



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

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The LegendEdge

Third Quarter 2008

Put the Power of Tax-Deferral to Work for You

The power of tax-deferral is an important benefit offered by many retirement savings programs such as §403(b), §401(k) and §457 plans, SIMPLE and SEP-IRAs, and traditional IRAs.¹

When contributions are made on a pre-tax basis, your current taxable income is reduced by the amount you invest. Just as important, taxes on any earnings your tax-deferred investments generate are deferred as well, putting more of your money to work for you over time. Taxes are not due until you begin to make withdrawals—usually at retirement—which may be years away.²

Plus, while distributions are taxed as ordinary income, the impact may be minimized as many investors find themselves in a lower tax bracket at retirement.

The following illustrations depict the advantages of pre-tax contributions and tax-deferred compounding within a pre-tax retirement savings account.



¹ Many investors contribute to a traditional IRA in addition to an employer-sponsored retirement plan, although contributions may not be deductible due to their active participant status in their employer's plan. However, the power of tax-deferral still applies to any earnings in the account. Contributions to Roth accounts are made with after-tax dollars.

² A 10% penalty may apply for early withdrawal (before age 59½).

The Power of Pre-Tax Contributions		
	GREG After-Tax	ELLEN Pre-Tax
Gross Earnings	\$3,000	\$3,000
Retirement Savings	250	250
Taxable Income	3,000	2,750
Federal Withholding	572	412
FICA	230	230
Net take home after savings	\$1,948	\$2,108

Assumes a 25% federal tax rate

Ellen and Greg both earn \$3,000 per month, and both save \$250 each month towards their retirement. However, Ellen has the opportunity to invest in a retirement

plan on a pre-tax basis, while Greg's contributions are made to an after-tax savings program.

Since Greg's investments are not tax-deferred, he will have \$3,000 of taxable income for the month. Under current income tax rates, approximately \$572 would go

to the federal government and FICA would be about another \$230. As Greg is saving \$250 a month for retirement, he would be left with \$1,948 in spendable income.

Since Ellen contributes \$250 to a tax-deferred retirement savings plan, her taxable income is only \$2,750. As such, her taxes will be less than Greg's with about \$412 going to the federal government and FICA remaining at \$230. Since Ellen has reduced her taxable income by contributing to a pre-tax retirement plan, her spendable income is \$2,108.

As you can see, even though Ellen and Greg are each saving the same amount for retirement, Ellen is able to take home \$160 more dollars per pay period because she is investing on a pre-tax basis.

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

For the first time in five years, Legend Advisory Corporation (LAC) has recently reduced its exposure to international equities of developed nations in favor of domestic equities within its managed portfolios. Why has this change been implemented at this time?

In February, 2003 we increased our exposure to international equities substantially in our managed portfolios. Then for the next five years, we enjoyed the benefits of healthier returns in that asset class, as compared to domestic equities. But at the beginning of this year, our models began to favor US equities over international equities, specifically those of developed nations. Over the long term, the models favor emerging markets best of all, but in the near-term they do not appear as attractive as US equities in terms of their risk/reward potential.

If you look back through the history of the markets, you'll see that market cycles generally last about five to seven years. Now that international equities have been outperforming domestic equities significantly for about five years I think our models are sensing that the cycle is ending and that US equities now hold a greater potential for appreciation because the valuations are better.

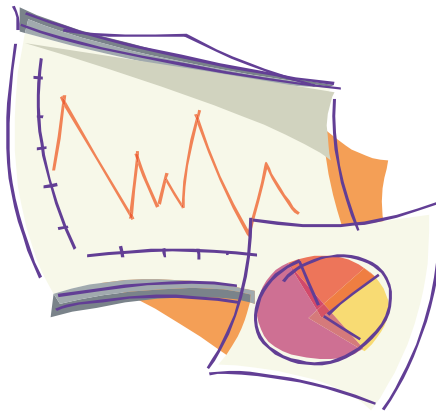
What you mean when you say the valuations are better?

Valuation is a measurement used to determine how expensive a particular market is. When I talk about valuations, I'm referring to price-to-earnings ratios, price-to-book ratios, price-to-cash ratios. I think that international stocks are still a solid asset class, but they are over-priced due to the appreciation experienced in the international markets over the past

five years. US stocks have been appreciating to a lesser degree than international stocks.

Are there any other reasons why you believe the models are now favoring domestic equities?

Yes. I believe the US Federal Reserve Bank (Fed) is ahead of the curve as far as raising interest rates whereas the European Central Bank (ECB) has been in denial about the threat of inflation. I think that right now, inflation is a global phenomenon. Most of the developed countries are importing inflation from the emerging markets, and Europe is no exception. Granted Europe has a slight advantage over the US because the US dollar is so weak. We feel the pinch of escalating oil prices more than the European countries do because the euro has more purchasing power than the US dollar. So Europe is importing inflation to a lesser degree than the US.



Both China and India have been experiencing close to double digit growth rates. And since the US and European nations are now competing with emerging markets for resources, inflation will

continue to be an issue. That's why the Fed has started to raise interest rates, as a preemptive measure. But the ECB has yet to acknowledge the problem, let alone take the steps necessary to combat inflation, and I think the delay will facilitate a decrease in equity prices in the region.

What is your outlook for the economy and markets during the second half of the year?

Even though some economists are predicting that the economy will do very well, as a result of the fiscal stimulus the government began providing at the beginning of the year, I'm not very optimistic about economic growth in the second half of 2008. I think that any stimulative effect has already taken place. People who intend to spend money don't generally wait a few months and then spend it. In fact, in an environment like the current one, where the markets have experienced such steep drops, human emotion will prevent people from spending too much money because they feel that their net worth has declined. So I think consumers are going to be feeling less wealthy, which I believe will prevent them from spending as much as they have been over the past five years when the economy was healthy.

That said, since the recession in 2001, the US economy has only experienced one quarter of negative growth—in the fourth quarter of 2007. In the second half of 2008, I'm not expecting to see two consecutive quarters of negative growth (the technical definition of a recession). On average, I believe that we are likely to see a growth rate of under 1% annualized for the six months composing the second half of 2008.

• 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. The opinions and predictions expressed here are those of Shashi Mehrotra solely and not necessarily the opinion or expectation of Legend or any of its affiliates. Such opinions and predictions are as of July 31, 2008, and are subject to change at any time based on market and other conditions. No predictions or forecasts can be guaranteed. Legend does not recommend that any investment decision be made in light of the opinions provided. Individuals should seek the advice of their financial advisor before making any decision to buy or sell securities.

Tax Deferral: The Power of Tax-Deferred Compounding

(continued from page 1)

In this hypothetical illustration, we'll analyze the scenario for a monthly contribution of \$250 into a tax-deferred retirement account that is earning 8% APR versus the same monthly contribution and earnings rate in a taxable investment with a 25% tax rate.

A taxpayer saving in a taxable investment would first have to pay tax on the \$250 earmarked for saving, netting only \$187.50 for deposit each month. In 10 years, the taxable investment would have grown to \$30,970 while the tax-deferred retirement account

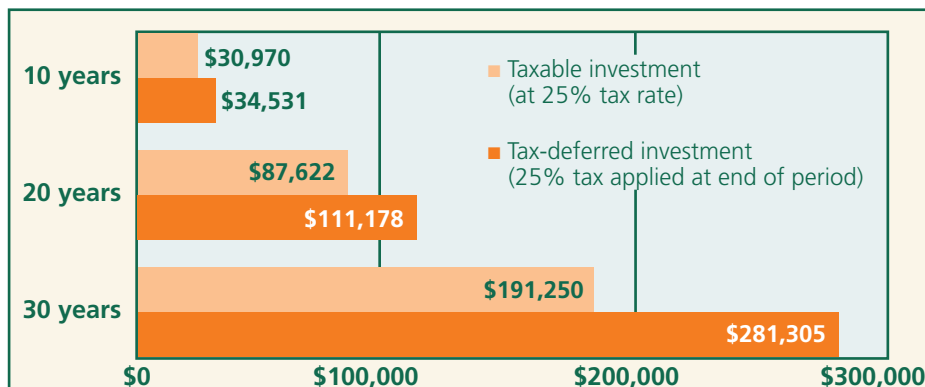
would be at \$34,531, net after taxes—a difference of \$3,561.

Over a period of 30 years, the difference

is even more dramatic. Here the taxable investment grows to just \$191,250 while the tax-deferred investment grows to

\$281,305 net after taxes. The difference is a whopping \$90,055!

The difference is that in the taxable investment, taxes were paid on all of the gains, thus reducing the amount saved. With the tax-deferred investment, all the funds that were paid out from the taxable investment to cover the taxes were allowed to remain in the account to compound over all those years. ◀



**This hypothetical example is not intended to illustrate the performance of an actual investment. This illustration is not an indication or guarantee of future performance. The illustration is a hypothetical analysis that is calculated using a single compounded rate of return, which is highly unlikely as rates will vary over time, particularly for long-term investments. The illustration does not take into consideration any investment fees or expenses, which would lower performance.*

MARKET OUTLOOK

(continued from page 2)

Do you see any bright spot in the current market and economic environments?

Economic growth is a cyclical phenomenon. If the economy is going to suffer a slowdown, history reveals that it will eventually reach an inflection point and begin to grow again. Once the economy turns the corner, the markets should start to take off again and begin a new cycle of appreciation.

The markets have had a very challenging time this year, and I think that's not going to change in the next few months. But once the elections are behind us and the uncertainty surrounding who will take office is over, the markets should start to gain some ground again. I think the markets will still be okay even if we continue to experience subpar growth. But even if we do have a recession, historically the markets have posted healthy post-recession gains.

In fact historically, in the 12 months after the market has bottomed-out, the S&P 500 has experienced a gain of more than 30% on average. So that's the bright spot. ◀

Boomer Blurbs | Facts & Figures

How are Boomers Responding to the Current Economy?

AARP recently commissioned a national study to determine how people age 45 and older are responding to the current economic slowdown.

- **81%** of all respondents report the economy is in fairly bad or very bad condition and **75%** feel the economy is getting worse.
- More than one-fourth (**27%**) of all workers ages 45+ have postponed plans to retire.
- As the economy slows and prices rise, most middle-aged and older respondents report that they are having difficulty paying for food, gas, utilities, and medicine. They are responding by cutting luxuries and postponing major purchases and travel.
- A majority (**58%**) of the middle-aged and older population say they are not concerned about the impact of mortgage foreclosures on their personal financial or housing situation. But most are concerned about the effect of foreclosures on the larger economy (**89%**), or their neighborhood or community (**64%**).
- **18%** of respondents say the decline in home values has prompted them to make plans to stay in the workforce longer, or postpone plans to move for employment or personal reasons.

Source: *The Economic Slowdown's Impact on Middle-Aged and Older Americans*, May 2008, AARP



Could Your Portfolio Benefit from a Professional Investment Management Program?

In today's fast-paced and constantly changing financial markets, implementing and adhering to an effective investment strategy can be crucial to your success. But many investors lack the time and expertise necessary to make sound day-to-day investment decisions. Whether you're saving for retirement, a child's education or some other financial goal, a professional investment management program can help guide you as you work to build your portfolio.

If you answer "No" to one or more of these questions, you may wish to ask your Advisor about Legend Advisory Corporation's professional investment management services. These programs are designed to provide investors with a well-diversified investment plan that proactively responds to perceived market conditions.



Take this Quick Quiz to learn more!

1. Have you set a savings target and implemented a strategy to achieve your objectives? Yes No
2. Do you know which types of investments can best help you reach your goals? Yes No
3. Are you comfortable researching, selecting and monitoring the individual investments in your portfolio? Yes No
4. Do you have the time to keep abreast of constantly changing world market and economic conditions and the expertise to utilize this knowledge to your benefit? Yes No
5. Is your portfolio properly diversified in an attempt to minimize the effects of market volatility on your nest egg? Yes No
6. Do you know your portfolio's risk/reward profile? Yes No
7. Is your portfolio reallocated when necessary in an attempt to take advantage of potential market opportunities and to minimize the effects of market downturns? Yes No

The LegendEdge

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

*“In the middle
of difficulty lies
opportunity.”*

Albert Einstein
(1879-1955)
German-born physicist