New England Capital Financial Advisors
Independent Objective Advice

New England Capital Times

New England Capital Financial Advisors, LLC
Registered Investment Adviser

January 2020
Volume 52

Being More SECURE in Retirement

By Christopher W. Beale, CFP®

For those hoping to read the continuing description of my visit to the MIT AgeLab in Cambridge, MA, you'll need to wait until my next blog post in April. For this blog, I felt it was more important to review *The Setting Every Community Up for Retirement Enhancemen*t (SECURE) Act, which is the most significant and sweeping retirement tax law since the Pension Protection Act of 2006 and Employee Retirement Income Security Act (ERISA) of 1974.

The SECURE Act passed in the House of Representatives in May by a bipartisan vote of 417-3. It was bogged down in the Senate until it was attached to the spending bill in December. That bill, which raised the debt ceiling and avoided another Federal Government shutdown, was passed by a vote of 81 -11. President Trump signed the Bill into law on December 20th and most provisions of the law took effect on January 1, 2020. This proves to me that Congress can be non-partisan; especially if it means more money for both parties to spend! For example, one provision alone is estimated by the Congressional budget office to bring in $15.7 billion over the next 10 years.

Of the many provisions of the act, here are what I believe are the most significant features:

- **The Act eliminates the "stretch IRA" for most non-spousal beneficiaries.** In my opinion, this is the most controversial provision. Prior to January 1, 2020 when inheriting an IRA from a non-spouse, distributions could be taken over the beneficiary's life expectancy, thereby deferring taxation on the withdrawals. Now withdrawals must be taken within 10 years. There are no minimum annual distribution amounts, but the entire balance must be distributed within the tenth year after death of the IRA owner. So, in the case of a traditional IRA, we may recommend taking annual distributions or larger distributions in a year when you have lower earnings, thereby reducing the tax burden in any one year. With a Roth IRA, we may recommend taking the full distribution in the tenth year, thus allowing the Roth a full 10 years of tax-free growth. No income tax is due on distributions made from a Roth IRA. This is the provision estimated to bring in $15.7 Billion to the US Treasury.

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Impeachments and Wars: How does this effect my portfolio?

By Christopher M. Lee, CFP®

There seems to be so much uncertainty these days, between ongoing impeachment hearings (if it ever makes it to the Senate) and now the escalation and tension with Iran, never mind threats of "Christmas presents" from North Korea. These seem to be some scary and unstable times.

Added into this uncertainty is the above average growth that most of you have seen over the past year in your investments. 2019 was a great year that saw the S&P 500 (500 largest US companies) up 31%, MSCI World Index (outside of the US) up 22%, and the Barclays US Aggregate Bond index was up 9%.

With the big gains it can be human nature to want to sell all the investments and wait for the market to drop or at least get some more certainty in the world. While that may make you feel better, there is real risk to doing that. This would be called "market timing". The hard part of "timing the market" is that you must be right twice. You need to know where the top is and where the bottom is. For example, if you sell now and the market drops 10%, do you get back in? What if it drops 20%? Vice versa – say the market goes up 10%. Do you get back in? If it drops 10% from there, what do you do?

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Being More SECURE in Retirement

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- **The Act allows for anyone with earned income to contribute to an IRA regardless of age, of course income limitations may still apply for Roth contributions.** If you are over 70.5 and still working, you can add to your IRA. This is a growing trend whether by choice or necessity. Older workers who contribute to traditional IRAs can then convert to Roth IRAs and eliminate future Required Minimum Distributions (RMDs) on the Roth's.
- **RMD age moves up to 72 from 70.5 (this only applies to people turning 70.5 after January 1,2020).** In my opinion this provision is not enough of a concession to the elimination of the Stretch IRA, but it does provide an extra 18 months of compounding before we are forced to start our distributions and pay taxes on them.
- **There is now a penalty free withdrawal from retirement accounts for birth or adoption of a child.** If parents have a retirement account, the Act lets each parent take out up to $5,000 without paying the 10% early withdrawal penalty. Income taxes on the withdrawal would still apply.
- **Graduate and post-doctoral students who are compensated would be able to make IRA contributions based on that compensation.** I consider this a technical correction long overdue.
- **Part-time employees now have access to 401ks.** The Act guarantees employees who have worked 500 hours per year for at least three consecutive years and who are over 21 access to 401ks.
- **The act has several provisions to help businesses start or enhance the 401k offerings.** First, small businesses can band together in Multiple Employer Plans (MEPs), potentially reducing costs. There is a provision for any business that starts a retirement plan to receive a $5,000 tax credit. Time will tell whether these ideas are enough to move the needle in covering the 45% of all civilian workers not currently participating in work place retirement plans.
- **The Act enhances the auto-enrollment and auto escalation features of 401k plans.** The Act increases the cap on "Qualified Automatic Contribution Arrangements" from 10% to 15%. The Advisors at New England Capital have long advocated our clients save 15% or more of their income for retirement. This provision encourages employers to add these provisions to their 401k offerings. From a behavioral finance view, I think this is great. The auto enrollment means that employees are automatically signed up for the 401k unless they opt out. Auto escalation means the percent contributed will automatically increase by 1% per year until 15% of their pay is being contributed.
- **401k will provide annuity options and information.** The Act requires 401k plan administrators to provide an annual "lifetime income disclosure statement" to plan participants. Annuities will be allowed along with investment options in 401ks. This is interesting departure from the Department of Labor rules under the last Administration, which has been trying to limit high cost annuities sold by insurance companies from the retirement products offered to consumers. The insurance industry lobbied very hard to have these provisions included in the Act. Let's hope the insurance companies issuing annuities to the 401k plans go beyond the "suitability" threshold and act in accordance with the "fiduciary" standard, which require them to put the client/participant's best interest before their own.
- **Credit card access to 401k loans will be prohibited.** The act puts a stop to 401k administrators allowing employees to access plan loans by using credit and debit cards. Again, I and other New England Capital advisors have always said 401ks are retirement accounts and not piggy banks for current expenses.

The goal of the act is to revise and modernize the US retirement plan system. There are other provisions in the Act not mentioned here. If you have large IRA balances, or are expected to inherit large IRA balances, or if your IRA beneficiary is a trust, you should do some additional planning. If you have a specific questions on your situation and how the Act will affect you and your beneficiaries, please call our office.

Let's hope the provisions of The Setting Every Community Up for Retirement Enhancement lives up to its name!

"Our lives begin to end the day we become silent about the things that matter"

-Martin Luther King, Jr. American Christian Minister, Activist, Leader in the Civil Rights Movement

Impeachments and Wars: How does this effect my portfolio?

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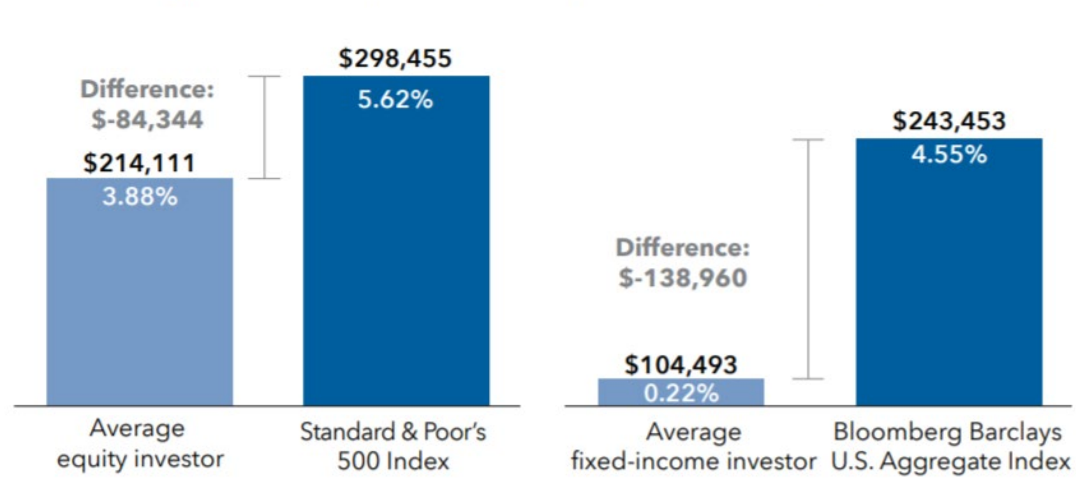
“If you don’t like the road you’re walking, start paving another one”

-Dolly Parton: American singer-song writter and actress

A recent study by DALBAR, a financial research firm, has shown how the general temptation for investors to try and time the stock market often results in the investor diving into the market at the top and fleeing at the bottom.

This activity has caused investor results to significantly lag the broader markets over the long haul. The charts below illustrate that, rather than following trends during market highs and lows, investors may be better served by staying invested during all stages of the market. [1]

Growth of a hypothetical $100,000 investment (12/31/98 - 12/31/18)

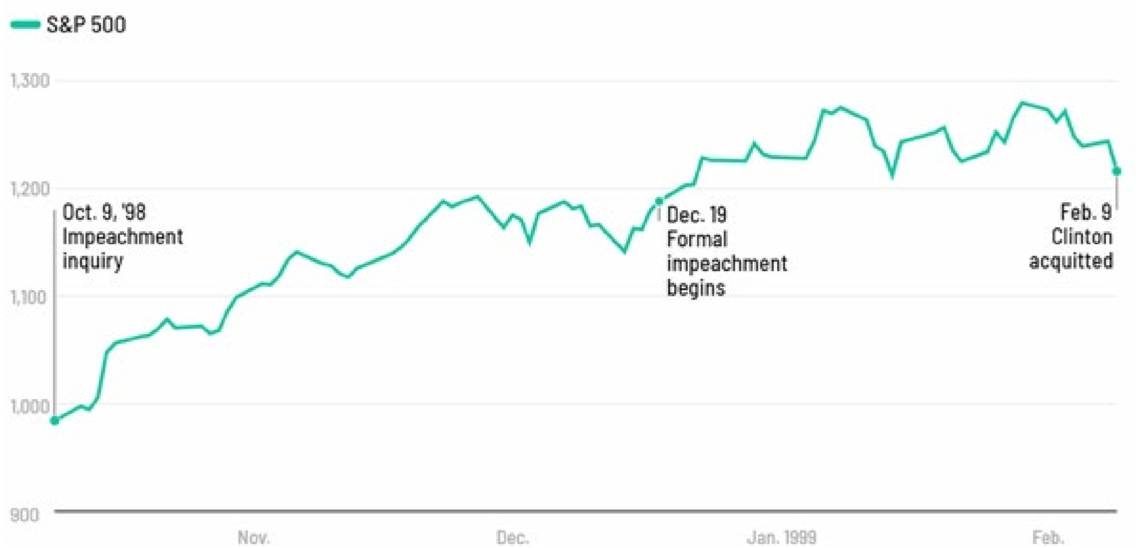


Impeachment and the Markets

We have seen 3 presidential impeachment attempts in the US. The first impeachment attempt in the US came in 1868. President Johnson, who took office after the assassination of President Lincoln, was charged with violating the Tenure of Office Act (since it was so long ago, this impeachment attempt and its effects on the market will not be addressed). The next two were more recent, with President Clinton and President Nixon. The findings show that the market returns were more based on economics and not the presidential impeachment attempts. [2]

Clinton's impeachment did not rattle the markets

The official inquiry began after the Russian debt crisis and near-collapse of Long-Term Capital Management hedge fund. The S&P 500 gained close to 27% between Clinton's impeachment inquiry and his acquittal.



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Impeachments and Wars: How does this effect my portfolio?

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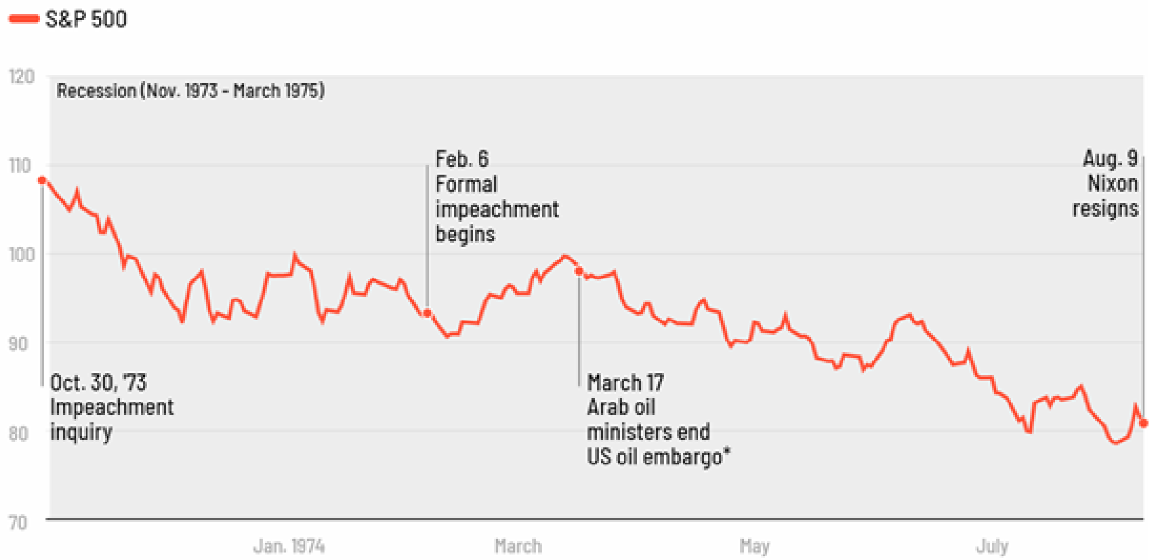
Nixon's impeachment overlapped with dire market conditions

A recession combined with a bear market and the oil crisis led the S&P 500 sharply lower. It fell 26% between Nixon's impeachment inquiry and his resignation.



"You have brains in your head. You have feet in your shoes. You can steer yourself any direction you choose. You're on your own. And you know what you know. And YOU are the one who'll decide where to go…"

-Dr. Seuss, Oh, the Places You'll Go!: American children's author

War and the markets

The relationship between geopolitical crises and market outcomes isn't as simple as it seems. Since history seems to repeat itself, let's look back at some of the US wars and their effect. [3]
In the six months following the onset of World War I in 1914, the Dow fell more than 30%.

Because the war basically ground the business world to a halt and market liquidity all but dried up, the decision was made to close the stock market that year. This lasted for six months, the longest such period on record. Making up for lost time, the Dow rose more than 88% in 1915 after it reopened, which remains the highest annual return on record for the DJIA. In fact, from the start of the war in 1914 until the war ended in late 1918, the Dow was up more than 43% in total or around 8.7% annually.

World War II had a similarly counterintuitive market outcome. Hitler invaded Poland on September 1, 1939, setting off the war. When the market opened on September 5, the Dow shot almost 10% higher that day. When the attack on the U.S. naval base at Pearl Harbor occurred in early December 1941, stocks opened up the following Monday down 2.9%, but it took just a month to regain those losses. From the start of WWII in 1939 until it ended in late 1945, the Dow was up a total of 50%, more than 7% per year.

The Korean War began in the summer of 1950 when North Korea invaded the South. That conflict ended in the summer of 1953. In that time, the Dow was up an annualized 16%, or almost 60% in total.

U.S. troops were sent to Vietnam in March of 1965. The Dow would finish the remainder of that year up almost 10%. By the time the last of the U.S. troops were pulled out of Vietnam in 1973, the stock market was up a total of almost 43% in that time, or just under 5% per year.

The U.S. invaded Iraq in March 2003. Stocks rose 2.3% the following day and finished up the year with a gain of more than 30% from that point on. Although it is important to note these gains were coming off the brutal 2000-2002 bear market.

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"The future belongs to those who believe in the beauty of their dreams."

-Eleanor Roosevelt, Former First Lady of the United States

Impeachments and Wars: How does this effect my portfolio?

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The point here is the market's reaction to presidential impeachments, war and geopolitical crises can be counterintuitive. There is no clear-cut rationale as what the stock market will do, which is why it is in your best interest to sit tight and not let your emotions get the best of you.

Please note that the Investment Committee and New England Capital is always looking for ways to tweak the portfolio models and add value where we can. One of our "philosophies" is to find investments that do well in up markets, but also try to hold value in down markets. Although your portfolios are not immune to market downturns, please know that we are working hard to try to preserve as much as we can on the downside, while getting some market returns on the upside. As always, please feel free to call us or email us with any questions or concerns you may have.

[1] DALBAR investing study, Capital Group, A buy-and-hold strategy can serve investors well, 2019
[2] https://www.cnn.com/2019/09/29/investing/how-impeachment-affects-markets/index.html
[3] https://fortune.com/2020/01/03/iran-us-conflict-stock-market-oil-prices/

Important Tax Document Information

- **If you have a retirement account (IRA, SIMPLE, Roth, SEP) and took money out last year, the 1099-R should be mailed from your custodian (Schwab/Fidelity/National Advisors Trust) by the end of January.**
- **If you have a non-retirement accounts at Fidelity, Schwab or National Advisors Trust, you will not be receiving your 1099 until the third week of February.**
- **Please note that we cannot speak to your tax preparer or accountant regarding your accounts without your prior authorization.**
- **Matt and Ann will be available to assist you with any questions or issues regarding tax documents this tax season. Please email mattsczurek@newenglandcapital.com or annocone@newenglandcapital.com**