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THE ADVISOR

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2020 Market Forecast: Blow-Off Top Could Last All Year Before Reality Hits

In last month's newsletter, we noted that the stock market rally that began in November and continued through the end of the year had all the earmarks of a classic blow-off top, which is a period of fairly steady market growth that occurs in spite of mixed economic data and recessionary red flags, and is often followed by a steep market drop. Although the rally has, as of this writing, stalled a bit in response to new mounting tensions in the Middle East, we're forecasting that the current blow-off top could continue in 2020 — and possibly into 2021 since this year is an election year.

The main rationale for this forecast can be summarized in two words: The Fed. Late last year, the Federal Reserve sent a clear signal that it will continue doing everything in its power to keep the stock market artificially inflated and delay the next major correction — just as it has been ever since the Financial Crisis. The Fed sent this signal with the launch of yet another round of quantitative easing, which was triggered in response to a liquidity crisis that occurred in the banking system last September.

As I've explained previously, in addition to instantly pumping money into the system, the Fed began buying up short-term treasuries in October at $60 billion a month.[1] They will continue doing so into the second quarter of this year in an effort to manipulate the short end of the yield curve. As you'll recall, the U.S. yield curve became inverted for a period starting in July of 2019, meaning long-term interest rates had sunk below short-term rates — a situation that forced the Fed to lower short-term rates three times last year after having raised them steadily the year before.

Logic vs. Emotion

Remember, the bond market — which, unlike the stock market, is driven by logic rather than emotion — considers an inverted yield curve a reliable indicator of a coming recession. That's largely why the yield on the 10-Year Treasury rate stabilized at between 1.5 and 2% late last year: the bond market was paying attention to this warning sign, and I believe it will continue to do so.

Based on history, we know that a recession typically hits 12 to 18 months after we have a flat or inverted yield curve. Since the yield curve became inverted last July, that means we should see a recession hit somewhere between August of 2020 and early 2021. However, with the Fed buying up short-term treasuries, they're trying to ignore the logical message from the bond market that the economy is slowing, and to feed Wall Street's irrational exuberance with more artificial tinkering. Ulti-

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How Much Do You Need to Save for College?

The ever-rising cost of college is common knowledge. Depending on the school a student chooses, the cost of tuition, room, and board for an undergraduate degree can easily exceed six figures. With costs so high, many parents are simply overwhelmed. Saving enough to cover all of a child's college education expenses may seem like an impossible goal. Many parents don't get started, or if they do save, they don't save enough.

If you want to help your children pay for their college costs, you need a clear savings strategy. Below are some simple guidelines for determining how much you really need to save.

Estimate How Much College Will Really Cost

According to data from the College Board, a year of tuition, room, and board in the 2018-19 academic year costs $21,270 at a public institution and $48,510 at a private nonprofit institution. Assuming future increases

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2020 Market Forecast

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mately, the Fed is trying to pretend that the yield curve was never inverted simply because they un-inverted it so quickly. The fact is, though, historically, an inverted yield curve never stays that way for very long.

At the same time, the Fed is also trying to ignore several other recession warning signs as they pump yet another shot of temporary adrenaline into the markets. That shot could receive an extra boost in 2020 because it's a presidential election year, which are often good years for the stock market. Since President Trump takes great pride in what the markets have done since his election, it's likely he will do everything within his power to keep the them going.

On the other hand, be aware that in addition to all the recessionary warning signs out there, there are also plenty of unstable situations in the geopolitical realm that could trigger the next big selloff. Those include an impeachment process and — now, of course — the brewing threat of a war with Iran. As of this writing, that issue already seems to have investors tapping the brakes on the latest rally.[2]

Delayed Reckoning

With the Fed clearly recommitted to doing everything it can to artificially alter the markets' natural course (as they've been doing for almost a decade now), it's possible that the reckoning may occur later — possibly not until 2021.

That's when we could see the recession that economists are increasingly warning about, and the start of the next major sustained market correction. Before that, it's possible this blow-off top may add another 10 to 20% market growth. In the meantime, though, we believe that overall low interest rates will remain the norm, and GDP growth will remain stagnant or continue to decline slightly in the year ahead.

Ultimately, the two important questions for investors to keep in mind as they track the blow-off stock market in the coming year are: "Is it real, and if not, do I really want to bet on something that's artificial?" Now, if you're a speculator or a day trader, the answer to the second question might be yes. You might decide that it makes sense to stay in the market — as many speculators will — with one finger on the trigger, ready to pull out quickly when the next big correction hits.

However, if you're not a speculator, if you're an everyday investor who is retired or within ten years of retirement, then I would argue you probably don't want to bet on something that isn't real. I would argue you don't want to play that game because even if this blow-off top does add another 20% growth, history tells us that the next major correction could mean a loss of between 40 and 70%. Most retirees and near retirees simply can't afford to get caught in that downdraft, which is why I believe most should continue to make overprotection their number one financial priority in 2020!

[1] "Fed Will Purchase Treasury Bills at Least into 2Q of 2020," Wall Street Journal, Oct. 11, 2019

[2] "Dow Slides 130 Points, Oil Prices Jump As Iran Tensions Escalate," USA Today, Jan. 6, 2020

Get Your Share of Merit Aid

The basic premise of financial aid is that it is need based. Families fill out the government's aid form, the Free Application for Federal Student Aid, so mathematical formulas can determine a family's eligibility for federal financial aid. Colleges can use a different, though similar, methodology to make financial aid awards.

However, the same student can obtain very different financial aid packages. If the financial aid process is truly need based, how could that happen? Part of it results from how individual colleges define assets for financial aid purposes. For instance, some include home equity, while others do not. Another part of the difference results from colleges competing to attract top students. High caliber students increase the college's prestige. To encourage these students to attend their college, merit scholarships are often given or the mix of traditional need-based financial aid is altered. Financial aid consists of grants (which do not have to be repaid), loans, and work study programs. Two financial aid packages may have the same dollar value, but the one with a higher percentage of grants will be more valuable to the student.

What implications does this have for a child approaching college? Consider these tips:

- Encourage your child to do well on college entrance exams. Not only will this make him/her eligible for acceptance at a broader range of colleges, it may increase your financial aid package.
- Don't focus on entering one particular college. Start with a few colleges that would be acceptable alternatives and apply for financial aid at all of them. You may be surprised at how different the financial aid awards are, especially if your child is a strong student.
- What should you do if your child has his/her heart set on going to one college, but you received a better financial aid package from another college? Talk to the financial aid officer. While some colleges are receptive to matching other colleges' offers, others are not. In those cases, your best strategy is to review the financial aid calculations with the officer, looking for ways to increase the award. Many subjective factors go into calculating financial aid awards and you may be able to negotiate so the total award is increased. Perhaps just changing the composition of the award so more is given in grants will help.

Save for College?

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of 3% annually, that means in 18 years, a year of college will cost more than $36,000 at a public school and roughly $82,000 at a private school.

Those estimates are staggering. Of course, it's possible college costs will level off or increases won't be quite so steep. But in any case, the young children of today will likely face much higher college costs than students do today.

Why does all this matter? Because you need to get a sense of what it might actually cost your child to attend college. If you have a baby who was born this year and hope to send him/her to a private four-year college, you'd need to save about $328,000 to cover all the costs.

Decide How Much You Want to Save

Once you have an idea of how much your children's college might cost, you can set realistic savings targets. Say you want to be able to cover 80% of the cost at a four-year, private college for your child, with the expectation that your child will either obtain grants or scholarships or take out loans to pay the remaining portion. That means a savings goal of $262,000 at the end of 18 years. To hit that target, you'd need to set aside about $728 a month, assuming annual returns of 6%. If you want to cover 80% of the costs of a four-year education at a public college (estimated at $144,000), you'd need to save $115,000. To reach that goal, you'd need to save about $372 a month, assuming annual returns of 6%.

If your initial savings estimates are high, consider tweaking your goals. Meeting 80% of your child's estimated college costs may be unreachable, but 70% may be a more achievable goal. Also, consider other sources you can tap to boost savings. Grandparents may be willing to make contributions. Monetary gifts your child receives for birthdays and other milestones can be added to a college fund. Finally, don't count out the possibility of financial aid.

Create a Plan

The estimates above are just that — estimates. Unfortunately, many parents have little idea how to get started saving. Sticking funds in a low-interest savings account reduces risk, but means you'll have to save more. A 529 college savings plan, which offers tax advantages and access to investments, could be a better way to reach your goals.

To create your own college savings plan, you'll need to think carefully about your family and your situation. Please call if you'd like to discuss this topic in more detail.

Financial Management for College Students

You're off to college. It's an exciting time filled with firsts — the first time living away from home, the first time you're on your own for meals and laundry, and the first time you have to manage your own money. All of these firsts can be a little daunting.

It's important to get off on the right foot with managing your money, because the financial decisions you make now will impact you later. Following are some tips you should start now to build a strong foundation for money management:

Develop a Budget

To create your budget, you can use a spreadsheet or online personal financial management tool. In preparing your budget, you should first make a list of your monthly income sources, including wages, savings, and any allowance from your parents or others. Next, you will want to make a complete list of all of your expenses, including school supplies, laundry, meals outside of your food plan, and personal care items. On a monthly basis, you should track your expenses and add new expenses as you discover them. Hopefully, you will have more income than expenses, but if not, you need to start making decisions about what stays and what goes.

Identify Wants Versus Needs

Part of becoming financially responsible is learning the difference between wants and needs. You will need to determine the amount of money that is absolutely essential to pay your expenses each month. How often do you really need to eat out? Is cable TV really a need? Can you drive your car less and walk more? After a few months, it will become easier to distinguish wants from needs. As you track expenses on your budget, you will be able to ensure the essentials are covered and determine how much you have left over. You should consider delegating a monthly amount for wants, and when it's gone, it's gone, until next month.

Set Up Checking and Savings Accounts

Find a bank or credit union on campus to establish a checking and savings account. You will want to make sure they have convenient ATMs on or near campus so you can avoid any out-of-network ATM charges. Most financial institutions offer free checking and savings accounts to students, but you should make sure you understand what fees may be associated with your accounts and any policies that will impact your accounts. For example, most financial institutions have a funds availability policy, which means when you deposit a check, the money may not be available for a few days until the check clears. Use their online banking tools so you can keep close track of your accounts.

Use Credit Cards Wisely

While it can be a double-edged sword, you need to use credit to establish a good credit rating. This will be important when applying for a job, securing an apartment, and buying a car. You should open a credit card and use it to pay for expenses, being sure to pay off the balance each month. By doing this, you are showing you are financially responsible and you are establishing a good credit history. It can be easy to abuse a credit card because it is so easy to use. Use it wisely because you don't want to be stuck with a large debt that accumulates monthly interest and can also damage your credit rating.

Please call if you'd like to discuss this in more detail.

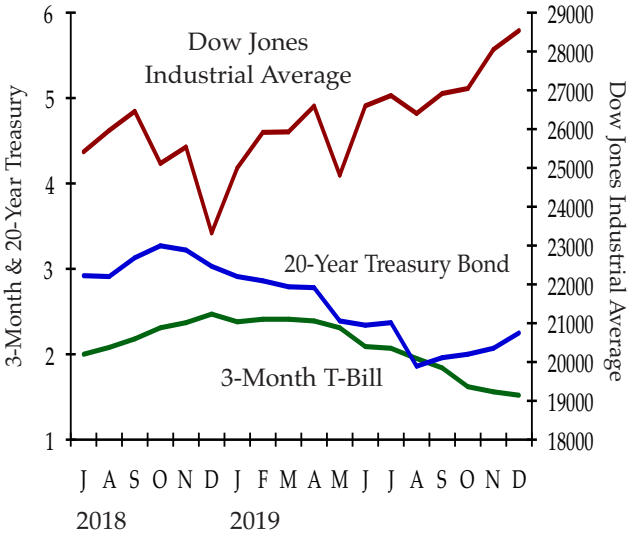
Business Data

Indicator	Month-end Oct-19	Nov-19	Dec-19	Dec-18	Dec-17
Prime rate	4.75	4.75	4.75	5.50	4.50
3-month T-bill yield	1.62	1.56	1.52	2.47	1.45
10-year T-note yield	1.69	1.78	1.92	2.89	2.46
20-year T-bond yield	2.00	2.07	2.25	3.03	2.66
Dow Jones Corp.	2.90	2.85	2.84	4.40	3.13
GDP (adj. annual rate)#	+3.10	+2.00	+2.10	+2.20	+2.90

Indicator	Month-end Oct-19	Nov-19	Dec-19	% Change 2019	2018
Dow Jones Industrials	27046.23	28051.41	28538.44	22.3%	-5.6%
Standard & Poor's 500	3037.56	3140.98	3230.78	28.9%	-6.2%
Nasdaq Composite	8292.36	8665.47	8972.60	35.2%	-3.9%
Gold	1510.95	1460.15	1523.00	18.8%	-1.1%
Unemployment rate@	3.50	3.60	3.50	-5.4%	-9.8%
Consumer price index@	256.76	257.35	257.21	2.1%	2.2%

— 1st, 2nd, 3rd quarter @ — Sep, Oct, Nov Sources: *Barron's, Wall Street Journal*
Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield
July 2018 to December 2019



Encourage the Importance of Saving

Though it's typical for parents to underscore the value of a college education from the time their children are in grade school, what's more commonly overlooked are the benefits of encouraging them to save for their education from a young age. Contributing a small percentage of their allowance, cash gifts, and job income can have a huge impact on their outlook toward both college and their future.

While it's one thing to stress to your children the innumerable advantages of attending college, requiring that they set aside a portion of their childhood earnings can instill the value of college because of the small, yet personal investment you're asking them to make. Not only does it teach them the commitment and patience required to save toward a long-term goal, but it also encourages them to take ownership of their own education by asking them to contribute a portion of their own money. Moreover, as they grow, so does the sum of their contributions, affording them with a sense of pride in knowing they've subsidized a part of their college education.

Before you begin putting away a portion of their allowance or cash gifts, sit down with your children and explain the reasoning behind your decision, so they fully understand why you're setting aside some of their money for the future. You might even consider showing them the growing balance of their savings from time to time and even explaining what these figures mean in terms of tuition and other expenses. Stay committed and you'll likely raise a more responsible and devoted student.

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