



QUARTERLY NEWSLETTER

2019 Fourth Quarter

Dear Client,

GOT PLANNING? A new year and new decade provide us the perfect reason to assess the sometimes “forgotten” areas of our financial lives – read on to see what you might have overlooked, or even be missing in your planning efforts.

4th quarter and 2019 annual statements are out – please review these and contact the office if you have any questions. Information for tax preparation (TD Ameritrade 1099’s and 1099R’s, and PFM gain/loss reports) is now available – you can refer to the most recent email communication dated 2-12 for a complete update. Note, however, that correction cycles are still in process and we will keep you posted on any information forthcoming. Please take the time to compare the information on your report to your account statements received from TD Ameritrade or other custodians, and promptly contact the office should you find material discrepancies (note that there might be slight discrepancies due to the timing of the credit of dividends or transactions at quarter end). Also, if you are not receiving account statements directly (either in print or electronically) from TD Ameritrade or other custodians, notify us immediately.

We decided to do something new this past year by including our families in our Annual Christmas greeting – we thought you might enjoy seeing those who provide much of the motivation, drive, and support behind what we do. And speaking of new, you probably noticed the little bundle in Brandon’s arms. Brandon and his wife, Lindlee, welcomed their first child, Margot, in mid-November! As new parents, they are elated (as any new parents would be) and are embracing the excitement of parenthood. We use this wonderful news for a specific reason – as we are still in the infancy of a new year, we need to be reminded of the financial considerations outside of our investment portfolios that are vital to long-term financial success. We cover the most important of these below following a quick review of 2019 financial markets.

2019 – MARKETS IN REVIEW

Equity markets around the world posted positive returns, defying news headlines and in the case of the US market, having its best year since 2013. Not even one of the worst Decembers on record could stall the now

decade long run in stocks, as markets started the year strong fueled by an accommodative Fed, strong corporate earnings, and reduced trade tensions. However, global economic growth concerns and renewed trade tensions took markets lower mid-year. Interest rates across the globe fell and the Fed reduced short-term rates by .25%, benefiting bonds and allowing stocks to move higher. More global economic strife affected equity markets in August and September, sparking a Treasury rally that took the rate curve negative. However, strong economic data, positive trade sentiments and reduced recessionary concerns fueled the market's run through the end of the year (summary courtesy of Russell Investments). 2019 markets again provide further evidence that prediction is impossible and that a patient strategy continues to be our best ally.

Value and small cap factors experienced mixed results through the year but continue to provide the long-term performance and diversification benefits to your portfolio. The value premium was negative in the US, international developed markets and emerging markets. Small cap stocks did outperform in international developed markets but underperformed in both the US and emerging market spaces. Real Estate Investment Trusts (REITs) across the globe had another strong year, outperforming equity market indices in the international developed markets but underperforming equity indices in the US. Interest rates in the US fell on the year, continuing to push bond yields higher. In terms of total returns, short-term corporate bonds returned nearly 7% on the year with intermediate bonds returning just over 10% (*information courtesy of Dimensional Fund Advisors*).

More detailed information and additional commentary on the markets can be viewed by going to our website and selecting the "News" tab. Below is a summary of broad market index performance for the quarter based on the asset class exposure in your portfolio:

	US Stock Mkt.	International Dev. Mkts	Emerging Mkts	US Real Est.	US Bond Mkt.	Global Bond—ex US
Q4'19	9.10%	7.86%	11.84%	-1.14%	.18%	-1.11%
2019	31.02%	22.49%	18.42%	25.76%	8.72%	7.57%

Source: Russell, MSCI, Wilshire, Barclays and Citigroup

NEW BEGINNINGS

All too often long-term planning efforts tend to solely focus on investments. While we agree that investment portfolios provide the "engine" that ultimately drives a plan's success, there are other vital pieces to successful long-term planning that warrant attention. Whether we are new parents, new retirees, or have something new in our lives, we use the news of Brandon and Lindlee's new arrival to address those areas of planning that may have been looked over, need updating, or even addressed for the first time – the new year (and decade) provides the perfect opportunity to focus on the following areas of importance:

Financial Plan: If you have a plan, review it – if you don't, consider getting one. Your financial life experiences change just as much as those in your "real" life and these changes require adjustments to budgets, goals, investment exposure, etc. Net worth and cash flow analysis provide valuable snapshots of our current financial state. This information assists in the development/reassessment and prioritization of goals,

ultimately leading to the creation of an action plan to achieve them. Investment discussion here is relegated to proper asset allocation (stock / bond exposure) and risk tolerance – is your investment exposure adequate and/or appropriate to carry-out your plan? Proactive planning can help maintain a long-term perspective, preventing reactive behavior and impulse decision making in adverse market conditions. In other words, planning keeps the focus on things within our control, potentially easing stress in times of uncertainty.

Insurance: Health, Life, Disability and Long-term Care are the four obvious coverages to address. Insurance (risk management) planning is essential at every stage of life. Both life and disability insurance, for example, are necessary coverages during working years, providing protection for loved one's in the event of an untimely demise or debilitating accident. As you accumulate assets and progress toward retirement, however, need for these coverages may diminish or disappear entirely, depending on your situation. While Health coverage is a must, reviewing your plan annually with consideration of past medical expense experience, may help identify a more cost-effective plan for you or your family (i.e. high deductible plan combined with a Health Savings Account). This process should continue once on Medicare. Understanding income breakpoints along with a continual review of supplemental plan options and benefits can help control costs. Long-term care coverage is certainly important to protecting one's "nest egg" but may or may not be something that should be considered in one's overall planning. Again, reviewing your situation with a professional is the best way to determine exposure, identifying any "weak links" in your overall plan.

Estate Plan: If you have a will(s) or a Living Trust in place, review it. If you don't, make an appointment with an estate planning professional to get something in place (this includes all other documents needed to complete the plan, such as Powers of Attorney, Healthcare Powers, Living Will, to name a few). Make sure beneficiary designations on retirement plans, annuities and Life Insurance policies (all deemed "contract property") which pass outside of wills and trusts, are current and that they accomplish your intent. Young or old, having a plan in place ensures the security of our loved ones and makes provisions that your "stuff" is distributed to those whom we intend to have it. Laws, as well as personal circumstances can change, so putting a plan in action and keeping it current is important in all stages of life.

Taxes: As you prepare for tax filing, review your situation to see what has or may change - these changes could affect your tax situation. With the help of a professional, you may identify additional tax-advantaged savings opportunities or even tax deductions or credits at tax time that can help minimize tax liability. Professionals can also keep us abreast of tax law changes and legislation that may affect our situations, such as the recently passed SECURE ACT (see our December message!). Further, a review of our tax status (i.e. AGI, taxable income and marginal/effective tax rates) can pinpoint key planning opportunities both during accumulation and subsequent withdrawal of investment/retirement account assets. Tax management is a critical part of the planning process - maximizing tax efficiency means more money for personal needs. You may have heard this from us before: *It's not how much you make in life, it's how much you keep!*

The information presented here, while certainly not exhaustive, hopefully emphasize the importance of comprehensive planning. The birth of Brandon and Lindlee's little girl Margot is certainly motivation for them to review their situation...what is yours? Use the beginning of this year (and every year) to address all aspects of your financial life as doing so on a consistent basis can help reduce the overwhelming stress of attaining financial security and get on with the ability to enjoy the experiences of everyday life....like a new baby girl. Congratulations Brandon and Lindlee!

We are here to here to assist you with any (and all) of these areas so please let us know how we can help. Thanks for your continued trust.

Sincerely,

Your PFM Advisory Team

Fee Only Investment Advisory and Financial Planning

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