



The Verdi View



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Newsletter – January 2020

Welcome to our quarterly newsletter. Below you will find our top Fast Facts, timely reminders, and life updates from the team. Feel free to pass along The Verdi View to your friends and family!

- **Q4:** At the end of the fourth quarter the S&P 500 Index was up 31.49% year to date while the DJIA was up 25.34% (source: Morningstar)
- **BEST PERFORMANCES:** the best performing stocks for 2019 in the S&P 500 were chipmakers AMD (148%) , Lam Research (108.54%), and KLA corp (99.1%). The best performers in the Dow were Apple (86.2%) and Microsoft (55.3%) (source: CNBC.com)
- **END OF A DECADE:** Over the past 10 years, the S&P 500 has surged more than 188%. The broad index's total return — which includes dividends — tops 255% for the decade (source: CNBC.com)
- **NO WORK:** 37% of American seniors report they retired earlier than planned as a result of health problems, buyout packages, layoffs, grandchildren, or caring for an aging parent (source: Health and Retirement Study).
- **ELECTION YEAR 2020:** 17 of the last 19 presidential election years have produced a positive total return for the S&P 500 stock index. The only "down election years" dating back to 1944 were in 2000 and 2008. The S&P 500 consists of 500 stocks chosen for market size, liquidity and industry group representation. It is a market value weighted index with each stock's weight in the index proportionate to its market value (source: BTN Research).
- **UNAFFORDABLE FOR MANY:** The median home price in June 2019 in San Francisco (\$1,466,900) was more than 5 times the median home price in Phoenix (\$280,000), i.e., by moving 754 miles southeast from the northern California coast to the Arizona desert, the median home price drops by 81% (source: Redfin).
- **THE NEW-HOME PREMIUM:** The median sales price of a new home sold nationwide in October 2019 was +17% more expensive than the median sales price of an existing home sold nationwide in October 2019, i.e., \$316,700 for a new home vs. \$270,900 for an existing home (source: Census Bureau, National Association of Realtors).
- **MIND BOGGLING:** Our national debt is \$23.1 trillion as of Thursday 12/12/19. If the United States was to pay down the national debt by \$1 million a minute, i.e., \$1.44 billion a day, it would still take 44 years to extinguish \$23.1 trillion of debt (source: Treasury Department).
- **FREE:** Tennessee offers tuition-free community or technical college to any of its high school students who graduate before age 19. Students must maintain at least a 2.0 GPA and complete 8 hours of community service each term. The state has 13 community and 27 technical colleges (source: Tennessee Promise program).





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2020 Market Outlook

History shows that recessions rarely occur in election years. The U.S. economy, by most forecasts, is expected to expand moderately in 2020 but not slip into a recession. The best predictors of past recessions have been an inverted yield curve, durable goods purchases, housing starts, the strength of the labor market and consumer confidence. These indicators are mostly favorable. The yield curve is sloping upward and economic fundamentals look solid. The weekly unemployment claims number needs to get above 500,000 to signal a recession. Currently those numbers are well under 250,000. The flashing yellow light is business confidence which has declined the past four months. With the recent positive trade developments, we expect business confidence to improve.

Bottom Line: We expect to see positive returns in both stocks and bonds in 2020 backed by solid economic fundamentals including an accommodative Federal Reserve, several very positive trade agreements, a resilient labor market and a strong consumer. The main concern for us is that investor expectations may become too exuberant. While diversification does not ensure a profit or protect against losses, with the stock market at record highs and with geopolitical tensions in the headlines, we urge clients to diversify their portfolios to buffer bouts of volatility.

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- **IS COST A FACTOR?:** There are fewer college students in 2019 (18.9 million) than there were 8 years ago in 2011 (20.4 million) (source: Census Bureau).
- **PLAN FOR THIS IN YOUR RETIREMENT YEARS:** Medicare covered 59.9 million Americans in 2018. The average Medicare beneficiary spends \$455 per month (\$5,460 annually) on out-of-pocket health care costs, including premiums paid for Medicare and for supplemental insurance, along with the cost of doctors, hospitals and prescription drugs (source: Kaiser Family Foundation).
- **NOT EVEN CLOSE:** A year ago (12/17/18), Barron's published the year-end 2019 forecast for the yield on the 10-year Treasury note made by 10 Wall Street strategists. All 10 predictions had the yield increasing from its 12/31/18 actual close of 2.68%, with 5 of the 10 forecasting a yield of 3.2% or higher. The yield on the 10-year Treasury note closed last Friday 12/13/19 at 1.82% (source: Barron's).

SECURE ACT

After several congressional delays, the Setting Every Community Up for Retirement Enhancement act of 2019 (SECURE Act) became a law effective January 1st 2020.

One of the more notable changes enacted by the SECURE Act is the removal of the age cap on making a contribution to a Traditional IRA. Currently, individuals are prohibited from making contributions to a Traditional IRA starting in the year they turn 70.5. Now, similar to the contribution rules for a Roth IRA, an individual need only have earned income to make a contribution. This is a huge step for retirement savers, especially as people, on average, are working longer.

Another highly publicized change is the extension of the beginning date for taking required minimum distributions (RMD) from a Traditional IRA, increasing from 70.5 to 72. This change is essential in today's world, where the average American not only retires later, but is living longer.

While there are a few positives retirement savers can take advantage of with the passing of the SECURE Act, there are some negative ramifications some might feel, depending on their situation, including the loss of the RMD stretch for most non-spousal beneficiaries.

Given the widespread impacts of this law, we recommend you review the [detailed overview](#) of the law our expert Financial & Estate planning team created, and call us with any questions. We will discuss any potential impacts to your plan and recommended strategies to address them in our next meeting.

Team Update

Sydney has been an official member of the Verdi Group for 6 months now. Her technology skills and youthful enthusiasm has energized our business and helped to create systems that save time and enhance our service model. These efficiencies have provided more time for us to research the market and world economies in our continued effort to stay abreast of the financial issues that impact our clients.

As valued clients we want to thank you for the trust you have placed in us. It is not something we take lightly. We are now in a position to take on new clients, so if you know of anyone in need of our professional services please feel free to share our contact information.