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MARKET COMMENTARY November 12, 2019

Dow Jones Industrial Avg.	26,916.83		Standard and Poor's 500	2976.74	
2019 (YTD) +15.4%	3rd Qtr. +1.2%		2019 (YTD) +18.7%	3rd Qtr. +1.2%	

Politics and Economics – Impeachment and Tariffs – The final quarter of 2019 has arrived and the atmosphere in Washington D.C. has assumed the tone of a daily soap opera. The political episodes feature either Speaker of the House Nancy Pelosi with her various House committees attempting to convince the public the President should be impeached or the President tweeting ceaselessly that it is just another unwarranted witch hunt. Adding to the circus atmosphere are the continuing Democrat Presidential debates with a field of candidates that refuses to shrink, yet no candidate has been able to break away from the pack. As is evident from the latest Democrat debate, there is no obvious front runner because the field lacks an inspirational leader, which is why the party persists in pursuing its lame impeachment attacks rather than using their controlling position in the House of Representatives to propose legislative changes they feel are in the best interest of the country. If the Democrats are so convinced of their case against the President why was Speaker Pelosi reluctant to bring the issue of a formal impeachment inquiry to the floor for a vote?

Meanwhile President Trump continues to be his own worst enemy. Rather than emphasizing the positive achievements of his administration, he continues to employ his favorite offensive weapon (yes, a double entendre) – character assassination. Recall he employed it most successfully during the Republican primary four years ago. Now we must brace ourselves for another nasty campaign in the year ahead. On the one hand, the Democrats are going to put all of their time and energy into their fanatic attempt to destroy Trump and his Presidency, while the President can be expected to use an endless string of campaign rallies to insult and diminish whoever dares to challenge him. The unfortunate conclusion is the survivor of this blood feud will be our next President. What a depressing thought!

Congress, particularly the House of Representatives, is so obsessed with removing Mr. Trump it has no time to consider any meaningful legislation. Why worry about the economy, foreign affairs or the environment, when the Presidency is at stake? What is the only reasonable reaction for investors at this time? Ignore it all. The two most disruptive scenarios are: actual impeachment of the President or Democrats selecting a candidate with a vision of greatly expanding the scope of government, in spite the existing fiscal imbalances (i.e., annual federal budget deficits in the range of one trillion dollars). Investors have a distinct advantage over the general public because the stock market has sent them the message through higher stock prices that the theatrics occurring in Washington amount to nothing more than a side show.

Economic Growth and Corporate Profits – This country is likely to be faced with making an existential choice in next year's Presidential election. Will the citizenry select the supporter of our capitalist, free-market system (President Trump) or will voters choose to endorse a more socialistic approach, the most drastic change to this nation's economy since the changes championed by President Franklin D. Roosevelt back in the throes of the Great Depression. It is critical to examine in depth the seismic impact on the economy of the huge, new government programs proposed by Senators Sanders and Warren and their hard-to-fathom costs. Why the current system is being faced with such a direct challenge is difficult to justify from an economic standpoint. The economy has seen a resumption of growth over the past few years. Unemployment is at a 50 year low of 3 1/2 %. Income growth has resumed after a protracted period of stagnation. Interest rates remain at at extremely low levels, which encourages borrowing for large ticket goods by both businesses and consumers. This all brings
to mind the old saying, 'If it works, don't fix it."

Markets Ignore Politics – Momentum rules the day. Once again, a time-tested Wall Street maxim of "Don't fight the tape." is on the lips of many traders. In spite of the depressing news flow from our nation's capitol and the modest progress in the China trade negotiations, the stock market has continued to forge ahead. Justifying the continued advance has become easier over the past few weeks as third quarter corporate earnings have been better than expected. Employment statistics continue to impress and wages over the past twelve months have grown three percent. Even the Federal Reserve has contributed to this sense of optimism by lowering the fed funds rate for the third time this year by ¼ of 1 percent. With the month of October adding to the stock market gains for the year, there are no glaring reasons to expect November and December to bring any meaningful setbacks. Looking ahead to 2020, the economy seems well positioned to continue on this moderate growth path. What could go right next year to provide the economy a helpful boost? Any trade agreements, whether with Canada and Mexico; with Great Britain (assuming it is successful with BREXIT) or with China, would help to relieve some of the international trade tensions, which have served to dampen the flow of international trade. Lifting the fog of protectionism, which to some degree is attributable to President Trump, would go a long way toward rejuvenating both the world economy and our domestic economy. Based on current conditions, the U.S. economy is expected to achieve moderate growth next year meaning the economy will expand and corporate profits will grow. This should pave the way for further stock market advances.

Placid Outlook for 2020 - As 2020 approaches, economists are refining their projections for the year, and the majority are predicting a growth rate of 2-2 ½ percent for the year, an improvement over this year's expected growth rate. This offers a degree of encouragement for investors as they begin to determine whether any re-allocation or rebalancing of assets after a successful year is appropriate or if they prefer to continue on their current course. Any year-end review should also take into consideration one's anticipated cash needs in the year ahead and how best to prepare for them. Investors need to avoid the temptation of extrapolating this year's above average stock market returns into their expectations for 2020. Two factors suggest it wise to temper one's enthusiasm; the first is the prediction of modest economic growth next year, and the second is the high valuation being accorded most stocks. Given the positive results this year, investors have the benefit of a favorable pricing environment to make adjustments among individual stock holdings. Now is an excellent time to part with any losers or even those holdings that have fallen short of expectations. We are prepared to share our ideas regarding your holdings if you are considering any adjustments. You may already be aware you can offset gains with any loses you may have. In addition, you can use up to $3,000 of losses to reduce taxable income. Your accountant or tax preparer can answer your specific questions regarding the tax ramifications of any changes being considered.

Retirement Account Suggestions – For anyone who is working, it is important to maximize contributions to your retirement plan (i.e., 401(K), 403(B), SEP, or IRA) to the extent you can afford. This is especially true if you work for an employer who provides a matching contribution. Social Security was never intended to provide sufficient income for a retiree. To ensure you will have a comfortable retirement, you must create your own retirement plan if your employer does not provide one. It is important to understand politicians have done a poor job of seeing that Social Security and Medicare have been properly funded. In fact, both programs are facing serious funding shortfalls within the next ten to fifteen years. They typically promise grand programs, but never manage to fund them properly because they are certain the deficiencies will never become evident until long after they have left office. Cynical? For certain.

Charitable Donations and Gifting - Anyone who is taking required distributions from their IRA or retirement plan and directs any portion of the withdrawal for charitable donations will not be tax on that portion of their distribution. However, it does not count as a charitable deduction on your taxes. Another way to limit taxes, especially if the donation is a meaningful amount, is to donate appreciated stock. This allows you to avoid capital gains on the shares donated, yet if you itemize you can deduct the full value of the gift. Although no tax benefit is involved, gifts of as much as $15,000 per individual can be made to family members or others.

Season's Greetings – All of us at Lenk Ladner wish you an enjoyable holiday season and a healthy and prosperous New Year.

JML