THIRD QUARTER 2019

Beyond the Benchmark

Aldrich WEALTH LP

About Aldrich Wealth LP

At Aldrich Wealth, we partner with you on your financial journey by assuming the role of personal financial advocate. We help you identify your financial needs and goals, while also developing a sound strategy that will enable you to realize your dreams. We guide you through risk assessment, development of strategies, and ultimate implementation of the plan we craft together. This will allow you to focus more energy on living a great life.

OUR PEOPLE

Our advisors have an average of more than 10 years of experience in wealth management, financial planning and tax planning. Although each client's goals are unique, with our decades of experience, there is a good chance that we have helped another client through some of the same complexities in their personal financial life.

OUR APPROACH

At Aldrich Wealth, we recognize that investment performance is only one piece of a comprehensive strategy. We take a team-based approach to serving clients. For our clients, we include investment advisors, financial planners and tax professionals to provide a holistic view of each situation.

OUR STORY

Aldrich Wealth was founded in 1998 as an affiliate of parent company Aldrich CPAs + Advisors. After working with business owners for decades, we noticed a trend in our accounting firm clients selling their businesses and asking for assistance in investing the proceeds. With a great passion for meeting client needs, the foundation of the wealth business was created by the guiding principles and people of Aldrich.

QUARTERLY MARKET SNAPSHOT

	VALUE	CORE	GROWTH
Large	1.36%	1.70%	1.49%
Medium	1.22%	0.48%	-0.67%
Small	-0.57%	-2.40%	-4.17%

This matrix illustrates U.S. equity benchmarks provided by Russell with the exception of Large Core, which is the S&P 500 Index.

	VALUE	CORE	GROWTH
Global	-0.33%	-0.03%	0.27%
Non US	-1.74%	-1.07%	-0.45%
EM	-6.48%	-4.25%	-2.04%

This matrix illustrates international equity benchmarks provided by MSCI.

	SHORT	INTER	LONG
Gov	0.59%	2.39%	7.83%
Corp	0.96%	3.05%	5.61%
Hi-Yield	0.51%	1.22%	4.25%

This matrix illustrates the fixed income benchmarks provided by Barclays and B of A Merrill Lynch.

MARKET COMMENTARY

Executive Summary

Equity markets continued their upward trajectory, notwithstanding increasing political concerns in the U.S., festering U.K. BREXIT uncertainty, and escalating trade rhetoric. Against that backdrop, the Federal Reserve cut its key interest rate target twice during the period and began to set the stage for further changes in policy. All told, the S&P 500 Index added 1.5% for the quarter and 20.0% this year. Non-U.S. markets, as measured by the MSCI EAFE Index, fell -0.5%, despite strength across much of developed Asia. Emerging markets, as measured by the MSCI Emerging Markets Index, declined -4.0% as the trade spat between the U.S. and China weighed heavily across much of Asia. The yield on the benchmark 10-year Treasury fell sharply from 2.00% at the end of trading the previous quarter to 1.67% at quarter-end.

Market Outlook

Despite several headwinds, slowing growth, recession fears, inverted yield curve, negative rates, manufacturing slowdown, and trade wars, stocks have continued their ascent. Future earnings expectations are falling, and valuations are moving higher. Volatility is picking up as the prospect of a recession has increased. The market seems focused on lower interest rates and a more accommodative Federal Reserve. Given the somewhat weak global economy, stocks could endure a pullback if the Federal Reserve does not deliver as expected. The trade war is slowing global growth as companies hold off on capital expenditures. A resolution to the trade war could provide a nice tailwind to export-focused companies, but a deterioration in talks or additional tariffs could further exacerbate concerns and dampen investor sentiment. Although a recession isn’t the most likely scenario at this time given low-interest rates and positive growth, the risks are mounting, and any policy mistake could trigger a loss of confidence and a recession or market correction.

Domestic Equities

The performance across domestic markets was uneven, as nine of the eleven sectors produced positive results. Utilities, real estate, and consumer staples performed notably well while energy, health care, and materials sectors lagged. Large-cap stocks outpaced small-cap stocks while value bested growth. S&P 500 Index companies posted an earnings decline of approximately -0.4% in the second quarter, which marked the first time the index has reported consecutive quarters of year-over-year declines in earnings since Q1 2016 and Q2 2016. The decline in earnings is projected to be short-term, with earnings estimates turning positive by year-end.

International Equities

Non-U.S. stocks fell 0.5%, with uncertainty surrounding a no-deal Brexit and political unrest in Hong Kong weighing heavy on investor sentiment. In September, the European Central Bank (ECB) cut their key rate to negative -0.50%. Additionally, ECB President Mario Draghi announced plans to keep rates low and to start buying €20 billion ($22 billion) in bonds and other financial assets per month beginning in November. The bank said it would continue the purchases for “as long as necessary.” Emerging market shares lagged their developed market counterparts with a -4.0% decline. The Chinese market suffered a -6.0% drop in the quarter amid a festering trade war with the U.S.

Fixed Income

The Barclays Universal Bond Index ended the third quarter up 2.0% as bond yields continued to drop. Against a backdrop of heightened investor anxiety, the yield on the 10-year Treasury fell 37 basis points during the period, finishing at 1.67%. The decline resulted in the yield falling below that of the 2-year Treasury during the period. The phenomenon, known as an inverted yield curve, is a harbinger of economic recession. That said, the occurrence has also been known to deliver the occasional false positive. Wary of volatile equity markets, investors sought safety in traditional fixed income with government debt leading the way.

Economy

The U.S. economy, as measured by the change in the Gross Domestic Product, increased 2.0% during the second quarter as the most robust consumer spending in over four years offset weak exports and a slower pace of inventory investment. The unemployment rate remained stable at 3.7%, while average hourly earnings climbed 3.2% from a year earlier. Consumer and business confidence indices came in stronger than expected due to more favorable income trends but have begun to show signs of erosion. The S&P CoreLogic Case-Shiller 20-city home price index in the U.S. increased 2.0% year-on-year, the smallest annual gain in house prices since August 2012.

11 Tax Planning Ideas to Consider Before the End of 2019

By Megan Wilsey, CPA

As we approach the close of another year, now is a great time to consider your financial position and, in particular, any tax savings strategies that you should implement before the start of the New Year.

Generally speaking, tax strategies often center around the shifting of income and expenses between years, and while some of these strategies might only have a small impact on the current year, layering tax planning alongside your overall financial plan can lead to significant permanent tax savings in the long-run. The tax strategies touched upon below are just a small sample to get you thinking about being strategic. Because tax planning should be driven by your unique financial picture, expectations, and wishes, we recommend you speak with an advisor prior to implementation.

Here are 11 tax planning ideas to consider before the end of 2019:

1. Realize capital losses OR capital gains on stock while substantially preserving your investment position. If you expect significant capital gains, realizing offsetting losses in your portfolio could be beneficial. Alternatively, taxpayers in a low-income year can maximize the 0% capital gains rate by recognizing capital gains and resetting their basis. It's best to consult with an investment advisor if considering this strategy.

2. Defer bonuses. Do you have a large bonus you're expecting to receive before the end of the year? It may be advantageous to arrange with your employer to defer year-end bonuses until early 2020. Some businesses are still able to claim the bonus expense for 2019, while the recipient can defer the income tax impact.

3. Consider bunching itemized deductions. With the higher standard deduction of $12,200, $18,350, or $24,400 based on your filing status, receiving a benefit for your itemized deductions may be complicated. You may be able to save taxes by applying a "bunching" strategy of deferring or accelerating the payment of medical expenses, charitable and other itemized deductions in a certain year.

4. Setting up a retirement plan. Retirement plans, including a solo 401(k) or a typical 401(k), need to be established by December 31, 2019 for contributions to count for this tax year. While contributions are often not due until the tax filing deadline in the following year, the plan setup needs to be done within the year you want it to be in place.

5. Consider Roth IRA conversions. Depending on your financial circumstances and tax bracket, a Roth IRA may be a more valuable retirement saving vehicle compared to a traditional IRA. A Roth conversion would allow an investor to convert money in a traditional IRA to a Roth IRA. Conversions must be made before year-end to count for that specific tax year. Also, don't leave this to the last minute as custodians often won't be able to process these requests within the last couple weeks of the year.

6. Strategize HSA and FSA contributions. If you become eligible by December 31, 2019, to make health savings account (HSA) contributions, you can make a full year's worth of deductible HSA contributions for 2019 in December. Alternatively, if you have a health flexible spending account (FSA) and you find that you did not set aside enough funds during 2019, consider adjusting the amount you contribute in 2020 (keep in mind that there are annual maximums).

7. Be aware if you need to take required minimum distributions (RMDs) from your IRA, 401(k) or other employer-sponsored retirement plans. If you are in the first year of your RMD (i.e., you turned age 70 ½ in 2019), there is an exclusive "first year" option that allows you to defer your RMD income up to April 1 of 2020. Following your first RMD, each RMD after that must be withdrawn by December 31. Therefore, if you decide to defer the first distribution, you will have to take a double distribution in 2020 — the amount required for 2019 plus the amount required for 2020. It is essential to consider your tax bracket in the first year, as well as the following year.

8. Qualified Charitable Distributions. If you have an impending Required Minimum Distribution and make annual charitable contributions, consider a Qualified Charitable Distribution. The donation is made directly from your IRA to the charity or charities of choice. The donation is not included in your income, so it reduces your Adjusted Gross Income. This strategy is especially helpful for taxpayers who don't expect to itemize and as such, would otherwise lose the tax benefit of making charitable contributions. Don't wait to implement this strategy until the last minute, as custodians often need a longer lead time to process these requests before December 31, 2019.

9. Strategize year-end gifting. Make gifts sheltered by the annual gift tax exclusion before the end of the year to save gift and estate taxes. The exclusion applies to gifts of up to $15,000 made in 2019 to each of an unlimited number of individuals. Such transfers may save income taxes when an income-producing property is gifted to family members in lower income tax brackets who are not subject to the kiddie tax.

10. Smooth income via an installment sale. Stagger income from large business/asset sales over multiple years to pay overall lower tax by rate arbitrage and have a steady stream of income. Taxes on gains from the sale are taxed pro-rata as the payments are received over time.

11. Check your withholding. Now is a great time to understand whether you have paid in enough federal and state taxes during the year to cover your income. By seeking out tax planning, you will be able to have a better overall handle on your finances to see what your additional payment might be in April 2020, whether you should make any Q4 estimated tax payments, or if you are expecting a refund.

MEGAN WILSEY, CPA

Tax Manager

Megan takes a humanistic approach to client service, ensuring that she has a deep understanding of the individual nature of each of her clients, as well as their short and long term goals. As part of our Private Client Services team, Megan assists high-net worth clients with a wide range of tax-related needs. She works closely with clients and provides insight into tax planning strategies that best align with their overall financial situations.

The Importance of Asset Location

By Kayla Cook, CFP®

Selecting the most appropriate asset allocation provides the best opportunity to achieve your long term goals, but the implementation of that allocation is also critical. You could invest each of your accounts the same way, or you could strategically place each asset class in the most tax-efficient account. This decision involves selecting which account(s) will hold equities and which will hold fixed income. The placement of assets can have a significant impact on your after-tax investment return and ultimately extend the longevity of your portfolio.

There are two basic types of investment accounts: taxable (such as individual, joint and trust accounts) and tax-deferred (such as 401(k) and IRA accounts). The taxation of interest, dividends, and capital gains is different between these types of accounts. Understanding the difference can minimize your tax burden and increase your return. In a taxable account, income is taxed in the year it is received, regardless of whether the income is withdrawn from the account. If assets have appreciated and are then sold, you would pay capital gains tax in the year the asset was liquidated. For many investors, the preferential tax rate for qualified dividends and capital gains is lower than their ordinary income tax rate, but it does result in taxes due each year. However, withdrawing money from a taxable account does not result in taxation.

Tax-deferred accounts allow you to avoid annual taxation on income and capital gains. This can be beneficial during the accumulation years when you are likely earning a higher income and are in a higher tax bracket. However, when you take withdrawals from those accounts in the future, the entire withdrawal is taxed as ordinary income. There is no preferential treatment for dividends or capital gains, as there would be in a taxable account. At age 70 ½, you are also required to start taking annual distributions from these tax-deferred accounts. If this required distribution is large, it could cause a significant increase in tax liability.

If you have both account types, it is typically more tax-efficient to hold income-producing securities (bonds and dividend-paying stocks) in your tax-deferred accounts, while using taxable accounts for the assets with the best opportunity to grow. This strategy can help defer current taxation on the interest income and focuses the taxable portfolio on growth-oriented assets that are subject to the advantageous long term capital gains rates. The asset location decision ultimately depends on your overall investment allocation and the amount of money you have in taxable and tax-deferred accounts.

In some cases, a Roth IRA is also a viable option. Unlike traditional tax-deferred IRAs, contributions to a Roth are made with after-tax funds. Annual income and capital gains are not taxed, and all withdrawals are tax-free (assuming you're over 59 ½ and have held the Roth for over five years). If you are projected to be in a high tax bracket when you take withdrawals or do not want the requirement of taking distributions at age 70 ½, a Roth may be a good option.

It is crucial to consider your investment portfolio holistically to maximize the after-tax return of your portfolio. Rather than implementing the same allocation in each account, it is more efficient to view the accounts in aggregate and manage them on a consolidated basis. This strategy reduces costs associated with purchasing the same investment in multiple accounts and provides you with the most tax-efficient portfolio. Though every investor's situation is unique, the ultimate goal remains the same - to maximize the portfolio's after-tax return.

KAYLA COOK, CFP®

Senior Financial Planner

Kayla Cook joined the firm in 2014. She has many years of experience working in the areas of personal finance, financial planning and investments. Kayla is responsible for analyzing a client's financial information and determining the best approach for meeting their objectives. In addition, Kayla provides strategic wealth management for individuals, families, and organizations. She is a CERTIFIED FINANCIAL PLANNER™ professional and has completed the Series 7 and Series 63.

Aldrich Group of Companies Announces John Lauseng as CEO-Elect

The Aldrich Group of Companies is pleased to announce that the board of partners has selected John Lauseng as Chief Executive Officer-Elect. He will serve as the fourth CEO in the 45-year history of Aldrich and assume the position of CEO on July 1, 2020.

Lauseng, an Oregon native, joined Aldrich in 2009 as an auditor in the CPA firm. He served as the leader of the firm's manufacturing industry niche and played a significant role in various strategic initiatives. In 2013, he was appointed to the Oregon State Board of Accountancy. More recently, he served as President of Aldrich CPAs + Advisors LLP, overseeing service quality, processes and technical staffing resources across all geographies including Alaska, Oregon, California and remote employees.

"I am humbled to have the opportunity to lead this firm," said Lauseng. "When I joined Aldrich, I was looking for a company that was focused on impacting the lives of both the people who work here and the clients it proudly serves. I look forward to continuing to listen to the needs of our clients and the ideas and aspirations of our people."

With an extensive background in client service, John led major client attest engagements and advised on financial reporting, peer group comparisons and maximizing performance. Prior to joining Aldrich, John worked for a large international CPA firm where he performed complex attestation work. He graduated from Oregon State University with a degree in accounting.

"The Board and I are confident that John is the right person to build the next steps for the future of Aldrich," said Scott Daniels, chairman of the board of partners. "He is dedicated to the culture, people and clients of Aldrich and will continue to cultivate our entrepreneurial spirit that drives our desire to be leaders in the markets we serve."

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Be sure to check out our Beyond the Benchmark: Market Outlook videos, available on our website at the Insights tab. Hear from Aldrich Wealth's Chief Investment Officer Darin Richards and Partner Nicole Rice, as they delve deeper into our quarterly report.

About Aldrich Wealth

Aldrich Wealth LP is an investment advisor registered with the U.S. Securities and Exchange Commission. Aldrich Wealth provides wealth management services where it is appropriately registered or exempt from registration and only after clients have entered into an Investment Advisory Agreement confirming the terms of the client relationship, and have been provided a copy of Aldrich Wealth ADV Part 2A brochure document. The information contained in this document is provided for informational purposes only, is not complete, and does not contain material information about making investments in securities including important disclosures and risk factors. Under no circumstances does the information in this document represent a recommendation to buy or sell stocks, bonds, mutual funds, exchange traded funds (ETF's), other securities or investment products.

The technical information in this newsletter is necessarily brief. No final conclusion on these topics should be drawn without further review and consultation. Please be advised that, based on current IRS rules and standards, the information contained herein is not intended to be used, nor can it be used, for the avoidance of any tax penalty assessed by the IRS.

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