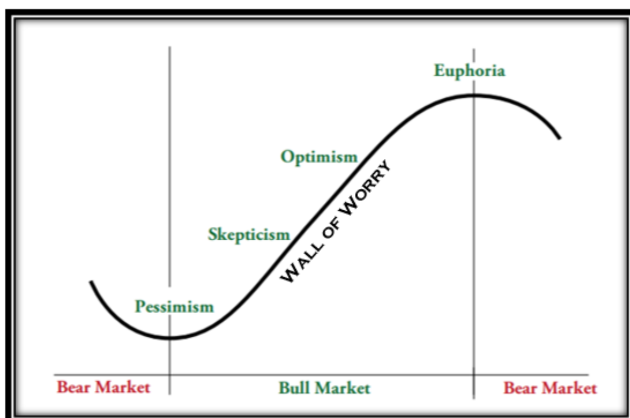
THE BIG PICTURE 2020

> "BULL MARKETS ARE:
> BORN ON PESSIMISM,
> GROW ON SKEPTICISM,
> MATURE ON OPTIMISM,
> DIE ON EUPHORIA."
>
> (SIR JOHN TEMPLETON)

TODAY, AFTER AN ELEVEN YEAR OVERALL BULL RUN, INVESTORS ARE STILL SEMI-PESSIMISTIC AND SKEPTICAL. They are sitting on mountains of cash at near historic low interest rates. Investors are increasingly concerned about the possibility of another melt down such as they experienced in 2008 as well as 2000-02. Seeing their portfolios and retirement plans twice wrecked in the past 20 years leaves unpleasant memories of the often necessary financial adjustments. They don't want it to happen a third time in just two decades.

PERHAPS OUR CAUTION IS RIGHTFULLY JUSTIFIED? We face global uncertainties of trade interruptions, cyber threats, stock markets dominated by computer programs, mounting consumer, corporate, and government debts, continued unbalanced national budgets with ever rising annual deficits, and domestic political turmoil and division layered with socialist rhetoric.



IN THE MEANTIME, THE MARKET CONTINUES TO CLIMB THROUGH PESSIMISM AND SKEPTICISM UP the high "wall of worry." The Federal Reserve meanwhile abruptly reversed its course of increasing interest rates, to decreasing them in the last quarter of 2019. It also injecting *massive and sudden* quantitative easing *(QE)* back into the economic system. The Fed is planning to buy even more treasuries back off the bond market now each month than it did in order to turn the economy back up in 2008. What do they know that perhaps is not being told by the press?

THE PESSIMISTIC AND SKEPTICAL CASH HOARDERS must wonder if they are right that something is amiss. Sage investor Warren Buffet is one of the biggest hoarders of all, sitting on a record level of cash of well over $120 billion at recent counts. Meanwhile his stock significantly underperforms the market.

IT'S JUST A HANDFUL OF THE BIGGEST CAP STOCKS IN THE S&P that get a lot of the action from the computer programs. Big liquidity is important for these trading machines. Much of the rest of the market must be patient as earnings increase and eventually may push equities higher. The alternative is sitting in a low interest rate investment alternative or being in cash at under 2% on the sidelines. But "*patience, dividends, and managing risk*" are the long term keys, says investment manager John Buckingham.

WE AGREE, AS THE LONG TERM TOTAL RETURN IN THE EQUITY MARKET HAS been about 10%, with dividends providing about 40% of that return. And the *management of risk* after an all-time record bull run of 11 years *is paramount now*, in our opinion.

IF THE MARKET WERE TO TAKE MORE THAN A 20% DECLINE (the definition of a bear market), fearful investor reaction and panic could result. In the 4th quarter of last year, the S&P went down (-19.5%). Then it suddenly reversed the day after Christmas while most traders were enjoying time off. Many investors feel the Fed is using its tools for "whatever it takes" to keep the market from that 20% decrease into bear territory.

AS LOW INTEREST RATES AND "QE" ARE ALREADY NOW IN EFFECT, there are few tools other than direct market intervention to prevent the market, and then most likely the economy from giving back much of the gains of the last 3 years. Our team at IPMG (Investment Planning and Management Group) are aware of many of the risks we face today and are attempting to manage accordingly as much as ever.

OUR FLEXIBLE PORTFOLIO MANAGEMENT (FPM) utilizes *inverse* positions as we observe the market beginning to roll over. That is, we position inverse ETFs and funds that are designed to rise in proportion to market declines to help offset the lower prices. It has worked well in the past, and although there is never a guarantee that the system can stay ahead of a sudden market free fall, we also suggest periodic overall allocation adjustments to help further reduce risk. Risk management, patience, and yes dividends can certainly add to the returns as well, *over time*.

HIGH DIVIDEND STOCKS (sometimes referred to as value stocks) have been uncharacteristically overlooked in this 11 year bull market. Typically GROWTH STOCKS with lower dividends, as companies reinvest internally rather than payout to shareholders to invest elsewhere or spend, and VALUE STOCKS, alternate in periods of outperformance. This has not been the case at least not as of yet.

THIS UNUSUAL EXPERIENCE WAS SIMILAR DURING MUCH OF THE 1990's UNTIL YEAR 2000. Then the tech stocks with little or no earnings or dividends (some with no sales) declined 80% while the S&P went down "only" 50%. But value stocks went UP over that 3 year period, about as much as the S&P went down. Yep! Will our patience with value be rewarded? Or should we jump the value ship for the growth boat? We suggest some of both for those who need income, but still desire long term growth and appreciation.

AND PERHAPS WE SHOULD INCLUDE A DOSE OF "STABILITY" TYPE INVESTMENTS as well in our overall portfolio allocation. By stability we refer to investments in areas that have less correlation to the general equity markets such as gold (it looks like a precious metal bull market now with intermittent pull backs). Perhaps a few high quality munis or treasuries that can move up as interest rates are lowered in times of economic stress should be included. These stability investments have had a good year, and did especially well when the market had a (-19.5%) down event one year ago this 4th quarter

MEANWHILE, OUR LIGHTS ARE NOW GREEN as we approach year end. We might keep in mind that the average investor is less than optimistic. They are very far from Templeton's *euphoric stage* where bull markets typically have ended. Up markets tend to last as much as 18-20 years. If the Fed can work its interventions to counter the computer techies and the cyber rogues, the combination could put us out past another 4 year election cycle or two. Then we might get to that ultimate delightful euphoria stage we all are hoping for.

MUCH MIGHT DEPEND ON POLITICAL OUTCOMES, as Wall Street types believe a socialist agenda would give us more than that 20% bear market. Taxing the wealthy at 2% of net worth they caution us equates to 40% of their net worth in just 20 years, 60% in 30 years, and 80% in 40 years. We now see these high end folks gravitating from higher tax states to lower ones, and taking their taxable incomes and liquid assets with them. This demonstrates that biting the hands that feed the government coffers could have adverse consequences. High net worth individuals might feel their investments could be disadvantaged under a socialistic agenda.

CASH HOARDINGS ARE BUILDING, even at lower interest rates. Productive business or equity investments on the other hand can create jobs and more income. Investors may ask which is preferable for continued prosperity. Is it higher taxes? Or is it higher rates of employment and wages?

IN OUR "BIG PICTURE 2019" LETTER, WE SUGGESTED 5 BOOKS for the years reading list.

As a brief reminder, these "must know" insightful works were:

5) THE 100 YEAR MARATHON (Michael Pillsbury) that outline the Chinese plan to dominate the world. They have completed most of that agenda within the timetable.

There is no turning them back. We are too late to offset their advances, other than perhaps a few Chinese soybean purchases from the US farmer, many close observers of the Chinese feel.

4) THE PERFECT WEAPON (Daniel Sanger) about the next war lasting less than 30 minutes. Microchips have been placed in our defense system. The next technology race is for control of the internet, 5G and all that implies. The Chinese are out to win that race.

3) RULES FOR CONSERVATIVES ... IN RESPONSE TO RULES FOR CHANGE FOR RADICALS (Michael Martin) a debate over the agenda of the Chicago professor Saul Alinsky, who was a model for President Obama and Mrs. Clinton. The professor gave instructions on how to communicate an agenda effectively.

2) PRINCIPLES OF LIFE AND WORK (Ray Dario), the highly successful hedge fund manager, who would agree with most of us, that an actively managed investment program, that includes *risk reduction*, is paramount today.

1) THE EVERGREEN PORTFOLIO. (Martin Truax and Ron Miller, with chapter contributions from investment writers Richard Maybury, Mark Skousen, Alex Green, Robert Prechter and others). It describes our unique hedging system for reducing downside market risk.

And we added one more suggested reading last year (should you find the valuable time), THE FOURTH TURNING, by William Strauss and Neil Howe. Now in that 4th quarter, it suggests many surprises for this stage, with about another 6-7 years before the reset button is pushed to begin again.

OUR GOOD FRIEND JEFF SAUT (the just "retired" Raymond James market strategist), often said that we get 3 bull markets in our lifetime. The first we don't have enough money to meaningfully participate. In the third, we are too senior to take on a full equity allocation risk. So in the second, *we need to make the hay while the sun* shines bright. He fully believes we are in a sunny period for 7 plus more years.

WE ARE IN A BULL MARKET. We continued to watch for the warning signs such as last year's fourth quarter, which finally brought the Fed to the rescue. We are aware of the computer trading machines influence and we are also aware of the Fed's newest tools of zero to potential negative rates, and *unlimited "QE"*. It's a time in history, perhaps we can call it the forth turning, where we can play a good defense, but with a strong offense. We remain engaged forward, for now...

SKEPTICISM IS ALL AROUND US, and so large cash hordes await possible stock market FOMO (fear of missing out). FOMO can cause those cash balances to be redeployed. That is a good thing according to Sir Templeton. We should expect surprises in both directions. One of them is UP. With a balanced allocation, and a defensive strategy in the waiting, we approach this unique time with *guarded* optimism - the possible third stage of the four stage Templeton cycle.

SO HERE'S HOW WE SEE IT, the good, the bad, and the ugly. Investor cash levels are near 2008 highs, even increasing as rates decline. That's DRY POWDER that will cause money managers to underperform as the markets push higher. *New QE* was introduced early in the fourth quarter of 2019. This liquidity injection was not expected.

THESE CASH HEAVY MANAGERS WILL UNDERPERFORM now. They will possibly lose managed assets to those managers who stayed more fully invested. There can be a rush to get those cash funds invested for year-end positioning. Then at least, it looks less like they missed out with a bad market call. We can also call it FOMO or window dressing.

PRESIDENT TRUMP HAS SAID HE WILL LOWER TAXES AGAIN IF RE-ELECTED. This time is for the individuals. Corporations have been using much of their tax savings from the last tax reduction to buy their stock back or another companies' stocks thru acquisitions. Less is going into business expansion because of the uncertainties of tariffs and the "late stage" of the economic cycle. This use of cash is relatively unproductive, except it helps supports the stock market while professional managers are net sellers of stocks.

Higher stock prices induce consumer optimism and spending. If the market is going up, it must be alright...and "my 401k is up 15% so I've got it to spend."

THE CENTRAL BANKS OF THE WORLD HAVE WORKED together knowing they can little afford to let the markets decline and confidence disappear. Many are at zero and negative interest rates now. How much lower can they go? The Japanese Central Bank has purchased about 70% of its outstanding stocks and much of its government bonds outstanding. It made the purchase through funds by creating yen with digital entries rather than through taxation. And still its stock market is 40% below its all-time high of 30 years ago.

IT'S PERHAPS THE MODEL OF THE FUTURE, as the former Euro chief Mario Draghi said, "we'll do whatever it takes" to keep it going. It's less about corporate earnings now. It's more about low interest rates, and government liquidity injection and intervention. Central banks are providing this liquidity through "asset purchases" (stocks and bonds) with digital entries (rather than punitive taxation that sucks spending out of the economy). Hello new world of investing. Want to ride along, or just accept low or zero rates and sit on the side lines for the long term future?

TRUMP CALLED CHAIRMEN POWELL THE BIGGEST ENEMY next to China as interest rates were being increased in only the US. Suddenly in October this year, with incredible "asset purchases", a "temporary" overnight QE began of $200 billion, after announcing only $60 billion a month. A complex "technical" repo market had suddenly and unexplainably dried up. A 2008 repeat of falling dominos was just beginning to be played out.

WE AT IPMG HAD GOTTEN RED LIGHTS in early October 2019. We weren't sure why, much like just before 9/11, but we quickly started raising cash in order to prepare to put on our hedge. Then the sudden announcement and rush of unlimited digital Fed money saved the market. We quickly started putting the cash back to work for another day...that is until our lights turn red again

OUR LONG TIME GOOD FRIEND BERT DOHMEN (The Wellington Letter) was born in Germany. His father had gold and silver stored and was able to get out of the country during difficult times. Their savings in *currency* had become worthless. They saw it happen through massive paper money printing. Now it's just digital entries vs paper printing. We save the trees this time. But he points out, in 2014, new US banking rules changed to enable banks to "confiscate the money you have in your bank account."

DID YOU KNOW that the law now deems you, the bank account holder, to be an unsecured creditor of the bank instead of a depositor? In 2013, bank deposits in Cyprus in excess of $100,000 Euros were confiscated when the banks failed. US FDIC insurance is only up to a certain amount. It is further limited to the amount of funds in the insurance pool available to make it good, unless the Congress votes to kick in more to the fund.

OUR POINT IN MENTIONING THIS is the need to rethink all that we are doing financially. Yes, it's truly different this time. There are so many outside interferences today, including cyber intrusions, computerized trading, loss of market makers, no more uptick rule for shorting, fewer market circuit breakers in place, and low to potentially negatives interest rates. We at IPMG spend a lot of our time considering all of these changes and take actions with all of this in mind.

WHAT WAS THAT "REPO" THING ALL ABOUT? It's difficult to explain, but 4 of the largest banks typically lend to smaller banks that need cash to balance liquidity "overnight." For some reason, this lending dried up even as 10% interest rates were offered. The Fed had to step in and become a lender of last resort.

THE INFORMED SEE the same buildup of bad car loans and student debt being bundled and peddled into ETFs and funds that yield "just a little bit more." There is such an appetite to find income that the sub-par junk bond market is now paying "just a little more" than treasuries. Looking under the hood of an ETF or higher paying fund is most important today. Remember, the fourth turning promises surprises. And we are now in the "4th turning," according to the author.

PRESIDENT TRUMP HAS MET WITH FED CHAIR POWELL and reportedly told him to get competitive with the rest of the world and go with negative rates. Did you know that the banks in Euroland are absorbing the loss, and paying the depositors just zero? If they go negative to the depositor, there would be a run on the banks, which can't be tolerated in their slowing economies.

A RUN ON THE BANK could cause even further losses to the depositors. Remember, in Euroland too, the depositors are just bank creditors. Depositor money above the insured amount is only as good as the bank. Surprised? Meanwhile, the banks can buy bonds with the depositors' funds and if the interest rate goes even more negative, they realize a capital gain. Or if they sell bonds with negative rates, they get paid to borrow. Go figure. Yep, big surprises. And so it goes... And comes, perhaps soon, to a bank near us.

SAFEST PLACE? Probably still the good old U.S. of A. Foreign money also comes here and helps support our stock and bond markets. There are still positive interest rates in the U.S. for now. It doesn't get much better than that anywhere else.

SO ALL THIS IS TO SAY, that we think there are strong possibilities in the next several years to move through the next psychologized stage to optimism and then onto euphoria, as has yet to be seen. With an individual tax cut, money would get spent by the consumer, if the market stays up. The Fed knows its new role is now proactive market intervention. "Hold it together, whatever it takes," is perhaps the mantra now. Trump will tweet them for sure, should they take their eye off the Dow.

SO WE RIDE ALONG this actively supported trend while we can, but with a defense at the ready at all times. Let us suggest again, "don't leave home without it." Looking beyond the "4th turning," we may have a much different investment strategy. For now, we proceed with our "Flexible Portfolio Method," explained on our website (below) of hedging when our system turns code red. Doctors know what that means, and they rush to sustain. We operate on the same responsive alert system.

IT'S TOUGHER TO PLAN AND PREDICT when by definition surprises will do just that...surprise us. We had one (-19.5%) surprise last year. We almost fell off the bull, until the 1,000 point day after Christmas intervention. This year, it almost happened again. The Fed responded to code red and supported the financial markets just in time with a massive October liquidity infusion. Tweets can work. We've gotten through another year. Now comes 2020.

TO CONTINUE A STRONG UPWARD MARKET, it will probably take individual tax cuts and a rising market that *feeds on itself with FOMO and Fed support*. Most importantly, that will mean continued liquidity infusions, if not earnings growth. It could lead us on to our next stage of investor optimism. That could in turn then lead us to the ultimate euphoria as the sidelined cash rushes back into the markets for fear of missing out. Greed will prevail again. And even the nay say managers will have to jump on board or lose their assets under management to the market performers who are more fully invested.

AND THAT MY GOOD FRIENDS IS HOW WE SEE IT. The Big Picture for us: one year at a time. More intervention coming as needed, computers that dominate daily trading following the trends, more social divisions, "pretense" thru digital infusion, and maybe even those tax cuts for 2021 and beyond. For now…

TOWARD A GOOD 2020!

And then, let us get it right.

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PS: ONE MORE THING, BUT OF SIGNIFICANT IMPORTANTANCE.

MANY OF US BECOME INVOLVED WITH TRUSTS, either as creators, donors, beneficiaries, or even trustees. Planning and creating a trust can take a lot of thought and effort. Being an individual trustee can also be a burden or a liability, especially when other beneficiaries find an objection in how it's being managed or divided.

WHAT CAN WE DO TO MINIMIZE THE DISADVANTAGES AND HASSLES OF TRUSTS yet benefit from all the advantages these arrangements can offer us, our heirs and beneficiaries?

We have personal experience and expertise. Starting as early as 1980, I have been a donor, a beneficiary, a trustee, a drafter, and a court processed modifier of an irrevocable trust.

FROM MY EXPERIENCE, AN IDEAL TRUST SHOULD HAVE THE FOLLOWING CHARACTERISTICS:

1. SOLID ASSET PROTECTION from lawsuits and creditors.
2. FLEXIBILITY AND EASE of document modification if necessary.
3. AVOID "COOKIE CUTTER" asset management programs.
4. ABILITY TO HOLD and maintain illiquid assets (i.e. real estate, gold, etc.).
5. KEEP A CLOSE EYE on ongoing assessments, appraisal fees.
6. ABILITY TO ADAPT to the changing special needs of beneficiaries, or also the needs of beneficiaries that go rogue.
7. SUPPORT in keeping compliant
8. FLEXIBILTY TO REPLACE TRUSTEES, especially as they may evolve or merge into a different corporate culture
9. FLEXIBILITY FOR BENEFICIARIES to cooperatively manage (periodically gather to direct donations to foundation/legacy causes)

GETTING THIS TRUST PROCESS COMPLETED or getting an existing trusteeship into more flexible hands such as described above, *should be our objective*. It feels satisfying to get this responsibility completed and behind us and …we check all the boxes. Then we can move on, knowing we have done all that we should have to keep our affairs in order, assets protected, and our varied accumulations (liquid and illiquid) continually managed as we wished.

THIS PROCESS SHOULD ALSO INCLUDE an efficiency study of existing insurance coverage. In most cases, better rates can be realized because of today's longevity expectations. And *liability* coverage is most important. What potential loop holes exist? Even home and auto costs can creep up on us, if we don't keep checking the markets for better rates. Our associates can help with this process.

OUR TEAM AT IPMG is up to doing a lot of the heavy *lifting of this process* so other priorities and more pleasant activities can be better enjoyed. We can assist you in reaching a certain level of confidence that your affairs are better prepared and in good order for your loved ones and designees. This is one of the most impactful things we can do for our families, individuals, and causes we care about. It a great accomplishment and relief toward building and preserving our resources and perhaps legacy.

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Investors should consider the investment objectives, risks, charges and expenses of an exchange traded product carefully before investing. The prospectus contains this and other information and should be read carefully before investing. The prospectus is available from your investment professional.