



October 7, 2019

Here is our newsletter for the 4th Quarter of 2019

The Markets Update

The 3rd quarter showed mixed results across the asset classes with 6 classes up and 5 down. 3 out of 4 stock classes were down, with U.S. large cap being the only winner. The big winner was U.S. real estate and the big loser was commodities.

For the last year returns in the equity markets have flattened. Intermediate-term bonds and real estate had the highest returns (both driven by lower interest rates) and US small-cap and commodities had the highest losses.

Interest rates continued their decline with the 10 year Treasury dropping to about 2.1%. The 30-year Treasury Bond interest rate dropped to a record low of 1.94% in late August, trading just above 2.0% currently.

Low interest rates will present a challenge for investors going forward.

Asset Class Returns- Ending 9/30/19

Asset Class	3rd Qtr	One Year
US Large Cap Stock	1.7	4.2
US Small Cap Stock	-2.4	-9.0
Foreign -Developed Mkts Stock	-1.1	-1.4
Emerging Mkts Stock	-3.6	1.4
US Intermediate-Term Bond	2.3	10.3
Emerging Markets Local Bond	-1.3	8.5
High Yield Bond	1.2	6.5
Inflation-Protected Bond (TIPS)	1.4	6.9
Cash	0.6	2.4
US Real Estate	7.4	19.9
Commodities	-4.8	-15.2

The Economic Outlook

The economies around the world are in a global slowdown. Protectionism and trade wars are slowing global trade. Clearly the record long expansion in the U.S. is getting long in the tooth and the chances of a recession within the next year are growing. Nobody knows when the next recession will happen, and that timing does not determine our investment approach. Rather we diversify as much as we can, invest more where values are better and keep our individual client needs in the forefront.

What's Your Risk Number?

The risk assessment tool we use to help determine our client's portfolio asset allocation has made some changes to the questionnaire. Riskalyze is the tool and some of you have used this in the past: some have liked it, others not. In the past they have had a simple version and a detailed version. Now they have one version which I think most will like better. Understand that the questionnaire is only the first step in determining what is best for you and we should go thru the results and your specific goals and situation.

To go to the new questionnaire, go to my website at www.compfinancial.com. Go the Wealth Management page and click on the Portfolio Risk Analysis link (the green rectangle). After you go thru the questionnaire, which should only take a couple of minutes, I will receive the results on the Riskalyze website and get back to you to discuss in more detail.

Health Insurance Enrollment Period

Fall is typically the time of year for health insurance plans to enable users to change their insurance coverage. Whether you are in a private plan from work or public plan, now is a good time to review your coverage.

For Medicare enrollees the annual election period runs from October 15 to December 7. Since each year Medicare Part B and Part D (drug coverage) can change their premiums, benefits, networks and drug formularies, it is a good idea to consider your current coverage and make sure it still fits your needs. If you have a Medigap plan to supplement your Medicare coverage, this is separate and you do not need to review it now, but on the annual anniversary of your coverage.

Medicare Advantage plans are an option to traditional Medicare that are private insurance policies that pay instead of Medicare and they have networks and providers that you have to use. These plans have low or no premiums (you still pay Part A Medicare premiums). However, the downside is out-of-pocket expenses can be much higher. Which plan is best for you depends upon your specific situation.

You can switch Medicare Advantage plans or switch to traditional Medicare insurance if you wish. If you need help you can use the Medicare Plan Finder Tool on the Medicare website, or give me a call.

Tax Planning

This is also the time of year (before year-end) to evaluate any tax planning ideas. If you have any capital gains from the sale of real estate or other investments we can help with ideas on reducing the tax hit. Qualified plan contribution limits, standard deductions and many other items have increased from last year. It also might be better to pay some more tax this year to save more in taxes later, especially if your income had dropped: Roth conversions or cashing in some tax-deferred investments are some of the many ideas that can be considered.

Last year with the government shutdown tax refunds for many were delayed. It's easier to owe some tax when you file your returns vs. waiting for a refund. There have been many scammers filing fraudulent tax returns on others Social Security number to get the refund, so the IRS is more careful when refunding. You will not be penalized for under withholding estimated tax payments as long as you withhold at least what you owed the previous year or 90% of what you owe the current year.

China's World

Fortune Magazine's Geoff Colvin had an interesting article in the August issue titled China's World. Their Fortune 500 list of the world's largest companies is based upon company total revenues. Of the 500 companies, 121 are based in the U.S. and 119 are based in China. Back in

the year 2000 there were only 9 Chinese companies on the list. For the first time since before World War II there will be another country other than the U.S. to top the list very soon.

There are many other factoids that illustrate the growth in the Chinese economy and their middle class.

- Retail sales: 2000-US \$472 Billion. 2018-US \$5.7 Trillion.
- Cars and trucks on road: 2000-16 million. 2018-232 million.
- Infant Mortality (per 1,000 live births): 30.1 in 2000: 8.0 in 2017.

Back 30-something years ago everyone thought Japan was going to take over the world. Today one might conclude China will going forward. The former proved to be false and I would imagine China's rise will not be as spectacular going forward. However, it does show that China is becoming our chief rival, and at the same time offers increasing investment opportunities there and in the rest of Asia. China is in a very long process of opening up to the world and this is good news for everyone. We have been invested in one Asia focused fund, Matthews Asia Growth & Income for over 20 years and also have 3 other funds that invest there and in other emerging countries. One might say it is not very comfortable investing outside the U.S., especially with the multi-year underperformance of their stock markets relative to the U.S. We choose to stick to the long-term perspective and recognize the growing opportunities around the world.

Thanks for reading and let me know when I can help with anything.

Sincerely,

Stan Johnson
Comprehensive Financial Planning, LLC
Registered Investment Advisor
NAPFA Registered Financial Advisor