SIA Perspectives

Stegner Investment Associates, Inc. **4th Quarter 2019**

In last quarter's *SIA Perspectives,* we included the image of Evel Knievel's motorcycle jumping over a line of cars to illustrate the continued growth trajectory of world economies. On investors' minds at that time was the question "where will we land?" following excellent returns from financial markets to-date in 2019. The 4th quarter provided another surge in performance and clients benefited from our disciplined approach to remain invested for the long-term, despite warnings from many pundits that financial markets were "overheated".

What Happened in 2019?

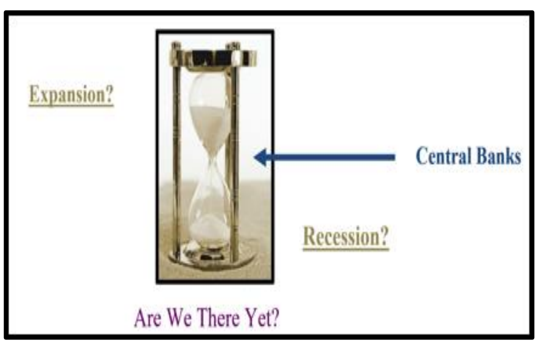
Prior to introducing our analysis of this year's performance in greater detail, we outline below a selection of important quarterly events that are a reminder of the uncertainty experienced by investors throughout the year.

1st Quarter – "Here Comes the Sun"

Gloomy 4th quarter 2018 global stock market returns, and cloudy forecasts for economic declines, were quickly blown away by outsized returns from financial markets during the 1st quarter of 2019. Brighter expected outlooks – from just a few months earlier – reversed most recession fears.

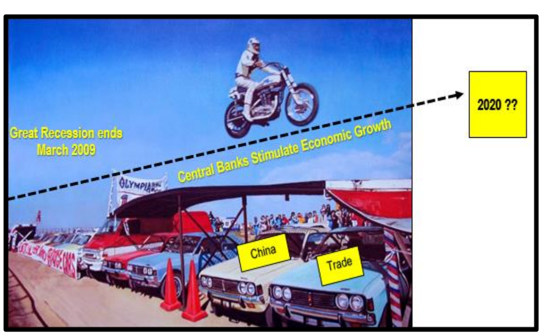
"Here Comes the Sun" was the tune to carry throughout the 1st quarter as investors worldwide raved about improving employment data, balanced levels of inflation and wage growth and continued support offered by central banks.

2nd Quarter – "Is Time Running Out?"



As an icon for the 2nd quarter theme, the hourglass illustrated questions surrounding the future of the longest-ever economic expansion in the U.S. – a record set during the 2nd quarter. Investors wondered "Is time running out?" for the great performance of financial markets since March 2009 lows.

During the 2nd quarter, most stock market segments moved higher, but the standout performers were gains in bonds across all segments, as world leaders indicated steady to lower interest rates. These decisions renewed hope that these policies would continue to spur economic growth and drive company earnings higher.



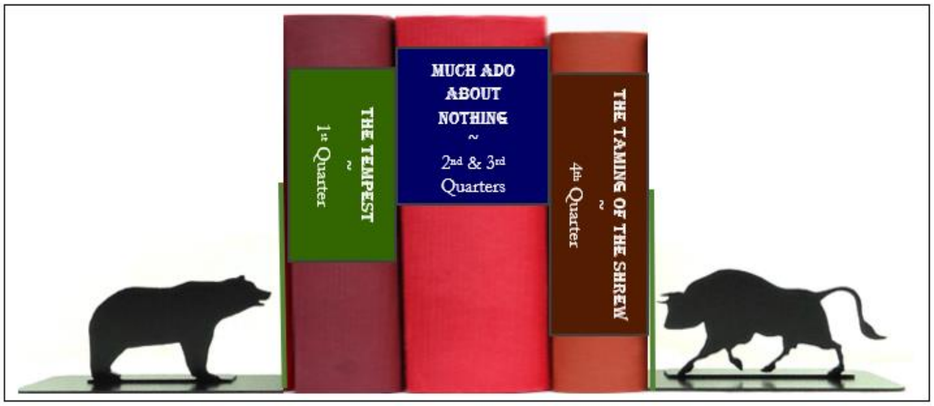
3rd Quarter – "Where Will We Land?"

Financial markets' stellar gains in 2019 held steady during the 3rd quarter, as investors focused on the potential negative impacts on economic growth due to divisive U.S. politics, announcements regarding global trade disruptions, imposition of tariffs and citizen protests around the world. Using Evel Knievel's motorcycle trajectory as a symbol of global economic growth during the past ten years, "Where will we land?" indicated the uncertainty investors faced following a ten-year period of significant positive performance.

4th Quarter

Important announcements regarding trade agreements, UK elections, continued growth in U.S. jobs, and improving economic news overseas settled some uncertainties and fueled surprisingly strong gains across most stock markets during the 4th quarter. In turn, bond prices remained stable for the 4th quarter, which allowed results for the full year to produce the best total return in 17 years for the U.S. intermediate bond benchmark.

Because Shakespeare's works are emotional and witty and include characters with whom audiences easily identify, we turn to his works to describe 2019. The narrative of the year for financial markets was bookended by both "bear and bull" investors. Investment results included outsized returns in the 1st and 4th quarters for most stock market segments. In fact, almost 80% of stock market returns for the year were earned in these two quarters alone.

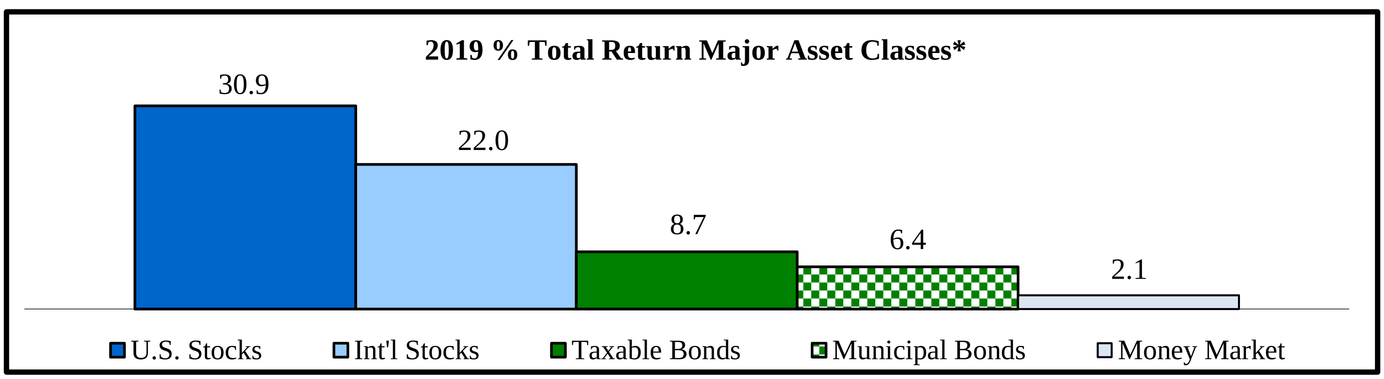


In summary, the year unfolded as follows: during the 1st quarter, investors were rescued from *The Tempest* that whipped-up during the final quarter of 2018 when many stock market segments dropped by 20%. Investors fretted throughout the 2nd and 3rd quarters over trade deals, monetary policy and geopolitics, but financial markets indicated that these worries were *Much Ado About Nothing* as investment performance for portfolios during this period was not notable.

The final act of the year included a likelihood of *The Taming of the Shrew* as U.S. leaders steered the coordination of trade deals with Mexico and Canada and the signing of a Phase I trade deal with China. These steps cleared the path for increased global growth. By year-end, stock markets soared to new heights.

How Did Various Asset Classes* Perform?

Investors cheered throughout 2019 as shockingly good returns were generated by all asset classes following dismal results in 2018. U.S. stock and bond total returns (price change + income) continued to dominate their peers overseas and money market funds produced a reasonable return for the year, after being the best performer in 2018.



**Representative benchmark index total returns for all charts are detailed on the last page of this SIA Perspectives.*

How Did Stock Market Segments Perform?

Following major sell-offs in 2018, all stock market segments delivered solid results generally in each quarter of 2019, as indicated in the table below. Total returns for all U.S. market capitalizations for the year were the best posted in the past six calendar years and, on a percentage basis, they tallied the third best calendar year performance in the past eleven years.

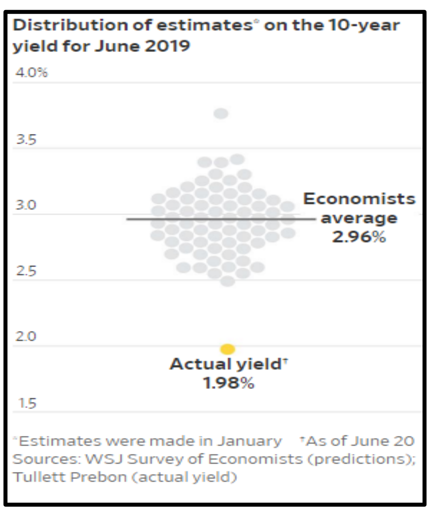
Earnings growth for companies in the U.S. outpaced slowing economies overseas, while the fluctuation in value of the U.S. dollar did not impact returns in a meaningful way versus previous years. Longer-term performances reflect similar trends with U.S. double-digit results trouncing those generated by markets overseas.

2018	1st Qtr. 2019	2nd Qtr. 2019	3rd Qtr. 2019	4th Qtr. 2019	2019	STOCKS	3 Yr. Annual	5 Yr. Annual	10 Yr. Annual
-4.4%	13.6%	4.3%	1.7%	9.1%	31.5%	U.S. Large Cap	15.3%	11.7%	13.6%
-9.1	16.5	4.1	0.5	7.1	30.5	U.S. Mid Cap	12.1	9.3	13.2
-11.0	14.6	2.1	-2.4	9.9	25.5	U.S. Small Cap	8.6	8.2	11.8
-13.8	10.0	3.7	-1.1	8.2	22.0	International	9.6	5.7	5.5
-14.6	9.9	0.6	-4.3	11.8	18.4	Emerging Mkt	11.6	5.6	3.7

What Happened to Bond Prices in 2019?

Investors piled into bonds in the first few months of the year by purchasing everything from U.S. Treasuries to riskier corporate debt. Reasons for these flows into bonds included comments from central bankers about the future paths of interest rates being stable, if not lower. This news erased fears from late in 2018 that rates were scheduled to move higher in 2019.

The "R" word (recession) slowly left headlines as investors turned their attention away from the inverted yield curve. Investors were happy with interest rates dropping on the bellwether 10-year U.S. Treasury from 3.2% in November of 2018, to less than 2% by mid-year and then held steady at this level through the end of 2019. As interest rates fell, bond prices moved steadily higher throughout the year.



The exhibit to the left was included in our 2nd quarter investment analysis and serves as a reminder of why investors were shocked with the move lower in yields during the year.

As illustrated, the gray dots show the estimates from over 60 economists polled by *The Wall Street Journal* in early January. At that time, the average estimate of these experts was for the yield on the 10-year U.S. Treasury note to reach almost 3% by the end of June. However, the actual yield in late June was almost a full percentage point lower, at less than 2%.

At year-end, the yield stood at a similar level as in June.

A key to understanding bond performance is to realize that the media often references the performance of bonds by discussing the movement in yields. "Yields moved lower" suggests to many savers that this move is a negative event when, in fact, bond prices have moved higher. In turn, if "yields moved higher", this means that bond prices moved lower.

The table below highlights that last year's trend of lower yields had a positive effect on performances across many bond and money market asset classes. Longer-term returns reflect a relatively low historic interest rate environment.

2018	1st Qtr. 2019	2nd Qtr. 2019	3rd Qtr. 2019	4th Qtr. 2019	2019	Asset Class	3 Yr. Annual	5 Yr. Annual	10 Yr. Annual
0.0%	2.9%	3.1%	2.3%	0.2%	8.7%	Taxable U.S.	4.0%	3.0%	3.7%
-2.1	1.5	3.4	-0.6	0.7	5.1	Taxable Global-ex. U.S.	4.4	1.6	1.5
1.6	2.5	1.8	1.1	0.8	6.4	Municipal Intermediate	4.1	3.0	3.7
2.0	0.6	0.6	0.5	0.4	2.1	Money Market	1.7	1.1	0.6

An allocation to bonds is intended to provide income and principal stability and to offset the bouts of poor performance of more volatile asset classes. The outstanding total return results for 2019 should not be expected in the future. In fact, the almost 9% advance for the U.S intermediate bond benchmark notched the best total return in 17 years! The 3-, 5- and 10-year periods highlighted above are more in-line with our future expectations for these asset classes.

How Does Tax Reform Impact Our Investment Advice?

At year-end, Congress passed legislation impacting the retirement account landscape called the "Setting Every Community Up for Retirement Enhancement Act" (also known as the SECURE Act). The Act's impact affects retirement accounts because it:

1. raises the Required Minimum Distribution (RMD) age from 70½ to 72. This applies to individuals who turn 70½ after December 31, 2019.

2. permits contributions to traditional Individual Retirement Accounts (IRAs) at any age, whereas the prior law disallowed contributions after age 70½.

3. requires that a beneficiary of a defined contribution plan (including, 401(k), 403(b) plans), or beneficiaries of IRAs (both traditional and Roth) – who are not the owner's spouse or minor children, or if the beneficiary is not disabled or chronically ill, or less than 10 years younger than the owner, they will be required to withdraw the entire balance of the account within 10 years after the owner's death. This new requirement eliminates the beneficiary's ability to stretch the withdrawals (and thus the income tax liability) over his or her life expectancy. This applies to account owners who pass away after December 31, 2019.

SIA is committed to following these changes and providing guidance to enhance the positive impacts of the Act and limit the potential negative impacts of these new rules.

What is Our Role as Investment Consultant?

In our role as investment consultants, we strive to provide insightful communication that explains our investment strategy and the impact that financial market performances, geopolitical events, central bank policies and rates of inflation have upon both the absolute and relative investment performance of client portfolios.

To put recent performance into context, we note that the end of 2019 marked a ten-year period of outstanding performance for most financial markets. This ten-year period now eliminates from the calculation the disappointing performance of stocks during the 2008-09 "Great Recession". It also marks a decade of outperformance for U.S.-based companies relative to their international and emerging market counterparts.

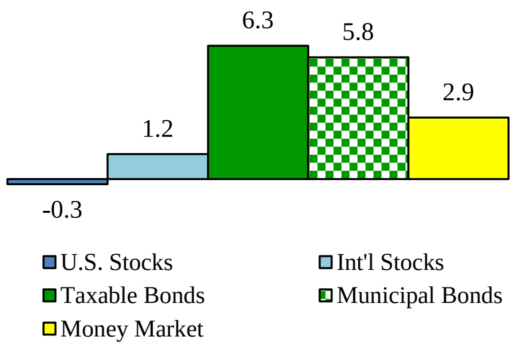
To provide an interesting perspective regarding historic performance, we looked back at year-end 2009 performances and wondered: "If I went to sleep and woke up 10 years later with the same investment strategy, would my investment results have been the same?"

As indicated in the exhibits below, clearly performance during the past 10 years was nothing like returns generated during the prior decade!

10-Yr Annualized
<u>% Total Return</u>

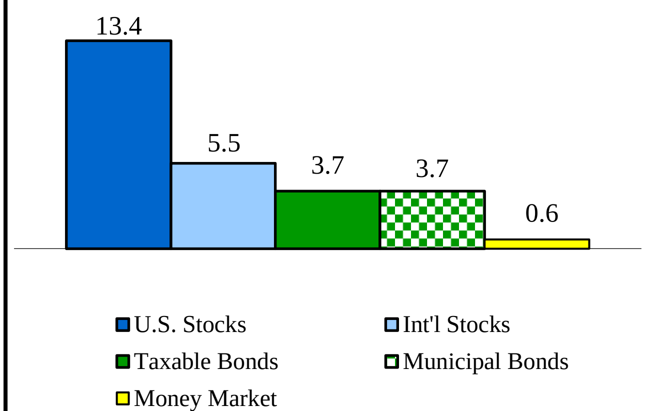
<u>That Was Then (2009)</u>

Stocks around the world underperformed bonds by approximately 6% per year over a 10-year period and total returns from U.S. stocks were negative. Money market funds outperformed stocks.

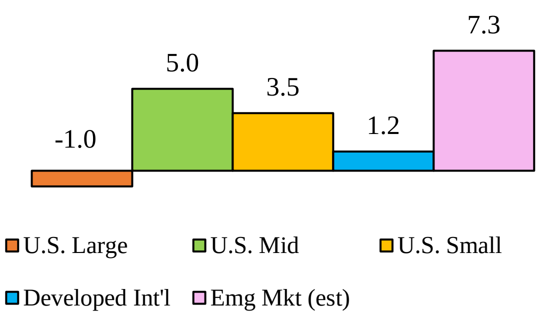


<u>This Is Now (2019)</u>

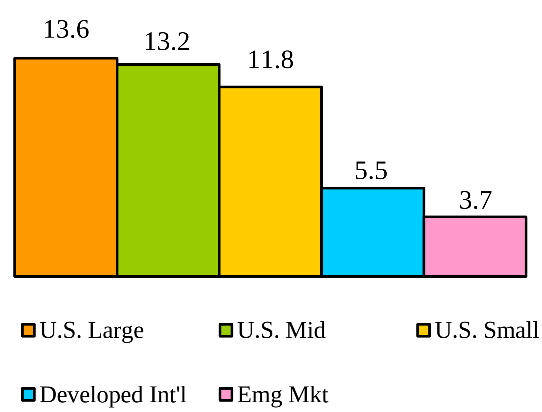
U.S stocks dominated markets overseas and beat these peers by almost 8% per year and they earned 10% per year more than bonds. Money market fund returns lagged the rate of inflation.



Emerging market stocks beat all U.S. segments and international beat U.S. large caps which generated a negative return for the decade.



U.S. segments beat markets overseas by more than double for the ten-year period. More recent results of the last three years pushed U.S. large caps to be the winner for the decade, after being the worst performer in the previous decade.



Rip Van Winkle
Wakes After 10 Years

What is the Outlook for 2020?

Investors will remember 2019 as a year that exceeded all expectations. They will also remember that economic expansion in the U.S. reached an all-time high in terms of number of months.

With the results now in the record books, the outlook for 2020 is balanced with potential positives and potential negatives. While the new year is always greeted with an array of forecasts, the only truly known factor is that no one really knows how the year will play out. While we are committed to being disciplined long-term investors, in the shorter-term we will continue to assess the potential impacts of these factors on our investment strategies.

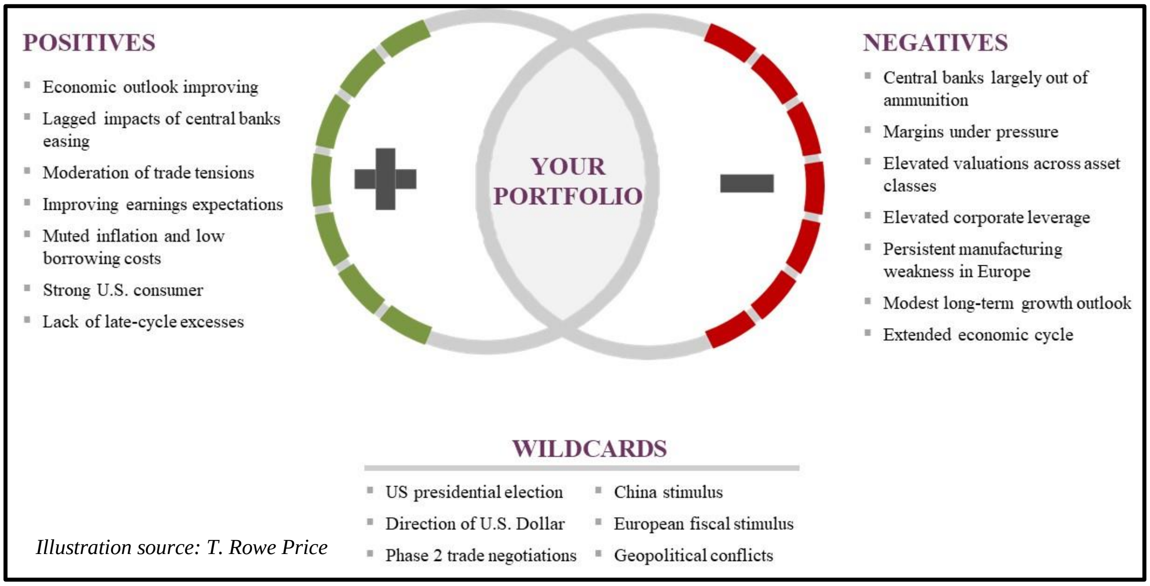


Illustration source: T. Rowe Price

Behind the Scenes at SIA

Throughout last year, we used our firm's resources to improve our value added as our clients' investment consultant. Highlights of actions we took in 2019 included:

1. reenergizing our implementation of SIA's five-year strategic plan and hiring an experienced Chief Operating Officer to lead the process. Each division, including research, client services, corporate management and the portfolio management/development team, will be responsible for integrating their respective strategies into the firm's master plan.

2. adding to the number of our firm's Associates and enhancing our firm's knowledge with more experienced professionals. At year-end, we employed 11 motivated individuals who serve in our four divisions.

3. gaining exposure to top-notch investment minds and refining our research process by attending conferences sponsored by Vanguard, T. Rowe Price, Schwab and Morningstar.

4. welcoming over 30 fund representatives to SIA's office including visits from T. Rowe Price, Franklin Templeton, Cohen & Steers, American Funds, Harbor Funds, MFS, Principal, BlackRock, Northern Trust and DWS.

5. adding clients at a very measured pace to ensure that we deliver on our commitment to the highest levels of service for existing clients. We are honored to serve approximately 150 clients comprised of families, corporate retirement plans and charitable institutions. Assets under our advisement totaled over $1.1 billion as of year-end 2019. Sources for prospective clients are generally driven by a referral from current clients and we thank those who have introduced us to friends, family and colleagues.

An Educated Client is Our Best Client

SIA is most successful when our clients achieve their short- and long-term investment objectives. Critical to this success is the commitment of our clients to be involved in the process. By taking time to study our communications via this mailing, reading our monthly Constant Contact emails and meeting with us in-person, we are assured that clients are aware that we are held to the highest fiduciary duty of serving in their best interest.

Cheers to a prosperous new year,

The Associates of SIA

**Benchmark Indexes used in this SIA Perspective include as asset class returns the Dow Jones Total US Stock Market Index, Barclays US Aggregate Bond, Global Ex-US and Municipal Bond Index, US Treasury Bill Index. For stock segment returns we provide the S&P 500 Index, Russell Mid Cap and Small Cap Index, MSCI EAFE and MSCI EM Index total returns.*