

An aerial photograph of a coastline with large, white-capped waves breaking onto a sandy beach. Several surfers are visible riding the waves. The image has a teal color overlay.

Litman Gregory

ASSET MANAGEMENT

2020 Outlook Webinar

February 12, 2020

Today's Speakers



Gretchen Hollstein, CFP®
Senior Advisor, Principal



Jeremy DeGroot, CFA®
Chief Investment Officer, Principal



Chris Wheaton, CPA, CFP®
Senior Advisor, Principal



Alice Lowenstein, CFP®
Managing Director, Principal

Agenda

- Welcome and Introductions with Gretchen Hollstein
- Market & Investment Outlook with Jeremy DeGroot
- Tax Planning Strategies with Chris Wheaton
- Views from Leadership with Alice Lowenstein

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Market & Investment Outlook

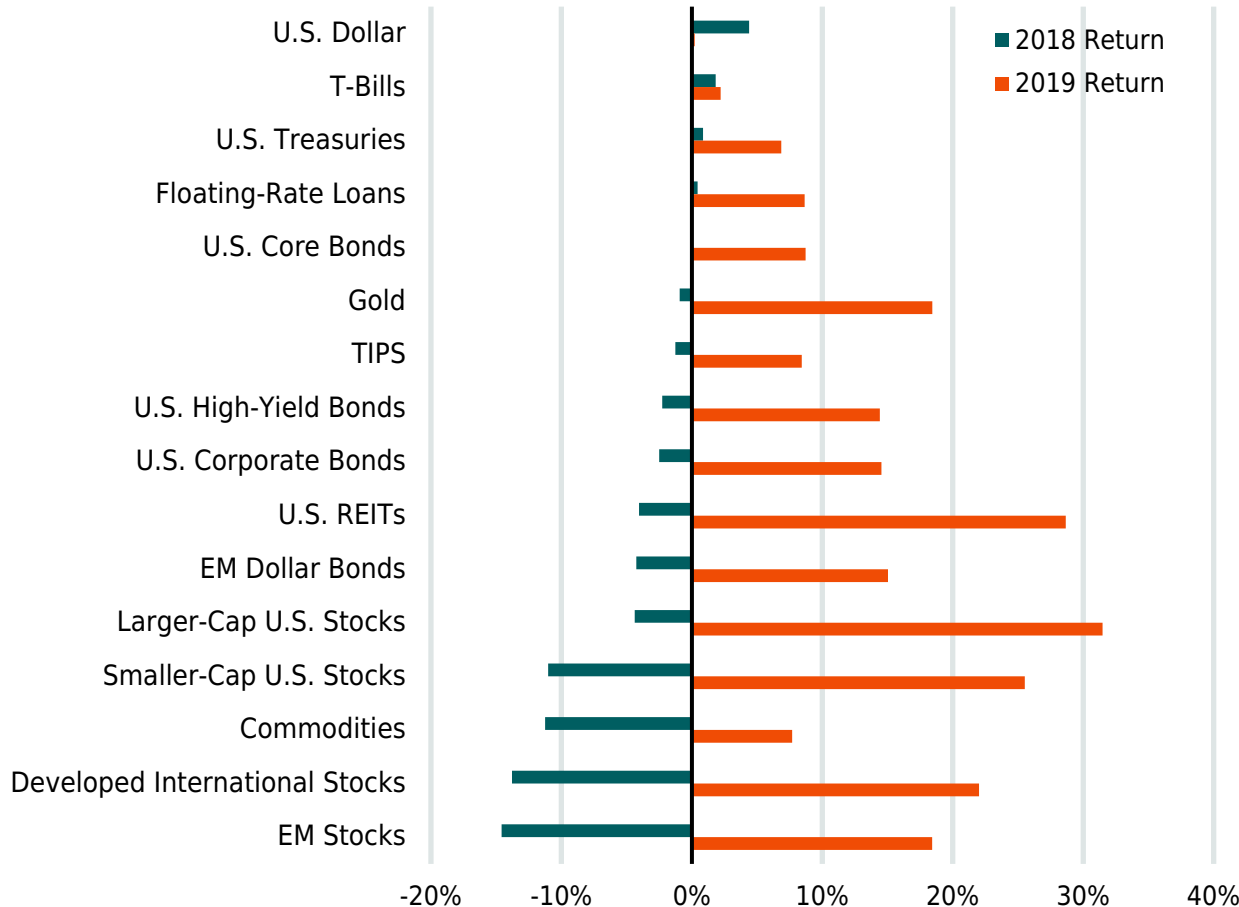
with Chief Investment Officer, Jeremy DeGroot



Five Market Topics We'll Address Today

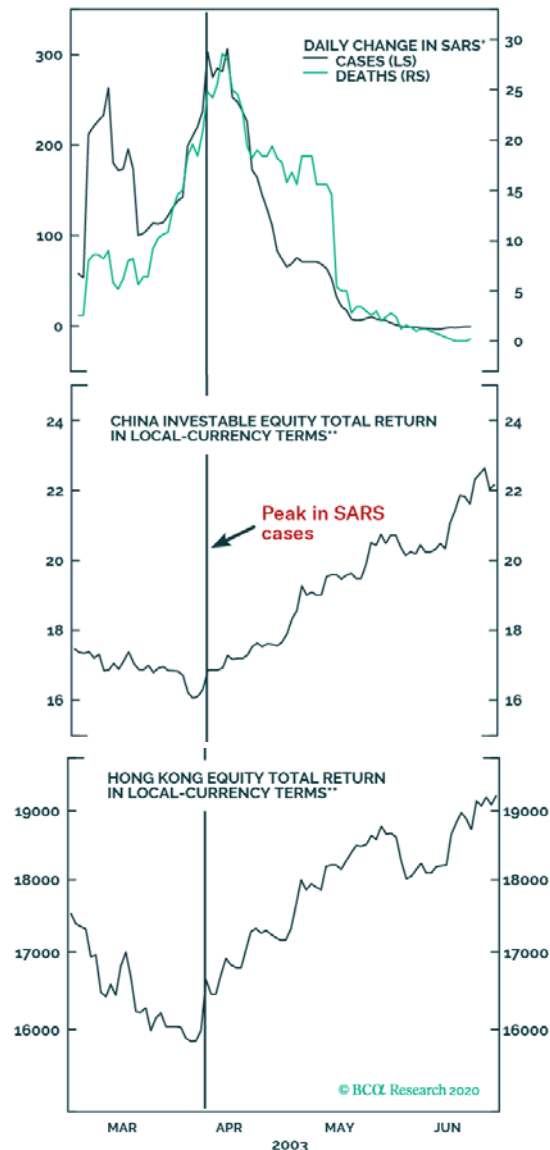
- Catalysts for market performance in 2019
- A review of potential risks ahead
- The economic environment going into 2020
- Current investment opportunities
- Possible scenarios and outcomes over the long-term

It Was Extremely ~~Difficult~~ Easy to Make Money in 2018 2019



- What a difference a year makes. Just about every major asset class lost money in 2018, while in 2019 pretty much everything went up.
- Heading into 2019, the Fed was indicating it expected to raise interest rates three more times, on the heels of four rate hikes in 2018. Markets feared excessive tightening could tip the U.S. and global markets into recession.
- The Fed ended up *cutting* rates three times in the second half of 2019, and other central banks followed suit. This lessened recession fears.

Looking Back at the SARS Outbreak

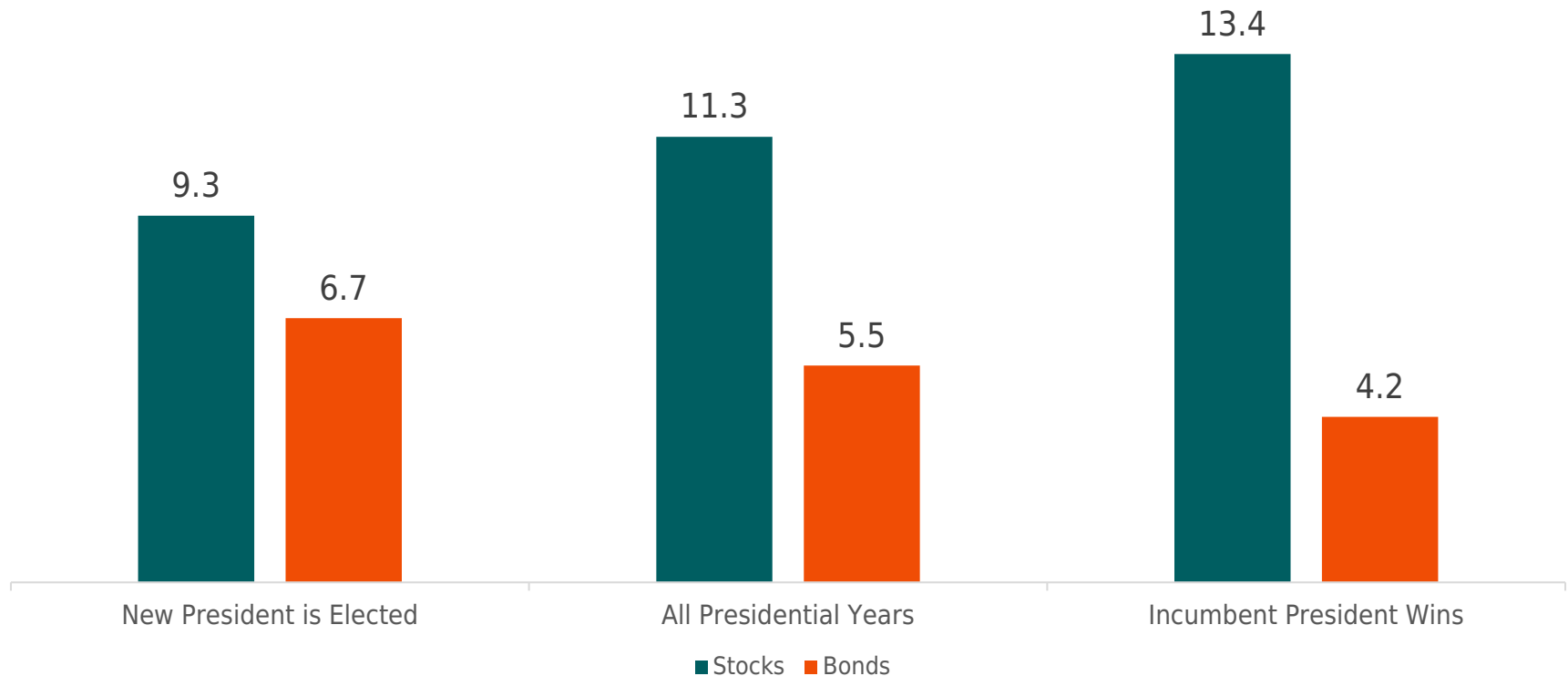


- History suggests stock markets should start to recover once the number of daily new virus cases peaks and starts to decline.
- Markets may already be starting to discount this for the coronavirus.

* SOURCE: WORLD HEALTH ORGANIZATION.
SHOWN AS A 5-DAY MOVING AVERAGE.
** SOURCE: MSCI INC. (SEE COPYRIGHT DECLARATION).

Presidential Election Years Throughout History

Calendar Year Performance During Presidential Election Years (1928 - 2019)



Source: BlackRock. Morningstar data as of 1/31/2020. Stock market represented by S&P 500 and the IA SBBI US Large Cap Index, US Bonds by the IA SBBI US IT Bond Index and the BbgBarc US Aggregate Bond Index. Past Performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

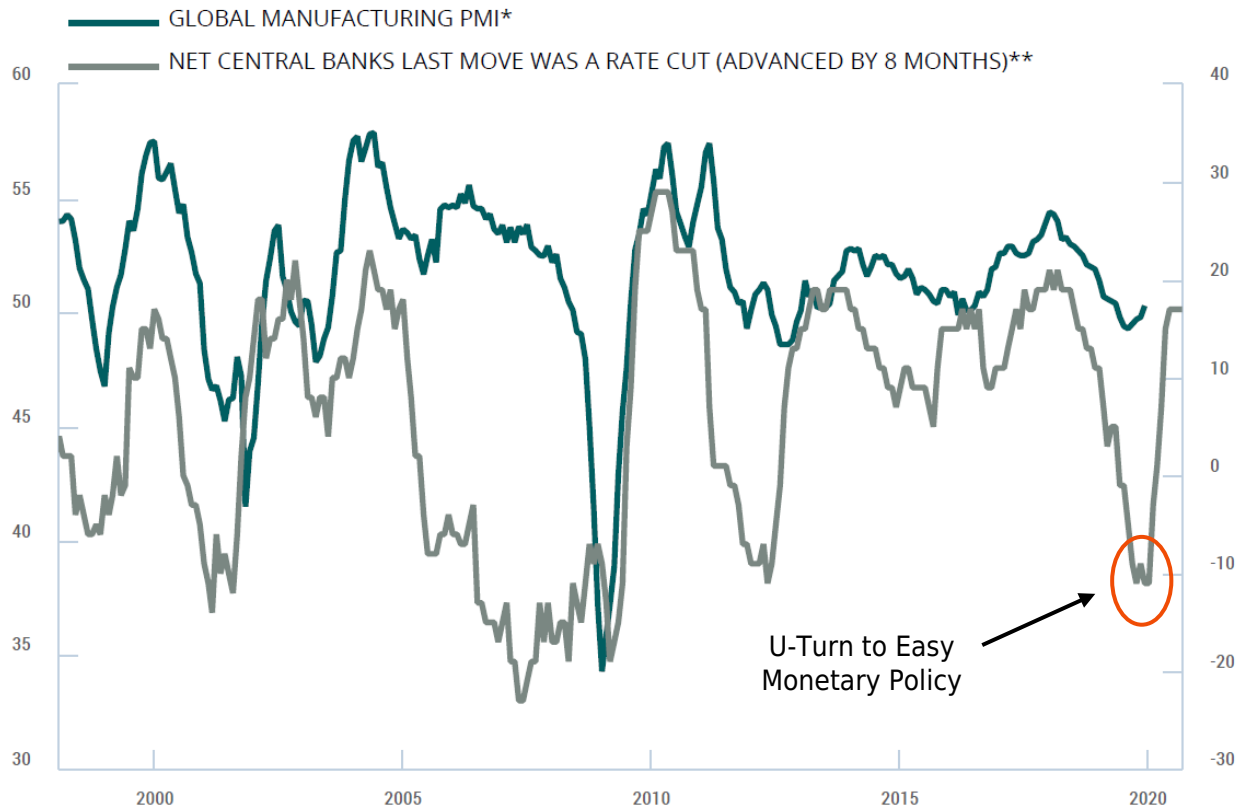
Stock Market Results in Varying Political & Congressional Regimes

Dow Jones Industrial Average Performance:		
When U.S. Government Has A:	% Gain/Annum	% of Time
Democratic President, Republican Congress	9.05	10.12
Democratic President, Split Congress	10.37	3.37
Democratic President, Democratic Congress	7.17	33.59
Republican President, Republican Congress	7.63	24.38
Republican President, Split Congress	-4.25	10.13
Republican President, Democratic Congress	2.44	18.54



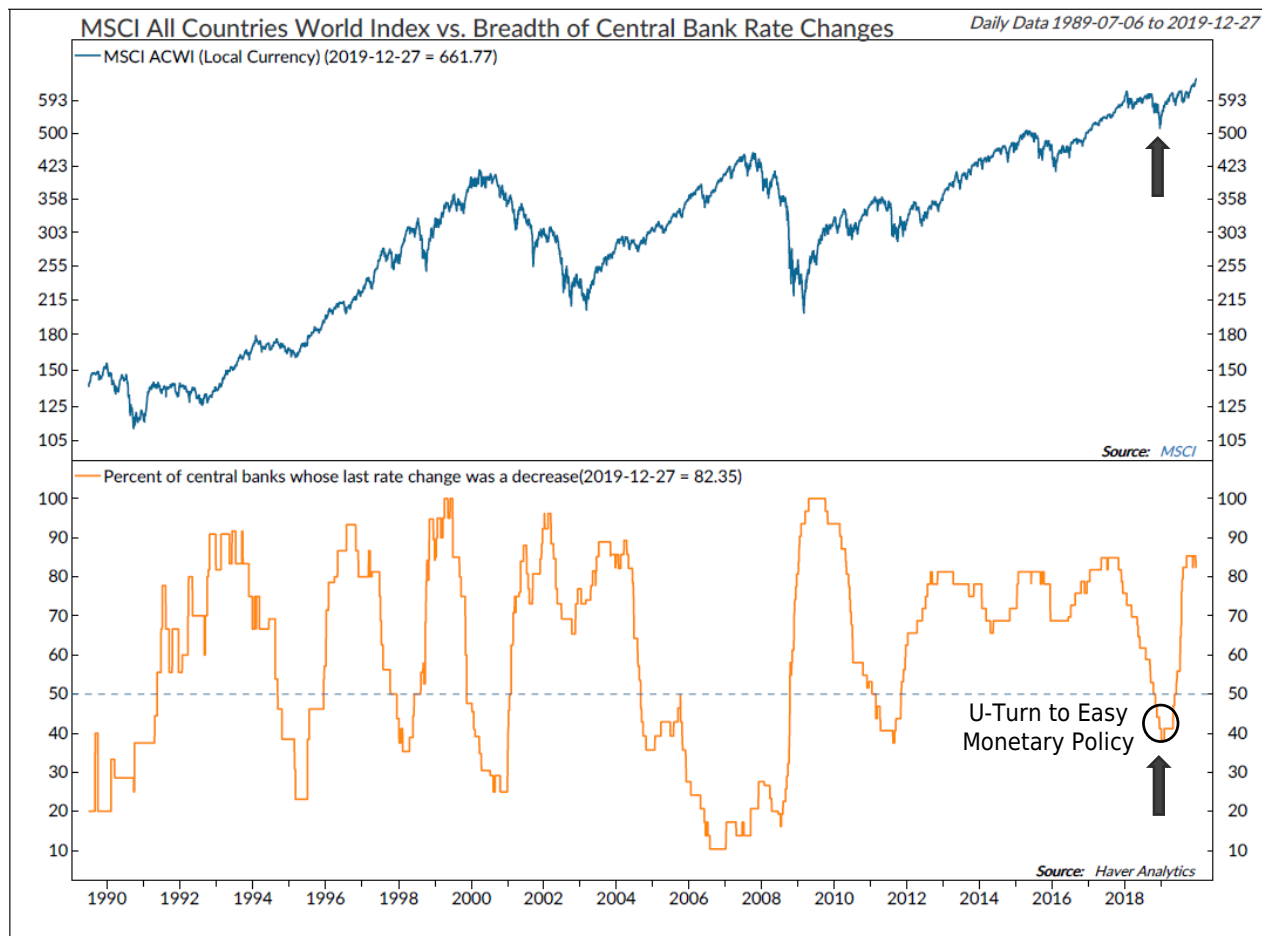
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Easy Monetary Policy Should Support the Global Economy



- Accommodative monetary policy and easier financial conditions should support at least a modest rebound in global economic growth.
- A PMI reading above 50 (left axis) indicates expansion, while below 50 indicates contraction.
- A vast majority of global central banks are now in easing mode. Historically, this is associated with global equity gains and an economic/manufacturing recovery.

When Central Banks Are in Easing Mode, Stocks Tend to Rise



- An interest rate cut was the last action by over 80% of global central banks.
- Accommodative monetary policy and easier financial conditions should support at least a modest rebound in global economic growth.
- Assuming interest rates don't sharply rise, this economic backdrop should be positive for equity markets and other risk assets.

Customized client version of IES09K



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History Suggests Late Cycle Returns can be Very Attractive

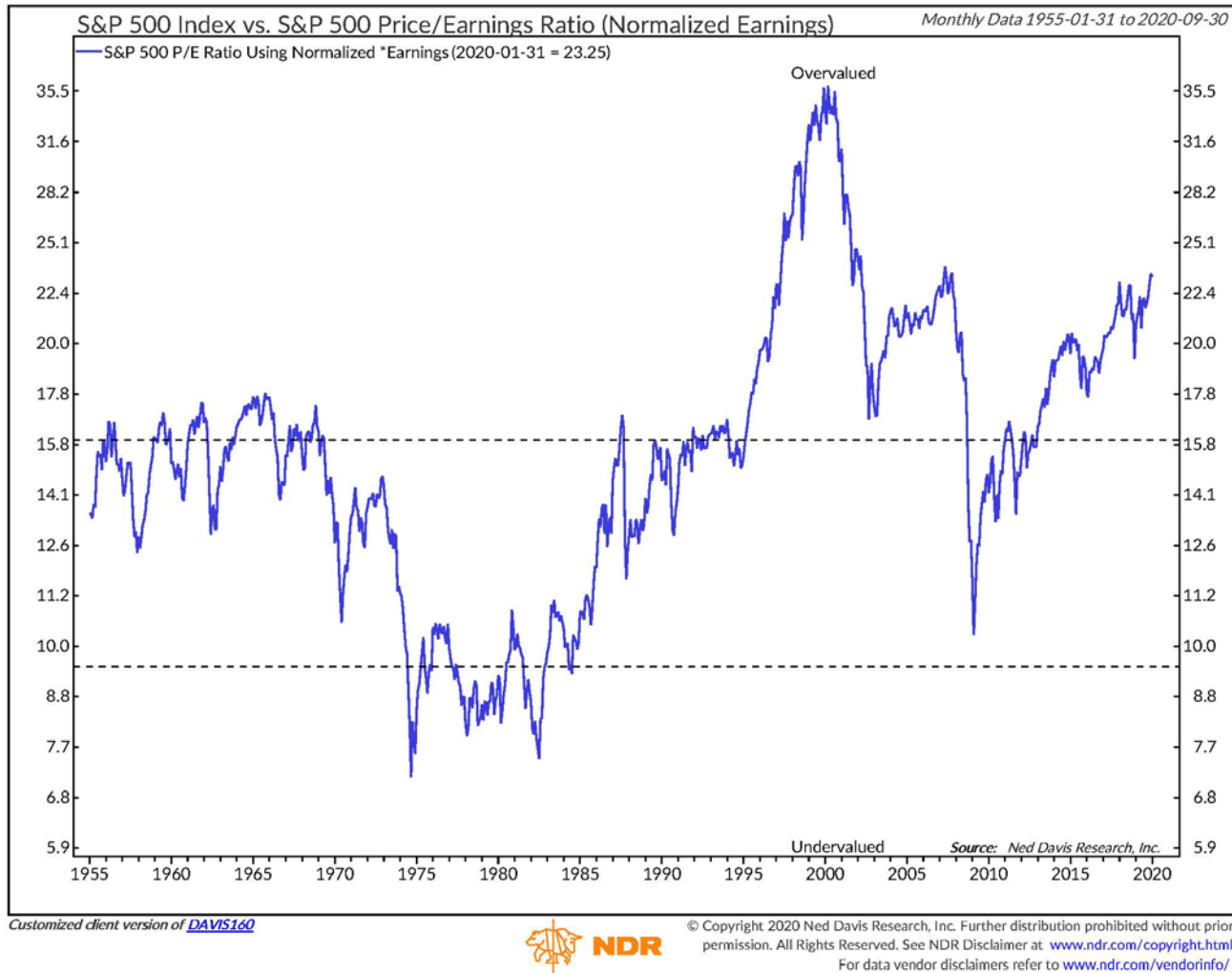
Returns tend to be strong in the late stage of the business cycle...

...but don't overstay your welcome

Annualized Real Returns (%) Prior to Recessions:	Months Prior to Recession				
	13-24 Months	1-24 Months	7-12 Months	1-12 Months	1-6 Months
S&P 500 Average Returns	14.2	6.8	8.0	0.1	-7.8
JUL 1953 - MAY 1954	21.9	12	17.8	2	-13.8
AUG 1957 - APR 1958	15.8	7.1	-17	-1.6	13.9
APR 1960 - FEB 1961	31.3	16.8	6.6	2.2	-2.2
DEC 1969 - NOV 1970	13.4	-1.3	-11	-15.9	-20.7
NOV 1973 - MAR 1975	16.9	4.9	-11.3	-7.0	-2.7
JAN 1980 - JUL 1980	0.5	2.2	6.8	5.4	4.0
JUL 1981 - NOV 1982	32.2	10.5	-11.2
JUL 1990 - MAR 1991	14.3	13.1	22.2	11.9	1.6
MAR 2001 - NOV 2001	8.9	-0.7	20.0	-10.3	-40.6
DEC 2007 - JUN 2009	11.6	7.6	13.6	3.6	-6.3

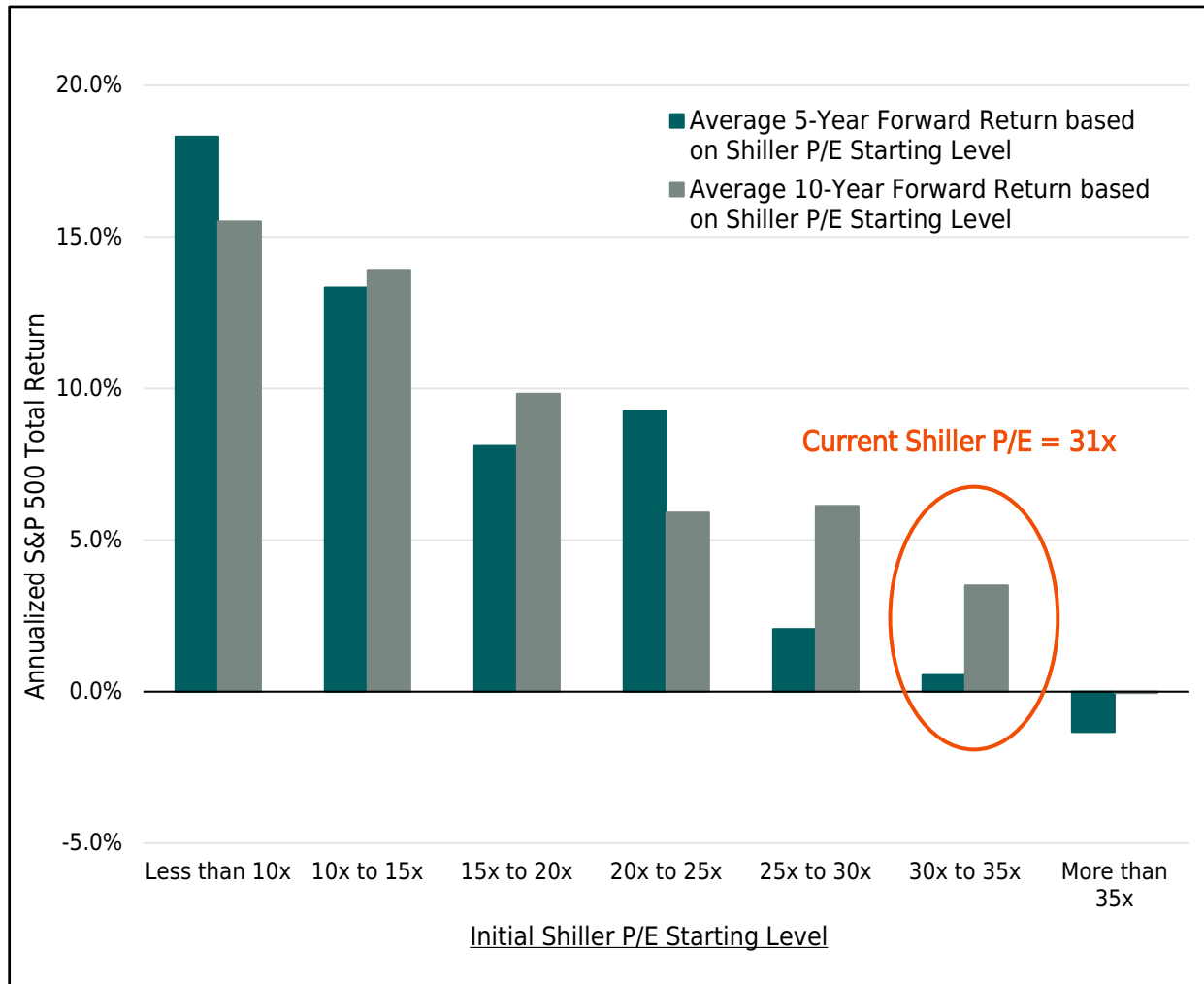
In more recent cycles, investors have reaped strong returns in the 7 to 12 months prior to recession

S&P 500 Normalized Price/Earnings is near 20-year High



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Higher P/E Ratios are Associated with Lower Future Returns



- History has shown that future stock returns are strongly linked to valuation levels. The higher the P/E, the lower the forward return with few exceptions.
- The current Shiller P/E level of 31 for the S&P 500 would indicate low single-digit returns annually on average over the next 5 years, and mid single-digit returns annually on average over the next 10 years.
- When markets have excessively high valuations, they are vulnerable to disappointment or negative surprises.

Asset Class Return Estimate Ranges Across Firms

Estimates	Five-Year Outlook			7-Year Outlook	10-Year Outlook								10 -15 Year Outlook		Historical Returns (Actual)	
	Litman Gregory Asset Management	BlackRock Investment Institute	Goldman Sachs, Investment Strategy Group	GMO	Litman Gregory Asset Management	BlackRock Investment Institute	Research Affiliates	Morningstar Research	Vanguard Research	BCA Research	Morgan Stanley	J.P. Morgan Asset Management			Trailing 5-Year	Trailing 10-Year
Equity																
U.S. Larger Cap	-0.9%	5.6%	3.0%	-2.9%	3.6%	6.1%	2.4%	1.7%	5.0%	4.0%	5.2%	5.6%			11.6%	13.4%
Developed International	5.7%	6.0%	4.5%	1.2%	7.4%	6.5%	7.0%	5.8%	7.5%	7.0%	7.4%				6.2%	5.7%
Emerging Markets	9.0%	6.8%	5.0%	5.5%	8.3%	7.5%	8.9%	5.3%		9.5%	9.9%	9.2%			5.0%	3.5%
Fixed-Income																
Investment-Grade Bonds	2.2%	1.2%	2.0%	0.2%		1.7%	2.0%	2.1%	2.5%		3.1%	3.4%			2.9%	3.6%

Key Takeaways

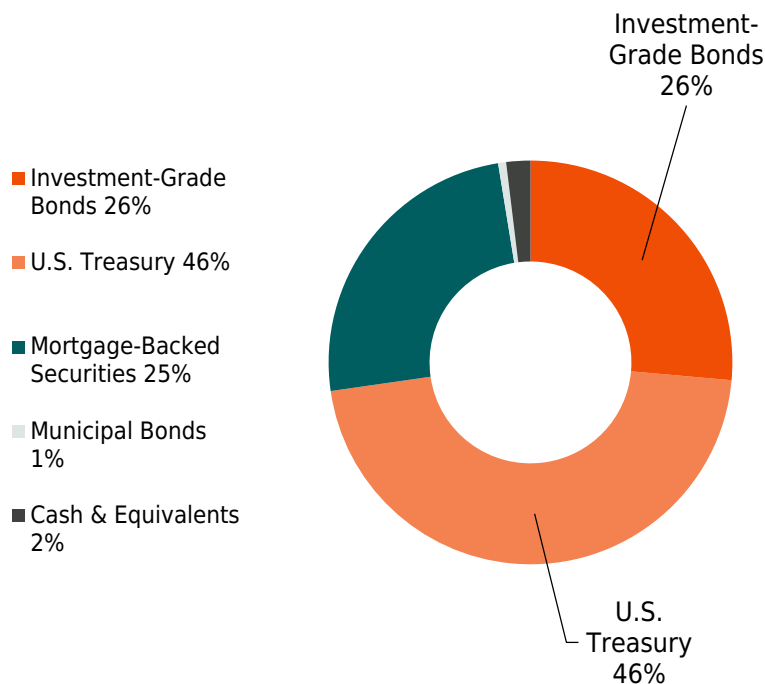
- Equity returns forecasts are widely expected to fall well below historical long-term averages
- Opportunity for higher returns outside the U.S.
- Fixed income returns estimates forecasted to remain low but positive

Asset class estimates shown are gross of fees, nominal, annualized, and in USD. They are illustrative only and reflect a wide range of assumptions and approaches to arriving at these forecasts. Future performance may differ substantially.

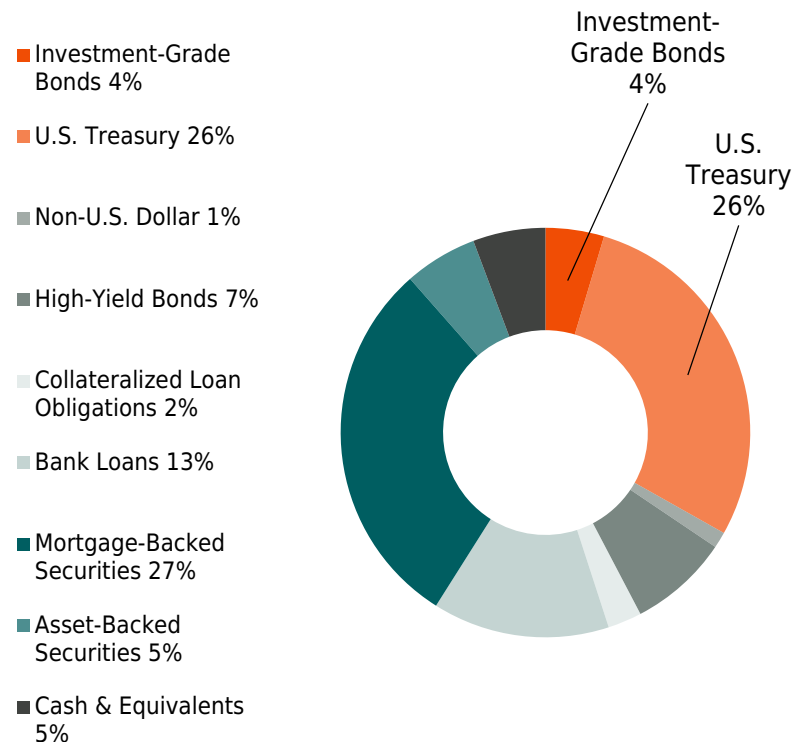
Source: Blackrock, Goldman Sachs, Northern Trust, GMO, Morningstar, Research Affiliates, Vanguard, BCA, Invesco, JP Morgan.

Our Selected Active Bond Managers are Finding Better Risk-Adjusted Opportunities Away from Core Bonds

Vanguard Total Bond Market Index Fund
(Concentrated in "Core Bonds")



Litman Gregory Balanced Strategy
Fixed Income Allocation



Balanced Strategy Fixed-Income Allocation = 31% DoubleLine Total Return, 22% iShares 7-10 Year Treasury Bond ETF, 14% Litman Gregory Masters High Income Alternatives, 8% Osterweis Strategic Income, 7% Guggenheim Macro Opps, 7% Loomis Sayles Bond, 6% T. Rowe Price Floating Rate, 6% BNY Mellon Floating Rate Income. Percentages represent portion of total bond exposure.

CNN's Fear and Greed Index: December 2019 vs. December 2018



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Tax Planning Strategies

with Senior Advisor, Chris Wheaton



SECURE Act of 2019

“Setting Every Community Up for Retirement Enhancement Act of 2019”

Goals of SECURE Act, effective January 1, 2020:

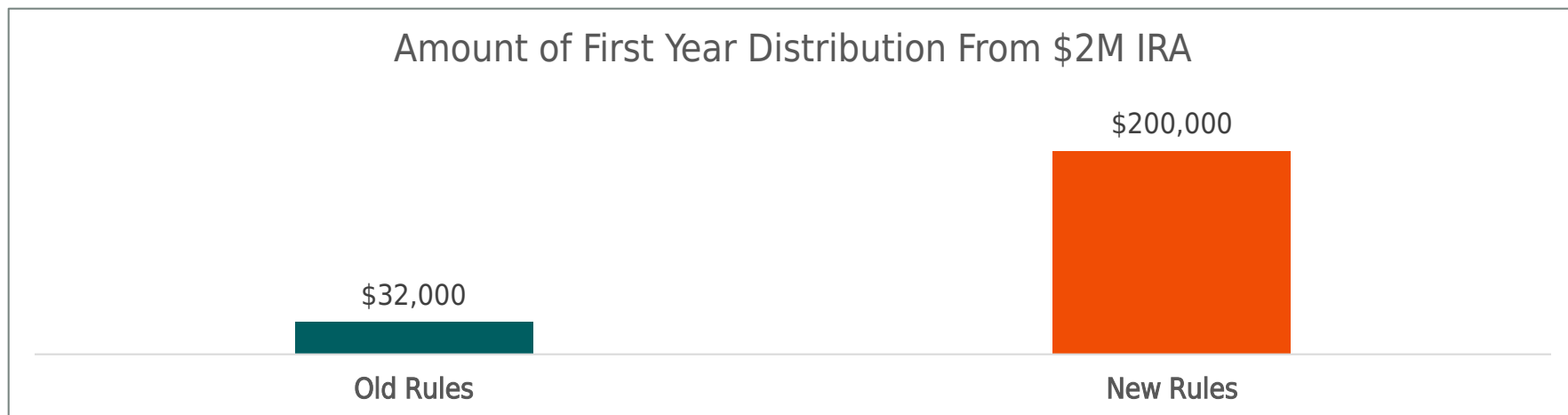
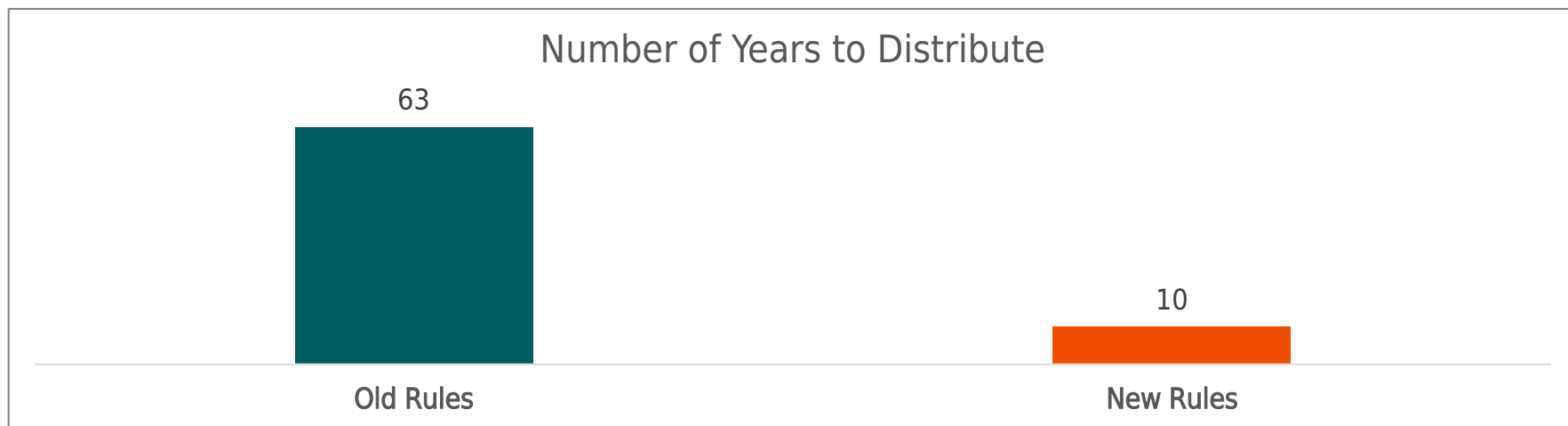
- Encourage more savings for retirement
- Encourage savings from a wider range of individuals, with retirement accounts available more broadly

Some major changes that create planning opportunities:

- Loss of the “Stretch IRA”; non-spouse beneficiaries limited to 10 years for distributions
- Delayed starting age (72) for Required Minimum Distributions (RMDs)
- Workers over 70½ can continue making retirement plan contributions
- New penalty-free withdrawals of IRA money for family events (birth or adoption)
- Expanded qualified withdrawals from 529 Plans (such as for sibling student loan debt)

Loss of "Stretch" IRA

Example: 20-Year Old Beneficiary



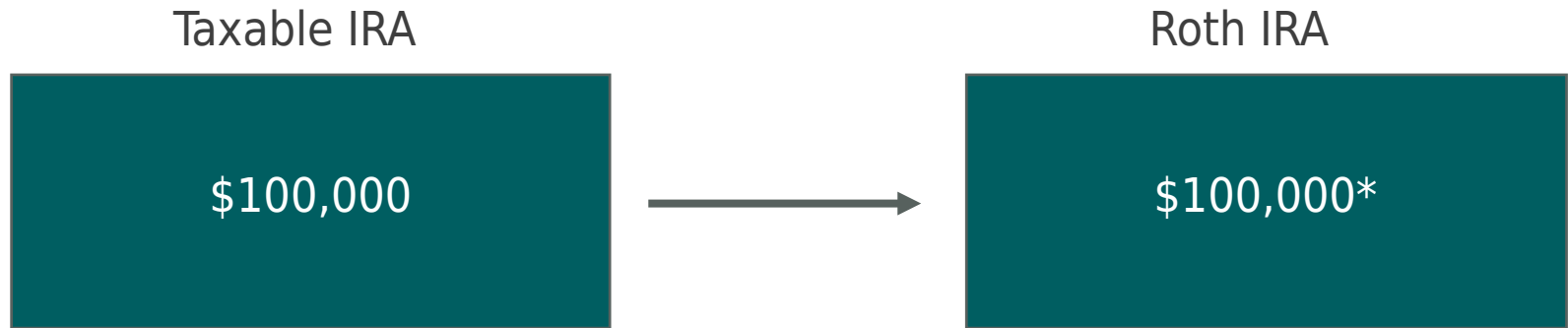
Inherited IRA Withdrawal Planning \$2M IRA Example (0% Return)

Option 1 - Equal Distribution											
Distribution Year	\$200K 1	\$200K 2	\$200K 3	\$200K 4	\$200K 5	\$200K 6	\$200K 7	\$200K 8	\$200K 9	\$200K 10	\$2M Total
Option 2 - Annual Decision Based on Tax Bracket											
Distribution Year	\$200K 1	\$200K 2	\$400K 3	\$400K 4	\$400K 5	\$80K 6	\$80K 7	\$80K 8	\$80K 9	\$80K 10	\$2M Total
Option 3 - Early Retiree											
Distribution Year	\$0 1	\$0 2	\$0 3	\$0 4	\$0 5	\$400K 6	\$400K 7	\$400K 8	\$400K 9	\$400K 10	\$2M Total

IRA Distributions in a Low Tax Year



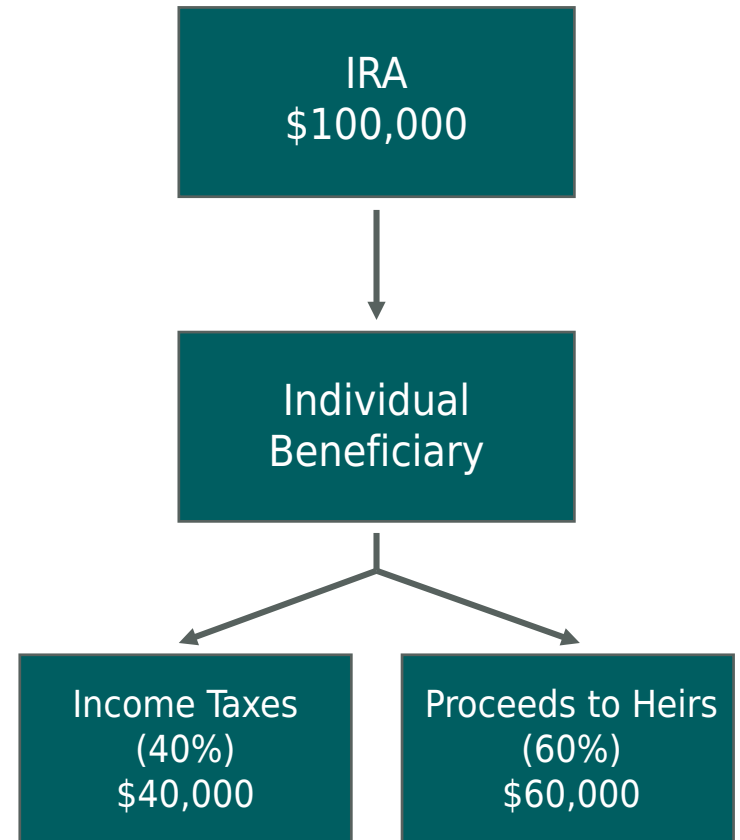
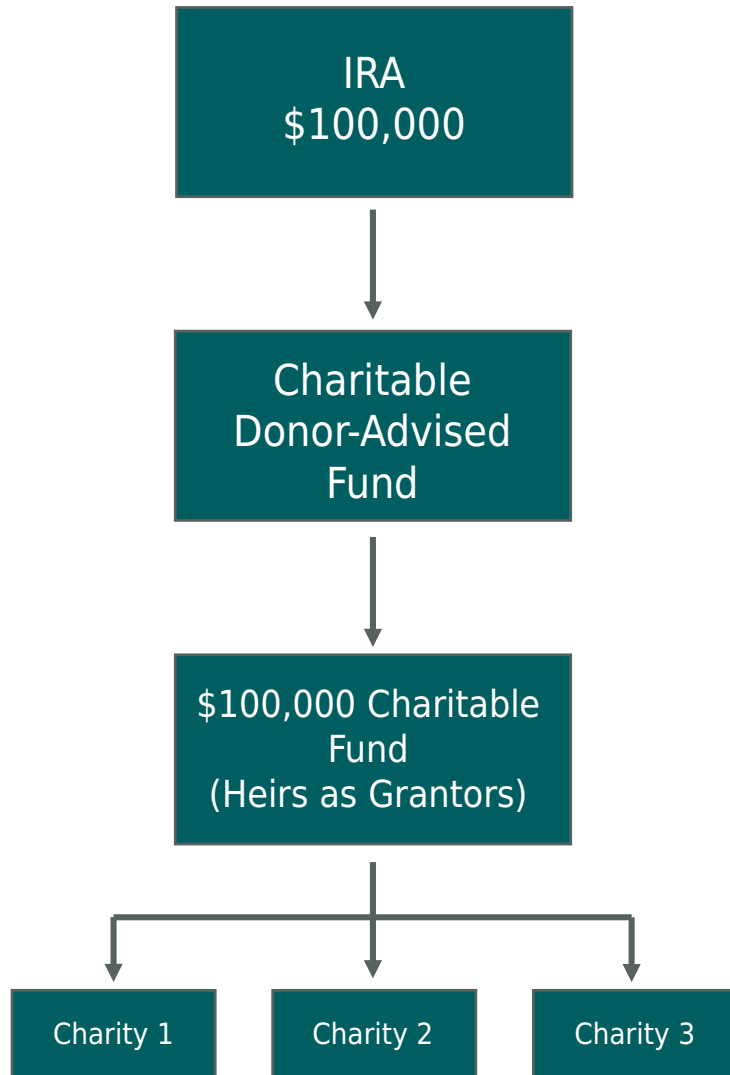
Roth IRA Conversion Mechanics



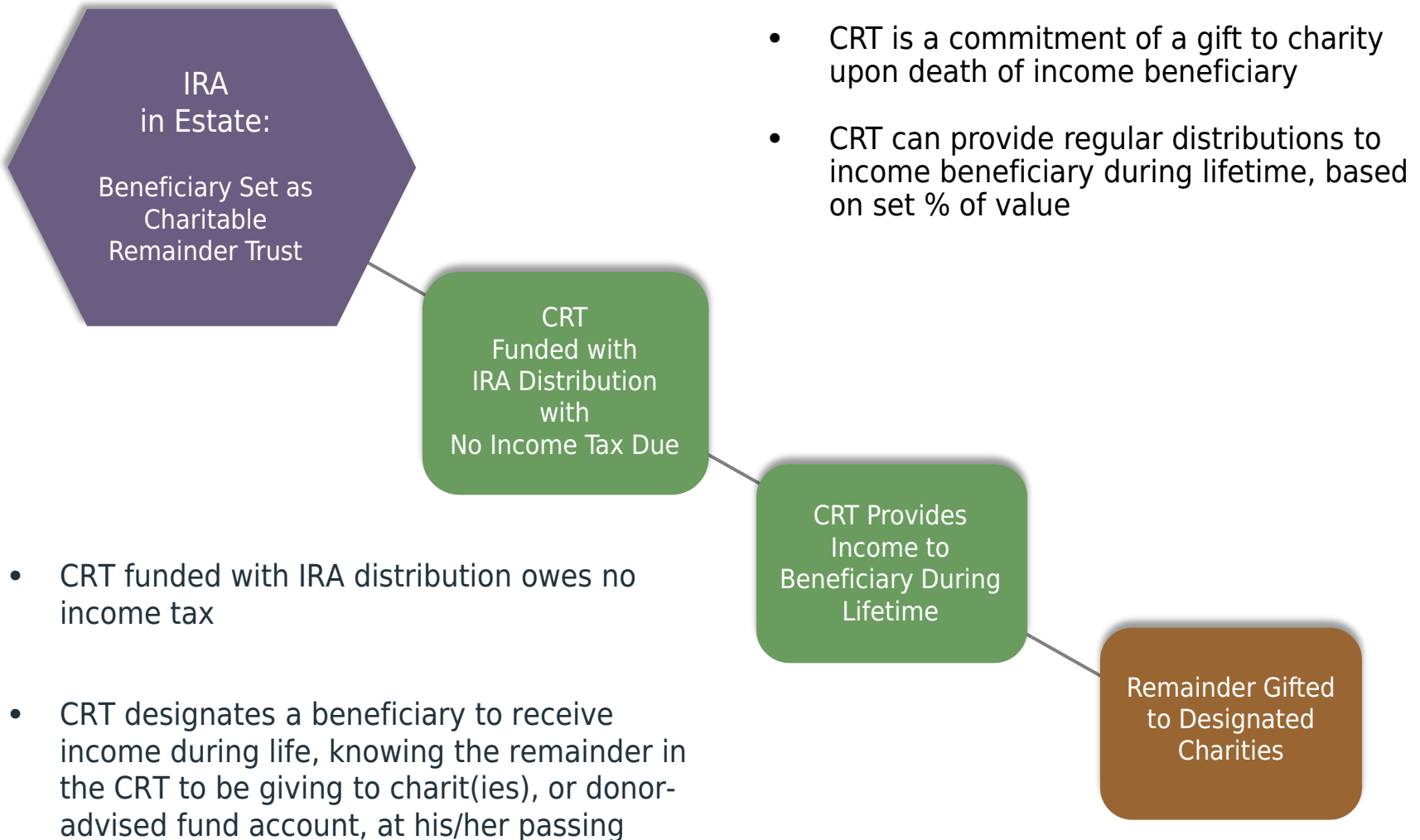
- Grows tax free during lifetime
- Continues to grow tax free in an inherited IRA
- Non-spouse beneficiary typically maximizes tax exempt income by taking distribution at the end of year 10

* Taxes due in year of conversion.
(e.g., 30% tax bracket = \$30,000 tax.)

Charities as IRA Beneficiaries



Charitable Remainder Trust (CRT) as IRA Beneficiary

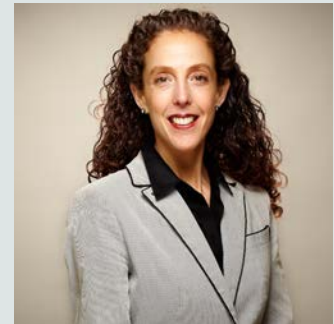


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Views from Leadership

with Managing Director, Alice Lowenstein



Sustainable Investing



Sustainable Investing Approaches Defined



	SRI	ESG	Impact
Definition	<ul style="list-style-type: none">Integrates ethical values, religious or personal beliefs into the investment processSRI strategies often focus on what to EXCLUDE from a portfolio	<ul style="list-style-type: none">Proactively considers ESG criteria alongside financial analysisESG portfolios typically focus on what to EXCLUDE and INCLUDE in a portfolio and often drive change through direct corporate engagement	<ul style="list-style-type: none">Investing with the intention of generating a positive, measurable impact, alongside a financial return
Example	<ul style="list-style-type: none">Excluding alcohol, tobacco, firearms companies	<ul style="list-style-type: none">Invest in companies that score well across various ESG metricsStrategies can invest in specific themes, such as low carbon and gender diversityStrategies can also exclude specific industries, such as weapons and tobacco	<ul style="list-style-type: none">Financing provided to businesses or projects with an explicit societal or environmental purpose

What is ESG Investing?



ENVIRONMENTAL

- Climate Change
- Emissions & Waste
- Resource Efficiency



SOCIAL

- Diversity, Human Capital & Safety
- Product Integrity & Supply Chain Management
- Community Impact



GOVERNANCE

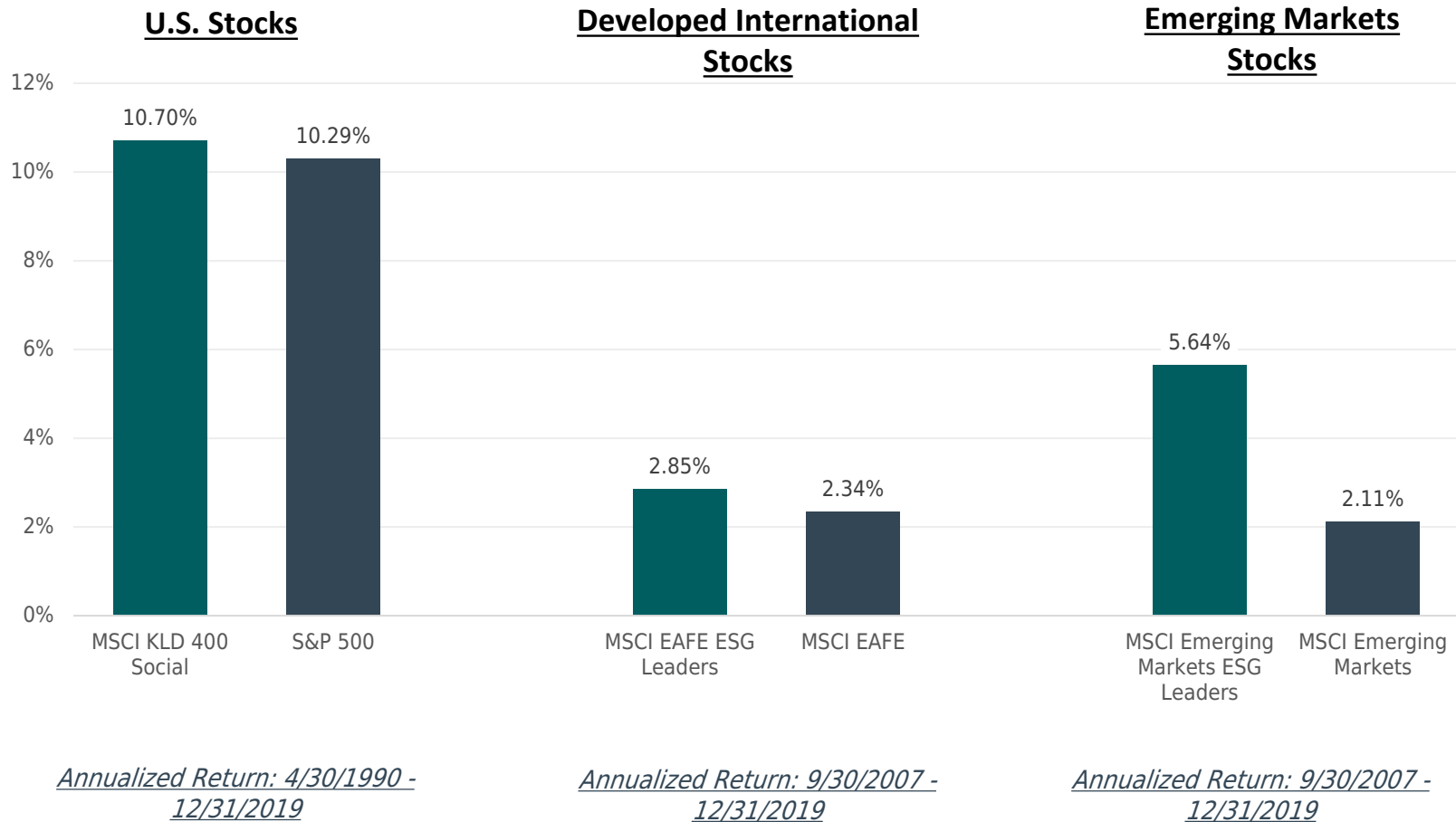
- Board & Executive Diversity
- Corporate Structure, Accounting & Transparency
- Executive Compensation

Integration of Fundamental and ESG Analysis

Integration of ESG Factors Into Investment Analysis and Portfolio Management




Sustainable Investing – Myth of Underperformance





Thank you for joining us today!

For further questions, please contact your advisor directly, or the Litman Gregory Client Services team at:

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