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About Legacy

Legacy Asset Management, Inc. is an independent Registered Investment Advisory firm, committed to providing the best solutions for our clients' success.

We offer professional money management and sound objective advice throughout a full range of investment and Qualified Retirement Plan consulting services for the institutional and high net worth client.

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Growing

Changing With The Times

Legacy Asset Management opened its doors in August, 1998 as a Registered Investment Advisory firm. At the time, we offered clients individually managed large-cap equity portfolios and retirement services. In those early years, Joe and I would occasionally debate whether Legacy and its future would be rooted in money management or wealth advising. From my prospective, I would be a money manager first, last and always. Joe had other thoughts.

The first year and a half was a blur. Then reality hit in the early years of the new millennium; a recession developed, the tech bubble burst, America was terrorized by Al-Qaeda, corporate malfeasances were rampant, and the stock market plunged. As a result, investors realized they had a risk tolerance. In order to meet the demands of our clients, we began to offer fixed income portfolio management. I spent half of my day reverting back to my early years as a bond analyst – creating and managing taxable and tax-exempt fixed income portfolios. This enabled Legacy to provide an alternative to equities which helped diversify portfolios and reduce overall portfolio risk. It also provided a new investment offering that could help Legacy grow. Clients welcomed the diversification and we grew quickly through word of mouth. I hired a capable analyst to help watch the markets and provide in-depth company research and together the performance of both the equity and bond portfolios were better than average.

Meanwhile, Joe developed a reputation as the go-to-guy for designing, developing and maintaining new and existing qualified plans. Do to his success, the identity of the firm continued to evolve as there grew to be two distinct business lines, investment management and retirement services. Notwithstanding some cross selling, there was nothing that really tied the two businesses together.

About a year ago, one of Joe's former students from the CERTIFIED FINANCIAL PLANNER ™ course at Rice University called to inquire if Legacy was interested in adding a financial planner. She came with great references, motivation and ideas on how to continue to grow the firm. Joe and I agreed that this would be a logical bridge that would link the money management business to retirement services. We hired Jillian Nel and clients now look to her for help in developing a thorough and objective financial plan that lays out a unique and specific strategy to help achieve their long-term financial goals. While Jillian's services are completely independent to Legacy's other business lines, her analysis, if desired and appropriate, can easily be incorporated into either money management or retirement services business. By bridging the gap between the two businesses we have significantly increased capacity as stewards of our client's assets and the ability to be a trusted advisor no matter how large or small the financial scope.

Additional Opportunities

In this low interest rate environment, it has become increasingly difficult to satisfy client demands for income as yields for every asset class from equities to high yield

bonds has adjusted downward to reflect higher demand. The days of 4% - 5% portfolio yields are long gone. With the Fed Chairman indicating that QE-3 (Quantitative Easing part 3) will likely last forever, there is a high possibility that rates will stay low for a long period of time. While this is great news for borrowers, investors get the short end of the stick. If this is the environment we have to function over the next few years, what are income investors to do?

Anticipating a low interest rate environment, Legacy sought out Scott Jackson, a portfolio manager with extensive experience in generating income through low volatility strategies, to join the firm. As a result, we are proud to announce that starting this month, (October) Legacy will be launching a separately managed equity income portfolio that will pursue downside protection while participating on the upside. While this strategy is not appropriate for all clients or investors, the target audience would include (1) equity investors seeking specific risk exposure, (2) fixed income investors seeking higher returns and inflation protection and/or (3) a low volatility alternative investment strategy. The uniqueness of this portfolio provides the flexibility to spread risk (based on market conditions) among four different asset categories – equity, fixed income, exchange traded funds (ETF's) and option writing. It will be up to the managers to identify which asset segment to exploit.

The combination of the enhanced equity income portfolio and financial planning, propels Legacy Asset Management into an enviable strategic position that differentiates us from our money management and wealth advising competitors. Most money managers don't have the expertise or time to offer both long only portfolio strategies and low volatility option writing skills. Both techniques can be time intensive and require a financially stable firm with dedicated resources to support both businesses. As a wealth advisor, Legacy has a compliment of diversified internal products and services at its disposal to better serve our client needs and help negotiate the complex market environment. Our dedicated team of professionals has the experience and expertise to assess, implement and monitor investment strategies of all sizes and complexity.

Legacy has been extremely conservative in its growth initiative. Nonetheless, when we identify strategic opportunities, we tend to move swiftly. We believe this is the best way to continue to position the firm for future growth and provide unique and opportunistic investment strategies to successfully navigate the likely uncertainty that will follow the election. As it turns out, Joe and I were both right; Legacy is a wealth management firm and I am following my passion of managing money.

Third Quarter Review

It's a good thing that the economy is not a proxy for Wall Street. For if it was, I'm afraid that investors would be a bit disappointed as the S&P 500 would likely be almost 200 points or 13% lower than where it ended the quarter. Over the last three months, excluding some housing numbers and robust back-to-school sales, the economic data is no better (and possibly worse) than in February and March of this year. The employment numbers continue to disappoint. According to the Bureau of Labor Statistics (BLS), over the last six months, the unemployment rate has ticked down by only 0.1%. What's worse is that the reduction was due to fewer people in the work force. Moreover, those lucky enough to be working are earning less just as inflation for food, energy, and healthcare are increasing significantly. In addition, the important manufacturing sector is struggling. In August, the Purchasing Managers Survey fell below 50 for the third month in a row – any number below 50 indicates contraction. Factory Orders, Durable Goods, Industrial Production and Capacity Utilization all fell to annual lows.

Uncertainty looms for investors as the U.S. is only 30 days from the Presidential election and 90 days away from the dreaded "Fiscal Cliff' that is looming over the economy. Most pundits believe the "Fiscal Cliff" will have a greater impact on the future economy, if not resolved, regardless of who wins the White House. The "Fiscal Cliff" refers to a combination of the end of the Bush tax cuts and initiation of steep federal spending cuts that would go into effect at the end-of-the-year. The combination of higher taxes and lower federal spending would likely cause the tepid economy to slide into a recession. Yet with all this troubling economic data and uncertainty regarding the election and the "Fiscal Cliff", the S&P 500 and the Dow are both almost 2% higher than at the end of the first quarter.

With all of this tenuous data, it would seem unlikely that the markets would move higher. However, one has to factor in the power of the Federal Reserve. For weeks prior to the September Fed Meeting, Ben Bernanke had been talking-up the weak labor market and the stubbornly slow economic recovery. In anticipation of some sort of Fed action, the equity markets posted five winning weeks out of seven leading up to the scheduled meeting. In fact, on the day of the actual Fed meeting, the markets jumped over 200 points once the details of QE–3 (Quantitative Easing Part 3) became public. The basic tenants of the policy stipulates that the government will step in and buy $40 billion worth of mortgages, per month, until the job market improves – which is estimated to be sometime in 2015. How will this improve the economy? In theory, the policy is meant to drive down long-term interest rates and push businesses to invest. Secondly, the dollar will weaken as the Treasury prints more money to funds its purchases of mortgages. As we have discussed numerous times, the combination of

lower rates and weak dollar is designed to stimulate the economy and encourage increased spending and exporting. The only problem is that this policy has not worked the previous two times it was tried. Even with historically low long-term rates, economic growth for the third quarter was an anemic 1.3%. While it's pathetic, the stock market loves it because there is nowhere for investors to capture meaningful income other than equities. Furthermore, lower interest rates help support higher asset and equity prices. The old saying "don't fight the Fed" was never more true than in the third quarter.

As a result, the Dow, the S&P 500 and the NASDAQ Composite all jumped 4.3%, 6.4% and 6.2%, in the quarter, respectively. Clearly, improving housing data coupled with anticipation of additional monetary easing, invigorated consumer optimism that a recovery could be on the horizon. As a result, investors started to reallocate some idol cash into the beaten down Energy, Consumer Discretionary, and Financial Services Sectors. These economically sensitive groups tend to lead the market higher as evidence surfaces that the broad economy is improving.

Energy was by far the best performing sector in the S&P 500, popping 9.5%. After lagging the general market badly over the last two quarters, refiners and oil services companies led the charge as crude oil prices jumped 9% from $84 to $99 before settling at $92 at the end of September. Unfortunately, this increase translates into a 13% jolt at the pump. Nonetheless, consumers were not dissuaded from spending as Consumer Discretionary and Technology stocks both popped approximately 7%. Anything having to do with homebuilding, improvements or refurnishing did extremely well, in response to some optimistic housing data. Complementing the home theme, consumers were willing to gobble-up all things having to do with media; broadcasting, cable and satellite and movie and entertainment companies all did well. In addition, consumers were shopping on the internet as retailers with strong internet presence did better than traditional brick and mortar outlets. In terms of tech stocks, the entire group was up except anything having to do with computer hardware, equipment and semiconductors. Other sectors that posted impressive returns include Financial, Healthcare and Material Sectors which were all up 6.4%, 5.6%, and 4.5%, respectively. In fact, the only sector that was negative for the quarter was Utilities.

Across the market, large-cap stocks did better than mid-cap and small-cap in the third quarter. According to the Russell U.S. Indexes, value stocks did better than growth stocks. The spread between the two has narrowed significantly across all market caps, indicating that investors are becoming evenly split between conservative, risk adverse and income seeking value investors, relative to those who are more aggressive or growth oriented.

Staying Focused

The stock market rally over the last few months has been fueled by a multiple expansion directly related to increased prospects for a solution to the European financial crisis. This basically means that investors are more willing to pay for future earnings growth. As a result, stocks have become more expensive. While institutional investors have been buying stocks based on perceived improvements in Europe, they have all but ignored a weakening earnings outlook. Expectations for the upcoming quarter have been falling and updates from companies like Intel, FedEx, Norfolk Southern Railroad and Caterpillar are not encouraging. As of the end of September, S&P 500 earnings are expected to fall 2.6% from a year-ago quarter, according to a Factset survey. Almost 80% of those companies that provide guidance have warned. We monitor the earnings preannouncement period closely and can suggest that investors stay clear of certain industries that have unstable fundamentals and excessive exposure to Europe and other struggling economies. One of the biggest businesses with deteriorating fundamentals is PC's. Consumers are shifting away from traditional PC's in favor of mobile devices such as iPads and tablets. Declining demand has compressed margins as the business has become a commodity. Therefore, PC, PC components makers (semiconductors) and other related businesses, have seen their earnings projection fall significantly from the same period last-year.

Looking forward, global economics continue to negatively impact the Industrial sector, as declining sales and margins are impacting almost all companies. Over the last few weeks, companies representing the steel, transportation and general industrial have all lowered earnings expectations for the current quarter and even the first part of 2013. We would stay away from many of these groups until there is some indication that the overseas business is stabilizing. While many companies struggle, it should be noted that some industrial companies can operate efficiently and take advantage of specific competitive advantages. For example, GE raised their guidance and United Technologies confirmed its numbers.

It also appears that the income strategy that has worked over last several quarters might have run its course. Companies that typically pay outsized dividends have seen their stock price rise significantly as investors indiscriminately invested in these firms in order to supplement their income stream. As a result, valuations expanded to excessive levels, indicating that these stocks could be susceptible to greater than normal downward pressure, should the markets pull back. These industries include: Telecommunication, Utility, Soft Drinks, Household Products, Publishing and REIT's.

This is going to be a tricky couple of months as earnings, political headlines, global economics, domestic fiscal policy and geopolitical events reshape investor sentiment and establish new expectations for the financial markets. While the election is a one day event, the repercussions will be felt for many years to come. Long-term investors should look toward the election as an opportunity to review their total worth allocation to ensure

it meets their appropriate risk profile. If you are satisfied by how your assets are allocated, then continue to invest regardless of the daily dose of noise that can perpetuate market volatility. It is imperative not to get distracted or become complacent with whatever news item becomes the flavor of the month.

In all reality, it shouldn't matter whether the general market is trending higher or lower; there will always be value somewhere. While it is our responsibility, regardless of market conditions, to find quality stocks with attractive valuations and interesting stories, in this particular environment, it might be prudent to wait for some clarity regarding the U.S. political landscape. With two different candidates, espousing opposite visions for America, there could be a seismic shift in the political landscape that would significantly affect future investment strategies. We will be treading lightly and tweaking our priority list to capitalize on opportunities once we get some clarity mid-way through the quarter.

The Portfolio

Legacy was a net buyer of stock in the quarter, adding two stocks to the portfolio. We did not buy with conviction as the financial markets continued to climb in the face of weak earnings projections and economics data. We positioned the accounts with cash in anticipation of a pull-back that never occurred. Nonetheless, we will be patience going forward and not chase this market higher. This doesn't mean that we will be sitting on our hands, rather quite the contrary. We will continue to seek out quality businesses with attractive valuations that fit within our investment criteria.

Fifth Third Bancorp (FTIB) - Fifth Third Bancorp is a bank holding company offering lending, deposit gathering, transaction processing and advisory services through approximately 1,300 full service Banking Centers located throughout the Midwest and Southeast regions of the U.S. FTIB passed a major hurdle recently when the Federal Reserve approved the bank's capital plan which included a 25% dividend increases and a $600 million stock buyback. This decision should be viewed favorably, as the combination of a higher than expected dividend and stock buyback plan validates management's claim that Tier 1 capital sufficiently meets and exceeds regulatory requirements. Other catalysts include a pick-up in auto demand which stimulates commercial and industrial loan growth in the Midwest and growth in high return fee income business like corporate and mortgage banking, card processing and advisory services which should help drive higher profitability relative to its peer group. As of June 30th, the bank had almost $2.2(B) in loan loss reserves which is almost 3% of total loans and 131% of nonperforming loans, both significantly better than its peer group. FTIB has a strong Tier 1 capital base and has been successful in cutting non-interest expenses. The Dodd-Frank financial regulatory reform bill should have limited effect on the bank's revenue and earnings. FTIB pays an attractive dividend of 2.2%, which is meaningfully higher than the 10-year U.S. Treasury Bond. Investors are paid to wait for the uncertainty of the market and exogenous factors to clear, while downside exposure should be limited by strong U.S. operations and experienced management. When we added the bank to the portfolio, FTIB was selling at a slight discount to book value. We believe that over-time, FITB has the ability to grow and reach its pre – financial crisis valuation of 2X book value.

Apache Corp. (APA) – Apache Corporation is an oil and gas exploration and production company with operations in the United States, Canada, Egypt, the United Kingdom North Sea, Australia and Argentina. The stock has been depressed due in large part to its exposure to the political tensions in Egypt. As of June 30th 2012, 28% of the company's oil and 16% of its natural gas comes from the Middle East region. Those percentages are expected to decline significantly as almost 70% of future capital expenditures are slated for North America. In the meantime, shares trade, on average, at a 25% discount relative to its peer group. However, if you make the assumption that the company's 20% exposure to Egypt is worthless, the company is still undervalued. We believe Wall Street is too focused on the potential write-down of assets should the country fall into the hands of an extreme Islamic regime that could take over APA's assets. While this is a possibility, the company continues to assure investors that they have had no interruptions in business and continue to successfully drill wells - making money hand-over-fist in its high margin business in Egypt. Apache has a strong and experienced management team that evaluates investments decisions based on return potential. They see improvements in pricing on lower margin business such as natural gas assets in Argentina, Australia and Egypt. The company is in a strong financial position and pays investors a modest dividend. We believe that catalyst to move the stock higher include: (1) Wall Street recognizes that the exposure to the Middle East not as significant, (2) higher oil and gas prices (3) the political situation stabilizes in the region and (4) future accretive acquisitions.