Money Matters

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Chris Cooper & Company

Professional Fiduciary Services

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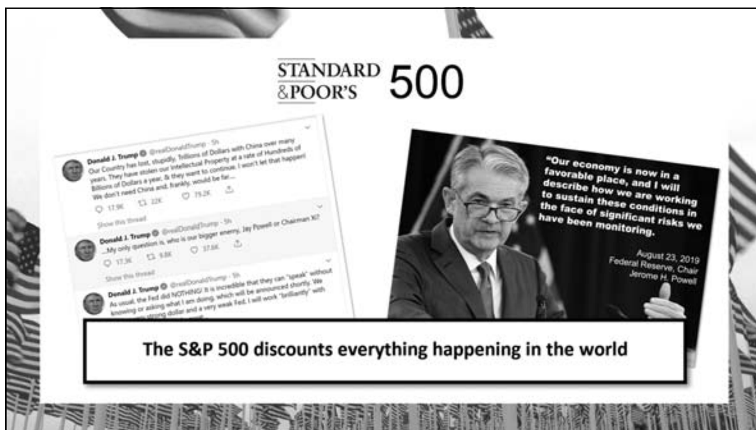
The Reality Gap Widens

Stocks have been more volatile because the difference between perception and reality of financial economic conditions is growing wider.

The S&P 500 — the key benchmark of America — is supposed to price shares after discounting everything — the Federal Reserve's policies, politics, inflation, and population trends.

When fundamental facts grow harder to discern, stocks grow more volatile, and that's what's been happening lately, especially with the widespread misperception of the yield curve inversion.



A yield curve inversion is when the yield on 10-year US Treasury Bonds is less than the yield on three-month T Bills.

Since the 1960s, when investors thought the 10-year long term outlook for bonds looked worse than the three-month outlook, inverting the yield, recessions usually followed 12 to 18 months later.

While the recent inversion of the yield curve is perceived as evidence a recession is on the way, the reality is very different.

The inversion of the yield curve currently is being driven by negative interest rates in Europe.

Negative yields in Europe and Japan — an unprecedented condition in the largest economies in the world — is a new thing and it's not widely understood.

Bond yields are set in a global market, and the U.S. and Germany supply globally-traded, highly-liquid, government-guaranteed securities owned by the world's largest financial institutions.

Because yields in Europe have been kept low by European central bankers to stimulate growth — and another round of quantitative easing is planned — it's

(Continued on page 4)

How Negative Yields In Europe Could Drive Stocks Higher

Negative rates abroad have driven down bond yields in the U.S. and could make the stock market multiple expand.

For the first time in modern history, you must pay the bank to hold your money in Europe! Why? Independent economist Fritz Meyer, citing World Bank data, says it's because Europe, Japan, and China face a shrinking working-age population in the decades ahead, while the U.S. labor force will expand. Hobbled by an older population relative to the U.S., European central banking authorities have kept lending rates low to foster investment. German Bunds are the No. 2 largest high-quality sovereign-backed bonds, but their low yields are making investors worldwide prefer U.S. Treasury yields. That's driven down U.S. bond prices and is the proximate cause of the often-misunderstood yield curve inversion of 2019.

No one can predict the future in the stock market and investors can be irrational, but it is prudent to expect lower yields to continue for many years. It may make stocks a more attractive investment relative to fixed income. While negative yields are unprecedented and caused an unnerving inversion of the yield curve, it ironically could drive stock prices higher.

Tax Law Changes Delayed But Not Dead

For years, year-end tax tips were delivered in this space every September, but this year's story is a real cliffhanger. The twist in the plot is the pending tax legislation. Ironically known as the SECURE Act, an acronym, the legislation is officially named, "Setting Every Community Up for Retirement Enhancement." The bill is likely to cause frantic last-minute tax maneuvering at the end of 2019.

In the spring of 2019, the SECURE Act passed a vote in the House of Representatives by a 417 to 3 margin and seemed like it would sail through enactment because it gained favor with both the House of Representatives and Senate as well as the President. But its enactment was stalled in the Senate all summer. However, it has some popular provisions, like delaying from age 70½ to 72, and expanding the use of annuities in 401(k)s and other federally-qualified retirement accounts. The Act still is expected to be signed into law, though it might not happen until this December.

Perhaps the biggest impact financially would be felt by distributions of income from IRAs to your children and other non-spouse beneficiaries. Non-spouse heirs, under current rules, may elect to draw minimum annual distributions from inherited IRAs over their actuarial life expectancy. Under the SECURE Act, they'd be required to withdraw everything in an inherited IRA in 10 years, accelerating tax payments.

This provision would prevent your heirs from taking minimum annual distributions based on their life expectancy on inherited IRAs — a popular strategy known as a "Stretch IRA." If the SECURE Act is indeed enacted and you have already set up a Stretch IRA for your children or other beneficiaries other than your spouse, be aware that you may need to consider some careful tax planning. IRA owners in this situation would be wise to be prepared for enactment, particularly if you live in a state with a high income-tax rate. You may want to consider utilizing a trust to move the IRA distributions to a state with no income tax, enabling your beneficiaries to avoid state income tax on those required distributions of income on inherited IRAs.

This aspect of retirement income planning is fraught with complexity. New York and California recently enacted laws adversely affecting non-spouse beneficiaries residing in states with an income tax. Please contact us with questions about this topic, as this strategy requires personal advice from a qualified tax professional. ●

How Can We Help You Die In Peace?

"Financial peace of mind" is an overused term in financial services marketing. However, the help we provide in settling financial details of your estate indeed may bring you genuine—and eternal—peace of mind.

After you pass away, a personal representative, usually your executor, is required to prepare a regular income tax return in the year of your death (Form 1040). If any passive unearned income was paid to you after your death, for example, from real estate investments or businesses in which you are not an active participant, your executor must also file an estate income tax return (Form 1041). If you die this year, for example, your 1041 is going to be due on April 15th of the next year.

The executor of your estate also must apply for an EIN (Employer Identification Number). Your executor will also be responsible for informing various government entities, like the Social Security Administration, that you died. In addition, your personal representative or executor must provide detailed contact information where correspondence related to IRS and state tax filings can be sent.

In the unlikely event you have a taxable estate and trust—only about 1% of estates are federally taxable—your executor and trustee may need to file a Form 56, Notice Concerning Fiduciary Relationships, which arranges for the IRS to send tax correspondence. In addition, the estate will be required to tell the IRS if taxes will be paid annually on a calendar- or fiscal-year basis.

Where your death can become more complicated for your heirs,

A Primer On Setting Up A Trust Fund

Trusts funds used to be the realm of the wealthy, providing a tool to pass money to heirs and charities. Nowadays, though, they are becoming a means for more people to engage in smart estate planning.

Trusts are legal arrangements allowing you to put assets into accounts that benefit another person or an organization, like a charity or college. They are often complicated and require a lawyer to put together — although there are online alternatives if you want to attempt to do it yourself.

The basic idea is to control who gets your assets, either when you're alive or afterward. A trust can help you lower estate taxes and avoid probate, the often-arduous legal procedure that proves a will is valid.

First Steps. As you set up a trust, you need to settle a few key questions:

1. What assets go into the trust: stocks, bonds, mutual funds, cash or property?

2. Who are the beneficiaries, meaning the people who receive the trust's benefits?

3. Who will be the trustee, the person who manages the assets and oversees the trust? The best thing is to appoint someone you know, who also is familiar with your financial situation and your beneficiaries. Plus, this person should be financially astute, and knowledgeable about taxes and investing.

4. How will be assets be invested and managed, and when will they be paid out? For instance, you might not want your children to receive the benefits until they're 35, as an established adult.

5. What is the duration of the trust, and under what conditions will it end operations? Is it paid out over time, or all at once?

6. Can its conditions be changed? Some trusts are irrevocable, meaning they are chiseled in stone. Others are revocable, meaning for instance you can shift the beneficiary to be your daughter instead of your younger brother.

7. What stipulations do you want? Maybe the money will go to your son for everything except paying off his creditors. Or your daughter, but not your son-in-law if she should die.

Beyond these considerations, it's wise to find a good, experienced estate attorney. The lawyer will craft a document called a declaration of trust, which will set up the trust fund and establish its conditions.

Timing. Next, the trust fund is registered with the IRS, allowing it to file its own tax returns and legally open financial accounts at banks or other institutions. Then, you transfer the assets into the trust, a process called retitling.

Do you want the trust to take effect now or at your death? And should it be revocable or irrevocable? The argument for revocable is that your beneficiary, perhaps a young person, may not grow into someone who deserves your generosity. The case for irrevocable is if you want to earmark the assets to support an activity whose necessity won't likely change, such as educating a child or supporting a charity.

The question of how long the trust will stay around, before its last assets are paid out, is a tricky one. Common law is structured against letting trusts persist indefinitely. But many states let you get around that by setting up a so-called dynasty trust, which permits the wealth to grow for a long time without being taxed.

Types of Trusts. Aside from whether the trust is revocable or not, its structure can be very complex and carry advantages and disadvantages. Some examples:

- Generation-skipping trust, aka a dynasty trust. This lets you transfer money tax-free to beneficiaries who are two generations younger than you. The goal is to avoid the assets being taxed twice: once when they go to your grown children, and again when that generation passes the assets along to their own kids — namely, your grandchildren.
- Bypass trust. Here, you bequeath an amount up to the estate tax exemption (in 2019, that's up to $11.4 million from a single giver or double that from a couple). The rest goes to your spouse tax-free. After your spouse dies, you can stipulate that what's left goes to the kids.
- Qualified terminal interest property (QTIP) trust. This is best at singling out which particular relatives to direct your largesse to. A QTIP is often helpful in families where there are divorces, remarriages and stepchildren. Your surviving spouse can receive income from it, and once that spouse dies, the remaining principal goes to specific younger relatives.

For you, the donor, creating a trust fund gives you peace of mind that the legacy you want to leave is well-constructed and wisely directed. This article is not intended as personal advice, but rather as an educational resource about planning techniques available when working with a financial professional. ●

trustee, and executor is when they learn, after you're gone, that you underpaid the IRS. An executor or trustee would be obliged to confess to the IRS that you ran afoul of the rules and may owe them some money. Take comfort in knowing that the IRS often is forgiving about confessed mistakes.

As financial fiduciaries, we are available to counsel you on matters of trust and, yes, help you achieve financial peace of mind. ●

The Explosion In Retail Sales You Never Hear About

What's happening in the world often goes unnoticed, even when it occurs in plain sight right before our eyes.

That's happening to investors right now with the explosion in the growth of retail sales that's been under way for years, but has gone unnoticed.

The boom is being muted by inflation, but is loud and clear with that adjustment.

Since consumers account for 70% of U.S. growth, retail sales is a key driver of the economy, so this is a big miss, a big misperception for investors to make.

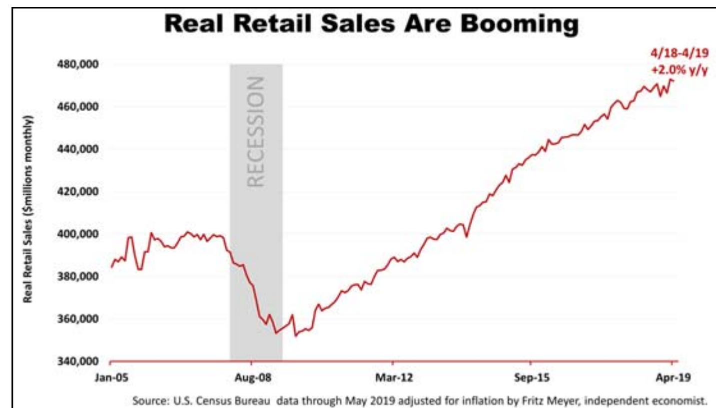
These were the top stories on Google the day after the latest retail sales figures were released by the U.S. Census Bureau.

The headlines show retail sales were up, but there's no hint of the boom.

Yet, when adjusted for inflation, retail sales have grown explosively for years!

Here's the proof: This line charts monthly retail sales data over the last 15 years, adjusted for inflation, and this boom — over the past 10 years — is clear.

Look at where real retail sales after inflation is today versus the peak of the last economic expansion, in 2007.



Real retail sales were flat throughout the peak years of the last economic expansion; in contrast, this 10-year expansion has been marked by this steep growth-trajectory in real retail sales, and it does not get mentioned in the news!

Here's why.

Every month, the media are given a press release that does not adjust for inflation.

Excluding volatile gasoline prices, which can distort the monthly figures, retail sales in the 12-month period through May, rose 3% without adjusting for inflation, which is not bad but certainly not a boom!

The media doesn't know that reporting the Census Bureau retail sales data without adjusting for inflation masks the retail explosion that's been under way for a decade.

Biases and gaps in knowledge often clouds how the world is viewed.

That's where a financial professional's perspective adds value. ●

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(Continued from page 1)

depressed yields on long-term U.S. Government bonds.

That's a market problem, a "technical" issue of supply and demand of government bonds, and investors will want to consider the effect of lower returns on their bond allocations in the years ahead.

However, this inversion is not a fundamental economic problem!

It won't cause a recession, though it has led to a widespread misperception about current economic conditions.

The underlying cause of negative yields in Europe is its aging labor force which is an important fundamental trend affecting Japan and China as well as Europe.

A nation's economic growth potential is a simple equation, driven by the size of its labor force — the working age population — and its rate of productivity.

The working age population trends in China, Japan, and Europe, the world's largest economies after the U.S., are unfavorable relative to the United States.

GDP growth potential in Europe is limited by its aging working population.

To increase growth in Europe, China and Japan in the face of this demographic headwind would require higher productivity but productivity gains are hard to plan.

The U.S. has favorable long-term demographic prospects compared to the world's major economies.

The baby boom peaked in from 1957 to 1961, and peak retirement for the boomers will occur from 2022 to 2026; then, growth in the working age U.S. population picks up.

Although you often hear that the next generation of Americans won't have a standard of living comparable to ours, the U.S. demographic trend compared to the other developed economies — Europe, Japan and increasingly China — is very favorable.

The U.S. has a large echo boom population coming — and they don't.

This fundamental driver of economic growth is one reason why the U.S. will likely continue to be a magnet attracting foreign investment capital in the years ahead.

As markets continue to piece together the puzzle driving financial economic reality, expect stock market volatility. ●

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