Joel Isaacson & Co

REAL FINANCIAL EXPERTISE. PERSONALLY DELIVERED.

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

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2019 Yearly Market Review

Stock markets in the U.S. and around the globe turned in a fantastic 2019, driven by U.S. equities, specifically large-cap U.S. equities. And along the way, 2019 brought plenty of records, including:

- Record Highs. As the S&P 500 climbed consistently throughout the year, it also recorded 34 new record highs and turned in the best year in more than half a decade.
- Longest Expansion on Record. Earlier this summer, our current economic expansion passed the one from the 1990s to officially become the longest on record – more than 125 months and counting.

The major markets around the world put up some impressive numbers in 2019, with the MSCI EAFE Index just shy of a 20% return; the DJIA north of 20% and both the S&P 500 and NASDAQ up more than 30% on the year. And interestingly enough, most markets traded sideways from the April to September time frame but rose significantly to close out the year – a marked departure from the end of 2018.

The equity and bond markets had a lot to digest in 2019: solid corporate earnings, continued historically low unemployment numbers, rising wages and no significant escalation in trade wars between the U.S. and China, the U.S. and Europe and the U.S. and Mexico/Canada. But there was one huge theme influencing the upward momentum more than others: shifting global central banks' policy (namely the Federal Reserve and the European Central Bank) with respect to further monetary stimulus (i.e., cuts to short-term rates). And while the ongoing trade saga between the U.S. and China was never far from front-page news, the pivot from the Federal Reserve was much more impactful.

S&P 500 SECTORS	2019
Health Care	20.8%
Consumer Discretionary	27.9%
Industrials	29.3%
Financials	32.1%
Information Technology	50.3%
Materials	24.6%
Energy	11.8%
Consumer Staples	27.6%
Communication Services	32.7%
Utilities	26.4%
Real Estate	29.0%
S&P 500 Index	*31.5%*

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

Sector Returns Through End of 2019

A rising tide lifts all boats and that's certainly true for 2019 as every single one of the 11 S&P 500 sectors rose. But some boats rose a lot higher than others and most sectors underperformed the broad-based S&P 500 index, with 8 of the 11 failing to keep pace with the Index.

As it did for most of the year, the Information Technology was the run-away leader with a whopping 50%+ return on the year whereas the Energy sector turned around in the fourth quarter and scraped out an 11%+ gain to finish at the bottom of the pack. The Financial Services sector outpaced the S&P 500, fueled by a very accommodative Federal Reserve whereas uncertainty caused the Health Care sector to drift lower throughout the year and underperform the S&P 500 by a third.

	2018	2019
Barclays Global Aggregate	-1.2%	6.8%
FTSE NAREIT Global Real Estate Investment Trusts	-4.1%	24.4%
MSCI World Growth	-5.1%	34.1%
MSCI World	-6.9%	28.4%
MSCI World Value	-8.7%	22.7%
MSCI Emerging Markets	-9.7%	18.9%
Bloomberg Commodity Index	-11.2%	7.7%
MSCI World Small Cap	-12.2%	26.8%

Source: Bloomberg Barclays, FTSE, MSCI, Refinitiv Datastream, J.P. Morgan Asset Management. All indices are total return in US dollars. Data as of December 31, 2019.

World Market Returns	2018	2019
S&P 500	-4.4%	31.5%
UK FTSE All-Share	-8.7%	19.2%
MSCI Emerging Markets	-9.7%	18.9%
MSCI Europe ex UK	-10.6%	27.5%
MSCI Asia ex Japan	-12.0%	18.5%
Japan TOPIX	-16.0%	18.1%

Source: FTSE, MSCI, Refinitiv Datastream, Standard & Poor's, TOPIX, J.P. Morgan Asset Management. All indices are total return in local currency, except for MSCI Asia ex-Japan and MSCI EM, which are in US dollars. Data as of December 31, 2019.

Markets Around the World Performed Well

Strong performance in 2019 was not confined to the U.S., however, as most global markets also turned in a positive year. Investors saw equities in developed and emerging markets rally, and the difference between growth and value widened throughout the year. Further, small caps underperformed their large-cap counterparts most of the year.

Sure, NASDAQ and the S&P 500 turned in impressive 2019 numbers, returning 36% and 30%, respectively. But equities in developed markets around the world (represented by the MSCI World Index) are up over 28% in 2019 too.

World Stock Market Returns

Interestingly, the fourth quarter of 2019 saw emerging markets come roaring back, led by the almost 12% returns for both the MSCI Emerging Markets and the MSCI Asia ex-Japan Indices. But those great returns were not enough to displace the S&P 500 from leading major global markets in 2019.

The Federal Reserve Pivoted in 2019

The dominant market news of the year – the pivot from the Federal Reserve and other global central banks – fueled equity markets and fixed-income markets alike.

The Federal Reserve, once the institution that rarely spoke, found itself in the news a lot this year.

- In July, the Federal Reserve cut interest rates for the first time since 2008.
- In September, the Federal Reserve cut interest rates for the second time.
- In mid-October, the Fed announced its intent to buy short-term Treasury debt at an initial pace of $60 billion a month.
- At the end of October, the Fed cut interest rates for the third time.

And as if to put an exclamation point on the global central banks' rate cutting theme, at the end of the year, the People's Bank of China announced it would cut the reserve requirement ratio by 50 basis points, effective January 6th. The announcement is the eighth time that the People's Bank of China has cut rates since early 2018.

What a Decade

With all the stock market records broken in 2019, it's easy to forget the longer-term view, but we're reminded of that as we enter a new decade. With a cumulative return of almost 250% over the past 10 years, the past decade's stock market has been very strong, but has actually ranked fourth among the past seven decades.

While most of us were not investing during the 50s, many of us remember the returns of the 80s and 90s and marveling at the cumulative 400% returns of those decades. But the past 10 years were still remarkable, highlighted by the fact that it was the only decade on record that did not register a recession and just the second decade that did not experience a bear market (remember the 90s?).

What Can We Expect in 2020?

Some are predicting the upward trend to continue into 2020 whereas others are predicting that the markets will retreat. No matter your outlook, the direction of the markets will be influenced by the same long-term and cyclical trends that have influenced the markets since the beginning – corporate earnings, interest rates and various macroeconomic data, including employment and wage growth numbers. And trying to predict the market performance for the next decade is even more foolish. But one thing we know for sure is this: Past performance is no guarantee of future results. Ever.

10 Ways the SECURE Act Will Impact Your Retirement Savings

With the decline of traditional pensions, most of us are now responsible for squirrelling away money for our own retirement. In today's do-it-yourself retirement savings world, we rely largely on 401(k) plans and IRAs. However, there are obviously flaws with the system because about one-fourth of working Americans have no retirement savings at all--including 13% of workers age 60 and older.

But help is on the way. On December 20, 2019, President Trump signed the Setting Every Community Up for Retirement Enhancement (SECURE) Act. This new law does several things that will affect your ability to save money for retirement and influence how you use the funds over time. While some provisions are administrative in nature or intended to raise revenue, most of the changes are taxpayer-friendly measures designed to boost retirement savings. To get you up to speed, we've highlighted 10 of the most notable ways the SECURE Act affects your retirement savings. Learn them quickly, so you can start adjusting your retirement strategy right away. (Unless otherwise noted, all changes apply starting in 2020.)

RMDs Starting at Age 72

Required minimum distributions (RMDs) from 401(k) plans and traditional IRAs are a thorn in the side of many retirees. Every year, some grumble about having to take money out of their IRA when they really don't want to. Through December of 2019, RMDs generally had to begin in the year you turned 70 1/2. (If you worked past age 70 1/2, RMDs from your current employer's 401(k) were not required until after you left your job, unless you owned at least 5% of the company.)

The SECURE Act pushes the age that triggers RMDs from 70½ to 72, which means you can let your retirement funds grow an extra 1½ years before tapping into them. That can result in a significant boost to overall retirement savings for many seniors.

No Age Restrictions on IRA Contributions

Americans are working and living longer. So why not let them contribute to an IRA longer? That's the thinking behind the SECURE Act's repeal of the rule that prohibited contributions to a traditional IRA by taxpayers age 70½ and older. Now you can continue to put away money in a

traditional IRA if you work into your 70s and beyond. As before, there are no age-based restrictions on contributions to a Roth IRA.

401(k)s for Part-Time Employees

Part-time workers need to save for retirement, too. However, employees who haven't worked at least 1,000 hours during the year typically aren't allowed to participate in their employer's 401(k) plan.

That's about to change. Starting in 2021, the new retirement law guarantees 401(k) plan eligibility for employees who have worked at least 500 hours per year for at least three consecutive years. The part-timer must also be 21 years old by the end of the three-year period. The new rule doesn't apply to collectively bargained employees, though.

Penalty-Free Withdrawals for Birth or Adoption of Child

Congratulations if you have a new baby on the way or are about to adopt a child! Right after you pass out the cigars, you'll probably start worrying about how you're going to pay for the birthing or adoption costs. If you have a 401(k), IRA or other retirement account, the new retirement law lets you take out up to $5,000 following the birth or adoption of a child without paying the usual 10% early-withdrawal penalty. (You'll still owe income tax on the distribution, though, unless you repay the funds.) If you're married, each spouse can withdraw $5,000 from his or her own account, penalty-free. Although using retirement funds for child birth or adoption expenses obviously reduces the amount of money available in retirement, lawmakers hope this new option will encourage younger workers to start funding 401(k)s and IRAs earlier.

You have one year from the date your child is born or the adoption is finalized to withdraw the funds from your retirement account without paying the 10% penalty. You can also put the money back into your retirement account at a later date. Recontributed amounts are treated as a rollover and not included in taxable income.
If you're adopting, penalty-free withdrawals are generally allowed if the adoptee is younger than 18 years old or is physically or mentally incapable of self-support. However, the penalty will still apply if you're adopting your spouse's child.

Annuity Information and Options Expanded

Knowing how much you have in your 401(k) account is one thing. Knowing how long the money is going to last is another. Currently, 401(k) plan statements provide an account balance, but that really doesn't tell you how much money you can expect to receive each month once you retire.

To help savers gain a better understanding of what their monthly income might look like when they stop working, the SECURE Act requires 401(k) plan administrators to provide annual "lifetime income disclosure statements" to plan participants. These statements will show how much money you could get each month if your total 401(k) account balance were used to purchase an annuity. (The estimated monthly payment amounts will be for illustrative purposes only.)

The new disclosure statements aren't required until one year after the IRS issues interim final rules, creates a model disclosure statement or releases assumptions that plan administrators can use to convert account balances into annuity equivalents, whichever is latest.

Speaking of annuities ... the new retirement law also makes it easier for 401(k) plan sponsors to offer annuities and other "lifetime income" options to plan participants by taking away some of the associated legal risks. These annuities are now portable, too. So, for example, if you leave your job you can roll over the 401(k) annuity you had with your former employer to another 401(k) or IRA and avoid surrender charges and fees.

Auto-Enrollment 401(k) Plans Enhanced

More companies are automatically enrolling eligible employees into their 401(k) plans. Workers can always opt out of the plan if they choose, but most don't. Automatic enrollment boosts overall participation in employer-sponsored plans and encourages workers to start saving for retirement as soon as they are eligible.

The employer sets a default contribution rate for employees participating in an auto-enrollment 401(k) plan. The employee can, however, choose to contribute at a different rate. For a common type of plan known as a "qualified automatic contribution arrangement" (QACA), the employee's default contribution rate starts at 3% of his or her annual pay and gradually increases to 6% with each year that the employee stays in the plan. However, under current law, an employer cannot set a QACA contribution rate exceeding 10% for any year.

The SECURE Act pushes the 10% cap on QACA automatic contributions up to 15%, except for a worker's first year of participation. By delaying the increase until the second year of participation, lawmakers hope to avoid having large numbers of employees opt out of these 401(k) plans because their initial contribution rates are too high. Overall, the change allows companies offering QACAs to ultimately put more money into their workers' retirement accounts while keeping the potential shock of higher initial contribution rates in check.

Help for Small Businesses Offering Retirement Plans

It's simply harder to save for retirement if your employer doesn't offer a retirement savings plan, because all the work falls to you. Although most large employers have retirement plans for their workers, the same can't be said about small businesses. That's why the SECURE Act has three provisions designed to help more small businesses offer retirement plans for their employees.

First, the new law increases the tax credit available for 50% of a small business's retirement plan start-up costs. Before the SECURE Act, the credit was limited to $500 per year. However, the maximum credit amount is now up to $5,000.

Second, a brand new $500 tax credit is created for a small business's start-up costs for new 401(k) plans and SIMPLE IRA plans that include automatic enrollment. The credit is available for three years and is in addition to the existing credit described above. The credit is also available to small businesses that convert an existing retirement plan to an auto-enrollment plan.

Third, the SECURE Act makes it easier for small businesses to join together to provide retirement plans for their employees. Starting in 2021, the new law allows completely unrelated employers to participate in a multiple-employer plan and have a "pooled plan provider" administer it. This provision allows unrelated small businesses to leverage economies of scale not otherwise available to them, which typically results in lower administrative costs.

Grad Students and Care Providers Can Save More

Contributions to a retirement account generally can't exceed the amount of your compensation. So if you receive no compensation, you generally can't make retirement fund contributions. Under current law, graduate and post-doctoral students often receive stipends or similar payments that aren't treated as compensation and, therefore, can't provide the basis for a retirement plan contribution. Similar rules and results apply to "difficulty of care" payments that foster-care providers receive through state programs to care for disabled people in the caregiver's home.

Under the SECURE Act, amounts paid to aid the pursuit of graduate or post-doctoral study or research (such as a fellowship, stipend or similar amount) are treated as compensation for purposes of making IRA contributions. This will allow

affected students to begin saving for retirement sooner. Similarly, "difficulty of care" payments to foster-care providers are also considered compensation under the new retirement law when it comes to 401(k) and IRA contribution requirements.

"Stretch" IRAs Eliminated

Now for some bad news: The SECURE Act eliminates the current rules that allow non-spouse IRA beneficiaries to "stretch" required minimum distributions (RMDs) from an inherited account over their own lifetime (and potentially allow the funds to grow tax-free for decades). Instead, all funds from an inherited IRA generally must now be distributed to non-spouse beneficiaries within 10 years of the IRA owner's death. (The rule applies to inherited funds in a 401(k) account or other defined contribution plan, too.)

There are some exceptions to the general rule, though. Distributions over the life or life expectancy of a non-spouse beneficiary are allowed if the beneficiary is a minor, disabled, chronically ill or not more than 10 years younger than the deceased IRA owner. For minors, the exception only applies until the child reaches the age of majority. At that point, the 10-year rule kicks in.

If the beneficiary is the IRA owner's spouse, RMDs are still delayed until the end of the year that the surviving spouse reaches age 72 (age 70½ before the new retirement law).

Credit Card Access to 401(k) Loans Prohibited

There are plenty of potential drawbacks to borrowing from your retirement funds, but loans from 401(k) plans are nevertheless allowed. Generally, you can borrow as much as 50% of your 401(k) account balance, up to $50,000. Most loans must be repaid within five years, although more time is sometimes given if the borrowed money is used to buy a home.

Some 401(k) administrators allow employees to access plan loans by using credit or debit cards. However, the SECURE Act puts a stop to this. The new law flatly prohibits 401(k) loans provided through a credit card, debit card or similar arrangement. This change, which takes effect immediately, is designed to prevent easy access to retirement funds to pay for routine or small purchases. Over time, that could result in a total loan balance the account holder can't repay.

Final Thoughts

A lot has changed under the SECURE Act. If you'd like to discuss how the new laws will impact your wealth management strategy, we invite you to connect with our team.

Doing Well By Doing Good

A charitable remainder trust (CRT) can be a highly effective financial and estate planning tool. The CRT can allow you to: avoid capital gains taxes on highly appreciated assets, however when income is distributed to the income beneficiaries it is taxable; receive an income stream based on the full, fair market value (FMV) of those assets; receive an immediate charitable deduction; and ultimately benefit the charity(ies) of your choice.

Some individuals may be reluctant to transfer significant assets to a CRT because they would rather see their children be the ultimate recipients of the property. However, transferring property to a CRT doesn't necessarily mean your children cannot benefit as well.

General Guidelines

A CRT starts with a contribution of assets—preferably highly appreciated—into an irrevocable trust. Once the trust is funded, the trustee pays the non-charitable beneficiaries (selected by the donor upon establishment) an income each year for their lifetimes, a term of years, or a combination of the two.

If a term of years is involved, the maximum term is 20 years. Income beneficiaries must receive a minimum percentage payout each year equal to at least 5% of the trust's assets, not to exceed 50%. The present value of the charitable remainder interest cannot be less than 10% of the fair market value of the contributed asset's value at inception. Within these broad guidelines, you can select a number of flexible payment options designed to help meet your specific financial, estate, and charitable giving objectives.

Additional Benefits

Because a CRT is tax exempt, the trustee can sell highly appreciated assets on a tax-free basis and reinvest the full proceeds in other assets more likely to meet the growth and income objectives of the trust.

Assets donated to the trust are removed from your taxable estate, potentially avoiding significant future estate taxation and likely reducing future probate costs. Donated assets are also protected from the claims of creditors. This feature may be particularly attractive to business owners concerned about their personal liability or to those who are sensitive about issues related to the division of assets in a divorce.

The charitable deduction available to a donor may be limited according to the type of property donated, the kind of organization(s) ultimately receiving the gift, the donor's overall tax status, the age(s) of the income beneficiary(ies), and the trust's income payout provisions. If a deduction is limited for the current year's tax return, Internal Revenue Service (IRS) rules allow unused amounts to carry forward for up to five additional, consecutive tax years.

Moreover, since donations of appreciated property are no longer preference items for the alternative minimum tax (AMT), donating such property may now be much more advantageous. (Under prior law, the AMT could, in many cases, have significantly trimmed the potential income tax deduction available for donations of appreciated property.)

Under the appropriate circumstances, and over time, you (the donor) can also apply the money you saved in taxes available from your charitable deduction, along with a portion of the CRT's income stream (if necessary), to purchase a life insurance policy inside an irrevocable life insurance trust (ILIT). This strategy is not for everyone and should be discussed in greater detail with your advisory team.

The Choice is Yours

While most people may be resigned one way or another to the inevitability of taxation, many may be unaware that they have a choice regarding the form in which their contribution to society is fulfilled. When viewed from the perspective of a choice to channel funds directly to select charities rather than through the government, charitable giving takes on a new meaning. The CRT may then become a valuable tool to facilitate your choice. As with all complex financial transactions, you may wish to seek the assistance of your estate planning team, which should include your attorney and financial advisor, to help ensure your wishes are properly met.

If you'd like to discuss strategic philanthropy or charitable remainder trusts, we invite you to connect with our team.