Integra Capital ADVISORS

Planning & Investment Strategy

Winter 2020

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Topics Reviewed in this Edition

- **Beginning of year compliance actions and custodian provided tax documents.**
- **Planning for Your Priorities and Critical Financial Events.**
- **2019 saw positive returns from almost all asset classes after the large correction in late 2018. Emerging Markets are finally perking up.**
- **Time Segmentation – a confidence building approach to managing retirement income.**

We hope 2020 is off to a great start for you and your family. In this beginning of year letter, we review some of the bigger picture trends affecting the investment environment, financial planning concepts and some compliance obligations. Let's get started:

Compliance Related Information

First, we'd like to hear from you if there have been any significant changes to your financial situation that you haven't spoken with us about yet. Examples would include job changes, retirement, changes in your health, new additions to the family, etc. Please contact your advisor to share this information and schedule a meeting if necessary to discuss adjustments to your investment or financial plan.

Integra Capital is required to offer to deliver an updated copy of our disclosure brochure known as Form ADV - Part II on an annual basis. This document outlines the nature of our business as fee-only fiduciary advisors. Please email us at: info@integracapitaladvisors.com or call 941-778-1900 to request a copy. You originally received this document at the onset of your relationship with us. For residents of New York, we are also required to offer to deliver a copy of Form ADV, Part I, which is filed with the Securities and Exchange Commission.

Lastly, from a compliance perspective, we are required, like all financial institutions, to provide a copy of our Privacy Notice annually. Page 5 of this newsletter contains the Privacy Notice for 2020.

Tax Documents

Our account custodian, Charles Schwab & Company, is responsible for issuing 1099 Composite forms for any taxable brokerage accounts and 1099-R Forms for distributions from retirement accounts. These generally become available in late January to mid-February. But, for the 1099 Composite Form which summarizes taxable account activity for dividend and interest income and realized capital gains, we suggest waiting until mid or late March before filing your tax return. Corrections to 1099's in late February and early March are common and may necessitate filing an amended tax return if you file before the correction is issued. We encourage you to work with your tax preparer to get your return ready to go, but hold it for filing until late March or early April to avoid this situation.

For those clients who own units in partnership investments, you will receive a K-1 Form from each of these entities and this activity is not included on the Schwab 1099 Composite Form. We previously sent an email advising you if you should be expecting K-1 Forms, which are usually issued in late March or early April. Call us with any questions related to K-1s.

Be Prepared for Critical Financial Events

Plans are worthless, but planning is everything. – President Dwight Eisenhower

The beginning of the year is a traditional and good opportunity to assess the status of your progress toward financial goals, as well as to set new objectives. We can help in this effort through conversation, plan development and updating of financial plans that are more than a year old. Life hardly ever ends up working out exactly as we envision, but having a plan makes dealing with critical financial events much easier than not having any structure in place.

Financial plans generally fall into two categories. Goals-based plans assess your readiness for achieving your personal lifestyle objectives and include a stress test to see how down markets may impact your situation. The second type of plan is a retirement income plan. This type of plan addresses how to invest assets in retirement to make sure you have sufficient inflation adjusted income that has a high probability of lasting for your entire life. Read more on the time segmentation concept later in this letter.

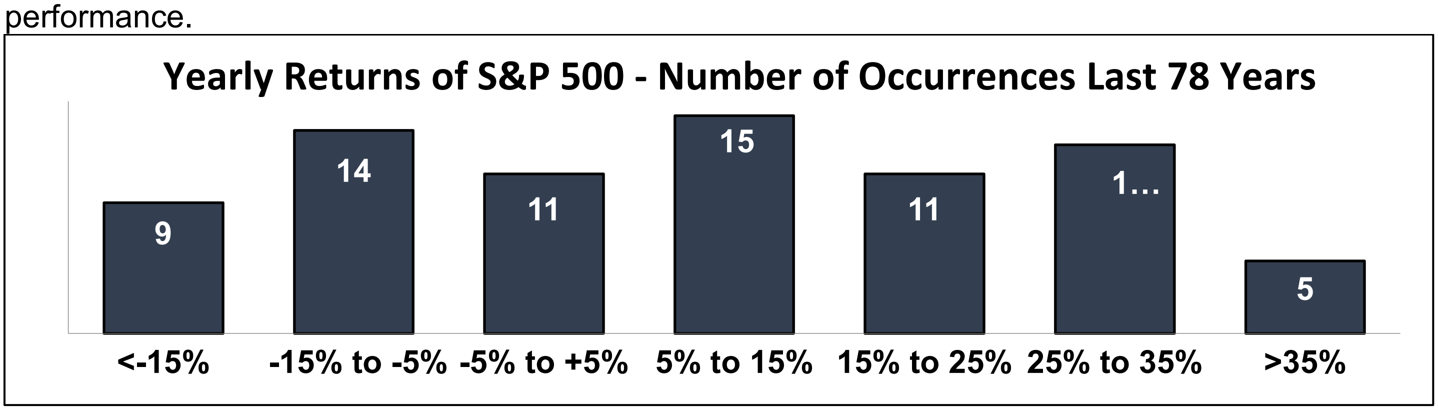
Integra Capital uses a planning process we call the Waypoint FORMula. Using this well-defined process minimizes the chance of missing something that is important for your future financial health and personal priorities. This process considers the seven pillars of a sound financial plan and which of these apply to your personal situation. If you have not yet worked with us in the detailed planning process, call your personal representative for more information.

2019 In Review

In a few months, the current economic expansion and bull stock market trend will be 11 years old, the longest on record. This period has generally been characterized by low volatility other than 4 corrections of between 10% - 20% along the way. The latest of these occurred in the 4th quarter of 2018, driven primarily by fears of growing global trade disputes and slowing economic growth, which now appear to be abating.

It is normal for stock price volatility to increase later in the economic cycle, but that does not mean the uptrend has to end based on how old it is or a particular date on a calendar. Australia, for example, has enjoyed a 20 + year expansion, which even persisted through the global financial crisis of 2008 – 2009!

One of our favorite charts for perspective on stock market returns is shown below. Investor expectations are for stocks to provide high single-digit or low double digit returns over long periods. However, the average returns over time are a blend of many up and down years to deliver that "average". The chart below breaks down the annual performance of the U.S stock market into ranges. 2019 was a far above average year with the S&P 500 up about 29% following 2018's below average performance.

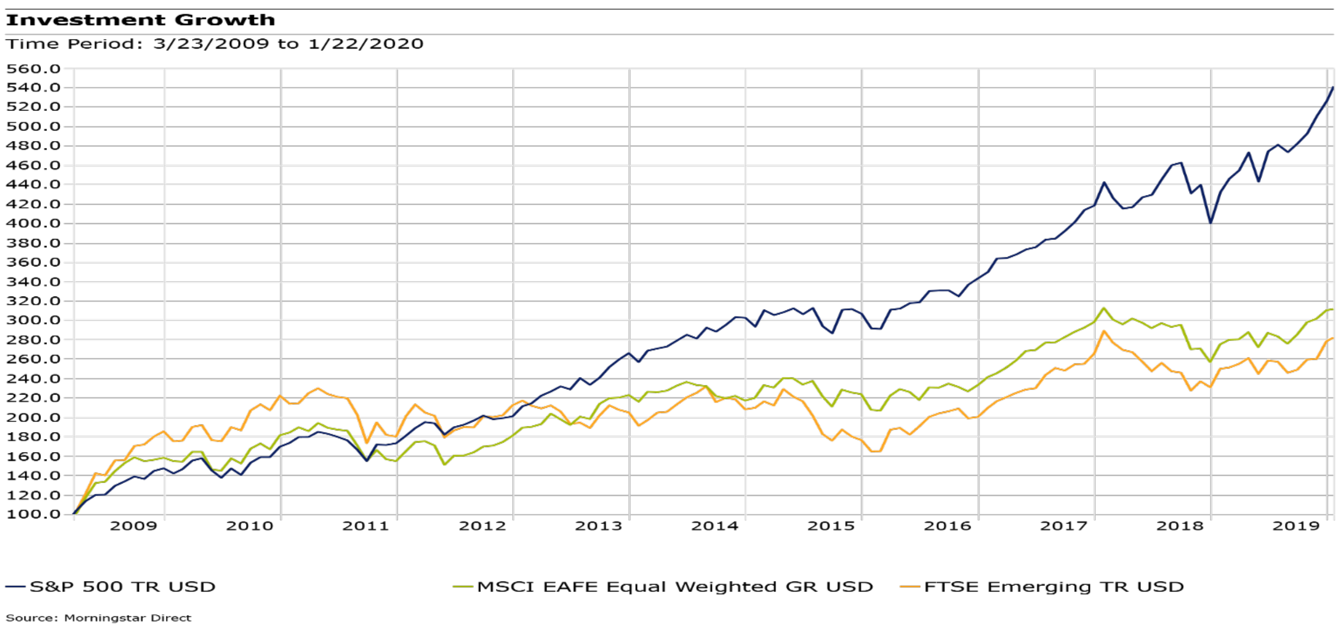


U.S Equities Continue to Lead the Way

All major stock market averages were positive in 2019, but the U.S. Market continues to lead the way. Total returns for major indexes are displayed below:

S&P 500 Index	31.49%
MSCI EAFE (International)	22.01%
MSCI Emerging Markets	18.42%

Steady, moderate growth in our domestic economy with low inflation and continued low interest rates has been a great environment for stock prices to continue to rise. As the chart below shows, the U.S. market has been the leader in price appreciation since the end of the 2008 – 2009 recession.



This appreciation in value has led to a situation where valuations for equities here in the U.S. are relatively high compared to international markets, especially the emerging markets. We mentioned this condition a year ago and it continues today. We anticipate international and emerging markets will perform better than the U.S. eventually, but we haven't reached that tipping point yet. We continue to watch carefully for the opportunity to increase exposure to international markets.

Low Yield Environment Persists

The Federal Reserve reduced short-term interest rates 3 times in the last year or so as insurance to make sure the economy here in the U.S. would continue to grow in the face of a slowing global economy and trade disputes primarily between the U.S. and China. The 10-Year U.S Treasury bond continues to yield less than 2% presently. We do expect long-term rates to rise a bit going forward as global economic growth picks up now that some resolution to trade issues has been achieved.

There is still a large amount of negative yielding debt around the globe, primarily in Europe and Japan. While it can be tough to get our minds around the concept of investors paying a government interest to own bonds (the opposite of a normal situation), we believe ultimately this experiment will go down as a failure. These governments would do better to focus on tax reform and other forms of stimulus to increase economic growth.

Time Segmentation – Matching Assets to Income Needs

When we enter the retirement income phase of life, things change quickly. The cost of saving for retirement, a large expense during the working years, disappears as the accumulated asset base is now used to create income. Most have some form of base guaranteed income like Social Security. Some have additional income from pension plans associated with their employment, usually in government or working at large corporations.

Depending on the level of these guaranteed income sources relative to lifestyle expenses, it is likely there is an income gap that needs to be filled from the assets saved and accumulated over the working years. The question becomes how much can be safely spent each year over a retirement period which could exceed 30 years? The calculation of this amount is not obvious when looking at monthly account statement balances and trying to relate it to income production.

For those with a large enough asset base where the dividend and interest income is more than enough to fill the needed income gap then there is not a problem, and market fluctuations can be ignored as long as the income keep coming in. Unfortunately, for most retirees the level of accumulated assets does not produce enough from a pure income standpoint to fill the entire gap and a plan for using long-term capital appreciation to fund needed income is necessary.

This is where time segmentation can be helpful. A segmentation approach matches assets to your income needs based on time periods. This type of retirement income plan clearly lays out how income will be produced for the next 5 years, 10 years, 15 years and beyond. The idea is to put time on your side. We know the stock market may well have a significant correction sometime in the next five years. There have been two 50% + corrections in the last 20 years, so who's to say it couldn't happen again?

When we are accumulating assets, down markets work in our favor by allowing us to accumulate more investments at lower prices. This is often called "dollar cost averaging". Once we retire and start distributing to support our lifestyle, we are now in a "reverse dollar cost averaging" mode. If dollar cost averaging is a good thing, which it is, then reverse dollar cost averaging is a bad thing. Being forced to sell assets for income when markets are down is definitely the worst plan.

Time segmentation prevents reverse dollar cost averaging by making sure we always have several years' worth of income needs in assets that are immune from periodic stock price declines. For example, placing five years' worth of needed income in safe investments like high quality short-term bonds or similar asset types gives us the comfort of knowing that no matter what happens in the stock market we have the next five years of expenses covered. This segment is known as Portfolio 1.

Assets responsible for income in years 6 – 10 can be invested for a higher return in assets, which may have some short-term risk of principal fluctuation, but which historically have provided positive returns over 5+ years. This time segment is known as Portfolio 2.

Meanwhile, growth oriented assets are put where they should be, in Portfolio 3 & 4 which aren't needed for a period of 10 years or more. History has shown that time removes the risk of owning stocks. Stocks rarely lose money over 10 year periods and have never had a 15 year period with losses. The average of all 15 rolling year periods for stocks is a return of more than 8%.

It is important to note that time segmentation is not a total change in investment philosophy. While each individual plan is unique in some way, we usually see time segmentation allocations with 50% - 60% allocations to stocks and other growth oriented investments. Typical asset allocation recommendations for most retirees suggest 50% - 60% allocation to stocks and 40% - 50% to bonds and cash. Time segmentation is a great way to assign assets for specific time-periods and be able to visualize where retirement income is coming from. The approach may result in less worry about the inevitable price fluctuations from stocks.

Integra Capital employs a time segmentation software program to calculate the specific allocation needed for each client case. We also use a dedicated Social Security software analysis program to calculate the timing of filing for benefits to provide the maximum lifetime income after taking into consideration the benefit levels, age difference and life expectancies of spouses. Aligning the various sources of income and investment assets using time segmentation makes a lot of sense in many retirement income plans.

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[1] Nonpublic personal information means personally identifiable financial information and any list, description or other grouping of consumers that is derived using any personally identifiable financial information that is not publicly available.

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Integra Capital Advisors must collect certain personal information about its customers to provide financial services and advice. The personally identifiable financial information that we gather during the normal course of business with you may include, but is not limited to: name, address, telephone number, e-mail address, tax identification number, date of birth, annual income, net worth, account numbers, etc.

In providing investment advice and services to you, we may collect nonpublic personal information about you from these sources:

1. Investment/insurance applications, new account forms and other forms and agreements;
2. Transactions with us, account custodians, or other chosen investment sponsors; and
3. Other various materials we may use to put forth an appropriate recommendation or to fill a service request.

INFORMATION WE DISCLOSE

We do not disclose any nonpublic personal information about our customers or former customers to anyone, except as permitted or required by law, or as necessary to provide services to you. In accordance with Section 248.13 of Regulation S-P, we may disclose all of the information we collect, as described above, to certain nonaffiliated third parties such as attorneys, accountants, auditors and persons or entities that are assessing our compliance with industry standards. We enter into contractual agreements with all nonaffiliated third parties that prohibit such third parties from disclosing or using the information other than to carry out the purposes for which we disclose the information.

CONFIDENTIALITY AND SECURITY

We restrict access to nonpublic personal information about you to those Employees who need to know that information to provide financial products or services to you. We maintain physical, electronic, and procedural safeguards that comply with federal standards to guard your nonpublic personal information. If you terminate your agreement with Integra Capital Advisors, we will continue to adhere to the privacy policies and procedures described in this notice.

SUMMARY

Protecting your personal non-public information is high priority for us. We will continue our best efforts to ensure your privacy. If you have any comments or questions about this topic please call us at 941-778-1900 (local), 800-800-7075 (toll-free).

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