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The LegendEdge

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Understanding Asset Classes

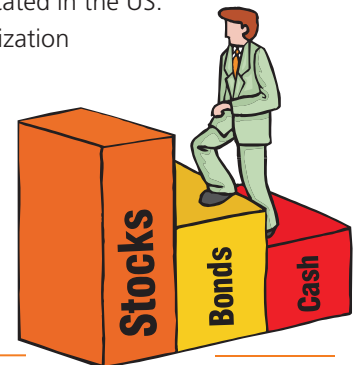
An asset class is a group of securities that share a set of attributes, act similarly in response to different market conditions, and are governed by the same laws and regulations. Three of the most widely held asset classes are equities (stocks), fixed-income (bonds or debt securities) and cash equivalents (money market instruments).

Diversified portfolios generally include a mix of securities representing each of these asset classes in varying proportions. A portfolio's asset allocation refers to the percentage of assets that is allocated to each class, and is influenced by the portfolio's risk/reward profile and objective.

Equities

Equities, or stocks, are sold as shares that represent partial ownership of the issuing company. If the company does well and the price of its stock goes up, the shareholders' investment will increase in value. Consequently, if the price declines, shareholders will lose money. While equities offer the highest potential for investment appreciation, the risks associated with equity investing are generally greater than with other investment types. Equities can be classified as follows:

- **Domestic Large Cap Equities** – Stocks of issuers in large capitalization companies (market capitalization of \$5 billion dollars or more) that are located in the US.
- **Domestic Mid Cap Equities** – Stocks of issuers in mid-capitalization companies (market capitalization between \$1.5 and \$5 billion dollars) that are located in the US.
- **Domestic Small Cap Equities** – Stocks of issuers in small capitalization companies (market cap of < \$1.5 billion) that are located in the US.
- **International Equities** – Stocks of issuers in foreign nations.
- **Emerging Markets Equities** – Stocks of issuers in developing market countries.



Fixed Income

Fixed income includes the bonds of corporations, the US Treasury and other government entities, and other debt issuers. These types of securities represent a loan or debt owed to the investor. Bonds typically pay a fixed rate of interest income for a set period of time. When the bond matures at the end of the time period, the face value, or principal, is returned to the investor. Fixed income securities increase and decrease in value in direct opposition to current interest rates. These investments typically exhibit a lower level of risk than equities, and thus their returns are generally lower as well. Bonds include the following categories:

- **US Government Bonds** – Debt issued by the US government.
- **US Corporate Bonds** – Debt issued by companies located in the United States. Corporate bonds can be further differentiated by credit rating, which is the assessment of the credit worthiness of a corporation's debt issues. These ratings are assigned by credit rating agencies such as Standard & Poor's, Moody's Investors Service and Fitch Ratings.
 - ▶ **High Quality** – Debt issued by companies with a credit rating of BBB/Baa or better.
 - ▶ **High Yield** – Debt issued by companies with a credit rating of BB/Ba or less.
- **International Bonds** – Debt issued by companies and governments in any nation with the exception of the US.

Cash Equivalents/Money Market Instruments

Money market instruments pay either a fixed or variable rate of income for a short duration, and return the principal to the investor when the time period has passed. Money market securities include treasury bills, certificates of deposit of large banks and commercial paper, as well as the short-term IOUs of large US corporations. These securities generally mature in less than 270 days and offer the lowest risk/return ratio. ◀

Clifford & Rano Associates, Inc. is not an affiliate of Legend Equities Corporation.

— with **Shashi Mehrotra, CFA, Chief Investment Officer, Legend Advisory Corporation** —

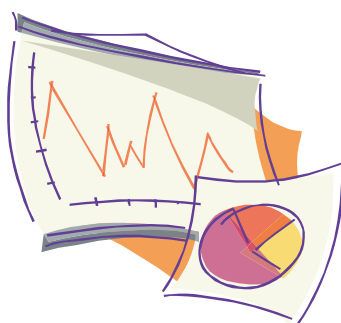
What criteria does Legend Advisory Corporation use to evaluate mutual funds for inclusion in its investment advisory portfolios?

When we first begin the evaluation process, we assess many different criteria, including quantitative risk measurements such as standard deviation, alpha and beta. This information is compiled and made available to the investment community by industry research firms such as Morningstar. Morningstar data is generally based on spot analysis, which provides a glimpse of a fund's performance characteristics as of a specific date, i.e., December 31, 2006. While certainly valuable, this kind of information can reflect a bias toward the impact of recent events. That's why we prefer to use rolling analyses, because we believe they offer a better perspective on how a fund manager performs on an ongoing basis. For example, if I'm examining a fund's three year standard deviation, I want to look at how it has behaved over a variety of three year periods, not just at what the standard deviation is today for the past three years. Therefore, we created proprietary calculations to modify the spot data we receive, in order to examine rolling returns, rolling standard deviations, rolling alphas, etc.

We also like to see how a fund manager performs compared to his or her peers. We don't believe it's wise to look at somebody in isolation, so we've developed formulas that allow us to assess a manager's performance relative to other fund managers, his or her benchmark, and to indexes or benchmarks that we believe are relevant. For instance, a particular fund manager may be known as a value manager, when in fact a portion of the fund's holdings are growth-oriented. Now if the growth

style experiences a period of appreciation, most likely that manager is going to outperform his peers. That doesn't mean that the manager is a good stock picker, but rather that he or she called the style (i.e. value or growth) correctly. And while there's nothing wrong with that, we want to compare apples to apples, so we've devised methodologies that allow us to make more appropriate and accurate comparisons.

We believe our proprietary techniques serve to differentiate us from other asset managers and enable us to gain a broader view of a fund's performance.



What makes a particular fund more attractive than its peers?

As long as a fund is performing in line with our expectations, we won't remove it from our investment advisory portfolios if another fund starts looking more attractive. We're not hasty about eliminating a fund that has passed our criteria for inclusion because we are very cognizant about not reacting to short-term performance. But if we do notice a fund that is rising through the ranks over time and is almost on par with a fund that we have in our mix, or even slightly better, that will serve as a red flag. We won't immediately discard the fund we are using in favor of the up and coming fund, but we'll start investigating further. Our due diligence

includes trying to find out when the new fund is performing better, and why it's performing better. If we see that the manager has a history of solid performance, the next step is to look at momentum studies. Momentum studies will typically reveal the probability of one fund outperforming another in the future. If the new fund demonstrates a higher probability of performing on par or better, then we'll seriously consider using it in place of our current fund. But normally we don't swap funds often.

How does Legend Advisory Corporation determine when it's time to sell a fund?

Typically if there's a fundamental change in a fund, we'll look to sell. For instance, if there's a new person added to the management team, we'll investigate his or her background and try to understand his or her investment philosophy. If our findings leave us less than confident about the new manager, then we may decide to remove the fund from our lineup. Another example of a fundamental change would be if a large cap value fund were to change its strategy and become a global value fund. The competition is more intense among global funds, so we would have to conduct our due diligence again to compare the manager to other global fund managers.

Obviously, another factor we consider is performance. If a fund's performance suddenly falls off, the next step for us is try to find out why. In 1999, for example, one of the funds we were using began demonstrating large variations in relation to its peers and benchmarks, and we noticed that it had a huge technology allocation. We didn't want to be in technology because our sector models indicated that technology was a

Before investing in a mutual fund, consider its investment objectives, risks, charges and expenses carefully. The prospectus, which contains this and other information about the mutual fund, can be obtained by contacting Legend Equities Corporation. Please read the prospectus carefully before you invest or send money.

Past performance is not indicative of future results. Investors' shares, when redeemed, may be worth more or less than their original cost. Direct investment cannot be made in any of the indexes cited and index performance is not indicative of any specific investment. Investments in foreign securities involve risks relating to political and economic developments abroad, foreign taxation, currency exchange rate fluctuations, as well as differences in accounting standards.

Shashi Mehrotra is a Registered Representative of Legend Equities Corporation.

MARKET OUTLOOK

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very high risk at that time. Our discipline does not drive us to take huge bets, so we removed the fund from our portfolios and replaced it with a fund whose performance was actually not as good. But guess what? Over the next two years, the new fund we chose outperformed the one we discarded.

“If I’m examining a fund’s three year standard deviation, I want to look at how it has behaved over a variety of three year periods, not just at what the standard deviation is today for the past three years.”

Now it’s rare to find an investment advisor replacing a fund with one whose past performance is actually weaker. But when we do it, it’s because we’re looking to the future. We don’t base our decisions on past performance alone. We look at what kind of bets the fund manager is making, and if we strongly believe that he or she has a higher probability of outperforming his or her peers in the near future, we may pick that fund, even if it has underperformed over the last three or five years.

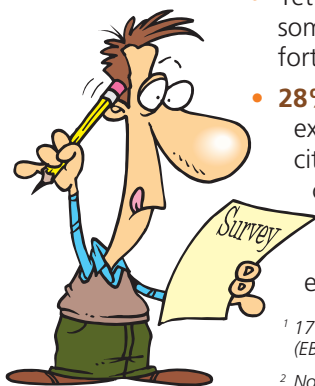
Another point I’d like to make is that we won’t discard a manager who deviates from a fund’s style objective, as long as he or she can do it consistently and accurately. In these cases, we may look at performance from more than five or 10 years back, to see if the manager has done well over an extended period of time. Drifting from one style to the other successfully over time is difficult, but there are some managers who are adept at this. I believe that most investment advisors exclude these kinds of managers, but Legend Advisory Corporation recognizes and seeks to capitalize on a variety of talents.

I believe it is this kind of thinking and these kinds of actions that enable us to enhance the value that we deliver to our investment advisory clients. ◀

Boomer Blurbs | Facts & Figures

According to a recent survey¹, a large percentage of employees realize that major changes are taking place within the US retirement system, but many have yet to adapt effectively. Highlights of the survey include:

- **50%** of workers report that they are less confident about the benefits they may receive from a traditional pension plan, but almost **2 in 5** employees who have experienced a reduction in employer-sponsored benefits said they have done nothing in response.
- Within the last two years, **17%** of employees experienced a reduction in the level of retirement benefits from an employer plan
- Nearly **50%** of employees who are saving for retirement report total savings and investments² of less than \$25,000, and **7 in 10** of employees who have not put money aside for retirement report total assets of less than \$10,000
 - Yet **72%** of Americans indicated they were either very or somewhat confident of having enough money for a comfortable retirement.
 - **28%** of workers cited a §401(k)-type plan as the largest expected source of their retirement income while **13%** cited a traditional pension plan or cash balance plan. This contrasts with retirees, **21%** of whom indicated that the majority of their retirement income is generated from a traditional pension plan, compared with **6%** who referenced a §401(k)-type plan.



¹ 17th Annual Retirement Confidence Survey, Employee Benefit Research Institute (EBRI) & Mathew Greenwald & Associates, April 11, 2007.

² Not including the value of their primary residence or any defined benefit plans.



2008 Retirement Account Contribution Limits

As your career progresses, you may wish to periodically increase the amount you are saving for your future. This can mean the difference between reaching your goals and falling short.

	Basic	Over Age 50 Catch Up	2008 Other Catch Up	Max.*** Contribution
§403(b) Plans	\$ 15,500	\$ 5,000	\$ 3,000*	\$ 23,500
§401(k) Plans	\$ 15,500	\$ 5,000		\$ 20,500
§457 Plans	\$ 15,500	\$ 5,000	\$ 31,000**	\$ 31,000
SAR-SEP	\$ 15,500	\$ 5,000		\$ 20,500
SIMPLE IRA	\$ 10,500	\$ 2,500		\$ 13,000
IRA / Roth IRA	\$ 5,000	\$ 1,000		\$ 6,000

* Employees who have 15 or more years of service with the current employer may be eligible for a further catch-up of up to \$3,000.

** Employees may use this catch-up in the 3 years prior to attaining normal retirement age under the §457 plan in certain circumstances.

*** This is inclusive of all catch ups available. You must be eligible for catch ups.

Investment Risks

In the investment world, risk and reward go hand in hand. In an effort to achieve greater returns, an investor must be willing to accept increased risk. All investments carry some degree of risk. Even an investment that may be perceived as “safe,” such as one with a guaranteed rate of return, is subject to inflation risk. Below are some of the risks investors face:



- **Market risk** is associated with a change in the value of an investment due to a change in market conditions. Market risk includes the potential to lose a portion of your principal.
- **Liquidity risk** – Assets that are easily converted to cash are referred to as “liquid.” Investments for which the market has a small capacity and investments that are not readily salable on the open market, such as commercial property, face liquidity risk because of the time it may take to sell them.
- **Inflation risk** refers to the loss of purchasing power due to continually increasing prices. For someone with long-term investment goals, such as

saving for retirement, achieving a rate of return that exceeds the rate of inflation is important.

- **Interest rate risk** is the risk that changes in interest rates will affect bond and other fixed income investment prices and the amount of income they generate for investors.
- **Credit risk** is the possibility that a fixed income issuer will default by failing to repay interest and principal in a timely fashion.
- **Company risk** – Poor earnings reports, management changes, increased competition, legal actions or the possibility of bankruptcy can influence the price of a particular company’s securities.

- **Currency risk** is the potential for invested assets held in another currency to be affected by movements in the value of the currency.
- **Geographic risk** – the effects of political and economic developments, weather conditions, health issues, and other events occurring in a specific region or country can influence the value of its securities.

The good news is that a well-diversified investment portfolio can help mitigate many of these risks. By selecting and holding a variety of investments representing a broad range of asset classes, geographic regions, countries and companies, you may be able to minimize the effects of a poorly performing security on your portfolio. ◀

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