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Quarterly

2019 Year-End Investment Market Report

We have just completed the final quarter, not only of the year, but also the decade. Market historians will remember that the investors of the 2010s participated in the longest bull market in American history. Not so coincidentally, this decade long bull market followed one of the worst stock market downturns in modern financial history.

Also worth noting is how the predictors of doom were once again totally off-base. At the beginning of the decade when the Federal Reserve Board stepped in to stem the worst of the Great Recession, there were widespread cries that the Fed was "printing money" in a way that would lead to massive inflation and/or the bursting of a stock market bubble. Today, an expansionist Fed is routinely criticized for being too tight, rather than too loose. Inflation, meanwhile, has ranged from 0.7% to 2.1%—which hardly signals a crisis.

More recently, 2019 was a remarkable year for investors by any measure. Stocks went on sale in December 2018, and many prognosticators were predicting that the bearish trend would continue through calendar 2019. The markets went on sale again in August when there were reports of a slight inversion of the yield curve in the bond markets which (it was widely reported) signaled that a recession was on the near horizon. Those rumors turned out to be false and the yield curve—that is, the difference in bond rates between short-term and long-term issues—subsequently steepened. Investors who took advantage of the lower prices, or stayed the course, saw well-above-average gains almost across the board.

A breakdown shows that just about every investment asset was up strongly in 2019. The fourth quarter contributed significantly to the exceptional performance of the year. The widely quoted S&P 500 index of large company stocks gained 9.07% during the year's final quarter and overall finished up 31.49% narrowly losing out to the decade's best yearly gain of 32.39% in 2013. Over the last ten years, investors in the S&P 500 saw annualized gains of 13.56% in the value of their holdings.

	Quarter	YTD	1 Year	3 Years
S&P 500 Index TR	9.07	31.49	31.49	15.27
Russell 2000 TR	9.94	25.52	25.52	8.59
Wilshire U.S. REIT TR	-1.14	25.76	25.76	7.63

Source: Morningstar Direct; See disclosures for important benchmark information

Even the foreign markets were generous to investors this year. The broad-based MSCI EAFE index of companies in developed foreign economies ended the year up 22.01% in dollar terms. However, the past ten years have not been the best times to invest in international stocks; the index recorded an annualized gain of just 5.50% over that time period. Similarly, emerging market stocks of less developed countries, as represented by the MSCI EM index, were up 18.42% for the year (in dollar terms). Their 10-year track record is not enviable: up just 3.68% a year for the decade.

	Quarter	YTD	1 Year	3 Years
MSCI EAFE NR	8.17	22.01	22.01	9.56
MSCI EM NR	11.84	18.42	18.42	11.57

Source: Morningstar Direct; See disclosures for imporant benchmark information

Looking over the other investment categories, real estate, as measured by the Wilshire U.S. REIT index finished the year with a 25.76% gain. The S&P GSCI index, which measures commodities returns, gained 17.63%. Commodities, however, dramatically lagged U.S. stocks over the past decade a negative total return of -5.44%.

Finally, possibly the most surprising outcome of all, bonds had strong positive returns for the year.The Barclays US Bond Index appreciated 8.7% in 2019.

	Quarter	YTD	1 Year	3 Years
Barclays U.S. Aggregate Bond TR	0.18	8.72	8.72	4.03

Source: Morningstar Direct; See disclosures for imporant benchmark information

It's hard to overstate how unusual this long bull market has been. Bear markets tend to occur about every 3.5 years, and the previous record was 9.5 years from November 1990 to March of 2000. However, we still have a long way to go to match the 418% total return that was achieved in the 1990s.

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Longer term where do these markets go? Most economists are currently reluctant to predict a serious economic downturn when unemployment is at record lows and the slow-growth economy is chugging along with a 2.3% gain in 2019. At the same time, dramatic increases in domestic oil production have lessened the possibility that the economy will experience an energy recession, and healthcare cost increases have moderated over the course of the decade. Lacking a catalyst, such as a major geopolitical event, dramatic increases in the price of oil, or dramatic protectionist measures, markets could chug along.

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It is extremely difficult to predict when or how the bull market will end, or how deep the coming recession or bear market will be. The one thing we are sure of is that history tells us that all past downturns were followed by upturns which took the markets and the economy to new heights.

Financial Planning News:

Congress gave us another year-end bill with financial planning implications. The SECURE Act passed and there are a lot of provisions. Many are technical changes to previous laws and a number are very unlikely to be relevant, and more still are too trivial to plan around. So, below are the four things that most people should pay attention to in the SECURE Act and one bonus from the overall spending bill.

Keep in mind that there are lots of exceptions and provisions to many of these rules – this is just a summary.

First, (under Section 401, Modifications to Required Minimum Distribution Rules), there is a detrimental change for many families. If you are planning to leave a retirement plan to your descendants, they will generally no longer be able to take the proceeds over their life expectancies, rather the maximum deferral period will be ten years.

1 This does not apply to leaving the retirement plan to your spouse.
2 This does not apply to those who have already inherited a retirement plan.
3 If your estate planning documents leave your retirement account to a trust for the benefit of your heirs, we should re-evaluate that decision.
4 If your taxable (i.e. non-Roth, non-basis) retirement plan balances are likely to be high enough that withdrawing one-tenth each year for the ten-year deferral period would be enough to place your heirs into a higher income tax bracket than you are currently in, then Roth conversions for their benefit may be prudent.

Second, (under Section 114, Increase in Age for Required Beginning Date for Mandatory Distributions) there is a small, yet favorable, change. For those who are not yet 70½, RMDs (Required Minimum Distributions) from retirement plans will now begin at age 72 rather than age 70½. QCDs (Qualified Charitable Distributions) continue to have a 70½ start age.

Third, (under Section 107, Repeal of Maximum Age for Traditional IRA Contributions) there is another small, yet favorable, change. For those over age 70½ who have earned income you can now contribute to an IRA.

Fourth, (under Section 302, Expansion of Section 529 Plans) allows 529 funds to be used for registered apprenticeships and qualified student loan repayments up to $10,000 (aggregate lifetime limit).

Bonus, in the spending bill itself, but not the SECURE Act section, the change in the "kiddie tax" (basically tax on unearned income for a child under 18, or under 24 and a full-time student) that was made by the 2018 Tax Cuts and Jobs Act (TCJA) is repealed. Those earnings will again be taxed at the parent's marginal rate as they were previously rather than at trust tax rates.

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S&P 500, Russell 2000, Wilshire U.S. REIT, and Barclays U.S. Aggregate Bond indexes are reported using Total Return. Total Return assumes the reinvestment of dividends/interest. MSCI EAFE and MSCI EM benchmark performance is reported using Net Total Return. Net total return indexes reinvest dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

Historical performance results for investment indexes, benchmarks, and/or categories have been provided for general informational/comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your Montis account holdings correspond directly to any comparative indices or categories. ***Please Also Note:*** *(1) performance results do not reflect the impact of taxes; (2) comparative benchmarks/indices may be more or less volatile than your Montis accounts; and, (3) a description of each comparative benchmark/index is available upon request.*

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