QUARTERLY NEWSLETTER • **3RD QUARTER 2019**

PRAETORIAN GUARD℠

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By ***Joseph P. Clark***

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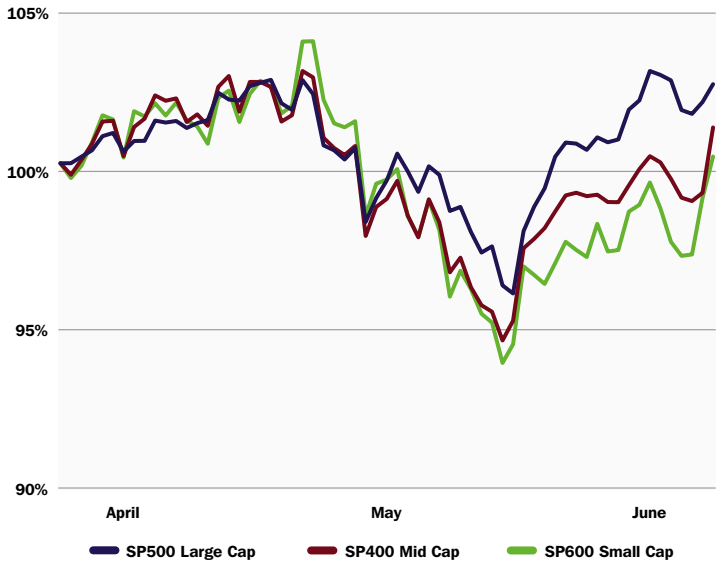
SECOND QUARTER 2019 MARKET COMMENTARY

By **Marc A. Wehmeyer**

U.S. equity markets finished the 1st half of 2019 near all-time highs with the S&P 500 recording its best June performance since 1955 and the Dow Jones Industrial Average marking its best June since 1938. All U.S. market segments finished the 2nd quarter and 1st half in positive territory with U.S. large cap stocks leading the way, returning 2.60% for the quarter. U.S. stocks outperformed international stocks by a wide margin in the 1st half with returns of 17.35%, 16.96%, and 12.82% for large, mid, and small-cap U.S. stocks compared to 11.77% and 9.21% for international developed and emerging markets. Fixed income markets also experienced a strong first half as bond prices rallied in response to falling interest rates, with the yield on the 10-year U.S. treasury note falling below 2% during June for the first time since 2016.

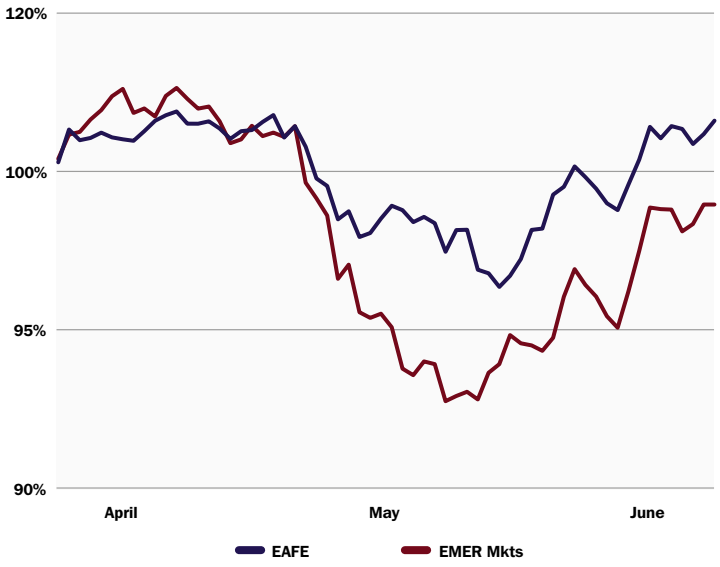
Global equity markets acted like the first three parts of a roller coaster ride during the months of April, May and June. Like the climb out of the station to the top of the track, equity markets in April continued rising from their December 2018 lows. The S&P 500 made a new closing high on April 30th before plateauing and experiencing a complete reversal of trend. On May 1st the Federal Reserve decided to maintain the target for the federal funds rate in a range between 2.25% and 2.5%. *(continued on pg. 4)*

U.S. Equity Market Performance Q2 2019



Source: Yahoo! Finance

International Equity Market Performance Q2 2019



Source: Yahoo! Finance

PRESIDENT'S COMMENTARY

The 75th Anniversary of D-Day and recently reading *Nothing Like It In The World* about the building of the transcontinental railroad leads me to ask: where are those people in our country today who dream big, figure it out and do what they set out to accomplish?

I believe the answer is: almost everywhere. However, we are distracted from seeing them due to the divisive political discourse today. The fault is on both sides of the aisle and equally distributed over time.

What to do with that thought on this 4th of July? Recognize and thank those individuals who make America amazing. They are hiding in plain sight while going about their day making ours a little bit better.

As we head into political crazy season, I'll commit to try to understand differing positions, assume it is honestly held and civilly discuss the issue at hand.

INVESTOR SENTIMENT: TRADE & OIL

By **Richard A. Hewitt**

The second quarter was more volatile than anticipated, but markets recovered from a downturn in May. Most importantly, both U.S. and International markets are solidly positive year-to-date.

What impacted investor sentiment the most? Although we think both topics were overblown, the market points towards two geopolitical events/trends:

The first is the "failure" of U.S.-China trade talks in late April and early May. It appeared a deal was close to possible and then the U.S. believed China was renegotiating parts that were already agreed upon. Naturally the Chinese saw it differently and President Trump announced a new round of tariffs. As this news was digested over the month of May both Presidents Trump and Xi agreed to meet face to face at the G20 Summit. Talks will continue and both countries' leaders need to reach a face-savings compromise.

The second is the Islamic Republic of Iran's attack on two oil tankers in the Persian Gulf and the shooting down of a U.S. drone. Our assessment is that while dangerous, it is an indicator of the economic pain the sanctions are causing. In years past this would have caused oil prices to spike, markets to react in a sharply negative way and a shudder to pass through the world economy. While approximately 18% of world oil passes through the Straits of Hormuz daily, a much smaller portion of U.S. imports do today than in the last 20 years. Other nations (China and India specifically) have a much larger interest in events not getting out of control as a higher percentage of their imports flow through this region. This is another reason for the U.S. and China to get a trade deal done and work constructively on Iran's recalcitrant behavior.

HOW THE **SECURE** ACT COULD AFFECT YOUR RETIREMENT

By **Joseph P. Clark**

The Setting Every Community Up for Retirement Enhancement Act (SECURE Act) passed in the House with a 417-3 vote in May 2019, and it is expected to make it through the Senate in its current form or some compromise with the Senate's bill called the Retirement Enhancement Securities Act (RESA). Here are some of the major highlights of the SECURE Act:

1. Removal of "Stretch" Inherited IRA Provisions. The SECURE Act would make significant changes to inherited retirement plans like 401(k)s, traditional IRAs, and Roth IRAs. Currently beneficiaries of these accounts can spread the distributions over their own life expectancy. This bill would require most beneficiaries to distribute the account over a 10-year period. This change would accelerate the depletion of inherited accounts for many large IRAs and retirement plans. Typically, smaller inherited accounts are liquidated relatively quickly by beneficiaries already. However, the end of the so-called "Stretch" IRA or retirement account makes a lot of sense from a public policy perspective, especially after the Supreme Court has ruled that inherited accounts are not "retirement" accounts. As such, it does not make policy sense to allow for an extended tax benefit through the beneficiary's retirement. The RESA bill has a significantly different provision, but it too would end the stretch provision for larger inherited IRAs over $450,000. The potential tax burdens of faster distributions of inherited retirement accounts will increase the need for proper estate planning and potentially more strategic Roth conversions during the life of the account owner, which will add additional complexity to retirement and estate planning.

2. Removal of Age Limitation on IRA Contributions. For years there has been a rule that essentially discouraged retirement savings in IRAs for people who continued to work later in life. After age 70½, you could no longer contribute to an IRA, but you could still contribute to a Roth IRA (assuming you were below specified income thresholds). The SECURE Act would remove this savings limitation by repealing the age limitation for traditional IRA contributions.

3. Increase Required Minimum Distribution Ages. Currently most individuals take required minimum distributions (RMDs) from their retirement accounts once they reach age 70½. The SECURE Act would delay this requirement to age 72. The RESA Act currently in front of the Senate seeks to push RMD requirements even further back to age 75. One criticism of this provision is that it mostly benefits those with significant tax-deferred savings by allowing them to grow this money even longer. Other suggested changes to RMD rules have included allowing smaller accounts, such as those under $100,000, to be exempt from withdrawal requirements for the owner of the account.

4. Increase Small Employer Access to Retirement Plans. This bill would make some significant changes to a variety of retirement rules. It would expand the ability to run multi-employer plans and make the process easier overall. It would essentially allow small employers to come together to set up and offer 401(k) plans with less fiduciary liability concern and less cost than exists today. The goal here is to try to expand small employers' capability to offer some form of retirement savings to employees. This has generally been a frustration of previous legislative attempts as the SIMPLE and SEP IRAs were developed in part to achieve this outcome, but ultimately they have not filled in as a broadly utilized retirement savings plan for small employers. As such, the SECURE Act will attempt to address this issue facing many small employers who currently offer no retirement savings options at all.

5. Includes part-time employees. Current laws allow employers to exclude their part-time employees from eligibility for a 401(k) plan. That won't be the case if the SECURE Act is passed. Under this legislation your employer must allow you to participate in its defined contribution plan if you work at least 500 hours a year (and you have been at the firm for at least three consecutive years). This will help the growing number of baby boomers who seek part-time work instead of fully retiring.

With the SECURE Act working its way through the Senate with broad support by both parties, the likelihood of its eventual passage seems extremely high. However, modifications are likely. If passed, the SECURE Act will take some steps forward to advance the retirement security of Americans.

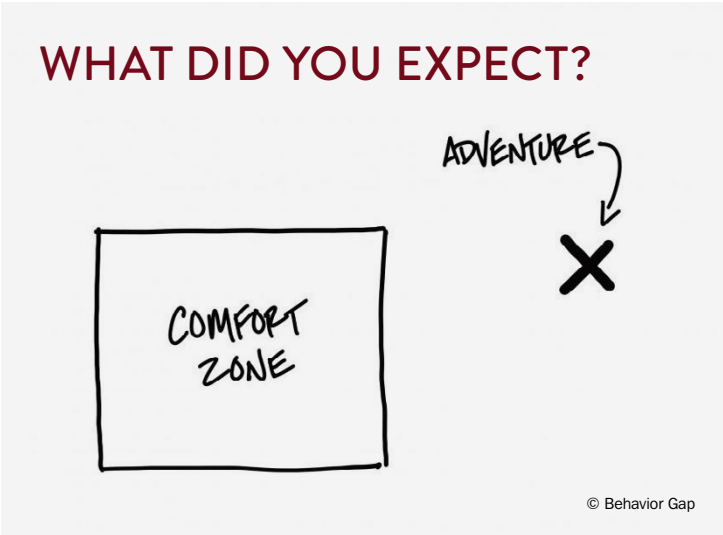
SECOND QUARTER 2019 MARKET COMMENTARY (CONTINUED)

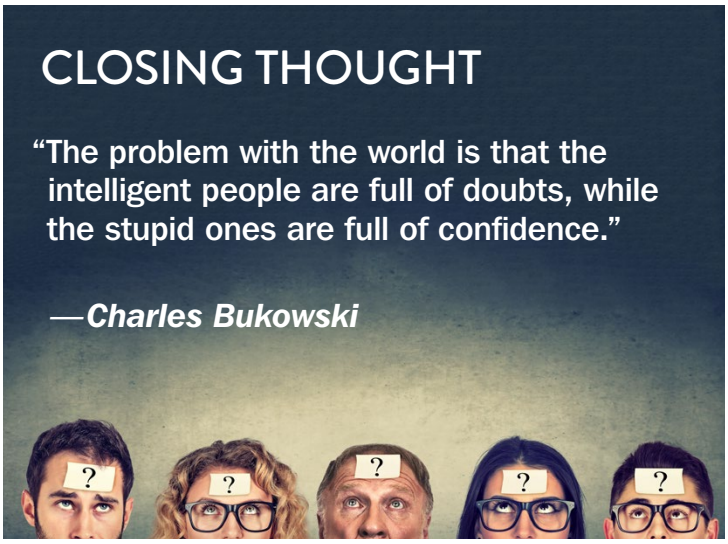
(continued from pg. 1)

Markets failed to set any new highs over the next week with the S&P 500 falling 0.19 points short of a new all-time high on May 3rd. Subsequently, a renewal of trade tensions with China triggered a broad and steep sell-off in equities, which continued for the rest of the month, as many worried that domestic and international economic growth would falter in the face of uncertainty.

Another reversal in equities occurred in early June, sparked by hints from Federal Reserve officials that they could lower interest rates if necessary to keep the U.S. economy growing. Stocks continued to rise throughout June and again achieved new all-time highs following news that President Trump and China's President Xi Jinping agreed to meet and discuss trade at the Group of Twenty (G20) summit in Japan. Markets also rose in response to the Federal Reserve's decision at its June meeting to hold interest rates steady while continuing to hint at a future rate cut in 2019 if the economic outlook doesn't improve.

Will stock markets breakout from their latest all-time highs and continue to rise in the second half of the year or will they suffer yet another reversal? The answer will likely depend on the usual suspects from the past several years: Fed policy starting with its decision on interest rates at its July 30-31 meeting, U.S. and international economic growth, trade risks, global security concerns, and the political theater of the U.S. election cycle.





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