

"Cup of Joe"

Wow, what a difference a year makes! Near the end of 2018, we were referring to the stock market as the Grinch. Twelve months later and we have all-time highs, no recession in sight and all is good. In this "Cup of Joe", we will provide updates on our portfolio moves, the markets and what we see for the year ahead.

First, as many of you have probably noticed, we just re-balanced the portfolios. This means that we re-aligned the weightings of the assets to match your chosen risk tolerance. In more simpler terms - **"we took the profits"** - selling the winners and moving the money into other areas of the market that are not as expensive. For example, if you are in our "intermediate volatility" (70% equity / 30% fixed income and cash) portfolio, you probably noticed that the equity portion of your portfolio became much larger than it should be - caused by our largest holding (Apple) returning over 100% in one year! The re-balance would sell some of that equity exposure and re-allocate those funds into the 30% fixed income side, lowering the amount of risk being taken. While it sometimes isn't fun to sell some of your favorite stocks, we must remain prudent in our management philosophy in order to protect you. As Warren Buffet once said, **"it's better to be fearful when others are greedy, and greedy when others are fearful."** And of course, if you have funds in non-qualified accounts such as individual, joint, or trust accounts, **YOU WILL HAVE TAX LIABILITY**. This will take place on the 2020 tax return. We just don't want anyone to be surprised. When you make money, Uncle Sam wants his cut!

In other news, with the United States most recent run-in with Iran, we need to clarify our position regarding "exogenous events" and how we manage money during these tumultuous times. First, an exogenous event is described in economic modeling as **"an influence that arises from outside of the scope of the model, and that is therefore, neither predicted nor explained by the model."** In more simpler terms, Iran launching ballistic missiles into U.S. airbases is not something we can predict nor explain with regard to the economic or financial markets. These events will always happen, now and in the future. And to drill down more on that specific event, the good thing nowadays is that the U.S. is not as reliant on foreign oil anymore. So, if there was an oil shock where the price of oil spiked, causing stress on the economy, the U.S. could balance out the market with our own oil production. In the old days, this may have had a much bigger effect on markets.

Furthermore, we wanted to provide our thoughts on the year ahead. While 2019 was stellar, we feel 2020 could also be a very profitable year. If you remember, the end of 2018 saw the markets take a

19.8% dip from peak to trough. One could say that 2019 was a bounce-back year. With earnings looking to rebound, positive movement on the trade front with China and the consumer looking VERY good, we feel 2020 can hit double-digit returns once again. We do see increased volatility though in the second half of the year. The trade war could re-ignite, election uncertainty will start to creep into the narrative and market valuations could start to look frothy causing some minor pullbacks along the way. While things may get bumpy, our long-term outlook remains positive.

Other important news and reminders…

Don't forget that you can still fund your traditional and Roth IRAs for 2019 up until April 15th, if you haven't done so. See below:

- The 2019 combined contribution limit for traditional and Roth IRAs is $6,000 if you are under the age of 50. This is a $500 increase from the maximum $5,500 contribution limit in 2018. If you are over the age of 50, you are eligible to make an additional $1,000 in catch-up contributions.
- For 2020, your total contributions to all your traditional and Roth IRAs cannot be more than $6,000 ($7,000 if you're age 50 or older).
- The elective deferral limit for SIMPLE plans is 100% of compensation or $13,500 in 2020, $13,000 in 2019 and $12,500 in 2018. Catch-up contributions may also be allowed if the employee is age 50 or older. Employees age 50 or over can contribute an extra $3,000 as a catch-up contribution.
- The amount you can contribute to your 401(k) or similar workplace retirement plan goes up from $19,000 in 2019 to $19,500 in 2020. The 401(k) catch-up contribution limit—if you're 50 or older in 2020—will be $6,500 for workplace plans, up from $6,000.

One last item going into 2020 that will be affecting many, President Trump signed into law what is known as the SECURE Act (taking effect January 1, 2020). This new law comes with a wide array of provisions that are intended to strengthen retirement savings. Perhaps the most notable change is the increase in age regarding RMDs (Required Minimum Distributions) - from age 70½ to 72 - for 401(k) and IRA retirement plans. So, if you did not surpass the age of 70½ before January 1, 2020, you will not have to take an RMD until you are age 72. This does not affect those who are already required to take an RMD for 2019, as you will still be required to take an RMD going forward, even though you are younger than 72. Some other notable provisions include:

- Elimination of maximum age for contributions to traditional IRAs
- More part-time workers eligible to participate in a 401(k) (**3 years, 500 hours worked a year)**
- 529 Plan funds for student loan debt reduction (**up to $10,000**)
- Qualified Birth or Adoption penalty-free distributions (**Up to $5,000 per occurrence**)

One of the drawbacks of the SECURE Act is the elimination of stretch IRAs. Until recently, non-spousal inherited IRAs were able to be distributed in relation to age and life expectancy. Starting January 1, 2020, all non-spousal beneficiaries will be required to withdraw the entire account balance within 10 years of inheritance.

We hope that everyone had a happy and healthy holiday season and truly want to thank everyone for your business over the years. Without all of you, we would not be where we are as a company. Your continued referrals have enabled us to add another member to the Chapel Hill Investment team. Cameron Tobias joined the company at the beginning of the year and will be another familiar face to assist with client services. We are looking forward to a prosperous 2020!

*Disclosure: Chapel Hill Investment Analysts is long BRK.B and AAPL.

-Joe, Ryan, and the Chapel Hill Investment Team

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