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FINANCIAL PARTNERS

Using our **KNOWLEDGE, SKILLS** *and* **RESOURCES** *to help people increase their capacity to* **LIVE** *and to* **GIVE**

FEBRUARY 2019

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Come See Our New Office

It seems like only yesterday we hired the high school kids at Lawrence Wesleyan Church to help us move from our Iowa Street location to our current space on 31st Street. It was actually in 2002 when we moved and Karey and I remember it quite vividly. She was pregnant with her daughter, Emily, who would basically live on Karey's desk for her first few months of life.

My daughter, Caroline, also arrived in 2002. She is now driving and starting to study for the ACT exam to see where she goes to college. Karey has since added one to her flock; and Vickie has added two. They're amateurs. After Caroline, we had two more. Although, my friend, Alan and his wife, Nicole, just announced #16 (that's not a typo) is expected in June. It's all in your perspective, I suppose.

My mom told me years ago, that parenthood is a weird time. The days never end, but the years go by quickly, so hold on tight.

Anyway, as of now we are scheduled to move into our new office sometime in April. Our new space will have a much broader floor plan, tons of parking, and an overall better feel. We'll be sharing our office space with Colliers International real estate, our IT experts, and a couple other local businesses. The most important part of the whole operation will be a new pellet-fired smoker on which Jim and I plan to smoke a lot of pulled pork, ribs, trout, and our newest addiction…smoked pistachios.

With the new space we also anticipate organizing some community events. We're kicking around food trucks and car washes among other things.

Did I mention there will be a state-of-the-art batting cage and sports fitness facility on the property?

We're really looking forward to our new digs, and we hope to see you there.

Keep an eye out for our invite to our Open House in late spring or early summer.

- Peter Knutson, CFP®, CLTC

KU recently announced an early buyout program called the Voluntary Separation Incentive Program (VSIP). If you've decided to take the VSIP or know someone who has, we can help. There are significant time-sensitive planning opportunities we can employ to maximize your overall benefit from the VSIP.

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Market Commentary: What's In Store For 2019?

Written January 18, 2019

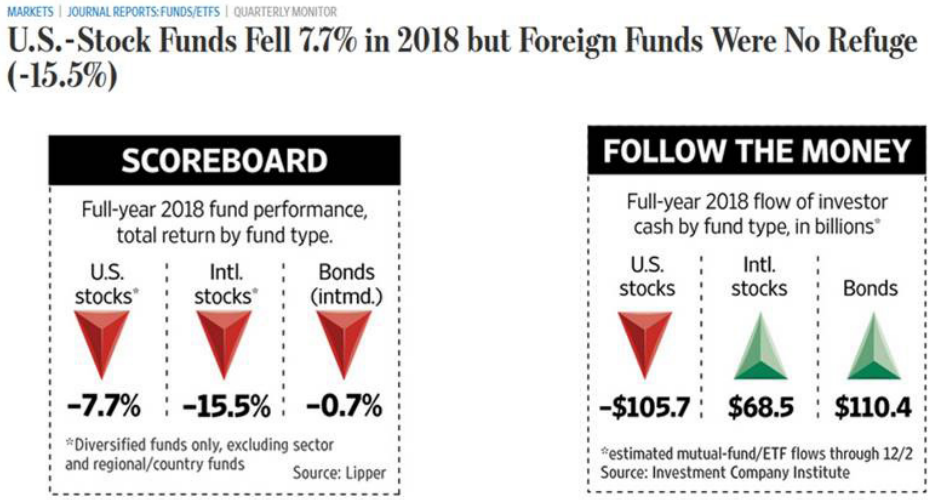
For the first time in nine years, US stocks (as measured by the S&P 500) posted a negative year, down 7.7% in 2018. Equities had been positive for most of the year thanks to strong economic data driven by the effects of corporate tax cuts. But in the 4th quarter, fears of a slowing global economy, escalating trade tensions, and tightening central banks sent markets sharply lower. The S&P 500 dropped 13.5% in the last quarter of 2018. Oil declined 40% on oversupply issues and weakening demand. Investors sought safety in bonds as the 10-year Treasury yield dropped to 2.69%.

Last year was especially brutal after 2017 lured investors into calm overconfidence. If you recall, 2017 was the least volatile year on record, marching upward every month of the year. Then 2018 happened and investors were quickly reminded how irrational and brutal markets can be. After all, markets are really just made up of a bunch of people (and computer algorithms) bartering with each other on their respective electronic street corners, reacting to information and other people's opinions. We know from experience that markets can turn on a dime (or a headline). It's the nature of the beast. But somehow, investors are surprised when it happens.

What caused the market to struggle so mightily? Plenty of issues came to light in 2018 but I'm going to highlight the ones that will remain concerns in 2019: tariffs, Brexit, and the Fed.

1. Tariffs

Economists polled by Business Insider stated that the number one threat to the economy in 2019 was the trade war with China. The US slapped tariffs on $250 billion of Chinese goods last year and China retaliated with duties on $110 billion worth of US goods. While the two sides have shown signs of a possible agreement recently, the tariffs are still in place and beginning to take their toll on consumers.



The fear is that keeping existing tariffs in place for a longer period of time, increasing those tariff rates, and imposing new tariffs will drive up prices of imported goods for US consumers and businesses. This would slow investment and consumer spending, which would hurt GDP growth.

While signs of consumer inflation from the tariffs has been limited to a few items, S&P 500 companies are starting to report cost pressures and disruptions from the trade war. And the longer Trump's fight with China continues, the more likely it starts to reach the average American consumer.

2. Brexit

Britain voted to leave the EU through a referendum held in June of 2016. On March 29th, 2019, Britain won't be a part of the EU any longer. However, what that actually means has yet to be determined. Leaving the EU has never been done before, and so far no deal has been reached between Britain and the EU. If no agreement can be made, it means there would be no 21-month transition period. If that was the case, consumers, businesses, and public bodies would have to respond immediately to changes as result of leaving the EU.

The consequences would involve Britain being subject to tariffs on imported goods, reversion to the World Trade Organization rules on trade with no trade agreements in place with other countries, and unclear fates for Europeans living in Britain and Britons living in other parts of Europe, just to name a few. It would likely cause a ripple effect throughout Europe and the rest of the world. If that were the only thing happening in the midst of a strong global economy, I'd say we could handle it. But economies around the globe (including ours) are probably going to show signs of slowing in 2019, especially if the Federal Reserve stays on its current path.

3. The Federal Reserve

Everyone's talking about rate hikes but I think the balance sheet is even more important. While rising rates are making headlines, the Fed is also reversing the effect of quantitative easing by allowing about $50 billion worth of Treasuries and mortgages to mature without reinvesting the proceeds.

To give some background, the Fed pursued a policy of injecting liquidity into the financial markets after the financial crisis of 2008. This was called "Quantitative Easing (QE)." It's a bit high-brow, but the Fed was buying mortgages and Treasuries on the open market—they were exchanging dollars/cash for others' real estate and bonds. If you own a home, you are limited in what you can do with that home. However, if someone buys it

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Market Commentary

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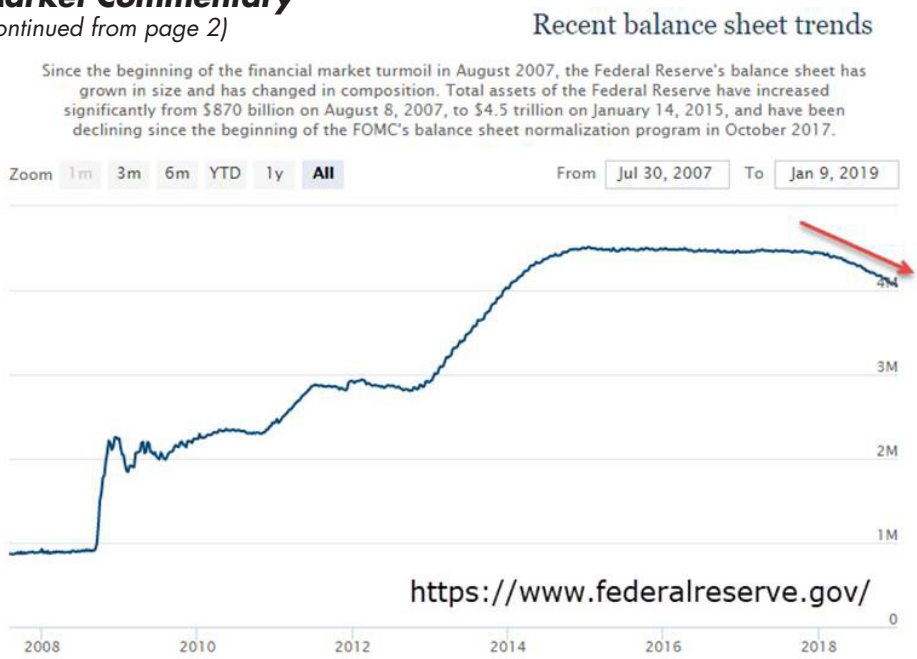

from you, you can do almost anything you want with the cash you receive. By exchanging cash for property, the Fed was "increasing its balance sheet." From 2009 to 2012 the Fed was slowly growing their balance sheet and stocks were continuing to climb. When the Fed really embraced QE in late 2012, the balance sheet increased dramatically and stocks rallied in response. In 2015, the balance sheet stopped growing but the additional liquidity was still in the system. Stocks continued higher, although with increased volatility. In 2016, Trump was elected and tax cuts were enough to send the market on another run through 2017.

But in October 2017, the Fed started decreasing their balance sheet by up to $10 billion a month, which increased to $20 billion a month in January 2018 and $30 billion in April, then $40 billion in July and $50 billion in October. What started out small is now meaningful. And at this pace, 2019 will see a "quantitative tightening" of $600 billion.

This is all a big experiment at this point, one that financial scholars will study and argue about for decades after the fact. This has never been done, but if it's true that quantitative easing helped the market by providing additional liquidity, it stands to reason that taking money back out of the system will create a drag on markets to some degree.

The mantra for 2019 will be to pay attention, because things are going to get very interesting.*

- Victoria Bogner, CFP®, CFA, AIF®

Help Out Your Accountant

Even though the government is shut down (as of the writing of this article), the IRS is not. The tax man is making his rounds in an about sixty days. Help out your accountant by collecting all necessary 1099s, W-2s, and other forms and having them neatly organized. They also like cookies and fruit baskets this time of year.

Also—and this is significant—we suggest clients hold off on filing their tax returns until April 1st or so. The reason for this is the mutual fund/investment/brokerage industry is notorious for sending out 1099 information in February only to send out updated/corrected forms in March. This means you'll have to amend your returns if they're inaccurate. Accountants don't like this and you may end up paying additional fees to him/her. On another important note, even though the government is shut down, President Trump has said refunds will be issued as they have been in the past. So we got that going for us…which is nice.

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Investors cannot invest directly in indexes. The performance of any index is not indicative of the performance of any investment and does not take in accounts the effects of inflation and the fees and expenses associated with investing.

Some IRAs have contribution limitations and tax consequences for early withdrawals. Distributions from traditional IRAs and employer sponsored retirement plans are taxed as ordinary income and, if taken prior to reaching age 59½, may be subject to an additional 10% IRS tax penalty. For complete details, consult your tax advisor or attorney. Converting from a traditional IRA to a Roth IRA is a taxable event. A Roth IRA offers tax free withdrawals on taxable contributions. To qualify for the tax-free and penalty-free withdrawal of earning, a Roth IRA must be in place for at least five tax years, and the distribution must take place after age 59½ or due to death, disability, or a first time home purchase (up to a $10,000 lifetime maximum). Depending on state law, Roth IRA distributions may be subject to state taxes.

The S&P 500 Index is a capitalization-weighted index made up of 500 widely held large-cap U.S. stocks in the Industrials, Transportation, Utilities and Financials sectors.

A diversified portfolio does not assure a profit or protect against loss in a declining market.

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Save the Date!

Please join us on Friday, March 8th for the Theatre Lawrence production of *Quilters*!

Quilters is a musical by Molly Newman and Barbara Damashek, telling a story of frontier women through their quilts. With music and dance, a woman and her six daughters share the beauty and terror, the joy, the harsh challenges and the rewards of pioneer life. Original quilts by Lawrence quilters will be used and displayed during the performance. Make sure you stay through the finale; you'll be glad you did.

Seating is limited, so to reserve your tickets please RSVP to brenda@mcdanielknutson.com.