KWB WEALTH®

JANUARY 2020

2019 In Review / 2020 Preview

1ST QUARTER NEWSLETTER

KEY TAKEAWAYS

We followed up a dismal 2018 with a much better year for stock and bonds in 2019

We continue to see slow and steady growth of the economy with no recession in 2020

We do expect heightened volatility this year with the upcoming presidential election

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What a difference a year can make! Last year at this time, as the books for 2018 were closed, we encountered the worst performance of the S&P 500 since the beginning of the 2009 bull market. Nonetheless our advice was to stay the course, and we reiterated that bad years are typically followed by good ones. If you heeded the advice, your portfolio is likely better off. Here are the numbers from 2019 compared to 2018:

	2018	2019
S&P 500	-4.5%	31.3%
S&P 400 (US Mid Cap)	-11.0%	26.1%
S&P 600 (US Small Cap)	-8.5%	22.8%
MSCI EAFE (International)	-14.0%	22.6%
MSCI Emerging Markets	-15.0%	17.8%
Barclays US Aggregate Bonds	0.1%	8.5%

CHART ONE: SOURCE: MORNINGSTAR

By year end 2019, an “asset allocation” portfolio recorded the best performance since the beginning of the bull market in 2009. Chart 2 (on next page) shows the best performing asset class for each year at the top descending to the worst at the bottom. However, most of us live in the “asset allocation” white box where you’ll see a line connecting through the length of the chart. From this chart you can see that poor years (2008, 2011, and 2015) are often

CHART TWO: SOURCES: BARCLAYS, BLOOMBERG, FACTSET, MSCI, NAREIT, RUSSELL, STANDARD & POOR'S, J.P. MORGAN ASSET MANAGEMENT.
*SEE DISCLOSURES BELOW FOR MORE DETAILS.

followed by at least two good years. However, 2020 is a presidential election year and it would be reasonable to anticipate increased volatility in the second half as we head into the November election. As of now, it seems that the market is pricing in the status quo and a continuation of divided government. In our 3rd and 4th Quarter Newsletters we will share more of our thoughts on the upcoming election.

We continue to believe that the most likely outcome will be an extension of the steady modest climb of Gross Domestic Product (GDP) through 2020. LPL Research is forecasting 1.75% GDP growth while Beacon Economics sees 2% growth this year. We tend to agree with these estimates, but it's important to note that this is not the consensus view in the forecasting community. As Christopher Thornberg noted in his most recent Beaconomics forecast, "As of last month, a plurality of economists who contribute to the Wall Street Journal's Economic Forecasting Survey (34%) still believe there will be a recession in 2020. It should be noted however that in November 2018 more than 60% of the Journal's forecasters predicted there was going to be a recession in 2020. In 2017, they predicted the recession would hit in 2019. In short, such surveys have little predictive value."

Also, we caution you from listening too much to potential presidential candidates' views on the current state of the economy. Republicans will overstate how great things are and Democrats will pronounce that only the top 1% have benefitted since 2016. The reality is that the economy has been, while not strong, very consistent over the past few years. This has led to gains in the stock market, employment, and consumer spending which makes up the bulk of the economy. Thornberg of Beacon Economics noted, "The disconnect between simple economic realities and political rhetoric is growing wider – and this may be the most dangerous trend of all. The less connected policy makers are from reality, the more likely their policies will hurt more than help." We couldn't agree more. Consistent with our premise that a recession will not occur in the US in 2020, we see US stocks advancing over the year. For longer term investors willing to be patient and accepting of increased volatility, we suggest possibly overweighting allocations to International and Emerging Markets as they appear to be undervalued and possibly offering the most potential return over the coming years.

THE SECURE ACT

Lastly, we'd like to give you a few details regarding the Setting Every Community Up for Retirement Enhancement (SECURE) Act that was recently signed into law. The SECURE Act is intended to expand retirement savings opportunities. Many of its provisions make it easier for Americans to save more and then convert those savings into income for retirement. The Act will also change some IRA rules in significant ways:

Contributions: One can contribute to an IRA at any age (providing they have "earned" income). In the past, Americans had to stop contributing to IRAs at age 70 ½ regardless.Required Minimum Distributions (RMDs): Begin at age 72 instead of 70 ½.

The Act also changed post-death IRA distribution rules, eliminating the stretch IRA. Estate planning strategies may need to be reviewed as Barron's states, "Under the bill, beneficiaries of an IRA would need to draw down the account – and pay income tax on the money – over a decade, rather than a lifetime." This will affect some legacy planning strategies and necessitate the adoption of alternative solutions.

Workplace plans changed as well. Part-time workers are now eligible to participate in defined contribution plans (401(k)'s) if certain criteria are met. The Act made it easier for defined contribution plans to add lifetime income options to plan investment choices and increased incentives for small business owners to establish workplace retirement plans for employees by increasing potential tax credits to the owners.

As always, if you have any questions regarding the content of this newsletter, the SECURE Act or how it may impact your financial plan please contact us.

Thank you for your continued confidence in KWB Wealth. We hope to see you at one of our scheduled 2020 Economic Discussions on January 28th or 29th.