SilverStar Insights

for your wealth

SILVERSTAR WEALTH MANAGEMENT
Plan • Invest • Guide

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In This Issue

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Welcome to 2019! The year 2018 closed out with a great deal of volatility in the fourth quarter, especially in December. The adage, "it is the time in the market that matters, not market timing" is appropriate because no one can predict with accuracy what the markets will do in the short term. This is evident from the equity markets increasing over 5% in a single day on December 26th when many investors were concerned. Market corrections happen, and the economic fundamentals remain as we discuss in this issue.

As we begin 2019, the second year under the Tax Cuts and Jobs Act which provides reduced marginal tax brackets for many, we should re-evaluate our tax planning. Everyone should thoughtfully consider if pre-tax or after-tax (Roth) contributions to retirement plans (IRAs, 401(k)s, 403(b)s, or 457) still makes sense over time based on their view of current and future tax policy, and their situation. Please refer to our January 2018 newsletter where we provided details of the new tax law. A copy can be found on our website, www.SilverStarWealth.com under *Resources → Quarterly Newsletters*.

In this issue, we also address how incorporating certain types of annuities designed to provide lifetime income may assist in designing efficient retirement income plans.

NOTICE: Please be advised that our name has changed to SilverStar Wealth Management, Inc., and we are expected to relocate on January 23rd to our new office in the Cy-Fair Federal Credit Union location at Skinner Road (near Highway 290) 13525 Skinner Road, Cypress, TX 77429.

Market View

U.S. stocks saw the return of normal market volatility in 2018 that was absent in 2017.

2018 Performance of Capital Markets	
S&P 500 - The S&P 500 (Standard & Poor's Index) is a stock market index containing the stocks of 500 American corporations with large market capitalization that are considered to be widely held.	**-4.45%**
Barclays U.S. Aggregate Bond – The Barclays U.S. Aggregate Bond Index is an index of U.S. dollar-denominated, investment-grade U.S. corporate, government and mortgage-backed securities.	**0.64%**
MSCI EAFE – The MSCI EAFE serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia.	**-14.47%**

Source: Morningstar (Performance from 1/1/18 to 12/31/18)

The fourth quarter volatility caused the S&P 500 stock index to approaching bear market territory (-20%) in December but quickly regained ground after Christmas as investors stepped in to buy undervalued securities in the oversold market. The economic data shows the economy is still doing well and is expected to continue, but with lower expectations for corporate earnings in 2019.

The Feds created quite a stir within the financial markets during December with the fourth-rate hike in 2018, raising the Fed's fund rate to around 2.5% (the rate where financial institutions lend funds to one another). Meanwhile, the 10-year Treasury Bond yield was not increasing due to low inflationary pressures. This caused some concern for the risk of an inverted yield curve when the 10-year rates become lower than short-term rates. On January 10th, Federal Reserve Chairman Jerome Powell stated, "Especially with inflation low and under control, we have the ability to be patient and watch patiently and carefully as we ... figure out which of these two narratives is going to be the story of 2019."[1] So, it appears the Feds are using common sense after some fourth quarter confusing statements.

The steep sell-off in December created a great buying opportunity for those brave enough to buy. Stocks still appear reasonably cheap based on 2019 projected corporate earnings. The consensus for 2019 is for a 7% increase in corporate earnings with a few projecting as high as 12%.[2] By historical numbers, stocks appear cheap with the P/E (Price/Earnings) of stocks currently at about 14.4 times earnings while the 25-year average is 16.1 times earnings.[3] If the consensus corporate earnings play out, stocks may even get even cheaper or follow earnings higher.

The Real Gross Domestic Product (GDP) growth rates in the U.S. are expected by some to slow in 2019, but there are good signs for continued growth. The U.S. GDP growth rates for 2018 were: 1st quarter (2.2%), 2nd quarter (4.2%), and 3rd quarter (4%).[4] With the same-store sales coming in at 8.9% over last year's holiday season, some economists expect the 4th quarter GDP number to come in between 2.5 and 4.5.[5]

The U.S. will become more attractive for global business due to our new lower corporate federal rate of 21% under the Tax Cuts and Jobs Act (TCJA), making the U.S. very competitive in comparison to many other countries. We have experienced the optimism of the tax cuts, but the real benefits will take time to play out as corporations expand cautiously and new investments migrate to our new lower tax environment, which may partially explain the slowing global economy.

Another factor that reflects optimism within the U.S. is improved trade tariffs with other countries. We have experienced this with Mexico, Canada, Europe, and to some extent, China. Issues in China remain but will likely be resolved since the US represents about 25% of the global GDP and China would have more to lose from not getting the issues resolved.

Despite President Trump's personality and Tweets, his trade policy is improving a long-time imbalance of U.S. imposed minimum trade tariffs on imports. Conversely, other countries have imposed significant tariffs on U.S. goods, making it difficult for the U.S. to compete globally.

The improving trade tariffs and lower tax rates should make the U.S. more competitive for domestic and foreign investments and for exporting our goods. Additionally, the low unemployment numbers are confirming good job growth, and the markets are showing no signs of a recession in the data, currently.

Annuity Income Can Compliment and Strengthen Your Retirement Plan

With longer life expectancies today and the demise of traditional pension plans, we should take appropriate steps to provide income in the later third of our lives—Retirement. One way is by applying annuity income riders that can provide guaranteed lifetime income over one life or joint lives.*

Annuities have been around for many years and have served a variety of purposes. The tax-deferred growth of the assets within an annuity helps high income earners defer taxation. Some states, including Texas, provide creditor protection for the assets within annuities for those who wish to protect assets from lawsuits.

1 Howard Schneider and Jonathan Spicer, "Powell and Fed can be patient as U.S. economy evolves in 2019, January 10, 2019, CNBC.com, (Accessed January 13, 2019).
2 Brian Wesbury, "2019 Market Outlook," First Trust National Conference Call, January 9, 2019.
3 *JP Morgan Guide to the Markets,* (January 2019), (Accessed January 13, 2019).
4 *BEA.gov*, (Accessed January 11, 2019).
5 Brian Wesbury, "2019 Market Outlook," First Trust National Conference Call, January 9, 2019.
* Annuity guarantees, including guarantees associated with benefit riders, are subject to the claims-paying ability of the insurance company.

Some annuities offer riders with death benefits as well. When someone elects a pension or lottery payout, they are effectively receiving an immediate annuity for income over a certain period, or a lifetime, depending upon their election.

In recent years, annuity companies have introduced various types of annuity income riders that may provide a guaranteed increase to an income base which can later be used to determine lifetime income over one life or joint lives. If a balance remains after death it will go to the listed beneficiaries. As illustrated in Figure 1., these annuity income riders can help investors in all of the stages of wealth—grow, preserve, spend, and gift.

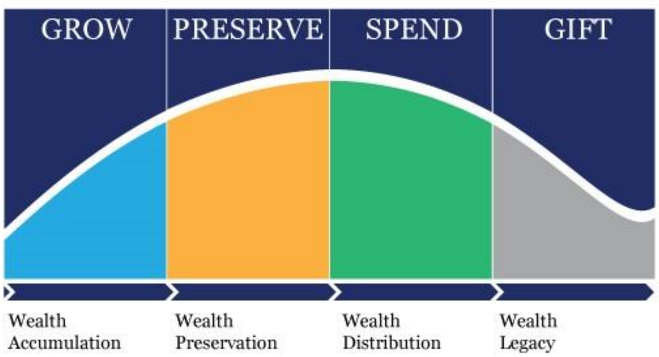


Figure 1. The Stages of Wealth[SM]

When designing a retirement income plan, the more income from secure sources (Social Security, pensions, annuities with income riders) and less from unsecured sources (investments), the stronger the plan. Being less dependent on market performance can help alleviate the number one concern many retirees have today—outliving their income.

Also, a significant market correction before or during retirement may be devastating to a retirement plan with little-guaranteed income. As stated, "for those planning for retirement today, the math is more challenging. Some have called the current financial climate a 'new normal,' where economic growth will be slower and inflation lower than in the decades gone by…it turns out that in a 'new normal' economy, the benefits of annuitization are even more powerful in relative terms."[6]

However, there are some drawbacks to some annuities. Annuities with income riders do cost more than non-annuity investments due to the expense of providing the benefits and guarantees. Therefore, investors should review all the materials, expenses, and completely understand how the rider works to determine if it will complement their retirement income plan.

Another drawback is liquidity. Some annuities offer 10% distribution per year without surrender charges, but an investor should not place any money in an annuity with an income rider unless that money will be used specifically for income purposes.

Investors need investments for two main purposes in retirement: The need for liquidity for major expenses and the need for income for life.

When lifetime income is needed, an *appropriate* annuity with an *appropriate* income rider for the *appropriate* situation can complement other sources of income and investments in order to help strengthen a retirement income plan to support today's longer life expectancies.*

Tax Topics

The start of a new year is a great time to re-visit some key tax topics:

Increased 401(k), 403(b), and 457 Contribution Limits
In 2019, the contribution limit to qualified retirement plans rose to $19,000. The additional catch-up contribution for those age 50 and older remains at $6,000 per year.

IRA or Roth IRA contributions
The 2019 limits to IRAs were raised to $6,000 with the additional catch-up of $1,000 for those age 50 and older. If eligible, a person can make a 2018 IRA or Roth IRA contribution up to their tax filing deadline.

Roth Conversions
Investors in a lower marginal tax bracket today than they expect to be in later years may want to consider converting a portion of their IRA to a Roth IRA during this new year. This conversion must be completed in the calendar year, and

6 David Kelly, "The Annuity Advantage in a New Normal Economy," JP Morgan Market Insights, July 27, 2018.
*Some annuities charge high fees and commissions, as compared with fees paid for mutual funds or other investments. Examples of annuity fees include a mortality and expense risk charge, which is paid to the insurance company for the insurance risk it takes on in an annuity contract. If you withdraw early from a deferred annuity (usually in the first six to 8 years), you may have to pay a surrender charge. Withdrawals from annuities may be subject to ordinary income tax, a 10% IRS penalty if taken before age 59 ½, and contractual withdrawal charges.

there is no longer any re-characterization option in case you change your mind.*

Charitable Contributions
For those age 70½ and making contributions to your church or charities, consider using *Qualified Charitable Distributions (QCD).* Individuals, age 70½ can make a QCD *directly* from their IRA to a charity up to $100,000 per tax year, satisfying all or a part of their RMD, while avoiding the taxation on the amount distributed to charity. The payment MUST be payable directly from the IRA custodian to the charity.

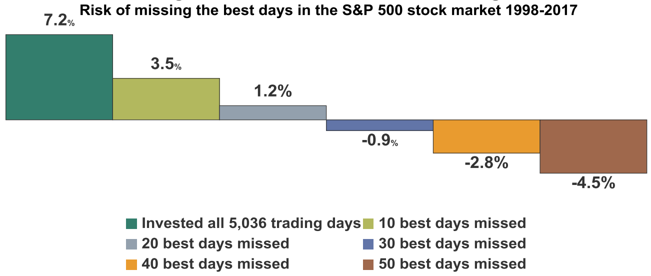
For additional tax planning guidance under the new Tax Cuts and Jobs Act (TCJA), refer to our January 2018 newsletter. A copy is available at www.SilverStarWealth.com under *Resources → Quarterly Newsletters.*

Financial FAQ

Should I move my investments into more conservative investments during market volatility?

An issue for some investors is that the pain of a loss is more painful than the pleasure of a gain. The constant struggle between fear and greed combined with other behavioral biases can work against the average investor.

Figure 2. The Cost of Market Timing
Risk of missing the best days in the S&P 500 stock market 1998-2017



Source: Morningstar, 2018. Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

It is worth repeating, "It is the time in the market and not market timing that matters." No one can accurately predict the market direction in the short-term, and no data better illustrates this point than Figure 2 which shows the value of staying invested over time and not trying to time the market.

It is critical for the investors to know their true risk tolerance so they will not want to sell investments when the markets are down and experience losses. The investment loss is not locked in until the investment is sold.

For those with a very low tolerance for risk, there are some investments that can provide some level of growth while eliminating the market risk but will come with reduced liquidity and growth potential.

Some of the biggest gains in the markets can come during very volatile markets, as December 26th demonstrated. Staying invested according to the investor's goals, time horizon, and risk tolerance is the best policy!

Humor Matters

Good News/Bad News
Two men, Tom and Joe, loved baseball more than anything their entire lives. One day Tom says to Joe, "If you die before me, promise me you'll come back and tell me if there is baseball in Heaven." Joe agrees and makes Tom promise the same thing. About a week later Tom dies. One night, Joe wakes up to somebody calling his name. Scared, he asks, "Who's there?" Suddenly Tom appears and says, "Hi Joe. I'm coming here from Heaven. I've got some good news and some bad news. I'll give you the good news first, there is baseball in heaven!" Joe gets very excited, but then he asks, "What's the bad news?" Tom looks at him grimly and says, "I looked at the lineup and you're pitching tomorrow."

Please send us your favorite joke and if we use it, we will send you a gift certificate to your favorite restaurant.

Words of Wisdom

"Volatility is the price we pay emotionally to create wealth over the long run."
- Brian Wesbury, Economist

*If converting a Traditional IRA to a Roth IRA, you will owe ordinary income taxes on any previously deducted Traditional IRA contributions and on all earnings. A conversion may place you in a higher tax bracket than you are in now. Because Roth IRA conversions may not be appropriate for all investors and individual situations vary, we suggest that you discuss tax issues with a qualified tax advisor.

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