MANNERS-KOESTERS MONITOR

Happy New Year 2020!!!!!

4th Quarter 2019

For What It's Worth

by Russ Manners

Another new decade, ready or not here it comes! We hope the New Year finds you well. As I'm sure you've noticed almost all investment markets had a very strong year, and your portfolios were lifted by the rising tide. It seems like everything moved up nicely. Big and little domestic stocks, government bonds, foreign stocks, junk bonds and even gold. I didn't check, but I suspect bitcoin, Beanie Babies and old baseball cards probably were all up as well! Of course, look hard enough, and one can always find pockets of weakness. It wasn't a good year for those owning pot stocks and oil wells. It seems that healthy doses of government stimulus, both monetary and fiscal, have been strong catalysts for inflating markets. Let's hope this stimulus continues to flow a little more in the direction of good jobs and higher wages and eventually a reduction in debt, both government and personal. It's hard to know when this might all end, but we've been "trimming the sails" a little lately, as the stock portion of our clients' portfolios have gradually been creeping ever higher. I believe it was JP Morgan who said, "I made a fortune getting out too soon", a strategy that might be worth remembering today. The investment markets seem to shrug off most of our concerns, like political dysfunction, tariffs, international instability, and high debt levels. We have obvious good reason to be humble when it comes to our prognostication skills, but we can't help but continue to think that a little extra caution might eventually serve us well.

In discussing what's been working and what's not, let's take a little closer look at some individual stock performance numbers[1]. I've included some names that we hold widely and a few that we don't:

Stock	1yr %	3yr %	5yr %	10yr %	Stock	1yr %	3yr %	5yr %	10yr %
American States Water	31.12	26.09	20.45	20.11	International Business Machines	23.70	-2.78	.37	3.23
Apple	89.00	38.45	23.67	27.30	Microsoft	57.53	38.64	30.34	20.66
Berkshire Hathaway Cl B	10.93	11.59	8.57	13.17	Pepsico	27.36	12.63	10.85	11.67
Boeing	3.25	30.83	23.26	22.60	S&P Global	62.26	37.85	26.59	25.98
Facebook	56.57	21.28	21.34	N/A	Sherwin-Williams	49.71	30.69	18.44	26.73
First Solar	31.81	20.37	4.64	-8.46	Target	99.52	24.96	14.53	13.22
General Electric	50.29	-27.36	-12.56	.04	Visa	43.30	34.92	24.29	24.89

I imagine you're a little surprised by the performance of some of those listed above, as are we. The gains in Apple and Facebook aren't so surprising but it's interesting to note that over the past five years they lag behind Visa, S&P Global, and aren't that much higher than the big surprise on the list, American States Water, a utility company! On the disappointing side of the ledger, IBM and GE, former stalwarts, have struggled as has the largest solar company. In the case of Boeing, even with recent problems, the stock hasn't declined that much and longer-term results are strong. I suppose its human nature to seek out the fastest growing, most exciting enterprises, rather than buying into more boring mundane situations. But over these many years, we have come to realize that our best results come when we focus on the less popular areas of the market. With capitalism, sky-high returns attract the most competition. Often these "market darlings" end up as disappointing investments: Remember AOL, Lucent, Myspace, Level III and Yahoo, etc. Smart, young Harvard MBA's and Stanford engineers don't seem eager to enter areas where less than exciting companies like Target, Waste Management or Sherwin-Williams prevail. For an even longer term perspective, consider the list of the top 20 companies in the S&P 500 (based on total annualized returns) in the past 50 years[2]:

20. Tyson Foods	15. TJX Companies	10. A.D.P	5. AFLAC
19. Holly Frontier	14. Medtronic	9. Hormel	4. Dollar General
18. Illinois Tool Works	13. Walgreens	8. VF Corp	3. K.C. Southern
17. U.S. Bancorp	12. Brown Forman	7. Lowes	2. Altria (Philip Morris)
16. Sherwin-Williams	11. Abbott Labs	6. McDonalds	1. Berkshire Hathaway

Even a casual review of this list would lead us to believe that slow and steady, does in fact, win the race. Our strategy, over these many years, has been to seek out companies operating in generally less exciting areas, where modest long-term growth is a little more predictable and less prone to disruption. Unfortunately, we are not alone in this pursuit of underrated, well-run companies flying under the radar. It's just a little less crowded than in the field with those seeking the fastest growers.

So as we start the new decade, we'll be looking for new opportunities to apply our "slow and steady" approach and to be disciplined in playing to our strengths. And as the boy happily shoveling manure said, "There has got to be an investment bargain under here somewhere." Or was it a pony? No matter, half the fun is in the pursuit. All the best, from your team at DA Davidson. Don't hesitate to call or email us with any questions, concerns or just to check in.

[1]Morningstar.com

[2]Kiplinger.com

Congratulations to our very own Jennifer Digilio on receiving the D.A. Davidson "Panel of Excellence Award." Jennifer was named for her "Exemplary Achievement and Performance" as well as her "Excellence in Client Service/Personal Interaction". The award simply recognizes that clients have a terrific advocate working for their benefit!

Never a Dull Moment in Tax Law

By Susan Koesters

You may have heard about the awkwardly-named "Setting Every Community Up for Retirement Enhancement" (SECURE) Act, which was passed by Congress at the end of 2019. Some say the SECURE Act represents the most sweeping set of changes to retirement legislation in more than a decade. The new law includes provisions that make dramatic changes to retirement account distributions at death and during life.

We thought it would be helpful to highlight two of the changes that we think have the greatest impact on our clients:

1. <u>Beneficiary (Inherited) IRAs</u>. One drastic change by the SECURE Act impacts the required payout to beneficiaries of a traditional IRA or retirement account. For many years prior to 2020, beneficiaries could spread required minimum distributions (and therefore the tax obligations associated with them) over their lifetimes. This ability to spread out taxable distributions after the death of the IRA or retirement account owner was often referred to as the "stretch IRA" rule. For most beneficiaries, this meant longer tax-free growth and possible avoidance of a higher tax bracket.

   The new law generally requires any beneficiary who is more than 10 years younger than the account owner to fully distribute the account to $0 within 10 years of the account owner's death. However, this new rule doesn't apply if the beneficiary is a spouse, disabled or chronically ill individual, or a minor child. This shorter distribution period could result in unanticipated income tax bills for individuals who inherit high-value traditional IRAs or retirement accounts. If you have one of these with a large balance, it may be wise to check with your estate plan attorney to possibly reevaluate your beneficiary choices.

2. <u>RMD Beginning Age</u>. For many years, age 70 ½ was generally the time that owners of traditional IRAs and retirement accounts had to begin taking Required Minimum Distributions (RMDs). For those that turned 70 ½ in 2019 or earlier, this new law does not apply. For those that turn age 70 ½ in 2020 or later, the RMDs are generally required to begin at age 72. This is a benefit for people that do not need the cash flow because it defers the income tax consequence of the distributions and lengthens the time for tax-free growth a little longer.

   If someone has charitable intentions, this new law does not impact the ability to make a Qualified Charitable Distribution (QCD) beginning at age 70 ½. A QCD is a direct transfer of funds from your IRA to a qualified charity and that amount is excluded from your taxable income. This is a good strategy to consider if you take a standard deduction on your income tax return because it is higher than if you itemized your deductions.

With all tax changes, it is wise to revisit your situation with your tax advisors. With this one, it could also involve checking with your estate advisors. And of course, we are here to help you maneuver through your financial maze that can sometimes resemble Pac-Man to avoid those pesky ghosts Blinky, Pinky, Inky and Clyde!

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Jennifer's Journey Back in Time

January 8, 1982 - The American Telephone and Telegraph (AT&T) Company was broken up as a result of an antitrust suit. AT&T gave up 22 local Bell system companies, opening the U.S. telephone system to competition.

December 26, 2004 – An estimated 230,000 persons were killed and 1.5 million left homeless when a magnitude 9.3 earthquake on the seafloor of the Indian Ocean set off a series of giant tsunami waves that smashed into the shorelines of a dozen countries including Indonesia, Sri Lanka, Thailand, India and Somalia.

February 12, 1999 - The impeachment trial of President Bill Clinton in the U.S. Senate ended. With the whole world watching via television, Senators stood up one by one during the final roll call to vote "guilty" or "not guilty." On Article 1 (charging Clinton with perjury) 55 senators, including 10 Republicans and all 45 Democrats voted not guilty. On Article 2 (charging Clinton with obstruction of justice) the Senate split evenly, 50 for and 50 against the President. With the necessary two-thirds majority not having been achieved, President Clinton was thus acquitted on both charges and served out the remainder of his term of office lasting through January 20, 2001.

(Source: The History Place™)

About Us

We are comprehensive financial advisors specializing in individual portfolio management. We look for investments that we can truly understand and value. It is important to understand our "circle of competence" and stay within that circle no matter how promising a potential investment might appear. Sound investing requires discipline and the ability to keep emotions from corroding common sense — one of the greatest challenges to successful long-term investing. Our philosophy tilts towards well-established companies with solid balance sheets, good pricing power, and strong management. We strive to act like business owners. We search for the characteristics that an actual long-term owner would seek in choosing to purchase an entire business.

About D.A. Davidson

At D.A. Davidson Companies, we believe there is only one way to navigate through the wealth of financial services options: straightforward. We offer clear strategies with smart, personalized solutions that match your goals and show you the path to achieve them. We're with you every step of the way—leveraging our nationally-recognized research, capital market and investment banking expertise, and the largest network of financial advisors headquartered in the West. Our personal approach is rooted in the values, stability, and discipline of our 80-year-old employee-owned company that is as independent as you are.