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THIRD QUARTER 2019 MARKET COMMENTARY

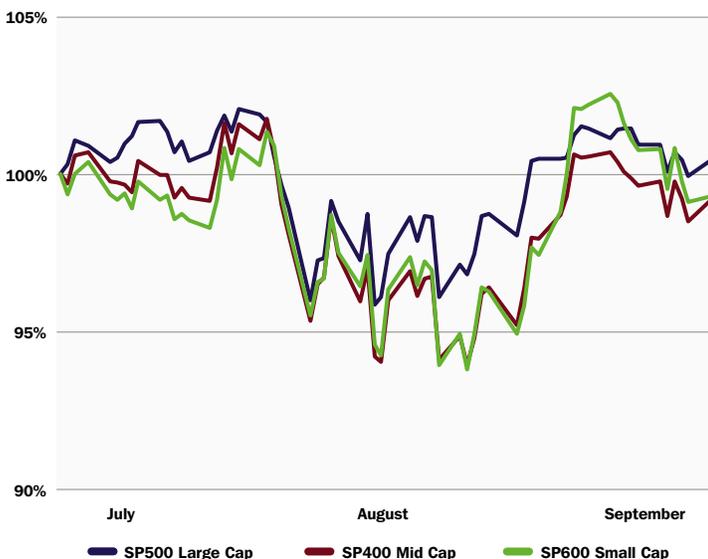
By **Joseph P. Clark**

U.S. equity markets were essentially flat during the 3rd quarter after recovering from the quarter's lows in mid-August. U.S. large cap stocks (as measured by the S&P 500 Index) increased 0.4% for the quarter (+18.7% YTD). U.S. mid cap stocks (as measured by the S&P 400 Mid Cap Index) were down 0.8% for the quarter (+16.4% YTD). U.S. small cap stocks (as measured

by the S&P 600 Small Cap Index) decreased by 0.7% for the quarter (+12.2% YTD).

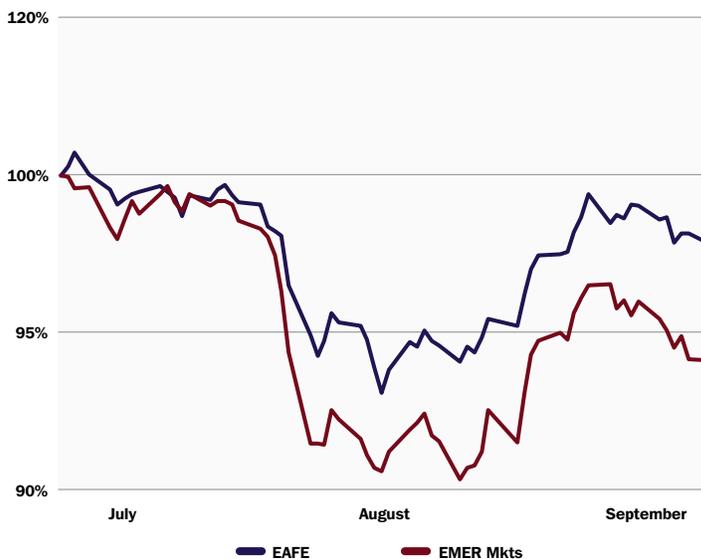
International equity markets did not fully recover from their low points in mid-August and ended the 3rd quarter with negative returns. Developed and emerging markets fell 2.2% and 5.9% respectively, but are up 9.8% and 3.6% YTD. *(continued on pg. 2)*

U.S. Equity Market Performance Q3 2019



Source: Yahoo! Finance

International Equity Market Performance Q3 2019



Source: Yahoo! Finance

LEGISLATIVE UPDATE – SECURE ACT



By **Marc A. Wehmeyer**

In our previous newsletter, we highlighted the major features of the Setting Every Community Up for Retirement Enhancement Act (SECURE Act). The proposed legislation was passed by the House of Representatives on May 23, 2019 by a nearly unanimous vote of 417 to 3. Today the SECURE Act remains stuck in the Senate and has yet to be brought up for a vote. The bill could be approved by unanimous consent but that appears unlikely as multiple senators have placed a “hold” on the bill, including Pat Toomey (R-PA), Ted Cruz (R-TX), and Mike Lee (R-UT). If the “holds” are not resolved, there are two other options for getting the SECURE Act through the Senate. One option is attaching the bill to a separate unrelated bill that falls into the “must pass” category (such as a spending bill to keep the government open). The other option is to consider the bill under regular procedures which would include floor debate and possible amendments. Thus far, Senate Majority Leader Mitch McConnell (R-KY), has shown little interest to date in dedicating floor time to the SECURE Act at the expense of working through confirmations for President Trump’s executive and judicial appointees. Unless something dramatic happens soon, the SECURE Act will likely remain in limbo for the remainder of 2019. 🙄

PRESIDENT’S COMMENTARY



“FOR THE FIRST TIME IN WELL OVER A DECADE WAGE GROWTH IS GREATER ON THE LOWER END OF THE ECONOMIC SCALE THAN ON THE UPPER LEVELS.”

The end of summer brings a host of political and economic issues to the forefront of our national discussion—it is a certainty we will have to operate under a continuing resolution (CR) for the initial period of the 2020 federal fiscal budget year. In addition, we will not see much progress on any meaningful legislation out of Congress and grandstanding on both sides will increase. Impeachment remains a daily talking point. However, basic math says it goes nowhere as 20 Republican Senators of the U.S. Senate are needed to muster the 2/3 majority for removal of the President from office.

So, what cause is there for optimism? Simple, the U.S. economic engine continues to motor forward to the benefit of the majority of our citizens. Unemployment remains at or near historic low levels, especially for African Americans and Hispanic Americans. For the first time, in well over a decade, wage growth is greater on the lower end of the economic scale than on the upper levels. There continues to be great competition for workers with more jobs open than qualified workers available.

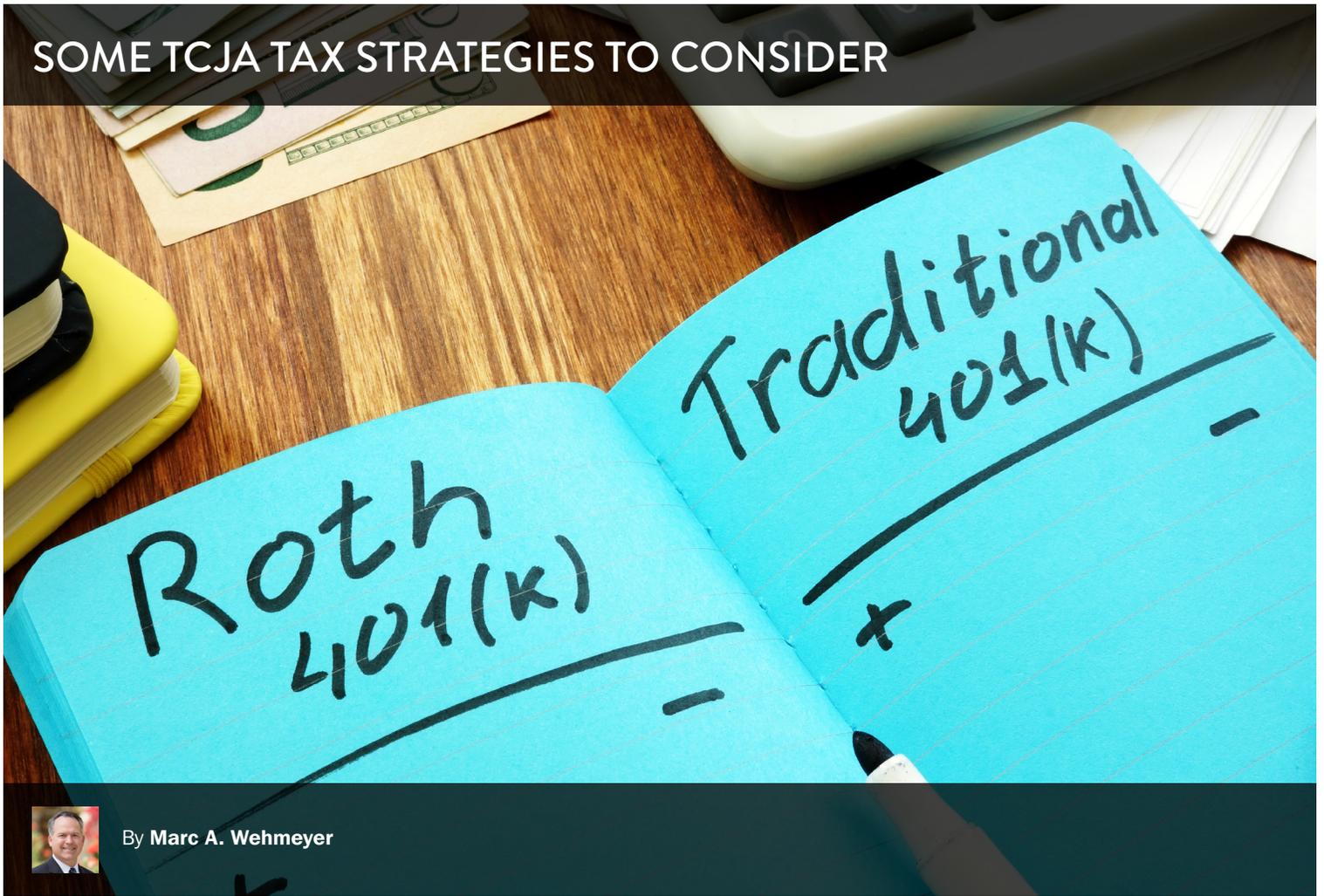
Lastly, while disconcerting, the drone attack on Saudi Arabia’s oil facilities was the first test of the global energy markets in the era of American energy dominance. Strategically, our domestic increase in daily oil production from 5 MBD (million barrels per day) to 12 MBD has completely changed what would have been an economic shock two decades ago. Today, this event is now something that can be taken in stride. 🙄

THIRD QUARTER 2019 MARKET COMMENTARY (CONTINUED)

(continued from pg. 1) On the last trading day in July the Federal Reserve cut the fed funds rate by 0.25%, but Chairman Powell’s comments led investors to believe there would be no further cuts. Additionally, a new round of 10% tariffs on \$300 billion of Chinese imports was announced the very next day. Global stock prices reacted negatively to both of these announcements in the first half of August despite solid economic numbers being released for July (164,000 jobs created with an unemployment rate holding steady at 3.7%). In the second half of August, all equity markets began to recover as investors began to focus more on the overall strength of the economy that had been overlooked in the first half of August. September saw a slight continued uptick for domestic stocks based upon the momentum gained in the last half of August, however foreign stocks retreated some in the last half of September.

Interest rates and the shape of the yield curve were the focus in August (historically an inverted yield curve has often been a predictor of the next recession). In August we had the first inversion between the 2-year Treasury note and the 10-year Treasury note. Recession fears and a flight to quality trade sent global interest rates to zero and in some countries well into negative territory. In the U.S., the 2-year Treasury note yield fell 39 basis points (0.39%) to end August yielding only 1.50%. Going forward the market is worried about a slowing economy, an inverted yield curve, recession, and a 10-year bull market in stocks coming to an end. The focus of each Praetorian Guard client should not be on the short-term movement of the markets, but rather on your own long-term financial plan. 🙄

SOME TCJA TAX STRATEGIES TO CONSIDER



By Marc A. Wehmeyer

The Tax Cuts and Jobs Act of 2017 (TCJA) fundamentally changed many provisions of the federal tax code. Now is a great time to review your 2018 tax returns and see if there are ways you can take advantage of the new law for 2019 and beyond. Here are some items we think you should consider:

1. Roth 401k instead of Traditional 401k. Most taxpayers are now in a lower federal tax bracket under the TCJA and your Traditional 401k contributions are saving you less in federal taxes. If your employer offers a Roth 401k option, it may be better in the long run to change some, or all, of your current 401k contributions to Roth and take advantage of the lower marginal tax rates.

2. Convert Traditional IRA balances to a Roth IRA. Similarly, if you have any deductible Traditional IRA balances, it may make sense to convert some, or all, of your Traditional IRA to a Roth IRA and pay taxes on the converted amounts at the lower tax rates.

3. Pay Down Your Mortgage If You Take the Standard Deduction. The TCJA significantly expanded the standard deduction and eliminated personal exemptions. If you are now taking the standard deduction instead of itemizing, you no longer receive a tax benefit for deducting mortgage interest. Depending on your situation, it may make sense to make extra principal payments on your mortgage, especially if you are retired or nearing retirement.

4. Consider Qualified Charitable Contributions (QCDs) for 2020. We described QCDs in detail in our 4th Quarter 2018 newsletter. QCDs are a way for IRA owners who are at least 70 ½ to make charitable contributions directly from their IRA and count them towards their annual Required Minimum Distributions (RMD). If you would like to include QCDs in your 2020 charitable giving plan, let us know so we can integrate your wishes when making your 2020 IRA distributions.

5. Consider Updating Form W-4. If you received either a large and unexpected tax bill or tax refund on your 2018 federal tax return, consider submitting a new Form W-4 to your employer in order to adjust your paycheck tax withholding.

Tax planning is a year-round affair and every taxpayer's situation is unique. Please reach out to us if you would like us to review your old tax returns for opportunities to change your investment decisions in consideration of TCJA. Praetorian Guard does not prepare tax returns or provide tax advice, and we recommend you consult your tax professional before implementing any of the strategies discussed above. 🙏

INCORRECT FINANCIAL PLANNING “TRUTHS”



By **Richard A. Hewitt**

Praetorian Guard continues to receive questions from our client families and other individuals that generate answers we thought were well-known. We decided to take on a few this quarter:

Can I have an IRA and a retirement plan (401K) at work?

Of course—they are not mutually exclusive but can be linked in terms of possible IRA contribution deductibility. If your cash flow situation can support it, you should make it a goal to maximize your annual contributions to each. We understand you may not get there YET but more retirement savings is vital.

I have a will. Is that a sufficient estate plan?

Most likely “no”—especially if your life includes a spouse, children or business ownership. A will must still go through the legal probate process—it can be slow and (in some states) relatively costly. A revocable trust is a better option and can be drawn up

by a competent estate planning attorney for a reasonable cost. Additionally, you need to consider guardians for minor children, Buy-Sell agreements with any business partners, Advanced Medical Directives (Living Will and Power of Attorney for Health Care) to ensure your wishes are honored and carried out in the event you cannot speak for yourself.

I make too much money to have a Roth IRA, right?

You may make too much money to *directly contribute* to a Roth IRA but there is no AGI limit on Roth IRA conversions. There may be some tax impacts if you also have a Traditional IRA with dollars that have never been taxed but there may be options to roll those funds into your work 401K and enable an after-tax contribution to your Traditional IRA and subsequent conversion of those monies to your Roth IRA. 🍷

FINE LINE



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CLOSING THOUGHT

“I’m a great believer in luck, and I find the harder I work, the more of it I have.”

—Thomas Jefferson



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