GATEWAY
INVESTMENT MANAGEMENT
OF
RAYMOND JAMES®

THE COMMUNIQUE

November 2018

MAJOR INDICES	CLOSE	MTD	QTD	YTD
S&P 500	2738.31	0.98%	-6.03%	2.42%
Dow Jones Industrials	25461.70	1.38%	-3.77%	3.00%
NASDAQ Composite	7328.85	0.31%	-8.92%	6.16%

U.S. TREASURIES	YIELD
5-yr Treasury Note	3.03%
10-yr Treasury Bond	3.20%
30-yr Treasury Bond	3.43%

Information as of November 5, 2018 Source: Thomson Reuter's Thomson One

MARKET COMMENT

Correction?

Today many investors are asking themselves "is the recent stock market decline a normal correction or the start of a Bear market?" And while peering through the fog, many more ask "what started this market decline in the first place?" Well, as we entered October and the 3rd quarter earnings season, investors expected another quarter of strong earnings growth and, for the most part, they got what they expected. However, despite the strong earning showing, corporate management has been quick to suggest some slowing in 2019 – prodding the massive sell-off. Add in the fact that many stocks were either fully valued or overvalued, and many investors were simply looking for an excuse to sell. Now the jury is still out on whether we have officially put a bottom in place to encourage investors into a buying mode, but time will certainly tell – it always does.

Like other market commentators, I have no definitive answer as to the "what started this decline," but recent market action has produced some pretty glaring road markers to consider when determining if this is a precursor to a more serious future decline. First, let's consider the flashing yellow warning signs. Among them is the fact that the "FANG" index has stumbled ~ 20% in value since the start of the correction. If you aren't familiar with "FANG," it is an index made up of Facebook, Amazon, Netflix, and Google, which are widely held by many investors. A 20% decline is typically considered a bear market and, many times, results in continued declines before a bottom is reached. Next up, the homebuilders and building suppliers have seen their stock prices fall over ~30% since the beginning of the year. Couple that with another economically sensitive area, auto manufactures and their suppliers,

many of whom have also seen their stocks prices fall into the -30% range, and yellow light abound. Lastly, we look at both the Chinese economy and the Federal Reserve Bank, which have been key areas of concern. Many past bear markets and economic recessions were caused by the Federal Reserve's fine tuning of interest rates and, at present, we have the Federal Reserve committed to raising interest rates to "neutral" – whatever that means. If they raise rates too high or too fast, investors will likely anticipate a slowing economy and could decide that the risk is too great to hold stocks. Of course, this will be a process and not a sudden event, but it bears close observation nonetheless. The final concern, from my perspective, is China and the future of their economy. Many pundits are fretting over their massive debt, the practicality of their government that controls the economy but is based on capitalism, and a population that expects continued growth and advancement. It has been many years since China has faced a major economic setback, and with the bantering of trade tariffs and the potential for a slowing globally economy, they could be looking down the barrel of difficult times ahead. This may be evidenced by the fact that the Shanghai Composite Index is down 19% year to date and down approximately 40% from its 2015 highs. Needless to say, the past 3 years have not been kind to the Chinese stock investors.

Now for the positive side of the balance sheet. There are many glowing factors that should put a smile on an investor's face like: strong corporate earnings (past), a robust economy boasting GDP growth of over 3%, relatively low interest rates, lowest unemployment in 40 plus years, high consumer confidence, modest wage growth, increased home prices (from the '08 collapse), and now a more reasonably priced stock market. Taken as a collective, it sounds quite reassuring that the current positive trend should continue. However, it is prudent to remember that the stock market is always looking ahead 6 - 9 months at what corporate America and the economy will do. So, if the stock market bases or stabilizes, and initiates another move up into higher territory, this could signal a new leg of the aging bull market. If not, then caution is advised. As always, close observation will be needed.

I will leave you with several old Wall Street aphorisms to ponder, which are quite apropos:

"The trend is your friend,"
"Don't fight the Tape,"
"Don't fight the Fed."

As always, we appreciate your comments and questions and thank you for your continued trust and confidence.

PLANNING STRATEGY

Raymond James "Point of View" article. M18-2079080

Correcting Your Course

You saved decisively and proactively, invested prudently and accumulated a nest egg you're proud of. You followed professional advice and the many rules, and you've stepped into the retirement of your dreams – one filled with freedom, new experiences and fond memories. But even the best-laid plans can go awry. Consider these common blind spots and work to identify issues, implement course corrections, and set your withdrawal plan on a path you won't falter from.

Blind Spot: Framework Lacking Finesse

Creating a sound retirement withdrawal strategy is no easy feat. It requires structuring your income streams to cover the expected costs of housing, food, healthcare, entertainment, transportation and more for an unknown period of time, often two to three decades given rising life expectancies. Unfortunately, many new retirees find they spend more than their withdrawal strategy allows; others realize later that their plan doesn't use the full power of their various income streams.

The Fix

Coordinate with us and your tax advisors to structure your retirement income in a way that maximizes expected cash flow while minimizing taxes. And if overspending is the main reason your withdrawal strategy is off course, consider drafting a spending policy statement (SPS).

Similar to an investment policy statement, an SPS documents your long-term spending goals. It serves as a gentle, yet powerful reminder to avoid actions that could throw off your future plans. By putting these intentions in writing and revisiting them regularly with your advisor, you'll be better able to manage spending expectations and evaluate your options when new situations arise.

Blind Spot: Ignoring the Small Stuff

Overspending, particularly on discretionary items, can slowly, almost unnoticeably, chip away at your savings and eventually disrupt your long-term projections.

The Fix

One option is to curtail your costs. Cutting back doesn't have to be painful. It could mean forgoing your daily latte in favor of homebrew or hosting potlucks instead of dinner parties. A little discipline can help you bring your spending back in line with your plan.

Blind Spot: Being Too Consistent

Many retirees craft their retirement strategy around withdrawing a percentage of their total portfolio each year, increasing that amount to account for inflation. Under this formula, a $1 million portfolio and 4% withdrawal rate would provide pretax income of $40,000 in year one and, assuming inflation runs 3% annually, $41,200 in year two, $42,436 in year three and upward from there. However, if your retirement assets decline in value over several years while the amount you withdraw is rising, there could be monetary trouble later on.

The Fix

Avoid this issue by working to set a fixed annual withdrawal percentage based on the year-end value of your portfolio. This tactic causes some years to be flush while others are leaner, but you'll have the comfort of knowing you're not negatively affecting future plans with today's spending.

Alternately, you and your advisor can consider establishing a "floor" – an amount that covers your basic needs and can be withdrawn in any market environment – enabling discretionary spending to be adjusted based on your portfolio's performance.

Blind Spot: Fuzzy on Tax-Efficiency

Retirees often underestimate the effect an inefficient withdrawal plan has on what they pay in taxes. Many even avoid withdrawing from tax-favored retirement accounts for as long as possible, seeing 70½ as the earliest they'll want to draw from traditional IRAs and 401(k)s to avoid paying the ensuing income tax bill. Unfortunately, by that time, the balances in those accounts may be large enough that your required minimum distributions may push you into the next highest tax bracket.

The Fix

Since withdrawing from retirement accounts can begin as early as 59½ without penalty – and sometimes earlier under special rules – consider withdrawal strategies with us and your tax professional that could keep you from paying higher tax rates on your income in the future. Establishing multiple sources of retirement income also gives you the option of withdrawing the money as tax-efficiently as possible, especially helpful when an unexpected expense crops up.

Blind Spot: Forgetting the Longevity Factor

Thanks to advances in medicine, better understanding of diet and ever-evolving technology, we're living significantly longer than generations before us. While that's a good thing, planning fastidiously for potential long-term care needs is an often overlooked aspect of a comprehensive retirement withdrawal strategy. Consider this: The 2017 Genworth Cost of Care Survey cites the national median cost of a private nursing home room as $8,121 per month. By 2037, inflation is expected to drive that number up to $14,667.

Your retirement as a whole could be affected if you, like so many, find you require increased or specialized care as you age and your plan can't accommodate the added expense.

The Fix

Rein in the unknown by creating a specific funding plan. Consider long-term care funding options such as traditional long-term care insurance or life insurance with long-term care payout riders, as well as asset-based long-term care contracts. Keep in mind that you should be planning for long-term care years before you'll ever need it. If you wait past your 40s and 50s, affordable policies may no longer be an option for you. Now is also a good time to bolster your emergency fund, so you'll be best prepared for whatever the future holds.

Though modern retirement has a lot of moving parts, proper planning and a willingness to make course corrections can create a retirement defined by freedom and new beginnings.

Sources: genworth.com; marketwatch.com; fool.com; money.usnews.com; kiplinger.com

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LIFE & LEISURE

Raymond James "Point of View" article. M18-2275445

Social Security Increases Benefits by 2.8% for 2019

The Social Security Administration has announced a cost of living adjustment (COLA) to recipients' monthly Social Security and Supplemental Security Income (SSI) benefits. More than 67 million Americans will see the 2.8% increase in their payments beginning in January of 2019. The increase – the largest seen since 2012 – is tied to the Consumer Price Index for Urban Wage Earners and Clerical Workers and was put in place to ensure the purchasing power of these benefits isn't eroded by inflation.

This figure is an increase from last year's 2.0% adjustment. According to the Social Security Administration, on average, retired workers currently collect $1,420 a month in Social Security payments, or roughly $17,040 a year. The 2.8% COLA will add about $50 a month to those payments, or $600 for the year.

Keep in mind, all federal benefits must be direct deposited. So if you haven't already started receiving benefits, you need to establish electronic transfers to your bank or financial institution. Contact us for more information.

Source: Social Security Administration

Quote of the Month: "The way to become rich is to put all of your eggs into one basket and then watch that basket." Andrew Carnegie

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The S&P 500 is an unmanaged index of 500 widely held stocks. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. The NASDAQ Composite Index is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. The Dow Jones Utility Average Index is a price-weighted average of 15 utility stocks trades in the United States. U.S. Treasury securities are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. The Russell 2000 index is an unmanaged index of small cap securities which generally involve greater risks.

Keep in mind that indexes are unmanaged and individuals cannot invest directly in any index. Index performance does not include transaction costs or other fees, which will affect the actual investment performance. Individual investor results will vary. Gross Domestic Product (GDP) is the annual market value of all goods and services produced domestically by the US. The Consumer Price Index (CPI) is a measure of the average change in consumer prices over time of goods and services purchased by households; it is determined monthly by the U.S. Bureau of Labor Statistics.

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