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TWO VENERABLE TIME CYCLES: A QUANTITATIVE REVIEW

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

Two Market Anomalies Intact:

Many market anomalies have weakened or disappeared in recent decades, but not the Presidential Election Stock Market Cycle and the Annual (or Seasonal) Cycle (i.e., "Sell In May And Go Away"). Their historical impact on Small Caps in particular remains substantial.

Entering The Most Bearish Window:

May 1st marked the start of the most bearish window among the potential combinations of these two cycles–but this will be followed late this year by an historically very bullish window combining a positive seasonal bias (November to April) and the Pre-Election Year Effect.

Two Venerable Time Cycles, *continued on page 4*

BOND MARKET EXCITEMENT: DON'T GET TOO EXCITED

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

Feast or famine? For the bond market, investors may be wise to bet on neither.

The word "bubble" has become commonplace on the scrolling headline marquee of every investor's favorite news network. Is it applicable to the bond market at the moment? More specifically, are the rates for U.S. Treasuries poised to skyrocket, burying the values of other high-quality bonds in the wake? Probably not.

History serves as an important guide in making rational, educated investment decisions. For investors, the challenge is to not distill history into overly-simplified rules of thumb. Predicting bubbles has somehow become an exercise in identifying a line on a chart that has been going up for an extended period of time ("too long," being the argument). What's ignored is the amount of consequence suffered once this trend reverses. This is where a "bond bubble" starts to sound a bit silly.

Standard bonds pay fixed coupons (interest), which assist in countering some of the drop in value if interest rates are to rise (bond values fall, but investors still get their fixed coupon payment). In addition, as interest rates rise, the coupons can be reinvested at the new, higher interest rate. The

Bond Market Excitement, *continued on page 9*

IS THE VIX TOO LOW?

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*

With the S&P 500 hitting new highs, don't get comfortable! When the stock market achieves new highs, generally it means more new highs will occur in the near future. Therefore, it may be time to consider a change in one's thinking about the low levels of expected risk for the stock market.

One common way to measure U.S. Stock Market risk is by looking at the VIX index. The VIX Index, which is based up on Put and Call options on the S&P 500, incorporates the underlying expected volatility of the stock index that options are based on.

Volatility is basically a fancy way of indicating how much a financial instrument estimates go up and down in price. For example, Facebook (FB) is a much more volatile stock than WalMart (WMT). If its earnings estimates are missed, Facebook's stock

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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 twelve 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, 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 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.

A QUICK TAKE ON TIME CYCLES

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

We certainly believe there's a powerful cyclical element (recurring events) to stock market patterns, but have always stopped short of embracing any sort of fixed stock market time cycle–such as the "four-year" cycle popular among market historians for decades.

Perhaps we should be more open-minded. We've reported in recent years that it's statistically difficult to debunk certain calendar patterns, including the Presidential Election Cycle (in which the pre-election year is usually best for stocks), and the Annual Seasonal Cycle (where the November-to-April window is much stronger for stocks than the May-to-October one).

On May 1st, the market entered a six-month "bearish confluence" of these two cycles that will last through Halloween. It is the seasonally weak six months (May-October) of mid-term election years that have historically delivered the weakest stock market returns among all eight possible combinations of the Presidential and Annual Cycles. The S&P 500's annualized total return during this bearish window has been just +1.1% dating back to 1926, compared with a +10.0% return for all periods (See "The Stock Market's Annual & Presidential Cycles Combined S&P 500 Annualized Total Returns, 1926 To Date Chart to the bottom left).

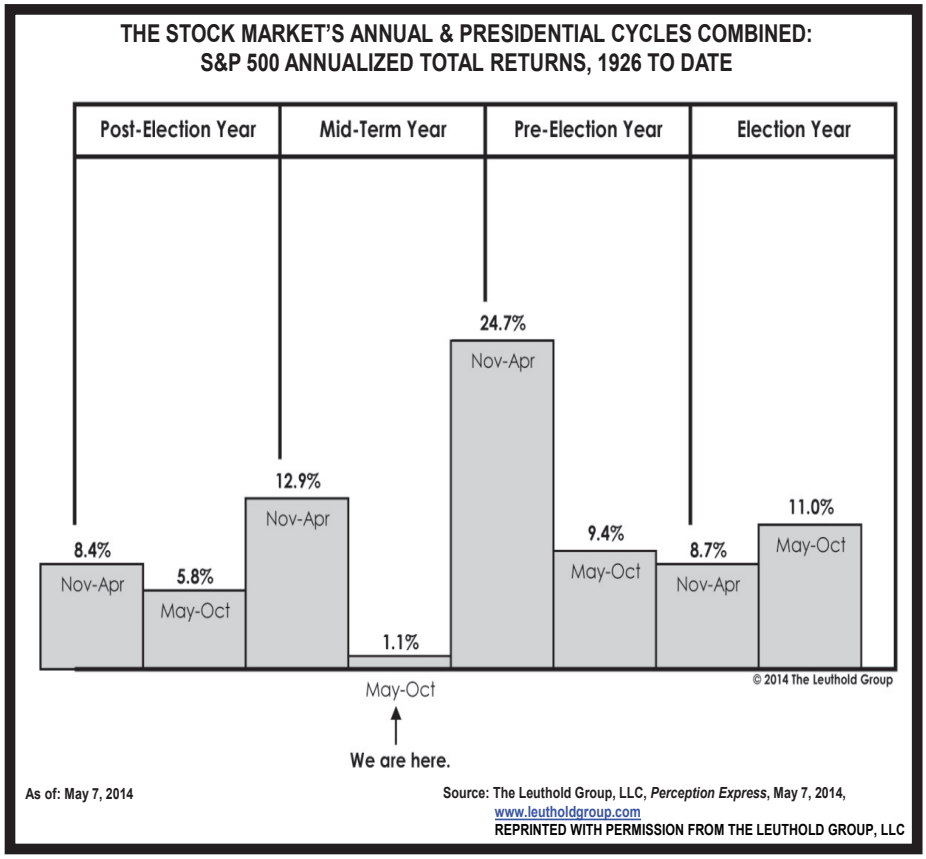
Stock market optimists will want to focus not on the bar we've highlighted above but rather the subsequent one. A positive late-year seasonal bias in the stock market will coincide with the bullish pre-election effect beginning on November 1st. The overlap of these two effects has historically produced the best six-month window among all the potential combinations of the Presidential and Annual Cycles, with the S&P 500 compounding at a +24.7% annual rate.

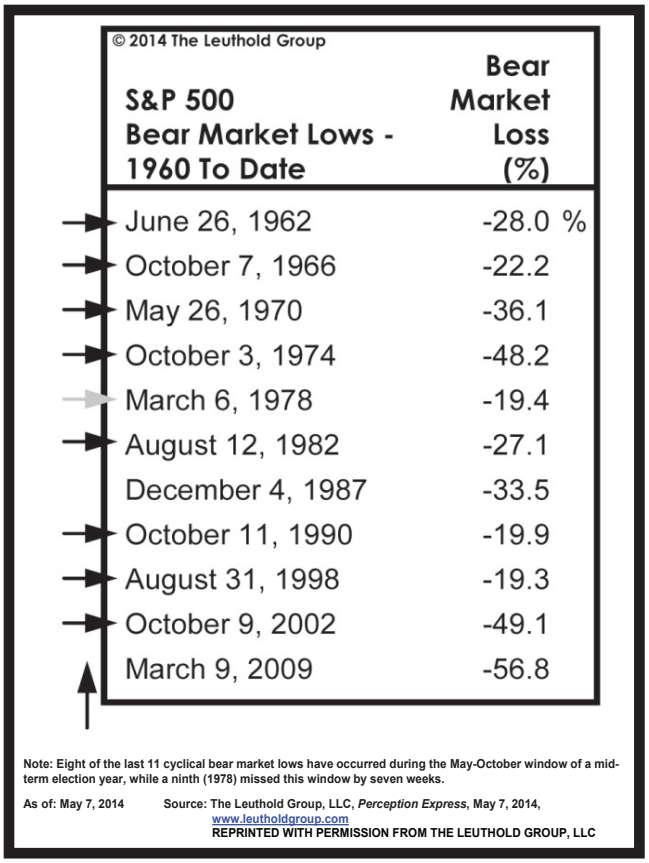
Here's a final bullish spin on what is an otherwise bearish near-term prognosis based on the Presidential and Annual Cycles: The "weak" six months of a mid-term election year have been far more likely to contain a significant market low than a bull market high. See "S&P 500 Bear Market Lows" table to the bottom right that shows that eight of the last 11 cyclical bear market lows in the S&P 500 have occurred during the May-October window of a mid-term election year. A ninth low (March 1978) appeared in a mid-term year, but not within the seasonally weak May-October period. More recently, the mid-term year of 2010 contained both the "Flash Crash" and the mid-year low of a severe -16.0% S&P 500 correction.

It's obviously a statistical long shot that so many significant market bottoms could be clustered within the same time window. Assuming cyclical bear market lows were randomly distributed, only one or at most two of those last 11 market lows should have appeared during a window that's active only one-eighth of the time.

Bottom line: We're intrigued by these findings, but won't make a bearish shift unless other evidence corroborates them.

Source: This article was excerpted from "A Quick Take On Time Cycles", by Doug Ramsey, CFA, CMT, Chief Investment Officer, The Leuthold Group, LLC, (*Perception Express*, May 7, 2014) www.leutholdgroup.com.





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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

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

As of: May 7, 2014 Source: The Leuthold Group, LLC, *Perception Express*, May 7, 2014,
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The Annual Cycle Historical Results:

The "Flash Boys" (Flash Crash Traders) and other algorithmic types seem to have arbitraged away most of the short-term anomalies that market statisticians were once able to capitalize upon. However, those high frequency traders have missed out on a pair of extremely low frequency anomalies that have stood the test of time–the Presidential Election Cycle and the Annual Cycle ("Sell In May"). The irrationality of these time cycles may be the very reason they've survived. It's not intuitive why one can profit from a simple turn of the calendar, compared to say, jumping in front of large institutional buy order.

The Annual Cycle has the most immediate relevance, with the traditional six-month "weak" period for stocks having kicked off on May 1st. Since 1926, annualized total return for the S&P 500 during these months is +6.8% compared with +13.4% for the November-April period (See "Annual Cycle In the S&P 500, 1926 To Date" Chart below). Note the effect–which did not exist prior to about 1950–has been fairly persistent over recent decades, and the impact has been especially large so far in the current decade (See "S&P 500 November-April and May-October" Table below). In addition, the "batting average" of this strategy has been pretty good on an annual basis, with six-month returns for the strong market months exceeding those of the weak months in about two-thirds of all years since 1926.

Combining The Time Cycles: Effect On Large Caps:

The buzz surrounding the "Sell In May And Go Away" aphorism seems subdued in 2014 compared with the last three or four years. We're not surprised. The lengthy bull run has exacted a toll on those who've periodically stood in its way. Contrarians might view this loss of interest as a cue that "Sell In May And Go Away" might be due for a particularly profitable trade. And we'd note this year's bearish May-October window coincides with the statistically weak mid-term phase of the Presidential Election Cycle. This well-known anomaly–which misfired badly in 2011–holds that the year preceding a presidential election is typically the strongest one for stocks, while the post-election and mid-term years are generally the weakest (See "Presidential Election Cycle in the S&P 500, 1926 To Date" Chart on the top of page 5).

We calculated 1926-to-date annualized stock market performance for all eight of the possible combinations of the Presidential Election Cycle and the Annual Cycle, and summarized the results in chart "The Stock Market's Annual & Presidential Cycles Combined" on the bottom of page 5. Based on the "confluence" of these two cycles, May 1st marked the beginning of the statistically weakest six-month stock market period for the entire four-year pattern. However, this bearish window will be followed immediately (beginning November 1, 2014) by the best six-month window among the possible cycle combinations.

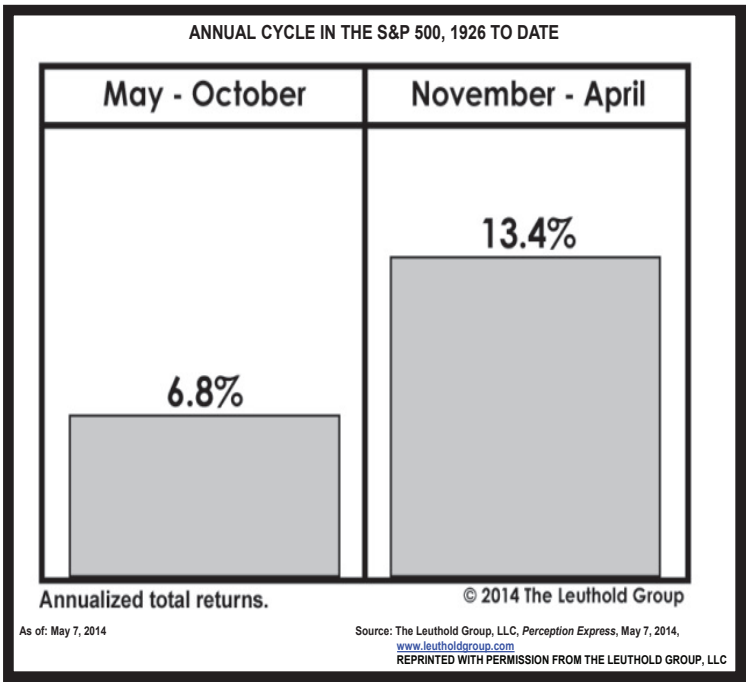
The Annual Cycle Effect On Small Caps:

While the historical results of both the Election Cycle and the Annual Cycle are fairly well known, their effects within the market are not. In particular, the impact of annual seasonality on Small Cap returns has been stunning (See "Sell in May And Go Away" Chart on the top of page 6). Remember, this is not an anomaly that's surfaced just in the last decade or two. Annualized Small Cap total returns during the November-April period have been 20.0% higher than during the May-October period based on calculations back to 1926! No, we don't expect glossy white papers from Small Cap managers trumpeting this result, but it's peculiar there has been essentially no discussion of it.

The Small Cap Calendar Effect is so powerful that one could have invested in Small Caps during only the November-April period and outperformed Small Cap "Buy and Hold" investors since 1926, assuming that one reinvested the six months' worth of dividends and parked proceeds in Treasury bills from May through October (See "Small Cap Stocks" Chart on the bottom of page 6). The annualized return for this approach is +12.2%, compared to +11.4% for Buy and Hold.

Combining The Time Cycles: Effect On Small Caps:

As with the Annual Cycle, Small Caps have shown historically greater sensitivity than Large Caps to the Presidential Elec-



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Dates	S&P 500 Nov. - Apr. Ann. Total Returns	S&P 500, May - Oct. Annualized Returns
1926-1929	19.2 %	19.2 %
1930-1939	-6.0	6.2
1940-1949	5.5	13.0
1950-1959	26.1	12.9
1960-1969	14.6	1.5
1970-1979	14.1	-1.8
1980-1989	22.5	12.8
1990-1999	25.4	11.4
2000-2009	1.7	-3.5
2010-2014	26.8	3.1
1926-To-Date	**13.4 %**	**6.8 %**

As of: May 7, 2014

Source: The Leuthold Group, LLC, *Perception Express*, May 7, 2014,
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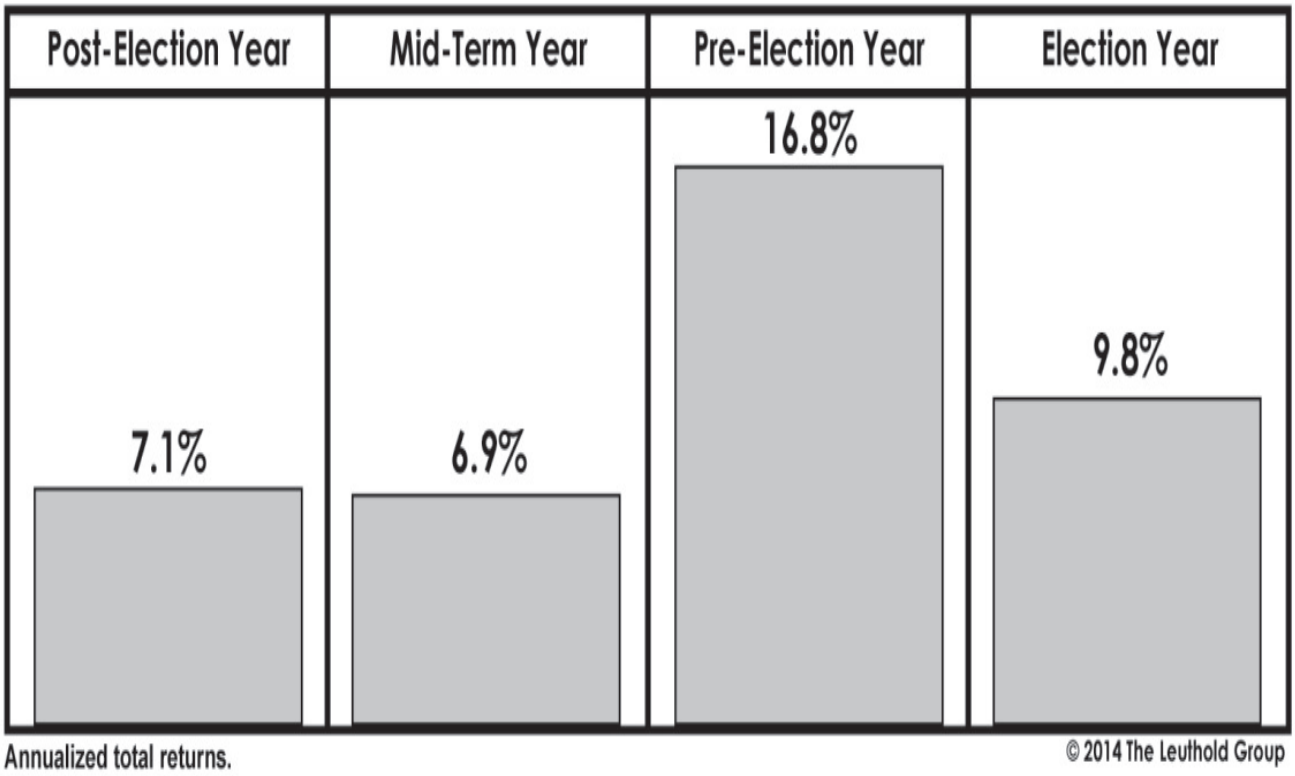
Two Venerable Time Cycles, *continued on page 5*

Two Venerable Time Cycles, *continued from page 4*

PRESIDENTIAL ELECTION CYCLE IN THE S&P 500, 1926 TO DATE



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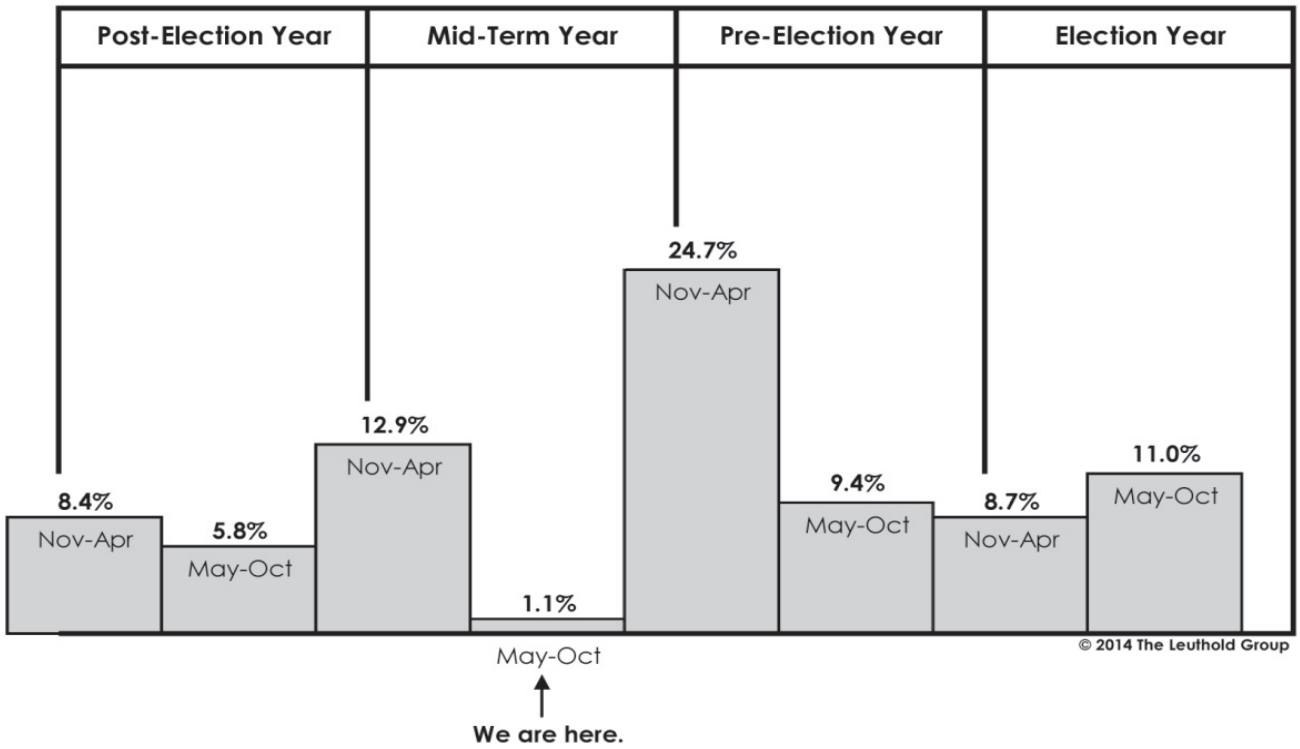
THE STOCK MARKET'S ANNUAL & PRESIDENTIAL CYCLES COMBINED: S&P 500 ANNUALIZED TOTAL RETURNS, 1926 TO DATE



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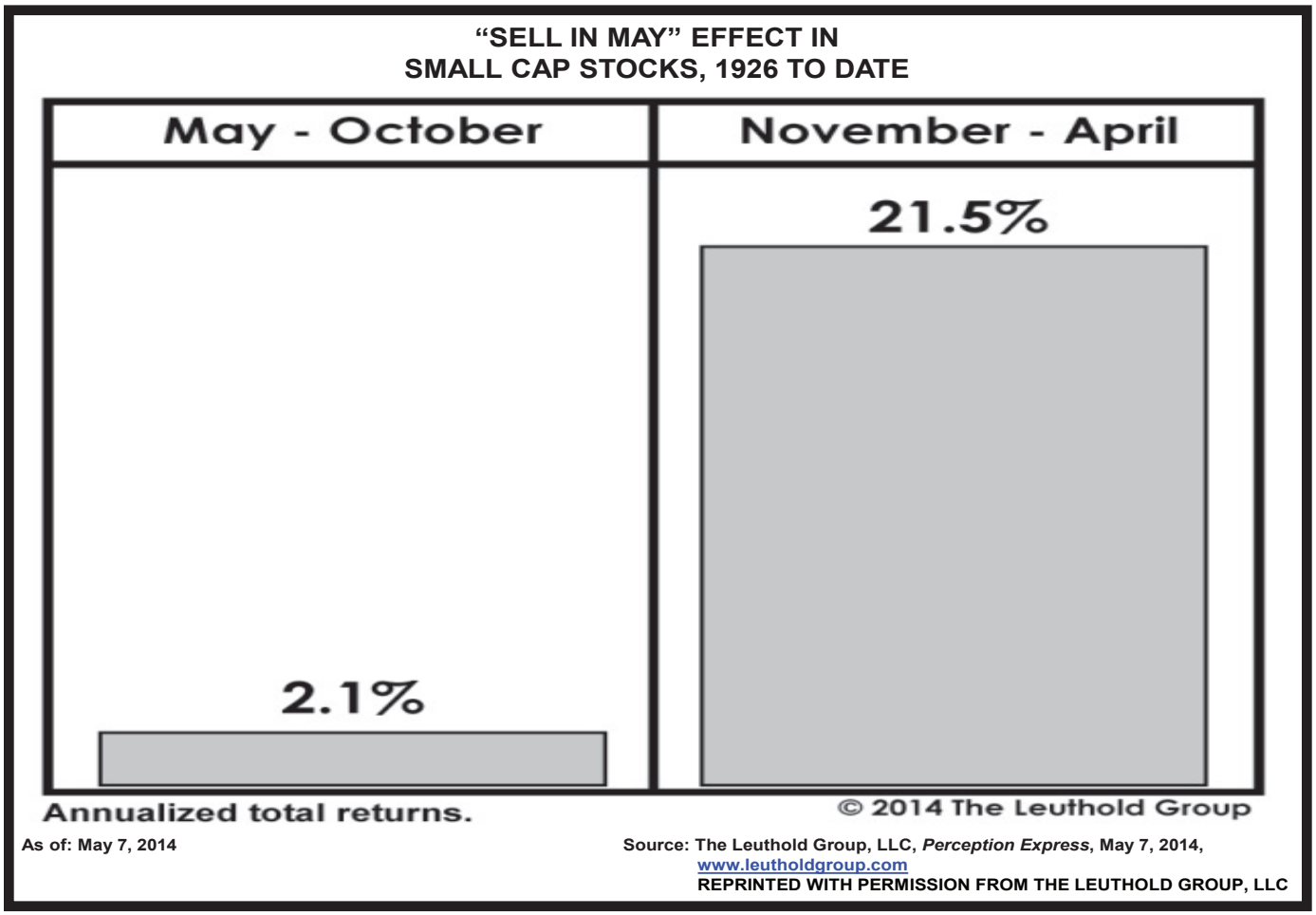
Two Venerable Time Cycles, *continued on page 6*



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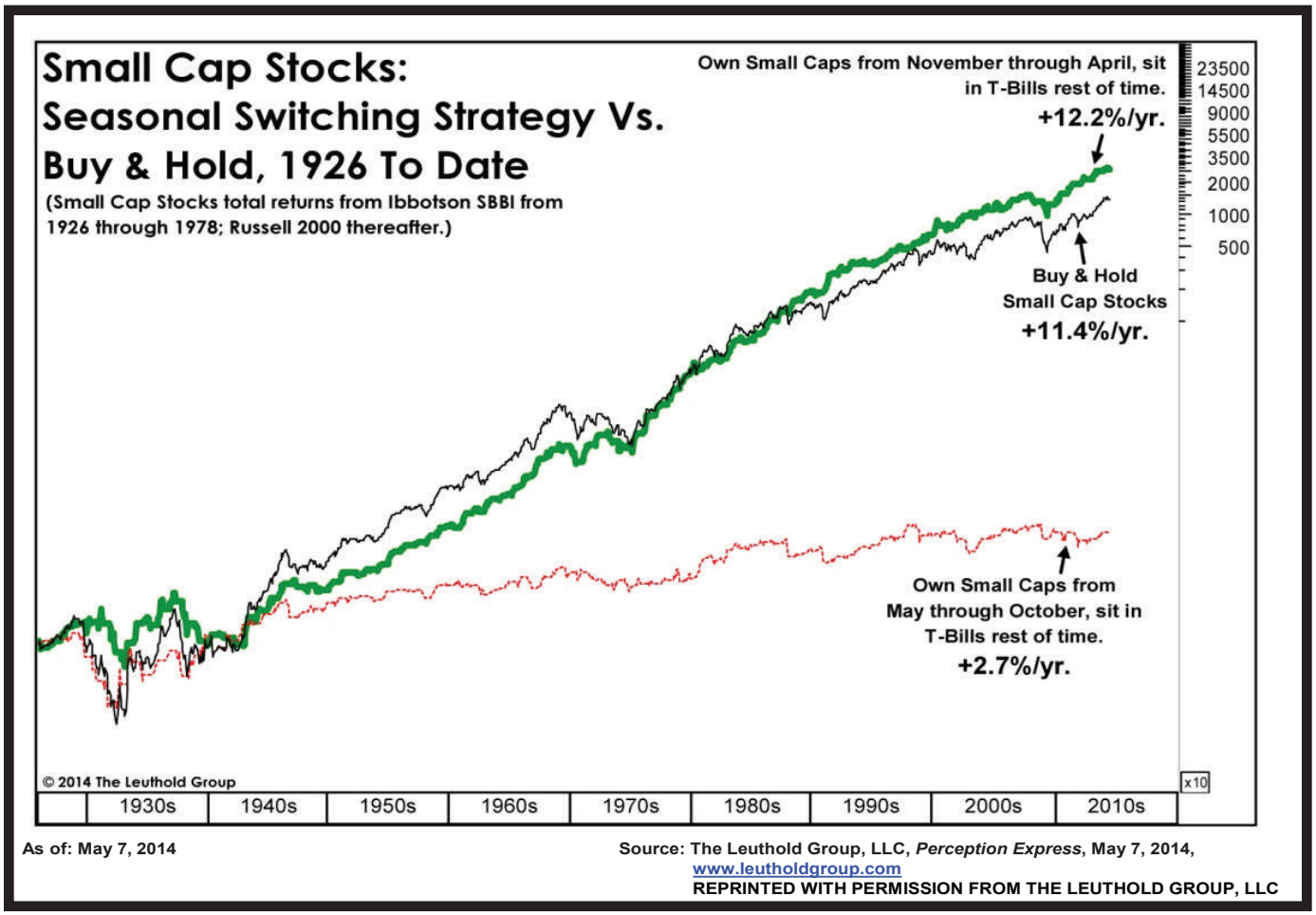

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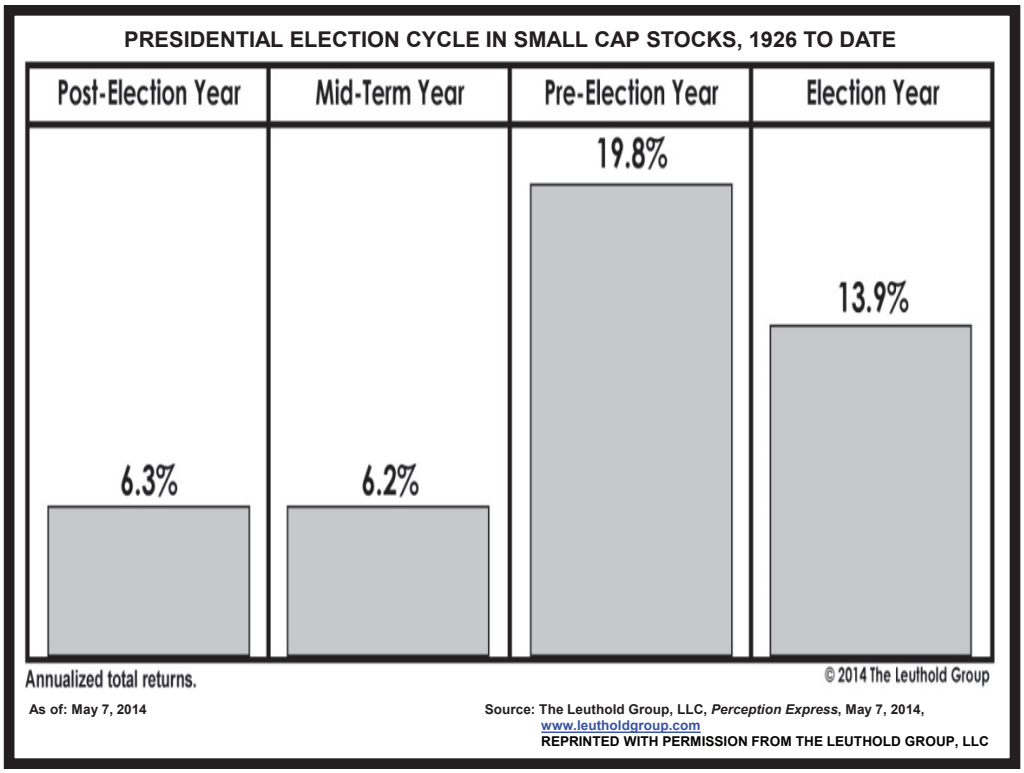
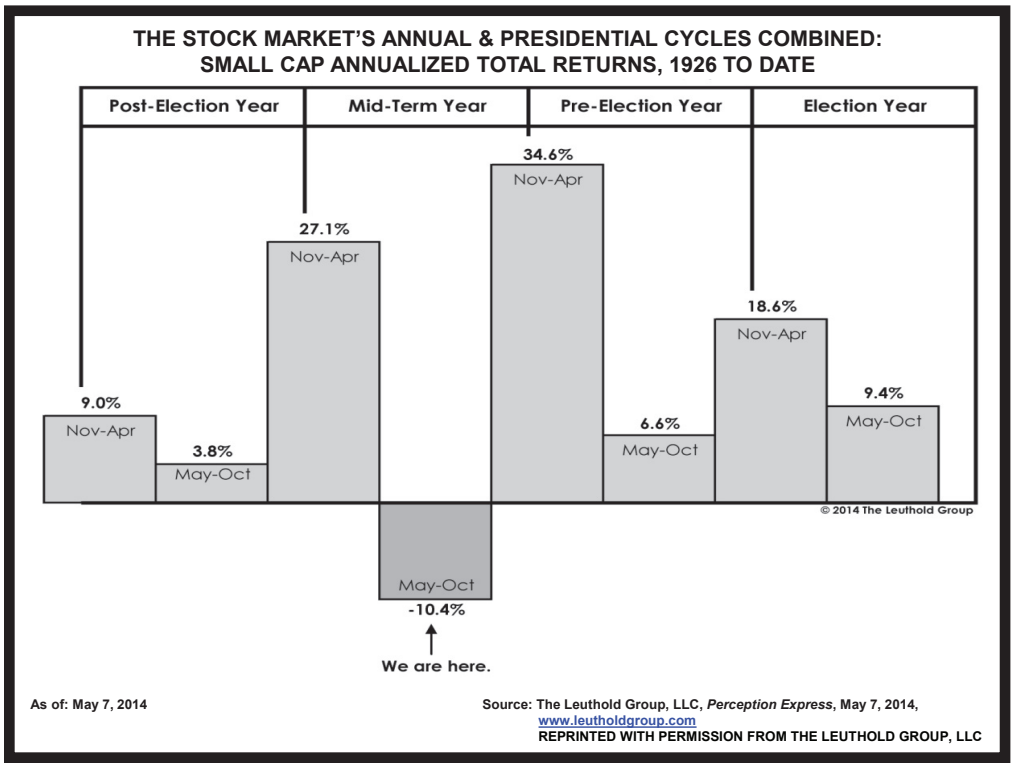
Two Venerable Time Cycles, *continued on page 7*

tion Cycle. Annualized Pre-Election Year Returns for Small Caps since 1926 have been about +20%, triple the level seen (on average) during the post-election and mid-term years (See "Presidential Election Cycle in Small Cap Stocks" Chart to the top right). The presidential election year itself has also been a more favorable one for Small Caps (+13.9%) than Large Caps (+9.8%).

Combining the Election and Annual Cycles yields the results in the "The Stock Market's Annual & Presidential Cycles Combined: Small Cap" Chart. Again, past performance is no assurance of future results, but May 1st marked the beginning of an historically bearish six-month window in which Small Cap total returns have compounded at -10.4% since 1926. Late in the year, though, this phase will give way to the most bullish intersection of these two time cycles–a six-month window in which Small Caps have compounded at almost a 35% annual rate. See "The Stock Market's Annual & Presidential Cycles Combined Small Cap" Chart to the bottom right.





Conclusions:

Powerful, But We Don't Know Why:

We've been reluctant to put much weight on either the Presidential Election Cycle or the Annual Cycle because we can't explain a rational basis for them. Internally, we sometimes joke that research into these and similar market anomalies are nothing more than "research lite." Nonetheless, these simplistic time cycles have stood the test of time better than some inter-relationships between the economy and stock market that we had previously considered gospel. These calendar patterns might persist because serious investors are simply too embarrassed to use them.

Between the two cycles, the electoral pattern is probably more intellectually defensible because of the pro-cyclical policy measures that accompany an incumbent party's reelection efforts. Explanations for the mysterious Annual Cycle remain elusive as ever. Yet this cycle has been an effective allocation tool in the current decade–just as it was during the last six decades. Note that "Sell In May" does not just apply to stocks; it applies to just about all risky assets. Chun Wang elaborates on this subject in the "Inside The Bond Market" section.

Those inclined to bet on these patterns face their best historical odds over the next 12 months, before the biases (bullish and bearish) begin to fade. And if the patterns pay off, Small Caps will provide the best bang for the buck.

Source: This article was excerpted from "Two Venerable Time Cycles: A Quantitative Review", by Doug Ramsey, CFA, CMT, Chief Investment Officer, The Leuthold Group, LLC, (*Perception Express*, May 7, 2014) www.leutholdgroup.com.

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SECULAR BEAR MARKET WATCH

April 1, 2000 to April 30, 2014
(14 years and 1 month)

	Annual Compound Return	Total Return
Consumer Price Index (Inflation)	2.34%	38.48%
90-Day Treasury Bills Index-Total Return	1.86%	29.64%
Barclays Aggregate Bond Index-Total Return	5.68%	117.79%
HFRX Global Hedge Fund Index	2.96%	50.88%
S&P 500 Index (U.S. Stock Market)	3.59%	64.38%
MSCI EAFE Index (Developed Foreign Equities)	3.90%	71.43%
MSCI Emerging Market Index (Equities)	7.79%	187.83%
Newedge CTA Index (Managed Futures)	4.71%	91.24%
Dow Jones–UBS Commodity Index-Total Return (USD)**	2.41%	39.86%
Dow Jones U.S. Real Estate Index-Total Return (USD)**	11.15%	343.54%
Gold Bullion	11.53%	365.48%

* 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: April 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 1 month. 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.

Bond Market Excitement, *continued from page 1*

higher reinvestment rate is also available as bonds are maturing, so as bonds mature, new bonds can be purchased at more attractive interest rates. All of these factors serve to absorb some of the ill-effects of an interest rate increase.

To be fair, the outlook for high quality bonds does not look terribly bright, but that is not to say that they are destined for the chaotic unraveling associated with the bursting of a bubble. Why, then, should investors own any higher quality bonds in their portfolios? In broad strokes, such bonds will likely offer some ballast during periods which the aggressive components of the portfolio, including lower quality bonds (i.e. "high yield" or "junk" bonds), are declining in value. That's a long-winded way of saying "diversification", which is hard to come by nowadays when nearly everything else moves in the same direction.

The truth is that higher quality bonds such as U.S. Treasuries and top-quality corporate issues may struggle just to keep up with inflation, but that's more than any investor can say of cash. Also, if they provide some diversification and safety during the more treacherous periods in the markets, they can earn their stay.

PULSE

INFLATION: NEVER HAVE TO WORRY ABOUT THAT AGAIN

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

It seems that, nowadays, many investors feel this way about inflation. Hopefully, they aren't getting too comfortable with this idea.

Beginning in 2008, the Governments and Central Banks of the world launched a series of acronyms that will keep Investopedia.com in business for decades. Whether these initiatives were or weren't effective/necessary/smart/dangerous (fill in the blank) is well beyond the scope of this writing. However, the intent of these initiatives was largely centered on reflating the economy. Deflation, if persistent, can be paralyzing ("why buy something or invest today, when it will be worth less tomorrow?"). As such, extreme measures were taken to fill the void left by a financial system that had grinded to a halt.

From the beginning, these measures were expected to cause higher inflation. The thought process was that lots of money was dumped into the system and, when people and businesses got confident enough to actually spend it, the economy would likely have too much money chasing too few products. The last part of that sentence is the frequently-referenced recipe for inflation. Keep in mind that higher inflation, within reason, is not always a bad thing and can, in fact, be very good. This is why central banks are known to target inflation numbers, as some inflation is part of a healthy economy.

The larger concern among investors had been that, on the back end, containing inflation and keeping it within reason would be quite a challenge. Note the "had been".

The initial recovery in 2009 and 2010 proved very favorable for inflation-insulators, such as commodities, as investors waited anxiously for inflation to spiral out of control. But then an odd series of events took place.

Emerging markets, the darlings of the last economic expansion, began losing some of their luster in early 2011. Without the insatiable demand of the emerging market countries, industrial metals and energy prices began to fall. Inflation never caught the sails of commodities the way that some had thought. Commodities have generally continued to slide since.

Gold had an epic rise up through 2011, being the go-to inflation protection trade of choice. However, inflation still remained very low as the global economy continued to lick its wounds and grow at a snail's pace. The gold trade began unraveling in 2012 and then investors fled for the exits entirely in 2013 as inflation seemingly remained far off in the distance.

With gold and commodities, investors built a storm shelter for a storm that refused to come. Or has it?

This is not an argument for commodities and gold, nor is it a warning for hyperinflation. However, investors should have some skepticism about the notion that inflation won't surface anytime soon.

Corporations have amassed stockpiles of cash on their balance sheets (if they have not used it to buy back stock or pay dividends). All this is to say that they have not invested it. The persistently high unemployment following the recession was a clear example of this. Without confidence about the future of the economy, companies sat on cash or returned it to investors.

What does this have to do with inflation? The global economy has not necessarily been healthy in recent years, but it has been growing, and with it, capacity has been declining. Without capacity, companies are unable to make more widgets when consumers want more. Eventually, companies have to invest in facilities and people to produce more widgets as widget-demand outpaces widget-supply. When this process gets under way, investors will be watching all this widget activity and then, in all of a sudden, inflation will tap them on the shoulder, greet them with a smile, and say "HERE I AM!"

Don't forget about inflation. It hasn't forgotten about you.

PULSE

Vix Too Low, *continued from page 9*

could easily fall 20.0-30.0%, on the other hand, it could just as easily increase 20.0-30.0% if investors like the company's new advertising metrics. For WalMart, the opposite is true. WalMart probably will not fall substantially if it misses its earnings estimates. Even if it exceeds its earnings estimates, it probably will not increase all that much.

Low VIX Dangers:

The VIX index recently reached its lowest level before the 2007 to 2009 market turmoil. It would appear then that the S&P 500 is less risky. Doesn't the low level of the VIX indicate that investors do not expect the S&P 500 to be as volatile in the near future?

The answer is yes. At least that's what the option markets that the VIX is based upon are telling us. However, historically the opposite has happened.

If one were to track the VIX over time they would find that the index is very definitely mean-reverting (It comes back to the norm.).

As a result, periods of low expected volatility are often followed by periods of high actual volatility and vice versa. Looking at the VIX over the past ten years, when the VIX gets too low it often increases rapidly. Similarly, when the VIX reaches too lofty a level it often falls, sometimes dramatically.

Therefore, we may be overdue for a spike similar to what occurred in 2008, 2010, and 2011. It simply may be that the U.S. Stock Market has been too calm for too long.

Today's Status?:

Simply, don't chase high volatility stocks. It is better to buy WalMart (WMT) than Facebook (FB). Simply, WalMart is less volatile than Facebook.

It is always important to recognize that the VIX can be low and remain low for several years. A spike in volatility will eventually occur, but no one knows when or how long it will last. However, equity allocations probably should not be changed based on the current low VIX value.

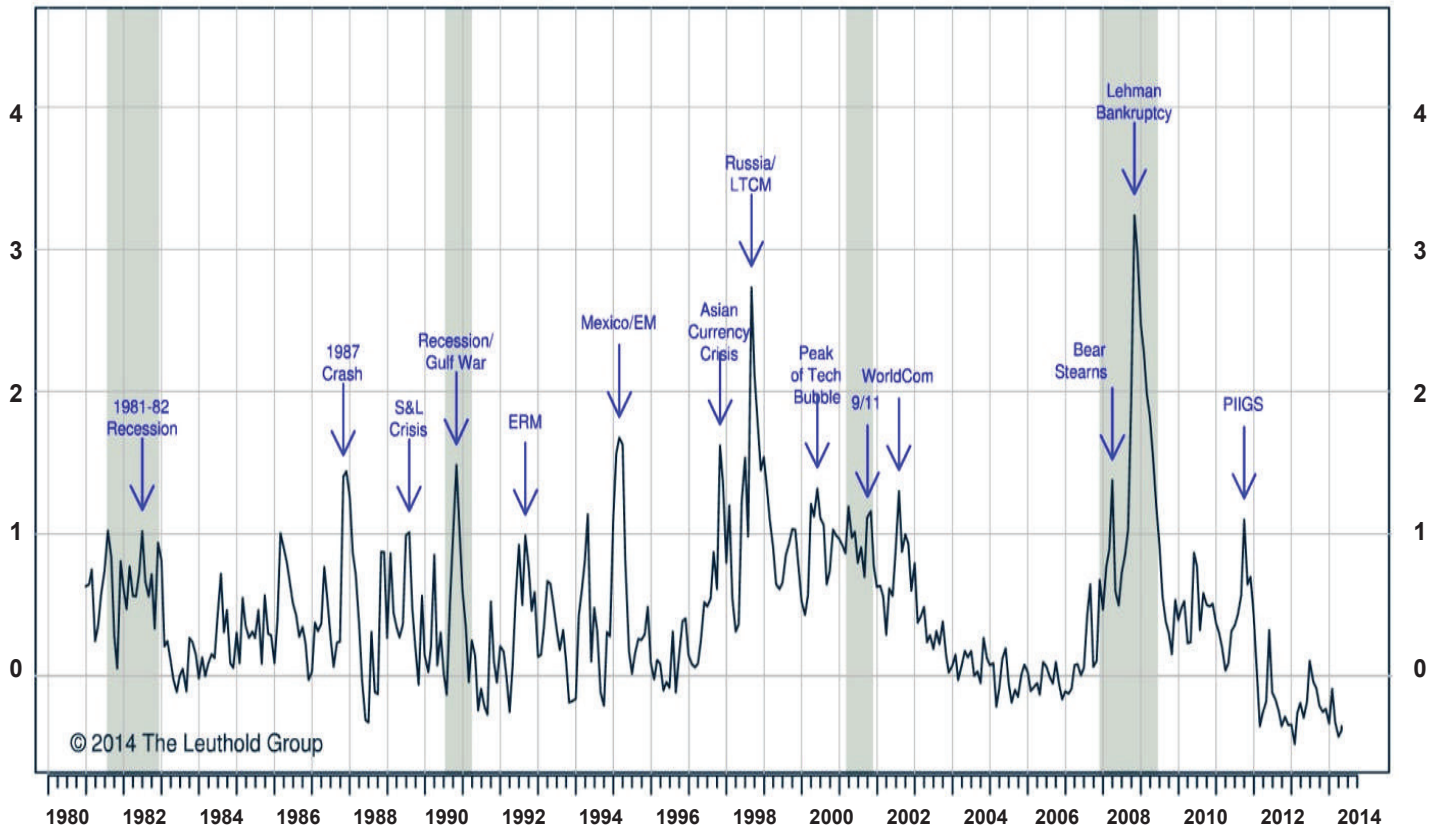
Source: Facts for this article were obtained from "Look Out Below! Fear at All Time Low", by Mitch Zacks, Senior Portfolio Manager, Zacks Investment Management, (*ZIM Weekly Update*, May 25, 2014).

PULSE

RISK DECREASES SLIGHTLY FROM ALREADY LOW LEVELS

MONTHLY RISK AVERSION INDEX

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: May 7, 2014

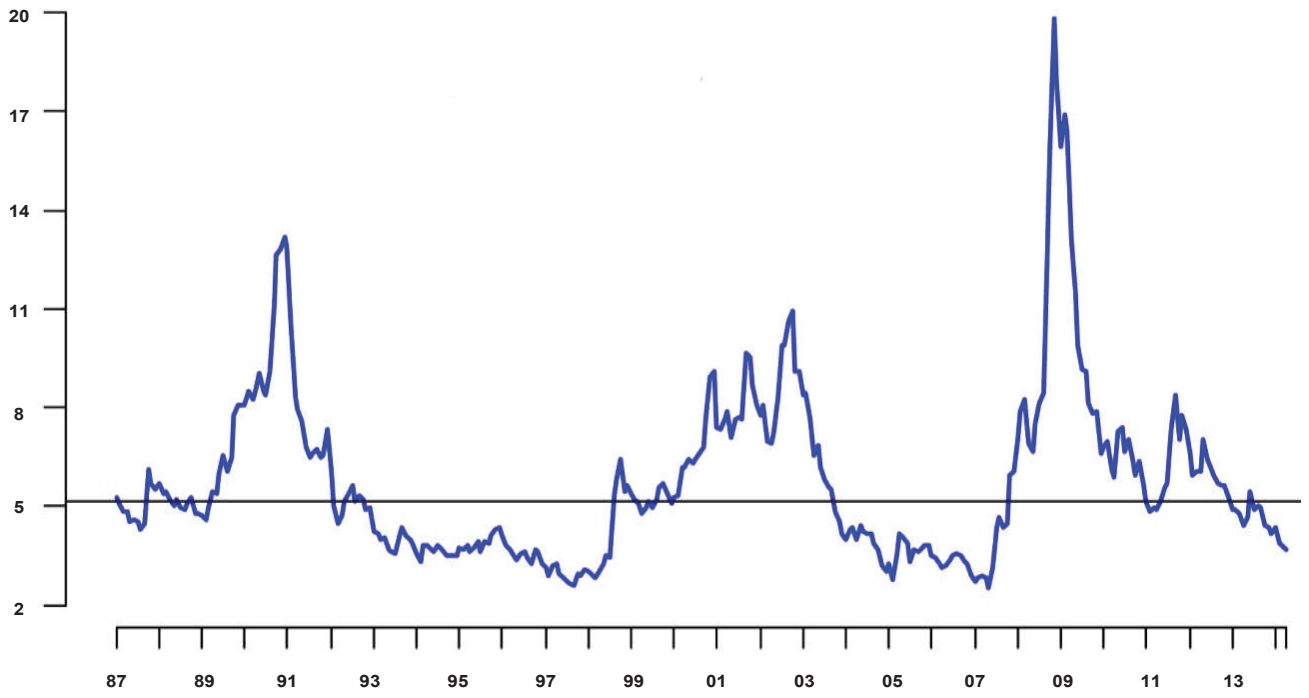
Source: The Leuthold Group, LLC, *Perception Express*, May 7, 2014

www.leutholdgroup.com

PULSE

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

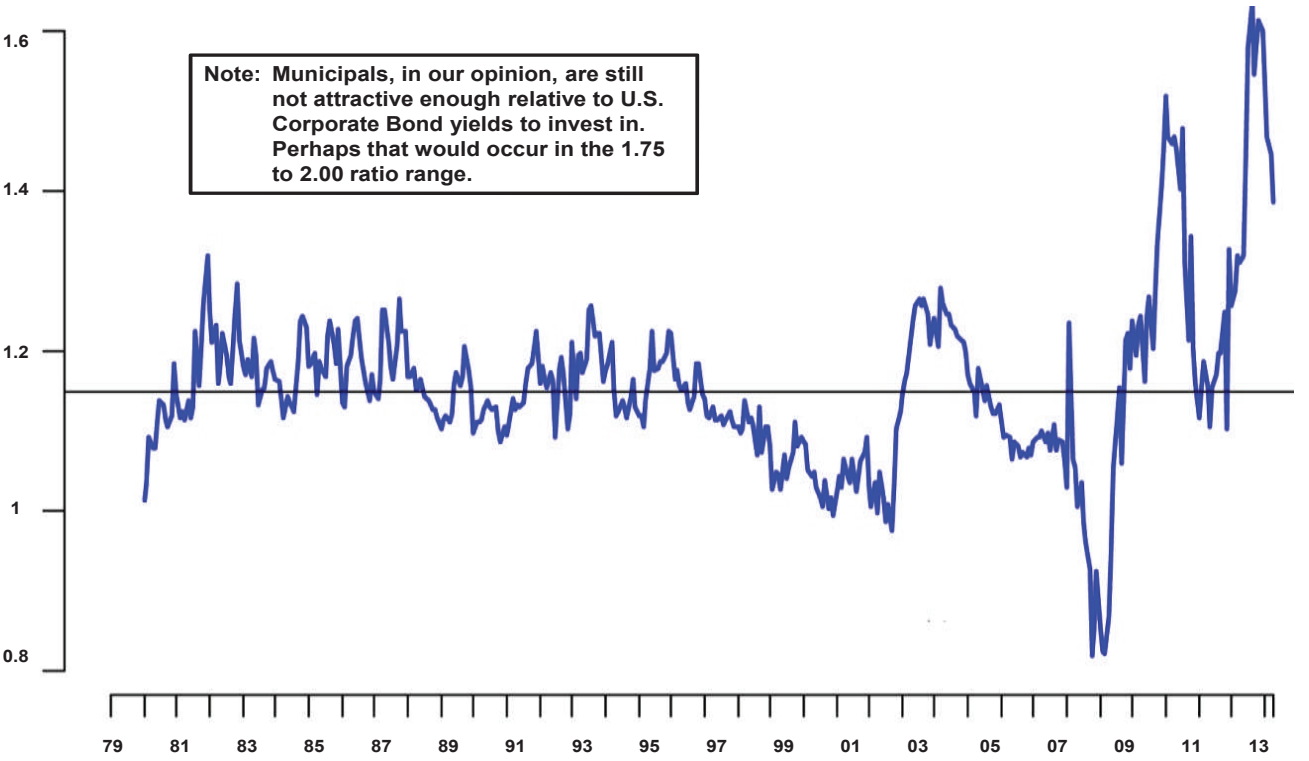
High Yield Bonds Still Offer Good Relative Returns To That Of Treasuries



As of: May 7, 2014

Source: The Leuthold Group, LLC, *Perception Express*, May 7, 2014,
www.leutholdgroup.com

MUNIS TAX EQUIVALENT YIELD/BARCLAYS U.S. CORPORATE BOND YIELD



As of: May 7, 2014

Source: The Leuthold Group, LLC, *Perception Express*, May 7, 2014,
www.leutholdgroup.com

BECAUSE WE'RE IN THE MIDWEST...
(FROM THE LEUTHOLD GROUP)

Ole goes out one day to use the outhouse and he finds Sven there. Sven has his wallet out and he's throwing money down into the hole of the outhouse.

Ole asks, "Sven, Vat da hell are ya doin' dere, fella? You're throwing da five dollar bill and da ten dollar bill down into the hole of da outhouse! Vatcha doin' dat for?"

Sven answers, "Vell, ven I pulled up my trousers I dropped a nickel down dere– and I'm not going down into dat mess for just a nickel!"

THE OLDEST INDEX

The Dow Jones Industrial Average recently turned 118-years old. Only 12 stocks were used in the index's original calculation on May 26, 1896 and only one stock in that group remains in the index today. The Dow Jones Industrial Average is a popular indicator of the stock market based on the average closing prices of 30 active U.S. stocks representative of the overall economy (source: Dow Jones).

17 INTEREST RATE HIKES IN A ROW

Between June 30, 2004 and June 29, 2006, the Federal Reserve Board (Fed) raised short-term interest rates 17 separate times, taking the Fed Funds rate from 1.0% to 5.25%. This two-year stretch was the last time the Fed has raised short-term interest rates (source: Federal Reserve Bank of New York).

HOW TIMES CHANGE?

In early May, 2014, forty thousand plus people attended Berkshire Hathaway's annual meeting in Omaha, Nebraska in what has become an annual investing mecca for Warren Buffett's (The Chairman of Berkshire Hathaway) followers. In contrast, only 12 people attended Berkshire Hathaway's annual corporate meeting in 1981 (source: BTN Research).

GLOBAL OIL GROWTH NEEDED
by Frank Holmes, CEO and Chief Investment Officer, U.S. Global Investors

According to a recent investor panel, global oil supply will need to grow by five million barrels per day every year in order to offset production declines and keep supply flat. All of the U.S. shale oil from 2009 to the peak in 2019 is not expected to completely offset that required growth. Accordingly, oil prices could be higher for longer to incentivize exploration and development.

Source: This article was excerpted from "The Good, The Bad And The Opportunity", by Frank Holmes, CEO and Chief Investment Officer, U.S. Global Investors, (*Advisor Alert*, May 9, 2014) www.usfunds.com.

GOVERNMENT WASTE

Over six years, the government spent

$100 MILLION

in tax dollars on unused airline tickets.

The government once spent

$5.4 MILLION

in tax dollars to buy crystal stemware from a Swedish manufacturer for American embassies.

The government once spent

$59,000

in tax dollars on Jacob's Pillow Dance Fesitval in Massachusetts, to digitally archive its library of dance photographs.

The government once spent

$1.24 MILLION

in tax dollars on two projects to control Brown Tree Snakes in Guam.

Source: Jefferson National

SMALL CAP WEAKNESS

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

It's easy to forget Small Caps' inherent volatility during the latter innings of a cyclical bull market–and especially following a year in which the Russell 2000 experienced its smallest-ever "intra-year" correction (-5.4%). Last year's performance, in fact, broke a 15-year streak in which the index had suffered a double-digit decline every year (See "Small Caps: Double-Digits Drops Are An (Almost) Annual Event" below). In the 35-year history of the Russell 2000, 28 have seen an intra-year double-digit drawdown. The median such decline in this index has been -15.0%, compared with a median intra-year decline in the S&P 500 of -10.3% over the same time period. If the S&P 500 suffers a 10.0-12.0% setback later in 2014, the Russell 2000 decline could easily top 20% based simply on the higher beta–higher volatility than the S&P 500 (and Small Caps' large valuation premium ~20.0% certainly doesn't help their cause).

Source: This article was excerpted from "Small Cap Weakness", by Doug Ramsey, CFA, CMT, Chief Investment Officer, The Leuthold Group, LLC, (*Perception Express*, May 7, 2014) www.leutholdgroup.com.

SMALL CAPS: DOUBLE-DIGITS DROPS ARE AN (ALMOST) ANNUAL EVENT

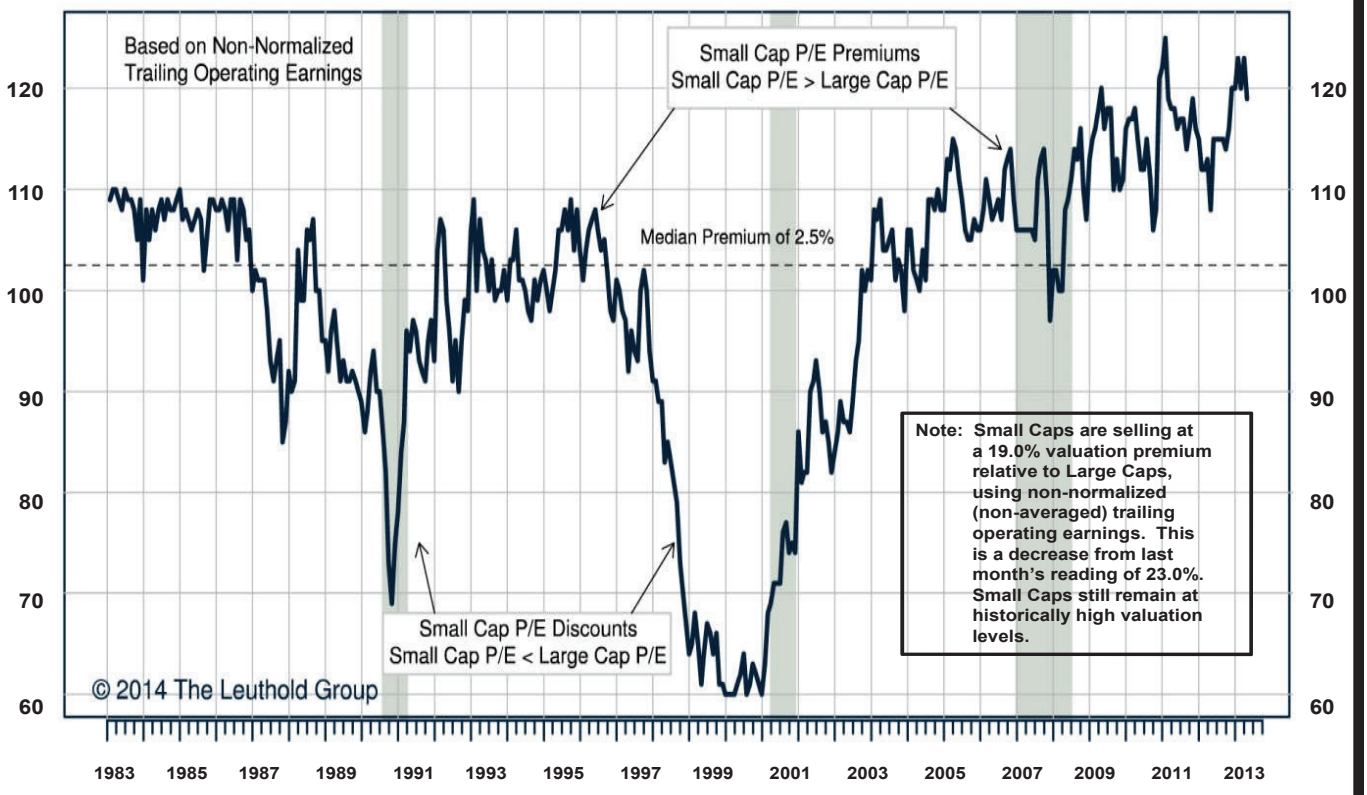
Year	Maximum Russell 2000 Intra-Year Decline	Year	Maximum Russell 2000 Intra-Year Decline
1979	-15.4 %	1997	-9.7
1980	-26.7	1998	-36.9
1981	-23.2	1999	-12.2
1982	-18.3	2000	-26.8
1983	-15.1	2001	-26.7
1984	-19.5	2002	-37.5
1985	-9.5	2003	-13.2
1986	-15.0	2004	-14.7
1987	-39.2	2005	-10.8
1988	-7.6	2006	-14.1
1989	-9.9	2007	-14.1
1990	-30.5	2008	-49.5
1991	-7.1	2009	-33.3
1992	-12.6	2010	-20.5
1993	-6.4	2011	-29.6
1994	-13.3	2012	-12.9
1995	-6.8	2013	-5.4
1996	-15.6	*2014YTD*	*-8.3*
		Median	**-15.1 %**
		Average	**-16.2**
		Max. Loss	**-39.2**
		Min. Loss	**-5.4**

Last year's -5.4% mid-year correction in the Russell 2000 was the smallest "intra-year" decline ever in that index, and ended a streak of fifteen consecutive years with a decline of at least -10%.

Summary statistics exclude 2014.

As of: May 7, 2014 **Source: The Leuthold Group, LLC, *Perception Express*, May 7, 2014, www.leutholdgroup.com**

SMALL CAP TO LARGE CAP HISTORICAL P/E RATIO
Small Caps Are More Expensive



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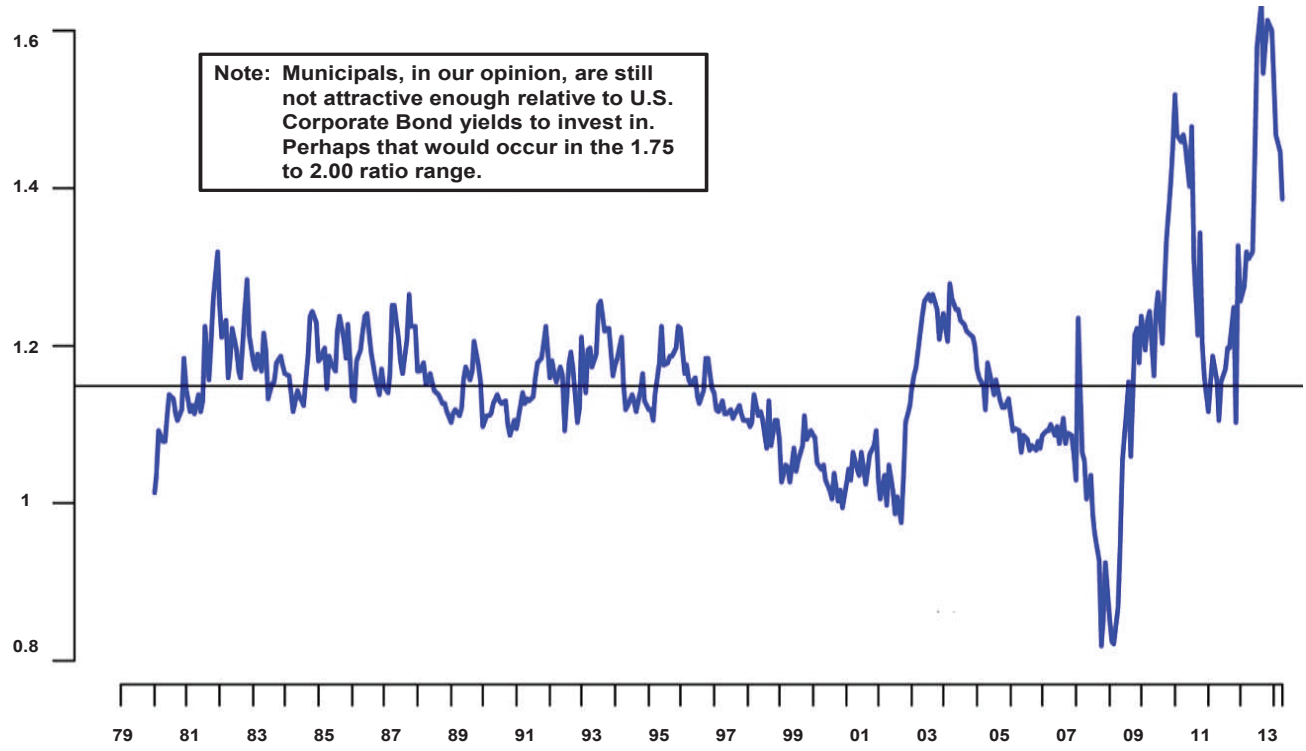
MUNIS TAX EQUIVALENT YIELD/BARCLAYS U.S. CORPORATE BOND YIELD



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www.leutholdgroup.com

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

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