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Q4 2019

THE QUARTERLY

2019: The Year of the ...



BY JAMES WALDEN, CFA
Partner and Chief Investment Officer

We've written in previous year-end commentaries that each year seems to be unique in one way or another, and this year is no exception. But as we attempted to define 2019 as "The Year of the ..." our list of potential labels grew. Rather than pick one winner and toss the other qualified candidates in the trash can, we decided to pass out participation trophies to all of them.

... INVERTED YIELD CURVE

The yield curve is a line that graphs, as of a certain date, the interest yields of U.S. government bonds having different maturity dates. Under normal conditions, bonds with maturity dates farther out have higher yields than those with closer maturities. But in periods of economic stress, rates on shorter-maturity bonds can exceed rates on longer bonds, causing the yield curve to "invert."

In March, the yield on three-month Treasury bills exceeded the yield on 10-year Treasury bonds for the first time since 2007. (In August, the yield on two-year bonds exceeded 10-year bonds, too.) The significance here is that the yield curve has inverted before every U.S. recession since 1975, with varying lead times.

... POWELL PIVOT

In 2018, the Federal Reserve, led by Chairman Jerome Powell, raised interest rates several times and, as late as December 2018, penciled in several more rate hikes based on their view of the strength of the U.S. economy. The stock

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SAVE THE DATE!

QUARTERLY SEMINAR

Plan to attend one of our next quarterly seminars. Our team will be speaking on current financial and economic topics, including the recently passed SECURE Act. Our seminars fill up quickly, so please RSVP if you plan to attend on the seminar dates listed below, as seats are limited.

DATES AND TIMES

Tuesday, February 4, 2020

Noon—Lunch provided

Wednesday, February 5, 2020

Noon—Lunch provided

Thursday, February 6, 2020

Noon—Lunch provided

5:30 p.m.—Light hors d'oeuvres

PLACE

Clayton Wealth Partners

716 S. Kansas Ave., Topeka, KS 66603



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CONTINUED FROM PAGE 1 ► market didn't take kindly to this stance, which contributed to the S&P 500's two cascading corrections in the fourth quarter of 2018. In July 2019, the Fed reversed course and began cutting rates as evidence mounted the global economy was slowing.

... TRADE WAR TRUCE

While the trade war with China began in 2018, it continued to escalate in 2019 until both sides announced they had agreed to a "phase one" deal, which primarily involves large purchases of U.S. agricultural products by China and dialing down tensions, at least for the moment.

... TRUMP IMPEACHMENT

Just five days after the trade deal with China was announced, the House of Representatives voted to impeach President Donald Trump for pressuring Ukraine to investigate Joe Biden, a potential rival in the upcoming presidential election. Trump is only the third U.S. president to be impeached, following Andrew Johnson in 1868 and Bill Clinton in 1998. (Seeing the writing on the wall of imminent impeachment and subsequent removal from office by the Senate, Richard Nixon resigned in 1974 before impeachment proceedings against him began).

Trump will now face trial in the Republican-controlled Senate. We think it's unlikely he will be removed, given the required two-thirds vote is a very high bar.

... THE RECESSION THAT DIDN'T OCCUR

With the yield curve inversion, slowdowns in the global and U.S. economies, and the trade war, many feared the next U.S. recession was imminent. While we stopped short of calling for the next recession, we certainly acknowledged the increase in risks.

The "unofficial" definition of a recession is two consecutive quarters of negative growth, and our economy grew each of the first three quarters of 2019. (Initial estimates for the fourth quarter aren't available, but we expect

TAKE NOTE!

Our office will be closed on the following dates:

MONDAY, JANUARY 20
Martin Luther King Jr. Day

MONDAY, FEBRUARY 17
Presidents' Day

a positive result.) Strength in the services sector and consumer spending helped offset a contraction in U.S. manufacturing.

... THE STOCK MARKET REBOUND

The year began with the S&P 500 still bruised from the deep 14% decline in the fourth quarter of 2018, which primed the pump for 2019 performance. Its total return of 31% for the year was the best since 2013, and international stocks gained a total 22%.

2020: Imperfect Vision



BY JAMES WALDEN, CFA
Partner and Chief Investment Officer

As we begin the new year (and decade!), the only thing we're certain about is that it will contain surprises. Rather than provide artificially precise or less-than-useful year-ahead forecasts, here are some of the facts, and some high-conviction beliefs about some of those facts, that inform our current thinking:

- U.S. stocks are now relatively expensive, but not yet excessively so.
- International stocks are significantly cheap, in contrast.
- Investors should expect much more modest investment returns in 2020 and beyond.

- We don't believe the next recession is imminent, but given a generational low in the unemployment rate, historically elevated confidence levels, etc., we believe we remain in the later stages of the current expansion.
- This is a presidential election year, which historically has brought uncertainty and market volatility. Remember: While Donald Trump was at the top of the polls for the Republican candidate four years ago (with Senator Ted Cruz right on his heels), very few were giving him much of a chance to beat Hillary Clinton.

At the moment, the risks appear to be more balanced than they were at the height of last year's recession scare. But we always try to be mindful of the risks, and there are always risks. As the facts change or opinions do, we'll adjust portfolios accordingly. In the meantime, please reach out with any questions.

And happy new year!



ERIC PURCELL EARNS CFP® DESIGNATION

We are excited to report that Eric Purcell is now a CERTIFIED FINANCIAL PLANNER™ professional. The CFP®

certification is one of the most respected credentials in the financial services industry. It emphasizes a broad-based education, holistic financial planning, and adherence to ethics that put clients first.

"I am both happy and humbled to join a firm of four other CFP® professionals," Purcell said. "Working toward the CFP® mark over the past three years has included countless hours fulfilling the educational requirements—on top of gaining the necessary professional experience with CWP."



Employee Highlight: Meet Clint Patty!

Full name

Clinton E. Patty ("Clinton" only to my Aunt Linda)

Position

Managing Partner

Hobbies/interests outside of work

Keeping up with two busy kids; also a baseball and classic-film fanatic

Favorite food

My wife's chili

Favorite restaurant

Love the North Star and Cook's American Grill

Favorite book

The Civil War: A Narrative by Shelby Foote

Favorite movie

Can't pick just one. Here are five I will stop what I am doing to watch at any time: *The Searchers*, *Casablanca*, *The Godfather*, *Patton*, and *Red River*.

Employer Benefit Limit Adjustments for 2020



BY BARBARA DUNCAN, CFP®
Partner and Senior Wealth Advisor

There have been quite a few contribution limit adjustments for the 2020 calendar year, and it is important to note which might affect you:

RETIREMENT SAVINGS

The contribution limits for most employer-sponsored retirement plans have increased for 2020. If you are already maximizing your contributions, consider increasing your contribution to these new amounts. If you are not yet maximizing contributions, the beginning of the year is a good opportunity to increase your contributions to whatever degree you are able.

Retirement Plan	2019	2020
IRA or Roth IRA*	6,000	6,000
Catch-up (age 50 and over)*	1,000	1,000
401(k), 403(b), most 457 plans	19,000	19,500
Catch-up (age 50 and over)	6,000	6,500
SIMPLE IRA	13,000	13,500
Catch-up (age 50 and over)*	3,000	3,000

*Unchanged

YOUR ADVISORY TEAM

BARBARA DUNCAN, CFP®
Partner and Senior Wealth Advisor

ERIC PURCELL, CFP®
Wealth Advisor

ELIZABETH YOUNG, CFP®
Partner and Senior Wealth Advisor

ERICA COWGER
Associate Wealth Advisor

HEALTH CARE SAVINGS

There has been a slight increase in contribution limits for health care savings vehicles for 2020.

If you have a high-deductible health plan and participate in a health savings account (HSA), here are the new limits:

HSA Contributions	2019	2020
Self only	3,500	3,550
Family	7,000	7,100
Catch-up (age 55 and over)*	1,000	1,000

*Unchanged

If you use a flexible spending account (FSA), the contribution amounts are also slightly higher in 2020.

FSA Contributions	2019	2020
Health FSA	2,700	2,750
Dependent-care FSA*	5,000	5,000

*Unchanged

SOCIAL SECURITY TAX

The Social Security wage base (which is the portion of your wages and self-employment income subject to the Social Security portion of the FICA tax) has increased for 2020. The new wage base is \$137,700 (increased from \$132,900 in 2019).



716 S. Kansas Ave., Topeka, KS 66603

785-232-3266 | claytonwealthpartners.com