

FIDUCIARY PULSE



1st Quarter 2019: Best Quarter For Stocks in 21 Years

By Clark Kendall

Quarter in Brief

The strongest first quarter for stocks in 21 years featured all types of news. Central banks revised their outlook on monetary policy, seeing less robust economies in 2019. Glimmers of progress emerged in the U.S.-China trade dispute. Concerns over near-term corporate earnings and bond yields grew. The possibility of a “hard” Brexit loomed in Europe. The real estate market showed signs of heating up again. As the closing bell rang on the last trading day of March, the Standard and Poor’s 500 notched a 13% gain for the first three months of the year.

Domestic Economic Health

Late last year, the Federal Reserve was forecasting two interest rate hikes for 2019 and maintaining a fairly hawkish outlook. On March 20, the central bank turned away from all that. It cut its 2019 growth forecast for the economy by 0.2% to 2.1%, indicated it would not raise interest rates this year, and projected just one quarter-point hike through 2021. At a press conference immediately after the release of the March policy statement, Fed Chairman Jerome Powell shared his view that the

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Best Quarter For Stocks in 21 Years

By Clark Kendall

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"growth of economic activity has slowed," but he added that Fed policymakers did not foresee a recession developing.

The financial markets reacted swiftly. Demand for longer-term Treasury notes rose. By March 22, the yield on the 10-year Treasury had fallen dramatically, to the point where the yield on the 2-year Treasury exceeded it. (Bond yields fall when bond prices rise.) Economists refer to this as an inverted yield curve. Some economists see an inverted yield curve as a recession signal, while others disagree. The sudden flight to longer-term Treasuries did seem to reflect a lessening of risk appetite among institutional investors. Just six days after the Fed made its pivot, the CME Group's FedWatch Tool, which tracks market expectations about interest rate changes, gave the Fed a 71.7% chance of making an interest rate cut by the end of the year.

Some of the incoming data during the quarter seemed to correspond with the Fed's revised assessment of the economy, but some did not. (Some was actually delayed as an effect of the federal government shutdown that carried into late January.)

Inflation pressure eased. In October, the Consumer Price Index showed a 2.5% annualized advance. By February, inflation was running at just 1.5%.

Job creation surged, then fell off. There were 311,000 net new jobs in January, but just 20,000 in February. From January to February, though, the unemployment rate declined from 4.0% to 3.8%, and the broader U-6 rate, encompassing the underemployed, dropped from 8.1% to

7.3%. (The federal government shutdown may have affected some of the above numbers.)

The quarter also ended with the Bureau of Economic Analysis downgrading fourth-quarter gross domestic product (GDP). The prior estimate was 2.6%; the revised estimate was 2.2%.

One important consumer confidence measure rose and fell during the quarter: the Conference Board's index declined sharply to 124.1 in March, after hitting a 3-month peak of 131.4 in February. The University of Michigan's consumer sentiment index performed better: it started the quarter with a drop of 7.1 points in January, but by late March, it was at 98.4, a tenth of a point above where it was in December.

The Institute for Supply Management's monthly purchasing manager index, following manufacturing activity, was nowhere near 60 (a level it reached last summer), but remained well above 50 (the mark delineating sector expansion from industry contraction). ISM's manufacturing PMI was at 56.6 in January, 54.2 in February, and 55.3 in March.

Global Economic Health

Financial markets worldwide breathed a collective sigh of relief as the trade dispute between the U.S. and China eased. Negotiations between the two nations continued during the quarter, but no deal emerged. While some trade analysts see an agreement being reached in the second quarter, there are doubts that such an accord will resolve the issue at the center

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of the tariff fight – the concern that Chinese firms are using their technologies to steal U.S. intellectual property. In March, President Trump said that he would prefer leaving 25% tariffs on \$50 billion of Chinese products in place, even if a new trade deal was forged.

The quarter ended without a Brexit or even an accepted Brexit path – with the United Kingdom facing a potentially unpleasant outcome. The revised Brexit deal, which Prime Minister Theresa May brought to Parliament, was rejected for a third time in late March, raising the possibility of the U.K. leaving the European Union on April 12 without any kind of defined trade agreement. The European Central Bank surprised financial markets in early March with a decision to revive some of the economic stimulus measures it had



recently ended, and it also indicated that would leave interest rates unchanged until at least 2020. The latest forecast from the Organization for Economic Cooperation and Development (OECD) projects only 1% growth for the eurozone this year and less than that for the economies of Germany, Japan, and the United Kingdom.

World Markets

The S&P 500 was just one of many equity benchmarks advancing double digits in the first quarter. In fact, nearly every foreign stock index posted a quarterly gain of some kind. China's Shanghai Composite surged 26.77%; Italy's FTSE MIB, 16.17%; Hong Kong's Hang Seng, 14.41%; France's CAC 40, 13.10%; all outperformed the S&P for Q1. Other notable gains: Canada's TSX Composite, 12.42%; Euro Stoxx 50, 11.66%; Germany's DAX, 9.16%; Brazil's Bovespa, 8.56%; the United Kingdom's FTSE 100, 8.19%; India's BSE Sensex, 8.11%; Japan's Nikkei 225, 7.56%; South Korea's KOSPI, 6.19%. MSCI's World index rose 11.88% in the quarter; MSCI's Emerging Markets index, 9.56%.

Commodities Markets

Oil outgained all other major commodities during the quarter. The value of West Texas Intermediate crude rose 29.98% on the New York Mercantile Exchange (NYMEX), taking the per-barrel price to \$60.18 at the March 29 close. Other major Q1 advances: unleaded gasoline, 25.52%; palladium, 14.98%; copper, 9.29%; platinum, 6.59%; lumber, 6.07%; cotton, 5.61%. The significant retreats: natural gas, 4.21%; cocoa, 6.44%; corn, 6.98%; coffee, 9.22%; wheat, 11.76%. Gold gained but 0.29% for the quarter, while silver lost 2.65%. On the NYMEX Commodity Exchange, gold was worth \$1,290.80 per ounce at the close on March 29; silver, \$15.10 per ounce. The U.S. Dollar Index closed out Q1 1.27% higher at 97.20.

Real Estate

Is a buyer's market returning? As the quarter ended, some real estate industry journalists and analysts wondered if that was the case. Existing home sales surged 11.8% in February, according to the National Association of Realtors. That was the largest monthly gain seen since December 2015. While residential resales were still down 1.8%, year-over-year, this latest NAR report was certainly encouraging. NAR chief economist Lawrence Yun cited "lower mortgage rates,

MARKET INDEX	Q1 CHANGE	Q4 CHANGE	2018
DJIA	+11.15	-11.83	-5.63
NASDAQ	+16.49	-17.54	-3.88
S&P 500	+13.07	-13.97	-6.24
BOND YIELD	3/29 RATE	12/31 RATE	1 YR AGO
10-YEAR TREASURY	2.41	2.69	2.74

Sources: barchart.com, treasury.gov - 3/29/18, Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year Treasury yield = projected return on investment, expressed as a percentage, on the U.S. government's 10-year bond.

more inventory, rising income, and higher consumer confidence" as contributing factors in the increase. Additionally, the Census Bureau said that the pace of new home buying improved 4.9% during February; economists surveyed by Reuters had forecast a 1.3% advance.

As Yun noted, cheaper home loans factored in to all this. The decline in longer-term Treasury yields influenced mortgage rates. By the last week of March, a 30-year, fixed-rate mortgage was carrying an average interest rate of just 4.06%, according to the calculations of mortgage buyer Freddie Mac. Compare that with 4.95% as recently as November. (The 15-year, fixed-rate mortgage carried an average interest rate of just 3.57% as March ended.)

In February, the median sale price of an existing home was \$249,500, representing a year-over-year increase of 3.6%. The median new home purchase price was \$315,300, and that was down 3.6% from a year earlier.

Looking Back, Looking Forward

As the table above shows, the major U.S. equity benchmarks recorded great gains in the quarter. The closing settlements on the last trading day of Q1: Dow Jones Industrial Average, 25,928.68; S&P 500, 2,834.40; Nasdaq Composite, 7,729.32. The S&P Smallcap 600 ended the quarter at 939.30, advancing 11.17%.

Just as the bulls seemed beaten down, they came running right back. After diving nearly 14% in the last three months of 2018, the

S&P 500 rebounded more than 13% in the opening quarter of 2019. While consumer spending is still strong, many analysts still see slightly less economic growth this year (between 2%-2.5%). Stock market analytics firm FactSet is now projecting 4% profit growth for S&P 500 firms in 2019; when 2018 ended, the projection was near 10%. Economies in Europe and China appear to be less robust, and that could put a drag on the revenue of S&P 500 companies, 40% of which comes from outside the U.S. An abrupt April Brexit could also be a negative for global equity markets. The financial markets showed great resilience in Q1, forcing some financial firms to reconsider their full-year outlook.

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Planning to Retire Within the Next 5 Years?

By Carol Petrov



You should prepare for your retirement transition years before it occurs.

In doing so, you can do your best to avoid the kinds of financial surprises that are frustrating to an unsuspecting new retiree.

How much income will you need?

Don't just add up your monthly expenses, consider also the trips, adventures and other activities you have in mind in the near term.

Be sure to factor in the cost of health and dental insurance whether it'll be a new individual policy or Medigap policy. Naturally, you'll have some new expenses, but you may also find some expenses will be reduced such as commuting costs, clothing and you'll no longer be eating lunch near the office or getting a high-priced café latte on your way to work.

Should you downsize or relocate?

Moving into a smaller home or retirement community may reduce your monthly expenses but not necessarily, if you have little to no mortgage. It's one thing to downsize to simplify your life, have less maintenance and be able to travel without worrying about pipes freezing but consider these factors separately from the financial aspect. For example, you may like the idea of retiring to a new condo with no mortgage, but while mortgages rates are low, it may make more sense sell that big house and keep some of the proceeds in a taxable account to provide you liquidity and the option to withdraw cash in the future without as much of a tax burden as your 401k or IRA.

How should your portfolio be constructed?

In planning for retirement, the top priority is to build investments; once in retirement, the top priority is to generate sufficient income consistently. With that in mind, assets may need to be reallocated with respect to time horizon, risk tolerance, and goals. For example, it would be wise to have some investments that have little downside risk and can provide income in the next 1-3 years as well as growth investments which you'll use to provide income in 3-5 years and allow you to keep up with inflation.

What will you do all day?

There are people who wrap up their careers without much idea of what their day-to-day life will be like once they retire. Some picture an endless Saturday, others wonder if they will lose their sense of purpose and self-worth away from work. Think of your retirement as a beginning. Ask yourself what you would like to begin doing. Think about how to structure your days to do it, and how your day-to-day life could change for the better with the gift of more free time.

How will you take care of yourself?

Carefully research what your health insurance options will be when you are retired and especially if you plan to move to another state. Insurance rates and options vary wildly depending on the state and region. Medicare will not be available until you reach age 65 and even then, it does not cover everything. You should factor in the 20% of all costs that is not covered and consider purchasing a Medigap supplemental insurance plan to cover health care that is not approved by Medicare or to be able to see medical providers who do not accept Medicare.

And don't forget the dental and vision insurance! These again can be covered by a separate Medigap policy but are not covered under regular Medicare B.

Extended care or long term care, is another consideration should you find yourself needing help after an accident or illness that leaves your bed-ridden. Before you retire, you should understand what isn't covered by Medicare or other health insurance and seek professional advice to see if you would be able to pay for such care. If not, consider purchasing some form of LTC insurance which would hedge these risks. It's easier to get approved for such policies while you're still earning an income.

We encourage you to reach out to us at Kendall Capital to help guide you through the retirement planning process and to ensure you are well prepared when the transition occurs.



Carol Petrov
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Vice President
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The Importance of Investing in Agreement with Your Principles

By Brian Mattox

Do your investment choices echo your outlook? Are they in agreement with your values?

These questions may seem rather deep when it comes to deciding what to buy or sell, but some great investors have built fortunes by investing according to the ethical, moral, and spiritual principles that guide their lives.

Sir John Templeton stands out as an example. Born and raised in a small Tennessee town, he became one of the world's richest men and most respected philanthropists. Templeton maintained a lifelong curiosity about science, religion, economics, and world cultures – and it led him to notice opportunities in emerging industries and emerging markets (like Japan) that other investors missed. Believing that “every successful entrepreneur is a servant,” he invested in companies that did no harm and which reflected his conviction that “success is a process of continually seeking answers to new questions.”

Among Templeton's more famous saying was the comment, “Invest, don't trade or speculate.” Having endured the Great Depression as a child, he had a knack for spotting irrational exuberance.

As the 1990s ended, he correctly forecast 90% of internet companies would have financial difficulties within five years. In 2003, he warned investors of a housing bubble that would soon burst; in 2005, he predicted a huge stock market downturn. To Templeton, a rally or an investment opportunity had to have sound fundamentals; if it lacked them, it was dangerous.

Warren Buffett comes to mind as another example. The “Oracle of Omaha” is worth \$82.8 billion – yet he still lives in the same house he bought for \$31,500 in 1958 and



prefers cheeseburgers and Cherry Coke to champagne or caviar. He was born to an influential family (his father served in Congress), but he has maintained modesty through the decades.

Money manager Guy Spier dined with Buffett in 2008 at one of the billionaire's annual charity lunches, and in his book *The Education of a Value Investor* (co-written with TIME correspondent William Green), he shares a key piece of advice Buffett gave him that day: “It's very important always to live your life by an inner scorecard, not an outer scorecard.” In other words, act and invest in such a way that you can hold your head high, so that you are staying true to your values and not engaging in behavior that conflicts with your morals and beliefs.

Buffett has also cited the need to be truthful with yourself about your strengths, weaknesses, and capabilities – as you invest, you should not be swayed from your core beliefs to embrace something that you find mysterious. “You have to stick within what I call your circle of competence. You must know what you understand and what you don't understand. It's not terribly important how big the circle is. But it's terribly important that you know where the perimeter is.”

Speaking to a college class in Georgia, he cited the real reward for a life well lived: “When you get to my age, you'll really measure your success in life by how many of the people you want to have love you actually do love you. I know people who have a lot of money, and they get testimonial dinners and they get hospital wings named after them. But the truth is that nobody in the world loves them. If you get to my age in life and nobody thinks well of you, I don't care how big your bank account is, your life is a disaster.”

Not every deal Buffett has made has been perfect, but he's happy to acknowledge missteps and treat them as learning experiences. That unpretentiousness may be part of his mystique.

Values and beliefs helped guide Templeton and Buffett to success in the markets, in business, and in life. For all the opportunities they seized, and ups and downs they faced, their legacy will be that of humble and value-centered individuals who knew what mattered most.

Today, socially responsible investing is more widespread than ever.

Investors who want their portfolios to better reflect their beliefs and values often turn to “socially responsible” investments – or alternately, “impact” investments, which respond to environmental issues, women's rights issues, and other pressing societal concerns. The Global Impact Investors Network investigated impact investing in their annual survey. Respondents reported they held \$228 billion in impact investment assets, nearly twice that reported in the previous year. This speaks to the growing popularity of impact investing.

Working with a financial professional at Kendall Capital can be a big help in balancing your values with a deeper understanding of the market.



Brian Mattox
CAIA

Senior
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Upcoming Changes to Medigap and Improvements to Medicare D Coverage

By Jason Tkach

Medicare is discontinuing Medigap C and F plans.

Beginning in 2020, one will have to select alternatives to the C and F plans. Why? Because these are the types of plans that cover the Medicare B deductible of \$185. This is Congress's attempt to discourage misuse of Medicare since one will now have to pay for the deductible before having any medical costs covered. However, if you currently have one of these plans, you can continue to keep it. Also, if you turn 65 prior to January 1, 2020, you may still choose them. However, Medicare offers two other supplemental plans—Medigap N and G, for these new enrollees. Medigap N is a lower-cost option as it is designed to share the cost with the patient by charging a \$20 co pay for visits. Whereas Medigap G is more expensive but covers virtually everything Medicare B doesn't.

What will happen to Plan F and Plan G premiums in the 2020s is hard to say.

Plan F premiums may jump because the number of 65-year-olds buying Plan F will be abruptly cut, leaving an older and less healthy population to cover. Plan G premiums could rise also because a Medigap plan must accept new enrollees by the terms of Medicare regardless of how healthy or ill they may be. However, Plan G is also the most popular plan because like Plan F, it allows one to see any provider who accepts Medicare.

Do you think you might switch out of



one Medigap policy to another?

It's complicated to switch from one Medigap type of policy to another but generally, you could switch insurance providers **who** offer the same type of coverage. You also need to be careful if you have some pre-existing health conditions though as you will have to go through underwriting. Also it's important to understand that there is an annual "Open Enrollment" period for switching from a Medigap policy to a Medicare Advantage plans which may be more convenient for you. These are often low-cost, managed care plans that bundle the coverage of Medicare A, B and supplemental benefits like drug benefits and the ability to see doctors who don't accept Medicare. That period is annually from October 15th – December 7th.

Speaking of drug benefits, did you hear about the improvement to the Medicare D "donut hole"?

The "donut hole" is that part of the cost of prescriptions that you have to pay after you've reached the maximum covered under Medicare D (\$3820 in 2019) but until you reach another annual limit (\$5100). Congress also made adjustments to the Medicare D plan so that beginning in 2020, the "donut hole" will shrink because you won't have to pay more than 25% of the cost of those prescriptions in between \$3820 and \$5100. If you're unfortunate enough to require more prescriptions after spending \$5100, then you'll only have to pay 5% of the costs for the remainder of the year. This will be a huge savings for those who have chronic needs or specialized

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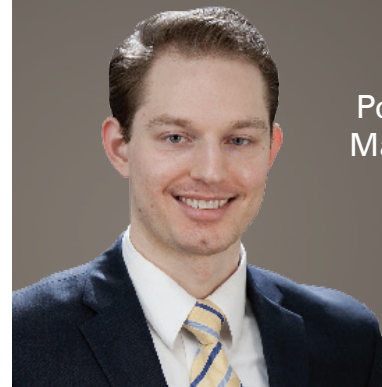
Plan F premiums may jump because the number of 65-year-olds buying Plan F will be abruptly cut, leaving an older and less healthy population to cover.

treatment.

Talk to Kendall Capital about your options to determine the best course of action and plan ahead for the changes in 2020. While we do not sell insurance policies, we will happily refer you to insurance specialists who do.

Jason Tkach
CFA

Portfolio
Manager



Welcome Tae Kneidinger, CFP® to Kendall Capital!

As a Relationship Manager with Kendall Capital, Tae's approach is to build lasting relationships with our clients and truly understand who they are on a personal level, from what they value and hold important in the present to their goals and dreams for the future. His goal is to provide innovative financial planning that educates and empowers his clients to take charge of their financial blueprint, and remains dynamic and flexible to meet all the changes that come with life.

In 2011, Tae graduated from one of the preeminent CFP® Board registered programs in the nation at Virginia Tech with a B.S. in Finance and concentration in financial planning. Since graduating until early 2019, Tae was an integral part of a practice with Ameriprise Financial that grew during his 7+ years tenure. He brings knowledge and experience to Kendall Capital, having worked extensively with clients on a one on one basis with a wide range of subjects including retirement planning, investment management, and estate planning. As part of Generation Y, Tae also offers a unique perspective to bridge personal finance to a modern society and younger generation. In 2015, Tae earned his designation as a CERTIFIED FINANCIAL PLANNER™, and is grateful to now be able to work as a fiduciary counselor and advisor.

An avid traveler, Tae is always seeking out his next adventure, whether in the U.S. or abroad. Of all the states & countries he's been to, his favorite places include San Francisco, the United Arab Emirates, and Copenhagen, Denmark. His bucket list destination would be returning to his native South Korea for the first time since being born in Seoul. Tae was adopted and came to the U.S. when he was only a few months old, and has lived in New York, Virginia, and most recently resides in Adams Morgan in D.C. He enjoys exploring all the city has to offer, and as a self-proclaimed foodie, he is always looking for a great restaurant find. To combat all that food though, Tae also loves to stay active, whether it be working out, playing golf, or riding his bike through the city.



A Potential Social Security Fix

By Tae Kneidinger

We've been hearing for years that the Social Security fund will run out of money in 2034, and a close reading of the Social Security Administration's Trustee Report projections (<https://www.ssa.gov/oact/TRSUM/>) show what exactly this would mean. By that time, based on estimates of the number of people earning an income in the workforce, the numbers of Social Security benefits recipients still alive, and the amount of income, overall, that the workers will be earning, payroll taxes will account for about 77% of the existing benefits—indexed for projected inflation. In other words, if we don't fix the system between now and then, by 2034 the government will be taking payroll taxes and turning around and paying this money back to the Social Security beneficiaries, and that money is projected to equal about 77% of today's benefits. As more people retire and live longer, the ratio of workers to beneficiaries is expected to gradually decrease, meaning that 77% will become 76%, then 75% and gradually shift downward barring an influx of new workers or unexpected mortality among the elderly.

Chances are there will be a fix of some sort between now and 2034.

But what will it look like? 200 Democratic co-sponsors in the U.S. House of Representatives have recently signed on to an expansion of Social Security that would keep the trust fund solvent, and the payments coming, for at least the next 75 years.

The new bill, which is unlikely to pass Congress until/unless the Democrats take control of the Senate, would address one of the anomalies of the payroll tax, that it stops at \$132,900 of annual income (currently). That means a person earning \$132,900 pays

6.2% of her income, while a person earning \$266,000 pays 3.1%, and a person earning over \$1 million pays just .77% of total income in payroll taxes. The legislation would, just like today, stop collecting payroll taxes temporarily at \$132,900 (adjusted each year for inflation), but resume those taxes on all income over \$400,000. It would also gradually raise the 6.2% tax rate to 7.4% by 2042.

In return, all Social Security beneficiaries would receive a 2% increase in benefits, and the benefits would go up a bit faster each year, using the CPI-E index for inflation, rather than chained CPI. (Much of the difference is that the CPI-E calculation is more sensitive to medical inflation and other costs that disproportionately affect seniors.) Higher-income seniors would also get a bit of a tax cut; that is, less of their Social Security benefits would be taxed, using a complex change in an already-complex formula.

Not in this proposal, but worth considering, is allowing the Social Security trust fund to invest at least some of its assets in equities, which appreciate much faster in value than the current "assets:" promissory notes backed by Treasury bills. Look for a strong debate on the solvency of Social Security in the next election cycle.

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