TRINITY
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October 11, 2019

Hello, here is my newsletter entering the 4th quarter of 2019.

If you enjoy this, please let me know. If there is a topic or question you have about anything in this paper or in general, please let me know. Lastly if you don't wish to receive this in the future please advise and I will remove you from future distributions.

MARKET RESULTS (see footnotes) and OUTLOOK

		YTD (w/e 9/27/2019)	1-Year
S&P 500		19.9%	3.7%
DJIA		17.1%	3.9%
NASDAQ		20.6%	-0.2%
Foreign Stocks		13.7%	-1.1%
Emerging Markets		6.3%	-1.9%
10-Yr Treasury		10.8%	15.1%
US Bonds		8.5%	10.3%
Global Bonds		6.4%	7.5%
Munis		6.7%	8.6%
Fed Funds Target	2.00%	As of 9/27/2019	
Inflation	2.40%	As of 08/30/2019	
Unemployment	3.70%	As of 08/30/2019	
GDP	2.00%	As of 06/28/2019	

The third quarter saw new all-time highs in the S&P 500 during July, followed by a volatile and weaker August. A final push higher by equities was made in September, which put the quarter back into positive territory. Fed activity was front and center during the quarter as rate cuts were introduced in July and September—the first rate cuts since 2008.

Despite moving rates lower at back-to-back FOMC meetings, uncertainty about the future course of Fed action persists in the market. The future pace of rate cuts continues to be uncertain and Fed officials appear to be dampening expectations of a sustained rate-cut cycle, but the market is pricing in about three more cuts over the next year. On top of which, the 25-basis point cut in September continued to draw the ire of the administration, which wants rates significantly lower. Trade concerns also drove sentiment during the quarter, particularly in August, and led to some significant swings in the market. Volatility, as measured by the VIX Index, hit its highest level since January during the quarter, but settled down during September as stocks moved higher. (Note: some of summary is taken from a review by Clark Capital Management Group).

There has been a long-running theme of large-cap U.S. growth stocks outperforming most other pockets of the equity markets. A noteworthy shift in equity market leadership occurred in September, with small-cap and value-oriented companies rising to the top of the equity universe. In short, volatility during the remainder of 2019 is likely. As this overall expansion continues, **allocation** will likely become more important (those chasing the growth $ would have missed the past quarters value/smaller cap returns). Elimination of unnecessary risk remains a prudent action. Ultimately, each of you should understand what rate of return (and level of risk) is required to achieve your objectives! Make sure you and your advisor are in alignment and your portfolio design is aligned with your objectives.

FINANCIAL CONCEPT – RETIREMENT PLANNING - SAVINGS AND INVESTMENT ISSUES:

The savings amount, the savings rate, the timing of savings, and investment decisions are important concepts in retirement planning. As a historically large percentage of the population moves from accumulation/earning to living off their savings, the reality that our society saves at a low savings rate will have multiple ramifications.

The *savings rate* identifies the average *savings amount* based on consumption. According to the Bureau of Economic Analysis, the personal savings rate has declined significantly since the 1980s. In fact, the personal savings rate fell below zero in 2005, for the first time since the Great Depression. For example, a calculation regarding the savings rate required to realize an 80% wage (assuming "normal" asset allocations and wage increases over time) replacement ratio at normal

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Social Security retirement age will likely show that if that savings of earnings is delayed to age 45, the savings of gross pay would likely be 20%, at age 55 the savings rate grows to 40%.

The *timing of savings* gets to the number of future compounding periods available prior to retirement. The greater the number of compounding periods realized, the lower the required savings rate, and the greater accumulation of capital at retirement. For example: Lori saves $2,500/year from age 25 until 34 and invests the money in an account earning 8% annually, stops investing at age 34, and allows the investments to grow until age 65. Peter saves $2,500 a year from age 35 until age 65 and invests in an identical account and 8% rate of return as Lori. At age 65, Peter will have contributed **21x** more to his account, and have an account balance roughly 25% less.

A fundamental understanding of *investment decisions/consequences* is also essential to successful retirement planning. Last quarter I wrote a little about asset allocation. This is critically important due to the impact on rates of return, but also, the amount of risk/volatility a person is exposed. Another factor for consideration is the impact of inflation, which ultimately manifests via a reduction of purchasing power. For example, if beginning retirement at 65, and experiencing a rate of inflation of 3% through retirement, the retiree will experience a loss of purchasing power of 26% in 10 years, 45% in 20 years, and 59% in 30 years. ***Here’s a test question for you***, Fixed-income securities generally provide the best hedge against inflation and loss of purchasing power – True or False? (The answer is False)

The point is NO ONE can turn back the clock, or undo decisions that have proven to be expensively poor given history. There is no better time understand where you are, determine if your desired outcome is within the realm of reality or if changes will be required to accomplish. The conversations and work are not necessarily easy, the conversation may prove to be incredibly enlightening and empowering, but taking the view of an ostrich is not prudent. Direct, complete, and honest conversation with your financial advisor is the first step to understanding your circumstances and if there are hurdles in front of you or not. Lastly, insure your circumstances are effectively “stress-tested” (generally done via Monte Carlo analysis) and your future actions are driven by a range of outcomes versus a simple number or a yes or no answer.

I sincerely hope you have a wonderful 4th quarter, and are able to enjoy the holidays with those you hold dear! Next stop, 2020!

Regards,
Jim

Important information

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Footnotes:
Source: FactSet. S&P 500 is represented by the S&P 500 Index, DJIA is represented by the Dow Jones Industrial Average, NASDAQ is represented by the NASDAQ Composite Index, Foreign Stocks are represented by the MSCI EAFE Index and Emerging Markets are represented by the MSCI Emerging Markets Index. 10-Yr Treasury is represented by the FTSE 10-Year Treasury Bond Index, US Bonds are represented by the Bloomberg Barclays US Aggregate Index, Global Bonds are represented by the Bloomberg Barclays Global Aggregate Index and Munis are represented by Bloomberg Barclays Municipal Bond Index. Fed Funds Rate, Federal Reserve; Inflation and Unemployment, US Department of Labor; and GDP, US Bureau of Economic Analysis.

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