of what is happening now. It is also worth understanding how paradigm shifts work and how to diversify well to protect oneself against them.

Ray Dalio Biography:

Raymond Dalio is an American investor, hedge fund manager and philanthropist. Dalio is the founder of investment firm Bridgewater Associates, one of the world's largest hedge funds.

Source: This article was excerpted from "The Three Big Issues And The 1930s Analogue", by By Ray Dalio, Co-Chief Investment Officer & Co-Chairman of Bridgewater Associates, L.P., (August 28, 2019)

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IPO'S NEED PROFITS FOR INVESTORS TO PROFIT

By Mitch Zacks, Senior Portfolio Manager, Zacks Investment Management

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

Back in the late 1990's, many investors fell into the trap of buying newly listed Initial Public Offerings (IPOs) technology companies for reasons other than earnings. There was widespread "fear of missing out" as money poured into dot coms with excessive valuations and negative cash flow. Most remember what happened next.

You could argue that we're seeing a similar environment today, where many IPOs are listing at valuations that are sometimes double or triple what's justified. Interestingly enough, however, the market's reaction appears to be much different this time around. Many of the most recent high-profile IPOs have fizzled out of the gates, with investors wary of overpriced, overvalued companies with untested leadership and no clear path to profits.

I'll give you five examples of what I mean:

1. **Uber (UBER)** – Shares have fallen nearly -30.0% since their debut, as the company said it lost over $5 billion in Q2 and reported its slowest revenue growth in the company's short history.
2. **Lyft (LYFT)** – Uber's main rival is also yet to post a profit, and investors may see Uber as too difficult to surmount in the long-term. Shares are off nearly -50.0% since listing.
3. **Peloton (PTON)** – The fitness/bike start-up has reported deep losses for its in-house stationary bike technology, shedding -11.0% on its first day of trading and off about -2.0% since.
4. **Slack (WORK)** – The company with a mission of eliminating E-mail from corporations for more streamlined and organized communications is off nearly -40.0% since its IPO.
5. **WeWork (not listed)** – The shared office space company experienced somewhat of an epic downfall in its approach to listing. It went from enjoying a private market valuation of $47 billion, to watching its valuation plummet to $15 billion as its CEO got ousted right around the proposed time of listing. Investors got a look at the financials and haphazard management, and punished the company for -$1.37 billion in losses in the first half of 2019. WeWork pulled its planned IPO as a result.

Compare these names to a company like Google, for instance. Google went public in 2004 with a remarkably high $23 billion in valuation, but the company had also reported a $400 million profit for the year. Amazon went another way, selling shares only three years after its founding in 1994, but with a paltry valuation of just $400 million. Amazon raised just $62 million in its IPO but is worth almost $1 trillion today.

The point here is not that any or all of these unprofitable IPOs are destined to fail. It may be that they all turn a profit within a year or two and start growing earnings at a nice clip. The point is that as long as they are losing hundred of millions or even billions of dollars, the price, and the valuation are probably all way too high.

Source: This article was excerpted from "Missing From 2019's Wave Of Tech IPOs: Actual Earnings", by Mitch Zacks, Senior Portfolio Manager, Zacks Investment Management, (*Mitch on the Markets*, October 5, 2019), www.zacks.com

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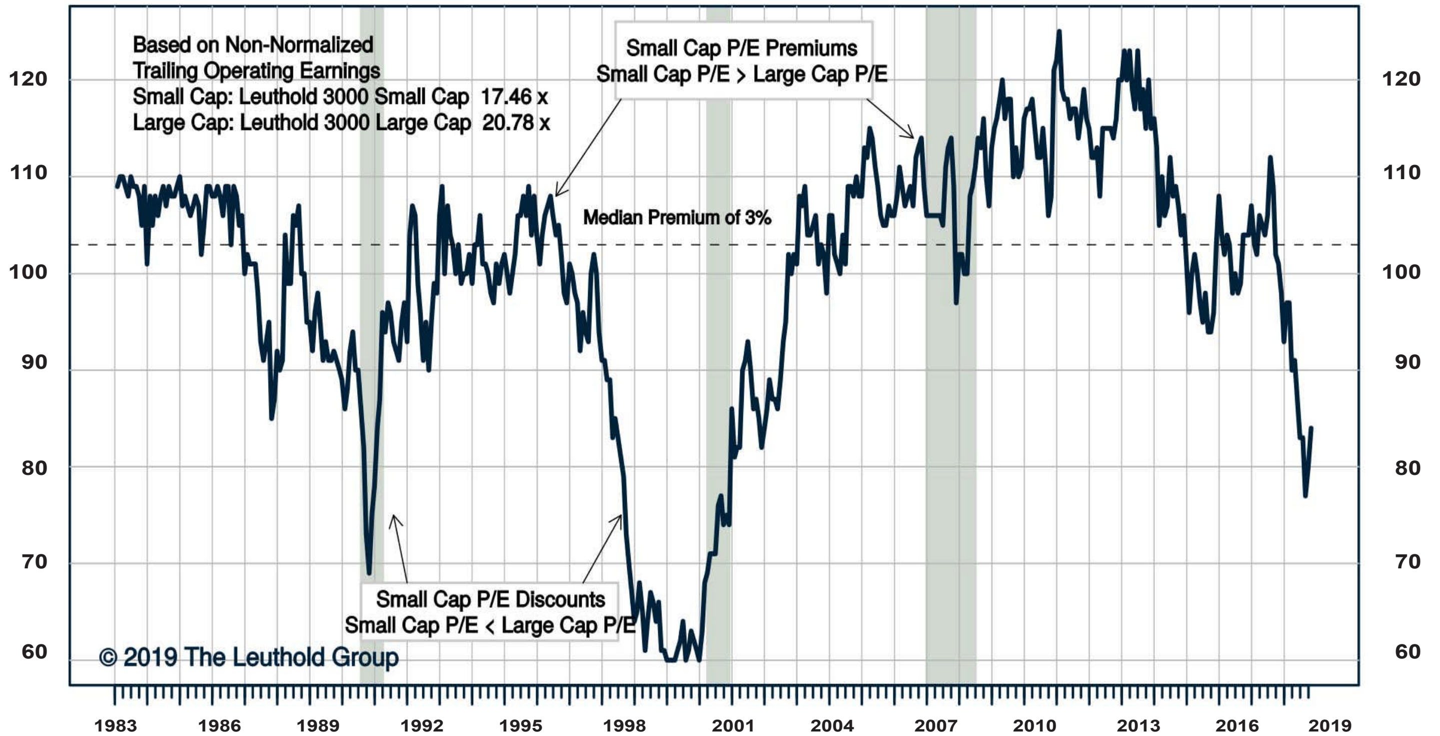
PULSE

DO YOU KNOW YOUR CAPITAL GAINS RATES?

CAPITAL GAIN TAX RATES FOR 2019

Asset Holding Period	Income Tax Bracket						
	10.0%	12.0%	22.0%	24.0%	32.0%	35.0%	37.0%
Short-Term Capital Gains Rate	10.0%	12.0%	22.0%	24.0%	32.0%	35.0%	37.0%
Long-Term Capital Gains Rate	0.0%	0.0%	15.0%	15.0%	15.0%	15.0%	20.0%

PULSE



EARNINGS ADVANCE/DECLINE RATIO
First Month Of Each Quarterly Period
Based On *Reported* Earnings

The Leuthold Group
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Earnings Reports
For Oct. 2019
(Q2 2019 Results)

SOFT LANDING

RECESSION

RECESSION

RECESSION

AVERAGE: 1.87

4.00 3.75 3.50 3.25 3.00 2.75 2.50 2.25 2.00 1.75 1.50 1.25 1.00 0.75 0.50 0.25

83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18

As of: November 7, 2019

Source: The Leuthold Group, LLC, *Perception Express*, November 7, 2019,
http://leuth.us/market-internals
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U.S. BUDGET DEFICIT

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

The U.S. budget deficit is growing faster than expected and President Trump's trade war is weighing on the economy, according to a new Congressional Budget Office forecast that highlights key challenges ahead of the 2020 elections. The shortfall is set to widen to $1 trillion by fiscal year 2020, Bloomberg writes, two years earlier than previously estimated, according to the non-partisan group's annual budget outlook released Wednesday August 21, 2019.

China's currency just dropped to its lowest level in a decade. U.S. exporters are expected to feel the brunt as goods become more expensive to sell to China.

Source: This article was excerpted from "Are All Your Ducks In A Row? Positioning Your Portfolio For The Market's Next Move", by Frank Holmes, CEO and Chief Investment Officer, U.S. Global Investors, (*Investor Alert*, August 23, 2019), www.usfunds.com.

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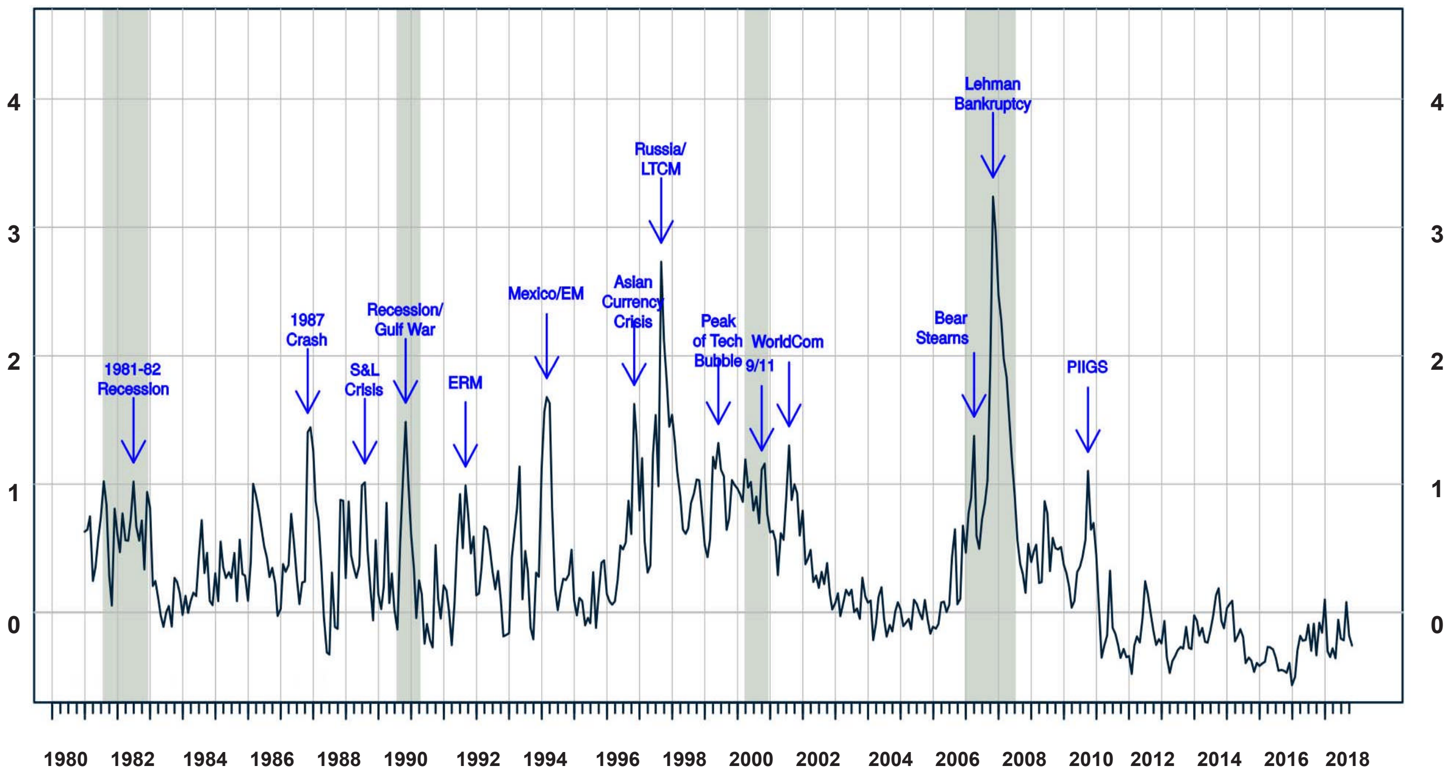
PULSE

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: November 7, 2019

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

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INVESTMENT PROCESS

Investment Portfolios:

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

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

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

All portfolios for EmergingWealth are subadvised by Legend.

Client Education:

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

PERFORMANCE REPORTING

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

FEES

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