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Asset Management • Retirement, Tax and Estate Planning • Fee Only • No Commissions • Independent Advisor

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Here is our newsletter for the 1st Quarter of 2020

The Markets Update

The 4th quarter capped off a strong year for almost all asset classes. All asset classes had gains with emerging markets having the highest gains and intermediate bonds barely into positive territory.

For the year, 2019 was as good as 2018 was bad. All asset classes had positive returns. It was the best year for large-cap U.S. stocks since 2013.

Interest rates declined significantly last year with the 10 year Treasury dropping from 2.7% to 1.8%. The 30-year Treasury bond dropped from 3.0% to 2.25% in the year. This boosted intermediate bond returns but will make if challenging to earn decent returns going forward.

Asset Class Returns- Ending 12/31/19

Asset Class	4th Qtr	One Year
US Large Cap Stock	9.1	31.4
US Small Cap Stock	9.9	25.4
Foreign -Developed Mkts Stock	8.1	21.9
Emerging Mkts Stock	11.3	20.4
US Intermediate-Term Bond	0.2	8.7
Emerging Markets Local Bond	5.3	12.9
High Yield Bond	2.7	15.0
Inflation-Protected Bond (TIPS)	0.7	8.3
Cash	0.5	2.2
US Real Estate	0.6	28.9
Commodities	7.9	12.2

The primary driver for the good returns last year was the Federal Reserve's about-face on interest rates, from raising them to lowering them. Also, the Federal government's tax cuts and increased spending has helped keep growing going. More on this later.

Another New Tax Law

Congress passed and the President signed into law a major change to the rules concerning retirement accounts, both personal and company sponsored plans. Congress does keep us financial advisors busy keeping up with all. I have a 21 page summary if anyone is interested. Here is a summary of the summary for the SECURE Act. Most of the changes are good news with the exception of the first item.

1. When you inherit a Traditional IRA from someone other than your spouse, you used to be able to stretch the required minimum distributions from the account over your lifespan. The new rules eliminates the so-called Stretch Ira and make beneficiaries empty the account within 10 years. While there is total flexibility as to when you have to make distributions over that period, this could increase taxation of the account significantly. Also, if you have designated a Trust as your IRA beneficiary the new rules mean you need to rethink this.

2. Required Minimum Distributions (RMDs) from IRAs now do not have to start until April 1st of the year after you turn 72, 1 ½ years later than the previous 70 1/2 age. If you starting taking RMDs under the old rules and are not yet 72 you still have to continue taking your distributions under the old rules.
3. Qualified Charitable Distributions (QCDs) can still be done starting at age 70 ½ as in the old rules. This is a powerful way to decrease your taxes and give to your favorite charities by using your RMDs.
4. Traditional IRA contributions can now be made after you turn 70 ½: all you need is earned income from a job or business.
5. Company retirement plans (401k, 403b, etc.) for small businesses have several provisions to encourage sponsors by adding a $500 credit for auto-enroll features and making it easier for part-time employees to be included. The insurance industry put their mark on the legislation by getting new rules that would make it easier to include annuities inside the plans. Easier means the sponsor and advisors have safe-harbor rules reducing the liabilities for them. Unfortunately for investors it makes it easier for insurance companies to get inappropriate products inside these plans. Investor beware.

The above is just an overview so give me a call if you think any of this impacts you.

Schwab Buying TD Ameritrade

Schwab recently announced their intent to buy TD Ameritrade (TDA). If approved the proposed merger would take place late this year. Antitrust issues could impact the deal as together the two companies would control more than 50% of the independent Registered Investment Advisor business.

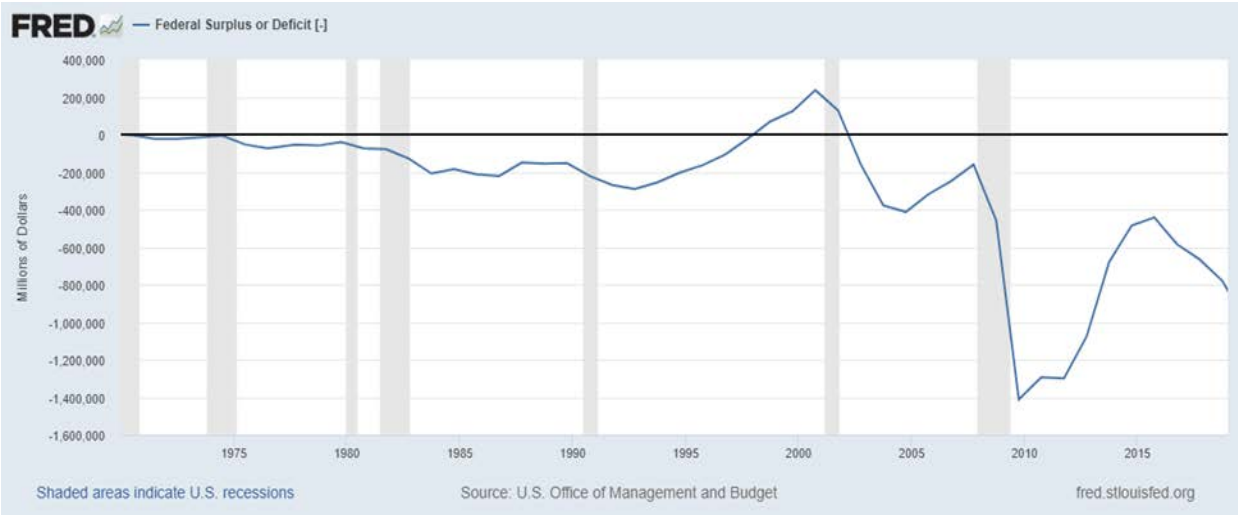
Many good things have come out of the fierce competition between Schwab and TDA over the last many years. Fees for stock trades have gone to zero. The technology that is available to advisors, especially from TDA, has enabled me to manage and make trades in accounts more effectively and efficiently. The deal could enable the combined firm to continue to improve technology, lower fees and compete against the investment banks and insurance companies.

The possible downsides are also worrying to many advisors. With less competition, Schwab could wield more influence over advisors. Many, including myself, have seen a drop in overall service from Schwab and TDA over the last couple of years. Opening and closing accounts, moving money and processing forms seems to be more difficult. I have written some of this off to the ever increasing concerns over fraud. However, both firms seem to be having problems serving their clients efficiently.

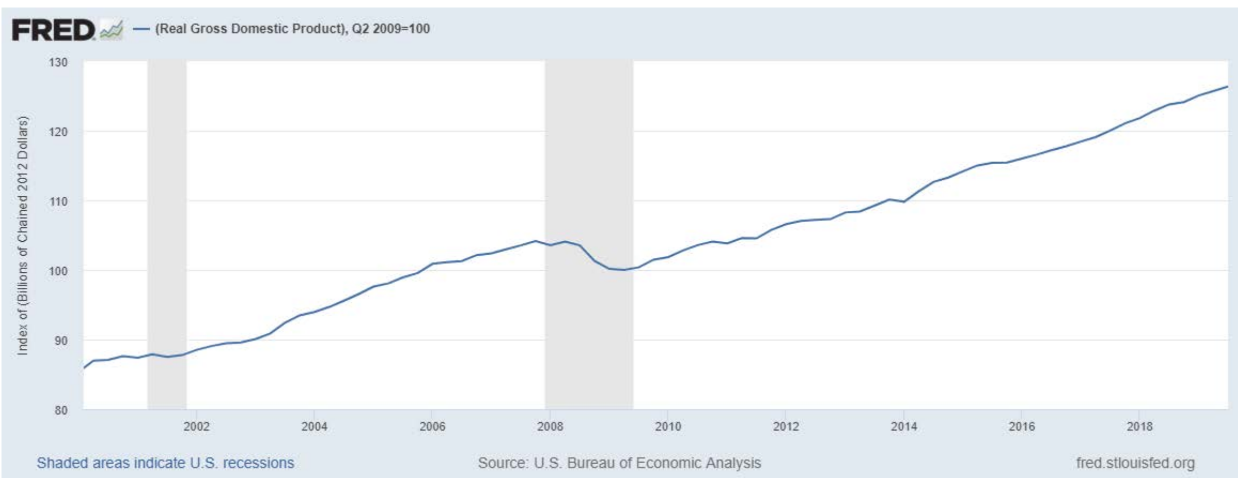
Being an independent advisor means I am free to use another Custodian/Broker firm to hold our client's investment accounts. While I do not anticipate making a move, I will continue to keep up on the merger and evaluate options I may have. Let me know if you have any comments or concerns on this. I will consult with all before any changes are.

The Economic Outlook

Here is a graph of the Federal Deficit over the last 50 years (from the Federal Reserve website). You can clearly see there was a surplus in late 1990s, the big deficit after the Tech bubble, then the bigger deficit after the financial crisis in 2009, then a good recovery with the deficit dropping by about 2/3s from 2010 thru 2015. What is concerning is the deficit has been growing over the last three years, and during a period of steady expansion in the economy and low interest rates. What happens during the next recession or when interest rates spike? Note the projection for 2019 fiscal year is for the deficit to grow to about $1.1 Trillion.



Those who thought the tax cut in 2017 would pay for itself and not increase the deficit have been disappointed. One of the justifications for the tax cut was it was going to result in significantly higher growth and thus higher tax revenues. From the graph below showing Real Gross Domestic Product (GDP) you can see no increase has occurred.



Tax revenues have actually gone down and, along with the big increase in spending, the deficit is ballooning. This course of action clearly cannot continue and will impact the economy in the future.

Are Safe Deposit Boxes Safe?
A fellow NAPFA advisor Rick Kahler wrote a great article recently about the risks of using safe deposit boxes. The information may make you rethink using one.

An article in the *New York Times* reported 44 robberies in the last five years related to safe deposit boxes. Even worse were numerous bank errors in which boxes were moved, misplaced, drilled open, or closed by mistake. A large Maryland bank closed several branches and lost hundreds of safe deposit boxes. One customer lost $500,000 worth of gold and gems. In each case, banks vigorously fought any requirement to make their customers whole. Even more shocking, no provision of federal banking law regulates safe deposit boxes. Nor do banks insure the belongings of customers who trustingly store their most precious valuables in safe deposit boxes. The risks fall on the renter. Wells Fargo's safe deposit box contract caps the bank's liability at $500. Citigroup limits it to 500-times the box's annual rent.

Here are some options to consider.

1. Use a high-quality home safe for small articles.
2. For documents, scan and secure in an online vault. All documents that my clients give me are held in such a secure vault, held online separate from my own files held on my computer system.
3. Make sure you have adequate insurance no matter where held.

Office Move
At the end of January I will be moving out of my office at 530 Main and setting up shop at home. I have been doing more of my work at home for some time now, finding myself coming to the office about 3 days a week. Being an empty-nester now makes my home a good working environment. The business address will change to 32 S. Hermosa Acres Drive, my home 10 miles north of Durango in Hermosa. My phone and email address will be the same.

To meet with clients and partners I am going to become a member of the RSpace, a co-working space next to the Rochester Hotel in the 700 block of East 2nd Avenue downtown. They have several private meeting rooms. The space is at ground level, so no more flights of stairs to navigate. Parking should also be easier as there is good parking on East 2nd (metered) and free spaces behind the building on the East side.

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

Sincerely,

Stan Johnson
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Registered Investment Advisor
NAPFA Registered Financial Advisor