Norman J. Politziner's
Financial Planning

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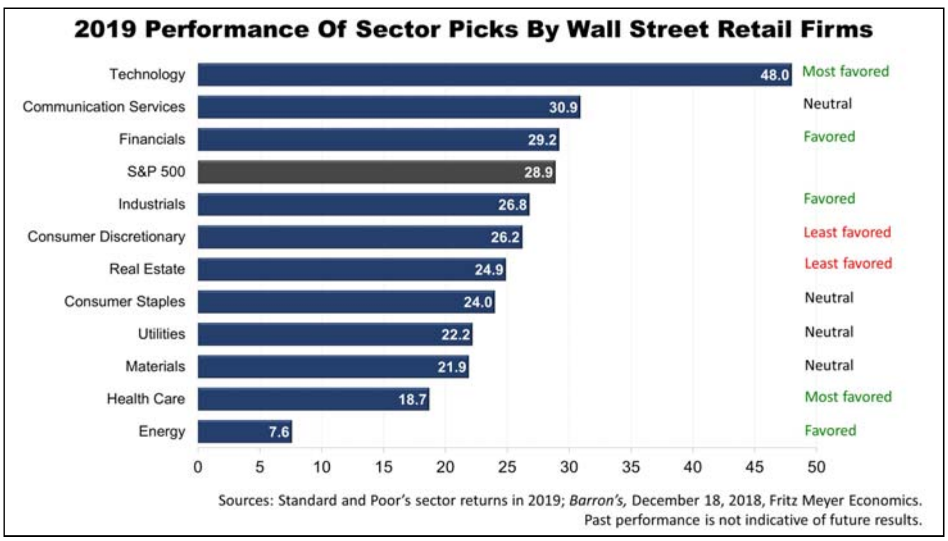
# Study: Wall Street's Tactical Methodology Isn't Working

Wall Street firms spend a great deal of time and money trying to forecast relative performance of stock sectors, styles, markets and asset classes, and on convincing investors to buy their advice. However, a comprehensive new study indicates Wall Street's tactical approach is unwise.

consensus predictions of strategists surveyed in *Barron's* December 18th, 2018 cover story. The sector most favored in December 2018 was Technology, and Wall Street correctly predicted tech would outperform in 2019. But apart from that big win, their picks were off, some disastrously.




In mid-December every year, *Barron's*, a financial magazine, publishes a cover story featuring 10 top Wall Street strategists' picks for the best sectors to buy and avoid in the year ahead. In December 2018, the 10 strategists' picks and pans published in *Barron's* are shown in the corresponding table. How did their predictions turn out?

The blue bars show the performance of the 11 S&P industry sectors and on the right indicate the

For instance, Health Care was as popular a pick as Technology, and it badly lagged the S&P 500. The two industry sectors that Wall Street recommended underweighting — Consumer Discretionary and Real Estate — ended the year up more than 26%, only slightly underperforming the S&P 500 index.

The predictions for 2019 were actually fairly good relative to Wall Street's long-term track record.

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## *Homeward Bound*

When Simon and Garfunkel wrote this song, I believe they were never anticipating a "corona quarantine." As I write this, I have been home with my wife Dotty for over a month. At first, it was like introducing a new cat into a house where the "established cat" was king... in our case, queen. We each had to establish boundaries and not step on each other's routines. I was thinking, "Is this what RETIREMENT looks like?" I am sure Dotty was thinking, "Is THIS what retirement looks like?"

We have been married for over 50 years. I have been working full-time since I returned from active duty in the army in 1967. Dotty also worked, as a teacher, social worker, playwright, and raiser of our two daughters. The patterns in our lives had been established and comfortable.

Now this? No basketball with grandson Ethan or playing with granddaughter Meghan. No visits to or by our kids. No theater. No in-person client meetings. Virtual harmonica club, family FaceTime, and a different way of working.

I had learned early on in our marriage that since Dotty was the smarter one, agreeing with her, especially when she was right, avoided most conflict that could get me into trouble.

I should try that more often.

As for retirement? The vote is unanimous. I am going back to my office as soon as I can.

Stay safe.

Norm

# Three Major Investing & Tax Planning Trends For 2020

No one can predict the future of markets, but spotting major new trends in personal financial planning is quite doable. Here are three important new trends to consider in managing your wealth in 2020.

**Delaying Distributions Until Age 72.** Postponing required minimum distributions (RMDs) 18 months is a new thing you want to consider. The SECURE Act, which was signed on December 20th, 2019, delays RMDs on IRAs and other federally qualified retirement accounts from age 70½ to 72. This small change can amount to big bucks because your IRA can compound without being taxed for an extra 18 months. Deferring taxes 18 months on a large IRA is a no brainer, if you can afford it. This step in your retirement income plan should be part of your overall strategy to outlive your money and create a legacy for your family.

**New Retirement Income Planning Choices.** The Setting Every Community Up for Retirement Enhancement Act of 2019 will enable more lifetime income annuities to secure retirement. This will be good generally, but there is one huge caveat: annuities can be expensive. Lifetime income backed by an insurance company's creditworthiness makes for a great sales pitch but are best advised on by a professional who places your best interest above all else, including their sales commissions.

**2% U.S. Growth & Low Rates.** The latest indication of what to expect on interest rates and economic growth came on December 17th, 2019, in an interview with Robert S. Kaplan, President and Chief Executive Officer, Federal Reserve Bank of Dallas. "We expect, again, 2%-plus growth, 2% growth for next year, unemployment rate around 3½%.," Mr. Kaplan told the Council on Foreign Relations. "We'll have some firming in inflation gradually toward 2%. And I think with that profile, I think the right—at 1 1/2-1 3/4 fed funds rate, I think the right thing for us to do is stay right where we are unless something changes materially on the upside or the downside." In addition, on December 11th, the Federal Reserve released its latest expectations for growth, inflation, and unemployment for 2020, which are highlighted in the chart.

Strategic tax and financial planning can boost an individual's retirement fund year after year but requires personal attention from a qualified professional. ●

**Economic Projections Of Federal Reserve Board**

**December 2019**

Percent

| Variable | Median[1] | | | | | Range[3] | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | Longer run | 2019 | 2020 | 2021 | 2022 | Longer run |
| Change in real GDP | 2.2 | 2.0 | 1.9 | 1.8 | 1.9 | 2.1–2.3 | 1.8–2.3 | 1.7–2.2 | 1.5–2.2 | 1.7–2.2 |
| September projection | 2.2 | 2.0 | 1.9 | 1.8 | 1.9 | 2.1–2.4 | 1.7–2.3 | 1.7–2.1 | 1.6–2.1 | 1.7–2.1 |
| Unemployment rate | 3.6 | 3.5 | 3.6 | 3.7 | 4.1 | 3.5–3.6 | 3.3–3.8 | 3.3–4.0 | 3.3–4.1 | 3.5–4.5 |
| September projection | 3.7 | 3.7 | 3.8 | 3.9 | 4.2 | 3.5–3.8 | 3.3–4.0 | 3.3–4.1 | 3.3–4.2 | 3.6–4.5 |
| PCE inflation | 1.5 | 1.9 | 2.0 | 2.0 | 2.0 | 1.4–1.7 | 1.7–2.1 | 1.8–2.3 | 1.8–2.2 | 2.0 |
| September projection | 1.5 | 1.9 | 2.0 | 2.0 | 2.0 | 1.4–1.7 | 1.7–2.1 | 1.8–2.3 | 1.8–2.2 | 2.0 |
| Core PCE inflation[4] | 1.6 | 1.9 | 2.0 | 2.0 | | 1.6–1.8 | 1.7–2.1 | 1.8–2.3 | 1.8–2.2 | |
| September projection | 1.8 | 1.9 | 2.0 | 2.0 | | 1.6–1.8 | 1.7–2.1 | 1.8–2.3 | 1.8–2.2 | |
| Memo: Projected appropriate policy path | | | | | | | | | | |
| Federal funds rate | 1.6 | 1.6 | 1.9 | 2.1 | 2.5 | 1.6 | 1.6–1.9 | 1.6–2.4 | 1.6–2.9 | 2.0–3.3 |
| September projection | 1.9 | 1.9 | 2.1 | 2.4 | 2.5 | 1.6–2.1 | 1.6–2.4 | 1.6–2.6 | 1.6–2.9 | 2.0–3.3 |

Source: Federal Reserve release December 11, 2019.

# Europe's Growth Problem And Your Portfolio

Aging populations are reshaping the world's largest economies; it's caused a global savings glut and is driving current U.S. financial economic conditions.

The demographic trends are behind the U.S. yield curve inversion and stock market volatility, but rarely make headlines in the financial press.

Here are the facts.

Germany's working age population is shrinking, as is all of Europe's, Japan's and China's, too.

In contrast, the U.S. working age population is expected to grow in the years ahead.

With the world's largest economies home to a growing population of retirees, demand for secure retirement income is driving prices for sovereign bonds higher.

The glut of savings from income-starved retirees is chasing the certainty of government guaranteed bonds, driving prices higher and yields down.

Exacerbating the bond market problem, Germany, the world's second largest supplier of sovereign bonds after the U.S., has been issuing *fewer* bonds to avoid burdening its growing population of retirees with paying down government debt.

Shrinking the supply adds to the upward pressure

Demand for secure retirement income is driving prices for sovereign bonds higher.

# Financial Lifeboat Drill For Mustering In Emergencies

Put yourself through this brief lifeboat drill, to prepare for things suddenly going wrong. Everything may be fine right now, in the eleventh year of the economic expansion. That's a sensible time to test your ability to muster the resources to respond to a range of emergency scenarios.


**1. Cash.** In case you lose your job, lose your health, or are befallen by life's myriad of mishaps, can you pay the bills for at least six months?

**2. Investment policy.** If the stock market were to fall by 40% over the next year or two, are you ready to ride out the storm — even if it takes a decade to come back? That's approximately what happened in the global financial crisis of 2008. Although this is not in the forecast, a written investment policy statement can eliminate any ambiguity about your investment risk preferences and plan to survive a terrible storm.

**3. Family risk.** Will your children be able to afford college, will your spouse be able to maintain your family's current lifestyle, and will your other loved ones have the financial wherewithal to carry on if you die? Insurance — specifically no-frills term insurance — is meant to manage the worst of all risks families face.

**4. Beneficiary designations.** Life changes families. Divorce, death, health, and family financial dynamics change over time, making it necessary to reexamine beneficiaries listed on your retirement and other accounts.

**5. Retirement income plan.** Retirement income planning is being transformed by U.S. demographic trends and changes to the U.S. Tax Code. A retirement income plan done before the 2018 tax law changes, or that is not in tune with the demographic trends affecting income investing, should be updated.

**6. Medical proxy.** If you are unable to make your own medical decisions, give the power to make medical decisions for you to someone you trust.

**7. Final details.** Specify preferences about your funeral, and leave a list of all your accounts, assets, loans, important legal documents and advisors delegated to carry out your final instructions. Include how you want certain personal possessions and family heirlooms treated. If you have social media accounts, you can let someone know what to do, or there are apps that write or make recordings of final thoughts for loved ones.

A financial lifeboat drill is a pithy concept, belying its seriousness, and it requires answering hard questions about your personal financial, tax, and family situation. It would be a privilege to help. ●

on sovereign debt prices and depresses yields.

In addition, rising likelihood of a recession in Germany, has forced its central bank to keep interest rates low to stimulate growth.

This confluence of the demographic and economic slowdown has boosted demand for U.S. Treasury bonds, driving prices on long-term bonds higher and yields lower.

With the yield on a three-month T-bill at 1.99% higher than the yield on a 10-year Treasury bond, at 1.5%, the yield curve is inverted — as it has been for much of 2019.

For the past several decades, yield curve inversions were rare and usually were followed within 18 months by a recession.

So, the current inversion has spread fears of a U.S. recession and caused increased volatility in the stock market in recent months.

Retirement income investors may want to consider how lower yields on fixed income allocations in their portfolios might affect them in the years ahead, because the change in supply and demand for sovereign debt is being driven by long term demographics.

Significantly, the yield curve inversion is caused by bond market supply and demand and not U.S. economic fundamentals.

The baby-boom spawned an "echo" baby-boom generation and that makes the growth path of the U.S. comparatively favorable to the other major world economies. ●

# Boomers Working Past Age 65 Are A Surprise Boost

Americans over age 65 are staying in the labor force more often than expected, brightening the U.S. economic forecast and the outlook for U.S. stocks.

Turns out, the offspring of The Greatest Generation, those who served in World War II, deserve some respect, too. Baby boomers are characterized by a strong work ethic, and they are electing to work longer than government experts expected. Boomers are a key reason the economy continues to grow even as the labor market has tightened.

Source: BLS actual data through November 2019; and Congressional Budget Office, January 2017 report *The Budget and Economic Outlook: 2017 to 2027.*

The Congressional Budget Office's long-term growth forecast did not count on so many boomers working past age 65. With new jobs continuing to be filled by a larger than expected number of workers in the 65-plus age group, U.S. GDP (gross domestic product) is benefitting from an unexpected boost, and it's no small thing.

Labor force growth is a key fundamental in math economics: total growth of the U.S. economy is the product of the labor force growth rate and productivity growth. The unexpected addition of workers in the labor force improves forecasts for economic growth in the years ahead.

Historically, the economy is unable to continue to create new jobs because we run out of people to fill them. Newly-created positions drive wages higher, increasing inflation, and then the Federal Reserve makes a monetary policy mistake, which results in two consecutive quarters of shrinkage in economic activity, aka, a recession. But these times are different.

This chart captures a snapshot of Americans choosing to continue working past age 65 more often than expected by forecasters. The Congressional Budget Office, a federal agency widely recognized as an authoritative non-partisan source, in January 2017 forecasted a decline in the labor force along the lines in red. The stair-step decline in the labor force that the CBO expected is not happening! The labor force participation rate has continued to grow since 2017, when it was expected to flatten and start a long decline, and no one is certain how long the trend will continue.

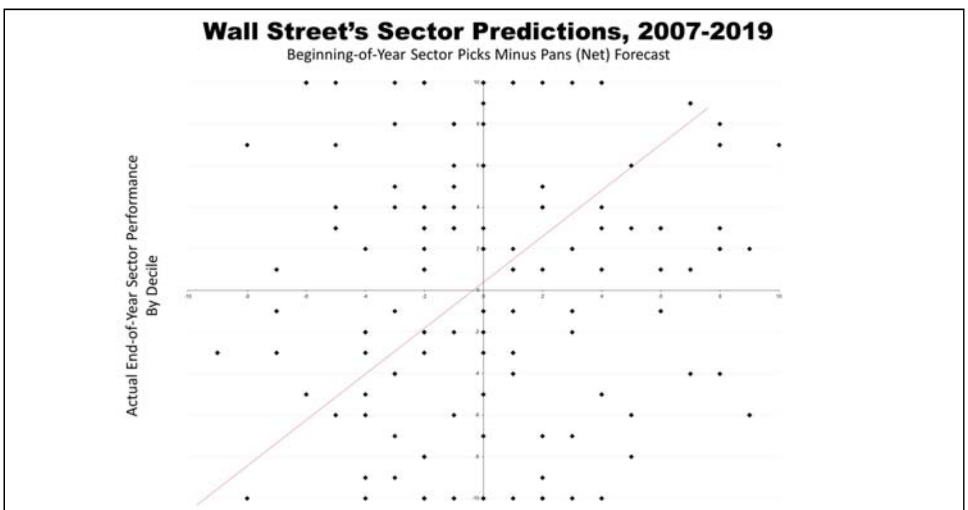
The labor force participation rate is reflecting the improved longevity of Americans, which the CBO economists did not figure on in their estimates of the future. If the trend since 2017 were to continue, the U.S. labor force could contribute a totally unexpected boost of growth in consumer spending in the years ahead, and consumers account for 70% of GDP. Higher consumer spending boosts earnings of corporate America and that's good for stocks. ●

## Financial Lifeboat Drill

*(Continued from page 1)*

This scattergraph shows the history of the Wall Street strategist sector performance based on their predictions published *Barron's* for the past 13 years. If Wall Street strategist predictions had been correct, the black dots would all fall along the red line, or cluster around it. The randomness of the picks show that Wall Street's predictions of the best sectors are not working.

This data was compiled by economist Fritz Meyer, an investment strategist at a Wall Street retail giant for over a decade before going independent in 2009, whose research we license. ●



Sources: Standard and Poor's for actual annual sector performance data; *Barron's* annual surveys.

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