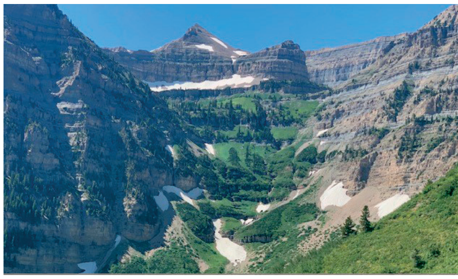
OCTOBER | 2019

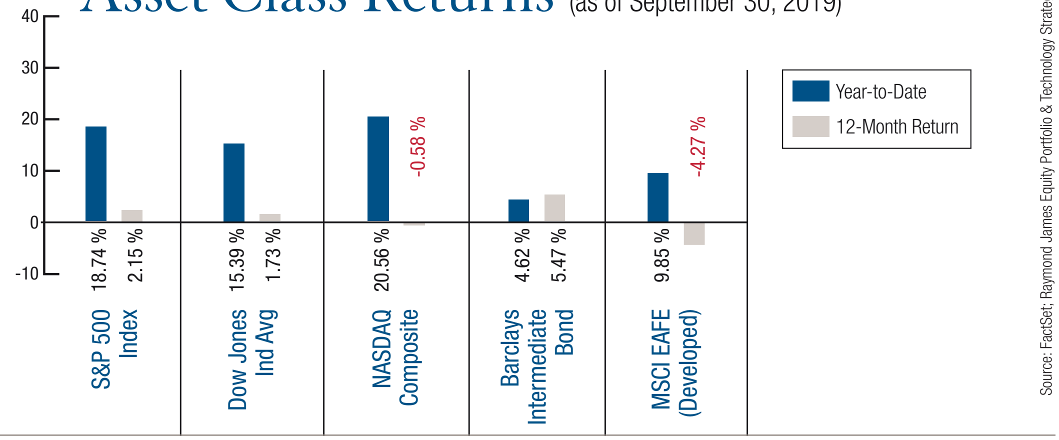
STONEGATE FINANCIAL

MARKETUPDATE

“Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas.”
- Paul Samuelson



Asset Class Returns (as of September 30, 2019)



MARKET/ECONOMIC SYNOPSIS

Terry Wiles, CDFA™, CRPC®, AWMA®
Branch Manager,
Raymond James Financial Services

Unbelievably, we are heading into the last quarter of 2019! Lowes & Home Depot already have Christmas decorations on display, and before you know it, we’ll be ringing in 2020. Does anyone remember the fears that were implanted into our heads exactly twenty years ago? The Y2K and Millennium Bug, a computer coding glitch that was projected to wreak total havoc on all computer networks around the globe, sparked concerns of nuclear power plants failing, and possible collapse of our banking system as we knew it would occur at the stroke of midnight on New Year’s Eve. Fortunately, what could have been a huge catastrophe was averted. Companies and organizations took proactive measures to address the anticipated problems, and very few failures actually occurred.

Very regularly these days, we hear of new horrors—some real and many exaggerated—which forebode an upcoming setback for our economy, but over time the global markets and mankind endure. Not only do we persevere, but we grow stronger and stronger, and we make unimaginable discoveries that continue to make our lives better than ever before. At a conference I attended last summer, keynote speaker Howard Tullman said, “Today the rate of change is the slowest it is going to be for the rest of our lives.” Whether this relates to life in general, the speed of technology, the daily advancements in medical science, or any one of numerous other possibilities, the world will continue to evolve, and we will continue to look for new opportunities in this ever-developing macrocosm.

Regarding the current US economic outlook, this quarter the U.S. stock market trudged along with the S&P 500 gaining just over 1%, and we continue to see more and more headwinds and future possibilities for recession. Here are several of the facts that are making us a little more cautious:

- This is the longest economic recovery in history—Pushing 10.4 years with the average recovery being 3.8 years in length.
- U.S. Housing Prices versus Inflation is approaching the record seen in 2005’s Housing Bubble—This relates to the consumers ability to afford the homes on the market.
- Construction Spending is slowing—Overall construction spending is decreasing year-over-year.

- An Inverted Yield Curve—Short-term Treasury bond interest yields were higher than the 10-year Treasury bond interest rates. This has been a precursor to prior recessions, but the curve has since become more normal and is no-longer inverted.
- The Duke University CFO Global Business Outlook is projecting a recession before the 2020- Election—This survey has been completed for 94 consecutive quarters and spans the globe. The report has a very good track record.

Below is the most recent chart from ClearBridge Investments listing the twelve variables that typically have foreshadowed a looming recession. Notice that there is still a healthy mix of positive and negative forces at work.

U.S. Recession Risk Indicators

• 12 variables have historically foreshadowed a looming recession

		August 2019	Second Quarter 2019	First Quarter 2019
Financial	Yield Curve	✕	✕	✕
	Credit Spreads	⬆	⬆	⬆
	Money Supply	●	●	●
Inflation	Wage Growth	●	●	●
	Commodities	✕	✕	●
Consumer	Housing Permits	⬆	⬆	⬆
	Jobless Claims	⬆	⬆	⬆
	Retail Sales	⬆	⬆	⬆
	Job Sentiment	⬆	●	⬆
Business Activity	ISM New Orders	✕	●	⬆
	Profit Margins	●	⬆	⬆
	Truck Shipments	⬆	⬆	⬆
	Overall Signal	●	●	⬆

⬆ Expansion ● Caution ✕ Recession

Data as of August 30, 2019.

Source: BLS, Federal Reserve, Census Bureau, ISM, BEA, American Chemistry Council, American Trucking Association, Conference Board, and Bloomberg.

GOOD ADVICE NOT JUST FOR MILLENNIALS

Terry Wiles, CDFA™, CRPC®, AWMA®
Branch Manager, RJFS

Richard Russell began publishing a newsletter called the Dow Theory Letters in 1958. Richard died in 2015 at the age of 91, but he published these letters every 3-weeks without fail for 57 years. He was a wealth of knowledge and a legend in the investment industry. One letter we are sharing today relates to the fact that you have to be persistent, patient, diligent, not speculative, and spend less than you earn. Even though this letter was written in an age where men were considered the financial decision makers, it is still applicable to all individual investors today.

"In the investment world the wealthy investor has one major advantage over the little guy, the stock market amateur and the neophyte trader. The advantage that the wealthy investor enjoys is that HE DOESN'T NEED THE MARKETS. I can't begin to tell you what a difference that makes, both in one's mental attitude and in the way, one actually handles one's money.

*The wealthy investor doesn't need the markets, because **he already has all the income he needs.** He has money coming in via bonds, T-bills, money market funds, stocks, and real estate. In other words, the wealthy investor never feels pressured to "make money" in the market.*

*The wealthy investor tends to be an expert on **values**. When bonds are cheap and bond yields are irresistibly high, he buys bonds. When stocks are on the bargain table and stock yields are attractive, he buys stocks. When real estate is a great value, he buys real estate. When great art or fine jewelry or gold is on the "give away" table, he buys art or diamonds or gold. In other words, the wealthy investor puts his money where the great values are.*

*And if no outstanding values are available, the wealthy investors wait. He can afford to wait. He has money coming in daily, weekly, monthly. The wealthy investor knows what he is looking for, and he doesn't mind waiting months or even years for his next investment (they call that **patience**).*

But what about the little guy? This fellow always feels pressured to "make money." And in return, he's always pressuring the market to "do something" for him. But sadly, the market isn't interested. When the little guy isn't buying stocks offering 1% or 2% yields, he's off to Las Vegas or Atlantic City trying to beat the house at roulette. Or he's spending 20 bucks a week on lottery tickets, or he's "investing" in some crackpot scheme that his neighbor told him about (in strictest confidence, of course).

And because the little guy is trying to force the market to do something for him, he's a guaranteed loser. The little guy doesn't *understand values so he constantly overpays. He doesn't comprehend the power of compounding, and he doesn't understand money. He's never heard the adage, "He who understands interest—earns it. He who doesn't understand interest—pays it." The little guy is the typical American, and he's deeply in debt.*

The little guy is in hock up to his ears. As a result, he's always sweating—sweating to make payments on his house, his refrigerator, his car or his lawnmower. He's impatient, and he feels perpetually put upon. He tells himself that he has to make money—fast. And he dreams of those "big, juicy mega-bucks." In the end, the little guy wastes his money in the market, or he loses his money gambling, or he dribbles it away on senseless schemes. In short, this "money-nerd" spends his life dashing up the financial down-escalator.

But here's the ironic part of it. If, from the beginning, the little guy had adopted a strict policy of never spending more than he made, if he had taken his extra savings and compounded it in intelligent, income-producing securities, then in due time he'd have money coming in daily, weekly, monthly, just like the rich man. The little guy would have become a financial winner."

FINANCIAL PLANNING CORNER

Lauren Tompkins, CFP®
Financial Advisor, RJFS

PAVING THE ROAD TO COLLEGE: HOW TO AVOID THE POTHOLES AND ENJOY THE RIDE

Part 2 of 2

In the first part of our discussion on college planning we discussed the costs of education and the ways you can reduce those costs. If it has slipped your mind, here is your reminder that FAFSA® applications (Free Application for Federal Student Aid) become available annually on October 1st and need to be filled out each year your student will be in college. Possible financial aid offered as a result of completing the FAFSA® can include grants, work study, and loans, and funding can be handed out in a first-come, first-serve basis so filling it out early is definitely advantageous.

DID YOU KNOW…?

You can negotiate the financial aid package offered to you from the school. If it is a needs-based appeal, you will want to go to the financial aid office where they will ask you to write a letter and provide documentation to support the reasoning for your appeal. It is important to keep in mind that the first person you speak to may not be the one who can make the decision to offer more aid and the office may ask for things such as medical bills, paychecks, or documentation for job loss.

In the case of a merit-based scholarship, you would typically need to go to the admissions or enrollment office. You will want to make sure your request is in writing, and then follow up by phone. Don't be afraid to share that you have better offers from other schools and ask that they provide additional assistance to get closer to the other offers. Always be sure to convey your enthusiasm to attend their school and let them know that money is the thing holding you back.

It is our hope for all our clients that we have helped and supported you to save for college expenses, whether through 529 plans, UTMAs, or taxable investments. Once your child is ready to attend college, it is important that you know how to withdraw the earmarked funds. For UTMAs or taxable investments, withdrawals can be made at any time. We will do our best to liquidate the holdings within the accounts to minimize the amount of taxation so it is helpful that you notify us of when you anticipate you will be taking distributions. For 529 plans, we typically see clients take withdrawals twice a year—August and December—to pay each semester as you go. If you're unsure of exactly what expenses qualify to be paid for using the funds from a 529 plan, here are a few websites that lay it out in detail:

https://thecollegeinvestor.com/18450/qualified-expenses-529-plan/

https://www.savingforcollege.com/article/what-you-can-pay-for-with-a-529-plan

I've overfunded for college! What now?!

There are many scenarios where one could unintentionally over-save for college expenses. Perhaps you planned for private schooling but your child decided on a public school, your student secured a merit-based or athletic scholarship, or your child chooses to pursue a route other than college. Fortunately, you still have options for any type of savings you've chosen. For a taxable account, bank savings, or savings bonds, those funds can be used for any other expenses – whether for your child or yourself. In the case of a UTMA, the ownership of the account will be transferred to your child and is treated like any other taxable investment account. It is with the 529 plan that you have the widest array of possibilities:

- Pull out funds equal to any scholarships your child receives and not be subject to any penalties while only paying taxes on the earnings of the account. Just be sure to pull out the funds in the same calendar year as the expenses are accrued and scholarship monies are dispersed.
- Change the beneficiary listed on the account to a younger child who may not have their education yet fully funded.
- Utilize the 529 funds for a beneficiary's graduate school or medical school costs.
- Consider holding on to the funds and renaming the beneficiary to a future grandchild.
- 529 funds can also now be used for K-12 private school tuition, up to $10,000 per year.

Throughout your college planning considerations, it's important to keep in mind the return on investment for your expenses. Is this school the best option for my desired major – or is there a lower cost but excellent program option elsewhere? Does the school have a good percentage of their students securing jobs at graduation? Are the professors encouraging and facilitating internship opportunities? Everyone's educational journey is different, but the best outcome for every student is a pathway to a career without being crippled by debt. That is our goal for each and every one of your families.

EMPLOYEE SPOTLIGHT

Q&A with Lauren Tompkins, CFP®

Financial Advisor, RJFS

In this new section, we look forward to giving you the chance to get to know our team members a little better. This quarter we will hear from Lauren Tompkins!

Q: Tell us a bit about yourself!

A: I am originally from Wisconsin – big Green Bay Packer, Minnesota Twins, Wisconsin Badgers fan – and I have been in North Carolina for about 4 ½ years. For those of you that are beer connoisseurs, my hometown of Chippewa Falls, WI is where Leinenkugel's originated. I received my bachelor's degree in Voice Performance from The University of Wisconsin – Eau Claire and my master's degree in Voice Performance from The University of Iowa. While I no longer sing as my full-time job, I am very fortunate to teach music at Raleigh Area Children's Theatre and I have a handful of private voice students. I also play piano and sing/act in performance as much as I'm able. I actually met my fiancé, Brett, when we were both cast in an interactive improv show called Tony 'n' Tina's Wedding and we played Tony and Tina. (We like to joke that we've already been married about a dozen times!)

Q: If you were a superhero, what powers would you have?

A: I would love to be able to teleport. Not only because of the lovely Raleigh traffic, but because I have family all over the country. My parents are still in Chippewa Falls, WI, I have two nephews and their parents in Minneapolis, MN, and then four nieces and nephews and their parents in Boise, ID.

Q: What shaped your career choices and ultimately brought you into the career of a Financial Advisor?

A: During grad school, I worked full-time at a restaurant in many different facets – server, bartender, trainer, hourly manager, baker, etc. Upon graduation, I accepted a position as a salaried manager in a small college town in Wisconsin but after about a year the restaurant hours became too much and interfered with my ability to perform or teach music. I had a friend at the time that was working at a large financial planning firm in Minneapolis who encouraged me to apply for an open administrative position despite my lack of background in finance. I applied and began working remotely as an administrative assistant for two financial advisors located in North Carolina and realized that I really enjoyed the balance of relationship-building and analytics. After a few years, I earned the Series 7 & 66 licenses, which allow me to perform the duties of a Financial Advisor, and was presented the opportunity to relocate which I took eagerly. Shortly following my arrival in North Carolina, I decided to further my education and secure the CERTIFIED FINANCIAL PLANNER™ designation through Duke University. I was fortunate enough to transition to Stonegate Financial just over a year ago and was particularly drawn to Stonegate's approach to relationships and emphasis on putting clients first each and every time without question. I'm grateful and excited to bring my industry knowledge to all of you while assisting you to live your best and biggest lives!

AROUND THE OFFICE

Back in 2001, when Terry first transitioned from the role of a mutual fund wholesaler to financial advisor, it was just him and one administrative assistant. In the last 18+ years, a lot of growth and many transitions have occurred. It is exciting for us to reminisce with people who have been with us from the start, and we are always excited to bring on new folks who are the friends, co-workers or family members of our existing clients. Whether you have been working with us for years, or are just getting to know us, it is important for you to know that our team is set up to service your investment and financial planning needs for your lifetime.

While Terry plans to remain at the helm for many years to come, he also realizes the importance of doing some continuity planning of our own. Having a multigenerational team of talented professionals to support his vision of relationship based, client-centric planning and investment management is the first step. Allowing our teammates work in partnership, while being in charge of their key areas of responsibility, further helps to create an environment of commitment.

Taking the concept of ownership one step further, we are super excited to announce that we **have made our first offer of partnership to Alex Greene, which was accepted as of July 1, 2019.** During the five years that Alex has been with us, he has proven to be extremely dedicated, loyal and is frequently offering suggestions to improve our operations and service model. As a CERTIFIED FINANCIAL PLANNER™ professional, in addition to having a concrete understanding of investments and a passion for identifying new opportunities for our portfolios, Alex is uniquely positioned to offer leadership to our practice for decades. Over time, we look forward to granting additional partnership opportunities to ensure that the relationships you have built with our team members are ones you can count on for the long haul.

STONEGATE FINANCIAL

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