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January 15, 2020

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.

Contents:

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

- GSF&L constantly researches asset classes that may be suitable for clients' portfolios to add diversification (reduce risk). We offer Insurance-Linked Securities, Alternative Lending, Market Insurance, and other Alternative Strategy Securities, Realty, and Real Assets, so feel free to contact us for more details. The strategies have a low to moderate correlation to a Global Equities/Global Fixed Income mix; therefore, adding diversification to portfolios.
- 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 please do not hesitate to do so.

Investment Views:

- ***Morningstar Data - Through December 31, 2019 - Year-to-date returns –*** Dow Jones Industrial Average 25.81%, NASDAQ Composite 35.74%, Russell 2000 25.50%, S&P 500 31.84%, Barclays US Aggregate Bond 8.87%, and Morgan Stanley Capital International Europe, Australasia, Far East 22.36%.

- **American Institute for Economic Research Rates of Interest (As of September 25, 2019 – Average National Rates) –**

Federal Funds Rate	1.90%	10-Year TIPS	0.11%
3-Month Treasury Bill	1.90%	10-Year Muni Bonds – Nat'l	1.40%
10-Year Treasury Note	1.72%	15-Year Mortgage Fixed	3.21%
30-Year Treasury Bond	2.16%	30-Year Mortgage Fixed	3.73%

- ***Northern Trust – Weekly Economic Commentary – October 4, 2019 –*** In fiscal year 2019 (which ended on September 30), the U.S. government ran a deficit of over 1 trillion dollars. It is unusual to see the imbalance grow during a period of steady growth. The main reason for this outcome is that the tax reform of 2017 has not lived up to the expectations of its sponsors. That bill provided most individuals with a small tax reduction, which helped to sustain consumer spending throughout 2018. The tailwind to consumption seems to have worn off. The same is true for business investment. We did witness a surge in business investment in the first half of 2018, but results since have been disappointing.
- ***Bureau of Economic Analysis – September 26, 2019 -*** 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 2.0% in the second quarter of 2019, according to the "third" estimate released by the Bureau. In the first quarter 2019, real GDP increased 3.1%. Personal income increased 0.4% in August, which compares to 0.1% in July. Wages and salaries, the largest component of personal income, increased 0.6% in August after increasing 0.2% in July.
- ***Bureau of Labor Statistics – September 12, 2019 –*** On a seasonally adjusted basis, the Consumer Price Index for All Urban Consumers increased 0.1% in August after rising 0.3% in July. Over the past 12 months the all items index rose 1.7% before seasonal adjustment. The unemployment rate declined to 3.5% in September, and the number of unemployed nonfarm persons increased by 136,000. Notable job gains occurred in professional and business services, health care, and government.

Craig's Thoughts and Views:

Downside Risk and Patience

Investment advisors and investors generally equate stocks with risk. When discussing increasing the risk of one's portfolio, the talk is usually about increasing the allocation to stocks. The traditional definition of risk is the variability of returns. If standard deviation is the measure of variability, we have all most probably witnessed that stock returns are more volatile than bond returns. Research going back to 1926 shows the annualized standard deviation on stocks has been 19 percent, while the standard deviation on bonds is only 4 percent.

Some analysts like to think of risk as the likelihood of loss. The accompanying table shows the worst returns for the S&P 500 over different lengths of time. Over one year the risk of investing in the stock market is very high, with worst one year return of negative 68 percent. Over three years, the risk of investing in the stock market can be high, with a worst annualized return of negative 42 percent, which took place during the Great Depression.

However over longer time periods we see that the worst returns and the likelihood of having a negative outcome diminish. The accompanying table shows that there has never been a negative 20-year period in the stock market. The absolute worst 20-year period, which started at the outset of the Great Depression, still provided a 45 percent total return (1.9 percent annualized).

Trailing Period	Worst Return (Annualized)	Percent of Periods with Negative Returns
1-Year	-67.6%	25%
3-Year	-42.4%	16%
5-Year	-17.4%	12%
10-Year	-4.9%	5%
20-Year	1.9%	0%

(From American Investment Services)

Investors in their 50s or 60s may be starting to think about retirement, but they should think about the potential of an investment horizon of several decades. Generally, money should be invested throughout retirement.

Historical data is only that, and it provides no guarantee of the future. While history can be used to understand the present and future, a diversified portfolio provides the closest thing to a "free lunch" in investing.

China and Your Portfolio

For the past eighteen plus months, it has been hard to avoid news about China. Headlines appear almost every day regarding trade and tariffs, military expansion, political repression, the environment, even professional sports. When considering investments in China, investors should put these developments in perspective.

China is still a developing nation, but its economy (based on gross domestic product or GDP) is second only to the U.S. It seems to have a large and growing manufacturing sector in particular. State ownership, heavy regulation, and mercantilist trade policies still do dominate the economy. However, over the past forty years Chinese leaders have embraced features of the free market and growth has increased significantly. A booming middle class has emerged and Chinese consumers have benefitted.

Many Chinese businesses have access to global capital markets, so U.S. investors can take a stake in Chinese equities. Chinese stocks trade on local exchanges, in Hong Kong, and even in the U.S. through American Depositary Receipts (ADRs). With a population of over one billion and vast natural resources China has enormous potential to grow, which should be to the benefit of the world. But this investment risk is probably high. There are issues that remain unresolved as compared to other world large economies, such as personal freedoms and property rights. With all the media hype, some investors may see enormous potential in China. We would suggest that investors give China the attention it deserves. While the Chinese economy accounts for over 16 percent of global economic output, Chinese firms account for less than three percent of the world's total equity market value (Source: IMF World Economic Outlook, Oct. 2019). Those who choose to include China in a globally diversified portfolio may be best served by purchasing emerging market funds in accordance with their circumstances and preferences.

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
    - qualified birth or adoption for individuals under age 18 up to $5,000
- 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.
- Beginning in 2020, traditional IRA owners must begin taking required minimum withdrawals from their IRAs at age 72 (instead of 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.
- Beginning in 2020, individuals of any age will be allowed to contribute to a traditional IRA. The individual still must have earned income to contribute.

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.