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The LegendEdge

Third Quarter 2011

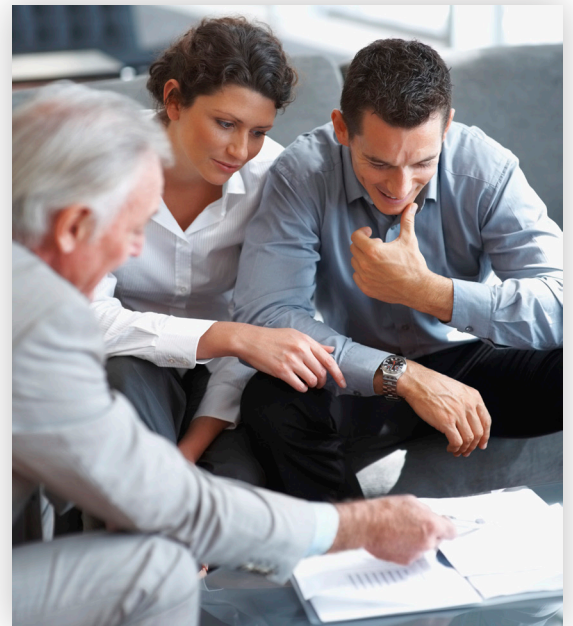
5 ways to PROTECT your retirement

A fluctuating market can cause investors to make emotional decisions that may derail them from reaching their long-term goals.

As we continue to weather fluctuations in the market, many investors are concerned with taking the appropriate measures to protect their investments. Many may be quick to imagine a repeat of the 2008 market and make investment judgements based on the past. However, we have a new market landscape today. Some of the main differences are that American debt and lending both have been reigned in and investors have taken a more conservative approach toward stocks.¹ The reality is that a volatile market can provide a good opportunity to re-evaluate your investments.

Your advisor can help you to stay on track by guiding you through these steps:

- 1. Avoid hasty decisions.** Don't fall victim to panic selling when the stock market has a bad day. Remain focused on core investment disciplines and a long-term perspective.
- 2. Review your goals.** Think about your individual financial situation. How you invest your money should be consistent with your goals, time horizon, and risk tolerance.
- 3. Ask questions.** Your advisor can be a great resource. Give him or her an opportunity to answer your questions and respond to your concerns.
- 4. Beware of asset classes that promise "safety."** Specific asset classes claiming to provide safety may prove to be volatile during a period of turbulence in the markets. During market fluctuations, assets can have a level of correlation.²
- 5. Accept help.** Work together with your advisor in selecting appropriate investments that are in line with core investment disciplines and your time horizon. A comprehensive investment analysis that examines all of your holdings can help your advisor evaluate specific risks and provide recommendations for your investment strategy.





MARKET OUTLOOK

with Shashi Mehrotra, CFA & Chief Investment Officer of Legend Advisory Corporation

Clients ask Shashi

Here are some of the top questions asked by our clients. Who better to answer them (other than your advisor) than our CIO Shashi Mehrotra?

Q What is the possibility of another recession considering the current debt issues in the U.S. and Europe?

A I feel there's a high probability of a recession next year. However, I think the economic growth rate in the second half of this year will be even better than we've seen in the first half. I believe there is a 45% chance of a recession in 2012 or 2013. This estimate is not just because of the current debt issues, although that is certainly one of the reasons. By lowering interest rates, the Fed has just kicked the can down the road. When you do that, the problem doesn't necessarily go away. I believe postponing our debt issues will only result in problems of a larger magnitude in the future. Europe has made the same mistake of postponing their debt problems. So, the more we kick the can down the road, the problem can become worse.

Another reason for a possible recession next year: we are going to be in a deleveraging cycle. When companies deleverage, demand will ultimately start to go down. If one company cuts costs in order to increase profits, their stock price typically goes up because they're expanding their profit margin. But, if everyone does that, it can cause a recession. For example, at a soccer game, if you're the only one standing in the bleachers, you get a better view. If everyone stands up, everyone's uncomfortable and no one can see – that is what may happen. Companies are all trying to squeeze more profits out and the top-line growth is just not there. The growth that we experienced the first half of this year was pretty anemic and I think that may occur again next year, but more severely. Therefore,

the probability of recession next year is much higher. I anticipate that it will be accompanied by deflation, not inflation. That's a very contrarian call that I'm making. Deleveraging and inflation don't usually happen at the same time. Some say inflation will be the problem that will cause the recession, but I don't see it rearing its ugly head just yet. I think inflation will be a 2013 issue or later.

Q How will the downgrade of U.S. credit affect my bond investments?

A I look at the downgrade as a good thing because it should provide a wake up call for Washington to do something. It does appear suspicious because of the way S&P made their decision. They had a two trillion dollar mistake in their projected deficit estimates. The S&P corrected their mistake and specified the rule that Congress had to cut spending limits by four trillion dollars. Congress didn't do that, so they downgraded them. That part I understand. The questionable part of the judgment is S&P has that rule only for the U.S. and not other sovereign countries. Therefore, it could be politically motivated. However, I don't think the market is giving much credibility to the U.S. credit rating downgrade. Since then, the yields have fallen, which means prices have gone up even more. It would have been the opposite if investors were putting full faith in the S&P rating which says that U.S. government bonds are of a lower quality now. I think investors should be more concerned about what the politicians do about our

debt. If we don't come up with a credible spending cut plan over the next decade, it will become an even larger problem in the future. As of right now, I think we'll be dealing with deflation next year, which will cause interest rates to fall further, not rise. When interest rates fall, bond prices tend to do better.

Q I'm concerned about market fluctuation. Should I move my retirement into cash?

A I don't think market fluctuations should ever be the reason for deciding where to put your money – your investment horizon should be. Investing is a long-term game and you have to be in it to win it. I think moving into cash because of fluctuations can be a serious mistake, which could cost you returns and compromise your standard of living in retirement. The dynamics of fear and greed should not dictate what you do with your retirement funds. If your horizon has changed, then you should definitely reconsider what you're invested in. If your horizon is not a long-term horizon, then you should consider moving part of your investment into cash so you can live off of that money for a year or two. I often suggest that working people should have 6-12 months worth of living expenses in short-term investments.

Q Will this extreme market volatility be an ongoing problem?

A Yes, I believe volatility will be an ongoing problem for a few months. I think we will go to about

(continued on next page)

1275 on the S&P. We are currently at 1190, so we may go into the 1250-1275 range and then retest the lows. I wouldn't be surprised if we go back to 1100 around September/October and start a rally towards the end of the year.

Q Can I still count on the historic long-term returns that investors have enjoyed in the past?

A I absolutely believe this is just a cycle. I think we're in a secular bear, which started in 2000 and may last until 2014-2015, plus or minus a year. After that, I believe we will be on a new secular bull ride. Until then, I anticipate it is going to be a volatile time.

I think we will go to single digit valuations on the final cyclical bear. This is what people dealt with in 1966 to 1982 and then people said, 'This is the new normal.' Yet, from 1982-2000 markets were up 19.8% average annual. I believe that upswing will happen again in the markets. We're just not there yet. Currently, and over the next four months, I think the S&P will rally to about 1275 and then correct back to around 1100. It could

overshoot that low and go to mid-thousand. Unless people need the money right now, I suggest riding it out. I don't believe this is the 'new normal.' Human tendency is to believe whatever just happened will happen again in the future. Human psychology has not changed. That's what drives these markets over the long term. Will this volatility be the 'new normal' for the next year? Maybe. For the rest of our lives? No, I believe it will change.

“ I don't think market fluctuations should ever be the reason for deciding where to put your money – your investment horizon should be. ”

Shashi Mehrotra is a Chartered Financial Analyst and the Chief Investment Officer of Legend Advisory Corporation. The opinions and predictions expressed herein are those of Shashi Mehrotra solely and not necessarily the opinions or expectations of Legend Advisory Corporation or any of its affiliates. Such opinions and predictions are as of August 26, 2011 and are subject to change at any time based on market and other conditions. No predictions or forecasts can be guaranteed.

- Source of economic and market data: Bloomberg. Information contained herein has been obtained from sources believed to be reliable, but is not guaranteed. This material does not constitute a recommendation to buy or sell any specific security. Past performance is not indicative of future results.
- The S&P 500 Index is a market value weighted index that measures the performance of U.S. large-capitalization stocks.
- Advisory services offered through Legend Advisory Corporation, a registered investment adviser.

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What is in my new Pershing monthly statement?

Many Legend accounts transitioned to the Pershing brokerage platform this year. Your brokerage account statement contains a lot of information. The paperwork you receive is a great resource for understanding where your assets are. We follow government standards that ensure transparency in your account activity and allow you to monitor your investments closely.

Here are some important sections of your statement.

Valuation at a Glance

The beginning and ending account values for the current statement period and an explanation of the changes in the value of the account appear here. A summary of account activity including cash deposits, cash withdrawals, dividends and interest, fees and changes in account value are also present.

Asset Allocation Summary

Summary of the portfolio holdings by asset class. The market value (based on prices as of the last day of the statement period) of each asset class and the percentage of the account it represents is displayed; the sum of market values for each asset class represents the net value of the portfolio.

Transactions by Type of Activity

A detailed list of transactions posted to your account since the last statement period is displayed here by holding, date, security identification (i.e. cusip) or transaction type. The process/settlement date and the date that you initiated either the sale or the purchase of a security also appear.

NOTE: includes 3 sections – Securities Bought and Sold, Cash Withdrawals and Deposits, and Dividends and Interest

Portfolio Holdings

Here you will find the quantity, description, market price (if available), market value, dividend and capital gain options, and additional information on each security position as of the close of business on the last day of the statement period. The opening and closing cash and money market mutual fund balances are also displayed.

You can always access your consolidated account summary through Legend's Client AccountLink online at www.legendgroup.com.

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The LegendEdge

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“A mind that is stretched by a new experience can never go back to its old dimensions.”

Oliver Wendell Holmes, Jr.
American jurist
1841 - 1935

Investing involves risk, including the possible loss of principal amount invested. The value of an investment will fluctuate so that an investor's shares, when sold, may be worth more or less than their original cost.

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