



# Lakeshore Financial Planning



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Mark Romin, CFP®  
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## YOU'RE INVITED TO OUR 2020 Market Update & Discussion



Please join us for an interactive discussion of current market conditions for 2020 and beyond.

Date: Thursday, February 20th  
6:00 – 7:30 p.m.

Location: Lochmoor Club  
1018 Sunningdale Dr. • Grosse Pointe Woods, MI 48236  
Please RSVP with Millie (586) 498-0788



“Before you think about buying stocks, you ought to have made some basic decisions about the market, about how much you trust corporate America, about whether you are a short-or-long-term investor, and about how you will react to sudden, unexpected, and severe drops in price. It’s best to define your objectives and clarify your attitudes (do you really think stocks are riskier than bonds?) beforehand, because if you are undecided and lack conviction, then you are a potential market victim, who abandons all hope and reason at the worst moment and sells out at a loss. It is personal preparation, as much as knowledge and research that distinguishes the successful investor from the chronic loser. Ultimately it is neither the stock market nor even the companies themselves that determine an investor’s fate. It’s the investor.”

Peter Lynch

You may recognize this quote which has been in our January newsletter for the past several years. The words were written by legendary investor Peter Lynch in the introduction to his classic book, “One Up on Wall Street.”

Please take another moment right now to re-read Mr. Lynch’s passage slowly and deliberately. In my ongoing effort to help manage your investments in an increasingly complex world, I have read countless books and articles on the topics of investing and financial markets and I have yet to find a better breakdown of the essential elements of successful investing. In fact, the longer I have been a financial advisor, (27 years this year) the more timeless wisdom I see in Mr. Lynch’s words.

I borrow Mr. Lynch’s words each January because they help to illustrate and reinforce our own overall principle of investment advice. We are goal focused and planning driven, as sharply distinguished from an approach that is market-focused and current events driven. Our core belief is that long-term investment success comes from continuously acting on a plan. Investment failure proceeds from continually reacting to current events in the economy and the markets.

The world has changed a great deal in the 27 years that I have been a financial advisor, and I expect the rate of change will only

increase in the years ahead. However, our essential principles of goal focused portfolio management have remained unchanged:

- The performance of a portfolio relative to a benchmark (like the S&P 500 index) is irrelevant to long term financial success.
- The only benchmark we should care about is the one that indicates whether we are on track to accomplish your financial goals.
- Risk should be measured as the probability that we won’t achieve your goals.
- Investing should have the exclusive goal of minimizing that risk.

This is not to say we don’t pay attention to the events and trends that can impact financial markets. The danger we see is attempting to react and respond to every alarming headline. In our January 2019 newsletter I wrote about four potentially market moving events: China trade talks, Brexit, political disfunction and monetary policy mistakes. These four topics dominated most of the headlines in 2019, and yet the market advanced to record levels by year end.

I won’t bore you with a full recap of the market’s path to new highs in 2019. I do think one of the more interesting aspects of last year is that, in several ways, it was the mirror image of the previous year. By almost every fundamental measure 2018 was an excellent year for the U.S. economy, and yet the major

indexes ended lower for the year. As you likely remember, Santa left investors nothing but coal and the majority of the losses in 2018 occurred in December.

This past year was the exact opposite: an exceptionally good year for the market even though the economy slowed slightly, manufacturing activity declined, and corporate earnings for the S&P 500 ended 2019 down year over year. My own observation is that the solid returns of this past year were due mainly to relief that widespread fears of an impending recession were overblown. Our mainstream media has never seen a potential recession signal it didn't love, and if there is none to be found in the economic data, one will be created to scare us. My current favorite media tactic is to interpret and report a slowdown in a data point as being "negative." That isn't the way math works. Until a number falls below zero, it is still positive. When overall economic growth slows from 3% to 2.5% it is still growing and that is not historically a signal of a recession. Finally, I have completely lost count of the number of times I have heard some so-called expert tell me that the next recession is just around the corner. As it has so many times over the past decade, the U.S. economy continued to confound the experts and frustrate the media with its steady growth. As Mark and I continue to believe, math wins, and data prevails over narratives and opinions.

I always try to draw some lesson from the market's behavior every year. I figure since history tends to repeat itself, these lessons may come in handy down the road. Two thousand nineteen was one of those years where the market indexes never even corrected by 10%. In fact, the largest decline was last May when President Trump's China tweets brought the S&P 500 index down by about 7%. The 7% mid-year decline is hardly worth recapping, but the way investors reacted to this relatively brief (it lasted one month) and

shallow decline is what caught my attention. The response by investors was to liquidate their stock holdings at a rate and magnitude not seen since the Great Recession of 2008. I repeat: a one month, 7% decline set off a panic flight from stocks similar to that measured during the greatest financial crisis of my lifetime. The final numbers from data provider Refinitiv Lipper are not yet tallied, but there is no question that far more funds were pulled out of equities than were added in 2019. Given what I have learned from watching fund flows in and out of stocks, it is difficult for me to see this math as anything but a powerfully suggestive contrary indicator.

There is still the question of what this kind of outsized reaction tells us about the average investor, as well as what it could tell us about the market in 2020. Forget for a moment, if you can, the headline issues of the day: the trade situation, impeachment/election uncertainty, Iran conflict, and the like. These are all important issues but the outcomes and impact on markets is unknowable. Instead, let's focus on what seems to be the default behavior of the investing public, which I would currently describe as pessimism, verging occasionally into sheer panic.

The legendary investor Sir John Templeton once said, "Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria." If there is any great lesson from 2019, it is that we seem to be a ways away from euphoria. This is not intended as any sort of market forecast. As I've always said to you, we are planners, not prognosticators. I'm simply saying that, at least historically, large markets setbacks have not occurred during huge waves of public pessimism and fear.

There will be plenty of time to begin worrying when the stock market once again becomes cocktail party conversation, and everyone around us becomes excitedly bullish. It is

## FINANCIAL & INVESTMENT PLANNING WITH JEFF BRAYTON

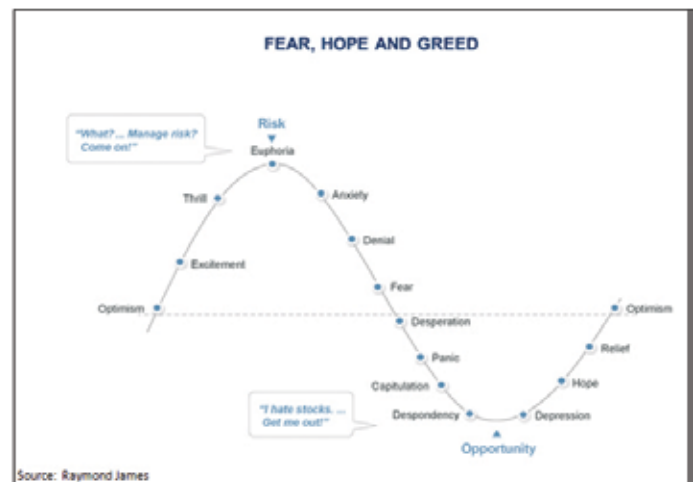
highly probable, as financial journalists have been shrieking lately, that 2020 will not match the returns of the past year. Few years ever do; that is both historically true and completely irrelevant.

Regardless of economic fundamentals, current market levels, or forecasts, the New Year is an ideal time to take a look at your overall financial position and your goals and objectives. In review meetings we continue to discover investment accounts, such as bank IRA's and 401(K) or 403(B) accounts that are not being properly analyzed or monitored. You've worked too hard to not have your money working

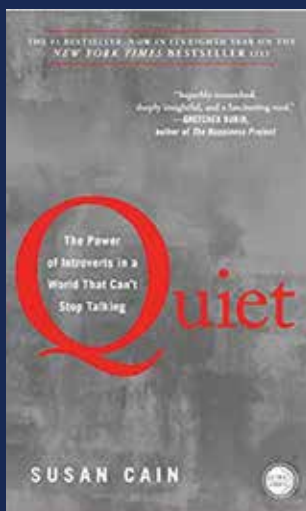
hard for you! We are here to help and have the expertise and tools to assist you in clarifying and organizing your financial life. I hope that this New Year, if you have not done so already, you will connect with us to build or review a comprehensive financial strategy.



Senior Advisor



## BOOK RECOMMENDATION AND QUOTE OF THE QUARTER



Many of human-kind's most creative individuals and successful leaders were introverts. This book presents a history of how our culture came to favor extroverts and why being quiet may be an undervalued trait in our society.

### Quote of the Quarter

*"The next time you see a person with a composed face and a soft voice, remember that inside her mind she might be solving an equation, composing a sonnet, designing a building. She might, that is, be deploying the powers of quiet."*

Susan Cain  
Author "Quiet"



On December 20, 2019 the Setting Every Community Up For Retirement Enhancement (SECURE) Act was signed into law. Within this new law is a subtle increase to the age at which Required Minimum Distributions

(RMD's) must begin. Owners of retirement accounts can now wait until age 72 to begin taking RMD's as opposed to the previous requirement to take them starting in the year they turn 70 ½.

Who does this impact?

If your birthday falls after June 30, 1949, this new law will impact you. You now have the option to wait until age 72 to start taking distributions from your retirement accounts. If you were born on June 30, 1949 or before, it means you've already begun taking RMD's and will continue to take distribution per the IRS schedule. In effect, there will be no IRA owners who will have to take their first RMD in the year 2020.

The life expectancy tables provided by the IRS used to calculate how much you must take each calendar year will not be impacted. In short, age 70 and 71 factors will simply go away and the remaining table with go unchanged.

What if I'm charitably inclined?

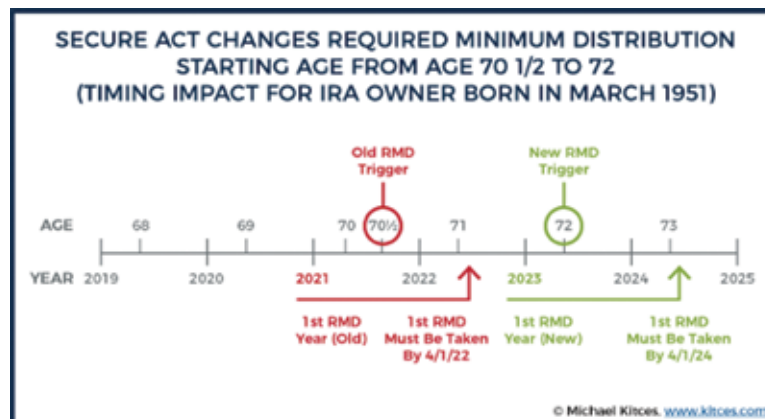
The SECURE Act made no changes to the age at which Qualified Charitable Distributions (QCD's) may begin. This age threshold remains at 70 ½. If you like to give to eligible 501c3 charities anyway, a great tax advantaged source to do this is from your IRA. As before, you must actually turn 70 ½ to cut a check from your IRA to your favorite charity. In 2019 alone our clients cut over 100 checks to their favorite charities and avoided paying tax to the IRS!

“Stretch IRA”

Another section of the SECURE Act discontinued the ability to “stretch” an inherited IRA to a beneficiary. Previously, if you inherited an IRA, you could take your distributions, and taxable income, over your single life expectancy. Now, for IRAs inherited from owners who have passed away on or after January 1, 2020, the new law requires beneficiaries to take distributions within 10 years follow the death of the account holder. There are exceptions to the law, the main ones being if the beneficiary is a surviving spouse or a minor child.

As always, if you have any questions on the SECURE Act or any other items, feel free to give our office a call.

Mark Romin, CFP®



## TEAM UPDATES



**Mark Romin**

*My family and I had a great time during the holiday season while Courtney and the kids were off. We enjoyed walking around downtown Detroit, viewing the holiday decorations and especially ice skating at Campus Martius.*



**Pat Johnson**

*My husband Jeff and I enjoyed having our son Tim home from Michigan State University for the holidays.*



## FROM THE DESK OF JEFF BRAYTON



December is always a busy month for everyone at our office, and this year was no exception. We had another great turnout for our annual Holiday Party at Assumption Cultural Center. We are pleased and grateful that so many took time out of their busy holiday schedules to join us. Special thanks to my wife Mary Ellen for all the centerpieces and the holiday candle gift. She also arranged for the string quartet which added to the holiday atmosphere.



On the home front, our daughter Lauren (29) hosted a dual family Thanksgiving with her partner Yara in Boston. Her work schedule at South Shore Hospital prevented her from being home for Christmas, but we were able to improvise and celebrate with her at our home in mid-December. The timing of her visit worked well, and we were also able to celebrate Mary Ellen's birthday. Our daughter Danielle (26) and her boyfriend Tyler joined us for a birthday brunch.



I hope your New Year is off to a good start. This past year was certainly an interesting one, and I have no doubt that 2020 will find its own unique way of surprising, disappointing, and delighting us. We look forward to experiencing and working through whatever may come, together with you. Thank you for taking the time to read our newsletter and for your continued trust and confidence.

Jeff Brayton & Mark Romin



# Lakeshore Financial Planning

## MAJOR STOCK & BOND INDEXES

Source: THE WALL STREET JOURNAL

(As of 12/31/19)\*

S&P 500 Index	+ 28.9%
Dow Jones Industrials	+ 22.3%
NASDAQ Composite	+ 35.2%
Dow Jones World Index (ex U.S.)	+ 11.5%
Russell 2000 (Small Cap Index)	+ 23.7%
S&P Mid-Cap 400	+ 24.1%
U.S. Treasury – Long Term	+ 12.5%
U.S. Treasury – Intermediate	+ 04.5%
Barclays/U.S. Aggregate	+ 08.7%
U.S. Corporate – Barclays	+ 14.5%
Municipals – Intermediate	+ 07.1%

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