1st Quarter 2019 Newsletter
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MARKET UPDATE

By JOSEPH SROKA, CFA, CMT

Fear ruled the markets in the fourth quarter of the year. Most major equity market averages gave up their gains for the year.

The losses can be attributed to a convergence of financial and political issues which we refer to as the Axis of Worry: (1) The Federal Reserve and interest rates, (2) U.S.- China trade disputes, and (3) oil prices. Later in December, the partial U.S. Government shutdown contributed to additional concerns about its impact on economic growth.

With the exception of higher interest rates, we view the remainder of these concerns as transitory. Subsequent to year-end, oil prices have rebounded and some modest progress has been made in U.S. - China trade discussions.

We think higher interest rates are here to stay. The Federal Reserve raised the short-term interest rate target four times in 2018. We believe some of the fear in the markets during the fourth quarter was that the Fed would continue raising interest rates regardless of its impact on the economy and markets. The Fed has subsequently taken a wait-and-see or "data dependent" posture. This should slow the pace of interest rate increases in 2019. Economic data remains strong in the U.S. economy with little long run inflation evident.

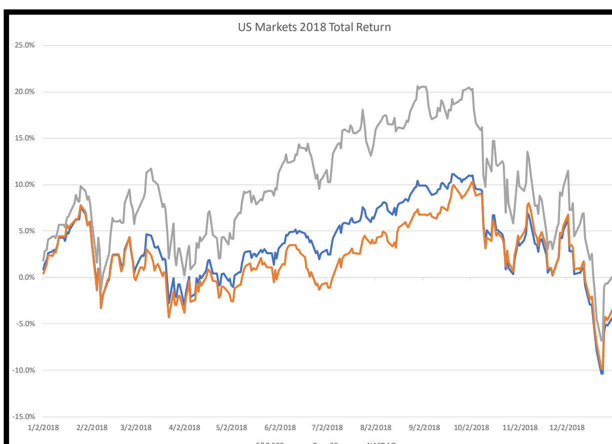
Corporate earnings benefitted from the tax cuts in 2018. Despite not having this tailwind, we believe corporate profits should still grow in 2019, but at a lower rate. Greater confidence should emerge as the transitory items we mentioned earlier dissipate as we move through the year.

Our equity holdings are well diversified across sectors. We favor stocks with a demonstrated track-record of increasing dividends as we believe they are more durable through economic cycles. A rising stream of dividends is also beneficial in an increasing interest rate environment.

For clients with fixed income holdings, we are gradually extending duration and increasing credit quality. We are less concerned about the pace of rate increases and now more concerned about the quality of corporate balance sheets.

Index	4Q Return	2018 Return
S&P 500	-13.5%	-4.4%
Dow Jones Industrials	-11.3%	-3.5%
NASDAQ 100	-16.8%	0.0%
Russell 2000 (small caps)	-20.2%	-11.0%
Int'l Developed Markets	-13.2%	-14.4%
Int'l Emerging Markets	-5.9%	-13.5%
S&P US Aggregate Bond	1.2%	-0.1%
US Treasury Bond	2.2%	0.9%

Sources: S&P Global, Thomson Reuters



Deciphering the Noise

In today's media rich culture, there is no shortage of financial headlines, especially when there is volatility in financial markets as we have recently experienced. When there is political or economic uncertainty, it is particularly important to wade through sensationalism and understand the terminology that is often used in the financial media. Here are a few terms that are commonly referenced and often misused.

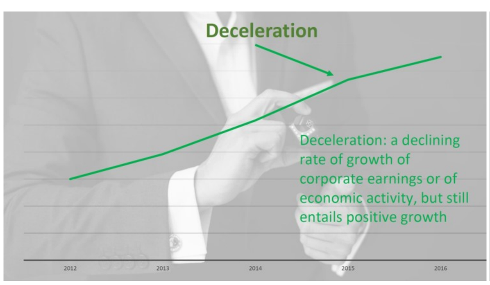
Recession vs Deceleration vs Depression

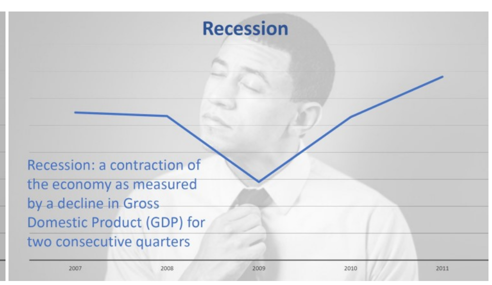
A recession is a contraction of the economy as measured by a decline in Gross Domestic Product (GDP) for two consecutive quarters. A recession is a normal part of the business cycle and has historically occurred about every five years. The term or concept of recession is sometimes incorrectly interchanged with two other terms: deceleration and depression.

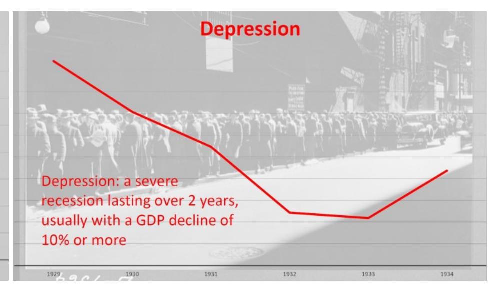
A deceleration is a declining rate of growth of corporate earnings or of economic activity, but still entails positive growth. As a metaphor, if the economy is a car driving forward, increased growth is pushing the gas, decelerating is touching the break but still travelling forward, and a recession or contraction is the car stopping and driving in reverse. Some commentators warn of recession, but GDP was expanded at a quarterly rate of 3.4% in 3Q 2018, even if slower than its 2Q expansion of 4.2%.

A depression is defined as a severe recession lasting over 2 years, usually with a GDP decline of 10% or more. A depression is much more severe than a standard recession, but it seems that a recession is often presented or referenced to as having the severity of a depression. The US has only experienced one true depression, the Great Depression of the 1930s.

The application is that while it has been a prolonged business cycle and many pundits try to predict or perhaps warn of the next recession, understanding the terminology provides context to the impact of what is actually occurring.







Wealth Management Application

Your investment strategy should be based on your goals and risk tolerances, not on speculative headlines. We proactively help clients position their portfolios to achieve their objectives and invest towards a long-term time horizon. We adjust each client's plan and investment strategy based on progress towards goals, updates in life circumstances, and based on economic data that matters.

BUSINESS RETIREMENT PLANS

By ALAN J. CONNER, CPFA

It's Still Not too Late for Tax Year 2018

Year-End is now behind us and we are heading into the 2018 income tax filing season. If you have an LLC or S Corp, you need to file or request an extension by March 15th.

For business owners who have LLC's and S Corp's, it is not too late to fund your SEP IRA for 2018. The maximum contribution is $55,000 or up to 25% of your net income. The contribution needs to be made before you file your actual return because this is a business expense, so making this contribution will have an impact on your personal tax bill.

If you are not looking to fund a SEP IRA, you should look at either funding an IRA or Roth IRA. The contribution limits for these accounts is $5,500. If you are age 50 or older, you can add an additional $1,000 as a catch up contribution.

There is also what is known as a "backdoor" Roth contribution that can be utilized if you are unable to make a deductible IRA Contribution. There are several moving parts to this, so if you would like to learn more about this, give us a call.

As we progress through the tax season, we will better understand the personal impact of the Tax Cuts and Jobs Act of 2017. If you typically itemize, better understanding the impact of the increase in the standard deduction and the cap on the deduction of State and Local taxes may make your planning for 2019 more important.

Plan Ahead for 2019

When planning for 2019 and beyond taxes, there are several areas to consider:

<u>Charitable contributions</u> – Getting the most advantageous tax treatment for your charitable contributions. A Donor Advised Fund would enable the donor to contribute appreciated stock, get full value for the contribution, but make the actual charitable contributions over time.

<u>Taxable vs. Tax Free Interest</u> – Now that interest rates have risen, it is a good time to revisit whether you should be investing to receive taxable or tax free interest. We can do the calculations for you to make sure you not only getting the best after tax yield on you funds, but to make sure you are not taking unnecessary credit risk when doing it.

<u>Retirement Savings</u> – Retirement savings is a complex topic, but to keep it simple, the first step is to start with something, rather than to wait until you have more to save. The next step is to determine what the correct vehicle is for you. We have listed some below, but we would be happy to go over your specific situation to make sure you have what works best for you. In addition, the maximum contribution limits have increased for 2019.

They are as follows:

IRA/ Roth IRA - $6000 + $1000 catch up over age 50

SEP IRA - $56,000, or 25% of net income

401k and Roth 401k - $19,000 + $6000 catch up

Defined Benefit Plans – Amounts vary based on age and earnings, but can get into the $250k+ range.

<u>Pass Through tax credit</u> – If you are a member or shareholder in a pass through entity, you will learn in the coming months how this change impacts you. While there are exclusions for certain professionals, we have worked with several professionals to develop tax deferred savings plans that should enable them to utilize the pass through credit

Bacon Asparagus Brie Bites

Total Time: 45 minutes / Yields 24

Ingredients

8 slices of bacon

1 lb asparagus

Half a lemon

Salt and Pepper

7 oz wheel of brie

Flour, for rolling out dough

1 (8-oz) tube of crescent dough

Cooking spray for pan

How to Make It

Preheat oven to 375 degrees. In a large skillet over medium heat, cook bacon until crispy. Drain bacon on paper towels and leave about 2 tablespoons of fat in skillet. Add asparagus to skillet and cook until bright green and only slightly tender. Season with salt and pepper then remove and squeeze lemon juice on top. Chop bacon and asparagus into bite-size pieces.

Cut brie into small square pieces, about 2-inches wide.

On a lightly floured surface, unroll crescent dough into a large rectangle. If there are perforated edges, pinch together seams to seal. Cut dough into 24 shares.

Grease a 24-cup mini muffin tin with cooking spray. Place a crescent square into each muffin cup then fill with brie, cooked bacon, and asparagus.

Bake until golden, about 15 minutes.

Source: Delish

Do You Know Your Risk Number?

Individuals often classify their investment risk tolerance with adjectives such as "Conservative", "Moderate", or "Aggressive".

These can be highly subjective and may not correctly identify the amount of risk someone is actually comfortable taking.

One Moderate investor may feel uncomfortable if their portfolio fell 5% while another may not feel uncomfortable until their portfolio falls more than 10%.

While investors understand that the purpose of taking risk is to achieve investment returns, they may not have a realistic sense of how much risk is required to achieve a targeted level of return. In this case, they may not be taking enough risk and wondering why they are not able to achieve the returns they want.

We work with our clients to identify the risk they are comfortable taking and balance it with the investment objectives they are seeking to achieve.

Contact us about our complimentary risk analysis questionnaire.

NovaPoint
CAPITAL LLC

NovaPoint Capital is an investment management and advisory firm. We manage investment portfolios for individuals, family offices, businesses and their retirement plans, nonprofit organizations, and institutions.

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