

CAPITAL MARKET REVIEW

Fourth Quarter 2019



The Economy

The **Setting Every Community Up for Retirement Enhancement (SECURE) Act** is the biggest change in retirement plan law in a long while. Has our federal government made you more secure? I'm reminded of a saying that Ronald Reagan used often: The most feared words in the English language are, "I'm from the government and I'm here to help."

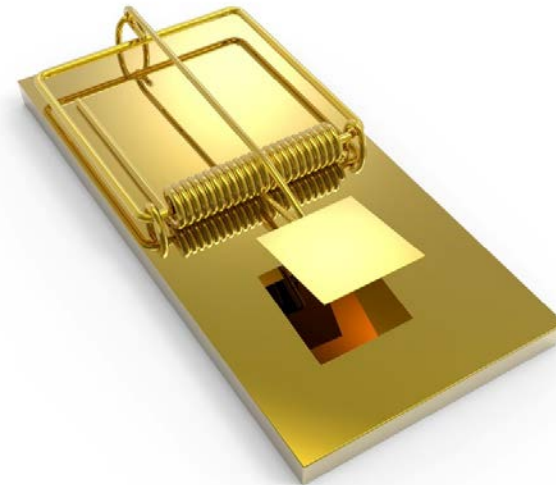
The biggest change in the SECURE Act for most retirement plans will be the safe harbor for retirement plan sponsors who wish to provide annuities as options in the retirement plan. So, why is that not so great for you? I very rarely, if ever, use the word never, but an investor should never, ever, ever buy an annuity.

In fairness, my opinion has changed over the years. I used to believe, as many academics and consultants still do, that annuities had their place. The reason is, that annuities, in theory, could be very helpful. After all, an annuity provides the consumer a lifetime stream of income which is guaranteed by the insurance company. In theory, that is very attractive.

The problem is that we do not live our lives in theory. We live in the real world, and in the real world, annuities are outrageously priced, overly complicated traps.

The fallacy of annuities is that somehow retirement income needs to be "guaranteed." Safe? Yes. Reliable? Absolutely. But, guaranteed? Well, your income during your working years was never guaranteed. Was that a problem? Firing employees is harder in some states than others, but it can always happen. Even the best companies are not immune to business downturns. During one's working years the best she can ask for is a good job at a good company. I'm excluding entrepreneurs here because these are obviously risk takers. However, the type of person who wishes for safe and reliable is the target of the insurance company. Safe and reliable retirement income can be generated at a far higher rate and lower cost than any annuity. Never buy an annuity.

"annuities are outrageously priced, overly complicated traps."



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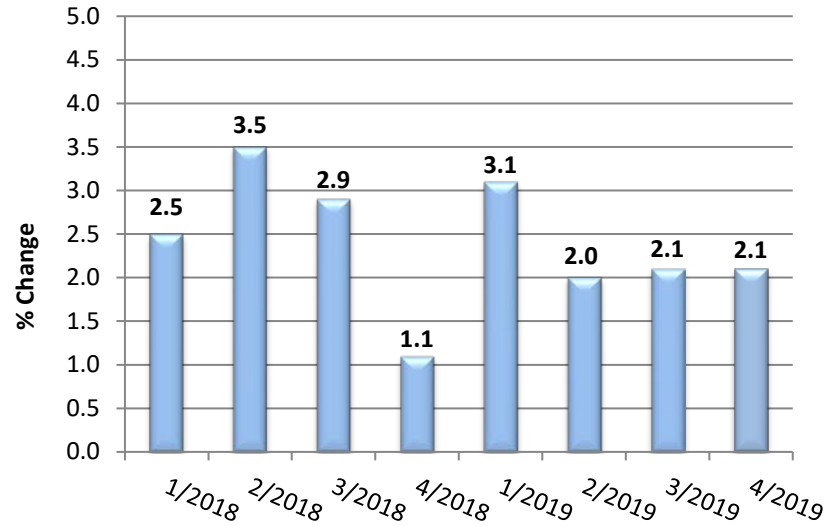
The Economy

The 4th quarter 2019 GDP growth came in at 2.1 percent. Underneath the surface the consumer is doing fantastically well, as business investment continues to be weak. It is all about tariffs, and with a phase one deal with China agreed upon we suspect we will see growth improve.

The official unemployment rate is 3.5 percent in November. We continue to be at the lowest rate in 50 years. What else can we say?

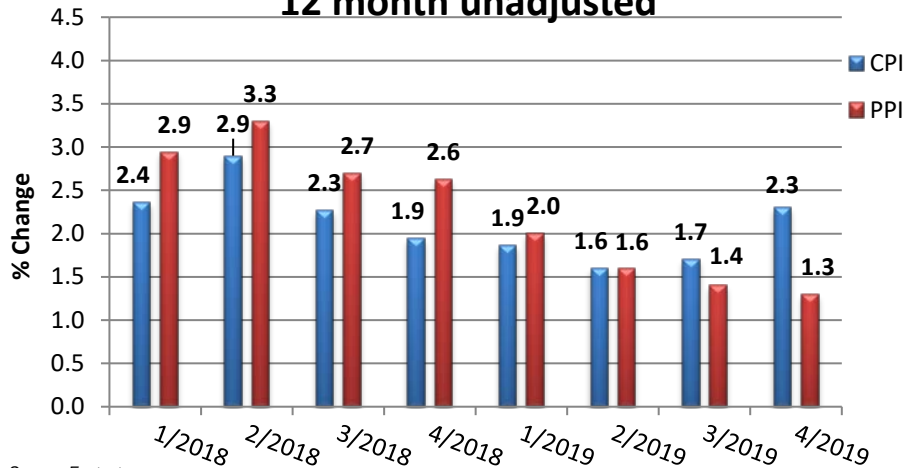
Inflation is 2.3 percent based on the latest consumer price index report. Inflation has risen but we are still near the Fed's target rate, so we doubt their will be any rate increases in the near term.

Domestic GDP



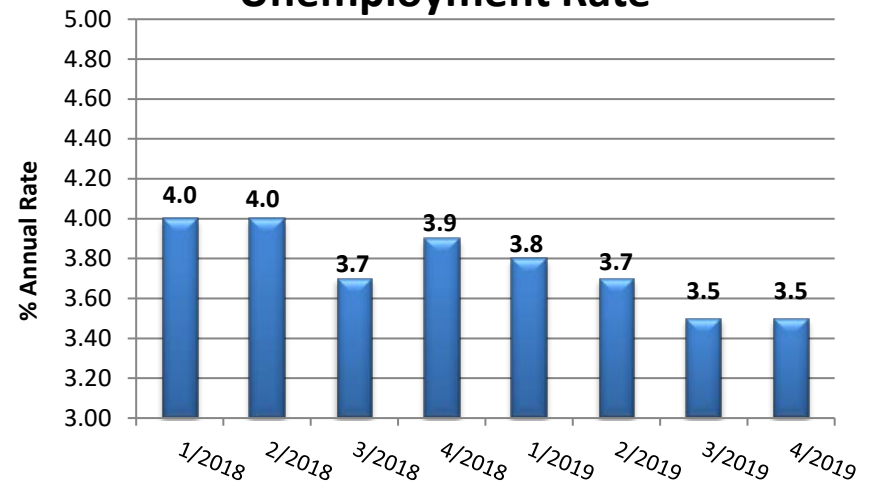
Source: Factset

Inflation Indicator 12 month unadjusted

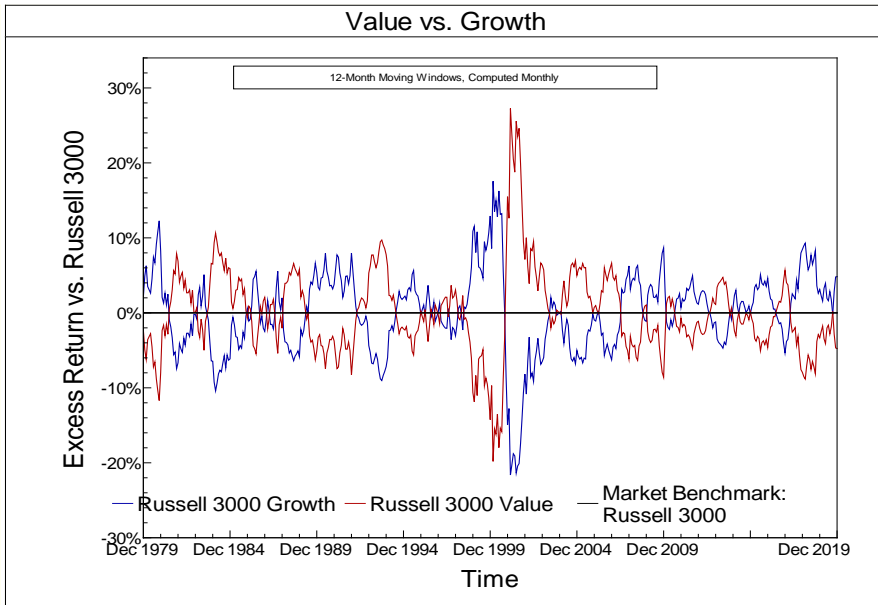
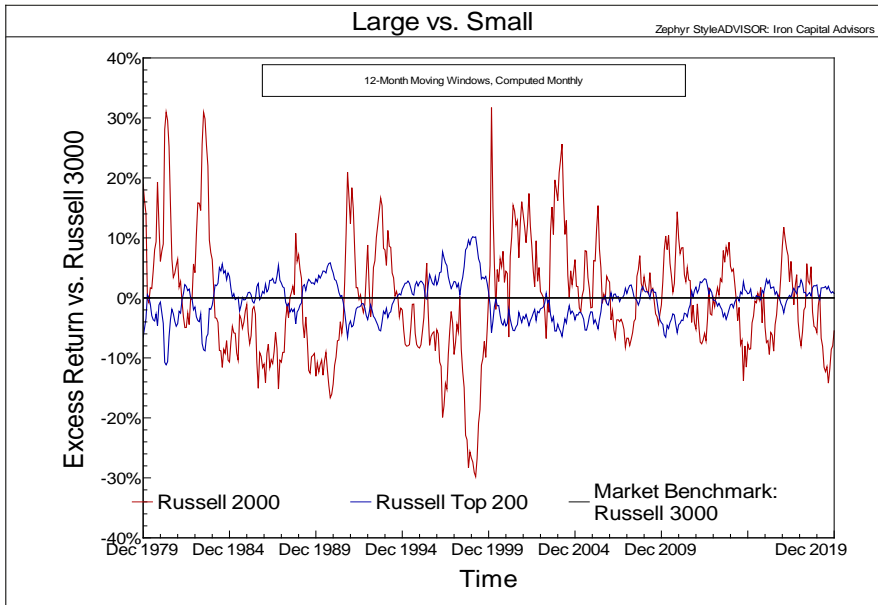
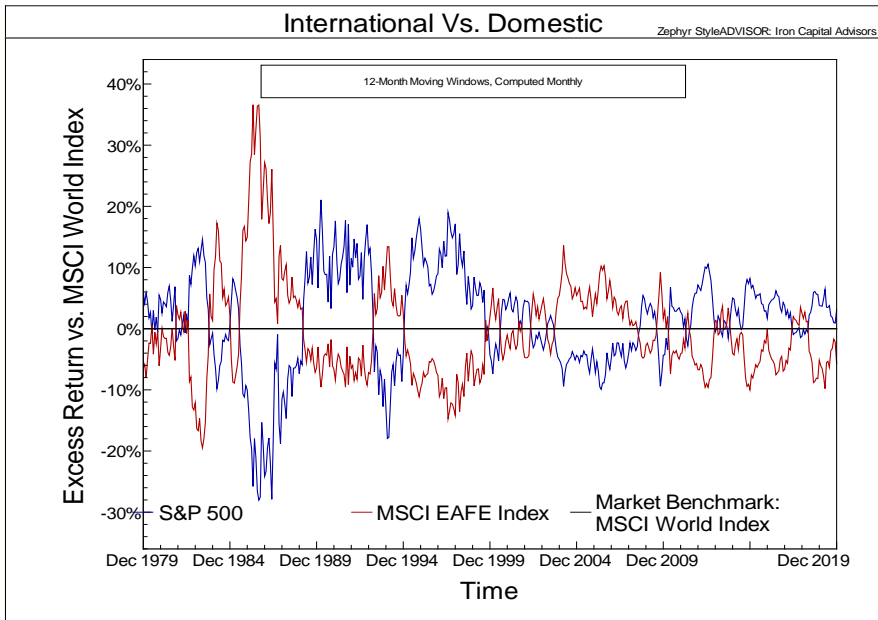
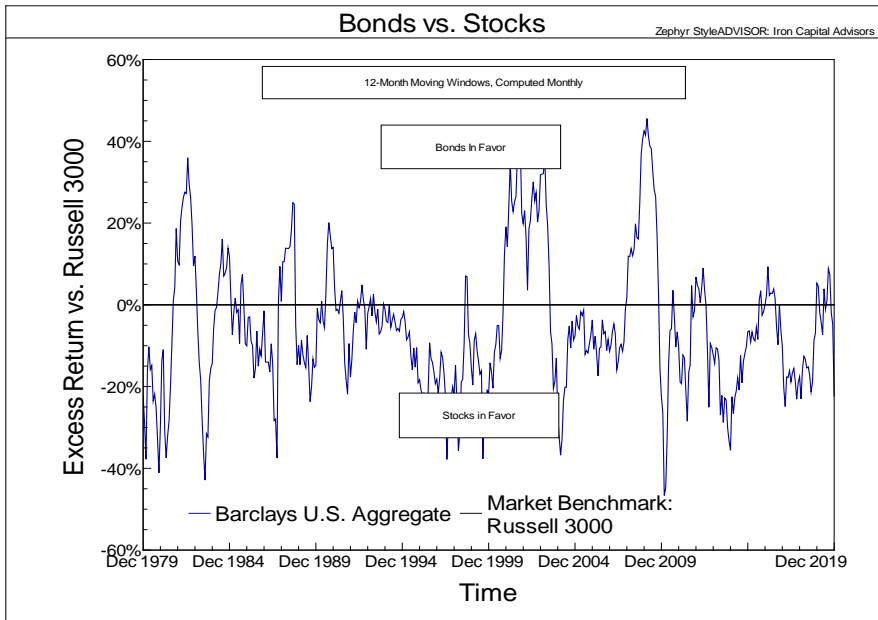


Source: Factset

Unemployment Rate



Source: Factset



Domestic Equity Markets

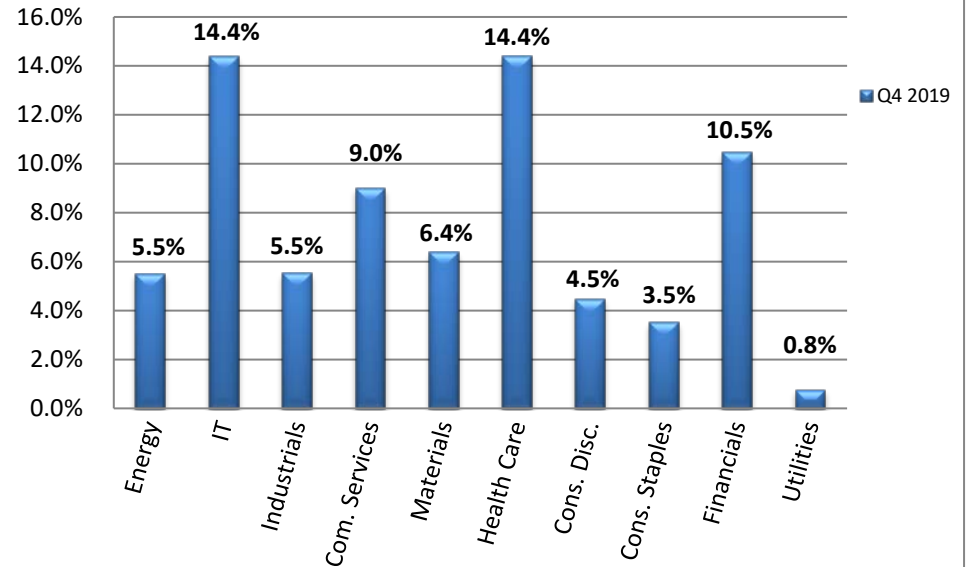
Markets finished the year strong. For the quarter, the S&P 500 finished up 9.07 percent and small company stocks represented by the Russell 2000 index were up 9.94 percent. Growth outpaced value but all major asset classes did well.

Technology and healthcare stocks led the way, both up 14.4 percent. Financials were also up double digits at 10.5 percent. There was relief that the trade war seems at least to be at a cease fire stage with a stage one deal competed with China. Everything was up significantly for the quarter.

Domestic Indices Three Months Ending December 31, 2019

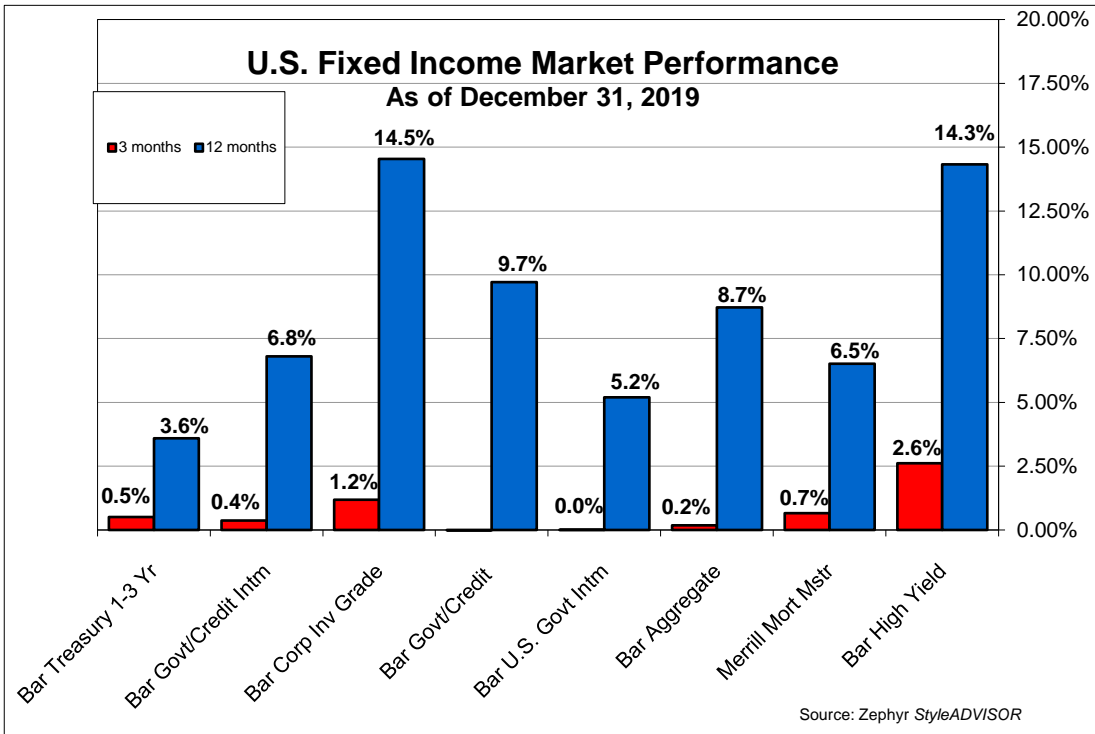
	Yield	Price/Earnings	Price/Book
S&P 500	1.74%	21.6	3.58
Russell 1000 Gr	1.07%	28.7	8.49
Russell 1000 Val	2.39%	18.3	2.11
Russell Midcap	1.60%	24.8	2.75
Russell 2000 Gr	0.65%	119.1	4.43
Russell 2000 Va	2.01%	32.4	1.42

S&P GICS Sector Returns



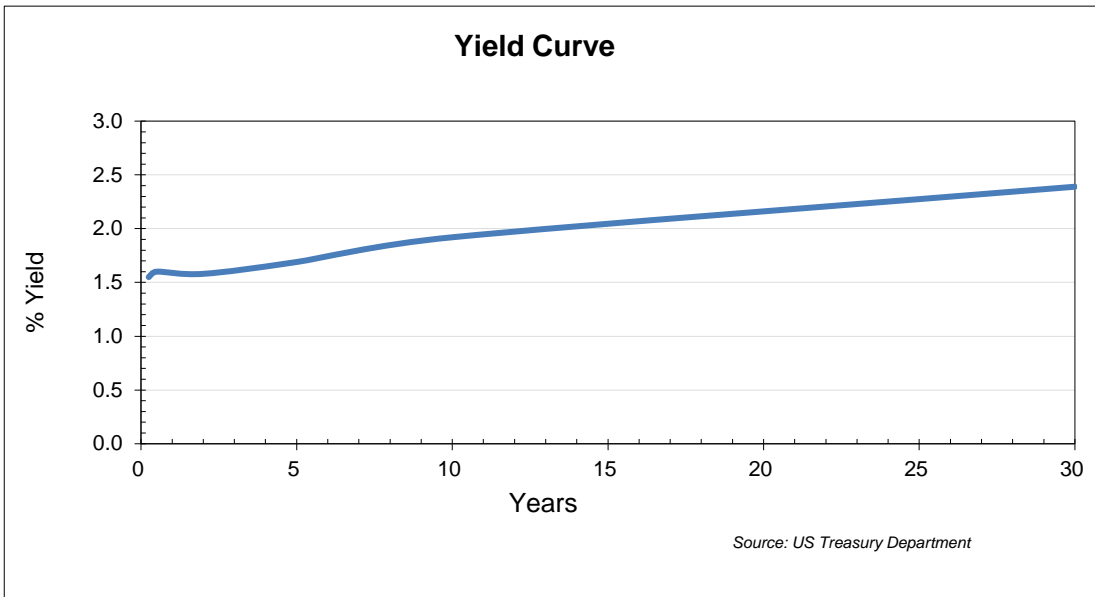
Source: Factset

DOMESTIC FIXED INCOME MARKET



Bonds were flat for the quarter. The Barclays US Aggregate Bond index ended up 0.18 percent. High yield bonds rose 2.61 percent.

The ten year treasury ended the quarter with a 1.92 percent yield. That will not pay for retirement, so bonds remain unattractive.



Yield Curve as of December 31, 2019

Time to Maturity Interest Rate

3 Month	1.55
6 Month	1.60
2 Year	1.58
5 Year	1.69
10 Year	1.92
30 Year	2.39

INTERNATIONAL MARKETS

International stocks were up as well. The EAFE index finished 8.21 percent while the MSCI Emerging Markets index ended the quarter up 11.93 percent.

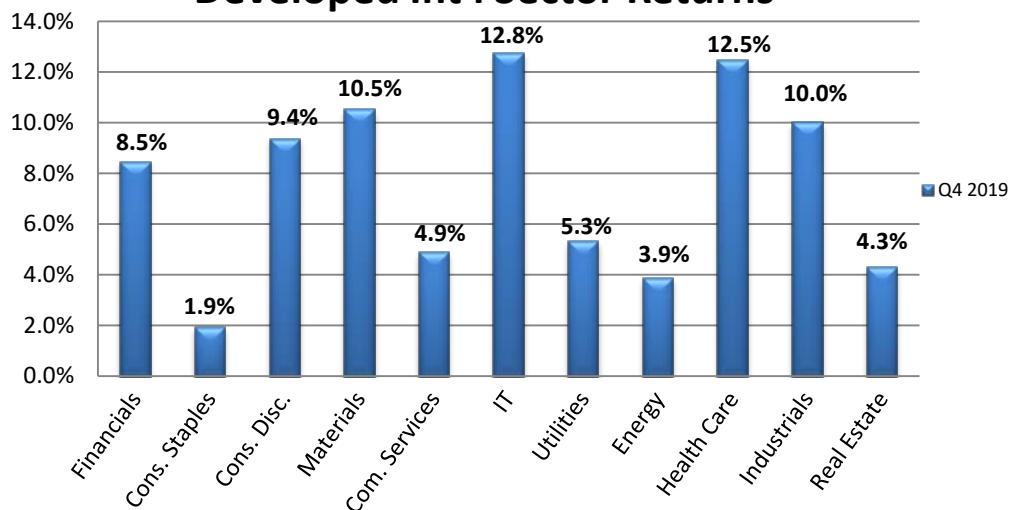
Relief over trade boosted the same sectors worldwide as technology and healthcare companies rallied together with US markets. Industrials did very well outside the US because of the softening of trade tensions.

Issues still loom, as Brexit becomes a reality and China's economy is still slowing. However, a lot of babies have been thrown out with that bath water and international stocks look attractive. After a decade of US market dominance, they are also due.

MSCI Country Returns Three Months Ending December 31, 2019

	Return US\$ (%)	Return Local Currency (%)	Currency Effect(%)
Austria	8.04%	4.93%	3.11%
Belgium	-0.89%	-3.74%	2.85%
Denmark	13.09%	9.92%	3.17%
Finland	3.10%	0.13%	2.97%
France	8.56%	5.43%	3.13%
Germany	9.89%	6.73%	3.16%
Ireland	18.51%	15.10%	3.41%
Italy	8.12%	5.01%	3.11%
Netherlands	7.43%	4.62%	2.81%
Norway	4.54%	1.10%	3.44%
Portugal	8.68%	5.55%	3.13%
Spain	6.24%	3.18%	3.06%
Sweden	13.37%	7.94%	5.43%
Switzerland	7.63%	4.53%	3.10%
UK	9.97%	2.29%	7.68%
Europe Total	8.89%	4.54%	4.35%
Australia	4.36%	0.13%	4.23%
Hong Kong	7.32%	6.71%	0.61%
Japan	7.67%	8.27%	-0.60%
New Zealand	17.51%	9.22%	8.29%
Singapore	7.45%	4.48%	2.97%
Pacific Total	7.06%	6.41%	0.65%
Brazil	14.36%	10.44%	3.92%
Canada	5.08%	2.91%	2.17%
China	14.72%	14.02%	0.70%
Greece	12.71%	9.46%	3.25%
Hungary	22.18%	17.16%	5.02%
India	5.32%	6.07%	-0.75%
Indonesia	7.02%	4.67%	2.35%
Korea	13.75%	9.97%	3.78%
Mexico	6.31%	1.68%	4.63%
Poland	4.06%	-1.69%	5.75%
Russia	17.09%	12.71%	4.38%
Thailand	-0.82%	-2.87%	2.05%
Emerging Markets	11.93%	9.63%	2.30%

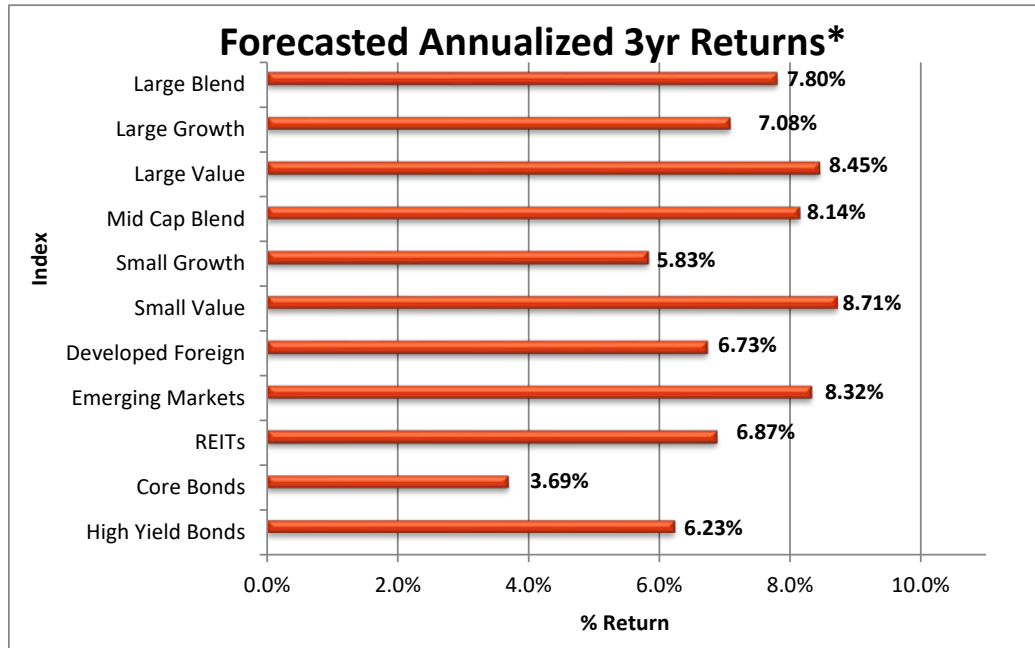
Developed Int'l Sector Returns*



Source: T. Rowe Price

* MSCI EAFE Index

Market Forecast



The trade war appears to at least be in a cease fire. This is an encouraging sign. Fundamentals remain strong and should improve in the short term. However, markets do not rise in straight lines. We have come a long way fast and it would not be surprising to see a correction. If we do, we believe it will be a buying opportunity.

Small company stocks, value stocks, international and emerging market stocks, are all overdue for a period of outperformance. These cycles seem to be running in decades now and US large growth stocks have outperformed for a decade. When the shift will happen is impossible to know, but every day it doesn't get us one day closer.

Bonds remain overpriced and not likely to perform well.

**Changes in Return Expectations
as of December 31, 2019**

Asset Class	Change Over Quarter	Change Over Year
Large Blend	-0.19%	-0.73%
Large Growth	-0.12%	-0.66%
Large Value	-0.20%	-0.76%
Mid Cap Blend	-0.12%	-0.70%
Small Growth	0.02%	-0.44%
Small Value	-0.09%	-0.67%
Developed Foreign	-0.27%	-0.76%
Emerging Markets	-0.34%	-1.13%
REITs	0.11%	-0.37%
Core Bonds	-0.05%	-0.48%
High Yield Bonds	-0.09%	-0.70%

*Forecasted 3 year annualized returns represent Iron Capital's investment return expectations for various asset classes over the next 3 years. They are calculated using a weighted average of historic returns and forward return assumptions. They are meant to be a tool to judge relative attractiveness of asset classes and not a guarantee of future investment returns.

SELECTED INDEX RETURNS - PERIODS ENDING December 31, 2019

	Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
US EQUITIES						
Broad Stock Market - Russell 3000	9.10%	31.02%	31.02%	14.57%	11.24%	13.42%
Large Stocks - S&P 500	9.07%	31.49%	31.49%	15.27%	11.70%	13.56%
Dow Jones Industrial Average	6.67%	25.34%	25.34%	15.73%	12.59%	13.40%
Medium-Size Stocks - Russell Mid-Cap	7.06%	30.54%	30.54%	12.06%	9.33%	13.19%
Small Stocks - Russell 2000	9.94%	25.53%	25.53%	8.59%	8.23%	11.83%
Small Value Stocks- Russell 2000 Value	8.49%	22.39%	22.39%	4.77%	6.99%	10.56%
Small Growth Stocks- Russell 2000 Growth	11.39%	28.48%	28.48%	12.49%	9.34%	13.01%
Large Value Stocks - Russell 1000 Value	7.41%	26.54%	26.54%	9.68%	8.29%	11.80%
Large Growth Stocks - Russell 1000 Growth	10.62%	36.39%	36.39%	20.49%	14.63%	15.22%
US FIXED INCOME						
1-3 Yr Treasury (Gov't) Bonds - Barclays Capital	0.51%	3.59%	3.59%	1.85%	1.39%	1.23%
US Government Bonds Int - Barclays Capital	0.01%	5.20%	5.20%	2.57%	1.99%	2.38%
US Corporate Inv Grade Bonds - Barclays Capital	1.18%	14.54%	14.54%	5.92%	4.60%	5.54%
Government/Credit (Corp) Bonds - Barclays Capital	-0.01%	9.71%	9.71%	4.35%	3.23%	3.96%
Int Govt/Credit (Corp) Bond - Barclays Capital	0.37%	6.80%	6.80%	3.24%	2.57%	3.05%
US Aggregate Bond Market - Barclays Capital	0.18%	8.72%	8.72%	4.03%	3.05%	3.75%
Mortgage Master - Merrill Lynch	0.66%	6.51%	6.51%	3.29%	2.60%	3.18%
US Corp High Yield Bonds - Barclays Capital	2.61%	14.32%	14.32%	6.37%	6.13%	7.57%
INTERNATIONAL (Measured in US Dollars)						
Non-US Stocks - MSCI EAFE	8.21%	22.66%	22.66%	10.11%	6.18%	6.00%
World Stocks (includes US) - MSCI World	8.68%	28.40%	28.40%	13.20%	9.36%	10.08%
European Stocks - MSCI Europe	8.89%	24.59%	24.59%	10.45%	5.69%	5.80%
Japanese Stocks - MSCI Japan	7.67%	20.07%	20.07%	9.30%	8.07%	6.87%
Asian Stocks (Ex-Japan) - MSCI Pacific ex-Japan	5.82%	18.50%	18.50%	10.28%	5.83%	5.95%
Chinese Stocks - MSCI China	14.72%	23.66%	23.66%	15.75%	7.69%	5.57%
Indian Stocks - MSCI India	5.32%	7.58%	7.58%	11.43%	5.07%	3.86%
Emerging Markets - MSCI EM	11.93%	18.90%	18.90%	11.99%	6.01%	4.04%
Int'l Gov't Bonds -Citi World Gov't Bond (Non USD)	-0.07%	5.32%	5.32%	4.49%	1.87%	1.36%
REAL ESTATE						
FTSE NAREIT Equity-Reits Index	-0.76%	26.00%	26.00%	7.98%	7.11%	11.89%
SHORT TERM INTEREST RATES						
T-Bills	0.46%	2.25%	2.25%	1.65%	1.05%	0.56%

Note: Returns for periods longer than 12 months are annualized.