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The LegendEdge

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Managing the Effects of Inflation

Inflation risk is the loss of buying power due to continually increasing prices. A retiree on a fixed income—one that does not increase—may eventually run into a deficit as his or her expenses continue to grow. 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.

Over the last twenty years, prices have risen at an average annual rate of 3.06%¹. As a result, it would take about \$183 today to purchase the same amount of goods that \$100 purchased in 1987.

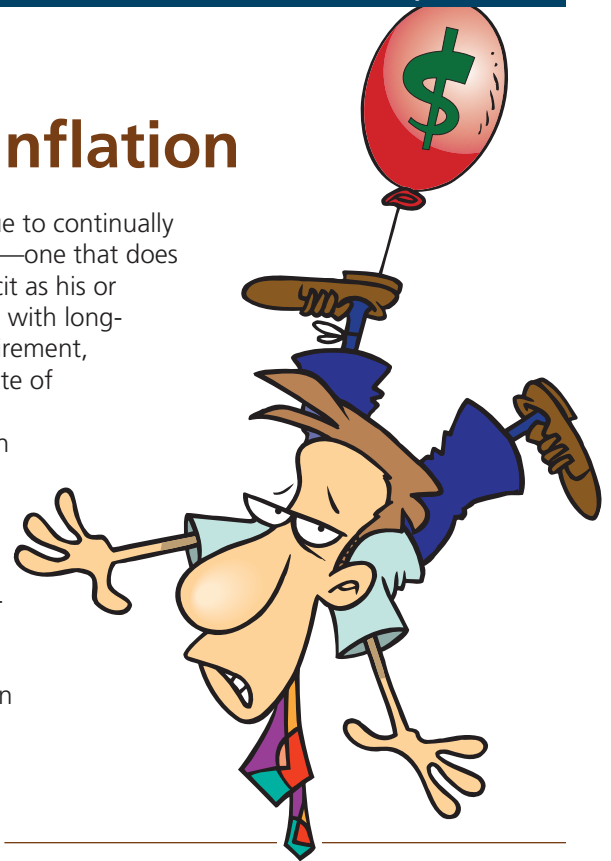
But which investments will have the potential to beat inflation? While it is impossible to predict the future, we can look at which investment categories have outpaced inflation in the past.

Investments perceived as low risk, such as Treasury bills, certificates of deposit (CDs) and savings accounts may actually be quite risky from an inflation standpoint². For example, over the last 20 years, investing with T-bills would have increased your purchasing power only slightly, with an average annual return of only 4.54%³. While these types of investments can be components of a well-diversified portfolio, they may not have the growth potential necessary for a long-term investment strategy.

Historically, equities have been one of the best investments to increase wealth and outpace inflation⁴.

Over the past 20 years, the S&P 500, an index of U.S. stocks, outperformed inflation by a wide margin. Assuming it was possible to invest directly in this index, \$10,000 invested on 12/31/1987 would be worth \$93,317 at

the end of 2007. In fact, the S&P 500 grew at an average rate of 11.81% over this time. Not only would the investment have outpaced inflation, it would have substantially increased in value.⁴ ◀



Inflation is a reality we all must contend with, but many fail to recognize the potential impact it can have on a long-term investment plan.

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

¹ Consumer Price Index (CPI) calculated from Bloomberg Professional data.

² CDs and savings accounts are insured and/or offer a fixed rate of return with a lesser amount of volatility and risk. Stocks and mutual funds are not guaranteed and involve greater risk. Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest.

³ Bloomberg Professional. An average reflecting the annualized monthly yield on all actively traded T-Bills maturing in 90 days quoted on a discount basis in the secondary market.

⁴ Past performance is not indicative of future results. Direct investment cannot be made in any of the indexes cited and index performance is not indicative of any specific investment. The S&P 500 Index example is a hypothetical illustration only and assumes reinvestment of all earnings, but does not consider taxes or transaction costs.

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

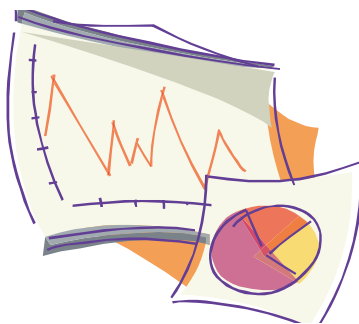
How does investor psychology influence the investment markets, and individual portfolio performance?

The biggest psychological hurdles that investors face are the twin emotions of greed and fear. Unfortunately these emotions may often lead to bad decisions because they may make people do irrational things. For example, in 1987 after the markets crashed on 10/19/87, individuals who sold may have lost more than 20% in just one day, and the total downturn from the market high on 8/25/87 was as large as 36%. But guess what? In 1987 both the Dow and the S&P ended up in positive territory by year end. So, including a mid-year drop of as much as 36%, the markets managed to regain enough strength in the last couple months of the year to finish with a positive return. But many of the people who boasted about getting out of equities right before the downturn probably didn't get back in on time to take advantage of the ensuing turnaround. It's been reported that Elaine Garzarelli, who you see on NBC sometimes, was one of the pundits who sent letters to investors, saying to get out. Fear and media hype drove many investors to do just that, even after the downturn. Unfortunately, many investors didn't get back in for quite some time, therefore missing the upswing. I believe, because of this, the majority ended up worse off than if they had stayed invested through all of the volatility.

What kinds of psychological phenomena prompted the crash of 1987?

At that time, inflation was a fear, interest rates were high and the markets had been appreciating for five years. I

believe many people felt the cycle of good times had run its course, because short term cycles typically run about that long. Most people seem to become anxious when the markets go up five, six, or seven years in a row. So just like now, people became worried. Rational investors realize that the markets



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follow earnings. The idea being, if earnings continue to rise, the markets should generally do well, regardless of how long they’ve been appreciating. Yes, there is always the possibility of a cyclical downturn, but wise investors recognize these as opportunities. In fact, for the savvy investor, the recent

market downturn may represent just that—an opportunity to buy equities at a better value. Can the markets lose another 5%, 10% or 15%? Of course, but over the long-term, market dips have proven to be good buying opportunities for the long-term investor. *(Readers should be aware that past performance is not indicative of future results.)*

The market volatility surrounding the events of 9/11 was another example of a great buying opportunity in my opinion. On 9/11/2001 after the twin towers fell, the markets were closed for four days: Tuesday, Wednesday, Thursday, and Friday. When the market opened the following Monday, a huge sell-off began causing the markets to fall between 8-15% in just one week. That’s quite horrendous, and true to human nature, many investors were afraid, and subsequently they sold and went to cash. But just as with the crash of 1987, in the weeks following 9/11 the markets regained everything they had lost in those five days—and more.

Let’s turn now to the current situation. How have the markets been performing?

I think we’re definitely heading toward a global synchronized slowdown. But I don’t believe that we’ll experience a huge recession. I just don’t see that happening. Yes, we could experience a quarter or two of negative growth, but it may only be -.1 or -.9 per quarter. Is that a recession? Well, technically it is because the definition of a recession is two quarters of negative growth. Is it going to feel like a recession? Absolutely. I think the unemployment rate is going to go up to five and a half percent. And I think

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 Chartered Financial Analyst and the Chief Investment Officer of Legend Advisory Corporation.

Mr. Mehrotra is also a registered representative of Legend Equities Corporation.

MARKET OUTLOOK

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the slowdown is going to be rather widespread because the housing woes are starting to spread to other sectors.

But I also think we're going to emerge from it quickly, because economies like India, China, Japan, Indonesia, Malaysia and Singapore are solid now, and I believe that these economies will help to bolster the US economy this time.

I believe that a recession will have a greater potential of taking hold in 2009, because historically most foreign economies have exhibited a delayed reaction to US economic performance. So while the US is slowing down now, foreign economies may not begin to react until next year. While they may suffer a little bit as a result of US market performance, I don't think they'll slip into a recession just because the US economy falters. If you look at global capitalization, these economies are quite significant now. In 1970, the U.S. represented about 66% of world market capitalization. Today our share is down to less than 30%.

What can investors do to weather the current volatility and minimize the impact of their emotions on the performance of their portfolios?

I believe that a professionally managed, dynamic asset allocation program can help investors to minimize the impact of their emotions on their portfolios no matter what the markets are doing. With asset allocation, an investor's funds are diversified among a range of asset classes and investment types.

Therefore, even though an individual may not have all his/her money invested in the best asset class at any given time, he or she is also not fully invested in the worst-performing asset class. Since the risk is divided up, it smoothes the curve, so to speak. The ups and downs should not be as severe as they were for the individual investor who put all his/her money in a growth fund in 1999 (greed), then took it all out and moved to cash in 2002 (fear). These kinds of actions are often devastating mistakes that can jeopardize an individual's retirement security. To avoid that, I recommend staying diversified and investing with a well-crafted long-term plan. ◀

How to Read a Mutual Fund Quote

Most major newspapers publish daily price quotations on many mutual funds every business day.

For example, *The Wall Street Journal* currently publishes these quotations in the format shown below.

In the first column you will see an abbreviation of each fund's name.

The second column shows the net asset value (NAV) per share, sometimes called the sell or bid price, as of the close of the previous business day.

Every mutual fund calculates its NAV each business day this way: it divides the market value of its total assets, less liabilities, by the number of shares outstanding.

**NET ASSET
VALUE
(NAV)** =

TOTAL ASSETS – TOTAL LIABILITIES
OF SHARES OUTSTANDING

If you invest in a mutual fund, you can calculate what your investment is worth by multiplying the NAV by the number of shares you own. It may be greater or less than the amount of your original investment.

The third column shows the change in NAV from the previous business day.

The fourth column lists the fund's year-to-date return. The percent return illustrates how the fund has performed so far that year.

Before investing in a mutual fund, consider its investment objectives, risks, charges and expenses carefully.

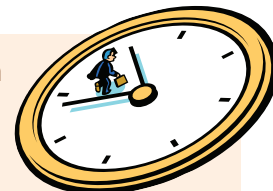
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Mutual Fund Quotations			
Mutual funds listings for biggest 2,000 Nasdaq-published share classes based on market capitalization. NAV is net asset value. Percentage performance figures are total returns, assuming reinvestment of all distributions and after subtracting annual expenses. Figures don't reflect sales charge ("loads") or redemption fees.			
	NAV	Net Chg	YTD %ret
ABC Fund Company:			
Govt	11.04	.03	1.9
Growth	10.65	.03	0.3
Gro Inc	10.25	.03	3.6
DEF Funds:			
A & B	1.42	...	2.0
C	1.98	...	1.9
GHI Group:			
Bond Stk	p10.00	.03	0.0
Growth	p10.67	.02	0.4
Income	p8.94	.01	1.2
NW Pt	p14.47	.03	7.3
Tax Ex	p7.15	.01	2.3
US Gov	p.99	.01	1.7
Value	10.83	.01	2.0
JKL Funds:			
Govt	10.29	.01	3.1
Growth	10.70	.07	0.3
Total Ret	11.63	.03	3.8
JKL Inc	6.86	.02	0.7
JKL TE	6.90	...	0.4
MNO Mutual Fund Group:			
MNO Bnd	p4.62	.01	2.9
MNO CA	p4.70	.01	3.6
MNO Disc	p6.86	.03	1.9
MNO Eqty	p8.59	.04	2.2
MNO Extl	p4.67	...	4.7
MNO Fed	p5.01	...	0.1
MNO Gth	p17.45	.07	4.5
MNO HYd	p4.35	.01	0.0

There's Still Time to Contribute to a 2007 IRA/Roth IRA, Plus 2008 Contribution Limits have Increased

Funding a tax-deferred IRA or a tax-advantaged Roth IRA in addition to an employer-sponsored retirement account is a great way to maximize your retirement savings. Depending on eligibility, investors may contribute up to \$4,000 for the 2007 tax year to an IRA or Roth IRA. Individuals who are age 50 or older may contribute an additional \$1,000. 2007 contributions must be postmarked no later than April 15, 2008.

Contribution limits have been increased for the 2008 tax year – up to \$5,000 depending on eligibility, with an additional \$1,000 permitted to accountholders who have attained age 50 or more. Talk to your Legend Advisor for more information about funding an IRA or Roth IRA.



Boomer Blurbs | Facts & Figures



A study by The MetLife Mature Market InstituteSM and AARP Health Care Options[®] entitled *The Future of Retirement Living* reveals pre-retirees' (ages 50-65) expectations regarding their living arrangements in retirement and the implications for their long-term care needs:

- **91%** of pre-retirees live in their own home in a regular community and **86%** prefer to continue this arrangement in retirement if they are capable of living without ongoing assistance.
- **49%** of pre-retirees expect to stay in their current home during retirement while **36%** think they will move. **70%** of those who plan to move will go to a different city or town.
- **51%** of pre-retirees state that living in a community with family and friends would be one of the three most important considerations in deciding where to live in retirement.
- Only **14%** expect to need day-to-day assistance or ongoing healthcare at any point during their retirement.
- While half of pre-retirees would like to stay in their own home if they were to need day-to-day assistance, **72%** ranked an adult retirement community as one of their top three choices.

- **42%** of pre-retirees indicate that they have given little or no thought in the past 5 to 10 years about where they will live in retirement. The same percentage lacks a plan to manage their savings and spending so that their money lasts through their retirement.
- Many pre-retirees hold misconceptions as to the sources of funding that will be available to them if they should require long term care. **62%** intend to rely on Medicare and **40%** plan to use health insurance to help pay for the services, however neither covers extended care. ◀

The Future of Retirement Living, findings from a National Study by The MetLife Mature Market InstituteSM and AARP Health Care Options[®] with Mathew Greenwald & Associates, June 2004.

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