KENDALL CAPITAL

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# SECURING TOMORROW

**INSIDE**



## *Taxes Down, Tarifs Up, Market Flat*

*by Clark Kendall*

**THE QUARTER IN BRIEF**

Stocks rallied in January, corrected in February, and slumped in March as volatility and economic policy changes took some of the enthusiasm out of the market. The Trump administration announced tariffs on foreign steel, aluminum, and assorted products from China; China soon said that it would reciprocate with excise taxes of its own. The Federal Reserve raised the federal funds rate and welcomed a new chair. An orderly process was outlined for the Brexit. The Nasdaq Composite advanced for the first quarter, but the Dow 30 and S&P 500 did not; most major Asian and European benchmarks also retreated. Among commodities, bitcoin declined notably, while oil and gold improved. The placid market climate of 2017 vanished, giving way to trading sessions marked by significant ups and downs.

**DOMESTIC ECONOMIC HEALTH**

A protectionist trade strategy emerged from the nation's capital in March. The Trump administration declared that a 25% tariff would be instituted on imported steel and a 10% tariff on imported aluminum. Some countries were given short-term exemptions from these excise taxes: Argentina, Australia, Brazil, Canada, Mexico, South Korea, and members of the European Union. Additionally, up to $60 billion in Chinese imports would soon face excise taxes. China retaliated at the end of the quarter, imposing import charges of either 15% or 25% on 128 U.S. exports from cars to chemicals and beef to beans.

Elsewhere in Washington, Jerome Powell became Chair of the Federal Reserve. Weeks after Powell took over as Fed chair, the central bank made its first interest rate adjustment of the year, a 0.25% hike that set the target range for the federal funds rate at 1.50%-1.75%.

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The Fed's updated dot-plot forecast projected two more hikes this year: three in 2019 and two in 2020. All that would leave the benchmark interest rate around 3.4% a couple of years from now. The Trump administration hired former Reagan administration official and CNBC commentator Larry Kudlow as its new chief economic advisor, following the resignation of Gary Cohn.

Business growth was promising in the first quarter; correspondingly, so did hiring. January saw a net job gain of 239,000 hires by the Department of Labor's estimation, and February brought an even more impressive net gain of 313,000. The head-

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line jobless rate stayed at 4.1% in January and February, and the U-6 rate, counting the underemployed, remained at 8.2% in both those months.

Inflation became worrisome during the quarter, but fears that it was running away subsided. Industrial output was up 4.4% in the 12 months ending in February; durable goods orders rose 3.1% in February after a 3.5% January decline. Consumer incomes rose 0.4% in both January and February, paralleled by consecutive 0.2% gains in consumer spending. Another indicator from the Department of Commerce seemed to show consumers were saving rather than buying: overall retail sales fell 0.1% in February following a 0.1% January increase. The Bureau of Economic Analysis showed real consumer spending at 4.0% in the fourth quarter, a major factor in the 2.9% expansion of the economy.

## GLOBAL ECONOMIC HEALTH

Things looked better for China's economy as the quarter ended. The nation's official manufacturing PMI rose 1.2 points to 51.5, marking the twentieth straight month of expansion for China's factory sector. That reading was a point higher than the consensus in a Reuters survey. Economists polled by Reuters forecast China's growth rate to decline slightly to 6.6% in the quarter; the Chinese government projected GDP of 6.8%. Vietnam looked like the star of Asian economies in the quarter; its GDP reached 7.4%, and its exports were up 22% year-over-year.

The European Central Bank shifted policy slightly in the quarter. In its March policy statement, it removed references to the possibility of increasing its €30 billion-per-month bond purchase program if the global economic outlook worsened. It forecast euro area growth of 2.4% in 2018, 1.9% in 2019, and 1.7% in 2020. In January, the Markit manufacturing PMI for the Eurozone reached a 12-year peak of 58.8. Economists worried about Italy's sharp swing toward nationalism, as voters embraced two radical-right parties, the Five-Star Movement and the League, in its latest national election. The fear was that renewed populist sentiment might build and lead Italy to vote to abandon the euro and head back to the lira.

## WORLD MARKETS

Next to the Nasdaq Composite, Hong Kong's Hang Seng had the best first quarter of any notable stock benchmark: it rose 0.58% in the first three months of 2018.

The FTSE 100 took the hardest fall: the United Kingdom's marquee index plunged 8.21%. Germany's DAX tumbled 6.64%, and the Nikkei 225 had a quarter almost as poor, dropping 5.76%. Canada's TSX Composite lost 5.19% in the first quarter, and Australia's All Ordinaries retreated 4.84%. In China, the Shanghai Composite finished the quarter 4.18% lower. France's CAC 40 lost 3.43%, and India's BSE Sensex slumped 3.20%. MSCI's two closely watched benchmarks rode through the turbulence without much damage: the MSCI World index fell 1.80%, and

**Quarterly Update,** *continued on page 3*

| % CHANGE | Q1 CHG | 2017 | 1-YR CHG | 10-YR Annualized Return |
|---|---|---|---|---|
| DJIA | -2.49 | +25.08 | +16.67 | +9.73 |
| NASDAQ | +2.32 | +28.24 | +19.77 | +21.24 |
| S&P 500 | -1.22 | +19.42 | +11.85 | +10.08 |

Sources: wsj.com, bigcharts.com ├ 3/29/18
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
These returns do not include dividends.

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the MSCI Emerging Markets index, 0.93%.

### COMMODITIES MARKETS

Bitcoin was the worst-performing major commodity of the quarter. CME bitcoin futures lost 39.69% in three months, with the price settling at $7,903.94 on March's last market day. S&P 500 VIX futures led the commodities pack in the quarter, rising 41.26%.

"As a tough quarter for stocks becomes history and signs of a trade war have surfaced; what could the second quarter hold? Investors are optimistic that the March jobs report and the start of a new earnings season will restore some confidence in the markets."

Other notable commodity and currency gains and losses in the first quarter: cocoa, +35.02%; soybean meal, +19.96%; lumber, +18.82%, the Mexican peso, +10.17%; corn, +8.01%; WTI crude, +7.83%; soybeans, +7.37%; cotton, +3.17%; wheat, +2.44%; orange juice, +2.39%; the U.S. Dollar Index, -2.01%; silver, -5.12%; coffee, -8.09%; palladium, -9.64%; #11 sugar, -17.78%. Gold gained 0.81% for the quarter; unleaded gasoline, 1.33%. Platinum retreated 1.17%. On March 29, WTI crude settled at $64.94 per barrel on the NYMEX; gold and silver respectively closed at $1,327.30 and $16.27 on the COMEX.

### REAL ESTATE

In the first quarter, home loans certainly became more expensive. On March 29, Freddie Mac's Primary Mortgage Market Survey showed the interest rate on a conventional mortgage at 4.44%, up from 3.99% on December 28. Rates also climbed for 15-year FRMs and 5/1-year ARMs. Average interest on the 15-year fixed rose from 3.44% to 3.90% in the same time frame, and from 3.47% to 3.66% for the 5-year adjustable-rate home loan.

After falling for two straight months, existing home sales improved 3.0% in February – even as some serious headwinds threatened to hold sales back. The median house price had risen 5.9% in a year (to $241,700); mortgage interest rates were climbing, and there was a distinct shortage of affordable properties for buyers – but demand overruled all of that. Economists surveyed by Reuters had forecast that the National Association of Realtors would announce a February sales gain, but just one of 0.5%; NAR said that resales were up 1.1% year-over-year through February. New home buying, according to the Census Bureau, declined for a third consecutive month in February. The 0.6% dip occurred even with new home supply at a 9-year high, and the median price, down 0.9% from a peak reached in November. Through February, new home sales had strengthened 0.5% in 12 months.

### LOOKING BACK...LOOKING FORWARD

At the end of the quarter, the Nasdaq Composite had managed a decent year to date advance, unlike the Dow Jones Industrial Average, S&P 500, or Russell 2000. The PHLX Oil Service index brought up the rear among U.S. equity indices during the first quarter, retreating 9.27%. Volatility sent the CBOE VIX jumping: the "fear gauge" of the stock market climbed 80.89% for the quarter. On March 29, the Dow settled at 24,103.11; the S&P, at 2,640.87; the Nasdaq, at 7,063.44; the Russell, at 1,529.43; the VIX, at 19.97.

As a tough quarter for stocks becomes history and signs of a trade war have surfaced; what could the second quarter hold? Investors are optimistic that the March jobs report and the start of a new earnings season will restore some confidence in the markets. Housing and retail sales aside, fundamental economic indicators have looked good for the most part. The forecasted positive earnings for the upcoming season could take investors' minds off recent headwinds, but a continuation of the marked volatility we witnessed in the first quarter would not be a surprise. If earnings and recent corporate tax cuts can mitigate Wall Street's concerns about trade, and the Fed's plans for tightening; then, the tone might be set for a better month and quarter than some investors expect.

## Portfolio Management: The Goal Based Tranche Approach

**By Jason Tkach**

As we have seen recently, stocks sometimes retreat. That reality can be overlooked in a long bull market. Bear markets do appear, and a deep downturn could force individual investors to sell securities in retirement, to pay for short term living expenses.

> "When you use a tranche approach, you first turn to cash and/or liquid securities for retirement income rather than equities. Psychologically, you know that if a bear market arrives early in your retirement, your equity holdings will have time to recover."

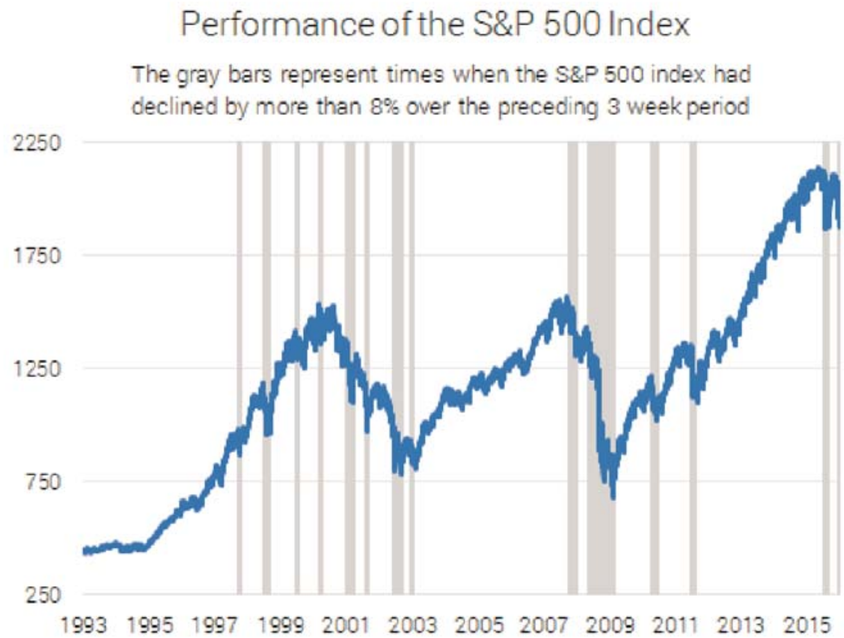
For many investors without professional financial managment, years of steady gains may have created an unbalanced portfolio of over-valued large cap stocks. Given how long we've had this upward bull market, it's wise to consider how your investments would withstand a bear market (when stock prices have a prolonged downward trend).

If you are wondering how to respond to this risk, consider the tranche approach to retirement income planning where you use short-term assets to meet short-term needs.

This investing strategy has simple and complex variations. It assigns a preserving strategy and growth strategy to different "tranches" with the goal of providing sufficient cash flow to retirees during different stages of their "second acts."

The simplest version involves just two tranches. One holds the equivalent of 1-5 years of expected expenses in a preserving strategy, and the other holds everything else in a combination of our growth strategies. When you need to meet your current living expenses, you utilize funds available from one of our preserving strategies and leave your remaining assets untouched in the respective growth strategies. Rebalancing your portfolio (that is, selling investments which have grown beyond their desired percentage) allows you to add to that preserving tranche. At Kendall Capital, we rebalance our clients' portfolios at least quarterly. If cash is not needed in the near term, we will add to the other investment classes while they are underperforming.

**Tranche Approach,** *continued on page 7*



## *Reasons Why You Should Have an Online Social Security Account*

**By Carol Petrov**

**Could your personal information soon be stolen?** The possibility cannot be dismissed. Sensitive financial and medical data pertaining to your life may not be as safe as you think, and thieves may turn to a vast resource to try and mine it – the Social Security Administration.

Consider three facts, which in combination seem especially troubling. 1) Social Security's databases contain sensitive personal information on hundreds of millions of Americans, both living and dead. 2) More than 34 million Americans interact with the SSA online. 3) Nearly 100% of Social Security benefits are disbursed electronically.

The more you reflect on all this, the more you realize that cybercrooks could take advantage of you by creating a bogus online Social Security account in your name, in order to steal your benefits and/or your personal data.

**Creating and maintaining a MySSA account may lessen the threat.** Last year, the Social Security Administration advised all current and future benefit recipients to set up and actively use an online profile. The agency's blog noted that this simple move could "take away the risk of someone else trying to create an online account in your name, even if they obtain your Social Security number."

Setting up a MySSA account is easy; the first step is to visit ssa.gov and click on "my Social Security." You will then be able to sign in or create an account. Please note, once you do this, you will no longer receive paper Social Security statements in the mail. You should also review your work history in case there were years you worked that did not receive credit.

**Are you working full time in your late sixties?** Then be vigilant. If you have reached Full Retirement Age (66, 67 or somewhere in between) without filing for retirement benefits, your Social Security profile may be especially tantalizing to a cyberthief. In this circumstance, you are eligible to receive up to six months of benefits retroactively, as a lump sum. That could mean a payday of more than $10,000 for a criminal who assumes your identity.

**Make no mistake, cybercrooks have exploited Social Security accounts.** While the SSA told Reuters this year that the incidence of fraud is "very rare," a 2016 audit by the Office of the Inspector General found that during 2013, around $20 million in Social Security payments were directed to the wrong parties. That swindling involved about 12,200 MySSA accounts – less than 2% of the total in 2013, but certainly enough to raise eyebrows.

"Establish an online Social Security account and keep checking it. By logging on regularly, you may do your part to help the SSA detect and ward off criminals who could use your identity to collect or file for benefits."

***The SSA tightened authentication standards in 2017.*** It added security codes to help certify the legitimacy of MySSA account users. It regularly analyzes MySSA transactions for fraud.

**What should you do if you suspect fraud?** If you are unable to create an online account or unable to log in and it appears your monthly benefit has not been sent to you, contact the SSA at 1-800-772-1213 or call your local SSA field office. There is also an option to "Block Electronic Access" on your MySSA account; that will prevent anyone, you included, from accessing your Social Security records via computer or phone. Electronic access is only restored when you get in touch with Social Security to confirm your identity.

**Establish an online Social Security account and keep checking it.** By logging on regularly, you may do your part to help the SSA detect and ward off criminals who could use your identity to collect or file for benefits.

## *The Right Beneficiary*

By Madolynn Stemmer

**Here's a simple question: who is the beneficiary of your financial accounts?** You may be able to answer such a question quickly and easily, or you may be saying, "You know … I'm not entirely sure." Whatever your answer, it is smart to periodically review your beneficiary designations.

**Your choices may need to change with the times.** When did you open your first IRA? Have you divorced since then? When did you buy your life insurance policy, and is it still necessary? While your beneficiary choices may seem obvious and rock-solid when you initially make them, time has a way of altering things. In a stretch of five or ten years, some major changes can occur in your life, and they may warrant changes in your beneficiary decisions.

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Has your employer recently changed 401(k) providers? We've seen several of our clients go through 401(k) plan changes, and their Beneficiary Election does not always automatically transfer with their assets. When Kendall Capital manages your 401(k), we will do our best to remind you to log in to your new plan provider's website to update your beneficiary.

**How your choices affect your loved ones.** The beneficiary of your IRA, annuity, 401(k) or life insurance policy may be your spouse, your child, a friend or charity. Naming a beneficiary helps exclude these assets from probate when you pass away which protects your assets from needless tax assessments and keeps your estate private. It is important to remember that you can name a beneficiary to a Non-IRA account by adding "Transfer on Death" instructions with a simple form. Additionally, life insurance proceeds will transfer automatically to beneficiaries and avoid probate.

Beneficiary designations commonly take priority over bequests made in a will or living trust. It is important to confirm with your attorney when reviewing your estate plan as to how to name your beneficiaries. This can often be overlooked when you wish for your assets to transfer "Per Stirpes" to your grandchildren, should your child predecease you.

**How your choices affect your estate.** Virtually any inheritance carries a tax consequence. (Of course, through careful estate planning, you can try to defer or even eliminate that consequence.)

If you are simply naming your spouse as your beneficiary, the tax consequences are less thorny. Assets you inherit from your spouse aren't subject to estate tax, as long as you are a U.S. citizen. If you are not a U.S. Citizen, you are encouraged to meet with an estate attorney to discuss the benefits of a Qualified Domestic Trust (QDOT).

When the beneficiary isn't your spouse, or you would like to share your estate with multiple people, the situation for your estate and your beneficiary's estates gets more complicated. You should consider your assets in the context of whether or not they are IRAs or other tax-deferred accounts. For example, when a spouse inherits an IRA they can roll it into their own IRA and delay taking Required Minimum Distributions (RMDs) until he/she is 70 ½. However, when a non-spouse inherits an IRA, they have to call it an "Inherited IRA" and are required to take RMDs beginning in the year following your death.

On one hand, this is a great way to stretch the taxability of the distributions over the lifetime of the beneficiary and much depends on the ages of your beneficiary and whether or not you died before reaching age 70 ½. On the other, your spouse will lose his/her ability to take-over their portion as their own IRA. This can be further complicated if you name your spouse and children as beneficiaries of the same IRA or mix individuals with charitable organizations.

If you have multiple people or charities to which you would like to leave something, consider dividing your assets by category and discussing the ramifications

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**Tranche Approach,** *continued from page 4*

Depending on your net worth and types of assets, a more complex version may be more suitable. For example, the first tranche would be called "cash reserve" to fund the first six months to two years of retirement living expenses. A second tranche, intended to generate somewhat greater income than a CD or Treasury bill, is planned for the rest of the first decade of retirement. At Kendall Capital, this tranche is a combination of our two preserving portfolios (Income & Growth and Inflation Protection) comprised of income producing fixed-income and equity investments.

The third tranche is comprised of one or a combination of our three growth portfolios (Fund of Mutual Funds, International 60/40 and GARP) which is designed for a 10 year time horizon. This tranche contains sizable equities positions and thus will be the most volatile. However, the goal is to benefit from compounded growth (especially in your retirement accounts and IRAs) to fund expenses in a decade and beyond.

When you use a tranche approach, you first turn to cash and/or liquid securities for retirement income rather than equities. Psychologically, you know that if a bear market arrives early in your retirement, your equity holdings will have time to recover. This knowledge is reassuring, and should dissuade you from making impulsive financial decisions; especially when the market is volatile or geo political news makes you feel uneasy.

At Kendall Capital, we understand it's important not only to plan for market corrections and remain disciplined in our investment approach, but also to withdraw money in a tax-efficient manner. We look at your unique situation and see how we can tailor our advice to best meet your needs and achieve your goals. Whether it's managing a joint account with tax-harvesting strategies or balancing the desire for growth within an IRA versus a Roth IRA. We are committed to educating and guiding you through your retirement years.

Our mission to Middle-Class Millionaires is to provide advice and services to meet their financial needs and provide support in navigating the ever-changing financial industry. We strengthen the commitment to our clients by providing quality advice, strategic investment management and an overall excellent experience. We will help as many Middle Class Millionaires as we can. We will broaden the depth and breadth of our organization to meet that demand while never reducing our standards.

-Kendall Capital's Mission Statement

**The Right Beneficiary,** *continued from page 6*

with us or an estate attorney. We can help you brainstorm and see if it makes sense, for example, to split a large IRA into two separate accounts and name your spouse as the beneficiary of one and your children the other. Eventually, all heirs will have to pay taxes on RMDs from an IRA or Retirement Plan which was funded with pre-tax dollars and while Roth IRAs can be inherited and spent tax- free, they are also subject to RMDs. Managing these RMDs is important and one should be very careful when naming a Trust as a beneficiary. The Trust must specify that it will allow for RMDs to be taken over time rather than as a lump sum if you wish to preserve the stretch-ability of the tax burden.

**Do your beneficiary designations reflect your current Estate Plans?** If your estate plan hasn't been reviewed in the past 5 years, please do! We're happy to refer you to several attorneys who we trust. In the meantime, start with the easy stuff. Log in and check your 401(k) plan and your Schwab or TD Ameritrade profile for beneficiary designations and jot down the names and amounts they would inherit if you died today. If you're not sure it makes sense, give us a call and we'll help you take the next steps.

## *Welcome Brian Mattox, CAIA, to Our Team*

We are proud to welcome experienced Senior Portfolio Manager, Brian Mattox, CAIA, to our team of dedicated professionals. In his role as Senior Portfolio Manager, Brian will focus on portfolio construction, rebalancing, selecting mutual fund managers and implementing our custom investment strategies for clients.

With over 20 years of experience in the financial services and investment industries, Brian began his career with Legg Mason. While at Legg Mason, he became the head of their Risk Management Group charged with assisting high net worth clients minimize risk within their investment portfolios. He also monitored large corporate relationships for the firm. After eight years at Legg Mason, he joined Fortigent as a director supporting independent (RIA) advisors meet the needs of their high net worth clients. His focus was on investment research, asset allocation and portfolio comparisons, and helping them select high quality mutual fund managers. After seven years working behind the scenes for advisors, Brian realized he missed working directly with clients. He seized an opportunity to join Andersen Tax as their lead Portfolio Manager and share his varied experiences to help high net worth individuals, families, foundations and endowments manage their investments.

Brian has a Bachelor of Science degree from the Business School at Frostburg University. He has earned the Certified Alternative Investment Analyst (CAIA) designation which enforces his in depth knowledge of investments which fall outside the realm of equities and fixed income such as hedge funds, real estate, and commodities. A DC area native, Brian now resides in Sykesville, Maryland with his wife and 3 children.

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