The
FINANCIAL UPDATE

DAY & ENNIS, LLC
FEE-ONLY FINANCIAL PLANNING

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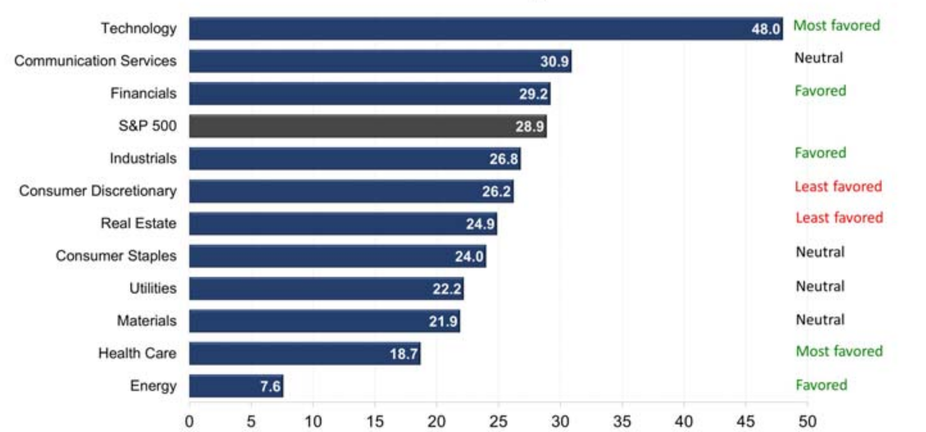
Study: Wall Street's Tactical Methodology Isn't Working

Wall Street firms spend a great deal of time and money trying to forecast relative performance of stock sectors, styles, markets and asset classes, and on convincing investors to buy their advice. However, a comprehensive new study indicates Wall Street's tactical approach is unwise.

consensus predictions of strategists surveyed in *Barron's* December 18th, 2018 cover story. The sector most favored in December 2018 was Technology, and Wall Street correctly predicted tech would outperform in 2019. But apart from that big win, their picks were off, some disastrously.

2019 Performance Of Sector Picks By Wall Street Retail Firms



Sources: Standard and Poor's sector returns in 2019; *Barron's*, December 18, 2018, Fritz Meyer Economics. Past performance is not indicative of future results.

In mid-December every year, *Barron's*, a financial magazine, publishes a cover story featuring 10 top Wall Street strategists' picks for the best sectors to buy and avoid in the year ahead. In December 2018, the 10 strategists' picks and pans published in *Barron's* are shown in the corresponding table. How did their predictions turn out?

The blue bars show the performance of the 11 S&P industry sectors and on the right indicate the

For instance, Health Care was as popular a pick as Technology, and it badly lagged the S&P 500. The two industry sectors that Wall Street recommended underweighting — Consumer Discretionary and Real Estate — ended the year up more than 26%, only slightly underperforming the S&P 500 index.

The predictions for 2019 were actually fairly good relative to Wall Street's long-term track record.

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Repeated Tax Reforms Raise The Risk Of Doing Nothing

The U.S. Tax Code has been reformed more and more over the past few decades. From 1940 to 1979, 24 major tax laws were enacted, compared with the 40 years from 1980 to 2019, when 63 major tax revisions were enacted.

The Tax Cuts And Jobs Act was signed into law in December 2017, and now the SECURE Act, which was signed into law in December 2019, has significantly changed 2020 rules affecting IRAs and estate planning. With the $1 trillion current budget deficit and soaring U.S. Treasury long-term debt, another new tax law in 2021 is very possible.

The SECURE Act has made tax planning more important to retirement income decisions, IRA beneficiary choices, lifetime annuity income, lifetime wealth transfers, and estate planning as well as investment opportunities open to affluent and ultra-high net-worth individuals.

Strategic tax planning is boring and detailed, and the vast majority of people are too busy with other priorities, creating inertia that stops most people from learning what to do. Consequently, most people often do nothing.

Despite the effort to simplify tax laws since the 1980s, the repeated revisions have made the tax code more idiosyncratic. Tax planning is much more important in wealth management now and the cost to individuals of doing nothing about tax planning has risen, upping the value of strategic tax advice about retirement income planning from a professional.

Sincerely,
Day & Ennis, LLC

Exceptions To The New Rule On Inherited IRAs

Yet another new tax reform law went into effect in 2020 under the SECURE Act. In addition to ultra-high-net-worth individuals, the many millions of mass affluent Americans are likely to be impacted by the 470-page SECURE Act's retirement income tax provisions. The SECURE Act is a sweeping and substantive effort to make retirement income tax more sensible, a rare legislative action to win bipartisan support in Congress and the president's signature.

The new rules force heirs to withdraw everything from an inherited IRA over 10 years. Requiring heirs to deplete an inherited IRA over 10 years is a tax hike. Your IRA beneficiaries are no longer allowed to stretch out withdrawals over their expected lifespan.

Forcing heirs to pay tax on required distributions from an IRA over 10 years may result in your heirs paying additional income taxes annually during the 10-year withdrawal period. However, there are exceptions to the new 10-year rule for certain beneficiaries.

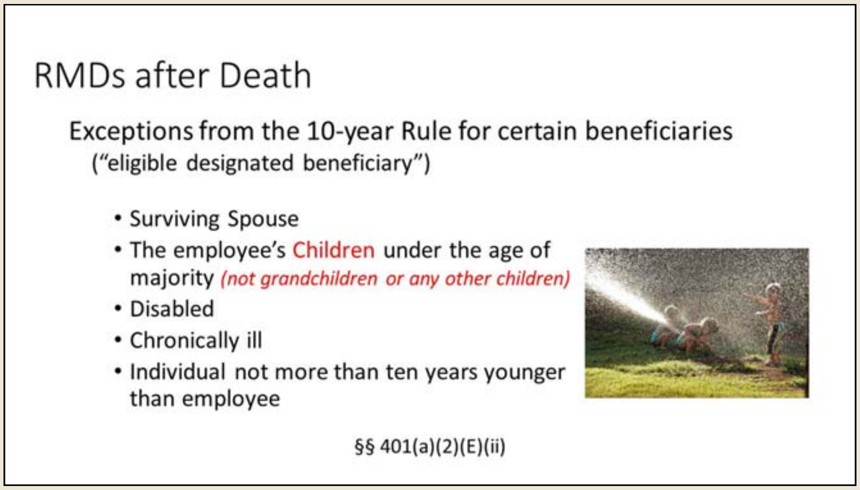
Spouses. Spouses can inherit your IRA with zero tax impact. A spouse who inherits an IRA is required to make withdrawals based on their actuarial life expectancy, which can be found in a table published by the IRS. Starting in 2020, a spouse who inherits an IRA may defer taking required minimum distributions (RMDs) until age 72 — not age 70½, as under the old law. An extra 18 months of tax deferral is significant. Deferring taxes for 18 months, when your IRA is hitting its peak value, lengthens the period of tax-free compounding just when a pre-retiree needs it. The stock market averaged a 3.9% quarterly return in the six quarters ended December 31st, 2019, despite a -13.5% in the fourth quarter of 2018, and no one can predict stock returns.

Minor Children of an Employee. Minor children of an employee who inherit a federally qualified retirement account, such as a 401(k), are exempt from the 10-year distribution rule. As long as the parent was an employee with a company's 401(k) plan, the child is not required to make distributions over 10 years.

Disabled. Disabled individuals who inherit an IRA are not subject to the 10-year required minimum distributions (RMDs) rule. Thus, they are eligible to take required minimum distributions based on more favorable terms.

Chronically Ill. Those suffering from a chronic illness are exempt from the 10-year rule.

Not 10 Years Younger. If an heir is not more than 10 years younger than the owner of the federally qualified plan account, the 10-year distributions rule will not apply.



The new RMD rules in the SECURE Act affect a hodgepodge of situations, reflecting Congress's effort to make tax laws more compassionate and sensible. The specific situations are just one aspect of the SECURE Act's wide-ranging effects. If you're among the exceptions to the 10-year rule, please contact us with your questions. ●

Three Major Investing & Tax Planning Trends For 2020

No one can predict the future of markets, but spotting major new trends in personal financial planning is quite doable. Here are three important new trends to consider in managing your wealth in 2020.

Delaying Distributions Until Age 72. Postponing required minimum distributions (RMDs) 18 months is a new thing you want to consider. The SECURE Act, which was signed on December 20th, 2019, delays RMDs on IRAs and other federally qualified retirement accounts from age 70½ to 72. This small change can amount to big bucks because your IRA can compound without being taxed for an extra 18 months. Deferring taxes 18 months on a large IRA is a no brainer, if you can afford it. This step in your retirement income plan should be part of your overall strategy to outlive your money and create a legacy for your family.

Economic Projections Of Federal Reserve Board

December 2019

Percent

Variable	Median[1] 2019	Median[1] 2020	Median[1] 2021	Median[1] 2022	Median[1] Longer run	Range[3] 2019	Range[3] 2020	Range[3] 2021	Range[3] 2022	Range[3] Longer run
Change in real GDP	2.2	2.0	1.9	1.8	1.9	2.1–2.3	1.8–2.3	1.7–2.2	1.5–2.2	1.7–2.2
September projection	2.2	2.0	1.9	1.8	1.9	2.1–2.4	1.7–2.3	1.7–2.1	1.6–2.1	1.7–2.1
Unemployment rate	3.6	3.5	3.6	3.7	4.1	3.5–3.6	3.3–3.8	3.3–4.0	3.3–4.1	3.5–4.5
September projection	3.7	3.7	3.8	3.9	4.2	3.5–3.8	3.3–4.0	3.3–4.1	3.3–4.2	3.6–4.5
PCE inflation	1.5	1.9	2.0	2.0	2.0	1.4–1.7	1.7–2.1	1.8–2.3	1.8–2.2	2.0
September projection	1.5	1.9	2.0	2.0	2.0	1.4–1.7	1.7–2.1	1.8–2.3	1.8–2.2	2.0
Core PCE inflation[4]	1.6	1.9	2.0	2.0		1.6–1.8	1.7–2.1	1.8–2.3	1.8–2.2	
September projection	1.8	1.9	2.0	2.0		1.6–1.8	1.7–2.1	1.8–2.3	1.8–2.2	
Memo: Projected appropriate policy path										
Federal funds rate	1.6	1.6	1.9	2.1	2.5	1.6	1.6–1.9	1.6–2.4	1.6–2.9	2.0–3.3
September projection	1.9	1.9	2.1	2.4	2.5	1.6–2.1	1.6–2.4	1.6–2.6	1.6–2.9	2.0–3.3

Source: Federal Reserve release December 11, 2019.

New Retirement Income Planning Choices. The Setting Every Community Up for

Financial Lifeboat Drill For Mustering In Emergencies

Put yourself through this brief lifeboat drill, to prepare for things suddenly going wrong. Everything may be fine right now, in the eleventh year of the economic expansion. That's a sensible time to test your ability to muster the resources to respond to a range of emergency scenarios.

1. Cash. In case you lose your job, lose your health, or are befallen by life's myriad of mishaps, can you pay the bills for at least six months?

2. Investment policy. If the stock market were to fall by 40% over the next year or two, are you ready to ride out the storm — even if it takes a decade to come back? That's approximately what happened in the global financial crisis of 2008. Although this is not in the forecast, a written investment policy statement can eliminate any ambiguity about your investment risk preferences and plan to survive a terrible storm.

3. Family risk. Will your children be able to afford college, will your spouse be able to maintain your family's current lifestyle, and will your other loved ones have the financial wherewithal to carry on if you die? Insurance — specifically no-frills term insurance — is meant to manage the worst of all risks families face.

4. Beneficiary designations. Life changes families. Divorce, death, health, and family financial dynamics change over time, making it necessary to reexamine beneficiaries listed on your retirement and other accounts.

5. Retirement income plan. Retirement income planning is being transformed by U.S. demographic trends and changes to the U.S. Tax Code. A retirement income plan done before the 2018 tax law changes, or that is not in tune with the demographic trends affecting income investing, should be updated.

6. Medical proxy. If you are unable to make your own medical decisions, give the power to make medical decisions for you to someone you trust.

7. Final details. Specify preferences about your funeral, and leave a list of all your accounts, assets, loans, important legal documents and advisors delegated to carry out your final instructions. Include how you want certain personal possessions and family heirlooms treated. If you have social media accounts, you can let someone know what to do, or there are apps that write or make recordings of final thoughts for loved ones.

A financial lifeboat drill is a pithy concept, belying its seriousness, and it requires answering hard questions about your personal financial, tax, and family situation. It would be a privilege to help. ●

Retirement Enhancement Act of 2019 will enable more lifetime income annuities to secure retirement. This will be good generally, but there is one huge caveat: annuities can be expensive. Lifetime income backed by an insurance company's creditworthiness makes for a great sales pitch but are best advised on by a professional who places your best interest above all else, including their sales commissions.

2% U.S. Growth & Low Rates. The latest indication of what to expect on interest rates and economic growth came on December 17th, 2019, in an interview with Robert S. Kaplan, President and Chief Executive Officer, Federal Reserve Bank of Dallas. "We expect, again, 2%-plus growth, 2% growth for next year, unemployment rate around 3½%.," Mr. Kaplan told the Council on Foreign Relations. "We'll have some firming in inflation gradually toward 2%. I think the right thing for us to do is stay right where we are unless something changes materially on the upside or the downside." In addition, on December 11th, the Federal Reserve released its latest expectations for growth, inflation, and unemployment for 2020, which are highlighted in the chart.

Strategic tax and financial planning can boost an individual's retirement fund year after year but requires personal attention from a qualified professional. ●

Boomers Working Past Age 65 Are A Surprise Boost

Americans over age 65 are staying in the labor force more often than expected, brightening the U.S. economic forecast and the outlook for U.S. stocks.

Turns out, the offspring of The Greatest Generation, those who served in World War II, deserve some respect, too. Baby boomers are characterized by a strong work ethic, and they are electing to work longer than government experts expected. Boomers are a key reason the economy continues to grow even as the labor market has tightened.

Source: BLS actual data through November 2019; and Congressional Budget Office, January 2017 report *The Budget and Economic Outlook: 2017 to 2027.*

The Congressional Budget Office's long-term growth forecast did not count on so many boomers working past age 65. With new jobs continuing to be filled by a larger than expected number of workers in the 65-plus age group, U.S. GDP (gross domestic product) is benefitting from an unexpected boost, and it's no small thing.

Labor force growth is a key fundamental in math economics: total growth of the U.S. economy is the product of the labor force growth rate and productivity growth. The unexpected addition of workers in the labor force improves forecasts for economic growth in the years ahead.

Historically, the economy is unable to continue to create new jobs because we run out of people to fill them. Newly-created positions drive wages higher, increasing inflation, and then the Federal Reserve makes a monetary policy mistake, which results in two consecutive quarters of shrinkage in economic activity, aka, a recession. But these times are different.

This chart captures a snapshot of Americans choosing to continue working past age 65 more often than expected by forecasters. The Congressional Budget Office, a federal agency widely recognized as an authoritative non-partisan source, in January 2017 forecasted a decline in the labor force along the lines in red. The stair-step decline in the labor force that the CBO expected is not happening! The labor force participation rate has continued to grow since 2017, when it was expected to flatten and start a long decline, and no one is certain how long the trend will continue.

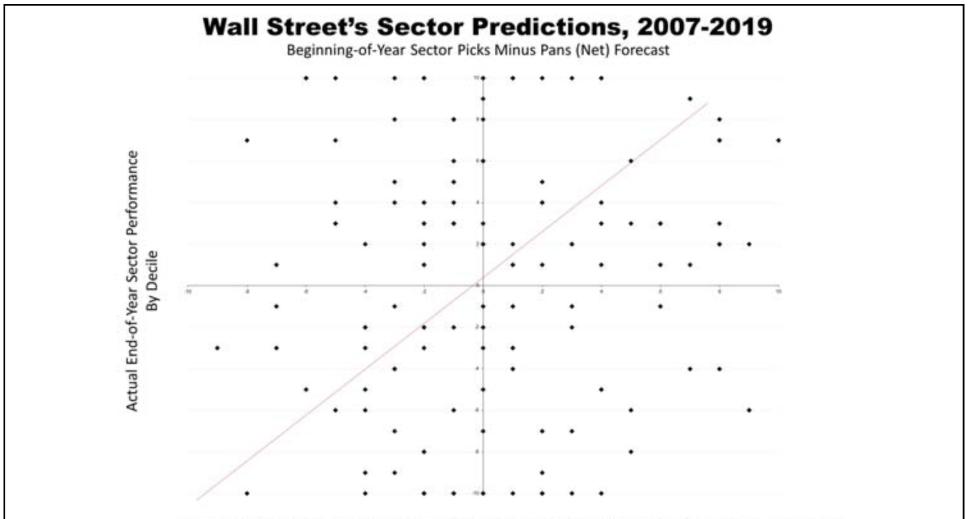
The labor force participation rate is reflecting the improved longevity of Americans, which the CBO economists did not figure on in their estimates of the future. If the trend since 2017 were to continue, the U.S. labor force could contribute a totally unexpected boost of growth in consumer spending in the years ahead, and consumers account for 70% of GDP. Higher consumer spending boosts earnings of corporate America and that's good for stocks. ●

Financial Lifeboat Drill

(Continued from page 1)

This scattergraph shows the history of the Wall Street strategist sector performance based on their predictions published *Barron's* for the past 13 years. If Wall Street strategist predictions had been correct, the black dots would all fall along the red line, or cluster around it. The randomness of the picks show that Wall Street's predictions of the best sectors are not working.

This data was compiled by economist Fritz Meyer, an investment strategist at a Wall Street retail giant for over a decade before going independent in 2009, whose research we license. ●



Sources: Standard and Poor's for actual annual sector performance data; *Barron's* annual surveys.

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