Demming Financial Services Corp.

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1st Quarter

Heads Up…

We are excited to welcome Dan Culliton to our team at Demming Financial Services! Dan joins our team as a Financial Planning Analyst and will be working with our advisors to help construct financial plans for our clients. Welcome, Dan!

Please be sure to send us a copy of your 2019 tax returns to info@demmingfinancial.com as they're completed!

Please note, the main inbox for prompt email correspondence is info@demmingfinancial.com!

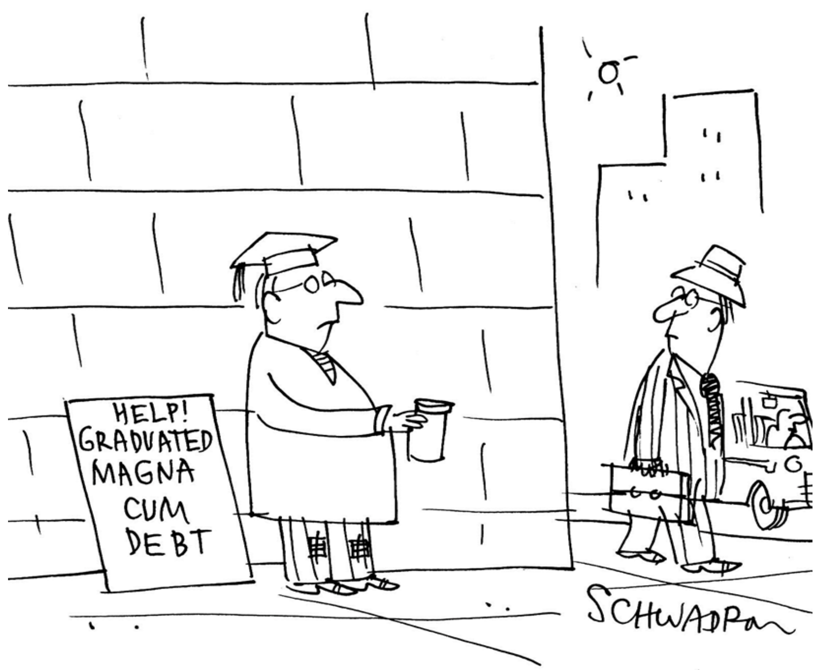
As a friendly reminder, for your protection, it is our ongoing policy that any requests for funds sent to us via email will also be confirmed by phone.

Please be sure to let us know if there are any changes to your contact information (address, phone number, email, etc.)

Also, please be sure to check out our website at www.demmingfinancial.com!

Strange Drop in College Enrollment

We hear a lot about the rising cost of a college education, and part of that has been driven by unprecedented demand for a college degree. But you probably haven't heard that the number of students enrolled in college in 2019 dropped by almost 250,000 over 2018 figures.



The National Student Clearinghouse Research Center, which tracks these statistics, speculates that a strong job market and historically low unemployment may be the primary cause. People are leaving high school and finding jobs—albeit with limited long-term growth potential. Over their careers, college graduates earn 56% more than those with just a high school education.

Another contributor is the slowing birth rate and rising tuition costs, which are persistent trends likely to continue into the future.

Does this mean getting into college will become less competitive? There will still be intense competition for applicants to the "top" or "name brand" schools. But the less-well-known colleges may find themselves bidding more competitively, with aid packages, for the smaller pool of potential customers.

The SECURE Act: What It Means

A bill entitled The Setting Every Community Up for Retirement Enhancement (SECURE) Act passed the U.S. House of Representatives last May by an overwhelming majority, and it was called the most comprehensive, sweeping retirement security legislation in recent history. A few days ago, the Senate finally passed the same legislation by attaching it to its December spending bill, meaning this sweeping legislation is now the law of the land.

But how comprehensive and sweeping is it really? Does it address the chronic unpreparedness of millions of Americans for retirement? Does it simplify the process of saving for retirement? Let's lay out the provisions, so you can decide for yourself.

1) The Act will finally allow people who are working beyond age 70 1/2 to make IRA contributions. People older than that could already keep contributing to Roth IRAs and 401(k) plans, so investors might be inclined to shrug their shoulders.

2) The Act would delay the date when people (whether retired or not) would have to start taking distributions out of their IRAs (called required minimum distributions, or RMDs) until age 72. This is not a huge concession, since the previous start date for RMDs was age 70 1/2. We are basically being given an extra year and a half of compounding before we have to take money out (and pay taxes on it) whether we need it or not.

3) Under the Act, small businesses will find it easier to group together and offer a 401(k) or other plans together, rather than individually—potentially reducing the financial barrier to creating a plan for employees. Plus… any business that sets up its first 401k) plan will receive up to a $5,000 tax credit for doing so (up from the previous $500). The Bureau of Labor Statistics says that only about 55% of all civilian workers, full or part time, currently participate in a workplace retirement plan. Will this $5,000 incentive and permission to group plans together make a dent in that figure, or not?

4) The SECURE Act allows employers to auto-escalate their employees' 401(k) contributions up to 15% of their pay, up from 10% currently.

5) People will be able, under the new rules, to withdraw money from their retirement accounts to cover the cost of the birth or adoption of a child.

6) The SECURE Act creates a safe harbor for qualified plan sponsors to offer annuities as an investment vehicle. You probably know that annuities come in many flavors, including those that provide a guaranteed income for life, and those that are mainly used as expensive investment vehicles. There is nothing in the provision that would prevent salespeople from selling high-commission annuities to the 401(k) market (this is where the lobbying push to pass SECURE came from in the first place), so everybody will need to be careful.

In addition, every 12 months, plan sponsors will have to report the monthly income that their participants would receive if they put the balance of their plan assets into an annuity. This, of course, will be a nice sales hook for annuity salespersons, but once again, participants should be careful. If they lock up their money in an annuity, the guaranteed income for life comes at the cost of flexibility. People would not be able to take out, say, $5,000 to repair their roof, or have access to the cash in an emergency.

7) The Act will change the rules for people who inherit an IRA or other retirement vehicle. Previously, these inheritors were prohibited from allowing the assets grow tax-free forever; instead, they had to take RMDs based on their age. Younger people would have lower RMDs than older inheritors, and the percentage that had to be taken out would go up incrementally each year. This was known as the "stretch" IRA, because people could "stretch" out the distributions over their lifetime and enjoy tax-free compounding of the money they were not required to take out.

Under the SECURE Act, the inherited IRA must be distributed, in full, by the end of the tenth year after it is received—and all ordinary income taxes would be due at the time of the distribution. This provision will require some planning for people who have larger IRAs, because their heirs will often be required to take out the full amount during their peak earning years. And inheritors of IRAs should think twice about waiting to the last minute to take the full distribution. Yes, waiting would increase the time that the assets would be compounding tax-free, but when all the money comes out at once, it could put the recipient in a higher tax bracket. As a result, many tax practitioners are recommending that wealthier individuals look at the possibility of doing partial Roth conversions while they're still alive, moving some of the traditional IRA assets into Roth IRAs and paying taxes at today's low rates. For the person inheriting a Roth IRA, all distributions are tax-free.

The question many people are asking is: are these provisions likely to move the needle on America's retirement crisis? The biggest major retirement legislation in a decade just shows how little retirement legislation we've been getting out of Congress.

2019 Year-End Investment Market Report

We have just completed the final quarter, not only of the year, but also the decade, so it's as good a time as any to reflect back on the market behavior for the past year, and also for the past 10 years. The short version is that we have experienced a bull market for the entire ten-year period, with no -20% bear market periods and only a few 10% corrections since June 2009. People who record the history of the markets will remember that the investors of the 2010s participated in the longest bull market in American history--a totally improbably event considering that the decade came right after one of the most dramatic market setbacks in modern times.

Also, worth noting is how the predictors of doom were once again totally off-base. When the Federal Reserve Board stepped in to stem the worst of the Great Recession, there were widespread cries that the Fed was "printing money" in a way that would lead to massive inflation and/or the bursting of a stock market bubble. Today, an expansionist Fed is routinely criticized for being too tight, rather than too loose. Inflation, meanwhile, has ranged from 0.7% to 2.1%--which hardly signals a crisis. If you've noticed any bubble-bursting in the equities markets, please help us find it.

"FOR HARLAND, THE ONLY GAME IN TOWN IS THE BULLS VERSUS THE BEARS..."

By any measure, 2019 was a remarkable year for investors--and who could have guessed? Stocks went on sale in December 2018, and many were predicting that the bearish trend would continue through calendar 2019. But investors who took advantage of the lower prices or stayed the course saw well-above-average gains almost literally across the board. The markets went on sale again in August when there were reports of a very slight inversion of the yield curve in the bond markets which (it was widely reported) signaled that a recession was on the near horizon. Those rumors turned out to be false and the yield curve--that is, the difference in bond rates between short-term and long-term issues--had subsequently steepened.

A breakdown shows that just about every investment asset was up strongly in 2019. The Russell 3000 index was up 25.52% for the year, and has gained an average of 11.83% for the decade of the 2010s.

Looking at large cap stocks, the Russell 1000 large-cap index finished the year with a 31.43% gain (averaging a 13.54% gain over the last 10-year period), while the widely-quoted S&P 500 index of large company stocks gained 8.53% during the year's final quarter and overall finished up 28.88% in calendar 2019--narrowly losing out to the decade's best yearly gain of 29.6% in 2017. Over the last ten years, investors in the S&P 500 saw annualized gains of 11.22% in the value of their holdings.

Meanwhile, the Russell Midcap Index finished the 2019 calendar year up 30.54%, averaging 13.19% a year for the decade.

The Russell 2000 Small-Cap Index posted a 25.52% gain in 2019. The technology-heavy Nasdaq Composite Index was up 12.17% in the final three months of the year, to finish with a gain of 35.23%--its best year since 2013. Since January 1, 2010, the index has gained 295.42% for patient investors, and tech stocks generally were a big contributor to the hefty returns during the long bull market.

Even the foreign markets were generous to investors this year. The broad-based EAFE index of companies in developed foreign economies gained 7.81% in the final quarter and ended the year up 18.44% in dollar terms. However, the past ten years have not been the best times to invest in international stocks; the index recorded an annualized gain of just 2.57% over that time period. In aggregate, European stocks were up 20.03% in 2019, while EAFE's Far East Index gained 15.46%. Emerging market stocks of less developed countries, as represented by the EAFE EM index, were up 11.36% in dollar terms in the fourth quarter, giving these very small components of most investment portfolios a 15.42% gain for the year. However, their 10-year track record is not enviable: up just 1.20% a year for the decade.

Looking over the other investment categories, real estate, as measured by the Wilshire U.S. REIT index, posted a 1.14% loss during the year's final quarter, but it finished the year with a 25.76% gain. The S&P GSCI index, which measures commodities returns, gained 8.31% in the 4th quarter, to finish the year up 17.63%. Looking back, however, commodities returns dramatically lagged U.S. stocks over the past decade: the total return for the commodities index overall was a negative 5.44%.

In the bond markets, coupon rates on 10-year Treasury bonds dropped almost a full percentage point, year-on-year, to stand at 1.75% at year end. Similarly, 30-year government bond yields have fallen from 3.01% at the beginning of the year to 2.38%

coupon rates today. Five-year municipal bonds are yielding, on average, a meager 1.14% a year, while 30-year munis are yielding 2.15% on average.

It's hard to overstate how unusual this long bull market has been in investing history. Bear markets tend to occur about every 3.5 years, and the previous record was 9.5 years from November 1990 to March of 2000. However, we still have a way to go to match the 418% that was achieved in the 1990s.

With global stock markets delivering double digit returns reminds us of why we invest for the long-term, we want to emphasize that broad diversification is key to avoiding large drawdowns from peak to trough. Our Spring 2015 Newsletter discussed one key to long-term success is allowing the math of compounding while avoiding dramatic losses leads to more successful investment outcomes.
http://www.demmingfinancial.com/wp-content/uploads/2015/05/Spring-2015.pdf

Looking longer term, it is certain that we will experience a recession, but no person alive can predict the hour or the day. Most economists are reluctant to predict an economic downturn when unemployment is at record lows and the slow-growth economy is chugging along with a 2.3% gain in 2019. 2020 might see a recession or at least a slowdown in growth if there is another trade conflict with China, and a shift toward rising interest rates could drive up the cost of debt servicing for corporations that are highly leveraged. Nobody knows where the Presidential impeachment process will go from here.

Drawdown:	Gain Required to Break Even:
5%	5%
10%	11%
15%	18%
20%	25%
25%	33%
30%	43%
35%	54%
40%	67%
45%	82%
50%	100%
75%	300%
90%	900%

At the same time, dramatic increases in domestic oil production has lessened the possibility that the economy will experience an energy recession, and healthcare cost increases have moderated over the course of the decade.

Similarly, nobody can predict when or how the bull market will end, how deep the coming recession or bear market will be, or, really, anything other than the fact that all past downturns were followed by upturns which took the markets and the economy to new heights.

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Sources:

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The building expansion is underway!

Wishing you a prosperous and Happy New Year!

From all of us at Demming Financial Services Corp.