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DO INVESTORS HAVE UNREALISTIC EXPECTATIONS FOR RETURNS?

By Stephen B. Blumenthal, Founder and CEO, CMG Capital Management Group, Inc.

"There is no panacea for the low returns implied by asset valuations today. Anyone suggesting differently is either fooling themselves or trying to fool you. But piling into the assets that have been the biggest help to portfolios over the past several years, as tempting as it may be, is probably an even worse idea than it usually is."

- Ben Inker, GMO

Today, let's take a look at the most recent market valuations and what they are telling us about forward returns over the next ten years. However, keep in the back of one's mind that they come pretty close on seven and ten-year return probabilities but it is a coin flip on what the equity returns will be over next number of months.

The insatiable demand for stocks

Unrealistic Expectations, *continued on page 10*

U.S. HIGH YIELD CORPORATE BONDS: LOOKING GOOD!

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

The yield on Barclays U.S. High Yield Bond fell another 40 basis points [(bps)(0.40%)] in August. The spread versus U.S. Treasuries narrowed by 53 bps to a level near the long-term median. See the "Barclays U.S. High Yield Bond Minus Treasury Bond Yield" chart on the top of page 6.

Oil, although very volatile, has rebounded nicely and has held its price above $40.00 per barrel, reducing the risk of seeing a repeat of 2015. A potential Federal Reserve Board (Fed) interest rate hike, regardless of when it happens, will not likely affect the high yield category too much and certainly not as much as U.S. Treasuries. In any event, the hunt for yield will continue. Despite the nice gains already registered in 2016, High Yield bonds con-

Looking Good, *continued on page 6*

UNEXCITING MARKETS

GOLD AS A CURRENCY HEDGE

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

Gold's role as a store of value is becoming more apparent. Demand for the yellow metal could continue its red hot streak, despite its price appreciation.

This has been the case in countless past examples. Indians' longstanding love of and cultural affinity of gold jewelry as protection against currency uncertainty. For centuries, inhabitants of the Indian subcontinent saw continuous regime change, not to mention imperialist rule by various European forces. During all this time, the one stable and widely accepted currency was gold.

A third of Indian gold jewelry demand comes from rural farmers, who annually convert a potion of their crop revenue into the yellow metal. Whether

Gold As A Currency Hedge, *continued on page 13*

ROTATION AWAY FROM LOW VOLATILITY?

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

It's cliché to claim that the current bull market is the most hated one in history. However, a related irony is that it's precisely those equity managers who've doubted the bull's staying power who've come out on top in the last 15 months.

Table 1, "Performance Since "Old" Bull Market High Of May 21, 2015" on page 4, examines the performance of various composite and sector indexes since the "old" bull market high of May 21, 2015–a cyclical peak that held for 14 months. Impressive as the market's seven-month rebound has been, it's lifted

Low Volatility, *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 12 times by Medical Economics magazine as one of "The 150 Best Financial Advisors for Doctors in America", twice as one of "The 100 Great Financial Planners in America" by Mutual Funds magazine, five times by Dental Practice Report as one of "The Best Financial Advisors for Dentists In America" and once by Barron's as one of "The Top 100 Independent Financial Advisors". Lou was selected by Financial Planning magazine as part of their inaugural Influencer Awards for the Wealth Creator award recognizing the advisor who has made the most significant contributions to best practices for portfolio management. He has been named to Investment Advisor magazine's "IA 25" list three times, ranking the 25 most influential people in and around the financial advisory profession as well as being named by Financial Planning magazine as one of the country's "Movers & Shakers" recognizing the top individuals who have done the most to advance the financial advisory profession.

GOLD IS AT EXTREME CORRELATIONS AGAINST STOCKS, BONDS AND OIL

by Eric Bush, CFA in Markets, Gavekal Capital

Gold has been exhibiting some extreme correlations over the past three months. By extreme, we mean the most negatively correlated it has been to stocks, bonds and oil prices in decades (or ever in some cases). Let's take a look at some charts.

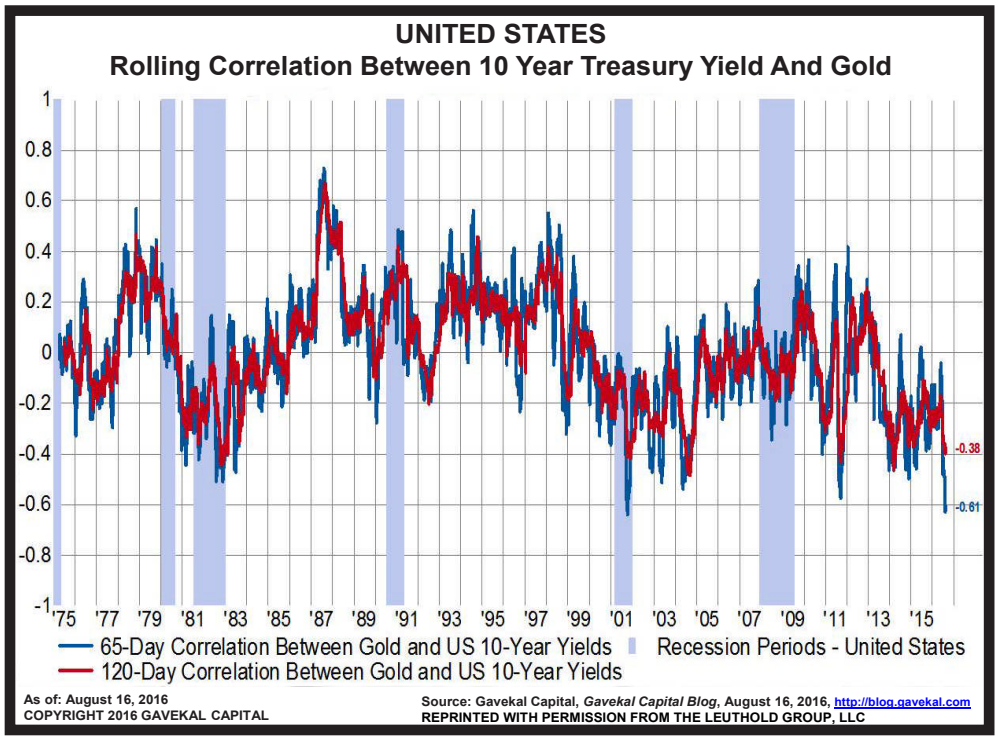
Since 1974, the 65-day rolling correlation between gold prices and US 10-year yields has averaged exactly 0.0%, i.e. there usually isn't any relationship between the two. However, over the past 65-days the correlation has moved to more than -60.0%. The only other time this correlation has been this negative was in October 2001. See the "Rolling Correlation Between 10 Year Treasury Yield and Gold" chart to the top right.

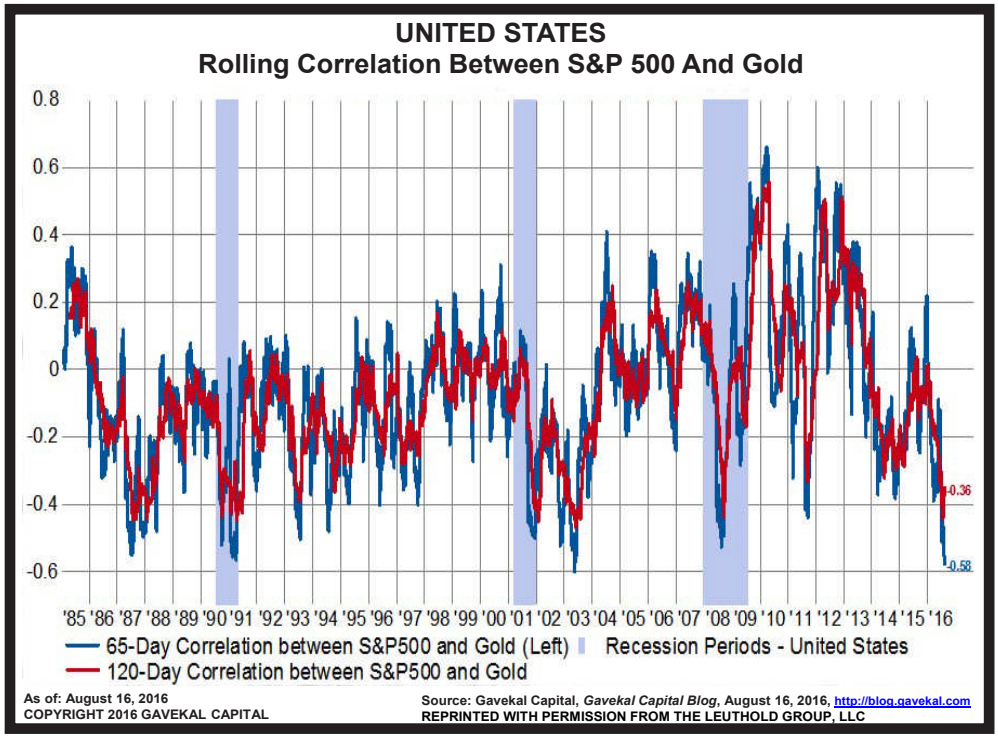
Moving to equities, since 1984 the equity-gold correlation has only surpassed -50.0% a handful of times (1987, 1990, 1993, 2001, 2002, 2003, and 2008). The latest reading of the 65-day correlation is -58.0% and as only been surpassed once (2003). See the "Rolling Correlation Between S&P 500 and Gold" chart to the bottom right.

The correlation between the VIX and gold is at an extreme as well but this time on the positive end of the spectrum. The 65-day correlation currently stands at 53.0%. Frighteningly, since 1990 (when the VIX series begins) the only other times this correlation was so tight was when the U.S. was in the middle of a recession (1991, 2001, 2008). See "Rolling Correlation Between Gold and The VIX" chart on the top of page 15.

Lastly, two commodities that usually have a slight positive correlation now have the most negative correlation since 1980. The average 65-day correlation between oil prices and gold prices is just 15.0%. However, the latest reading is -35.0%. Which, as you can see in the chart below, is the most extreme negative reading since 1980. See "Rolling Correlation Between Oil and Gold chart on the bottom of page 15.

As a bonus, check out the current 65-day correlation between stocks and bonds. This blog has previously discussed how the correlation between equity prices and oil prices has increased. Now, equity prices and bond yields are again moving more in tandem. At the beginning of the year, the 65-day correlation was just 25.0%. It has since shot up to 59.0%. This is a similar level as 2011-2012, but is still relatively high from a historical standpoint. See "Rolling Correlation Between S&P 500 and 10 Year Treasury Yields" chart on the top of page 16.





Source: This article was excerpted from "Gold Is At Extreme Correlations Against Stocks, Bonds and Oil", by Eric Bush, CFA in Markets, Gavekal Capital, (*Gavekal Capital Blog*, August 16, 2016), http://blog.gavekalcapital.com

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Gold Is At Extreme Correlations, *continued on page 15*

Low Volatility, *continued from page 1*

the S&P 500 only 2.3% above that high. What's more, only a handful of this lengthy list of market measures have managed to deliver double-digit gains during the period, and all of them are groups which a bearish equity manager might consider to be "cash surrogates"–including Utilities, Consumer Staples, and, more broadly, Low Volatility stocks. (Even the beloved Dividend Aristocrats failed to make the double-digit list.) For managers required to stay fully invested, then, betting against the bull through these defensive plays has proven the best way to conquer it. Meanwhile, true bull market "believers" who stayed in cyclicals (especially Transports and Materials) and High Beta have been punished. The market gods must be chuckling...

The past two months, however, have seen an encouraging break from the leadership pattern that's held for much of the last 15 months (See the "S&P 500 Low Volatility Index/S&P 500 High Beta Index" chart below). Low Volatility stocks–which went parabolic following the Brexit panic–have rolled over since mid-July, while the High Beta cohort has finally eclipsed its late-April highs. Among the long-time Low Volatility leaders, Utilities have been especially hard hit. The relative action of Mega Cap and Micro Cap stocks (shown in the, "Russell Top 50 Index / Russell Microcap Index" chart on the top of page 5) also shows an increase in risk appetite.

Source: This article was excerpted from "Rotation Away From Low Vol?", by Doug Ramsey, CFA, CMT, Chief Investment Officer, The Leuthold Group, LLC, (*Perception Express*, September 8, 2016), http://leuth.us/stock-market

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Performance Since "Old" Bull Market High Of May 21, 2015 (through September 6, 2016)

	Pct. Gain/ Loss	
U.S. Stock Indexes		
Dow Jones Industrials	1.4	%
Dow Jones Transports	-7.0	
Dow Jones Utilities	15.5	←
S&P 500	2.6	
S&P MidCap 400	2.2	
Russell 2000	-0.3	
NYSE Composite	-3.1	
NYSE Financials	-6.4	
NASDAQ Composite	3.6	
Russell 1000 Growth	3.0	
Russell 1000 Value	0.8	
S&P 500 High Beta Index	-8.5	
S&P 500 Low Volatility Index	12.2	←
S&P 500 Dividend Aristocrats	8.7	
S&P 500 Sectors		
Consumer Discretionary	5.1	%
Consumer Staples	10.8	←
Energy	-11.9	
Financials	-1.3	
Health Care	-3.0	
Industrials	3.3	
Information Technology	9.0	
Materials	-4.1	
Telecom Services	9.9	
Utilities	12.2	←
World Stocks (in USD)		
MSCI AC World Index	-4.3	%
MSCI AC World Ex USA	-10.8	
MSCI World Index	-3.6	
MSCI World Ex USA	-11.0	
MSCI World Small Caps	-0.6	
MSCI Emerging Markets	-10.6	
MSCI Frontier Markets	-16.8	

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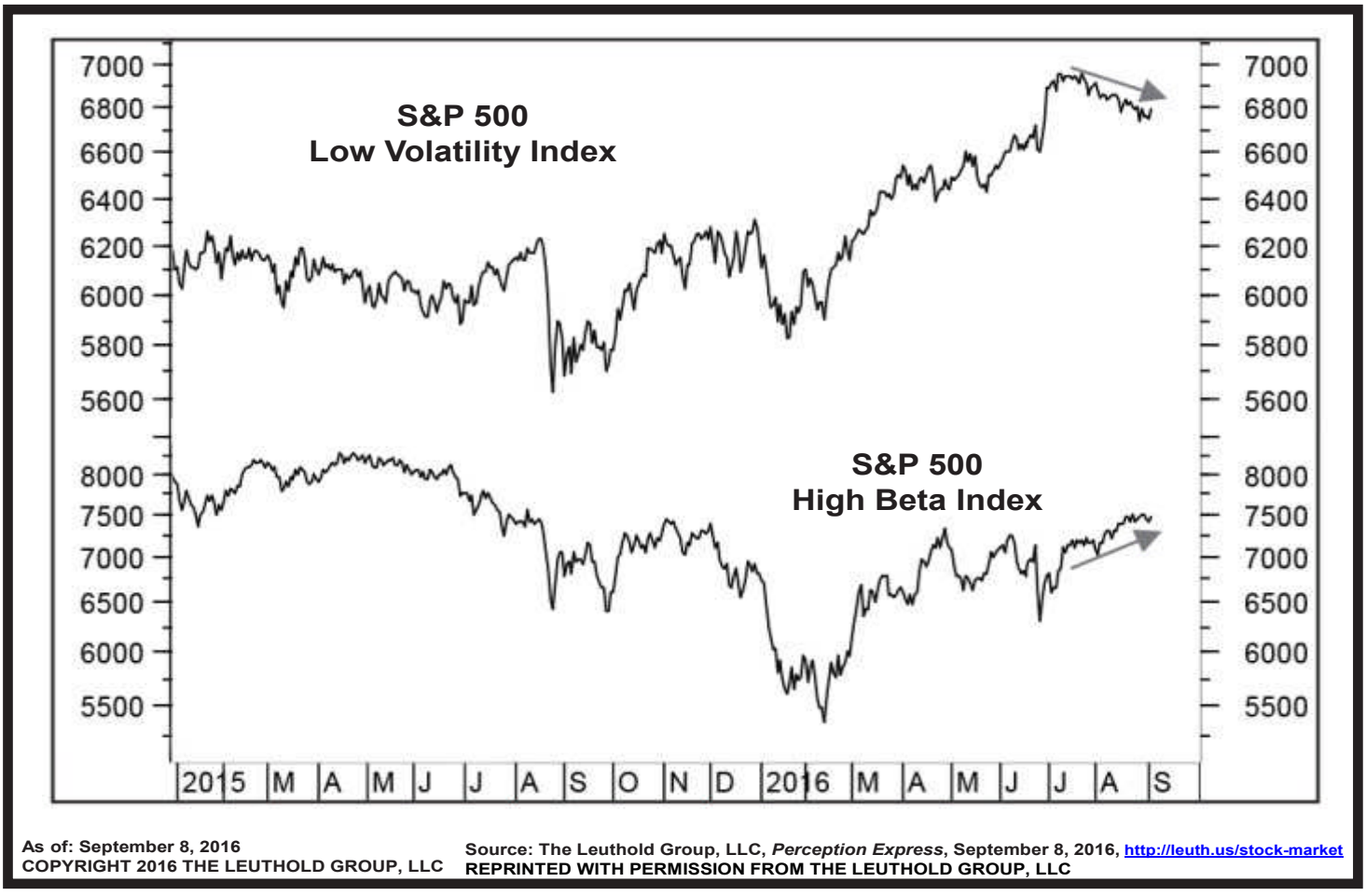

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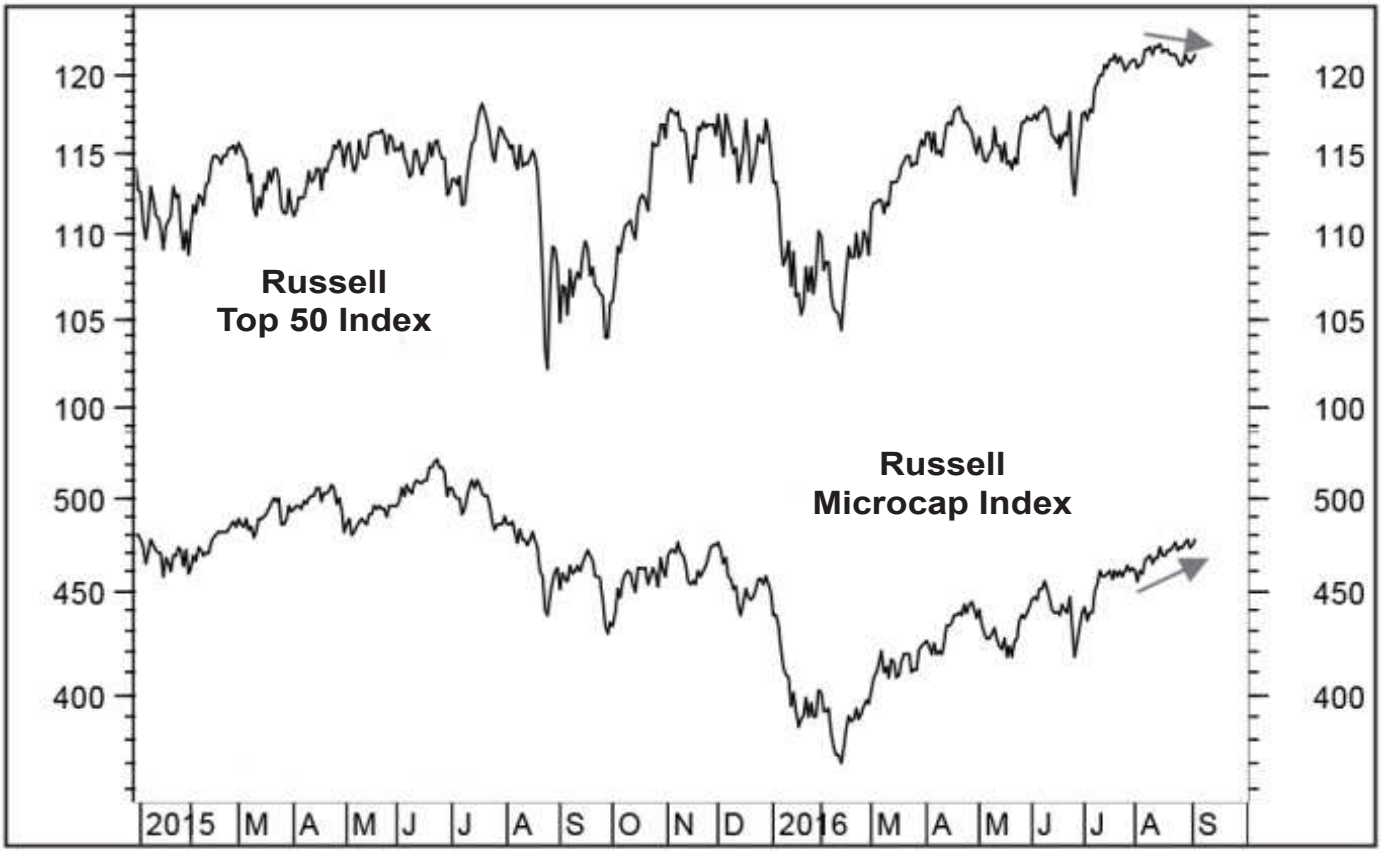
Low Volatility, *continued on page 5*

Low Volatility, *continued from page 4*



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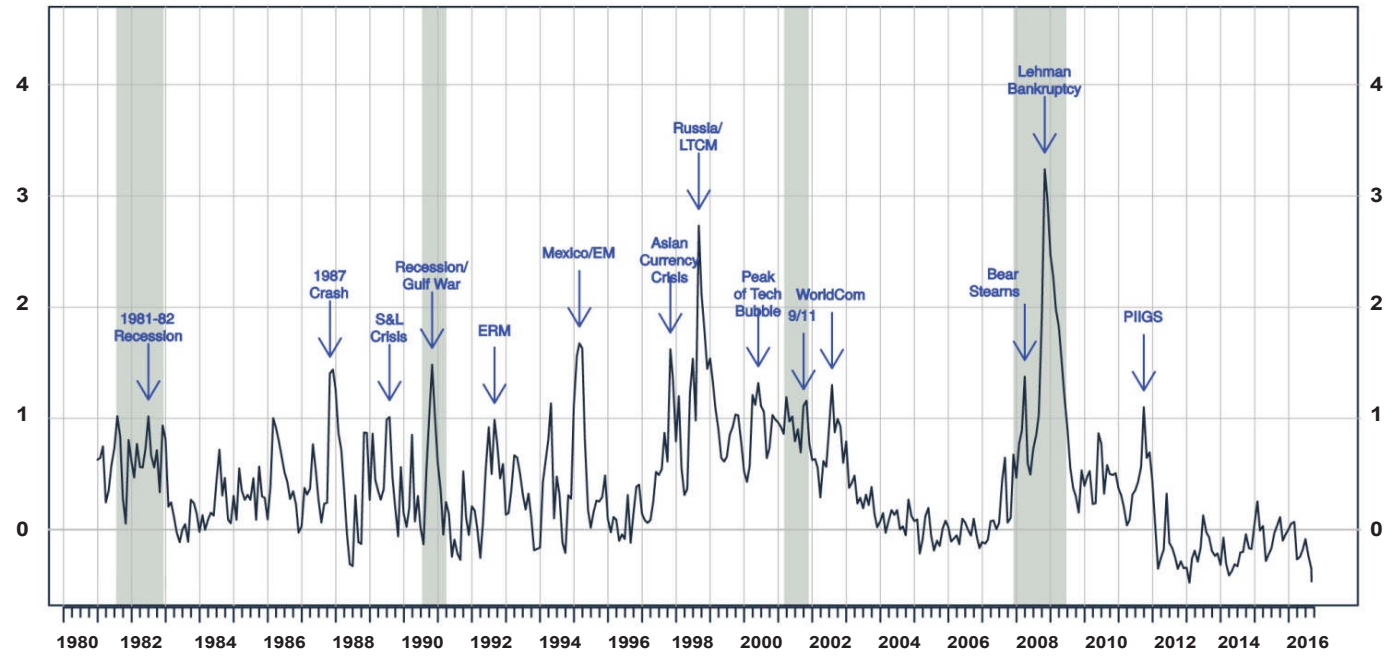
MONTHLY RISK AVERSION INDEX (RAI)
IN "EXTREME LOWER RISK" RANGE

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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Looking Good, *continued from page 1*

tinue to look attractive, although bank loans, their close cousins, with their adjustable interest rates, continue to look even more enticing.

Source: Parts of this article were excerpted from "U.S. High Yield Corporate Bonds: Upgraded To Favorable?", by Chun Wang, CFA, PRM, Senior Analyst and Co-Portfolio Manager, The Leuthold Group, LLC, (*Perception Express*, September 8, 2016), http://leuth.us/bond-market

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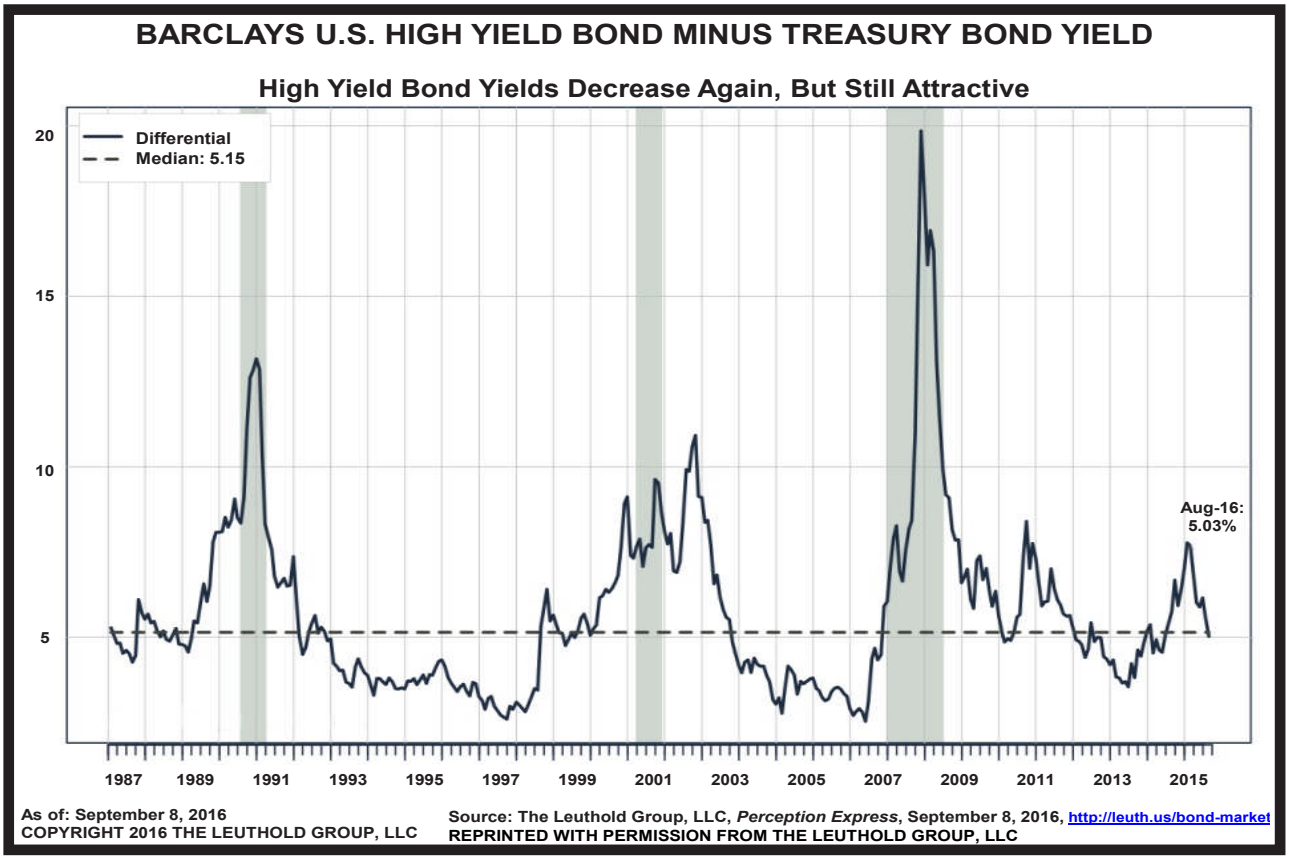

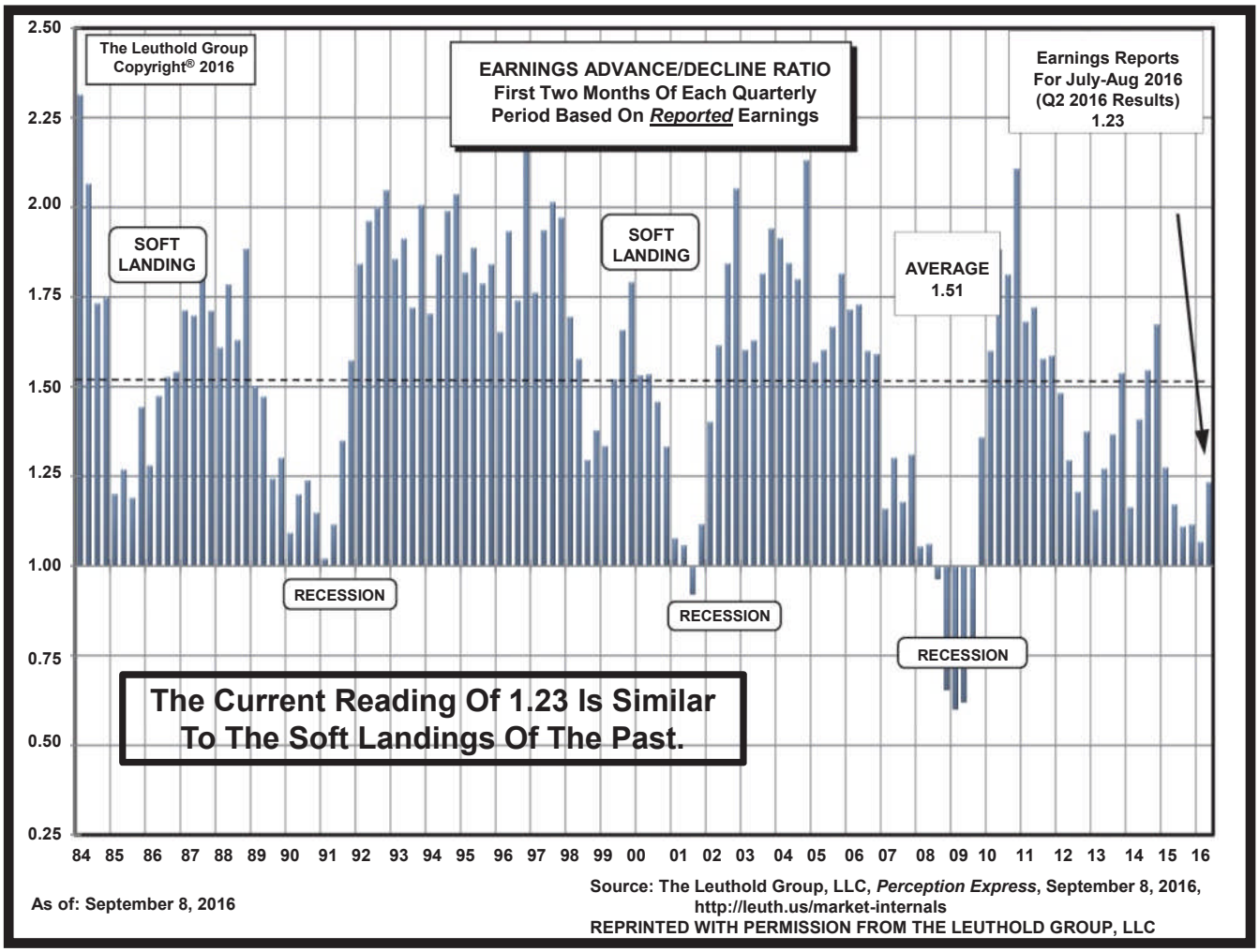

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SECULAR BEAR MARKET WATCH

April 1, 2000 to August 31, 2016
(16 years and 5 months)

	Annual Compound Return	Total Return
Consumer Price Index (Inflation)*	2.10%	40.69%
90-Day Treasury Bills Index-Total Return	1.61%	29.97%
Barclays Aggregate Bond Index-Total Return	5.45%	139.18%
High Yield Corporate Bond Index – Total Return	9.27%	329.40%
S&P Leveraged Loan Index – Total Return	4.88%	118.93%
HFRX Global Hedge Fund Index	2.29%	45.12%
S&P 500 Index (U.S. Stock Market)	4.28%	99.09%
MSCI EAFE Index (Developed Foreign Equities)	2.85%	58.78%
MSCI Emerging Market Index (Equities)	6.36%	175.56%
Newedge CTA Index (Managed Futures)	5.21%	130.23%
Dow Jones–UBS Commodity Index-Total Return (USD)**	-1.05%	-15.99%
Dow Jones U.S. Real Estate Index-Total Return (USD)**	11.29%	479.74%
Gold Bullion	9.87%	369.79%

As of: August 31, 2016

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

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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 16 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.

2016 PERFORMANCE YEAR-TO-DATE

January 1, 2016 to August 31, 2016
(8 months)

	Year-to-Date Total Return
Consumer Price Index (Inflation)	1.83%
90-Day Treasury Bills Index-Total Return	0.19%
Bloomberg Intermediate Term Corporate Bond Index	8.85%
Barclays Aggregate Bond Index-Total Return	5.86%
High Yield Corporate Bond Index – Total Return	14.87%
S&P Leveraged Loan Index – Total Return	6.80%
HFRX Global Hedge Fund Index	0.78%
S&P 500 Index (U.S. Stock Market)	7.82%
MSCI EAFE Index (Developed Foreign Equities)	0.94%
MSCI Emerging Market Index (Equities)	14.77%
Newedge CTA Index (Managed Futures)	2.17%
Dow Jones–UBS Commodity Index-Total Return (USD)**	5.36%
Dow Jones U.S. Real Estate Index-Total Return (USD)**	12.63%
Gold Bullion	23.36%

As of: August 31, 2016

Compound and Total Returns include reinvested dividends. Newedge Index is equally-weighted.
** USD = U.S. Dollar

Source: Bloomberg Investment Service

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Unrealistic Expectations, *continued from page 1*

with above average yield is causing valuations to diverge materially from historical norms. This may continue. In a recent State Street poll, investors were asked what their returns expectations are for the next five years and beyond for real estate, commodities, equities and bonds.

Answer: 10.9% for real estate, 8.1% for commodities, 10.0% for equities and 5.5% for bonds and 10.0% for equities? Who spiked their punch bowl?

In December 1999, GMO's seven-year forward return forecast predicted a negative annualized real (after inflation) return for stocks. They took a lot of heat then, but they were proven right.
In the intro quote above, Ben Inker noted, "There is no panacea for the low returns implied by asset valuations today. Anyone suggesting differently is either fooling themselves or trying to fool you."

Let's go back a few years to another point in time when valuations were stretched and investors were "fooling themselves." Note the two red arrows in the next chart, "Three Indexes: Percent Change from Their 2000 Peaks" below.

Here is that same chart after inflation is calculated in. See "Three "Real" Indexes: Percent Change from Their 2000 Peaks" chart on the top of page 11.

The current situation is a lot like the late 1990s. After a 17-year bull market, valuations were simply too high. Everyone was racing into technology. The market may go higher but what are the implications over the next five, ten and fifteen years – both before and after inflation. Boy, does the Fed wish to create inflation.

As of June 30, 2016, GMO's seven-year real (after inflation) return forecast for equities is even more negative than it was in 1999. Imagine a negative compounded -2.7% per year over the coming seven years. See chart chart on the top of page 12.

Let's go back to that State Street survey: 10.0% for equities? 5.5% for bonds?

$100,000 compounded at 10.0% per year for ten years equals approximately $259,000. That is almost 2.6 times on their money. GMO uses a seven year forecast but some also like ten-year forward return forecasts, so let's consider several investment choices (bets) over the coming ten years.

Maybe the reader is not in the 10.0% return camp? Maybe they are not as bearish as GMO but believe 10.0% is unlikely. Let's call it the "hope so" camp so for simplicity's sake, let's halve the potential return to 5.0%. That means that by the end of June 2026, they can look back and find that their $100,000 grew to $163,000 or 1.63 times their initial investment.

Finally, let's consider the GMO outcome. While their return prediction is for a -2.70% after inflation (the actual market return less inflation), let's assume that

THREE INDEXES: PERCENT CHANGE FROM THEIR 2000 PEAKS

Note: Data Through August 2, 2016

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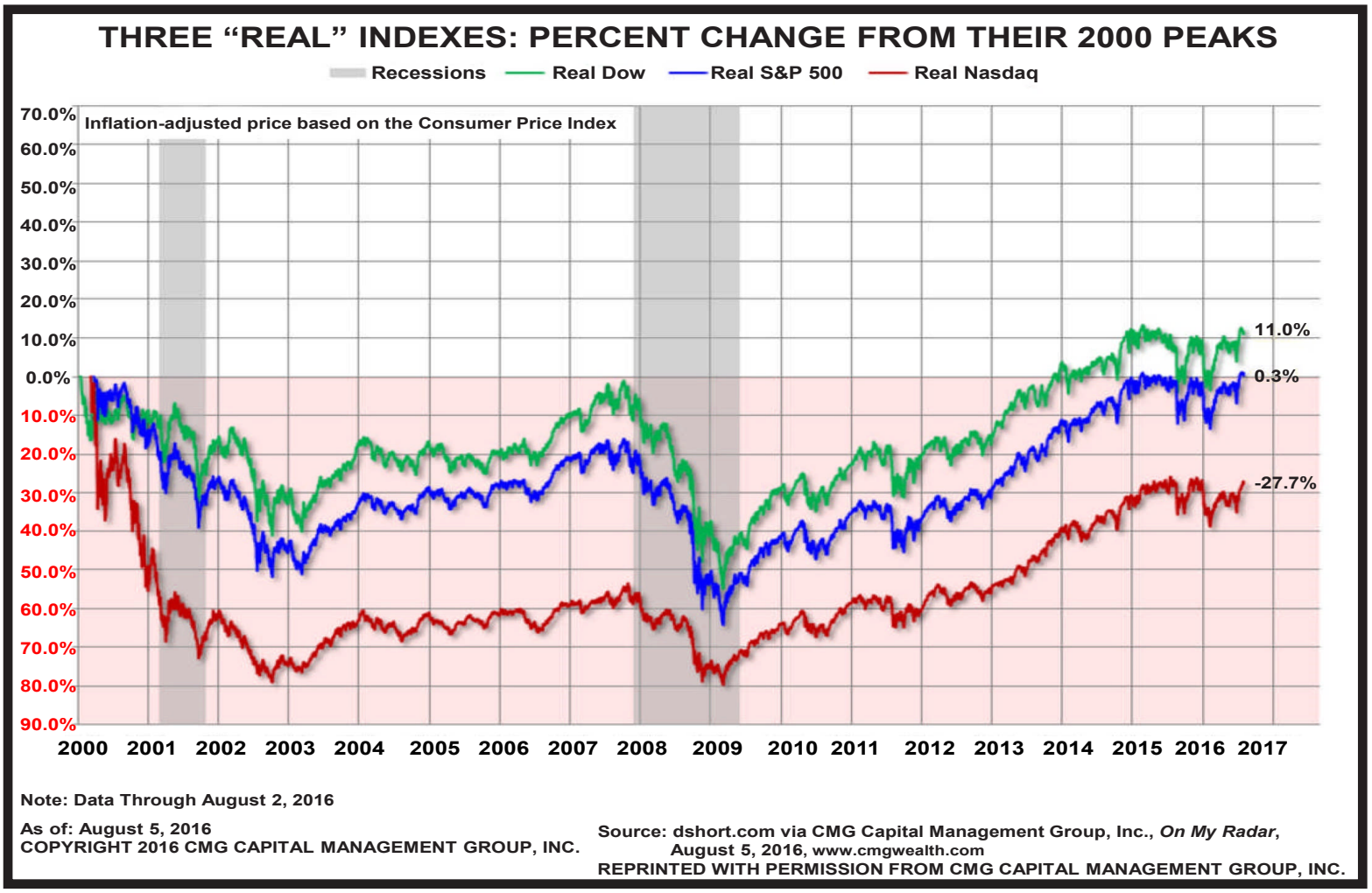
Unrealistic Expectations, *continued on page 11*

Unrealistic Expectations, *continued from page 10*



inflation is 2.70% and thus makes the nominal (before inflation is subtracted out) return 0.0%.

Overall, inflation is important because money has to grow in a way that covers the rising costs of things everyone needs. If inflation is 2.0% per year, a return of 2.0% is needed just to keep pace.

Three bets to consider: 10.0%, 5.0% or 0.0%.

1. State Street Poll (pays you 2.6 to 1) -$100,000 grows to $260,000

2. Hope So (pays 1.63 to 1) -$100,000 grows to $163,000

3. GMO (pays 1 to 1) -$100,000 grows to $100,000

Before a bet is placed, think of GMO as "the house" in the casino. They've done a great job at calculating the odds of winning. They've been posting their forecast metrics out for many years and their accuracy rate is impressive at a high 0.93 (1.0 is a perfect correlation while -1.0 is a perfect non-correlation). No guarantee of course, but 0.93 is really good. Keep that calculation in mind as the chips are placed on the table.

Hold on just one additional second. Added in is one last option to consider. Sometime within the next several years, like times in the past, a correction will take place that will reset the opportunity deck and make forward equity returns good again. Think about the opportunity to buy equities in the summer of 2002 or late 2008. So add into the mix option #4:

4. GMO/Patience/Defense/Opportunity (pays 1 to 1 over two years then 2 to 1 over the remaining eight years: for overall odds of 2.14 to 1) -$100,000 grows to $214,000 *(0.0% over the next two years and then 10.0% for the remaining eight).

A recession or rising interest rates or both will most certainly hit the popular 60-40 portfolio mix hard. No guarantees.

Let's look at the latest valuation measures, including my favorite "Median PE". What are valuations telling us about 10-year forward return probabilities?

It is best to go back and look at the chart above that shows the performance of the DJIA, S&P 500 and NASDAQ since 2000. The Dow performed best but take that 56.2% and divide it by 16.5 years. That equates to a compounded annualized return of approximately 3.0% (before inflation is calculated in). Also, take a look at that 1.8% gain in the NASDAQ. Recall that most of the money was flooding into technology stocks in the late 90s. 1.8% divided by 16.5 years is not so good and that is before inflation is considered.

Source: Parts of this article were excerpted from "Taking the "E" Train South", by Stephen B. Blumenthal, Founder and CEO, CMG Capital Management Group, Inc., (*On My Radar*, August 5, 2016), www.cmgwealth.com

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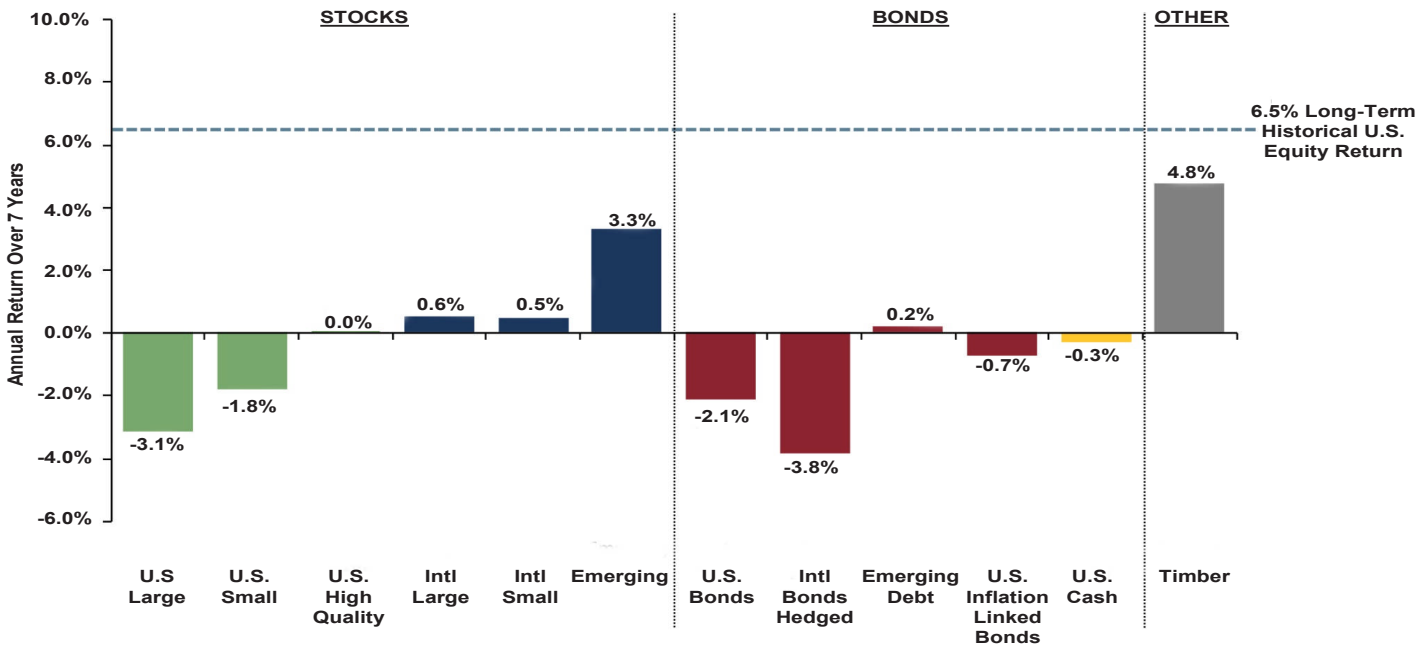
Unrealistic Expectations, *continued on page 12*

Unrealistic Expectations, *continued from page 12*

GMO 7-YEAR ASSET CLASS REAL RETURN FORECASTS*



* The chart represents real return forecasts for several asset classes and not for any GMO fund or strategy. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from those anticipated in forward-looking statements. U.S. inflation is assumed to mean revert to long-term inflation of 2.2% over 15 years.

As of: August 31, 2016

Source: GMO, LLC
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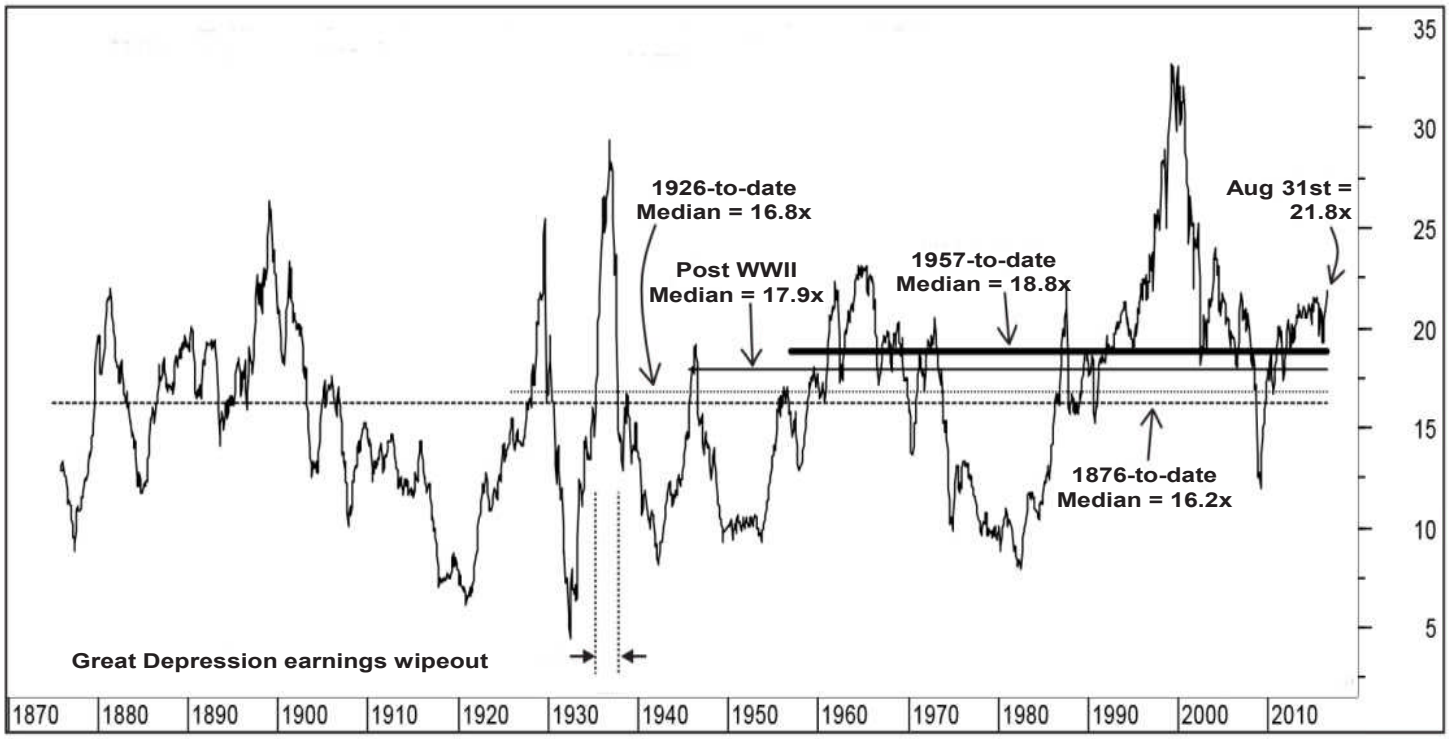
PULSE

S&P 500 PRICE-TO-EARNINGS (P/E) RATIO ON FIVE-YEAR NORMALIZED EARNINGS PER SHARE (EPS), 1876 TO PRESENT
CURRENT VALUATIONS AMONG THE HIGHEST IN HISTORY



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Source: The Leuthold Group, LLC, *Perception Express*, September 8, 2016, http://leuth.us/stock-market
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VALUATIONS ARE HIGH AND FORWARD RETURNS PROBABILITIES ARE LOW

By Stephen B. Blumenthal, Founder and CEO, CMG Capital Management Group, Inc.

Looking at data from 1935 to present, the chart below shows the subsequent annual nominal return in the 10-year periods following, based on median Price-To-Earnings Ratio (P/E). The current median (250 companies are higher than the median and 250 companies are lower.) P/E for the S&P 500 as of July 2016 is 24. The chart shows that when the reported number was greater than a median of 20, the subsequent annualized return has averaged just 2.22% per year. After inflation (or economic terms) the "real return" was -0.66%.

The disconnect is that individual investors, according to a recent State Street poll, are expecting 10.0% stock market returns over the coming five-plus years.

Source: Parts of this article were excerpted from "The Little Engine That Could", by Stephen B. Blumenthal, Founder and CEO, CMG Capital Management Group, Inc., (*On My Radar*, August 26, 2016), www.cmgwealth.com

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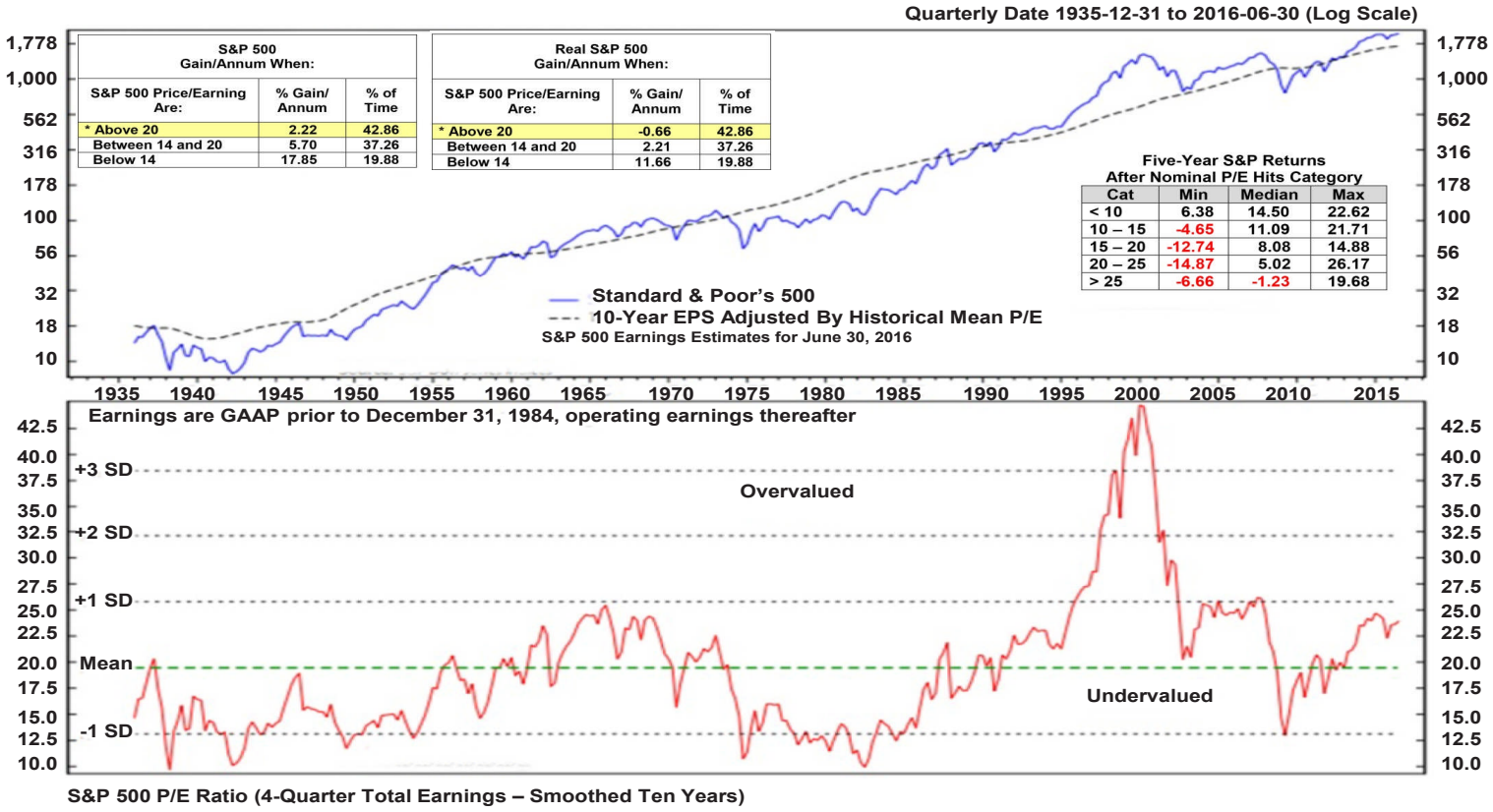
STANDARD & POOR'S INDEX WITH 10-YEAR EARNINGS PER SHARE (EPS)



As of: August 26, 2016

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Source: S&P Dow Jones Indices via CMG Capital Management Group, Inc., *On My Radar*, August 26, 2016, www.cmgwealth.com

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PULSE

Gold As A Currency Hedge *continued from page 1*

this gold is stored or given to a female family member, perhaps a daughter, before her wedding day, its purpose is twofold: one, as a beautiful heirloom to be worn and passed down to the next generation, and two, as a form of financial security.

It's estimated that Indian households currently hold more than 20,000 tonnes of gold. To put that in perspective, 20,000 tonnes is more than the official gold holdings of the U.S., Germany, Italy, France, China and Russia combined.

With speculation strong that a rupee devaluation is imminent, it makes just as much sense now as ever for Indians to have at least some of their wealth in gold. When the rupee unexpectedly dipped to record lows in August 2013, the wealth that prudent Indians had placed in the precious metal was, for the time being, safe.

What is unusual is that Indian citizens were very big sellers of gold in the third quarter. It was thought that Indians were trying to sell gold at elevated market prices.

Source: Parts of this article were excerpted from "The War On Cash Is Still Good For Gold", by Frank Holmes, CEO and Chief Investment Officer, U.S. Global Investors, (*Advisor Alert*, September 16, 2016), www.usfunds.com

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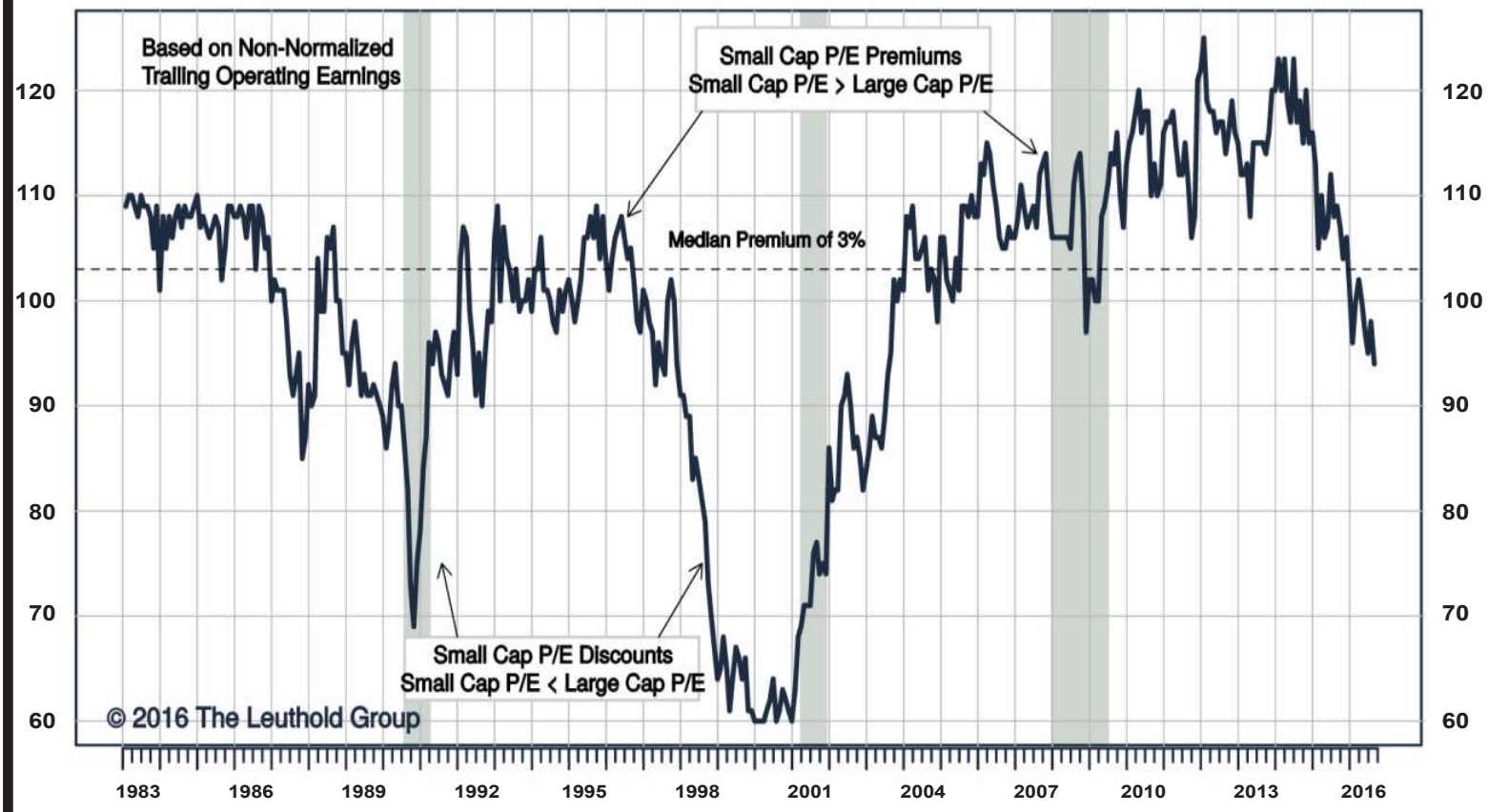
PULSE

SMALL CAP TO LARGE CAP HISTORICAL PRICE TO EARNINGS (P/E) RATIO
Small Caps Valuations Cheaper Than Large Stocks By 6.0%



As of: September 9, 2016

Source: The Leuthold Group, LLC, *Perception Express*, September 9, 2016, http://leuth.us/market-internals
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HISTORICAL VALUATIONS, GROWTH VERSUS VALUE
U.S. LARGE, MID AND SMALL CAP STOCKS

All growth stock and value stock style categories appear expensive when compared to the Historical Averages (1982 to date) and the Percent Above/Below Historical Average Valuation sections in the chart below. Large, Medium, and Small Growth Stock categories again appear cheaper relative to the Value categories than the historical averages as evidenced by the Today's Growth To Value Ratio versus the Historical Average Growth To Value Ratio.

	Median Price-To-Earnings (P/E)		Historical Averages 1982 to Date		Percent Above/Below Historical Average Valuation		Today's	Historical Average	2000 Extreme
	Growth Stocks	Value Stocks	Growth Stocks	Value Stocks	Growth Stocks	Value Stocks	G/V* Ratio	G/V* Ratio	G/V* Ratio
Large-Cap	22.8x	12.5x	19.8x	10.8x	15.0%	16.0%	1.83	1.96	5.80
Mid-Cap	24.6x	13.7x	23.3x	11.9x	5.0%	15.0%	1.79	2.07	9.30
Small-Cap	29.0x	14.4x	27.4x	12.0x	6.0%	20.0%	2.01	2.43	12.50

* Growth To Value

Growth remains especially cheap relative to Value in Small and Mid Caps.

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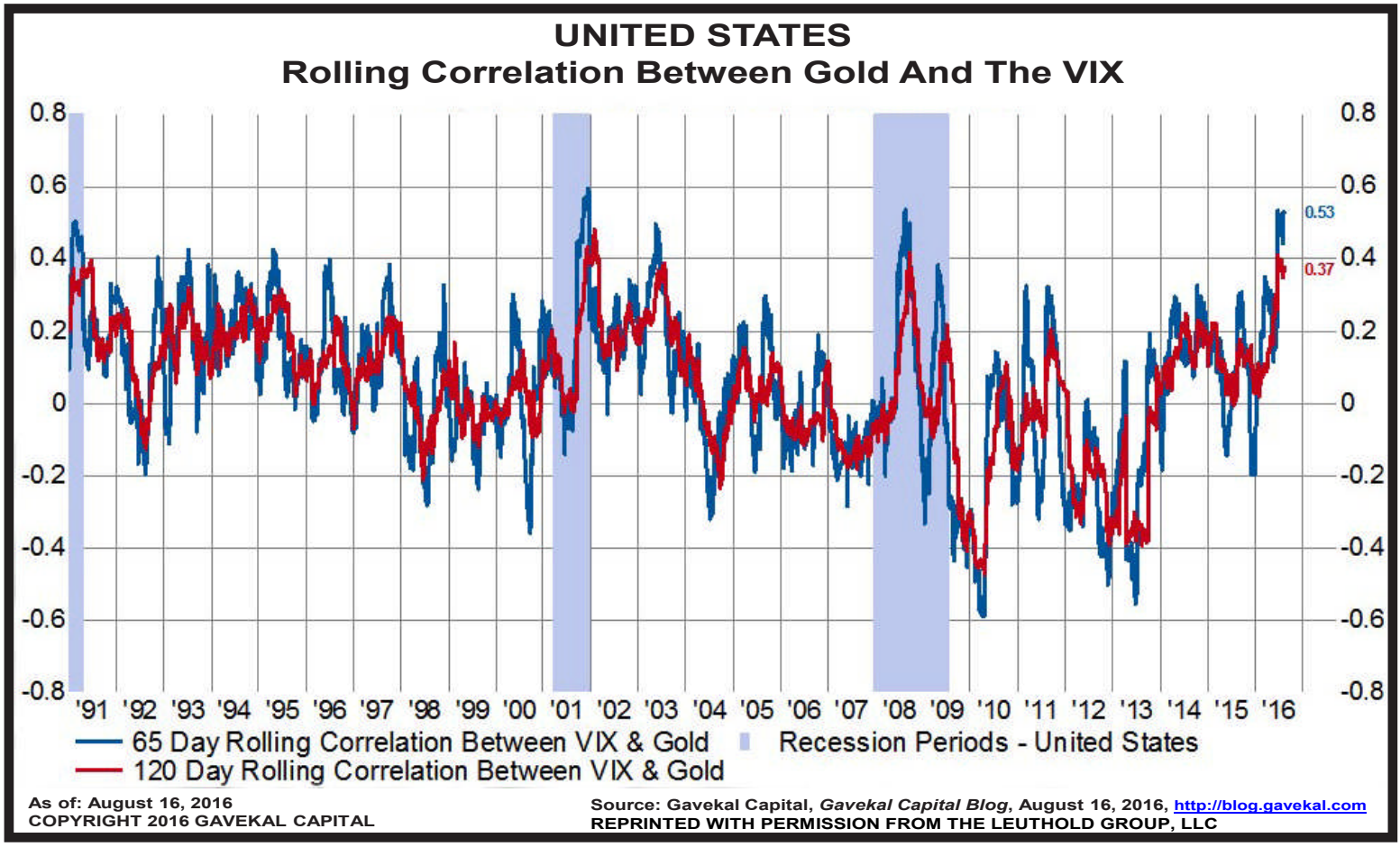
Gold Is At Extreme Correlations, *continued from page 3*



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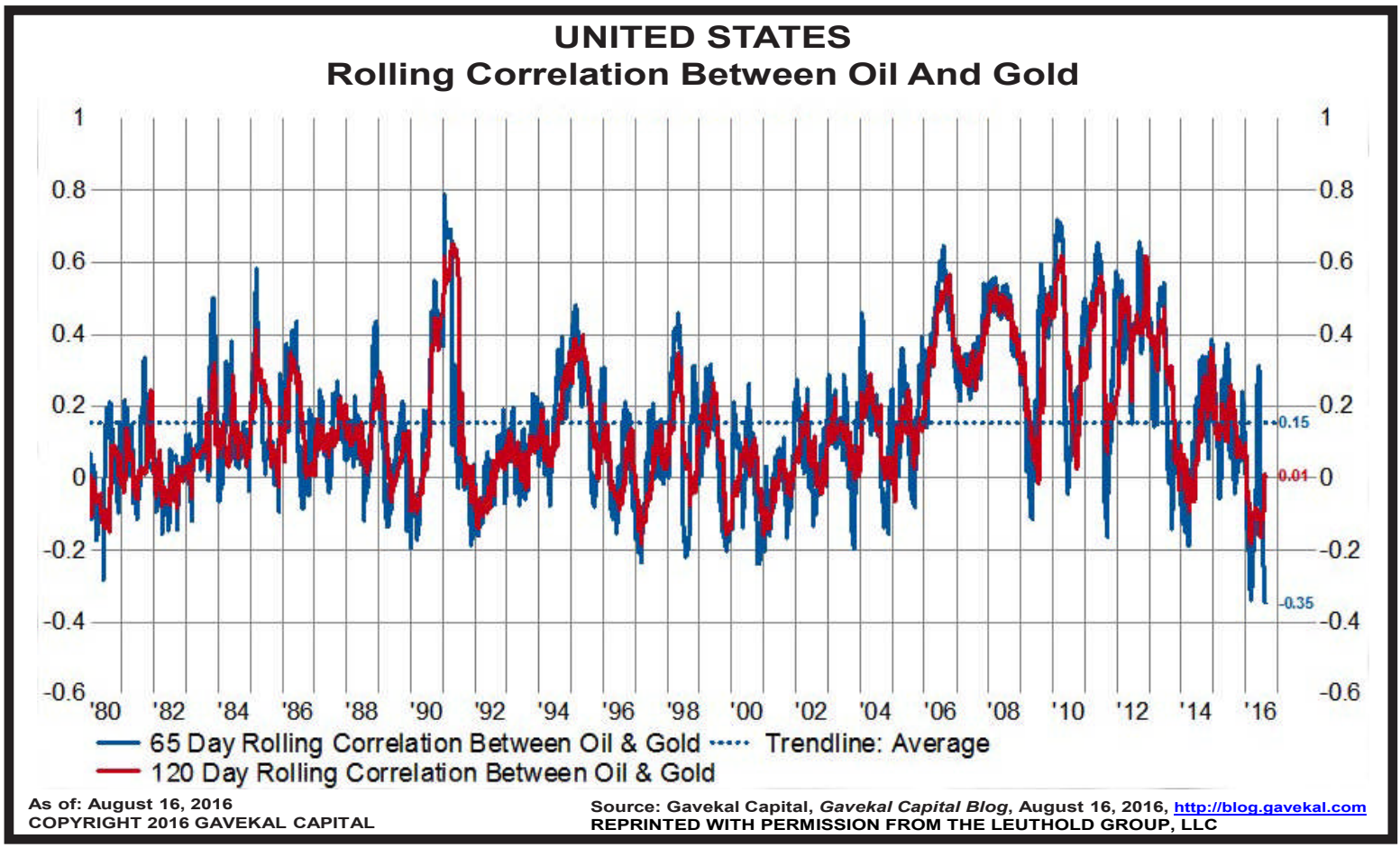

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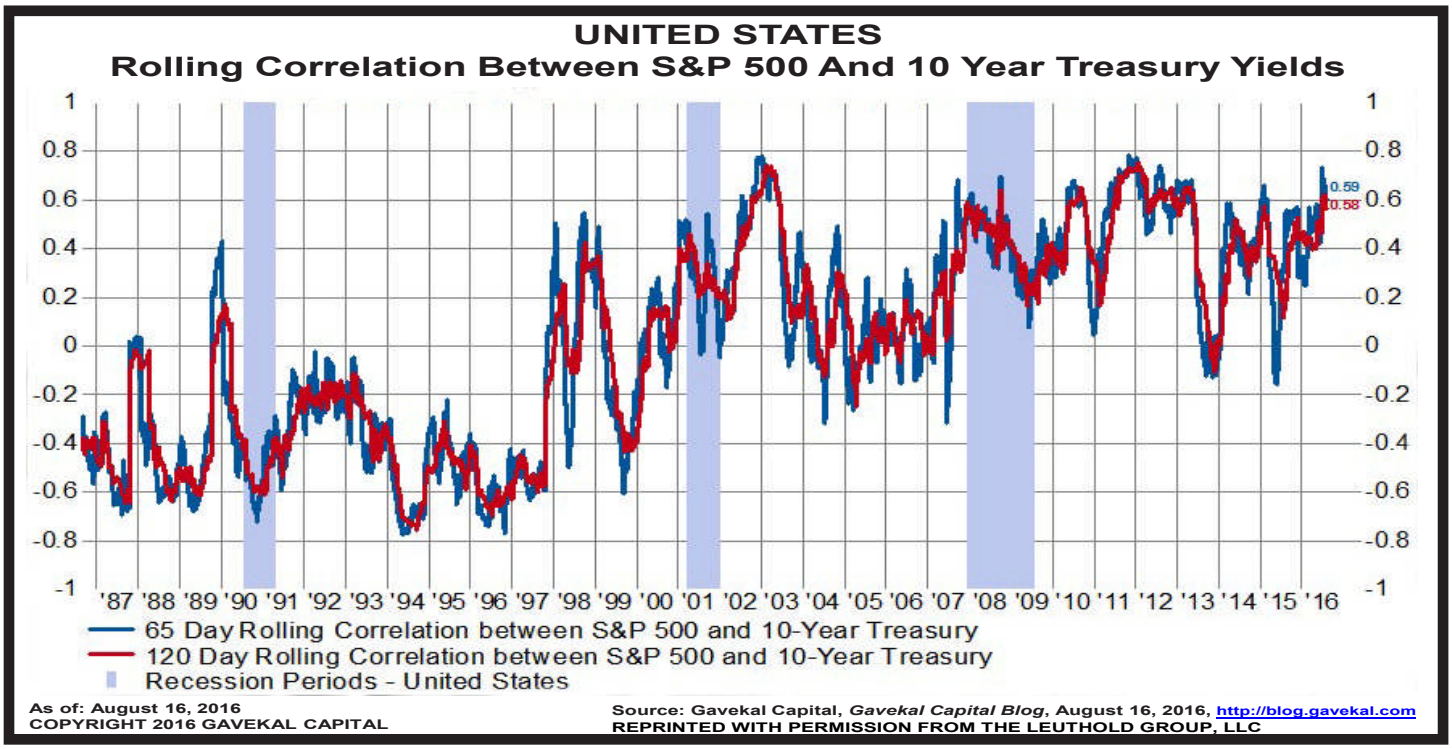
Gold Is At Extreme Correlations, *continued on page 16*

Gold Is At Extreme Correlations, *continued from page 15*



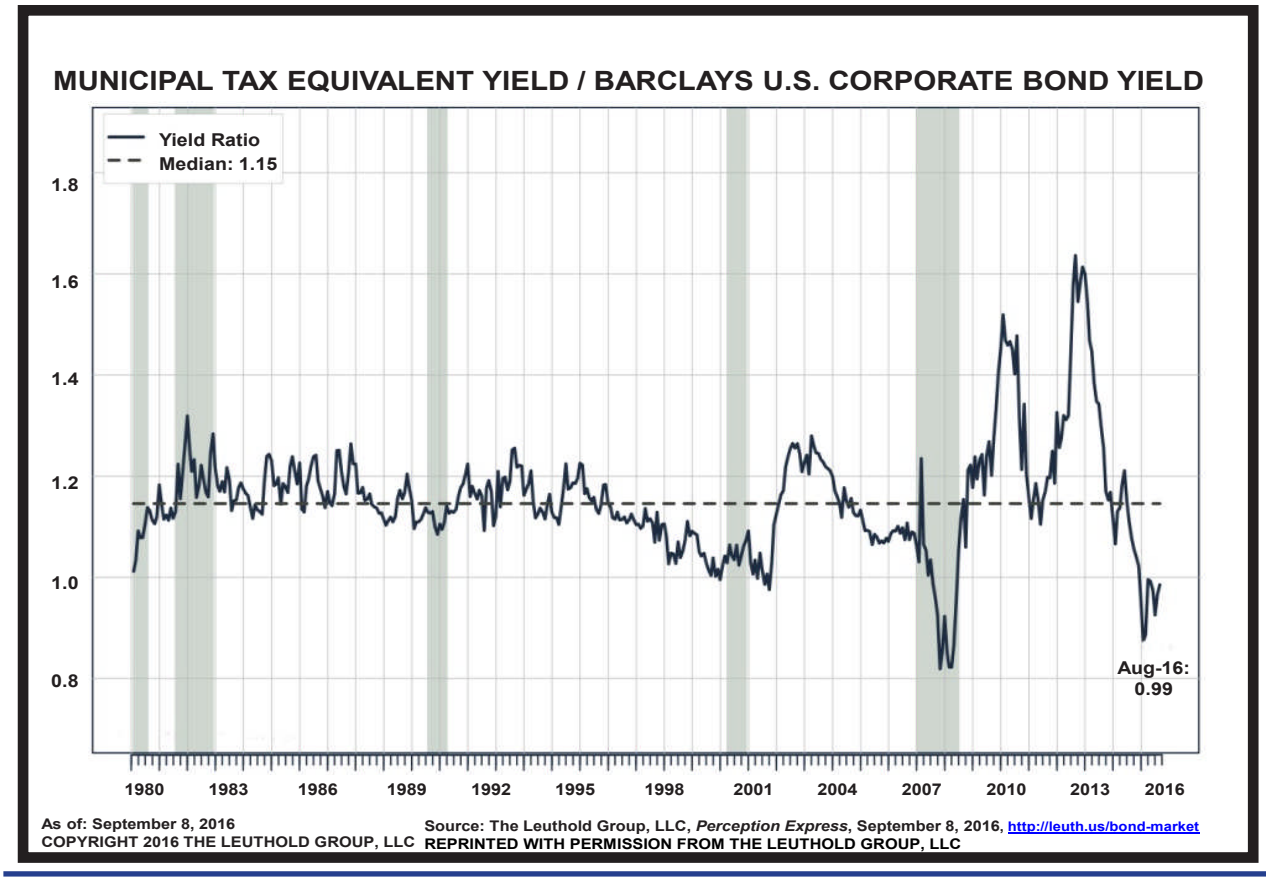
PULSE

U.S. MUNICIPAL BONDS CONTINUE TO BE AN UNFAVORABLE INVESTMENT

By Chun Wang, CFA, PRM, Senior Analyst and Co-Portfolio Manager, The Leuthold Group, LLC

The Barclays U.S. Municipal bond yield ended five basis points (bps) higher at 1.66% in August. The ratio of the Municipal tax equivalent yield (assuming a 39.6% tax rate) to U.S. Corporate bond yields increased to 0.99x, which is unfavorable at this level.

According to the Lipper data, the municipal bond market has benefited from a record 43 consecutive weeks of inflows into tax-exempt bond mutual funds. However, Municipal bonds remain expensive relative to Corporate bonds. See the "Municipal Tax Equivalent Yield" chart below.



Source: This article was excerpted from "U.S. Municipal Bonds: Maintain Unfavorable?", by Chun Wang, CFA, PRM, Senior Analyst and Co-Portfolio Manager, The Leuthold Group, LLC, (*Perception Express*, September 8, 2016), http://leuth.us/bond-market

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PULSE

SECOND QUARTER 2016 MEDIAN YEAR-OVER-YEAR REVENUE COMPARISONS

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

For the third quarter of 2016, just two S&P 500 firms are left to report sales and earnings. Collectively, the index is showing Second Quarter (Q2) Year-Over-Year revenue decline of -0.2%. While barely negative, this will mark the sixth consecutive quarter of sales declines.

The Energy sector continues to keep a lid on any top-line growth. Obviously, the drop off in energy causes the majority of the problem. If Energy is excluded from the calculation below, the S&P 500 revenue growth rate would jump from -0.2% to +2.6%. See the chart below.

Source: Parts of this article were excerpted from "Median Q2 YOY Revenue Comparisons: Close But No Cigar?", by Chun Wang, CFA, PRM, Senior Analyst and Co-Portfolio Manager, The Leuthold Group, LLC, (*Perception Express*, September 8, 2016), http://leuth.us/market-internals

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YEAR OVER YEAR SALES MOMENTUM: LARGEST 3,000 COMPANIES

	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Mega Caps (Top 50)	-0.2%	0.6%	0.9%	2.2%	0.6%
Bottom (2000)	4.6%	4.4%	3.6%	3.9%	5.5%
Large Cap (Top 300)	2.4%	2.5%	-0.2%	0.7%	0.2%
Mid Cap (Next 900)	3.4%	3.1%	1.7%	2.2%	2.8%
Small Cap (Next 1200)	4.6%	4.8%	4.2%	4.7%	5.5%
Micro Cap (Last 600)	4.3%	3.4%	2.9%	2.4%	5.0%
Consumer Discretionary	3.2%	5.5%	3.8%	5.6%	5.1%
Consumer Staples	2.0%	1.9%	0.8%	0.4%	0.2%
Energy	-21.7%	-26.2%	-31.3%	-28.7%	-23.8%
Financial	6.8%	6.1%	5.5%	5.3%	6.4%
Health Care	11.7%	11.9%	9.8%	10.1%	11.8%
Industrials	0.9%	1.6%	-1.5%	-0.3%	0.9%
Information Technology	8.9%	7.4%	6.4%	7.0%	6.7%
Materials	-3.1%	-5.2%	-9.6%	-8.9%	-6.2%
Telecommunications Services	-0.2%	-0.7%	2.0%	0.9%	-2.2%
Utilities	-0.9%	-6.3%	-7.6%	0.0%	-3.0%

As of: September 8, 2016

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EARNINGS FOR THE S&P 500 CONTINUE TO DISAPPOINT

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

Full year 2016 earnings are expected to disappoint investors. The S&P 500 is expected to post a year-over-year decline in earnings (-0.4%). A 6.0% earnings growth rate that was predicted at the beginning of the year! Year-Over-Year third quarter earnings for 2016 are now expected to be in negative territory (-2.1%) according to FactSet. 2016 fourth quarter's earnings estimate stands at +5.5%. However, more disappointment could occur. See chart below.

Source: Parts of this article were excerpted from "Median Company Earnings: Kicking The Earnings Can Down The Road", by Chun Wang, CFA, PRM, Senior Analyst and Co-Portfolio Manager, The Leuthold Group, LLC, (*Perception Express*, September 8, 2016), http://leuth.us/market-internals

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YEAR OVER YEAR EARNINGS MOMENTUM: LARGEST 3,000 COMPANIES

	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Mega Caps (Top 50)	-1.3%	-4.5%	8.7%	3.4%	2.0%
Bottom (2000)	4.3%	0.0%	1.5%	0.0%	2.1%
Large Cap (Top 300)	0.0%	0.0%	2.7%	2.5%	4.3%
Mid Cap (Next 900)	7.5%	5.6%	1.5%	2.4%	4.2%
Small Cap (Next 1200)	5.6%	2.9%	2.5%	1.9%	2.7%
Micro Cap (Last 600)	0.0%	-5.6%	-4.3%	-8.7%	-0.8%
Consumer Discretionary	9.1%	11.4%	9.3%	10.2%	9.8%
Consumer Staples	6.3%	9.9%	7.1%	2.7%	7.4%
Energy	-42.9%	-45.5%	-69.3%	-63.2%	-41.7%
Financial	6.1%	4.1%	3.4%	2.6%	8.1%
Health Care	3.0%	0.0%	2.7%	1.0%	-1.4%
Industrials	4.6%	2.5%	4.8%	1.9%	4.8%
Information Technology	8.3%	0.4%	3.0%	0.0%	4.5%
Materials	10.7%	0.0%	-16.8%	-12.2%	-3.3%
Telecommunications Services	-16.7%	-3.0%	-6.0%	-13.0%	-1.6%
Utilities	6.3%	-2.9%	-5.1%	3.5%	4.4%

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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 Comfort Zone Questionnaire, with the guidance of a Legend Wealth Advisor 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.

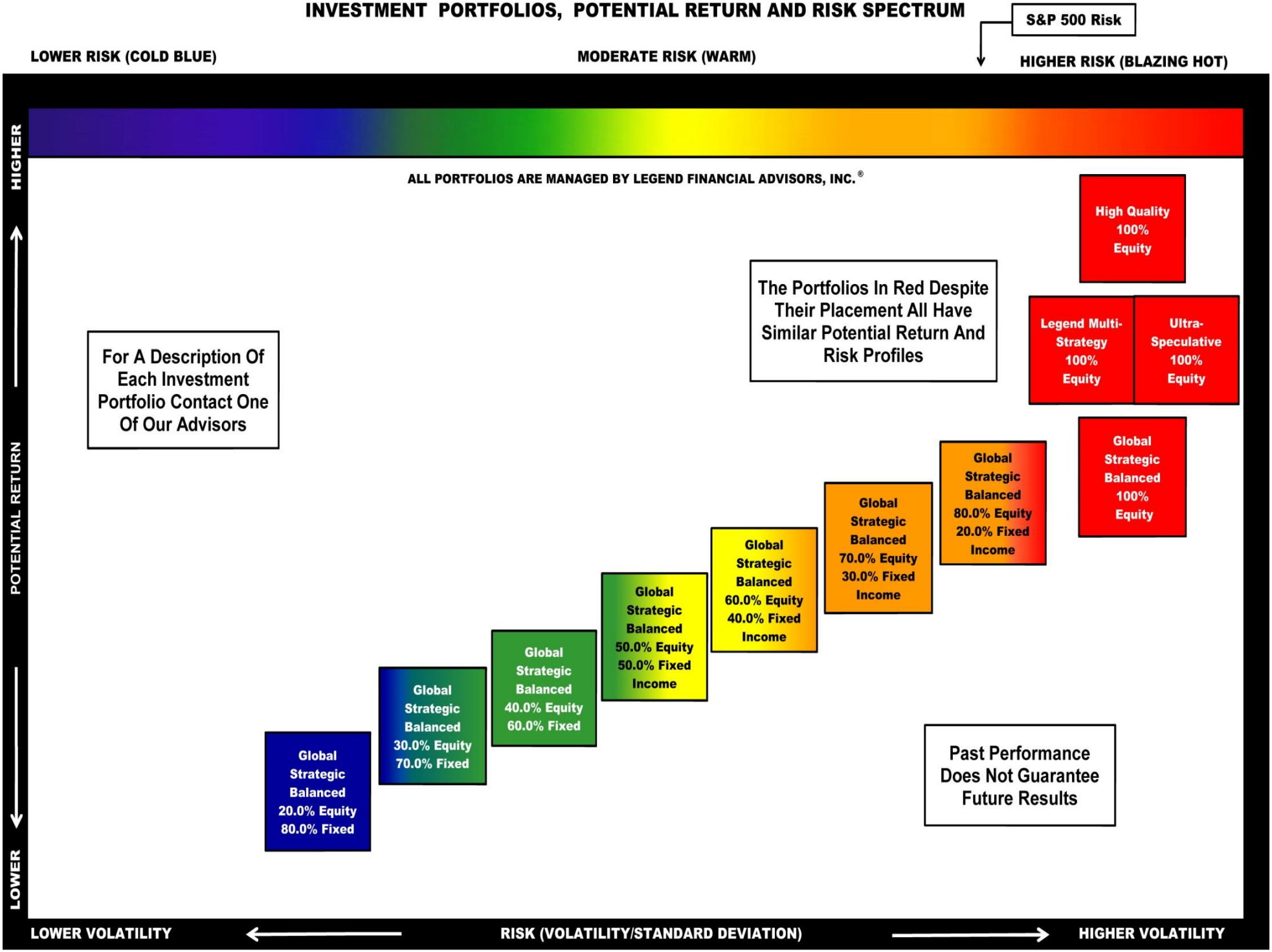
PERFORMANCE REPORTING

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



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