DECEMBER 2019 | FOURTH QUARTER

ANSON'S MONTHLY PLANNER

Monthly collection of relevant articles from Anson Analytics

MUST-READS OF THE MONTH:

Economic Recap: Dec. 2019

New IRS Contribution Limits

How to Pick the 'Right' Amount to Spend on Holiday Gifts

THE MONTH IN BRIEF

In this Month's recap:
Stocks stay in rally mode, helped by hints that the U.S. and China may be closing in on a phase-one trade deal; hiring bounces back; key real estate indicators look stronger

The S&P 500 rose 3.4% in November and attained a series of record closes in the process. Earnings results helped stocks, as did intermittent signals that the first stage of a U.S.-China trade agreement might be near at hand.

Job creation improved, and consumer spending lived up to market expectations; consumer confidence and business activity, not so much. Housing indicators communicated good news, and the rally in stocks made the commodity sector look less attractive.

ECONOMIC UPDATE

DECEMBER RECAP

DOMESTIC ECONOMIC HEALTH

Were the U.S. and China close to signing off on the first phase of a new trade deal? According to officials from both countries, the answer was yes. When would this phase-one deal be finalized? No definite answer emerged. On November 8, President Donald Trump said that such an agreement was near, and six days later, White House economic advisor Larry Kudlow said that negotiators were “getting close” to an accord. On November 26, China’s commerce ministry announced that trade representatives had “reached a consensus” on remaining issues, and President Trump said that negotiators were in the “final throes of a very important deal.” Still, November ended without any announcement that a phase-one pact had been reached.

The Department of Labor’s latest employment report found that the economy generated 128,000 net new jobs in October. This was a surprise to the upside. Analysts surveyed by Bloomberg expected 85,000 new hires. Since more people looked for work in October than in September, the headline unemployment rate ticked up 0.1% to 3.6%. The U-6 rate, which encompasses both the unemployed and underemployed, also rose 0.1% to 7.0%.

Consumer spending rose 0.3% in October, representing the largest monthly gain since July. This happened even without a gain in consumer income. One prominent index of consumer confidence declined in November: the Conference Board’s consumer confidence gauge fell 0.6 points to 125.5. The University of Michigan’s Consumer Sentiment Index, however, rose to a final November mark of 96.8 from a 95.5 preliminary reading.

In the business sector, the Institute for Supply Management’s purchasing manager indices of manufacturing and non-manufacturing activity both rose. The ISM Manufacturing PMI came in half a point higher for October at 48.3; the Non-Manufacturing PMI was at 54.7, nearly two points higher. For economists worried about

ECONOMIC UPDATE

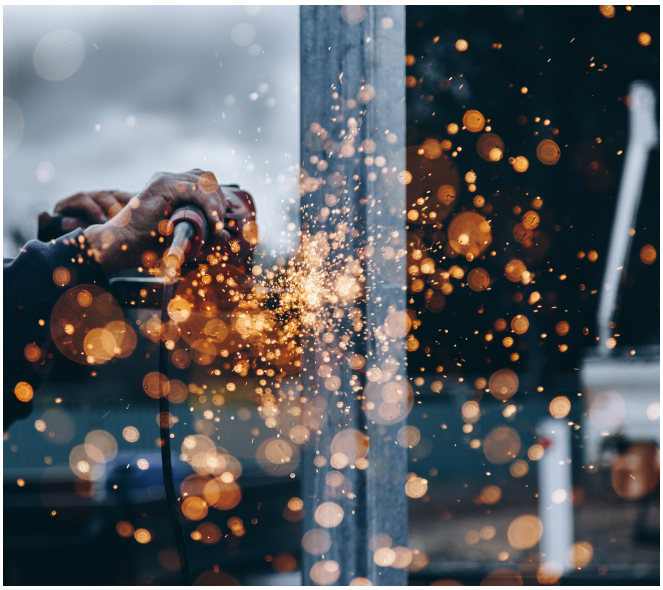
DECEMBER RECAP

DOMESTIC ECONOMIC HEALTH (CONT.)

Aa downturn in the business cycle, these numbers were encouraging.

Retail sales were up 0.3% in October, and looking ahead, the National Retail Federation is forecasting a year-over-year gain of between 3.8% and 4.2% for holiday-season retail purchases. If its prediction comes true, the 2019 holiday shopping season could rank as one of the better ones seen this decade.

An October jump of 0.4% for the Consumer Price Index was noticed by economists, but it still left annualized inflation at a manageable 1.8%. The core CPI, which strips out volatile food and energy costs, was rising 2.3% year-over-year through October.



Minutes from the Federal Reserve's October policy meeting were released on November 20, and they indicated that central bank officials were prepared to… stand pat, at least for a while. In October, most Fed officials believed the current monetary policy approach would prove adequate to guide the economy in the near term. If some event or trend prompted a "material reassessment" of the Fed's economic outlook, then policy might shift.7

GLOBAL ECONOMIC HEALTH

The European Union scaled back its annual growth projections for 2020-21. Its latest economic forecast projects a 1.2% increase in gross domestic product for both years. This is about half the current pace of economic expansion in the United States. Inflation is projected to vary from 1.2% to 1.3%. E.U. economists believe the euro area will have a GDP of 1.1% for 2019

ECONOMIC UPDATE

DECEMBER RECAP

GLOBAL ECONOMIC HEALTH (CONT.)

With a general election coming up in the United Kingdom, Prime Minister Boris Johnson, a Tory, and his chief challenger, Jeremy Corbyn of the Labor Party, took different views of the Brexit. In November, Johnson vowed to meet the rescheduled January 31 Brexit deadline and arrange a new trade pact with the E.U. by December of next year. Corbyn claimed his party could negotiate a new Brexit deal with the E.U. before March, a deal that would be put before the electorate; voters could either approve or reject the terms of the deal and even the Brexit, itself.

In late November, key indicators suggested that China's economy had slowed for a seventh consecutive month. (China's third-quarter GDP reading was its poorest in nearly 30 years.) Through October, profits at Chinese industrial companies were down 9.9% year-over-year, a record annualized dip. An index of business confidence hit a 14-month low in October.

WORLD MARKETS

Outside America, October index performance was mixed. Several key benchmarks advanced. France's CAC 40 and Germany's DAX respectively rose 3.18% and 2.35%. Russia's RTS index gained 1.01%. Australia's All Ordinaries added 1.45%. Japan's Nikkei 225 was up 1.39% for the month. Eyeing a macro view of global equities, the MSCI EAFE index (which measures performance across developed stock markets outside North America) improved 1.37%.

October descents to note: Indonesia's Jakarta Composite pulled back 4.29%, Malaysia's KLCI lost 1.02%, China's Shanghai Composite slipped 2.78%, Hong Kong's Hang Seng lost 1.64%, and Mexico's Bolsa fell 1.52%.

ECONOMIC UPDATE

DECEMBER RECAP

COMMODITIES MARKETS

Coffee was hot in November, rising 14.77%. Two other crops also realized big gains: cocoa was up 9.31%; wheat, 7.57%. WTI crude oil added 2.36% across November; at the November 29 close on the New York Mercantile Exchange (NYMEX), a barrel was worth $58.

Oil was the only key energy commodity to advance in October. Natural gas slipped 12.32%. Smaller losses came for unleaded gasoline (1.48%) and heating oil (0.12%). While copper eked out a monthly gain of 0.09%, gold lost 3.25%; silver, 5.80%; platinum, 3.46%. Gold finished November at a NYMEX price of $1,470.10 an ounce; silver, at $17.10 an ounce. Corn fell 4.94%; soybeans, 4.36%. Cotton gained 2.13%; sugar, 2.48%. The U.S. Dollar Index improved 0.94% to 98.27.

REAL ESTATE

The pace of home buying accelerated during October. According to the National Association of Realtors, existing home sales advanced 1.9% in October, partly reversing a 2.5% September setback. New home sales, however, retreated 0.7% for October by Census Bureau calculations; they were up 4.5% in September.

TIP OF THE MONTH

*As individuals accumulate assets, some realize that the **liability coverage limit** on their homeowner policy may be too low. Some opt to carry a **personal umbrella liability (PUL) policy** as a complement.*

ECONOMIC UPDATE

DECEMBER RECAP

REAL ESTATE (CONT.)

Building permits were up 5.0% in the tenth month of 2019, housing starts 3.8%. The Census Bureau noted that single-family starts were up 3.2% across the 12 months ending in October, reaching a level unseen in 12 years.

Freddie Mac said that the average interest rate for a 30-year, fixed-rate home loan was 3.68% on November 27. That compares to 3.78% on Halloween and nearly 5% a year earlier. In Freddie's November 27 Primary Mortgage Market Survey, the mean rate on a 15-year, fixed-rate home loan was 3.15%. Incidentally, home loan processing firm Ellie Mae said refinances accounted for 51% of U.S. mortgage activity in October. The last month that saw so many refis: March 2015

LOOKING BACK, LOOKING FORWARD

The Dow Jones Industrial Average reached another milestone in November, topping 28,000. It settled at 28,051.41 on November 29; on the same day, the Nasdaq Composite closed at 8,665.47, and the S&P 500, at 3,140.98. All in all, November was the best month for U.S. stocks since June, with indices shattering historical highs

The short-term economic outlook has shifted to some degree; anxieties about a recession arriving in 2020 have lessened. There is still optimism that the U.S. and China may reach a phase-one trade agreement, and the Federal Reserve appears comfortable with its current monetary policy stance and seems to be watching the business cycle closely,

MARKET INDEX	Y-T-D CHANGE	1-MO CHANGE	2018
DJIA	+20.25	+3.72	-5.63
NASDAQ	+30.60	+4.50	-3.88
S&P 500	+25.30	+3.40	-6.24

BOND YIELD	11/29 RATE	1 MO AGO	1 YR AGO
10 YR TREASURY	1.78	1.84	3.03

Sources: wsj.com, treasury.gov – 11/29/19[18,19,20]

ECONOMIC UPDATE

DECEMBER RECAP

QUOTE OF THE MONTH

*"The art of **living easily** as to money is to pitch your scale of living one degree below your means."*

UPCOMING RELEASES

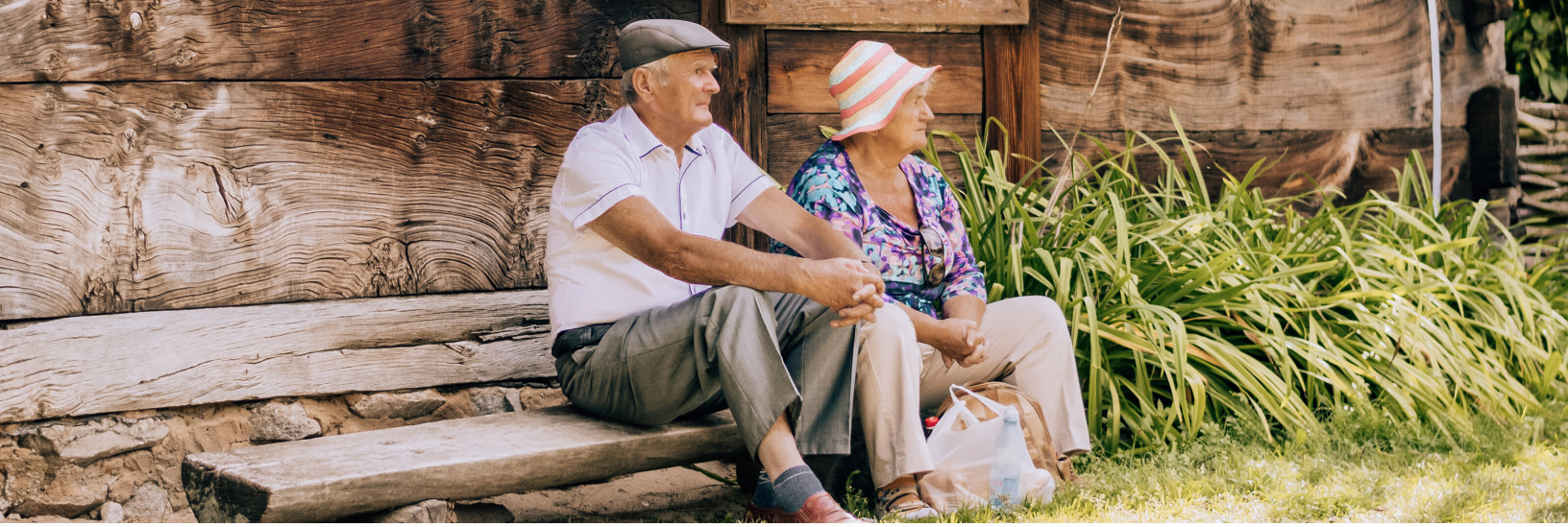
With 2019 winding up, here are the year's final scheduled key economic releases and events: the November non-manufacturing index from the Institute for Supply Management (12/4), the November jobs report from the Department of Labor and an early initial December Consumer Sentiment Index from the University of Michigan (12/6), a Federal Reserve policy announcement and the latest Consumer Price Index (12/11), November retail sales (12/13), November residential construction activity and industrial output (12/17), November existing home sales (12/19), November consumer spending, the final University of Michigan December Consumer Sentiment Index, and the federal government's last estimate of Q3 gross domestic product (12/20), November new home sales (12/23), November durable goods orders (12/24), November pending home sales (12/30), and the year's last Conference Board Consumer Confidence Index (12/31).

THE MONTHLY RIDDLE

*A **trail**, a **union**, together tied. Come across me and you will find, you cannot **change the course** I'm on, without me you cannot **travel on**. What am I?*

LAST MONTH'S RIDDLE: I have numbers on my face, but cannot find 13 in any place. What am I?

ANSWER: A clock.



NEW I.R.S. CONTRIBUTION LIMITS

Changes for 2020.

The I.R.S. just increased the annual contribution limits on IRAs, 401(k)s, and other widely used retirement plan accounts for 2020. Here's a quick look at the changes.

*Next year, you can put up to $6,000 in any type of IRA. The limit is $7,000 if you will be 50 or older at any time in 2020.1

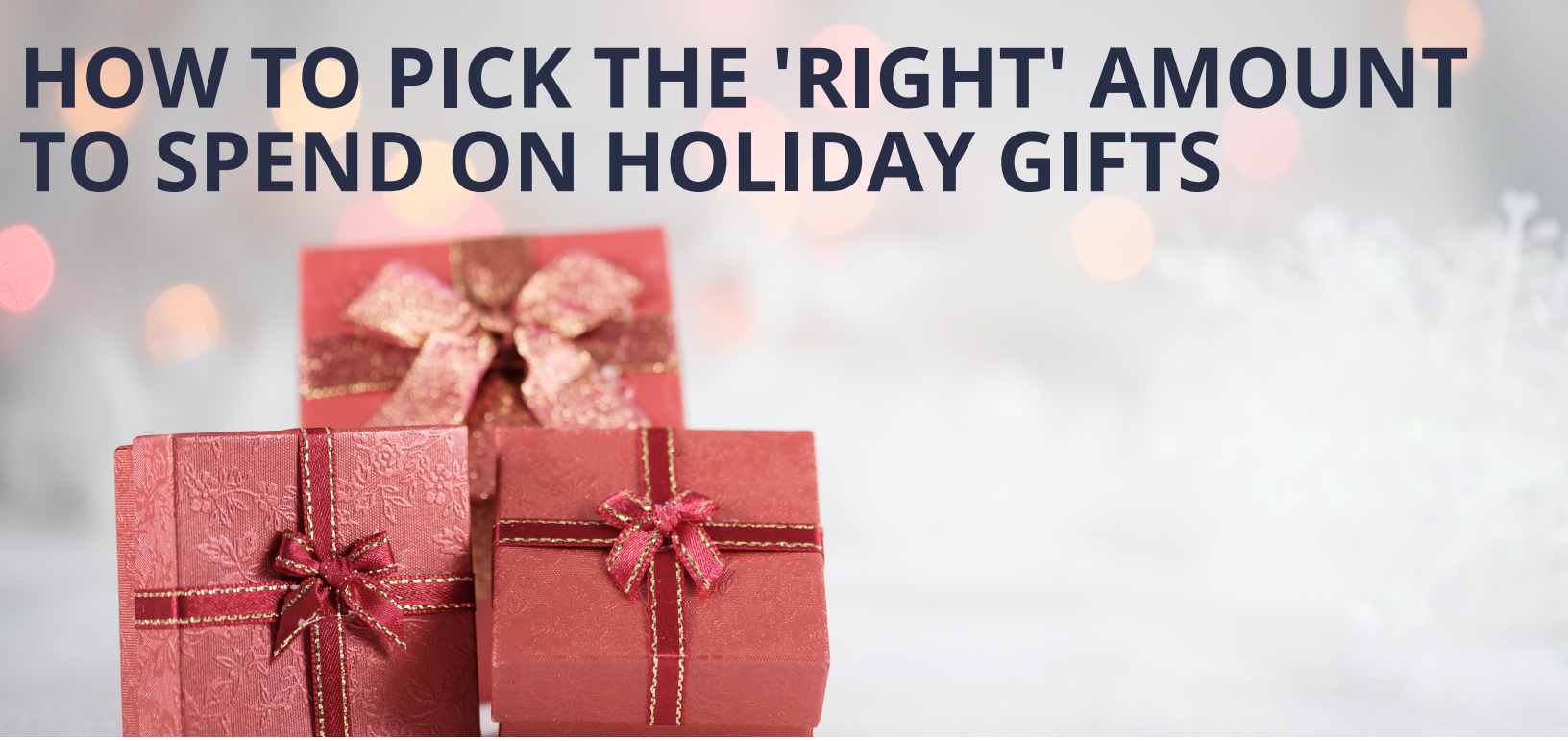
*Annual contribution limits for 401(k)s, 403(b)s, the federal Thrift Savings Plan, and most 457 plans also get a $500 boost for 2020. The new annual limit on contributions is $19,500. If you are 50 or older at any time in 2020, your yearly contribution limit for one of these accounts is $26,000.

*Are you self-employed, or do you own a small business? You may have a solo 401(k) or a SEP IRA, which allows you to make both an employer and employee contribution. The ceiling on total solo 401(k) and SEP IRA contributions rises $1,000 in 2020, reaching $57,000.

*If you have a SIMPLE retirement account, next year's contribution limit is $13,500, up $500 from the 2019 level. If you are 50 or older in 2020, your annual SIMPLE plan contribution cap is $16,500

*Yearly contribution limits have also been set a bit higher for Health Savings Accounts (which may be used to save for retirement medical expenses). The 2020 limits: $3,550 for individuals with single medical coverage and $7,100 for those covered under qualifying family plans. If you are 55 or older next year, those respective limits are $1,000 higher.4

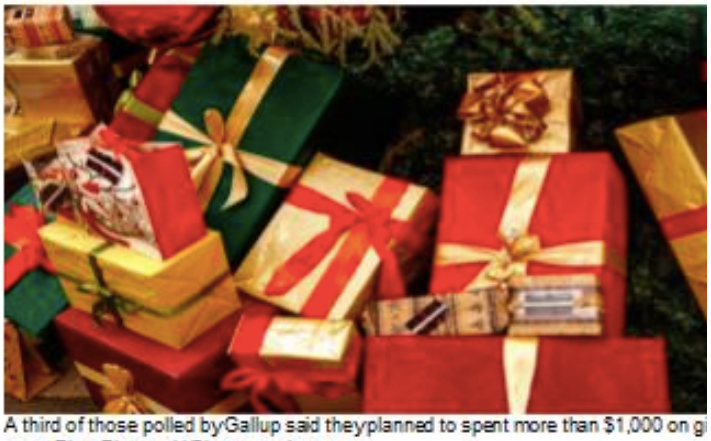
HOW TO PICK THE 'RIGHT' AMOUNT TO SPEND ON HOLIDAY GIFTS



GIFT GIVING IS A BIG DEAL THIS TIME OF YEAR

To find the “perfect” gift, Americans will spend about 15 hours shopping. Women will do about twice as much as men. And they’ll shell out about US$1 trillion on gifts.

While retailers relish the holiday shopping season as a time when consumers open their purses or wallets, for many consumers – especially those who do not like shopping – these days are filled with dread. They mark moments when shoppers clog malls, websites become overloaded and delivery trucks block streets. The entire process generates untold amounts of stress and anxiety.



A third of those polled byGallup said theyplanned to spent more than $1,000 on gi
year. Piotr Piatrouski/Shutterstock.com

One source of stress is just how much to spend on gifts. Spending too much can put you in financial distress. Spending too little may make you look cheap.

How do you decide what’s the “right” amount to spend on gifts? As an economist, I study holidays and gift giving because a large fraction of retail shopping is driven by seasonal events like Black Friday, Cyber Monday and Super Saturday – also and more appropriately known as Panic Saturday – which is the last Saturday before Christmas.

’DEAD WEIGHT LOSS’

Gift giving is stressful because nobody wants to buy what they think is a perfect gift only to discover it is a dud.

The long lines of people returning items after the holidays seem evidence enough for that.

This has led some economists to argue there’s a “dead weight loss” to Christmas presents that “destroys” as much as a third of their actual value. A 2018 study estimated Americans spend $13 billion a year on unwanted gifts.

Other economists, however, have resisted this Scrooge-like view of gift giving and point to evidence that a present can actually have more value to the recipient than the price the giver paid. In other words, a gift, even when technically unwanted, could have more value simply because someone else bought it for you.

SETTING A BUDGET

So if you're dead set on buying some gifts, how much should you budget for it?

Since gifting is a social act, it makes sense to consider how much other people typically spend.

There are a number of surveys run each year that ask people during the fall to estimate what they plan on spending for holiday gifts. The National Retail Federation's annual survey of holiday spending estimates the typical American will spend $659 on gifts for family, friends and co-workers in 2019. On the high end, Gallup puts the average at $942, with more than a third of respondents expecting to spend over $1,000 on gifts.

But these figures aren't that helpful for an individual since $659 means something different to someone making $40,000 a year versus $200,000.

That's where the Consumer Expenditure Survey comes in. It's a large survey run by the Bureau of Labor Statistics that tracks the spending habits of 12,000 to 15,000 families each year. The government uses the survey to determine the cost of living and inflation rates for the typical family.

The survey follows gift giving very precisely. It has categories for common holiday presents like electronics, books and clothes, as well as gifts that typically aren't associated with the season such as housing and transportation.

After removing these non-holiday gifts, the typical U.S. family spends about 1% of its annual take-home pay on gifts. So whatever you earn, you could multiply it by 1% to get a figure that is in the ballpark of what the average American spends – but won't break the bank.

MAKING THE HOLIDAYS MEMORABLE

While calculating a gift budget is one way to take the stress out of how much to spend on gifts, my family has another: Only give gifts to children.

Adults get wrapped boxes filled with paper. After the real gifts are opened and the young children are safely moved out of the way, we crumple up the paper and throw it at each other in our annual paper fight.

That keeps the cost down while making the kids feel special. It also ensures the kids don't feel left out when their friends talk about the gifts they received. Other families follow their own methods for controlling expenses, such as secret Santa gifts or by focusing attention more on togetherness than on the stuff received.

Whether you have a paper fight or follow another family tradition, my main message is that it doesn't take very much money to make the winter holidays memorable.

THE VIOLENCE IN HONG KONG AND INVESTMENT RISK

INSTITUTIONS ARE TAKING A RISK-OFF APPROACH - BUT HOW DO YOU LOOK AT RISK?

After months of protests, Hong Kong's rule of law has been pushed to the "brink of total collapse," according to the Hong Kong police.

Fierce fighting between riot police and Hong Kong protesters continues to rage as anti-government demonstrations take a violent turn. Streets are littered with bricks, street fires are burning, schools are closing, tear gas is being fired, riot police are using rubber bullets and one young man was shot in the chest with a real bullet.

The violence in Hong Kong has clearly affected Asian markets and that has spilled over to markets around the world. Wealthy residents in Hong Kong are beginning to take their money elsewhere, global companies are thinking about their exposure to Hong Kong and investors around the world are taking a risk-off approach

HOW DO YOU THINK ABOUT RISK?

To be a successful investor, you need to evaluate risks. That means figuring out all the ways you are vulnerable – not just whether your portfolio is too heavily weighted in equities – and how you can combat the risks.

In his classic book, Against the Gods: The Remarkable Story of Risk, financial historian Peter Bernstein shows how thinkers through the ages have tried to mitigate their risk exposure, through insurance, mathematical modeling and asset diversification. The key is to define your risks. Once you do, you can address this vulnerability satisfactorily.

You must understand and plan for these three financial risks:

INVESTMENT RISKS

This requires you to choose the right portfolio allocation for your situation with a special emphasis on minimizing one of the great enemies of wealth – volatility.

A portfolio with an erratic return can hurt you. Suppose you want to retire in 10 years, and your holdings jump all over. By the time you leave work, they are badly diminished. Investors with large bond holdings believe they are buffered against the stock market's whims. But if rates rise, bond prices fall.

Think about what other investment risk you might be facing: currency risks, country risk,

political risk, etc. There are a lot of investment risks to think about.

BEHAVIOR RISK

Investors who sell in a market slump, fearing things will get worse, suffer in the inevitable recovery because they are out of the market. The best idea is working with an advisor to help modify your behavior so you don't over-react to events. Emotional reasons earn a big part of the blame for investors underperforming the market.

According to a study by research firm Dalbar, this gap was five to six percentage points below the market's return. It's the cost of letting emotions guide investing.The selling into a bear market and buying into a euphoric market that is all-too-common results is this under-performance.

LONGEVITY RISK

With the continued advancements of the medical profession, Americans continue to live longer and longer lives. In fact, in the U.S. the average life expectancy is about 79 years.

While this achievement brings many benefits, it also requires that you plan for a long retirement and the need to combat the ever-rising cost of living.

Live long, ignore risk, and you may not prosper.

TALK TO YOUR ADVISOR ABOUT RISK

As an investor, you know you should evaluate your risks. And too often investors think of risk only in terms of possibly losing money. However, in the investment world, risk is broadly defined as the probability that the actual return from an investment will be different from its expected return.

Actual returns (making or losing money) are affected by a number of factors, and total risk is a measure of variation in return due to all sources.

Talk to your advisor to make sure your investments are in line with your appetite for risk.

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