EDELMAN map managed asset program

Subject: Last year's review **— with a 2020 outlook**

Dear Client:

As we look ahead to the new year, we look fondly back to 2019 and the excellent results it provided to the investment world. Despite the good headlines from last year, 2020 begins with uncertainty – over the future performance of investments, the economy, increased tensions around the world and, of course, the upcoming elections.

So we'll begin this letter with a look back before we offer you our perspective on the year ahead.

As you likely know, the financial markets had a wonderful year in 2019. The S&P 500 rose 30 percent. But we mustn't get too excited about that striking figure, for one simple reason: The S&P 500's terrific gain in 2019 made everyone forget that it lost 6.6 percent the year before!

In other words, the S&P 500's two-year return (for 2018–2019) was 11.7 percent, only a little more than the 10 percent return that the index has produced, on average, since 1926, according to Ibbotson Associates.

This is why it's so important to look at long-term performance, and not the results of a single year. And it's equally important to examine the risks associated with getting those returns. Last year's timeline tells the story. Consider the three-month interval of April through June: The S&P 500 rose 4 percent, fell 6.4 percent, then rose 7 percent. Such volatility is unsuitable for your entire portfolio and helps explain the importance of diversification.

While everyone is happy (including us) that the financial markets ended the year with strong gains, we must remember that those gains weren't risk-free. And more importantly, we must remember that those gains are not guaranteed to be repeated in the future – meaning, you shouldn't lament that you didn't have more of your money in the stock market than you did, and you shouldn't assume you should shift your portfolio allocation now.

This observation is particularly timely because of the challenges we face as 2020 gets underway. While tensions with North Korea persist, we now face new turmoil in Iran and Iraq. The impeachment process continues, and the election is heating up as we approach the first primaries. All this adds up to uncertainty.

But one thing is certain: The U.S. economy is in excellent condition, and there is no evidence yet that the economy will weaken.

For example:

- Unemployment remains at historic lows, and job gains averaged 180,000 per month.
- Wage growth is strong, with average hourly earnings increasing by 3.1 percent.
- Inflation remains low at 1.5 percent.

- Housing prices are at record highs, with permits for new construction at a 12-year high, suggesting that the housing market will continue to be robust in 2020.
- Manufacturing and supply-chain indicators show that factory output should rise in 2020.
- Corporate stock buybacks remain high, demonstrating that CEOs continue to believe their companies' stock prices will rise.
- Corporate profits remain at all-time highs.

In addition, the SECURE Act (short for Setting Every Community Up for Retirement Enhancement Act), the most important retirement legislation since 2006, was signed into law in late December and became effective Jan. 1. The law makes it easier for tens of millions of working Americans to save for retirement – and as they begin to save, billions of dollars may flow into stocks and bonds. This increased demand can help to sustain and increase securities prices.

Despite the solid foundation for 2020, much uncertainty remains in the world. Natural disasters are occurring more frequently and more severely – as demonstrated not just by California's wildfires, but by devastating fires in Australia and New Zealand's deadly volcanic eruption. Political unrest is ongoing in Hong Kong, India, Venezuela and other nations, with uncertain outcomes. Our relationship with China varies day to day, with tariffs beginning to affect the U.S. economy.

For these reasons and more, we maintain a sober outlook for 2020. Although we are optimistic about and confident in the economy and financial markets for the foreseeable future, the tenuous nature of our world reminds us of the importance of remaining cautious and diligent.

And even though bad news could disrupt the financial markets in the short term, history tells us that such volatility has always been short-lived. This is why it's essential that you stay focused on your long-term goals. And the best way we've found to help you achieve them is to remain diversified.

So, as we enter 2020, we want you to make sure you've taken these eight steps:

1. Have sufficient cash reserves available, so you don't have to make withdrawals from your portfolio if volatility persists for long periods (like it did in 2008).
2. Obtain proper insurance coverage – life, disability, long-term care, umbrella liability and home/auto.
3. Consider refinancing your mortgage thanks to higher home values and lower interest rates.
4. Review your estate planning documents, including your will, trusts, medical directives and powers of attorney, and update these as needed.
5. Revise your tax-withholding at work so you won't have to write a big check to the IRS next April, and so you won't get a big refund, either.
6. Increase the contribution rate to your retirement plan at work (you can now contribute up to $19,500, and $26,000 if you are 50 or older).
7. Confirm that you are saving the proper amount to achieve your goals, that the money you're saving is going into the correct accounts (joint, retirement, trust, 529, Roth and so on) and that your mix of investments is correct for your situation (based on your objectives, time horizon, risk tolerance and more).

8. Establish one New Year’s resolution. Just one. Better to achieve one than fail at many.

We can help you complete this entire checklist, so please feel free to contact your advisor – especially if you have experienced any changes since you’ve last talked to them.

Thank you for the privilege of serving you and your family, and may the new year bring you health, wealth and happiness.

Regards!

Ric Edelman
Founder

P.S. Please be on guard this year. The stock market has risen sharply over the past 10 years – the longest bull run in history (meaning, the longest period without a 20 percent drop in stock prices). As a result, we’re seeing increased incidents of scam artists and slick, high-pressure salespeople using this fact to scare people into thinking that a recession is coming. Typical pitches promise “guaranteed returns,” “low taxes” and “safety from market crashes” as they promote everything from real estate deals to cryptocurrencies to annuities. Before you make any investment decision, please talk with your advisor – and please talk to your parents and adult children so they, too, are on the lookout.

P.P.S. Another note of caution: For the rest of the year, always enter the full date when signing any legal document. If you write 1/14/20, a dishonest person could easily add “18” to the end, making it appear to be 1/14/2018. Protect yourself by writing out the full year.