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FIDUCIARY PULSE

KENDALL CAPITAL
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4th Quarter 2019: Equities Maintain Momentum, Progress in Trade War, and Signs of a Strong Economy

By Clark Kendall

The Quarter in Brief

Progress in U.S.-China trade negotiations, an accommodative Federal Reserve, proof of decent economic growth – all this brought some fourth-quarter tailwinds to Wall Street. The S&P 500 advanced 8.53% in the final three months of the year. Foreign stock markets also posted Q4 gains, and some clarity emerged regarding the Brexit. Gold and oil both posted Q4 gains. Home buying tapered off. As the quarter ended, a new federal law was passed, affecting both retirement savers and retirees.

Domestic Economic Health

In the fourth quarter, traders reacted to even the tiniest bits of news concerning U.S.-China trade relations. New 15% tariffs were scheduled for select Chinese imports on December 15. Those tariffs were never implemented, for on December 13, Chinese and U.S. officials announced an agreement on a preliminary trade pact. In this "phase-one" deal, to be signed in Washington this month, the U.S. agrees to phase out existing tariffs on Chinese products, and China agrees to buy more U.S. crops. The phase-one deal also made a start in addressing the most pressing issue in Sino-American trade relations: the protection of U.S. intellectual property in China.

The Federal Reserve made its third interest rate cut of the year in October – the third cut in three meetings. Then, it signaled that it may not adjust short-term interest rates for all of 2020. In December, the central bank's

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newest dot-plot (a chart used to convey the benchmark interest rate outlook for coming quarters) showed that none of the 17 members of the Federal Open Market Committee expected a rate cut in 2020, and only four anticipated any kind of rate hike. Currently, the target range for the federal funds rate is 1.50-1.75%.

In terms of economic indicators, the fall increase in hiring was surprising news for labor market analysts. The Department of Labor said that employers added 156,000 net new jobs in October; then, 266,000 in November. These numbers hinted at an economy picking up rather than slowing down. Unemployment was at 3.6% in October, declining to 3.5% in November. The broader U-6 unemployment rate (which counts the underemployed as well as the unemployed) was at 7.0% in October and 6.9% a month later.

Consumer spending, according to the Department of Commerce, rose by 0.4% in November, improving on an October increase of 0.3%. Through November, retail sales were up 3.5% year-over-year, with respective October and November gains of 0.4% and 0.2%. During Q4, the Bureau of Economic Analysis revised its Q3 gross domestic product estimate up from 2.0% to 2.1%.

Households maintained their optimism; however, in December, the Conference Board's Consumer Confidence Index recorded its fourth decline in five months. With revisions factored in, the index went from 126.1 in October to 126.8 in November to 126.5 in December. The University of Michigan's consumer sentiment gauge, on the other hand, had its best reading since May in December, rising to 99.3. It rose in each month of Q4, ascending to 95.5 in October and 96.8 in November.

Inflation picked up in the fourth quarter; the Consumer Price Index rose 2.1% in the 12 months ending in November, 0.3% higher than the annualized inflation seen a month earlier. The core CPI (which factors out energy and food costs) was up 2.3% year-over-year in November.

Manufacturing seemed to stand out as the U.S. economic weak spot in Q4. The Institute for Supply Management's Factory Purchasing Managers Index was below 50 for the whole quarter (indicating an economic sector that is shrinking). The December reading of 47.2 was the poorest since June 2009. ISM's PMI for the larger service sector of the economy was above 50 in both October and November (54.7, and then 53.9).

The quarter also saw the passage of the Setting Up Every Community for Retirement Enhancement (SECURE) Act, a major piece of legislation impacting traditional retirement accounts. Under the SECURE Act, the age for required minimum distributions (RMDs) from these accounts rises from 70½ to 72. (This change affects only those who turn 70½ in 2020 or later.) The SECURE Act also lets seniors with earned income keep contributing to these accounts after age 70. For more detailed information on The Secure Act see the article on page 4 of this newsletter.

Global Economic Health

The IHS Markit Purchasing Managers Index (PMIs) for the eurozone factory sector was at 46.3 in December; a number below 50 indicates a sector in which activity is contracting. Seven of eight countries measured by this index saw manufacturing weaken further in December; Germany's factory sector was in the poorest shape by the end of the quarter, according to Markit's data summary. Factory sectors in Italy and the Netherlands showed their most dramatic monthly contraction since 2013 in December.

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The Caixin China General Manufacturing PMI for China was at 51.5 by December, down a bit from 51.8 in November. The rate of new Chinese factory orders declined in Q4, but there was a small gain for export orders. China's state factory PMI had a poorer reading of 50.2 in both November and December. As Q4 ended, China's government announced it would reduce cash reserve requirements for the nation's banks, which would effectively pour another 800 billion yuan into China's financial system.

While the quarter opened with much uncertainty about when (and even if) the Brexit would occur, some of this ambiguity was resolved by the end of the year. The Conservative (Tory)

Party won a decisive victory in December's United Kingdom general election, and Boris Johnson remained Prime Minister. As a consequence, the Brexit may occur by the extended January 31 deadline set by the European Union, as Johnson and the Conservatives appear to have the votes needed to approve a revised Brexit deal. Their next task: forging a working trade pact with the European Union before 2020 ends.

Market Index	Y-T-D Change	Q4 Change
DJIA	22.34	6.02
NASDAQ	35.23	12.17
S&P 500	28.88	8.53
Bond Yield	12/31 Rate	3 Mo Ago
10-YR TREASURY	1.92	1.68

Sources: barchart.com, treasury.gov - 12/31/1918,20,21 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 at maturity given expected inflation.

World Markets

Gains far outnumbered losses last quarter. The largest advances were made by emerging-market benchmarks: Argentina's Merval jumped 43.36%, Russia's RTS rose 16.12%, and Brazil's Bovespa climbed 10.41%. In the Asia-Pacific region, there were three improvements worth mentioning: Japan's Nikkei 225 gained 8.74%; China's Shanghai Composite, 4.99%; South Korea's Kospi, 6.53%. France's leading stock index, the CAC 40, gained 5.29%; Germany's benchmark, the DAX, added 6.61%.

In the midst of all this, a couple of stock indices failed to advance. Thailand's Set50 index slipped 2.00% in the quarter, and Australia's ASX 200 benchmark went sideways, losing 0.06%.

Commodities Markets

What were the best-performing commodities of the quarter? Well, there were several gains of 10% or more, and at the top of the list, there is coffee, which rose 23.88% on the Intercontinental Exchange (ICE) in Q4. Soybean oil advanced 17.67%; palladium, 16.56%; WTI crude oil, 14.70%. RBOB gasoline gained 12.23%; wheat, 11.19%. WTI crude ended the quarter trading at $61.18 a barrel. Gold rose 3.41% in Q4, with the price hitting $1,523.10 on the New York Mercantile Exchange (NYMEX) on December 31.1

Some other futures took Q4 losses. Natural gas fell 15.69% for the quarter, and Q4 brought setbacks of 5.36% for orange juice, 2.94% for corn, and 2.45% for the U.S. Dollar Index, which ended the year at 96.16.

Real Estate

When Freddie Mac conducted its last Primary Mortgage Market Survey of the decade (December 26), it measured the average interest rate on a 30-year conventional mortgage at 3.74%, and the mean interest rate for a 15-year conventional mortgage was at 3.19%. Three months earlier (September 26), the average interest on the 30-year home loan was at 3.64%, while the average interest on the 15-year loan was at 3.16%.

The pace of home buying decelerated during the fall. National Association of Realtors' reports showed residential resales down 1.5% in October and 1.7% in November. Still, sales were up 2.7% year-over-year. By November, the median sale price of an existing home was $271,300, a 5.4% increase from November 2018. The NAR said that there was less than four months of existing home inventory in both October and November; it views six months of inventory as a sign of a balanced market.

New home sales, by the estimation of the Census Bureau, fell 2.7% in October, but bounced back with a 1.3% gain a month later. Groundbreaking on new housing developments had definitely picked up from 2018. Federal government data showed housing starts up 13.6% year-over-year in November, with permits for future construction up 11.1% year-over-year.

Looking Back, Looking Forward

As the chart above reveals, the big Wall Street benchmarks surged in the fourth quarter. Their Q4 gains capped off one of the better years of the decade for domestic stocks. Both the Nasdaq Composite and S&P 500 had their best years since 2013. The quarter-ending settlements: Dow, 28,538.44; S&P, 3,230.78; Nasdaq, 8,972.60.

The opening quarter of 2020 got off to a bullish start, with a 330-point gain (and a new record close) for the Dow Industrials on January 2. With the phase-one U.S.-China trade deal slated to be signed and the economy not giving off distinct signals of slowing, traders entered the new quarter seeing some upside in the market. Questions are on the horizon, though. Can geopolitical tensions in the Middle East be managed? Will the next earnings season meet forecasts? While the market opened 2020 with a rally, there are certainly potential headwinds around.

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The SECURE Act Key Changes and FAQ's

By Carol Petrov

The Setting Every Community Up for Retirement Enhancement (SECURE) Act, passed in December 2019, includes many bi-partisan reforms that increase access to workplace retirement plans and expand opportunities for personal retirement savings. Most provisions in the law became effective January 1, 2020.

These FAQs provide an initial overview of some of the key changes outlined in the Act. A number of these provisions will be subject to interpretations from the Internal Revenue Service or other authorities. As always, you should consult with an advisor at Kendall Capital and/or your tax advisor regarding your own situation.

SECURE Act Basics:

What is the SECURE Act?

The Setting Every Community Up for Retirement Enhancement (SECURE) Act is a bipartisan retirement bill that was included in a larger legislative package passed by the House of Representatives on December 17, 2019 and by the Senate on December 19, 2019. The bill was initially introduced in the House of Representatives and championed by Ways & Means Chairman Richard Neal and Ranking Member Kevin Brady. The bill includes reforms to Defined Contribution Plans, Defined Benefit plans, IRAs and 529 plans.

Impact to IRAs and Roth IRAs:

I inherited an IRA. How will the SECURE Act affect me?

For anyone who inherited an IRA from an original IRA owner who passed away prior to January 1, 2020, no changes to your current distribution schedule are required. However, for situations where the original IRA account owner passes away after December 31, 2019, fewer beneficiaries will be able to extend distributions from the inherited IRA over their lifetime. For a surviving spouse there will be no changes from the previous law. Though, children and grandchildren will instead need to withdraw all assets from the inherited IRA within 10 years following the death of the original account holder. Exceptions to the 10-year distribution requirement include assets left to a surviving spouse, a minor child (until they turn the age of majority which is 18 in most states), a disabled or chronically ill individual, and beneficiaries who are less than 10 years younger than the decedent, such as a sibling or friend.

How will the changes to inherited IRA distributions impact my retirement planning?

This change will require some investors to reevaluate their retirement and/or estate planning strategies. While some beneficiaries may qualify for exemptions to the 10-year rule, others will be required to draw down assets more rapidly than required under the current rules. If they've inherited a substantial IRA account, that could drive them into higher tax brackets than they would have been otherwise. If they inherited a Roth IRA, it simply means they have to draw down the account and reinvest the proceeds in a regular taxable account, there is still no income tax to the

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beneficiary. However, it is important to note that anyone who inherited an IRA from original account owner who passed away prior to January 1, 2020, can continue their current distribution schedule.

How does the law change Required Minimum Distributions (RMDs)?

The law increases the age at which an individual must begin taking required minimum distributions (RMDs) from 70½ to 72. The Act states that this change applies beginning with IRA account owner who will attain 70½ on or after January 1, 2020. Congress recognizes Americans are increasingly working and living longer and updating RMD rules to reflect changes in life expectancy will allow Americans to continue their retirement savings for an

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extended period of time.

I reached the age of 70½ in 2019, do I need to take an RMD in 2020?

The Act states that the beginning RMD age is shifted to age 72 for those who reach the age of 70½ starting in year 2020. This would mean that those reaching age 70½ in 2019 would need to continue to take RMDs in 2020. The IRS may provide further guidance on this point so those who reached age 70½ in 2019 may want to speak with their tax advisor about their 2020 distribution approach. Qualified Charitable Distributions (QCDs) are still allowable tax-free distributions and will count towards ones RMD after they reach 72.

What is the impact to contribution rules for traditional IRAs?

The law removes the age limit at which an individual can contribute to a traditional IRA. Today, an individual cannot contribute after age 70½; the Act allows anyone who is working and has earned income to contribute to a traditional IRA regardless of age, though they still have to take their RMDs if they're 72 or older Contributions can also be made on behalf of a non-working spouse, called a Spousal IRA contribution.

How will the new law affect distributions upon the birth or adoption of a child?

Upon the birth or adoption of a child, the law permits an individual to take a "qualified birth or adoption distribution" of up to $5,000 from an applicable eligible defined contribution plan or IRA. This distribution is not subject to the 10% early withdrawal penalty.

Other impacts:

How does the law impact 529 Accounts?

The law expands the definition of a tax-free or qualified distribution from a 529 savings plan to include repayment of up to $10,000

in qualified student loans, and expenses for certain apprenticeship programs. The SECURE Act makes this change retroactive to distributions made after December 31, 2018. While the cap is a lifetime limit of $10,000, one could also use $10,000 of a 529 plan to repay the loan of a sibling.

Kendall Capital is Evaluating These Changes

This bill is far from a cure-all for the nation's retirement savings challenges, but several of the provisions represent a step in the right direction.

Adding flexibility to 529 accounts is a positive change as it can be used to repay some student loans under the bill. This is a good option for parents who may have funds remaining in an educational savings account and want to help a child who has already graduated.

Additionally, moving the starting age for required minimum distributions to 72 also makes sense, given that people are living longer than they did a generation ago. Pushing back RMDs will help people make their money last just a little bit longer, especially since more of them need to work later.

Lastly, one of the goals of this Act was to encourage small business employers to establish retirement plans for their employees. There are several features we applaud like more flexible deadlines to establish plans, tax credits for establishing a plan and the ability for multiple employers to pool their assets and share administrative costs. The Act also makes it possible for part-time workers to participate in the retirement plan if they've worked for at least three consecutive years. However, there is an obvious "nod" to the insurance industry by relaxing the requirements of employers who choose to use annuities to fund their retirement plans.

The Bottom Line

Whether the SECURE Act ends up being a game-changer or not remains to be seen. But one thing is abundantly clear: The current rules aren't allowing nearly enough Americans to put away the nest egg they'll ultimately need for a secure retirement.

In the face of high national debt, shifting financial markets, a modernizing economy, and an aging population, it's important to keep up with these changes and make the most of them. Let Kendall Capital guide you through the ups and downs of the economic market and changes to laws such as the SECURE Act so you can meet your long- and short-term financial goals.

Carol Petrov
CFP®

Vice President and Senior Relationship Manager

Major Retirement Planning Mistakes

By Jason Tkach

Why are they made again and again?

You may often hear about the classic financial mistakes that plague start-ups, family businesses, corporations, and charities. Aside from these blunders, some classic financial missteps plague retirees. Calling them "mistakes" may be a bit harsh, as not all of them represent errors in judgment. Yet whether they result from ignorance or destiny, we need to be aware of them as we plan for and enter retirement.

At Kendall Capital, we aim to keep our clients well informed of these and guide them in the right direction. In fact, in Clark Kendall's book, *Middle-Class Millionaire, Surprisingly Simply Strategies to Grow and Enjoy your Wealth,* there is an entire section focused on "How to Transition into Retirement and Beyond" that touches on many of these topics in detail.

Leaving work too early.

As Social Security benefits rise about 8% for every year you delay receiving them, waiting a few years to apply for benefits can position you for higher retirement income. Filing for your monthly benefits before you reach Social Security's Full Retirement Age (FRA) can mean comparatively smaller monthly payments. Meanwhile, if you can delay claiming Social Security, that positions you for more significant monthly benefits.

Underestimating medical bills.

In its latest estimate of retiree health care costs, the Center for Retirement Research at Boston College says that the average retiree will need at least $4,300 per year to pay for future health care costs. Medicare will not pay for everything. That $4,300 represents out-of-pocket costs, which includes dental, vision, and long-term care.

Taking the potential for longevity too lightly.

Actuaries at the Social Security Administration project that around a third of today's 65-year-olds will live to age 90, with about one in seven living 95 years or longer. The prospect of a 20- or 30-year retirement is not unreasonable, yet there is still a lingering cultural assumption that our retirements might duplicate the relatively brief ones of our parents.

Withdrawing too much each year.

You may have heard of the "4% rule," a guideline stating that you should take out only about 4% of your retirement savings annually. Many cautious retirees try to abide by it.

So, why do others withdraw 7% or 8% a year? In the first phase of retirement, people tend to live it up; more free time naturally promotes new ventures and adventures and an inclination to live a bit more lavishly or cross things off the "bucket list" right away.

Ignoring tax efficiency & fees.

It can be a good idea to have both taxable and tax-advantaged accounts in retirement. Assuming your retirement will be long, you may want to assign this or that investment to its "preferred domain." What does that mean? It means the taxable or tax-advantaged account that may be most appropriate for it as you pursue a better after-tax return for the whole portfolio.

Many younger investors chase the return. Some retirees, however, find a shortfall when they try to live on portfolio income. In response, they move money into stocks offering significant dividends or high-yield bonds – something you might regret in the long run. Taking retirement income off both the principal and interest of a portfolio may give you a way to reduce ordinary income and income taxes.

Avoiding market risk.

Equity investment does invite risk, but the reward may be worth it. In contrast, many fixed-rate investments offer comparatively small yields these days.

Retiring with heavier debts.

It is hard to preserve (or accumulate) wealth when you are handing portions of it to creditors.

Putting college costs before retirement costs.

There is no "financial aid" program for retirement. There are no "retirement loans." Your children have their whole financial lives ahead of them. Try to refrain from touching your home equity or your IRA to pay for their education expenses.

Retiring with no plan or investment strategy.

An unplanned retirement may bring terrible financial surprises; the absence of a strategy can leave people prone to market timing and day trading.

These are some of the classic retirement planning mistakes.

Why not plan to avoid them? Take a little time to review and refine your retirement strategy with a trusted financial professional at Kendall Capital.

Jason Tkach
CFA

Portfolio Manager

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A Financial To-do List for the New Year

By Brian Mattox

As we enter not only a new year but a new decade, now is a good time to think about financial tasks and priorities for the year ahead. Here are seven items Kendall Capital recommends you add to your financial to-do list for 2020:

1. Contribute up to the maximum in tax-advantaged accounts.

Planning ahead now can make it easier for you to max out your retirement and health savings accounts in 2020. This year, you and your spouse can each contribute up to $6,000 to a traditional IRA, or $7,000 if you're 50 years of age or over. In addition, you can each contribute up to $19,500 to a 401(k), or $26,000 if you're 50 years of age or over, and $3,550 to a health savings account (HSA), or $3,650 if you're 55 years of age or over.

Suppose you and your spouse are both over 50 years old, which means you can contribute a total of $14,000 to your IRAs next year. In order to max out your contributions, you can contribute a combined $1,166 to the accounts each month. Make sure the contributions are split evenly between the IRAs, with $583 per month going into each one.

2. Look into the benefits of Roth IRA conversions.

Roth IRA contributions grow tax-free, instead of just tax deferred like with traditional IRAs, and withdrawals are usually tax-free if they're made after you turn 59½ years old. Also, there are no required minimum distributions (RMDs) with Roth IRAs at age 70½ like with traditional IRAs. And you can continue making Roth IRA contributions throughout your lifetime, regardless of your age.

But there's one catch: If you make too much money, you can't open and contribute to a Roth IRA. However, you can still enjoy these tax benefits by converting a traditional, SEP or SIMPLE IRA to a Roth IRA. Keep in mind that you'll have to pay income taxes on the value of the IRA at the time of the conversion. If your IRA is large, this could result in a big lump sum payment that's due to the IRS when the conversion is made.

3. Make charitable donations strategically.

One strategy is to donate appreciated securities, instead of cash, to a donor advised fund (DAF). If you've held the securities for at least one year, you can avoid paying capital gains taxes on the appreciated property. Meanwhile, the charity will receive the full fair market value of the securities when they're donated, and you will receive a tax deduction for this amount.

With tax reform's increase of the standard deduction to $12,400 for singles and $24,800 for married couples filing jointly in 2020, many people will no longer itemize deductions on their tax return and thus won't receive a deduction for charitable donations. One way around this is to bunch several years' worth of charitable donations into one year so your itemized deductions exceed the standard deduction for that year.

4. Take advantage of qualified charitable distributions (QCDs).

If you're over age 70½ and you own a traditional, rollover or inherited IRA, QCDs can ease the tax bite of required minimum distributions (RMDs) you must take each year. Since QCDs aren't considered taxable income, no taxes are due on the distributions. In 2020 you can use a QCD to donate up to $100,000 to charity.

5. Examine your asset allocation.

The allocation of assets in your investment portfolio among stocks, bonds and cash equivalents can shift over time as equity markets fluctuate. The beginning of the year is a good time to review your asset allocation and rebalance your portfolio as necessary.

Let's say that your ideal asset allocation is 60 percent stocks, 30 percent bonds and 10 percent cash. Due to last year's booming stock market, stocks now account for 70 percent of your portfolio, bonds account for 25 percent and cash accounts for just 5 percent. To rebalance your portfolio, you would sell some of your stocks and invest these funds in bonds and cash to bring your asset allocation back in line.

6. Re-examine your will.

As your life circumstances change, you may need to make changes to your last will and testament to reflect them. For example, if you have gotten married or divorced, had a child or acquired significant assets or property, you should adjust your will so these changes are taken into account when your estate is settled after you die.

Most importantly, if you don't have a last will and testament, make plans now to create one. Depending on the size and complexity of your estate, you may be able to do-it-yourself using a website like LegalZoom, or you might be better off hiring an attorney to create a will for you.

7. Schedule a meeting with your relationship manager.

During this meeting, you can discuss most of the items on your financial to-do list. This will help you formulate a financial and investment game plan for 2020 and beyond.

Don't delay. Plan to sit down this month with your spouse and create your own financial to-do list for the new year.

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