



**Sara E. McGrath**

Registered Representative  
Legend Equities Corporation

**Clifford & Rano Associates, Inc.**

57 Cedar Street

Worcester, MA 01609

Phone: 508-752-8284

Toll-free: 800-660-8284

Cell: 339-222-8844

Fax: 508-754-1489

saramcgrath@legendequities.com

# The LegendEdge

Second Quarter 2007

## Diversification: A Risk Management Tool

Diversification is an investment strategy that is employed to attempt to offset market volatility and reduce portfolio risk. With a diversified portfolio, your investments can be spread across various asset classes, industries, companies and even countries, in an attempt to avoid the consequences of “putting all your eggs in one basket.” By diversifying your portfolio, you reduce the chances of having all your assets in one investment that performs poorly, while increasing the chances of having at least some of your assets in an investment that does well. Since mutual funds typically invest in dozens of securities in a variety of companies, industries and geographical areas, they

have the potential to provide investors with built-in diversification.

As an example, consider the illustration below. If you were to invest all of your assets in a single company—Company A, a 25% drop in Company A’s stock would result in a loss of 25% of your total investment. However, if you were to diversify your holdings by investing in a mutual fund that included the stock of Company A as well as other companies, the same 25% drop in Company A’s stock may have only a minor impact on your total investment. In

*With a diversified portfolio, your investments can be spread across various asset classes, industries, companies and even countries, in an attempt to avoid the consequences of “putting all your eggs in one basket.”*

fact in this example, by investing in a mutual fund composed of 42 different stocks in equal percentages, a 25% drop in one stock would impact your overall portfolio by only one half of one percent.

—continued on page 3

### The Benefits of Diversification

#### Company A

25% drop

When you invest in only one company, a 25% drop in company stock equals a 25% loss in your investment.

#### Mutual Fund A (42 companies)

25% drop

When you diversify by investing in a mutual fund, the same 25% drop in the company’s stock may have only a minor impact on your overall investment.

*This example illustrates the risks affecting a single issuer and does not take into account the possible performance of the mutual fund’s other holdings, which may also decline in value. This is a hypothetical example only and does not reflect the actual portfolio of any particular investment.*

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

# MARKET OUTLOOK

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

## I have a lump sum to invest. How will I know when it is the best time to get into the market?

Well, first of all I would urge any investor to develop an understanding of his or her investment profile, which should include an assessment of long-term goals, the time horizon for achieving those goals, attitudes about investing and tolerance for risk. Once completed, this profile can serve as the basis for creating and maintaining a suitable investment strategy.

If investing your lump sum in the equity markets is compatible with your overall investment plan, then the best time to get into the market is always now. Waiting for the “ideal time” is not a sound strategy because predicting market movements is difficult at best. In fact, I don’t know of anyone who has been able to successfully time the market over the long-term.

Conventional wisdom states that it’s *time in the market, not timing the*

*market* that yields the best results. Consider this: Over the past 10 years, missing out on just the 10 best days (days the equity markets realized the greatest increase in value) would have had a significant and detrimental impact on your overall returns. Over the past 10 years, (3/31/1997 – 3/30/2007) the markets have experienced quite a bit of volatility stemming from events that included fears over Y2K, the bursting of the dot.com bubble, 9/11, the war in Iraq, and surging oil prices, just to name a few. However, those who remained invested in the market throughout this entire period realized an average annual return of 8.20%. Those who were sidelined on just the 10 best days of the decade saw their returns cut by more than half, to just 3.20%, while missing out on the market’s 20 best days resulted in negative returns.

Unfortunately, this actually does happen. A study<sup>1</sup> of investor behav-

ior conducted in 2004 by Dalbar, Inc. reveals that during the prior 20 years, market timers in stock mutual funds lost -3.29% on average while the S&P 500 grew by 12.98%. That’s a huge difference, and it’s the result of investors’ unsuccessful attempts to time the market.

So if equity investing is appropriate for achieving your objectives, the best time to invest is as soon as you have funds available, and to adhere to your long-term plan by remaining invested throughout the market’s inevitable ups and downs.

## But it can be quite nerve-wracking when the markets take a downturn. Wouldn’t it be better to liquidate my equity holdings and move to something safer?

Most often, the average investor take notices of market volatility when it occurs on the downside. And that’s when emotional thinking begins to replace rational thinking. Fear is a powerful emotion that can compel investors to sell when the markets slip, in favor of what they perceive to be “safer” investments. Of course there is no such thing as a “safe” investment because over time, inflation will erode the purchasing power of a fixed rate of return.

Emotionally charged reactive behavior can serve to lock in investment losses, whereas maintaining the discipline of a carefully crafted long-term strategy may ensure you are positioned to take advantage of the next market upturn, which could very well include some of those 10 best days I mentioned earlier.

For example, from March, 2000

### Average Annual Returns — 10 Year Period (3/31/97–3/30/07)

If you stayed fully invested

8.20%

If you missed the 10 best days

3.20%

If you missed the 20 best days

-0.57%

If you missed the 30 best days

-3.82%

If you missed the 40 best days

-6.53%

Based on returns of the S&P 500 for the 10-year period ended 3/30/07. Calculated from S&P 500 data from Bloomberg. This is a hypothetical illustration only and is not indicative of the performance for any particular investment. The principal value of an investment will fluctuate so that an investor’s shares, when sold, may be worth more or less than their original cost.

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.

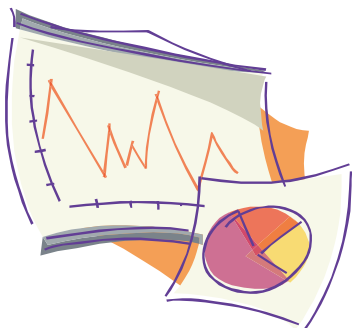
Direct investment cannot be made in any of the indexes cited and index performance is not indicative of any specific investment. Investments in foreign securities involve risks relating to political and economic developments abroad, foreign taxation, currency exchange rate fluctuations, as well as differences in accounting standards.

Shashi Mehrotra is a Registered Representative of Legend Equities Corporation.

## MARKET OUTLOOK

continued from page 2

through September, 2002, the S&P 500 was down almost 45%. And if you examine the flow of investors' funds during this time, you'll see that an equity sell-off was underway. But that turned out to be one of the worst possible times to exit the equity markets, because from December, 2002 to the end of March this year, the S&P 500 is up about 75%, while the MSCI EAFE is up almost 154% and emerging markets are up nearly 250%.



On the upside, greed is as dangerous as fear. Over the last four and a half years, emerging markets are up in excess of 280%. As a result, I hear of many investors who are investing more aggressively just because the markets are doing well. I see investors with risk averse profiles getting into emerging markets. When investors abandon their disciplines, and increase their equity exposures because they get greedy, they become more vulnerable to making the wrong decisions again on the downside. Instead of buying low and selling high, their emotions lead them to do the exact opposite.

So the prudent course of action is to stick to your investment plan and maintain a long-term perspective. While certain life circumstances may warrant a change in your investment strategy, (i.e., your investment time horizon, risk tolerance, cash flow or tax situation, or if you've received an inheritance or are retiring), you shouldn't make modifications in response to what the market is doing. The market is an independent variable that cannot be predicted over the long-term. ◀

Source: Bloomberg  
Dalbar, Inc., 2004.

## Diversification

continued from page 1

### Diversification can be attained in several ways:

#### Diversification by Asset Class

A diversified portfolio may hold a combination of stocks, bonds and cash. These asset classes may be included in the form of individual securities as well as mutual funds that invest in the securities of a variety of companies, institutions and/or government agencies.

#### Stocks/Equities

Stock or equity shares 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.

#### Bonds/Debt Securities

Bonds represent the debt of corporations, the US Treasury and other government entities, and other debt issuers. These types of securities are essentially a loan 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 line with current interest rates. These investments typically exhibit a lower level of risk than equities, and thus their returns are generally lower as well.

#### Cash

The cash portion of a portfolio includes money market instruments that 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.

#### Diversification by Investment Type

Each of these asset classes is composed of different investment types that can provide additional levels of diversification.

**Stocks/Equities** may be further differentiated according to:

- **Geographic Regions** – Equity investments include the stock of domestic and international companies.
- **Sector/Size** – Companies can be distinguished by industry (market sector) and size (large-cap, mid-cap or small-cap, depending on market capitalization).
- **Type** – Stocks can also be categorized as either value- or growth-oriented. Furthermore, equity mutual funds can be value- or growth-oriented, or a blend of both.

#### Bonds/Debt Securities

Bonds are classified according to size, issuer, credit quality, interest rate sensitivity and duration.

#### Cash

Cash includes money market instruments, certificates of deposit, T-bills and commercial paper.

#### Diversification by Fund and Management Style

Many types of mutual funds are available, including Domestic Equity, Domestic High Quality Bond, Domestic High Yield Bond, International Equity, Interna-

–continued on next page

# Boomer Blurbs | Facts & Figures

## Diversification

*continued from page 3*

When it comes to retirement, the majority of baby boomers are simply not interested in the traditional model of leaving the workforce at age 65 to pursue leisure activities:

- **76%** of boomers intend to keep working and earning in retirement. However, on average they expect to leave their current job/career at about age **64** and then launch into an entirely new job or career.
- While **37%** of the boomer generation indicate that continued earnings is a very important part of the reason they intend to keep working, **67%** state that continued mental stimulation and challenge is what will keep them in the game.



- **65%** of boomers will stop working for pay and retire at some point. However, they are more likely to do so in their late sixties than at age **60** or **65**.
- **81%** of boomers assert that accumulating the resources they believe they need for retirement freedom, rather than age (**56%**) or any other variable, is the most decisive factor for when they choose to retire.

tional Bond and Money Market funds. Investors may wish to hold a combination of funds in order to gain exposure to each asset class. In addition, by investing in more than one mutual fund, investors can ensure that securities selection responsibilities are divided among a number of managers, each of whom may specialize in a particular investment discipline. ◀

*Diversification does not assure against market loss. Investments in foreign markets may involve risks such as foreign currency exchange rate fluctuations, political and economic conditions and foreign taxation.*

*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.*

*(Source: Merrill Lynch study —The New Retirement Survey 2/05)*

### The LegendEdge

THE LEGEND GROUP  
4600 EAST PARK DRIVE, STE. 300  
PALM BEACH GARDENS, FL 33410