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NovaPoint Capital LLC ● 1170 Peachtree Street NE, Suite 1200, Atlanta GA 30309 ● Phone 404-445-7885 ● www.novapointcapital.com

MARKET UPDATE

By JOSEPH SROKA, CFA, CMT

The major equity market averages posted gains in every quarter of 2019, producing a strong year that ended at or near all-time highs. The fourth quarter of 2019 capped a year-long rebound from the steep declines seen in the fourth quarter of 2018.

We start the year with a combination of positive and negative developments. Improvement in global trade has potential to be a boost to economic growth. The Phase One U.S.—China agreement sets the stage for a de-escalation of tensions between both economies. The United States-Mexico-Canada (USMCA) trade agreement also provides an improved framework for trade in North America.

The U.S. economy remains on solid footing with low inflation and near full employment. This has made the U.S. consumer a major force of economic growth. Low energy prices have also aided discretionary spending power. The manufacturing sector has not seen the same growth as some companies have been hesitant to commit to large capital projects over the last year and a half of trade uncertainty.

The Federal Reserve remains in a supportive stance toward economic growth. With inflation low, the Fed is not likely to make any changes in monetary policy unless there is a significant change in the trajectory of the economy. Where the Fed is likely to alter its actions is in open market operations. The Fed has been expanding its balance sheet by buying shorter term treasuries. This move was prompted back in the Fall to ensure liquidity in the overnight bank lending market. As this need subsides so does the likelihood that the Fed continues purchasing at the current pace and likely tapers or stops the program as we move through the year.

While it is still early in the year, we've already seen tensions flare up between the U.S. and Iran, China is currently battling the coronavirus, and the Democratic presidential field should start narrowing as we head into the Iowa Caucus. If January is any indication, we could be in for a noisy year.

We are currently in the peak period of corporate earnings reports for the fourth quarter of 2019, with many companies providing updates for 2020. For 2020, the current consensus expectation for companies in the S&P 500 Index is for earnings to grow 9.5% on 12.1% revenue growth. A significant potential contributor to 2020 growth is the energy sector, which was a drag on earnings in 2019.

Our equity holdings are well diversified across sectors. We favor high-quality stocks with a demonstrated track-record of increasing dividends as we believe they are more durable through economic cycles.

	4Q19 Return	YTD Return
S&P 500 Index	9.1%	31.5%
Dow Jones Industrial Average	6.7%	25.3%
NASDAQ 100	13.0%	39.5%
Russell 2000 (Small Cap Index)	9.9%	25.5%
International Stocks (MSCI ex-US)	6.7%	17.1%

	4Q19 Return	YTD Return
Aggregate Bond Index	0.1%	7.4%
U.S. Dollar Index	-3.0%	0.2%
WTI Crude Oil	12.9%	34.5%
Gold	3.1%	18.3%
Real Estate (US REIT Index)	-2.1%	19.2%

Sources: S&P Global, Thomson Reuters / YTD Returns through 12/31/2019

WEALTH MANAGEMENT

By JEFFERY V. WRIGHT, CFA

2020: Implications of a Presidential Election Year

2020 is a presidential election year. While November can seem far away, some level of uncertainty may come into the political and economic discourse as we move through the year.

A politically driven change in the economic policies can be a potential uncertainty in presidential election years. If the risk of near-term market volatility is assumed to be dependent upon the election, perhaps recent history can give us an indication as how to align our return and volatility expectations relative to non-election years. Here are some observations on how the S&P500 Index has fared in presidential election years.

The S&P Index inception was in 1926 with about 90 companies and has grown to what we now know as the S&P500 Index, which tracks the largest 500 companies in the market. Across all the presidential election years since the index's inception from 1928 (Herbert Hoover vs Al Smith) through 2016 (Donald Trump vs Hillary Clinton), the S&P has delivered positive returns 82.6% of the time with only 4 negative years in 1932, 1940, 2000, and 2008. The index average return in election years has been 11.3%. If we compare to all 94 complete years of return history, the index has been positive 72.3% of the time with an average return of 12.1%.

Historically, election years have been more likely to deliver a positive return than the index across all years, albeit with a lower average return. In order to resist any temptation to surmise that political rhetoric and divide is worse now than the last 94 years (perhaps it is), we refer back to the aforementioned data.

For application, our approach is to determine the level of risk that our investors should and can afford to take in order to accomplish their investment objectives. We strive to position client portfolios to weather the unexpected or unknown (such as the result of a presidential election) relative to their risk profile, time horizon, liquidity needs, comfort level, and goals. We want our investors to maximize returns without risking more capital impairment than they can afford regardless of the outcome of unknown events.

Understanding the SECURE Act

The Setting Every Community Up for Retirement Enhancement Act of 2019 ("SECURE Act") was signed into law in December 2019. The purpose of the legislation is to increase access to tax advantaged accounts and help prevent older Americans from outliving their retirement assets. While there are several areas addressed in the law, individuals are impacted in two key retirement areas.

IRA Required Minimum Distributions: Key provisions of the bill include increasing the age at which individuals must begin taking required minimum distributions from their retirement accounts from 70½ to 72, as well as lifting restrictions on contributions to a traditional IRA after age 70½.

Inherited IRA Required Distributions: Under the previous law, individuals who inherit a retirement account are allowed to distribute those assets over the course of their lifetime. The Secure Act requires those assets to be distributed within 10 years, which could have major implications for estate planning. The key item to remember is that if you are currently taking distributions from an inherited IRA, the rules do not change for you.

These changes may result in some opportunities for Roth conversion or backdoor Roth contributions

BUSINESS RETIREMENT PLANS

By ALAN J. CONNER, CPFA

Start the year right by reviewing your 401k plan

Both plan participants and plan sponsors should start the new year by reviewing their 401(k) or 403(b) plan. Making sure your plan is set to work for you during the year allows you focus on your business.

Plan Participants: Check your Allocations

If you are a participant in either a 401(k) or 403(b) plan, this is the time of year you should look to both review your investment options and asset allocations. Typically, plans undergo an annual review of their investment options, and you will occasionally see some funds removed and others added. This process can significantly impact your investment results depending on how your plan handles the changes.

Your plan assets should be invested in a proper allocation based on your personal risk tolerance and years to retirement. If you have not updated your risk profile and rebalanced your portfolio, now is the time. The S&P 500 Index was up more than 30% in 2019. This means that your asset allocation to U.S. stocks may be heavier than your intention versus fixed income, international stocks, or other allocations. If you feel you need to rebalance, you can either swap between investments or simply change the allocation of where your current year contributions are being invested.

Plan Sponsors: Consider a Fiduciary Review

As a plan sponsor, the new year is an opportunity to do a full fiduciary review of your plan. This review should include a benchmarking of both administrative and investment related fees, as well as the quality and performance of the investments offered in the plan.

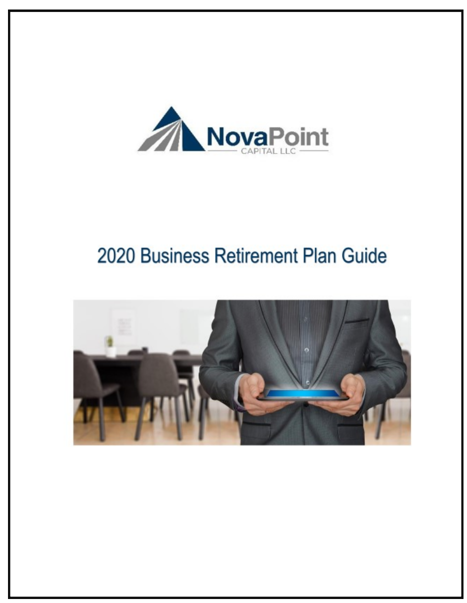
If your plan is not "Safe Harbor," you may want to discuss ways to increase employee participation and reduce corrective distributions if there were any.

No Plan? Make it a Priority for 2020

If you are considering establishing a plan for your company in 2020, one of the items contained in the Secure Act is that it (1) Increases the maximum available tax credits for establishing a retirement plan from $500 to $5000 for each of the first 3 years. (2) Small business owners who implement automatic enrollment in the plan will be eligible for an additional credit of $500.

Please contact us if we can help with a fiduciary review of an existing plan or design of a new one. If you would like a copy of our 2020 Business Retirement Plan Guide, please use the link below or contact us and we can send you a copy.

DOWNLOAD THE GUIDE



Breakfast Egg Cups

Ingredients (makes 6 servings)

- 5 eggs
- Salt and pepper, to taste
- 1 tablespoon milk
- Any of the following:
  Cheese
  Chopped ham
  Bacon
  Spinach
  Mushrooms
  Onions
  Anything else you like!

Directions

Preheat oven to 350 degrees

Beat eggs until smooth, add milk

Grease a muffin tin and add any of the optional ingredients you choose

Season with salt and pepper

Pour egg mixture into cups until liquid almost reaches the top.

Bake for 20 minutes

Enjoy fresh or store for breakfast on the go!

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.

Follow this link to take our complimentary risk analysis questionnaire.

Follow our Weekly Blog Posts

Each Monday, we publish a report on the NovaPoint Capital website blog highlighting important financial and investment issues for the week. We also have our Dissecting Headlines section where we dive deeper to explain what some of the news headlines mean in an investment context. You can find the blog on the website on the News dropdown menu or at https://novapointcapital.com/blog/

NovaPoint CAPITAL LLC

Visit our website: www.novapointcapital.com

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.

Our Team

Alan J. Conner, CPFA - President
aconner@novapointcapital.com
404-596-8935

Jeffery V. Wright, CFA - Managing Director / Portfolio Manager
jwright@novapointcapital.com
404-445-8334

Joseph Sroka, CFA, CMT - Chief Investment Officer
jsroka@novapointcapital.com
404-941-8910

Frederick Wright, CFA - Managing Director / Portfolio Manager
fwright@novapointcapital.com
404-920-8574