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News, insights and commentary from Joel Isaacson & Co. LLC

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Third Quarter 2019 Market Commentary

Markets Rise Modestly in the Third Quarter of 2019 as the Fed Cuts Rates and the Trade War Continues

Index Returns	Close	3Q19
DJIA	26,917	1.19%
S&P 500	2,977	1.18%
NASDAQ	7,999	- 0.08%
MSCI EAFE	1,899	1.71%
Bond Index*	2,210.00	2.27%
10-Yr Treasury Yield	1.67%	- 0.34%

**Source: Bonds represented by the Bloomberg Barclays US Aggregate Bond TR USD.This chart is for illustrative purposes only and does not represent the performance of any specific security. Past performance cannot guarantee future results.*

The U.S. stock market increased modestly in the third quarter, propelling the S&P 500 and the DJIA to their best three-quarter start to the year since 1997, and NASDAQ to its best three-quarter start since 2013 – all while further extending what is the longest bull market in U.S. history.

The broader S&P 500 enters the final three months of the year with a gain of close to 19% – its best performance in over two decades – as the third quarter's return of 1.18% padded its yearly return. The S&P 500 is just a hair shy of its all-time high reached on July 26th, but if you look at the performance over the past year, it has moved a paltry 2%, mostly a result of the selloff in stocks toward the end of 2018.

Interestingly, the same news that dominated the second quarter continued to dominate the third quarter, but there were some twists. Once again, two main themes kept influencing the markets: hopes of a trade truce between the U.S. and China and a decided shift by the Federal Reserve with respect to short-term rates.

During the third quarter, investors saw:

- On July 31st, the Federal Reserve cut rates for the first time since 2008
- On August 5th, the DJIA suffered its worst trading day of the year
- On August 14th, the 30-year Treasury yield hit a record low
- On September 16th, Brent crude oil had its biggest one-day gain
- On September 18th, the Federal Reserve cut rates for the second time this year
- On September 30th, both the S&P 500 and DJIA posted their best three-quarter starts to the year since 1997 and NASDAQ posted its best three-quarter start since 2013

The Fed Signaled No 2019 Rate Moves, Then Cut Rates

Two days before the second quarter ended, the Fed held the line on interest rates and formally suggested that no cuts were coming in 2019. Then in July, the Fed cut rates for the first time since 2008 and then cut rates again in September.

Yet, despite the Fed's stance, the rate cuts did not exactly catch Wall Street by surprise, as Fed Fund Futures pointed to a 100% chance of an easing of monetary policy for most of the month preceding the first rate-cut.

Index Returns	3Q2019	YTD
REITS	7.2%	27.4%
Value	1.7%	15.1%
DM Equities	1.7%	19.0%
Growth	1.19%	1.71%
Commodities	1.2%	3.1%
Global Agg	0.7%	6.3%
Small Cap	0.3%	16.3%
MSCI EM	- 1.9%	8.1%

Source: Barclays, Bloomberg, FactSet, FTSE, MSCI, J.P. Morgan Asset Management. DM Equities: MSCI World; REITs: FTSE NAREIT All REITs; Cmdty: Bloomberg UBS Commodity Index; Global Agg: Barclays Global Aggregate; Growth: MSCI World Growth; Value: MSCI World Value; Small cap: MSCI World Small Cap. All indices are total return in local currency. Past performance is not a reliable indicator of current and future results.

Asset Class & Style Performance

During the third quarter, investors saw value outperform growth and large caps outperform small caps.

The U.S. and China

The investing world continued to feel the tensions between the U.S. and China throughout the quarter, as it has since the summer of 2018. Traders were bombarded with news about the U.S. and China trade dispute, and the news was as clear as mud.

For example:

- Investors cheered Treasury Secretary Steven Mnuchin's announcement that trade talks with China were set to resume in early October
- They also cheered when China announced new waivers for imports of U.S. soybeans
- Within 24 hours, however, President Trump told the United Nations of China's "theft of intellectual property and also trade secrets on a grand scale" while pledging that he would "not accept a bad deal."
- Then 24 hours after that, President Trump told reporters that a truce with China might happen "sooner than you think."
- Then 48 hours later, traders grimaced when news trickled out that the White House was considering restricting U.S. investment in China and forcing U.S. exchanges to delist shares of Chinese companies. Not surprisingly, shares in many Chinese companies dropped sharply.

General Motors Hit by Striking UAW

Toward the end of the third quarter, approximately 46,000 General Motors workers went on strike, effectively halting GM's production in the United States. The last GM strike happened in 2007, a full year before the U.S. government bailed out the auto industry and before the global financial crisis was at its worst.

Reports that negotiators have been talking into the wee hours of the morning could be a signal that a tentative agreement is soon reached. But the strike is already the longest strike faced by GM since 1970.

Sector Performance

For the third quarter, 8 of the 11 S&P 500 sectors were painted green, as again the more defensive sectors – namely Real Estate and Utilities – outperformed. More impressive, however, is the fact that year-to-date, 7 of 11 sectors outperformed the S&P 500's YTD return of 18.74%.

Sectors	1-Month	3-Month	YTD
Healthcare	- 0.16%	- 2.71%	4.21%
Consumer Discretionary	0.16%	0.18%	21.21%
Industrials	3.38%	0.49%	20.79%
Financials	**4.88%**	1.44%	17.59%
Information Technology	1.46%	2.97%	**29.87%**
Materials	3.62%	- 0.68%	15.17%
Energy	3.65%	- 7.25%	3.08%
Consumer Staples	1.14%	5.36%	20.60%
Communications Services	0.33%	1.84%	20.52%
Utilities	4.01%	**8.40%**	22.49%
Real Estate	0.57%	6.88%	26.64%
S&P 500 Index	**4.89%**	**20.20%**	**18.74%**

This chart is for illustrative purposes only and does not represent the performance of any specific security. Past performance cannot guarantee future results. Source: Standard and Poor's

House Democrats Move to Impeachment Inquiries

House Democrats moved toward a formal impeachment inquiry of President Trump, and most pundits expect that the investigations into President Trump are likely to continue through the 2020 election. What's still uncertain is the impact that these investigations will have on the stock market. After rallying since Trump's election victory in November 2016, the S&P 500 Index has done pretty well, but it has stumbled at times too:

- Ending 2016 up 9.54%
- Zooming up 19.42% in 2017
- Dropping 6.24% in 2018 and
- Up more than 18% year-to-date at the end of the third quarter of 2019

Although stocks have rewarded investors with healthy returns, the worry is that impeachment proceedings could stall Trump's pro-business agenda and/or send the markets into a tailspin. No one has a crystal ball to tell us how the Trump investigations will end.

Data Matters More than Tweets

Economics and data matter way more than politics to the stock market. Political tweets and speeches get significant media attention, and while the market does react at times, the reality is that we expect economic numbers to drive the markets higher or lower. And consider these numbers:

- Unemployment is at 3.7%, one-tenth of a percent from the lowest level in over 50 years
- We have seen 107 consecutive months of job growth, the longest streak ever
- Wages have risen 3.2% this year, the strongest year in over a decade
- Inflation has run below the Fed's intended longer-term 2% target for most of this 10-year expansion, and core inflation has averaged 2.1% so far this year
- Consumer spending came in much higher than expected with a 4.7% annualized growth number, the highest gain in 4 years

If you have questions about our perspective on the markets or your portfolio, we invite you to connect with your team at Joel Isaacson & Co.

Financial Planning:

Aging Parents and Money

Getting old is hard, and your parents' ability to manage their own finances may decline as they age. Helping them with financial matters is a sensitive issue that should be approached carefully.

This is an important topic, as parents aren't likely to recognize their own declining abilities, so knowing when and how to step in to help can be critical. Here are some tips that we've picked up over the years.

Watch for warning signs.
When visiting your parents, take a look around the house. Are there unpaid bills piling up on the counter? If the things that are normally done are not, it may be a red flag that your parents are struggling with the upkeep.

Be aware of the people in your parents' lives. Make sure that you have a list handy of people you can contact and keep the lines of communication open. Friends and caregivers can offer insight into any changes in your parents' behavior. Don't forget your parents' professional contacts, such as their attorney, doctor, or wealth manager.

Be subtle.
Most people have a difficult time relinquishing control over their finances. Try offering guidance and help instead of taking over their finances completely.

Suggest that you can help balance their bank statements or set up online banking and automatic bill payments. This offers an excuse to discuss their financial situation and can help relieve stress for everyone involved. You can also start the conversation by purchasing a book on financial planning or investing, and then discuss the book with them.

Work with your siblings.
Sharing responsibility can be tricky, but keeping everyone in the loop is critical. If one sibling lives closer, in-person tasks may be easier for him or her. Set up monthly telephone meetings with siblings to make sure that everyone is aware of the situation and can make decisions together.

Prepare a power of attorney.
This is a form that authorizes you to make business or financial decisions on your parents' behalf. If they are willing to sign and notarize a power of attorney, you have greater oversight of your parents' finances. Make sure that you notify the family and that everyone knows who has power of attorney.

No one likes to lose independence. Helping your parents with this transition is difficult, but it's in their best interest and yours. Connect with your team at Joel Isaacson & Co. if you have questions about helping an aging parent with their financial life.

Tax Planning:

How Bunching Expenses Can Enable Taxpayers to Continue to Itemize

In response to the significant changes to the tax deduction rules under the Tax Cuts and Jobs Act (TCJA), many taxpayers are searching for ways to recover some of the tax benefits associated with itemizing deductible expenses that have been eliminated. Taxpayers who were previously able to lower their tax bills by itemizing may want to consider using a "bunching" strategy, which generally means either accelerating or deferring deductible expenses so that more of these expenses fall in a single tax year rather than in multiple tax years.

While the TCJA lowered individual income tax rates and raised the child tax credit, it nearly doubled the standard deduction from $6,350 to $12,000 for individuals and $12,700 to $24,000 for married couples, and it suspended personal exemption deductions and limited or repealed many commonly used itemized deductions. The legislation capped the deduction for state income and property taxes (SALT) at $10,000, and limited the mortgage interest deduction. In addition, miscellaneous deductions were completely repealed, and casualty loss deductions were greatly reduced.

These changes are currently set to expire at the end of 2025, but Republicans in the House have already introduced a bill that would make many of the individual provisions in the TCJA permanent.

In light of these changes, it has been projected that the percentage of individual taxpayers who will use the standard deduction rather than itemizing will rise from around 70% to around 90% going forward. Yet by bunching their deductible expenses into every second or third tax year, taxpayers who might not otherwise have sufficient itemized deductions to exceed the standard deduction in every tax year may be able to lower their tax liabilities over time. As taxpayers in high-tax, high-income states like New York, New Jersey, and California are most affected by the new limits on the deductibility of SALT, they may be especially likely to consider bunching their deductions over the next several tax years.

Whether it is feasible for taxpayers to bunch or lump together itemized deductions depends on whether the expenses can be timed. In some cases, where a taxpayer is not otherwise expected to reach the $10,000 SALT deduction limitation, it may be possible to time state estimated taxes or property taxes by paying them in the year before they are due. In addition, taxpayers who have significant medical expenses may be able to shift those expenses to reach or exceed the threshold for claiming the medical expense deduction.

One of the most promising approaches to bunching itemized deductions is to shift the timing of gifts to charity. Under the TCJA, the charitable deduction has been slightly enhanced: for those taxpayers who are able to itemize, gifts of cash are now deductible up to 60% of adjusted gross income (AGI), up from 50% previously; while gifts of appreciated securities remain deductible up to 30% of AGI. If donations exceed these limitations, the excess can be deducted over the next five years.

Moreover, the so-called Pease limitation, which reduced the value of a taxpayer's itemized deductions by 3% for every dollar of taxable income above a certain threshold (in 2017, $261,500 for single filers and $313,800 for joint filers) up to 80% of all itemized deductions, was suspended under the TCJA. Thus, there is currently no limit on the total charitable deductions higher-income taxpayers can take.

By contributing multiple years of what were previously annual charitable gifts in a single year, the likelihood that a taxpayer will be able to exceed the standard deduction increases. If taxpayers want to continue to space their charitable contributions across years, they should consider making a large contribution in a single tax year to a donor-advised fund administered by a charity or a financial services provider. If the gift is of sufficient size, the taxpayer will be able to itemize deductions in the year the contribution is made. The taxpayer can then instruct the fund to make charitable gifts of the same amount each year, including in years when the donor does not itemize deductions.

Taxpayers who have relatively large amounts to give may want to think about establishing a charitable gift annuity or a charitable remainder trust, which can generate an income stream for the donor or other beneficiaries. Because these giving vehicles require significant amounts of funding in the form of cash, securities, or real estate, a taxpayer may be able to itemize in the year the trust is funded. However, only a portion of the contribution is deductible.

To maximize their savings, taxpayers may want to consider making gifts of long-term appreciated securities, as the donor can avoid owing capital gains tax on the appreciation while claiming the full value of the assets as a charitable contribution.

Want help with bunching or other tax strategies? Connect with your team at Joel Isaacson & Co.

Estate Planning:

12 Estate Planning Must-Dos

Many of you already have estate documents, probably executed many years ago. You need an estate attorney to look over your documents every ten years or so. Here are a dozen points to review.

1. Do you have a will and powers of attorney for health care and property? These are part of every complete estate plan. With health-care power, you choose an agent to act on your behalf if you become unable to make your own decisions. With durable power for property, you select an agent to act if you are incapacitated and can't sign a tax return, make investment decisions, make gifts, or handle other financial matters. Make sure your health-care power addresses the Health Insurance Portability and Accountability Act. This governs what medical information doctors can release to someone other than the patient.

2. Do you need to change any beneficiaries, executors, trustees, guardians, or others named in your documents? Are all still living? Can someone you recently found fill a role better?

3. Any updates needed to addendums to your will that specify who gets what of your personal property? Often wills mention addendums for personal property and the addendums don't even exist.

4. Did you move to a different state since the execution of your estate documents? If so, seek out a local estate attorney to check any legal differences for planning between your old and new states.

5. Do you still need your trust documents or can you decant, which allows you to change some provisions? Consider this technique of emptying the contents of an irrevocable trust into another newly created trust if you are unhappy with your irrevocable trust. Not all states allow decanting. You may also want to discuss possibly moving assets out of a living trust (where a trustee holds them, a technique sometimes used to avoid probate) and holding them in the name of an individual.

This discussion will weigh the income tax benefits of a step-up in cost basis, the original cost of an asset, versus other reasons to keep the trust. ("Step up" means that the cost basis of an asset resets to the fair market value of the security as the date of the holder's death - potentially a much higher value than when they bought the security.) The higher the cost basis, the less capital gains tax your heirs pay when they sell the asset.

You may also want to see whether you need an irrevocable life insurance trust, a device once used to move assets, typically life insurance, out of a taxable estate. Now that thresholds are higher - individuals can currently leave $11.4 million and married couples $22.8 million tax-free - you may not need to move assets. Also, check when your life insurance expires. Consider how long to keep it if you think you might outlive the policy.

6. Have your children passed the ages specified in a children's trust (in which you designate money for such specific purposes as education, home down payments, or weddings once the kids reach stipulated ages)? If your estate documents call for a trust to give children access to money at certain ages after you die, you may be able to delete that language if the kids are older than the specified ages.

7. What happens if one of your kids gets divorced? A trust can help you protect assets for your child or grandchild.

8. Do you have heirs with special needs? Don't assume typical estate documents help such an heir. Seek out an attorney who specializes in this planning.

9. Check beneficiary designations on brokerage accounts, insurance policies, and retirement accounts. Anybody you don't want there?

10. If you filled out a brokerage account application (or any beneficiary designation), understand the firm's policy when one beneficiary dies before the others. If you want the share of the assets to pass by bloodline - to the deceased's children, for example - you may need to put in language specifying per stirpes (distribution of property when a beneficiary with children dies before the maker of the will). Otherwise, the remaining listed beneficiaries may simply divide the assets.

11. Often a parent names a child on a bank account so the child can access or use the money if the parent can't act. Understand that if you name your child as a joint owner on an account, the money passes to your child no matter what your will dictates.

12. Do your heirs know where to find all your important information? Let someone know the password to the app where you keep all your passwords - you must remember digital assets now, too.

Need help with the estate planning process? Connect with your team at Joel Isaacson & Co.