January 2020

Dear Friends and Clients,

As we begin 2020, it's hard not to think about that old adage "hindsight is 20/20." However, with the incredibly strong year we saw in financial markets in 2019, even hindsight may not fully explain why the stock and bond markets performed so well.

The good news is that the economy continued to grow for its 10th straight year. Inflation and unemployment were near 50-year lows, companies continued to post record profits, and the Federal Reserve cut interest rates three times, driving down borrowing costs and helping propel stock prices higher. However, there was plenty of less favorable news – growing fears of a recession, a troubling trade dispute with China, an unclear path for Brexit, US political uncertainty, and continuing unrest in the Middle East. Nonetheless, the net result was a whopping 31.5% return in the S&P 500 and an 8.7% return in the Barclays Aggregate Bond Index. Overseas markets also performed remarkably well, with the MSCI EAFE Index up 22% and the MSCI Emerging Markets Index up 18.4% (source: Wells Fargo Investment Institute).

Even more difficult than explaining market performance is trying to forecast how the market will perform, particularly in the short term. As we have noted before, no one can consistently predict the short-term moves of the stock market in a given year because financial markets act on a complex confluence of quantitative and qualitative factors. Quantitative factors include earnings, dividend yield, growth rates, valuation measures, and the like. Qualitative factors include consumer confidence, headline news, and investor sentiment.

The qualitative factors are often the driving force behind short-term investor behavior. The volume of information (and often misinformation) available to us in today's 24-hour news cycle can be overwhelming, and we can summon it all with just a click of the mouse or a press on the remote control. While there were plenty of headlines last year that could plausibly have been expected to affect the markets, the stock market proved resilient and kept rising. We feel that part of this growth was due to market recovery from the particularly mediocre 4th quarter of 2018. Industry data showed that many investors sold at the end of 2018, when the market was down, and then remained largely out of equity markets as the stock market ascended again in 2019 (Source: Morningstar). There may be more volatility in 2020, especially in an election year and with rising geopolitical risks, so it's prudent to think ahead about your cash-flow needs and expenses over the next year.

To mitigate some of the emotional rollercoastering from short-term volatility, we work on goals-based investment planning with you to maintain a steady course. Knowing that you remain on

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track to meet your goals is comforting in the midst of the noise and distractions of volatile markets.

Diversification remains an important part of a sound investment plan. The chart following our letter may be one of the most important pieces of information we send you (separate PDF attachment titled "The Value of Asset Allocation 2020." At first glance, it seems overwhelming, but it is very simple. Each major market index (each one is explained on the second page of the chart) is color coded, and each one is the same color year to year. At a glance, you can see how each index performed (best performance at the top) for every year going back 15 years. What this chart tells us is how broad-ranging the market can be – how the heroes one year can be the goats the next, and vice versa. It is one of those lessons that keeps getting relearned…year after year, cycle after cycle.

We would also like to share information on some important legislation that was signed into law on December 20, 2019. The Setting Every Community Up for Retirement Enhancement (SECURE) Act is viewed by some as the most significant piece of retirement legislation in over a decade. The SECURE Act clocks in at a mere 1,700 pages and will be subject to considerable additional interpretation, rule-making, and guidance from various regulatory agencies. You can view more information on the new SECURE Act on our website:
https://www.caudronmegaryblackburn.com/mediahandler/media/296078/Secure%20Act%20Key%20Points.pdf

Here are some of the highlights of the SECURE Act:

- The Required Minimum Distribution (RMD) age for distributions from retirement accounts rises from 70 ½ to 72. The new RMD age of 72 applies only to people who turn 70 ½ after December 31, 2019. So if you turned 70 ½ on or before December 31, 2019, this doesn't apply to you and you stay on the old RMD schedule.
- You are now eligible to contribute to an IRA as long as you work and have earned income. Previously, you were not eligible to contribute past 70 ½.
- Most people who inherit an IRA after December 31, 2019, are now required to take all the money out within 10 years (spouses are exempt). Since IRA distributions are taxed in the year that they are taken, this can have meaningful tax implications. The 10-year rule also applies to inherited Roth IRAs, although Roth IRA distributions remain tax free.
- The 529 College Savings Plan assets can now be used to cover up to $10,000 per child toward qualified student loan repayments (lifetime limit).
- Small businesses that establish retirement plans are eligible for new tax credits.
- Part-time workers have expanded opportunities to participate in 401(k) plans.

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Overall, these changes expand the access to retirement investment vehicles for American workers.

And now for the drumroll….
Our 2019 "Guess the Dow" winner was Howard, and in addition to bragging to all of his friends, Howard will be enjoying a dinner out on us! The Dow closed at 28,538, and Howard's guess was within an amazingly close 29 points, at 28,509. Of the several hundred guesses that we received, Howard's was the 10th highest, and he clearly didn't need to wait for 20/20 hindsight (pun intended) to see how the market would finish. Your guesses were generally conservative, although mostly positive, which suggests that you continue to take the balanced, measured approach that we have been advising for so many years. Please let Lichelle know your 2020 "Guess the Dow" entry by February 28th, at lichelle.yalung1@wellsfargoadvisors.com or 703-739-4540, and you may win a dinner on us next year.

In closing, to add a note of caution to your perceptions of last year's investment market performance, we would like to share these two memorable quotations:

> *"Anyone can hold the helm when the sea is calm."* ~Syrus Publilius.
> *"Don't confuse a bull market with brains."* ~Anonymous.

As always, we will give you our best, objective, and unbiased counsel. If we have not already discussed with you your plans for the year ahead, including any changes you want to consider in your investment planning, please email or call Lichelle for an appointment. Also, keep a look out for important 2019 tax documents that are expected to arrive on or around February 15th.

On behalf of the entire team – Tristan Caudron, Matt Megary, Laurie Blackburn, Ivana McNeill, Jessica Jackson, Laura Newton, Lori Polonsky, Chalee Ricciardi, Melissa Rush and Lichelle Yalung – THANK YOU for affording us the honor and great pleasure of working with you. We would especially like to welcome our new clients and we greatly appreciate those who have referred our services to others over the years. We wish you a wonderful 2020, filled with health, happiness, and prosperity.

Very truly yours,

Laurie Blackburn

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Enclosures (2)

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The views expressed by the authors are their own and do not necessarily reflect the opinion of Wells Fargo Advisors and its affiliates.

Stocks offer long-term growth potential, but may fluctuate more and provide less current income than other investments. An investment in the stock market should be made with an understanding of the risks associated with common stocks, including market fluctuations. Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility.

Investments in fixed-income securities are subject to market, interest rate, credit and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond's price. Credit risk is the risk that an issuer will default on payments of interest and/or principal. This risk is heightened in lower rated bonds. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity.

Diversification does not guarantee profit or protect against loss in declining markets.

The Dow Jones Industrial Average is a price-weighted index of 30 "blue-chip" industrial U.S. stocks.

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.

Bloomberg Barclays U.S. Aggregate Bond Index is unmanaged and is composed of the Bloomberg Barclays U.S. Government/Credit Index and the Bloomberg Barclays U.S. Mortgage-Backed Securities Index. The Bloomberg Barclays U.S. Government/Credit Bond Index is an unmanaged, market-weighted index generally representative of intermediate and long-term government and investment grade corporate debt securities having maturities of greater than one year. The Bloomberg Barclays Mortgage Backed Securities Index is an unmanaged index of mortgage pools of the Government National Mortgage Association, Federal Home Loan Mortgage Corporation and Federal National Mortgage Association.

The MSCI Europe, Australasia and Far East ("MSCI EAFE") Stock Index is an unmanaged group of securities widely regarded by investors to be representations of the stock markets of Europe, Australasia and the Far East. Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed or produced by MSCI.

MSCI Emerging Markets Index: The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The Index consists of the following 23 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed or produced by MSCI.

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