The
FINANCIAL UPDATE
DAY & ENNIS, LLC
FEE-ONLY FINANCIAL PLANNING
Fourth Quarter 2019 NAPFA - Registered Financial Advisor (478) 474-7480

Will Negative Rates Abroad Boost U.S. Stocks?

Negative rates abroad are driving down bond yields in the U.S., which could make the stock market multiple expand. Investing always carries risk, and current financial economic conditions are unprecedented. For the first time in modern history, you have to pay the bank to hold your money in Europe! You have to pay a bond issuer to hold your money. Here's a factual analysis of factors driving what's happening and how it might affect your portfolio.

according to World Bank data. In contrast, the U.S. is about to benefit from the echo boom generation and an expanding labor force.

Because Europe's economy has grown very slowly for the last decade, central banks across the continent have dropped lending rates below zero to stimulate growth.

Bond yields are set in a global market, and low rates in Europe are affecting U.S. investors. Why?

Since Germany is the world's No.

Here's the simple math formula behind the complex economics altering current financial conditions: The growth rate of a nation's working age population — its labor force — plus its growth in productivity is equal to its economic growth rate, the growth of its total domestic product.

Keeping this fundamental formula of economics in mind, Europe, Japan, and China face a shrinking working-age population in the decades ahead,

2 issuer of government-guaranteed bonds, negative yields on German Bunds make the higher yield on U.S. bonds relatively more attractive to investors across the globe.

With slow growth in Europe causing negative rates abroad and making U.S. Treasury Bonds relatively more attractive than the German Bund, bonds yields in the U.S were driven

(Continued on page 4)

When Can I Afford To Retire?

This is one of the most frequent questions we hear from prospective clients. The answer may depend upon how many years you prepare for retirement before you begin making withdrawals.

The probability that you will meet your financial goals and maintain your standard of living is something we can calculate for you. If our analysis reveals any stumbling blocks to reaching retirement in your time frame, we can discuss alternative strategies. We can also help you avoid costly pitfalls in your preparation.

It's all part of the comprehensive financial planning process we offer our clients. We address everything from cash flow and retirement planning to investment strategy. You also benefit from income tax planning, insurance and risk management planning, estate tax planning, and education planning.

We do not sell any products or take any commissions, so you can rest assured that you are getting unbiased financial advice. We are fiduciaries, and are happy to coordinate our services with those of your CPA and attorney.

Feel free to call us at (478) 474-7480 to schedule a consultation, and plan to retire comfortably.

Sincerely,
Day & Ennis, LLC

The Fed Just Cut Rates Again; What's It Mean To You?

The Fed cut rates again on October 30th, for the third time in 2019. What's it mean to your long-term financial plan?

The rate cut is a reversal in policy and not what the Fed had expected to do, which is worrisome because the Fed has caused every recession in modern U.S. history by making a policy mistake. However, admitting its previous financial plan had been wrong, the Fed's abandonment of its earlier forecast, that inflation was a danger, is encouraging.

Federal Reserve policy has grown far more responsive to economic fundamentals and market sentiment. Former Fed Chair Ben Bernanke, who had studied financial crises for decades before becoming the nation's top central banker, was the right person to guide the economy when the global financial crisis occurred in 2008. He implemented policies never-before tried in a major world economy. His successor, Janet Yellen, a labor economist, who fatefully had spent her professional life studying how to increase employment, continued Mr. Bernanke's quantitative easing plan and deftly extended the expansion.

Although opinions about the direction of interest rates or stock prices in the next year or two will always vary, it is clear that the Federal Reserve has made progress in achieving its dual mandate to promote employment and control inflation. The Fed — led by Jerome Powell and backed by a deep team of the world's best minds — has abandoned its long-held forecast for a 2% inflation rate — and in admitting its mistake to raise rates on December 14th, 2018, its change of policy should be viewed in the context the Fed's progress. The third interest-rate cut of 2019 signaled that the Fed is no longer worried about inflation and determined to defend the 10½-year long expansion in 2020 and beyond, even if it means admitting it made a mistake and is changing course.

Amid the cacophony of modern-day living, don't lose sight of the unceasing progress in the world, and always try to frame your long-term investment perspective from this easily overlooked trend of civilization. ●

Tax Law Changes Delayed But Not Dead

For years, year-end tax tips were delivered in this space every September, but this year's story is a real cliffhanger. The twist in the plot is the pending tax legislation. Ironically known as the SECURE Act, an acronym, the legislation is officially named, "Setting Every Community Up for Retirement Enhancement." The bill is likely to cause frantic last-minute tax maneuvering at the end of 2019.

In the spring of 2019, the SECURE Act passed a vote in the House of Representatives by a 417 to 3 margin and seemed like it would sail through enactment because it gained favor with both the House of Representatives and Senate as well as the President. But its enactment was stalled in the Senate all summer. However, it has some popular provisions, like delaying RMDs from age 70½ to 72, and expanding the use of annuities in 401(k)s and other federally-qualified retirement accounts. The Act still is expected to be signed into law, though it might not happen until this December.

Navigating Required Minimum Distributions

When you are halfway through your 70th year on the planet, U.S. law says you must start taking money out of IRAs, SEPs and SIMPLE plans as well as 401(k), 403(b) and other U.S. Government qualified retirement plans. Only a Roth IRA account, which you fund with after-tax dollars, is exempt from federally-required minimum distributions (RMD).

From Uncle Sam's perspective, it's only fair to tax you; you avoided paying tax on money you placed in a non-Roth IRA account, and he wants his cut. From your perspective, it's time to maximize your life savings by paying as little as possible in income tax on your withdrawals.

When RMDs kick in at age 70½, not following the rules can cost you real money. With a bit of strategic financial planning, however, you can turn the rules to your advantage.

Here are five tips that can add up to substantial savings in navigating the withdrawal maze:

Delay your first payment. You don't have to make your initial withdrawal at the midpoint of your 70th year. You can delay it up to April 1st of the following year. So, if you hit 70½ in October 2019, you could delay your withdrawal to March 31st, 2020. The downside is that, in 2020, you must pay taxes on two RMDs. That second withdrawal must occur by year-end of 2020. Planning it matters!

Ask your plan custodian about how much you are required to withdraw. Firms like Fidelity and Vanguard will calculate how much you must withdraw. At age 70, in most cases, you must tap 1/27.4 of your account, based on a 27.4-year life expectancy of 96 and a few months, according to the IRS Uniform Lifetime Table. By the way, your required minimum distribution stays the same from January 1st through December 31st and does not fluctuate with the performance of your portfolio.

Where the money comes from in your account is up to you. You don't have to draw from every single fund you own to make RMDs. You could take equal amounts from every fund in your IRA, yes, but you can also withdraw from the best-performing funds. Similarly, if you own several IRAs, you could withdraw from each of them, or you can add up all of your assets from the separate IRAs and take a large single withdrawal from one of them.

Pay taxes later. Your plan provider can withhold whatever percentage amount you specify before distributing the remainder to you. That's easy, but it deprives you of the full use of your RMD. Alternatively, the provider could send you all the money intact. At tax time, you must pay what you owe the United States. Meanwhile, you have use of your entire RMD to invest with or whatever you want. Again, it just requires a little planning and the savings can add up when this tip is applied in concert with the other strategic planning tips on this list.

If you haven't left the labor force, you don't have to withdraw from your employer's 401(k) or other retirement plan. An exemption from RMDs is available if you are still working. To qualify for the "still-working exemption," you must own no more than 5% of the company for which you work and be employed throughout the entire year. While most qualified plans permit this exemption, it's best to confirm with your employer before doing so.

One caveat: The mandatory initial RMD age of 70½ is the subject of pending tax legislation and could be pushed back to age 72. It's a wrinkle to be mindful of in tax planning currently.

Implementing these tips requires knowing the rules regulating required minimum distributions and devising a strategic lifetime plan for maximizing retirement income in your personal situation. If you have questions, please call us. ●

Perhaps the biggest impact financially would be felt by distributions of income from IRAs to your children and other non-spouse beneficiaries. Non-spouse heirs, under current rules, may elect to draw minimum annual distributions from inherited IRAs over their actuarial life expectancy. Under the SECURE Act, they'd be required to withdraw everything in an inherited IRA in 10 years, accelerating tax payments.

This provision would prevent your heirs from taking minimum annual distributions based on their life expectancy on inherited IRAs — a popular strategy known as a "Stretch IRA." If the SECURE Act is indeed enacted and you have already set up a Stretch IRA for your children or other beneficiaries other than your spouse, be aware that you may need to consider some careful tax planning. IRA owners in this situation would be wise to be prepared for enactment, particularly if you live in a state with a high income-tax rate. You may want to consider utilizing a trust to move the IRA distributions to a state with no income tax, enabling your beneficiaries to avoid state income tax on those required distributions of income on inherited IRAs.

This aspect of retirement income planning is fraught with complexity. New York and California recently enacted laws adversely affecting non-spouse beneficiaries residing in states with an income tax. Please contact us with questions about this topic. ●

The Explosion In Retail Sales You Never Hear About

What's happening in the world often goes unnoticed, even when it occurs in plain sight right before our eyes.

That's happening to investors right now with the explosion in the growth of retail sales that's been under way for years, but has gone unnoticed.

The boom is being muted by inflation, but is loud and clear with that adjustment.

Since consumers account for 70% of U.S. growth, retail sales is a key driver of the economy, so this is a big miss, a big misperception for investors to make.

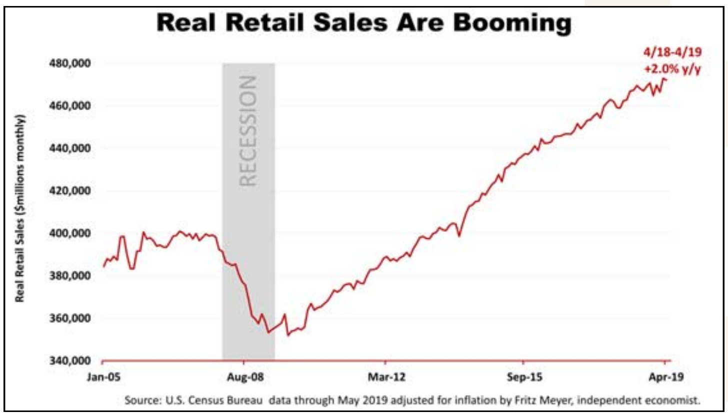
These were the top stories on Google the day after the latest retail sales figures were released by the U.S. Census Bureau.

The headlines show retail sales were up, but there's no hint of the boom.

Yet, when adjusted for inflation, retail sales have grown explosively for years!

Here's the proof: This line charts monthly retail sales data over the last 15 years, adjusted for inflation, and this boom — over the past 10 years — is clear.

Look at where real retail sales after inflation is today versus the peak of the last economic expansion, in 2007.



Real retail sales were flat throughout the peak years of the last economic expansion; in contrast, this 10-year expansion has been marked by this steep growth-trajectory in real retail sales, and it does not get mentioned in the news!

Here's why.

Every month, the media are given a press release that does not adjust for inflation.

Excluding volatile gasoline prices, which can distort the monthly figures, retail sales in the 12-month period through May, rose 3% without adjusting for inflation, which is not bad but certainly not a boom!

The media doesn't know that reporting the Census Bureau retail sales data without adjusting for inflation masks the retail explosion that's been under way for a decade.

Biases and gaps in knowledge often clouds how the world is viewed.

That's where a financial professional's perspective adds value. ●

Negative Rates Abroad

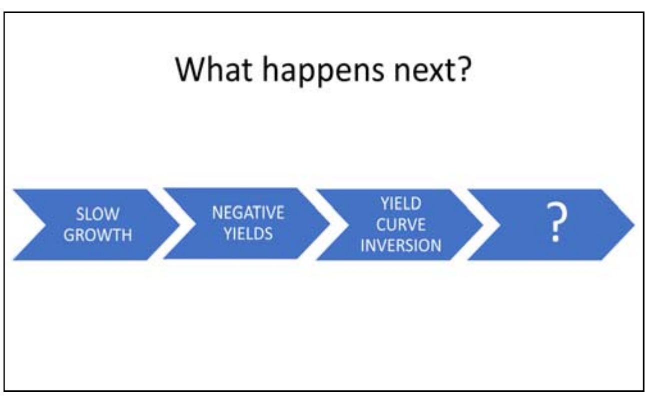
(Continued from page 1)

down. That inverted the yield curve earlier in the U.S.: A 30-day Treasury Bill yielded more than a 10-year U.S. Treasury Bond.

Over the last three economic cycles, negative yield curves have occurred nine times and were followed by recessions three times within 18 months. Still the inversion of the yield curve has frightened U.S. investors into thinking a recession could be on the way, which could end the bull-market fueled expansion now in its eleventh year.

To the contrary, however, current conditions could boost stock values!

No one can predict the next move in the stock market and markets are not always rational, but the lower yields in Europe could continue for many years and make stocks more attractive. Since the labor force and productivity growth are long-term fundamentals of national economies, these conditions are unlikely to change much in the years ahead.



Consequently, U.S. investors facing the low yields on bonds, which are being imported from Europe, may find stocks a more attractive investment than fixed income. That could drive stock prices higher.

The S&P 500, as of September 6th, 2019, traded at a multiple of 16.3 times the consensus forecast by Wall Street analysts for 2020 earnings, according to data from *Yardeni Research, Inc*. and *Thomson Reuters I/B/E/S*. However, as investors come to understand the long-term fundamentals depressing yields, they could grow more willing to pay a higher multiple for U.S. stocks. ●

John R. Day CPA/PFS Bill Ennis CPA/PFS Stephanie Davidson CPA CFP Matt Heller MBA CFP
Macon, Ga (478) 474-7480 Blairsville, Ga (706) 400-5763 www.dayandennis.com