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Personal Note: A Decade in Review

As we move into 2020, it seems hard to believe that we are entering a new decade. Often, the current events of the day overwhelm us – the upcoming Presidential election, tensions with Iran over General Soleimani, Coronavirus from China – that we forget how far we have come. I know for me time tends to go faster as I get older! It is hard for me to believe that my daughter, Sarah, is starting her 3rd calendar year as my partner and her younger sister, Tate, will graduate from college in just over one year.

As I mentioned above, unless you are a strict observer of the Gregorian calendar system, we are entering a new decade. I would like to look back at what shaped the markets in the 2010s – and what lessons we should take with us into the '20s.

2010-11: Aftershocks of the Great Recession

The best way to see how much can change in a decade is to remember how things were at the end of the last one. In 2010, we were coming off the worst decade for stocks since the 1930s. The Great Recession had devastated the retirement savings of millions of people. Many of the world's most famous financial institutions had collapsed. And the national unemployment rate was near 10%.[1]

It was a scary and uncertain time. Many investors had fled the markets entirely by 2010, some for good. As a result, they missed a remarkable recovery that was just around the corner. Not only that, they missed the longest bull market in history.

In hindsight, it might seem obvious that there was nowhere to go but up. But just as the start of a recession is very hard to see coming, the ending can be equally hard to wait for. People can be forgiven for thinking the worst was still to come, because in 2010 and 2011, there were still a lot of ominous headlines to deal with. Remember any of these terms?

●U.S. Debt Ceiling ● European Debt Crisis
● Bailouts ● Austerity ● The Fiscal Cliff

For the first few years, fear abounded as to whether the global economy would be able to recover at all. Nation after nation dealt with spiraling debt that couldn't be paid off. Remember how often Greece used to be in the news? Some analysts speculated about the possibility of a second recession. 2011 was an especially tenuous year for the stock market, especially when the United States' credit rating was downgraded for the first time in history.

2012-14: The Federal Reserve intervenes

During this time, however, the world's largest central banks were working behind the scenes to keep the recovery going. In the United States, for example, the Federal Reserve embarked upon a massive bond-buying program, to the tune of $85 billion per month. This accomplished two things. First, it flooded the money supply and kept interest rates historically low. Lower interest rates made borrowing less costly, which meant businesses and individuals could borrow and spend more, thereby pumping more money into the economy as a whole. This, of course, equaled growth. Slow growth, but growth nonetheless.

The second thing the Fed's bond-buying did was drive more investors into stocks. Low interest rates often lead to lower returns for fixed income investments, so it was into the higher risk, higher reward stock market that investors went. All this had been going on for years, but the results were only then becoming apparent. So, it came almost as a surprise when the markets reached new highs, even though the economy still seemed to be licking its wounds. It was in mid-2013 that the Dow hit 15,000 for the first time, rising to 16,000 by the end of the year, and then 17,000 the year after.

2015-16: Waiting for the other shoe to fall

But that didn't mean the markets were immune to volatility. Despite the economic recovery, many experts spent the decade in near-constant fear of another bear market. Every wobble, every market correction, was watched with fearful anticipation. It was like standing next to someone's hospital bed, thinking every next breath will be their last. Some of this was probably a form of post-traumatic stress caused by the Great Recession. The rest came from the spasms of an ever-changing world.

Oil prices plunged dramatically around this time, hurting both oil-producing nations as well as the energy industry. China's stock market crashed. The Greek debt crisis reared its ugly head again, prompting fears that "financial contagion" would spread and create another global recession. And then came Brexit. The news that the United Kingdom would leave the European Union sent shockwaves around the world. And here at home, one of the most bitterly contested presidential elections in U.S. history had both sides of the political aisle forecasting economic ruin if the other side won.

But despite the dire predictions, these developments only slowed the

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(Allie, Bob, & Sarah)

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recovery's march rather than derailing it completely. In fact, by July of 2016, the Dow once again hit new heights.

2017-19: The longest bull market

While most of the decade had seen slow-but-steady growth, the horse started picking up speed as it neared the finish line, buoyed by tax cuts, increased government spending, and corporate earnings. Nowhere was this truer than with the Dow. Comprised of thirty of the largest publicly-traded companies, the Dow hit 20,000 for the first time early in 2017 – and closed well above 28,000 on December 31, 2019. [2]

Exactly ten years before, the number was only 10,428. That's an increase of over 170% - the culmination of the longest bull market in history.

Of course, it wasn't all smooth sailing. The trade war with China is an ever-present concern, with rising tariffs often leading to brief, but dramatic downswings in the market. 2018 was actually a down year for the S&P 500, the only one of the decade. And as the 2010s drew to a close, many economists warned of a slowing economy – with maybe even a mild recession in store.

Despite these warnings, investors did what they had done for most of the decade: Act startled, and then head right back into the markets. Some pundits call it a market "melt-up" instead of the usual meltdown.

What have we learned?

So. A remarkable decade filled with twists and turns. But what did we learn?

When I looked back at the last ten years, one thing that struck me was how interconnected the world has become. So many of the storylines that drove the markets originated far beyond our shores. We truly live in a global economy. We invest in other countries, buy products in other countries, loan money to other countries (or apply for loans, as the case may be) and trade with other countries. We might be separated by the world's biggest ponds, but the ripples near one shore are always felt near the other.

That means two things. One, for an advisor like me, it means there's more than ever to keep track of. But two, it means we should react less and less to the headlines of the day – or to each individual ripple. A butterfly might flap its wings in Beijing and cause a hurricane in Topeka, as the saying goes, but there are butterflies flapping their wings everywhere. That's one reason why we saw many storms but fewer hurricanes in the 2010s.

Another thing we learned? Sometimes, most times, slow and steady really does win the race. We were all taught the truth of this as children when we learned the story of the tortoise and the hare. The past decade proved it. Everyone loves growth that comes fast and hot. But when something burns fast and hot, it tends to burn out faster, too. One reason we never saw the recession so many people feared is because the economy recovered as slowly as it did. It's a lesson we can apply to our own financial decisions. While it's always tempting to chase after windfalls and jackpots, it's so much smarter to prioritize steady progress over short-term whims. The race to your goals is a marathon, not a sprint.

A third thing we learned is how often things don't go as predicted. In 2010 and 2011, many experts predicted a gloomy decade for the stock markets – and they had good reason to think so! But it didn't happen. When, say, Obamacare became the law of the land, many experts predicted economic disaster. As of this writing, it hasn't happened. When Brexit became a reality, many experts predicted a global catastrophe. As of this writing, it hasn't happened. When President Trump was elected, many experts predicted a market meltdown. As of this writing, it hasn't happened. We all have our opinions on whether events like these were good or bad, of course. But it's a good thing we didn't base our investment decisions on any expert's predictions!

Because if there's one thing we learned this decade, is that a prediction is like a person's appendix – pretty much useless.

2020 and beyond

With that in mind, I won't make any predictions for the coming decade. If history is correct – and it always is – another market correction, another bear market, another recession will come eventually. Whether it's this year, or next, or the one after that, I can't say. What's more important is that we remember this: It's when we fly that we should have the healthiest respect for gravity. But it's when we're on the ground that we should raise our eyes to the skies.

Investing is like trying to find our way in the dark – and our strategy is our North Star. It's so much more valuable than any prediction! We may bump into the occasional obstacle. Sometimes, we may even trip. But if we hold to that star, we will keep moving forward in the direction we want to go. Personally, I remain optimistic in the future and believe the best is yet to come!

1 "State Unemployment rates in 2010," U.S. Bureau of Labor Statistics, https://www.bls.gov/opub/ted/2011/ted_20110301.htm

2 "Stocks close out at highest end-of-year gains since 2013," Chicago Sun Times, https://chicago.suntimes.com/business/2019/12/31/21045017/us-stock-market-year-end-close-out-2019

A Note from Sarah

As many of you know I have been involved in basketball since I was in first grade. It has been a passion of mine for many years and I played competitively through high school. While I was in college, I realized how much I missed being involved in the game so I decided to start coaching during my senior year. Since graduating college in 2018 I have coached little girls teams (3rd, 4th, 5th, and 6th) associated with my old high school. I am finishing up my 3rd year as a head coach. I currently coach the 6th grade girls' basketball team at University School of Nashville, as well as a fourth grade team and a fifth grade team. I have loved being able to share my passion for the game with these young girls and I learn so much from them as well. I am lucky to be able to work in an environment at Wiley Bros. and with wonderful clients that allow me to pursue a passion of mine. Our teams have improved all year and even though our win-loss totals may not be overly impressive it has been a great experience. We recently qualified for the year-end tournament and I look forward to sharing the results of the tournament in my next update!

Managing Your Nest Egg after Retirement

You may think that after retirement you can sit back and stop worrying about money…after all, you scrimped and saved for decades. You're comfortable with what you've put away and now it's time to relax. Well…not quite. If not for inflation and market volatility, you might be right, but you still need to keep a careful eye on your portfolio.

The current US rate of inflation is a little over 2%, but it fluctuates constantly. A 3% rate of inflation per year means that after 23 years, a fixed sum of money has lost half of its value. What you may have only noticed from time to time at the grocery store and gas station before retirement, you will see as a dire threat to your savings. And unfortunately, safe assets do not keep you ahead of inflation in the long run.

Managing your portfolio in retirement can be difficult and complicated, but by doing so, you can keep it growing and combat the threat of inflation. Here are some key points to consider:

● Keep some of your portfolio invested in stocks

● Maintain a rate of withdrawal below your annual rate of return. This is no more than 3%-4% per year, so that the remaining balance can be reinvested to continue growing.

● Keep your essential expenses separate from your nonessential expenses in your budget. Consider structuring your portfolio to have assets like dividend-paying stocks or long-term bonds pay for your essential expenses, but are otherwise untouched.

● Rebalance periodically. This means selling off a portion of the assets in an asset class or sub-class that has grown larger than your intended allocation. Use the proceeds from the sell-off to purchase assets in classes or sub-classes that have shrunk in value.

● Withdraw as little as possible from your investments and review them regularly. If your investments have gone down in value, you will deplete your balance quickly by continuing the same withdrawal rate as before.

● Build up a reserve of investments not tied to the stock market, preferably totaling three or four years of retirement expenses. If you have this reserve to fall back on, you will not need to sell stock investments during periods of market decline.

● Withdraw funds in a tax-efficient way to make them last longer. For example, you should withdraw your taxable investments first so that tax-deferred investments can continue to grow. By age 72, you will likely have to start taking required minimum distributions from tax-deferred investments, but going back to work part-time may help push that timeline back even further.

● Reassess your asset allocation periodically. Make changes gradually to increase diversification in your portfolio.

Please call if you'd like to discuss this in more detail.

Municipal Bonds

We offer the following bonds subject to prior sale or change in price as of February 4, 2020.

Ref No	Issuer	Maturity Date	Coupon	Yield to Maturity	Yield to Call	Call Date	Rating	Price
1	Tennessee HSG DEV AGY	07/01/47	3.650	3.283	2.600	01/01/27	Aa1/AA+	106.593
2	Met Gov't Nashville & Davidson Vanderbilt	07/01/46	5.000	3.872	1.910	07/01/26	A3	103.448
3	Hamblen Cnty TN	06/01/44	2.500	2.523	2.550	06/01/29	Aa3/AA	99.585
4	Knoxville TN Elec Revenue	07/01/43	2.750	2.665	2.300	07/01/23	Aa2/AA	101.463
5	Maryville TN Ref	06/01/38	3.000	2.613	2.050	06/01/26	Aa3/AA+	105.602

Callable at 100% beginning of the call date above and every call date thereafter with 30 days notice.

In addition to the bonds listed, we have several other corporate bonds available. If you are looking for a specific bond or maturity, please feel free to contact me with your requests.

We are also interested in buying corporate bonds. If you have bonds for sale, please call me for a bid and details on how you can convert your present bonds to cash or alternative investments.

Finally, new bonds are coming to market every day. If you give me a call, I will be more than happy to go over current market offerings and conditions with you.

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Sufficient Funds for Your Entire Retirement

Depending on your age and circumstances, retirement can feel far away and mysterious or achingly close and excitement (or panic) inducing. When you're young, the idea of retirement is shrouded in idle thoughts of what you'll do when you don't have to work anymore. While those fast approaching retirement may have a clearer view of what is to come, in some ways, they are just as unaware of what is really in store for them over the next few decades. Most of us don't know how long we're going to live, so making sure we have sufficient funds for our entire retirement is incredibly important.

How Much to Save?

While it's thought you could only need as low as 70% of your current income per year in retirement, it is wise to assume that you will need closer to 100%. Think of all the things you enjoy doing now: traveling, hobbies, attending cultural events, and sports games. All of these could be a vital part of an active and interesting retirement, but they also cost money. Make sure you have saved enough to be active and that your withdrawal rate is not so high that your resources could deplete early. While it's always customizable, a good starting point is to withdraw 4% in the first year of your retirement, and continue to adjust for inflation down the road.

Cutting back on living expenses now will free resources for more contributions to your retirement and will give you an idea of how little you can live comfortably on. This will give you a better idea of how much you will really need in retirement. The most important expense to get rid of is payments on any debt. Your cost of living will be significantly reduced if you have paid off your mortgage and any outstanding consumer debt.

When forming a plan or determining if you are ready to retire now, err on the side of longevity when it comes to your lifespan. Add a few years to what is generally expected – plan on living until 85 or 90. It is a far better situation to have saved more than necessary then to run out of funds so late in life. In the vein of further caution, it is a good idea to have an emergency fund outside of your retirement plan. A general rule is to have at least six months of living expenses tucked away just in case.

What about Housing?

In general, housing should take up about 25% of your gross pay or 35% of your take-home pay. If you own your own home and have paid off your mortgage, this shouldn't be a difficult guideline – but remember that with a house comes additional, and often expensive, repair and maintenance costs. If you plan on staying in your home throughout your retirement, make sure the big stuff is in good working order or replaced while you are still drawing income. This includes the roof, the foundation, siding, HVAC, sewer lines, and septic system, as well as an emergency fund in case of fire or water damage.

Your house will also need to be adapted for your needs as you age. You may need to consider selling a home that requires a lot of upkeep and downsizing to something more manageable. No one wants to face the reality of physical deterioration, but most people face mobility issues as they age and a one-story home is safer and easier to navigate.

Continuing Income Options

It may be tempting, but resist the urge to take early retirement. It is difficult enough to save enough money to live on in retirement if you are only retired 20-25 years. Imagine if you retire at 55 years old and live for another 35 years. You will need funds to support yourself in retirement for longer than you were in the workforce. Every extra year you work is a year you don't have to support yourself using your retirement savings.

Once you've retired, it can be helpful for your savings and your wellbeing to work a casual, light job. Many retirees find themselves missing the comradery of the workplace and the continued income will allow for more spending money, vacations, and greater security in your savings. You could put your experience to work for you as a part-time consultant in your former field, or put in a few hours a week at the town museum.

Please call if you'd like to discuss your retirement in more detail.

A Note from Allie

I hope everyone made it through the holidays and is enjoying a great start to this new decade!

My husband, Jack, is originally from New Orleans, so we spent the holidays there this year. We always enjoy going down for a family visit to the Big Easy, but this one did not go exactly as planned. My brother-in-law and his family stayed at our house for a few days before heading down to New Orleans. This included our two nieces, Hailey (age 3) and Becca (age 1), who are typically full of energy and adorable to have as visitors; however, this time they brought the stomach bug…..which they then brought to New Orleans, and spread to the entire extended family. Somehow, I managed to stay well, but the rest of the family ended up having more of a "Sick-mas" than a Christmas this year. Although the holidays did not go as expected, we were still grateful to get to spend it with family. We are going to visit our nieces in a few weeks and are hoping they're in better spirits as we head into 2020!

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