Gore Capital Management

Our only client is you.

The third quarter is typically the most challenging of the year. Many Wall Streeters are on vacation, trading volumes are thin, and the media makes stories out of the smallest headlines because the summer news season is slow. Combined, these factors tend to increase volatility and reduce market returns. Over the last 80 years the month of September has earned an average return of -1.00%, the lowest monthly average return for the entire year (April, July, and December are the best months. Data from Yardeni Research).

That's not to say that there aren't good reasons for us to be experiencing this level of volatility, historical statistics aside. Since the lows set in the spring of 2009 the US economy and equity markets have enjoyed stellar growth, an expansion lasting 10+ years. Considering this expansion has exceeded the average length by a good 2-3 years, it's not unreasonable to expect a recession at this point in the economic cycle. Investors in both stocks and bonds are now weighing the economic evidence for continued expansion against data that suggests a possible recession looming in the next 12 months or so. Is this just a short-term cyclical shift or something more substantial? Rather than discuss at length each force at the root of the heightened volatility (many of which we've covered in recent newsletters), we've put together the brief summary infographic found on the next page.

While the list of negatives may seem daunting, there is still a substantial amount of support from Corporate America and central bank policymakers. Employment is strong, earnings are again better than anticipated, and central banks around the globe are making accommodative adjustments to monetary policy. Consumer spending, representing 70% of US GDP, is better than expected too (+1.0% growth vs +0.3% expected).

Cybersecurity Tip of the Quarter

Freeze your credit!

The Equifax data breach a few years ago was evidence that 1) a bunch of companies have your personal data whether you realize it or not, and 2) that data isn't safe in their (or anyone else's) hands.

Freezing your credit file prevents identity thieves from opening new credit accounts (loans, credit cards) under your Social Security number. There's no cost to lock or unlock your file at any of the 3 major credit bureaus, and the process takes 10 or 20 minutes with each bureau.

The three credit bureaus are:

Equiifax, https://equifax.com/personal

Experian, https://www.experian.com

Transunion, https://transunion.com

We strongly encourage everyone to at least consider locking their credit and helping older relatives/friends who may not be computer-savvy do so as well.

Market Statistics	2Q 2019	YTD (as of 7/30/19)	2018	3-Year Annl.	5-Year Annl.
S&P 500	4.15%	19.84%	-4.94%	12.67%	10.65%
Dow Jones Ind. Avg.	3.21%	16.69%	-4.13%	16.11%	12.87%
Russell 2000 (Small Cap)	1.99%	17.40%	-11.35%	9.93%	8.10%
MSCI EAFE (Foreign)	3.68%	12.58%	-13.79%	6.87%	2.39%
MSCI ACWI (Global)	3.61%	16.57%	-9.41%	10.17%	6.48%
MSCI Emerg. Mkts. Equity	0.61%	9.23%	-14.57%	8.42%	1.84%
Barclay's Aggregate Bond	3.08%	6.35%	0.01%	2.17%	3.05%
S&P GSCI Gold (Spot)	8.87%	12.21%	-2.14%	1.93%	2.31%

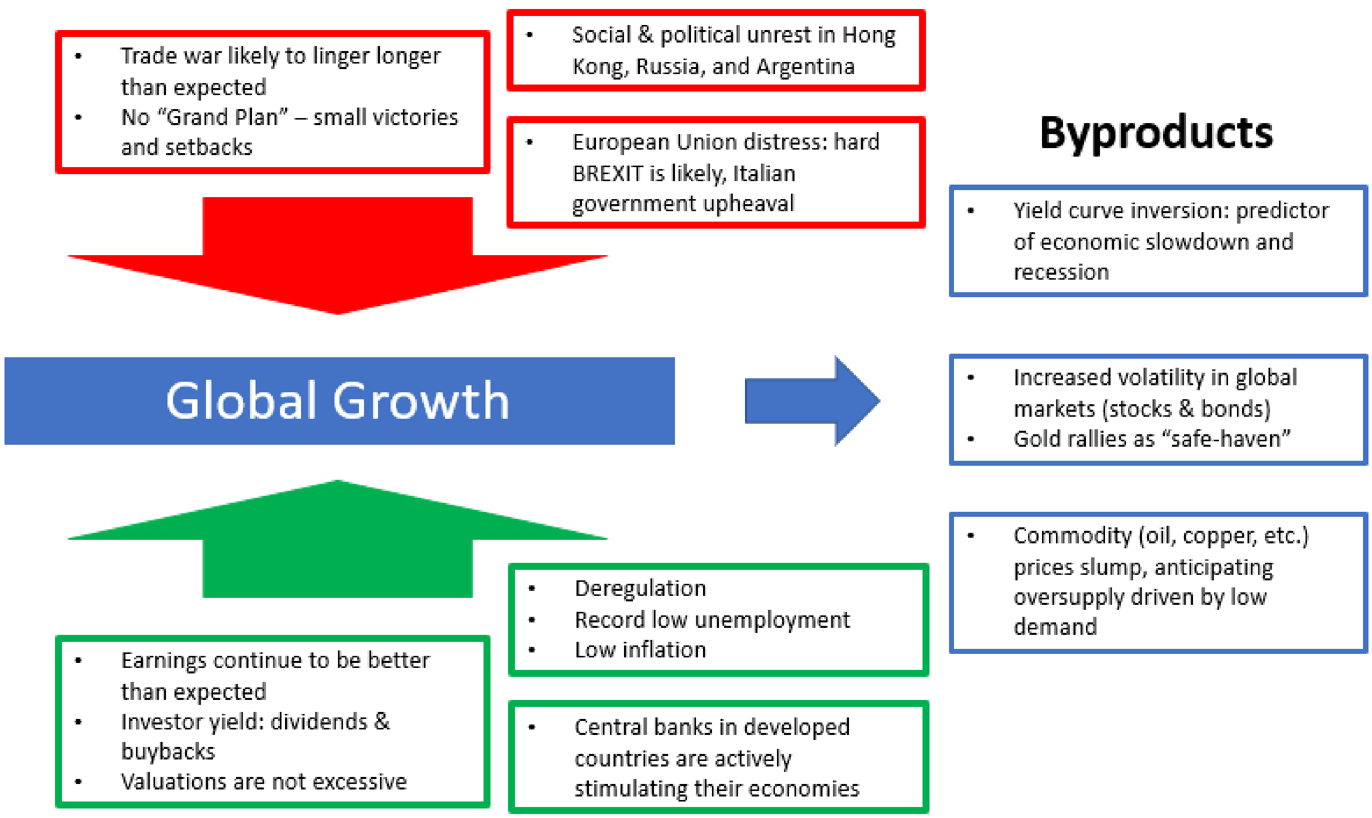
Source: Morningstar

As a consequence of the push-me-pull-you between positive and negative factors, coincident indicators like yield curve inversion, a decrease in the prices of commodities like copper, and an increase in the volatility index and the price of gold have made headlines. It's important to remember, however, that these are symptoms, not causes of slowing economic conditions. Unfortunately, placing too much attention on them can create a self-fulfilling prophecy. The immediacy with which we receive and act on information today only serves to amplify this effect.

For now, the risk of slowing growth remains a concern that we continue to monitor. The balance between positive and negative forces will remain unsteady until the drivers behind them can be resolved. What would help to resolve matters in a positive direction? 1) A more accommodative Fed in September (either a 0.25% cut and the promise of more cuts, or a 0.5% cut). 2) A more aggressive European Central Bank (announcing plans for new Quantitative Easing). 3) No new tariffs on Chinese imports on September 1st. 4) Some geopolitical calm in Europe (progress on Brexit, political calm in Italy). Stay tuned.

We wish you all a warm end of summer and a happy back-to-school season.

Peter, Ben & Keri



GCM's Top Holdings	2Q 2019	YTD (as of 7/30/19)	2018	3-Year Annl.	5-Year Annl.
PIMCO Income (PONPX)	2.37%	5.75%	0.48%	5.88%	5.21%
FPA Crescent (FPACX)	3.33%	15.25%	-7.43%	7.89%	5.34%
Litman Gregory Masters Alt (MASFX)	1.83%	6.39%	-2.08%	3.67%	2.98%
Vanguard Mega Cap Value (MGV)	4.02%	15.40%	-4.05%	11.63%	9.92%
First Eagle Overseas (SGOIX)	4.13%	11.06%	-9.99%	3.43%	3.23%
T Rowe Price Blue Chip Grwth (TRBCX)	4.04%	22.60%	2.01%	20.01%	15.24%
Dodge & Cox Stock (DODGX)	2.60%	15.55%	-7.07%	13.25%	8.91%
Baird Aggregate Bond Fund (BAGIX)	3.16%	6.92%	-0.30%	2.58%	3.38%

Source: Morningstar

Ben's Corner, Part 1

The Tax Cuts & Jobs Act of 2017 included a couple of important changes for 529 plans that we were surprised to discover we had not already mentioned in a prior newsletter. Given that schools are starting up as I write this, I thought it prudent to summarize these changes and remind our readers of a few important factors related to spending 529 dollars in an "IRS-approved" way.

First piece of advice: www.savingforcollege.com is a fantastic resource for all things 529. The site has information on all 50 states' 529 plans, comparing state plans by cost, investment performance, customer service, et cetera. More importantly, it has countless articles explaining what expenses are qualified, how to maintain records, transferring funds between beneficiaries, and nearly anything else you'd want to know. If someone asks us a 529-related question that we can't answer, our first stop is usually the Saving for College website.

Changes to 529 Plans from TCJA

- There's now a provision for tuition refunds if a student drops out of school and receives a refund of his/her tuition. If the funds are recontributed to the 529 plan within 60 days of the original withdrawal date, there are no penalties assessed.
- 529 dollars can now be used for K-12 education in addition to college. This provision is limited to $10,000 per year for private schools, but it's nonetheless a welcome change for parents who send their children to private schools
- 529 dollars can be rolled into ABLE accounts for the same beneficiary. ABLE is a program that Congress created about 5 years ago for special needs individuals. The accounts function in a similar way to 529 plans (plans are offered by the states, tax-free withdrawals on qualified expenses, etc.), but again, are strictly for the benefit of those with special needs. If you have a close family member who has special needs and currently have a 529 to benefit this individual, the ABLE program may be a better fit. It's worth giving this one some attention.

General tips and suggestions for spending 529 dollars

- IRS guidelines require 529 dollars be used for "qualified" education expenses. This includes tuition, room & board, textbooks, and (assuming the university requires it…most now do) a laptop. Transportation/travel and student health insurance plans are NOT included.
- The IRS allows you to pay the expenses then reimburse yourself from your 529, or you can have the 529 dollars sent directly to the institution. Either choice is fine. If you choose the reimbursement method, it's been suggested that you ensure your withdrawals occur in the same year the bill was due. For example, if the first semester bill is due September 10th 2019, you should reimburse yourself from your 529 before December 31st 2019. If the second semester bill is due in January 2020, you should wait until 2020 to take the reimbursement.
- IRS guidelines for 529s are much vaguer than for other areas of the tax code. This can offer parents welcome flexibility, but it can also get folks into trouble. Keep very good, clear records of what expenses were paid, when they were paid, and when reimbursements were made. If in doubt, consult your CPA for advice.

Market Movers	2Q 2019	YTD (as of 7/30/19)	2018	3-Year Annl.	5-Year Annl.
Alphabet (GOOGL)	-7.99%	16.58%	-0.80%	15.47%	16.02%
Amazon (AMZN)	6.34%	24.29%	28.43%	35.00%	42.93%
Apple (AAPL)	4.60%	36.01%	-5.12%	28.47%	18.67%
Chevron (CVX)	1.99%	15.35%	-9.52%	10.01%	2.33%
General Electric (GE)	5.21%	40.42%	-54.50%	-26.61%	-10.88%
JP Morgan Chase (JPM)	11.23%	21.29%	-6.40%	24.48%	17.07%
Microsoft (MSFT)	13.97%	35.07%	20.21%	35.43%	27.14%
Verizon (VZ)	-2.36%	1.53%	10.70%	4.01%	5.79%

Source: Morningstar

Ben's Corner, Part 2

The SECURE Act has gotten quite a bit of publicity lately after a passing vote in the House of Representatives. The bill now sits somewhat stalled in the Senate, so it's unclear if it will really ever be passed into law, but it contains some potentially major changes to retirement savings. Whether it becomes law or not, we feel it's important to be prepared and to be aware of what our fine Congressional representatives are up to.

Two of the changes proposed by the SECURE Act are good: the age for starting to take RMDs would be raised from 70½ to 72, and individuals who want to work past age 70½ would be allowed to continue contributing to their Traditional IRAs. The third change is a little more controversial.

Currently, a non-spouse beneficiary (child, grandchild, sibling…) is required to take a Required Minimum Distribution (RMD) from an inherited IRA every year, with the minimum withdrawal amount based on the beneficiary's life expectancy. For very young beneficiaries who choose to take distributions over their entire lives ("stretching" the distributions), these RMDs are relatively small and the tax consequences of the distributions are also small. This "stretching" feature only lasts one generation, meaning the first beneficiary can't then leave the IRA to his child to again take RMDs over the child's life, but depending on that first beneficiary's age at inheritance, it could take 50+ years for him to empty the account. Under the SECURE Act, an inherited IRA must be emptied within 10 years of inheritance, meaning this "Stretch IRA" option is eliminated (this provision only applies to non-spouse beneficiaries; there are no changes to the rules for spouses).

The purpose here is pretty obvious. The IRS wants to collect taxes from the ultra-wealthy who have saved millions of dollars into their IRAs and retirement plans, received huge tax deductions for doing so, and then passed those IRAs onto their children who are only required to draw smaller sums at lower tax rates.

Let's say this provision is indeed successful in raising tax receipts. What impact will it have on incentivizing (or disincentivizing) individuals to save for retirement? Hard to say…

On the one hand, Stretch IRAs have long been an important component to estate planning. IRA and retirement plan owners have enjoyed tax deductible savings and tax-deferred growth, expecting that their heirs will have access to a pool of funds that maintains some tax advantages and will offer them flexibility in how they draw those funds for lifestyle, a major expense, or their own retirement down the road. Requiring heirs to completely liquidate IRAs within 10 years flips that concept on its head.

But will this actually change the estate planning process, potentially discouraging contributions into IRAs and retirement plans? I'm not so sure that it will, at least for the majority of cases. The original owner of the IRA still gets a tax deduction for his contributions, meaning more wealth is deposited in the IRA than in a regular taxable account, and tax-deferred growth still accrues during that owner's lifetime and during the 10-year period after inheritance. Assuming the inheritor decides to draw 1/10th of the IRA value every year for 10 years, he or she might incur a greater tax burden than under the old Stretch method, but the significance of that additional tax will depend considerably on the size of the inherited IRA and the inheritor's own income/tax situation, especially because tax brackets are marginal. In other words, more tax will be owed in each of the 10 years, but "total taxes paid" over the lifetime of the inherited IRA could be more or less the same.

All that being said, what the new law does do (or at least proposes to do) is take away flexibility and choice. As the kids say, that's "not cool." Assuming the law does pass, it will be important for individuals to revisit their financial and estate plans with their CPAs, attorneys, and financial advisors to determine the best course of action. Roth IRAs may start to play a more significant role in the retirement planning process as well. We'll continue to watch this one and share any updates.

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