Comprehensive Investment Management, LLC
Fee Only Personal Financial Planning
Winter 2020

A Review of the Financial Markets at December 31, 2019

Vanguard's Total Stock Market Fund returned 30.3% in 2019, a blockbuster year for sure. On the other hand the year before, the fund dropped 4.5%, so the average over the two years is a more tepid 12.9%. In fact the fund's ten year average return is higher (13.1%). But who will quibble when talking about double digit returns. In 2018 you may remember Christmas week was a disaster. The twelve days after Christmas were a lot better than the twelve days before Christmas when the stock market dropped over 13%. The main culprits then were trade war fears and Federal Reserve Chairman Jerome Powell indicating the Board had no intention of decreasing federal interest rates. The trade wars are still with us, but the Feds changed their mind and in 2019 the federal rate was reduced three times in total going from 2.5% to the current 1.75%. The Federal Reserve is now again saying it won't be reducing rates, but we'll see. Actually there isn't much more to reduce.

Annual Returns US Diversified Stock Funds

	1 yr	3 yr	5 yr	10 yr	15 yr
Large Cap	26.7	15.8	12.1	13.9	10.7
Mid Cap	25.4	15.9	12.4	15.5	11.9
Small Cap	28.4	13.8	11.7	14.7	11.0
Average	26.8	15.2	12.1	14.7	11.2
VG Stock Mkt Index	25.7	11.6	9.9	12.3	8.1

The performance described in this newsletter is that of a select group of mutual funds. Recent market activity can be newsworthy. However investment returns over longer periods, while not predictive, are significantly more meaningful.

US Stock Funds

The best performance for the quarter was from T.Rowe Price Health Science (19%). The top performer for the year was also from T.Rowe Price, US Small Cap Equity (32.8%). Our growth oriented funds finished the year behind the Total Stock Market Fund, which by definition is composed of an even mix of growth and value stocks. But all the growth funds are ahead of the Market Index at 3, 5, 10 and 15 years. At 15 years the growth funds average 11.5%, the Market Index is just 9.0%. We get our value oriented stock exposure primarily via our investment in the Wellington Fund.

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Mutual Fund Categories	Quarter Return	1 Year	3 Years	5 Years	10 Years	15 Years
Short Term Bonds	**.5**	**5.3**	**2.6**	**2.1**	**2.3**	**3.0**
Intermediate Term Bonds	**2.5**	**10.1**	**4.3**	**3.6**	**4.7**	**4.7**
US Diversified Stocks	**9.8**	**27.8**	**16.0**	**12.3**	**14.5**	**11.1**
Healthcare Stocks	**15.1**	**26.0**	**16.4**	**10.0**	**16.8**	**13.2**
Foreign Stocks	**12.5**	**25.8**	**14.2**	**9.0**	**9.3**	**8.6**

The Financial Markets (from page 1)

Foreign Stock Funds

At 25.8% the foreign funds easily had their best year since 2009. Even though they were down double digits in 2018, the 3 year return average is 14.2%. The 15 year return of 8.6% reflects the fact that since the 2008 financial crisis the foreign markets have struggled. How can these funds have such a good year despite the trade wars both real and threatened? That can be contributed to the vastness of the global economies. Although the US has the world's biggest economy, 96% of the global population resides elsewhere.

Bonds

Our bond funds had a good year for a change. Interest rates went down so values went up. The prognosis is not at all good going forward. That's why we have ventured into the slightly higher risk/return arena of Vanguard's Hi Yield Bond Fund. In most cases, going forward we will probably want to let our stock allocation percentage inch up by letting our investment in the Wellington Fund run ahead more than we normally would.

Looking Ahead

Historically low interest rates continue to be a key driver not only for the economy but certainly the stock market, given the level of debt that corporations are carrying. The three rate cuts by the Feds was a 30% move in 2019. They wanted to hold back on cuts so there would be another tool to use if the economy weakened. They later decided the time was right and it seems to have worked out. Given how leveraged corporations are, an increase in interest rates will quickly push stocks lower. It's probably not just around the corner, but if we get some inflation and stronger growth than is currently expected, the markets will be at some risk.

Annual Returns Intermediate Bonds	1 yr	3 yrs	5 yrs	10 yrs	15 yrs
Corporate	10.4	4.6	3.8	5.0	4.9
Treasury	6.3	3.0	2.4	3.2	3.9
Inflation Protected	8.1	3.1	2.4	3.2	3.7
High-Yield Corporate	15.8	6.34	5.7	7.1	6.2
Bonds vs. Stocks: Balanced Funds With Opposing Allocations					
Wellesley 65% bonds	16.4	7.7	6.5	8.0	7.0
Wellington 65% stocks	22.5	10.7	8.6	9.9	8.2

We still haven`t had the 20% correction that many feel is necessary to clean out some of the dead wood in the market, so it can reset. We keep going higher and higher and trees don't grow to the sky. There won't be a repeat of the 30% surge in 2019 primarily because 2019 included a makeup for a down 2018. The trade wars may abate for awhile, but the markets pretty much already assumed that was going to happen in a presidential election year. The sudden heating up of the Iran relationship was a surprise. That is a wild card.

Technology is expected to continue to lead the markets. In general most analysts predict a six percent growth in company earnings, so that means we should expect a mid-single digit return in 2020. For 2020 Vanguard predicts bonds will return just 2% and stocks 5%. Vanguard continues to encourage a heavy allocation in foreign stocks and even foreign bonds. That didn't work well over the last ten plus years and CIM remains skeptical of such a heavy allocation.

Currently there is a valuation spread between foreign and US markets that has existed since the 2008 financial crisis. In 2019 it finally closed a bit. Geopolitical implications can't be ignored but, as we have seen, neither can they be predicted. And then, of course, there's Brexit.

US Markets usually rise in election years, because incumbent policy makers do what they can to boost the economy. Impeachment is not helping. A very divisive election will create uncertainty. Who the Democratic nominee is will determine the extent. Corporate CEO's are already hedging their bets, many predicting a recession because of their inability to plan. Expect a roller coaster ride no matter how the elections turn out.

How stocks have fared during past Middle East flash points

Stocks Can Advance Despite Crisis in the Middle East			
		1-Month Return	1-Year Return
Arab Oil Embargo	10/17/1973	-5.7%	-36.2%
Iranian Hostage Crisis	11/3/1979	3.2%	24.3%
USSR Invasion of Afghanistan	12/25/1979	5.6%	25.7%
Iraq Invades Kuwait	8/3/1990	-8.2%	10.2%
Persian Gulf War	1/17/1991	16.7%	32.3%
World Trade Center Bombing	2/26/1993	1.2%	5.4%
9/11	9/11/2001	0.4%	-16.7%
Iraq War	3/20/2003	2.2%	28.4%
Average		**1.9%**	**9.2%**

With the relationship between the US and Iran at a recen t new low, this chart was recently distributed by Dan Weiner's Independent Adviser for Vanguard Funds. 1973 was the big loser because back then the US was dependent on cheap oil from the Middle East. The shortages not only made drivers wait in long lines at gas stations, but also significantly increased the energy cost for companies. The collapse of the over exuberant dot-com bubble had a lot to do with the 2001-02 period. If there ever was a meaningless figure it's the 9.2% at the bottom of the chart, reminding us that if we were to put our head in the oven and our feet in the refrigerator, on average we would be comfortable.

The End of Retirement

The Wall Street Journal is reporting that actuaries are projecting that those now entering the work force could live 125 years. Some demographers say the baby who will live 200 years has already been born. Professor Olivia Mitchell at the University of Pennsylvania says people in their 60's now very much look like people in their 40's not long ago. Professor Mitchell may have succumbed to the Johnny Carson thesis that no matter how old you get, an old person is somebody at least ten years older than you are.

How much money would somebody need to retire if they are going to live until they are 200? The IRA required minimum distribution for such an individual will be roughly a minus 12%. Social Security and Medicare will have long before gone bankrupt, so no help there. Life time annuities will be very popular and probably a good bit more expensive than now. The solution will be to keep working into your 160's, if the boss, probably a robot, can be convinced you can still do the job.

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Q&A with the Editor

Q: Mr. Commissioner, what do I need to know about pension and IRA changes included in the recently passed SECURE act?

A: First let me say that a lot of things got tossed in at the last minute, so here at the IRS we are still trying to figure out parts of it ourselves.

Once in a lifetime a 529 account owner can now use up to $10,000 to pay off student loans.

Starting in 2020, if you inherit an IRA you now have to withdraw the balance within 10 years. There are exceptions including the spouse and beneficiaries close in age to the deceased. Under prior rules the heir could spread the withdrawals over his/her lifetime, which was pretty ridiculous if you ask me.

You can now put money into an IRA regardless of age. Other rules still apply including you have to have earnings.

Starting in 2020 IRA required minimum distributions start at 72. Not a big difference, but at least it's a round number.

The age for qualified charitable donations (QCD) remains at 70.5. However, an individual who made deductible IRA contributions after age 70.5 can not make QCD's up to the amount of those contributions. That could be a form of double dipping. One of my staff working late one night spotted that one.

Kiddie unearned income will again be taxed at the parent's rate instead of the rates for trusts. The trust rate rule was only in effect for 2018 and 2019, and lobbyists for professional tax preparers argued it wasn't complicated enough.

Speaking of lobbyists, don't be surprised if you see an annuity option added to your 401K. Many employers don't offer annuities for fear they'd be held liable if the insurance company providing the annuity failed. The new law increases legal coverage to employers. It also makes it easier for small companies to join together and set up multi-employer plans so they can try to reap typical savings from economy of scale.