SPOTLIGHT ON FINANCE

View on the Market

The start of a new year is a time to reflect and plan. For investors, this means understanding the markets and economy, reviewing portfolios and financial goals, and reminding ourselves of the basic principles of investing. This opportunity to quietly reflect, is a rare gift. After all, we will no doubt be bombarded by day-to-day headlines throughout the year to come.

2019 Review

Despite significant market uncertainty punctuated by short periods of volatility, global markets surged in 2019. The positive returns across a breadth of asset classes made 2019 one of the best years of the market cycle. This occurred despite constant worries around the Fed, trade wars, impeachment hearings, Brexit, and more.

Perhaps the most important reason for these returns is that the economy is still healthy. The recession that many investors feared at the end of 2018 didn’t occur and few economists now expect a recession in the near future. The unemployment rate of 3.5% across the country is a 50-year low and consumer net worth is at a record high of $113 trillion. While this doesn’t mean that all Americans are doing equally well, it has been enough to push asset prices higher.

An equally important reason for these gains is that the Federal Reserve is pouring monetary stimulus into the system. The Fed made a full U-turn from *raising* rates last December – which slows the economy - to *lowering* rates in July. In doing so, the Fed effectively makes it cheaper to borrow money which tends to stimulate the economy and the stock market. This excited many investors, resulting in stocks hitting new all-time highs. For now, the Fed is on pause with additional rate cuts, although it continues to use its balance sheet to support the financial system.

Finally, there is a technicality to be aware of that visually inflated last year's stock market return numbers. Because 2018 ended near the market lows, a significant part of 2019's return was simply returning to previous levels. From the 2018 peak to the end of 2019, the U.S. stock market gained 10%.

Seeing Clearly in 2020

The unavoidable truth about investing is that there are always reasons to be worried. All of the recent investment gains happened despite negative headlines and investor concerns all year long. Negative headlines capture our attention while positive developments can slip by unnoticed. These negative headlines caused the stock market to temporarily drop three times over the course of 2019.

Despite this, investors who stayed disciplined were rewarded in the end - especially those who stayed invested at the end of 2018. Thus, an important skill when investing over the long run is to be able to see past short-term news. The fact that the economy stayed healthy and a trade deal, even an interim one, was eventually reached meant that much of the handwringing by investors during the year was all for naught.

On that note, one challenge investors will face in 2020 is that media attention will focus on the presidential election. There will be endless speculation and concern over what each candidate will mean for the stock and bond markets. And while elections are incredibly important as citizens, voters and taxpayers, investors should avoid over-reacting or jumping to conclusions based on political preferences.

The reality is that how the stock market responds to elections is very difficult to predict. In fact, investors have feared that just about every presidential candidate in history would spell the end of economic growth and stock returns. In recent times, this was certainly said of both Presidents Obama and Trump.

While economic policies can certainly make a difference over time, investors are usually better off focusing on what affects portfolios in the long run rather than reacting to day-to-day political headlines. In other words, investors should stay invested and save their energy for the polls.

Looking Further Into the Cycle

There are some indisputable facts about the market and economic cycle. In 2020, we will celebrate the 11th anniversary of the bull market and economic expansion - already the longest in history. The economy appears to be growing at a healthy pace of around 2%. Inflation is still benign despite historically low unemployment, although wages are beginning to rise more quickly. Interest rates are also quite low after a tumultuous 2019 during which the yield curve briefly inverted. All of these facts are classic signs of the later stages of the business cycle.

How much longer and further the business cycle goes requires a large degree of speculation. Areas such as manufacturing which have suffered over the past year will have to recover. Global economic growth, dampened by recent trade disputes, will have to rebound as well. Corporate earnings, which are forecast to have grown by only 1% in 2019, will need to accelerate in the next couple of years. The Fed will need to carefully maintain balance in the financial system, and Washington may need to engage in fiscal stimulus and pro-growth policies.

Ultimately, just as many investors were too fearful in 2018, some investors may be too greedy after a historic 2019. With stocks up significantly last year, many may continue to expect similar gains.

While we should be grateful for a strong year, investors should have realistic expectations. The most important takeaway is that many of the reasons that stocks rose last year, which we discussed above, may be of less help in 2020. Today, few investors are worried about a recession and the Fed is already stimulating the economy.

Stocks can still do well if the economy is healthy, but we shouldn't expect the U.S. stock market to rise another 30%. Instead, holding a diversified portfolio can be a good way to benefit from stock market gains while protecting from uncertainty..

The economic forecasts set forth in this discussion may not develop as predicted and there can be no guarantee that strategies promoted will be successful. This information is not intended to be a substitute for specific individualized tax or legal advice. We suggest that you discuss your specific situation with a qualified tax or legal advisor. Investing strategies, such as asset allocation, diversification, or rebalancing, do not assure or guarantee better performance and cannot eliminate the risk of investment losses. There are no guarantees that a portfolio employing these or any other strategy will outperform a portfolio that does not engage in such strategies

XML - More than Just Investment Advice

XML is continually on the lookout for ways to enhance our investment research and client experience. We have recently partnered with Hidden Levers, a technology-based platform that tests a portfolio for risk and reward based on previous scenarios that have occurred in history, and Dorsey Wright, a research tool which analyzes various investments based on momentum. And, after completing a review process, we have been approved to offer some new funds to our already comprehensive list.

In addition to these new tools, when you become a client of XML Financial, you get more than just investment advice and portfolio monitoring. It's not just about creating an initial investment plan or giving advice about adding money to or taking money out of your portfolio. And it's not just answering questions about your holdings or what the markets are doing. We are also your financial coach and can be your sounding board for those big, and small, decisions in life. We are a source of experience and guidance and can help you make thoughtful choices to meet your individual goals and needs.

Planning on changing your job, moving or buying a house, getting married or divorced, staring a family, or thinking about retiring? Financial planning isn't static. Some changes may have an impact on future cash flow needs, tax strategies, asset allocation, insurance or other elements of your financial plan. A change in one area can have a considerable impact on other areas. Clients often times underestimate various costs or neglect to take into consideration certain pitfalls because they are heavily invested emotionally into achieving a certain goal. Any significant change in your financial situation or future plans merits at least a quick call to your advisor. Keeping us up to date helps us manage your existing plan and consider where changes may be appropriate later on down the road.

Here are some areas we may be able to help you with:

Personal/family events

- Birth or death in the family
- Upcoming marriage or divorce
- A change in a child's college plans (public vs. private school, or no college at all)
- Change in health status or medical needs
- Applying for Social Security
- Plans to move into a retirement community

- Estate planning issues and changes
- Inheritance of money or other assets

Financial matters

- Wondering how much money it will take to realize your financial goals
- A planned major purchase or other need for significant cash
- Sale or purchase of real estate
- Buying vs leasing a car
- Cash windfall from a lawsuit, lottery or other source
- Changes in life insurance
- Any transaction that may have income tax implications
- New or changing philanthropic goals

Business/career issues

- Launch of a new business
- Sale of a business
- Promotion or loss of job
- Pension plan eligibility, 40l(k) plans and other at-work savings options
- Making plans to retire
- Considering new financing sources for family business

Like most people, you are probably bombarded with the recommendations from friends, bloggers, and the financial media regarding how and when to invest money. We can help you sort out these ideas and see how they complement or conflict with your long-term plan and goals.

As in all relationships, communication is key. If you're not sure about making a call, give us a call! It's our job to help *you*!

Have You Conducted a Financial Emergency Drill?

If catastrophe struck, natural or otherwise, what would you do? If something happens to you or your spouse, both of you or even some of your immediate family members, do you have a plan in place? We have been through scenarios such as these with some of our clients and can help you plan and execute a Financial Emergency Drill exercise.

Start the New Year With a Resolution You Can Keep

If you are like most people, making new year's resolutions is the easy part. It's keeping those resolutions that can challenge even the most committed person. It's not that we don't want to be successful, it's just that too often resolutions are vague – I want to lose weight, I want to travel more, and so on. To stay focused, you should make a specific goal with a deadline – I want to lose 10 pounds by June 1st. Open end resolutions just give too much wiggle room!

To help with a savings resolution, pay yourself first. What this means is, decide how much you can save each pay period or each month, five dollars or a thousand dollars, whatever works into your budget (but do challenge yourself a little). Then set up an automatic investment plan *before* you start paying other bills or discretionary spending.

By the end of the year you will have accumulated a cash reserve that can help put you on the path to a more financially secure future, where unexpected expenses and financial emergencies don't trigger panic. Putting away a set amount of money automatically and at regular intervals ensures a portion of your income can help support your long-term savings plan, keeping you prepared for life's inevitable financial emergencies and opportunities.

We can help you decide what type of systematic savings plan works best for you and implement a strategy appropriate for your financial situation. Talk to your advisor on the best way to handle this.

The Secure Act Is Raising Lots of Questions for Retirees. What You Need to Know.

Who gets to delay their required minimum withdrawals from tax-deferred assets?

The Secure Act raises the required minimum distribution, or RMD, age to 72 from 70½. This change applies to anyone who turns 70½ this year or later. For those who turned 70½ last year, the first RMD will have to be taken by April 1, 2020. But anyone who turns 70½ in 2020—or later—won't have to take their RMD for two years.

Can I contribute to my IRA past 70½?

Yes, the Secure Act eliminates the age cap for contributions, in recognition that people are working and living longer. The benefits of working longer are well-documented and now possess an additional savings route.

What happens if I've inherited a stretch IRA?

Rest easy. The new 10-year rule only applies to accounts of benefactors who die in 2020 and beyond. Current beneficiaries of inherited IRAs and 401(k) plans will still be allowed to withdraw the required minimum distributions over their life expectancy. The 10-year rule took effect on January 1, 2020, which means beneficiaries of anyone who died by Dec. 31, 2019 will not be affected.

Are there exceptions to the rule?

The rule does not apply to spousal beneficiaries, as well as disabled beneficiaries and those who are not more than 10 years younger than the account holder (such as a slightly younger sibling, for example). Minor children are also exempt, but only until they reach majority age. After that, they will have 10 years to withdraw the assets in an inherited account.

Spouses, disabled beneficiaries and others under the exception will still be allowed to take distributions over their life expectancies.

How should I withdraw the money from this account under the new 10-year rule?

This depends entirely on your situation, but there are some factors to take into consideration. The withdrawals will be taxed at the beneficiary's ordinary income-tax rate, which means someone in their peak earning years will be more heavily taxed than someone with lower income. Beneficiaries nearing their own retirement (in less than 10 years) may want to delay taking any withdrawals from these inherited accounts under the 10-year rule until after they've retired, so that the withdrawal is not taken on top of their earned income.

Can I roll over the inherited assets into another traditional IRA?

Non-spouses cannot roll over an inherited IRA into a Traditional IRA. The inherited IRA must remain a standalone account for non-spousal beneficiaries.

Please contact us if you would like additional information on how these new rules may affect you. We can help you decide the best course of action for your situation.

Tip for 2020

When signing and dating legal documents, do not use “20” as the year 2020. March 3, 2020 written as 3/3/20 could be modified to 3/3/2017 or 3/3/2018, for example. Instead, don’t abbreviate the year, write out all digits: 3/3/2020.

Social Security Announces 1.6 Percent Benefit Increase for 2020

Social Security and Supplemental Security Income (SSI) benefits for nearly 69 million Americans will increase 1.6 percent in 2020, the Social Security Administration announced in October

The 1.6 percent cost-of-living adjustment (COLA) will begin with benefits payable to more than 63 million Social Security beneficiaries in January 2020. Increased payments to more than 8 million SSI beneficiaries will begin on December 31, 2019. (Note: some people receive both Social Security and SSI benefits). The Social Security Act ties the annual COLA to the increase in the Consumer Price Index as determined by the Department of Labor’s Bureau of Labor Statistics.

Some other adjustments that take effect in January of each year are based on the increase in average wages. Based on that increase, the maximum amount of earnings subject to the Social Security tax (taxable maximum) will increase to $137,700 from $132,900.

Social Security and SSI beneficiaries are normally notified by mail in early December about their new benefit amount. Most people who receive Social Security payments will be able to view their COLA notice online through their *my* Social Security account. People may create or access their *my* Social Security account online at www.socialsecurity.gov/myaccount.

Information about Medicare changes for 2020, when announced, will be available at www.medicare.gov. For Social Security beneficiaries receiving Medicare, Social Security will not be able to compute their new benefit amount until after the Medicare premium amounts for 2020 are announced. Final 2020 benefit amounts will be communicated to beneficiaries in December through the mailed COLA notice and *my* Social Security’s Message Center.

The Social Security Act provides for how the COLA is calculated. To read more, please visit www.socialsecurity.gov/cola.

Tax Brackets have changed for 2020

The Internal Revenue Service released an update for individual income tax brackets to adjust for inflation. While the tax rates themselves haven't changed, the income amounts defining them have. See the following table:

Tax Brackets and Rates, 2020

Rate	For Single Indivdiuals, Taxable Income Over	For Married Indivduals Filing Joint Returns, Taxable Income Over	For Heads of Households, Taxable Income Over
10%	$0	$0	$0
12%	$9,875	$19,750	$14,100
22%	$40,125	$80,250	$53,700
24%	$85,525	$171,050	$85,500
32%	$163,300	$326,600	$163,300
35%	$207,350	$414,700	$207,350
37%	$518,400	$622,050	$518,400

The updated tax brackets are not the only change. The standard deduction is now higher, $12,400 for singles and $24,800 for married people filing jointly in 2020. Personal exemptions were also eliminated.

If you qualify for a Health Savings Account, you can add a bit more. The individual limit has been raised from $3,500 to $3,550 and the family plan maximum has jumped $100 to $7,100. (Remember, those balances can be rolled over from one year to the next and can accrue interest tax free.)

Contribution limits for 401(k) and 403(b) plans, along with some 457 plans, increased from $19,000 in 2019 to $19,500. And those who are over age 50 can now contribute up to $6,500.

The lifetime gift and estate tax exemption has climbed to $11.58 million per individual, a $118,000 increase from 2019. That shields your loved ones from federal estate and gift taxes when you die.

XML Financial / Lara May Advisors Staff News

A congratulatory shout-out for the accomplishments of our wonderful staff at **XML Financial / Lara May Advisors**:

- Chief Compliance Officer, **Jennifer L. Szaro, CRCP®,** was elected Chair of the FINRA Small Firm Advisory Committee for 2020. The Small Firm Advisory Committee (SFAC) is an advisory committee established by the NASD Board of Governors in 1998. The SFAC ensures that issues of particular interest and concern to small firms are effectively communicated to and considered by the FINRA Board of Governors. The SFAC reviews and comments on all new and amended FINRA rule proposals and provides guidance to FINRA staff regarding the potential impact of proposed regulatory initiatives on FINRA's small firms.
- Client Services Associate, **Marie Gaetjens**, recently passed the FINRA Series 7 General Securities Representative Qualification Examination.

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We value our client relationships and appreciate you sharing your opinion about our firm. Any suggestions? Ways for us to improve? Let us know!