TRINITY

Financial Planning • Wealth Management • Insurance

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Hello, here is my newsletter entering the 1st quarter of 2020.

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

Year Ending (12/31/2019)		1-Year
S&P 500		31.49%
DJIA		25.34%
NASDAQ		36.69%
Foreign Stocks		22.66%
Emerging Markets		18.88%
10-Yr Treasury		8.3%
US Bonds		8.7%
Global Bonds		6.8%
Munis		7.5%
Fed Funds Target	1.75%	As of 12/31/2019
Inflation (Core CPI)	2.30%	As of 12/31/2019
Unemployment	3.50%	As of 10/31/2019
GDP	2.10%	As of 06/30/2019

The fourth quarter saw new all-time highs in the S&P 500 during December. That was a storyline that seemed to repeat itself multiple times during 2019. Some might recall the yield curve inverting during March of last year. The yield curve reverted to a non-inverted shape earlier in the 4th quarter. Regardless of that fact, the fixed income market also had itself a very positive year. Fed activity remains bearish as some are forecasting as many as three rate cuts during 2020.

I, like many, enjoy taking a look back, and then "forecast" what the next year and in this case, decade may bring us. That activity is extremely popular for publications, podcasts, radio shows, and television pundits to espouse their view of the future. Typically those predictions tend to take one of two shapes, 1) Go-Go-Go!!!, or 2) The sky is falling and the earth will soon stop spinning. Every one of those platforms are in the business of selling advertising, and you all know what drives ratings. Now, I'm not saying that macro-economic conditions don't eventually bleed into the market, but, the thing that gets me shaking my head is that these "soothsayers" are not held accountable, and somehow retain some degree of credibility by whatever media outlet, and unfortunately by too many individuals.

There's a long body of evidence demonstrating that stock market forecasts have no value because their accuracy is no better than one would randomly expect. One study (David Bailey, Jonathan Borwein, Amir Salehipour and Marcos López de Prado, authors of the March 2017 study, Evaluation and Ranking of Market Forecasters) covering 6,627 market forecasts (specifically for the S&P 500 Index) made by 68 forecasters from 1998 through 2012 found that across all forecasts, accuracy was worse than the proverbial flip of a coin. Two-thirds had accuracy scores below 50%. The highest accuracy score was 78% and the lowest was 17%. Evidence such as this once led Warren Buffett to state, "We have long felt that the only value of stock forecasters is to make fortune-tellers look good. Even now, Charlie (Munger) and I continue to believe that short-term market forecasts are poison and should be kept locked up in a safe place, away from children and also from grown-ups who behave in the market like children."

Allow me to repeat myself, know and embrace your strategy/plan! Resolutely implement the tactics required to attain that strategy! As your reality/facts/goals evolve, revisit your plan and adjust accordingly, or smile, and sit back in the comfort that your plan and objectives are aligned!

FINANCIAL CONCEPT – IPACT OF TAXATION OF BUSINESS ASSETS ON PLANNING:

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Let me first say, I'm not a CPA, nor do I provide tax advice. That said, one of the areas of CFP® study and testing is income tax planning. What I want to share in this newsletter (though some may view it as overly dry) may spur you to investigate this topic further. The depreciation recapture rules for business assets affect the tax rate that applies to gains on the sale of business assets. In fact, depreciation recapture may be an issue with any of the following types of transfers: Gifts, Nontaxable exchanges, Transfers at death, Charitable contributions, Installment sales.

Gifts: When property is gifted, the value of the gift is the fair market value of the property on the date of the gift, but the basis typically remains the basis of the giver of the gift. That is generally referred to as "carryover" basis since the donor's basis is transferred to the donee. If the gift is real property, the excess depreciation to the extent of the gain will be taxed at ordinary income tax rates, the straight-line depreciation will be taxed differently, and any remaining gain will be taxed at capital gains tax rates. ***Nontaxable exchanges:*** When property is exchanged for another property in a nontaxable exchange (i.e. Section 1031 or Section 1033) potential recapture on the asset carries over to the replacement property. Those exchanges do not extinguish the potential depreciation recapture that applies to the original property. It may only postpone the potential recapture until a taxable exchange occurs. ***Transfers at death:*** One way a taxpayer can eliminate depreciation recapture is to die (insert whatever joke you choose). Property transferred through the estate of a decedent receives a step to fair market value in basis and depreciation recapture is extinguished. ***Charitable contributions:*** When property subject to depreciation recapture is given to a charitable organization, and the deduction would otherwise be based on the fair market value of the property, the fair market value is reduced by the potential depreciation recapture on the gift. ***Installment Sales:*** Recognition of gain on the sale of an asset in return for an installment note can typically be deferred under the installment reporting provisions. Installment reporting provisions allow a taxpayer to smooth his or her income, report less of a gain in each year and defer tax. Those reporting provisions, however, do not apply to potential ordinary income depreciation recapture on Section 1231 property sold in return for an installment note…In many cases, the presence of potential depreciation recapture may change the optimal planning options. **Please** leverage appropriate professional advice if these, or similar topics are applicable to you!

I sincerely hope the holiday period was good to you and those you hold dear! Onto the New Year, and the new decade! As always, if I can be of any assistance, please don't hesitate to reach out!

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.