PLANNING POINTS…

Fourth Quarter 2019

Index	4Q 2019	YTD	Avg. Annual Return Since 12/31/01
S&P 500	**9.1%**	**31.5%**	**8.1%**
Dow Jones Industrial Average	**6.7%**	**25.3%**	**8.6%**
NASDAQ	**12.2%**	**35.2%**	**8.8%**
MSCI EAFE	**8.2%**	**22.0%**	**6.0%**
BBG Barclays US Aggregate Bond	**.2%**	**8.7%**	**4.5%**
FTSE 3 Month US T-Bill	**.5%**	**2.2%**	**1.3%**

The S&P 500 Index Total Return is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. It consists of 400 industrial, 40 utility, 20 transportation, and 40 financial companies listed on U.S. market exchanges. This is a capitalization-weighted calculated on a total return basis with dividends reinvested. It represents about 75% of the NYSE market capitalization.

The Dow Jones Industrial Average Total Return covers 30 major NYSE industrial companies. The Dow represents about 25% of the NYSE market capitalization and less than 2% of NYSE issues. It is a price-weighted arithmetic average, with the divisor adjusted for stock splits. This Index includes the effects of reinvested dividends.

The NASDAQ covers 4500 stocks traded over the counter. Represents many small Composite index company stocks but is heavily influenced by about 100 of the largest NASDAQ stocks. It is a value weighted index calculated on price change only and does not include income.

The MSCI EAFE Net Dividend is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the United States & Canada. Approximates the minimum possible dividend reinvestment. The dividend is reinvested after deduction of withholding tax, applying the rate to non-resident individuals who do not benefit from double taxation treaties. MSCI Barra uses withholding tax rates applicable to Luxembourg holding companies, as Luxembourg applies the highest rates.

The Barclays Capital Aggregate Bond Composite index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors

The FTSE 3 Month U.S. T-Bill Index is a measurement of the movement of 3-month T-Bills. The income used to calculate the monthly return is derived by subtracting the original amount invested from the maturity value.

Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary.

STOCK MARKET REVIEW

After a "middling" third quarter, the fourth quarter produced record-breaking levels among most of the major stock indices. The S&P 500 (domestic) and MSCI EAFE (international) stock indices produced returns of 9.1% and 8.2% respectively in Q4. We note that small company stocks outperformed large and only the real estate sector, out of a total 11 sectors, was down for the quarter.

For the year, we count three (3) "exceptional" quarters and one (1) "middling" quarter for both stock and bond investors. Overall, 2019 delivered outstanding performance but we trust that our clients recognize this trend is not sustainable over the long run.

For 2019, the S&P500 and MSCI EAFE stock indices produced returns of 31.5% and 22.0%. Every sector was positive, with energy performing the worst (still) up 12% and technology performing the best up over 50%! With the exception of a few commodities and currencies, every major asset class was up in 2019.

During my investment experience of over 35 years, 2019 will be remembered as rather unique in the way it earned its outstanding returns. With the exception of a brief hiccup in the fall when all of the talking heads were warning of an impending recession, volatility and variance of returns throughout the year was exceptionally low. We suggest that returns for 2019 were outstanding, but risk-adjusted returns for both stock and bond investors were even better and this is what is most important in the long run.

Currently the FED has an accommodative policy stance, and for all of the same reasons we have outlined and often repeated in the past several *Planning Points*, the economy is in good shape. It is no wonder we are trading at all-time highs, but we must offer, however, some perspective and a bit of prudence to our cautiously celebratory mood…..

First, the two indices we referred to in the first paragraph that earned 31.5% and 22% in the last 12 months, have only earned 13.7% and 6.7% in the last 15 months. Q4 of 2018 was so poor that a good chunk of the positive returns in stocks for 2019 were simply making up for what was lost at the end of 2018.

Second, the stock market is at an all-time high and volatility is very low, but this goldilocks environment can't persist if valuations continue to increase at the recent pace. We are becoming more cautious about traditional measures of stock valuations based on earnings, book value, cash flow, sales, etc. that have become a bit stretched, especially in certain sectors. We may see significant sector rotation in 2020 based on excessive differences in valuations among sectors.

Third, most of our clients who have had a sizeable allocation to cash and bonds have likely seen that allocation drop as their stock allocation has increased substantially along with the bull market. If your allocation to stock has grown outside of your comfort level, it is imperative that you address this risk. Allow us to help you find an alternative.

For 2020, we expect more volatility given the uncertainty of the election, trade negotiations, anti-trust and geopolitical winds, but we do not expect a recession and in fact expect corporate earnings to accelerate from 2019 into 2020.

If market conditions continue to be supported by ample liquidity (the FED), solid and broad economic growth, and valuations stay reasonable, we suggest stock investors will continue to experience higher highs in 2020. If valuations continue to stretch however, stock investors should expect some bumps in the road.

Our opinion is this is one of the most hated bull markets in decades, during which the average investor has been continuously fearful of another crisis and unnerved about politics, the next recession, etc. Frankly, this sits well with us because the most harmful bear markets are those born from euphoric and risk-seeking investor behavior. We will have another bear market at some point, but given current circumstances, the likelihood of another "Great Recession" and market collapse anytime soon is low.

As we have reminded clients in our last several *Planning Points*, the path of least resistance for stocks is higher, that bull markets often climb walls of worry, they don't die of old age and they can persist longer than investors expect. I think it is safe to say that 2019 exceeded most everyone's expectations.

Here's to another year of expectations exceeded!

BOND MARKET REVIEW

The bond market also performed very well in 2019 with 10 year government bond yields dropping significantly from the short-term peak of 3.23% on 11/08/18 to 1.92% at the end of the year. The Barclays Aggregate Bond Index earned 8.7% in 2019, nearly twice it's average for the last 20 years.

Commenting on the hot topic of the yield curve inversions and the negative economic signal they can forecast, we stated in our most recent *Planning Points* that "Our confidence in the predictive power of the signal will increase if we begin to see confirmation of yield curve inversion along the yield curve. Small inversions recently (and the quick reversals of these) have not provided enough evidence for us to be concerned, but it deserves on-going attention."

Since our comments, the yield curve has reversed course and has normalized a bit. We have not seen the inversions many pundits expected. This, along with many other factors, leads us to believe a recession is not likely, but we caution that growth is not likely going to be robust unless global markets begin to accelerate.

Keep in mind that increasing interest rates in the future will likely have a negative effect on bond prices.

Of interest, natural gas was the clear winner in 2018 gaining over 30% only to lose over 32% in 2019, for a total return of about -12% over two years. What an example of reversion to the mean!

2020 PLAN LIMIT INCREASES, ETC

Many retirement plan contribution limits have increased for 2020. We suggest that you evaluate your level of savings and adjust accordingly. The amounts that did not change have an asterisk (*).

Traditional/Roth IRA Contribution Limit*	$ 6,000
Traditional/Roth IRA Catch-up Contribution*	$ 1,000
401k/403(b)457 Elective Deferrals	$ 19,500
Catch-up Contribution Limit*	$ 6,500
SIMPLE Employee Deferrals	$ 13,500
SIMPLE Catch-up Deferral*	$ 3,000
Annual Defined Contribution Limit	$ 57,000
Annual Compensation Limit	$285,000
Defined Benefit Annual Benefit Maximum	$230,000
Highly Compensated Employees	$130,000
Key Employees	$185,000
Social Security Wage Base	$137,700
Health Savings Account (single/family)	$3,550/$7,100
Health Savings Account Catch-up Contribution*	$1,000
Annual Gift Exclusion	$15,000

GAVIN & ASSOCIATES, LLC
Raymond James Financial Services, Inc.
800 Cambridge, Suite 100, Midland, MI 48642
www.gavinandassociates.com
989.631.1454 or 800.365.9584