PLANNING POINTS…

Third Quarter 2019

Index	3Q 2019	YTD	Avg. Annual Return Since 12/31/01
S&P 500	**1.7%**	**20.6%**	**7.6%**
Dow Jones Industrial Average	**1.8%**	**17.5%**	**8.4%**
NASDAQ	**-0.1%**	**20.6%**	**8.3%**
MSCI EAFE	**-1.1%**	**12.8%**	**5.6%**
BBG Barclays US Aggregate Bond	**2.3%**	**8.5%**	**4.5%**
FTSE 3 Month US T-Bill	**.6%**	**1.8%**	**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

The first and second quarters of this year were exceptional for stock investors, but the third quarter was much less so. The month of August was particularly challenging as stocks dipped on higher volatility following pervasive predictions of an impending recession. However, stocks staged a rally in September eking a small gain for the quarter overall as positive economic data continued to hit the headlines in the face of recessionary concerns.

The third quarter produced middling returns of 1.7% for domestic stocks and -1.1% for international stocks as measured by the S&P 500 and MSCI EAFE indices respectively. U.S. smallcaps and midcaps, although producing positive returns, have continued to underperform domestic large company stocks. We note that stock market volatility continues to be lower than historical averages.

The stock market in general has been trading near all-time highs recently. Despite the plethora of negative news and calls for a recession, the stock market has impressively climbed a wall of worry. In spite of elevated geopolitical/domestic political risk and escalating trade wars, the U.S. economy and the stock market continue to advance.

We remind investors that the stock market and economic expansions do not die of old age. In fact, under certain circumstances, they can persist beyond expectations. An accommodative FED, low interest rates, low inflation, record job growth, strong consumer spending, a health housing market, and a well-capitalized banking sector may produce additional records for the current expansion. Economic indicators remain broadly positive. Our current opinion is that we are not in a recession and that the next recession will not likely be caused by a financial or housing event like the most severe ones of the past.

The biggest risk to our thesis is elevated and increasing uncertainty surrounding the trade wars and the impact they can have on business investment and expansion. The longer these wars last, the more impactful the effect on markets and the economy. We believe that absent trade uncertainty, the stock market would be trading above all-time highs today. Progress in trade talks could provide dry powder for another leg-up in the stock market.

Valuations for growth stocks, especially large tech companies, are getting extended and we are beginning to see a shift into dividend-paying, value stocks as a result. We continue to encourage clients to maintain a reasonable balance between value and growth stocks. We advise clients to maintain highly diversified stock allocations dispersed among size of companies, geographies, sectors, and investment styles (i.e. dividend and non-dividend paying companies). If your allocation to large growth stocks has grown too high due to performance, it would be prudent to address this risk and consider other investments that are more attractively valued on a relative basis.

BOND MARKET REVIEW

The bond market has performed very well in 2019 with 10yr government bond yields dropping significantly from the short-term peak of 3.23% on 11/08/18 to 1.68% at the end of the third quarter.

The benefits of lower interest rates are not insignificant. Low interest rates can incentivize governments, businesses and homeowners to expand investment. Homebuilder sentiment was recently reported at the highest level in 2019, exceeding analysts' expectations. Lower mortgage rates have induced many to buy homes and refinance mortgages. This activity can have a significantly positive spillover effect prompting purchases of appliances and furnishings, home improvement activity, and utilization of financial services.

Much has been made of recent yield curve inversions and the predictive power they have on forecasting recessions. An inverted yield curve has a solid track record for predicting recessions but the signal generally has a long lead time prior to the start of a recession. 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.

Credit spreads (the difference between corporate bonds and risk-free treasuries) remain tight, continuing to signal stable conditions ahead for the U.S. economy. Increasing interest rates in the future will likely have an adverse effect on bond prices.

RMD'S, QCD'S and DAF'S – ALPHABET SOUP

The Tax Cuts and Jobs Act of 2017 made significant changes to the tax code for individuals, affecting income tax rates, deductions and other reforms. As a result, new opportunities arose from the TCJA that you should be aware. Many of the new opportunities encompass charitable giving and adjusting the way we achieve our philanthropic goals.

Given the significant increase in the standard deduction, many donors may not receive the tax deduction they might expect from their traditional philanthropic approach. However, tax savings opportunities still exist for charitable giving. Qualified Charitable Distributions (QCD's) and Donor Advised Funds (DAF's) have emerged as two of the most attractive opportunities that may be available to you.

If you are required to take a distribution from your IRA, you will achieve lower taxes by distributing all or a portion of your Required Minimum Distribution (RMD) directly to a charity in the form of a Qualified Charitable Distribution (QCD). This is a significantly more tax-efficient strategy than gifting highly appreciated securities or cash. The amount of the QCD is not included in your taxable income in the year you take a distribution, potentially saving thousands of dollars in income taxes.

We encourage all of our clients with philanthropic goals to consider a Donor Advised Fund (DAF). These have grown in popularity since the TCJA due to the opportunity to bunch gifts they would otherwise do over several years into one tax year to ensure they exceed the higher standard deduction and get credit for their gifting strategy. Gifts of highly appreciated securities to a DAF can eliminate capital gains taxes, invest for growth, and provide funds for future grants to charities as the donor sees fit. This is a significant win-win and it is super easy to set up and manage.

The benefits of both QCD's and DAF's exceed those we have outlined and we encourage you to reach out to us to explore these opportunities in greater detail.

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