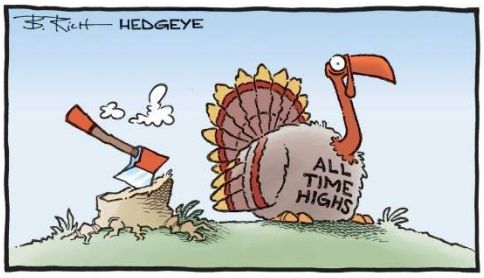
November Rundown:



Stocks added to strong YTD performance in November with many indices ending the month at or near all-time highs. According to Cornerstone Macro LLC, if the YTD trend continues for the S&P 500 Index, you would have to go back to 1997's +34% return to find a better year. The 2018 year end sell-off for equities is fresh in many investors minds, so it's natural to wonder if the same is in store this year? Or, could we possibly see a "Santa Claus" rally into year end? History is not a perfect guide, but according to Akane Otani of the Wall Street Journal, since 1950 there are only four instances that the stock market logged back-to-back negative returns in December. Otani also points out that 75% of stocks in the S&P 500 Index remain above their 200-day moving average, a bullish signal, compared to less than 50% this time last year. Another reason to be optimistic is that U.S. small cap stocks as represented by the Russell 2000 Index set a 52-week high last month for the first time in over a year. The Russell 2000 Index peaked in August of 2018 before spiralling downward over -24% by Christmas. While the small cap index has lagged the large cap S&P 500 Index by nearly -6% YTD, new 52-week highs are encouraging. International stocks, as measured by the MSCI EAFE Index, rose +1.14% in Novemeber and stand at +18.78% YTD, while emerging market stocks, as measured by the MSCI EM Index, experienced a modest decline of -.13% last month, putting them at +10.56% YTD. Bonds as measured by the Barclays Global Aggregate Index took a small step back in November declining -.76% , but still remain up +6.22% YTD.

Investment Industry Trends Benefitting Investors:

Last month investment firms Charles Schwab and TD Ameritrade agreed to terms of a deal in which Schwab would purchase TD. While the deal is subject to regulatory approval, completion is expected by the end of 2020. Heirloom Wealth Management uses TD Ameritrade as a custodian for client assets. We addressed this news in an email to current clients last month noting that because our technology is compatable with both Schwab and TD, the only thing that would change for clients is who generates monthly statements. Schwab is a great firm and we would expect great things from a combined entity that would custody over $5 trillion in assets, and a third of the independent registered investment advisor "RIA" custody market of which Heirloom Wealth Management is a part.

We view this merger as a symptom of a larger trend of investment companies and banking institutions doing what is necessary to provide clients with greater value at lower costs. For example, trade costs are now zero for most stocks and ETF's, and most mutual funds can be accessed without loads and low ticket charges. Expenses within nearly all investment products are compressing and retail investors can now access strategies previously available only to the extremely wealthy. Advisors are moving away from brokerage firms where compensation is based on selling products (often proprietary) to generate commissions, and into independent fee only RIA firms where compensation is aligned with client interests and fiduciary duty is mandatory. Instead of making money on effecting transactions, compensation is earned by providing advice and comprehensive financial planning. "Main Street" is benefitting from these changes, not "Wall Street" - an exciting trend we think has legs!

By: M. Euston MS, CFP©

Year End Financial Planning Idea: Roth IRA Conversions

While investors may not have many capital losses to harvest for tax purposes this year, another timely tax related investment strategy to consider is a Roth IRA conversion. A Roth conversion moves money from a tax-deductible, or "traditional" IRA to a nondeductible Roth IRA. Taxes are due at ordinary income rates on the amount converted, but if a subsequent 5 year waiting period is met, funds in the Roth IRA can continue growing tax deferred and any distributions after the account holder reaches age 59.5 are tax free. Moreover, Roth IRA's are not subject to required minimum distributions (RMD's) when the account holder reaches age 70.5 like traditional IRA's and beneficiaries may "stretch" inherited Roth IRA RMD's over their life expectancy with tax-exempt treatment as well. Whether a Roth IRA conversion makes sense is subjective. Analysis of one's personal financial situation and goals is critical. Also, future tax rates are unknown so there is zero guarantee that taxes paid today on a conversion will be less than a future taxable distribution. However, this strategy should be on investors radar for reasons we will explore below. Conversions must be done by calendar year end, not the tax filing deadline for any given year. It is not too late to apply this strategy in 2019, but you don't want to leave this until the last minute.

Some Context for Tax Rates:

In 2017, the federal tax code was changed making marginal tax rates (the tax rate paid on the last dollar earned) lower for many. For example, in 2016 a married couple filing jointly would have a marginal tax rate of 25% on taxable income from $75,301 - $151,900, 28% from $151,901 - $231,451, and 33% from $231,451 – 413,350. Today, a married couple filing jointly would not be over the 24% marginal federal tax rate until their income exceeded $315k. This analysis is interesting, but future tax rates are what matter most. While future tax rates can only be guessed, we guess they will be higher for many. U.S. federal tax revenues do not cover current expenses, ergo we have what is referred to as a "deficit". In 2018, per data from the United States Department of Labor (DOL), total government expenditures exceeded receipts by 28.28%. The DOL's own forecasts project this gap to widen over the next decade at an increasing rate. You can view this yourself here: https://www.bls.gov/emp/tables/federal-government-receipts-expenditures.htm. Required spending for programs like Medicare and Social Security are increasing as a percentage of the overall budget and tough financial decisions will need to be made in order to maintain or even expand these or other government programs. Accrued deficits over a long period of time have become part of the national debt, and that debt level as a percentage of GDP sits at levels not seen since just after WWII. All the while we are experiencing the longest economic expansion on record. If we experience a recession the situation would worsen.

Tax Rate	Income for Single Filers	Income for Married, Filing Jointly
10%	$0-$9,525	$0-$19,050
12%	$9,526-$38,700	$19,051-$77,400
22%	$38,701-$82,500	$77,401-$165,000
24%	$82,501-$157,500	$165,001-$315,000
32%	$157,501-$200,000	$315,001-$400,000
35%	$200,001-$500,000	$400,001-$600,000
37%	$500,001+	$600,001+

2019 Federal Tax Brackets

Takeaway: Present federal tax brackets provide an interesting opportunity for individuals to consider a Roth IRA conversion (or series of conversions over the next few years). Please give us a call if you would like to discuss further: 720-328-2877.

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