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THE GLOBAL INVESTMENT PULSE

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2015 WAS A STINKER FOR INVESTMENTS

By Blaine Rollins, CFA, 361 Capital, LLC

No matter how many times you looked at the performance data over the holidays, the results did not flip from red to green–that was your tree lights blinking and changing colors. No one likes to lose money, but that is what the great majority did; luckily, most managed single digit percent declines.

Moving into 2016, while equities are not cheap at about 25.26x current earnings estimates (as of January 6, 2016), they are also not ridiculously expensive compared to 2000's valuation at a 43 Price-To-Earnings Ratio (P/E). Widening credit spreads continue to cause concern, but the December slide in Junk Bonds may have been overdone by year-end liquidations at several hedge funds and even some mutual funds. There remains plenty of liquidity among the largest investment and pension plans who continue to dial up their risk in search of 7.0%+ (7.0% returns and higher are what the pension plans are projecting for their long-term returns. Most investments are

2015 Was A Stinker For Investments, *continued on page 4*

2015 WAS A STINKER

PLACING INVESTMENTS INCOME TAX-EFFICIENTLY

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

Investors need to spend time not just on what investment to purchase, but 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 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.

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. Tax Deferred accounts include Traditional IRAs, work sponsored retirement plans (401(k) Profit-Sharing, 403(b) Plans, 457(f) Plans, etc.) and self-employed retirement accounts (SEP IRA, Individual 401(k), etc.). Due to the tax-deferred natures of these accounts, no income

Placing Investments Income Tax-Efficiently, *continued on page 12*

HOW BAD WAS 2015?

By Blaine Rollins, CFA, 361 Capital, LLC

Anything that smacked of "real assets" (energy, Master Limited Partnerships, natural resources) or Latin America posted 20.0% to 30.0% declines. Foreign and domestic value strategies, regardless of market cap, trailed their growth-oriented peer by 400 to 700 basis points. The average hedge fund finished the year down about 4.05 and Warren Buffett's Berkshire-Hathaway dropped 11.5%. The Masters of the Universe–William Ackman, David Einhorn, Joel Greenblatt, and Larry Roberts among them–are all spending their holidays penning letters that explain why 10.0% to 25.0% losses are not big deal. The folks at Bain, Fortress Investments and

How Bad Was 2015?, *continued on page 4*

DECIPHERING THE TRANSPORTS' MESSAGE

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

The Dow Jones Transports was the first U.S. index to top in this cycle (December 31, 2014), and it closed January 7, 2016 down 24.1% from that historic high. That development, in and of itself, sharply increases the odds that a new cyclical bear market is underway (… not that we needed much additional persuasion). Since 1940, there have been 29 declines of 20.0% or more in the Transports, with only seven of these occurring independently of a bear

Deciphering the Transports' Message?, *continued on page 13*

Editor
Louis P. Stanasolovich, CFP®, CCO, CEO and President
Legend Financial Advisors, Inc.®
5700 Corporate Drive, Suite 350
Pittsburgh, PA 15237-5829
legend@legend-financial.com

Newsletter Production Manager
Lori L. Albert
legend@legend-financial.com

Legend Financial Advisors, Inc.®
5700 Corporate Drive, Suite 350
Pittsburgh, PA 15237-5829

EmergingWealth Investment Management, Inc.
5700 Corporate Drive, Suite 360
Pittsburgh, PA 15237-5829

Postmaster: Send all address changes to:
Legend Financial Advisors, Inc.®
5700 Corporate Drive, Suite 350
Pittsburgh, PA 15237-5829

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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 12 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, four 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.

DECLINES IN KEY INDEXES FROM 2013 TO 2015 HIGHS

(Through January 7, 2016)

U.S. Stock Indexes	Bull Market High	Percentage Loss
Dow Jones Industrials	May 19, 2015	-9.8%
Dow Jones Transports	December 29, 2014	-24.1% ←
Dow Jones Utilities	January 29, 2015	-11.4%
S&P 500	May 21, 2015	-8.8%
S&P MidCap 400	June 23, 2015	-14.4%
S&P SmallCap 600	June 23, 2015	-14.6%
Russell 2000	June 23, 2015	-17.8%
NASDAQ Composite	July 20, 2015	-10.1%
Value Line Arithmetic	April 15, 2015	-16.7%
Russell 1000 Growth	July 20, 2015	-8.5%
Russell 1000 Value	December 29, 2014	-12.0%
Russell 2000 Growth	June 23, 2015	-18.7%
Russell 2000 Value	June 23, 2015	-17.0%
S&P 500 High Beta Index	April 23, 2015	-24.6% ←
S&P 500 Low Volatility Index	December 29, 2015	-4.9%

S&P 500 Sectors	Bull Market High	Percentage Loss
Consumer Discretionary	November 25, 2015	-8.9%
Consumer Staples	December 29, 2015	-3.6%
Energy	June 23, 2014	-42.6% ←
Financials	July 22, 2015	-12.2%
Health Care	July 20, 2015	-10.5%
Industrials	February 20, 2015	-12.0%
Information Technology	December 4, 2015	-9.9%
Materials	February 24, 2015	-22.0%
Telecom Services	April 23, 2013	-13.5% ←
Utilities	January 29, 2015	-12.8%

World Stocks (In U.S. Dollars)	Bull Market High	Percentage Loss
MSCI AC World Index	May 21, 2015	-14.6%
MSCI AC World Ex USA	July 3, 2014	-22.7% ←
MSCI World Small Caps	June 23, 2015	-14.2%
MSCI EAFE	July 3, 2014	-18.7%
MSCI Emerging Markets	September 3, 2014	-32.9% ←

Arrows highlight declines in excess of 20.0%.

As of: January 8, 2016

Source: The Leuthold Group, LLC, *Perception Express*, January 8, 2016, http://leuth.us/stock-market

THE OUTLOOK FOR GOLD CONTINUES TO BE POOR

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

The U.S. Dollar has historically moved inversely with gold because it's priced in U.S. Dollars. Also, real interest rates have a huge effect on gold.

Real interest rates are what's obtained when you deduct the rate of inflation from the 10-year Treasury yield. For example, if Treasury yields were at 2.0% and inflation was also at 2.0%, investors wouldn't really be earning anything. However, if inflation was at 3.0%, negative real rates of return would occur.

When gold hit its all-time high of $1,900.00 per ounce in August 2011, real interest rates were sitting at negative 3.0%. In other words, for investors that bought the 10-year, they essentially lost 3.0% a year on a "safe" Treasury investment. Since gold doesn't cost anything to hold, it became more attractive, and the metal's price soared.

Today, the U.S. has virtually no inflation–the November reading was 0.5%–so real interest rates are running at less than 2.0%.

Across the Atlantic, many investors are now realizing that Europe's Quantitative Easing (QE) programs have failed to improve market performance in any substantial way. Earnings per share growth estimates in the European stock market have not budged. The lack of real growth in this market is a compelling argument for global investors to own gold for the long term.

Low interest rates, higher taxes and tariffs and more labyrinthine global regulations since 2011 are all contributing to the global slowdown. Neither QE3 in Europe nor QE3 in the U.S. has led to a marked improvement in growth. What markets need now to ignite growth are fewer taxes, tariffs and regulations and smarter fiscal policies.

Source: Parts of this article were excerpted from "Hope For The New Year: 3 Asset Classes for 2016", by Frank Holmes, CEO and Chief Investment Officer, U.S. Global Investors, (*Advisor Alert*, January 2016), www.usfunds.com

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How Bad Was 2015?, *continued from page 1*

BlackRock spared themselves the bother by simply closing their hedge funds this year.

Looking at the specific Equity style boxes, Large Cap Growth was the only one to have positive returns. But even that style box lagged it benchmark by 300 basis points (3.0%) due to the greater concentration of the mega cap winners in the indexes. (See "Equity Style Box Total Returns" chart to the right.)

Source: This article was excerpted from "2015 Was A Stinker...", by Blaine Rollins, CFA, 361 Capital, LLC, (*Weekly Research Briefing*, January 4, 2016), www.361capital.com

EQUITY STYLE BOX TOTAL RETURNS

Data through December 31, 2015
Returns are simple averages.

U.S. Equity Stock Indexes	2015 Percentage Return
Large Growth	3.60%
Mid-Cap Growth	-0.95%
Large Blend	-1.06%
Small Growth	-2.42%
Large Value	-4.04%
Mid-Cap Blend	-4.78%
Small Blend	-5.38%
Mid-Cap Value	-5.40%
Small Value	-6.70%

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2015 Was A Stinker For Investments, *continued from page 1*

expected to earn low to mid-single digits at best over the next decade.) returns to meet their liabilities. As for the financial system's health, the banking system is in good shape. Corporate balance sheets (outside of Energy, Materials) are still looking decent and Consumer balance sheets are improved with rising Home Equity values and falling energy prices.

Value underperformed Growth equities by 900+ (9.0%) basis points in 2015. A large risk to fund managers will be their positioning for a possible stabilization in Energy prices. Oil has led the markets lower all year so one can only guess that the correlation will be high if Energy stops falling and changes an uncertain situation to anything more certain. If flat to rising Oil and Energy stocks occur, Emerging Markets and Junk Bonds will follow.

Source: This article was excerpted from "2015 Was A Stinker...", by Blaine Rollins, CFA, 361 Capital, LLC, (*Weekly Research Briefing*, January 4, 2016), www.361capital.com

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INVESTING FOR DIVIDENDS IN 2015 RESULTED IN POOR RETURNS

By Blaine Rollins, CFA, 361 Capital, LLC

Dividend focused investing has been a widely popular winning strategy. However, 2015 was difficult for it.

For stocks that pay dividends, 2015 was a mediocre year.

At the start of 2015, 74 stocks in the Standard and Poor's (S&P) 500 had no dividend payout. The 74 stocks were up an average of 3.9% in 2015. The remaining stocks in the S&P 500 that did have a dividend payout at the start of the year are down an average of 5.15% for 2015.

Below, 361 Capital, LLC has broken the S&P 500 into deciles (10.0% of stocks) based on dividend yield at the start of 2015. The last group of stocks all the way to the right of the chart contains all names that had no dividend yield. This is the only group of stocks that averaged a gain in 2015. As shown on the left side of the chart, the top 10.0% of stocks with the highest dividend yields at the start of the year are down a whopping 14.6% year-to-date!

Source: This article was excerpted from "2015 Was A Stinker...", by Blaine Rollins, CFA, 361 Capital, LLC, (*Weekly Research Briefing*, January 4, 2016), www.361capital.com

S&P 500 DECILE PERFORMANCE IN 2015 BASED ON DIVIDEND YIELD

As of: January 4, 2016

Source: 361 CAPITAL, *361 Capital Weekly Research Briefing*, January 4, 2016
www.361capital.com

WORLD MARKET PERFORMANCE IN 2015

(MSCI Indexes in U.S. Dollars, Excluding Dividends)

2015 WINNERS

Hungary	33.1%
Denmark	22.3%
Ireland	15.1%
Belgium	9.5%
Israel	8.3%
Japan	7.8%
Austria	2.2%
Italy	0.3%

WORLD MARKET PERFORMANCE IN 2015

(MSCI Indexes in U.S. Dollars, Excluding Dividends)

2015 LOSERS

Russia	-0.05%	Philippines	-8.1%	Czech Republic	-21.9%
Finland	-0.5%	China	-10.0%	Malaysia	-22.4%
U.S.A.	-0.8%	New Zealand	-10.6%	Sri Lanka	-24.8%
Netherlands	-0.8%	United Kingdom	-11.0%	Egypt	-24.8%
Argentina	-1.2%	Australia	-14.1%	Thailand	-25.5%
Switzerland	-1.8%	Taiwan	-14.4%	Canada	-25.5%
Portugal	-2.1%	Mexico	-16.0%	Poland	-27.2%
France	-2.2%	Spain	-16.7%	South Africa	-27.2%
Hong Kong	-3.3%	Norway	-17.3%	Peru	-32.5%
Germany	-3.7%	Morocco	-17.3%	Turkey	-33.6%
Jordan	-4.3%	Pakistan	-18.3%	Brazil	-43.4%
Sweden	-7.1%	Chile	-18.9%	Columbia	-43.9%
India	-7.4%	Singapore	-20.2%	Greece	-62.1%
Korea	-7.9%	Indonesia	-21.0%		

All Country World Index	**-4.3%**
Median Country	**-10.6%**

As of: January 8, 2016

Source: The Leuthold Group, LLC, *Perception Express*, January 8, 2016, http://leuth.us/stock-market

FOREIGN STOCKS: THE VALUE TRAP PERSISTS

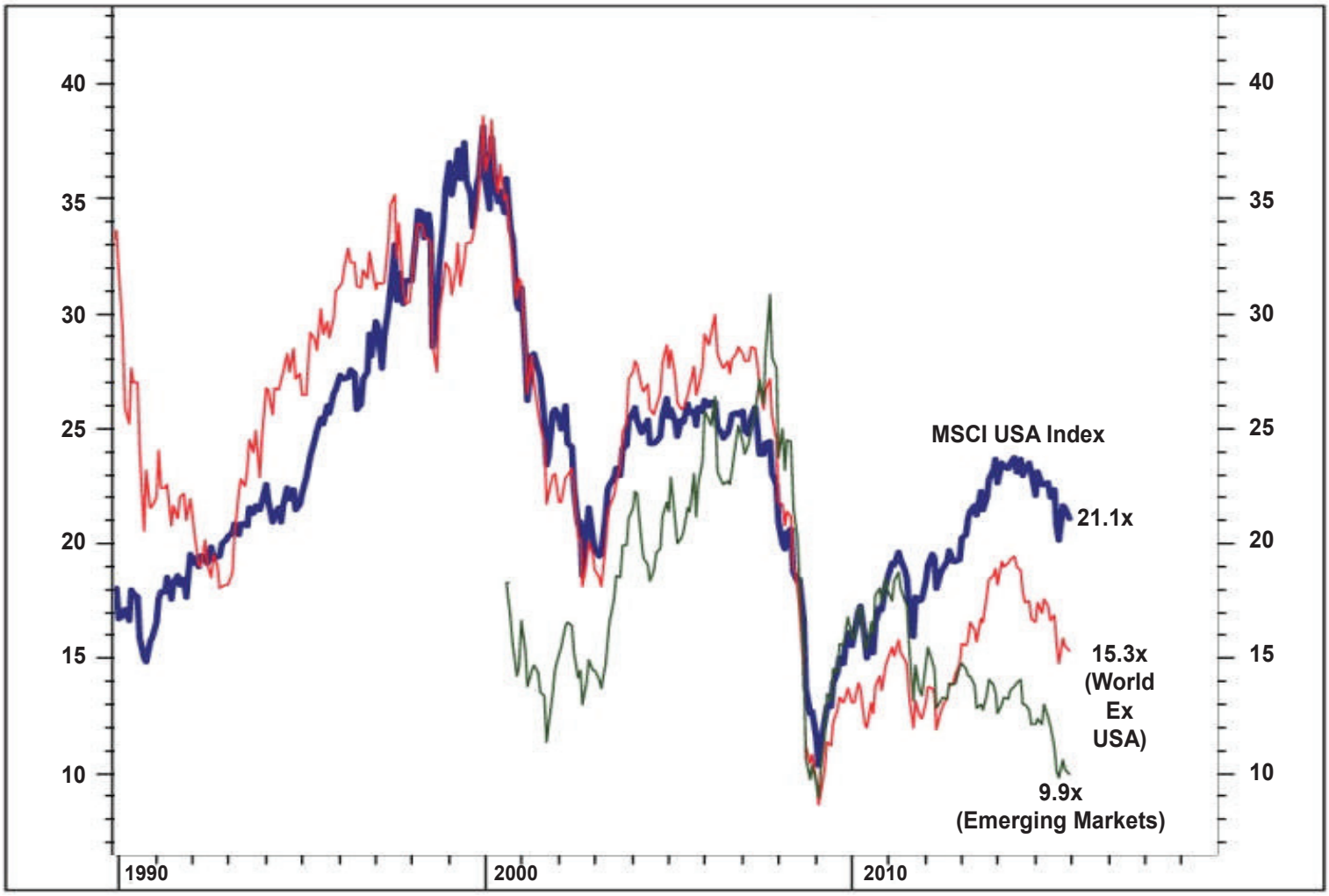
By Doug Ramsey, CFA, CMT, Chief Investment Officer, The Leuthold Group, LLC

It's probably age, but we've come to appreciate the predictability of New Year's–the extra eight pounds from holiday feasts, another Big Ten embarrassment in the Rose Bowl, and the booking of yet another year's underperformance by foreign equities. One's charts had to be extremely accurate to have cashed in on the eight Morgan Stanley Capital International (MSCI) country indexes producing gains last year (versus 41 countries with losses). Please refer to the charts on page 6. The capitalization weighting of these indexes minimized the apparent damage, as it usually does late in bull markets and early in bear markets. While the MSCI All Country (AC) World Index declined 4.3%, the median loss among the 49 country indexes was -10.6%.

Foreign stocks' perpetual underperformance has–as we've pointed out more times than we'd like to remember–opened up a valuation gap that should look extremely appealing to anyone with a horizon of more than two years. However, from a tactical point of view, we've cautioned that value would probably lag as long as the bull market remained intact (not merely at the country level, but among industries and stocks as well). If a bear market unfolds as we expect, look for signs of a leadership change favoring cheapness–in stocks, sectors and countries.

Source: This article was excerpted from "Foreign Stocks: The Value Trap Persists", by Doug Ramsey, CFA, CMT, Chief Investment Officer, The Leuthold Group, LLC, (*Perception Express*, January 8, 2016), http://leuth.us/stock-market

PRICE-TO-EARNINGS RATIOS ON FIVE-YEAR NORMALIZED EARNINGS PER SHARE U.S. VERSUS REST OF WORLD



As of: January 8, 2016

Source: The Leuthold Group, LLC, *Perception Express*, January 8, 2016
http://leuth.us/stock-market

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JUNK BONDS (HIGH YIELD) OUTLOOK

By Blaine Rollins, CFA, 361 Capital, LLC

With yields averaging close to 9.0%, junk bonds look better than they have in several years. The argument that goes junk market 2015 performance was an outlier in a year when U.S. stocks and interest rates were little changed and the U.S. economy advanced at a slow 2.0% pace.

The potential downside of the $1.5 trillion junk market could be overstated because buy-and-hold investors, such as pension funds and insurance companies, account for more than half of the investor base. Pension funds and endowments could see junk debt as an increasingly attractive asset class, as they seek to hit targeted annual returns of 7.0% or more (Their stated expectations for returns.).

One of the longtime knocks against junk debt is asymmetric risk–little upside and a lot of downside. The selloff has changed that equation, with most bonds trading at discounts to their face value, allowing for sizable capital gains. All of this suggests the possibility of double-digit returns in 2016.

Source: This article was excerpted from "2015 Was A Stinker...", by Blaine Rollins, CFA, 361 Capital, LLC, (*Weekly Research Briefing*, January 4, 2016), www.361capital.com

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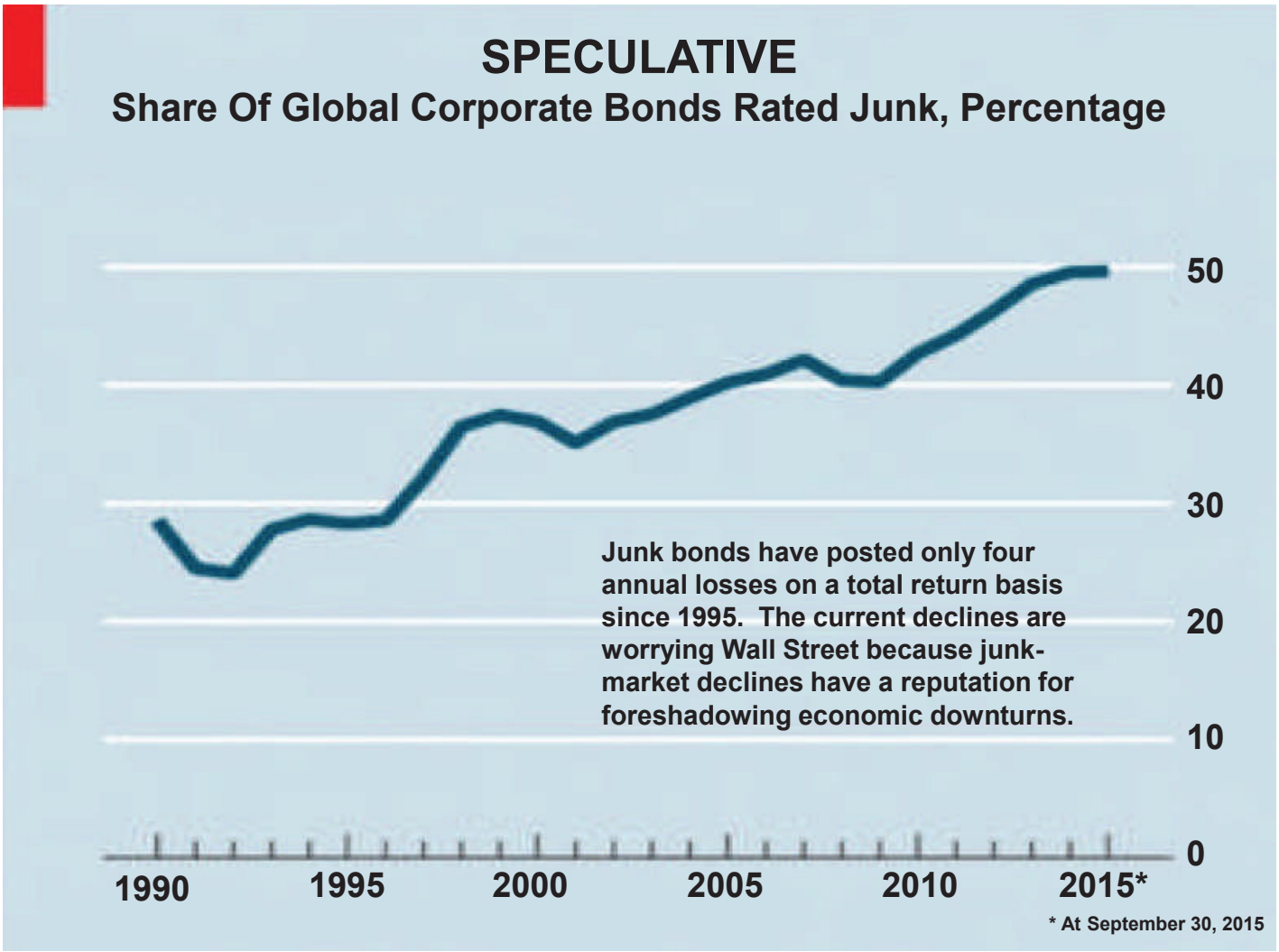


As of: December 7, 2015

Source: Standard & Poor's Global Fixed Income, Economist.com, via 361 CAPITAL, *361 Capital Weekly Research Briefing*, December 7, 2015, www.361capital.com

2015 PERFORMANCE

January 1, 2015 to December 31, 2015
(12 months)

	Year-to-Date Total Return
Consumer Price Index (Inflation)*	1.07%
90-Day Treasury Bills Index-Total Return*	0.03%
Barclays Aggregate Bond Index-Total Return	0.55%
HFRX Global Hedge Fund Index	-3.49%
S&P 500 Index (U.S. Stock Market)	1.38%
MSCI EAFE Index (Developed Foreign Equities)	-0.19%
MSCI Emerging Market Index (Equities)	-14.80%
Newedge CTA Index (Managed Futures)	0.08%
Dow Jones–UBS Commodity Index-Total Return (USD)**	-24.70%
Dow Jones U.S. Real Estate Index-Total Return (USD)**	2.82%
Gold Bullion	-10.46%

Compound and Total Returns include reinvested dividends. Newedge Index is equally-weighted.
* Currently on a one month lag.
** USD = U.S. Dollar

Source: Bloomberg Investment Service

As of: December 31, 2015

SECULAR BEAR MARKET WATCH

April 1, 2000 to December 31, 2015
(15 years and 9 months)

	Annual Compound Return	Total Return
Consumer Price Index (Inflation)***	2.11%	38.63%
90-Day Treasury Bills Index-Total Return***	1.67%	29.71%
Barclays Aggregate Bond Index-Total Return	5.31%	125.95%
HFRX Global Hedge Fund Index	2.35%	44.23%
S&P 500 Index (U.S. Stock Market)	3.97%	84.69%
MSCI EAFE Index (Developed Foreign Equities)	3.05%	60.57%
MSCI Emerging Market Index (Equities)	5.70%	139.54%
Newedge CTA Index (Managed Futures)	5.29%	125.46%
Dow Jones–UBS Commodity Index-Total Return (USD)**	-1.43%	-20.26%
Dow Jones U.S. Real Estate Index-Total Return (USD)**	12.20%	513.62%
Gold Bullion	8.85%	280.82%

* 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
*** Currently on a one month lag.

Source: Bloomberg Investment Service

As of: December 31, 2015

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 15 years and 8 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.

tax will be paid on earnings until the money is withdrawn from the account. A tax-free account includes Roth IRA or Roth 401(k)s.

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

Generally, taxable accounts are more suitable for equity rather than fixed income investments because most of the return from fixed income will come from the payment of interest and taxed at a investor's ordinary income tax bracket. On the other hand, a portion of equity investment returns will come from capital appreciation, which can be sold at long-term capital gain taxation rates. A second part, although usually lesser proportion, of equity returns will be obtained from the payout of dividends to investors. Dividends are usually taxed at rates similar to long-term capital gains rates.

Non-qualified dividends are income taxed at a 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%. Our 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
3. 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. Preferred Stock Funds
2. Real Estate Mutual Funds
3. Managed Futures Funds

Somewhat Tax-Efficient Investments:

1. Asset Allocation Funds*
2. Balanced Funds (combination of stock and bonds)
3. Long/Short Funds
4. Master Limited Partnership Exchange-Traded Funds (ETFs)

*This type of an investment is harder to determine what type of an account it can be held in. An asset allocation fund can have different percentages invested in cash, stocks, bonds, REITs, 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.

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 these asset classes through Exchange-Traded Funds or 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 significate appreciation potential in taxable accounts, this can provide investors the opportunity to donate shares 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 you are not earning that much; therefore, you 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.

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

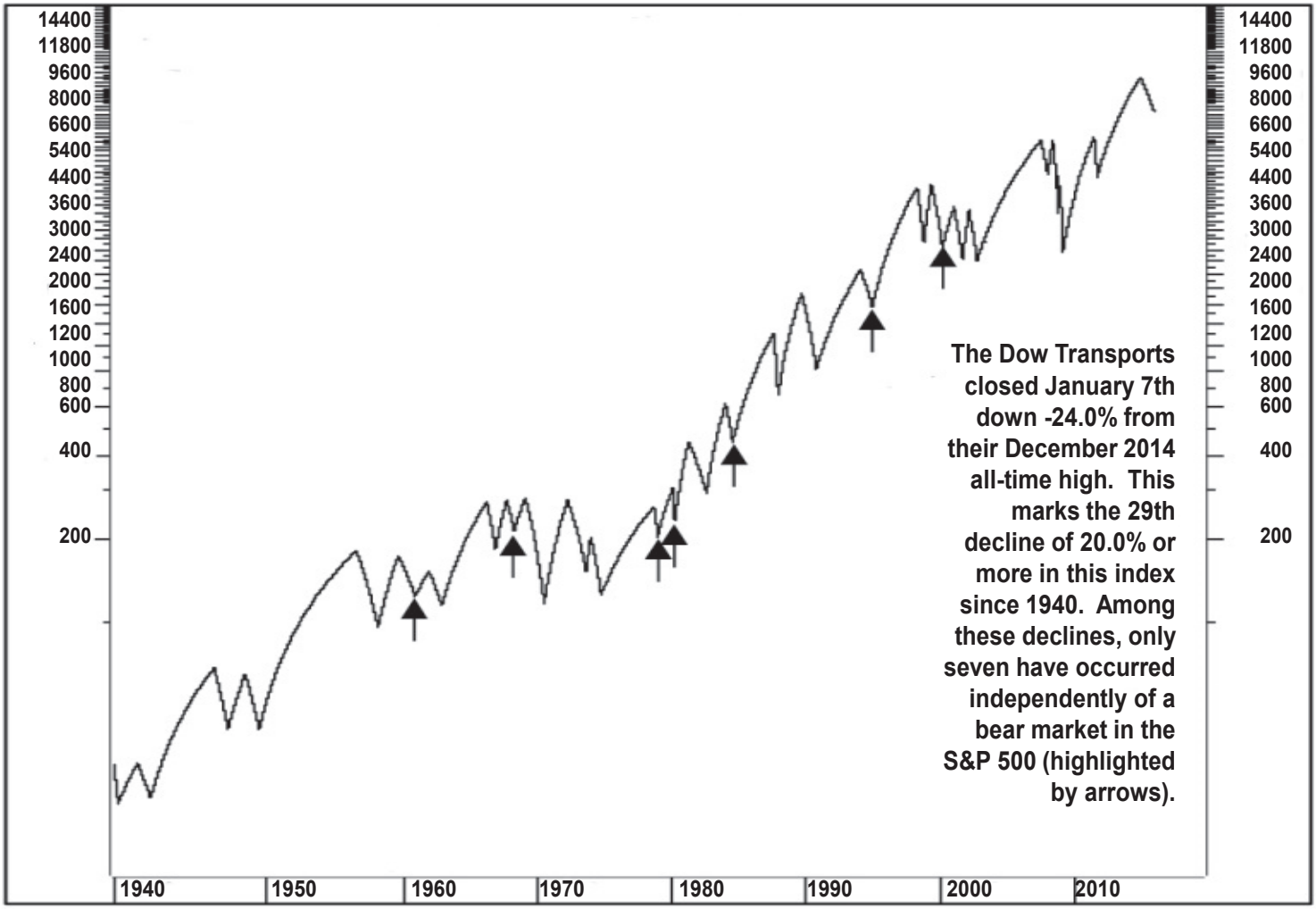
market in the S&P 500. (And the most recent of these "stand-alone" declines–occurring during the last gasp of the Technology bubble–was followed by a memorable market top just two weeks later).

For the bulls among our audience, the two most encouraging precedents would have to be the Transports' mid-cycle declines of -28.0% in 1984, and -26.0% in 1994. Neither of these episodes was followed by any serious economic weakness and, of course, there were huge additional stock market gains to be reaped into the bull market tops of August 1987 and March 2000.

Keep in mind, though, the 1984 and 1994 episodes are outliers. We'll side with the preponderance of this study's historical evidence, which is that a cyclical (short-term; generally six to 30 months) bear market is now underway. (See "Dow Jones Transportation Average" chart below.)

Source: This article was excerpted from "Deciphering The Transports' Message", by Doug Ramsey, CFA, CMT, Chief Investment Officer, The Leuthold Group, LLC, (*Perception Express*, January 8, 2016), http://leuth.us/stock-market

DOW JONES TRANSPORTATION AVERAGE
Filtered For Swings Of 20.0% Or More
(Based On Daily Closing Prices)



As of: January 8, 2016

Source: The Leuthold Group, LLC, *Perception Express*, January 8, 2016
http://leuth.us/stock-market

THE PAUSE THAT "DEPRESSES"?

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

The blue chip U.S. indexes went nowhere (The Standard & Poor's 500 was up 1.38%) in 2015. Many bulls wrote off the year as the "pause that refreshes." What's been refreshed? Certainly not valuations…nor much of anything else contributing to the concerns we had upon entering the year. In January, we wrote that we expected a cyclical bear market would develop in either 2015 or 2016 which would take the major averages down 25.0% to 30.0%. While we have been known to rescind annual forecasts in light of changing conditions, we will stick with that view (though our estimated downside is purely a guess. Bear Markets tend to surprise even the bears when they finally erupt.).

Difficult as 2015 was, investors in foreign stocks are delighted by comparison with a year in which their holdings went nowhere. The MSCI World Ex USA Index was down (in dollar terms) -5.2% for 2015, while Emerging Markets were negative for a third consecutive year with a loss of -14.8%. Emerging Market countries have played the role of both perpetrator and victim of the great commodity bust. Both Emerging Markets and the commodity producers look superficially cheap (just as they did entering 2015), but will probably remain value traps for a while longer. (See "The 2014 to 2015 (and 2016?) Market Top" chart to the right.)

Source: This article was excerpted from "The Pause That "Depresses"?", by Doug Ramsey, CFA, CMT, Chief Investment Officer, The Leuthold Group, LLC, (*Perception Express*, December 8, 2015), http://leuth.us/stock-market

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