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THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

Despite the near-panic level of Friday's international news, for the week ending January 3, the Standard & Poor's 500 Stock Index (SPX) lost a mere 0.16% to close at 3234.85. That still left it up 2.83% for the trailing 30 days, 9.58% for the trailing three months and a whopping 28% from last year's opening week. Of course, it is good to remember that the SPX fell about 16% in the last quarter of 2018, so the net gain from before that drop is rather less impressive. Since simple arithmetic doesn't work when we are using percentages, we can cut to the chase and announce that the net gain in the market for 2019 after subtracting 2018's near-bear market was only 11%, a less startling but still impressive number. All indications we can see suggest that 2020's gains will be less enthralling.

The U.S. ten-year Treasury obviously missed the party as its yield dropped 12.8 basis points to close at 1.78%. The interest rate slide started shortly after the markets opened on January 2 and continued to the end of the day on the third. Shortly after bond trading opened on the second, the yield briefly touched 2% but then turned steeply down. The bond market appears to be unimpressed with the Phase I trade agreement. Political tensions in Southwest Asia were credited with causing West Texas Intermediate oil prices to rise 2.06% for the week to $62.99. Bad news there, as usual, translated into good news out in the oil patch.

The Economy

The economic news as 2020 begins is much the same as when 2019 ended. Holiday retail spending was up significantly over last year. The best estimate so far is that consumers spent about 3.4% more this holiday season than last. Meanwhile, the factory sector of the U.S. economy continued to shrink in December. The Institute for Supply Management (ISM) announced that its US Manufacturing Index declined to 47.2 in December from the 48.1 reading in November. That was the lowest reading since the bottom of the recession in June of 2009. Readings below 50 indicate contraction. December marks the fifth consecutive month in which U.S. manufacturing has declined.

The SECURE Act

In the closing days of 2019, President Trump signed the Setting Every Community Up for Retirement Enhancement (SECURE) act. As far as we can tell the SECURE act has nothing to do with communities and doesn't make much of anything more secure, but it is a testimony of what Congress can do with bipartisan motivation and good PR staff to create warm and fuzzy acronyms.

What the SECURE Act does do is alter retirement planning if you have an IRA or tax-deferred annuity. First, it raises the Required Minimum Distribution (RMD) starting age for IRAs to 72 from the current 70 ½ if you haven't yet reached 70 ½. Second, it provides two more years to do Roth IRA conversions, thereby allowing you to pay the income tax now rather than in increments using the RMDs. Third, it allows contributions to a tax-deductible IRA, presuming you are still working, after 70 ½. Fourth, it allows small business owners to join forces in creating a 401(k) for a Multiple Employer Plan (MEP). Fifth, and last in the administrative changes, it shields employers from liability if a company offering a fixed annuity in a retirement plan fails and absolves employers from selecting the least expensive annuity for a retirement plan.

For people with larger IRAs, the change in the way an IRA is distributed to one's non-spousal beneficiaries is perhaps the biggest and most problematic of the changes in the SECURE Act. Prior to the SECURE act beneficiary IRA distributions could commonly be spread out over decades according to the age of either the original owner or beneficiary depending on whether RMDs had already started. Starting this year, a non-spousal IRA beneficiary has ten years to liquidate the IRA and pay the taxes. The beneficiary can take some or all the value at any time during the ten years but must have it liquidated and the taxes paid by the end of the ten years following the death of the owner. This does not apply to surviving spouses, who can still transfer IRAs to the surviving spouse's name. The key question facing many IRA owners is whether to pay the taxes while they are still alive by doing Roth conversions each year or avoid the taxes now while knowing that their beneficiaries may have a steep tax bill later when they receive the funds.

There are not a lot of certainties anywhere in the economy leaving us with the conclusion that 2020 is likely to be a hard year to predict, so keep your powder dry and your seat belt fastened folks!

Until next week, we remain at our posts, vigilantly watching the tea leaves of the economic data for signs of the future.

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