



SilverOak

WEALTH MANAGEMENT LLC

Quarterly Webinar  
January 31, 2020

Presented by:  
Shannon King and  
Jonathan Scharlau



SilverOak  
WEALTH MANAGEMENT LLC

# Introduction

- Shannon King, CPA, CFP<sup>®</sup>, PFS, CIMA<sup>®</sup>, CPWA<sup>®</sup>, MBT  
President, Partner and Chief Compliance Officer
- Jonathan Scharlau, CFA, CFP<sup>®</sup>, AEP<sup>®</sup>  
Partner and Lead Analyst

# Agenda

- Economic data
- Market data
- SilverOak's outlook
- SilverOak updates and “New Year” planning tips
- SECURE Act overview
- Questions



*Economy:  
Growth Stabilized  
During the  
Fourth Quarter*



# Market Dashboard

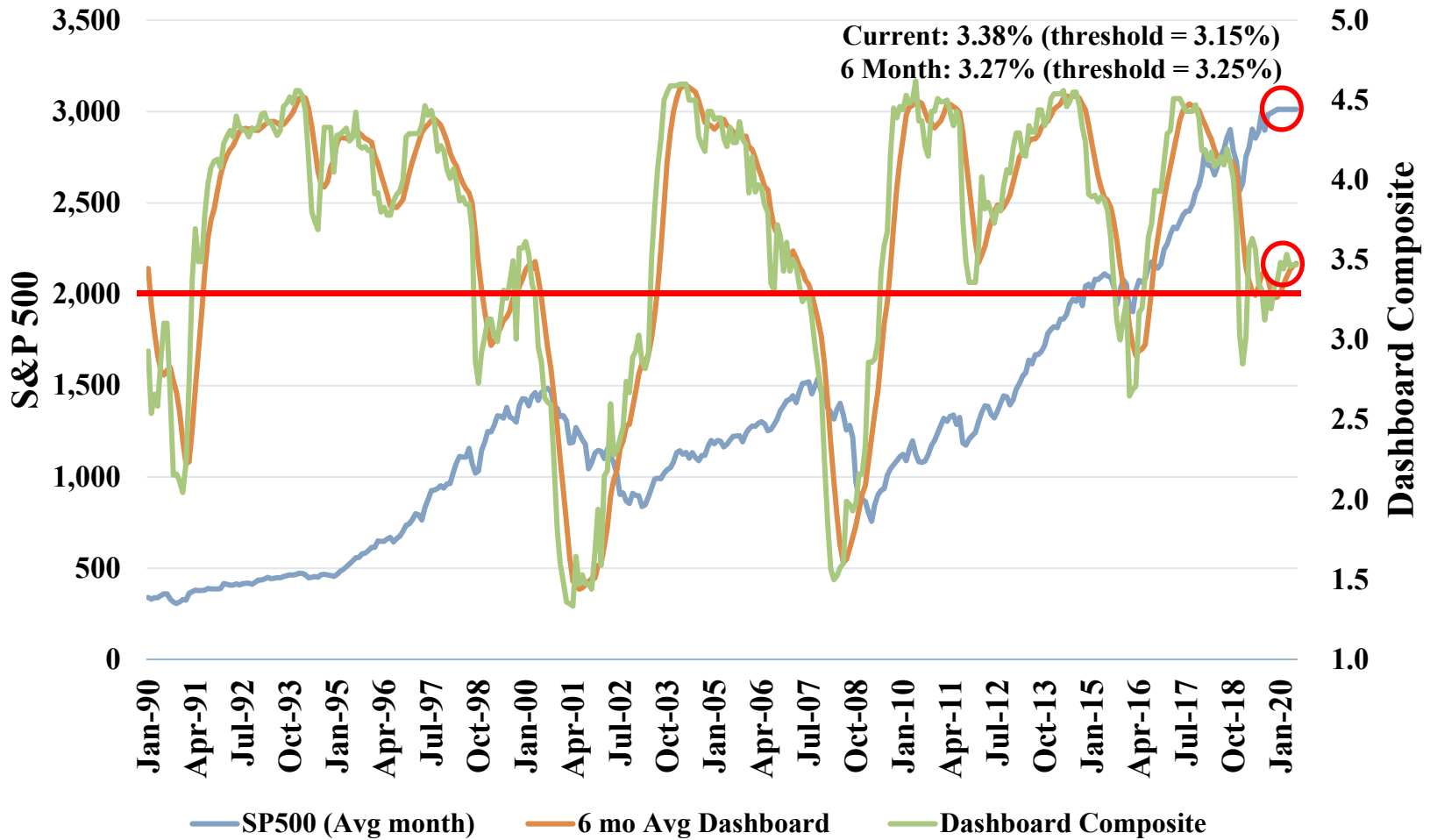
Projected



	3Q 2016	4Q 2016	1Q 2017	2Q 2017	3Q 2017	4Q 2017	1Q 2018	2Q 2018	3Q 2018	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019	1Q 2020	2Q 2020
<b>Economy</b>	Grey	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Grey	Grey	Grey	Grey	Grey
<b>Credit Markets</b>	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Grey	Green	Grey	Grey	Grey	Green
<b>Valuations</b>	Red	Red	Red	Red	Red	Red	Red	Red	Red	Grey	Grey	Grey	Grey	Grey	Red	Red
<b>Market Sentiment</b>	Green	Green	Green	Green	Green	Green	Green	Green	Green	Grey	Grey	Green	Green	Green	Green	Green
<b>Composite 6mo. Avg.</b>	Grey	Green	Green	Green	Green	Green	Green	Green	Green	Green	Grey	Grey	Grey	Grey	Grey	Grey



# Market Dashboard



# Current Economic Factors Scorecard

## Positive

Credit Conditions  
Consumer Confidence  
Employment  
Corporate Sector

## Neutral

Housing↑  
Fiscal Policy  
Commodity Prices↑  
Interest Rates  
U.S. Politics  
U.S. Dollar  
U.S. Inflation  
China

## Negative

Global Growth↑  
Geopolitics  
Tariffs↑  
Eurozone↑



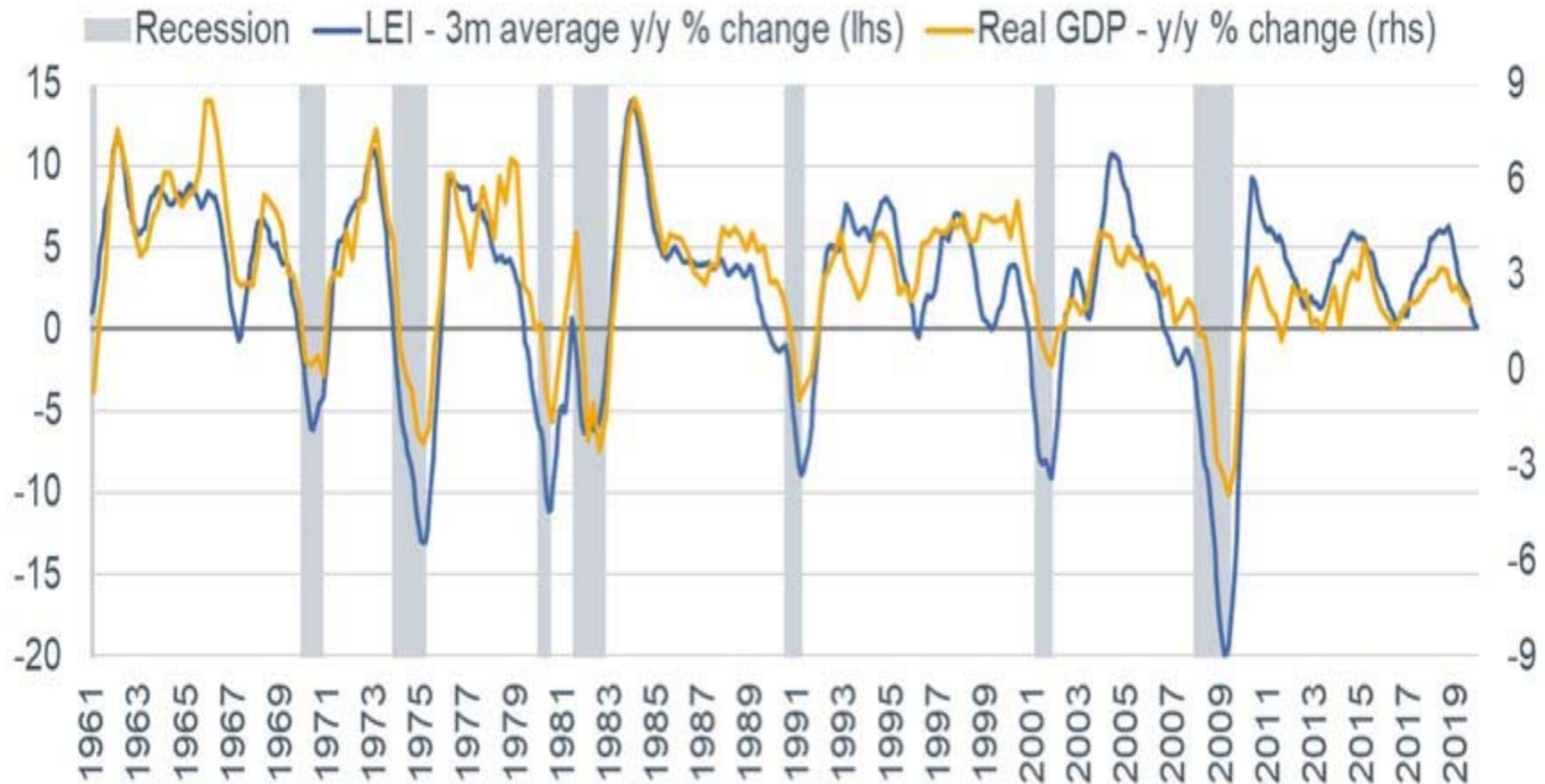
# Leading and Coincident Economic Indicators

	Level	Trend
<b>Leading Economic Index (LEI)</b>	<b>Stable</b>	<b>Worsening</b>
▪ Average workweek	Weak	Worsening
▪ Unemployment claims	Strong	Worsening
▪ New orders: consumer goods and materials	Fair	Stable
▪ ISM New Orders Index	Weak	Worsening
▪ New orders: nondefense capital goods excl. aircraft	Fair	Stable
▪ Building permits	Strong	Stable
▪ S&P 500	Strong	Improving
▪ Leading Credit Index	Strong	Stable
▪ Interest rate spread	Fair	Improving
▪ Avg. consumer expectations for business conditions	Fair	Stable
	<b>Level</b>	<b>Trend</b>
<b>Coincident Economic Index (CEI)</b>	<b>Strong</b>	<b>Stable</b>
▪ Payrolls	Strong	Stable
▪ Personal income less transfer payments	Fair	Improving
▪ Industrial production	Fair	Worsening
▪ Real manufacturing and trade sales	Strong	Stable

As of 12/31/2019. Source: Charles Schwab, Bloomberg, The Conference Board.

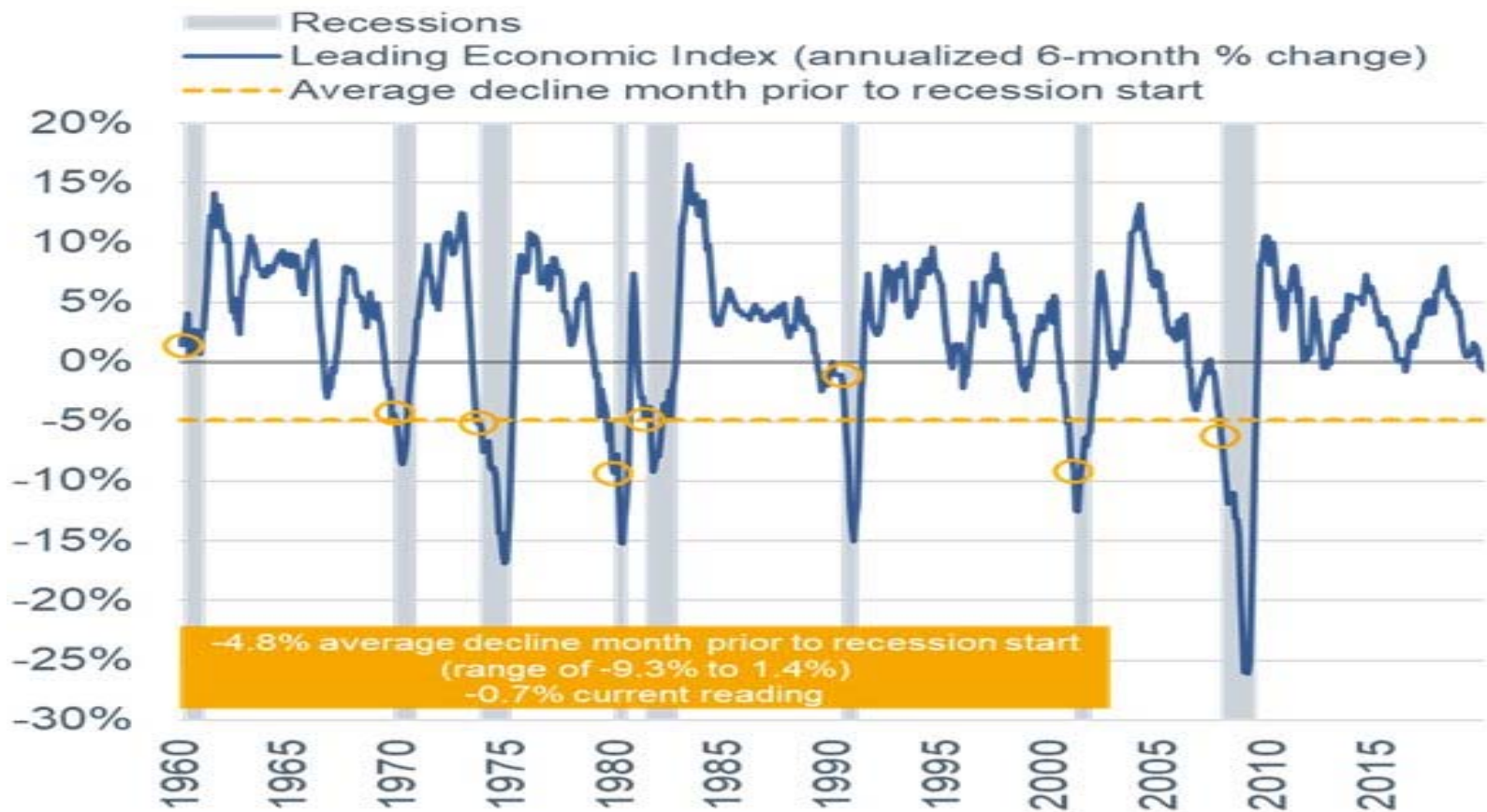


# Leading Economic Indicators Are Weakening



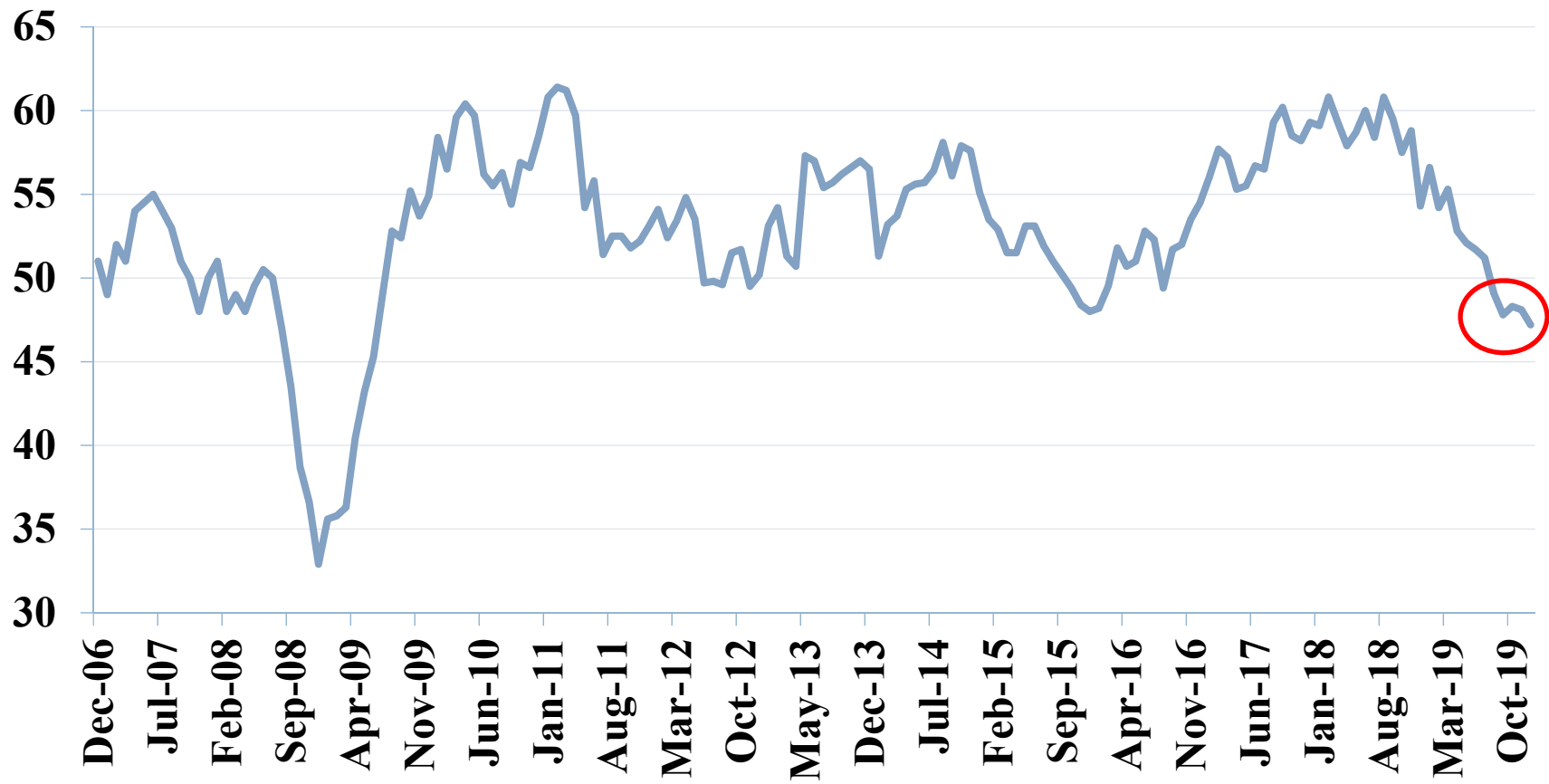
As of 1/23/20. Source: Charles Schwab, Bloomberg, The Conference Board.

# LEI Not Yet Signaling Recession



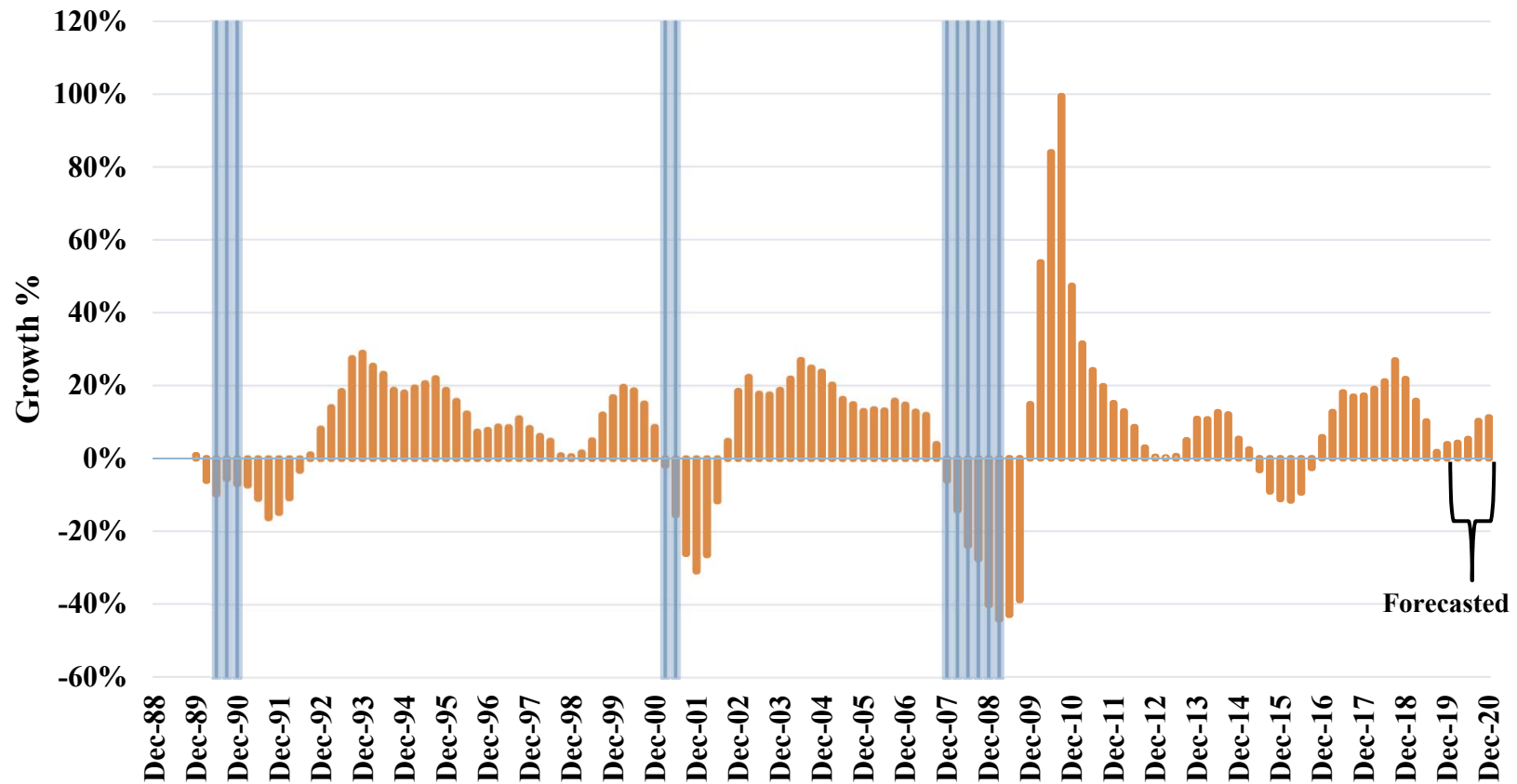
# Manufacturing Continues to Contract

## Purchasing Managers Index (PMI)



# Earnings Growth Expected to Rebound

S&P 500 Earnings Growth  
Trailing 12-Month Operating Earnings Growth YOY



*Markets:  
Strong Quarter For Risk  
Assets and Strong Year For  
All Asset Classes*



# Market Summary

## ■ Equity market performance

	<u>Q4 2019</u>	<u>2019</u>	<u>Q4 2018</u>
– US large cap			
• S&P 500	+9.1%	+31.5%	-13.5%
– US mid cap			
• Russell Midcap	+7.1%	+30.5%	-15.4%
– US small cap			
• Russell 2000	+10.0%	+25.5%	-20.2%
– International equities			
• MSCI ACWI ex US	+8.9%	+21.5%	-11.5%
– International small cap			
• MSCI ACWI ex US SMID	+10.3%	+22.4%	-14.0%
– Emerging markets			
• MSCI Emerging Markets	+11.8%	+18.4%	-7.5%



# Market Summary

## ■ Bonds and other asset class performance

	<u>Q4 2019</u>	<u>2019</u>	<u>Q4 2018</u>
– US fixed income			
• Barclay’s Aggregate	+0.2%	+8.7%	+1.6%
– Global fixed income			
• Barclay’s Global ex US	+0.7%	+5.1%	+0.9%
– Commodities			
• Bloomberg Commodity TR	+4.4%	+7.9%	-9.4%
– Long short			
• Morningstar Long Short	+3.9%	+11.9%	-8.6%
– REITS			
• MSCI US REIT NR	-0.8%	+25.8%	-7.1%



# Equity Market Conditions

## ■ Fourth Quarter

	<u>Value</u>	<u>Blend</u>	<u>Growth</u>
Large	+7.4%	+9.1%	+10.6%
Mid	+6.4%	+7.1%	+8.2%
Small	+8.5%	+9.9%	+11.4%

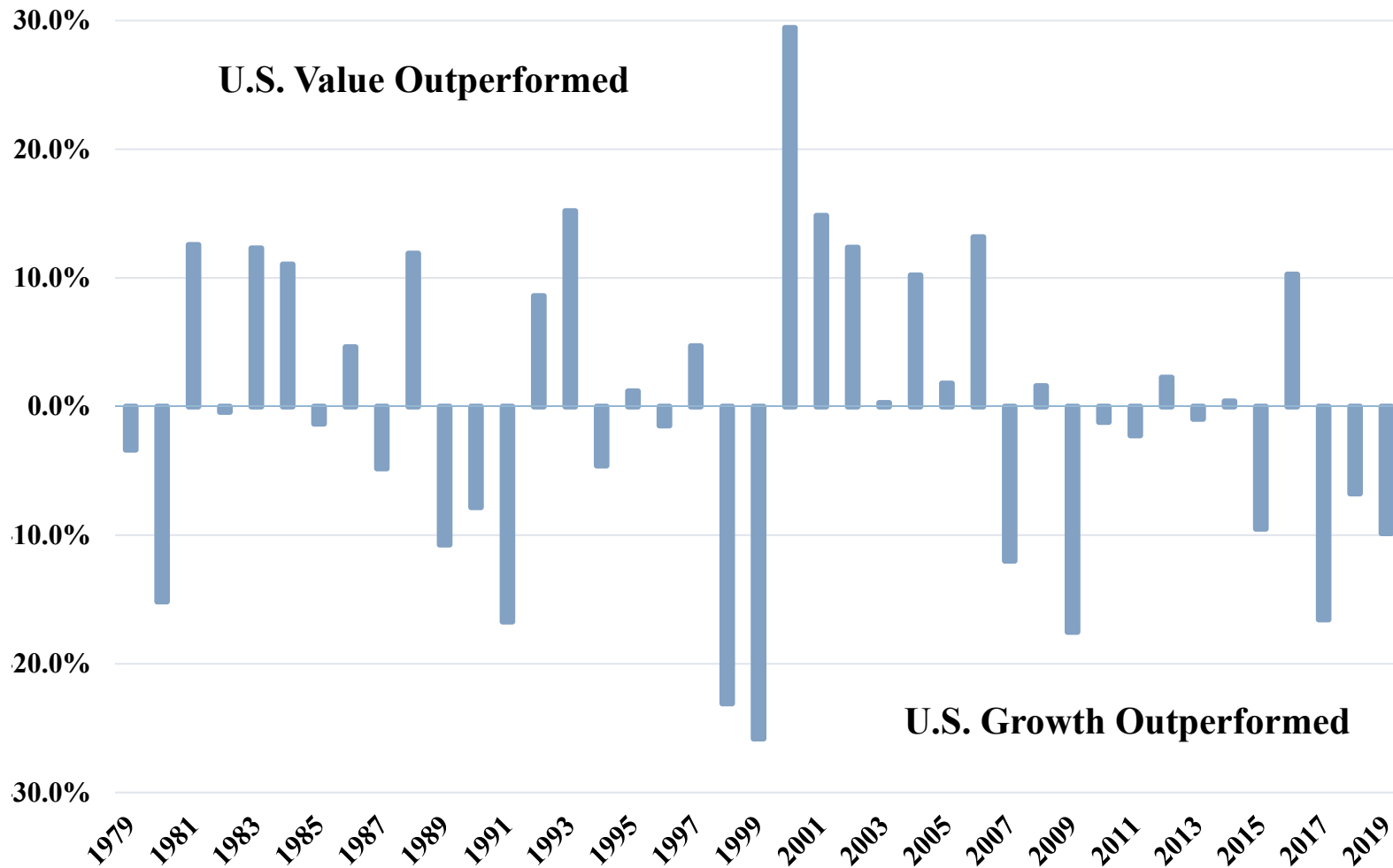
## ■ 2019

	<u>Value</u>	<u>Blend</u>	<u>Growth</u>
Large	+26.5%	+31.5%	+36.4%
Mid	+27.1%	+30.5%	+35.5%
Small	+22.8%	+25.5%	+28.5%

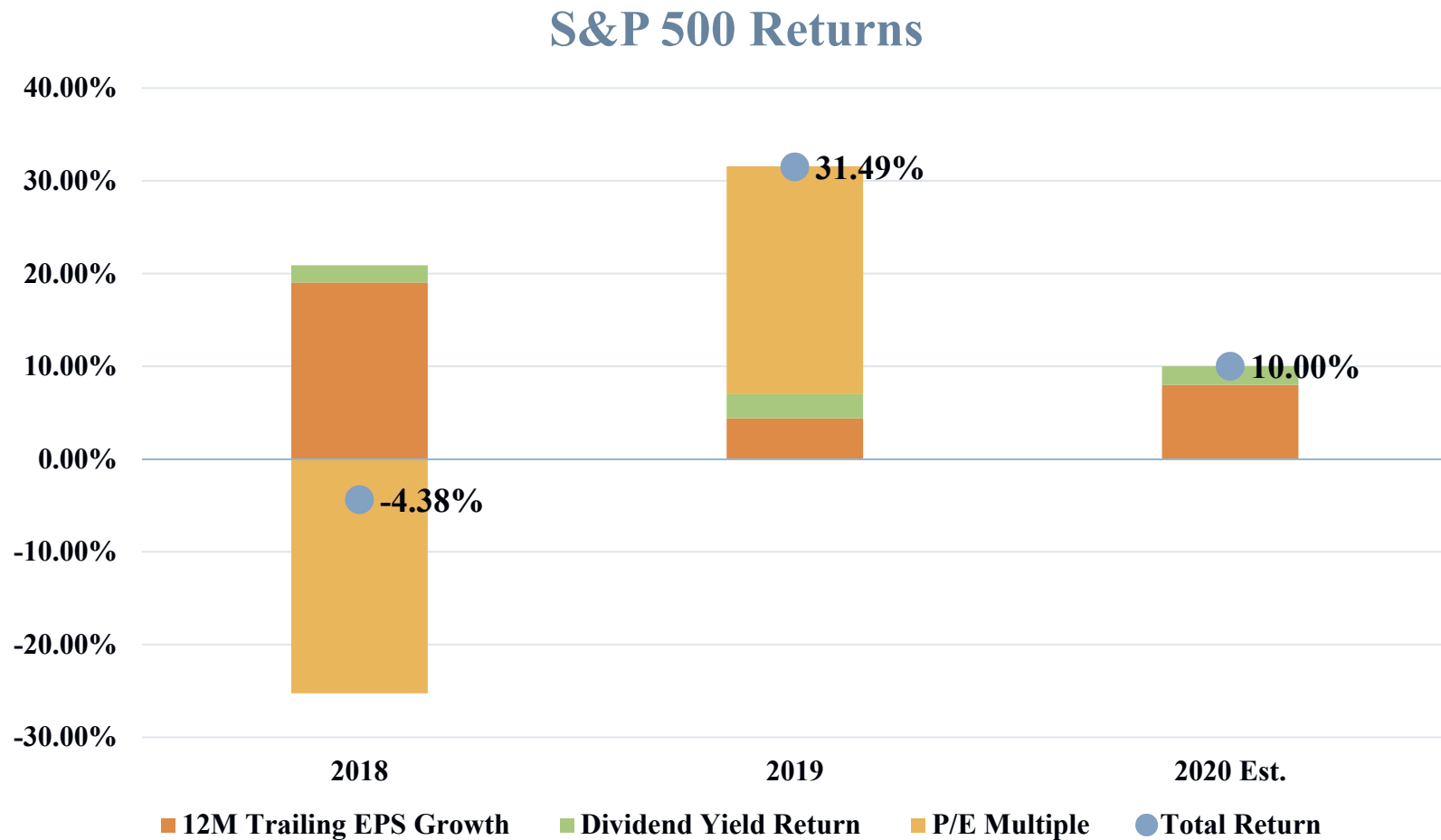
Source: Morningstar. All calculations are cumulative total return as of 12/31/2019.  
 Russell style indices utilized for all performance with the exception of large blend, which reflects the S&P 500 Index.  
 Past performance is no guarantee of future success.



# U.S. Value vs. Growth Equities



# S&P 500 Return Attribution



# Asset Class Returns By Decade

		2000-2009 Returns	2010-2019 Returns
<b>S&amp;P 500</b>	<b>U.S. Large Cap</b>	-0.95%	13.56%
<b>Russell 2000 TR</b>	<b>U.S. Small Cap</b>	3.51%	11.83%
<b>MSCI EAFE GR</b>	<b>International</b>	1.58%	6.00%
<b>MSCI EM GR</b>	<b>Emerging Markets</b>	10.11%	4.04%
<b>BBgBarc U.S. Agg Bond TR</b>	<b>Fixed Income</b>	6.33%	3.75%
<b>Bloomberg Commodity TR</b>	<b>Commodities</b>	7.13%	-4.73%

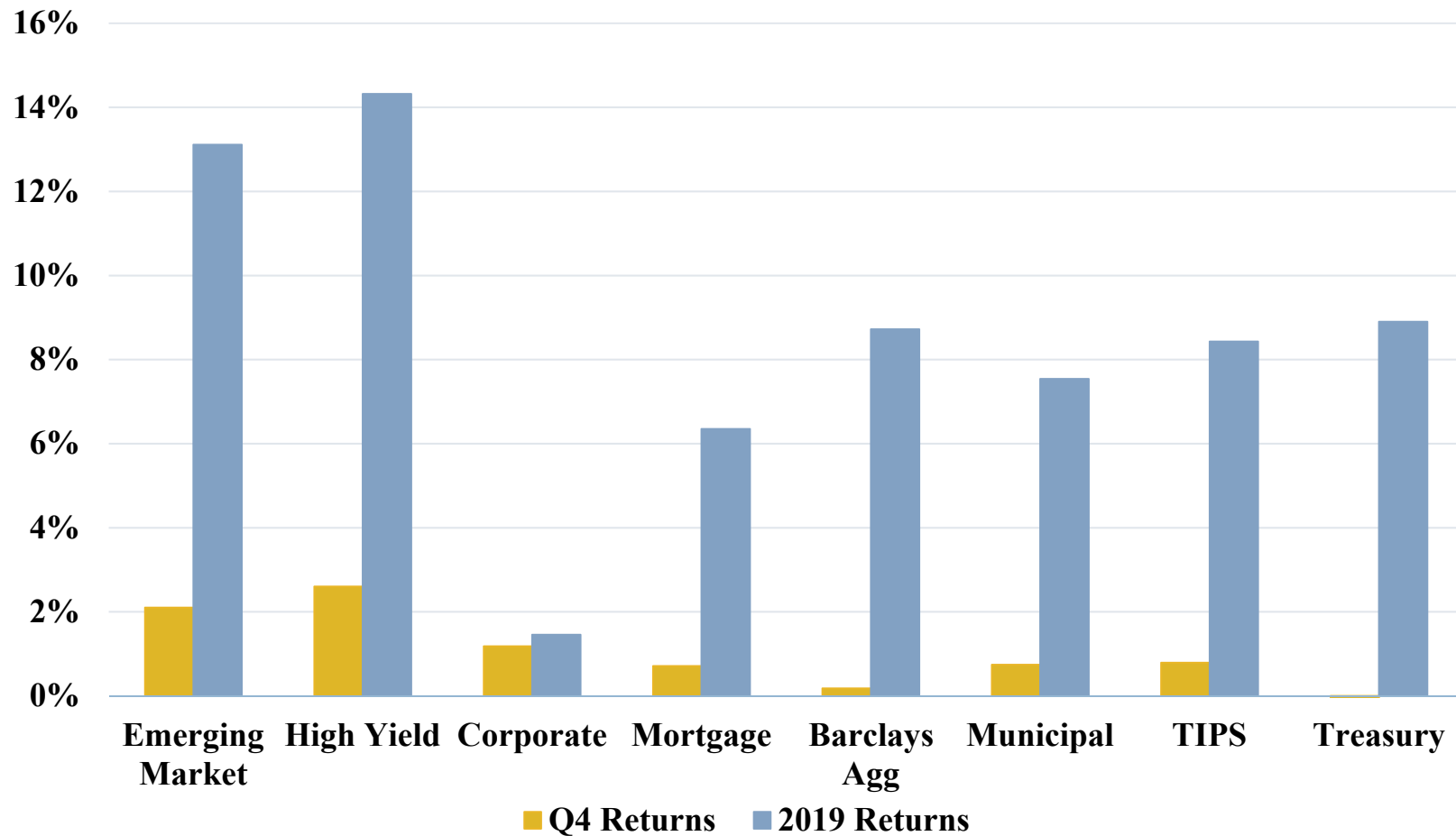


# S&P 500 Sector Returns By Decade

	2000-2009 Returns	2010-2019 Returns
<b>S&amp;P 500</b>	-0.95%	13.56%
<b>Information Technology TR</b>	-6.98%	17.50%
<b>Energy TR</b>	9.49%	3.32%
<b>Materials TR</b>	4.68%	9.13%
<b>Industrials TR</b>	0.79%	13.45%
<b>Financials TR</b>	-2.61%	12.26%
<b>Health Care TR</b>	2.65%	14.76%
<b>Consumer Staples TR</b>	5.20%	12.13%
<b>Consumer Discretionary TR</b>	-1.23%	17.18%
<b>Communication Services TR</b>	-6.75%	9.65%
<b>Utilities TR</b>	4.88%	11.80%



# Bond Returns Moderated in 4<sup>th</sup> Quarter





# *SilverOak's Outlook*

# SilverOak's Outlook

## ■ U.S. Economy

- The U.S. economy is in the late-cycle phase
  - Recession risk remains low for 2020 but recent data is softening
- U.S. – China trade truce lowers uncertainty
  - But, will global manufacturing recover?
- Fed likely on hold, but liquidity remains challenged and bank lending standards remain relatively tight

## ■ International Economy

- Global growth appears to have stabilized, but well below growth rates seen in 2017 and 2018
- China growth has stabilized, for now
- Europe showing signs of slight recovery
- Brexit details remains a wildcard



# SilverOak's Outlook

## ■ Equities

- S&P 500 valuation expanded in 2019 and now at elevated levels
- A modest pullback from near all-time highs a possibility
  - Market has already priced in a modest rebound in global manufacturing
  - Relatively high 2020 earnings growth expectations
  - 2020 Election
- Volatility is typically higher late in cycles
- With a wide dispersion of potential outcomes, diversification and consistency is more important than ever!





# SilverOak's Outlook

## ■ Bonds

- Bond yields likely to stay within current range, although could be more volatile if a rebound in global growth does not materialize
- After extremely high returns in 2019, returns will likely be similar to overall bond fund yields in 2020
- Bonds continue to offer protection from equity volatility and potential downside risks
- Continue to focus on credit quality!
  - Credit spreads are currently narrow
  - Lower growth could cause credit spreads to widen
  - Lower quality bonds will likely not provide good risk-adjusted returns





*SilverOak Update and  
“New Year” Planning Tips*

# SilverOak Updates

- **Added a new SilverOak Senior Director position**
  - Chris Link, CPA, CFP®
- **IQSS™ (Investment Quality Scoring System™)**
  - 2 positions added to “Watch List Open” for subadvisor manager change
  - Several ratings changes
- **Whitepapers to be released soon**
  - Donor advised funds
  - Behavioral finance

# “New Year” Planning Tips

- **Do not adjust risk tolerance solely based on recent market performance**
- **Remember April 15<sup>th</sup> tax filing deadline**
  - Make sure you have your tax information compiled
    - 1099s, charitable contributions, etc.
  - Get this information to your tax preparer
- **Foreign bank account reporting**
  - Two reporting requirements
    - Form 8938 (due with income tax return)
    - FBAR (due with income tax return – no longer due 6/30)
- **Now is a great time to start tax planning for 2020**
  - Adjust withholding and/or estimated tax payments
  - Create a good filing system for the year
    - Keep receipts for charitable donations above \$250



# “New Year” Planning Tips

- **Review your 401(k) statement**
  - If not maxing out contributions, consider increasing
    - contribution rate (annual limit = \$19,500 in 2020)
  - Rebalance investments
- **If you turn 50 in 2020, remember to increase your 401(k) contribution**
  - \$6,500 “catch-up” to a total of \$26,000
- **Make an IRA contribution for 2019 and/or 2020**
  - Unchanged at \$6,000 for 2020
  - \$1,000 “catch-up” contribution for age 50 and over
- **Consider a “Back Door” Roth IRA, if applicable**



# “New Year” Planning Tips

- **Review 2019 spending**
- **Utilize HSAs for long-term investments**
  - \$3,550 annual limit for individuals, \$7,100 for family
  - \$1,000 “catch-up” contribution for age 55 and over
- **Review Social Security statement online**
  - <https://www.ssa.gov/myaccount/>
- **Review your estate documents**
- **Confirm beneficiary designations**
- **Rebalance other investment accounts**
- **Ensure you have proper insurance coverage**
  - Life, disability, auto, property and umbrella



# “New Year” Planning Tips

- **If it’s been awhile, get a copy of your credit report**
  - [www.annualcreditreport.com](http://www.annualcreditreport.com) or 877-322-8228
- **Consider freezing your credit with all three credit bureaus**
  - [https://www.freeze.equifax.com/Freeze/jsp/SFF\\_PersonalIDInfo.jsp](https://www.freeze.equifax.com/Freeze/jsp/SFF_PersonalIDInfo.jsp)
  - <https://www.experian.com/freeze/center.html>
  - <https://freeze.transunion.com/sf/securityFreeze/landingPage.jsp>
  - Retain your PINs!





# *Overview of the SECURE Act*



# SECURE Act

- **“Setting Every Community Up for Retirement Enhancement”**
- **Became Effective January 1, 2020**
  - Signed into law on December 20th
- **Enacts numerous provisions that are intended to strengthen retirement security**
  - Increases access to tax-advantaged accounts
  - Acknowledges that careers and lifespans are typically longer
  - Added an additional investment option for 401(k) plans



# SECURE Act Affects Retirement Planning

- **Change in the Required Minimum Distribution (RMD) age**
  - Bumps up age to 72 from age 70½
  - For those who turned 70½ in 2019, they must take their RMD in 2020
  - For those who turn 70½ in 2020, they may wait until they are 72 to take their RMD
- **“Stretch” IRAs go away for many individuals**
  - Non-spouse beneficiaries are required to withdraw all assets within 10 years rather than over the span of their lifetime
  - Eligible Designated Beneficiaries can take distributions over their lifetime



# SECURE Act Affects Retirement Planning

- **Qualified Charitable Distributions (QCDs)**
  - Individuals 70½ can continue to make QCDs up to the \$100,000 annual limitation
    - Even if they are not required to take an RMD in 2020
- **IRA contributions allowed for those over age 70½**
  - Beginning in 2020, taxpayers with earned income of any age will be permitted to contribute to a traditional IRA
  - Prior prohibition was on IRAs, but not 401(k)s



# Other SECURE Act Provisions

- **Return to the prior “Kiddie Tax” laws**
  - Kiddie tax applies to unearned income of a child greater than \$2,200
  - Tax rates revert back to parent’s rates from trust income tax rates
- **Qualified 529 allowable plan distributions expanded**
  - \$10,00 lifetime limit to make a qualified distribution from a 529 to pay towards qualified education loans
    - For each beneficiary or siblings of beneficiary
    - For distributions after 12/31/2018
  - Can use toward apprenticeships, trade schools or vocational programs
- **Childbirth or Adoption distributions allowed**
  - Distributions for funds used for a qualified birth or adoption
  - Distributions can be taken from an IRA or 401(k), 403(b) or 457 plan
  - Taxable income will be reported, but no premature distribution penalty
  - \$5,000 limit per individual or \$10,000 per couple



# SECURE Act Provisions For Employers

- **Small businesses can participate in Multi-Employer plans**
  - Under previous law, employers had to share a common characteristic such as operating within the same industry
  - Under new law, common characteristic provision no longer applies
- **Long-term, part-time workers can participate in employer sponsored retirement plans**
  - Worker must have at least 3 consecutive 12-month periods with at least 500 hours of service in each 12-month period (and reached age 21)
- **Safe Harbor 401(k) plans**
  - Safe harbor notice requirement for non-elective contributions is eliminated
  - Plan can be amended as late as 30 days before the end of the plan year to provide a 3% nonelective safe harbor contribution
  - Qualified automatic contributions arrangements will now be capped up to 15% of compensation, up from 10%

# Other Provisions For Employers

- **Age 59½ In-Service distributions from Defined Benefit Plans and 457(b) plans**
  - Under new law, in-service distributions from defined benefits are allowed at age 59½, down from age 62
  - For 457(b) plans, in-service distributions are allowed beginning in the calendar year participant reaches age 59½
- **Expansion of availability of annuities for 401(k) plans**
  - Eases rules for employers around how annuity providers are chosen
    - Shifts some of the risks from the employer to the annuity company
  - The annuities will be portable
    - Can be rolled from old employer plan to new employer plan or IRA and avoid surrender charges and fees
- **Substantial increase in penalties**
  - Penalties associated with failure to timely file Forms 5500, Forms 8895-SSA are increased by ten times pre-SECURE Act amounts



# What to Review As a Result of SECURE Act

## ■ Estate Planning

- Review and potential revision of beneficiary designations
  - Spouse vs. kids vs. grandkids vs. charities
- Review and potential revision of wills and trusts
- Review that the right assets are passed correctly to maximize tax efficiency

## ■ Tax Planning

- The window for Roth conversions for many now potentially longer
- Elimination of “stretch IRA” for most non-spouse beneficiaries makes Roth IRA conversions potentially more attractive



*Additional  
Questions  
and/or Topics?*





## *End of Quarterly Webinar*

Please contact your SilverOak Advisor  
to discuss any questions and/or concerns.

If you are not currently working with SilverOak, feel free  
to contact us at 952-896-5701 to learn more about our services.

[www.silveroakwealth.com](http://www.silveroakwealth.com)