JANUARY 2020 | FOURTH QUARTER

ANSON'S MONTHLY PLANNER

Monthly collection of relevant articles from Anson Analytics

MUST-READS OF THE MONTH:

Economic Recap: 4th Quarter

Resolutions, Marshmallows and Warren Buffett

10 Ways the SECURE Act Will Impact Your Retirement Savings

THE QUARTER IN BRIEF

IN THIS Q4 RECAP:

In this Q4 recap: Equities maintain their momentum to close out a strong year on Wall Street, helped by a slight thaw in the U.S.-China trade dispute and some better-than-expected domestic economic data.

Movement in U.S.-China trade negotiations, an accommodative Federal Reserve, evidence of decent economic growth – all this brought some fourth-quarter tailwinds to Wall Street. The S&P 500 advanced 8.53% in the final three months of the year. Foreign stock markets also posted Q4 gains, and some clarity emerged regarding theBrexit. Gold and oil both posted Q4 gains. Home buying tapered off. As the quarter ended, a new federal law was passed, affecting both retirement savers and retirees.

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FOURTH QUARTER RECAP

DOMESTIC ECONOMIC HEALTH

In the fourth quarter, traders reacted to even the tiniest bits of news concerning U.S.-China trade relations. New 15% tariffs were scheduled for select Chinese imports on December 15. Those tariffs were never implemented, for on December 13, Chinese and U.S. officials announced an agreement on a preliminary trade pact. In this “phase-one” deal, to be signed in Washington this month, the U.S. agrees to phase out existing tariffs on Chinese products, and China agrees to buy more U.S. crops. The phase-one deal also made a start in addressing the most pressing issue in Sino-American trade relations: the protection of U.S. intellectual property in China.

The Federal Reserve made its third interest rate cut of the year in October – the third cut in three meetings. Then, it signaled that it may not adjust short-term interest rates for all of 2020. In December, the central bank’s newest dot-plot (a chart used to convey the benchmark interest rate outlook for coming quarters) showed that none of the 17 members of the Federal Open Market Committee expected a rate cut in 2020, and only four anticipated any kind of rate hike. Currently, the target range for the federal funds rate is 1.50-1.75%.

In terms of economic indicators, the fall increase in hiring was surprising news for labor market analysts. The Department of Labor said that employers added 156,000 net new jobs in October; then, 266,000 in November. These numbers hinted at an economy picking up rather than slowing down. Unemployment was at 3.6% in October, declining to 3.5% in November. The broader U-6 unemployment rate (which counts the underemployed as well as the unemployed) was at 7.0% in October and 6.9% a month later.

Consumer spending, according to the Department of Commerce, rose by 0.4% in November, improving on an October increase of 0.3%. Through November, retail sales were up 3.5% year-over-year, with

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respective October and November gains of 0.4% and 0.2%. During Q4, the Bureau of Economic Analysis revised its Q3 gross domestic product estimate up from 2.0% to 2.1%.

Households maintained their optimism; however, in December, the Conference Board's Consumer Confidence Index recorded its fourth decline in five months. With revisions factored in, the index went from 126.1 in October to 126.8 in November to 126.5 in December. The University of Michigan's consumer sentiment gauge, on the other hand, had its best reading since May in December, rising to 99.3. It rose in each month of Q4, ascending to 95.5 in October and 96.8 in November.

Inflation picked up in the fourth quarter; the Consumer Price Index rose 2.1% in the 12 months ending in November, 0.3% higher than the annualized inflation seen a month earlier. The core CPI (which factors out energy and food costs) was up 2.3% year-over-year in November.

Manufacturing seemed to stand out as the U.S. economic weak spot in Q4. The Institute for Supply Management's Factory Purchasing Managers Index was below 50 for the whole quarter (indicating an economic sector that is shrinking). The December reading of 47.2 was the poorest since June 2009. ISM's PMI for the larger service sector of the economy was above 50 in both October and November (54.7, and then 53.9).

The quarter also saw the passage of the Setting Up Every Community for Retirement Enhancement (SECURE) Act, a major piece of legislation impacting traditional retirement accounts. Under the SECURE Act, the age for required minimum distributions (RMDs) from these accounts rises from 70½ to 72. (This change affects only those who turn 70½ in 2020 or later.) The SECURE Act also lets seniors with earned income keep contributing to these accounts after age 70.

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The IHS Markit Purchasing Managers Index (PMIs) for the eurozone factory sector was at 46.3 in December; a number below 50 indicates a sector in which activity is contracting. Seven of eight countries measured by this index saw manufacturing weaken further in December; Germany's factory sector was in the poorest shape by the end of the quarter, according to Markit's data summary. Factory sectors in Italy and the Netherlands showed their most dramatic monthly contraction since 2013 in December.

The Caixin China General Manufacturing PMI for China was at 51.5 by December, down a bit from 51.8 in November. The rate of new Chinese factory orders declined in Q4, but there was a small gain for export orders. China's state factory PMI had a poorer reading of 50.2 in both November and December. As Q4 ended, China's government announced it would reduce cash reserve requirements for the nation's banks, which would effectively pour another 800 billion yuan into China's financial system.

While the quarter opened with much uncertainty about when (and even if) the Brexit would occur, some of this ambiguity was resolved by the end of the year. The Conservative (Tory) Party won a decisive victory in December's United Kingdom general election, and Boris Johnson remained Prime Minister. As a consequence, the Brexit may occur by the extended January 31 deadline set by the European Union, as Johnson and the Conservatives appear to have the votes needed to approve a revised Brexit deal. Their next task: forging a working trade pact with the European Union before 2020 ends.

WORLD MARKETS

Gains far outnumbered losses last quarter. The largest advances were made by emerging-market benchmarks: Argentina's Merval jumped 43.36%, Russia's RTS rose 16.12%, and Brazil's Bovespa climbed 10.41%. In the Asia-Pacific region, there were three improvements worth mentioning: Japan's Nikkei 225 gained 8.74%; China's

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WORLD MARKETS

Shanghai Composite, 4.99%; South Korea's Kospi, 6.53%. France's leading stock index, the CAC 40, gained 5.29%; Germany's benchmark, the DAX, added 6.61%. In the midst of all this, a couple of stock indices failed to advance. Thailand's Set50 index slipped 2.00% in the quarter, and Australia's ASX 200 benchmark went sideways, losing 0.06%. 12

COMMODITIES MARKETS

What were the best-performing commodities of the quarter? Well, there were several gains of 10% or more, and at the top of the list, there is coffee, which rose 23.88% on the Intercontinental Exchange (ICE) in Q4. Soybean oil advanced 17.67%; palladium, 16.56%; WTI crude oil, 14.70%. RBOB gasoline gained 12.23%; wheat, 11.19%. WTI crude ended the quarter trading at $61.18 a barrel. Gold rose 3.41% in Q4, with the price hitting $1,523.10 on the New York Mercantile Exchange (NYMEX) on December 31. Some other futures took Q4 losses. Natural gas fell 15.69% for the quarter, and Q4 brought setbacks of 5.36% for orange juice, 2.94% for corn, and 2.45% for the U.S. Dollar Index, which ended the year at 96.16.

REAL ESTATE

When Freddie Mac conducted its last Primary Mortgage Market Survey of the decade (December 26), it measured the average interest rate on a 30-year conventional mortgage at 3.74%, and the mean interest rate for a 15-year conventional mortgage was at 3.19%. Three months earlier (September 26), the average interest on the 30-year home loan was at 3.64%, while the average interest on the 15-year loan was at 3.16%.

The pace of home buying decelerated during the fall. National Association of Realtors' reports showed residential resales down 1.5% in October and 1.7% in November. Still, sales were up 2.7% year-over-year. By November, the median sale price of an

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REAL ESTATE

existing home was $271,300, a 5.4% increase from November 2018. The NAR said that there was less than four months of existing home inventory in both October and November; it views six months of inventory as a sign of a balanced market.

New home sales, by the estimation of the Census Bureau, fell 2.7% in October, but bounced back with a 1.3% gain a month later. Groundbreaking on new housing developments had definitely picked up from 2018. Federal government data showed housing starts up 13.6% year-over-year in November, with permits for future

*You may not want to abbreviate the year **2020** on financial, insurance, legal, and health care documents you sign or date. If you write **"2/1/20"** and there is enough space left after the "20," an unscrupulous party could add a couple of numerals and change that date to **2/1/2018** or **2/1/2017**, and so on.*

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LOOKING BACK, LOOKING FORWARD

As the chart below reveals, the big Wall Street benchmarks surged in the fourth quarter. Their Q4 gains capped off one of the better years of the decade for domestic stocks. Both the Nasdaq Composite and S&P 500 had their best years since 2013. The quarter-ending settlements: Dow, 28,538.44; S&P, 3,230.78; Nasdaq, 8,972.60.

The opening quarter of 2020 got off to a bullish start, with a 330-point gain (and a new record close) for the Dow Industrials on January 2. With the phase-one U.S.-China trade deal slated to be signed and the economy not giving off distinct signals of slowing, traders entered the new quarter seeing some upside in the market. Questions are on the horizon, though. Can geopolitical tensions in the Middle East be managed? Will the next earnings season meet forecasts? While the market opened 2020 with a rally, there are certainly potential headwinds around.

MARKET INDEX	Y-T-D CHANGE	Q4 CHANGE	Q3 CHANGE
DJIA	+22.34	+6.02	+1.19
NASDAQ	+35.23	+12.17	-0.09
S&P 500	+28.88	+8.53	+1.19

BOND YIELD	12/31 RATE	3 MO AGO	1 YR AGO
10-YR TREASURY	1.92	1.68	2.69

RESOLUTIONS, MARSHMALLOWS AND WARREN BUFFETT

In 2020, investors need to worry of overpaying for growth relative to value

Stock market exuberance tempts impatient investors to do foolish things. Trouble is, too many of us are hard-wired to opt for instant gratification and forsake long-term strategies – as the famous marshmallow experiment shows.

Anyone who attended summer camp as a kid likely equates marshmallows with the fundamental ingredient in making s'mores. When a psychologist hears the word marshmallow, however, the first thought goes beyond a taste treat to the question of delayed gratification – and the difficulty to attaining it.

The Marshmallow Experiment

Stanford researchers first conducted the marshmallow experiment in the late 1960s. Children were offered the choice between 1) an immediate marshmallow or 2) two marshmallows, if they were willing to wait 15 minutes and not eat the original marshmallow sitting in front of them. Most children in the study said they would wait for two marshmallows.

Yet of more than 600 children who participated in the original experiment, roughly two thirds fell victim to temptation. Only a third of the children waited the full 15 minutes and got rewarded with a second marshmallow.

But that is not where the findings of this marshmallow study end. When experimenters went back to review the test subjects nearly 20 years later, they discovered that the children with the discipline and self-control to delay gratification in this simple test were more successful in nearly every measurable facet of their lives.

Controlling for factors like age and sex, the "patient subjects" had higher SAT scores, less likelihood of substance abuse, larger salaries, performed better academically, and were healthier than the subjects who could not wait 15 minutes for the second marshmallow as children. Researchers have performed the test many more times since the original experiment, with the same findings.

A World of Immediate Gratification

Delaying gratification is difficult. Overwhelming evidence demonstrates that humans are not wired to be disciplined, whether it is children with marshmallows, adults firmly sticking to a diet or investors maintaining a long-term strategy. You've heard the statistics before: the majority of Americans make New Year's Resolutions and yet only 8% successfully achieve them.

It is challenging to avoid instant gratification in a world of Amazon Prime same day delivery, Keurig instant-coffee machines, and always-handy, incredibly-connected cell phones. Long gone are the days of brewing a pot of coffee or waiting 30 seconds for dial-up Internet. Corporate executives rarely get the flexibility to ignore quarterly earnings for the benefit of a five-year plan, and coaches tasked to rebuild a sports program typically can't afford two losing seasons before getting fired.

The same need for instant gratification applies in finance. Far more exciting and entertaining than stories of diversification or long-term investing are the explanation of why stocks fell yesterday, how this morning's economic data is going to affect interest rates this quarter and where oil prices are headed over the next year. This captures the media's readers.

The ubiquitous explanations of what happened to stocks yesterday and forecasts for the coming weeks compel activity and complicate the somewhat simple and successful process of long-term investing.

The Evidence of Discipline

Many investors understand the benefits of long-term discipline, but the evidence suggests that few practice it. Consider value investing, the basic concept of favoring cheap investments over expensive ones. Historical evidence demonstrates that value investing often results in higher returns when compared with growth investing – buying the more exciting, faster-growing investments.

The evidence to support the "value premium" is considerable and it exists in nearly all markets and all long-term periods.

Along with the empirical evidence, there are several rational explanations for the outperformance of value stocks. A prominent one: Investors prefer good stories of fast growing investments and overestimate how long that growth will persist. The result is that they overpay for growth relative to value.

Nevertheless, some investors succumb to immediate gratification and give up on value stocks during their inevitable periods of underperformance. Sticking with a proven strategy that disappoints in the short term is difficult.

Take the most extreme period of value stock underperformance and the most well-known (or perhaps most successful) value investor, Warren Buffett. In the late 1990s, the Internet had changed the economic landscape and boring old-school stocks were left for dead. Value investing was allegedly a thing of the past and Buffett's stock, Berkshire Hathaway, lost more than half of its value over a 22-month period until February 2000. During that time, growth stocks – using the tech-heavy Nasdaq Composite as a proxy – more than doubled.

Doubts about Buffett's age and ability to adapt to a new environment and value investing, in general, were rife and investors gave up en masse. Of course, history confirms that this was merely one of the inevitable periods of underperformance that all investments, strategies or asset classes have relative to others. Long-term investors who maintained an evidence-based discipline were handsomely rewarded.

Déjà vu All Over Again?

Remember the comments in 2019 from David Rolfe, a longtime shareholder of Berkshire Hathaway and the chief investment officer at Wedgewood Partners? Mr. Wolfe told his clients that he sold the firm's stake in Berkshire after decades of being a shareholder, because of his frustration with Buffet's huge cash position:

"Warren Buffett's cash hoard of +$125 billion continues to be a considerable impediment of growth, rather than our previous hard expectation of a valuable call option on opportunity in the hands of one of the most elite capital allocators extant."

Consider this: Berkshire's cash went from about $23 billion in 2009 to $128 billion in 2019. In other words, Warren has increased his cash position by 6-times during the longest bull market on record. Do you think Buffett is about to abandon his long-term value discipline? The oft-quotable Buffett said, "The stock market is a highly efficient mechanism for the transfer of wealth from the impatient to the patient."

Save Your Marshmallows

For centuries to come, kids will likely eat marshmallows before 15 minutes elapse, and investors will pay way too much attention to current noise. But just as the children with a strong self- discipline end up more successful over the long run
(not to mention getting two marshmallows), so should the disciplined investor.

10 WAYS THE SECURE ACT WILL IMPACT YOUR RETIREMENT SAVINGS

With the decline of traditional pensions, most of us are now responsible for squirrelling away money for our own retirement. In today's do-it-yourself retirement savings world, we rely largely on 401(k) plans and IRAs. However, there are obviously flaws with the system because about one-fourth of working Americans have no retirement savings at all--including 13% of workers age 60 and older.

But help is on the way. On December 20, 2019, President Trump signed the Setting Every Community Up for Retirement Enhancement (SECURE) Act. This new law does several things that will affect your ability to save money for retirement and influence how you use the funds over time. While some provisions are administrative in nature or intended to raise revenue, most of the changes are taxpayer-friendly measures designed to boost retirement savings. To get you up to speed, we've highlighted 10 of the most notable ways the SECURE Act affects your retirement savings. Learn them quickly, so you can start adjusting your retirement strategy right away. (Unless otherwise noted, all changes apply starting in 2020.)

RMDs Starting at Age 72

Required minimum distributions (RMDs) from 401(k) plans and traditional IRAs are a thorn in the side of many retirees. Every year, my father grumbles about having to take money out of his IRA when he really doesn't want to. Right now, RMDs generally must begin in the year you turn 70½. (If you work past age 70½, RMDs from your current employer's 401(k) aren't required until after you leave your job, unless you own at least 5% of the company.)

The SECURE Act pushes the age that triggers RMDs from 70½ to 72, which means you can let your retirement funds grow an extra 1½ years before tapping into them. That can result in a significant boost to overall retirement savings for many seniors.

No Age Restrictions on IRA Contributions

Americans are working and living longer. So why not let them contribute to an IRA longer? That's the thinking behind the SECURE Act's repeal of the rule that prohibited contributions to a traditional IRA by taxpayers age 70½ and older. Now you can continue to put away money in a traditional IRA if you work into your 70s and beyond.

As before, there are no age-based restrictions on contributions to a Roth IRA.

401(k)s for Part-Time Employees

Part-time workers need to save for retirement, too. However, employees who haven't worked at least 1,000 hours during the year typically aren't allowed to participate in their employer's 401(k) plan.

That's about to change. Starting in 2021, the new retirement law guarantees 401(k) plan eligibility for employees who have worked at least 500 hours per year for at least three consecutive years. The part- timer must also be 21 years old by the end of the three-year period. The new rule doesn't apply to collectively bargained employees, though.

Penalty-Free Withdrawals for Birth or Adoption of Child

Congratulations if you have a new baby on the way or are about to adopt a child! Right after you pass out the cigars, you'll probably start worrying about how you're going to pay for the birthing or adoption costs. If you have a 401(k), IRA or other retirement account, the new retirement law lets you take out up to $5,000 following the birth or adoption of a child without paying the usual 10% early-withdrawal penalty. (You'll still owe income tax on the distribution, though, unless you repay the funds.) If you're married, each spouse can withdraw $5,000 from his or her own account, penalty-free. Although using retirement funds for child birth or adoption expenses obviously reduces the amount of money available in retirement, lawmakers hope this new option will encourage younger workers to start funding 401(k)s and IRAs earlier.

You have one year from the date your child is born or the adoption is finalized to withdraw the funds from your retirement account without paying the 10% penalty. You can also put the money back into your retirement account at a later date. Recontributed amounts are treated as a rollover and not included in taxable income.

If you're adopting, penalty-free withdrawals are generally allowed if the adoptee is younger than 18 years old or is physically or mentally incapable of self-support. However, the penalty will still apply if you're adopting your spouse's child.

Annuity Information and Options Expanded

Knowing how much you have in your 401(k) account is one thing. Knowing how long the money is going to last is another. Currently, 401(k) plan statements provide an account balance, but that really doesn't tell you how much money you can expect to receive each month once you retire.

To help savers gain a better understanding of what their monthly income might look like when they stop working, the SECURE Act requires 401(k) plan administrators to provide annual "lifetime income disclosure statements" to plan participants. These statements will show how much money you could get each month if your total 401(k) account balance were used to purchase an annuity. (The estimated monthly payment amounts will be for illustrative purposes only.)

The new disclosure statements aren't required until one year after the IRS issues interim final rules, creates a model disclosure statement or releases assumptions that plan administrators can use to convert account balances into annuity equivalents, whichever is latest.

Speaking of annuities ... the new retirement law also makes it easier for 401(k) plan sponsors to offer annuities and other "lifetime income" options to plan participants by taking away some of the associated legal risks. These annuities are now portable, too. So, for example, if you leave your job you can roll over the 401(k) annuity you had with your former employer to another 401(k) or IRA and avoid surrender charges and fees.

Auto-Enrollment 401(k) Plans Enhanced

More companies are automatically enrolling eligible employees into their 401(k) plans. Workers can always opt out of the plan if they choose, but most don't. Automatic enrollment boosts overall participation in employer-sponsored plans and encourages workers to start saving for retirement as soon as they are eligible.

The employer sets a default contribution rate for employees participating in an auto-enrollment 401(k) plan. The employee can, however, choose to contribute at a different rate. For a common type of plan known as a "qualified automatic contribution arrangement" (QACA), the employee's default contribution rate starts at 3% of his or her annual pay and gradually increases to 6% with each year that the employee stays in the plan. However, under current law, an employer cannot set a QACA contribution rate exceeding 10% for any year.

The SECURE Act pushes the 10% cap on QACA automatic contributions up to 15%, except for a worker's first year of participation. By delaying the increase until the second year of participation, lawmakers hope to avoid having large numbers of employees opt out of these 401(k) plans because their initial contribution rates are too high. Overall, the change allows companies offering QACAs to ultimately put more money into their workers' retirement accounts while keeping the potential shock of higher initial contribution rates in check.

Help for Small Businesses Offering Retirement Plans

It's simply harder to save for retirement if your employer doesn't offer a retirement savings plan, because all the work falls to you. Although most large employers have retirement plans for their workers, the same can't be said about small businesses. That's why the SECURE Act has three provisions designed to help more small businesses offer retirement plans for their employees.

First, the new law increases the tax credit available for 50% of a small business's retirement plan start-up costs. Before the SECURE Act, the credit was limited to $500 per year. However, the maximum credit amount is now up to $5,000.

Second, a brand new $500 tax credit is created for a small business's start-up costs for new 401(k) plans and SIMPLE IRA plans that include automatic enrollment. The credit is available for three years and is in addition to the existing credit described above.
The credit is also available to small businesses that convert an existing retirement plan to an auto-enrollment plan.

Third, the SECURE Act makes it easier for small businesses to join together to provide retirement plans for their employees. Starting in 2021, the new law allows completely unrelated small businesses to leverage economies of scale not otherwise available to them, which typically results in lower administrative costs.

Grad Students and Care Providers Can Save More

Contributions to a retirement account generally can't exceed the amount of your compensation. So if you receive no compensation, you generally can't make retirement fund contributions. Under current law, graduate and post-doctoral students often receive stipends or similar payments that aren't treated as compensation and, therefore, can't provide the basis for a retirement plan contribution. Similar rules and results apply to "difficulty of care" payments that foster-care providers receive through state programs to care for disabled people in the caregiver's home.

Under the SECURE Act, amounts paid to aid the pursuit of graduate or post-doctoral study or research (such as a fellowship, stipend or similar amount) are treated as compensation for purposes of making IRA contributions. This will allow affected students to begin saving for retirement sooner. Similarly, "difficulty of care" payments to foster-care providers are also considered compensation under the new retirement law when it comes to 401(k) and IRA contribution requirements.

"Stretch" IRAs Eliminated

Now for some bad news: The SECURE Act eliminates the current rules that allow non-spouse IRA beneficiaries to "stretch" required minimum distributions (RMDs) from an inherited account over their own lifetime (and potentially allow the funds to grow tax-free for decades). Instead, all funds from an inherited IRA generally must now be distributed to non-spouse beneficiaries within 10 years of the IRA owner's death. (The rule applies to inherited funds in a 401(k) account or other defined contribution plan, too.)

There are some exceptions to the general rule, though. Distributions over the life or life expectancy of a non-spouse beneficiary are allowed if the beneficiary is a minor, disabled, chronically ill or not more than 10 years younger than the deceased IRA owner. For minors, the exception only applies until the child reaches the age of majority. At that point, the 10-year rule kicks in.

If the beneficiary is the IRA owner's spouse, RMDs are still delayed until end of the year that the deceased IRA owner would have reached age 72 (age 70½ before the new retirement law).

Credit Card Access to 401(k) Loans Prohibited

There are plenty of potential drawbacks to borrowing from your retirement funds, but loans from 401(k) plans are nevertheless allowed. Generally, you can borrow as much as 50% of your 401(k) account balance, up to $50,000. Most loans must be repaid within five years, although more time is sometimes given if the borrowed money is used to buy a home.

Some 401(k) administrators allow employees to access plan loans by using credit or debit cards. However, the SECURE Act puts a stop to this. The new law flatly prohibits 401(k) loans provided through a credit card, debit card or similar arrangement. This change, which takes effect immediately, is designed to prevent easy access to retirement funds to pay for routine or small purchases. Over time, that could result in a total loan balance the account holder can't repay.

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