KACHKOVSKY & FISHER

REGISTERED INVESTMENT ADVISOR

Winter 2020

How did 2019 treat you? Were you happy to shake it off, like a damp coat after you've come in from the snow? Perhaps, instead, 2019 was your best year yet – each month whizzed by, the days dotted with joyful moments both big and small. No matter what 2019 brought you – challenges, triumphs or a mix of both – it also brought you here. The past 12 months brought you to a place in your life where you have the opportunity to move toward future goals with renewed determination. The wisdom gained from another year of life can now be harnessed to strive toward greater.

Please know that no matter what 2020 brings, we are here to assist. If you experience life changes or issues arise, let's have a discussion about what we can do to address your specific situation, tailor your financial plan and move forward with confidence. We will be here to help every step of the way, both this year and for many years to come.

Let's take a look at the numbers.

	(As of 12/31/19)
Dow Jones Industrials	+ 25.34 %
S&P 500 Index	+ 31.49 %
NASDAQ Composite	+ 36.69 %
Russell 2000	+ 25.52%
MSCI EAFE Index	+ 22.01 %
MSCI Emerging Markets	+ 18.42 %
Major Bond Indexes	(As of 12/31/19)
Barclays U.S. Aggregate Bond	+ 8.72 %
Barclays U.S. Government Bond	+ 3.58 %
JPM EMBI Global Diversified Bond	+ 15.04 %

Source: The Wall Street Journal and Barron's

*Inclusion of these unmanaged indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

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FINANCIAL AND INVESTMENT PLANNING

"Spend each day trying to be a little wiser than you were when you woke up. Day by day, and at the end of the day-if you live long enough-like most people, you will get out of life what you deserve."

… Charles T. Munger

What a way to end the 2010's decade! The market here and abroad by enlarge had a banner year. Despite the geopolitical risks through the world, U.S. – China trade war, impeachment proceedings domestically, migrant crises and natural disasters seemingly on every continent, the never-ending Brexit (and now "Megxit"), and on, and on, and on – equity and fixed income markets shrugged off the tension and sprinted to multi-year or new all-time highs.

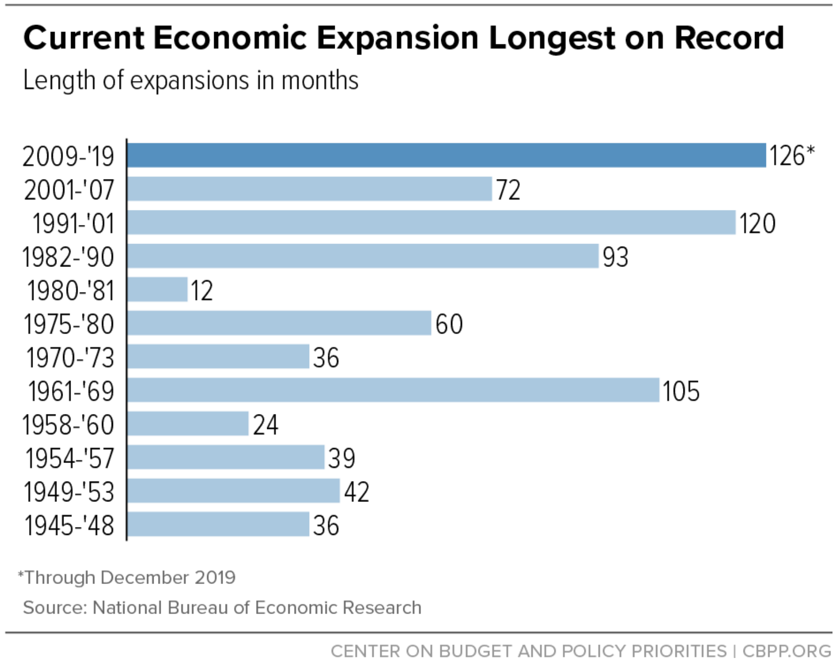
The corrective 'easing' measures by global central banks helped to stabilize global growth in 2019. After tightening monetary policy (led by the Fed) throughout 2018, a slowdown in global growth in 2019 led to synchronized easing by global central banks in 2019. In fact, 65% of central banks eased monetary policy over the past 12 months, the most since the Great Recession. This easing led to a turnaround in central bank balance sheets, as all three major central banks (Federal Reserve, European Central Bank, Bank of Japan) have increased their balance sheets over the past three months for the first time since 2017 and are expected to do so throughout 2020. As a result of continued easing from global central banks, interest rates moved sharply lower in 2019 leading the Barclays Aggregate to post its best year since 2002, delivering equity-like return of 8.72%. Yes, in fact 2019 was a banner year for fixed income investors. Thinking about the teeter-totter example we often use in our meetings, those that dared to ride the "big boy seesaw" profited handsomely – 30 Year U.S. Treasuries surged 16.43% for the year despite giving up almost 5% the last quarter of the year.

Turning to this year – a number of headwinds are expected. Scott J. Brown, PhD, Chief Economist, Raymond James remarks on the trade war, "While a full trade agreement that rolls back tariffs appears unlikely, there is hope for a truce in trade tensions between the US and China (i.e., an agreement not to escalate). However, there is a danger of a further separation of the world's two largest economies, and protectionist sentiments have risen around the world. Tariffs raise costs for US consumers and businesses, invite retaliation, disrupt supply chains, and undermine business investment. Moreover, the administration has weakened the World Trade Organization, the arbiter of global trade disputes. Ahead of the 2020 election, there ought to be incentive for President Trump to put trade issues behind him. However, bashing China (and others) on trade plays to his base, and some of the Democratic contenders have adopted similar anti-China rhetoric."

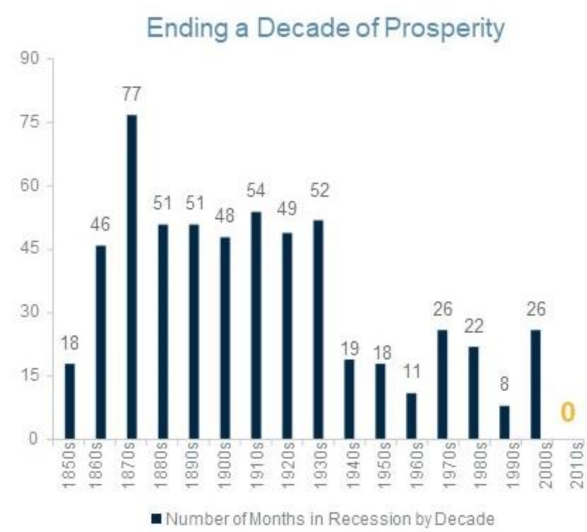
Back to the seesaw example - as yields have plummeted to near record lows, duration in bonds has drastically increase. Result – stakeholders are subjected to more acute changes in fixed income valuations with just a minor fluctuations in interest rates. Many analysts expect volatility to be elevated this year as the U.S. economy graduates into the latter stages of the business cycle and the election. Asset allocation remains critical to portfolio performance. Investors should maintain their long-term investment strategies.

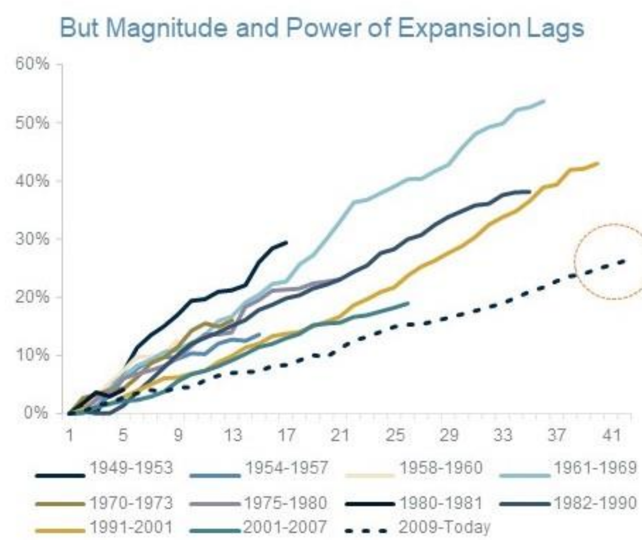
For equities, 2019 was driven by P/E expansion and some will argue that valuations are stretched. This year needs to be the year of earnings growth to support said valuation expansion. And, if inflation remains below the Fed's 2% target and Fed policy remains accommodative, US corporate earnings are expected to grow 5-6% and reach another record in 2020, supporting the upward march of equity prices to record highs. Moreover, the above-mentioned easing measures should provide a tailwind for growth in 2020.
Turning our attention abroad, Emerging Markets are expected to have the strongest projected earnings growth in 2020. Estimates are 15% vs 9% for US. Thus, equities particularly in Asia should benefit from a turnaround in global and EM growth. Given the multi-year underperformance of equities in this region, and the expectation for an acceleration in earnings, Emerging Markets appear cheap relative to global equities. Moreover, Asian countries should benefit from population growth and favorable demographics.

It is interesting to point out that recessions are historically uncommon in the fourth year of a presidential cycle. Since the Great Depression, the US economy has entered a recession only one time during the fourth year of a presidential cycle. Additionally, nine out of the 14 US recessions have occurred in the first (new president) or the first year of a second term for the incumbent. This fourth year of a presidential cycle is also accretive for equities. On average, the S&P 500 is up ~9% and is positive ~90% of the time.



As we start 2020, the US economy continues its expansion. US economic growth will continue to be driven by strength in consumer spending. While the current expansion has been the longest from a duration perspective, it is only the fifth strongest from a magnitude perspective. From an international perspective, it is only the 11th longest expansion in history. This suggests that the current US expansion has scope to expand further, which is consistent with economic fundamentals as continued strength in the labor market and solid real-time activity metrics (trucking and freight activity) reflect continued economic strength. Take a look at the accompanying harts. You may be intrigued to learn that the last decade is the only decade on record that spent ZERO months in recession.





Now, turning our attention to Social Security - in the fall of 2019, Social Security Administration announced a cost of living adjustment (COLA) to recipients' monthly Social Security and Supplemental Income (SSI). Nearly 69 million Americans will now see the 1.6% increase in their payments beginning this month. The increase – moderate, in comparison to last year's 2.8% adjustment – is tied to the Consumer Price Index for Urban Wage Earners and Clerical Workers and was put in place to ensure the purchasing power of these benefits isn't eroded by inflation. It marks the smallest increase since 2017, when the COLA was 0.3%. This 1.6% COLA has increased the maximum monthly retirement benefit to $3,011.

In addition, if you are collecting Social Security benefits and are under your full retirement age (FRA) for the full year, you will be able to earn $18,240 without forfeiting any benefits. If your earnings are above that threshold, you would lose $1 in benefits for every $2 earned over the limit up to age 65, and $1 for every $3 after that until FRA is reached. The earnings cap does not apply to pensions or investments. The earnings restrictions disappear once a Social Security recipient reaches their FRA, which is currently 66 and will gradually increase to 67.

Many retirees should see a slight increase in their net Social Security benefits in 2020 even after factoring in their Medicare Part B premiums. These premiums cover doctors' fees and outpatient services and are typically deducted from a recipients Social Security check. According to the Medicare Trustees' report, this year's average Part B premium is expected to be $144.30/month. High income retirees pay more for the same coverage. Individuals with modified adjusted gross income of $85,000 or more and married couples whose joint income exceeds $170,000 pay a surcharge for their Medicare Part B premiums and Part D prescription drug plans. The surcharge can be as high as $460.50/month.

- Investing involves risk and investors may incur a profit or loss.
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- Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Bonds are subject to credit and interest rate risk. Timely payments of interest and principal payments are based on the financial condition of the issuer. Yield and market value will fluctuate with changes in market conditions. There is an inverse relationship between interest movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. Diversification does not insure a profit or a guarantee against a loss. Investing involves risk and you may incur a profit or loss regardless of strategy selected. Please note that international investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility.

PERSONAL

"I'm not going," Kora said, repeatedly. It was the first day of run club (ages 8 – 13) and Kora (8) refused to get out of the car. Anxiety took over when she saw all of the older kids and was determined not to participate. Angie reminded her that she was not allowed to quit. It was a very rough day. As time passed, she felt more and more comfortable after each practice with the kids she didn't know. She was determined to give it her all at every running session. At the end of the season, she participated with a few thousand girls in a 5k race in Denver. Kora was the fastest 8 year old in the race. After the rest of the team crossed the finish line, Kora and her new friends couldn't stop talking about the race. It was great to see the joy that resulted from her perseverance.

Like the sun rises in the east, snow falls across the Rocky Mountains every winter. Macy (7) and Kora are again taking ski lessons at Winter Park. Little Macy is working on perfecting her parallel turn and her older sister is taking a class on bumps. Still being relatively new to skiing, Angie and Kris are also going to take a couple of lessons this year. Over the holidays, the family went skiing together for a few days at Beaver Creek. At the bottom of one particular run, mom and dad noticed some large bumps. Kora insisted the family do the run together. By the time they all made their way down, dad decided to peel off and go around the challenging section (read: wimp). Kris hasn't learned how to ski moguls yet. Macy took her time and made it through the moguls. Kora flew through them. It won't be long before both of the girls are skiing terrain that their parents can't handle.

In December, Kris' youngest brother, Justin and his family visited Evergreen. The middle brother, Steve moved to Evergreen more than ten years ago. The three brothers loved spending the holiday together. The six cousins (ages 6 – 10) always have a great time playing with one another. Steve, Justin and Kris don't take their relationship for granted and know they are very blessed.

For the Kachkovsky clan, the second part of 2019 was filled with set-backs, milestones and triumphs. In August, Garry ruptured his Achilles tendon playing a young one's game - basketball. You'd think he learned his lesson to stay off the court more than a decade ago, when he tore the same tendon on the other leg. Despite serious advancements in medical procedures, recovery is ongoing. Perhaps age is playing a factor. To add insult to injury, in December, Garry underwent a long overdue cleanout of the left shoulder, which has been an ongoing issue for more than 25 years. A newfound interest in hot yoga has been the silver lining in this adventure.

In September, Emily celebrated another birthday, spent quietly with family. Ava rushed into 2nd grade this past fall and turned eight in November. Although math is presenting some challenges this school year, she has blossomed into a strong reader and creative writer. Garry and Emily spent a few days in Chicago this fall, mixing business with pleasure. A fun afternoon game at Wrigley Field and a Cubs win capped off a great visit with clients and childhood friends. Garry's parents spent two weeks in San Diego, re-connecting and building bonds with their grandkids.

In early November, Garry and Ava spent a short weekend camping in Borrego Springs with the YMCA Adventure Guides and Princesses. Like a mountain goat, Ava scrambled up and down the Palm Canyon Trail, while her dad limped along trying to keep pace. Anza-Borrego Desert State Park has been designated an International Dark Sky Park for good reason. The night sky is lit up like a Christmas tree.

Elle enthusiastically tried tap classes in the fall, but was elated to get back to gymnastics at the local YMCA. Being the only four year old, she is thrilled to be showing off her skills in the five and older class. Ava also resumed gymnastics late in the year and is loving it. The holidays were spent quietly at home, reflecting on the year gone by and recharging for the year ahead.

As we look forward to the brand new decade, we hope you and those most important around you have many more triumphs than setbacks.

Thank you for your trust, confidence and friendship.

"*Tact is the art of making a point without making an enemy.*"
— Isaac Newton

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