April 2019

Client Newsletter

Spring Cleaning

As the weather warms up our thoughts turn to spring cleaning, which is an excellent time to organize your financial papers. You can begin by creating a filing system that works well for you, and one that allows you to easily maintain your documents.

Your files should be located within close range of where you pay bills or open mail, and you should get into a routine of updating your filing system as you open mail, pay bills, complete income tax returns or update insurance coverages. One idea is to get a banker's box (maybe plastic instead of cardboard) and label your files by content. This allows for easy filing and updating as necessary without stuffing everything into a drawer in your desk.

We recommend you create a master list of your important documents and their location, as well as a list of all your expenses with vendor names, phone numbers, due dates and account numbers. These lists are very important in the event something happens to you and your family needs access to the accounts and documents. And while many of us have a safe deposit box at the bank, you should also keep a copy of your important documents at home for easy access.

Another important part of your routine should be to destroy older documents that are no longer needed so your filing system contains the most recent information. There are companies that provide shredding services, and even some that offer free shredding on specific days or at designated community events.

Market Commentary

The first quarter of 2019 was the exact opposite of the fourth quarter of 2018. This newsletter will cover some of the major investment themes of today. The first is the discussion of an impending recession. Despite several predictions of an immediate recession in 2019, so far, the economy continues to be resilient in the face of negative news.

The long-running expansions of the 1960s, 1980s, and 1990s gave rise to talk that a combination of fiscal and monetary policy may have ended the risk of a recession. However, these expansions did end in recessions. Today, the pendulum has swung in the opposite direction. Analysts and short-term traders have become hypersensitive to any signs that a recession may be looming.

Stock market volatility and the steep correction late last year, the recent slowdown in U.S. economic activity, and an inverted yield curve have all contributed to worries about an economic downturn.

The current economic expansion is fast approaching its 10-year anniversary. If the economy is still expanding in July, and odds suggest it will, the current expansion will become the longest on record, exceeding the expansion of the 1990s, which lasted exactly 10 years.

Recessions are a part of the business cycle in a free market economy. Expansions come to an end when economic and financial imbalances arise, such as a stock or housing bubble, or the Fed aggressively hikes rates in response to a spike in inflation. Based on current economic and market data we don't seem to have any of these imbalances or bubbles in a particular industry.

An organization called the National Bureau of Economic Research (NBER) has become the official arbiter of recessions. Founded in 1920, the NBER is a private, nonprofit, nonpartisan organization dedicated to conducting economic research.

The NBER defines a recession as “a significant decline in activity spread across the economy, lasting more than a few months.” It manifests itself in the data tied to “industrial production, employment, real income, and wholesale-retail sales.”

Recessions are difficult to forecast. It’s not as if the NBER confirms a recession has begun shortly after it begins. It took nearly a year for the NBER to confirm the last recession. By then, it was a forgone conclusion. A similar delay occurs when the economy begins to recover, and the NBER is tasked with calling the end of the recession.

The Conference Board compiles what is called the Leading Economic Index®, or LEI. The index is designed to forecast what might happen in the future based on 10 indicators. It has historically warned of an impending recession, but not always the timing.

Looking back at the last seven recessions (beginning with 1969-70), the lead time given by the LEI has ranged from 7-20 months. Furthermore, there have been times when the LEI has given false recessionary signals, including the mid-1960s, the mid-1990s, the late 1990s, and during the recent expansion.

These “false positives” were temporary downticks. Nonetheless, short-term declines could have been construed as a recessionary signal. According to the Conference Board, the LEI has essentially been flat since October. It has correctly signaled a slowdown in the economy, but it has not signaled a recession.

During the third quarter of 2018, the economy was firing on all cylinders. At the September meeting of the Federal Reserve, policymakers were projecting three rate hikes in 2019 – all 0.25 percentage point increases.

The Fed cut its forecast to two rate increases at the December meeting amid stock market uncertainty and signs that U.S. growth was moderating. At the conclusion of the March 2019 meeting, the Fed said it sees no rate hikes this year.

Furthermore, Fed Chief Jerome Powell was forced to push back on talk of a possible rate cut this year, arguing at his press conference that he expects “the economy will grow at a solid pace in 2019.”

One of the leading indicators is the yield curve. Normally, the yield curve is upward sloping. As the maturity of bonds lengthen, the investor receives a higher yield. Think of it like this: you expect to receive a higher interest rate on a 2-year CD than a 6-month CD.

There are times, however, when the yield curve inverts. Shorter-dated bonds yield more than longer-dated bonds. On March 22, the yield on a 3-month T-bill exceeded that on the 10-year Treasury by 0.02 percentage points (U.S. Treasury Dept). That hasn’t happened since 2006.

What is the importance? The last seven recessions (using NBER data and data from the St. Louis Federal Reserve) have all been preceded by an inversion of the yield curve. We must go back to 1966 when a brief inversion was followed by a steep slowdown in growth, but not a recession.

An inverted curve signals that investors believe short-term rates will eventually come down in response to a weaker economy. Another strong recession predictor is an inversion of the 10-year/2-year Treasury. This has not occurred, as the 2-year yield has been falling along with the 10-year.

Here are the encouraging facts that point to continued expansion of the economy:

Market Commentary *(continued)*

1. The Conference Board's Leading Index has been flat since October, signaling the slowdown in U.S. growth; whereas an actual decline would be an indicator of recession.

2. Weakness in Europe has pushed yields down sharply overseas (Bloomberg), which may encourage some global investors to park money into higher-yielding U.S. bonds. The lower rates have more to do with demand than with a slowing economy.

3. The Fed is no longer eyeing rate hikes, and financial conditions have eased during the first quarter.

Recessions have typically been preceded by major economic imbalances, such as a stock market bubble or housing bubble; or when a sharp rise in inflation forces the Fed to aggressively respond with rate hikes. For the most part, neither of these conditions are currently present, lessening odds that a near-term recession is lurking. Further, recent market action has been impressive. While we have seen some volatility, year-to-date performance indicates no imminence of an economic contraction.

Here are the results of major indexes through March 31, 2019 (Table 1).

Table 1: Key Index Returns	MTD %	YTD%	*3-YR%
Dow Jones Industrial Average	0.1	11.2	13.7
NASDAQ Composite	2.6	16.5	16.8
S&P 500 Index	1.8	13.1	11.3
Russell 2000 Index	-2.3	14.2	11.6
MSCI World ex-USA**	Unch.	9.5	4.4
MSCI Emerging Markets**	0.7	9.6	8.1
Bloomberg Barclays U.S. Aggregate Bond TR	1.9	2.9	2

Source: Wall Street Journal, MSCI.com, Morningstar, MarketWatch

MTD returns: Feb 28, 2019-Mar 29, 2019

YTD returns: Dec 31, 2018-Mar 29, 2019

*Annualized

**in US dollars

Note: We offer the above report for information only. Returns will vary, as none of our clients are invested exactly like these indexes.

Looking Ahead

Our conclusion is that the odds are in favor of continued economic expansion in the next few quarters. If we can reach a trade agreement with China, this uncertainty would be eliminated and could propel the economy forward and therefore the stock market. Trade tariffs are inflationary and slow the economy as prices rise.

We await first quarter earnings and economic activity reports to attempt to determine the direction of the economy. As we often say, short-term markets trade on emotion and long-term markets trade on facts.

As investors, we should avoid getting caught up in emotions of the day, especially with our 24-hour news cycle often based on headlines that quickly dissolve. The first quarter has been less volatile than any quarter in 2018. The headlines will continue to dominate daily trading in the markets, but we should look to economic reports to determine future direction of the markets.

We are honored that you allow us to be your advisor and look forward to seeing you in the coming months.

Happy Spring!

Quintin, Ginny and Ella

131 W. Davis Street
Culpeper, VA 22701

Community & Announcements

Piedmont Wealth Management proudly sponsored the 4th Annual Living the Dream Foundation 5K Run/Walk held Saturday, April 6, 2019. The foundation was created in memory of a young Culpeper resident and for support of individuals and families affected by substance abuse, depression and suicide.

Contact Us

Phone: 540-317-5372
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Our Office Hours

Monday—Friday, 9:00AM—5:00PM

Upcoming Holidays/Office Closures

Friday, April 19 — ***Good Friday***

Monday, May 27 — ***Memorial Day***

Thursday & Friday, July 4 & 5 — ***Independence Day***
Closing at noon on Wednesday, July 3

Monday, September 2 — ***Labor Day***

July 2019

Client Newsletter

To Our Clients

Welcome to the second half of 2019. We hope this letter finds you well and enjoying the summer months.

A Bit of History

The title of longest running and best performing economic expansion goes to the bull market of the 1990s (St. Louis Federal Reserve, Yahoo Finance, LPL Research–as measured by the S&P 500 Index). As you have heard us say time and again, the key fact to watch is economic growth –the ultimate driver of stock prices.

According to the National Bureau of Economic Research, the official arbiter of economic recessions and expansions, the current expansion began in July 2009; and while not the best performing, it is poised to become the longest running since WWII. The current expansion is exactly 10 years, or 120 months, matching the 1990s economic expansion – see Table 1. While this economic recovery is about to enter a record-setting phase, it has also been the slowest overall growth rate since at least WWII, according to data from the St. Louis Federal Reserve.

Table 1: Economic Scorecard

Expansions	Length in Months
July 2009 -?	120
Mar 1991 - Mar 2001	120
Feb 1961 - Dec 1969	106
Nov 1982 - Jul 1990	92
Nov 2001 - Dec 2007	73
Average	64
Mar 1975 - Jan 1980	58
Oct 1949 - Jul 1953	45
May 1954 - Aug 1957	39
Oct 1945 - Nov 1948	37
Nov 1970 - Nov 1973	36
Apr 1958 - Apr 1960	24
Jul 1980 - Jul 1981	12

Source: NBER thru June 2019

In past economic booms and long-running expansions, we have observed risky behavior, as we tend to overextend ourselves and forget the lessons learned in prior recessions. A few examples of this include consumers taking on too much debt, and businesses over-investing and building out too much capacity. We saw euphoria take hold in the stock market in the late 1990s, and speculation ran wild in housing not too long ago.

The current economic expansion has none of the excesses we have noted in prior periods. Perhaps this is the true silver lining of the lazy pace of today's economic environment. Slow and steady has prevented speculative excesses from building up in much of the economy. In other words, a mistaken realization that the good times will last forever has not taken hold in today's economic environment; and therefore, we continue to see slow growth and caution in many reports of both business and consumer confidence.

Causes of Recessions

The long-running expansions of the 1960s, 1980s, and 1990s led to a mistaken belief that various policy tools could prevent a recession. Economic expansions don't die of old age but are triggered by various events. Here are the most common causes and where we stand today.

1. **Rising inflation leads to rising interest rates.** In the early 1980s, the Federal Reserve pushed interest rates to historically high levels in order to snuff out inflation. The Fed's policy prescription succeeded but led to a deep and painful recession.

Causes of Recessions *(continued)*

2. **The Fed screws up.** A policy mistake can be the trigger; for instance, if the Fed raises interest rates too quickly and restricts business and consumer spending. During the second half of 2018, this fear was in place as the Fed raised interest rates. Credit markets tightened, and investors revolted until the Fed reversed course.

3. **A credit squeeze can stop growth.** In 1980, the Fed temporarily implemented credit controls that briefly tipped the economy into a recession.

4. **Asset bubbles burst.** The 2001 and 2008 recessions were preceded by speculative excesses in stocks and housing.

5. **Unexpected financial and economic shocks jar economic activity.** The OPEC oil embargo in the 1970s exacerbated inflation and the 1974-75 recession. The tragedy of 9-11 jolted economic activity in 2001. Iraq's invasion of Kuwait pushed oil up sharply, contributing to the 1990-91 recession. Such events don't occur often, but their possibility should be acknowledged.

Where Are We Today?

The Inflation rate is low, the Fed is signaling a possible rate cut, and credit conditions are easy as measured by various gauges of credit. For the most part, speculative excesses haven't built to dangerous levels.

Current stock prices are setting new records but, valuations remain well below levels seen in the late 1990s. Interest rates are lower today than in the 1990's which should support a higher P/E ratio (I'm using the forward p/e ratio for the S&P 500 as a guide, which is currently 17.69).

Stocks have a long-term upward bias based on growth in the economy, but the upward march has never been and never will be a straight line higher. We believe the stock markets around the world will continue to see higher levels of volatility based on the twenty-four hour a day news cycle. The trading technology present in today's markets exaggerate price movements. Short-term emotional trading does create anxiety for all of us, but the long-term market will trade based on facts.

Your financial plan and investment policy are designed, in part, to keep you grounded during the short periods when volatility may tempt you to decide based on emotions. Based on history and our experience, such decisions are rarely profitable for you.

A Sneak Peek at the Rest of the Year

The Conference Board's Leading Economic Index, which has a good record of predicting (if not timing) a recession, isn't signaling a contraction through year end. Our continued worry; a protracted trade war and its impact on the global/U.S. economy, business confidence, and business spending. We have discussed this in the past and continue to believe it may be the biggest issue for the economy.

Exports account for almost 14% of U.S. GDP (U.S. BEA) and have risen over the last 20 years, but we have never experienced a U.S. recession caused by global weakness. Trade barriers with China are unlikely to tip the economy into a recession. Per U.S. BEA and U.S. Census data, total exports to China account for just under 1% of U.S. GDP. Even with higher tariffs, exports to China won't grind to a halt and erase 1% of GDP.

What is difficult to model is the impact on business confidence and business spending, which in turn could slow hiring, pressuring consumer confidence and consumer spending. We don't have a modern historical precedent to construct a credible model. Hence, the heightened uncertainty we have seen among ourselves and investors.

Is A Recession Inevitable?

The U.S. has always had recessions (see reasons above) but other countries have more enviable records. Earlier in June, the Wall Street Journal highlighted, “Australia is enjoying its 28th straight year of growth. Canada, the U.K., Spain and Sweden had expansions that reached 15 years and beyond between the early 1990s and 2008. Absent the 2001 terrorist attacks, the U.S. might have had a 15-year expansion."

The expansion can continue if trade tensions begin to subside (a big “if”); and if the fruits of deregulation and corporate tax reform kick in, we could see economic growth well into 2020 (and with some luck, into 2021 and beyond). We always urge caution with forecasts, as few have accurately and consistently called economic turning points.

The Fed to the Rescue

We can trace much of the rising major market indexes for this year to positive U.S.-China trade headlines (at least through early May), a pivot by the Fed, and general economic growth at home. We witnessed a modest pullback in May after trade negotiations with China hit a snag. The threat of tariffs against Mexico added to the uncertain mood until June 4, when Fed Chairman Jerome Powell signaled the Fed would consider cutting interest rates to counter any negative economic headwinds.

Chairman Powell did not promise to deliver any rate cuts; however, one key gauge from the CME Group that measures fed funds probabilities puts odds of a rate cut at 100% at the July 31 meeting (as of June 28 with probabilities subject to change).

We can go into the academic theories behind why lower interest rates are good for stocks, but in a nutshell, stocks face less competition from interest-bearing assets. When you add in the additional wrinkle of economic growth driving the price of stocks upward, the decision to buy stocks is easier.

Table 2: Key Index Returns	MTD%	YTD%	*3-YR%
Dow Jones Industrial Average	7.2	14	14.1
NASDAQ Composite	7.4	20.7	18.2
S&P 500 Index	6.9	17.4	11.9
Russell 2000 Index	6.9	16.2	10.8
MSCI World ex-USA**	5.8	12.5	6.1
MSCI Emerging Markets**	5.7	9.2	8.1
Bloomberg Barclays U.S. Aggregate Bond TR	1.3	6.1	2.3

Source: Wall Street Journal, MSCI.com, Morningstar, MarketWatch, Yahoo Finance

MTD returns: May 31 - Jun 28, 2019

YTD returns: Dec 31, 2018 - Jun 28, 2019

**Annualized*

***in US dollars*

Note: We offer this report for information only. Returns will vary, as none of our clients are invested exactly like these indexes.

During the mid-1980s, mid-1990s, and late 1990s, rate cuts by the Fed, coupled with economic growth, fueled market gains. It’s not a coincidence that bear markets coincide with recessions and the bulls are inspired by economic expansions. Ultimately, steady economic growth has historically been an important ingredient for stock market gains.

Final Thoughts

During our meetings with you, Ginny and I often talk about "controlling what you can control". I think this may be our favorite quote. Factually, we know we cannot control the stock market or news headlines; and timing the market is not a realistic tool.

Your plan considers your time horizon, your cash needs, your risk tolerance, and your overall financial goals. Your investment strategy is based on all of these factors and is a reflection of your plan. Investing in the financial markets will always involve risk. We know that over time, stock and bond markets provide positive returns. The short term is always the challenge, as things you cannot control enter the picture and create negative emotions.

We look forward to seeing many of you in the coming months. Please contact us if you have any questions or want to meet prior to our regular scheduled meeting. We are honored and humbled that you give us the opportunity to serve as your financial planners and provide oversight for your investment portfolios.

Thank you, and we hope you have a wonderful summer.

Quintin, Ginny and Ella

131 W. Davis Street
Culpeper, VA 22701

Community & Announcements

Piedmont Wealth Management is proud to have sponsored and participated in the following events to benefit local charities.

2nd Annual Cornhole Tournament — Hosted by Chamber Young Professionals on Saturday, May 4, to support their 2019 Cause, Career Partners, Inc.

3rd Annual Caddyshack Open — Hosted by SAFE on Friday, June 28. Services to Abused Families, Inc. (SAFE) provides a variety of services to victims and survivors of domestic violence and sexual assault in Culpeper and surrounding counties.

Contact Us

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Upcoming Holidays/Closures

Monday, September 2
Labor Day

Thursday, November 28
Thanksgiving Day

Friday, November 29
Day After Thanksgiving

October 2019

Client Newsletter

To Our Clients

Your assets have been created through savings and retirement plans; or maybe you sold your business after investing years of hard work. Your determination and careful planning have resulted in a comfortable nest egg. Unfortunately, we all are targets of criminals who seek to exploit our age and distance from our families. In this day and age, we must always be on guard for criminals who seek to trick us into willingly handing over our hard-earned savings.

We hope we have your attention.

Dodge the Top 9 Elder Frauds

Elder financial exploitation quadrupled from 2013 to 2017, according to the Consumer Financial Protection Bureau. The sources are varied and include unknown scammers, family members, caregivers, and even some working in nursing homes. These incidents involve more than $6 billion, with an average loss of $34,200. In 7% of these instances, losses exceeded $100,000. Sadly, many of these incidents go unreported. In 2017, elder financial exploitation reports totaled 63,500, representing just a small fraction of actual incidents.

According to the FBI, more than 2 million seniors have been victimized in the past year alone. Even former FBI Director William Webster, age 95, was targeted in 2014. Webster answered a phone call and was promised $72 million and a new car… if he paid several thousand dollars in advance to cover shipping costs. Ultimately, this predator was arrested, but not before his relatives in Jamaica had successfully scammed other U.S. citizens out of hundreds of thousands of dollars.

It Won't Happen to Me

If you are thinking, "This can't happen to me", think again. The best and brightest individuals can fall victim to a seasoned swindler. While scams are only limited by the criminal imagination, the U.S. Senate's Committee on Aging highlighted some of the more common scams in a report entitled, Protecting Older Americans Against Fraud. Included are the top nine scams. Please familiarize yourself with this list. If you have any questions, we would be happy to talk with you.

1. ***IRS Impersonation Scams*** — Scammers impersonating IRS officials claim you owe money and pressure you to settle immediately. If victims make an initial payment, they will often be told that new discrepancies have been found in their tax records, which must be satisfied with another payment. Don't fall victim! The IRS will never call or email you to demand immediate payment. If there is a question about your return, you will receive written notice by U.S. mail, and there is a process to appeal any disputed amount.

2. ***Robocalls and Unsolicited Phone Calls*** — Robo-dialers can be used to distribute prerecorded messages or connect the person who answers the call with a live person. IRS scammers often use this tactic. Robocalls often originate overseas, and numbers are usually spoofed to hide their true identity. If you receive a call from someone whose number is local but you don't recognize the number, it is likely spoofed and not a local call. We hear from clients, family and friends that they receive calls from their own phone number, which is a pretty good reason not to answer the phone.

   The FTC has warned not to give out personal information in response to an incoming call. Identity thieves pose as bank representatives, credit card companies, creditors, or government agencies. They hope to convince victims to reveal their account numbers, Social Security numbers, mothers' maiden names, passwords, and other identifying information.

   If you are uncomfortable, hang up the phone. Better yet, if you don't recognize the number, do not answer the call. You are not required to answer every call to your phone. When in doubt, let it go to voicemail.

Dodge the Top 9 Elder Frauds *(continued)*

3. ***Sweepstakes Scams / Jamaican Lottery Scam*** — Sweepstakes scams continue to claim senior victims who believe they have won a lottery and need only take a few actions, i.e., sending cash to the con artists in order to obtain their "winnings."

4. ***"Can you hear me?" "Are you there?" Scams*** — The goal is to get your voice print saying, "Yes." Then, the scammer charges your credit card using your "Yes." If asked, do not respond, just hang up. If you get a call instructing you to "Press 1 to speak to a live operator to be removed from the list", do not do anything, just hang up. Responding in any way will likely lead to more robocalls and more scams.

5. ***Grandparent Scams*** — "Hi Grandma/Grandpa, guess who?" When you respond, "This sounds like 'Sally'," the fraudster will say "she's in trouble and needs money to help with an emergency", such as getting out of jail or paying a hospital bill. If you send cash, expect "her" to call you again asking for more cash. Victims who were duped later said they had wished they had asked some simple questions that only their true grandchild would know how to answer. Don't be "scared' into responding to these types of calls. Hang up, call your grandchild directly to confirm. If you cannot reach them by phone, call their parents or another family member to confirm.

6. ***Computer Tech Support Scam*** — Whether a computer pop-up screen or an alleged caller from Microsoft, these scammers claim your PC is infected with a virus and attempt to get your credit card number or gain control of your computer to access personal information. Please note, Microsoft will never call you, use a pop-up screen or email you to inform you they have detected a virus. Do not give credit card information or control of your computer to a third party.

7. ***Romance Scams*** — More and more Americans are taking to the Internet to find a partner. While some find love, others find financial heartache. Be wary of individuals who claim the romance was destiny or fate. Be cautious if an individual declares his or her love but needs money from you to fund a visit or cash is unexpectedly needed to cover an emergency. These are huge red flags.

8. ***Identity Theft*** — This was the most common type of consumer complaint in 2016, with nearly 400,000 complaints. Placing a freeze with the major credit bureaus helps prevent credit cards or loans from being taken out in your name. If you believe you are a victim, call the companies where the fraud occurred, place a fraud alert with all credit bureaus, and file a report with your local police department.

9. ***Government Grant Scams*** — In the most common variation of this scam, consumers receive an unsolicited phone call from a con artist claiming he or she is from the "Federal Grants Administration," or the "Federal Grants Department" – agencies that do not exist. Always remember, grants are made for specific purposes, not because you are a good taxpayer. Do not wire funds to cover fees for the so-called grant. Government grants never require fees of any kind. If you do, you will likely get more requests for additional "unforeseen fees."

Never give out banking or personal information over the phone, by email or via the internet. Scammers pressure people to divulge their bank account information so they can steal money from their account. You would not give your bank account information to a person you just met in the community, so do not give it to a stranger over the phone.

Always remember, you are in control. When in doubt, hang up. This is how you protect yourself and your family.

If you suspect elder financial abuse is occurring with a member of your family or a neighbor, the American Bankers Association suggests the following steps:

- **Talk to elderly friends or loved ones.** Try to determine what may be happening to their financial situation, such as a new person "helping" them with money management, or a relative using cards or credit without their permission.
- **Report the elder financial abuse to their bank.** Enlist their banker's help to stop it and prevent its recurrence.
- **Contact Adult Protective Services in your town or state for help.** Report all instances of elder financial abuse to your local police—if fraud is involved, they should investigate.

Our mission is to help you reach your financial goals, and we are proactive in our recommendations. It is heartbreaking to hear stories of theft, and we don't want you to become a victim and another government statistic. The final page of this newsletter includes a list of useful tips to have handy when you receive one of these calls.

Market Headlines

Trade headlines have driven price action during much of the year. September and Q3 were no exception. A shift in the Fed's stance and a reduction in trade tensions sparked a rally that took the S&P 500 Index to a new high in July (S&P 500 data—St. Louis Federal Reserve).

Despite a late July rate cut, an escalation in trade tensions in August created a brief bout of volatility. Yet, the peak-to-trough decline in the S&P 500 Index amounted to just 6.1%. Economic growth and a Fed that was (and probably still is) in rate-cut mode cushioned the downside. But a renewal of trade negotiations—more headlines—and a de-escalation of tensions were well-received by investors. When September ended, the S&P 500 was not far from a new high.

We suspect trade headlines will continue to influence short-term trading, but we need keep in mind that the uncertainty surrounding Brexit could influence daily activity. Meanwhile, Europe appears to be on the cusp of a recession. And, if that's not enough, the Speaker of the House launched an impeachment inquiry against the President.

Some of us are old enough to remember President Nixon's troubles coincided with a nasty bear market. Was there a link between Nixon and the 1973-74 slide, which lopped nearly 50% off the S&P 500? Or did the economic fundamentals hobble the major averages?

Political uncertainty likely exacerbated the selloff, high inflation, high interest rates, and a deep recession took a big toll on stocks. Contrast 1973-74 with the late-1998 impeachment of Bill Clinton. Twenty-five years later, stocks performed well amid much better economic fundamentals. No two situations are exactly alike, economic conditions today are more reminiscent of the late 1990s than Nixon's second term.

Table 1: Then vs. Now

1973-74—Bear Market	1998—Bull Market	2019—?
Inflation rose to double-digit levels, peaking at over 12%	Inflation low and slowing	Inflation is low
Interest rates were spiking higher; prime loan rate hit 12%	Interest rates steady	Interest rates are low
OPEC oil embargo roils economy; oil prices rise four-fold	Oil plentiful; prices stable	A glut of oil exists today, and prices are well below levels of recent years
The unemployment rate jumped; the economy fell into a steep recession	The economy expanding	The economy is expanding, and the unemployment rate is near a 50-year low

Source: St. Louis Federal Reserve, U.S. State Department
Past performance is no guarantee of future performance

Table 2: Key Index Returns

	MTD%	YTD%
Dow Jones Industrial Average	1.95	15.39
NASDAQ Composite	0.46	20.56
S&P 500 Index	1.72	18.74
Russell 2000 Index	1.91	12.96
MSCI World ex-USA**	2.48	10.69
MSCI Emerging Markets**	1.69	3.65
Bloomberg Barclays U.S. Aggregate Bond TR	-0.53	10.30

Source: Wall Street Journal, MSCI.com, Morningstar, MarketWatch
MTD Returns: Aug 30—Sep 30, 2019
YTD Returns: Dec 31, 2018—Sep 30, 2019
*in US dollars

Bottom Line

We can point to uncertainty lurking in the near term but risks never completely abate. If they do, stocks usually bid up to reflect perfection that has not happened. While we have seen a few rocky days this year, major indices have performed well, and the S&P 500 and the Dow have yet to shed 10 percent—an official correction in this calendar year.

For the long-term investor, it hasn't been a volatile year because interest rates provide little competition for stocks, the consumer has been strong, and the economy is expanding at a modest pace. That said, successful long-term investors do not make investment decisions based on an emotional response to daily volatility and are wary of being whipsawed by headlines.

We look forward to seeing many of you in the coming months. Please contact us if you have any questions or if you prefer to meet prior to our regular scheduled meeting. We are honored and humbled that you give us the opportunity to serve as your financial planners and provide oversight for your investment portfolios.

Thank you, and we hope you have a wonderful fall and upcoming holiday season.

Sincerely,

Quintin, Ginny and Ella

131 W. Davis Street
Culpeper, VA 22701

Community & Announcements

Tips from the United States Senate Special Committee on Aging for

Avoiding Scams

- Con artists force you to make fast decisions and may even threaten you.
- Con artists disguise their real number, using fake caller IDs.
- Con artists sometimes pretend to be the government (e.g. IRS).
- Con artists try to get you to provide them personal information, like your Social Security, banking and credit cards numbers.
- Before giving out your credit card number or money, please ask a friend or family member about it.
- Beware of offers that sound too good to be true (e.g. free travel).

If you receive a suspicious call, hang up and please call the U.S. Senate Special Committee on Aging's Fraud Hotline at 1-855-303-9470

Upcoming Holidays/ Office Closures

2019

Thursday & Friday, November 28-29
Thanksgiving

Tuesday, December 24 (after 1:00pm)
Wednesday—Friday, December 25, 26, 27
Christmas Week

2020

Wednesday, January 1
New Year's Day

Monday, January 20
Martin Luther King Day

Monday, February 17
Washington's Birthday

Our Office Hours

Monday—Friday, 9:00AM—5:00PM

Contact Us

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January 2020

Client Newsletter

To Our Clients

Happy New Year to each of you and your families. Whether you reached your personal goals last year, faced challenges, or are looking for a 2020 reboot, a new year and a new decade bring challenges and opportunities. On a side note, Y2K was twenty years ago, and we begin our 10th year of service to our clients.

The SECURE Act

As part of the government spending bill passed in late December 2019, the "Setting Every Community Up for Retirement Enhancement" (The Act) was included. This new law has, in some form, been around for a while and was somewhat of a surprise to be included. This bill is effective for tax years beginning January 1, 2020. The bill contains several modifications and is the most sweeping change since the Pension Protection Act of 2006. In the following paragraphs, we will cover what we see as major changes that may impact you as our client.

Change to Age 72 for Required Minimum Distributions (RMD)

The Act increases the age at which an IRA owner or a participant in an employer sponsored retirement plan must generally begin taking RMDs for the year in which they turn age 70 ½ to the year in which they turn 72. This means there is no change for those already receiving their RMD or for those who turned age 70 ½ in 2019 and who must take their first distribution by April 1, 2020. For those born after June 30, 1949, the Act allows you to wait until age 72 to begin taking your RMDs, and the same April 1st of the year following the year in which you reach age 72 remains.

The Act did not change the life expectancy tables used to calculate your RMD. For instance, if you were age 70 ½ in August of 2019, the Uniform Table Factor is 27.4 as the divisor. If you qualify for the new age 72 RMD, then your factor is 25.6 as the divisor. On the surface this looks like a good change, but we must do the math to determine if waiting will result in a better outcome.

IRA Qualified Charitable Distributions (QCD's)

The Act did not change the age at which you can start QCD's, which means you can still make a QCD when you reach age 70 ½. This provides an opportunity to make charitable distributions from your IRA and reduce income taxes, which can reduce the size of your IRA and ultimately reduce your RMD at age 72.

Elimination of the Stretch IRA

In most cases the Act eliminates the Stretch IRA used for non-spousal inherited IRA's. The Act now requires that the entire amount be taken out by the end of the 10th year after death of the primary account holder. While the Act does not require any distributions until the 10th year, in most cases this would not be advisable since spreading the tax liability over 10 years versus one year makes more sense.

The use of conduit trusts, except in the case of a disabled or chronically ill person, is all but eliminated under the Act. For those of you with conduit trusts in your estate plan documents, we recommend having them reviewed. Most trusts contain discretionary language related to the RMD that specifies year or age to be received, but no RMD is required until the 10th year under the Act. The unintended consequence of this change could be negative without the proper language in the trust document.

The SECURE Act *(continued)*

Other Provisions

If you are still working after age 70 ½, the Act allows you to continue making qualified IRA contributions to an employer-sponsored plan. However, this does not eliminate the RMD, regardless of when you qualify. Further, you cannot make a qualified charitable distribution and contribute to a tax-deductible IRA in the same year. The Act considers this to be double dipping and is not allowed. Part-time employees who work 500 hours in three consecutive years will be eligible for participation in their employer-sponsored plan.

The Act opens the gates to more annuities to be included as an option in 401-k plans. The Fiduciary responsibility now falls on the insurance company instead of the employer. Seems contradictory to allow the seller of the annuity to also be the gatekeeper.

The Act includes several provisions to encourage employers to offer retirement plans. The most significant is the creation of a tax credit for automatic enrollment in plans. The Act allows small employers to join together to create multiple employer plans, even when their businesses have nothing in common. It also eliminates the "Bad Apple" rule that could disqualify the entire plan if one employer fails to follow the rules. For small business employers, this may be a great option to start a plan with minimal costs.

Final Thoughts

We are waiting for issuance of rules from the IRS to implement the law. Since the bill was passed so late in the year, we do not anticipate having final guidance until later in 2020.

What Moved Markets in 2019

As 2018 came to a close, stocks were in the midst of a steep sell-off, which shaved nearly 20% off the S&P 500 index over a three-month period. At the time, the Fed was on rate-hike autopilot, i.e., gradually increasing the fed funds rate in quarter-point increments. The Fed was allowing bonds purchased during its bond buys from earlier in the decade (popularly called QE or quantitative easing) to mature and not be replaced.

The rate hikes, which began in late 2015, did little to deter bullish enthusiasm, until October 2018 when investors began to fret that the Fed might be on the verge of a policy mistake that could tip the U.S. economy into a recession. Add in rising trade tensions with China, and the result was a steep and unsettling correction which rivaled the sell-off in 2011, which was tied to recession fears and a widening eurozone debt crisis. A loss of just seven more points on the S&P 500 Index would have officially ended the bull market on Christmas Eve, which began in 2009.

As 2018 came to close, pessimism ruled the Street and stocks were undervalued. Economic growth was poised to moderate but not stall. Profit growth slowed to a crawl last year, but an earnings recession did not ensue.

2019's Comeback

As we look back at 2019, trade headlines and Fed policy had the biggest influences on sentiment. Throughout the year, market action marched to the beat of trade. Positive trade headlines generated enthusiasm and tensions created pullbacks.

Zoom in on May and August, and rising tensions forced the bulls to the sidelines. Still, the broad-based S&P 500 Index lost less than 7% during each pullback (St. Louis Federal Reserve S&P 500 data). Such declines are modest by historical standards. In our view, a more flexible Fed and continued economic growth cushioned the downside.

The Fed quickly altered its stance in January, going on hold as it abandoned its desire to keep bumping up the fed funds rate. The Fed completed its pivot in the middle of the year. Instead of two projected rate hikes in 2019 (per FOMC projections made in December 2018), the Fed eased and cut rates three times. We began the year with a fed funds rate of 2.25%-2.50% and ended the year with a rate of 1.50%-1.75%. Additionally, the Fed stopped shrinking its balance sheet and was back in the open market purchasing shorter term bonds and T-bills by year end, at least temporarily. While refusing to use the term "QE," in effect, a similar policy was employed to that which was used earlier in the last decade.

In December, Fed Chief Jerome Powell hinted that he is in no hurry to take back any of the rate cuts in 2020. Recession fears earlier in the year have subsided, and the U.S. and China will sign a limited, phase-one trade deal this month. It is not the all-encompassing agreement

that investors had hoped would be inked earlier last year, but it reduces near-term trade tensions. New negotiations will resume, which could eventually lead to a more comprehensive phase-two agreement, though the outlook for additional progress is murky.

Longevity—One for the Record Books

The current economic expansion began in July 2009, according to the National Bureau of Economic Research (NBER), the official arbiter of recessions and expansions. Ten years later, the economic expansion entered the record books, surpassing the long-running expansion of the 1990s. Following the financial crisis and Great Recession, few thought the expansion would last this long, much less with a jobless rate falling below 4% again.

The U.S. economy is incredibly dynamic and surprisingly resilient. The attributes that make America the greatest nation in the world continue to pay economic dividends. Once again, the economy bounced back when many thought it was down for the count.

A Conference Board survey of CEOs and top-level executives noted, “For U.S. CEOs, a recession rose from being their third biggest concern in 2019 to their top one in 2020.” Global growth slowed last year, and activity in the U.S. manufacturing sector has been soft.

Economists have not done a very good job of forecasting recessions, but conditions that generally lead to a recession are not in place today. These include:

- Rising interest rates and rising inflation.
- A credit squeeze that cuts off lending to businesses and consumers.
- Asset bubbles. Stocks aren’t cheap, which make them vulnerable to unexpected events, but valuations (P/E ratios) are nowhere near levels seen in 2000.
- Oil supply shock.

In addition, the long-running expansion has been subpar, meaning we haven’t seen the excesses and imbalances that breed too much euphoria and excess spending. While manufacturing has been soft and the Conference Board’s Leading Index is not suggesting a near-term acceleration in growth, the broader-based service sector is expanding, and consumer spending has been strong. Further, stock market action is not foreshadowing a near-term recession.

Playing the Averages

If we simply purchase a broad-based, diversified stock market index at the beginning of the year, historically, the odds have been in our favor. As you know, we rarely recommend all-stock portfolios which have too much risk of shorter-term volatility. Our recommendations are customized to your goals and financial plans. However, if we look back at the data over the last 60 years, stocks have been an excellent vehicle for individual investors to create wealth. Using data provided by the New York University School of Business (2019 returns taken from S&P Dow Jones Indexes), the S&P 500 Index has risen 47 years and has fallen 13 years (total return, dividends reinvested 1960-2019).

That’s an impressive performance that covers rising and falling inflation, rising and falling interest rates, wars and peacetime, and several expansions and recessions.

When the S&P 500 Index finished the year lower, the average annual decline has been 12.7%. The range of the annual decline: -3.1% to -36.6%. When the S&P 500 Index finished higher, the average annual increase has been an impressive 18.0%. The range of the annual increase: +0.3% to +37.2%.

Stocks have a long-term upward bias. It’s a theme we repeat often, and the data reflects the bias. We view a well-diversified portfolio as the economic equivalent of purchasing a stake in the U.S. economy. We do not know if the economy will be larger next year, but over a long period, the U.S. economy has expanded. We see it reflected in long-term stock market performance.

There will be times when the outlook sours, but as we have seen time and time again, the U.S. economy has recovered and gone on to new highs. We know that stocks can be unpredictable over a shorter period and sell-offs are normal. We take precautions to minimize volatility and, more importantly, keep you on track toward your financial goals.

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New Year, New Decade

As we move into a new decade, we are reminded of a remark by the legendary investor, Warren Buffett. “For 240 years it’s been a terrible mistake to bet against America, and now is no time to start. America’s golden goose of commerce and innovation will continue to lay more and larger eggs.” We agree with Mr. Buffett, and as the economy grows, so will stock market values.

We hope you have found this review to be helpful and educational. Your financial plan and investment portfolio are tailored to your objectives, and our job is to assist you in achieving your life goals. We are honored to be given the opportunity to serve as your financial planner and provide investment oversight, and we look forward to seeing you in the coming months.

Happy New Year!

Quintin, Ginny and Ella

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UPCOMING HOLIDAYS/ OFFICE CLOSURES

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Martin Luther King, Jr. Day

Monday, February 17
Washington’s Birthday

Friday, April 10
Good Friday

Monday, May 25
Memorial Day

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