FINANCIAL MANAGEMENT

Helping Our Clients Pursue Their Goals Since 1982

First Quarter, 2020

PLANNING PERSPECTIVES

By Kristy A. Motta, CFP®

New Year's Resolutions

I have always said that I am not a fan of new year's resolutions, but I make them anyway. Two years ago, my resolution was to keep my office more tidy. Check. Last year, my resolution was to meditate regularly. Well... one for two isn't bad. This year, my resolution is to keep a gratitude journal. So far, so good, thank goodness. Rather than keeping annual resolutions, I do try and stick to a monthly/quarterly/annual checklist of things I need to track. I think this is a much more valuable exercise than only trying to maintain annual resolutions. Perhaps some of these will be of help to you.

One thing that I like to do as we turn the calendar, is go back and analyze how my projected expenses matched up against my actual expenses over the past year. This can also be done monthly and quarterly, but the credit card companies and banks will soon be sending your annual spending summary. This makes the process a lot easier. If you work with us, you should be in possession of a 2019 cash flow projection. Take a little time to go through your credit card and bank statements to see how on track you/we were. Then, if you notice some big discrepancies, let us know so that we can update your cash flow. This is also then a convenient time to invest the 2019 "left over" cash. Otherwise, you know what will happen... it will get spent during 2020.

Did you end up with credit card balances after the holidays? I sure hope not, but if you did, now is a great time to strategize how to pay them off this year. If you are being subjected to a high interest rate on the outstanding balance, look for a 12-month 0% interest opportunity, and then calculate the monthly payment needed to pay that thing off. This may hurt a little, but it will feel great once the balance is zero. If things have gotten out of hand, and there is no feasible way to pay off that card within the year, still opt for the 0% interest for the year, and knock down the balance as much as you can. You can always revisit this next year. The key is trying to really get the balance paid down as much as possible.

The other thing I focus on at the start of each year is how successfully I planned for my tax bill. Depending on how complex your investments are, you may not yet have all of the data you need to project your 2019 taxes. However, you should be able to get a reasonable ball park. This is important because you can still make an estimated tax payment by January 15th for 2019, and that may keep you from being subject to penalties or interest. You should have your year end paystub(s) by now. This is a great time to do some quick math, and see how much tax you think you might owe relative to the amount of your 2019 withholding. Don't forget to subtract the amount you contributed to your company's retirement plan. As you know, your retirement plan contributions reduce your taxable income

While we are on the topic of your retirement plan, is it time to adjust? Being a stickler for uniformity, I adjust the contributions from my paycheck so that I exactly meet the maximum contribution for the coming year. You do not need to be this anal, but it may be worth double checking the amount of your contributions to make sure you will max out for the year. For 2020, the maximum contribution is $19,500 with a $6,500 catch up contribution for the over 50 crowd.

Another of the entries on my annual checklist relates to my cash reserve account. I generally like to have six to twelve months of our household living expenses set aside in a money market or savings account. I do notice that with year end travel and Christmas gifts, I tend to be running a little low on my own requirement. Next step (don't call it a new year's resolution), is to set aside either part of my bonus or part of my regular income until I've met my savings objective. Again, this isn't an easy process, but I always feel better knowing that my oops/rainy day fund is fully funded.

While this is not a complete list, I would encourage you integrate a few of these into your own year end planning. Not only does it feel great to feel settled and accomplished kicking off a new year/decade, but it is a good exercise in general. We don't see our relationship with you as being solely based on us running reports and reviewing data. We hope that we give you some useful tools to being your best financial self. All the best in 2020.

WHAT'S HAPPENING

LPL WOMEN ADVISOR'S LEADERS FORUM

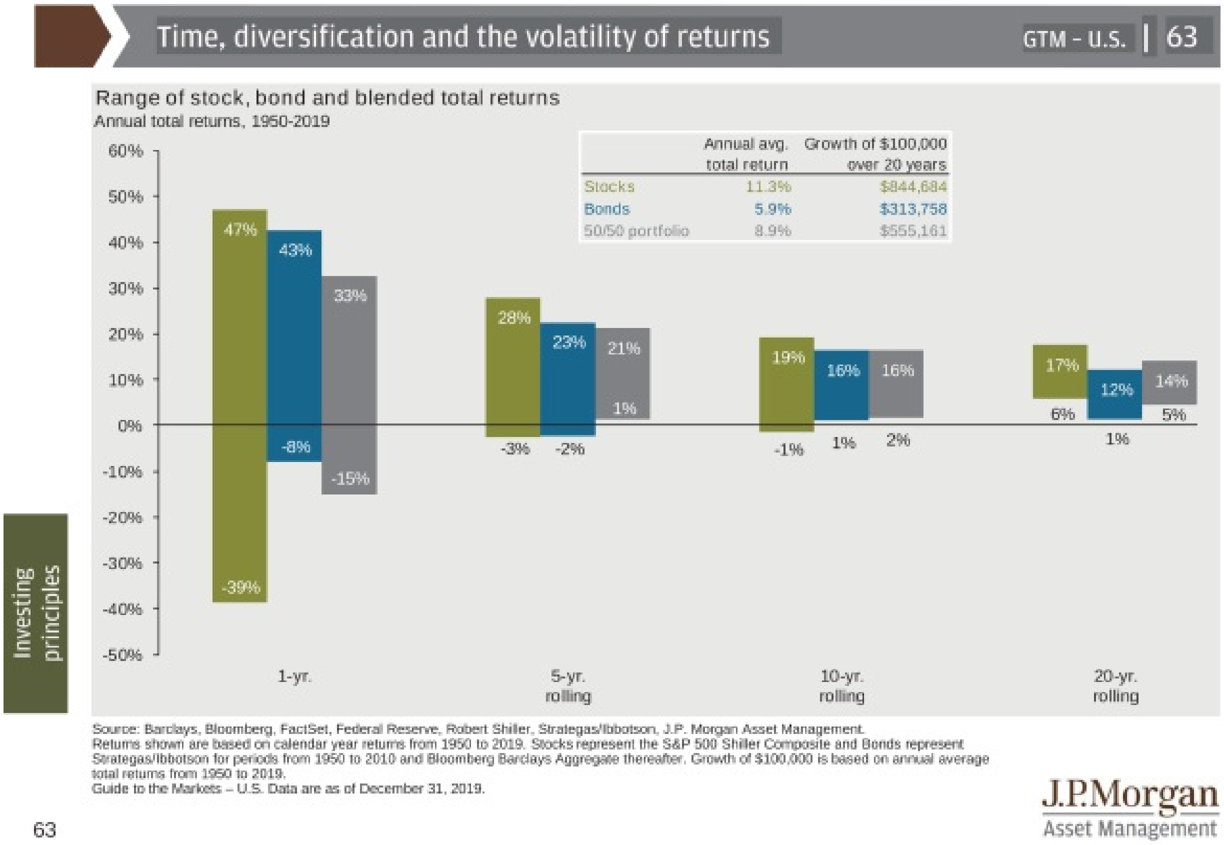
Kristy was invited to attend this conference in Miami. She also had the honor of serving as an ambassador to two first time attendees. This is a wonderful event with great speakers, workshops, and networking opportunities.

ANALYST'S ANGLE

By Chris M. Scott, CFA

To Invert or Not To Invert, That Is the Recession

2020 brings with it not only a new year, but the start of a new decade. And with it comes Wall St.'s favorite guessing game: "What is the stock market going to return in the new year?" I say this tongue in cheek because, if the future, by definition is unknown, why do so many people attempt to guess what is going to happen over the next year? The below chart from our friends over at JPMorgan shows the range of returns over various time periods. As you can see, over shorter periods of time, the range of returns is rather wide. With so many variables that can impact returns over a short period of time, to even be remotely close to the actual outcome is probably pure luck more than analytical rigor. That is not a game we choose to play nor do we think we have any edge in making short term market calls.



I recently spent some time reading 2020 Market Outlook reports from many well-known institutions. I was curious on their outlooks, thoughts and concerns as the new year begins, and to bounce their information around with my own views and thoughts. Most of these firms ‘predict’ 2020 returns to be in the 6-10% range. I love the history of the markets, and to help form my own analysis and opinions, I decided to take a deeper dive into annual returns for the S&P 500.

Since 1928, including dividends, through 2018, the S&P has logged annualized returns of 9.49% according to AswathDamodaran’s website. At the end of the day, Wall St ‘guessers’ have no better idea what the market will do next year than someone off the street. From 1928 through 2018, which is 91observations, there have been 32 years where the S&P logged an annual return of 20% or higher, or about 35% of the time! Care to guess how many times there was a return of 6-10% that Wall St always seems to predict? 5 times. Expand it out to a range of 5-12%? 6 times. Simply ‘predicting’ a return of 20% or greater every year (and being called crazy along the way) while doing zero research, you would have been right more than a third of the time vs Wall St being right 5% of the time. And that is exactly our point from earlier: predicting short term market movements is a fool’s game.

So, if Wall St struggles to ‘predict’ annual returns with any consistency, then, as investors, how do we expect to generate acceptable rates of return in our portfolios? I think we can answer this by asking the question, "What is really our edge as investors?". I think answering this question (and implementing it) alone gets us 90% (maybe more!) towards becoming successful investors.

John Huber of Sabre Capital Management recently put out a good presentation on this exact subject. For those interested in the entire presentation you can click here.

Mr. Huber points out that there are three areas and investor can have an 'edge' over other investors:
1. Information advantage – finding information that others don't have
2. Analytical Advantage – thinking about data differently than others; outside the box thinking
3. Time arbitrage – ability to invest with a minimum of 3-5 year time horizons (and longer)

In today's day and age with computers literally at our fingertips, the information advantage, one could argue, is all but gone. Well, the legal varieties anyway. The only advantage here is in terms of speed, and I can't compete or win a game measured inmilliseconds.

Thinking differently, while a little more subjective in my opinion, is really about doing your own homework (due diligence) and coming to your own conclusions about an investment. There's a high price to pay for listening to the consensus.

Putting time on our side, making it our 'edge' is really the best chance investors have to help achieve acceptable rates of return in their portfolios in my opinion. It's also the simplest one to implement, regardless of age and IQ! Unfortunately, too many investors (and managers) instead focus their time and efforts on what investments/asset classes will do well the next quarter or calendar year. Look no further than CNBC or Bloomberg. Every day, commentators and investing 'experts' try to explainwhy the markets (or a stock) moved or may move in a certain way, and where they think they are headed in the next few months. Or how a recent event (geopolitical, Federal Reserve meeting, elections, etc…) might impact the macroeconomic environment, and its impact on the markets.

I recently came across a blurb from a Wall St investment firm about the last decade:

Lessons Learned. *In the decade of the 2010s, we learned two important lessons: to ignore short-term market noise and to be prepared for volatility.*

It shouldn't take us a decade to learn those lessons.

"Let me be clear on one point: I can't predict the short-term movements of the stock market. I haven't the faintest idea as to whether stocks will be higher or lower a month — or a year — from now. What is likely, however, is that the market will move higher, perhaps substantially so, well before either sentiment or the economy turns up. So if you wait for the robins, spring will be over."

"Over the long term, the stock market news will be good. In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497."

The above quote was from Warren Buffett in his October 2008 op-ed in the New York Times. You could almost insert what he said in any year (or decade for that matter!).

According to data from Bloomberg and Robert Shiller, since 1880, there has only been two decades to produce negative returns: the 1930s and the 2000s. Going forward, investors should not expect to see double digits returns like we saw last decade, but if they happen, we will gladly accept it! But history also shows us that negative decades, while they have occurred (and will occur in the future) are rare birds indeed. It's akin to betting on the sun not rising. One day it will happen. And the investor who gets it right will have about 8 minutes to bask in its final glow!

In the meantime, we think it's a more worthwhile effort to focus on our 'edge', the time arbitrage aspect Mr. Huber pointed out, and let our invested capital compound over time. It's not easy, and, admittedly, we are all guilty of not focusing on the long-term at times. Investors who are able to minimize (and admit!) these mistakes, will truly have an 'edge' over the vast majority of investors.

Sources and citations:

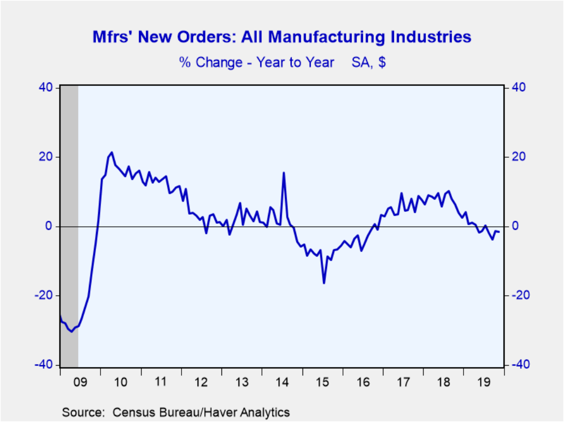
Saber Capital Management
http://sabercapitalmgt.com/wp-content/uploads/2013/03/Three-Paths-to-Finding-Value-Philadelphia-2016.pdf

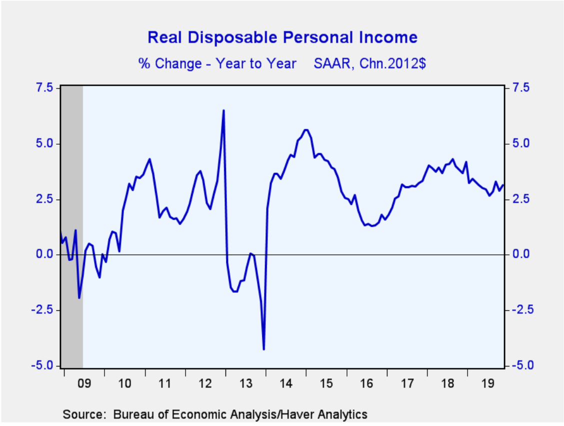
Aswath Damodaran/NYU website
http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html

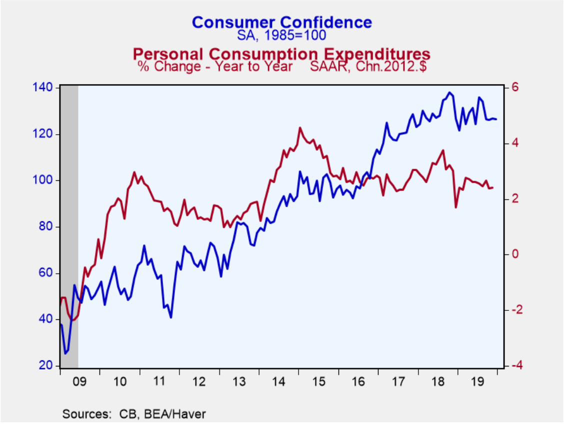
"The first step towards getting somewhere is to decide you're not going to stay where you are"

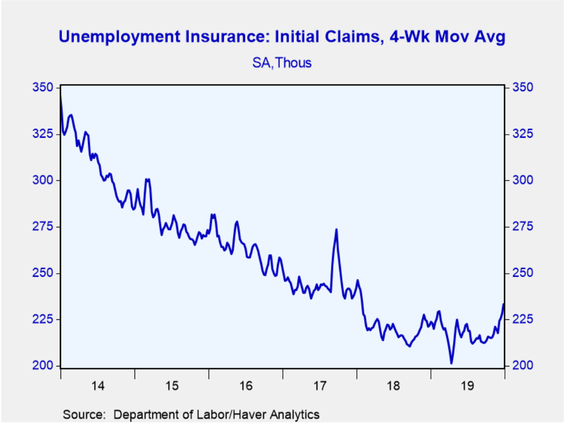
J.P. Morgan

KEY ECONOMIC CHARTS
As of December, 2019









Securities offered through LPL Financial, Member FINRA/SIPC
Past performance is no guarantee of future results. Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual. Investing involves risk including loss of principal. No strategy assures success or protects against loss.

Contact Us

Consolidated Financial
1915 NE Stucki Avenue, Suite 150, Beaverton, Oregon 97006
Tel: 503-844-9146 | Toll Free: (800) 826-5163

Visit Our Website