

# PORTFOLIO INSIGHTS

October 2019: Volume 18, Issue 4 // David Ott, Editor

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## Acropolis was born from a simple idea:

In an industry where high quality, objective advice is hard to come by, we make a difference by putting the client's interests above our own.

## COULD CHANGE BE AFOOT?

At 13.2 percent, the returns for the S&P 500 over the 10-years that ended on September 30th are nothing short of remarkable.

That's not to say, though, that this period was ideal, especially for those investors who, like us, emphasized cheap 'value' stocks, instead of faster growing and expensive 'growth' stocks.

Over the long-run, and using data from academic heavy-weights Gene Fama and Ken French, value stocks outperformed the market by 1.8 percent per year, while growth stocks underperformed by -0.3 percent per year.

During the last 10-years, though, value stocks underperformed by -2.1 percent per year while growth stocks outperformed by 3.4 percent per year, largely led by technology stocks.

Over the last quarter, however, the tables were turned, and value outperformed the market while growth stocks suffered.

It's possible that the failed initial public offering (IPO) of tech wannabe WeWork may signal the turning point for growth and value.

WeWork took out long-term leases in fancy buildings, built out new office spaces, and provided beer to tenants on short-term leases.



"I told you it wouldn't work. You just can't predict what the market is going to do."

Despite losing billions each year, the private market valued WeWork at \$47 billion in January. Last month, investors in the public markets took another look and thought it was worth less than \$10 billion.

WeWork isn't the only richly valued stock to tumble. Uber and Lyft, the ride-hailing companies, are both down around one-third in value since Uber went public. Others that fell after going public include Snap Chat (-15 percent), Blue Apron (-94 percent), and Peloton (-20 percent).

One quarter isn't long enough to establish a true change in market psychology. And while it would be foolish to expect market returns to repeat themselves over the next decade, it may be the case that value stocks outpace growth in the next 10-years, consistent with their long-term results.

“Be sure to put your feet in the right place, then stand firm.”

- Abraham Lincoln,  
16th President

## STOCK MARKET SUMMARY

By Tim Side

Equities were mixed in the third quarter as fears over an impending recession were offset by interest rate cuts from central banks around the world.

The narrative largely remained the same throughout the quarter: easing monetary policy, poor investor sentiment and stock buybacks provided a tailwind for risky assets while trade tensions, lower earnings, slower global economic growth, and geopolitical risks such as Brexit and Hong Kong were a headwind; netting a relatively poor overall performance from risky assets for the quarter.

US stocks mostly outperformed international stocks as global economic conditions continued to deteriorate. While US economic data was not great, it was generally not too bad, with much of the pessimism being attributed to trade tensions, which have hurt the global economy more than the US.

Larger stocks broadly out-performed smaller stocks as the S&P 500 Index gained 1.7 percent for the quarter while

mid-cap, small-cap, and micro-cap stocks lost 0.1 percent, 2.4 percent, and 5.5 percent respectively.

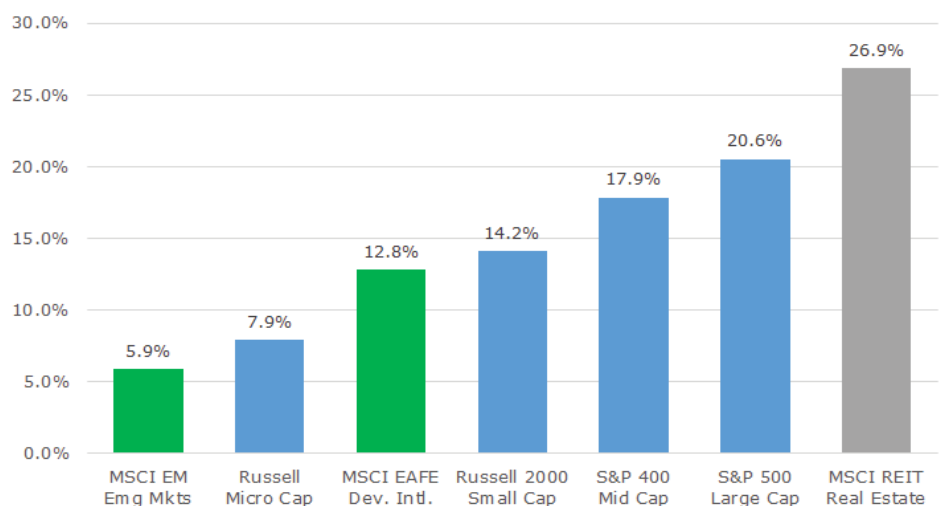
REITs were by far the best-performing asset class, gaining 7.7 percent for the quarter and returning 29.7 percent year-to-date.

Sector performance was mostly positive with utilities and real estate having the best performance, gaining 9.3 percent and 7.7 percent, respectively. Energy and health care had the worst performance, falling 6.3 percent and 2.3 percent, respectively.

Year-to-date, all sectors are still positive, led by information technology, which was up 31.4 percent. Health care and energy have had the worst year-to-date performance, up only 5.6 percent and 6.0 percent respectively.

International stocks fared poorly, although performance was aggravated for US investors due to the stronger dollar.

Selected Stock Index YTD Returns



Data Source: Bloomberg



## BOND MARKET REVIEW

By Ryan Craft, CFA

It is hard to believe that just one year ago, interest rates were on their way to reaching decade-high levels, and many investors saw this as the beginning of a multi-year bear market for bonds. How quickly things can change.

In the third quarter, the yield curve continued falling, flattening, and eventually, inverting. This move continues the falling rate trend that has been underway all year. As of September 30th, the broad investment-grade bond market has posted a total return of +8.52 percent year-to-date...so much for the pending bear market forecast from last year.

Rates have been driven lower based on investor concerns surrounding global growth (or lack thereof). The US economy has slowed in 2019 relative to 2018 but is still growing at a roughly two percent pace. Lately, manufacturing has shown signs of contraction, yet the service

side of the economy has remained robust. However, slowing growth and inflation were reason enough for the Federal Reserve to lower their benchmark overnight rate by 25bps in July and again in September. This marks the first rate cut from the Fed since the financial crisis. The Fed positioned these moves as “a mid-cycle adjustment” as they try to preempt a slowdown with some minor tweaks in monetary policy.

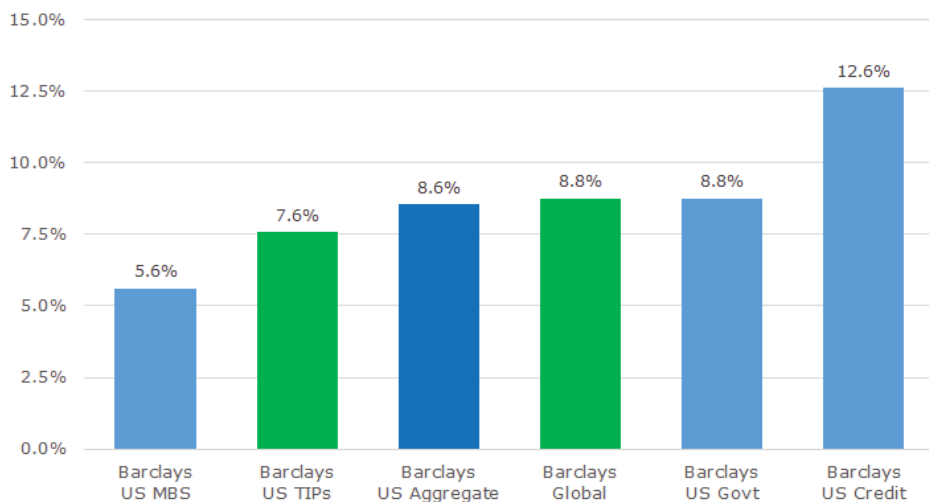
The market expectation is the opposite of 12 months ago. The market has priced in three more rate cuts by the Fed over the next year, including 1-2 of those cuts coming in 2019. The Fed’s latest projections call for rates to remain flat through 2020 then resume rate hikes in 2021.

As for long term yields, those will be driven by inflation and growth expectations. Based on current trends, a significant increase in long term rates is unlikely anytime soon.

**“It’s good to have money and the things that money can buy, but it’s good, too, to check up once in a while and make sure that you haven’t lost the things that money can’t buy.”**

*- George Lorimer,  
American Journalist*

Selected Bond Index YTD Returns



Data Source: Bloomberg

**“Markets are never wrong, opinions often are.”**

*- Jessie Livermore,  
Legendary Stock Trader*

## PAYING TOO MUCH FOR MEDICARE?

*By Michelle Clark, CFP®, CRPC*

If you retired recently or had a major life change, you may be paying more for Medicare than required. When your income is above certain thresholds, you pay an increased premium for your Medicare coverage. This additional amount is referred to as Income Related Monthly Adjustment Amount (IRMAA) which is applied to Medicare Part B and Medicare Part D.

The monthly premium amount that you pay for Medicare Part B and Medicare Part D is determined by your verified income. The method for verifying your income is your tax return from two years prior.

For example, if you start Medicare in January of 2019, they will look at your 2017 tax return. Your income is evaluated each year, so if your income goes down, the IRMAA can also go down or go away.

If your income is above \$85,000 for individuals/\$170,000 married filing jointly you will be subject to IRMAA, with Part B costing an additional \$54.10 per month and

Part D an additional \$12.40 per month.

There are five thresholds with the top threshold at \$500,000 individuals/\$750,000 married filing jointly resulting in an additional \$325 per month for Part B and an additional \$76.40 per month for Part D.

If you had a major life-changing event and your income is now lower due to retirement, death of a spouse, divorce, and other accepted circumstances, you can request a reduction in your income-related monthly adjustment amount (IRMAA). Form SSA-44, which can be found on the Social Security website, will let you request the use of a different tax year, including an estimate of the current year.

While not all large events are considered life-changing (like realizing a large capital gain), identifying actual large events can substantially lower your Medicare payments.

<i>If you filed your taxes as:</i>	<i>And your MAGI was:</i>	<i>Your Part B monthly adjustment is:</i>	<i>Your prescription drug coverage monthly adjustment is:</i>
-Single, -Head of household, -Qualifying widow(er) with dependent child, or -Married filing separately (and you did not live with your spouse in tax year)*	\$ 85,000.01 - \$107,000.00	\$ 54.10	\$ 12.40
	\$107,000.01 - \$133,500.00	\$135.40	\$ 31.90
	\$133,500.01 - \$160,000.00	\$216.70	\$ 51.40
	\$160,000.01 - \$500,000.00	\$297.90	\$ 70.90
	More than \$500,000.00	\$325.00	\$ 77.40
-Married, filing jointly	\$170,000.01 - \$214,000.00	\$ 54.10	\$ 12.40
	\$214,000.01 - \$267,000.00	\$135.40	\$ 31.90
	\$267,000.01 - \$320,000.00	\$216.70	\$ 51.40
	\$320,000.01 - \$750,000.00	\$297.90	\$ 70.90
	More than \$750,000.00	\$325.00	\$ 77.40
-Married, filing separately (and you lived with your spouse during part of that tax year)	\$85,000.00 - \$415,000.00	\$297.70	\$ 70.90
	More than \$415,000.00	\$325.00	\$ 77.40

## TAX PLANNING OPPORTUNITIES

By Brad Combs, CFP®, CPA

Now that we are in the fourth quarter, it is a good time to take a look at the tax planning opportunities available.

Being proactive and executing strategies when favorable, can greatly improve your overall financial plan. There are a number of methods for taxpayers to still reduce their taxable income for 2019 taxes. While not exhaustive, some of these include:

1. Realizing capital losses from investment accounts, known as tax-loss harvesting, can help offset realized capital gains, and if there are any excess losses remaining, these can be used to reduce ordinary income by up to \$3,000 per year.

2. For those eligible, making pretax contributions to an IRA will reduce ordinary income, and contributions for the 2019 tax year can be made up until the tax filing deadline. \$6,000 is the contribution limit per taxpayer, plus an additional \$1,000 catch-up for those age 50 or over.

3. An opportunity for many who are charitably minded is to open a donor-advised fund and make a gift of a long term, highly appreciated investment held in a non-qualified (taxable) account. If done properly, this provides an added bonus of not only exceeding the standard deduction amount but also avoiding the capital gains tax on the asset.

The benefit of the deduction is recognized in the current year, and the money contributed can be held in the donor-advised fund for years.

Even if you do not gift enough to exceed the standard deduction, using highly appreciated securities to avoid the capital gains taxes can be a better strategy than a gift of cash.

5. An option available to those over the age of 70 1/2 and taking required minimum distributions (RMDs) from their IRA is gifting via a qualified charitable distribution (QCD). The IRS allows up to \$100,000 of an individual's RMD to be taken as a qualified charitable distribution per year.

When making a QCD, the distribution is not treated as ordinary income as it regularly would be. Gifting through this method not only reduces adjusted gross income (AGI) which helps ultimately reduce taxable income but also manages items that are based on AGI such as Medicare Part B premiums and taxes on Social Security benefits.

Be sure to provide documentation for your tax preparer for any QCDs you make during the year. Investment custodians do not report these distributions as nontaxable on the Form 1099-R, and therefore it is the responsibility of the taxpayer to be sure it is reported correctly by their accountant on the tax return.

*Although Acropolis does provide general guidance on tax-related matters, we are not accountants and recommend that you consult your accountant or tax preparer for specific answers regarding your situation.*

**“More men have  
become great  
through practice  
than by nature.”**

*- Democritus,  
Greek Philosopher*



“One funny thing about the stock market is that every time one person buys, another sells, and both think that they are astute.”

- William Feather,  
American Publisher

## PHASES OF RETIREMENT

By Michael Lissner, CFP®, CEPA

Most people experience a number of different phases of retirement. These have been well researched and documented. While the exact number and titles for the phases vary, they are consistent with the table shown.

These phases often overlap or blend into one another, and not everyone goes through all phases. In particular, some fail to get to the last stage, Fulfillment. Hopefully, our readers will apply some of the thinking here and quickly get to the Fulfillment phase.

Retirement frees up time, and, unfortunately for many, also removes purpose. This can be an especially difficult period for executives and military whose identity was closely tied to their business or career.

Remaining active mentally, physically, socially, and emotionally leads to a happy, healthy and fulfilling retirement. Let's look briefly at each phase.

### IMAGINATION

For most people, Imagination is one of the longer phases. During this phase retirement is often not at the top of a person's list of priorities. Family and career typically dominate

their thoughts. However, this is an important time to be saving for retirement.

### ANTICIPATION

During Anticipation, workers dream about retirement and are actively getting ready for it. Frequently, this time offers their highest earning years coupled with lower expenses, as kids' college expenses may be done with and their mortgage may be paid off. That allows workers to sock away money in preparation for retirement.

This is an equally important time to think about what they will be doing on a daily basis a month, a year, and a decade after retirement.

While this is often a time of winding down professionally, optimally it would also be a time of gearing up personally. Many people finally have time to address some hobbies that they have not had the capacity to fully enjoy while working. Some people are even considering post-retirement careers; frequently marked by some form of giving back.

For those that are married, this is a critical time to have a dialogue with your spouse. Common questions include: When will you retire?

Phase	Typical Duration	Common Feelings
Imagination	6+ years prior to retirement	Growing Enthusiasm
Anticipation	Final 5 years prior to retirement	Energized and Hopeful
Retirement	A day to a few years	Relieved and Happy
Honeymoon	From a day up to a year	Excited and Eager
Disenchantment	Highly variable	Bored and Depressed
Rejuvenation	A couple of years	Frustrated and Motivated
Fulfillment	Hopefully decades	Content and Fulfilled

Where will you live in retirement? Will you downsize your home or add a second home? The amount of time you spend together each day will change and this should be discussed as well.

## RETIREMENT

This may be a single day event, or a transition over time.

## HONEYMOON

This joyful period is a time of getting numerous things checked off your list, including travel. It can also be a time of self-discovery with many retirees seeking personal growth and adventure.

The first years of retirement sometimes see increased spending as it is a time to splurge after a life-time of working.

Many business owners and executives, who have been ambitious and have part of their identity wrapped up in their career or business, may only spend a few weeks in the honeymoon phase before progressing onto disenchantment.

## DISENCHANTMENT

Some retirees, particularly those that are naturally highly driven, start to have feelings of boredom, uselessness, or disillusionment. Playing golf everyday may sound great prior to retirement, but is unlikely to be rewarding every day for the next decade or three. When a person does the same thing too frequently, they typically start to enjoy it less.

For most people a retirement list of golf and travel is likely not going to be rewarding. Simply put, golf and

travel may just be a one-year list, not necessarily a 30-year list.

As circumstances, such as health, evolve retirees sometimes move in and out of the disenchantment phase.

## REJUVENATION

A common question people ask in this phase is "What is my purpose?" In other words, what will give me long-term joy. Of course, if you start asking that question in pre-retirement, then you can often skip, or quickly pass through both the Disenchantment and Rejuvenation phases and arrive at Fulfillment.

## FULFILLMENT

Acropolis clients enter retirement with a sound financial plan, but it is also important to have a Fulfillment plan and/or a Fun plan.

While we mostly focus on making sure that clients don't run out of money, it's equally important that people don't run the risk of running out of meaning. Having a purpose ultimately brings joy.

## SUMMARY

You are not alone going through this. According to the AARP, 10,000 baby boomers are turning 65 every single day. This is projected to continue for more than a decade. In other words, every minute roughly seven baby boomers are turning 65.

The key to having a happy, healthy, and fulfilling retirement is to be active mentally, physically, socially, and emotionally. Next quarter we will dive a little deeper into remaining active.

**"If we command our wealth, we shall be rich and free. If our wealth commands us, we are poor indeed."**

*- Edmund Burke,  
Anglo-Irish Statesman &  
Philosopher*

## Data Center 2019 YTD

Dow Jones	17.51%
S&P 500	20.55%
S&P Midcap	17.86%
Russell 2000	14.15%
MSCI EAFE (Intl)	12.80%
MSCI Emerging Mkt	5.89%

## S&P Sectors 2019 YTD

Basic Materials	17.11%
Consumer Discretion.	22.46%
Consumer Staples	23.28%
Energy	6.00%
Financials	19.60%
Healthcare	5.64%
Industrials	22.58%
REITs	29.71%
Technology	31.37%
Communications	16.91%
Utilities	25.40%

## Interest Rates 2019 Q3

Fed Funds	2.00%
Prime Rate	5.50%
3-mo. Treasuries	1.82%
2-yr. Treasuries	1.62%
5-yr. Treasuries	1.55%
10-yr. Treasuries	1.67%

## Currencies 2019 Q3

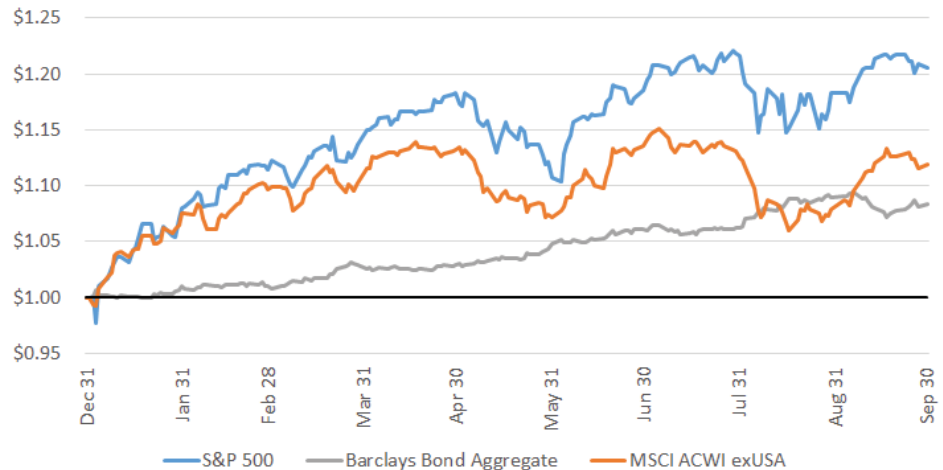
Euro	1.0899
Japanese Yen	108.08
British Pound	1.2289

All Data as of 09/30/2019

## THE BIG PICTURE

Selected Indexes: Growth of \$1

Dec 31, 2018 - Sep 30, 2019



## DID YOU KNOW?

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