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2020 Annual Plan Limit Information is on our website at mcdanielknutson.com

IRAs and Roth IRAs didn't change, but the rest did.

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Happy New Year!

Welcome, clients, friends, fans, and followers to another year of wit, wisdom, and sound financial advice. We're back in the proverbial saddle and all hands are on deck.

Mixed metaphors aside, we are all happy to be back on the bridge of the Enterprise and we hope you all had a happy, healthy, and relaxing Christmas and holiday break.

Generally speaking, 2019 was a good year. Last year at this time we were worried about trade wars, tariffs, Brexit, recessions, and rising interest rates. On the political calendar this year we'll start off with impeachment and will wrap up with an election. I am genuinely in awe of our political system and our constitutional process. That it has lasted 240 some odd years is still mind boggling to me. While I like that we have a voice in our elections, I wouldn't mind it NOT being on TV 24/7. I've often said to friends that if I ever win one of those Jumbo MegaMillions Lottery things, that I'm going to start the Good News Channel. Transparently titled, I would only cover good news—medical breakthroughs, people saving puppies from tsunamis, deaf babies hearing their mother's voice for the first time, etc. Incorporated in that will be just three hours each week devoted to politics—one for local, one for national, and one for international. I'd also wrap things up around 10 pm, so we would have to talk to other people, read books, sleep, etc.

All of my teams were thriving, though KU basketball and the Chiefs stopped short of where I wanted them to be. My St. Louis Blues were dead last in the NHL and made what I thought was a pretty innocuous coaching change about this time last year. All that did was lead to a Stanley Cup championship for the first time in franchise history.

It was a good year and we are all looking forward to a healthy and prosperous 2020. Now that we've turned the page on 2019, it's time to review your New Year's Resolutions.

In years past, I've mentioned that each family has a Chief Financial Officer. This is the one who does the bills, taxes, college funds, wills, etc. You know who you are. You CFOs out there need to develop a family treasure map so the rest of your family can take care of things if for some reason you can't. As my dad used to say…leave a trail of breadcrumbs so we know where you were going.

Make sure you update your beneficiary designations and review your life insurance policies and powers of attorney. These are not terribly sexy things to talk about at parties, but they are the financial vegetables that will help every area of your financial lives.

Consider starting Roth IRAs and contributing to Roth 401(k)s and Roth 403(b)s through

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Market Commentary: This Decade Won't Look Like the Last

Written December 20, 2019

Welcome to the year 2020. The world looks a lot different than many thought it would. Bold predictions were made over the years about what would be possible by now. Some of my favorites are that we would have nuclear powered appliances, teleportation, settlements on Mars, and last but not least, be able to accurately predict the future. While we may not be vacuuming with uranium, we have experienced some amazing changes. Computers we can wear on our wrists, virtual reality that can take us anywhere in the world and even into black holes, and cars that can drive themselves are just a few of the ways our lives have been changed. What do you predict will happen over the next 20 years? For what it's worth, I think kids won't learn how to drive because cars will do all the work. We'll have a cure for cancer and new solutions for how to save our planet from climate change. And I predict that in the next 20 years, the Dow will surpass 100,000! Call me an optimist if you will. And check back in 2040 to see if I had "2020" vision!

However, most people want to know what we think about the next 12 months, not the next 20 years. So in the spirit of throwing my hat in the ring for what 2020 will bring, here are my humble opinions.

First, in order to look ahead we need to see where we've been. For over 13 years (from 1996 – 2009), the market was moving sideways. If you had invested $100 in the S&P 500 in 1996, you wouldn't have had much to show for it 13 years later. But finally in 2009, the market began a leg up that broke the sideways cycle and started the longest expansion on record.

While this might be the longest expansion on record it has also been the slowest.

There are plenty of reasons for why this expansion has been weak but resulted in a strong stock market: extreme liquidity pumped into the market thanks to the Federal Reserve, near 0% interest rates over several years that made savings and CDs unattractive, a high deficit and rising government costs that take a big bite out of GDP. But that could be an entire commentary by itself.

Here are other important bits of information that we know. On one hand, 2019 saw negative earnings growth, a shrinking manufacturing sector, an inverted yield curve, record tariffs, record outflows by investors from stocks, and an increased risk of recession to levels not seen since 2008.

On the other hand, 2019 was a strange year of positive stocks AND positive US government bonds, which are normally negatively correlated. It was also close to a record-breaking year for stock buybacks, which largely fueled the continued increase in stock prices despite the exodus by investors. The Federal Reserve slashed rates three times. Unemployment is near an all-time low. And some uncertainties have the appearance of resolution, namely Brexit and a US-China trade deal.

Now that we have the set-up, let's look ahead to 2020. In my view, this will be another year of competing positive and negative forces that will continue to work both for and against the economies and markets of the world. Here are what I believe will be some of the top movers of the market.

1. Dealings with China - Although the US seems to have reached a "Phase One" trade deal with China, it's a far cry from the initial goals of forcing China to open its economy and adopt fair practices. What it does do, for now, is defer tariffs that were set to go in effect on December 15, 2019. That's good news for consumers since they targeted consumer goods. In addition, there was a partial roll-back of September tariffs from 15% to 7.5%.

However, the "original" 25% tariffs on $250 billion of Chinese goods are still in effect. China agreed to increase its purchases of agricultural products to $40 billion, up from its current annual run rate of less than $10 billion (and the all-time peak of $29 billion). However, economists say that $40 billion isn't even feasibly possible when looking at supply and demand; it's an impossible number to achieve unless China cuts ties with other trading partners, and they've expressed that is something they will not do. This may be used against China later when they're unable to hold up this part of the bargain. Finally, China has promised to revise some laws and regulations on foreign investment and intellectual property (IP), but it doesn't prevent China from continuing to "import" (aka, steal) US IP.

The "deal" also doesn't prevent the Trump administration from continuing to use tariffs and other devices as a tool to threaten other countries. Therefore, once the dust settles on "Phase One," the ongoing uncertainty is likely to keep the market on its toes. And due to this uncertainty, for the first time in 11 years as per the ISM Manufacturing survey, US manufacturers are expecting to reduce capital spending in 2020. The expected 2.1% decline is stark change from the 2019 increase of 6.4%.

2. Federal Reserve – Thanks to a shift in monetary policy and financial conditions, 2019 was the mirror image of 2018. In 2018, while earnings growth skyrocketed thanks to corporate

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Happy New Year

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work. If your employer doesn't offer Roth provisions, ask payroll/HR about adding them. Often this is a very simple and inexpensive change for your employer to make to its plan document.

Whatever you were saving for retirement or college funds, increase it by 1-2%. Right now. Call payroll and bump up your contributions.

Gather the family and talk about what happens when mom and dad are unable to care for themselves. Long Term Care in specific and Elder Care in general are the next financial tsunamis coming at us. Having a plan will make all the difference in the world.

Pay off debt and stop incurring more of it. 'Nuff said.

I've said it before, but I couldn't find any graphics to fill up the empty space in my article (Vickie gets to use a bunch of graphs and charts), so I'll say it again. Financial planning is a process, not a product. More clumsily, it is an ongoing process and not a transaction.

Most of financial success (and a lot of life success) is about being intentional about what you're doing and then following through with it. Write a will. Update your beneficiaries and powers of attorney. Leave breadcrumbs. Make a plan and share it with others.

Thanks in advance for letting us play a role in your lives this upcoming year. What we call "Annual Review Season" is right around the corner and we are looking forward to seeing everyone soon.

- Peter Knutson CFP®, CLTC, AIF®

Market Commentary

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tax cuts, company valuations were actually lower because of rate hikes and tighter monetary policy. But when the plunge in the fourth quarter of 2018 sent the market reeling, the Fed moved to easing mode in 2019. That allowed valuations to rise, even without the benefit of any earnings growth in 2019.

The Federal Reserve's three interest rate cuts in 2019 clearly supported both the bond and stock markets in 2019. As for 2020, the Fed currently expects to stay "on hold," recently declaring that they have essentially set the bar higher for inflation to lead to rate increases as opposed to more cuts. The institution is walking a fine line between keeping some dry powder for a weaker economy ahead and using their power to try to prevent more weakness from the onset. I don't envy their position.

3. Positive Earnings? For now, the Fed's position is that we're in the middle of temporary slowdown in the midst of a still growing economy. They, as well as stock analysts, expect earnings to increase dramatically over the next year.

However, valuations, while not in bubble territory, are back to be above their 20-year averages. That means that stocks aren't necessarily cheap at this stage. In addition, profit margins will still be under pressure courtesy of both tariffs and rising labor costs as wage growth increases. Corporate after-tax profits have been relatively flat this year, but the S&P 500 has been on a tear. If history is any guide, this divergence will correct itself. Either the S&P 500 will need to come down or corporate after-tax profits will have to come up. At this point, I expect a combination of both for the coming year.

So with all of this information, what is an investor to do for the next 12 months? In my opinion, the data suggests that 2020 has a very good chance of being a positive yet volatile year for stocks, rocked by headline risk and politics. That means that being invested in line with your proper risk tolerance and goals is extremely important. On the plus side, recession risk has moderated a bit through the back half of 2019, and while we might get some big swings over the next 12 months, history suggests that without a recession to accompany it, the dips will probably be short and the best course of action is to stay invested with the long-term in mind. If recession risk begins to rise again, we'll recommend a more defensive course. But as we saw in 2019, stocks can laugh in the face of adversity for a very long time, and that means that timing the market is a fool's errand. Don't be tempted.**

- Victoria Bogner, CFP®, CFA, AIF®

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Investors cannot invest directly in indexes. The performance of any index is not indicative of the performance of any investment and does not take in accounts the effects of inflation and the fees and expenses associated with investing.

Some IRAs have contribution limitations and tax consequences for early withdrawals. Distributions from traditional IRAs and employer sponsored retirement plans are taxed as ordinary income and, if taken prior to reaching age 59½, may be subject to an additional 10% IRS tax penalty. For complete details, consult your tax advisor or attorney. Converting from a traditional IRA to a Roth IRA is a taxable event. A Roth IRA offers tax free withdrawals on taxable contributions. To qualify for the tax-free and penalty-free withdrawal of earning, a Roth IRA must be in place for at least five tax years, and the distribution must take place after age 59½ or due to death, disability, or a first time home purchase (up to a $10,000 lifetime maximum). Depending on state law, Roth IRA distributions may be subject to state taxes.

The S&P 500 Index is a capitalization-weighted index made up of 500 widely held large-cap U.S. stocks in the Industrials, Transportation, Utilities and Financials sectors.

A diversified portfolio does not assure a profit or protect against loss in a declining market.

Additional risks are associated with international investing, such as currency fluctuations, political and economic stability, and differences in accounting standards."

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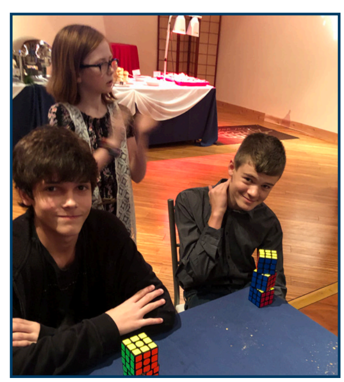
Our Annual Christmas Party Was A Success!

Almost 200 clients and other friends attended our 29th annual MK Christmas Party. Lots of good food and great conversation. The Christmas season started off on a good foot. Thanks to all who came out to spend the evening with us.

The Rubik's Cube Tournament
Pictured on the right are: Samuel McInnes on the left, Emalie Powell cheering in the middle, and Colby Powell on the right. Emalie and Colby are the grandchildren of our own Brenda Coffman.



It wasn't much of a contest. Samuel and Colby beat everyone like a drum to square off in the finals. In the finals, Colby solved THREE Rubik's cubes in under 90 seconds. Samuel also finished but it took him about two minutes. It's taken me 49 years just to solve one.

They both donated their $200 in prize money to Family Promise of Lawrence. Thanks Colby and Samuel! You made Grandma proud.