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THE GLOBAL INVESTMENT PULSE

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2014 HAS BEEN A LOW VOLATILITY YEAR

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*

By looking at the chart on page 4 and reading the title of this article, the ready may think I'm out of my gourd. The reality though is 2014 has been a low volatility year. Gold bullion has been the most volatile asset this year, rising to a peak of almost +15.0% to a low of approximately +1.0%. The rest of the indexes are represented by the Russell 2000 (U.S. Small Stocks), EAFE (Europe, Australia and the Far East), MSCI ACWI (Morgan Stanley Country Index–The All Country World Index), MSCI EM (Morgan Stanley Country Index–Emerging Markets) and the Barclays Aggregate Bond Index (a high quality bond index).

Low Volatility Year, *continued on page 4*

MASTER LIMITED PARTNERSHIP TAXATION

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

Background

Master Limited Partnerships (MLP) are discussed in the media quite frequently and are usually popular with investors who own them. Yet most investors know little about them. An MLP is a limited partnership that is publicly-traded. Investors in an MLP are known as a unitholders, not as shareholders while the shares are known as units.

Tax regulations state that an MLP needs to obtain 90.0% of its resources from certain types of activities, including producing, processing, and transporting energy products. Therefore, it is very common for MLPs to own and manage pipelines. As a result, MLPs are required to pay out all distributable cash flow that will not be used for current operations.

The yields on MLPs are typically what will attract the attention of investors. Those yields can exceed 6.0% in certain MLPs.

Income Tax Issues:

MLPs themselves do not pay corporate income tax. Due to the fact that a partnership is considered a pass-through activity, each investor in a MLP is required to report their share of taxable income and deductions. The taxable information is reported on tax form K-1 (not an IRS Form 1099), which means there is the potential for additional tax return preparation fees due

Master Limited Partnership Taxation, *continued on page 7*

UNDERSTANDING THE 1966 TO 1982 SECULAR BEAR MARKET

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*

We believe it is always important to understand history when it comes to investing. We began the current Secular Bear Market in March of 2000, which is easy to pinpoint today by looking in the rearview mirror 14 years later. Also, keep in mind that we accurately predicted the current Secular Bear Market, but did so in the Spring of 1998. We were accurate, but we were two years early.

The 1966 to 1982 Secular Bear Market was the first one since the short of the Great Depression through 1949 and like many had several smaller Cyclical Bull and Bear Market Cycles (five to be exact). Three to five Cyclical Bear and Bull Markets within a Secular Bear Market is normal.

Secular Bear Market, *continued on page 9*

2014 BOND PERFORMANCE: THANKS EUROPE!

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

Bond investors have received a pleasant surprise thus far in 2014. Much to the amazement (and in some cases, disappointment) of portfolio managers and analysts, interest rates have actually fallen this year. Despite the fact that the Federal Reserve is winding down the third leg of its bond-buying efforts, many wonder why interest rates are not rising as they did last year. A look across the pond provides some insights.

Europe has been experiencing some economic woes in recent months, causing concern that the region

Bond Performance, *continued on page 4*

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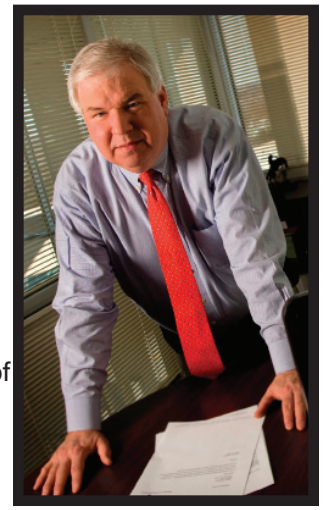
LOUIS P. STANASOLOVICH, CFP®, EDITOR



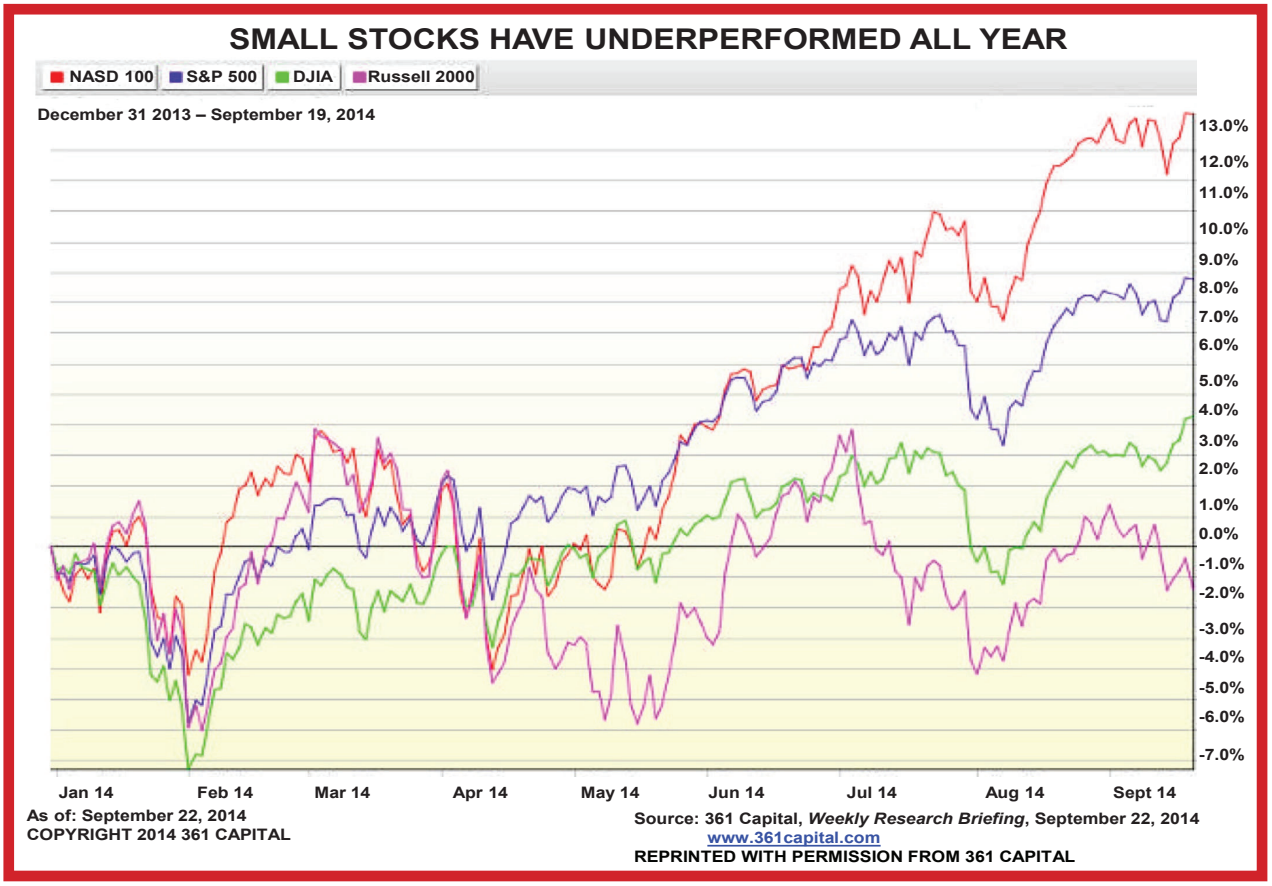
Louis P. Stanasolovich, CFP® is founder, CCO, CEO and President of Legend Financial Advisors, Inc.® (Legend) and EmergingWealth Investment Management, Inc. Lou is one of only four advisors nationwide to be selected 12 consecutive times by Worth magazine as one of "The Top 100 Wealth Advisors" in the 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.

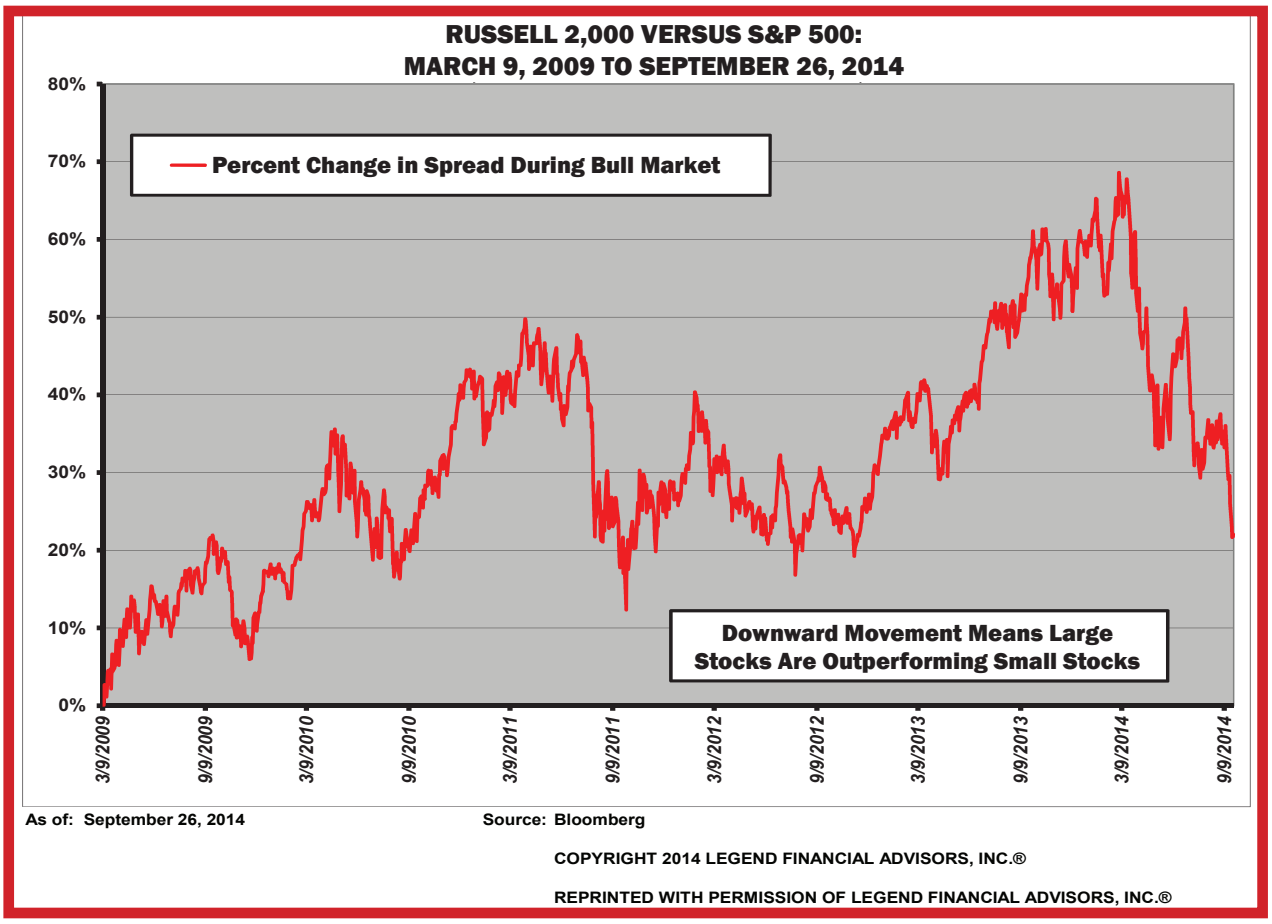
SMALL U.S. STOCKS CONTINUE TO LAG BEHIND THE S&P 500

By Blaine Rollins, CFA, 361 Capital

Historically high valuations combined with spikes in volatility are never a good sign. Since March, Small Caps (The Russell 2000) have only continued to underperform as the summer doldrums grabbed hold. If Small Caps are to reverse their underperformance, it should happen in the fourth quarter as year-end seasonal trends tend to strongly benefit risk and smaller cap equities. If not, then this key thermometer of risk could be sending investors a bigger signal. See "Small Small Stocks Have Underperformed All Year" chart to the top right and "Russell 2,000 Versus S&P 500" chart to the bottom.

Source: This article was excerpted from "Keep An Eye On That Ledge", by Blaine Rollins, CFA, 361 Capital, (361 Capital *Weekly Research Briefing*, September 22, 2014) www.361capital.com.





Low Volatility Year, *continued from page 1*

Many of the above mentioned indexes, except for the bond index, fluctuate 20.0% or more in a normal year, to as much as 70.0% in an especially volatile year.

Comparatively, 2014 has been smooth sailing. Our belief is that this smooth sailing period will continue for a bit, but eventually, when interest rates start to rise, volatility will increase. This will also be true if other financial and economic crises start to appear.

Low Volatility Year, *continued on page 5*

Bond Performance, *continued from page 1*

may not have escaped a deflationary episode. Inflation is widely known as that pesky thing that causes prices to rise and robs investors of their returns. But some inflation is, in fact, a good thing and a component of a healthy economy. Deflation, on the other hand, is not so agreeable. Deflation causes consumers and businesses to stop spending money, because keeping it under the mattress allows it to grow in value (deflation means that money will be worth more in the future than it is today, the opposite of inflation). Economies are unable to function well when citizens restrain their spending.

While being bad for the economy, deflation is very kind to bonds and bondholders. In a deflationary environment, the interest payments (a.k.a. coupon payments) from bonds will be worth more in the future. This is just the opposite of what inflation does to those payments. This is why bond values increase when deflation is anticipated.

The anemic economic growth in Europe has unveiled the possibility of deflation and bond values have responded accordingly. Bonds from countries such as Germany, France, and Italy have increased in value substantially and are now yielding just-a-bit-more than half of what they were a year ago. Ten-year bonds issued by Germany and France now yield 1.08% and 1.44%, respectively. While the yields seem unbelievably low, if these countries are to experience deflation, the returns on these bonds may be very lucrative to the locals. On a relative basis, this has made U.S. Treasuries look more attractive to the bond buyers of the world, with a 10-year yield of 2.53% as of September 26, 2014.

To attribute the fall in interest rates this year entirely to issues in Europe would be shortsighted. However, it would be equally foolish to think that the U.S. bond market operates in isolation. Bond values and interest rates are influenced by many factors, some of which originate from abroad.

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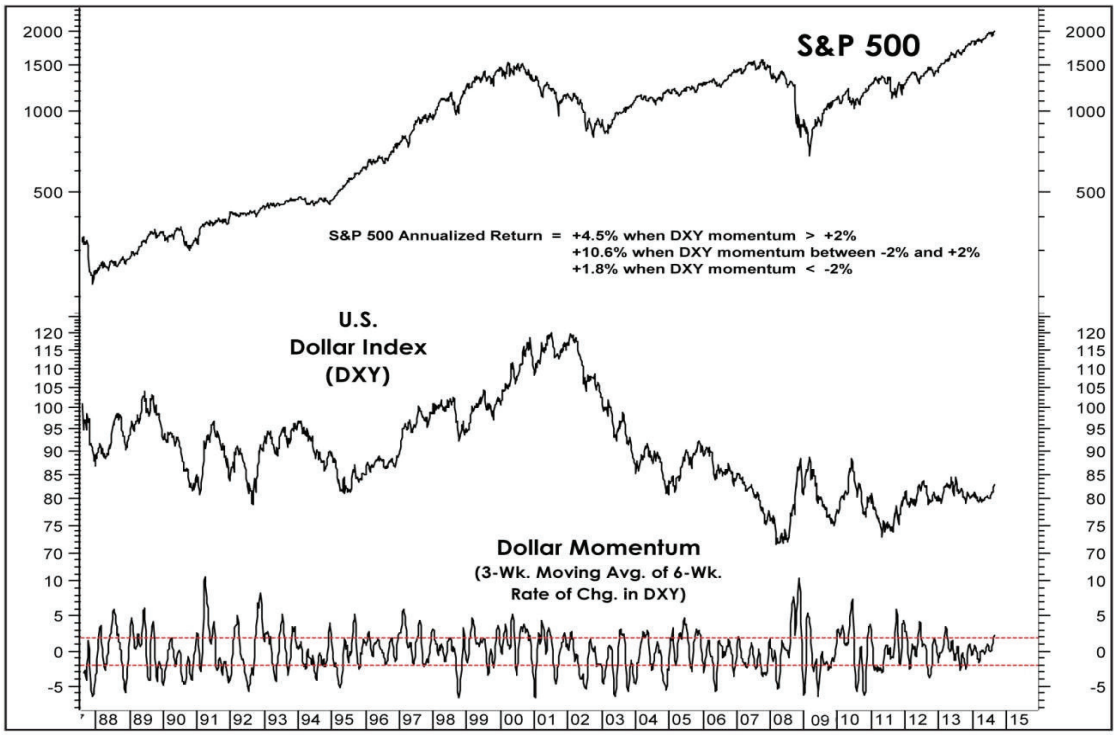
U.S. DOLLAR (DXY) STABILITY IS BEST FOR STOCKS



As of: September 9, 2014

Source: The Leuthold Group, LLC, *Perception Express*, September 9, 2014
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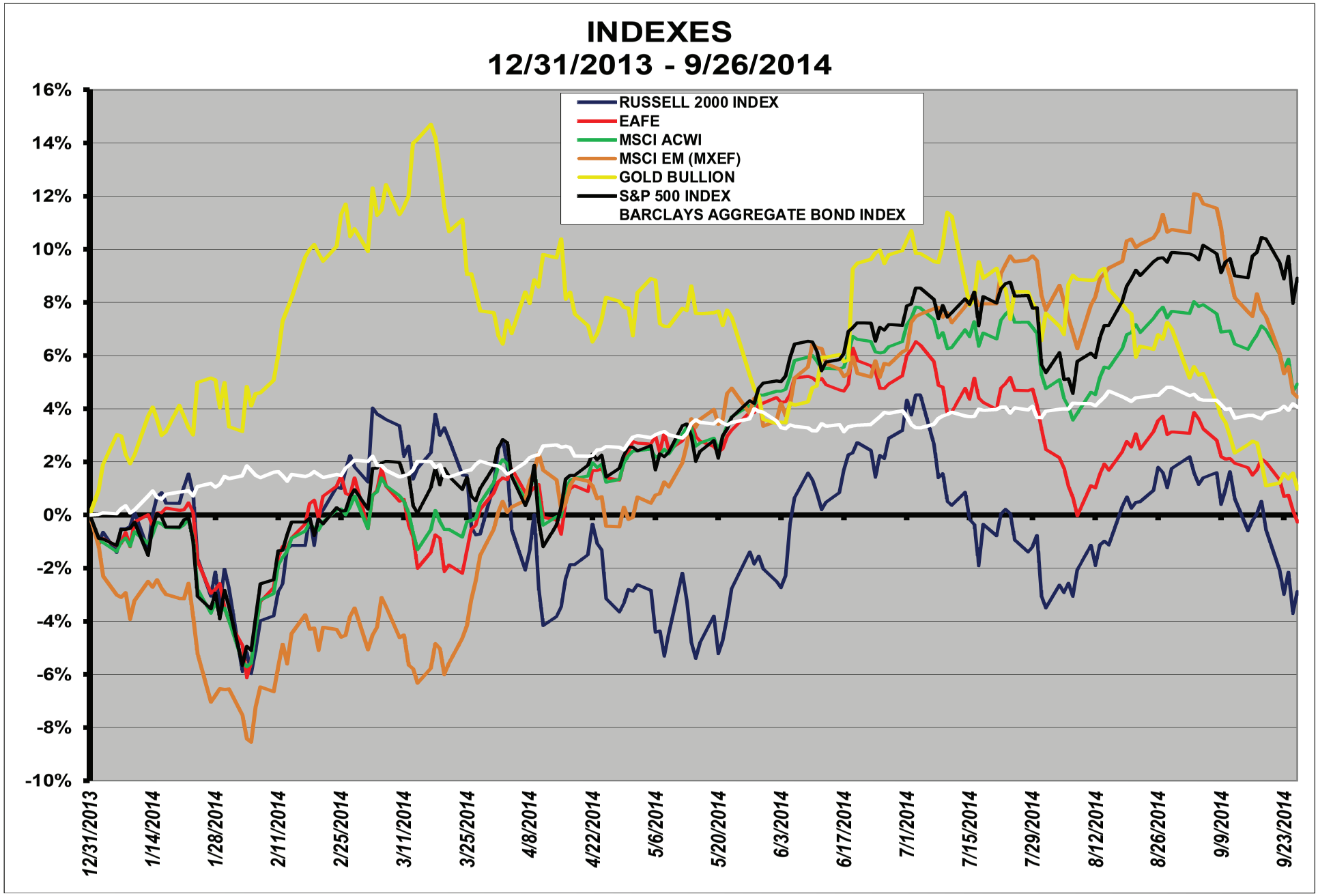
PULSE

Low Volatility Year, *continued from page 4*



As of: September 26, 2014

SOURCE: BLOOMBERG

FIXED INCOME IS NOT EQUITY...UNTIL IT IS

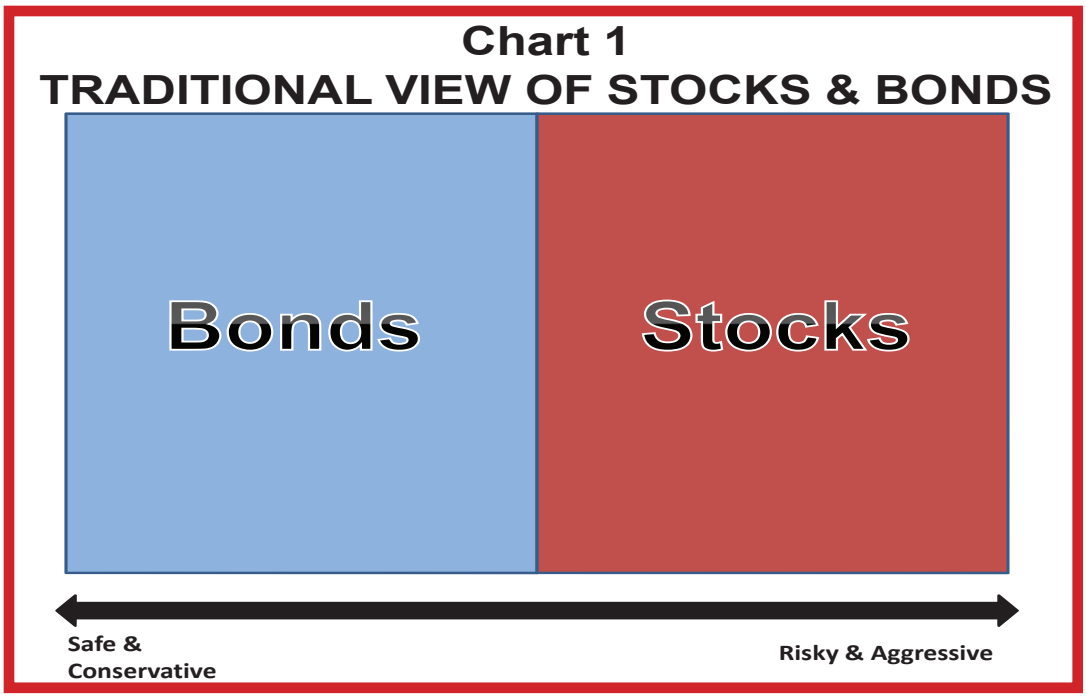
By Eric L. DeMico, Senior Analyst, Legend Financial Advisors, Inc.® and EmergingWealth Investment Management, Inc.

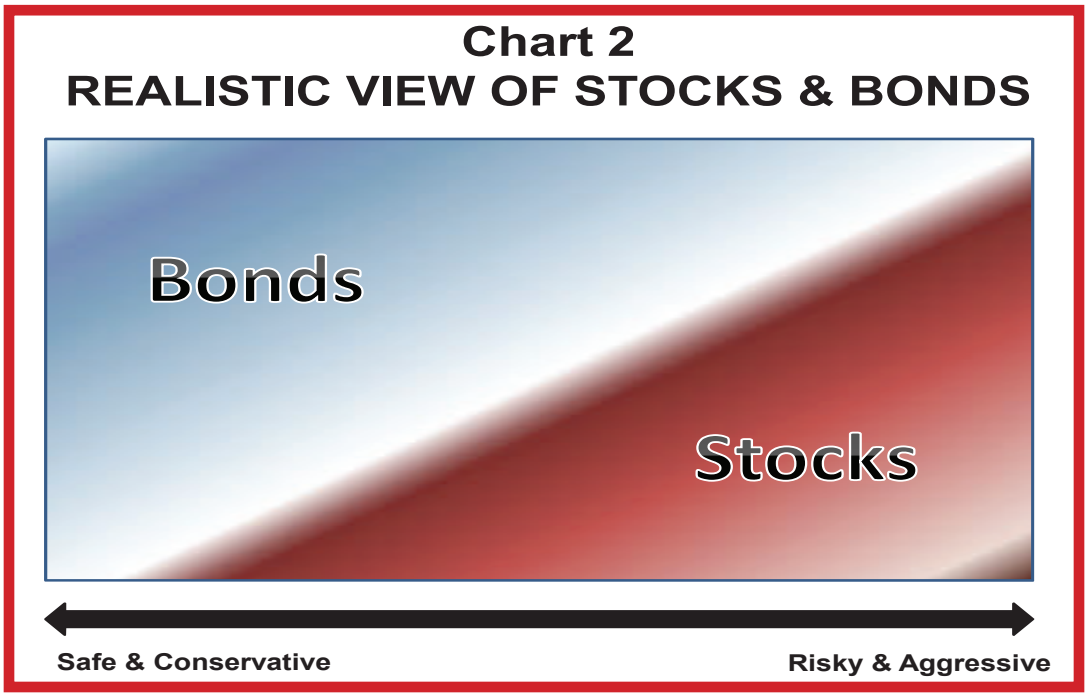
The fundamental differences between debt and equity are well defined for the most part. From a high vantage point, equity is ownership and debt is a loan. Equity holders can reap unlimited spoils as long as profits and cash flows increase over time. Debt, on the other hand, has a predetermined outcome as long as the company is able to make good on the loans it takes. There are exceptions, but this is generally how it works.

From the standpoint of risk and return, however, the lines between debt and equity become a bit blurred. The first illustration (See Chart #1 to the top right) shows the traditional view of how investors view stocks (equity) and bonds (fixed income). Bonds are thought of as the collection of safe investments that pay out interest and have relatively stable values. Stocks, in contrast, are the risky investments that are more volatile, but also provide higher returns. While there is some truth to this, a more realistic view is that of the second illustration (See Chart #2 to the bottom right), which shows parts of the bond market creeping into the more aggressive territory and some stocks drifting back into the safe and conservative region.

The important takeaway relates mostly to fixed income as it can have a more profound impact on investors. The low interest rate environment of late has caused investors to flee high quality fixed income, such as U.S. Treasuries and top-rated corporate bonds, in favor of higher yielding investments such as junk bonds (lower quality corporate or municipal bonds) and bank loans.

It's not that bank loans or junk bonds are bad. But it is critical to recognize that such investments can have their fates tied to the same drivers that affect the equity market. Keep in mind that most investors own both equity and fixed income in their portfolios. For such investors, replacing high quality fixed income with lower quality fixed income can reduce diversification when investors may need it most.





What complicates matters is that the relationship between equities and low quality fixed income is not linear. In other words, if equities fall by a few percentage points over a week or so, there may be little or no impact on the values of lower quality fixed income. However, the relationship intensifies during more severe drops in the equity market. If equities were to drop by 20.0% or more, low quality fixed income would almost certainly be participating in the fall.

Accounting for risk exposures is a critical component of building a portfolio. The risk exposures of fixed income can be more cloudy than investors may think.

to the preparation of additional schedules that might be required to be completed by the taxpayer's accountant.

If the taxpayer's taxable income from the MLP is negative for the year, then the loss is considered passive. Passive losses cannot be used to offset any other form of income with the exception of passive income. An area that investors also need to understand is that they are still liable for income taxes even if there is no distribution.

Another issue that typically confuses investors is that distributions received from a MLP do not have to equal taxable income. Another way to state this is that the taxpayer is responsible for paying income taxes on their share of income even if a cash distribution is not made.

A return of capital occurs when the underlying investments have not generated enough cash flow to pay a dividend. When a distribution is classified as a return of capital, this reduces the taxpayer's cost basis in the security. This will essentially impact a taxpayer at the time they sell the investment in the form of capital gain treatment. If the cost basis is reduced to zero, then additional return of capital distributions are treated as a long-term capital gain with zero basis in the year that the return of capital is received.

Example Of Adjusted Cost Basis Calculation:

1. Cost Basis Per Unit: $100.00
2. Allocation of Taxable Income For The Year: $40.00
3. Return Of Capital For The Year: $55.00
4. Net Cost Basis Reduction For the Year ($40.00 - $55.00 = $15.00)
5. Adjusted Cost Basis: $100.00 - $15.00 = $85.00

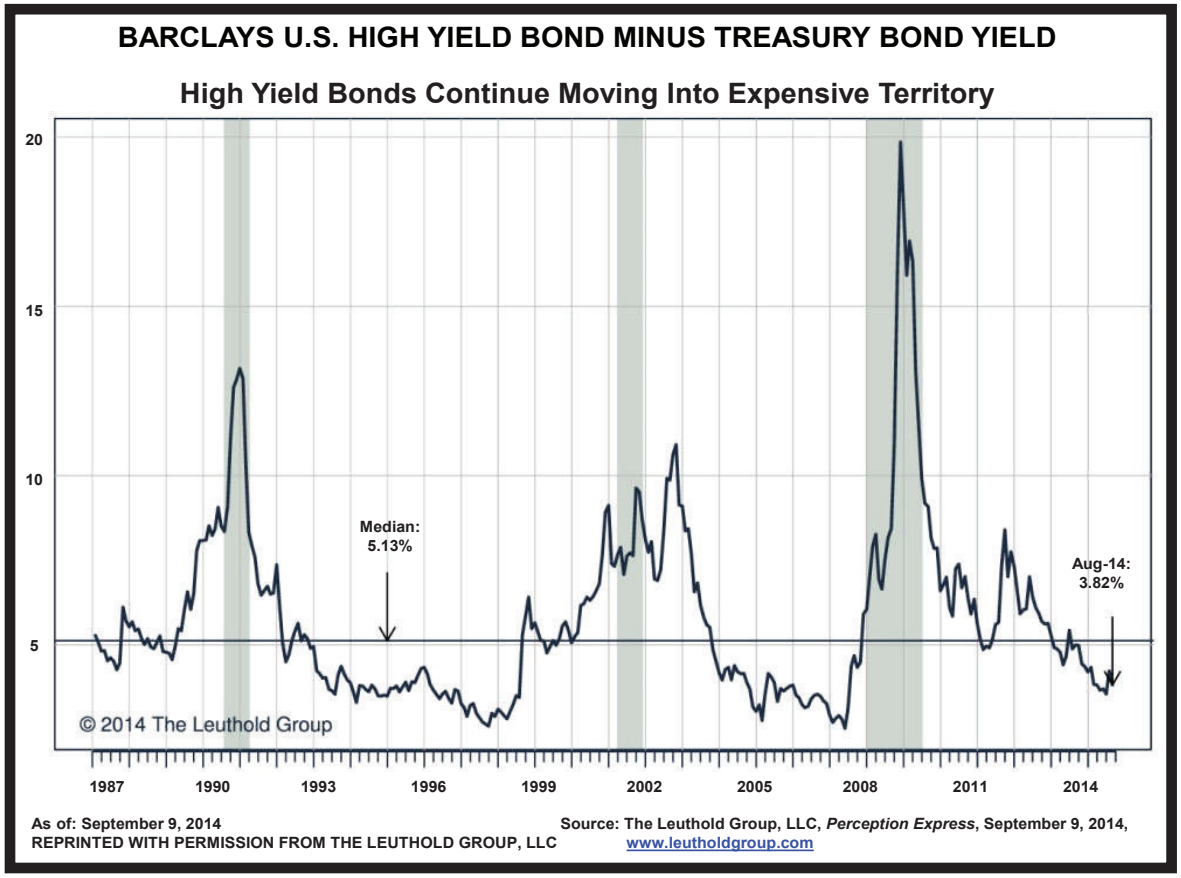
The reason why the distributions are typically higher than the taxable income is due to the non-cash deduction that can be taken for depreciation. Effectively, the depreciation acts as a tax-shelter (offsets the income) for at least some of, if not all of, the net income otherwise being generated.

Investing in an MLP in a retirement account has a different set of income tax consequences to consider. A taxpayer needs to be aware that some of the net income from a MLP may be from what is called unrelated business taxable income (UBTI). MLP net income is considered to be UBTI because the MLP's business is not associated with the retirement account's tax-exempt status. A taxpayer is allowed to have $1,000.00 of UBTI within a retirement account before any income tax liability is incurred. The custodian of the IRA that holds the MLP is required to file an IRS Form 990-T which lists any UBTI. The custodian is also responsible for paying the tax amount from the account.

If the taxpayer sells the MLP, then the tax reporting is more complicated than just selling shares of stock or a mutual fund. The cost basis is adjusted for the unitholder's share of income and deduction. An area that a taxpayer should become more familiar with is deprecation recapture. There is a special long-term capital gains tax that applies when an asset is sold that has been depreciated. The portion of the capital gain that is attributable to prior depreciation deduction is considered depreciation recapture and is taxed at 25.0%.

MLPs can be excellent investment vehicles. However, if not understood, returns can be diminished due to misunderstood income tax consequences.

PULSE



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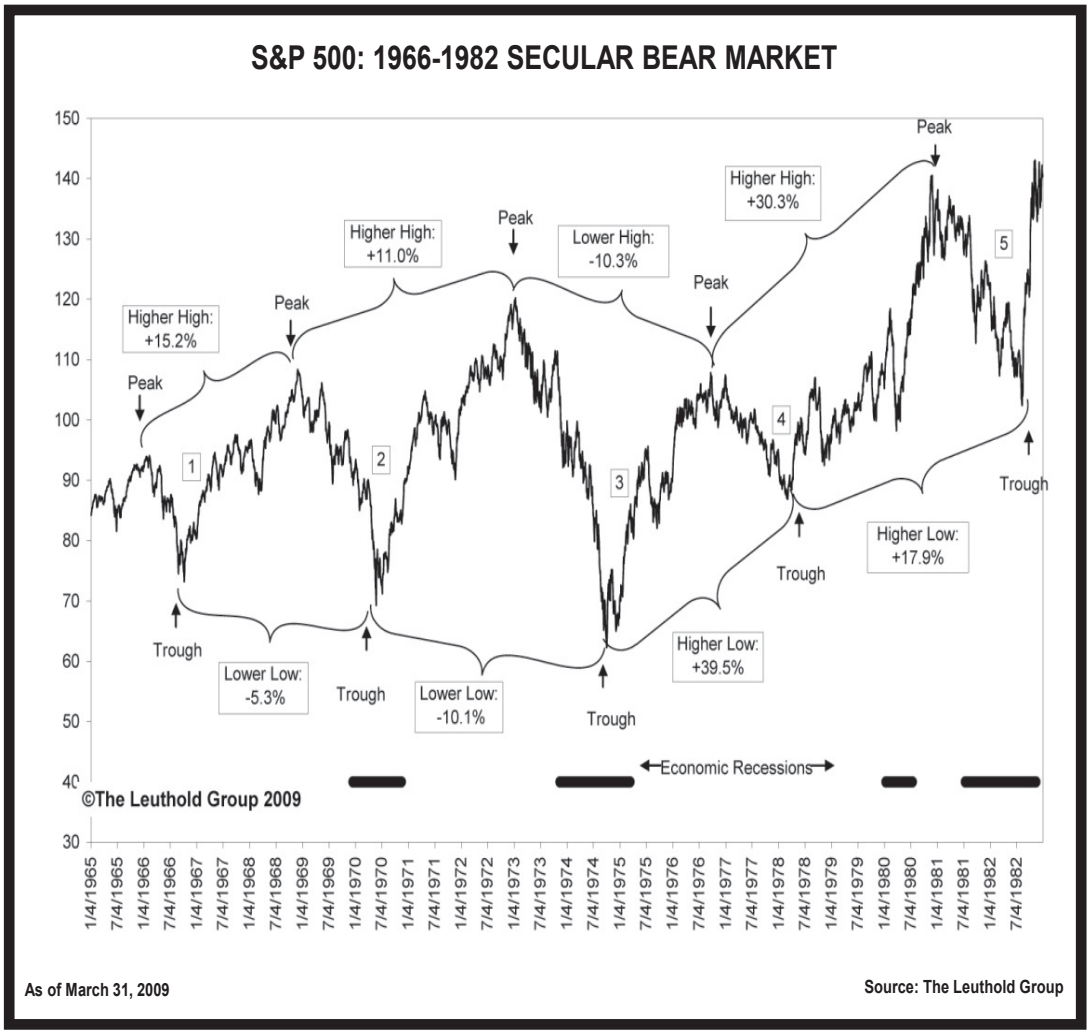
Secular Bear Market, *continued from page 1*

So far in the current Secular Bear Market, we have had two full Cyclical markets. Therefore, even if the current Cyclical market has ended, which we are highly doubtful about, it seems likely that more financial pain will be forthcoming in the years ahead as we will probably experience one or more additional Cyclical Bear Markets.

While we continue to believe this current economic and financial market downturn is more similar to the one in the U.S. in the 1930s and even the Japanese one in the 1990s than the 1966 to 1982 period, we also believe it is important to understand both.

Listed below is a blow-by-blow description of the 1966 to 1982 Secular Bear Market. Please note that the Chart entitled, "The S&P 500: 1966-1982 Secular Bear Market" on the right and the numerical facts were excerpted from Eric Bjorgen's article in the Leuthold Group's March 2009 Perception Express publication. The article was entitled, "Is There Any Historical Perspective For Today's Stock Market?"

The 1966 - 1982 Secular Bear Market period encompassed five Cyclical Bull and Bear Markets. Let's examine each one of these Cyclical Bear Market Cycles:



1. 1966 was a moderate, short-lived Bear Market decline (the S&P fell 22.0% peak to trough) that lasted eight months. A recession did not occur during that time. The S&P 500 subsequently recovered to a new all-time high.

2. The next Bear Market (1968-1970) resulted in a deeper decline (the S&P 500 fell 36.0% peak to trough), which lasted 18 months. It was the biggest Cyclical Bear Market decline in the post-World War II period. There was a recession during that time period, but it lasted less than one year. This was followed by a recovery which took the S&P 500 to new all-time highs.

3. The 1973-1974 declines were even more severe than the preceding Cyclical Bear Market, resulting in an even lower low than the prior Cyclical Bear Market. In total, the S&P 500 declined 48.0% peak to trough. The downturn lasted approximately 20 months. Price/Earnings ratios peaked in October, 1972. Energy prices peaked as well as capital expenditures and real personal consumption plunged. This was followed by a Bull Market, which peaked below the previous Bull Market highs.

The last two Cyclical Markets were markets that declined, but did not reach new lows. They are summarized as follows:

4. The 1976 second-half downturn ended in January, 1977. The downturn of the S&P 500 was approximately 20.0%. A recession did not occur.

5. The next decline for the S&P 500 (approximately a 27.0% loss) lasted approximately 18 months. The decline began as interest rates peaked the first time at 20.0%, but just after the first of the twin recessions and lasted approximately three-quarters of the way through the second of the twin recessions.

During the 1966 to 1982 Secular Bear Market, the 10-year normalized (in effect, earnings are averaged together for a ten-year period and then divided by the current price) valuation methodology is used which provides a more accurate long-term valuation picture. In comparison, today's 10-year normalized Price/Earnings ratio (The Shiller Price/Earnings ratio) is approximately 26. This implies that the stock market would need to decline 60.0% to 70.0% to reach those same valuations. In 1932, the all-time low since 1926, 10-year normalized Price/Earnings ratios reached a low of five, which would imply a much steeper decline.

SECULAR BEAR MARKET WATCH

April 1, 2000 to August 31, 2014
(14 years and 5 months)

	Annual Compound Return	Total Return
Consumer Price Index (Inflation)	2.31%	38.93%
90-Day Treasury Bills Index-Total Return	1.82%	29.65%
Barclays Aggregate Bond Index-Total Return	5.69%	122.26%
HFRX Global Hedge Fund Index	3.00%	53.27%
S&P 500 Index (U.S. Stock Market)	4.00%	76.10%
MSCI EAFE Index (Developed Foreign Equities)	3.89%	73.33%
MSCI Emerging Market Index (Equities)	8.40%	219.95%
Newedge CTA Index (Managed Futures)	5.02%	102.61%
Dow Jones–UBS Commodity Index-Total Return (USD)**	1.75%	28.47%
Dow Jones U.S. Real Estate Index-Total Return (USD)**	11.43%	376.44%
Gold Bullion	11.20%	362.10%

* 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

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

The performance of the U.S. Stock market so far in the current period (April 1, 2000 to the present) certainly appears to indicate that we are in a Secular Bear market. Long-term returns (over the next 10 years) for the S&P 500 will probably be slightly worse than the last 14 years and 5 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.

PULSE

GOLD SET TO TUMBLE AGAIN?

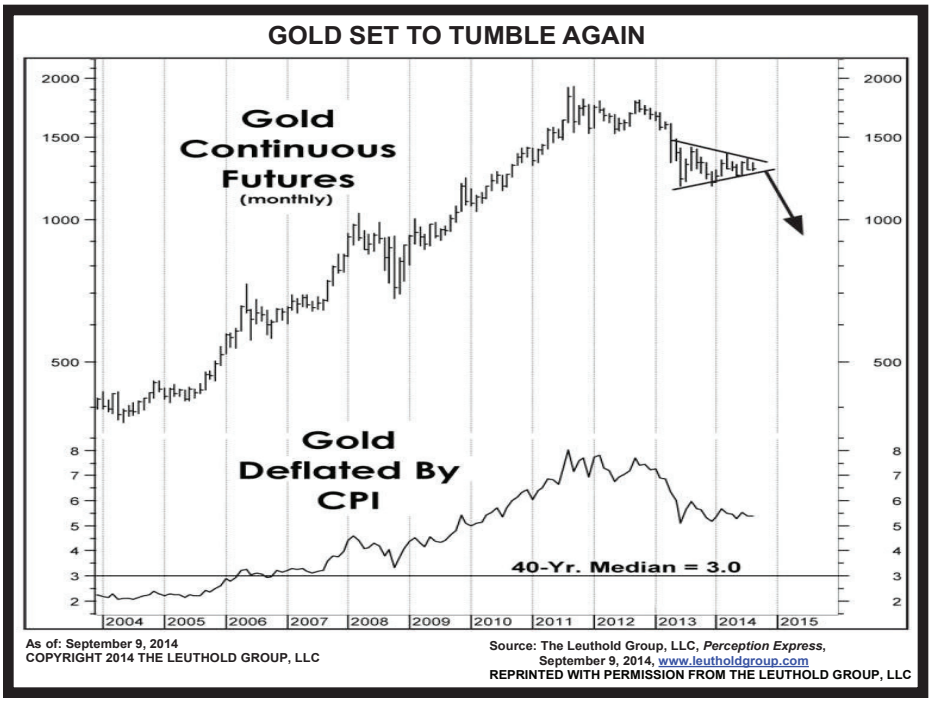
By Doug Ramsey, CFA, CMT, Chief Investment Officer, The Leuthold Group, LLC

Gold market fundamentals appear superficially bullish, with (1) consensus U.S. inflation forecasts now on the rise; (2) an extremely unstable geopolitical backdrop; (3) a European Central Bank set to grab the Quantitative Easing (QE) baton from the Fed; and (4) the persistence of negative real U.S. short-term interest rates. Gold closed 2013 at an extremely oversold level, and remains up 4.0% year-to-date after shedding about $80.00 in the last two months. While our January projection that gold would close the year at $900.00 now looks too pessimistic, we expect another major leg down in gold in the next few months.

Gold is down sharply since the launch of QE3 two years ago. It's hard to imagine that a new QE denominated in another currency will have a markedly different impact. QE in the U.S., meanwhile, is drawing to a close, and we are convinced that each of this year's tapering moves has represented a tightening of monetary policy–leaving gold (and eventually the stock market) vulnerable.

Despite a three-year decline of about 30.0%, gold is still 80.0% above its median "real" value since 1973.

Subjectively, the two-year "triangle" pattern in the chart looks like a continuation pattern… i.e. gold should now be ready to resume its late 2012 to mid-2013 downtrend. See "Gold Set to Tumble Again" chart to the right.



Source: This article was excerpted from "Gold Set To Tumble Again?", by Doug Ramsey, CFA, CMT, Chief Investment Officer, The Leuthold Group, LLC, (*Perception Express*, September 9, 2014) www.leutholdgroup.com.

PULSE

A WARNING FROM GRAHAM AND DODD

By John P. Hussman, Ph.D., President, Hussman Funds

A quote from Benjamin Graham & David L. Dodd, Security Analysis, 1934:

"During the latter stage of the bull market culminating in 1929, the public acquired a completely different attitude towards the investment merits of common stocks… Why did the investing public turn its attention from dividends, from asset values, and from average earnings to transfer it almost exclusively to the earnings trend, i.e. to the changes in earnings expected in the future? The answer was, first, that the records of the past were proving an undependable guide to investment; and, second, that the rewards offered by the future had become irresistibly alluring.

"Along with this idea as to what constituted the basis for common-stock selection emerged a companion (related) theory that common stocks represented the most profitable and therefore the most desirable media for long-term investment. This gospel was based on a certain amount of research, showing that diversified lists of common stocks had regularly increased in value over stated intervals of time for many years past.

"These statements sound innocent and plausible. Yet they concealed two theoretical weaknesses that could and did result in untold mischief. The first of these defects was that they abolished the fundamental distinctions between investment and speculation. The second was that they ignored the price of a stock in determining whether or not it was a desirable purchase.

"The notion that the desirability of a common stock was entirely independent of its price seems incredibly absurd. Yet the new-era theory led directly to this thesis… An alluring corollary of this principle was that making money in the stock market was now the easiest thing in the world. It was only necessary to buy 'good' stocks, regardless of price, and then to let nature take her upward course. The results of such a doctrine could not fail to be tragic."

<u>Editor's Comment:</u> We find ourselves in very similar circumstances today as those mentioned in this article. However, it is difficult to know exactly when a bear market will occur and especially a megabear market (a 40.0% loss or more), but there is a high probability that one will occur over the next five years and perhaps sooner.

Source: This article was excerpted from "A Warning From Graham and Dodd" by John P. Hussman, Ph.D., President, Hussman Funds, (*Weekly Market Comment*, September 15, 2014), www.hussmanfunds.com.

PULSE

GOLF JOKES

A husband and wife are on the 12th green when suddenly she collapses.

"Help me dear," she groans with her hand outstretched to her husband. The husband dials 911 on his cell phone, talks for a few minutes, picks up his putter and lines up his putt.

His wife raises her head weakly off the green and stares at him. "I'm dying here and you're putting?"

"Don't worry dear," says the husband calmly, "they found a doctor on the fourth hole and he's coming to help you."

"Well, how long will it take for him to get here?" she asks feebly.

"No time at all," says the husband, "everybody's already agreed to let him play through."

Source: The Leuthold Group, LLC, "At Random" (*Perception Express*, September 2014)

A man and wife walked into a dentist's office.

The man said to the dentist, "Doc, I'm in one heck of a hurry. I have three buddies sitting out in my car waiting to play golf. We've got a 10:00 a.m. tee time at the best golf course in town and it's 9:15 already! So forget about the anesthetic, I don't have time for the gums to get numb. Just pull the tooth and be done with it!"

The dentist thought to himself, "My God, this is surely a brave man asking to have a tooth pulled without using anything to kill the pain." So the dentist asked him, "Which tooth is it sir?"

The man turned to his wife and said, "Open your mouth honey and show him…"

Source: The Leuthold Group, LLC, "At Random" (*Perception Express*, September 2014)

GOVERNMENT WASTE

The Government once spent

$145,000

in tax dollars to buy an iPod Touch for every sixth grader at New Hampshire middle school.

The Government once spent

$206,000

in tax dollars for wool research in Montana, Texas and Wyoming.

The Government once spent

$4.5 MILLION

in tax dollars to build a neon sign museum in Las Vegas.

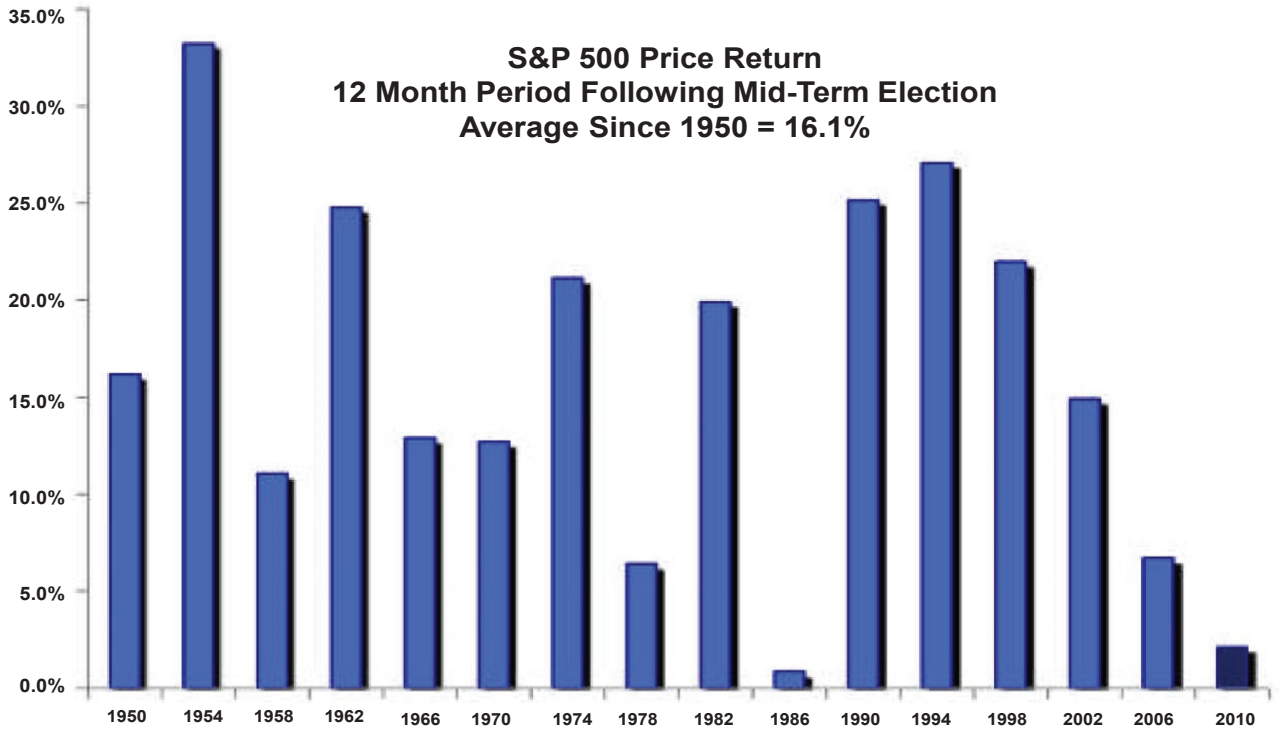
The Government once spent

$4 MILLION

in tax dollars to dump 30 million pounds of oyster shells into the St. Lucie River in Florida.

Source: Jefferson National

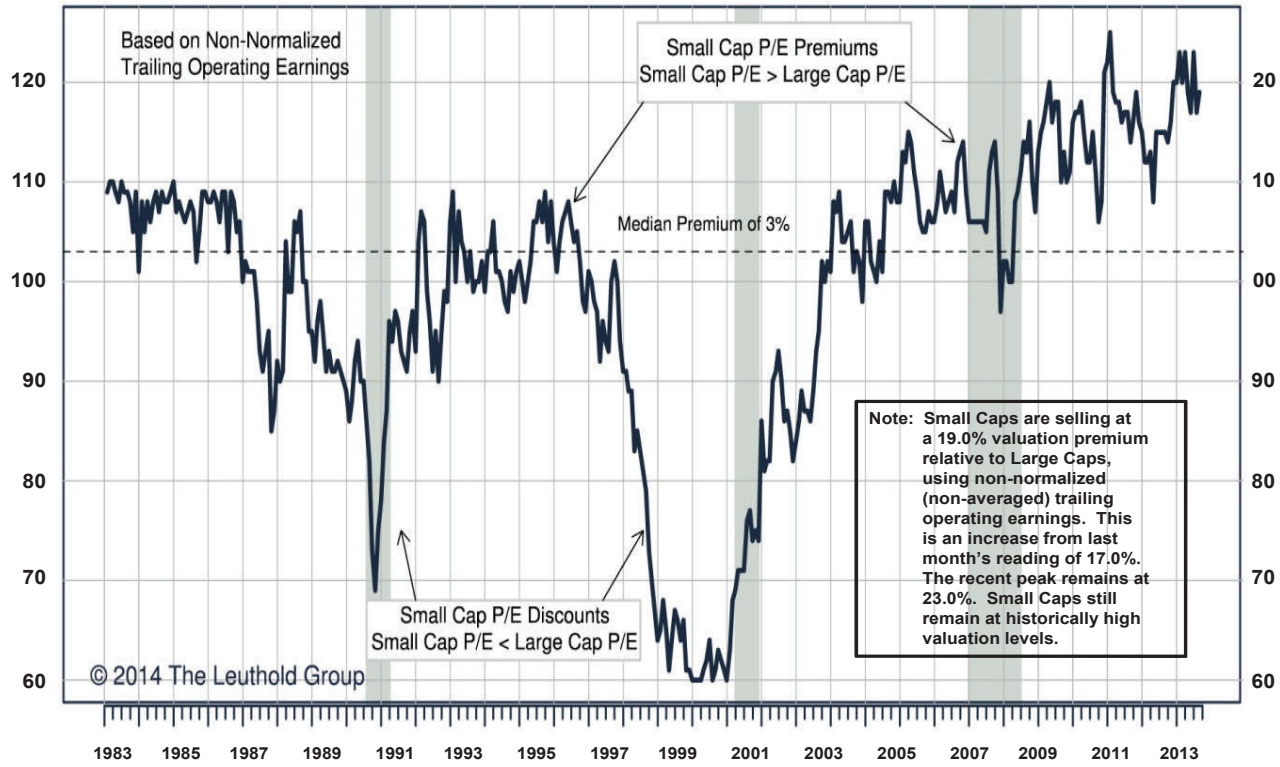
THE S&P 500 HAS NOT DECLINED IN THE 12 MONTHS FOLLOWING A MID-TERM ELECTION SINCE 1946



As of: September 22, 2014

Source: 361 Capital, *Weekly Research Briefing*, September 22, 2014
www.361capital.com

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



As of: September 9, 2014

Source: The Leuthold Group, LLC, *Perception Express*, September 9, 2014
www.leutholdgroup.com

THE BUFFETT CONUNDRUM: PASSIVE MANAGEMENT AND AUTOMOBILES

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

Passive investing has become a popular gospel sung by the investment media. Active management is now blasphemy. John C. ("Jack") Bogle, founder of passive investment behemoth Vanguard Group, is now oddly mentioned in the same breath as Warren Buffett. This stems from Warren Buffett's comments in Berkshire Hathaway's 2013 Annual Report discussing how he has instructed the trustee of his wife's inheritance (received after Warren's passing) to invest in index funds, specifically recommending Vanguard's S&P 500 index fund. This is a bit of a conundrum as Mr. Buffett accumulated his wealth actively but is posthumously ordering his widow's wealth to be managed passively. Some have taken this to be the proverbial last nail in the coffin for active management. Oversimplification is a cardinal sin when investing.

Starting from the ground up, passive investing is for passive investors. Far from rocket science, but here's the important question: "Are you capable of being a passive investor?" Many investors think they are and find out the hard way that they are not.

Buying index funds because they're cheap sounds great on the surface, but buying index funds and managing a portfolio of index funds are not one and the same. When managing a portfolio, decisions do not end after the funds are purchased. This is important to recognize because most investors are unable to stand by and dispassionately watch the value of their savings ungracefully (and at times violently) fluctuate over time. Even if the portfolio is well constructed and appropriate for the investor's risk-tolerance (which is an imperfect science, in and of itself), there will be weeks, months, and years when it will seem like things are not working. "My investments aren't doing as well as all those energy stocks…am I missing out?" "Is my portfolio supposed to drop that much in a month's time?" "These guys on CNBC said inflation is picking up… should I sell some of my bond funds?" These questions, and dozens like them, haunt every investor. If one is able to be so detached as to never dabble in such curiosity, there is a fair likelihood that they make for a good passive investor. Good passive investors generally end up performing relatively well vs. the all-too-many that bounce between strategies as the voices in their head take over.

Another key consideration is that a strategy must be developed before it can be executed. Imagine for a moment that you walk into an auto parts store and ask the clerk for tires. When the clerk asks you about what kind, you respond "the cheapest ones". At the end of the clerk's bewildered stare will be a series of questions about the wheel diameter, wheel width, sidewall depth, seasonal purpose, etc… to determine what tire is appropriate given the circumstances. Even if the cheapest tires are of equal quality to the more expensive ones, cheap vs. expensive only comes into play once the correct strategy has been identified, which in this case involves a very simple exercise in determining the correct size and purpose (e.g. winter/snow) of the tires being purchased. The process of determining the correct portfolio strategy is far less objective, but is still a critical undertaking for any would-be investor prior to arriving at a discussion related to active or passive management.

With investing, nothing is ever simple. Consumer publications devoted to finance and investing tend to favor simple explanations and simple solutions that lack the context necessary to merit attention. Costs do matter and investors deserve transparency and a better understanding of what it is exactly that they are paying for. However, more times than not the passive vs. active arguments only manifest grotesque simplifications of nuanced matters, which is as much misleading as it is disappointing.

Most investors are not equipped to develop their own investment strategies and comfortably stick with them for 30 plus years. As such, paying for the assistance of a professional to assist in this process may be worth every penny. Think of it this way: The bus may be the cheapest way from point A to point B, but not everyone knows which stops at which to get off (or at which to stay on, for that matter). Getting off at the wrong stops sort of negates any advantage, financial or otherwise, of choosing the bus as your mode of transportation. Most investors take the bus for a while, get off at the wrong stop, hail a taxi, get lost, rent a bike, ride it to a car dealership, buy a car, wreck the car, get back on the bus…it would be funny if it wasn't so true.

The overarching message is that portfolio strategy construction and a steadfast commitment to effectively and efficiently executing that strategy is far more meaningful than whether the funds are actively or passively managed.

Revisiting the Buffett conundrum, there are some good reasons why Mr. Buffett ordered his affairs as so. Buffett accumulated his wealth actively, and did so with such amazing success that he is the exception miles down the road from the rule. But who will be managing his wife's assets after he passes? Not he. Nor is she likely able to actively grow her wealth the way that her husband did. This may explain why the trust will be managed (for her benefit) by the trustee, who will be following Warren's orders to just buy index funds. No haunting voices or emotional strategy changes; the course is set. If I were as good at driving Ferraris (allow me to dream!) as Mr. Buffett is at buying businesses, I can envision myself providing my wife with some very similar instructions in my own will: "My days of driving Ferraris have come to their end, My Darling, and you were the greatest copilot I could have ever asked for. But your copilot days have ended, just as my driving ones have, because if there is a Ferrari with some chap other than me driving, I'd prefer you take the bus. Those, too, can get you to your destination just fine, so long as you don't get off at the wrong stops."

PULSE

LONG-TERM CAPITAL GAINS AND DIVIDENDS TAX RATES

2014

39.6% Income Bracket	**20.0%**
25.0% to 35.0% Income Brackets	**15.0%**
10.0% and 15.0% Brackets	**0.0%**

Source: Internal Revenue Service

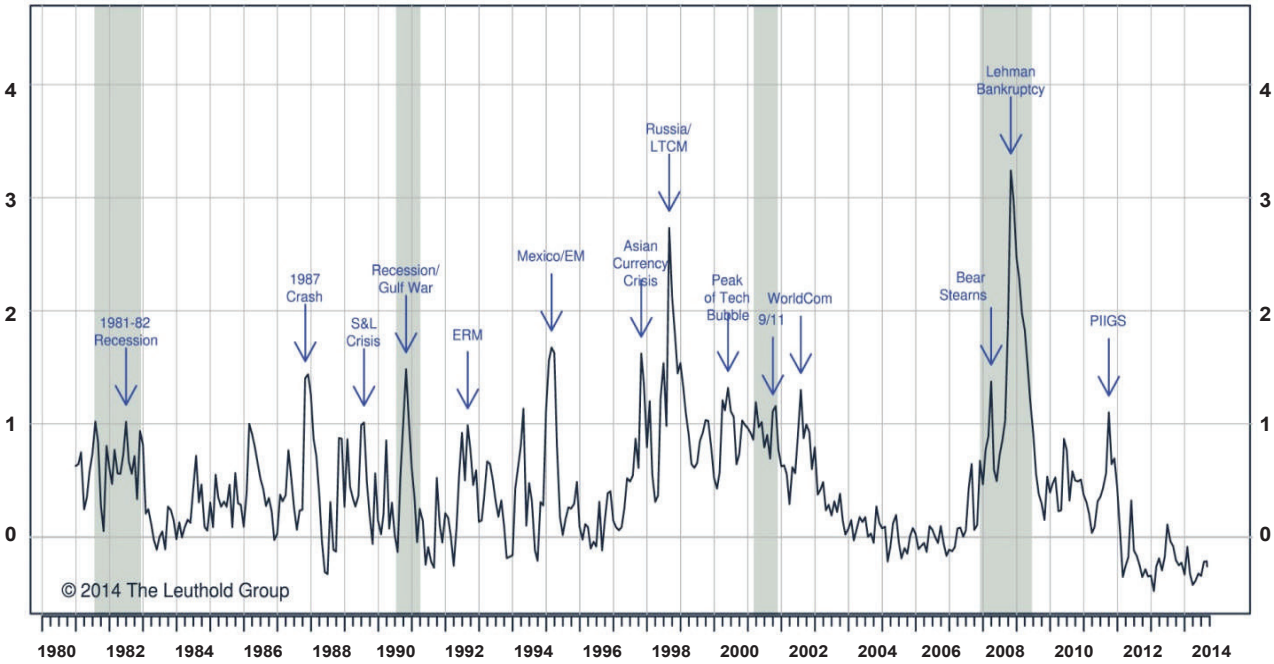
INTERESTING FACT

As of August 31, 2014, the $24 trillion stock market capitalization (share price of a times the number of shares outstanding times all companies) of all U.S. stocks represented 36.0% of the world's $66 trillion stock market valuation **(Source: BTN Research).**

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.



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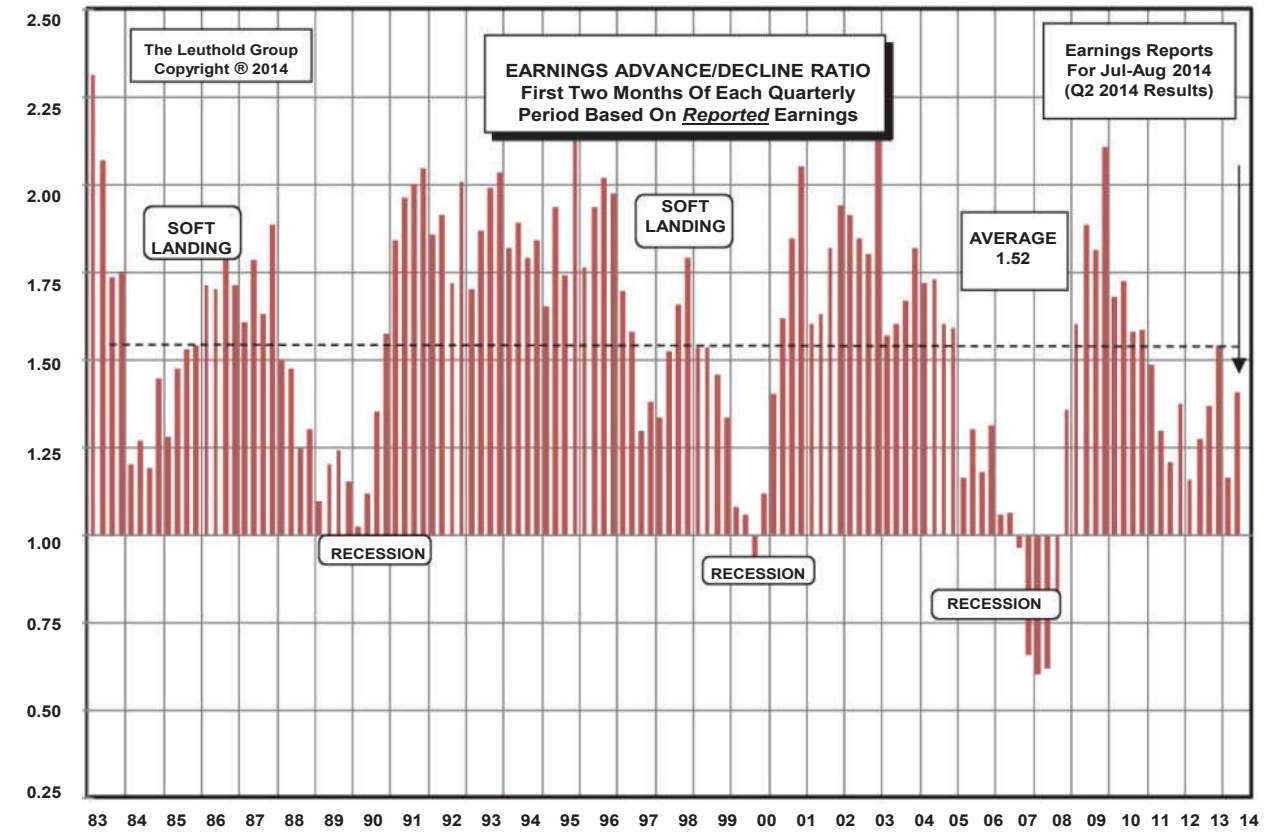

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LEGEND FINANCIAL ADVISORS, INC.® & EMERGINGWEALTH INVESTMENT MANAGEMENT, INC.'S

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.

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