FEBRUARY 2020 | FIRST QUARTER

ANSON'S MONTHLY PLANNER

Monthly collection of relevant articles from Anson Analytics

MUST-READS OF THE MONTH:

SECURE Act Planning Implications

The Housing Market Looks Robust to Start 2020

Coronavirus, Global Markets and Global GDP

THE MONTH IN BRIEF

In this Month's recap:
In this month's recap: the emerging coronavirus reins in the bulls on Wall Street, trade deals make headlines, the United Kingdom makes its Brexit, and confident U.S. households help the economy keep its pace.

Early January gains gave way to late January losses as the coronavirus emerged as a global health concern, and correspondingly, a concern for the investment markets. The S&P 500 ended up retreating 0.16% for the month. The coronavirus outbreak was just one of the big stories in January: President Trump signed one trade deal while Congress approved another, Brexit occurred, oil prices temporarily jumped as tensions between America and Iran heightened, and stocks hit record highs again.

ECONOMIC UPDATE

FEBRUARY RECAP

DOMESTIC ECONOMIC HEALTH

On January 15, President Donald Trump and Chinese Vice-Premier Liu He signed the phase-one trade deal between the U.S. and China. The U.S. agreed to cut the existing 15% tariffs in half on certain Chinese goods, with the possibility of dismissing or reducing other import taxes on Chinese products in the coming months. China agreed to buy more U.S. crops, hard goods, and fuels, and to police counterfeiting of U.S. products and intellectual property to a greater degree. By mid-February, China is supposed to unveil an "action plan" for better intellectual property protection to U.S. trade officials.

The Senate passed the U.S.-Mexico-Canada Agreement (USMCA), and President Trump signed it into law on January 29. Mexico has also approved the USMCA; if Canada does so, it will be finalized and take effect in 90 days. Intended as a replacement for the North American Free Trade Agreement (NAFTA), the USMCA would boost wages for auto industry workers in all three countries and make auto manufacturing more reliant on parts made in the west. The USMCA would also extend and broaden copyright terms in the digital age.

January federal government reports showed 0.3% increases in household spending and retail sales in December. In addition to these positives, the Conference Board's consumer confidence index increased 3.4 points to 131.6, and the University of Michigan's consumer sentiment index ended the month at 99.8, slightly above its December final mark of 99.3. Late in January, the Bureau of Economic Analysis said the economy grew 2.1% in the final quarter of 2019, the same as it did in the third quarter.

The Department of Labor's latest jobs report showed unemployment at only 3.5%, and underemployment (defined by the U-6 rate, which also counts discouraged and part-time workers) at merely 6.7%. Net monthly job growth, however, was just 139,000, and hourly wages were growing at 2.9% annually in December, down from 3.1% in November.

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Yearly inflation increased by 0.2% to 2.3% in January, according to the Consumer Price Index, which is maintained by the Bureau of Labor Statistics. The Federal Reserve has sought to keep inflation at or near 2% for some time.

The manufacturing sector grew in January, according to the Institute for Supply Management's manufacturing Purchasing Manager Index. ISM's manufacturing sector PMI jumped up to 50.9 from 47.8 in December; analysts polled by MarketWatch had forecast another month of sector contraction, and a reading of 48.5. In early January, ISM's non-manufacturing PMI came in at 55.0 for December.

GLOBAL ECONOMIC HEALTH

Investors worldwide wondered if the flu-like coronavirus would hurt the powerful Chinese economy, where the disease was first reported in December. Nearly 10,000 Chinese citizens had been infected by the end of January, and the World Health Organization declared a public health emergency over the outbreak. If enough Chinese consumers are kept at home, corporate earnings could be hurt, and central banks might have to take action in response to slumping financial markets.

New data showed that China's economy grew by 6.1% in 2019; the smallest seen in 29 years. Still, this figure fell into the Chinese government's target range for GDP. It dwarfed the Eurozone's 2019 economic expansion, which was only 1.2%.

On January 31, the United Kingdom officially left the European Union and entered a transition period set to end on December 31, 2020. During these eleven months, the U.K. faces the challenge of forging new trade pacts with the E.U. and other nations, with a U.K.-E.U. deal at the top of the list.

WORLD MARKETS

Anxieties about the coronavirus also dampened risk appetite in foreign markets. A few gains stood out from the monthly losses: Mexico's Bolsa benchmark rose 1.30%, Australia's All Ordinaries improved 4.69%, and the Shanghai Composite added 0.47%. But

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besides those gains there were numerous downturns.

The MSCI EAFE index, a broad benchmark for developed stock markets outside of North America, fell by 2.12%. Losses were felt elsewhere as well; France's CAC 40 lost 2.87%, Germany's DAX 2.02%, Spain's IBEX 35 1.90%, and Russia's RTS 2.06%. Losses were also seen across Asia. Hong Kong's Hang Seng slid 6.66%, India's Nifty 50 1.70%, Japan's Nikkei 225 1.91%, South Korea's Kospi 3.58%, Taiwan's TWSE 4.18%, and Indonesia's Jakarta Composite 5.71%.

COMMODITIES MARKETS

After surging in early January following a U.S. drone strike in Iraq, oil prices fell steadily across the month. West Texas Intermediate crude settled at $51.38 on the New York Mercantile Exchange (NYMEX) on January 31, down 15.61% year-to-date. Gold gained value: 4.01% on the NYMEX, to be precise. NYMEX Silver was flat (down 0.04%) for the month.

Turning to other commodities, energy futures followed oil's path and posted double-digit declines: heating oil dropped 19.73%, natural gas 13.47%, and unleaded gas 12.44%. Platinum was off 3.11%, copper 10.94%. Wheat lost 1.97%, corn 2.43%, cotton 2.56%, soybeans 7.47%, and coffee 19.66%. On the other hand, cocoa improved 9.20% and sugar gained 11.27%. The U.S. Dollar Index rose 1.04% for the month.

REAL ESTATE

In January, the National Association of Realtors said that existing home sales improved by 10.0% in 2019. This happened despite the median sale price of a single-family home rising 7.8% over the year, to $274,500 in December.

Residential resales increased by 3.6% during the last month of 2019, reaching a pace not seen since February 2018. The NAR's pending home sales index, however, fell 4.9% for December. One possible factor influencing that pending home sales dip: a record-low 1.4 million listings were on the market.

Mortgages grew less expensive in January. Freddie Mac's Primary Mortgage Market Survey (PMMS), released on January 30, showed that 30-year fixed-rate mortgages are averaging a 3.51%

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interest rate and 15-year fixed-rate mortgages are averaging a 3.00% interest rate. The PMMS released on January 2 showed that 30-year home loans bore an average interest rate of 3.72%, while 15-year home loans had an average interest rate of 3.16%.

Construction on new homes reached a 13-year high in December, according to the Census Bureau. New home buying, though, declined 0.4% in that month (and decreased in every month of the third quarter). Regardless, new home sales surged 23% for 2019.

TIP OF THE MONTH

If you are considering ***disability insurance****, seek coverage with a benefit approximating* ***60% or more*** *of your* ***current income****.*

Disability insurance is issued by participating insurance companies. Not all policy types and product features are available in all states. Any obligations are dependent on the ability of the issuing insurance company to continue making claim payments.

LOOKING BACK, LOOKING FORWARD

The S&P 500 settled at a new record of 3,329.62 on January 17 and then descended. Its January loss was but a fraction of that of the Dow Jones Industrial Average while the Nasdaq Composite advanced for the month. The S&P ended January at 3,225.52, the Dow at 28,256.03, and the Nasdaq at 9,150.94.

The markets (and central banks) are watching to see how far the coronavirus might spread and wondering what impact it may ultimately have on global commerce. If there are signs the outbreak is slowing, markets may breathe a collective sigh of relief. Meanwhile, U.S. economic data has been good as of late, especially regarding consumers, factories, and service industries. Still, traders might pay as much attention to the coronavirus this month as they do to earnings and fundamental indicators.

SECURE ACT PLANNING IMPLICATIONS

In May 2019, the House of Representatives passed a bill known as the SECURE Act (Setting Every Community Up for Retirement Enhancement Act of 2019) with overwhelming bipartisan support (417-3) that looked like it would quickly be approved by the Senate and President. Other legislative matters derailed the Senate and it was late December 2019 before the SECURE Act finally reached and passed a Senate vote. A lot has been made of the SECURE Act and its widespread changes but, to be fair, many of the Act's new provisions will have minimal impact both in dollars and in applicability. Rather than touch on every nuanced change of the Act, the following is intended to summarize a few of the more impactful financial planning ramifications.

1) **Increase in Beginning Age for Required Minimum Distributions (RMDs)**
Under current law, individuals are required begin minimum distributions from retirement accounts starting at age 70.5 (with a few exceptions). The SECURE Act changes the beginning age from 70.5 to 72 to keep up with increased life expectancies.Planning Implications: This is a valuable change by delaying required IRA distributions and the resulting taxes (and/or higher Medicare premiums) by 1-2 years for everyone under age 70.5 as of 12/31/19.

It is important to note that the bill does not impact the qualified charitable distribution (QCD) age which will remain 70.5 (and unlike the RMD, not the calendar year in which you turn 70.5 but the day on which you turn 70.5). This means that individuals who reach age 70.5, even though they will not be subject to required minimum distributions, can still make gifts from Traditional IRA accounts directly to charities without the distributions being treated as income for tax purposes.

2) **Expansion of Qualified Section 529 Plan Uses**
The final version of the SECURE Act expanded qualified Section 529 education savings account usage to include apprenticeships and student loan repayment – up to a $10,000 lifetime limit.

Planning Implications (Student Loan Repayment): Individuals occasionally ask whether 529 Plan assets can be used to pay off student loans. Up to now the answer was yes, but not without incurring a 10% penalty and taxes on any growth attributable to the 529 Plan distribution. The SECURE Act permits distributions of up to $10,000 from a 529 Plan with no taxes or penalties for student loan principal and interest payments.It's worth noting that:

- The $10,000 limit is a lifetime limit per 529 Plan beneficiary, not an annual limit;
- Any student loan interest payments made with funds distributed from a 529 Plan will not qualify for the student loan interest deduction;
- The law also allows 529 Plan assets to also be used to repay student loans for the beneficiary's siblings, but still subject to the $10,000 lifetime limit per sibling.

The student loan repayment provision is an interesting one but likely to have limited applicability since it's generally not the case that someone has savings in a 529 account and student loans (It is highly recommended that individuals use 529 balances before amassing student loans and/or pay off existing student loans in their entirety before investing in a 529 Plan for their children. The possible exceptions are individuals with highly subsidized loans where the interest rate is <3% or individuals who expect to qualify for loan forgiveness).

One noteworthy usage of this new provision might be the case where a grandparent funded multiple 529 accounts – one for each grandchild. Imagine the scenario of grandparents who funded separate 529 accounts for their two grandchildren – Sally and Timmy. Sally graduated college without using all of her balance. Timmy spent through his 529 balance in the first two years of college and had to assume loans to cover the remainder. The grandparents could elect to use the balance in Sally's account to help Timmy pay down $10,000 of loans.

Another noteworthy opportunity is for individuals burdened with student loans who live in 529 tax deduction states such as Georgia and South Carolina. Individuals in such states ought to consider establishing a 529 plan in their home state and running their next $10,000 of student loan repayments through the account. The caveats to this advice are: 1) it loses its appeal for individuals who qualify for the federal student loan interest deduction; and 2) individuals in 529 tax deduction states where the state has elected not to go along with federal code (by continuing to treat 529 distributions used for student loan repayment as non-qualified distributions) will do more harm than good by using this strategy.

3) Modifications to Required Minimum Distribution Rules

Whereas the other items described above provide expanded benefits, this is the revenue provision that will help pay for all the benefits in the bill. Non-spousal beneficiaries of inherited IRA accounts, 401k accounts, or other retirement plan accounts are and were required to take minimum annual distributions from these inherited accounts. This is not changing. However, the required distribution amount for accounts inherited before January 1, 2020 are based on the beneficiary's age such that distributions can be "stretched" over decades, especially for relatively young beneficiaries. This stretch benefit can be worth millions of dollars if employed effectively.

The new law requires that beneficiaries are generally required to fully distribute the retirement account by the end of the tenth calendar year following the year of the account owner's death. There are exceptions for surviving spouses, disabled individuals, children of the account owner who have not yet reached the age of majority, or beneficiaries who are within 10 years of age of the account owner.This 10-year provision severely hampers the "stretch IRA" – a financial planning strategy to maximize the tax efficiency of inherited IRA and other inherited retirement accounts.

It is worth noting here that this change does not impact existing inherited retirement plan accounts or inherited accounts for anyone who died before January 1, 2020. No need to panic if you are already the beneficiary of an inherited IRA as nothing changes during your lifetime.

<u>Planning Implications:</u>

- Naming young grandchildren as retirement account beneficiaries, which was highly effective under the old rules, loses much of the benefit.
- For anyone who desires to leave assets of any size to a charity at death, using a tax-deferred IRA or retirement account as the source of funding makes far more sense now.
- Conduit look-through trusts that used to be an excellent option as a retirement account beneficiary need to be revisited. With the wrong language, these trusts that are typically created after death by a will, can be a disaster if named as a retirement account beneficiary.
- Qualified Charitable Distributions (QCDs) become even more valuable. Notably, this strategy is only applicable for individuals over age 70.5 and that age doesn't change. Any dollars remaining in an IRA at death become less valuable because of the new accelerated distribution rules. That inherently makes it more beneficial to get those dollars out of the IRA during life by way of the QCD if you were already planning to make charitable contributions. With a few exceptions, almost everyone over age 72 who does charitable giving would benefit from using qualified charitable distributions to complete their giving – even if it's only a few hundred dollars.
- For anyone who desires to leave assets to siblings (within 10-years of age), naming the sibling as beneficiary of an IRA or retirement account now tends to make more sense as opposed to leaving assets to the sibling through a will.
- Naming an accumulation trust or special needs trust as retirement account beneficiary should become more common since the currently unfavorable tax treatment is now less unfavorable (relative to naming a person or persons directly as beneficiaries).
- One "stretch IRA light" solution to consider – but only for charitably inclined individuals – will be to name a charitable remainder trust (CRT) as Traditional IRA beneficiary. Naming a CRT as beneficiary preserves the tax deferred treatment of the IRA and sets up regular (monthly, quarterly, or annual) annuity payments to the intended living beneficiary or beneficiaries which often is a desire of parents or grandparents. After a fixed period (up to 20 years) or the annuity beneficiary's lifetime, any assets remaining in the trust would be passed

to a charity of the deceased's choosing. For example, a parent might name a CRT as IRA beneficiary of a $1 million IRA with his/her child receiving $56,000/year over 20 years. All taxes from the IRA would be deferred and the child would receive a total of $1,120,000 over the 20 years. Assuming 6.0% growth of the trust assets over the 20 years, the intended charity also receives $1,147,142 at the end of the trust's term.

- Late-in-life Roth conversions still have utility but start to make less sense since the benefit of tax free growth has a more limited window of 10-years rather than the beneficiary's lifetime.
- Roth account beneficiaries subject to the new 10-year payout requirement are best served (from a tax perspective) to avoid taking any distributions until the 10th calendar year following the owner's death.
- Traditional IRA and retirement account beneficiaries need to be thoughtful and careful in taking distributions over the 10-year period. Waiting to take distributions until the end of the period could have negative tax ramifications for some and beneficial tax ramifications for others but it will be highly dependent on the unique circumstances. Given the increased flexibility of distributions under the new law, wise distribution planning is likely to add significant post-tax value, when done well.

THE HOUSING MARKET LOOKS ROBUST TO START 2020

IS HOUSING A LEADING ECONOMIC INDICATOR OR LAGGING INDICATOR? OR NEITHER?

Historically, the housing industry has led the U.S. out of a recession and many economists consider new housing starts to be a leading economic indicator versus a lagging indicator. Think of it this way:

If new housing starts rise, intuitively it means builders are optimistic about the demand in the future for newly constructed homes. If, on the other hand, housing starts fall, builders are getting more cautious because they think home sales are slowing or that they will slow soon.

But more recently, housing starts have been confusing. Consider the following from the National Association of Realtors.

HOUSING MARKET LOOKS STRONG

In late January 2020, the National Association of Realtors showed a very robust housing market. From the NAR release:

- Total existing-home sales increased 3.6% from November to December
- Overall sales took a significant bounce, up 10.8% from a year ago
- The median existing-home price for all housing types in December was $274,500, up 7.8% from December 2018 ($254,700), as prices rose in every region
- This marks 94 straight months of year-over-year gains
- Properties typically remained on the market for 41 days in December, seasonally up from 38 days in November, but down from 46 days in December 2018
- 43% of homes sold in December 2019 were on the market for less than a month

IS THE MOMENTUM SUSTAINABLE?

Given that we are still within the longest expansion period in history – at approximately 11 years – is housing an economic laggard now? Is this sustainable? Maybe, but much depends on the direction of the overall economy.

Over the past couple of months, solid evidence has emerged that the housing industry is on solid footing. Inventory is tight, prices are increasing in every region in the country, interest rates remain low, unemployment remains at historical lows and the overall housing trend is positive.

Further, about one-third of all of the homes sold in 2019 went to first-time buyers, which could indicate a decline in the need for apartments, a sector that has been very hot for the past three or four years. While the Northeast continues to see some pressure on home prices, it still was up 8.8% from a year ago while the Midwest was up 9.2%, the South 6.7%, and the West 10.7% from a year ago.

With mortgage rates coming in below 4% across all of 2019 and trending lower as the year progressed, more and more people can afford to buy homes, and that could help sustain the industry's momentum.

In addition, the housing industry creates jobs, and also has a tremendous spillover effect into many different areas of manufacturing – new homes need washers, dryers, furniture, curtains and the like. And consumers continue adding to the good news by heading back to stores, causing an increase in retail sales numbers.

BUT REMEMBER 2008?

How many of us remember the Housing Crisis from 2008? That housing bubble affected most of the United States as housing prices peaked in early 2006, declined for most of 2006 and 2007 and reached new lows in 2012.

Consider these stats from 2007, as reported by NAR from their release dated January 24, 2008:

- Single family home sales fell by 13 percent in 2007, which was the largest drop in 25 years
- Prices of homes sold in December registered the biggest year-over-year decline on record
- 2007 was the first year on record that had seen a drop
- The median price of homes sold in December fell nearly 6 percent from a year earlier
- This was the first time that the annual price reading showed a decline since the group started tracking that measure in 1968

YOUR HOUSING MARKET PHILOSOPHY

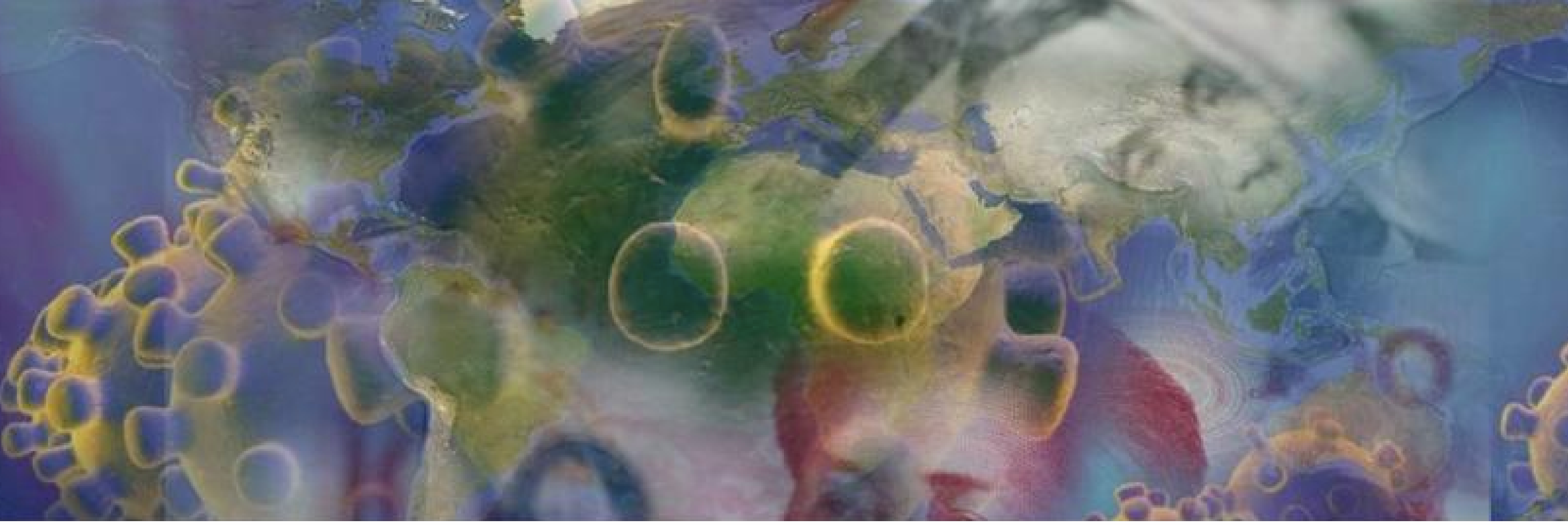
What does all of this mean? Well, that of course depends on your perspective and where you are in your financial planning journey. Are you a first-time home buyer or are you looking to downsize in a couple of years? Could you withstand a 10% drop in your home's value?

These are important questions to consider as our homes usually represent a very large part of our overall portfolios. Therefore, it is important to make sure we account for market movements and determine how such movements might impact our risk profile and long-term planning.

All homeowners and would-be homeowners would also be wise to remember the words from philosopher George Santayana when he said:

"Those who cannot remember the past are condemned to repeat it."

The reality is that at some point, the housing market will turn. And at some point – and no one knows when – there will be another housing recession. Let's hope not soon.



CORONAVIRUS, GLOBAL MARKETS AND GLOBAL GDP

AS CNN STATED SO PERFECTLY: "YOU CAN'T MAKE A CAR WITH 99% OF THE PARTS.

On Friday, January 24, 2020 news of a second case of coronavirus in the U.S. pushed the stock market down 1% as investors scrambled for the cover of perceived safer assets, including U.S. Treasuries.

The stock markets in the U.S. shook off negative numbers from the week ending January 24th and the following week ending January 31st, by jumping to new highs as investors seemed to think the coronavirus was contained. In one week's time, the NASDAQ leapt 4.0% and the S&P 500 and DJIA each moved up 3.2% and 3.0%, respectively.

But also in those two weeks' time, the World Health Organization announced that there were over 40,000 confirmed cases and 1,000 confirmed deaths. And Tedros Adhanom Ghebreyesus, director-general of the World Health Organization, warned that those numbers may just be the start.

"There've been some concerning instances of spread from people with no travel history to China," Tedros said. "The detection of a small number of cases may indicate more widespread transmission in other countries. In short, we may only be seeing the tip of the iceberg."

CHINA IS A GLOBAL SUPPLIER

As the coronavirus continues to spread around the world, investors are worried that the Chinese virus will impact markets in the U.S. and around the globe. The reality is that China is an integral part of the global supply chain and is considered to be the world's factory – from iPhones to car parts.

But beyond China as the world's supplier, consider the flip side of China's economy too – that of the world's largest consumer group based on sheer numbers. Yes, the U.S. has the world's largest consumer market in terms of spending dollars, but China is number two. And China is the world's fastest growing consumer market.

Further, not only does China have millions of very wealthy consumers that buy luxury products, go on extravagant trips and buy cars, but China's growth has also driven demand for commodities like copper, steel and soybeans. In fact, roughly 15 years ago, China's economy accounted for about 4% of the world's GDP. Today it accounts for 16%.

THE AUTO INDUSTRY IS SUFFERING

Car plants across China have been ordered to remain closed following the Lunar New Year holiday, and this is impacting these global brands:

- Toyota
- Volkswagen
- Hyundai
- General Motors

And not only can these car makers not resume operations in the world's largest car market, but these are also the top 4 car makers in the entire world.

Making matters worse is that China is a massive supplier of parts to auto plants around the world. In fact, the UN estimates that China shipped nearly $35 billion in auto parts out last year, with about $20 billion being sent to the U.S. alone. And a recent CNN headline summed up the issue best:

"You can't make a car with 99% of the parts."

In other words, a single missing part could paralyze the entire assembly line.

EARNINGS IMPACTED?

Industries that you might expect to be impacted are being impacted. Here are just a few more:

- Airline stocks. Air China and China Eastern for sure, but American Airlines, Delta Air Lines and British Airways have suspended all flights to and from China
- Cruise line operators. Royal Caribbean and other cruise lines are slumping as global tourism is impacted
- Luxury good makers. Burberry has closed half of its 64 stores in China and Capri Holdings and Estee Lauder are issuing earnings warnings
- Gaming stocks. Wynn Resorts said it's losing $2.6 million each day
- Starbucks, Apple, Nike and Disney have all issued warnings on how the virus might impact their earnings

Stunningly, according to data from natural language processor Amenity Analytics, 421 different global companies have indicated that the coronavirus could negatively impact financial results for the first quarter. And of those 421 companies, 394 of them are based in the U.S.

IMPACT FOR INVESTORS

The economic fallout from the coronavirus will impact travel, trade, financial networks and just about every single sector one way or another. For sure, the virus will impact China's economy, potentially shaving off a percentage point to its first quarter GDP numbers. Whether the impact will be short- or long-term depends on the extent of the outbreak of course.

But before you start unloading your exposure to travel, auto and airline sectors; and before you start stocking up on healthcare stocks; and before you start eliminating your exposure to emerging markets in favor of more developed markets; and before you start moving out of equities into short-term Treasuries, discuss with your advisor.

In fact, before you make any changes to your portfolio allocations, make sure you examine the impact it might have to your overall portfolio and risk profile, as well as any tax implications that you might create.

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