DIXON, HUBARD, FEINOUR & BROWN, INC. investment counsel

Fourth Quarter 2019 Review & Outlook for 2020

by Whitney Brown

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INVESTMENT OUTLOOK

- Asset markets deliver double-digit gains in 2019.
- Federal Reserve policy shift drives returns.
- Stock valuations and market levels not at extremes.
- Upcoming Presidential election may cause choppy market action in first half.

2019 should have put a smile on the face of just about any type of investor. Markets delivered double-digit returns for assets ranging from gold and commodities to long-dated Treasury bonds and stocks. We have to give the Federal Reserve most of the credit, and blame, for the year's strong showing. In the fourth quarter of 2018, the Fed was raising short interest rates while the global economy was slowing and the China trade feud was heating up. Markets viewed that as a serious policy error, and equities, as measured by the S&P 500, declined almost 20% from October through December. Chairman Powell's reassurance in early January of 2019 that the Fed would switch to an accommodative stance launched equities on a rally that recovered the lost ground by April, a quick four months. The Fed went on to cut rates three times from July through October which satisfied markets that the Fed was on the right track. That laid the groundwork for the robust rally through yearend.

Market Measures	4th QTR	YTD 2019
S & P 500 (price)	8.5%	28.9%
Dow Jones Industrial Average	6.0%	22.3%
NASDAQ Composite	12.2%	35.2%
Russell 2000	9.5%	23.7%
MSCI EAFE	7.8%	18.4%
Barclays Capital Inter Gov't/Credit Bond Index	0.4%	6.8%
	12/31/19	12/31/18
10-Year U.S. Treasury Bond Yield	1.92%	2.69%
Three-month U.S. Treasury Bill Yield	1.55%	2.37%

Fed policy and trade concerns appear to be bedded down for the time being. Now, investors can turn their attention to other worries. Stock valuations and the notion that the market is too high after a big run up are likely targets. Most stocks are more richly valued on a P/E basis than a year ago but nowhere near extremes. Valuation does matter in the longer run, but it is usually not what drives rallies and corrections. Historical data show that stocks can remain overvalued, or undervalued, for very long periods of time. As for the run up, the eye-popping 2019 returns were from a near-bear market low. Measuring from the prior stock market highs of September 2018, returns were on the order of 10% through 2019 yearend, good but hardly evidence of irrational exuberance. It is worth noting that the stellar year stocks just had was in spite of investors moving tremendous amounts of money into bond mutual funds and ETFs at the expense of equity funds. If anything, stocks are attractively valued relative to bonds.

The U.S. Presidential election is sure to capture investors' attention in 2020. Typical presidential election year action can be choppy, at least through the first half. A rally usually ensues sometime in the second half whenever the market is able to settle on the likely outcome. This year's election is anything but a forgone conclusion with the Democratic presidential nominee far from settled and control of the Senate possibly in play. We may know more next quarter after the major primaries.

There are any number of other issues that could roil markets in the short term including how Iran and the U.S. choose to handle the recent escalation of hostilities and any consequent impact on oil prices, setbacks in the U.S.-China trade understanding, greater than expected slowing of U.S. GDP growth, and an unexpected pickup in inflation. Despite these potential pitfalls we expect conditions will remain favorable for quality growth stocks to do well this year, namely moderate GDP growth and inflation, fairly stable bond yields, ample global liquidity, and decent corporate earnings.

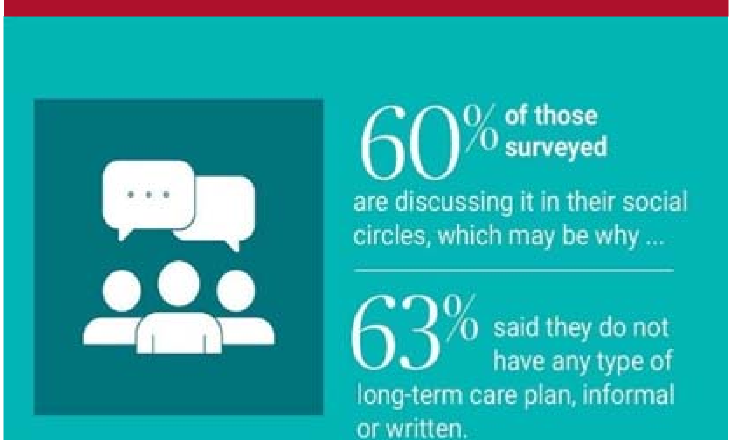
Longevity Risk and Long-term Care Planning by Bob Martin

Long-term Care Planning is likely the most under-addressed financial planning consideration today.

No one wants to outlive their assets and become a burden to family members. And that is precisely what most people worry about as they approach or are in retirement according to retirement surveys. What is likely exacerbating much of this anxiety is that two-thirds of retirees do not have any type of longevity plan--informal or written. Yet, according to the American Society on Aging, 70% of Americans sixty-five or older will need some form of long-term care. We wanted to write about this planning gap and share some high level concepts and planning strategies.

Today's baby boomers and their parents are living longer, and longer life expectancies are often accompanied with the need for extended custodial care and, in some cases, skilled care. Costs range widely from independent to skilled care; $50,000 to $150,000 a year is a reasonable cost range to consider. And there are very limited public funding sources to address these expenses; Medicare and Veterans Administration Health Care, for instance, are designed for health coverage—not long-term care (LTC) for custodial or assisted living services.

Credit: Vesta Research, "2017 LTC Marketing and Thought Leadership



Credit: Lincoln Financial, "Planning for Long Term Care, 2019."

Given the high probability of one's need for long-term care, planning for the expense and impact during one's lifetime is appropriate. We see this as a two-part process. Part one entails addressing how you would like to see care provided. What is your vision for you / spouse / family? Where do you expect to live? Who will provide the care? What kind of care will you need? What can you afford? Do you have medical directives and power of attorney for health care in place? Once you have created your vision, it is critically important to share with family members.

Part two involves putting a financial plan in place to achieve your long-term care objectives. To do that, you will need to estimate potential costs. Questions around family medical history, likelihood of chronic health issues, and life expectancy will affect costs. Also, do you expect private, in-home care? Besides having in-home health care services, considerations for home modification for aging in place should be considered. If you would prefer to live in a retirement community that offers continuum of care, upfront buy-in costs (which are considerable!) along with monthly fees will need to be part of the plan.

After considering the costs, you will need to determine how to fund the care. Generally, clients tend to take one of three approaches:

Self-Fund—Do you have enough to self-fund LTC costs? Even if you have enough, seeing those assets deplete what is available to one's heirs may not be acceptable. You may also want to earmark LTC funds and have them invested over a different time line and risk tolerance.

Insure—traditional Long Term Care Insurance (LTCi) or newer hybrid policies that combine LTC "riders" with life insurance or an annuity are available. LTCi has evolved dramatically. Insurance companies today offer a wide array of coverages and products. Policies can offer facility care, home care, or comprehensive care that covers both. Policies typically have benefit amounts, elimination periods, maximum benefit periods, could offer inflation protection, and could offer shared coverage for couples. Some individual and group policies are like basic term life insurance in that you pay premiums and coverage is offered for a certain period. Other insurance products are hybrid policies which are asset-based. It is also good to know, in a relatively recent development, that Health Savings Accounts (HSAs) can be used to pay the premiums on certain traditional LTC policies.

Combination—many choose a combination of self-funding with insurance to cover LTC. This approach can be attractive to those who want to preserve assets to pass on to their heirs.

A final word: 40% of people needing long-term care are working age adults between the age of 18 and 64. It is critically important to work with an advisor familiar with long-term care planning to ensure that you have adequately assessed longevity risks for you and your family. If you have further questions or would like to discuss, please let us know.

The Trouble with Stock Certificates by Jim Hall

Prior to 1975, owning stock in a company required shares of stock to be issued on a special piece of legal paper. Those shares were often delivered to the owner with the cautionary note that they were valuable and should be kept in a "secure" place. Mostly that secure place was in a bank safe deposit box; however, sometimes it might have been at the bottom of a desk or dresser drawer.

When the shares were sold or retitled, it was necessary to surrender the physical certificate, sign a "stock power" form allowing the certificate to be conveyed, and have the signature "guaranteed." The process would take a few days and would be a bit labor-intensive.

In 1975, as soon as the SEC recommended the brokerage industry be deregulated, discount brokerage firms were formed and allowed shares of stock to be held in "street name" at the firm. Buying and selling shares of stock became an easy process because there was no need to handle the paper certificates. In fact, the process has now become so streamlined; many companies no longer issue paper shares at all.

A few times a year we will encounter someone still holding stock certificates or Dividend Reinvestment Plans (DRIPs) from years ago. In some cases, the owner had forgotten about their positions but had found an old certificate or statement when they were cleaning up an office or visiting their safe deposit box. Transferring these certificates or DRIPs into investment accounts is wise as it helps to keep track of everything in one place.

When the original owner is deceased, the process can be much more involved. We've seen instances where stock certificates or DRIPs were forgotten and omitted by the Executor as the estate was being settled. They may have even shown up years later as someone cleaned out a home after the original owner passed away. In those cases, transfer can become a much more involved process as the original Executor of the estate may need to requalify, reopen the estate and an estate account, and submit the paper certificates or DRIPs along with their qualification papers and guaranteed signature. Depending on the value and how long it had been, an amended estate tax return may also need to be filed.

If you still have paper stock certificates or DRIPs, we would be happy to help you consolidate your investments into a single account by conveying those into an investment account. While doing that, you may also want to revisit the ownership structure to align with your estate plans.

The SECURE Act by Ted Feinour & Jim Hall

With all of the partisan bickering in Congress during 2019 it was very easy to miss the fact that a new appropriations bill was passed just prior to Christmas. Within that appropriations bill were several "enhancements" to our retirement account rules. Although most of the changes appear to be aimed at trying to allow retirement accounts to enjoy more growth and greater flexibility, there was a distinct change on beneficiary distributions that may negatively affect the intentions of some estate plans.

The "SECURE" Act (Setting Every Community Up for Retirement Enhancement) did have several positive attributes. A few of the most notable are:

1. Individuals may delay initiating their Required Minimum Distributions (RMDs) until age 72 as long as they have not already started drawing them.
2. Anyone working past age 70.5 may continue contributing to an IRA.
3. Part-time workers may participate in their company's 401k as long as they work at least 500hrs/year. The previous rule required 1000hrs/year.
4. Certain rules were loosened allowing small employers to set up 401k plans more easily and cheaply including forming multiple employer plans.
5. Penalty-free withdrawals may be taken for expenses related to the birth or adoption of a child.

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The SECURE Act (continued)

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One potentially negative issue is a requirement that all 401k plans must offer an annuity option. That may be a bit dangerous as an uninformed participant may focus only on the monthly distribution without realizing they may be sacrificing years of true market returns in exchange for the "safety" of a fixed monthly stipend.

The main drawback to the Act's new rules involves the utilization of a "Stretch IRA." Prior to this recent passage, IRA owners were able to name children or even grandchildren as beneficiaries with the idea their younger age would allow them to stretch the inherited funds over many years of growth. Some owners even converted IRAs to Roth IRAs in an effort to avoid the whole RMD issue entirely. Those strategies have now been eliminated as any non-spouse beneficiary will need to deplete the inherited IRA within 10 years. There are a few temporary exclusions:

1. Anyone who is already an owner as a result of inheriting an IRA may continue their existing withdrawal strategy.
2. Beneficiaries must be 18 before their 10-year distribution clock begins.
3. Disabled or chronically ill beneficiaries are exempt from the 10-year distribution rule.

As with every law passed, there are many finer points and nuances that should be considered. Please feel free to contact any of us if you have any questions.