

# Fox-Smith Wealth Management Quarterly Commentary

## Fourth Quarter - 2019

### “May You Live in Interesting Times”

Economic Outlook and Market Commentary – Gustin D. Fox-Smith, AIF®, ChFC®

Although it is apocryphal, having never been attributed to a verified Chinese source, it is said in the West that “*May You Live in Interesting Times*” is a traditional Chinese curse. Considering our current chilly relations with China coinciding with so many economic events that have never been seen before, it appears this curse may actually be in play right now.

When it comes to our dealings with China, I am in disagreement with our media and government who continue to believe we will soon reach a trade deal that will de-escalate the tariff wars in which we are currently engaged. I am convinced that no trade deal will be reached anytime soon for several reasons.



Source credit: [www.cartoonimpact.com](http://www.cartoonimpact.com)

Put yourself in President Jinping’s shoes for a moment and consider the landscape from his perspective. Tariffs and the resulting drop in manufacturing and labor activity driven by the West have greatly affected the Chinese economy. However, China has been buying precious metals in record quantities for over a decade and has plenty of resources to wait this out for a good while longer. He is also aware that President Trump has no desire to have a trade war continuing into campaign season, which will begin in earnest in January. So, if he can just hold out a few more months, this problem perhaps goes away. Additionally, it is possible that Trump will not win a second term and that means Jinping will be dealing with someone new. They might even

be an establishment candidate who could agree to return to business as usual. With all of this in the near term outlook, what would you do in his place? If it were me, I see no motivation to move to a deal in any hurry and a lot of potential positives from simply waiting to see what happens; and that is what I expect he will do. Meanwhile, the trade war has done what they always do by

#### Did You Know....?

Did you know that in addition to the Financial Planning and Asset Management services you receive from us regularly, we also offer a vast menu of other services to help you? In addition, unlike many other financial offices, did you know we offer these services for no additional charge to all of our advisory clients with a fee-based contract? Your asset management fees cover it all for you.

Among the many services we provide are:

- |                             |  |
|-----------------------------|--|
| Life Insurance reviews      | Business Transition and Buy/Sell Consulting      |
| Inheritance issues          | Estate Settlement assistance                     |
| Wealth Transfer assistance  | Small Business retirement plans                  |
| Portfolio Income Harvesting | Employee Stock Option advice & Cashless exercise |
| Survivor Income Security    | Loan evaluations for home/car/etc.               |
| Document organization *     | Goal Planning                                    |
| Career Advice               |  |

\* If you bring your documents into our office we will help you sort them and determine what must be saved and what may be destroyed, free of charge. Organization work done in your home will be billed at a \$150 p/hr rate.

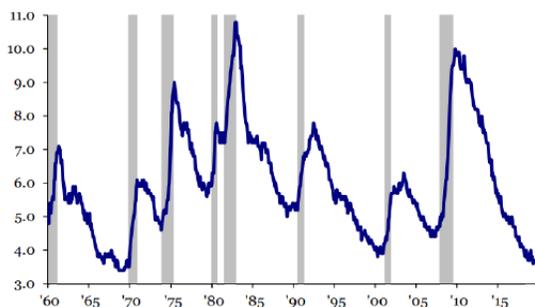
causing a global slowdown in trading activity, which is now causing many countries to fall into recession.

Perhaps China has given us the curse as there are many “interesting” things happening in the global economy today. You may be aware that several countries including Germany, Japan, and Switzerland are now issuing 10yr treasury bonds with a negative interest rate. You heard that right, in Switzerland with their -0.5% rate you can buy a \$10,000 bond today and receive \$9,500 upon selling the bond after 10 years. Also, earlier this month Germany issued the world’s first 30 year treasury bonds with a 0% interest rate and had no problems selling them. These low rates have other effects too. Denmark pegs it’s mortgage rates to the German 10 yr note, which means the banks in Denmark are currently paying people to borrow money to buy a house, bizarro world anyone?

Moreover, our banks are reluctant to lend money (which is like cutting off the fuel source of the growth engine) because the yield curve is flat. A flat curve means the rate banks charge for loans is equal to what they pay on deposits, resulting in loans not being profitable. The FED continued to sell Treasuries the first 6 months of the year without regard to the fact that it was creating a headwind for stocks. However, when those sales would actually help the situation, like right now, they pause their selling and sit. They still have \$3.5Trillion in Treasury bonds they need to sell and doing so would push bond prices down and rates up, thereby bringing back the yield curve and profitable loan rates for the banks.

**Unemployment is historically low...**

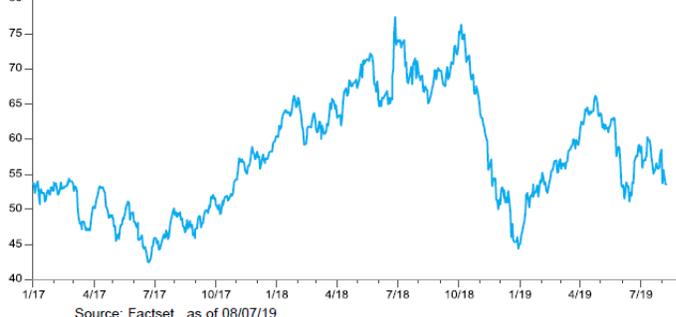
**Unemployment Rate: 16yr+ (SA, BLS)**



Source: Strategas, 08/01/2019

**...U.S. Consumers will likely benefit from lower oil prices and...**

Crude Oil, WTI /Global Spot, NYMEX - Close



Source: Factset, as of 08/07/19

**...housing is improving due to a reprieve in interest rates**

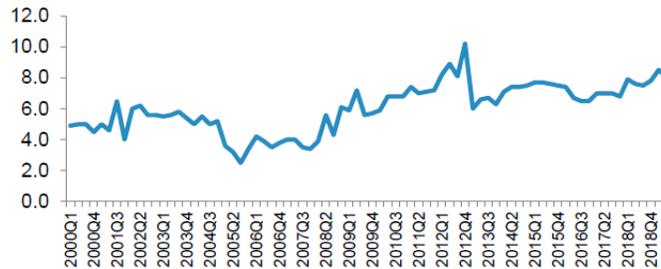
**New 1-Family Houses Sold: United States SAAR, Thous**



Source: Strategas, 7/31/2019

**Personal savings has improved**

Personal saving as % of disposable personal income



Source: U.S. Bureau of Economic Analysis (2000 Q1 – 2019 Q2)

Source: Fidelity Investments

Many investors have accepted that a mild recession will occur in the near term and they have reallocated their investments (protectively) as a result. We are seeing the fear trade moving into the defensive sectors (Utilities, Cons. Staples, Health Care,) which we already own, so it benefits us. The economy remains on a very strong foundation (See charts above) and I expect still has much more growth to deliver. However, with so many now sitting in defensive positions waiting for a market event, I do not expect the market to march ahead much further until we can say the recession and market correction are behind us. Nervous investors are in a wait and see position and, without their trading volume, the market can hold its own; but should not be setting new highs. Once we get it over with, we should be back on the growth march quickly.

The good news is that I do not expect the market correction in response to this recession will be anywhere close to the pain we saw in the last two, which saw market declines of over 50%. In those cases the market was astronomically overvalued (2000) or we had a severe shock to our financial core, the banks (2008). This time around, the recession is coming from lower global trade, as a result of Tariffs, and should produce closer to the average market reaction to a recession, about 23%. Then, we will have so much cash on the sidelines that I expect investors will rush in and buy the market back up rapidly. It will be behind us and we can get back to growth!

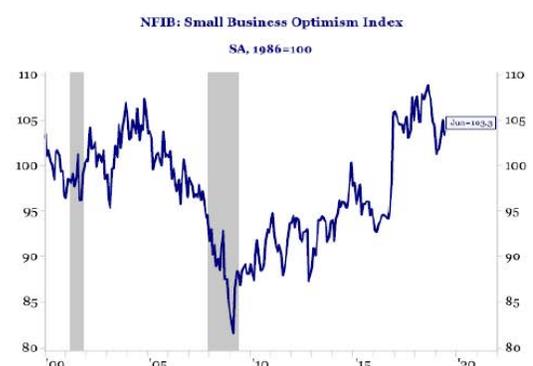
It should not be long now, as you can see in the charts below, manufacturing and business sentiment has dropped, and those are the first signs of a slowdown

### Manufacturing remains under pressure...



Source: Strategas, 08/05/2019

### ...while Business sentiment softened...



Source: Strategas, 08/05/2019

## “What is a QCD and How can it Save me Money??”

As you know, we are always looking for ways to save you a few bucks and this one will work for most.

If you did not itemize deductions due to the much higher personal exemptions on last years' taxes, you are over age 70, and you are currently taking RMD's, we may be able to save you some money this year.

The IRS requires that each year, beginning when you turn 70 ½, you must take a specific withdrawal amount (Required Minimum Distribution – RMD) from your IRA's, which is a taxable event.

Even donating the withdrawal to charity, which used to cancel out the taxation, no longer helps if you do not itemize. Solution? The Qualified Charitable Distribution (QCD).

In simple terms, the IRS allows you to transfer funds from your IRA directly to the bank of a charity of your choice. This is not taxable to you, but you are still allowed to count those funds as a part of your RMD for the current tax year, thereby reducing your taxable income while it still satisfies your RMD requirement.

## Required minimum distributions for IRAs

Age of retiree	Distribution period (in years)	Age of retiree	Distribution period (in years)
70	27.4	93	9.6
71	26.5	94	9.1
72	25.6	95	8.6
73	24.7	96	8.1
74	23.8	97	7.6
75	22.9	98	7.1
76	22.0	99	6.7
77	21.2	100	6.3
78	20.3	101	5.9
79	19.5	102	5.5
80	18.7	103	5.2
81	17.9	104	4.9
82	17.1	105	4.5
83	16.3	106	4.2
84	15.5	107	3.9
85	14.8	108	3.7
86	14.1	109	3.4
87	13.4	110	3.1
88	12.7	111	2.9
89	12.0	112	2.6
90	11.4	113	2.4
91	10.8	114	2.1
92	10.2	115 or older	1.9

Source: Fidelity Investments

To take advantage of the QCD option, there are a few things you need to be aware of:

- Your Charities must be 501(c)(3) charities
- The account owner must be over 70 ½
- Funds must transfer directly from the IRA to the charity's account
- You cannot receive anything of value in return for the donation, tickets or a meal for example.

I am not recommending you vastly increase your giving, but it would be wise to do a little planning around what you are already giving to causes that are important to you. For instance, if you place a \$20 bill in the collection plate at church every week, that adds up to \$1,000 per year. Simply tell your pastor that they will not be getting weekly donations anymore, but that you are still going to give them same amount, it is just going to come all at once each year.

If you do a little planning around this, you can make most of your donations out of pre-tax dollars rather than after tax money at home, saving you between \$250 - \$400 in taxes on every \$1,000 donated, depending on your tax rate. And, yes, you may donate the entire RMD if you wish.

When it comes time for your RMD to be processed in 2020, we will be sure to ask if you want to do a portion or all of the withdrawal as a QCD. If you wish to make a QCD, we will need the full name of the charitable organization, their address, and their Tax ID#, which they will give you if you call and ask for it. Pass that info along to us and we will take care of the rest.



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### **Financial Trivia**

Last quarter's trivia question was: "Which currently active stock exchange is the oldest in the World?" With the bonus question of: "What year did it open and what was the first stock traded?" The answer was The Amsterdam Stock Exchange opened in 1602, established by the Dutch East India Company who issued their own shares as the first shares for trading on the exchange. Congratulations to Lisa H. for correctly answering this and the bonus question in record time!

This quarter's question:

**Most are aware that a down market is referred to as Bear market and a rising market is called a Bull. Why were those two animals chosen?**

E-mail your answers to Erin at [erin@fswealth.biz](mailto:erin@fswealth.biz) and we will award a prize to the first correct answer (*Be honest, no "googling" it!*)