the financial planner

GOLDMAN LANCASTER, INC.
REGISTERED INVESTMENT ADVISOR

Winter 2020

The Markets

As the decade of the 2010's came to a close, stock market investors had to be pleased. The S&P 500 index returned 31% in 2019; the second-best year of the century so far, behind only the 32% return registered in 2013. During the fourth quarter, investor sentiment was buoyed by positive developments in the US/China trade conflict and signals from the Federal Reserve that it would hold rates steady for an extended period of time.

Some of the gains seen in 2019 simply served to recover losses suffered in the last three months of 2018. At that time the Federal Reserve was raising interest rates and seemed intent on continuing to do so despite sluggish growth and the absence of significant inflation pressures. While the Fed was causing short-term interest rates to rise, long-term rates were not responding in kind and the yield-curve was getting flatter…not typically a harbinger for good economic times ahead. Stock market convulsions in late 2018 pushed the Federal Reserve to reverse course, and in 2019 they actually *cut* rates three times. Investors liked that much better, and 2019's dramatic rally ensued.

Notwithstanding the stock market's strong performance, the global economy sputtered during the year amid trade and political tensions, and the risk of outright recession appeared to grow throughout the year. However, as the year came to a close the US/China trade deal coincided with a brightening of the tone of economic data, and as 2020 begins the consensus view is that the risk of imminent recession has very nearly abated. And as has been the case throughout the 10+ year expansion, the economy continues to muddle along at a low rate of growth. One widely held reason for its resilience has been the caution shown by corporate managements. Sluggish capital spending has contributed to a muted level of overall discretionary spending, a category which often grows in importance as the economy cycles toward overheating and resultant recession. This lack of imbalances may be a factor in allowing the expansion to continue

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What's New?

Congress recently passed a new law called the SECURE Act, which makes many changes to the rules around retirement accounts. Among others, these changes include a delay in the year in which retirement account holders are required to begin distributions from their accounts, allowing individuals over 70 to continue contributing to their IRA accounts, and taking away the ability of most beneficiaries from "stretching" distributions from an inherited account over their lifetime. If you want to discuss how the new law may affect you, call us!

Interest Rate Update

From Barron's 2/17/2020	Now	1 Yr Ago
Prime Rate	4.75%	5.50%
3-Month T-Bill Rate	1.58%	2.45%
5 Year CD - National Avg.	1.13%	1.49%
Fannie Mae 30 Yr. Fixed Conventional Mortgage	2.98%	4.01%

Financial Markets Scoreboard

Index Returns *(Through 12/31/2019)*	***Year-to-Date***	***Q4 2019***
Dow Jones Industrials	*+25.34%*	*+6.7%*
Standard & Poors 500	*+31.49%*	*+9.1%*
M.S. EAFE (Developed Markets Foreign Stocks)	*+22.66%*	*+8.2%*
M.S. EM Free (Emerging Markets Stocks)	*+18.88%*	*+11.3%*
Barclay's Capital U.S. Aggregate Bond	*+8.72%*	*+0.2%*
Barclay's Capital US Corporate High Yield Bond	*+14.32%*	*+2.6%*

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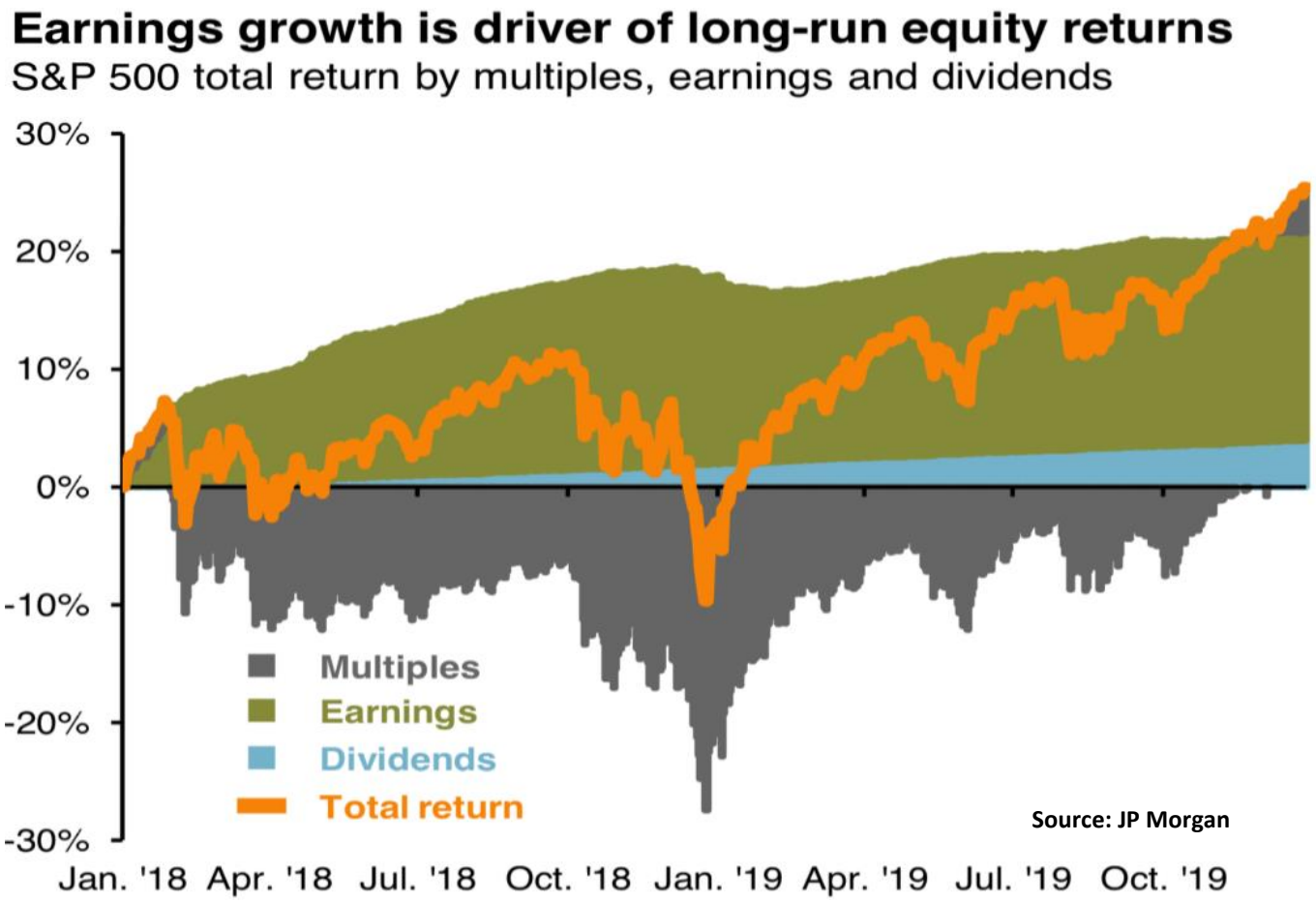
THE PERSPECTIVE PAGE
THE SOURCES OF RECENT STOCK MARKET PERFORMANCE

In the long run, stock prices track corporate profits. This makes sense, because stocks are a claim on the future profits of the issuing companies.

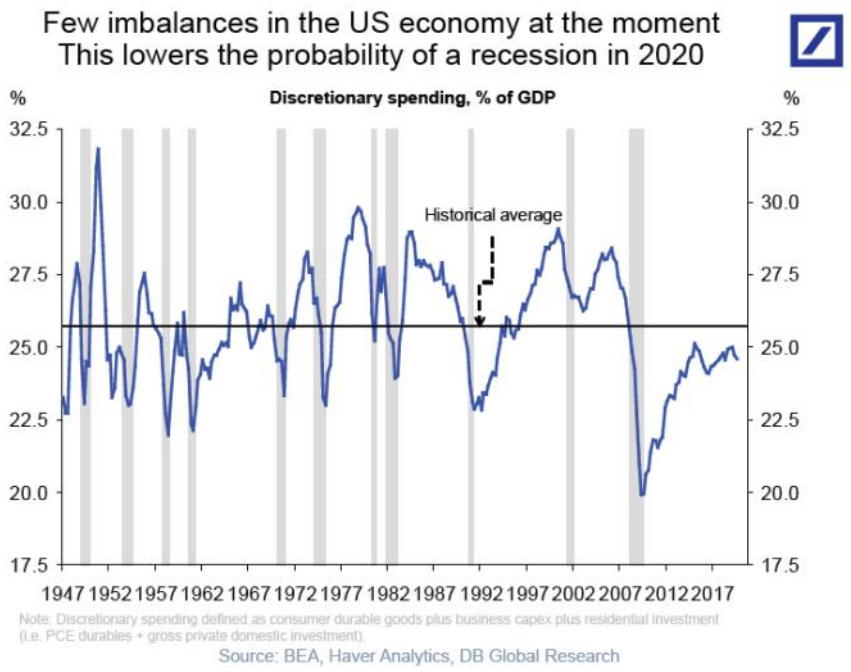
In the near term, stock prices can fluctuate widely around the longer term earnings trend, reflecting changes in interest rates and inflation expectations, government policies and the ebb and flow of confidence in the economy and markets.

The last two years illustrate this variance. In late 2017, Congress passed the *Tax Cuts and Jobs Act of 2017,* a sweeping tax law which reduced taxes on corporations, among other effects. The result of the corporate tax cut can be seen in the green area in the chart below. Tax savings represented a material portion of the 20% jump in earnings seen in 2018. Earnings level off in 2019 though, as a sluggish global economy made its mark. The sharp decline in stock prices in late 2018 can be seen in the orange line in the chart. It was driven not by a decline in earnings, but by a decline in confidence, as investors expressed concern about the course of Fed policy in the face of a slowing economy. This is reflected by the grey area, which reflects a decreasing price to earnings ratio for the market as a whole. The Federal Reserve's about-face on interest rates triggered a return of confidence in the market, and what we can see clearly below is that the gains in the market in 2019 were nearly 100% attributable to an increase in the price of stocks relative to stagnating earnings. Analysts are confident that earnings growth will reappear in the second half of 2020. We think that will be necessary in order for the market to sustain its current upward trajectory throughout the year.

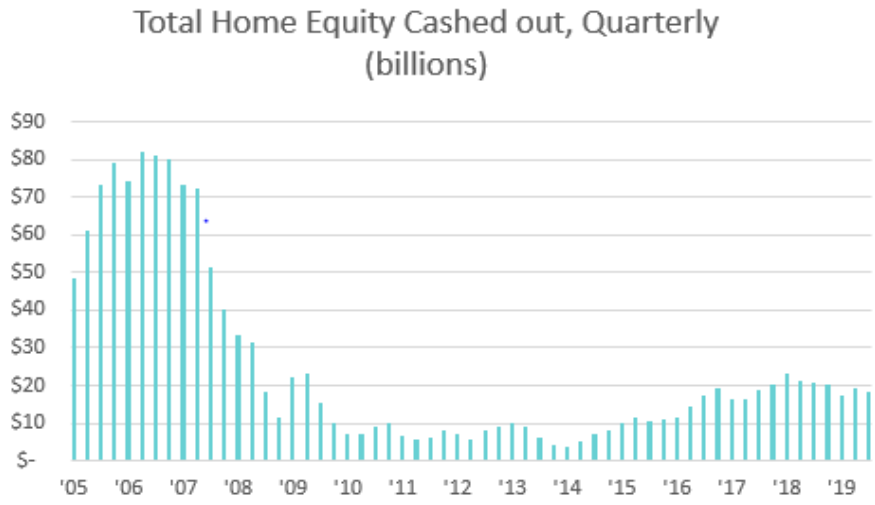


Markets *(Continued from page 1)*

much longer than what is typically expected. The concept is illustrated graphically here.



Another illustration of this idea can be seen in mortgage data. The next chart shows the amount of money received in cash-out home refinancing's each year. While amounts have grown from the lows of the period following the '08-'09 financial crisis, they remain well under the excesses leading up to the crisis.



Source: Freddie Mac

Who says stock investors have all the fun? 2019 was a strong year for fixed-income investments too.

Sluggish economic growth, ongoing ultra-easy money policies from central banks throughout the developed world and disinflationary pressures in all manner of manufactured goods served to push interest rates lower in 2019. As a result, long-dated US Treasury bonds returned almost 15%.

Shorter term bonds returned much less, (low single digits) given the very low-rate environment and the limited amount of interest rate sensitivity inherent in short term bonds.

Paradoxically, high-yield corporate bonds performed just about as well as long-dated Treasuries; the Barclays Capital U.S. Corporate High Yield index returned over 14%. This is unusual because most often, when longer term interest rates are falling it is a reaction to worsening prospects for economic growth, which in turn implies lower sales and profits for businesses. High-yield bonds are issued by companies typically most vulnerable to economic downturns, and one would expect them to struggle when long rates are falling. These "mixed signals" reflect the extremely benign financial conditions which are a product of ongoing central bank policies: a "Goldilocks" environment. As long as these conditions persist, investors in risk assets may continue to feel "just right". Even so, diversification remains the order of the day.

The Personals

"Time keeps on slippin', slippin', slippin, in to the future"
Steve Miller - Fly Like an Eagle

I recall being a teenager and thinking that I would reach claiming age for Social Security retirement benefits in 2028. The idea was extremely abstract at the time, as it seemed like forever-away. Amazingly, as we usher in the actual decade containing 2028, it is no longer abstract at all, and it is just incredible to me that we are already here.

I recall too that back in the late 70's I didn't think at all about how it would actually feel to be this age; probably just as well! It's far from all-bad though. The intervening years have yielded much I'm proud of, #1 being my daughter Ashley, who is now 28 !! and in year two of the four-year dentistry program at Case Western Reserve in Cleveland, OH. Another is the relationships I have with many of the readers of this letter.

I embarked on my career in 1986, at the age of 23. As I grew my practice in those early days, most my clients were of course older than me, mainly because not many people my age had much use for my services! Over the last 33 years, I've been blessed to enjoy meaningful long term relationships with many of my clients. As a result, I can count quite a few 25+ year friendships with clients who are 25+ years older than I. Of course, the hands of time have touched all of them too.

It is a result of my place in your lives and the passing of time that some of the long-term readers of this letter now need help from their kids; help managing care, help managing life, and/or help managing financial matters. Some have even passed on. The way I see it, at this point my responsibilities rise, as the verdict - relating to the planning that we've done together - is read in real life.

I feel blessed all over again to be given the opportunity to collaborate with the "kids" in these cases, helping them help their parents and ultimately conveying to them the spirit of the loving intentions their parents' had for them.

I think there's power in thinking ahead in ways that are at least a little abstract, so let me say, I hope to stay in this role well past 2028!

THANK YOU!

...to the following clients and colleagues for showing your confidence in me by referring your friends, family members, associates and clients to me during the last three months…

Pat Daly, Connie Deckon,
Jan Kallemeyn
&
Jorge & Lupe Uribe