ARK ROYAL
WEALTH MANAGEMENT

Helping Successful People Make Smart Decisions About Money

WINTER **2020**

THE POWER OF DIVIDENDS

As I write this at the end of February 2020, the yield on the ten-year US Treasury bond is down to 1.3%. Most investors view bonds as a source of income, and while they do pay interest, at current yields they are unlikely to maintain purchasing power net of taxes and inflation.

I met recently with a prospective client who is nearing retirement. He had visited with another financial advisor in the area who bombards local radio with ads touting being America's "retirement coach." While his ads never mention it, he recommends investing in annuities. I'll leave the in-depth analysis of this strategy for another newsletter, but in its most basic form an annuity investor surrenders his capital to an insurance company in exchange for a guaranteed stream of fixed payments into the future. For example, $1,000,000 in a single premium immediate annuity (SPIA) would generate a payment of about $53,000 per year for a husband and wife with a 30-year joint life expectancy. Two significant drawbacks with this strategy are that the annuity investor forfeits any right to get to his principal and his payment stays constant, never increasing for inflation. Let's compare this with the often-overlooked benefit of dividends to equity investors.

Howard Silverblatt, who works for Standard & Poors, pointed out earlier this year that the 505 companies that comprise the S&P 500 index are projected to payout $500 billion in dividends this year. That's billions with a "b." And if history is any guide, over the next decade, dividends paid by those 505 companies will continue to increase.

In 2010, the cash dividend of the S&P 500 was $22.65. The cash dividend in 2019 was $58.80, an increase of 260%! Over the same time period, the consumer price index rose just 19%.

Remember our annuity investor referenced above? What would his income look like if instead of buying an annuity he had simply bought the S&P 500 index with his one million dollars? In 2010, his income would have been about $23,000, nowhere near the $53,000 the annuity provided. But today, his income would be $60,000 per year, over $7,000 more than the annuity investor. **And did I mention that his $1 million investment is now worth $2.7 million?**

"We believe long-term equity investors will see higher income over their lifetimes than those investing in bonds or annuities."

While there is no guarantee the next decade will be like the previous one, we believe long-term equity investors will see higher income over their lifetimes than those investing in bonds or annuities. Complexity often comes at a cost. Simply buying a small ownership stake in 500 of the best managed companies in the world is an underappreciated way to generate income in retirement.

FIVE IMPORTANT THINGS TO KNOW ABOUT THE SECURE ACT

Late last year, our elected leaders in Washington gave us an early Christmas present—creating the Setting Every Community Up for Retirement Enhancement Act (SECURE Act). While not as impactful as the 2017 Tax Cut and Jobs Act (TCJA), SECURE does create several new rules that you need to know to make sound financial decisions.

Here are the main points impacting most taxpayers:

1 NO MORE "STRETCH IRA" (FOR MOST PEOPLE)
Under the old rules, a non-spouse beneficiary of an IRA could stretch the payments from the inherited IRA over their life expectancy. With some very limited exceptions, the new rules require a non-spouse beneficiary to withdraw the IRA funds within 10 years. This creates less flexibility, but makes proper planning even more important. For example, Joe Smith (age 60) inherits $500,000 from his mother's IRA who died in January of this year. Joe is planning to retire at age 65. By waiting to take any distributions from his IRA until retirement, Joe can pay less in income tax now and use the IRA funds for living expenses in years 66–70, allowing him to maximize his Social Security benefits at age 70.

2 72 IS THE NEW 70½
Under the old rules, taxpayers were required to commence required minimum distributions from their IRA at age 70 ½. The SECURE Act makes the mandatory age of distribution age 72. If you started RMDs prior to 2020, you must continue taking them.

3 CHARITABLE DISTRIBUTIONS CAN STILL BE MADE AT 70
The TCJA reduced the number of taxpayers who claimed itemized deductions. That makes using qualified charitable distributions (QCDs) more attractive for those who are charitably inclined. Taxpayers can still make QCDs at age 70, even if they don't take any other IRA distribution.

4 NO AGE LIMIT ON IRA CONTRIBUTIONS.
Provided you have earned income, IRA contributions can be made at any age.

5 EXPANSION OF 529S.
The big change here is that 529s can be used to pay up to $10,000 of student loans.

As with any tax / financial planning issues, be sure to check with a professional advisor for how the rules apply to your specific circumstance.

SETTING EVERY COMMUNITY UP FOR RETIREMENT ENHANCEMENT ACT

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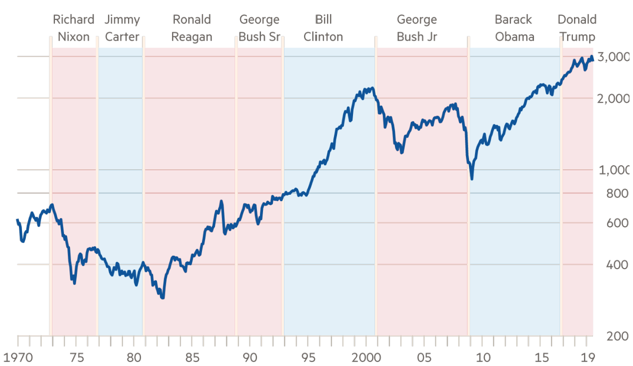
DON'T PLAY POLITICS WITH YOUR PORTFOLIO

Since we are in the middle of an election year, it's hard to turn on the TV or read the newspaper without being inundated with political ads or commentary. Irrespective of one's political bent, we think a well-diversified investment portfolio will do well over the long term regardless of the party in power.

Many clients express concern about the political divide in our country. Our belief is this divide is not a result of too little information. Information is filtered through the political lens of confirmation bias. And in fact, the more educated and informed you are, the more likely you are to be partisan. It is rare for most Americans to listen to alternate political perspectives with any openness, let alone actually seek out such perspectives and try to understand their underlying presuppositions.

Just as no one party has a monopoly on good ideas, there is no political party that has consistently produced superior economic or market results, as the chart below illustrates.

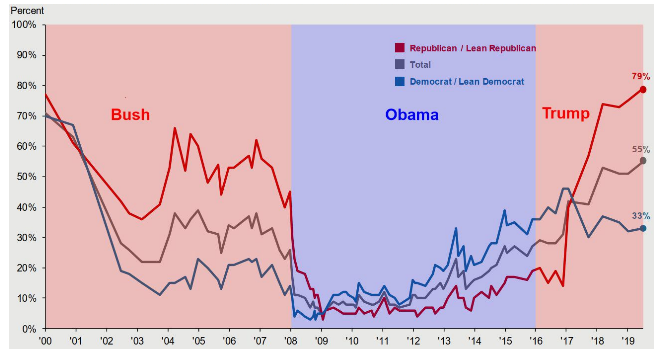
S&P 500 INDEX ADJUSTED FOR INFLATION (LOG SCALE)



Source: Robert Schiller
© FT

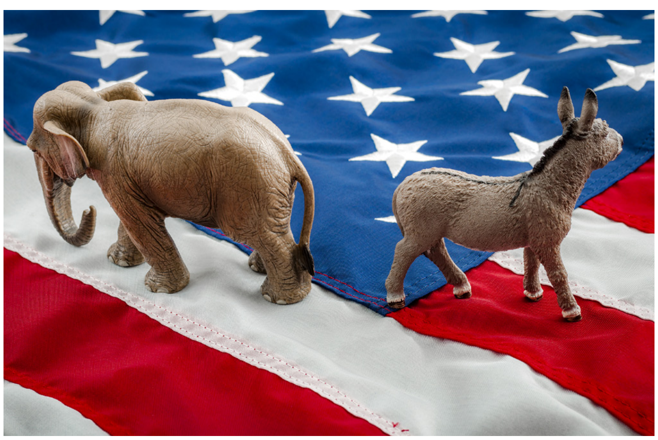
However, that doesn't stop people from viewing markets through a partisan lens as this chart shows.

PERCENTAGE OF REPUBLICAN & DEMOCRATS WHO RATE NATIONAL ECONOMIC CONDITIONS AS EXCELLENT OR GOOD



Source: Pew Research Center, J.P. Morgan Asset Management. Pew Research Center, July 2019, "Public's Views of Nation's Economy Remain Positive and Deeply Partisan." Question: Thinking about the nation's economy, How would you rate economic conditions in this country today… as excellent, good, only fair, or poor?
Guide to the Markets – U.S. Data are as of December 31, 2019.

As Warren Buffett so eloquently puts it, "you don't want to have a political view when it comes to investing. It usually doesn't serve you very well."



"Irrespective of one's political bent, we think a well-diversified investment portfolio will do well over the long term regardless of the party in power."

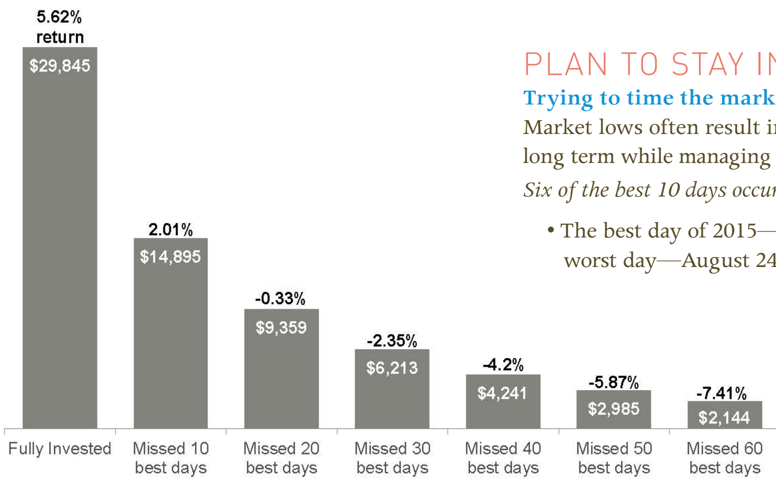
SPRING 2020 LUNCH & LEARN

Wednesday • April 29 Noon–1pm

Kathy Montero, a geriatric care manager, will present on issues related to aging and the skilled care landscape. If you, or a parent, have questions concerning geriatric care this session will be valuable.

Contact Lisa Shirley at lshirley@ark-wealth.com for more info.

RETURNS OF THE S&P 500
Performance of a $10,000 investment between January 4, 1999 & December 31, 2018



PLAN TO STAY INVESTED

Trying to time the market is extremely difficult to do.

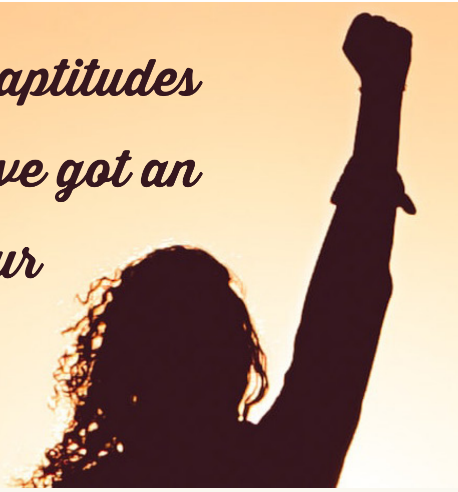
Market lows often result in emotional decision making. Investing for the long term while managing volatility can result in a better retirement outcome.

Six of the best 10 days occurred within two weeks of the 10 worst days.

- The best day of 2015—August 26, was only 2 days after the worst day—August 24.

"You have to figure out what your own aptitudes are. You have to figure out where you've got an edge. And you've got to play within your own circle of competence."

CHARLIE MUNGER



The CORNERSTONES of ARK ROYAL WEALTH MANAGEMENT

To nurture a culture that puts our client's interest first—always

To be truthful at all times, to be intellectually honest with ourselves and with our clients, even if it isn't what they want to hear

A commitment to lifelong learning, and a passion for applying our wisdom efficiently and effectively every single day

Align what you say, what you do and what you think to honor yourself, your family and our firm