



2019 Fourth Quarter Prometheus Capital Newsletter

Despite ongoing political divide in the United States and tensions with China and Iran, the US Stock Market continued advancing in the 4th quarter and continues to hit record highs.

The Dow Jones Industrial Average advanced 25.34% for the year and 6.67% for the quarter. The Price Earnings ratio (P/E is the price of a stock or average divided by the earnings of that stock or average) for the Dow Jones was 20.35 at year-end. This was the high end of a “normal” trading range of 10 to 20 where the Dow and market generally trade. The P/E ratio in 2007 (around 30) and 1999 (around 40) were significantly higher than the 2019 year-end P/E Dow Index ratio of 20.35. The P/E can decrease if companies’ earnings increase or the Dow Index price decreases. The lower the P/E, the lower the valuation of the market; and many believe the less likely the market will fall unless there is some catastrophic reason for it to fall.

But why did it do so well? The US economy continues to grow with record low unemployment numbers, China trade tensions have been reduced with a partial deal, and consumer spending is strong; especially around the holiday season.

Also, the US Federal Reserve has held interest rates steady after reducing them three times earlier in the year given the Fed’s concern of some weakness in the economy (after increasing the rates for several quarters).

Given the political battles in Washington, it was interesting that members of Congress and the President managed to work together to pass spending bills and approve the US/Mexico/Canada trade agreement (although still waiting on Senate approval and the President’s signature). I believe reducing uncertainty of trade deals with our close neighbors (and #2 and #3 trading partners after China), and funding the government helped propel the economy and stock market forward.

Europe appears to still be in recession with negative interest rates in a number of countries. However, emerging markets have picked up and have overall significantly lower P/E ratios than many US companies.

This would indicate there may be more bargains overseas, but caution is important because they may stay bargains. I believe all investing should be done individually, based on a person’s individual financial goals and objectives. Someone’s risk tolerance, liquidity needs, income, growth, and tax bracket, among other factors, plays an important role in investment decisions. Please call us to discuss if your thinking or situation has changed in any of these areas and we can talk about potential changes to your investment portfolio or allocation.

Congress also passed a bill called The Secure Act with relatively little fanfare. This was an overhaul of the retirement system in the US. According to Elizabeth O’Brien (Money Magazine, December 19, 2019), this is the biggest retirement bill in a decade. What does this mean?

As of January 1, 2020, you may postpone retirement until you are 72, rather than 70 ½. This applies to people who turn 70 ½ AFTER 1/1/2020. For those who are already taking Required Minimum Distributions (RMDs), the old rules still apply. The new rules also allow contributions to traditional IRAs after 70 ½, BUT ONLY IF YOU HAVE EARNED INCOME.

That is all good for those who need to continue to contribute to IRAs, and for those fortunate enough not to have to start distributing money out of their IRAs at 70 ½.

The bad news is that “Stretch IRAs” have been affected for those who inherit an IRA from a non-spouse after January 1, 2020. Under the new law, most beneficiaries will have to withdraw all the money from IRAs inherited within ten years. There are exceptions made for spouses and disabled or chronically ill individuals.

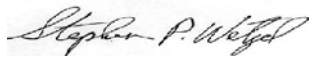
One provision in the Secure Act involved increased legal coverage for companies that offer annuities in 401k plans. Another is that companies now will have to offer 401k coverage to part time employees (if the company has a 401k plan) who work at least 500 hours per year for 3 consecutive years or 1,000 hours for one year.

Lastly, small companies can now “band together” to offer a multi-company retirement plan to potentially lower plan costs which may be advantageous to some companies. However, several other plans still exist for small companies such as Sep IRAs, Individual 401ks, Simple IRAs, ESOPs, LESOPs, Defined Contribution and Defined Benefit plans, etc. that also give small employers options to help employees save for retirement.

Please call us if you have questions about YOUR IRA distribution strategies and if they should be changed or if you want to talk about retirement plans for your company. We remain always willing to help and answer your questions.

Have a great 2020 and I wish you health and prosperity this year and beyond.

Sincerely Yours,



Steve Wetzel

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Sources: Wall Street Journal, Standard and Poor’s Global, Morningstar, Barron’s, Financial Times (London), US Department of Commerce Bureau of Economic Analysis, S &P Global Indices Division. Various Federal Reserve Data sources, Money-Elizabeth O’Brien, December 19, 2019.