June 2019

FIDUCIARY PULSE

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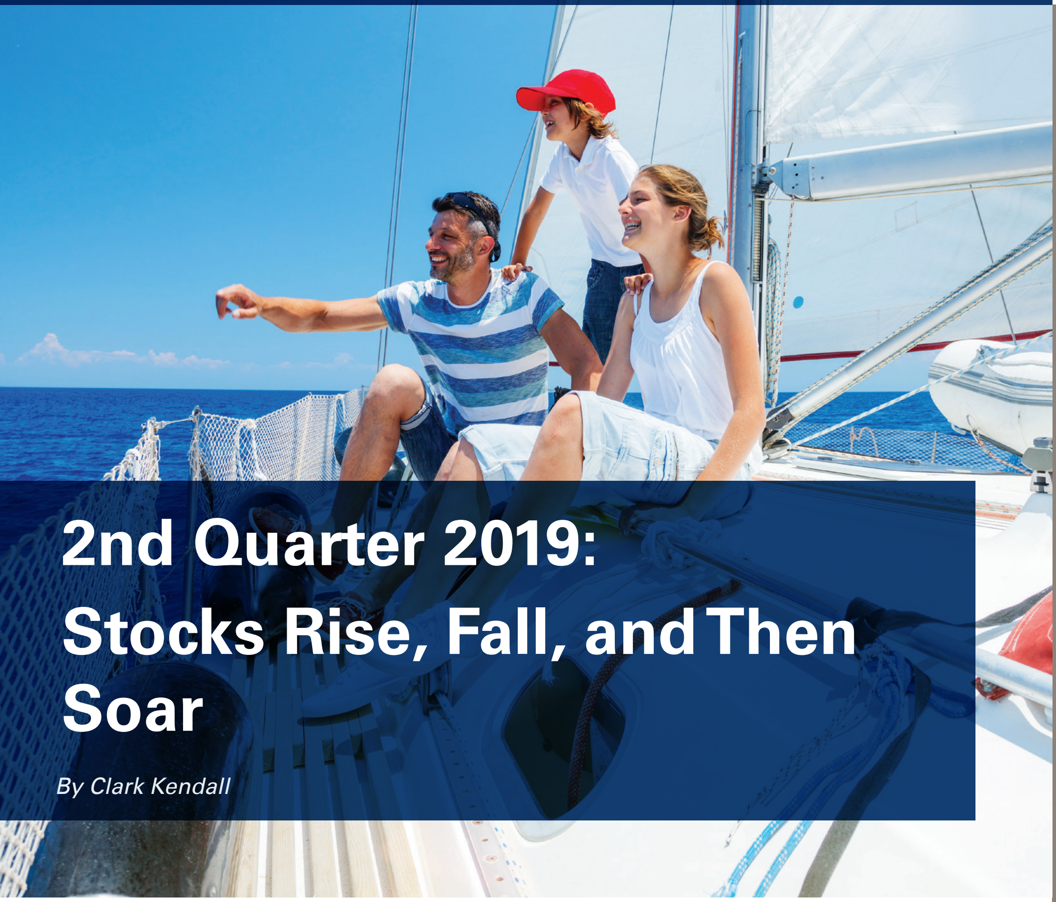

2nd Quarter 2019: Stocks Rise, Fall, and Then Soar

By Clark Kendall

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Quarter in Brief

The S&P 500 was certainly a roller coaster during the second quarter of 2019, but it also gained 3.8% across those three months. U.S.-China trade negotiations unwound, but as the quarter ended, they showed signs of resuming. The Federal Reserve grew dovish. Yields on longer-term Treasury notes dipped and so did mortgage rates. Consumers were confident, and consumer spending stayed strong. Mixed data emerged from the housing sector. Gold outperformed oil as well as many other commodities. The Brexit was delayed, and central banks in other countries elected to lower benchmark interest rates.

Domestic Economic Health

On May 5, President Trump announced that U.S. tariffs of 10% on $200 billion of Chinese products would rise to 25% and that virtually all other imports coming to the U.S. from China would soon face tariffs. China retaliated, declaring that it would hike tariffs already imposed on $60 billion worth of American products effective June 1. The trade talks between officials from

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Stocks Rise, Fall, and Then Soar

By Clark Kendall

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the world's two largest economies then hit a six-week standstill. On June 29, however, President Trump announced at the Group of 20 summit in Japan that formal two-sided trade negotiations would soon resume and that the U.S. would hold off on tariffs slated for another $300 billion in Chinese goods.

The other big story of the quarter was the change of outlook at the Federal Reserve. The central bank did not adjust rates up or down during Q2, but its June policy statement noted that Fed officials would "act as appropriate" to try and sustain economic growth. The latest dot-plot, gathering opinions from Fed officials on where interest rates might be in the near future, showed nothing like consensus.

The quarter ended with most futures traders believing that the Fed would make some kind of rate modification as soon as July. Perhaps the Fed was also revising its expectations in light of declining inflation. The May Consumer Price Index showed just a 1.7% annualized advance. Back in May 2018, inflation was running at a yearly pace of 2.8%.

Some other indicators pointed to a soft patch in the economy in the spring, perhaps nothing more. The Department of Labor reported 205,000 net new jobs in April, but only 90,000 net new jobs in May; unemployment did remain at 3.6% in both months, with the U-6 jobless rate, including the underemployed, actually descending from 7.3% to 7.1%. The prime gauge of U.S. manufacturing health – the Institute for Supply Management Purchasing Managers Index – dropped notably to 52.8 in April, then declined to a 12-month low of 52.1 in May.

Even so, consumer spending remained solid. Personal spending improved 0.5% in May, building on the 0.3% April gain. Retail sales, coincidentally, were also up 0.5% in May and 0.3% in April. Personal incomes rose 0.5% in both months. A lagging indicator worth noting: as the quarter ended, the Bureau of Economic Analysis affirmed that the economy grew 3.1% during Q1.

Key consumer confidence indexes stayed at high levels. The Conference Board's consumer confidence index was at 129.2 in April, then at 134.1 in May and 121.5 in June. The University of Michigan's consumer sentiment index hit an 8-month peak of 100.0 in May and ended the quarter at 98.2.

Global Economic Health

The Fed was not the only central bank reconsidering monetary policy during Q2. Policymakers in Australia, Chile, India, New Zealand, and Russia all cut interest rates after May 1 in an effort to stimulate their respective economies. Globally speaking, that constituted the most easing seen since the first half of 2016. Markets in Europe benefited from comments by Mario Draghi, President of the European Central Bank. Draghi said that he was prepared to loosen monetary reins in order to stimulate lethargic European Union country economies.

> **The Federal Reserve grew dovish. Yields on longer-term Treasury notes dipped and so did mortgage rates. Consumers were confident, and consumer spending stayed strong.**
>
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The Brexit was delayed. After an acrimonious spring in Parliament that saw no progress toward ratifying a new trade pact between the United Kingdom and the European Union, the E.U. postponed the Brexit deadline until October 31. Prime Minister Theresa May announced that she would resign, and based on election results, either current U.K. foreign secretary Jeremy Hunt or prior U.K. foreign secretary Boris Johnson will replace her later this month. Johnson, widely considered the favorite, has told the media that while he does not want the U.K. to leave the E.U. without a deal, the U.K. would do well to prepare "confidently and seriously" for that possibility.

World Markets

Gains were numerous in the quarter, with Argentina's Merval recording the largest at 26.02%. There was one other double-digit Q2 advance: Russia's Micex added 10.97%. Germany's DAX improved by 8.58%; Brazil's Bovespa rose 6.97%. Other gains of note: France's CAC 40, 4.58%; the Euro Stoxx 50, 3.64%; the MSCI World, 3.35%; India's Sensex, 3.04%; Canada's TSX Composite, 1.74%; Japan's Nikkei 225, 1.42%.

The quarterly retreats included the 0.31% loss for the MSCI Emerging Markets benchmark, the 0.34% retreat for Spain's IBEX, and the 0.61% decline of China's Shanghai Composite.

MARKET INDEX	Y-T-D CHANGE	Q2 CHANGE	Q1 CHANGE
DJIA	+14.03	+2.59	+12.43
NASDAQ	+20.66	+3.58	+17.39
S&P 500	+17.35	+3.79	+13.07
BOND YIELD	**6/28 RATE**	**1 MO AGO**	**1 YR AGO**
10 YR TIPS	2.00	2.14	2.84

Sources: tradingview.com, barchart.com, treasury.gov - 6/28/19. Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS yield = projected return at maturity given expected inflation.

Commodities Market

Examining second-quarter commodities performance, palladium had the best quarter among the metals, rising 18.23%. Wheat finished first among the key crops, up 12.22%. Ethanol topped the energy futures, advancing 8.74%. Coffee rose 12.06%; corn, 9.51%; gold, 8.63%. Gold ended Q2 at a price of $1,412.50 on the New York Mercantile Exchange. RBOB gasoline added 4.56% of value in Q2, and silver rose 1.25% to a NYMEX value of $15.27 on June 28.

There were also copious losses in the quarter. Some were minor: soybeans declined 0.36%; the U.S. Dollar Index, 0.61%; platinum, 0.98%; West Texas Intermediate crude, 2.16%. WTI crude settled at $58.20 per barrel on June 28 after a 9.07% June surge. Copper fell 6.06%; cotton, 17.86%; natural gas, 18.70%.

Real Estate

Home loans grew cheaper in Q2, and home buying picked up as the quarter ended. The National Association of Realtors noted a 2.5% increase for existing home sales in May; although, the annualized sales pace was still 1.1% beneath year-ago levels. May was the fifteenth straight month showing a year-over-year decline. (April had seen a retreat of 0.4%.) New home sales, which make up only about 10% of the U.S. residential real estate market, were down 3.7% in April and another 7.8% in May. The S&P CoreLogic Case-Shiller 20-City Composite Home Price NSA Index, a lagging indicator, showed a 2.5% yearly gain as of April.

Not that long ago (November), the average interest rate for a 30-year, fixed-rate mortgage was near 5%. Contrast that with where it was as the second quarter ended: 3.73%, according to mortgage reseller Freddie Mac's June 27 Primary Mortgage Market Survey. Back on March 28, Freddie Mac calculated the average interest rate on a 30-year FRM at 4.06%. As for 15-year, fixed-rate mortgages, their average interest rate went from 3.57% to 3.16% between the March 28 and June 27 surveys.

The Census Bureau said that housing starts surged 6.8% in April, then retreated 0.9% a month later. The pace of permits issued for new residential construction improved by 0.2% in April and 0.3% in May.

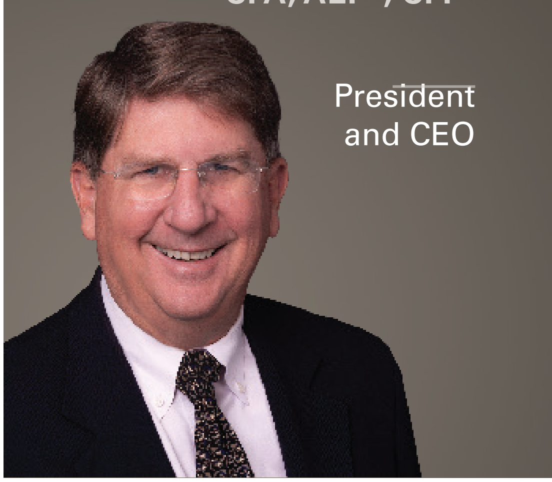
Looking Back, Looking Forward

Now, let't take a look at stock index performance. The S&P 500 gained 3.93% in April, dropped 6.58% in May, and climbed 6.89% in June. It hit a new, all-time peak in intraday trading on June 21: 2,964.03. The benchmark closed the quarter at 2,941.76.

The Dow Jones Industrial Average settled at 26,599.96 on the last trading day of the quarter; the Nasdaq Composite, at 8,006.24. Early in June, the yield on the 10-year Treasury went under 2%, a development that occurred multiple times in that month.

All in all, it was quite a quarter, with stocks getting as much of a lift from Federal Reserve policy moves and White House tweets as from earnings. As Q3 starts, traders are wondering if a rate cut and a U.S.-China trade deal are in store for the summer; there is also some uncertainty about the economy's momentum.

Clark A. Kendall
CFA, AEP®, CFP®



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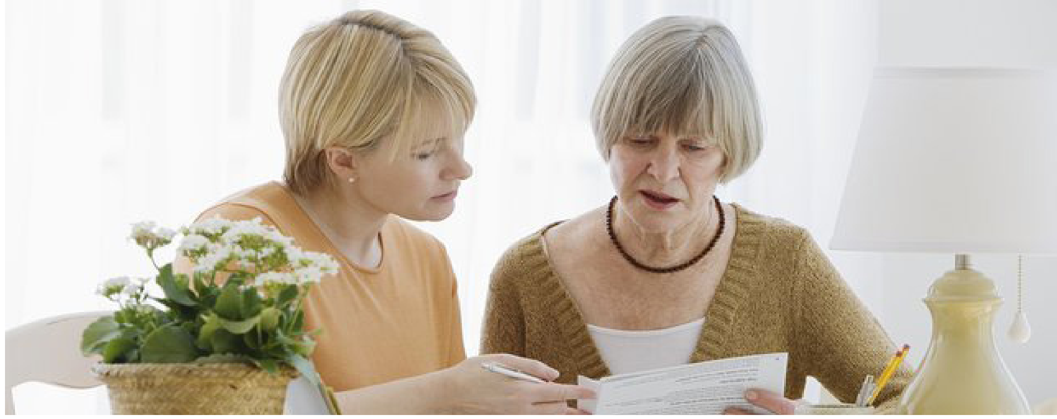
Helping Your Parents Manage Financial Responsibilities

By Carol Petrov



How can you make things easier on them, and YOU, later in life?

The number of people aged 60 and older is growing. By 2050, this demographic will be more than twice as large as it was in 2015. Many of these seniors will face financial challenges as they age whether it's analyzing their accounts or simply keeping up with technology in being able to access their accounts and protect themselves from fraudsters.

Your parents may be facing such a test.

If you sense that they are not quite up to it, then start with a conversation. If you need to have this kind of talk with your parents, it is best to proceed gently, while acknowledging some potential risks that may increase if the status quo continues.

Start by bringing up your own financial matters or investments.

Ask your parents for their thoughts on this-or-that topic – an upcoming car purchase, a type of insurance coverage or investment, or their approach to saving or investing when they were your age. Start this conversation while you do something else together, something relaxed or pleasurable. A one-on-one conversation is best, with an informal tone. A formal discussion involving multiple family members might come across like some kind of financial intervention and may not be appreciated.

Alternatively, if you have made a will or created a power of attorney, you can talk about your decision to do so and ask your parent if they have either of these items and more importantly, when were they last reviewed? All too often wills, beneficiary designations and medical directives are outdated and useless. Not only could that lead to a conversation about family wealth, but they might see that as a more important issue and segue into allowing you to understand their wishes and financial affairs.

Helpful and kind suggestions can follow.

If your parents are neglecting to open account statements, you can offer help monitoring their accounts by asking to register with the bank or investment custodian, so that you may receive copies of these documents. If you sense bills are past due, you can suggest setting up automated payments, referencing how useful they have been in your own financial life. If you do not live close by and could use some help monitoring these types of things, you may also wish to consider hiring a Daily Money Manager. These are people who will visit your parent's home to help them open mail, pay bills and bring issues to your attention that could save you time and money in the long run. Start by visiting the website for the Association of Daily Money Managers at https://secure.aadmm.com.

There can be resistance to such suggestions, of course. One possible way to counter that resistance is by expressing how much you care about their financial well-being, their wishes, and their quality of life. How would they feel, for example, if a financial error or oversight they made resulted in more income tax or a decline in the value of their accounts?

By treating your parent with love and respect and communicating openly, you can let them know that you are ready to provide the help needed during this time of life. An advisor at Kendall Capital can help guide you through the financial journey with your aging parents, and make sure you are asking them all the right questions.

"A one-on-one conversation is best, with an informal tone. A formal discussion involving multiple family members might come across like some kind of financial intervention and may not be appreciated.

Carol Petrov
CFP®

Vice President and Senior Relationship Manager

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Teaching Your Heirs to Value Your Wealth

By Brian Mattox

Some middle-class millionaires® are reluctant to talk to their kids about family wealth.

Perhaps they are afraid of what their heirs may do with it. If a child comes from money and grows up knowing they can expect a sizable inheritance, that child may look at family wealth like water from a free-flowing spigot with no drought in sight. It may be relied upon if nothing works out. The perception that family wealth is a fallback rather than a responsibility can contribute to the erosion of family assets. Factor in a parental reluctance to say "no" often enough, throw in a penchant for racking up debt, and the stage is set for wealth to dissipate.

How might a family plan to prevent this? It starts with values. From those values, goals, and purpose may be defined.

> It starts with values. From those values, goals, and purpose may be defined.

Create a family mission statement.

To truly share in the commitment to sustaining family wealth, you and your heirs can create a family mission statement, preferably with the input or guidance of a financial services professional here at Kendall Capital. Introducing the idea of a mission statement to the next generation may seem pretentious, but it is actually a good way to encourage heirs to think about the value of the wealth their family has amassed, and their role in its destiny.

This mission statement can be as brief or as extensive as you wish.

It should articulate certain shared viewpoints. What values matter most to your family? What is the purpose of your family's wealth? How do you and your heirs envision the next decade or the next generation of the family business? What would you and your heirs like to accomplish, either together or individually? How do you want to be remembered? These questions (and others) may seem philosophical rather than financial, but they can actually drive the decisions made to sustain and enhance family wealth.

You may want to distribute inherited wealth in phases.

A trust provides a great mechanism to do so; a certain percentage of trust principal can be conveyed at age X and then the rest of it Y years later, as carefully stated in the trust language.

By involving your kids in the discussion of where the family wealth will go when you are gone, you encourage their intellectual and emotional investment in its future.

Pair values, defined goals, and clear purpose with financial literacy and input from a financial professional at Kendall Capital, and you will take a huge step toward making family wealth last longer.

Brian Mattox
CAIA

Senior Portfolio Manager

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Investment Policy Statements

By Jason Tkach

What are they and why are they important when working with Kendall Capital?

An investment policy statement (IPS) is a document which helps the client and their advisor at Kendall Capital stay aligned by clearly stating the expectations and responsibilities of the client and advisor.

When we develop an IPS we take into account the client's general investment goals and objectives, but also more specific elements such as their income sources like pension and social security, note opportunities around tax planning and of course, a description of their asset allocation targets. The purpose is to make sure we understand their financial picture and they understand how our investment recommendations help them stay on track for their goals. It is also important to review the IPS together at least every other year to ensure its relevance.

> **If anything in your IPS feels uncomfortable, you should reach out to us to discuss your concerns.**

Read the fine print.

Because an IPS includes your broad investing goals and objectives, it's important to read through it in full. We believe it should be brief and easy to understand. It is essentially as a way for you to communicate with your advisor and is especially important if your advisor has discretionary authority to trade in your accounts. That means they can trade in your account when they feel it necessary without having to contact you first. This is why you hire an advisor you can trust to oversee your accounts and take action whether you are busy with your work or enjoying a vacation. The IPS sets the parameters within which your advisor will operate in order to help you reach a set of predetermined goals.

Provide the whole picture.

An IPS is a great way to make sure you're working with someone who understands your risk tolerance, goals, and time horizon. After all, an investment policy statement can be deeply personal and works best when custom-made to your circumstances. However, before developing the IPS, it's a good idea to start with a financial plan to uncover any potential opportunities and pitfalls. It's also important to ensure your advisor at least is aware of all investments, even if they don't manage them all. As a portfolio manager, I can tell you, having an IPS for just part of your investments is like driving with one headlight. We can only help you with what we can see.

Jason Tkach
CFA

Portfolio Manager

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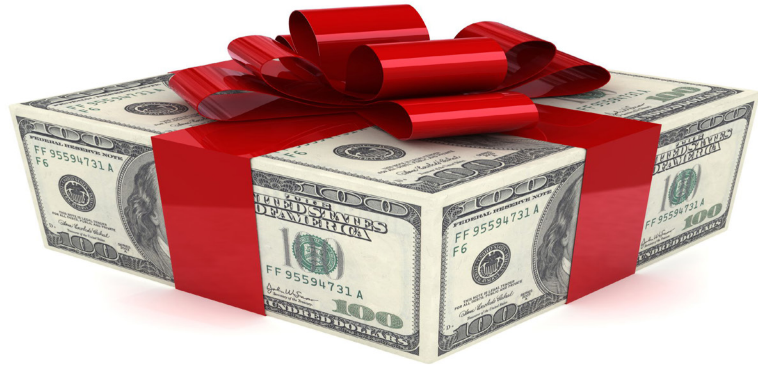
Gifts- Taxable or Not?



By Tae Kneidinger

In Clark Kendall's book, Middle-Class Millionaire: Surprisingly Simple Strategies to Grow and Enjoy Your Wealth, chapter 18 explains "Planned Giving" and walks through best practices of gifting. Below is a story about Rich and Barbara and real-life examples of how to gift efficiently.

Rich is a retired film stuntman who, after a long career, is enjoying his retirement. Some of what he's enjoying about his retirement is sharing part of his accumulated wealth with his family, specifically his wife and two sons. Like many Americans, Rich likes to make sure that, when he's sharing that wealth, he isn't giving the I.R.S. more than necessary.

Rich knows about the gift tax and knows how to make those gifts without running headlong into a taxable situation. This is Rich's responsibility because the I.R.S. puts the onus on the giver. If the gift is a taxable event and Rich doesn't pay up, then the responsibility falls to the beneficiaries after he passes in the form of estate taxes. These rules are in place so that Rich can't simply give his entire fortune to his sons before he dies without some of it being taxed as income or capital gains.

Exemptions for family and friends.

It would be different for Rich's wife, Barbara. The unlimited marital deduction means that gifts that Rich gives to Barbara (or vice versa) never incur the gift tax. There's one exception, though. If Barbara is a non-U.S. citizen, there's a limit to what Rich can give to her, up to $155,000 per year. (This is the limit for 2019; it's attached to inflation.)

The gift limit for other people, whether family or not, is $15,000 and it applies to both cash and noncash gifts. So, if Rich buys his older son Jack a $15,000 motorcycle, it's the same as writing him a $15,000 but of course harder for the IRS to track. Spouses have their own separate gift limit so Barbara could also write Jack a $15,000 check from the account she shares with Rich. So long as each gift is less than $15,000 annual there is no problem.

Education and healthcare.

The gift tax doesn't apply to funds for education or healthcare. So, if Jack breaks his leg riding that motorcycle, Rich can write a check to the hospital. If his other son David goes back to college to become a lawyer, Rich can write a tuition check to the college. This only works if Rich is writing the check to the institution directly; if he's writing the check to the beneficiaries (i.e. Jack and David), he might incur the gift tax.

The Lifetime Gift Tax Exemption.

What if Rich were to go over the limit? The lifetime gift tax exemption would go into effect, and the rest would be reported as part of the lifetime exemption via Form 709 come next April. Unlike the annual exemption, the lifetime exemption is cumulative for Rich. Currently, that lifetime exemption is $11.4 million.

Being a stuntman and an active extreme sportsman, Rich is concerned about his estate strategy. If he were to borrow Jack's motorcycle and attempt to jump the Snake River Canyon, what would happen if he didn't make it across? If that unfortunate event occurred in 2019, and he gave $9 million over his lifetime, and his estate and all of that giving totaled more than $2.4 million, the estate may owe a federal tax and possibly a state estate tax. Barbara would have her own $11.4 million lifetime exemption, however, and since she is the spouse, estate taxes may not apply.

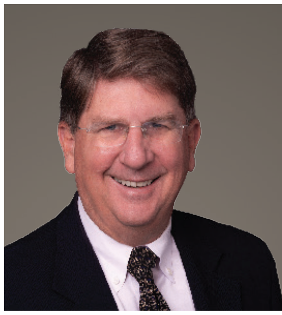
It should be noted that in Maryland, where Kendall Capital is based, the state decoupled from the federal government and as of 2019 imposes a state of Maryland estate tax starting at 16% of the assets above $5 million. This on top of the federal estate taxes which begins for estate worth more than $11.4 million. We are finding that many financially successful individuals and families are strategically moving to states that do not have estate taxes. For example, a wealthy individual with a $15 million estate will pay approximately $1.6 million less in estate taxes living in McLean, VA versus Potomac, MD.

Navigating the tax rules that govern charitable donations along with gifts to non-charities, such as your family members, and using all the forms of giving to your best advantage is fairly complex. However, with guidance from a financial professional at Kendall Capital, you can help your charitable dollars do even more good.

Tae Kneidinger
CFP®

Relationship Manager

THE KENDALL CAPITAL TEAM



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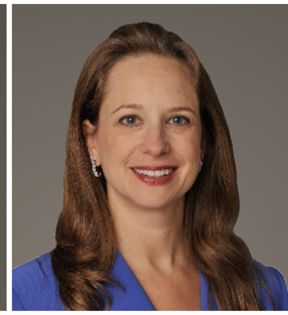

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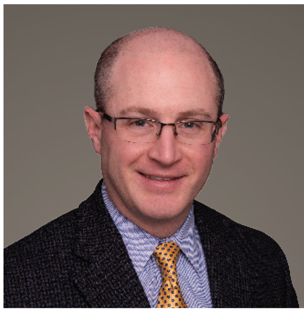

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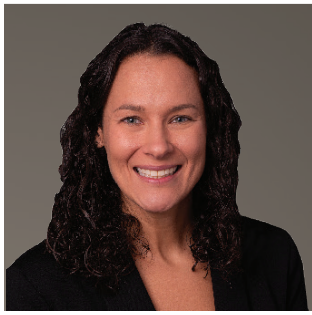

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