

**SECOND QUARTER – 2019 CLIENT NEWSLETTER
REVIEW OF THE MARKETS:**

Index:	2Q19	2019
S&P 500	4.30%	18.54%
S&P Mid-Cap	3.05%	17.97%
S&P Small Cap	1.87%	13.69%
Morgan Stanley's EAFE (International Stocks)	3.68%	14.03%
Barclay's US Aggregate (Bonds)	3.08%	6.11%

ECONOMY & MARKETS:

The Federal Reserve (the Fed) has officially decided to be more inclined to lower interest rates rather than raise them. This is completely different from its December forecast. At that point, the Fed was projecting two more interest rate increases in 2019 and one more in 2020. We again, believed the aggressive tightening stance in December was a major factor in the volatility we encountered around that time. Coinciding with the various news relating to trade wars, the Fed changed its position and is now forecasting to lower rates at least once in 2019.

While we do not necessarily believe lowering interest rates is the right move for the economy, we also felt December's rate hike was unnecessary as well. Should the Fed lower rates at their next meeting on July 31st, it would be counterintuitive to their existing action for permitting \$50 billion maximum monthly roll-off of Treasury and mortgage-backed securities from its balance sheet due to end in September. It would be like "pressing on the gas and brake pedal at the same time". Over the last 60 days, interest rates across all maturity spectrums have fallen. Further, the yield curve has maintained a slight inversion (mid & long-term rates are lower than short-term rates), which continues to give us reason to be a bit cautious.

While we have not experienced nor are forecasting an economic recession, we now likely have entered an earnings recession. An economic recession is measured by two consecutive quarters of negative GDP growth; an earnings recession is measured by two consecutive quarters of negative earnings growth. According to Factset, the collective year-over-year S&P 500 corporate earnings growth final figures will be negative for the second quarter. Further, the third quarter is also anticipated to have slight negative growth as well before turning positive again in the fourth quarter. The forward Price-to-Earnings ratio on the S&P 500 is now at 16.9. First Quarter GDP had its final reporting at 3.1%, inflation continues to remain tame, and the latest unemployment rate was reported at 3.7%.

IN THE NEWS:

Pittsburgh Post-Gazette 05/06/2019: You should let your money work for you – by Kris B. Mamula

Potential New Retirement Savings Bill:

In a bitterly divided government, there are few topics to which Democrats and Republicans can agree upon. One issue that has attracted bipartisan support is changes in retirement savings. In the last few weeks, both the House and the Senate have passed separate, yet very similar bills. Some of the key similar provisions are outlined below:

1. Increase Required Minimum Distribution age from 70.5 to 72.
2. Repeal the prohibition for contributing to Traditional IRAs after age 70.5.
3. Require company sponsored plan retirement accounts to disclose an annual illustration of the monthly payments the participant would receive based on the current account balance.
4. Enable small businesses to band together to offer retirement savings opportunities by removing barriers in current law.

We believe all of the provisions above are outstanding changes to current law. However, to pay for the drop in revenue, this new bill may accelerate Inherited IRA distribution rules (for non-spouses); this may adversely affect estate plans where Trusts are named as IRA beneficiaries. While we thought the Bill would be signed by now, it is still yet to be finalized.

SEC Reg Best Interest (BI):

According to the new SEC Rule BI, brokers (who are not dually-registered also as Registered Investment Advisors "RIA") cannot use the term "advisor" in their title. The SEC believed brokers were improperly marketing themselves insinuating they can help customers with a range of wealth management needs beyond securities transactions, yet avoiding registering as an RIA. In addition, this new rule also requires brokers to reveal to customers all material facts relating to the scope and terms of the relationship, including further transparency for commissioned compensation. Since YAIA is registered as an RIA, this will not affect us in the same manner. While we are pleased with this SEC rule, it still does not force brokers to act as Fiduciaries.

What are the traditional responsibilities of an Executor?

While we are not Lawyers, we have been involved in several estate settlements and are currently working with families on three separate situations now. As such, we thought it would be informative to draft a general list of responsibilities that Executors must fulfil. Outlined below is this list of many responsibilities you will need to fulfil (which is not necessarily in chronological order nor should be considered a comprehensive list):

1. Be appointed Executor at the Register of Wills – For Allegheny County, this means driving to the court house downtown and bringing (a) a death certificate, (b) original and a copy of the Will, (c) a typed completed form called “Petition for Grant of Letters”, (d) cash or credit card to pay the approximate \$200 for the filing fee and Short Certificates. Death Certificates are normally ordered by the funeral home (try to get a least six, likely more).
2. Gather account information for the decedent’s assets and contact each institution. This includes financial institution statements, life insurance, etc... Likely, each institution will need a death certificate, a short certificate, and possibly more. You will want to obtain two things: (a) a date-of-death value and (b) current statement. Consolidate all assets as much as possible. Consider the liquidation of any marketable assets (mutual funds, stocks, etc...) to eliminate market risk. *Broker-sold annuities should be delicately analyzed as these assets do not receive the “step-up-in-basis”.*
3. Get an estate’s tax ID (often termed an Employee Identification Number or EIN) and open up at least one estate account that has check writing privileges.
4. Publish the estate in the local newspapers (giving creditors ample opportunity to notify the estate).
5. Contact all known creditors. Continue to pay bills and expenses out of the estate checking account. Track all of the estate expenses including your personally incurred expenses (which can be reimbursed from the estate).
6. If there is real estate, we recommend hiring a Realtor to assist with a potential sale.
7. Determine the plan for disposition of tangible personal property. Technically, the estate will own all of the assets. If any beneficiary wants a particular heirloom, their inheritance should be decreased by an equivalent value. If there are items remaining, you can also hire someone to conduct an estate sale; monies collected should be accounted for and deposited into the estate checking account.
8. Send a Notice to all beneficiaries regarding the estate. Ideally, it will include a preliminary accounting of the estate, any anticipated fees (including your Executor fee) and their anticipated portion. Some lawyers will also ask for the beneficiaries to sign a “release” indicating that by accepting their inheritance checks, they will not contest the estate. Different lawyers will be more or less detailed in this particular section.
9. Prepare an Inheritance Tax Return (Lawyer or Accountant) and pay tax from the estate. In the State of PA, if you prepay the inheritance tax return within three months, a 5% discount is offered (otherwise, due in nine months).
10. Prepare and pay the deceased’s tax return(s).
11. Consider a partial advance distribution to the beneficiaries. You can make an early distribution of partial assets before the final estate settlement is completed.
12. Prepare and file an Inventory of Estate Assets with the Probate Court.
13. Distribute the residuary balance to applicable beneficiaries.
14. File a Final Status Report to close the estate.

In most estate settlement instances, we recommend partnering with an estate attorney. However, we would caution clients to ask attorneys for a cost estimate. In the State of PA, there is no legally approved fee schedule estate lawyers use for estate settlement purposes. Many charge by the hour or set fees; the fees are supposed to be indicative of the work completed. Some lawyers use the “Johnson Estate Matrix” as their guidance tool, which we believe is flawed. This Matrix sets a fee schedule based on the size of the estate, not on the amount of work needed to be completed. In one recent instance, a client of ours partnered with an estate attorney who used this fee Matrix for a simple estate settlement. After learning of this, we proactively got involved by questioning the attorney if the fees were justified. After talking to the PA Disciplinary Board of the Supreme Court, we convinced the attorney to accept a lower and more reasonable fee. A good learning experience for all...