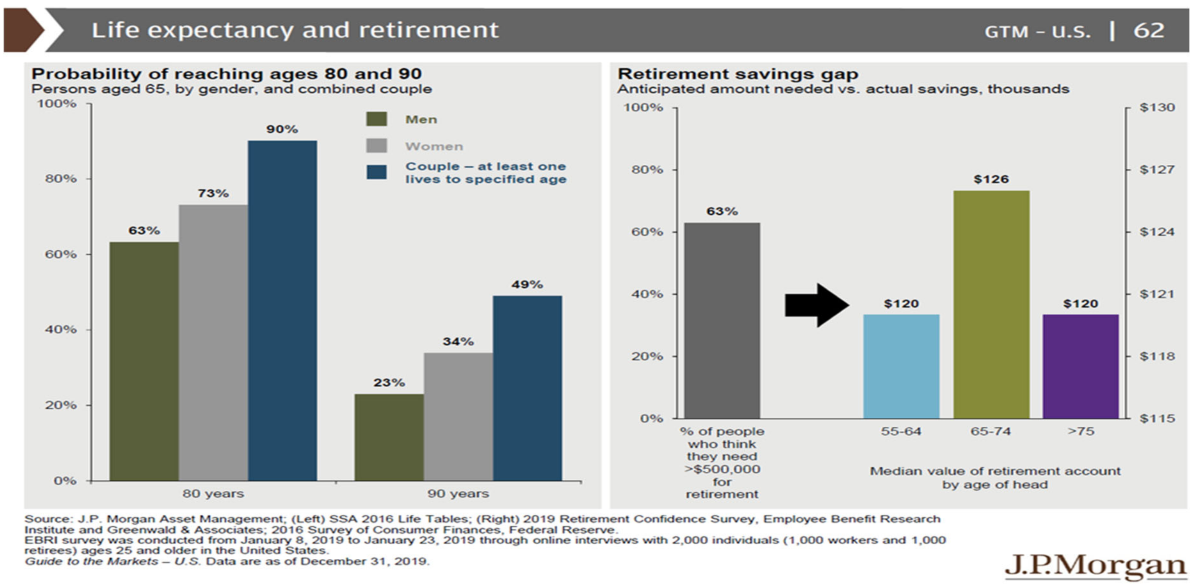
Hillegas Advisory Services
FAMILY WEALTH MANAGEMENT

Winter 2020

Twenty-seven Years of Service (1993—2020)

THE DAWN OF A NEW DECADE

This is a fitting time for HAS Clients to reflect and express gratitude for our present good fortune, abundance, longevity and station in life. We are collectively beating the averages by a very, very wide margin. As far as health and longevity, once a couple makes it to age 65, odds are that at least one will live another twenty-five years. Those with greater financial resources can expect to further beat these averages. The not-so-good news is that the median value of retirement savings was just $126,000 for those 65 to 74 years old. Fortunately, Social Security and Medicare provides a much needed safety net for those with little savings.



Looking Back at 2019

We have just completed the final quarter, not only of the year, but also the decade, so it's a good a time to look back on the market behavior for the past year, and also for the past 10 years. The short version is that we have experienced one down year in 2018, two flat years in 2011 and 2015 and seven nicely positive years. Moreover, we had just one very short-lived -20% bear market and only a handful of -10% corrections since June 2009.

People who record the history of the markets will remember that the investors of the 2010s participated in the longest economic expansion and bull market in American history--a totally improbably event considering that the decade came right after one of the most dramatic market setbacks in modern times. Indeed, the preceding decade was dismal. During the 9-year period from March 2000 through February of 2009, the market declined a stunning cumulative 43%, meaning that $100,000 was only worth $54,047 nine years later (Vanguard S&P 500 Index). Game over for non-diversified investors!

It's worth noting that the predictors of doom were once again totally off-base. When the Federal Reserve Board stepped in to stem the worst of the Great Recession, there were widespread cries that the Fed was "printing money" in a way that would lead to massive inflation and/or the bursting of a stock market bubble. Today, an expansionist Fed is routinely criticized for being too tight, rather than too loose. Inflation, meanwhile, stood still at 0% for the last quarter and has ranged annually from just 0.7% to 2.2%--which hardly signals a crisis.

(Continued from page 1)

After 2018's tumultuous close to the year, U.S. stocks didn't look back throughout 2019, with the S&P 500 Index closing near record levels, up more than 31%. A breakdown shows that just about every investment asset was up strongly in 2019. The broad-based Russell 3000 index was up 25.52% for the year. Overseas markets were also generous with the broad-based EAFE index of companies in developed foreign economies ending the year up 18.44% in dollar terms. Emerging market stocks of less developed countries, as represented by the EAFE EM index, were up 15.42% gain for the year.

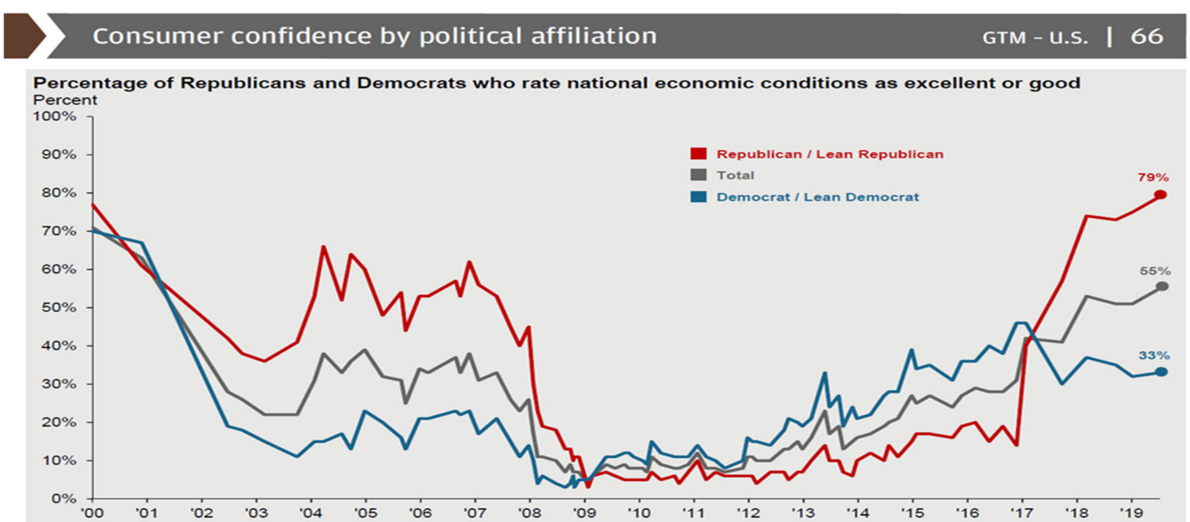
In the bond markets, coupon rates on 10-year Treasury bonds dropped almost a full percentage point, year-on-year, to stand at 1.75% at year end. Similarly, 30-year government bond yields have fallen from 3.01% at the beginning of the year to 2.38% coupon rates today. Five-year municipal bonds are yielding, on average, a meager 1.14% a year, while 30-year munis are yielding just 2.15% on average.

Tech-Fueled Abundance

Demographics, automation, and excess energy have led us from a world of scarcity and supply constraints to a world of abundance, which has created some challenging problems. Technology is unlocking capacity in every industry, reducing costs and keeping inflation low. Technology is also disruptive. One key issue relating to this flavor of abundance is that it is driven by intellectual property in the form of technology, making the winners highly concentrated (e.g. Google, Facebook, Microsoft, Amazon) and the losers broad. Thanks to technology, the U.S. is now the largest producer of oil and natural gas in the world. These dramatic increases in U.S. energy production have lessened the possibility that the economy will experience an energy recession.

Be Wary of Political Noise

In this election year, politics are likely to remain a focal point for investors. Still, political affiliations aside, investors should not allow how they may lean politically to govern investment decisions for two main reasons: first, we invest through market cycles and not presidential cycles. Indeed, the past decade has had both a Democrat and Republican president in which both periods saw strong gains in stocks and solid gains in bonds. Second, the three branches of the federal government allow for checks and balances. Regardless of a Republican or Democratic victory, Congress is likely to remain divided, which bodes better for the markets and overall economy as divided government should curtail any dramatic shifts in policy that would significantly alter the investment landscape.



Source: Pew Research Center, J.P. Morgan Asset Management. Pew Research Center, July 2019, "Public's Views of Nation's Economy Remain Positive and Deeply Partisan." Question: Thinking about the nation's economy, How would you rate economic conditions in this country today... as excellent, good, only fair, or poor?

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Consider that in the periods from 2000 to 2008, 2008 to 2016 and 2016 to present, there are fairly stark divisions in sentiment surrounding the economy between political affiliations that closely align with which party is in the White House, even though we are experiencing the exact same economy. Because of political bias, Republicans might have missed out on impressive market gains during the Obama administration, and Democrats might be missing out on gains during the Trump administration.

The U.S. consumer will likely continue to support growth given strong employment, payroll gains and rising wages. Economic growth is likely to stabilize at a healthy 2.0%+ pace, driven by stable consumption growth, a modest rebound in housing and some stabilization in investment spending. In short, the U.S. economy should continue to hum along.

At the same time, after an impressive year for both stocks and bonds, investors should temper their return expectations. Stock valuations are elevated compared to their long-run averages. Modest economic growth, moderate profit growth and a Fed on pause suggest a balanced approach to portfolios in 2020.

Multi-Year Recognition: Five Star Wealth Manager

We are pleased to announce that Craig has once again been named a Five Star Wealth Manager in 2020. Craig's selection is the result of a rigorous process that included regulatory and consumer reviews, peer input and objective criteria associated with wealth managers who provide only the best service to their clients. The Five Star Wealth Manager program is the largest and most widely published accolade in North America, and reflects Craig's hard work, dedication and commitment.

All content in this newsletter is intended as general information, not specific planning, tax or investment advice. Portfolios are personalized and often consider many variables, including investment objectives, age, time horizon, risk tolerance, client requests and tax variables. Information contained herein has been obtained from sources believed reliable, but not guaranteed.

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Footnotes and References

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