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# THE GLOBAL INVESTMENT PULSE

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## THE S&P 500 IS A POOR BENCHMARK FOR MOST INVESTORS: INSTEAD, CREATE A PERSONALIZED ONE

**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***

Many investors are taught by the media, Registered Investment Advisors (RIAs) and brokers (Those individuals who work for large brokerage firms or other firms that allow them to earn commissions.) that they should benchmark their own investment portfolios. However, most individuals, and oftentimes RIAs and brokers as well choose the S&P 500 as the benchmark. Some may use the Dow Jones Industrial Average as well. Before discussing comparing one's portfolio versus the S&P 500, let's look what the S&P 500 is.

S&P 500, *continued on page 4*

## WHEN YOUR WORTHLESS INVESTMENT IS TRULY WORTHLESS

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

Stock Market downturns affect most affluent individuals who have watched the value of at least some once promising investments erode. Many investors are even finding that some of their investments, from high-flying stocks to loans for startups, are worth nothing at all.

However, all is not lost. Worthless investments, which may include securities and notes for business and non-business loans, can be written off as either a capital or an ordinary loss.

Those who claim this type of tax deduction must be able to prove that specific events and circumstances have rendered an asset worthless. The Internal Revenue Service (IRS) requires proof of a "closed and complete transaction." For example, a startup could have ceased operations, sold its assets, surrendered its corporate charter, or filed for bankruptcy. These examples must indicate no hope of the company getting back on its feet. After all, the income tax deduction is for investments that are actually without value, not just drastically reduced in value.

The burden of proof is on the taxpayer, who may not receive any supporting documentation from the company. Investors do not need to provide this documentation when they file their taxes. Proof is only required when the IRS challenges the deduction.

Worthless, *continued on page 4*

## ELECTION CYCLES OFFER 15-MONTH UPSIDE WINDOW

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

The mid-year months of a mid-term election year are historically the weakest for the stock market from a calendar perspective. Large Caps, however, have mostly bucked that pattern. The S&P 500 remains up 4.3% since April 30th (through October 6th), compared with an average annualized return of just +1.1% in the May to October period of mid-term election years (See chart "The Stock Market's Annual & Presidential Cycles Combined: S&P 500 Annualized Total Returns, 1926 To Date" on page 6.). The good news is that this "cycle overlap" (mid-year seasonality combined with the presidential election cycle) turns maximum bullish on November 1st. Small Caps have historically proven more

Election Cycles, *continued on page 6*

## OUR THOUGHTS ABOUT BILL GROSS

**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***

In the past month or so, there have been numerous stories in the media about Bill Gross, the long-time portfolio manager of PIMCO Total Return Fund and the founder of PIMCO. Mr. Gross also managed the PIMCO Low Duration Fund and the PIMCO Unconstrained Bond Fund. We have also noticed that the general public is confusing PIMCO, the organization, with the PIMCO Total Return Fund, thinking that it is one and the same. Mr. Gross, while revered for his long-time track record, has raised some questions among investors and advisors regarding his performance and actions over the past couple of years. Recently, as the reader may be aware, he has moved to Janus Capital Group (a.k.a. Janus Funds)

Bill Gross, *continued on page 5*

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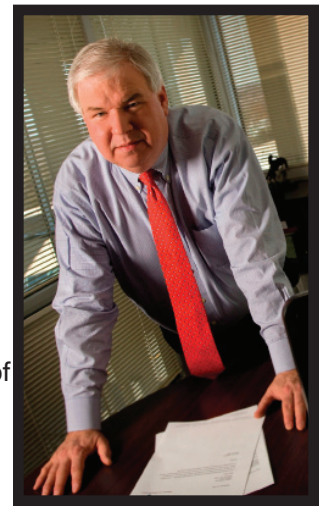
## LOUIS P. STANASOLOVICH, CFP®, EDITOR



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 11 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.

S&P 500, *continued from page 1*

**What It Is:**

The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large capitalization (shares x price = capitalization) stock universe.

Companies included in the index are selected by the S&P Index Committee, a team of analysts and economists at Standard & Poor's. The S&P 500 is a market value weighted index - each stock's weight is proportionate to its market value. This means the largest capitalization stock in the index could represent 600 times the weighting in the index as compared to the smallest stock in the index. This is known as being weighted by free-float market capitalization, so more valuable companies account for relatively more of the index.

The S&P 500 stock market index, maintained by S&P Dow Jones Indices, comprises 502 common stocks issued by 500 large-cap companies and traded on American stock exchanges, and covers about 75 percent of the American equity market by capitalization. Stocks are chosen for market size, liquidity and industry grouping, among other factors.

In short, it is a **potentially high returning, high risk index**. That definitely does not describe most investors' portfolios. If that's true, why would anyone who doesn't have a portfolio that is comprised mostly of large capitalization stocks compare it to the S&P 500? Shouldn't a non-similarly invested portfolio to the S&P 500 be compared to a benchmark that is similarly invested? In fact, the S&P 500 becomes a "bad benchmark" for a portfolio that has a significant component of fixed income investments in it.

For example, what if the portfolio has 35.0% of fixed income in it? Wouldn't a benchmark customized so that the S&P 500 represents 65.0% of the personal benchmark and a high quality fixed income index, such as the Barclay's Aggregate Bond Index represents the remaining 35.0% of the personal benchmark be a much better fit?

What if part of the equity portfolio is represented by small stocks (the Russell 2000 would be a better fit for that percentage of the portfolio) or foreign equities [the MSCI EAFE (Europe, Australia, Far East Index) would be a more accurate representation for the foreign percentage of the portfolio]? Real estate, emerging market equities, commodities, hedge-type investment indexes, etc. could also be included, if appropriate.

The same thought process could also be used for other percentages of monies allocated within the fixed income portion of the portfolio, such as municipal bonds, high-yield bonds, foreign bonds, emerging market bonds and/or bank loans, if applicable.

The result would be a much more personalized, accurate and realistic investment benchmark for each investor's portfolio from a risk (volatility) and return standpoint. An investor with a personalized benchmark would have a better benchmark to compare their investment performance to. While this takes significant effort, the end result may well be worthwhile.

Benchmarks of any type should be compared over a period of years because many investment managers may not be actively managing their portfolio the same way as the index is created. In fact, a large capitalization stock value manager may be better compared to the S&P 500 Value Index than to the S&P 500 Index itself. By comparing the components of a portfolio to the best possible fitting index, a more accurate analysis can be made over a longer period of years.

Another major mistake, in terms of benchmarking, that investors, RIAs and brokers frequently make is not comparing results to inflation. While this is a relatively useless exercise over a year or two, it becomes very important over periods of five years or more. The end result is any investor should be analyzing how well their portfolio performs over inflation, especially over the next ten years, given the relatively low expectations for equity and fixed income returns. However, investors should also be realistic. Given the risk that they are willing to take on, that if their portfolio is too conservative, they may not even keep up with inflation and possibly even decrease their purchasing power. After all, money is purchasing power. The objective of investing is to increase your purchasing power. Unfortunately, many investors are so fearful of declines in their portfolio, they end up shooting themselves in the foot by being too conservative.



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Worthless, *continued from page 1*

Consider this scenario: An individual purchases 10 shares of a home building company at $20.00 per share in early 2007. The stock price shoots up to $100.00 by summer and then plunges to just $5.00 in December. In January of 2008, the company lays off most of its employees. Shortly thereafter, the corporate coffers are depleted, the CEO departs, and the plug is pulled on the company's Website. It would surely seem that those 10 shares could be considered a worthless investment. However, before taking an income tax deduction on this investment, an investor would still need to answer two key questions: Does the core business still have any value, and if not, exactly when did the company become worthless?

Although the investment in our example lost most of its value in 2007, it did not become worthless by IRS standards until 2008. Investors are required to show that an investment became worthless within the year it was claimed as a loss on tax returns. Taxpayers are not allowed to keep worthless investments on their books after the year they lose their value. This rule keeps individuals from saving the income tax deduction for a year when it will have a greater tax reducing effect. To show that an investment became worthless within the same year it was claimed, the investor must establish that the investment had at least some value at the start of that year.

Worthlessness is not always easy to determine. What if the housing company still has valuable assets? If the company sells the assets and settles the liabilities, the company has liquidating value and the investment is not considered worthless. In such a situation, an investor can safely take the income tax deduction only if the fair market value of the assets does not exceed the liabilities. The IRS prefers an independent appraisal rather than an unaudited balance sheet to prove this fact. Depending on the circumstances surrounding its demise, investors should not expect the home building company to acquire or fund the appraisal.
What if a company is insolvent but still operating? It is difficult to make the case

Worthless, *continued on page 5*

Bill Gross, *continued from page 1*

to manage a mutual fund there. Listed below are our thoughts about the entire issue for both fund groups.

**Pros and Cons for Janus:**

1. Bringing in Mr. Gross as part of the Janus team was a brilliant strategy.

2. Janus presently does not have the type or depth of organization in fixed income that PIMCO has. Since Mr. Gross was one of the leading architects of building the PIMCO team, I suspect, given his age and the attraction for many bond managers and analysts to work with Mr. Gross knowing that he will be retiring probably in the next five to ten years will be an attractive aspect for joining Janus's fixed income team.

3. As part of building the Janus fixed income team, Mr. Gross will bring a number of ideas from PIMCO as to how to build out the fixed income investment process and structure.

4. Mr. Gross will undoubtedly attract a large amount of investment assets from not only PIMCO, but from outside advisors and investors.

5. Mr. Gross will be managing a minuscule investment portfolio as compared to the monies he managed at PIMCO. This should allow him to trade securities without the liquidity issues he had at PIMCO, thereby improving his investment performance.

6. From a con standpoint, while Mr. Gross may be viewed both internally and externally as difficult to work with, but so was Ross Perot, Steve Jobs, Bobby Knight and many others throughout history not only in the business world, but in many fields of endeavor. After all, eagles don't flock together. Sometimes Mr. Gross just doesn't play nice, but that doesn't take away from what he has been: The world's greatest bond manager!

7. Mr. Gross brings significant media value to Janus, which, to date, has had little in recent years. This will undoubtedly lead to significantly more assets for the organization as a whole.

**Pros and Cons for PIMCO:**

1. There will probably be continued losses of assets from the funds that Bill Gross managed for the next 12 months.

2. Dan Ivascyn, who is PIMCO's new Chief Investment Officer and a 16 year PIMCO veteran, may be too inundated with the media, talking to large institutional clients, and making speeches to continue his excellent performance on the PIMCO Income Fund. In fact, despite significant help he will need from the PIMCO team, taking over Mr. Gross's portfolios may also cause problems for Mr. Ivascyn, given that he, nor anyone other than Mr. Gross, has ever managed that amount of assets.

3. The PIMCO fixed income team, which few can argue is the greatest in the world, due to its enormous amount of depth in all likelihood, will not falter with regard to performance, especially over the longer term. Furthermore, numerous individuals within the organization may rise to the top allowing more broad leadership.

4. The media value of Mr. Gross was significant and second to only Warren Buffett. Obviously, PIMCO will lose Mr. Gross's media value. Some of this will be replaced by others, but not to the same degree.

In regard to the funds previously managed by Mr. Gross, PIMCO is still the largest bond manager in the world and has a team of hundreds of traders, analysts, and extremely talented portfolio managers.

In our opinion, in the future, taking into account PIMCO's portfolio management team's highly capable portfolio managers and deep bench, most investors should consider utilizing PIMCO's funds among others in any mutual fund evaluation being made.



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Worthless, *continued from page 4*

for worthlessness then, because the business could still acquire value in the future through its operations. Consider the case of a construction company that has filed for bankruptcy under the weight of asbestos lawsuits, but has had otherwise strong operations that could potentially be profitable in the future.

The more extreme a company's financial problems, the less likely it is to recover, and the better the taxpayer's case for writing off the investment. For each investment that becomes worthless during the year, taxpayers must be prepared to provide a description of the security including the name of the issuer and, where relevant, the maturity date and the number of shares. Other necessary information includes the acquisition date, original cost, date sold, selling price, and additional related costs.

Of course, miracles do happen. Sometimes companies stage a comeback. Unfortunately, in such cases, the IRS may deny the income tax deduction even if it was taken in good faith. The best way to avoid this situation is to sell any remaining interest in the security before declaring the loss. For instance, an investor could sell his 10,000 shares in the home building company for $1.00. This cleanly provides a closed and complete transaction that will meet IRS requirements for deducting the worthless investment as a capital loss. The investor will not be allowed the loss deduction, if the shares are reacquired within 31 days (including date of sale).

If one or more investments looks hopeless and a solid argument can be built for an income tax deduction, such a write-off may be a good way to make the best of an unfortunate situation.



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sensitive than Large Caps to various cyclical phenomena (including calendar anomalies), and their performance in 2014 has been no exception. From a fundamental point of view, we think Small Caps' year-to-date underperformance reflects an overdue decline in their relative P/E premiums (a decline we think has yet to fully run its course). Admittedly, we (The Leuthold Group) had been warning of Small Cap P/E compression long beforehand, and are intrigued that it commenced only upon the arrival of an exceptionally bearish window of the four-year cycle "calendar".

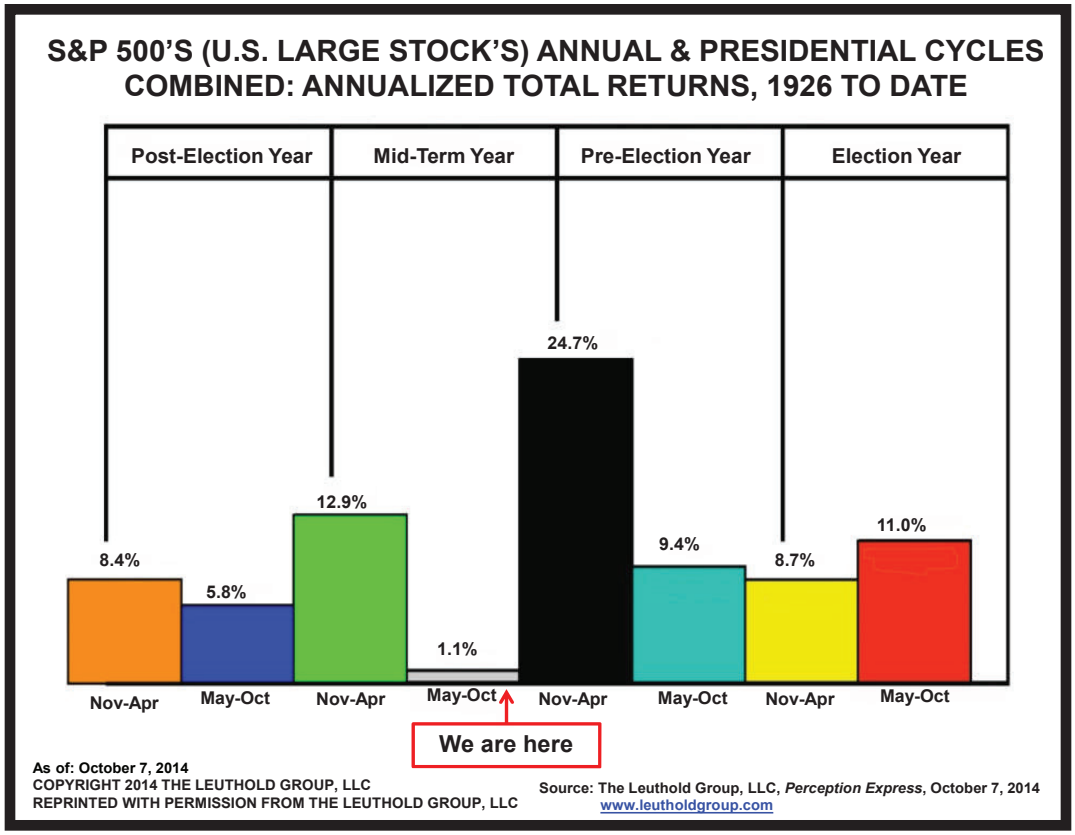
As shown in the chart "The Stock Market's Annual & Presidental Cycles Combined: Small Cap Annualized Total Returns, 1926 To Date" to the bottom right, Small Caps have (since 1926) generated an average annualized total return loss of more than 10.0% during the mid-year months of a mid-term year. Incredible... [and impossible to explain from a fundamental perspective.]

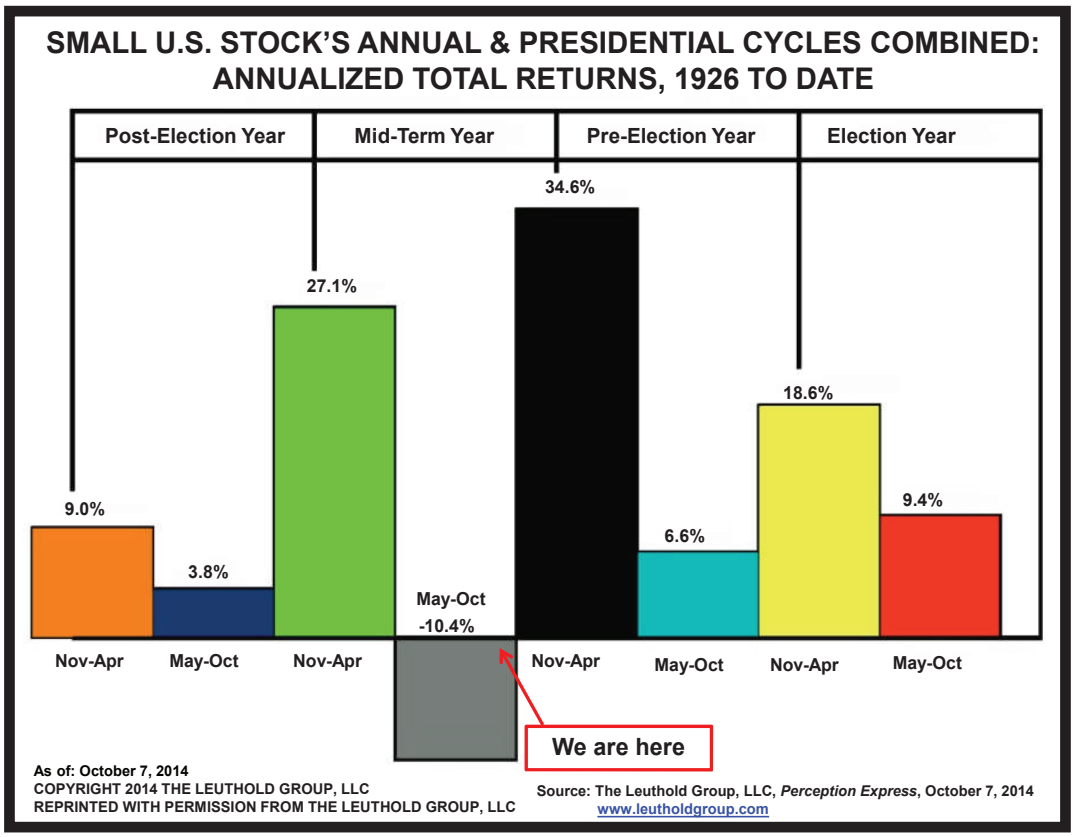
Again, though, this cycle combination swings from maximum bearish to maximum bullish at the end of this month. During the six months beginning with mid-term elections, Small Caps have generated an astounding annualized total return of almost 35.0%. Once again, with no possible fundamental rationale beyond the cynical view that the party in presidential power has begun to juice the economy (and markets) for re-election purposes.

Our awareness of time cycles stems from our failed efforts to statistically debunk them, and we've evolved to the opinion that they shouldn't be ignored.

**Source: This article was excerpted from "Cycles: Bearish Window Closing, Another Opening...", by Doug Ramsey, CFA, CMT, Chief Investment Officer, The Leuthold Group, LLC, (*Perception Express*, October 7, 2014) www.leutholdgroup.com.**





# SMALL CAP LEVERAGE—A CONCERN?

By Jun Zhu, Analyst, The Leuthold Group, LLC

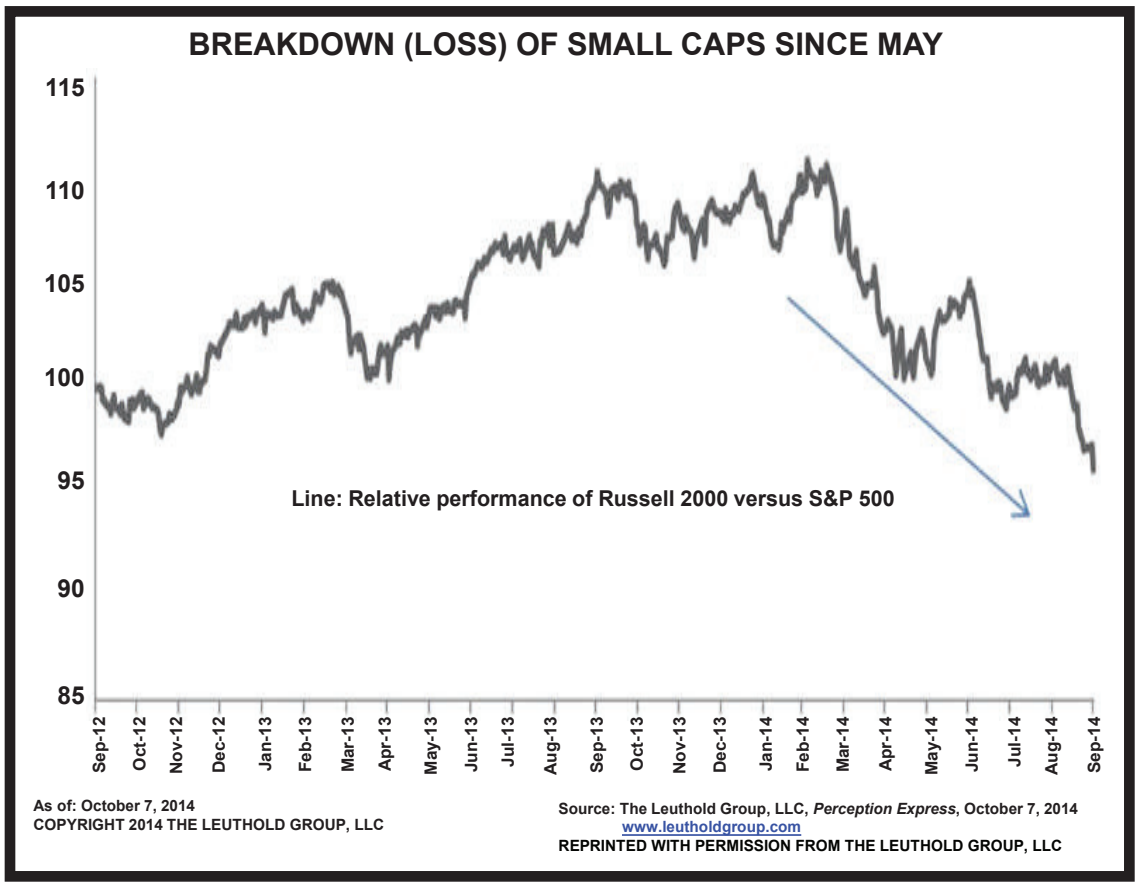
There is no shortage of discussions on Small Cap underperformance of late (see "Breakdown of Small Caps Since May" chart to the top right). Many reasons have been proposed to account for the recent momentum breakdown (loss):

Small Caps have had a good run for a number of years and performed well last year too. It's time for profit taking.

Small Cap valuations are running high. This is true based on our decades long data which monitors the relative valuations of Small Caps versus Large Caps.

Market sentiment turned negative; high risk, volatile Small Caps take a beating.

Here we throw in yet another idea as food for thought. This rationale takes a deeper look at the fundamentals: the leverage of companies' balance sheets. With the Fed mulling over a rate increase, investors may have already started to avoid companies with excess leverage. Unfortunately, the data suggests that Small Caps, on average, are in this camp.




**Leverage Ratios Creeping Up Among Small Caps:**

Our data crunching shows that the leverage ratios have been creeping up among Small Caps since the 2010 lows (relative to Large Caps). From a leverage affordability standpoint [interest rate coverage ratio (How much cash there is to pay the company's debt.) for example], Small Caps are also showing signs of deterioration.

We looked at two leverage ratios: 1) Total Debt to Total Assets; and, 2) Long Term Debt to Equity. Each is presented as a ratio of ratios [See charts "Total Debt to Total Asset Ratio of Ratios (Small Caps Versus Large Caps)" and "LT Debt to Equity Ratio of Ratios (Small Caps versus Large Caps)" on page 8], to demonstrate Small Caps' leverage relative to Large Caps. Rising lines mean rising leverage among Small Caps relative to their Large Cap counterparts.

Both charts show the rising trend of Small Cap leverage since the 2010 low. Total Debt to Total Assets ratio of ratios is approaching its long run average, while the Long Term Debt to Equity ratio of ratios has exceeded its long term average, a significant jump from 2010.

The charts "Total Debt to Total Asset Ratio of Ratios (Small Caps Versus Large Caps)" and "Long-Term Debt to Equity Ratio of Ratios (Small Caps versus Large Caps)" also show that Small Cap leverage levels have historically been lower than Large Caps' (long-term average ratio of ratios is below one). This is not surprising since loans are normally harder to come by for higher risk, small companies, especially in Health Care and Tech sectors, where Small Cap companies have generally relied on equity funding, instead of loans.

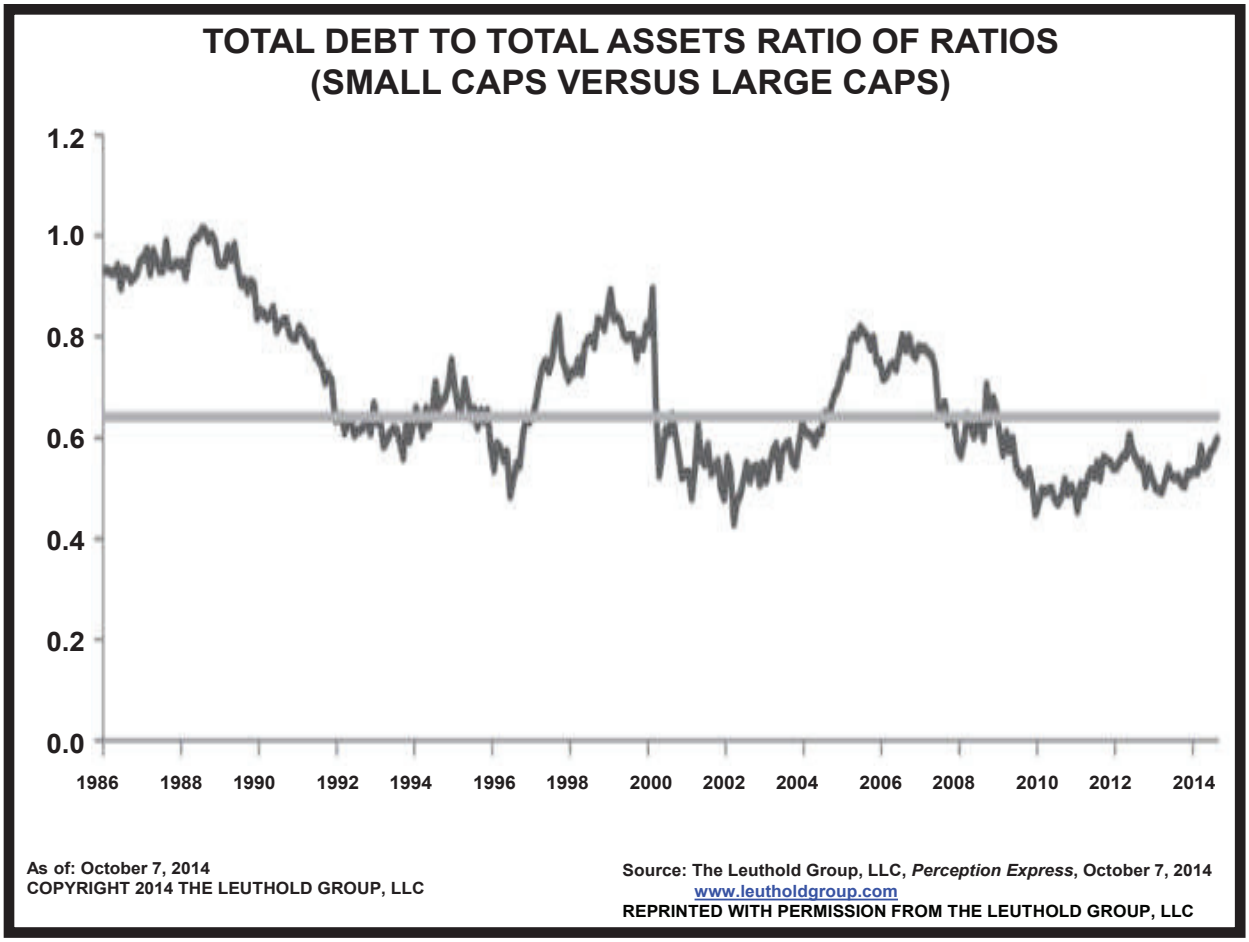
As of now, average Total Debt to Total Assets among Small Caps stands at 16.0%, lower than Large Caps' 26.8% (See "Total Debt to Total Assets (By Sectors)") table on the top of page 9). However, breaking down by sectors, we see that leverage is significantly lower for Small Caps' Health Care and Info Tech sectors, which drags down the average. Small companies in Consumer Staples, Energy, and Telecommunication Services actually have higher leverage ratios than their corresponding Large Cap sectors. A similar pattern can be observed when looking at the Long Term Debt to Total Equity ratio (See "Long-Term Debt To Total Assets (By Sectors)" table on the bottom of page 9).

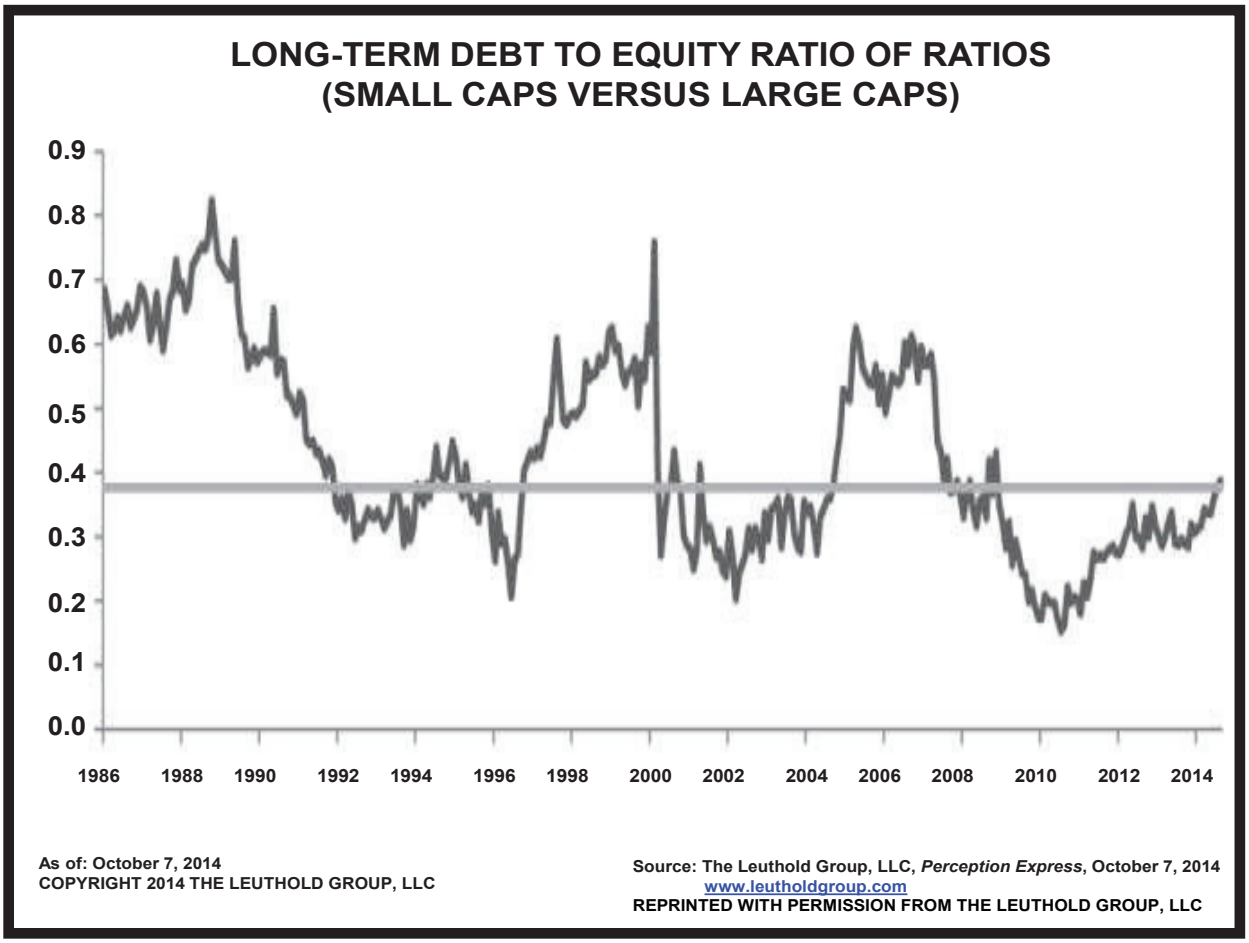
Sometimes low leverage ratios do not speak for a better balance sheet, if a company's earnings power does not keep up with the cost of servicing loans. The chart "Interest Coverage Ratio of Ratios (Small Caps Versus Large Caps)" on the top of page 10, shows that Small Caps' interest coverage ratio (EBIT/interest expenses) relative to Large Caps' has been on the decline since 1998, and now stands at historical lows.

Rising interest rates could further exacerbate this situation as small companies tend to have floating rate bank loans or bonds with shorter maturities. The latter means that most Small Cap companies may have to refinance their loans at higher interest rates leading to even higher loan service expenses.

**Conclusion:**

Small Cap Leverage, *continued on page 8*




Small Cap Leverage, *continued on page 9*

Small Cap Leverage, *continued from page 8*

## TOTAL DEBT TO TOTAL ASSETS (BY SECTORS)

| | Small Cap | Large Cap |
|---|---|---|
| TELECOMMUNICATION SERVICE | 41.2 | 39.4 |
| ENERGY | 36.6 | 25.5 |
| UTILITIES | 36.1 | 36.1 |
| CONSUMER STAPLES | 35.2 | 32.4 |
| MATERIALS | 22.7 | 27.3 |
| INDUSTRIALS | 21.3 | 25.3 |
| CONSUMER DISCRETIONARY | 19.2 | 28.0 |
| HEALTH CARE | 3.9 | 25.4 |
| INFORMATION TECHNOLOGY | 1.6 | 16.4 |
| AVERAGE | 16.0 | 26.8 |

As of: October 7, 2014


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


## LONG-TERM DEBT TO TOTAL ASSETS (BY SECTORS)

| | Small Cap | Large Cap |
|---|---|---|
| UTILITIES | 103.4 | 109.1 |
| TELECOMMUNICATION SERVICE | 91.1 | 107.1 |
| ENERGY | 77.6 | 55.0 |
| CONSUMER STAPLES | 72.7 | 58.8 |
| MATERIALS | 38.9 | 63.6 |
| INDUSTRIALS | 33.7 | 52.8 |
| CONSUMER DISCRETIONARY | 27.6 | 63.3 |
| HEALTH CARE | 0.5 | 47.9 |
| INFORMATION TECHNOLOGY | 0.2 | 24.6 |
| AVERAGE | 21.1 | 54.7 |

As of: October 7, 2014


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

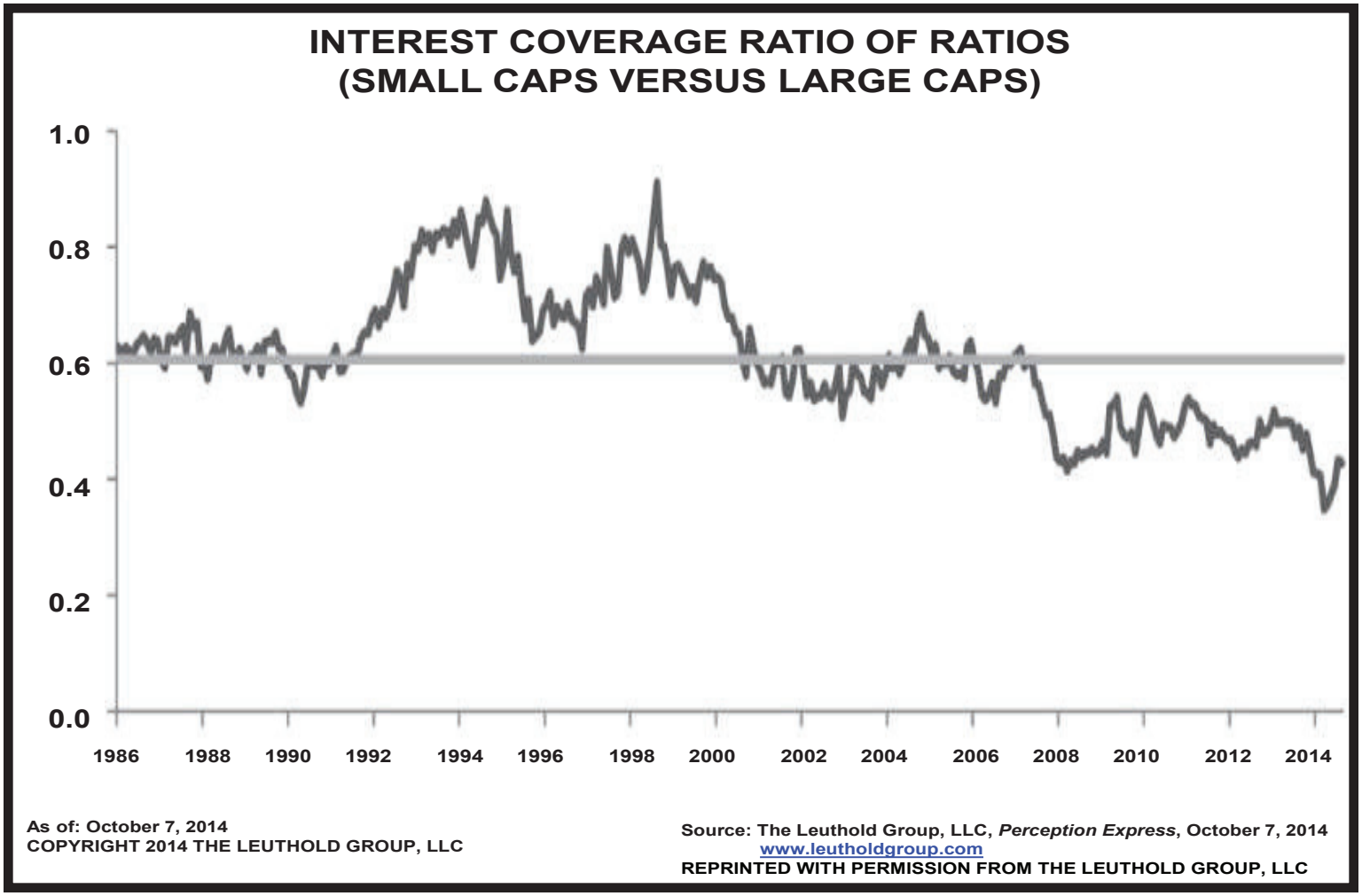

Small Cap Leverage, *continued on page 10*

Small Cap Leverage, *continued from page 9*

Small Caps' balance sheets and debt servicing capacity are not in the healthiest state to weather higher interest rates (relative to Large Caps). This could be part of the big picture of weakening Small Cap performance. Small Cap investors should place an emphasis on companies with relatively stronger balance sheets, and higher earnings power in order to accommodate an environment of rising interest rates.

**Source: This article was excerpted from "Small Cap Leverage—A Concern?", by Jun Zhu, Analyst, The Leuthold Group, LLC, (*Perception Express*, October 7, 2014) www.leutholdgroup.com.**








## ELECTIONS

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

Believe it or not, the average gain during the eight trading days surrounding mid-term election days since 1934 has been 2.7%. Fairly significant, to say the least! 2.7% today is equivalent to roughly 52 Dow points at present levels. There was only one losing period. That was in 1994 when the Republicans took control of both the House and the Senate for the first time in 40 years (Source of Information: Stock Trader's Almanac).

## VALUES ARE AVAILABLE IN EUROPE

**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***

Listed below is information on Cycle Adjusted Price-to-Earnings ratios more well known as the Shiller P/E's (Price-to-Earnings Ratio). This information is based upon 10 year Earnings Per Share (EPS) data instead of 12-month data within both the U.S. and Europe and their historical five year average annual return when investing at valuation levels then in effect. The Shiller P/E's are a valuable valuation metric as it removes the fluctuation from the ratio caused by variations of profit margins during the business cycle. This valuation shows that European equities remain attractive on a relative and absolute basis despite a high level of volatility at this time.

Based on this data, the European equity market looks to offer more value than in the U.S. markets. We can use this data to help formulate forecasts for equity markets. Using the historical data available, an analysis of equity market returns can be constructed based on Shiller P/E data.

The data below suggests there is a correlation between Shiller P/E ratios and long-term equity market returns. More specifically, it illustrates the average annual five-year forward return for a given Shiller P/E range. In general, the higher the P/E Ratio, the lower the five-year return. For example, investors who invested in European equities with a Shiller P/E between 10 and 15 saw an average annual return of 19.6% over the next five years. Similarly, an investor who invested in U.S. equities with a Shiller P/E above 25 experienced an average annual return of 1.5% over the next five years.

| Entry Point | Five-Year Average Annual Return | |
|---|---|---|
| Shiller P/E | U.S. | Europe |
| <10 | 17.9% | 22.1% |
| 10-15 | 15.3% | 19.6% |
| 15-20 | 16.3% | 12.7% |
| 20-25 | 8.5% | 1.7% |
| >25 | 1.5% | 3.0% |

Currently, European equities are trading on a Shiller P/E of 14.4. This may be an attractive entry point for investors, at least into the European equity markets.

**Source of Information: Henderson Global Investors via Patrick Caragher**



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## AUGUST TO DECEMBER INVESTING

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

Talk about poor returns! The "August-December" total return performance for the S&P 500 over the last 25 years (1989-2013) has produced an average gain of just +3.9% (total return). Nine of the 25 years have generated at least a +10.0% gain over the final five months of the year. Not too exciting. We hope 2014 is better, but it's not looking so good so far 60.0% of the way there.



## GOVERNMENT WASTE

The Government once spent

**$750,000**

in tax dollars on a new soccer field for detainees held at Guantanomo Bay.

The Government once spent

**$16 to 20 MILLION**

in tax dollars helping students from Indonesia get master's degrees.

The Government once spent

**$175,000**

in tax dollars to determine if cocaine makes Japanese quail engage in sexually risky behavior.

The Government once spent

**$200,000**

in tax dollars on a tattoo removal program in Mission Hills, California.

**Source: Jefferson National**

## THE HEALTHCARE SURTAX

New Healthcare Taxes Are In Effect In 2014. The Patient Protection And Affordable Care Act Of 2010 Created The Unearned Income Medicare Contribution (UIMC) Tax. Under UIMC, Individuals Earning More Than $200,000 ($250,000 For Couples) Must Pay A 3.8% Tax On Net Investment Income. The Chart Below Shows The Highest Marginal Tax Rates And How They Differ From Previous Rates.

HIGHEST MARGINALTAX RATES

| | 2014 Tax Rate | 2014 Health Care Tax | 2014 Total |
|---|---|---|---|
| Tax-Exempt Interest | 0.0% | 0.0% | 0.0% |
| Qualified Dividends | 20.0% | 3.8% | 23.8% |
| Long-Term Gains | 20.0% | 3.8% | 23.8% |
| Non-Qualified Dividends | 39.6% | 3.8% | 43.4% |
| Short-Term Gains | 39.6% | 3.8% | 43.4% |
| Taxable Interest | 39.6% | 3.8% | 43.4% |

Source: Parametric

## SECTION 1256 CONTRACT TAXATION

The Section 1256 Contract Taxation Is A Type Of Investment Defined By The Internal Revenue Code (IRC) As:

a. A Regulated Futures Contract
b. A Foreign Currency Contract
c. A Non-Equity Option
d. A Dealer Equity Option Or Dealer Securities Futures Contract

Each Contract Held By A Taxpayer At The End Of The Tax Year Is Treated As If It Was Sold For Its Fair Market Value, And Gains Or Losses Are Treated As Either Short-term Or Long-term Capital Gains.

Ex. The Contract Appreciates 10.0% In A Year. The Contract Is Taxed Each Year At The End Of The Year, Even If It Wasn't Sold. Sixty Percent (60.0%) Of The Gain Or 6.0% Is Taxed At Long-Term Capital Gains Rates. Forty Percent (40.0%) Of The Gain Or 4.0% Is Taxed At Short-Term Capital Gain Rate Or Ordinary Tax Rates.

## FEDERAL INCOME TAX RATES FOR 2014

| Married Filing Jointly Taxable Income | | | Tax Rate | Single Taxable Income | | | Tax Rate |
|---|---|---|---|---|---|---|---|
| $0 | to | $18,150 | 10.0% | $0 | to | $9,075 | 10.0% |
| $18,151 | to | $73,800 | 15.0% | $9,076 | to | $36,900 | 15.0% |
| $73,801 | to | $148,850 | 25.0% | $36,901 | to | $89,350 | 25.0% |
| $148,851 | to | $226,850 | 28.0% | $89,351 | to | $186,350 | 28.0% |
| $226,851 | to | $405,100 | 33.0% | $186,351 | to | $405,100 | 33.0% |
| $405,101 | to | $457,600 | 35.0% | $405,101 | to | $406,750 | 35.0% |
| Over $457,600 | | | 39.6% | Over $406,750 | | | 39.6% |

## CAPITAL GAIN TAX RATES FOR 2014

| Asset Holding Period | Tax Bracket: | | | | | | |
|---|---|---|---|---|---|---|---|
| | 10.0% | 15.0% | 25.0% | 28.0% | 33.0% | 35.0% | 39.6% |
| Short -Term | 10.0% | 15.0% | 25.0% | 28.0% | 33.0% | 35.0% | 39.6% |
| Long-Term | 0.0% | 0.0% | 15.0% | 15.0% | 15.0% | 15.0% | 20.0% |

## APPARENTLY EBOLA AFFECTS U.S. STOCK MARKET

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

The outbreak of the Ebola virus in West Africa, according to the World Health Organization and is based on information reported by the Ministries of Health, has killed 4,555 people as of October 20, 2014. While Ebola, to-date, has been contained in the United States, the recent downturn in the U.S. Stock Market has largely been thought to have been caused by the general fear that Ebola would spread within the United States. If Ebola would spread, this, of course, would cause economic activity at least within certain industry sectors, if not the entire economy, to slow down.

# BEAR MARKETS DON'T JUST HAPPEN, CATALYSTS ARE ALMOST ALWAYS THE CAUSE

**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***

Historically, Cyclical Bear Markets (Equity market declines of 20.0% or more over usually not more than a 36 month period) often have had three or more catalysts, which caused equity markets to decline. Therefore, it is usually not "luck of the draw" that causes an equity market to decline. Often, catalysts in conjunction with overvalued equity markets start a decline, but not always. Other catalysts can include trade issues, currency collapses, rapidly rising interest rates, rapidly rising oil prices, financial collapses, recessions, deflation, high inflation, wars, terrorist attacks, etc. In the chart below, we have cited examples of the Cyclical Bear Markets over the last 40 plus years and the associated causes. It makes for an interesting read.



## BEAR MARKET CATALYSTS
## (Declines of 20.0% or More)

| Time Frame | % Decline | Reasons Why |
|---|---|---|
| October 9, 2007 To March 9, 2009 | 55.0% | Overpriced Housing Real Estate, Poor Underwriting On Home Loans, Severe Recession, Deflation, Overpriced Stock Market |
| March 23, 2000 To October 24, 2002 | 49.0% | Year 2000 Fed Liquidity Drain, Tech Bubble, September 11, 2001 Terrorist Attacks, Mild Recession, Mega Stock Market Bubble |
| August 1990 To March 1991 | 23.0% Plus Decline | Iraq Invades Kuwait On August 2, 1990, U.S. Goes Into A Recession, Interest Rates And Inflation Increase, U.S. Is On The Verge Of Savings And Loan Crisis, Lead To An Oil Price Increase By OPEC From $17.00 Per Barrel to $46.00 Per Barrel By Mid-October 1990 |
| 1987 Stock Market Crash | 30.0% Plus Decline During The Fourth Quarter Of 1987 | U.S. Dollar Falls 50.0% Versus German Mark Over Previous Two Years, Germany And U.S. Debate Over Trade, U.S. Stock Market Increased 44.0% Through August Of 1987 And Becomes Overvalued Versus Other Asset Classes Particularly Fixed Income Investments, Concerns About The Proliferation Of Junk Bonds And Program Trading Took Place, Oil Prices Decreased By Half In Mid-1986 |
| 1979 To 1981 | Approximately 20.0% Decline | Short Twin Recessions, Fed Pushes Interest Rates Over 20.0%, Long-Term Treasuries Hit 15.0% Plus, Mortgage Rates Exceed 18.0%, Arab Countries Push Oil From $15.85 To $39.50 Per Barrel For The First Time, Gold Reaches $875.00 Per Ounce For The First Time, Inflation Hits 15.0% Plus in 1979 |
| October, 1972 To October 1974 | 43.0% | Arab Oil Embargo, Crude Oil Rises from $3.00 to $12.00, U.S. Economy Goes Into Recession. The Two-Year Fall Of The Nifty Fifty Stocks And The Rest Of The Stock Market Begins |

# 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