

AUGUST 2019 | THIRD QUARTER

ANSON'S MONTHLY PLANNER

Monthly collection of relevant articles from Anson Analytics



MUST-READS OF THE MONTH:

Economic Recap: July 2019

The Good, the Bad, and the Ugly of the SECURE Act

A Genetic Test to Spot the Risks

THE MONTH IN BRIEF

In this July recap:

July was a positive month for stocks and a notable month for news impacting the financial markets.

The S&P 500 topped the 3,000 level for the first time. The Federal Reserve cut the country's benchmark interest rate. Consumer confidence remained strong. Trade representatives from China and the U.S. once again sat down at the negotiating table, as new data showed China's economy lagging.

In Europe, Brexit advocate Boris Johnson was elected as the new Prime Minister of the United Kingdom, and the European Central Bank indicated that it was open to using various options to stimulate economic activity.



ECONOMIC UPDATE

JULY RECAP

ECONOMIC UPDATE (DOMESTIC)

On July 31, the Federal Reserve cut interest rates for the first time in more than a decade. The Federal Open Market Committee approved a quarter-point reduction to the federal funds rate by a vote of 8-2.

Typically, the central bank eases borrowing costs when it senses the business cycle is slowing. As the country has gone ten years without a recession, some analysts viewed this rate cut as a preventative measure. Speaking to the media, Fed Chairman Jerome Powell characterized the cut as a “mid-cycle adjustment.”

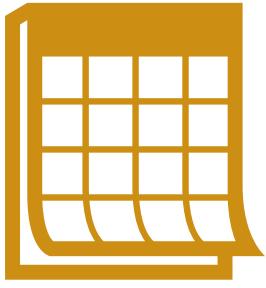
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In late July, the Bureau of Economic Analysis announced that the economy grew at a 2.1% rate in the second quarter. This was the lowest gross domestic product (GDP) number seen since Q1 2017; it was also 1.0% lower than the previous quarter. The drop was primarily attributable to reduced business spending. Consumer spending increased at a 4.3% pace in Q2.

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ECONOMIC UPDATE

JULY RECAP

ECONOMIC UPDATE (INTERNATIONAL)

On July 25, the European Central Bank stated its expectation that borrowing costs would likely remain at current levels or “lower” through the second quarter of 2020.

The ECB also stated that it would examine its “options for the size and composition of potential new net asset purchases” – in other words, it was leaving the door open to possibly restarting the monetary stimulus campaign it had ended only months before. Economists polled by Bloomberg see the ECB making a minor rate cut in September and resuming its bond-buying program in January.

One day earlier and just 99 days prior to the European Union’s Brexit deadline, Boris Johnson assumed the office of Prime Minister of the United Kingdom. When Parliament returns from its summer break in September, Johnson will be tasked with motivating lawmakers to approve a Brexit deal – which, in his words, will be “a new deal, a better deal” than those proposed by his predecessor, Teresa May.

That said, he also told the media that a no-deal Brexit could occur if the E.U. leadership “refuses any further to negotiate.”

China’s gross domestic product declined to 6.2% in the second quarter. That was a 27-year low. This implies some present and near-term difficulties for other Asia-Pacific economies, as China imports large quantities of electronics, palm oil, iron, copper, and petroleum products from nations within the region, and less economic activity means less demand

REAL ESTATE

Both new and existing home sales reversed direction in June. The National Association of Realtors announced a 1.7% retreat in residential resales, following a 2.9% May advance; the median sales price was \$285,700.

The Census Bureau said that new home sales rose 7.0% in the sixth month of 2019, after an 8.2% setback in May.^{3,15} By late July, interest rates on home loans had crept up just a bit from late June.



THE GOOD, THE BAD, AND THE UGLY THE SECURE ACT

If you plan to leave your legacy in an IRA, you need to think twice if the SECURE Act is passed. Congress is reevaluating the modern retirement landscape.

In May, the House of Representatives passed the "Setting Every Community Up for Retirement" Act, known as the "SECURE" Act. The vote was 413-3 and received bipartisan support.

This bill addresses some challenges of the American retirement crisis. However, the House overlooks notable concerns. Let's break down the good, the bad, and the ugly of the SECURE Act.

The Good: Your 401(k) statement will now contain an income distribution report. It will show exactly how much money can be withdrawn each year.

This will help assuage the running-out-of-money fears with which many retirees struggle. The SECURE Act will bump up the required minimum distribution (RMD) age from 70 1/2 to 72.

It will also allow investors to contribute to their IRA accounts until age 72.

This bill will help students and new parents. Students can withdraw up to \$10,000 from a 529 education savings account to repay student loans. New parents can take out up to \$5,000 from their IRAs to cover birth or adoption expenses without penalty.

The Bad: To pay for these benefits, Congress is killing the tax deferral perks of inherited IRAs (referred to as 'stretch IRAs').

This cut will generate an additional \$16 billion in revenue for the government over the next decade.

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Under the SECURE Act, funds must be withdrawn within 10 years of the death of the original IRA owner. This will increase the tax burden significantly, often during the beneficiaries' highest earning years.

For example, if a \$1 million IRA is passed to your high-earning 45-year-old son, this adds \$100,000 of taxable income on top of his yearly salary. If your son lives in a high-tax state like California, he may lose half of the annual payout to taxes.

The Ugly: The SECURE Act encourages annuities within IRAs. The complicated terms of annuities can overwhelm retirees. In 2018, insurance companies sold more than \$230 billion worth of annuities.

Annuities have earned a notorious reputation for exorbitant (often hidden) fees and complex payout formulas. Most annuities return no principal to the estate upon the beneficiary's death.

The promise of lifetime income is alluring, but the costs often turn annuities into a Faustian bargain.

What to do if the SECURE Act passes through the Senate: As a starting point, IRA owners should review their beneficiary designations to see which would be affected by the SECURE Act.

Surviving spouses, disabled persons, chronically ill persons, and beneficiaries less than 10 years younger than the decedent will generally remain unaffected. All other beneficiaries will most likely be significantly impacted.

A second step should be to consider a partial or complete conversion of one's traditional IRA into a Roth IRA. Keep in mind specific variables like current tax bracket and the beneficiary's projected tax bracket. Astute estate planning could result in significant tax savings.

The SECURE Act does indeed provide a few improvements for savers. Frustratingly, the Act takes sensible planning and saving done up until now and stands it on its head.

As a result, middle class savers will endure higher taxes.





A GENETIC TEST TO SPOT HEALTH RISKS

Scientists first mapped the human genome 14 years ago. Since then, they have learned a lot about genetics, and someday that wisdom may lead to a cure for many diseases. But we're not there yet.

There's "a ton we don't understand," says Lawrence Brody, director of the genomics and society division at the National Human Genome Research Institute.

Keep that in mind if you take advantage of the first "direct to consumer" genetic test for health risks.

That test became available in the spring, when 23andMe, a DNA testing firm, was the first company to win approval from the Food and Drug Administration to sell directly to consumers--without a prescription--a genetic test that screens for certain health risks.

Here's how it works: You pay \$199 to order a Health and Ancestry kit online from 23andMe.com. When it arrives, you spit into a tube and mail it back. Two months later, you can view your results in your online account.

The 23andMe test currently provides results for five diseases, including late-onset Alzheimer's and Parkinson's. Genetic results for more health conditions will come later, says a 23andMe spokesperson.

Tests like this aren't new; in the past, you could typically get one only if your doctor ordered it.

And often it was to screen you for a specific condition, such as the BRCA genes, which put you at higher risk for breast and ovarian cancer.

The results were then shared with a doctor, who interpreted them for you. By contrast, the 23andMe test puts the results in the hands of the consumer, much like a home pregnancy, cholesterol or HIV test.

When it arrives, you spit into a tube and mail it back. Two months later, you can view your results in your online account. After all, some of the diseases for which 23andMe has been authorized to provide genetic reports--Alzheimer's, for instance--have no cure.

There are exceptions, of course. If you have the gene for Huntington's disease (which is not part of the 23andMe test), "you almost certainly will get it," says genetic counselor Susan Hahn.

But that's not the case with Parkinson's. "Direct-to-consumer genetic testing can help to identify who is at risk for developing Parkinson's but cannot predict who will be diagnosed," says John Lehr, CEO of the Parkinson's Foundation.

The same is true of Alzheimer's. That's one reason the Alzheimer's Association discourages genetic testing, says Keith Fargo, director of scientific programs and outreach. "It's not going to answer the question most people have: Will I get Alzheimer's or not?"

Nevertheless, some people are "information seekers," says Hahn. And information can be powerful. It could push some people to adopt healthier habits, a major factor in staying well.

If you choose to get a genetic test for health risks, seek counseling from a genetic specialist or a doctor, who can help you understand your test results.

Genetic counseling is not included in 23andMe's Health and Ancestry kit. But the firm's website provides resources that help connect customers with counselors. Without that filter, you might misinterpret the results. Just ask Jamie Tyrone.

Tyrone, now 56, became depressed and was diagnosed with post-traumatic stress disorder. "I went into a deep, dark hole," she says.

Had she gotten genetic counseling, she would have learned that she might not develop Alzheimer's at all.

"The APOE gene is not sufficient nor is it necessary to cause the disease," says Hahn. Tyrone is now an advocate for genetic counseling.

"Get counseling ahead of time, get prepared, and get as much information as you can," she says.





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