
# Q3 2019 NEWSLETTER

## XY Planning Network Live Conference

Both Kellen and I attended the XY Planning Network Live Conference in St Louis, MO in early September. Highlights of the conference included; I took part in the George Kinder '7 Stages of Money Maturity' pre-conference workshop and learnt more about how to locate clients on their money maturity journey and how to motivate them towards success. At XYPN Live, we sat in on the 2019 FinTech competition finalists. Our vote went to Holistiplan, which was ultimately named the 2019 winner of the competition for its easy-to-use analysis tools, and for providing a much-needed tax analysis option for use by financial planners. We have since acquired a license and have already been putting the tool to use.

## Upcoming Travel

San Francisco, CA:
October 23rd - 25th


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## Third Quarter Market Commentary

The latest three month returns in the U.S. and international stock markets can be viewed with two very different attitudes. The first is that many indices (though not all) produced a loss for the quarter, and where there were gains, they tended to be very small. On the other hand, the losses, where they occurred, were too small to wipe out the gains of the previous two quarters, meaning that most investors have still made money so far this year.

Whether that will continue is anyone's guess, but in today's uncertain political and economic environment, it's easy to feel like we all managed to dodge a bullet and are holding onto our gains with gratitude.

The third quarter saw small gains in the broadest market indices. The Wilshire 5000 Total Market Index—the broadest measure of U.S. stocks—rose 1.23% in the most recent three months, and now stands at an 20.11% gain for the year. The comparable Russell 3000 index is up 20.09% so far this year.

Meanwhile, large caps were also among the few indices showing positive returns. The Wilshire U.S. Large Cap index gained 1.53% in the third quarter, posting a positive 20.56% return so far in 2019. The Russell 1000 large-cap index has gained 20.53% so far this year, while the widely-quoted S&P 500 index of large company stocks was up 1.19% in the third quarter, and is up 18.74% for the year.

Meanwhile, the Russell Midcap Index was essentially flat for the past three months, and is still delivering a 21.93% return after the first nine months of 2019.

As measured by the Wilshire U.S. Small-Cap index, investors in smaller companies lost 1.76% in the third quarter, but are up 15.78% so far this year. The comparable Russell 2000 Small-Cap Index also lost ground, and is now up 14.18% the year's first nine months. The technology-heavy Nasdaq Composite Index lost 0.83% in the prior quarter, but is still up 19.66% for the year.

## Five Star Wealth Manager Award

We were awarded a Five Star Wealth Manager award (the official announcement will be made in early 2020). It's nice that a client nominated us!

## Work Weekend with Matt Goren, CFP®, PhD, Practice Management Consultant

While most folks enjoyed themselves over Labor Day weekend, Kellen and I worked 12 hour days for 5 days straight and made enormous strides on some projects clients will see the benefits of over the next 6 months.

## New Website

Take a look at our new website (arete-ws.com) and let us know what you think!

International investors are still hanging onto gains after a difficult quarter. The broad-based EAFE index of companies in developed foreign economies lost 1.71% in the third quarter, but remains up 9.85% so far this year. In aggregate, European stocks are up 10.66% in 2019, while EAFE's Far East Index has so far gained 7.53%. Emerging market stocks of less developed countries, as represented by the EAFE EM index, lost 5.11% in dollar terms in the third quarter, but the index is still up 3.65% for the year.

Looking over the diversifying investment categories, real estate, as measured by the Wilshire U.S. REIT index, posted a 7.88% gain during the year's third quarter, and now stands at a nice 27.21% gain for the first nine months of the year. The S&P GSCI index, which measures commodities returns, lost 4.18% in the third quarter, but is still up 8.61% for the year.

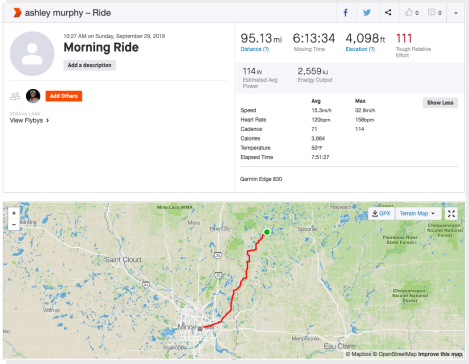
## Birthday Season

The third quarter is birthday season for my girls. Jasmine turned 2 in late August and Elise turned 4 in late September.

Coincidentally, Kellen's birthday is only two days after Elise's!

## Cabin Trip

In the last weekend of the quarter, I set a new personal distance record and rode up to a friend (and fellow Financial Advisor's) cabin. It was about 100 miles each way with a day's break in between. Long ride!




Many people thought bond rates had reached rock bottom last quarter, and that the inversion of yields could not continue, but they were wrong on both counts. Coupon rates on 10-year Treasury bonds have fallen to 1.69%, while 6-month bonds are now yielding a higher (but still meagre) 1.78%. Five-year municipal bonds are yielding, on average, 1.28%, down from 1.34% last quarter, while 30-year muni yields have fallen to 2.11% on average.

Where will the markets go from here? Of course, nobody knows with any certainty, but that doesn't stop us from reading the tea leaves. There appears to be great uncertainty among investors about the Trump impeachment hearings, China trade tensions, drone strikes in Saudi Arabia and a messy "Brexit" across the pond. U.S. economic growth has cooled to a 2% annualized rate, and we are experiencing the first contraction in manufacturing in three and a half years. Exports have also been weak—a casualty of the China trade war.

At the same time, we are also experiencing the strongest labor market in several decades, with the pace of layoffs and the unemployment rate near a 50-year low. And consumer spending has been extremely strong, rising an estimated 4.6% year over year. Adjusted pretax corporate profits were up 3.8% in the second quarter (the most recent period for which we have statistics). Economists are hardly in consensus, but many predict that the economy will continue growing to the end of the year at least.

There must have been many times when the soothsayers in China looked at the tea leaves and didn't see a clear pattern—though it is uncertain whether they then made up a plausible story for the Emperor. We aren't inclined to try to make up a story here; the future of the markets is uncertain at the moment, with no reason to panic, and no reason to be surprised if a bear market were to start tomorrow. History has shown that bull markets tend to be longer and steeper than bear markets, which means that holding on tight in choppy times tends to be the winning strategy.

**Sources:**

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Russell index data: http://www.ftse.com/products/indices/russell-us

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Nasdaq index data:

http://quotes.morningstar.com/indexquote/quote.html?t=COMP

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International indices: https://www.msci.com/end-of-day-data-search

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Treasury market rates: http://www.bloomberg.com/markets/rates-bonds/government-bonds/us/

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General:

https://www.marketwatch.com/story/slowing-but-still-strong-us-jobs-market-keeps-economy-going-in-turbulent-times-2019-09-28?siteid=yhoof2&yptr=yahoo

https://www.marketwatch.com/story/second-quarter-us-gdp-left-at-2-downshifting-economy-unlikely-to-rev-up-soon-2019-09-26?siteid=rss&rss=1

https://www.marketwatch.com/story/a-manufacturing-downturn-could-still-hurt-the-us-economy-but-not-trigger-a-recession-as-in-the-past-2019-09-28?mod=economy-politics

## Timing Gold

If you ever want to see how hard it is to time the market, any market, consider the recent drop in the price of gold. Headlines got our collective attention by proclaiming the largest one-day dollar loss in almost three years. The decline was blamed on news that the U.S. and China were engaged in a fresh round of trade talks, but the general idea behind the stories is that when news is good, gold prices go down, and when news is bad, gold becomes more valuable in the eyes of people who want their assets in a safe haven.

The 5-day chart that went out with some news reports is reproduced here, and what catches your eyes is a really dramatic drop over the course of one day. So doesn't that mean this is the time to take advantage of bargain prices, and scoop up some gold for your portfolio?

If you were to do a bit more research—and simply glance at a chart showing prices over the past 20 years, you see that gold bullion is not exactly cheap at the moment; as a matter of fact, in historical terms, it's rather expensive. Buying now means, not getting a bargain, but purchasing at a premium to historical prices—just not as big a premium as a few days ago. The high price of gold makes sense, given how much uncertainty there is the the world today, and especially in a jittery American economy.

Short-term and long-term thinking are in a constant tug-of-war with each other, and so too are perspectives on the relative pricing of different investments. If we get clarity about the U.S. trade war, Brexit, Iran, North Korea, Hong Kong and the U.S. military exit from Afghanistan, then gold prices might settle down to the prices we saw in the much calmer era of the early 2000s. That, of course, is just a guess, but the takeaway here is that today's headlines about any asset are seldom a reliable buy or sell indicator.

**Sources:**

https://www.marketwatch.com/story/gold-pulls-back-as-us-china-trade-talks-dull-haven-appeal-2019-09-05?siteid=yhoof2&yptr=yahoo

https://www.bullionvault.com/gold-price-chart.do

https://finance.yahoo.com

## Post-Death Planning

Have you ever wondered what happens to your unpaid bills after you die? You might be surprised to know that it depends on what kind of debt is still outstanding.

In most cases, your estate will have enough assets to pay off all bills—assuming you have a positive net worth at the time of death. But understand that life insurance proceeds, retirement and annuity accounts and brokerage accounts are left outside the estate—and therefore cannot be forced to pay off debts. Your estate's actual net worth may not be as great as you think it is.

Your executor will review the assets and debts in your estate and prioritize the debts according to some fairly straightforward rules. Certain creditors, like those who issue medical or mortgage bills,

must be paid first. A probate court will decide which remaining debts go in which priority, unless there are clear directions in your will.

Mortgage debt normally passes to the spouse or partner whose name is also on the loan documents, but if there is no joint mortgage holder, and the estate has insufficient funds to pay the mortgage, whoever inherits the home can usually move in and resume making the mortgage payments. The rules are different with home equity loans; with these, the bank can demand that whoever inherits the home (and the loan) immediately repay the outstanding balance. However, this is not required of the lender; in many cases, the bank will agree to let the heir continue to make the loan repayments on schedule.


Auto loans work similarly to mortgages; the estate handles payments if the money is available. If not, whoever inherits the car has the option to continue making payments or selling the vehicle to cover the cost of the auto loan.

What about credit cards? Any joint account holder is liable for the debts after the co-account holder dies. But if you're the sole account holder, the credit card cannot go after any unpaid debts from your estate when you die. Spouses who live in community property states may or may not be liable for the outstanding debt.

Student loans are typically paid out of the estate, but if those funds are not available, the loan provider cannot force anyone to pay off the loans, since they are unsecured. However, if there is a co-signer for the loan, that person is liable for repaying the debt. Once again, however, a spouse in a community property estate may be liable for student loans incurred during the marriage.

Many financial planners will recommend a term life insurance policy for a specified time for people who are still building their financial lives, to avoid burdening the family with debt in the event of a premature death. And of course everybody should have a will, and the will should clarify where the existing financial accounts reside, and how to access them. A little upfront planning can save having to deal with a mess later on.

**Source:**

https://www.thestreet.com/personal-finance/debt-management/what-happens-to-your-debt-when-you-die-15106476?puc=yahoo&cm_ven=YAHOO&yptr=yahoo

## Impeachment Economics

As the impeachment process gets underway in the House of Representatives, President Trump has famously tweeted that the U.S. stock market will experience a severe decline if the process goes much further. This has led many money managers and financial planners to take a hard look at history.

There is no guarantee that history will repeat itself, of course, so this may be a futile exercise. And in modern times there have only been two impeachment processes (Bill Clinton and Richard Nixon), which is hardly a large sample size or significant track record. To make matters more complicated, the two impeachments produced very different market outcomes.

Let's start with the impeachment of President Clinton in starting in December 1998. The Senate acquitted Clinton in February of 1999. Stocks fell in anticipation of the release of the Starr report which detailed the case against the President; from July 17 through September 9, the S&P 500 dropped 19.4%. After that, however, during the actual trial, there was a significant rally. The entire decline had been recovered by November 28, 1998. In all, from the date the House voted to start impeachment proceedings on October 8, 1998 to the Senate's acquittal on February 12, 1999, the S&P 500 posted a remarkable 28% gain.

So impeachments are great for the market, right? Not necessarily. The downfall of Richard Nixon took the markets in the opposite direction. From the date that the newspapers reported the Watergate break-in on June 17, 1972 until the President's resignation on August 8, 1974, the S&P 500 tumbled 23.7%.

It can be persuasively argued that economic conditions had more to do with the upturn and downturn than the political process of impeachment. In the 1973-4 period, the global monetary system was falling apart as the U.S. left the gold standard. Oil prices were spiking, leading to stagflation.

Heading into the Clinton impeachment, meanwhile, the U.S. economy was booming and the market was flying high amid the tech boom, the advent of the Internet and a balanced federal budget.

President Trump may believe that the stock market is all about him, and previous Presidents may have thought so too. But the reality is that economic forces have much more influence on stock movements than the winds of politics.

**Sources:**

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