



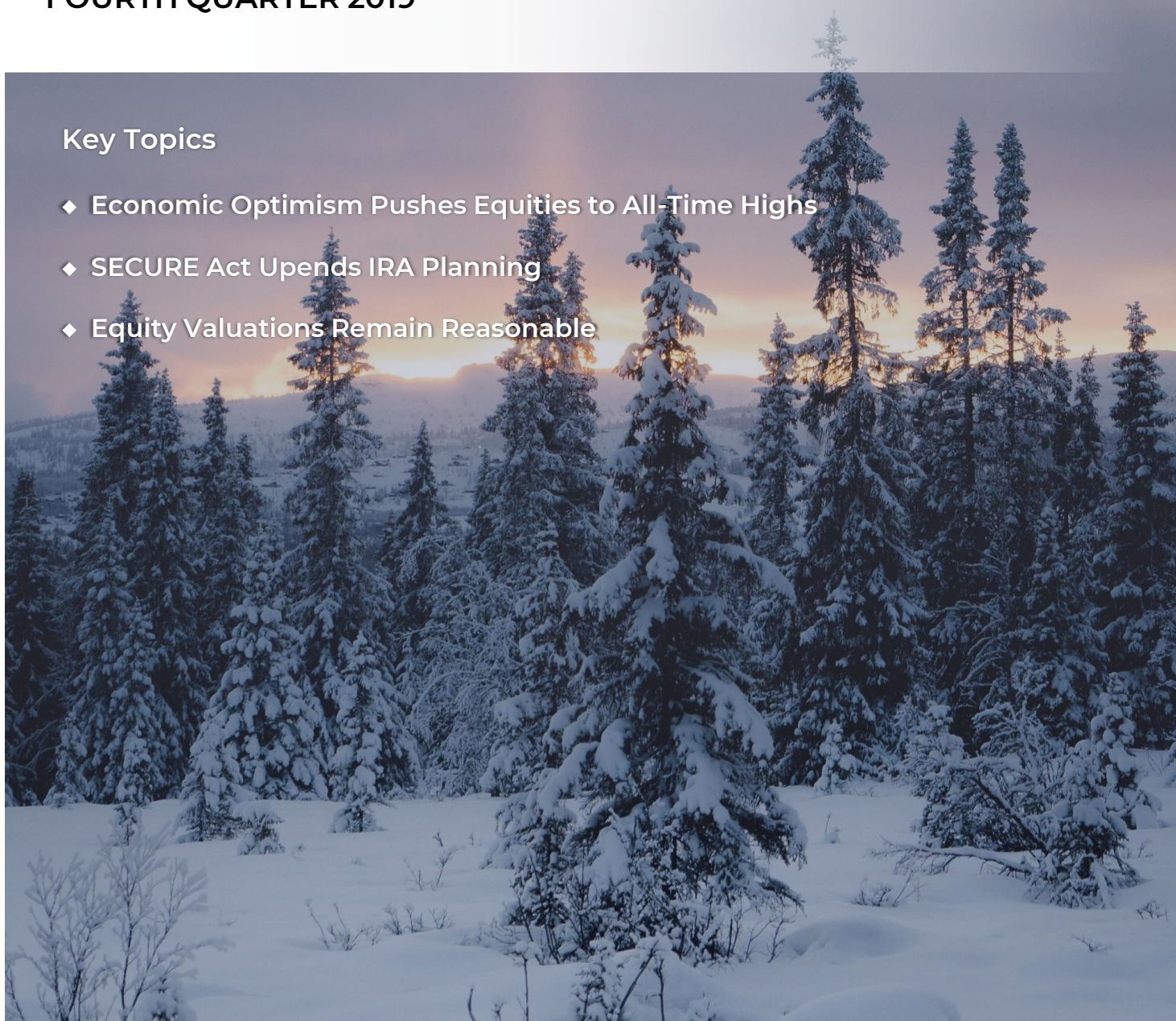
**BlackDiamond  
Financial**

# INVESTMENT INSIGHTS

**FOURTH QUARTER 2019**

## Key Topics

- ◆ Economic Optimism Pushes Equities to All-Time Highs
- ◆ SECURE Act Upends IRA Planning
- ◆ Equity Valuations Remain Reasonable





## Economic Optimism Pushes Equities to All-Time Highs

The U.S. reached a phase one trade deal with China in principle in December, which turned investor focus back to market fundamentals including stable economic data and low interest rates. Positive economic data including robust job growth, strong consumer spending, and a strengthening housing market stimulated valuations to equal those before last year's 4th quarter market decline. Surprisingly, investors have shrugged off political tensions, which may increase in 2020 with the U.S. Presidential election. Markets have also shown resiliency following developments in the Middle East that have elevated market risk and will likely be a focus in 2020.

The Federal Reserve contributed to investor confidence in October by announcing their third 0.25% rate cut of the year. By lowering rates, the Fed signaled its willingness to protect the economic expansion through monetary policy and reduced concerns that a rising Fed Funds rate may contribute to a recession. Taken in aggregate, positive fourth quarter developments reduced the likelihood of a 2020 recession significantly.

Rebounding economic conditions propelled the S&P 500 to all-time highs and a stellar quarterly increase of 9.1%. Investors who rode out the S&P 500's volatility and negative returns in 2018 were rewarded with a massive gain of 31.5% for 2019. Small company and international stocks also performed well with gains of 9.9% and 8.9% this quarter and 25.5% and 21.5% for the full year, respectively. Bonds were flat with a gain of just 0.2%, but notched a strong increase of 8.7% for the full year. Similar to bonds, real estate had a relatively flat quarter, but increased by 25.8% for the year.

## Comparative Returns

	Annualized Performance				
	Q4 2019	1 Year	3 Years	5 Years	10 Years
Large Cap U.S. Stocks <sup>(1)</sup>	9.1%	31.5%	15.3%	11.7%	13.6%
Small Cap U.S. Stocks <sup>(2)</sup>	9.9%	25.5%	8.6%	8.2%	11.8%
International Stocks <sup>(3)</sup>	8.9%	21.5%	9.9%	5.5%	5.0%
Real Estate <sup>(4)</sup>	(0.8%)	25.8%	8.1%	7.0%	11.9%
U.S. Bonds <sup>(5)</sup>	0.2%	8.7%	4.0%	3.0%	3.7%

(1) Measured by the S&P 500 index, which includes 500 of the largest U.S. companies in all sectors of the economy.

(2) Measured by the Russell 2000, which includes the 2000 smaller stocks of the Russell 3000 index.

(3) Measured by the MSCI ACWI ex-U.S. index, which includes large and mid-capitalization stocks from developed and emerging international markets.

(4) Measured by the MSCI U.S. REIT index, which includes domestic publicly traded real estate stocks.

(5) Measured by the Bloomberg Barclays Aggregate Bond Index, which includes a representation of the performance of the entire U.S. investment grade bond market.



## SECURE Act Upends IRA Planning

The December 20<sup>th</sup> passage of the SECURE Act substantially changed several IRA rules that will impact retirement planning strategies. The Act includes some benefits for future retirees by increasing the age that required minimum IRA distributions must start from 70.5 to 72 and eliminating the maximum age for IRA contributions, previously 70.5.

However, the Act also includes a negative provision that eliminates the “stretch” inherited IRA. Prior to the Act, inherited IRA owners could choose to withdraw funds based on their life expectancy and therefore delay paying income tax on distributions by withdrawing funds in the distant future. The new legislation eliminates this provision and requires the entire inherited IRA balance be withdrawn within ten years of the date of death. The new requirements apply to IRA owners who died after December 31, 2019, but fortunately excludes some heirs such as surviving spouses, the disabled, and minor children. The new rules change the calculations for many estate planning decisions and necessitate a review of one’s IRA beneficiary designations.

### Who’s eligible for the longer payout?

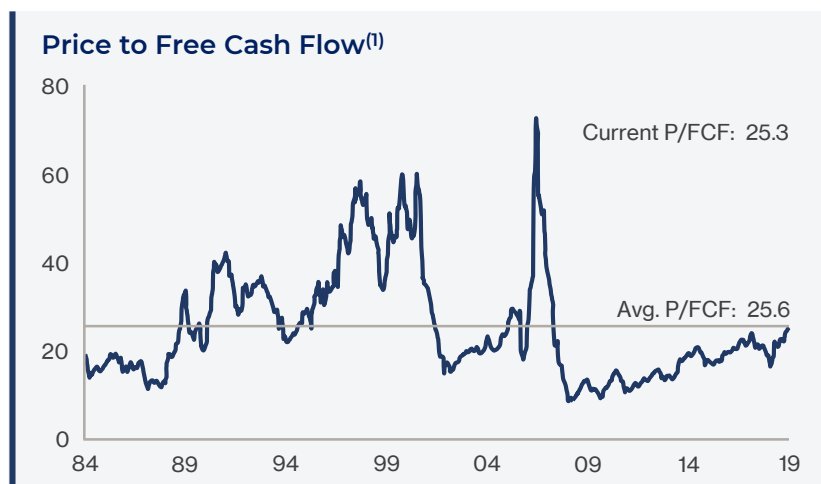
- Heirs of IRAs whose original owners died before 2020
- Surviving spouses
- Chronically ill or disabled heirs
- Heirs within 10 years of age of the original owner
- Minor children up to the age of majority

Source: SECURE Act

## Equity Valuations Remain Reasonable

Stocks produced excellent returns in 2019 despite essentially flat growth in earnings per share. When prices rise and earnings are stagnant, the ratio of stock prices to earnings (P/E), must rise. As P/E rises and investors have to pay more for each dollar of earnings, they view stocks as becoming more expensive. While the P/E for the S&P 500 rose substantially from 14x at the beginning of 2019 (after the 4Q 2018 sell-off) to 18x today, the S&P 500’s P/E is only slightly lower than where it stood at the beginning of 2018 and is within one standard deviation of its long-term average.

Another important metric to consider is the stock market’s ratio of price to free cash flow (P/FCF), which is a measurement of how much investors are willing to pay for each dollar of annual cash flow generated. Free cash flow differs from earnings because it excludes non-cash expenses such as depreciation, but includes spending on equipment and



working capital increases. When looking at stock valuations from a P/FCF perspective, the current multiple for the S&P 500 is right in line with the long-term average of 25x. Given the S&P 500’s reasonable valuation multiples and minimal yields on other assets such as bonds, investors should continue to favor stocks for long-term growth.



## ABOUT US

Black Diamond Financial, LLC is a fee-only registered investment advisor with a unique and holistic focus on preserving and enhancing wealth. Our mission is to help you achieve your financial goals through the use of low cost, tax efficient investment strategies. We create individualized investment portfolios for each client that are risk-appropriate, returns optimized, and tax-efficient. Furthermore, we believe cost is a critical factor in any successful investment strategy and therefore offer fully transparent pricing that is well-below industry standard. As an employee-owned firm focused on our fiduciary duty, we make our clients' interests our highest priority.

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