Charles A. Going, CPA, LLC
M. Scott Sebastien, CPA, LLC
Donald E. Fisher, CPA, LLC
Craig C. LeBouef, CPA, LLC, MBA/PFS, CFP®
Darren J. Cart, CPA/PFS, LLC
C. Matthew Ledoux, CPA, LLC

Beth T. Spears, CPA
Robert A. Roy, Jr., CPA
Mark P. Harris, CPA

2811 South Union Street
Opelousas, LA 70570
Ph (337) 942 - 3041
Fax (337)942 - 7112

1018 Harding St. Suite 102
Lafayette, LA 70503
Ph (337) 981 – 5555
Fax (337) 984 –7187

www.goingcpa.com

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Dear Client,

This letter contains news and views that I feel will be of interest to you. As always, please call us at your convenience to set up your quarterly investment meeting.

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Going, Sebastien, Fisher & Le Bouef, LLP News:

- GSF&L constantly researches asset classes to include in clients' portfolios to add diversification (reduce risk). We offer Insurance-Linked Securities, Alternative Lending, Market Insurance, private Real Estate Investment Trusts, and other Alternative Strategy Securities, so feel free to contact us for more details.
- Please make note of the above letterhead indicating our other office located in Lafayette. We have been operating in Lafayette since early 2017. Should you wish to meet or come visit us there please do not hesitate to do so.

Investment Views:

- ***Lowry and Morningstar Data - Through December 31, 2018 - Year-to-date returns -*** Dow Jones Industrial Average -5.63% (unweighted), NASDAQ Composite (dollars) -3.83% (unweighted) , Russell 2000 -12.18% (unweighted), S&P 500 -6.24% (unweighted), NYSE Composite -11.20%, MSCI EAFE (dollars) -16.14%, and the Barclays U.S. Aggregate Bond Index 0.01%.
- **American Institute for Economic Research Rates of Interest (As of December 31, 2018 – Average National Rates) –**

Federal Funds Rate	2.20%	10-Year TIPS	1.01%
3-Month Treasury Bill	2.34%	10-Year Muni Bonds – Nat'l	2.40%
10-Year Treasury Note	2.82%	15-Year Mortgage Fixed	4.07%

30-Year Treasury Bond	3.07%	30-Year Mortgage Fixed	4.62%

- ***Northern Trust – Weekly Economic Commentary – January 4, 2019 –*** In the old days (and by old, we mean twenty years ago), markets would start to quiet down in early December. Traders and portfolio managers would curtail their activity weeks before year-end, allowing them to get their minds out of the markets and into holiday parties. Year 2018, however, closed with a bang. Markets were unsteady throughout December, amid signs of economic moderation, ongoing trade frictions, concern over monetary policy, and renewed dysfunction in Washington. In the year ahead, the U.S. economy will likely grow at a steady but slower rate than the high levels seen in 2018, as the short-term stimulus provided by tax reform tapers.

- ***Bureau of Economic Analysis – December 21, 2018 -*** Real Gross Domestic Product (GDP) – the value of goods and services produced by the nation's economy less the value of the goods and services used up in production increased at an annual rate of 3.4% in the third quarter of 2018, according to the "third" estimate released by the Bureau. In the second quarter, real GDP increased 4.2%. Personal income increased 0.2% in November after increasing 0.5% in October.

- ***Bureau of Labor Statistics – January 11, 2019 –*** On a seasonally adjusted basis, the Consumer Price Index for All Urban Consumers decreased 0.1% in December, the same increase as in November. For the last 12 months the all items index rose 1.9% before seasonal adjustment. The unemployment rate rose in December by 0.2% to 3.9%, and the number of unemployed persons increased by 276,000 to 6.3 million. A year earlier, the jobless rate was 4.1%. In December, job gains occurred in health care, food services and drinking places, manufacturing, and retail trade.

***C*raig's Thoughts and Views:**

The Stock Market Downturn in Perspective

The U.S stock market fell by 6.8 percent in October (S&P 500 including reinvestment of dividends). As of December 24, the market remained volatile and continued to lose ground. From a closing basis from its September 20 high to the December 24 low, the S&P 500 was down about 19.8%. But the bottom line is, losses in the 4th quarter closely approximates the 19.4% drop in 2014, 16% loss in 2011, and 14% decline in 2015, all of which were regarded as corrections in an ongoing bull market. When taken on an annual basis, losses in 2018 fell into the category of a modest market correction. Over the past three weeks, since the December 24, 2018 market low, the S&P 500 has enjoyed a strong rebound, gaining about 10.4% through January 11, 2019.

Investor memories can be short, and the recent downturn might seem particularly disturbing simply because it has been so long since we've experienced anything like it. Consider that the last calendar-month decline of more than 5 percent occurred all the way back in August 2015. Since early 2016 through this past September, we have experienced 32 months of quite smooth sailing; there were only four months with negative returns, and they were all quickly erased by gains.

Could it be the nearly three prior years of steady gains, rather than the past two to three months of decline, that are maybe abnormal. If you look back to 1980, losses have occurred in one out of three months on average. In 39 of those months, or roughly once per year on average, the market fell by more than 5 percent.

There is no reason to conclude that the decline over the past several weeks is an omen to a continued decline. It is important for investors to avoid the behavioral tendency to assume that recent trends will continue into the future. For example, since 1980, in those 38 monthly occurrences where the market fell by at least 5 percent, the following 12 months provided an average total return of 12.8 percent. In addition, in the 416 months since 1980 where the market did not fall by at least 5 percent, the following year provided a nearly identical average return of 12.9 percent, according to the American Institute of Economic Research.

The most recent surge in market volatility has been attributed to a backdrop of several worries; the most prominent one being the threat of a global trade war. Economists have voiced their concern regarding the economic consequences of a breakdown in trade relations between countries and the market has reacted. But going forward, these concerns are already "priced in" to the market. The fact is, stock markets are forward-looking and respond to breaking developments, so the latest trend and old news generally provide little information with regard to future valuations.

Interest Rates and Equity Prices

Interest rates have been rising since 2015. With that backdrop, U.S. stocks have suffered during the fourth quarter 2018 and commentators have offered a range of explanations – potential trade wars, the Chinese economy, the midterm elections, to name a few. While these explanations have probably played some part on the market decline, rising interest rates may also have had an effect.

Interest rates have risen from the dead these past few years. The annual interest on a 3-month Treasury Bill – guaranteed by the Federal government and almost as good as cash – was 2.45 percent as of January 14, 2019. In October 2015, this same investment paid an eye-opening 0.00 percent. Even though the rate has been gradually increasing since then, a question to ask is are investors now starting to take notice. In-flows into money market funds, CDs, and similar investments are up.

If interest rates had an effect on lowering stock prices how did this occur? The first reason maybe that rising interest rates affect the cost of borrowing for companies. Companies often finance their growth by borrowing money. They only do this as long as their estimated return on that investment exceeds the cost of borrowing. When the "hurdle" is low (zero is very low) firms have an incentive to load up on debt. Therefore, the extremely low interest rate can ignite earnings growth. On the other end, as interest rates increase, the hurdle becomes higher and growth opportunities become riskier, so fewer projects get the green light. Investors take notice and stock prices stop rising or begin to fall.

The second reason that rising interest rates might have a negative impact on stock prices has to do with how investors value a company. The value of a company is the sum of its future cash flows. Cash flows in the distant future are worth less to investors than cash flows in the present. As interest rates rise, the discount rate (the interest rate of borrowing for companies) increases. If a company's economic future has not changed, its unknown cash flows are worth less today and this reduces a company's value in investors' minds. About three years ago, if you had invested $10,000 in stocks, it was difficult to accept a 0.00 percent interest rate on safe government bonds or in a bank savings account. Many investors decided it was worth the risk to invest in the stock market.

Studies done by Harvard Business School, Oliver Wyman, (a global management consulting firm) and Stone Ridge Asset Management, LLC looked at the influence of interest rates in driving returns. From 1964-1982, when interest rates were

rising, investors in a traditional 60/40 portfolio earned a -1.4% per year relative to the risk-free rate. The 60/40 portfolio consisted of 60% S&P 500 and 40% 10-year Treasuries. The risk-free rate used was the 3-month Treasury yield. In contrast, when interest rates peaked in 1982, that same 60/40 portfolio returned a +6.3% excess return through 2017. Now that we appear to be in the "valley" of interest rate yields, we could be peering up at a more difficult climb back uphill.

Now that 3-month Treasuries are yielding 2.45%, which is still low from a historical view, it is more attractive compared to the near-zero percent we saw years ago. Maybe, many investors are deciding to take some profits they have made in the stock market and shifted to a safer return with less risk.

It is impossible to tell whether this trend will continue. The Fed has made comments about sticking to its plan to raise short-term interest rates; however, plans are always subject to change. A lesson for investors is that interest rate changes do play a part in economic theory and stock market volatility.

IRA Review

If you are the owner of an IRA, there are some issues that you should be aware of. We assist our clients in avoiding these pitfalls, so they can maximize the use of their IRAs. Each IRA owner has different circumstances and these issues may impact individuals differently. Below are some areas that IRA owners should give attention to.

- First and foremost, it is important to review the current beneficiary of your IRA on at least an annual basis, especially if you have recently experienced an event such as a birth, death, marriage, or divorce. You should also make sure to list a contingent beneficiary or beneficiaries in the event the primary beneficiary predeceases the IRA owner or disclaims some or all of the IRA assets.

- Exercise caution before listing the estate or a trust as the beneficiary of your IRA. These can cause unnecessary required accelerated distribution methods that may be undesirable.

- When taking traditional IRA distributions, attempt to do so in a manner that does not cause IRS penalties. For example, traditional IRA distributions prior to the owner reaching age 59 ½ are subject to a 10% IRS "early withdrawal" penalty. Exceptions to this penalty as defined under the Internal Revenue Code Section 72(t) may be for the following distributions:

    - that are part of a series of substantially equal periodic payments

    - made due to total and permanent disability

    - made due to death

    - to the extent the individual's unreimbursed medical expenses exceed 10% (7.5% if taxpayer or spouse age 65 or older) of adjusted gross income

    - to pay for health insurance premiums for certain unemployed individuals

    - for qualified higher education expenses of taxpayer, spouse, child, or grandchild

    - for first-time home purchases ($10,000 limit lifetime and no home ownership in prior 2 years)

  - due to an IRS levy on an IRA
  - to reservists or National Guardsmen while serving on active duty for at least 180 days

- Effective for years 2010 and beyond, there is no adjusted gross income (AGI) limit for Roth conversions and married filing separate (MFS) taxpayers can make Roth conversions.
- A 2014 Tax Court decision concluded that the one-IRA-rollover-per-year limitation applies globally to all traditional IRAs owned by an individual rather than on an account-by-account basis. However, there are no limitations on direct rollovers (trustee-to-trustee).
- Beginning in 2015, IRA owners and beneficiaries age 70 ½ or older can make qualified charitable distributions (QCDs) by causing IRA funds to be paid directly from the IRA to the charity.
- Traditional IRA owners must begin taking required minimum withdrawals from their IRAs after the owner reaches age 70 ½. A penalty of 50% may be assessed on any shortfall below the required minimum distribution amount.
- Beginning after 2017, a recharacterization cannot be used to unwind a Roth IRA conversion.
- Eligible individuals can make a qualified HSA funding distribution from their traditional or Roth IRA to a health savings account (HSA). The distribution must be made directly by the trustee of the IRA to the trustee of the HSA. Only one lifetime qualified HSA funding distribution is allowed.

GSF&L, LLP Registered Investment Advisors:

We can never know what the future holds, but we can make informed decisions regarding investment strategies and portfolio allocations. We (GSF&L) make changes based on our perception of opportunities in the capital markets. We assimilate fundamental, technical, and economic information to make informed decisions. Of course it is important to have long-term focus on portfolio management, but with a critical analysis of intermediate strategies.

Managing risks and opportunities are important to portfolios and reaching one's financial needs and goals. Having a complimentary understanding of investment horizon and attitude toward risk are equally important. Markets and economies do not always behave as we expect them to. That is the problem with investing! There is no luck to professional investing. You can no more have a successful, disciplined approach by luck or accident than you can win a chess tournament by luck or accident.

If you know of someone who may fit our financial and investment planning philosophy, please mention our name. We are a small organization and intend to remain so. A solid organization makes it possible for us to spend our time managing our business rather than each other. Because everyone has so much to do, much gets done. We will forego any growth opportunity that may detract from our ability to serve our clients as they have become accustomed to. We never expect to be among the biggest, but our attention to be among the best is not subject to compromise.

Regards,

Craig

Craig C. Le Bouef, MBA, CPA/PFS, CFP®

NASDAQ composite measures the performance of all issues listed in the NASDAQ Stock Market, except for rights, warrants, units, and convertible debentures. The S&P 500 is made up of 500 common stocks representing major U.S. industry sectors. The Dow Jones Industrial Average contains 30 stocks that trade on the New York Stock Exchange (NYSE) which reflect the performance of 30 large American companies. The Morgan Stanley Capital International Europe, Australia, and Far East Index (MSCI EAFE) is a market-weighted aggregate of 20 individual country indexes that collectively represent many of the major markets of the world, excluding Canada and the U.S. The Lehman Brothers U.S. Aggregate Bond Index tracks performance of debt instruments issued by corporations and the U.S. Government and its agencies. The returns for this index are total returns, which includes reinvestment of dividends. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 8% of the total market capitalization of the Russell 3000 index.

All indices are unmanaged. It is not possible to invest in an index.

Past performance is no guarantee of future results. Diversification does not assure against market loss.