

## The Archvest Advantage Q4 2019 Newsletter

February, 2020

### Market Review

Much to the surprise of all, the markets set lofty new highs in 2019. As we entered 2019, analysts and commentators had a consensus that the economy was slowing even further and showing signs of a coming recession. Yet, the markets surprised everyone, turning in outsized gains for the year. The S&P 500 was up a staggering 31.5%, the Dow was up 25.3%, and the international markets as measured by the MSCI were up 22.0%.

Our benchmarks performed well for the year on a risk-adjusted basis. Consistently, the portfolios earned about double the long-term retirement plan projections. We are delighted to achieve these kinds of returns in your portfolios. However, it gives us pause when we look at the current economic environment and the degree of government intervention taken to achieve this level of returns. As such, we took profits at the end of the year and rebalanced your portfolios accordingly to stay in line with our risk targets. We remain cautious heading into 2020 as there are too many unknowns around the world.

### The Global Economy

Brexit is now official. The United Kingdom officially left the European Union on January 31st, 2020. Much still needs to be worked out between the two parties but one thing is for certain: the UK's withdrawal from the EU will diminish its worldwide economic power. For starters, the banking capital of Europe will shift from London to elsewhere. Bank of America, Citibank, and JP Morgan have all announced moving their EU headquarters out of London. This is only the start. We will have to wait and see how the trade negotiations turn out to fully understand how Brexit will impact global trade.

The trade negotiations between the US and China are ongoing. This has been a war of sorts that has its roots going back to the campaign trail in 2016 but really picked up steam in July of 2018. With this war of words and sound bites, the stock markets around the world seem to jump or drop at any hint of deal or no deal. The administration recently announced a "Phase 1" agreement between the two countries, although the details are still scarce. Certainly, this is neither the end of the trade tension between the two countries nor the market volatility surrounding the trade deal.

The coronavirus is now a full-blown epidemic. The World Health Organization declared it a public health emergency and China has responded by quarantining cities and asking its population to stay home. This has caused the Chinese stock market to tumble as much as 8% in

a day. If this crisis drags on, it will have an economic impact on the Chinese economy and its trade partners.

## From the Tax Desk: The SECURE Act

At the end of December, Congress passed the Setting Every Community Up for Retirement Enhancement or SECURE Act. The law went into effect on January 1, 2020. The SECURE Act overhauled many of the retirement planning and tax rules. We are still in the early stages of analyzing how the law change will impact you, but below are a few notable changes:

- Required Minimum Distributions (RMD) age pushed out to 72 from 70.5,
- The elimination of the lifetime “stretch” provision for non-spouse beneficiaries for most retirement accounts, replaced by a 10-year distribution cap,
- Distribute up to \$5,000 from a retirement account for adoption or childbirth expenses and avoid the 10% penalty,
- Qualified Charitable Distributions (QCDs) remain in effect for 2020, with the age of the QCD still at 70.5, and
- 529 plan qualified expenses expanded to cover student loan payments and apprenticeships

Also, as part of the inflation adjustments, the IRS increased the contribution limits for retirement plans. Please review your retirement plan withholding and increase your deferrals to maximize your contributions. The limits for 2020 is as follows:

- IRA contribution limit increased to \$6,000 (\$7,000 for 50 and up)
- Retirement plans, i.e. 401(k), 403(b) and 457 plans limit increased to \$19,500 (\$26,000 for 50 and up)
- Simple IRA limit increased to \$13,500 (\$16,500 for 50 and up)
- Health Savings Account limits are \$3,550 individual and \$7,100 for families (an additional \$1,000 for 55 and up)
- The Flex Spending Account limit increased to \$2,750
- As we get additional clarity surrounding the SECURE Act, we will incorporate its impact into your financial plan. We anticipate the largest impact being the “stretch” IRA and Required Minimum Distributions.

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## Archvest and Grossman Financial Management

When we started Archvest, our vision was to help individuals and small business owners with their financial planning needs. To that end, as we have grown, we also have sought partnership opportunities with other Fee-Only investment advisory firms to share resources, our knowledgebase as well as best practices.

We are proud to announce that we have begun partnering with Lawrence Grossman of Grossman Financial Management in a number of areas. Larry is joining our firm as an investment advisory representative and will be heading up our financial planning design team. Over the past year, we have had the opportunity to work alongside Larry and his firm. Grossman Financial Management is a Fee-Only registered investment advisory firm based in Benicia, California. Larry is a Certified Financial Planner™ and an Accredited Investment Fiduciary®. Larry brings over 20 years of Fee-Only personal financial planning and investment management experience to Archvest. He holds a Master of Business Administration in Finance from the Wharton School, University of Pennsylvania, and a Master of Arts in economics from John Hopkins University. Larry's experience also includes years teaching in the professional financial planning programs at the University of California (Davis and Berkeley) and serving on the City of Benicia's Finance Committee.

As part of our partnership, we also will be joining Grossman Financial Management as investment advisory representatives. We look forward to working with Larry over the coming years. With his depth of knowledge and planning-focused approach, we see this as a great opportunity for our clients and firms.

## Charles Schwab & Co. and \$0 Trading Fees

As some of you have heard, Charles Schwab & Co. announced plans to acquire TD Ameritrade back in late November. The firms reached a tentative verbal agreement and the transaction is expected to close in late 2020 if there are no antitrust issues. Post-merger, Schwab/ TD will custody roughly 75% of the independent advisory business.

Schwab reduced trading fees to \$0 earlier in the year and effectively eliminated the discount brokerage industry. It's important to keep in mind that Schwab derives the bulk of its profits from its banking operations and not from trading fees. However, for discount brokerage firms like TD, it's the exact opposite. With zero-dollar trading fees, TD as an independent firm is not sustainable. As such, we expect to see further consolidation in the discount brokerage industry. We believe that consolidation is not beneficial to the consumer and would rather see more competition.

There is no such thing as a free lunch. Zero-dollar trading fees aren't necessarily beneficial to

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you as you will pay higher costs elsewhere to compensate for this loss in revenue. It is better when the pricing structure is transparent, so with the move to “free,” the pricing just got more opaque.

### The Season of Giving Thanks

Thank you so much for your trust in us. With your support, we were able to give back to local schools, donate to health causes, and support a grant that created a computer lab for the Ssaku Secondary School in Nsawo, Uganda. We would not have the ability to reinvest in the community without your investment in us, so thank you.

As always, we appreciate the confidence you have placed in us to work alongside you regarding your planning needs. Be sure to follow us on Facebook, LinkedIn and Twitter as well as our RSS feed to stay up to date on what we’re reading and thinking.

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*Archvest Team*