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Looking Towards the Fourth Quarter

Will It Be Different this Time?

Check This List - Twice - Before Year-end

The Financial Advisor Newsletter

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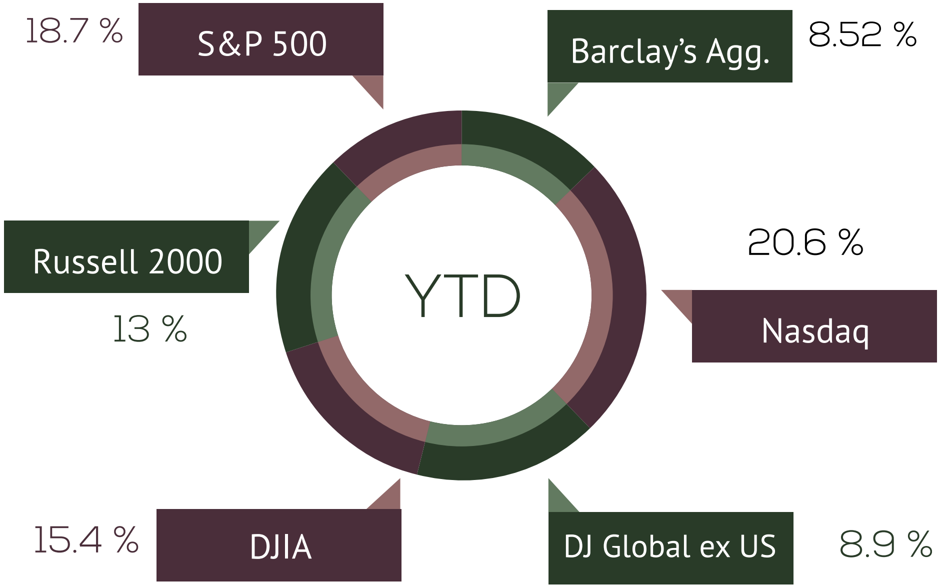
Front cover photo taken by Patrick L. Sullivan

ECONOMIC **SNAPSHOT**



Source: WSJ, October 1, 2019. Inclusion of these unmanaged 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 effect actual investment performance. Individual investor results will vary. Past performance does not guarantee future results. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing the stocks of 30 companies maintained and reviewed by the editors of the Wall Street Journal. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Nasdaq composite is an unmanaged index of securities traded on the Nasdaq system. The Dow Jones Global ex US is a stock market index measuring equity securities traded globally in 64 countries, excluding the U.S. The Barclays Capital US Aggregate Bond Index is a benchmark index composed of US securities in Treasury, Government-related, Corporate, and Securitized sectors. The Russell 2000 index measures the performance of the 2000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

PAT'S **VIEW**

LOOKING TOWARDS THE FOURTH QUARTER

While there have been some major concerns during the third quarter 2019, the US market has generally performed well with the Dow Jones Industrial Average up, year-to-date, 15.4% and the S&P 500 index up, year-to-date 18.7%. During the same period of time we find some weaknesses in areas such as pharmaceuticals and the volatile oil market amongst a few others. With these weaknesses and the geopolitical concerns providing uncertainty we have stepped back slightly on our expectations for the fourth quarter, although we are still positive. At the same time, we have been starting to see growth assets starting to slow slightly while some of the growth has transitioned to value-oriented investments.

"While we are still positive on the overall US economy there still seems to be major concerns on the European economy and other portions of the world."

Additionally, during this past quarter, we have seen a lowering of interest rates by the Federal Reserve as it seeks to support our economy. With all of this happening we are expecting to see much of the same as we go forward. We also expect continuing potential growth as we are hopeful that part of the major geopolitical uncertainties starts to find some positive results. It should be noted that while the risks continue, we also do not expect to see a recession in the near term. First, as mentioned, we are entering the six best months for the market historically. We are closing in on an election year where traditionally most politicians want the economy to be looking good to help their reelection campaigns. It should be noted that while our market has been very resilient there can be unforeseen issues which can provide exceptions.

While we are still positive on the overall US economy there still seems to be major concerns on the European economy and other portions of the world. As an example, there seems to be no consensus on the best course of action for the British to leave the EU which continues to cause major political concerns as they try to develop a consensus. While the European market has not performed as well over time as the US markets, please keep in mind there are some excellent companies which are undervalued in comparison to some of the similar US companies. This as well as other areas provides us with potential opportunity for international

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diversification. A potential bigger concern than Britain leaving the EU is trade tariffs in particular those with China. As we go into the fourth quarter, we are expecting a continuation of meetings as the two countries try to resolve their differences. We feel this is a major concern not only for China and the US, but has the potential for a positive outcome for the overall world economy, if they can develop a mutually agreeable resolution.

In conclusion, as we have indicated while we are still overall positive on the US economy and have had to step back slightly with all of the geopolitical concerns, it may be time to slow down on adding new investments until some of the issues resolve themselves. It is always a good idea to keep a little extra cash in the unlikely event an unexpected event has a negative impact on the markets. This is so we do not have to sell for short term cash needs at a disadvantage time.

As we go forward please feel free to contact us with your concerns and questions. As always, we thank you for your referrals and will continue to help you to meet your financial goals. We hope you have a wonderful fourth quarter.

KEVIN'S **VIEW**

WILL IT BE DIFFERENT THIS TIME?

I started doing financial planning full-time in August of 1999 (20 years ago, oh my!) having come out the technology sector. My previous day job was writing code to allow information to flow from old legacy databases into a "cutting-edge" technology called a "browser". I was a "true believer" that the internet was changing the world and would make the traditional business cycle obsolete. It was "different this time." Everyone was buying, flipping, investing, and what-not into technology stocks.

In hindsight, I was only half right. Wiser folks than me questioned the wisdom of investing in companies with no profits and very complex business models. In less than a year, the business cycle struck back and the dot-com bubble burst. There were some survivors that came out of that dark time and flourished. Maybe a cardboard box with a smile on it graces your doorstep as often as it does mine.

As we approached the end of the 2007, I once again heard that familiar refrain, "it's different this time." It was… instead of money pouring into firms that simply had the suffix of dot-com, this time is was real estate. Everyone was buying, flipping, investing, and what-not into real estate.

Source, Raymond James,

This led to a surge in the economy across the board (as the dot-com boom did as well). The run-up was built on a house of sand though as the world learned that not even a Michelin star chef (Wall Street) can take a bunch of spoiled ingredients (sub-prime mortgages) and create a meal that won't leave you in the hospital with food poisoning (the Great Recession).

As we turn towards the current world, things do seem… more unsettled. There are the big headline issues like continued tariffs, Brexit, impeachment, and protests in Hong Kong. In the United States, we are now just a little over a year from the next presidential election. There are also a few things that, dare I say, are "different this time."

One is the reversal of the globalization trend. Globalization is often maligned and it certainly has its costs, but overall has been one of the engines of worldwide economic expansion for more than the last 20 years. The recent increase in tariffs and trade barriers, not only between the United States and the rest of the world, but also between other countries is starting to reverse that trend. It remains to be seen whether or not this is a short-term trend or something more secular.

The second thing that is "new" is negative interest rates. In very simplified terms, people are lending money to a number of European Countries and paying those same countries for privilege of doing so. Why would anyone do this? Well, a known small loss is better than an unknown potential large loss. In very simple terms, imagine you had a choice between losing 10 dollars or a 50% chance losing 10 thousand dollars. Which would you choose ? This is somewhat new territory that

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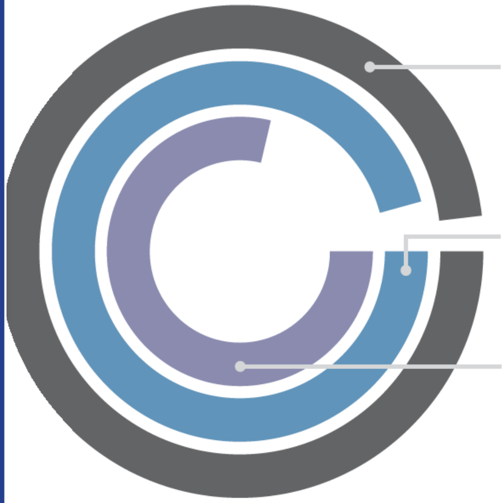
The highest compliment we can receive is when you let your families and friends know about us.
Referrals Welcome!

5G and Phones of the Future

It might be hard to imagine being more connected than we are today – and yet that's exactly what 5G promises to do. This radically faster and better internet includes higher bandwidth, longer battery life for our devices and low latency, features that could unlock the potential of emerging technologies like artificial intelligence, virtual reality, 3D video and autonomous vehicles. Not to mention all kinds of possibilities we have yet to imagine.

Phone facts: Americans love our phones



95% of adults had **cellphones**

94% of adults **under 30** had smartphones

77% of adults had **smartphones**

Source: Pew Research Center

These uses have all been made possible by innovations in technology.

1G mobile calling
2G digital data
3G internet on the go
4G broadband at our fingertips
5G? better, faster internet

Up to 200x faster.

For many of us, our phones have practically become an extension of our own bodies, traveling with us wherever we go and serving as a lifeline that always keeps us connected. A recent study found that over 95% of adults in the U.S. had cellphones and 77% had smartphones. Among those under 30, that number increased to 94%. So why, exactly, are we so hooked? Not so long ago, our phones revolutionized our lives when they let us call anywhere in the world – our child studying abroad in Europe; our cousin in Montana; our parents in Florida – wirelessly. And yet, today, that capability has been eclipsed as they have evolved to serve as our computers, entertainment, wallets, cameras, calendars and so much more.

What about 5G?

To put it simply, 5G promises radically better and faster internet. Unlike with prior generations, it's hard to pinpoint a specific capability to 5G, however some are saying we can expect service that's as much as 200 times faster. It should mean a vastly improved user experience thanks to higher bandwidth, longer battery life for our devices and low latency, which refers to the time it takes data to reach the receiver. This level of speed and efficiency could advance emerging technologies like artificial intelligence, virtual and augmented reality, 3D video and holographic imaging. Plus, it could help to scale autonomous vehicles, for which factors like latency are especially important. (After all, you definitely don't want an internet delay in a driverless vehicle.) We could also see new possibilities and usage in the world of remoteservices, such as in healthcare and banking. Think virtual medical consultations and remote bank tellers, allowing you to address your needs from wherever you are. Better internet service should lead to enhanced banking apps and make it even more convenient – and more secure – to use your mobile wallet. Considering 81% of financial institutions have made technology changes recently, more innovation in the coming years seems likely.

Who's ready?

Ready to experience 5G for yourself? You're not alone. According to Raymond James Equity Research, a report by Ericsson predicts that 5G will become the fastest adopted wireless generation, reaching 1.5 billion subscriptions worldwide by 2024. However, the Equity Research team also points out that ubiquitous nationwide 5G coverage will require a massive investment of time and money to build out new infrastructure – including lots of antennas – and so is likely several years away. Fortunately, that transition is well under way. Certain networks like Verizon and AT&T already offer 5G service in select areas, and much wider access will likely be available as soon as 2020. You can already buy a 5G-enabled Samsung, with iPhones to follow in 2020. While it will take some time for the full power of 5G to unfold, it seems likely that, as it does, we'll be introduced to a whole new world of possibilities we have yet to envision.

Source, Raymond James

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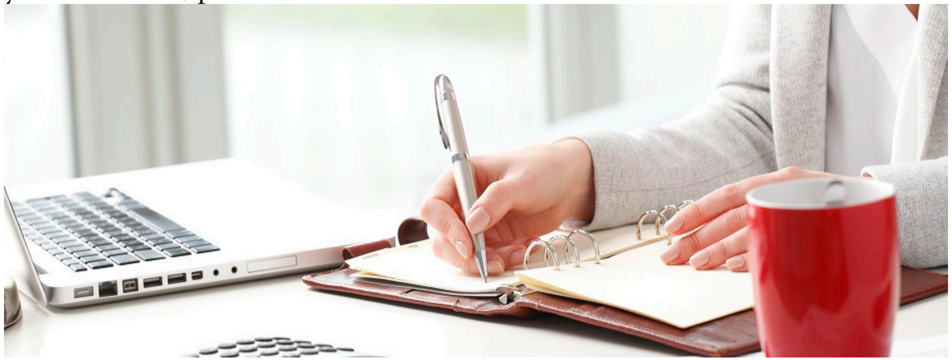
we are watching closely to see the effects. As an aside, in my research I can only find one other time where negative interest rates were used. It was in Switzerland during the 1970s and they were using them to deal with currency issues, not to stimulate the economy.

It's now been over a decade since the "Great Recession" and we have repeated a familiar refrain in meetings along the way, saying that this upward trend will not last forever. To be clear, we do not think an economic contraction (aka, a recession) is imminent. All the economic data around employment, manufacturing, homebuilding, and other indicators is generally positive with the occasional bump.

If you have concerns about your portfolio or have had recent changes in your situation, please reach out to us and schedule a time to meet.



DID YOU **KNOW...**

MARK YOUR CALENDAR

FALL 2019 | MARKET CLOSURES

Thursday, November 28: Thanksgiving Day
Wednesday, December 25: Christmas Day
Wednesday, January 1: New Year's Day

- Tuesday, October 15: Open enrollment for Medicare Parts C and D begins. Make any changes to your coverage by December 7.

- Tuesday, October 15: The final day to file a 2018 income tax return for those issued an extension.

- Tuesday, December 31: New Year's Eve is the year-end charitable gift deadline for check and wire transfers.

- Tuesday, December 31: Last day to take 2019 required minimum distributions for those who turned 70½ in or before 2018

Source, Raymond James,

CHECK THIS LIST - TWICE - BEFORE YEAR-END

Mind your RMDs

Be thoughtful about required minimum distributions (RMDs) to ensure that you comply with the rules. When you reach age 70½, you are required to take a required minimum distribution (RMD) by December 31 each year. Take your 2019 RMD to avoid a 50% penalty on required amounts not taken. Other considerations:

- By automating your RMDs with your advisor, ensure that you never miss this important deadline.
- You may delay taking your first RMD until April 1 of the year after you turn 70½. Know, however, that if you delay, you must also take your second RMD in the same tax year. As a result, your income could be inflated, which may affect your tax-bracket standing.
- Subsequent RMDs must be taken no later than December 31 of each calendar year.
- Qualified charitable distributions allow traditional IRA owners who transfer RMDs to qualified charities to exclude the amount donated from their adjusted gross incomes, up to $100,000.
- Be mindful of how taking a distribution will impact your taxable income or tax bracket. If you have space left in your bracket or a down income year, you may want to consider taking additional distributions.

To harvest or not to harvest

Evaluate whether you could benefit from tax-loss harvesting – selling a losing investment to offset gains. The first $3,000 (single or married filing jointly) offsets ordinary income. Excess losses also can be carried forward to future years. With your advisor, examine the following subtleties when aiming to decrease your tax bill:

- Short-term gains are taxed at a higher marginal rate; aim to reduce those first.
- Don't disrupt your long-term investment strategy when harvesting losses.
- Be aware of "wash sale" rules that affect new purchases before and after the sale of a security. If you sell a security at a loss but purchase another "substantially identical" security – within 30 days before or after the sale date – the IRS likely will consider that a "wash sale" and disallow the loss deduction. The IRS will look at all your accounts – 401(k), IRA, etc. – when determining if a wash sale occurred.

Manage your income and deductions

Those at or near the next tax bracket should pay close attention to anything that might bump them up and plan to reduce taxable income before the end of the year.

- Consider making a donation. Giving to a charity can benefit a cause you care about and reduce your taxable income. Make sure your gifts are well-documented.
- Determine if it makes sense to accelerate deductions or defer income, potentially allowing you to minimize your current tax liability. Some companies may give you an opportunity to defer bonuses and so forth into a future year as well.
- Certain retirement plans also can help you defer taxes. Contributing to a traditional 401(k) allows you to pay income tax only when you withdraw money from the plan in the future, at which point your income and tax rate may be lower or you may have more deductions available to offset the income.*
- Evaluate your income sources – earned income, corporate bonds, municipal bonds, qualified dividends, etc. – to reduce the overall tax impact.

Next steps

Consider these to-dos as you prepare to make the most of year-end financial moves, and discuss with your financial advisor and tax professional:

- Manage your income and deductions, paying close atten¬tion to your marginal tax bracket.
- Remember to take your RMD.
- Evaluate your investments, keeping in mind whether you could benefit from tax-loss harvesting.
- Make a list of the life changes you and your family have experienced during the year.

Source, Raymond James

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