PEAK CAPITAL
MANAGEMENT

D. MICHAEL BURLEIGH
Registered Investment Advisor

750 SE Indian St.
Stuart, FL 34997

772-334-9592 • 772-334-3856 fax
Mike@peakcapitalmanagement.net
www.peakcapitalmanagement.net

THE ADVISOR

FEBRUARY 2020

Disagreement Deepens Between Stock Market and Logical Bond Market

Recently we discussed how the current blow-off top rally happening on Wall Street is a good illustration of why the bond market is said to be smarter than the stock market. The stock market — which is driven mainly by emotion and animal spirits — has continued to soar since late October despite signs of slowing growth and a variety of unstable geopolitical issues. Meanwhile, the bond market — which is driven more by logic — has become increasingly cautious, clearly demonstrating that bond investors are paying attention to many of the issues that Wall Street seems to be ignoring. The two markets have been disagreeing — and in January that disagreement deepened even further.

Despite two brief dips in January — the first in response to tensions with Iran and the second triggered by fears over the coronavirus — the stock market managed to rebound, hitting multiple new record highs and recovering most of its losses. The Dow Jones Industrial Average topped 29,000 for the first time ever on January 15th, and by February 5th it was back above 29,000 and closing in on its peak high.[1] This occurred despite a report from the Commerce Department that the U.S. economy had missed President Trump's 3% growth target for the second straight year in 2019, and that the economy had posted its slowest annual growth rate in three years.[2]

You may recall that as this blow-off top was building up its froth from late-October through New Year's (based mainly on optimism over a deal to deescalate the U.S.-China trade war) the bond market tightened up. The yield on the 10-Year Treasury rate stabilized at between 1.75 and 2%. This kept long-term interest rates just slightly higher than short-term rates, which were lowered by the Federal Reserve three times in 2019. You may also recall that the Fed was basically forced to make those rate cuts after the long-term rates dipped below the benchmark short-term rate, creating an inverted yield curve and a classic warning sign of recession.

Rally Could Keep Rolling

While Wall Street has ignored that warning sign, the bond market has been taking it seriously, and in January the 10-Year Treasury yield fell even lower, hitting 1.51% on the last day of the month.[3] With the current Fed funds rate at a range of 1.5 to 1.75%, this puts the yield curve close to inverting again. In other words, the more logical bond market clearly disagrees that the economy is

Continued on page 2

Retirement Planning for Stay-at-Home Parents

Millions of Americans are stay-at-home parents. While they may not get paid a regular salary, they perform vital work caring for children and managing the household. Unfortunately, since this work doesn't come with a paycheck, it leaves those moms and dads in a tough spot when it comes to retirement.

A nonworking spouse is going to have a tougher time preparing for retirement. Obviously, no income means saving for the future is difficult. Plus, a person who doesn't work isn't paying into the Social Security system. Even if you're out of the workforce for just a few years while your kids are young, those nonworking years can cause you to fall behind in retirement savings. But staying home with the kids doesn't have to mean jeopardizing your financial future, provided you have a plan.

Don't Neglect Your 401(k) Plan

Many parents work outside the home for a time before they decide to stay home. If you had a 401(k) plan before you left the workforce, don't forget about those funds when you take time off. Depending on your plan's requirements and the investment options available, you may be able to keep your money where it is, or you might want to roll over your savings to an IRA. In

Continued on page 3

Disagreement Deepens

Continued from page 1

strong enough to justify soaring stock prices, which reinforces the likelihood that what we're seeing is a classic blow-off top: a period of fairly steady market growth that occurs amid mixed economic data, and is often followed by a steep correction.

In our 2020 market forecast, we explained that this blow-off top could continue building up froth throughout the year before that correction hits. That's partly because the Federal Reserve has sent a clear signal that it will continue doing everything in its power — including using more artificial stimulus — to keep it going, and also because this is an election year, which are historically good years for the stock market. President Trump is also likely to do everything he can to keep Wall Street happy ahead of the November elections, including announcing an expected second round of tax cuts sometime this spring or summer.

At the end of the day, though, investors should pay attention to the bond market's message and be aware that there are now numerous unstable issues and situations (both economic and political) that could trigger the next sustained market correction. This could happen despite any artificial stimulus efforts by the Fed, despite what happens in the presidential election, and despite the economy maintaining moderate growth. In fact, that would even make sense since stock values and the GDP are so out of whack to begin with. Historically, a major correction is precisely how the markets are forced to make fundamental sense again.

Is it Real?

The most important questions for everyday investors over 50 to keep in mind as this blow-off top continues to build up froth are: "Is this real, and if not, do I really want to bet on something that's artificial?" Now, a market speculator might actually answer "yes" to that question. He might decide it makes sense to stay in the market but with one finger on the trigger, ready to pull out quickly when reality hits and that huge sustained sell-off begins.

However, if you're not a speculator, if you're an everyday investor who is retired or within ten years of retirement, then you probably don't want to bet on something that isn't real. You don't want to play that game because you know that even if this blow-off top adds another 20% growth, that's hardly worth the risk of a 40 to 70% loss — which is what history suggests the next correction could be.

Also, most rational people do already recognize that the market is fundamentally out of whack with reality in many ways. Wall Street's latest round of irrational exuberance doesn't pass their sniff test, and they've wisely taken steps to reduce their risk. If, however, you have friends or family who are still caught up in the hype, you might want to let them know that now is an ideal time to reduce their own market risk by switching their strategic focus from growth to income. With the rally still going, they can still cash out while they're ahead — but that situation could change quickly!

[1]Dow Jones 10-Year Daily Chart, Macrotrends.com

[2]"U.S. Economy Misses Trump's 3% Growth Target in 2019," Reuters, Jan. 30, 2020

[3]10-Year Treasury Rate, Y-Charts

Manage Your Nest Egg after Retirement

You may think that after retirement you can sit back and stop worrying about money…after all, you scrimped and saved for decades. You're comfortable with what you've put away and now it's time to relax. Well…not quite. If not for inflation and market volatility, you might be right, but you still need to keep a careful eye on your portfolio.

The current U.S. rate of inflation is a little over 2%, but it fluctuates constantly. A 3% rate of inflation per year means that after 23 years, a fixed sum of money has lost half of its value. What you may have only noticed from time to time at the grocery store and gas station before retirement, you will see as a dire threat to your savings. And unfortunately, safe assets do not keep you ahead of inflation in the long run.

Managing your portfolio in retirement can be difficult and complicated, but by doing so, you can keep it growing and combat the threat of inflation. Here are some key points to consider:

- Keep some of your portfolio invested in stocks.
- Maintain a rate of withdrawal below your annual rate of return. This is no more than 3% or 4% per year, so that the remaining balance can be reinvested to continue growing.
- Keep your essential expenses separate from nonessential expenses in your budget. Consider structuring your portfolio to have assets like dividend-paying stocks or long-term bonds pay for your essential expenses, but are otherwise untouched.
- Rebalance periodically. This means selling off a portion of the assets in an asset class or sub-class that has grown larger than your intended allocation. Use the proceeds from the sell-off to purchase assets in classes or sub-classes that have shrunk in value. While it is wise to rebalance once per year, it is also good to consider rebalancing when any category of assets has grown or shrunk by 5% to 10% off your designated allocation percentage.
- Withdraw as little as possible from your investments and review them regularly. If your investments have gone down in value, you will deplete your balance quickly by continuing the same withdrawal rate as before.
- Build up a reserve of investments not tied to the stock market, preferably totaling three or four years of retirement expenses. If you have this reserve to fall back on, you will not need to sell stock investments during periods of market decline.
- Withdraw funds in a tax-efficient way to make them last longer. For example, you should withdraw your taxable investments first so that tax-deferred investments can continue to grow. By age 72, you will likely have to start taking minimum required distributions from tax-deferred investments, but going back to work part-time may help push that timeline back even further.
- Reassess your asset allocation periodically. Make changes gradually to increase diversification in your portfolio.

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

Stay-at-Home Parents

Continued from page 1

either case, you'll want to keep an eye on your funds, making sure you have the proper asset allocation and that your investments are rebalanced as necessary.

Whatever you do, you don't want to cash out your savings unless it's truly a financial emergency. Doing so will put you even further behind.

Set Up a Spousal IRA

Usually, you must have earned income to contribute to an IRA. But the IRS has created a special exception to help nonworking spouses prepare for retirement. It's called a spousal IRA and works just like a traditional IRA. The husband or wife who works can contribute $6,000 a year to an IRA on behalf of their spouse ($7,000 if you're over age 50). The money can go into either a traditional or Roth IRA, provided all the other requirements are met.

Essentially, using a spousal IRA allows you and your spouse to double your IRA savings. However, you do need to file a joint tax return to be eligible for a spousal IRA. One other benefit of a spousal IRA is that the assets are held in the nonworking spouse's name. That means if the couple divorces, the spouse who doesn't work has retirement assets that are already their own.

Set Up a SEP-IRA or Individual 401(k) Plan

You may be a stay-at-home mom or dad, but that doesn't necessarily mean you're not working in some fashion. Many people who don't have careers outside the home earn money through consulting, freelance work, or home-based businesses. If this applies to you, you might want to consider setting up a SEP-IRA or an individual 401(k) plan to help you save for retirement. Assuming you earn enough money, you'll be able to save more than you would in a spousal IRA.

Don't Stop Saving

Whatever you do, don't forget about retirement saving just because you're out of the workforce for a while. Set aside what you can for the future, even if it's just a few dollars a month. That can be hard to do when your income is limited, but it's still important. You can also encourage your spouse to maximize their own retirement savings so you are both on track for retirement.

Need more help getting your retirement plan on track even if you're not working? Please call to discuss this in more detail.

Tax-Deferred Compounding

When considering your retirement, it's good to remember there are two keys to creating more wealth from the same starting point and the same amount of resources. One, compounding, is a gift of the laws of mathematics. The other is a gift from the government: tax-deferred compounding.

You compound your investment returns when you reinvest them instead of spending them. If you earn 5% a year on $10,000, that's $500. Over 10 years, you've made $5,000. If you spend it all, you will be no better positioned for retirement. Your account balance would still be the same.

But reinvesting those earnings makes a big difference. Let's say that in the example above, you're generating income in a taxable account and your tax rate is 24%. This means that out of your earnings of $500 a year, you net $380 after taxes, and let's say you reinvest it all. After 10 years, your account value will have grown to nearly $14,520, which is a total return of 45.2%.

Tax deferral makes this even better. Individual retirement accounts and 401(k) plans were designed to encourage Americans to save their own money for retirement. The incentives were two-fold. The first was granting people an income tax deduction for their contributions. But the second was the most powerful by putting off taxes on investment earnings and capital gains until the money is withdrawn.

Returning to our example, let's say your money is in a tax-deferred retirement account, like a 401(k) or an IRA, still earning 5% a year. The tax-deferral feature of these accounts means you can reinvest the entire $500 your portfolio earns every year. Now, after 10 years, your account is worth $16,470, 13% more than the $14,520 that built up in the taxable account at the same pre-tax rate of return. The difference can be even more dramatic when you're making monthly contributions and achieving higher rates of return in your account.

Here are some ways to get the maximum benefit out of tax-deferred accounts:

- **Start early.** Even small amounts contributed regularly can grow to substantial amounts when you start at an early age. If you're 25 and you contribute just $25 a month to an IRA or 401(k) that earns an average of 8% a year, by the time you're 65, your balance could equal more than $351,000. That's over $55,000 more than you'd build up if you contribute $500 a month — 20 times as much — but waited to start until you were 45.
- **Put away as much as you can.** Maximum contributions to IRAs are $6,000 if you're under 50 years of age, and $7,000 if you're 50 or older. For 401(k) plans, the maximum is $19,500 in 2020 and you can add another $6,500 if you're 50 or older (if permitted by your plan). Since tax-deferral provides the bulk of the benefits of retirement accounts, it's smart to push toward the maximums.
- **Maximize any employer matching contributions.** Not all 401(k) plans feature a matching employer contribution, but if yours does, do everything you can to qualify for the maximum match. It's like free money.

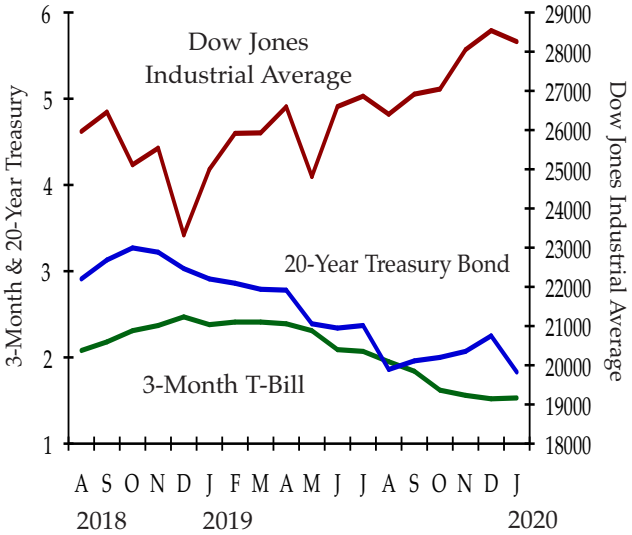
Business Data

Indicator	Month-end Nov-19	Dec-19	Jan-20	Dec-18	Jan-19
Prime rate	4.75	4.75	4.75	5.50	5.50
3-month T-bill yield	1.56	1.52	1.53	2.47	2.38
10-year T-note yield	1.78	1.92	1.51	2.89	2.75
20-year T-bond yield	2.07	2.25	1.83	3.03	2.91
Dow Jones Corp.	2.85	2.84	2.59	4.40	4.16
GDP (adj. annual rate)#	+2.00	+2.10	+2.10	+1.10	+1.10

Indicator	Month-end Nov-19	Dec-19	Jan-20	% Change YTD	12 Mon
Dow Jones Industrials	28051.41	28538.44	28256.03	-1.0%	13.0%
Standard & Poor's 500	3140.98	3230.78	3225.52	-0.2%	19.3%
Nasdaq Composite	8665.47	8972.60	9150.94	2.0%	25.7%
Gold	1460.15	1523.00	1584.20	4.0%	19.7%
Unemployment rate@	3.60	3.50	3.50	0.0%	-10.3%
Consumer price index@	257.35	257.21	256.97	-0.1%	2.1%

— 2nd, 3rd, 4th quarter @ — Oct, Nov, Dec 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
August 2018 to January 2020



Retirement Withdrawal Strategies

Like your parents, you worked hard and saved hard, and now it is finally time to reap the rewards. Unlike your parents, you probably don't have a pension, Social Security benefits are uncertain, and healthcare costs are higher than ever. Today's retirees live longer and need to use more personal savings than previous generations. It's important to develop a withdrawal plan that will give you the best chance for not outliving your assets.

Where to Start

You want a plan that ensures you can meet your expenses and has the potential to keep growing, all while weathering inflation, market volatility, and taxes. Determine how you want to live in your retirement years. Define what expenses are non-negotiable like housing, and then expenses that are discretionary, such as traveling. One withdrawal strategy may be to use your reliable income, such as Social Security, for essential expenses and your investment income for things you want to do.

Keep it Growing

Building a strategy for growth is very different while in retirement. You will need an asset allocation strategy that uses a target asset mix of investments aligned with your risk tolerance, which will probably be different at this stage of your life than when you were younger.

Monitoring and Rebalancing

Just like during your saving years, you need to monitor your portfolio on a regular basis. It may be wise to rebalance your portfolio due to market conditions or other factors that impact your life. While in the early years of your retirement, you may take more risk; as you age, you may want to be more conservative.

Please call if you'd like help developing a withdrawal strategy for your retirement funds. FR2019-1024-0117

PEAK CAPITAL
MANAGEMENT
750 SE Indian St.
Stuart, FL 34997