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THE GLOBAL INVESTMENT PULSE

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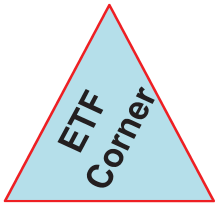
ROBERT SHILLER'S THOUGHTS ON STOCK MARKET VALUATIONS

Comments of Professor Robert Shiller, creator of the Shiller P/E calculation

Source: This article was excerpted from "The Delusion of Perpetual Motion" as quoted by John P. Hussman, Ph.D., President, Hussman Funds, (*The Daily Ticker*, June 25, 2014), www.hussmanfunds.com.

"I am definitely concerned. When was the Cyclically Adjusted P/E ratio higher than it is now? I can tell you: 1929, 2000 and 2007. Very low interest rates help to explain the high Cyclically Adjusted P/E ratio. That doesn't mean that the high Cyclically Adjusted P/E ratio isn't a forecast of bad performance. When I look at interest rates in a forecasting regression with the Cyclically Adjusted P/E ratio, I don't get much additional benefit from looking at interest rates… We don't know what it's going to do. There could be a massive crash, like we saw in 2000 and 2007, the last two times it looked like this. But I don't know. I think,

Robert Shiller, *continued on page 6*



IT PAYS TO UNDERSTAND THE INCOME TAXATION OF EXCHANGE-TRADED FUNDS (ETFs) WHEN THEY OWN FUTURES CONTRACTS AND PHYSICAL COMMODITIES

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

Exchange-Traded Funds (ETFs) income taxation is relatively straightforward when dealing with equities and bonds. Generally, an ETF's income tax consequences are driven by the underlying holdings and the type of tax structure that they are set up as. As such, ETFs that own futures contracts or physical commodities are often more complex, but can still offer income tax advantages as well.

It is common for an ETF that holds futures contracts to be structured as a limited partnership. In a limited partnership that holds futures contracts, all gains are passed through to the limited partners. In addition, futures contracts are marked to market (In other words, they are presumed to be sold at year-end even though they are not.) each year which results in 60.0% of any gains to be taxed at the long-term capital gains tax rate (20.0% or less depending on one's income tax bracket) and the remaining 40.0% of the gains are taxed at the investor's ordinary income tax rate, regardless of how long the ETF is held.

ETFs, *continued on page 6*

DOES YOUR PORTFOLIO CONTAIN UNDERCOVER BONDS?

By Eric L. DeMico, Investment Analyst, Legend Financial Advisors, Inc.® and EmergingWealth Investment Management, Inc.

Some of the better-performing parts of the equity market this year may not be, well….equities. This comes off a bit scandalous, but in truth there is no serial cover-up to speak of, but rather, an important dynamic in valuing equities that needs to be understood before investors become enamored with the recent performance of sectors such as utilities and real estate investment trusts (REITs).

A prudent starting place for this discussion is the thought process behind the value of a bond. At a high level, most bonds are issued paying fixed interest payments (a.k.a. coupons) for a predetermined period of time. It is then up to investors to determine what the value of that predetermined schedule of coupon payments is worth, thus the value of a bond fluctuating over time.

Bonds, *continued on page 6*

IN THIS ISSUE

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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 10 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, three 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 one of six individuals to receive the inaugural Influencer Awards for 2010. Lou was selected 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.

2014 GLOBAL GOVERNMENT BOND RETURNS
THROUGH JUNE 30, 2014

Datastream 10-Year Government Bond Benchmark Total Return (In Home Country Currency) – Percent Return

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

Amazing First Half Returns For Foreign Bonds

The first half of 2014 was quite amazing with regard to returns for foreign country bonds based in their home currencies. The Hungary PIIGS countries (Hungary, Portugal, Ireland, Italy, Greece and Spain) led the way in terms of performance with a recovery from the brink of financial disaster. Coincidently, these are the same countries that caused the financial crisis in Europe beginning in 2009. Due to European Central Bank purchases of bonds issued by these countries in 2001, at least in the short-term bonds have rallied a great deal allowing the PIIGS Countries to borrow at much lower rates, thereby somewhat stabilizing the economic situations of these countries. By contrast, U.S. Bond returns were 3.93% in the first half as evidenced by the Barclays Aggregate Total Return Index, a high-quality bond index.

As time goes on, European countries of all types need to improve their budget deficits, unemployment situations and social support systems to become financially viable. Otherwise, they will soon be revisiting their financial crisis situations again.

Country Names	Percent Returns	Country Names	Percent Returns
1. Greece	27.9	13. Poland	8.8
2. Portugal	24.0	14. Germany	8.3
3. Spain	15.4	15. Australia	8.1
4. Ireland	13.8	16. Denmark	7.1
5. Italy	13.2	17. Norway	6.6
6. Hungary	13.0	18. Switzerland	6.2
7. Belgium	11.2	19. Canada	6.1
8. France	10.4	20. United States	5.0
9. Netherlands	9.5	21. New Zealand	4.0
10. Austria	9.2	22. United Kingdom	3.8
11. Finland	9.0	23. South Africa	2.5
12. Sweden	8.9	24. Japan	2.3

As of: July 4, 2014
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Source: Thomson Reuters Datastream via 361 Capital *Weekly Research Briefing*, July 7, 2014

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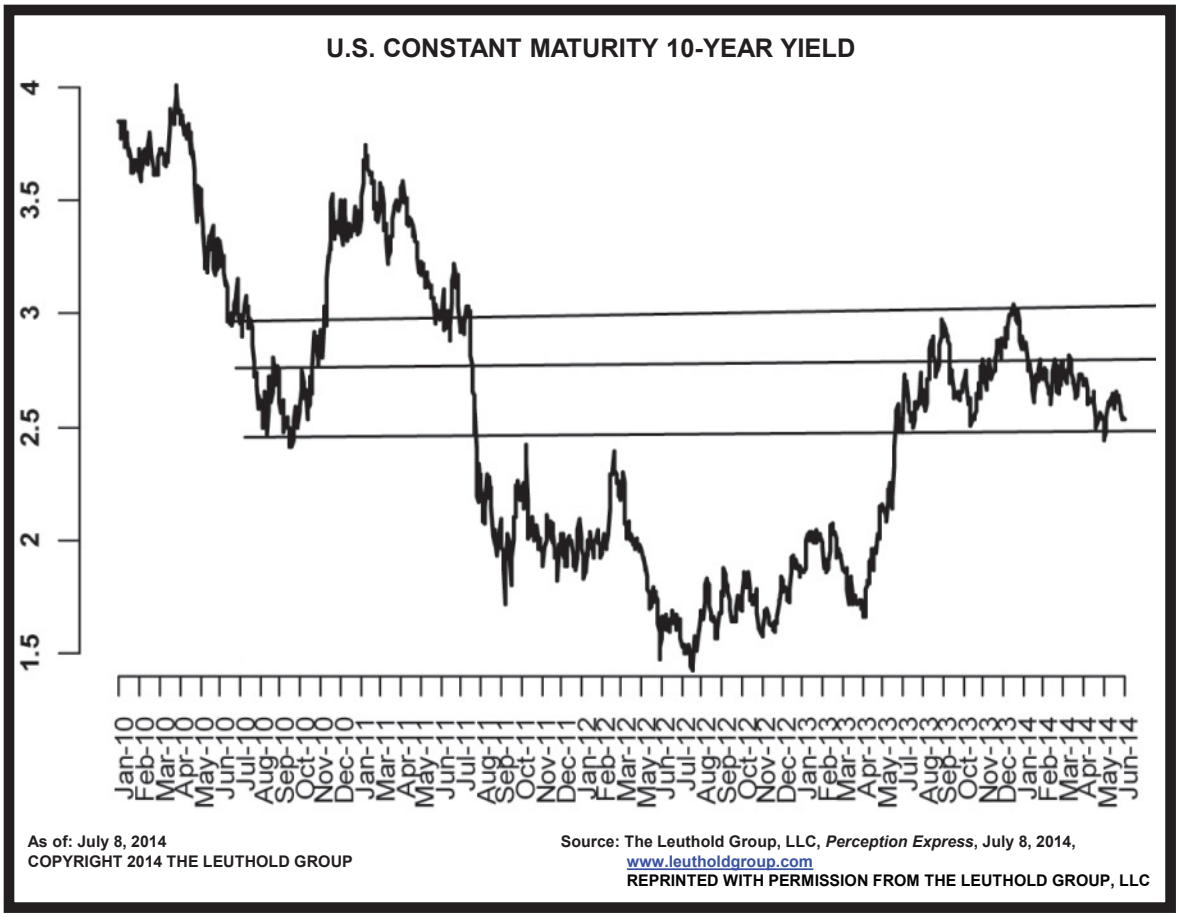


As of: July 8, 2014

Source: The Leuthold Group, LLC, *Perception Express*, July 8, 2014, www.leutholdgroup.com

ARE YOU TOO EXPOSED TO HIGH YIELD?

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

Parts of this article were excerpted from "On My Radar: Some Hope & Prayer", by Stephen B. Blumenthal, Founder & CEO, CMG Capital Management Group, Inc., (*On My Radar*, July 18, 2014), www.cmgwealth.com.

Simply, yields on bonds are far too low and, as a result, companies are finding funding (borrowing) that historically would not be available. A default wave is ahead. It is time for investors to be tactical with their high yield bond exposure.

Similar to the easy money sub-prime mortgage days at the top of the last credit bubble in 2007, the sailing looks safe; however, over the horizon a storm is brewing. Forced by the Fed's zero interest rate policy into riskier asset classes, investors may be unaware of the risk they have entered into.

The high yield bond market traffic light is flashing red. The positive message here is that another great opportunity will present itself soon.

Several Quick Thoughts On The High Yield Bond Market – A Challenging Three Months Ahead:

The current yield on the Barclays U.S. Corporate High Yield Index is just 5.54% (a record low yield). The chart on the top of page 5 shows the Barclays U.S. Corporate High Yield Bond Indexes from 2000 to present. The black line is the price of the index only. The blue line shows the total return, which includes both price and yields. The red line shows the yield to worst (similar to the current yield).

Note the orange highlighted box and the decline that took place in the last crisis. Side-stepping most of that decline would have put an investor in a position to buy in at a lower price and a much higher yield (red arrow).

The goal is to be aware of risk, participate in gains and have a plan in place to protect against the downside. The main objective is to be in a favorable financial position that enables an investor to take advantage of the higher yields and higher return environment that the next crisis creates.

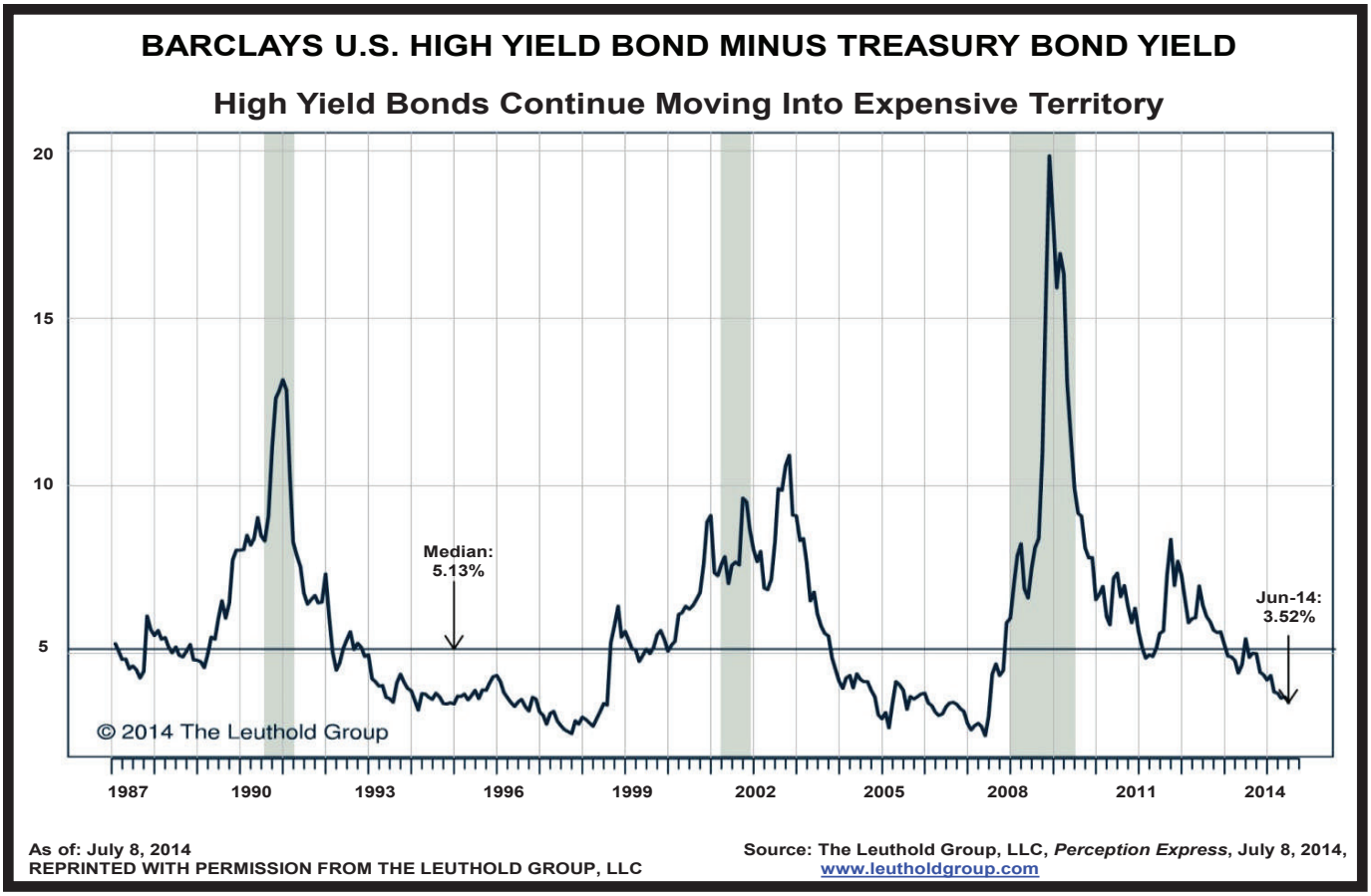
As noted in the next chart on the bottom of page 5 (Seasonality of High Yield Bond Excess Returns), the next three months look challenging.

It is important to remember that the high yield bond asset class has been an attractive asset class over time. It is appropriate for a "portion" of one's portfolio. How much? That is based on an individual's need. High Yield will remain a favorable asset class for years to come; however, as was the case in 2007 and 2008, it is best not to step in front of an oncoming train. However, we are not sure if the current environment is that train, but a train is coming.

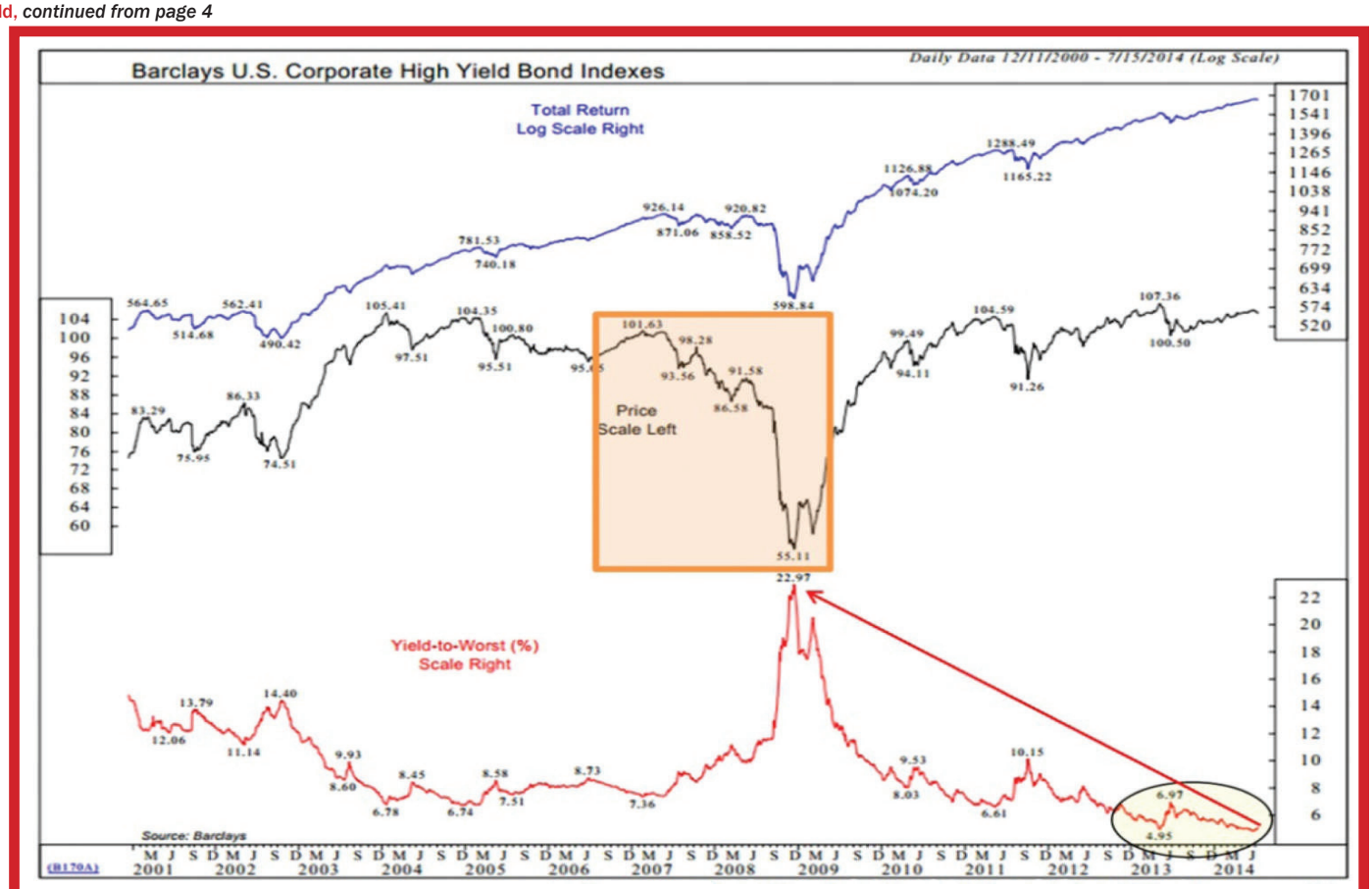
Editor's Comment: Now may be the time to let up on the gas on one's exposure to high yield bonds if it is more than 5.0% to 10.0% of a portfolio.

Source: This article was excerpted from "On My Radar: Some Hope & Prayer", by Stephen B. Blumenthal, Founder & CEO, CMG Capital Management Group, Inc., (*On My Radar*, July 18, 2014), www.cmgwealth.com.

High Yield, *continued on page 5*



High Yield, *continued from page 4*



As of: July 18, 2014
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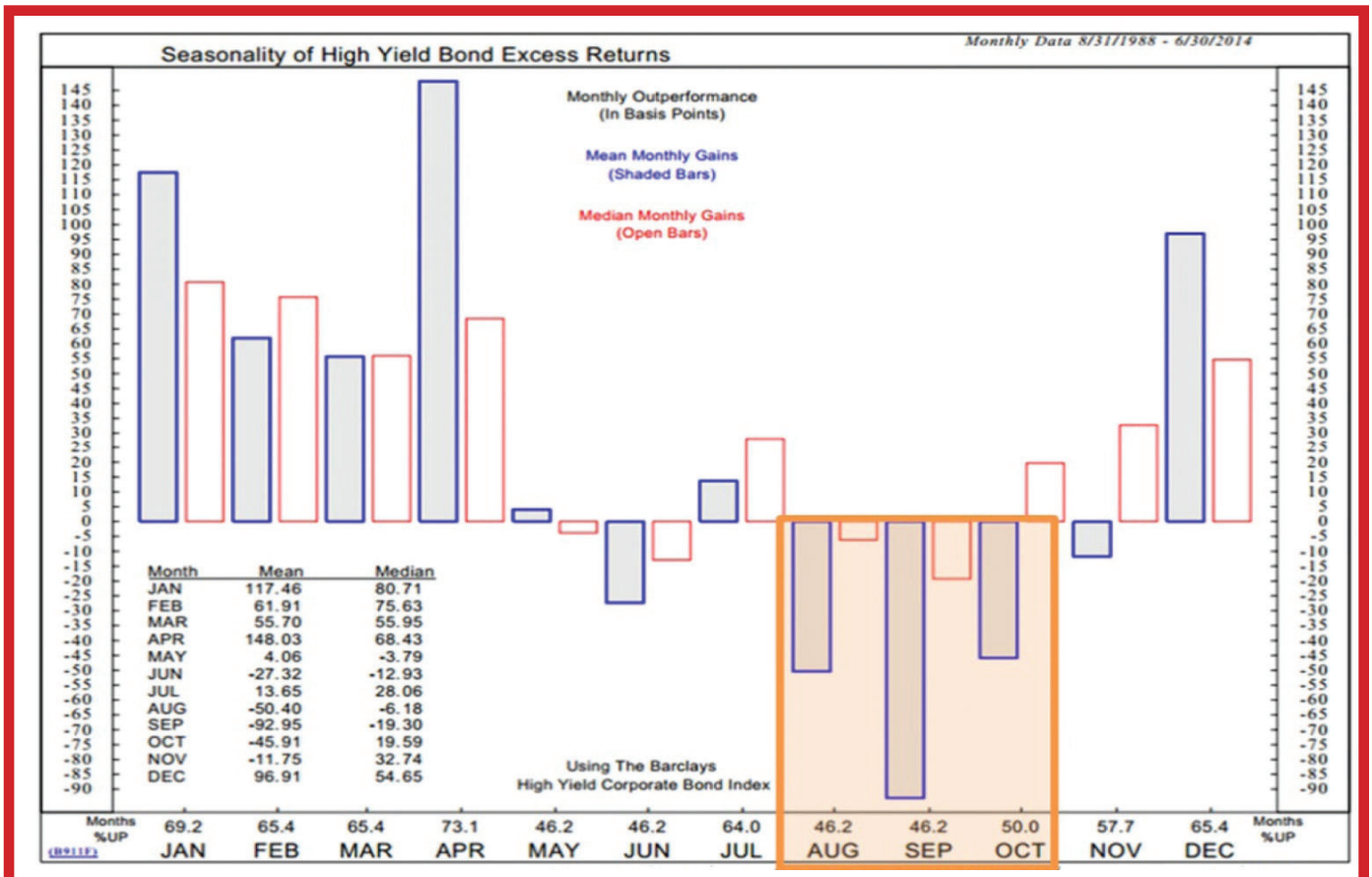
Source: Ned Davis Research via CGM *On My Radar*, July 18, 2014



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Source: Ned Davis Research via CGM *On My Radar*, July 18, 2014

Robert Shiller, *continued from page 1*

realistically, stocks should be in someone's portfolio. Maybe lighten up… One thing though, I don't know how many people look at plots of the market. If you just look at a plot of one of the major averages in the U.S., you'll see what look like three peaks – 2000, 2007 and now – it just looks to me like a peak. I'm not saying it is. I would think that there are people thinking – way – it's gone way up since 2009. It's likely to turn down again, just like it did the last two times."

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ETFs, *continued from page 1*

The income tax reporting for ETFs that are structured as partnerships are completed on a Schedule K-1, which causes additional tax forms to be completed and, as a result, possible additional fees will be charged by one's accountant.

In the case of currencies, ETFs that track a single currency or basket of currencies are usually investing in futures contracts and have the same 60.0% long-term capital gain and 40.0% ordinary income tax treatment as mentioned above. It is also common for commodity ETFs to own futures contracts with the same income tax consequences.

Commodity ETFs that hold the physical commodities are set up as grantor trusts or limited partnerships. A grantor trust is used when there is a physical commodity to be held. The most well-known grantor trust ETF is the SPDR Gold Shares (GLD) ETF. Any investment in a physical commodity has special higher income tax treatment as opposed to stocks. Such investments are considered a collectible. A collectible will be taxed at the 28.0% long-term capital gain tax rate for commodities and at ordinary income tax rates if held for one year or less.

Investors, as well as their advisors or brokers, need to spend time understanding the structure of the ETF that they are investing in and how the manager of the ETF is obtaining their exposure to the asset class. It is very common for investors to be surprised during income tax season when they receive a K-1 for their ETF or find out that physical commodities were owned and a less favorable long-term capital gains, or worse, an ordinary income tax rate applies.

PULSE

Bonds, *continued from page 1*

For example, suppose a company issues a bond (i.e. a corporate bond) paying an annual fixed coupon rate of 7.0%. Also suppose that at the same time, a U.S. Treasury bond with the same amount of time until it matures is paying 5.0%. The U.S. Treasury bond acts as a benchmark, of sorts, and in this example the additional 2.0% (7.0% - 5.0% = 2.0%) is the "spread", compensates investors for the additional risk of the corporate bond. If the yield of the U.S. Treasury bond subsequently drops from 5.0% to 4.0% and nothing fundamentally changes about the company that issued the corporate bond, one could infer that the original spread of 2.0% should stay the same and that the corporate bond should now be yielding 6.0% (4.0% + 2.0% = 6.0%).

Remember that the coupon payments are determined in advance, i.e. the corporate bond initially was paying $7.00 annually for each $100.00 of bonds purchased. If the interest rate is going from 7.0% to 6.0%, the bond must appreciate in value, which means that every $100.00 of bonds purchased is now worth more than $100.00 while still paying $7.00 annually. In general terms, this is how interest rate changes reverberate throughout the bond market and, in this case, cause bonds to increase in value.

These same dynamics can have very similar effects on parts of the equity market. The fact is that some equities are quite similar to bonds. In such cases, the future streams of dividends or cash flows provided by equities are relatively predictable, akin to the known coupon payments of bonds. Accordingly, these same equities then must possess some sensitivity to interest rates in the same way that bonds do.

The more notable suspects here include sectors such as utilities and consumer goods. Utilities, in particular and as a function of regulation and low competition, have relatively clear visibility in terms of future income and are able to pay stable dividends as a result. Consumer goods companies, similarly, have more durable earnings than most other parts of the equity market (it takes a lot for people to stop buying soap and toilet paper….thank goodness) and are also known to pay reliable dividends.

Another example of a bond-like equity is a Real Estate Investment Trust (or REIT). REITs have long been touted as great providers of income to investors as they must pay out at least 90.0% of their taxable income to shareholders. While this feature does make them similar to bonds, it should also be noted that REITs can potentially insulate investors from the ill-effects of inflation. This is in contrast to bonds, which lose value when inflation unexpectedly increases.

Both REITs and utility stocks have had a strong start to 2014 and are outperforming the S&P 500, year-to-date. However, this is in many ways a reversal from last year, when both REITs and utilities struggled. It's no coincidence that bonds have followed a very similar path, with 2013 being a difficult year and a subsequent rebound in 2014.

Make no mistake, the fate of utilities, REITs and consumer goods companies will still be dictated, to a large degree, by each group's respective operating environment. However, one cannot ignore the effect that interest rates have on such investments and, accordingly, it would be a mistake to attribute all the positive performance in recent months to catalysts independent of the interest rate environment. If interest rates begin to trend higher again, these "undercover bonds" may be dead weight.

In summary, the low interest rate environment has benefited equity investments that pay high dividends and/or have predictable future earnings. Should interest rates begin to move higher again, do not be surprised if this proves to be a headwind for these parts of the equity market.

PULSE

COMMODITIES AND BUSINESS CYCLES

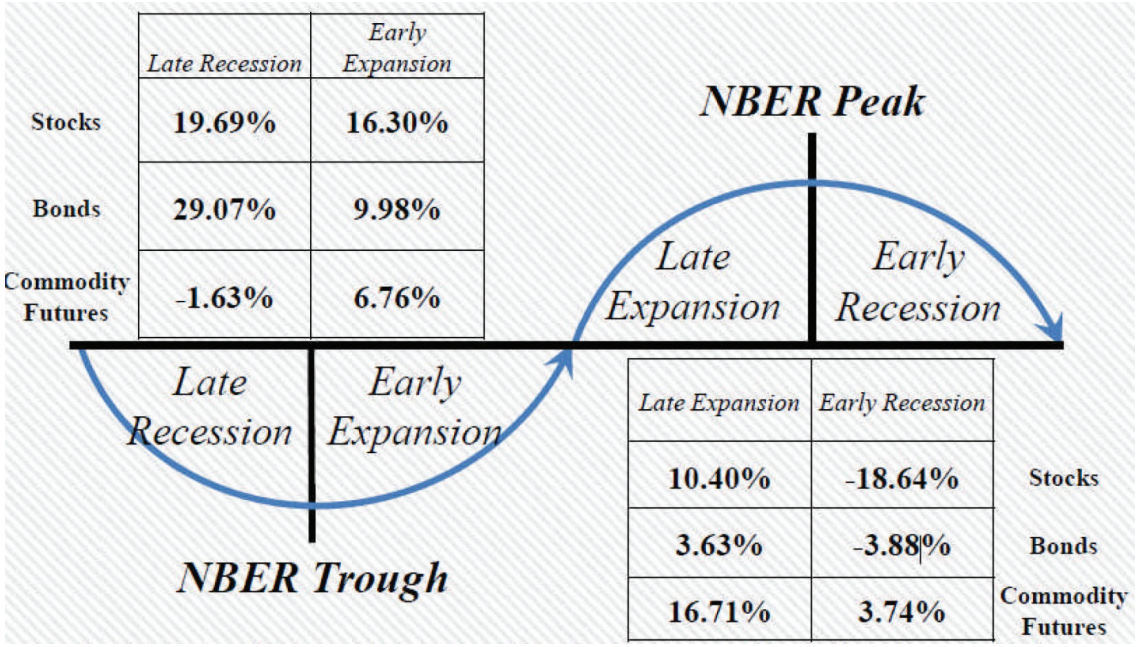
By Louis P. Stanasolovich, CFP®, CCO, CEO and President of Legend Financial Advisors, Inc.® and EmergingWealth Investment Management, Inc. and Editor of *The Global Investment Pulse*

Few individuals ever discuss the business cycle, but a picture is worth a thousand words. The average economic expansion phase in the U.S. historically lasts 58.4 months, with the longest lasting 120 months. The current economic expansion, as mediocre as it has been, is now 57 months old from the conclusion of the severe recession that ended in 2009 [Gross Domestic Product (GDP) shrinks by 5.0% to 10.0%. In that case GDP shrunk by 5.1%.]. See the chart to the top right that explains how bonds, stocks and commodities have fared over these economic cycles. Please note that the charts only incorporate full business cycles. That is why the cycles only run through 2004.

As you will note on the chart to the bottom right, commodities historically have performed well comparatively speaking in the Late Expansion and Early Recession phases of the economic cycle versus that of stocks and bonds.

During the Late Recession and Early Expansion phases of the economic cycle, commodities fare poorly on a comparative basis with that of stocks and bonds. However, the reader will note that commodities are not as volatile as U.S. Equities and have not suffered as severe downturns.

COMMODITIES AND THE NATIONAL BUREAU OF ECONOMIC RESEARCH (NBER) BUSINESS CYCLE (1959-2004)



	Late Recession	Early Expansion
Stocks	19.69%	16.30%
Bonds	29.07%	9.98%
Commodity Futures	-1.63%	6.76%

Late Expansion	Early Recession	
10.40%	-18.64%	Stocks
3.63%	-3.88%	Bonds
16.71%	3.74%	Commodity Futures

Note: Gorton, G. and K. Geert Rouwenhorts (2006). "Facts and Fantasies about Commodity Futures." Financial Analysts Journal, vol. 62, no. 2: 47-68. "Stocks" represents the S&: 500 Index. "Bonds" represents the Ibbotson Corporate Bond Total Return Index. "Commodity Futures" represents an equally-weighted portfolios of fully collateralized futures contracts. These examples are for illustrative purposes only and not indicative of any investment or fund. The examples exclude the effects of taxes and brokerage commissions or other fees incurred when investing. Past performance is no guarantee of future results. An index cannot be purchased directly by investors.

As of: June 3, 2014 Source: First Trust, "Consider Commodities for Risk Reduction", June 3, 2014

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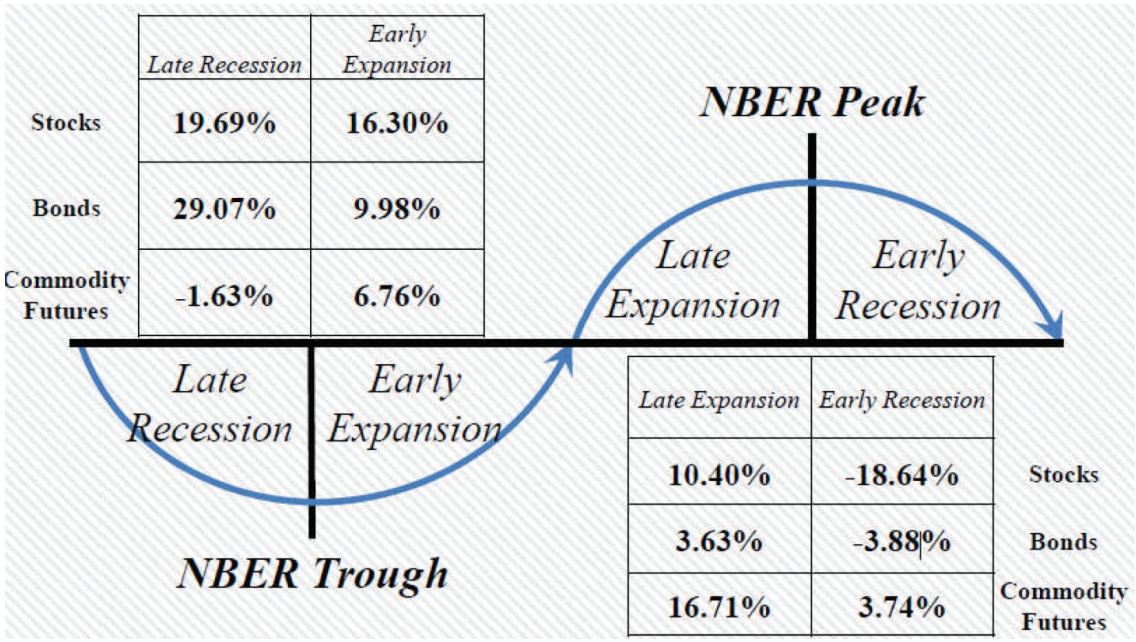
COMMODITIES AND THE NATIONAL BUREAU OF ECONOMIC RESEARCH (NBER) BUSINESS CYCLE (1959-2004)



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SECULAR BEAR MARKET WATCH

April 1, 2000 to June 30, 2014
(14 years and 3 months)

	Annual Compound Return	Total Return
Consumer Price Index (Inflation)	2.35%	39.22%
90-Day Treasury Bills Index-Total Return	1.84%	29.65%
Barclays Aggregate Bond Index-Total Return	5.70%	120.38%
HFRX Global Hedge Fund Index	3.03%	52.97%
S&P 500 Index (U.S. Stock Market)	3.86%	71.70%
MSCI EAFE Index (Developed Foreign Equities)	4.08%	76.89%
MSCI Emerging Market Index (Equities)	8.18%	206.68%
Newedge CTA Index (Managed Futures)	4.86%	96.84%
Dow Jones–UBS Commodity Index-Total Return (USD)**	2.21%	36.64%
Dow Jones U.S. Real Estate Index-Total Return (USD)**	11.32%	361.13%
Gold Bullion	11.55%	374.86%

* 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

As of: June 30, 2014

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 better than the last 14 years and 3 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.

A DIRTY LITTLE SECRET ABOUT WHY INDIVIDUALS NEED AN INVESTMENT ADVISOR

By Eric L. DeMico, Investment Analyst, Legend Financial Advisors, Inc.® and EmergingWealth Investment Management, Inc.

People seek the assistance of others for an infinite number of reasons. But oftentimes individuals know that they need help, but are not entirely sure why.

There is no single answer to the question "Why do I need an investment advisor?" Every client situation is different, and with those different situations are different ways for the advisor to add value for the client. This is also one of the reasons that the investment advisory profession exists. If there was a single, textbook approach to every situation, everyone would just follow the rules and that would be it. In reality, it is far from being that simple.

Knowing the rules and understanding the formulas are important first steps for an advisor to be able to assist others with managing their wealth. However, the rules and formulas are only the foundation. Successful advisors help clients in a multitude of ways, many of which are less objective and more intangible in nature.

There is one such service that investment advisors can provide that does not receive the amount of attention that it should. Investment advisors may be able to protect clients from the one thing that can be the biggest wealth-destroyer of them all: Themselves.

The inconvenient truth: Most investors are not very good at investing. Don Phillips, research guru and Managing Director at Morningstar, authored an analysis that compares the performance of the investment markets (represented by various mutual fund categories) versus actual investor returns (based on when investors bought and sold mutual funds within those categories). The results were a bit depressing. The analysis shows that investors achieve much lower returns than what the markets had provided. The problem: Investors tend to buy mutual funds after they have already significantly increased in value, only to realize lower returns after the purchase. Or worse, investors buy at the high points and then panic during market declines, selling at or near the low points.

It is critical to acknowledge that investors, whether they are do-it-yourselfers or are working with an advisor, are human beings. Human beings have emotions, and if there is one thing that can immediately trigger an emotional response, it's money.

Emotions are just an inherent part of human nature, but they do tend to overwhelm what would otherwise be good decision-making. Case in point, a study cited in Jason Zweig's June 14, 2014 column in the Wall Street Journal demonstrated that stressful conditions reduce individuals' ability to make financial decisions. According to this study, acute stress causes changes in brain activity that alters a person's ability to evaluate risk and reward (Porcelli, Lewis, Delgado, 2012). Most would agree that stock market declines are likely to induce at least some stress for the average investor, which, based on the findings of this study, would make them ripe for poor decision-making.

Stock market declines are not the only situation that can cause stress for investors. Similarly, as markets advance upward, a sense of missing out on gains may be equally taxing. It's hard to argue that many of those who are buying at the high points aren't doing so only to get into the game and stop missing out on all the action.

This is far from the first finding that individuals are not entirely pragmatic when it comes to investing. Academic studies have identified a long list of biases that cause investors to make poor decisions due to their own dispositions or even how situations are presented, or "framed".

Does this mean that every investor who opens up a brokerage account is doomed from the outset? Absolutely not! Surely, there are some great investors picking mutual funds, stocks, etc… from the comfort of their living room. Keep in mind, however, history provides many examples of great investment success leading to hubris; and from hubris to demise. The illusion that investors have absolute control over their investment outcomes has led many to take great risks only to meet ruin in epic fashion. The tale of the late Long-Term Capital Management hedge fund in 1998 is one of many interesting examples. This one hedge fund almost led to the collapse of the financial markets. And how many were hypnotized by ".com" stocks in the late 1990's? It all worked fantastically well, until it didn't.

Unfortunately, this is not an easy subject to discuss with clients because telling someone that they are likely to make poor investment decisions inherently sounds a bit insulting, regardless of how true it may be. To be fair, an advisor is also capable of being susceptible to some of these same issues.

The key is to recognize that any level of investment savvy can be dulled by emotions and biases. Believe it or not, knowing this up front is a huge step in the right direction.

Relating this to everyday life, most have encountered the ominous announcement "Sue brought in donuts!" Eat a healthy snack and avoid walking past the kitchen for the next couple hours. This doesn't mean the undying love of donuts is gone, but knowing that the temptation exists in advance makes it easier to resist or work around it.

It is also useful to have some knowledge about the history of markets, which most good investors or investment advisors will possess. Studying history is an excellent way to gain an understanding of the range of outcomes that have already been experienced. Learning from the past does not qualify one to predict the future, but it certainly prepares them for what the future may bring. Combining this with the recognition that one's emotions, biases, and temptations may work against them could help investors grow their wealth a little more than the rest of the pack.

Delgado, M., Porcelli, A., & Lewis, A. (2012). Acute Stress and Reward Processing. Frontiers in Neuroscience, 6. doi: 10.3389/fnins.2012.00157

PULSE

DID YOU KNOW BIG BANKS CONTROL MOST FINANCIAL ASSETS?

The 22 largest banks in the United States (there are 6,730 banks nationwide) hold 62.0% of the $12.75 trillion of assets controlled by all domestic commercial banks and savings institutions as of March 31, 2014. Each of the 22 banks has at least $100 billion of assets (Source: Federal Department Insurance Corporation).

HEALTH CARE SECTOR SPURRED BY POPULATION GROWTH AND M&As

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

This article was excerpted from "Health Care Sector by Population Growth and M&As", by Frank Holmes, CEO and Chief Investment Officer, U.S. Global Investors, (*Advisor Alert*, June 27, 2014), www.usfunds.com.

Recently I spoke with John Derrick, director of research here at U.S. Global, to pick his brain about what he thought was the most interesting sector right now. You might expect him to have said energy, perhaps because of the intensifying violence in Kurdistan Iraq, a major oil producer. Instead, he said that he had his eyes on health care.

Health care does appear to be poised for future performance, fueled by a number of reasons: dramatically changing global demographics, the recent rise in biotechnology and pharmaceutical mergers and acquisitions (M&As) and companies' relocations to more tax-friendly countries.

A Rapidly Growing And Aging World Population:

By 2030, a mere decade and a half from now, the world population is expected to grow 16.0% to 8.3 billion. And because we're living longer, a greater number of people will fall into the 60-and-above age bracket, when chronic diseases such as stroke, cancer, diabetes and heart disease become more pronounced. Life expectancy is expected to rise to 73.7 by 2017. Two billion of us–that's the equivalent of more than six times the U.S.'s population–will be over the age of 60 by 2050, a whopping 233 percent increase from 2000.

Meeting the demands of such a staggering number of people, many of them at advanced ages, will require unprecedented innovation in key areas such as energy, food production, housing and especially health care. We're already seeing practical applications of advanced biotechnology that blur the line separating sci-fi and reality–3D printing, bionic eyes and limbs, face transplants–but better and more efficient treatments are needed to confront the unique challenges that accompany an overcrowded planet.

Average global spending on health care as a percentage of gross domestic product (GDP) is currently above 10.0%. The U.S. alone spends over $8,000 annually per person on health care, more than any other country. Even so, these figures are expected to rise over the coming months and years as our world population matures and, unfortunately, we become more accustomed to unhealthy diets and sedentary lifestyles.

In emerging countries, health care infrastructure is in desperate need of improvement. Many parts of the fastest growing regions, such as the Middle East and Africa, sorely lack caregivers, surgeons, hospital beds and easy access to health care in general. These are areas where global health care providers, drugmakers and biotech firms can realize huge growth potential by entering historically underserved markets.

Source: This was excerpted from "Health Care Sector by Population Growth and M&As", by Frank Holmes, CEO and Chief Investment Officer, U.S. Global Investors, (*Advisor Alert*, June 27, 2014), www.usfunds.com.

PULSE

PHASE IN OF COST BASIS RULES CAN AFFECT INVESTORS

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

As part of the 2008 Emergency Economic Stabilization Act, brokerage firms are now required to report the cost basis of the securities held on behalf of investors. The trick to understanding the law is to realize how these rules have been phased-in, which is dictated by the type of security that has been purchased.

The following is a list of the phase-in dates for each type of security as to when cost basis is to be reported:

1. Stocks acquired on or after January 1, 2011.
2. Mutual funds and dividend reinvestment programs acquired on or after January 1, 2012.
3. Bonds, options, derivatives, etc. acquired on or after January 1, 2013

The practical side of the tax law change is for taxpayers to be aware of what cost basis information, if any, that is reported when an IRS Form 1099-B is received. Form 1099-B should reflect cost basis for securities sold for that tax year. However, some securities sold may not reflect their cost basis.

For example, if 10 mutual funds were sold during a calendar year, it is possible that seven (we are making up this number) of the mutual funds would have the cost basis reported and three mutual funds do not have the cost basis reported because they were purchased prior to the phase-in dates. It is likely that the seven mutual funds with cost basis were purchased since January 1, 2012 or, if prior to that date, the taxpayer provided the current brokerage firm with the cost basis if the mutual fund was purchased before January 1, 2012.

Eventually, taxpayers will have their entire cost basis reported by brokerage firms, but this could take a long period of time due to legacy holdings of investments that taxpayers own. In the interim, it is best to keep a close eye on what cost basis information is being reported.

PULSE

JUST FOR FUN

The Altar Boy's Confession:

Joey the alter boy entered the confession booth and said, "Bless me Father, for I have sinned. I have been with a loose girl."

The priest asks, "Is that you, little Joey Pagano?"

"Yes, Father, it is."
"And who was the girl you were with?"
"I can't tell you, Father. I don't want to ruin her reputation."
"Well, Joey, I'm sure to find out her name sooner or later so you may as well tell me now. Was it Tina Minetti?"
"I cannot say."
"Was it Teresa Mazzarelli?"
"I'll never tell."
"Was it Nina Capelli?"
"I'm sorry, but I cannot name her."
"Was it Cathy Piriano?"
"My lips are sealed."
"Was it Rosa DiAngelo, then?"
"Please, Father! I cannot tell you."

The priest sighs in frustration. "You're are very tight lipped, and I admire that. But you've sinned and have to atone. You cannot be an altar boy now for four months. Now you go and behave yourself.

Joey walks back to his pew, and his friend Franco slides over and whispers, "What'd you get?"

"Four months vacation and five good leads…"

- Jeremy Braband, via The Leuthold Group, LLC
***Perception Express*, July 8, 2014**

GOVERNMENT WASTE

The Government once spent

$40,000

in tax dollars to bolster the wine industry in South New Jersey.

The Government once spent

$98,000

in tax dollars to develop a walking tour of Boydton, Virginia - a town smaller than one square mile.

The Securities and Exchange Commission once spent

$3.9 MILLION

in tax dollars to rearrange desks at their Washington, D.C. headquarters.

The Government once spent

$2.19 MILLION

in tax dollars on The Center for Grape Genetics in Geneva, New York.

Source: Jefferson National

MANAGED FUTURES: A SLOW RETURN TO STARDOM?

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

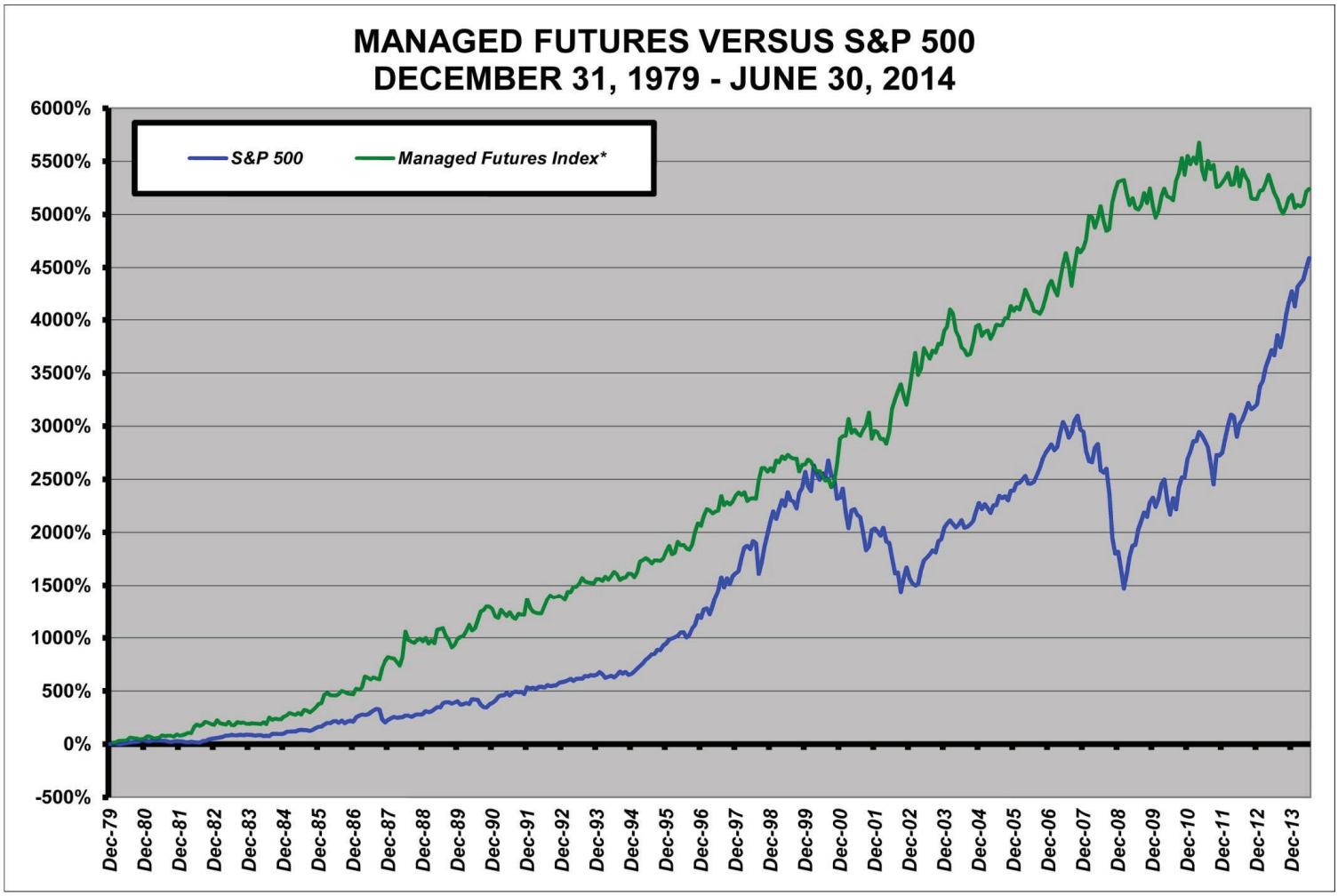
As the reader can see below, managed futures since the beginning of 1980 through mid-year 2014 has had a fantastic run in terms of performance. However, during the last few years' performance has been flat to down except 2014. The question is will managed futures return to its long term performance track record of past years or will performance continue to be mediocre?

To answer the question, one needs to understand how managed futures actually work. Managed futures are pools of futures contracts that are invested in numerous asset classes or as they're called in the managed futures industry markets. Today, those markets number between 120 to 150. There are seven major categories of markets: They are energy, metals, agriculture, currencies, interest rates, bond indices and equity indices. While there are various subcategories of these major categories, such as precious and individual metals, the seven mentioned above are the ones traded most often.

Managed futures traders will invest money long (investing for appreciation) or shorting (investing an a manner in which they are counting on that market to decrease in value.). At all times, some investments will be long and others will be short. Generally, during the last few years, volatility in most financial markets has been subdued and short choppy moves have been the norm.

Long (several months) extended moves are usually needed to produce strong performance results. One of the best performance years was 2008. Why? Because markets were generally falling that entire year. Most years are not that good, but 10.0% returns are not out of the question. In fact, it is thought that managed futures over the next decade will provide high single-digit to low double-digit type performances.

Of course, there are no guarantees. Who knows? Even if that type of performance does occur, it could be any couple of years of negative returns before returns improve. Performance of any asset class does not move in a straight line. Investors who are patient, will reap the best long-term rewards, usually.



- **Managed Futures Index Is Represented By The CISDM CTA Equal Weight Index 1980 Through 1999; Newedge CTA Index Used For All Periods Thereafter.**

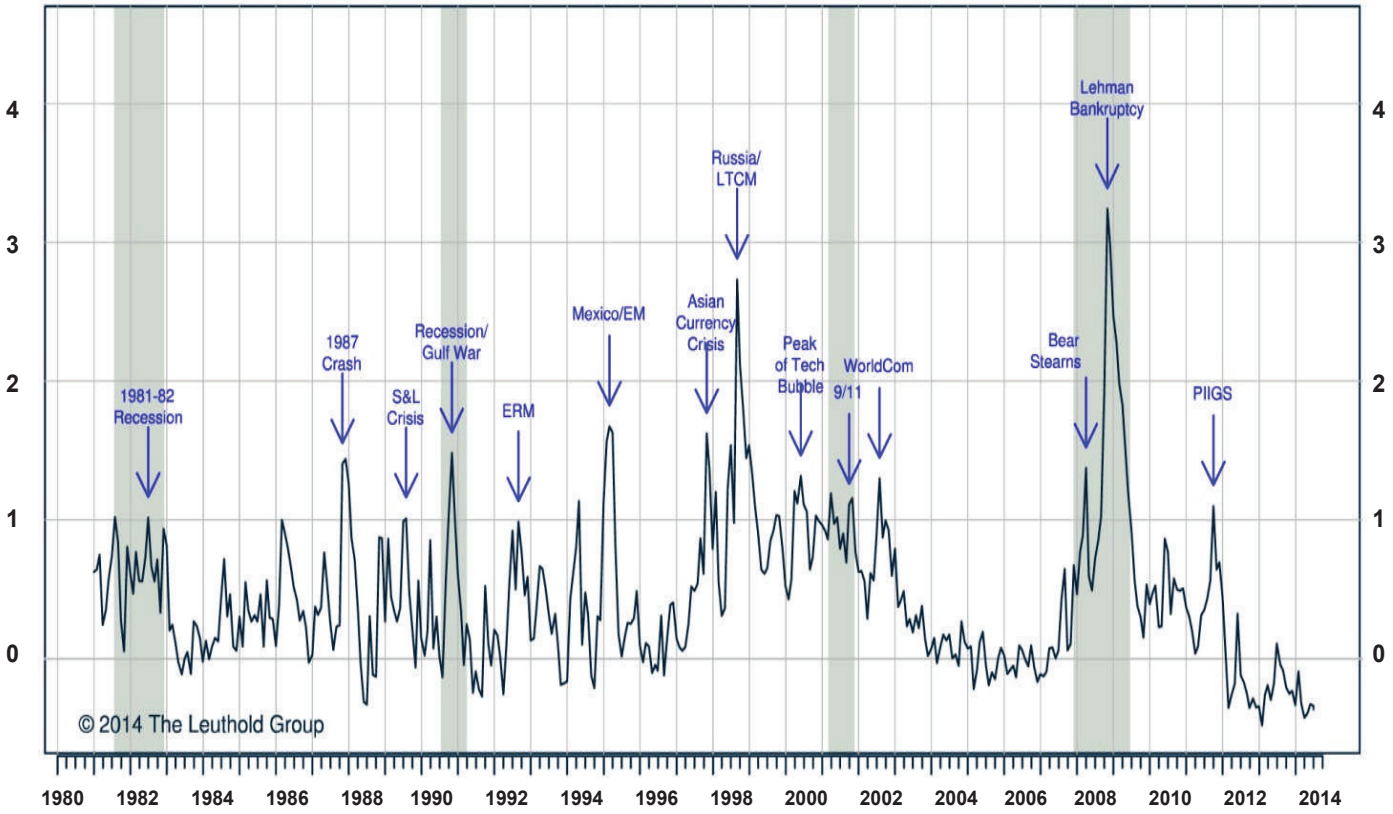
As of: June 30, 2014

SOURCE: BLOOMBERG INVESTMENT SERVICE

RISK DECREASES SLIGHTLY FROM STILL EXTREME LOW LEVELS

MONTHLY RISK AVERSION INDEX (RAI)

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: July 8, 2014
REPRINTED WITH PERMISSION FROM THE LEUTHOLD GROUP, LLC

Source: The Leuthold Group, LLC, *Perception Express*, July 8, 2014
www.leutholdgroup.com

CRUDE OIL CRAVINGS

The United States consumes more barrels of oil per day (18.9 million barrels) than the next three largest oil consuming countries combined. China (9.8 million), Japan (4.5 million) and India (3.4 million) rank two, three and four on the list of largest oil consuming countries

(Source: U.S. Department of Energy).

FIVE TRILLION IN FOUR YEARS

The nation's debt ceiling was $11.315 trillion when President Obama was inaugurated initially on January 20, 2009. During his first four years in the White House, the debt ceiling was raised five times to $16.394 trillion as of January 20, 2013, the date of Obama's second inauguration

(Source: Treasury Department).

U.S. GOVERNMENT: SPENDING RESTRAINT THERE AIN'T

Of the last 53 years in history, there have been only five years where the U.S. Government has received more in income from taxes than it has spent. By the way, spending has more than doubled since 2000.

(Source: Treasury Department).

MORE THAN 10.0% LOSSES

In the last 81 calendar years (1933-2013), the S&P 500 has experienced a double-digit total return percentage loss just 9 times. Only three of the double-digit drops occurred in the last 39 years, most recently in 2008 (Source: the performance information was obtained from Standard & Poors).

ARE RECESSIONS BECOMING OBSOLETE?

Believe it or not, U.S. recessions are becoming less frequent and shorter. In the last 31 years since 1982, total recession months have been just 34 (less than three years). It could be we have been very fortunate. In the 15 years prior to 1982, we had recessions in 1968, 1970, 1972 to 1974 and the twin recessions of 1980 and 1981. Let's hope moving forward that the former is true.

(Source: National Bureau of Economic Research).

LEGEND FINANCIAL ADVISORS, INC.® & EMERGINGWEALTH INVESTMENT MANAGEMENT, INC.'S

INVESTMENT MANAGEMENT SERVICES

Legend Financial Advisors, Inc.® (Legend) and EmergingWealth Investment Management, Inc. (EmergingWealth) offer Personalized Investment Management Services to individuals and institutions. Investment portfolios are developed to match the client's return and risk requirements, which are determined by the clients' completion of a Risk Tolerance Questionnaire, with the guidance of a Legend Personal Chief Financial Officer (Personal CFO) or EmergingWealth Advisor, respectively. Each type of investment portfolio is managed to achieve the short, intermediate and long-term investment objectives of the client, as may be applicable.

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, CCO, CEO and President of both firms for a confidential discussion at (412) 635-9210 or e-mail us at legend@legend-financial.com.

Investment Research:

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, CCO, CEO and President of both firms for a confidential discussion at (412) 635-9210 or e-mail us at legend@legend-financial.com.

PULSE

LEGEND FINANCIAL ADVISORS, INC.®, AND EMERGINGWEALTH INVESTMENT MANAGEMENT'S INVESTMENT PORTFOLIOS, POTENTIAL RETURN AND RISK SPECTRUM