January 2020

PINNACLE QUARTERLY

To infinity… and beyond?

The Pinnacle Investment Team

POTOMAC
INSURANCE & FINANCIAL SERVICES

January 2020

At Potomac Insurance and Financial Services, our goal is to help business owners protect and grow their business and family wealth. Since 1985, we have been overseeing our clients' insurance and financial affairs, from commercial to personal, so they can focus on what's important to them: Running their business.

We help our clients select the best investment management approach for their private wealth with the least amount of risk. This approach includes personal retirement planning, risk management, family education funding, financial protection planning and assisting the business owner with company-sponsored retirement and group-health plans. We unite insurance and financial planning so that our clients know their business and personal wealth are taken care of in one place.

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Investment strategies are provided by subadvisor Pinnacle Advisory Group, Inc., Columbia, MD

What The SECURE Act Means For You

Kelly Wright, CFP®
Director of Financial Planning

On December 20, President Trump signed the Setting Every Community Up for Retirement Enhancement (SECURE) Act into law. Here are some of the retirement enhancements the act offers, effective January 1, 2020.

The enhancements:

- Required Minimum Distributions (RMDs) from 401k, 403b, and IRA accounts will not be required until the year in which the account owner turns age 72. Note: If you were born on or before June 30, 1949, you then are subject to the existing 70.5 starting age even if you elect to delay your first 2019 RMD to the April 1, 2020 deadline.
- Those age 70.5 and older can now still invest into IRA plans
- Long-term part-time workers will have more access to retirement plans
- Some penalty free distribution exceptions have been added

Not all good news

But wait… all these come with a cost. The Act was meant to be revenue neutral, so where are taxes going to come from?

Congress killed the stretch IRA, and your children will pay the price! The SECURE Act does more to affect transferring wealth to your children than any other recent budget provision. If you do not spend all your Traditional IRA or 401k money before you die, your children who inherit those accounts must deplete them and pay all the income taxes within ten years! The effects of this act are significant, and in three days the House passed the amendments, the Senate passed it, and the President signed it into law. Passing laws in this manner gives constituents no time to react and/or object. Even now in mid-January, the only media coverage is by the financial press, not the mainstream media.

Prior to this bill, your children, or heirs other than your spouse, were required to take distributions over that heir's life expectancy. For example, if you pass away at age 75 with $1,000,000 in an IRA at the end of that year and your child is 39, the 2019 rules say that in the year following your death, your now 40 year-old beneficiary must distribute 1/43.6 (about 2.29%), specifically $22,936. The next year the factor would be reduced by 1 to 42.6, and the percentage would be about 2.35%. Assuming no change in value, the required distribution would be $23,474. Your 40, then 41-year-old child also gets taxed on that amount.

Starting with account holders passing in 2020, your 40-year-old child has ten years to take the money out. Even at one tenth for the first year, this adds $100,000 to your child's taxable income. It should be noted that:

- A surviving spouse can still take over a decedent spouses' IRA assets as their own.
- Minor children can use the stretch provision until they are age of majority before their ten-year clock starts.
- There are a few other, less common, exceptions as well.

Given the fact that most adult children have their peak earning years from 40 to 65, adding large taxable events during this period is very punitive, tax-wise. This is also the period during which most children's parents will pass.

Additionally, Conduit Trusts that were written specifically to protect IRA assets may now be counterproductive. These See-Through trusts were put in place to protect assets from creditors while allowing beneficiaries to stretch payments using the eldest beneficiary's life expectancy. Many of these trusts were written to pass-through the RMDs to the ultimate beneficiary. Now there is technically only one year a distribution is required: the tenth year! So, it is possible by creating efficient trusts for IRA assets that your trust can create a one-year blowout of all the value of an IRA, including ten years of growth, to be distributed in one single tax year.

While there are many other less prominent provisions, these are the key points you must know to plan accordingly. One smaller provision allows for easier certification and a lower corporate liability for a company to put an annuity into their retirement plan, leaving no question as to why the insurance industry lobbied so strongly for this bill!

Tax deferral is only efficient when the taxes paid in the future are less than the taxes paid now. Given the development of the passage of the SECURE Act, it is easily possible from the viewpoint of intergenerational wealth transfer that you may defer taxes only to pay a higher rate later. Given this, Roth conversions may be a more viable alternative in some cases. Additionally, leaving IRA assets via a trust will require careful examination of existing trusts created for that purpose, and could possibly mean not using a trust at all.

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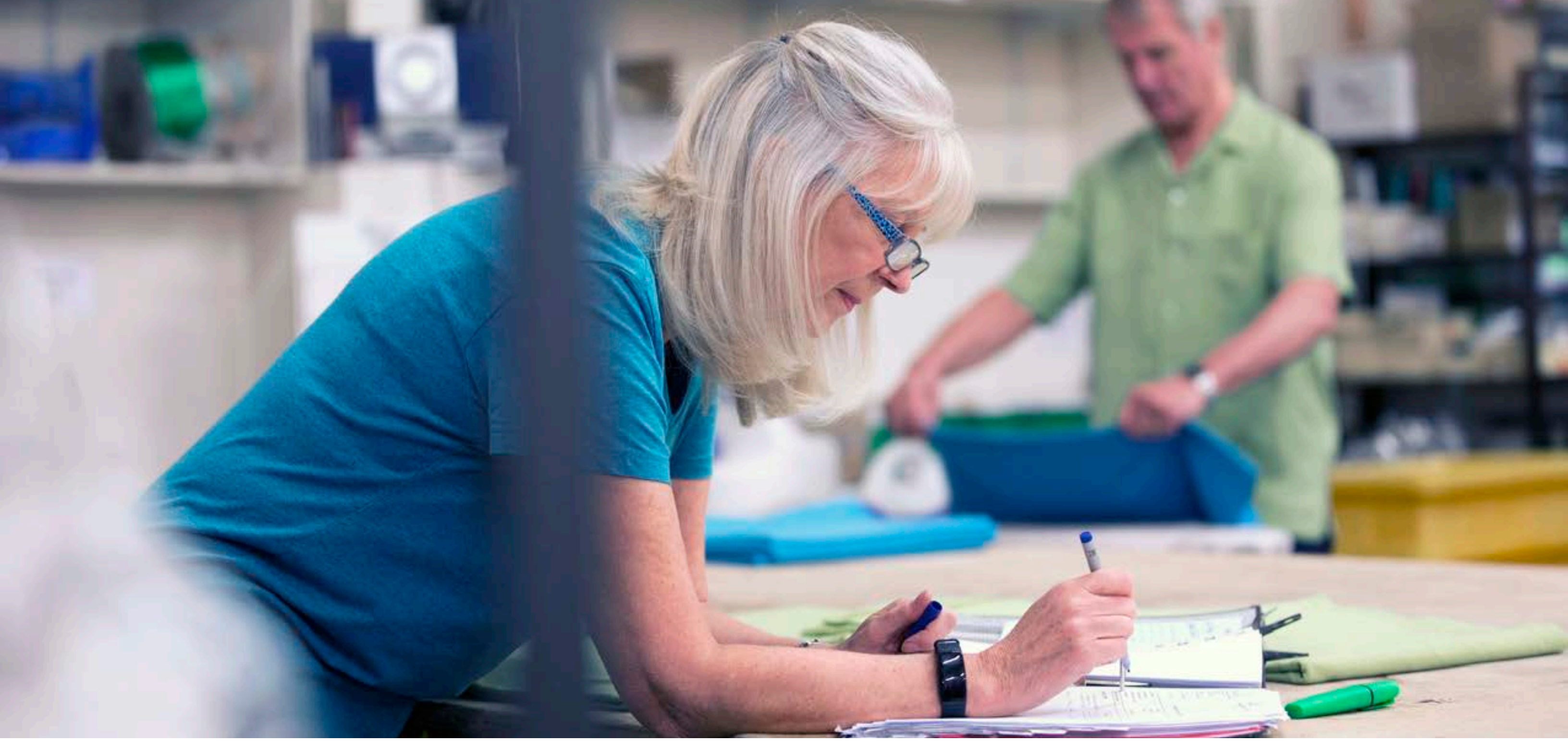

5 Things To Consider Before Retiring As A Small Business Owner

Deb Kriebel, MBA, CFP®
Partner, Wealth Manager

As an entrepreneur, you've probably been so busy building, nurturing, and growing your business, that you haven't had any time to think about your own retirement. That time has finally come: It will probably take several years to plan the successful sale of your small business, so it's a good idea to get started now by putting together your succession plan.

Here are 5 things to consider that will help you get started in the planning process:

1. What are your goals?

Take some time to focus on yourself, your family, and friends. What are you retiring to? How do you want to spend your new free time and who do you want to spend it with? What are your favorite hobbies or interests? Where do you want to live? What type of lifestyle do you envision? Do you enjoy more active, outdoor activities, or more quiet, indoor activities? Do you prefer the country or the city… or somewhere in between?

2. How will you transition into retirement?

Have you mapped out your exit game plan? What does it look like? Will you transition slowly by going from full-time work to part-time? Are you planning a multi-year separation plan and a gradual stair-step exit? Do you want to stay involved or completely remove yourself from the business? Do you have a timeline that maps out your business transition plan? Who will take care of your clients or customers?

3. Do you have a succession plan for your practice or business?

What does your business exit strategy look like? Do you have a consultant or broker that you are working with to help you sell your business? Does the broker understand your unique specialization and the true value of your business? Does your practice or business have a marketable value? If it does, would you sell your business to an outside party? Would you hire and train a successor from outside the practice, or sell your business to a family member or current business associate? Have you had a recent professional valuation of your small business? Have you put together a step-by-step marketing plan? What will you do with the monies from the sale of your business?

4. How is your business set up, and how will you structure the sale of your practice or business?

Is your business operating as a Limited Liability Corporation (LLC), S-Corp, or C-Corp? Do you have other shareholders and employment agreements to consider? How will the sale of your business affect your taxes?

It will be important to assemble a solid team of professionals to help you during this process. Possible team members may include an accountant, a contract and estate attorney, a wealth manager, a pension administrator, a valuation professional, and a commercial insurance specialist.

5. Are your financials and client files up to date?

It's time to clean up and catch up. Make sure your financial files are in good order by updating your records, sales, and transactions. Do you have a good handle on your cash flow? How much time do you spend running your business? How many hours per week do you work? How many people would you have to hire to replace yourself? Do you have a good client data base? Is it up to date with all your current contact information? How and when will you communicate your succession plan to your clients? How are you taking the payout from the new owner, and where is it going when you receive it? How are you going to structure it so that it creates cash flow in retirement?

Finally, it's easy to get wrapped up in the business details and forget to focus on the personal details of this big life change. Take some time during this process to circle back to your personal goals and dreams, and work with your wealth manager to update your retirement plan. You can do some of those things you always wanted to do. That may include volunteering with a local charity, traveling, reading books, and visiting children (and grandchildren). Maybe your goal is to establish a non-profit and use your business and professional knowledge to help others. Wherever your path takes you, it's yours to enjoy.

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10 Smart Ways To Use Your Roth IRA

Michael Green, Jr., CFP®, CAP®, CTFA®, CCPS™-ELA®
Wealth Manager

Among the resources available to enable investors to achieve both their pre-retirement and retirement goals, the Roth IRA is a particularly valuable "arrow in your quiver."

As a savings vehicle, a Roth IRA is available to anyone, regardless of age, who has earned income up to certain annual limits (a phaseout range of $124,000 - $139,000 of Modified Adjusted Gross Income for single filers and $196,000 - $206,000 for joint filers in 2020). Currently, contributions up to the lesser of earned income or $6,000 ($7,000 for those age 50 or over) are permissible. Those contributions, made with after tax monies, are not a deductible item on your tax return. They can, however, be withdrawn tax free at any time.

Whether the earnings on those contributions can also be withdrawn free of taxes and penalties will depend upon your age, the length of time the account has been open, and how you plan to spend the earnings that you withdraw. Where a Roth IRA has been open for less than five years, withdrawn earnings will be subject to taxes. (The five year clock starts on January 1st of the tax year for which your first Roth IRA contribution was made.) In addition, a 10% penalty may be applied if you are under age 59 ½ when making those withdrawals, subject to certain exceptions. Uses of the Roth IRA to fund life and retirement goals, while navigating those rules, are illustrated through the purposes and strategies outlined below.

Though primarily a retirement resource, Roth IRAs can be used to fund other, pre-retirement goals where penalties are avoided even if earnings withdrawals are made prior to age 59 ½:

1. College Costs: You can use your Roth IRA to fund qualified higher education expenses for yourself, your spouse, your children, or grandchildren, including tuition, fees, books, supplies, and equipment, as well as room and board (if the student is enrolled at least half time). Other college saving vehicles, such as 529 plans, should likely be considered, but for those concerned about saving for both retirement and college, the flexibility of the Roth IRA can be appealing.

2. Home Purchase: You can withdraw up to $10,000 ($20,000 for joint filers) towards a first-time primary residence purchase for yourself, your parents, your children, or grandchildren. The IRS definition of first-time purchaser is fairly broad.

3. Medical Expenses: Roth IRA earnings can be drawn penalty free to pay any unreimbursed medical expenses that exceed 10% of your adjusted gross income (assuming you itemize deductions).

4. Health Insurance: To cover premiums during periods of unemployment.

While a possible supplement to fund the needs mentioned above, the primary aim of Roth IRAs is, of course, retirement funding:

5. Accumulation: Those eligible should make the maximum contribution if possible. Where cash flow allows, this might involve an employee maximizing 401k contributions and taking advantage of any company match, and then in addition fully funding a Roth IRA. Notably, Roth IRAs for both spouses can be funded even if only one is working, assuming the income eligibility criteria are met. Also, Roth IRA contributions need not come directly from a paycheck, but can come from any source (i.e. savings or brokerage account, etc.)

6. Back Door: If your income level is too high to contribute directly to a Roth IRA, you may still be able to convert monies to Roth status at little to no tax cost. This strategy, known as a "Back Door Roth," involves making a non-deductible contribution to a traditional (pre-tax) IRA, and then converting those monies to a Roth account after a reasonable time. This is best employed by those who have no previous IRA savings.

7. Conversion: In some cases, retirees have a range of time within which they no longer receive wages but have not yet begun Social Security distributions or RMDs from qualified accounts, leaving them with lower taxable income. In this window, which was lengthened by the recently passed SECURE Act, engaging in Roth conversions incrementally year by year may be advisable. Conversions, where pre-tax monies are moved over to Roth status, are a taxable event. However, engaging them when your tax rates are lower, and setting the stage for future tax-free withdrawals when your tax rates may be higher, can be advantageous.

8. Distribution: Original Roth IRA owners are not subject to Required Minimum Distributions (RMDs) but may be able to rely on tax and penalty free Roth IRA withdrawals in retirement. This means their cash flow needs are being met while their taxable income is kept low. Additional benefits that may flow from this reduced level of taxable income could include lower Medicare premiums, reduced taxation of Social Security distributions, and possibly a 0% capital gains tax rate.

With their long-term tax savings features, Roth IRAs can be valuable even beyond retirement, in the context of what we might call legacy planning:

9. Next Gen: Where a child or grandchild has some level of earned income (i.e. a summer job, for example), employees or retirees with sufficient resources might consider helping to fund a Roth IRA for them. This is a great vehicle to teach the habit of saving and the benefits of tax-free compounding over a long-term time horizon.

10. Inheritance: Using a Roth IRA to pass assets to the next generation (a child or non-spouse beneficiary where spouse is already deceased, for example) can be beneficial in providing that beneficiary a source of tax-free withdrawals over a period of years (typically ten, although the length can vary based upon the age, relationship, and health status of the beneficiary). While an inherited Roth IRA is subject to Required Minimum Distributions (RMDs), those distributions are not taxable if the original account owner had held the account for five years or more. Designation of a beneficiary on the Roth account also enables those assets to avoid the probate process.

The discussion above is not meant to be exhaustive in terms of Roth IRA rules or exceptions, and the appropriateness of the various uses and strategies mentioned will vary based upon the goals, resources, and circumstances of each individual. Hopefully, however, they reflect the ways in which Roth IRAs can assist in funding assorted life goals before, during, and after retirement in the context of a tax efficient financial plan. To see how they might fit within your own plan, please consult your Wealth Manager.

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The Difference Between Happy And Unhappy Retirees

Stephen Wright, CFP®
Wealth Manager

According to a 2016 Employee Benefit Research Institute study on retirement satisfaction, almost 90% of retirees say that their retirement is either "very" or "moderately" satisfying. Fortunately, most retirees are happy. A little over 10% of retirees, however, admit that they are "not at all satisfied" with their retirement.

As you might expect, people with higher net worth are generally happier than those with lower net worth, so having a good financial plan is important. People with better health are also happier than those in poorer health. It is heartbreaking when people have big goals for retirement, but then health issues (or even early death) keep them from achieving those goals.

However, I have also known people who have a high net worth and good health who were still not as happy as you might expect them to be. Money and health are very important, but happiness is more complex than just having money and health.

So, what is the key difference between a happy and an unhappy retirement? **The key to a happy retirement is to have something that you are retiring to, not just something that you are retiring from.** The difference between happy and unhappy retirees is having a purpose.

In Wes Moss's 2014 book, *You Can Retire Sooner Than You Think*, he cites data that shows 91% of happy retirees have a clear sense of purpose, while 89% of unhappy retirees are uncomfortable with their sense of purpose. The happiest retirees have a plan for how they are going to spend their life in retirement, not just how they are going to spend their money. They know what they want to do and how they are going to spend their time. They have a reason to get up every day. Many happy retirees have told me that they are busier now than they were when they were still working.

However, if you are retiring because you are sick of your current job and cannot take it anymore, but do not have a plan for how you are going to spend your days going forward, you will probably get a short-term thrill from retiring but might not be happy in the long-term.

Finding Purpose In Retirement

What kinds of things give happy retirees a sense of purpose? Of course, spending time with family is important. Spoiling grandkids is always time well spent.

Some of our clients find a sense of purpose in travel. Meetings with them are full of reports of exotic vacations and cruises. They are excited to tell us where they are going next. Maybe it's New Orleans or Napa. Maybe it's a European river cruise, Brazil, Norway, Mexico, or Japan. Maybe it's exploring art museums or enjoying wine and food festivals. Wherever it is, the adventure of exploring new places gives them a sense of meaning.

Others get a sense of purpose from hobbies and sports. Some enjoy tennis or golf or even pickleball. One of my clients loves to go on kayaking trips. Another races in sailboat regattas. A number of clients enjoy quilting. Retirement gives them more time to enjoy doing the things that they love.

Volunteering is another thing that gives clients a great sense of purpose. Many of my clients help with different ministries in their churches and synagogues. One client enjoys traveling around the South singing in a mass choir.

Financial planning should be about making the most out of this life with which we have been blessed. The goal should not just be to maximize our money, but to maximize our long-term happiness.

We have only one life to live. To help identify your purpose, imagine for a moment that you are at the end of your life. What would you most regret not having done? And what will you miss most about life?

As a Wealth Manager at Pinnacle Advisory Group, my favorite part of the job is helping clients dream about the kinds of lives they would love to have, and then sharing in their excitement as we meet those dreams. If someone you know is considering retirement, we would appreciate an opportunity to meet with them and to help them enjoy a happier retirement.

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How To Protect Your Financial Information

Mindy Gasthalter, CFP®, MBA
Wealth Manager

If you use a computer, you are vulnerable and at risk of having your information compromised. I am old-fashioned, and while I use a computer for many things, I don't use it for on-line banking. I have to wait until my bank statement arrives every month to check for my deposits and withdrawals and balance my checkbook (yes, I still do that). This does not mean that I am in the clear. Anyone who uses a computer is at risk, regardless of how little you think you may be doing from a financial perspective on-line.

Unfortunately, breaches are all too common; the biggest examples snared Marriott, Equifax, eBay, Yahoo, Target, and Home Depot (among others).

Thankfully, there are a few ways you can protect your financial information.

Credit Reports

The big three—Equifax, Experian and Transunion—all use the same data to produce their reports, but weigh the criteria differently. So a score of 700 (fair) from one might be a 720 (good) from another. You can obtain one free credit report per year from each of these companies and can request a copy from annualcreditreport.com. Additional reports can be obtained and cost no more than $12.50 (by law).

You can easily scan the report to ensure there is no misinformation. Several credit card companies offer free credit reporting as well, so you may want to check with them.

Fraud Alert

A fraud alert requires each of the big three to put a special note in your credit file that says you believe that you may have been a victim of identity theft. A lender is then required to take "reasonable" measures to verify your identity before approving credit in your name.

Fraud alerts expire every 90 days but can be extended to seven years if you have been a victim of identity theft. A fraud alert would be appropriate if your wallet was stolen, for example.

Credit Monitoring

A credit monitoring service will watch your activity and alert you regularly regarding any changes (or no changes). For example, it will watch for any new credit cards that have been issued in your name, request to increase a credit limit or if "you" have

recently acquired a mortgage (yes, this did happen to someone I know).

There are more than 20 credit monitoring services on the market. Reviews.com looked at all of them and ranked their top three: myFICO (the best for improving your credit score); IdentityForce (the best for basic monitoring); and Identity Guard (the most user-friendly). myFICO is about $40/month while IdentityForce and Identity Guard are about $20/month.

Credit or Security Freeze

Given the extent of the Equifax hack, this is an important new-normal step to consider.

By placing a freeze on your credit (which is now free), you can restrict access to your credit report, making it more difficult for a thief to open new credit in your name. If a lender cannot see your credit report because it's been frozen, you cannot get additional credit.

To put a freeze on your credit, call Equifax (1-800-685-1111), Transunion (1-888-909-8872) and Experian (1-888-397-3742). To lift the freeze, either temporarily or permanently, call (or go on line) and make a request; it is supposed to be unlocked within one hour.

While not necessarily related, you can opt-out of receiving those pesky, pre-approved credit card or life insurance solicitations that come regularly in the mail. You can opt-out for five years or permanently.

To opt-out for five years, call 1-888-567-8666 or go to www.optoutprescreen.com.

To opt-out permanently, go to www.optoutprescreen.com and return the signed Permanent Opt-Out Election Form, which will be provided to you after the initiate the request.

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MARKET OUTLOOK

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Whew, what a difference a year makes. The final quarter of the decade proved to be very different than the nerve-wracking ending of 2018, with risk assets enjoying a strong rally into the end of the year. U.S. stocks soared by almost 9% in the final months of 2019, putting the finishing touches on the best year for the S&P 500 Index since 2013. It was a nearly uninterrupted rally for three months, with the S&P 500 making 22 new record closing highs during the quarter. International stocks weren't far behind as they gained nearly 8%. Commodities gained nearly 5%, with oil prices taking the lead this time as they jumped by 13%. In fixed income, the broad Bloomberg Barclays Aggregate Bond Index was flat, but that hid some significant dispersion as credit-related bonds rallied while high quality bonds fell. As the year came to close, investors were in great spirits as stocks were sitting just off of the most recent record high of 3,240 on the S&P, reached on December 27th.

Chipping Away at the Wall of Worry

Underpinning recent enthusiasm were signs of progress on a number of fronts that investors had been concerned about. Indeed, there was no shortage of things to worry about in 2019, and all year it seemed to be a classic example of the market scaling a "wall of worry."

Starting with trade, tensions between the U.S. and China had ratcheted up considerably in the third quarter when the U.S. announced both an increase on existing tariffs and new tariffs, to cover more imports from China. However, negotiations between the two sides continued, and there was a noticeable sense of relief when rumors of a potential "Phase One" deal were reported. There was some initial confusion as to what was agreed to, but the main aspects of the agreement were that the U.S. will partially roll back the tariffs that were instituted in September, and will not go forward with additional tariffs on the remaining $160B of imports that consist primarily of consumer goods. In exchange, China has agreed to increase purchases of U.S. agricultural products to between $40-50B annually, to strengthen protections for intellectual property, and gradually open its financial sector to allow more foreign competition. While the majority of the existing tariffs will remain in place, and tensions between the two countries may flare up again in the future, this Phase One agreement represents a significant de-escalation of trade friction between the two countries and should allow damaged business confidence to rebound.

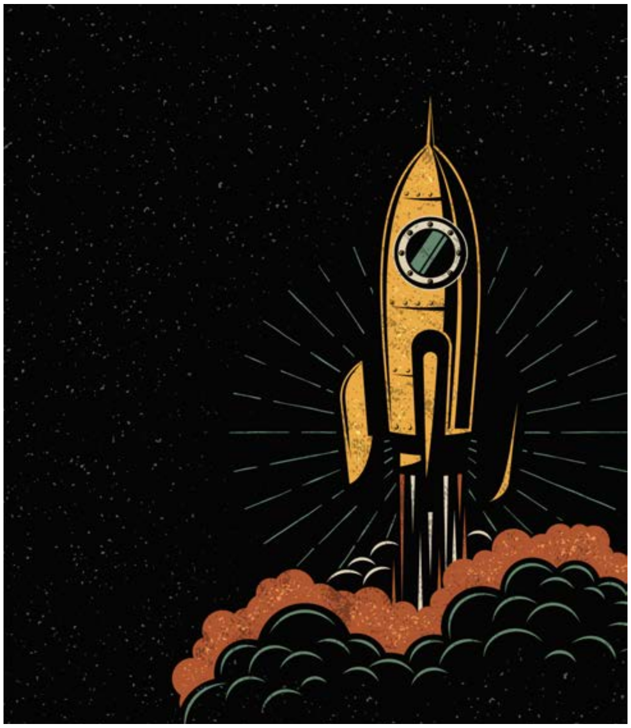
There was also more encouraging news from the Federal Reserve. In October, the Fed continued its dovish pivot that began earlier in the year, by cutting interest rates for the third time. However, they also announced that they were unlikely to make any additional rate cuts, barring a sudden deterioration in the economy. This message immediately caused some investors to speculate whether the Fed might resume raising interest rates in 2020 like they were doing in 2017-18 if the economy rebounds as expected. However, the Fed was quick to allay those concerns by clarifying that the economy—and particularly inflation—would need to accelerate meaningfully from current levels in order for that to happen. This was broadly interpreted to mean that the Fed is most likely on "hold" from an interest rate standpoint at least through the election later this year. In addition to another rate cut, the Fed also made an unexpected but significant announcement that they were going to grow the size of their balance sheet again through large purchases of T-bills. This was in response to temporary dislocations in overnight funding markets (blamed on a lack of sufficient liquidity due to the Fed's prior tightening campaign). The bottom line is that the Fed has completely shifted to a more supportive stance, and is unlikely to take any restrictive actions in the near-term that could impede the economy's progress.

The other big positive development took place over in the U.K. Boris Johnson, the newly elected Prime Minister, decided to call a general election to navigate through an impasse on the Brexit negotiations. The gambit worked, as he won a resounding victory and substantially increased his party's margin within Parliament. While that all but ensures that Brexit will be carried out, markets also viewed the result as significantly reducing the risk of a disorderly crash out of the European Union, since the two sides had previously negotiated an exit deal. Markets also seemed relieved that after three long years of haggling, some sort of resolution may finally be at hand.

On the whole, the major developments during the quarter were warmly received by investors and contributed to the market's surge into year-end.

But More Hurdles to Overcome

While several headwinds facing the market may have faded in recent months, it would be a mistake to assume that they've completely gone away, and it's going to be nothing but blue skies ahead. There are still several important issues facing the market, even as stocks hover in record high territory. First of all,



overall economic growth remains fairly sluggish. Even though there are some reasons to anticipate a marginal pickup this year, growth is slow enough that it wouldn't take much to knock it off course. In the first half of last year, there were some early warning signals of recession that began to flash, and while those have since quieted down, it still seems prudent to heed those warnings.

In addition, the large gains last year mean that stocks enter the year in expensive territory. The forward price-to-earnings multiple for the S&P 500 has climbed above 18, which is at the higher end of the range for this cycle. This is largely due to the fact that stocks rallied while earnings barely grew, a combination that is unlikely to be sustainable going forward. Current expectations are for earnings to rebound towards a 5-10% growth rate this year, and it's going to be critical that companies can deliver. If earnings disappoint again, then the market may be vulnerable to an adjustment to a lower valuation.

Another big hurdle for markets this year is the presidential election that looms in November. Markets are acting fairly sanguine at this point, but there's still plenty of uncertainty as to who the Democratic nominee will be. As the year progresses and it becomes clear who's going to run against President Trump, markets are likely to react to the different set of policy proposals that voters will be left to choose from. Even if the overall market remains resilient through all of the political jockeying, there are likely to be specific sectors and industries that are drawn into campaign promises made on the trail. There are also ongoing impeachment proceedings. At this point, the market appears to have priced in an outcome where this stalls out in the Senate and the President remains in office.

And finally, geopolitical tensions are a near constant presence in recent years. Already in the first few days of 2020, there's been a major escalation of hostilities between the U.S. and Iran. While fears of an all-out war have settled down, it's a delicate situation and things could flare up again at any time. It's always a challenge for investors to try to anticipate geopolitical risks, but within diversified portfolios there are certain holdings that tend to benefit during those episodes (like Treasury bonds and gold) that help reduce overall portfolio volatility in the event of a sudden market decline.

Positioning: Beginning to Overweight Risk

Portfolio positioning has begun to reflect our assessment that the weight of the evidence has shifted in a more bullish direction. From an overall standpoint, we've increased the volatility of the portfolios so that they're positioned modestly above benchmark levels of risk. We do have some concerns that the market is a little overheated in the short-term after such a strong fourth quarter (and even more gains to start the new year). But while a normal pullback could materialize at any time, the bigger picture is that investors are likely to be rewarded for maintaining exposure to risk assets.

In terms of sector positioning, we've begun to rotate towards more cyclical parts of the market at the expense of defensive sectors in anticipation of an improvement in the economic environment, with overweights in areas like Technology, Financials, and Industrials. We've also recently increased weightings in international equities, with the expectation that the U.S. dollar might weaken this year and allow global markets to potentially outperform. In fixed income, we're positioned very close to the benchmark as far as interest rate sensitivity. Exposure to corporate credit is underweight relative to the benchmark, but we recently purchased a new position focusing on structured mortgage credit and also continue to own private real estate as an alternative. And in commodities, we continue to carry an overweight to gold.

Looking Ahead

Markets enter 2020 still carrying the positive tone that was set last year. While it may be a stretch to expect similar gains that were enjoyed in 2019, there are still solid reasons to believe that the economy can continue to grow. There will undoubtedly be pullbacks and corrections along the way, but with a global economy expected to rebound, plenty of central bank stimulus, very low interest rates, reduced trade tensions, and recovering corporate earnings, we believe that the overall environment is supportive of taking a moderately bullish amount of risk. Of course, this view is subject to change as the year progresses for the reasons described, and therefore it will continue to be important to maintain a flexible approach to asset allocation.

Disclosures

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The views expressed in this commentary are subject to change based on market and other conditions. These documents may contain certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected. Any projections, market outlooks, or estimates are based upon certain assumptions and should not be construed as indicative of actual events that will occur.

Past performance shown is not indicative of future results, which could differ substantially. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income. You cannot invest directly in an Index.

Risk associated with equity investing include stock values which may fluctuate in response to the activities of individual companies and general market and economic conditions.

Investing in foreign domiciled securities may involve risk of capital loss from unfavorable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations.

Although bonds generally present less short-term risk and volatility risk than stocks, bonds contain interest rate risks; the risk of issuer default; issuer credit risk; liquidity risk; and inflation risk.

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