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UNDERSTANDING BOND RISKS FOR INVESTMENT GRADE BONDS

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

Historically, bonds are viewed as investments that provide interest income and are considered to be conservative, safe investments, at least investment grade bonds are [Junk bonds (High Yield) have other unique risks.], when compared to stocks. However, investors need to be aware of all of the risks to owning corporate and/or government bonds, most of which are delineated below.

Interest Rate Risk And Bond Prices:

Interest rates and bond prices have an inverse (opposite) relationship. Example: as interest rates decline, bond prices increase in value. However, when interest rates rise, the price of most investment grade bonds, including U.S. Government bonds, will fall in price.

The reason for this is that when interest rates decline, investors attempt to lock in the highest rates they can for as long as they can. Obviously, investors try to buy bonds that pay a higher interest rate than current interest rates. Obviously, demand increases which increases bond prices. When current interest rates rise, investors would sell bonds that pay lower interest rates. This would force bond prices down.

Bond Risks, continued on page 10

THE SMOOT-HAWLEY TARIFFS TRIGGERED THE GREAT DEPRESSION

By Blaine Rollins, CFA, 361 Capital, LLC

The 1920s was a period of globalization, with peace, progress, and prosperity. Yet by the early 1930s, the world fell into The Great Depression that was followed by World War II near the end of the decade.

Ed Yardeni's (a notable economist) research led to the conclusion that the Great Depression was caused by the Smoot-Hawley Tariff Act of June, 1930. During the election of 1928,

Smoot-Hawley, continued on page 14

INVESTMENT SHORT-TAKES – 10 MINUTES OR LESS IN LENGTH:

Listed below are the installments of the Investment ShortTakes Video Series.

The Boom-Bust Barometer Identifies S&P 500 Large Declines
<https://legend.wistia.com/medias/gseuecwti0>

Timing The Stock Market Utilizing The Golden Cross/Death Cross Chart
<https://legend.wistia.com/medias/kv75tt0bz9>

Stock Market Outlook For The Next Decade
<https://legend.wistia.com/medias/tihxtpzfo9>

The Growth Story
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Volatility And The VIX
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Understanding Market Declines
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2018 Outlook For Debt Investments
<https://legend.wistia.com/medias/d5adx0qs2y>

Concerned About A Stock Market Crash?
<https://legend.wistia.com/medias/pffhy2ehm7>

Investment ShortTakes is a timely video series created to educate the viewer on a particular aspect of the Investment Management process. Each video is generally less than 10 minutes in length.



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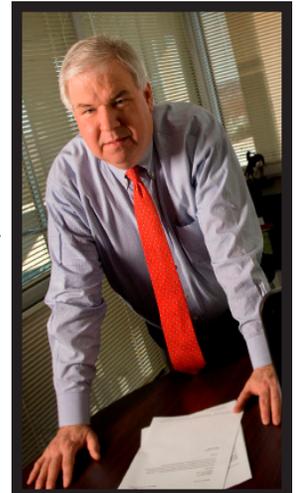
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LOUIS P. STANASOLOVICH, CFP®, EDITOR

Louis P. Stanasolovich, CFP® is founder, CCO, CEO and President of Legend Financial Advisors, Inc.® (Legend) and EmergingWealth Investment Management, Inc.® Lou is one of only four advisors nationwide to be selected 12 consecutive times by Worth magazine as one of "The Top 100 Wealth Advisors" in the country. Lou has also been selected 13 times by Medical Economics magazine as one of "The 150 Best Financial Advisors for Doctors in America", twice as one of "The 100 Great Financial Planners in America" by Mutual Funds magazine, five times by Dental Practice Report as one of "The Best Financial Advisors for Dentists In America" and once by Barron's as one of "The Top 100 Independent Financial Advisors". Lou was selected by Financial Planning magazine as part of their inaugural Influencer Awards for the Wealth Creator award recognizing the advisor who has made the most significant contributions to best practices for portfolio management. He has been named to Investment Advisor magazine's "IA 25" list three times, ranking the 25 most influential people in and around the financial advisory profession as well as being named by Financial Planning magazine as one of the country's "Movers & Shakers" recognizing the top individuals who have done the most to advance the financial advisory profession.



HEDGE FUNDS VERSUS HEDGING

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

Hedging is viewed by most investors as offering a sophisticated layer of investing. However, some aspects of hedging are not that complex. Hedge funds manage sophisticated partnerships and other entities that utilize sophisticated hedging techniques for wealthy investors. Despite hedge funds becoming more publicity-oriented, the general investing public does not understand many of the simple techniques of hedging.

Hedging For The Everyday Investor:

Hedging is generally viewed as investing in an investment to limit the risk of another investment.

Stock option trading is used often to limit downside risk of other investments.

A Simple Example Of Hedging:

Gold investments, particularly in bullion, are one of the simplest of hedges for the common investor to employ. Exchange-

Traded Funds (ETFs) that own actual gold bullion can be purchased in increments of as little as a few hundred dollars. Gold is considered a fairly reliable hedge against a bearish stock market, high inflation (over 2.0%) and financial calamities such as a deflationary economy [Gross Domestic Product (GDP)] shrinking more than 2.0%.

Other Types Of Hedging:

1. Currency Hedging – Using multiple currencies to protect an investment.
2. Put/Call Options – Are used to protect investments, usually stocks, from declining.
3. Futures Contracts And Other Derivatives – These can be used against bond defaults, commodity prices dropping, currencies falling, etc.

In short, every investment can have some sort of hedge. Aside from protecting an

investment from various types of risks, many professional investors believe that hedging allows the financial markets to run more efficiently.

Hedging Versus Hedge Funds:

Many investors confuse hedge funds with hedging. Hedging is simply decreasing risk. It is a sound investment strategy that can minimize risk to one's investment portfolio to the degree it is utilized.

Hedging is a risk/reward tradeoff, that can result in lower investment returns, especially a hot and volatile investment, but it also minimizes risk depending on the extent it is utilized.

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PULSE

DEFENSIVE EQUITY STYLES: VOLATILITY AT MARKET TOPS

By Scott Opsal, CFA, Director of Equities, The Leuthold Group, LLC

Intuition suggests that High Volatility stocks should outperform in up markets and underperform in down markets, thereby creating the aggressive/defensive characteristic for which the style is well known. We quintiled the 1,500 largest U.S. stocks by price volatility (based on daily price moves over the trailing twelve months) and compared the relative performance of the High Volatility quintile against the overall universe. Table 1, to the right, confirms the intuitive view that High Volatility stocks perform as expected more than 73.0% of the time since 1986.

Given the reliability of this metric, investors who are worried about a potential top in the bull market need to decide whether to move into defensive stocks or hold on to their High Volatility plays for a final run to a new high. Our research shows that this call must be timed correctly, and if it is, the payoff can be very rewarding.

In Chart 2, on page 14, we calculate the return spread of High Volatility stocks over Low Volatility stocks for 1-week

	Up Market	Down Market
High Volatility Outperforms	73.2%	20.8%
High Volatility Underperforms	26.8%	79.2%

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and rolling 12-week return windows. We focused specifically on the weeks before and after each of 14 meaningful market tops since 1986 to understand how volatility behaves around turning points. In keeping with Table 1, our expectation was that High Volatility would outperform going into the top and underperform as the market rolled over.

Chart 2 validates that notion, with 1-week returns (line) and 12-week rolling returns (bars) for High Volatility remaining nicely positive going into market tops and swiftly turning negative as the market declined.

The three weeks following the top are particularly painful as investors appear to rotate quickly away from High Volatility. Three months after a peak, Low Vol's relative spread increased to nearly 15.0%, providing a big payoff for those who correctly timed the top. Switching to Low Vol too early meant leaving returns on the table, but catching the change in sentiment correctly produced home run results.

Note: We also studied the relative returns of high and low beta stocks around market tops and the results were similar on all measures.

Defensive Equity Styles, continued on page 14

MID-TERM MAYHEM?

By Doug Ramsey, CFA, CMT, Chief Investment Officer, The Leuthold Group, LLC

Last year (2017) was the first time in the Dow Jones Industrials' 132-year history that the index failed to correct by at least 10.0% in a year ending in "7." In light of that failure, it's no surprise there's been essentially no discussion of the market's frequent difficulties during mid-term election years.

We're not certain why this pattern has been so persistent. One could argue that the initial honeymoon effect surrounding a new administration tends to wear off sometime in its second year. Alternatively, the prospect of a mid-term congressional shake-up may begin to rattle the market as the elections near. In any event, the most dangerous phase of a mid-term year tends to coincide with the old "Sell In May" pattern (May 1st to October 31st).

Tables 1 & 2, below show the drawdowns occurring in the S&P 500 and Russell 2000 during the May-October window of each mid-term year. The median S&P 500 drawdown of -14.6% is a bit higher than one would expect during any random twelve-month period (-13.5%), while the Russell 2000's typical drawdown during this period is exactly equal to its median twelve-month drawdown. Please note that three of the nine pre-election windows since 1982 have seen Russell 2000 drawdowns of -30% or more.

Incredibly, among the mid-term election years since 1962 (Table 3, on page 6), nine have contained a major bear market low. (There were 11 bear markets during the entire period). What's more, eight of those nine lows occurred during the traditionally weak months of May through

October! The odds against this particular clustering of market lows must be astronomical, and if the MTI.

Source: This article was excerpted from "Mid-Term Mayhem?", by Doug Ramsey, CFA, CMT, Chief Investment Officer, The Leuthold Group, LLC, (*Perception Express*, March 7, 2018), <http://leuth.us/stock-market>

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TABLE 1

Year Two Of Presidential Election Cycle	Maximum S&P 500 Drawdown, May-Oct
1930	-31.2 %
1934	-20.1
1938	-14.2
1942	-4.2
1946	-26.6
1950	-14.0
1954	-3.6
1958	-2.3
1962	-21.4
1966	-19.6
1970	-15.0
1974	-33.1
1978	-12.9
1982	-14.3
1986	-9.4
1990	-19.9
1994	-5.0
1998	-19.3
2002	-29.8
2006	-7.7
2010	-14.9
2014	-7.4
2018	?
Median	-14.6 %

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TABLE 2

Year Two Of Presidential Election Cycle	Maximum Russell 2000 Drawdown, May-Oct
1982	-15.1
1986	-15.0
1990	-30.5
1994	-11.8
1998	-36.9
2002	-37.5
2006	-14.1
2010	-20.5
2014	-13.1
2018	?
Median	-15.1 %

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Mid-Term Mayhem?, continued on page 6

THE STOCK MARKET AND MID-TERM ELECTIONS

By Doug Ramsey, CFA, CMT, Chief Investment Officer, The Leuthold Group, LLC

The Presidential Cycle In Stock Prices 1900 To Date

Annual Gain in the Dow Jones Industrial Average

<u>Presidential Term</u>	<u>Party</u>	<u>Election Year</u>	<u>Post-Election Year</u>	<u>Mid-Term Year</u>	<u>Pre-Election Year</u>	<u>Election Year</u>
McKinley/T. Roosevelt	R	1900	-8.7	-0.4	-23.6	41.7
T. Roosevelt	R	1904	38.2	-1.9	-37.7	46.6
Taft	R	1908	15.0	-17.9	0.4	7.6
Wilson	D	1912	-10.3	-5.1	81.7	-4.2
Wilson	D	1916	-21.7	10.5	30.5	-32.9
Harding	R	1920	12.7	21.7	-3.3	26.2
Coolidge	R	1924	30.0	0.3	28.8	48.2
Hoover	R	1928	-17.0	-33.9	-52.7	-23.1
F. Roosevelt	D	1932	66.7	4.5	38.1	24.8
F. Roosevelt	D	1936	-32.8	28.1	-2.9	-12.7
F. Roosevelt	D	1940	-15.4	7.6	13.8	12.1
F. Roosevelt/Truman	D	1944	26.6	-8.1	2.2	-2.1
Truman	D	1948	12.9	17.5	14.5	8.4
Eisenhower	R	1952	-3.8	44.0	20.8	2.3
Eisenhower	R	1956	-12.8	34.0	16.4	-9.3
Kennedy/Johnson	D	1960	18.7	-10.8	17.0	14.6
Johnson	D	1964	10.9	-18.9	15.2	4.3
Nixon	R	1968	-15.2	4.8	6.1	14.6
Nixon/Ford	R	1972	-16.6	-27.6	38.3	17.9
Carter	D	1976	-17.3	-3.1	4.2	14.9
Reagan	R	1980	-9.2	19.6	20.3	-3.7
Reagan	R	1984	27.7	22.6	2.3	11.8
G.H.W. Bush	R	1988	27.0	-4.3	20.3	4.2
Clinton	D	1992	13.7	2.1	33.5	26.0
Clinton	D	1996	22.6	16.1	25.2	-6.2
G.W. Bush	R	2000	-7.1	-16.8	25.3	3.1
G.W. Bush	R	2004	-0.6	16.3	6.4	-33.8
Obama	D	2008	18.8	11.0	5.5	7.3
Obama	D	2012	26.5	7.5	-2.2	13.4
Trump	R	2016	25.1			
Average Gain Per Year			6.8	4.1	11.9	7.7
Median Gain Per Year			11.8	4.5	14.5	7.6
Up Years As Percentage Of Total Years			53	59	79	69

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The Stock Market and Mid-Term Elections, continued on page 7

TABLE 3

S&P 500 Bear Market Lows - 1960 To Date	Bear Market Loss
→ June 26, 1962	-28.0 %
→ October 7, 1966	-22.2
→ May 26, 1970	-36.1
→ October 3, 1974	-48.2
→ March 6, 1978	-19.4
→ August 12, 1982	-27.1
→ December 4, 1987	-33.5
→ October 11, 1990	-19.9
→ August 31, 1998	-19.3
→ October 9, 2002	-49.1
→ March 9, 2009	-56.8

Eight of the last 11 bear market lows have occurred during the May-October window of a mid-term year, while a ninth (1978) missed by seven weeks.

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Athletes aren't the only ones known to sometimes suffer a "sophomore slump". Presidents do, too... at least according to the historical verdict of the stock market. The Table 1, above, shows that the second (or mid-term) year of a president's term has tended to be the poorest performer, with an average Dow Jones Industrial Average (DJIA) price gain of just +4.1% dating back to 1900. That's less than half the average DJIA gain of +8.8% for all the other years in the study.

Why the second-year disappointment? Our guess is that much of the perceived positive change brought about by a new administration tends to be discounted over the course of both the Presidential election year and post-election year, setting up the mid-term year for disappointment.

This theory is further put to test by isolating those mid-term years which were preceded by two consecutive double-digit gains in the DJIA. (This year qualifies, as the Dow gained +13.4% in 2016 and 25.1% last year.) Essentially, the question asked is whether an especially large

positive mood swing surrounding a new administration (as measured by the stock market) tends to set up the market for even worse performance than the already-weak mid-term year average? The answer is yes, as shown in Table 2.

The Results Are Below.

There have been seven prior cases when the stock market entered a mid-term year on the heels of two straight double-digit annual gains. Only during the second Clinton administration was the stock market able to maintain its mojo during the mid-term year (Don't forget the stock market was a lot cheaper back then.). The average DJIA performance for all seven of these mid-term years was an annual loss of -5.0%. Meanwhile, mid-term years which weren't preceded by back-to-back double-digit gains fared much better, with an average Dow gain of +9.0%.

We recognize that the Presidential Cycle (or its absence) has burned many an analyst, and our further partitioning of the mid-term years in Table 2 might be considered "curve fitting." But the analysis

is particularly relevant today. The bullish case for the stock market in 2018 seems to rest largely on the earnings impact of the huge corporate tax cut. The impact of these two events will be extremely favorable. However, stocks had a tremendous rally while those cuts were in the "rumor" phase. Now that they are "fact," some disappointment is likely.

Remember, the best year of the electoral cycle tends to be the pre-election year (2019), suggesting that all presidents benefit from a couple years of maturity.

Source: This article was excerpted from "Have Stocks Already Priced In "MAGA"?", by Doug Ramsey, CFA, CMT, Chief Investment Officer, The Leuthold Group, LLC, (Perception Express, April 6, 2018), www.lwcm.com

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Annual Gain in the Dow Jones Industrial Average					
Presidential Term	Party	Election Year	Election Year Gain	Post-Election Year Gain	Mid-Term Year Gain
T. Roosevelt	R	1904	41.7	38.2	-1.9
Taft	R	1908	46.6	15.0	-17.9
Coolidge	R	1924	26.2	30.0	0.3
F. Roosevelt/Truman	D	1944	12.1	26.6	-8.1
Johnson	D	1964	14.6	10.9	-18.9
G.H.W. Bush	R	1988	11.8	27.0	-4.3
Clinton	D	1996	26.0	22.6	16.1
Trump	R	2016	13.4	25.1	?
Average Gain In Mid-Term Year If Election Year And Post-Election Year Both Recorded Double Digit Gains					-5.0
Average Gain If Not Preceded By Two Years of Double Digit Gains					9.0

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DOW JONES INDUSTRIAL AVERAGE RETURN FOR A PRESIDENT'S FIRST 444 DAYS SINCE 1900

1. Franklin D. Roosevelt:	70.4%
2. Ronald Reagan:	41.4%
3. Teddy Roosevelt:	37.4%
4. Barack Obama:	32.5%
5. Bill Clinton:	32.2%
6. George H.W. Bush:	21.4%
7. Donald Trump	20.7%

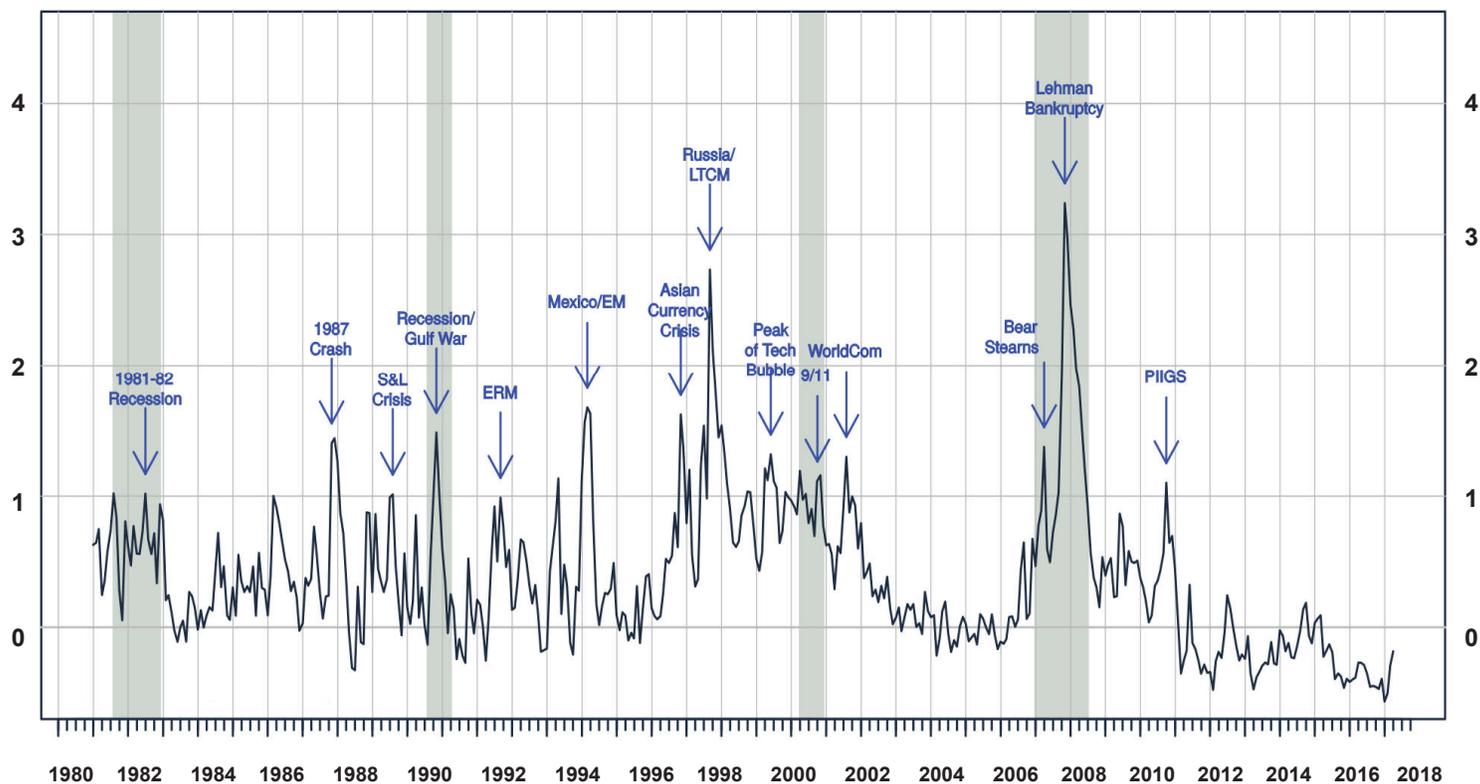
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MONTHLY RISK AVERSION INDEX (RAI)

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.



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REIT AND MLP TAXATION UNDER THE NEW LAW – IT'S A BIT COMPLICATED

By Robert N. Gordon, President, Twenty-First Securities Corporation

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

REITs (Real Estate Investment Trusts), MLPs (Master Limited Partnerships) and PTPs (Publicly-Traded Partnerships) were granted the favorable treatment of flow thru entities:

There are a few surprises.

The new tax law granted a tax break to owners of flow-thru entities via direct ownership and not through a mutual fund. The law allows a 20.0% deduction for income coming from a pass-thru entity. For ordinary income flowing from someone's business, that equates to a tax of 29.6%. REITs and PTPs like MLPs or private equity managers were granted the same benefit. However, flow-thru income received by high income investors [Those whose Modified Adjusted Gross Income exceeds (Married Filing Jointly - \$250,000), (Single - \$200,000)] from these vehicles would also be liable for the 3.8% Medicare tax on investment income. Oddly, the 3.8% tax is on the full dollar of income received and not on only the 80.0% that is taxable. This creates a net tax of 33.4%.

Asset Location:

Historically, the majority of REIT's distributions were taxed at the highest rate. Because of this, REITs were well suited to be held in a tax deferred/exempt account. But with this 20.0% tax break they move from one of the most tax inefficient investments that should have been held in a tax sheltered account into one now best held in taxable accounts.

An MLPs taxable income will enjoy the same reduced 33.4% tax rate. Even on amounts recaptured on MLP sales. MLPs should only have been held in taxable ac-

counts and that fact has not changed with the change in law.

MLP Mutual Funds Got Better And REIT Mutual Funds Got Worse:

The 20.0% deduction for flow through income is not available to corporations. MLP funds and REIT funds are corporations.

REIT Mutual Funds:

REIT mutual funds are not subject to the corporate income tax rate as long as they distribute their income each year because they are allowed a dividend paid deduction. REIT income that flows through to the investor retains the nature of the income as it is received by the REIT. Unfortunately, the 20.0% deduction is not available to the REIT and therefore also not available to the investor. Therefore, the REIT funds will pass through 100.0% taxable income rather than 80.0% taxable income. Directly held REIT income is taxed at 33.4% while REIT fund distributions will now be taxed at 40.8%.

It is also interesting to note that mortgage REITs could get a boost because the interest income from a mortgage held directly will be taxed at the maximum of 40.8% while income coming from a mortgage REIT would be taxed at 33.4%.

MLP Mutual Funds:

Because MLP mutual funds hold more than 25.0% of their assets in MLPs, they flunk the test to be non-tax paying Regulated Investment Companies and instead are tax-paying corporations. As it has been, an MLP fund first pays a corporate tax on its income and then distributes

what is left to its holders as qualifying dividend income taxed at 23.8%.

Until now, after the MLP fund paid a 35.0% tax, the total tax drag equaled 50.47%. Now the MLP funds will only pay a 21.0% tax and send the rest to shareholders as qualifying dividend income. The new total tax drag is 39.8%. Although this is more than the 33.4% that would be in place if one held the MLP directly; the funds do not issue the dreaded K-1s that have given so many headaches. For those preferring 1099s to K-1s we suggest investors utilize exchange traded options on MLPs. Holders of these options also do not receive a K-1 and are taxed annually at a favorable 30.6% rate, lower than any of the possibilities explored above.

Now, more than ever, it is incumbent on taxable investors to investigate what investment tool they are using to get their desired asset exposure.

The simple solution is to place any of the investments held directly or through a mutual fund inside a retirement account such as an IRA, Roth IRA or other similar account.

Source: This article was excerpted from "REIT and MLP Taxation Under The New Law", by Robert N. Gordon, President, Twenty-First Securities Corporation, (Tailored Solutions, Winter, 2018)

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PULSE

SO MUCH FOR HOLDING DOWN U.S. GOVERNMENT SPENDING!

The Congressional Budget Office (CBO) announced on April 9, 2018 that they forecast annual budget deficits of at least \$1 trillion for nine consecutive years beginning in fiscal year 2020. The U.S. has recorded a "trillion-dollar deficit" in just four fiscal years (2009 to 2012) in our nation's history

(Source: Congressional Budget Office).

Example:

Assume an investor owns a bond that trades at par value (In other words, maturity value, which is usually quoted at 100 or 100.0%. In reality, bonds are denominated in \$1,000.00 increments.) and carries a 4.0% yield. Assume then current interest rates rise to 5.0%. What will happen? Investors, of course, will want to sell the 4.0% bonds and instead buy bonds that pay a 5.0% coupon, which in turn forces the 4.0% bonds' prices downward below the maturity value (below par or 100) until it reaches the price where the existing 4.0% bond also yields 5.0%.

Reinvestment Risk And Callable Bonds:

Another danger that bond investors face is reinvestment risk. This is the risk of having to reinvest proceeds at a lower rate than their investment monies were previously earning.

For bonds, the call feature allows the issuer to redeem the bond prior to maturity. This usually occurs as current interest rates drop below the bond's original interest rate, also called the coupon interest rate. As a result, the bondholder, usually will turn in their bond, receives the principal payment of the bond plus, a slight premium (usually 1.0% or 2.0%) to the par value.

When a bond is called, the investor is then left with a pile of cash that he or she may not be able to reinvest at a comparable rate. This reinvestment risk can have a major adverse impact on an individual's investment returns over time.

To compensate investors for this type of risk, an investor in that type of bond receives a higher yield on the bond than they would on a similar bond that isn't callable. Active investors that buy individual bonds can attempt to minimize reinvestment risk in their portfolios by laddering call dates of the different bonds

they own. This strategy is known as a bond ladder. This essentially eliminates the probability that many of the bonds will be called at a single point in time.

Inflation Risk And Bond Duration:

Any investor that buys a bond is buying a stream of interest returns, either fixed or variable until the bond's maturity or as long as it is owned.

However, what happens if the cost-of-living (known as inflation) increases dramatically, and at a faster rate than the income portion of the investment? When that happens, investors will see their purchasing power erode and may actually achieve a negative rate of return after inflation. This is known as a real return (after inflation).

Explained another way, what if an investor earns interest at a rate of return of 3.0% and inflation grows to 4.0% after the bond purchase, then the investor's real rate of return (due to the decrease in purchasing power) is a -1.0%.

Credit/Default Risk Of Bonds:

A bond is essentially a loan divided into many pieces, which investors buy. If there are enough pieces, then the bonds may be traded by investors via brokerages during the life of the bonds. Obviously, the borrower must repay the bond owners over time with interest and when the bond matures, the principal. Unless a bond is issued by the U.S. Government, they are not guaranteed by the full faith and credit of the U.S. Government. Investors that own Corporate Bonds depend on the corporation's ability to repay that debt.

Default risk on a bond other than one issued by the U.S. Government must be factored into investment decisions. Individual investors usually do not have the skillset to analyze the possibility of default on a bond. That is why most individual investors should invest in mutual funds

rather than individual bonds. The professional management aspect of utilizing mutual funds is difficult to ignore. Professional analysts, who are part of the bond management team, will analyze the corporation's income and cash flow statements, determine its operating income and cash flow, and then weigh that against its debt service expense.

Rating Downgrades Of Bonds:

Although not all bonds are rated by a rating service such as Moody's or Standard and Poors, those two organizations evaluate numerous companies' ability to operate and repay their debt. Bond rating services provide ratings as indicated on the top of page 11:

The decisions made and judgments passed by the Bond Rating Services strongly influence investors.

A credit rating that is low or the company that is being rated or its ability to operate is being questioned and therefore, its ability to repay its debts is being questioned, lenders such as banks and other lending institutions may charge a higher interest rate for future loans. When this would occur, the company will have to pay higher interest rates and hurt existing bondholders who might have been looking to sell their bonds which will result in a lower price.

Liquidity Risk Of Bonds:

While U.S. Government bonds are very liquid, Corporate bonds, on the other hand, can be very illiquid, especially in a recession. Liquidity can evaporate due to the lack of buyers in the marketplace in a weak economy. Thus, lower prices would ensue.

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Bond Risks, continued on page 11

NOW "ON DEMAND" LOU STANASOLOVICH'S WEBCAST: FIGHT RISING INTEREST RATES! INVESTING IN VARIABLE RATE DEBT INVESTMENTS!

Interest rates for all types of traditional bonds have been increasing since late 2017. This trend has continued through the Federal Reserve Board's (Fed) latest meeting where they announced their latest rate increase and that there would be at least two more increases if not three in 2018 and as many as three more increases expected for 2019.

Interest rate increases have pushed many traditional bond indices into negative territory in 2018 with most losing between 2.0% and 5.0% on a total return basis year-to-date. The last time a similar period in history occurred was back in 1946 through 1965 (a 20 year period) when interest rates on long-term U.S. Treasury securities compounded at 1.71% per year on a total return basis and seven of those 20 years were negative.

Watch "On Demand" at www.legend-financial.com/financialwebcasts.

BOND RATINGS

Moody's

S&P

Meaning

Investment Grade Bonds

Aaa	AAA	Bonds of the highest quality that offer the lowest degree of investment risk. Issuers are considered extremely stable and dependable.
Aa1, Aa2, Aa3	AA+, AA, AA-	Bonds are of high-quality by all standards, but carry a slightly greater degree of long-term investment risk.
A1, A2, A3	A+, A, A-	Bonds with many positive investment qualities.
Baa1, Baa2, Baa3	BBB+, BBB, BBB-	Bonds of medium-grade quality. Security currently appears sufficient, but may be unreliable over the long term

Non-Investment Grade Bonds (Junk Bonds)

Ba1, Ba2, Ba3	BB+, BB, BB-	Bonds with speculative fundamentals. The security of future payments is only moderate.
B1, B2, B3	B+, B, B-	Bonds that are not attractive investments. Little assurance of long-term payments.
Caa1, Caa2, Caa3	CCC+, CCC, CCC-	Bonds of poor quality. Issuers may be in default or are at risk of being in default.
Ca	CC	Bonds of highly speculative features. Often in default.
C	C	Lowest rated class of bonds.
-	D	In default.

PULSE

CHINA'S STAGGERING DEMAND FOR COMMODITIES

Half Or More Of All Steel, Copper, Coal, Nickel, And Cement Goes There

China makes up 19.0% of the World's Population

China makes up 15.0% of the World's Economy (GDP).

Cement 59.0%	Aluminum 47.0%	Nickel 56.0%	Coal 50.0%
Copper 50.0%	Steel 50.0%	Gold 27.0%	Oil 14.0%
Rice 31.0%	Pork 47.0%	Corn 23.0%	Cotton 33.0%

As of: March 5, 2018
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Source: 361 capital, LLC, *Weekly Research Briefing*, March 5, 2018, www.361capital.com
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2018 YEAR-TO-DATE PERFORMANCE

January 1, 2018 to March 31, 2018
(3 months)

	<u>2018 Year-To-Date</u>
Consumer Price Index (Inflation)	1.23%
90-Day Treasury Bills Index-Total Return	0.39%
Bloomberg Intermediate Term Corporate Bond Index	-0.98%
Barclays Aggregate Bond Index-Total Return	-1.46%
High Yield Corporate Bond Index – Total Return	-1.47%
S&P Leveraged Loan Index – Total Return	1.45%
HFRX Global Hedge Fund Index	-1.02%
S&P 500 Index (U.S. Stock Market)	-0.76%
MSCI EAFE Index (Developed Foreign Equities)	-1.56%
MSCI Emerging Market Index (Equities)	1.27%
Newedge CTA Index (Managed Futures)	-2.88%
Dow Jones–UBS Commodity Index-Total Return (USD)**	-0.79%
Dow Jones U.S. Real Estate Index-Total Return (USD)**	-5.91%
Gold Bullion	1.03%

As of: March 31, 2018

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

** USD = U.S. Dollar

Source: Bloomberg Investment Service

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SECULAR BEAR MARKET WATCH

April 1, 2000 to March 31, 2018
(18 years and 0 months)

	<u>Annual Compound Return</u>	<u>Total Return</u>
Consumer Price Index (Inflation)	2.11%	45.77%
90-Day Treasury Bills Index-Total Return	1.55%	31.86%
Barclays Aggregate Bond Index-Total Return	4.90%	136.63%
High Yield Corporate Bond Index – Total Return	8.77%	354.40%
S&P Leveraged Loan Index – Total Return	4.94%	138.45%
HFRX Global Hedge Fund Index	2.46%	54.87%
S&P 500 Index (U.S. Stock Market)	5.22%	150.07%
MSCI EAFE Index (Developed Foreign Equities)	3.83%	97.84%
MSCI Emerging Market Index (Equities)	7.61%	274.78%
Newedge CTA Index (Managed Futures)	4.42%	117.85%
Dow Jones–UBS Commodity Index-Total Return (USD)**	-0.66%	-11.22%
Dow Jones U.S. Real Estate Index-Total Return (USD)**	10.17%	472.21%
Gold Bullion	9.04%	375.14%

As of: March 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

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

The performance of the U.S. Stock market so far in the current period (April 1, 2000 to the present) certainly appears to indicate that we are in a Secular Bear market. Long-term returns (over the next 10 years) for the S&P 500 will probably be slightly worse than the last 18 years and 0 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.

Republican candidate, Herbert Hoover, promised U.S. farmers protection from foreign competition to boost depressed farm prices. However, he was appalled by the breadth of the tariff bill that special interest groups had pushed through Congress, denouncing the bill as “vicious, extortionate, and obnoxious.” Despite his misgiving about the bill, he signed it into law under intense political pressure from congressional Republicans.

The tariff triggered a deflationary spiral

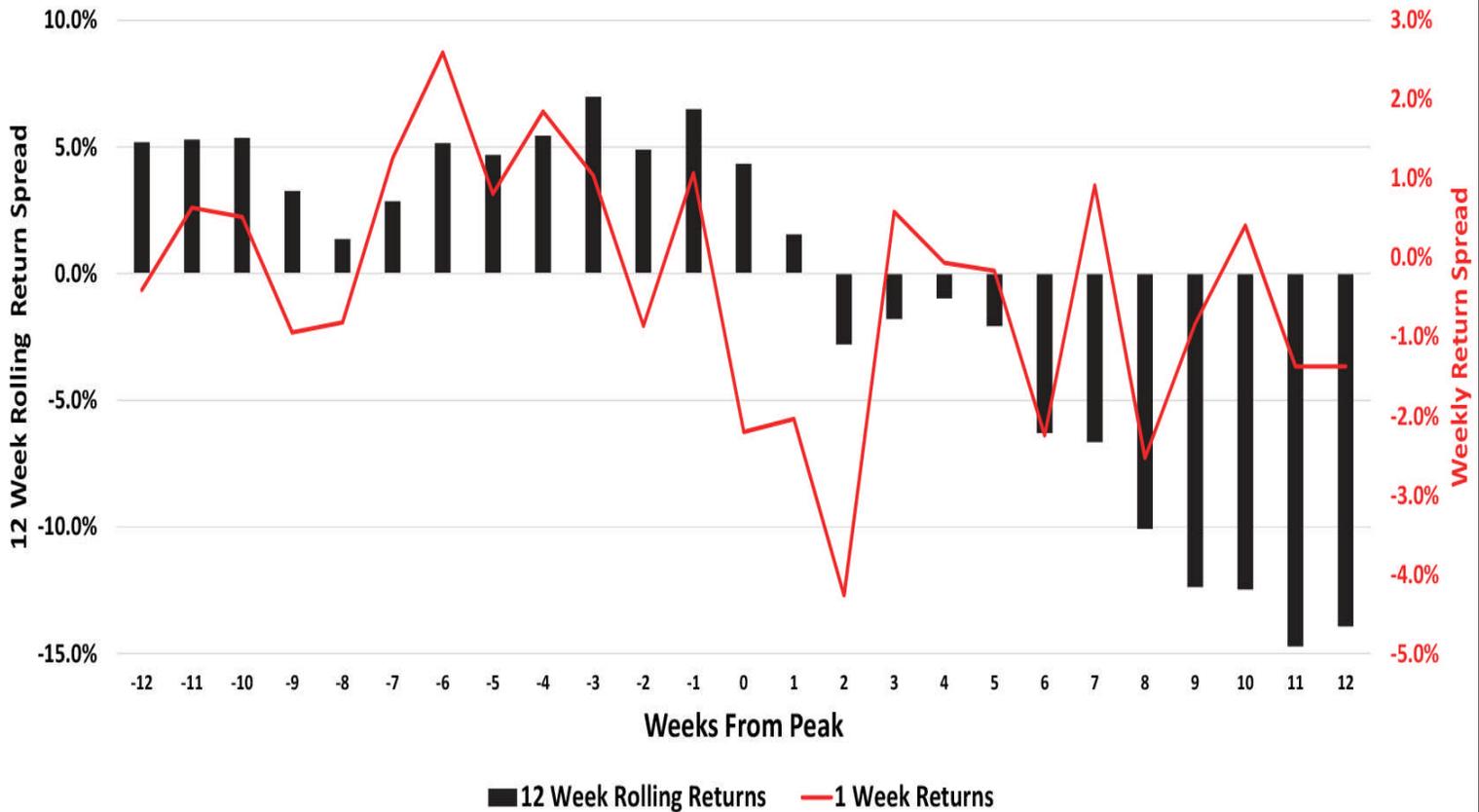
that had a deadly domino effect. Other countries immediately retaliated by imposing tariffs too. The collapse of world trade pushed commodity prices over a cliff. Exporters and farmers defaulted on their loans, triggering a wave of banking crises. The resulting credit crunch caused industrial production and farm output to plunge and unemployment to soar. In Yardeni’s narrative, the Great Depression caused the stock market crash, not the other way around as is the popular belief.

Source: This article was excerpted from “U.S. And Them”, by Blaine Rollins, CFA, 361 Capital, LLC, (*Weekly Research Briefing*, March 5, 2018), www.361capital.com

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CHART 2
HIGH VOLATILITY – LOW VOLATILITY
AVERAGE RETURN SPREAD AROUND MARKET PEAKS



As of: April 6, 2018

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Source: The Leuthold Group, LLC, *Perception Express*, April 6, 2018, <http://leuth.us/special-interest>

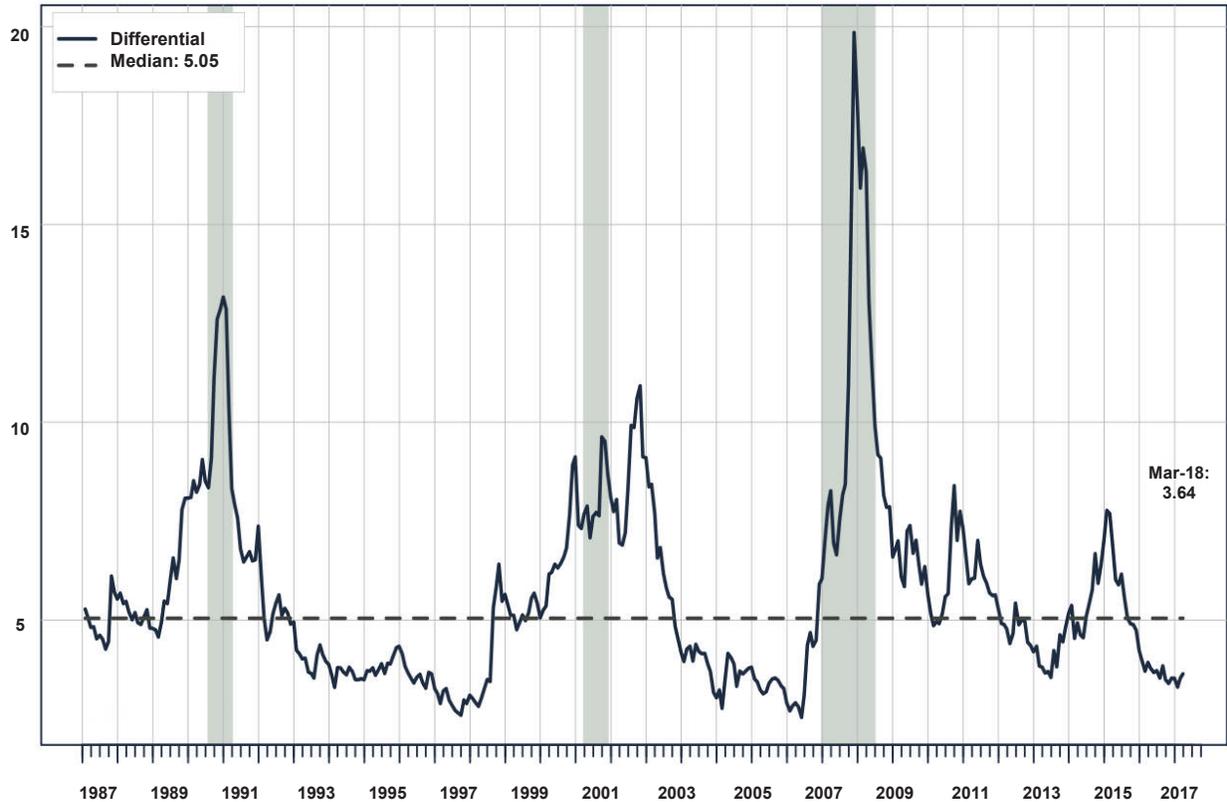
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Source: This article was excerpted from “Defensive Equity Styles: The Sultan Of Swat An The Spendid Splinter”, by Scott Opsal, CFA, Director of Equities, The Leuthold Group, LLC, (*Perception Express*, April 6, 2018), <http://leuth.us/special-interest>

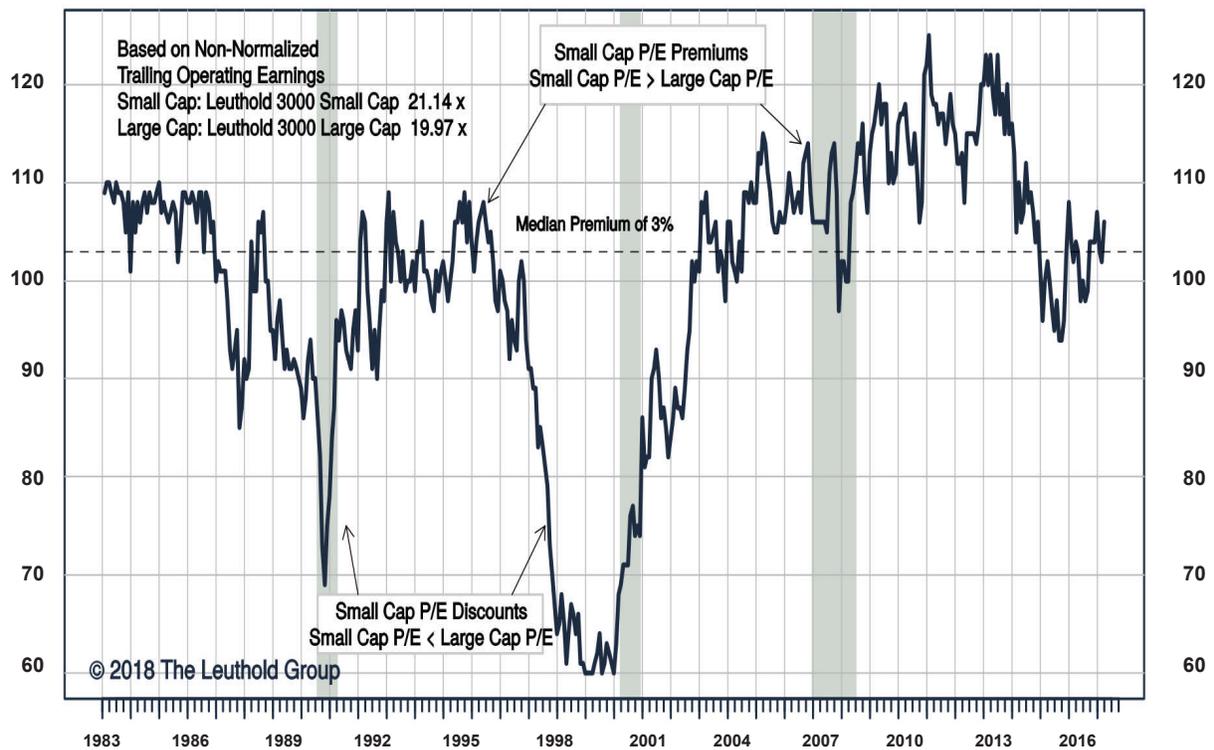
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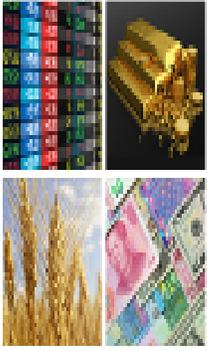
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BARCLAYS U.S. HIGH YIELD BOND YIELD MINUS TREASURY BOND YIELD



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 2.0%





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