MERITAS ADVISORS

FINANCIAL **Insights**

January

Crafting your 2019 **financial game plan**

Financial New Year's resolutions are one of the most common as nearly one-third of Americans plan to make one in 2019 according to a Fidelity survey. While wishing to strengthen your financial situation in the new year is a good first step, actually following through on this can be difficult. Everyone's situation is unique, but let's take a look at a few of the top areas to address when crafting your 2019 financial game plan.

Reevaluate your savings strategy

The start of the new year is a great time to take a step back and reevaluate your current savings strategy. First, consider looking into your retirement savings options. If you have not already, maximize the match your employer offers for 401(k) contributions. One in five workers are not contributing enough to get the full match from their employer according to research from benefits administrator Alight Solutions.

Additionally, consider sitting down with your financial advisor if your goals or needs have changed recently. Perhaps you have a new child on the way and want to begin an education savings plan, or maybe you have set a resolution to make a big purchase in the new year. Whatever your new goal may be, being prepared for the financial commitment ahead of time will be a big help in achieving it.

Learn and build your credit score

Your credit score is a constantly evolving number that banks and other lenders use to decide whether to approve you for a loan or line of credit. If you do not know your current score, it can be easily checked for free on a number of sites such as annualcreditreport.com or creditkarma.com. Checking your score on these sites does not hurt your score since it is a soft inquiry. A hard inquiry, on the other hand, is done by banks or lenders when you apply for a new loan or credit card. Too many hard inquiries in a short period of time can have a negative impact on your score.

Once you know your current score, there are many different actions you can take to improve it. The most impactful however is to improve your credit utilization ratio, which is the amount of credit you are currently using comparative to your available line of credit. For example, if you have a $1,000 line of credit and just made a $900 credit card purchase, this will likely have a negative impact on your score the longer it remains at this high ratio. Paying off current credit amounts not only helps reduce this ratio but can help you save money lost on accumulating interest charges. Consider consulting your advisor on additional tips to improve your score and pay back debt.

Identify areas to cut back

Perhaps the simplest financial goal you can make for the new year is to reduce spending on non-essential purchases. One of the most popular ways Americans are cutting monthly costs is by getting rid of traditional cable. Though streaming services like Netflix and Hulu are far from brand new offerings, the content they offer is eliminating the need for many consumers to continue spending on cable TV. This results in cord-cutters saving an average of $85 per month even including the amounts spent on internet and streaming services according to Fortune.

In 2019, do not underestimate the savings that can be had in other purchase areas like restaurants and entertainment. Forbes contributor Priceonomics found that it is almost five times more expensive to order delivery from a restaurant than to cook at home. Of course, completely ditching all restaurant and entertainment expenses is not a realistic goal, but saving money on these occasions is still possible. Before planning a night out or heading to a restaurant, scan coupons sites such as Groupon and RetailMeNot for deals.

The market at a glance

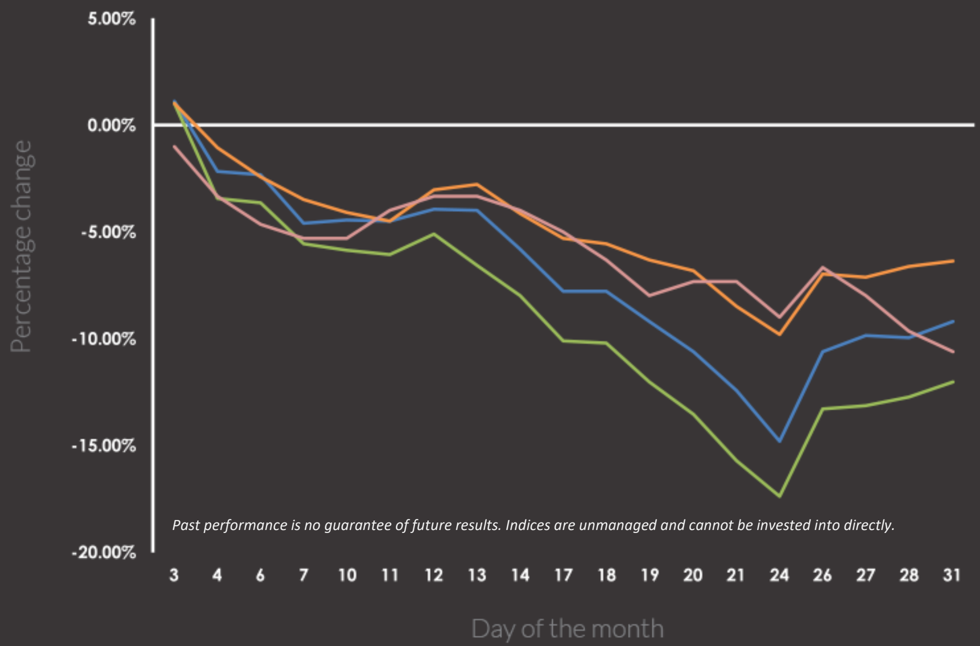
December

U.S. Large Cap
(S&P 500)
2,506.85 (-9.18%)

U.S. Mid/Small
(Russell 2000)
1,348.56 (-12.05%)

International Large
(NYSE International 100)
4,890.29 (-6.35%)

U.S. Treasuries
(U.S. 10-year Treasury yield rate)
2.69 (-10.63%)



The market in action

- The Dow Jones Industrial Average dropped 653 points on Christmas Eve breaking 1918's record for the worst-ever Christmas Eve trading day. Despite the fall, the Dow soared back two days later with a rise of 1,086 points, the largest daily point gain in its history.

- The stock of pharmaceutical and consumer goods manufacturer Johnson & Johnson fell 10 percent after losing a bid to overturn a jury verdict that awarded nearly $4.7 billion to consumers impacted by asbestos found in its baby powder products. Documents used in the case revealed that the company had known of the contamination for decades.

- Department store J. C. Penny saw its stock fall to 97 cents per share in late December marking the company's worst day of trading since first being listed on the NYSE in 1929. The company closed 138 stores across the U.S. in 2017 and has not been profitable since 2010.

- Shares of Deere & Company, who owns the agricultural equipment brand John Deere, rose four percent after news that China will agree to purchase a "substantial" amount of agricultural product from the U.S. in the future. In November, China had imported zero soybeans from the U.S. in response to recent trade tariffs.

2018 Year-End

Investment Market Report

This was the year the long, seemingly endless bull market came to a crashing halt--and U.S. investors finally, for the first time since 2008, experienced the normal definition of a bear market (down 20% from the S&P 500's all-time high on September 20). The bottom fell out in the final month of the year, which started with a decent chance of another year of overall annual gains, and ended in disappointment.

Looking back, it was a strange investment year in many respects. First, the markets endured two major beatings--from late January to early February, and again from early October and especially through December. Christmas eve notched the worst market drop on record in terms of actual dollars. The S&P 500 index registered the worst December performance since 1931. This will be the first time since 1948 that the S&P 500 index rose in the first three quarters and then finished the year in the red.

Meanwhile, for unlucky investors in cryptocurrency Bitcoins, the year's investment news may have rivaled the crashing of the famous Dutch Tulip craze. The entirely-made-up currency, backed by no government or pool of assets, dropped from a high of $20,000 per "coin" down to $3,800.

A breakdown shows that just about every investment asset dropped in 2018. The Wilshire 5000 Total Market Index—the broadest measure of U.S. stocks—fell 14.29% in the 4th quarter, finishing the year down 5.27%. The comparable Russell 3000 index was down 5.24% for the year, after declining 9.31% in December.

Looking at large cap stocks, the Wilshire U.S. Large Cap index lost 13.69% in the fourth quarter, providing a negative 4.64% return for the year. The Russell 1000 large-cap index finished the year with a similar 4.78% loss, while the widely-quoted S&P 500 index of large company stocks lost 13.97% during the year's final quarter and overall finished down 6.24% in calendar 2018.

Meanwhile, the Russell Midcap Index finished the 2017 calendar year down 9.06%. As measured by the Wilshire U.S. Small-Cap index, investors in smaller companies were hit hard, losing 19.67% in the final quarter, to end the year with a negative 10.84% return. The comparable Russell 2000 Small-Cap Index lost 11.01% in 2018. So much for the FAANG stock craze: the technology-heavy Nasdaq Composite Index dropped 17.54% in the final three months of the year, to finish down 3.88%.

The pain was even greater for international investors. China's Shanghai composite index fell 24.6% in 2018, the largest drop since 2008, and Japan's Nikkei 225 Index fell 12.1%. Overall, the broad-based EAFE index of companies in developed foreign economies lost 12.86% in the final quarter, and ended the year down 16.14% in dollar terms. In aggregate, European stocks were down 17.27% in 2018, while EAFE's Far East Index lost 13.97%. Emerging market stocks of less developed countries, as represented by the EAFE EM index, lost 7.85% in dollar terms in the fourth quarter, giving these very small components of most investment portfolios a 16.64% loss for the year.

Looking over the other investment categories, real estate, as measured by the Wilshire U.S. REIT index, posted a 6.93% loss during the year's final quarter, finishing the year down 4.84%. The S&P GSCI index, which measures commodities returns, dropped a remarkable 22.94% in the 4th quarter, to finish the year down 13.82%.

In the bond markets, coupon rates on 10-year Treasury bonds have risen incrementally to 2.68%, creating the unusual situation of losses in bond investments in the same year as losses in stocks. Similarly, 30-year government bond yields have risen slightly to 3.01%. Five-year municipal bonds are yielding, on average, 1.96% a year, while 30-year munis are yielding 3.09% on average.

If you look at the accompanying chart, which shows returns since 2008 in 15 different investment classes, you can see that 2016 and 2017 were extraordinary years; everything went up (as shown in green). 2018 was extraordinary in the opposite direction; everything except cash was in the red. Basically, if you were an investor, you lost money last year. But that also, of course, provides you with a chance to buy investments at discounted prices in the new year.

Many investment professionals had been expecting a bear market much sooner than this. Bear markets tend to occur about every 3.5 years, and there have been 32 of them since 1900. So far, the current decline of just over 20% pales in comparison with the 86% drop in the 1930s, or the 57% drop from 2007 to early 2009. But there is no reason to imagine that we are at the end of the current down cycle. With the government shutdown, reckless trade wars, a rapidly growing federal deficit, political uncertainty and the ever-looming possibility of a recession, investors are understandably nervous about the near-term future.

Longer-term, a recession may be the biggest concern. Most economists are reluctant to predict an economic downturn when unemployment is at record lows, but there were some warning signs in December. Five Federal Reserve regional factory indexes all dropped in unison in December, the first time that has happened since May 2016. There are increasing signs that many factories are suffering from the uncertainty around U.S. trade policy, including tariffs on imported steel, aluminum and about $250 billion of Chinese products. At the same time, consumer confidence has fallen to its lowest level since July, and a measure of the employment outlook experienced the biggest plunge in 41 years.

Nevertheless, by all measures, the U.S. economy is still growing, and nobody can predict whether the markets will recover in 2019 or experience a steeper decline. All we know is that, historically, all bear markets in history have been temporary phenomena, and that investors who rebalance their portfolios on a regular basis--that is, buying stocks when their percentages of the total have gone down--tend to do better than investors who don't rebalance, and especially better than the many who lose their nerve and sell in a panic during the downturn.

There is an old cartoon that shows the announcer telling the audience what really every stock market report ought to say: "Today, the investment markets provided another interesting day of meaningless white noise." The day-to-day rises and falls tell us nothing about the future, and the best prediction is that most predictions will turn out to be incorrect. We don't know what's coming, but we know it has always been a good strategy in the past to hang on tight when the roller coaster reaches a crest and takes us down a steep slope for a while.

-Bob Veres

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ETF Total Returns (2008 - 2018, as of 12/31/18) @CharlieBilello

ETF	Asset Class	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2008-18 Cumulative	2008-18 Annualized
SPY	US Large Caps	-36.9%	26.4%	15.1%	1.9%	16.0%	32.2%	13.5%	1.2%	12.0%	21.7%	-4.5%	114.4%	7.2%
IWM	US Small Caps	-34.2%	28.5%	26.9%	-4.4%	16.7%	38.7%	5.0%	-4.5%	21.6%	14.6%	-11.1%	106.4%	6.8%
EEM	EM Stocks	-48.9%	69.0%	16.5%	-18.8%	19.1%	-3.7%	-3.9%	-16.2%	10.9%	37.3%	-15.3%	-2.6%	-0.2%
EFA	EAFE Stocks	-41.0%	27.0%	8.2%	-12.2%	18.8%	21.4%	-6.2%	-1.0%	1.4%	25.1%	-13.8%	4.1%	0.4%
PFF	Preferred Stocks	-23.9%	37.6%	13.8%	-2.0%	17.8%	-1.0%	14.1%	4.3%	1.3%	8.1%	-4.7%	69.0%	4.9%
HYG	High Yield Bonds	-17.5%	27.4%	11.9%	6.8%	11.7%	5.8%	1.9%	-5.0%	13.4%	6.1%	-2.0%	69.2%	4.9%
LQD	Investment Grade Bonds	2.5%	7.9%	9.3%	9.7%	10.6%	-2.0%	8.2%	-1.3%	6.2%	7.1%	-3.8%	68.0%	4.8%
TLT	Long Duration Treasuries	34.0%	-22.1%	9.0%	34.0%	2.6%	-13.4%	27.3%	-1.8%	1.2%	9.2%	-1.6%	84.2%	5.7%
TIP	TIPS	-0.5%	7.5%	6.1%	13.3%	6.4%	-8.5%	3.6%	-1.8%	4.7%	2.9%	-1.4%	35.3%	2.8%
BND	US Total Bond Market	5.2%	2.9%	5.3%	7.7%	3.9%	-2.1%	5.8%	0.6%	2.5%	3.6%	-0.1%	40.9%	3.2%
BIL	US Cash	1.5%	0.3%	0.0%	0.0%	0.0%	-0.1%	-0.1%	-0.1%	0.1%	0.7%	1.7%	3.9%	0.3%
EMB	EM Bonds (USD)	-2.1%	15.4%	10.8%	7.7%	16.9%	-7.8%	6.1%	1.0%	9.3%	10.3%	-5.5%	77.4%	5.3%
VNQ	REITs	-39.4%	28.0%	28.4%	8.6%	17.6%	2.3%	30.4%	2.4%	8.6%	4.9%	-6.0%	86.1%	5.8%
GLD	Gold	4.9%	24.0%	29.3%	9.6%	6.6%	-28.3%	-2.2%	-10.7%	8.0%	12.8%	-1.9%	47.0%	3.6%
DBC	Commodities	-31.8%	16.3%	11.9%	-2.6%	3.5%	-7.6%	-28.1%	-27.6%	18.6%	4.9%	-11.6%	-52.7%	-6.6%
Highest Return		TLT	EEM	GLD	TLT	EEM	IWM	VNQ	PFF	IWM	EEM	BIL	SPY	SPY
Lowest Return		EEM	TLT	TIP	EEM	TLT	GLD	DBC	DBC	TLT	TIP	EEM	DBC	DBC
% of Asset Classes Positive		33%	93%	93%	60%	93%	33%	67%	33%	100%	100%	7%	87%	87%

Biggest retirement saving mistakes
to avoid at each life stage

According to Northwestern Mutual's 2018 Planning & Progress Study, a shocking 21 percent of Americans have nothing at all saved for the future, and 78 percent say they are extremely or somewhat concerned about not having enough set aside for retirement.

Everyone's path to retirement is different, but there are general rules that can help guide your savings strategy over time. Here are retirement tips for each stage of your life:

Your 20s: Not taking the advantage of time

Fresh into your new job out of college in your 20s is an exciting time and can set the foundation for a successful financial future. The biggest mistake to avoid during this time is not getting started early and missing out on the most powerful retirement savings factor out there: time.

Recency bias can push young savers to dedicate more than is required to student loans lessening the ability to compound savings. It may be natural to think of retirement as a lower priority since it is decades away compared to student loans, both can be done at the same time.

Be sure to understand how your employer's match works and maximize this if possible. Even if you have doubts about your current job in the long-term, most retirement savings can be transferred to your next employer or an individual retirement account should you choose to switch jobs.

Your 30s: Getting housed in

Life changing events such as marriage and children will likely start coming into play during this time. As these events occur, some savers may find themselves buying a house too early.

While you should not feel pressure to stay cramped-up in a small apartment, be sure look at your first home purchase from all angles. Buying a home too small for your growing family might not work for your needs years down the road. Spending lavishly on a big home might seem sensible now, but consider what happens in the event of a move or job transition.

Your 40s: Shifting your focus

Your early years are considered the accumulation phase but do not think that your 40s are a time to neglect retirement contributions. By this time, there are may be many different areas that need financial attention in your life. How much should you be setting aside for your child's education? Should you use that new bonus for a home remodel?

Questions during this time can get complex and it is important to prioritize what saving areas need the most attention. Now is a good time to consult with a financial advisor to break down these various areas and your goals for each.

Your 50s: Inaccurate assumptions

By your 50s, you likely have a clearer picture of what your savings situation looks like and can begin preparing for when you want to retire and the expenses you expect to have.

Too often, savers underestimate what they will need throughout retirement. According to a recent study featured in Wealth Professional, 15 percent of retirees globally do not have enough income to live comfortably and another 43 percent say they could have used a little more income after retiring.

Similar to your 40s, these decisions of when to retire and how much will be needed can be complex to navigate. With the help of your financial advisor, consider all of the factors that may be in play. These can include upcoming healthcare costs, what happens in the case of an underperforming market, and other scenarios.

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