JFL TOTAL WEALTH MANAGEMENT

2019 Q4 ECONOMIC RECAP

- Plus: Is an Annuity Right for Me?

Upcoming Mailings:
February Newsletter
March Newsletter

Jerry Lynch, CFP®, CLU, ChFC
305 West Main Street, Boonton, NJ 07005
(973) 439-1190 | www.JFLTotalWealth.net

As we look back and reflect on what was predicted by many to be a year of worry and concern, equity markets advanced heavily in 2019 and investors were rewarded. The final month of the year brought several new highs for both the S&P 500 and the Dow Jones Industrial Average (DJIA). In the fourth quarter of 2019, the S&P 500 rose over 9% and for the year it turned in its best annual performance since 2013. The DJIA also had a strong quarter rising 6.7%.
(Source: RWBaird.com 1/1/2020)

If someone had told you on January 1, 2019 that the year would start off with talk of a global economic recession that might take the U.S. economy down with it, plus that the U.S. would be in a trade war with China and the President would get impeached, you might have wondered how much equity markets would retreat. Some felt that 2019 was going to be a challenging year for stocks with volatility taking center stage.

Well, there was no Bear Market in 2019, and for that matter, there wasn't even a correction. A correction, or 10% drawdown, isn't uncommon for the stock market. In a year that had no shortage of headwinds, the maximum pullback was less than 7%.

The continual advancement of equities has kept the longest bull market of all-time intact. Both the S&P 500 and the DJIA posted many new highs in 2019 and all throughout the fourth quarter. Optimism about the U.S. economy improved and investors also saw potential trade

MONEY RATES

(as posted in Barron's 12/30/2019)

	LATEST WEEK	YR AGO
Fed Funds Rate (Avg. weekly auction -c)	1.55%	2.36%
Bank Money Market -z	0.21%	0.22%
12-month Cert -z	0.73%	0.88%

c - Annualized yields, adjusted for constant maturity, reported by the Fed Reserve on a weekly average basis. z - Bankrate.com (Source: Barron's; bankrate.com)

developments. During the fourth quarter, the U.S. reported that the economy grew just above 2% in the previous quarter, driven by healthy consumer spending.

Employment numbers continued to impress analysts with an average addition of 205,000 jobs per month in the fourth quarter. Unemployment closed the year under 3.5% with limited wage pressure. On a negative note, businesses were reluctant to invest in 2019 and manufacturing contracted in December to its lowest level since 2009.

2019 ended on a high note for investors, unlike 2018, where just about everybody was questioning the stability and the possible end of the Bull Market. After this year of strong returns, analysts are still mostly bullish, but they are predicting modest gains for 2020.

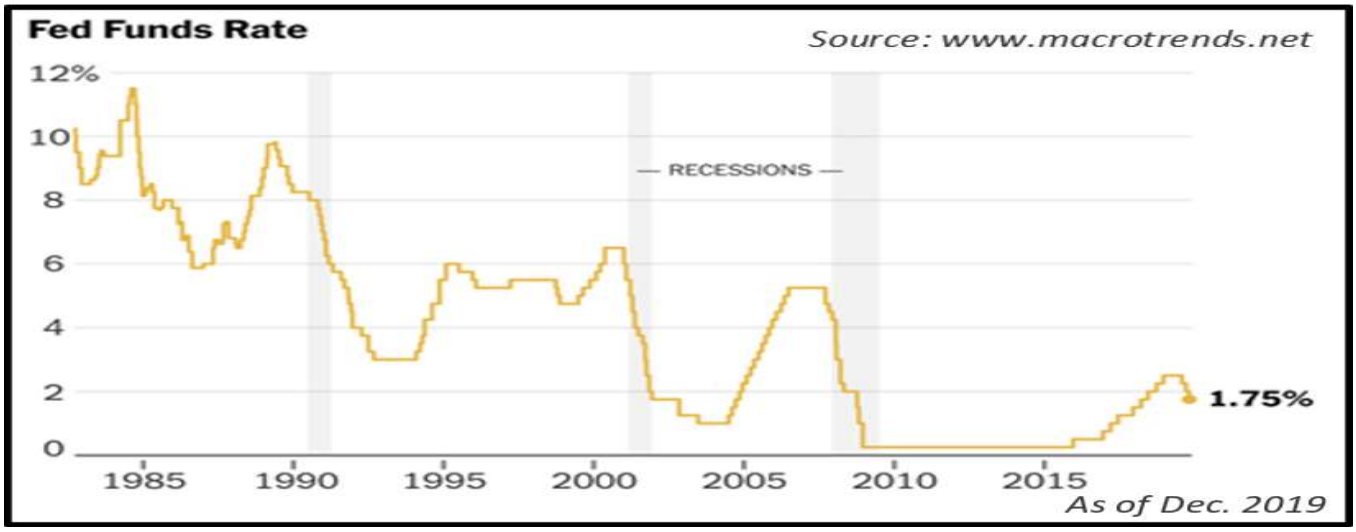
Global Economic Fears

While the U.S. economy did not experience a recession in 2019, the global economy showed signs of weakness. Global growth for the year recorded its weakest pace since the global financial crisis a decade ago, reflecting common influences across countries and country-specific factors.

According to the International Money Fund (IMF), rising trade barriers and associated uncertainty weighed on business sentiment and activity globally. In some cases (advanced economies and China), these developments magnified the cyclical and structural slowdowns that were already under way.

Key Points For Investors

1. **Equity markets made new highs again this quarter.**
2. **The bull market is over a decade old and is the longest on record.**
3. **Global economic conditions continued to be concerning in the fourth quarter.**
4. **Interest rates remained unchanged at 1.50% - 1.75% in December.**
5. **Trade wars and political concerns can create market and investment uncertainty.**
6. **Many analysts are predicting modest growth for equities in 2020.**
7. **Investors should still proceed with caution in 2020.**
8. **Focus on your *personal goals* and call us with any concerns.**



Further pressures came from country-specific weakness in large emerging market economies such as Brazil, India, Mexico and Russia. Worsening macroeconomic stress related to tighter financial conditions (Argentina), geopolitical tensions (Iran), and social unrest (Venezuela, Libya, Yemen) rounded out the difficult picture. ***(Source: IMF.org 1/1/2020)***

One of the more discussed international topics of quarter four was Brexit. While Brexit made headlines weekly during the quarter, the market shrugged off this issue. When Boris Johnson was elected Prime Minister, Britain's plans for Brexit became clearer. On December 20th, the United Kingdom's parliament voted 358 to 234 in favor of Prime Minister Boris Johnson's plan to leave the European Union on January 31st. Brexit clarity is hopeful to have a positive effect on the U.K. economy, where investment expenditures in particular have been weak due to muted business confidence levels.

Central European banks have reacted aggressively to the weaker economic activity. To end the year, several banks, including the European Central Bank (ECB), cut interest rates and the ECB also restarted asset purchases.

A lackluster global economy and further slowdown can affect investors. In 2020, this is an area that needs to be monitored.

Interest Rates are Still Crucial

In 2019, many types of bonds have delivered some of their best returns in more than a decade. Bond prices rose because the Federal Reserve cut interest rates three times, after raising them in 2018 (bond prices rise when rates fall).

Following rate cuts in July, September and October, the Federal Reserve held interest rates steady at its December meeting at 1.50% - 1.75%. In a statement explaining the decision, the committee indicated that monetary policy is likely to stay where it is for an unspecified time, though officials will continue to monitor conditions as they develop. The decision to keep rates unchanged was unanimous, following several dissents in recent meetings. "The Committee will continue to monitor the implications of incoming information for the economic outlook, including global

developments and muted inflation pressures, as it assesses the appropriate path of the target range for the federal funds rate," the committee stated. ***(Source: CNBC.com 12/11/2019)***

There was much talk earlier in the year about an inverted yield curve (which meant that short-term rates were higher than long-term ones). Headlines pointed to the fact that before the last 7 recessions, the 3-month to 10-year yield curve inverted and then the recession followed 4 to 21 months later. Currently, the yield curve is no longer inverted. Historians also remind us that this inversion also happened in 1966 and 1998 without a recession afterward.

Interest rates are still near all-time lows, but clarity with the direction of interest rates can be a positive for investors. **For 2020, interest rates will continue to be on the forefront of our "watch" list.**

Trade Wars and Political Concerns

The Trump administration continued the trade dispute with China during 2019, in an attempt to address practices they said put U.S. companies at a disadvantage. After a year of struggle, in December 2019, the two sides agreed to pause and work on a trade agreement. As of the writing of this report, the two sides are on track to sign a "phase one" deal in early 2020. There is always the possibility of trade negotiations between the U.S. and China falling apart.
(Source: BusinessInsider.com 12/30/2019)

The new year also brings a Presidential election in the United States. In December, Donald J. Trump became the third President to be impeached, as the House of Representatives approved two articles of impeachment. The uncertainty around the timing of a Senate hearing and the U.S. political scene is concerning for investors. While the impeachment should not have any negative impacts on fiscal or monetary policy, any disruption of this magnitude can affect emotions and behaviors.

Also, as of the writing of this report, tensions with Iran were flaring. Politically speaking, there are still many unknowns to be attentive to.

For 2020, we will continue to watch how political and geopolitical events unfold.

Where are the Markets Headed?

Investors are still enjoying the longest bull market ever, but there are two directions of thought to consider. One is the fact that based on historical numbers, like price earnings, equities continue to be overvalued and overpriced. The other thought process insists that we are still in a "**TINA**" market, meaning, **T**here **I**s **N**o **A**lternative to stocks. There are investors that look for growth and others that look for yield. With low to limited yield from fixed rates, some investors feel that there could be more upside in the current market. Equities are not cheap and even the savviest of investors need to have a watchful eye on risk. As financial professionals, we assist clients by providing

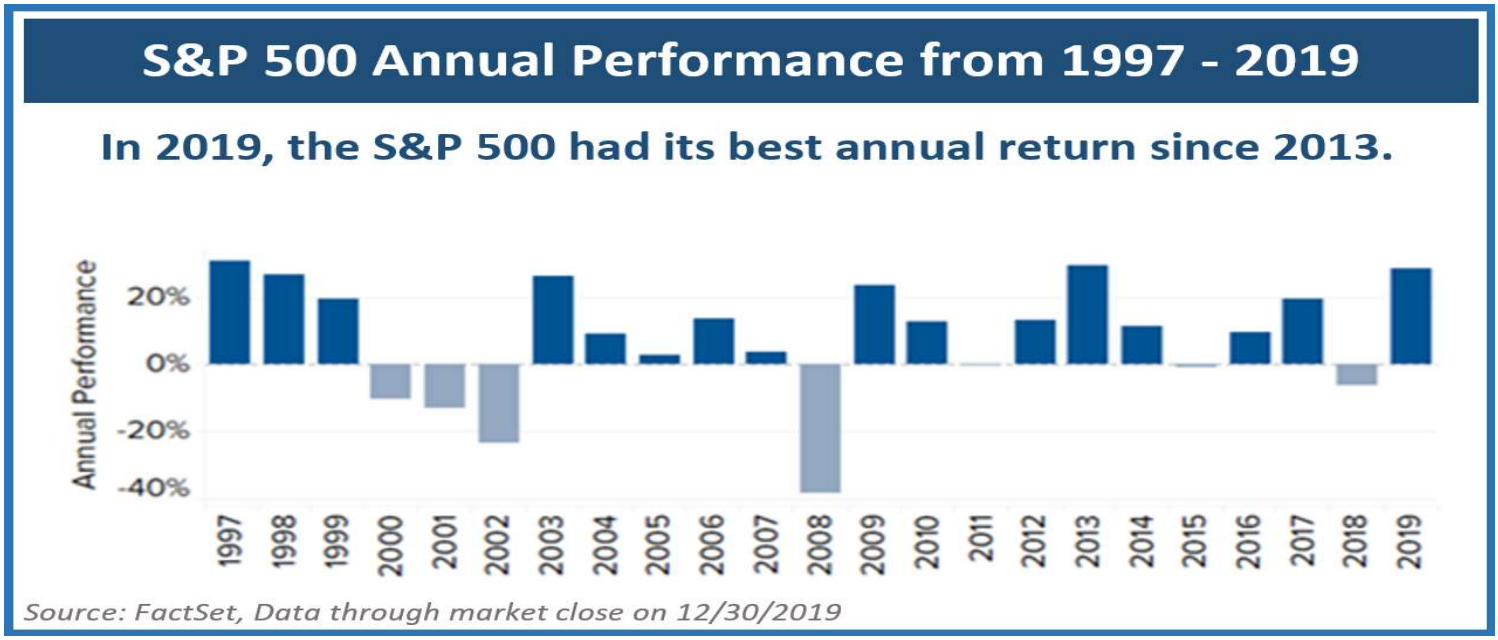
ideas and suggestions based on their personal circumstances.

As seen on the chart of the S&P 500 performance from 1997 to 2019, in 16 of the 23 years the market ended the year with a positive return. However, those who took on significant equity exposure in 2007 or 1999 might not have fared well the following year. On the other side if an investor was scared after 2002 or 2008 and avoided equities, they might have missed a great opportunity to grow their portfolio. Currently, short-term interest rates and cash equivalent yields are still historically low. Investors seeking returns should consider owning equities. That could lead to volatility in 2020.

When creating a long-term plan, it can require you to avoid emotional decisions that may trigger you to make impulsive moves. **Our goal is to focus on each client's timeframes and goals.**

2020 Outlook

What a difference a year makes! In December of 2018, for 2019, analysts feared rising interest rates, an aging bull market, recession fears and trade wars. Equity markets proved these fears to be wrong, as they delivered record-breaking highs and very positive results. Many analyst are being cautious with their 2020 forecasts. As we have already noted, they too feel interest rates are very low. They also acknowledge that there are both past and new risks for investors on the horizon. They maintain that stock valuations are currently challenging. That leads to a "more muted outlook for 2020," according to the 10 strategists Barron's surveyed. They conclude that for 2020, "the markets and the economy face an array of obstacles." They still see continued gains ahead for the current bull market. They forecasted "an average rise of 4% for the S&P 500 in 2020. Add to that a roughly 2% dividend yield, and stocks could deliver a total return of about 6% next year."
(Source: Barron's 12/19/2019)



Even though she is looking for equity advancements, Abby Joseph Cohen, the Advisory Director and Senior Investment Strategist of Goldman Sachs, warns investors by sharing, "I spend my time looking at what could go right and what could go wrong and there is a lot more things on the what could go wrong list." ***(Source: Barron's 12/19/2019)***

The stock market still has room to run, says Stephen Auth, Chief Investment Officer of Federated Investors. He says, "Much of the uncertainty that has been problematic for the economy has dropped asway." He shares that with low interst rates and high corporate earnings, the S&P 500 still has room to run. ***(Source: Seeking Alpha 1/9/2020)***

Geopolitical uncertainties and headlines from the upcoming U.S. elections to trade tensions between the U.S. and China might continue to grab an investors attention. Once again in 2020, we are suggesting that when you see confusing times, it is usually best to proceed with caution. With the start of a new year, we think it can be helpful to repeat some of our strategies for investors to consider annually.

Strategies for Investors

✓ **Is there a change in your financial goals or objectives?**

Investors should always place their primary focus on their own personal goals and objectives. It is important that you understand your situation and your financial plan. Letting your emotions drive your decisions can be costly. Here are strategies that money managers consider when making decisions.

✓ **Has your risk tolerance changed?**

You should always attempt to match your investments with your risk tolerance. Equity markets should continue to move up and down. Even if your time horizons are long, you could see short-term downward movements in your portfolios. Each type of investment poses a certain level of risk and offers a level of potential reward. It's always wise to share with us what level of risk exposure you are comfortable with.

✓ **Are any of your time frames different?**

If you have a change in your time frames, then contact us and we will be happy to discuss this with you.

✓ **Are you an investor or a speculator?**

In general, a main difference between speculating and investing is the amount of risk involved. Investors primarily attempt to generate a satisfactory return on their capital by taking on an average or below-average amount of risk.

Speculators are defined as those who are seeking to make abnormally high returns from stakes that can go one way or the other.

Some of the characteristics of investment and speculation could overlap each other, but it is helpful to understand the main differences separating these two terms. While all investments can include some speculation, not all speculations are necessarily investments. The objective of both is to earn profits, however the methodology is different. There is nothing correct or incorrect in the approach, but it

Investment vs Speculation

One of the key differences between investment and speculation can be the timeframe.

Investing is generally the act of buying and holding an asset for the **long-term**.

Speculating is typically taking high risks and can include trying to make big returns over a **short period of time**.

depends on the true objective of the individual and the measure of risk they are willing to bear.

Our goal is to work with clients to help identify ways to meet their objectives.

We are Here for You!

Our advice is not one-size-fits-all. We will always consider your feelings about risk and the markets and review your unique financial situation when making recommendations. If you would like to revisit your specific holdings or risk tolerance, please call our office or bring it up at our next scheduled meeting**. If you ever have any concerns or questions, please contact us!**

We pride ourselves in offering:

- Consistent and strong communication
- A schedule of regular client meetings
- Continuing education for every member of our team on the issues that affect our clients.

A skilled financial advisor can help make your investment journey easier. Our goal is to understand our clients' needs and then try to create a plan to address those needs.

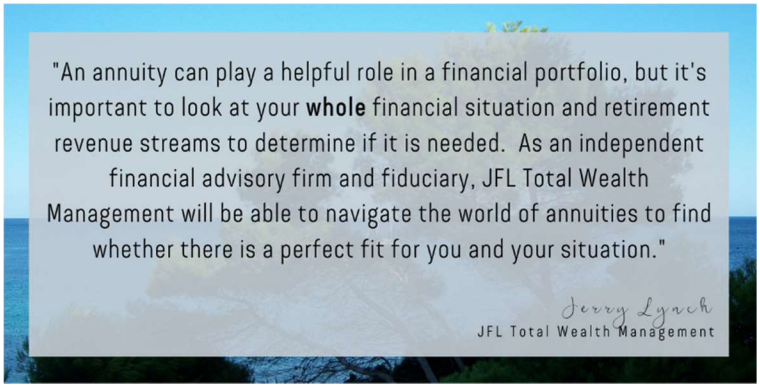
Is an Annuity Right for Me?

By Drew Dvorak
Vice President, Advisors Resource LLC

Many Americans ask "Is an annuity right for me?" without really understanding what an annuity is and how it can benefit a retirement plan. Let's dive in to the *what* and *why* to determine whether an annuity might be a fit for your current portfolio.

First, let's consider the ***what***. Annuities have been available in the United States dating back to 1812 (although the Romans are credited with their creation). At its most simplistic form, an annuity is a contract between the insured and the insurance company, where the insured exchanges a lump sum of money (commonly referred to as premium) to the insurance company in exchange for guaranteed monthly income checks that last throughout the insured's life—even if you outlive the premium exchanged.

But ***why***? For many people who do not have a company or state pension, an annuity can create a much-needed guaranteed income source to compliment Social Security benefits. If the idea of running out of money in retirement is a concern to you, then looking at guaranteed income sources such as annuities might be a good fit.



There are 3 major "types" of annuities in the current marketplace:

Fixed Annuities

A fixed annuity is an exchange of premium to an insurance carrier with the promise of paying you back a guaranteed amount of interest over a specific period of time. Most fixed annuities have a 3-5 year holding period before you have surrender abilities, and pay out rates that currently range from 2.5% - 3.5% depending upon the ratings of the individual carriers (ratings are based on the financial strength of the carrier).

Fixed annuities are very similar to Certificates of Deposit (CD's), in that you are guaranteed to receive your principal investment, plus a certain amount of interest. But based on the size of the insurance carrier, a Fixed Annuity can often offer higher paid interest than what a bank can delivery with a CD. Fixed Annuities also offer principal protection, which means that your principal and accrued interest are 100% protected and guaranteed by the insurance company against stock market losses. You will never lose your premium value or any of the interest you have earned.

Fixed Indexed Annuities

Fixed Indexed Annuities (FIA) are similar to Fixed Annuities, in that they offer a guaranteed minimum return. The primary

difference between a Fixed Annuity and an Indexed Annuity is that the Indexed Annuity will have a Cash Value that is linked to an external index, such as the S&P 500, Nasdaq 100, or various other index options. The earning potential with a Fixed Indexed Annuity is greater, but the growth is not guaranteed (as it is with Fixed Annuities). Most Fixed Indexed Annuities have 5-10 year holding period, and there is often a hefty surrender charge if you surrender the policy early.

Indexed Annuities often offer an Income Rider, which can be added to your annuity contract and thought of like a paycheck during retirement—it provides an income stream over the course of your life (and your spouse's life as well if you select a joint income payment), even if your original investment goes to zero. With the life expectancy of the average American exceeding age 78, this type of "living benefit" has become a popular financial tool to create new incomes sources—some even come with inflation-adjusted benefits, meaning income can increase each year you receive your annuity payments. This rider can be a valuable option if you are concerned about maintaining purchasing power over your lifetime.

Please know that income riders have a cost. With Indexed Annuities, costs can vary from 0.5% - 1.2%.

Variable Annuities

Variable Annuities again are contracts between you and an Insurance Company, but your rate of return changes with the stock, bond and money market funds (called subaccounts) that you choose as investments. You are able to change your portfolio within the annuity, but the value of your annuity rises and falls with the markets—this provides the opportunity for higher gains, but also the risk of losses. Most Variable Annuities protect investors from the possibility of loss by providing a guaranteed minimum return. However this guaranteed return comes at a cost, which is one of the primary differences between Fixed and Variable Annuities.

In most Variable contracts, you will see the following fees:

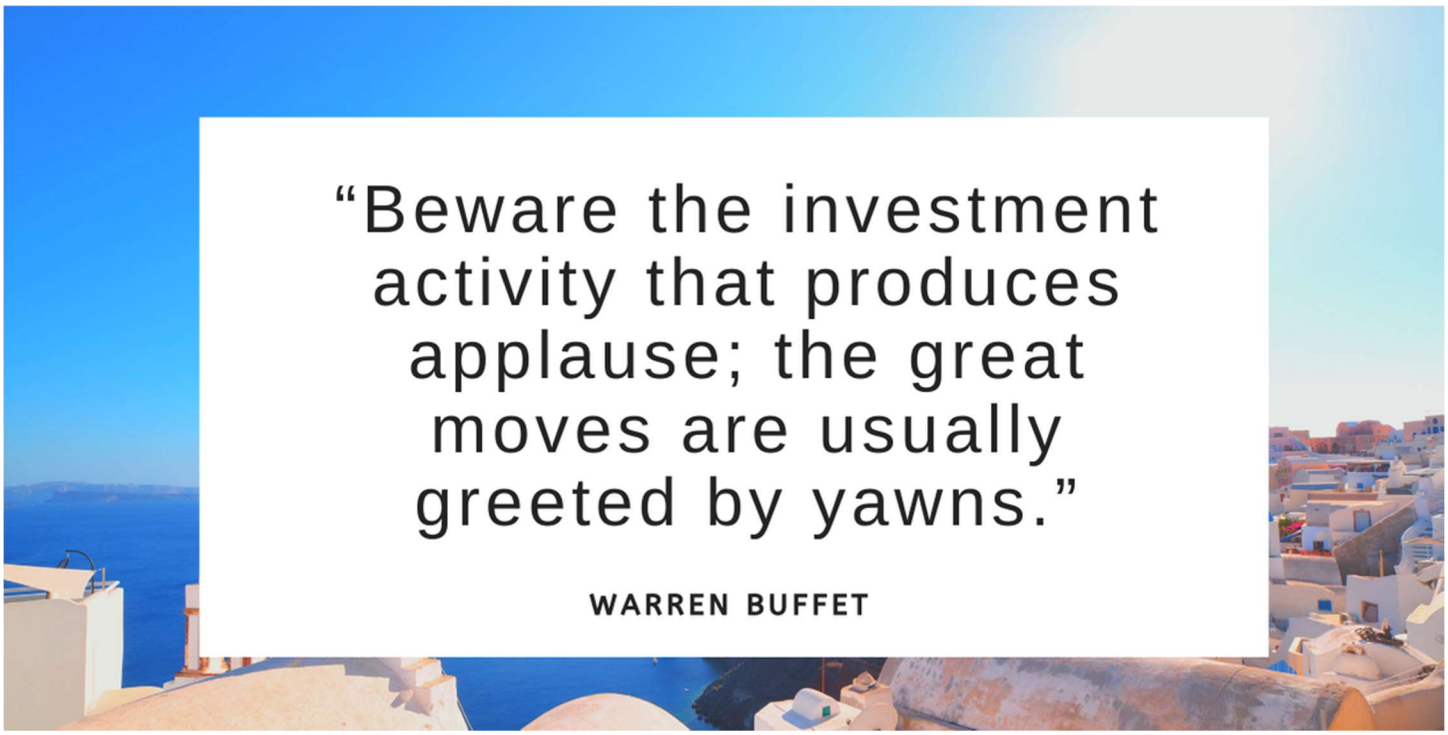
	FIXED ANNUITY	FIXED INDEXED ANNUITY	VARIABLE ANNUITY
PURPOSE	Accumulation (building wealth)		
METHOD	Like a CD	Track indices	Invested in funds
GUARANTEE	Fixed growth rate	Principal protection + index potential	No guarantees
UPSIDE POTENTIAL	No	Yes	Highest potential, based on investment performance
FEES	No fees	Rider charges, if added to policy	1.5% - 3.5% in annual fees

- **Mortality and Expense:** This fee is charged by the Insurance Company in order to provide a death benefit. Cost ranges anywhere from 0.5% - 1.5%.
- **Administrative Expenses**: This service fee maintains items such as mailing and policy administration. Costs range from 0.1% - 0.3%.
- **Investment/Expense Ratio:** Inside the Variable contract, the underlying investments may have associated costs. These tend to vary widely, as there are so many investment options, but are typically 0.25% - 1.5%
- **Income Rider:** We discussed these in the Indexed Section, but these can be used to guarantee streams of income for you or for you and your spouse. Costs for income riders can vary from 0.5% - 1.5% for Variable Annuities.

Because it is can be difficult to understand what exactly is included in an annuity contract, it is important to discuss the following with your financial advisor:

- What are the annuity's terms, fees and expenses?
- How long will your money be tied up in the annuity? Is there a surrender charge or tax consequences if you surrender early?
- What are the commission /compensation charges?
- How do you make money?

Please keep in mind that annuities work well if you are looking to create a new income source or if you are concerned about outliving your income. Annuities can add value to your portfolio when used correctly. If you think an annuity may be right for you, please reach out to at JFL Total Wealth Management at 973-439-1190 to schedule a consultation.



HELP US GROW!

This year, one of JFL's goals is to offer our services to several other people just like you!

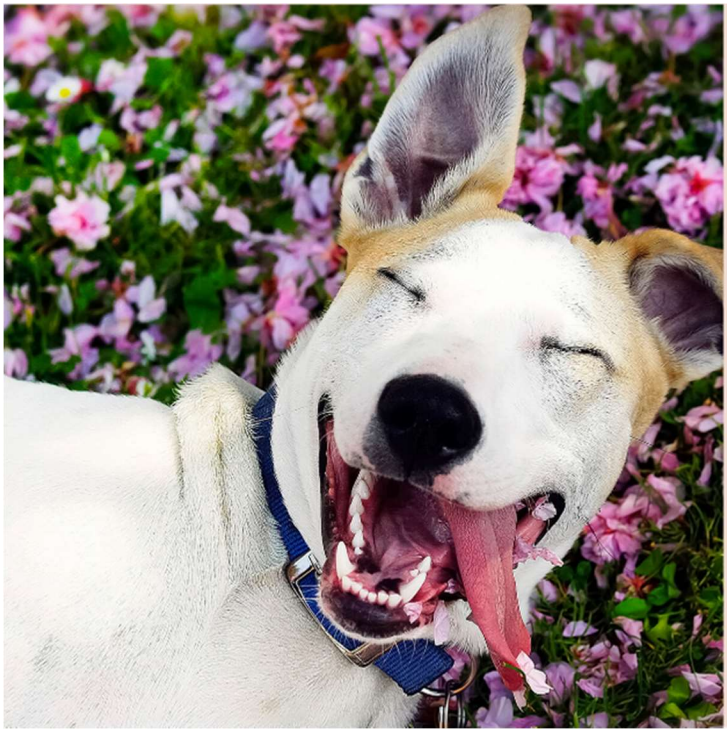
Many of our best relationships have come from introductions from our clients.

Do you know someone who could benefit from our services?

We would be honored if you would:

- ✓ Add a name to our mailing list
- ✓ Bring a guest to a client event
- ✓ Invite someone to come in for a complimentary financial checkup

Please call **973-439-1190** and our team will be happy to assist you!



"Money will buy you a fine dog, but only love can make it wag its tail."

- Richard Friedman