MONTAG

Viewpoints

THIRD QUARTER 2019

"Which is the best variety for sitting around and eventually rotting because you don't even like apples, you just wanted to do something 'fallish'?"

Teresa Burns Parkhurst/The New Yorker Collection—Used by permission

AUTUMN: The changing seasons (of investing) — *Ned Montag*

Autumn is a favorite time of year for many, including me. When leaves turn colors and temperatures fluctuate, we don't simply recall that we have four seasons in a year, we experience them. Seasonal rotation happens in life, too. It reminds us of priorities; of preparation, accomplishment, new beginnings, moving along, and being ready for what is next. After all, life is about moving on, and it will, so be ready. When I worry about being ready, I think of a quote by author Doris Lessing: "Whatever you're meant to do, do it now. The conditions are always impossible."

Life can feel impossible. So can investing, in these remarkable times. Bombastic headlines and a record breaking bull market (if it makes it to March 2020) can make your head swirl. And that's just in the United States. Take Denmark, for example. They launched a negative interest rate mortgage recently, which means homeowners are effectively paying back less than they borrowed! What a world. My grandfather, who arrived in 1903 and was in the investment business from 1945 to 1982, would be amazed. And yet, the need for education, counsel, planning and preparedness never abates.

Thanks for being a MONTAG client. Please call us if there is anything more we can do, and please call us if you know someone in need of our services. A good referral from you is the bridge to opportunity for us, and the bridge to successful investing for your friend. M

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Visit us at montagwealth.com

Georgia-Pacific Center
133 Peachtree Street NE
Suite 2500
Atlanta, GA 30303

404.522.5774

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MARKET OBSERVATIONS — Impossible Meat, or a Nothing Burger?

The third quarter of 2019 could be best summed up as a big "nothing burger." Equities moved mostly sideways through the quarter, while interest rates on 10 year bonds moved back down towards historic lows around 1.7%. The Dow Jones was up 1.2% for the quarter, the S&P 500 was also up 1.2%, while the Nasdaq was essentially flat at –0.1%. Those three indices were up 15.4%, 18.7%, and 20.6%, for the year to date, respectively.

The reality is, not much changed in the third quarter and that's a little unusual for the U.S. economy and the stock and bond markets that tend to over-react to breaking news (or in this technological age, tweets) every day. GDP (Gross Domestic Product) growth has rolled back over, growing at just 2-3% again while earnings growth for the average public company is expected to move ahead just 2% in 2019, compared to +21% in 2018 and +17% in 2017.

We continue to be concerned with the obvious, slowing growth in corporate earnings, and we're equally concerned with the not so obvious... tweets, tariffs, China and European economies. Of course there's also the historically low interest rates, and even negative interest rates, all around the world outside the U.S. At MONTAG, we invest based on our assessment of the data, our education, and what our personal experiences have taught us in the past, just like most investors would. Under normal circumstances, we are typically able to compare current investment conditions to conditions in the past and make sound investment decisions. But 2019, in many ways, is not considered by most to be "normal circumstances" with interest rates being one of the biggest abnormalities.

Studying history, most investors have learned that over a long period of time, investing in bonds would have contributed meaningfully to a stock and bond portfolio. The bonds returned nearly 6% annualized, while stocks would have returned over 10% per year. In today's mar-

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kets, the starting point for bonds has interest rates below 2%. From my seat, there's next to no scenario where bonds will be able to generate returns even close to 3% let alone 6%, over the next 5 years. In order to get a better return from the current level, we would need to see interest rates fall from the current 2% level down towards 0%. For this to happen, we would be living in a world where there are significant economic problems in the U.S. and likely around the world.

Bonds have always represented the safe investment and a big part of total returns and income. While interest rates have dropped from high levels back in 1990, and continued to fall for nearly 30 years, that scenario just can't be replicated going forward. We feel it will be important to account for this change in investment selections and expectations for many years to come. Interestingly, the dividend yields on stocks are actually rising on a relative basis and many are paying a higher yield than the current 10 year bond. Hmmm.

So why the history lesson? We feel it is important to understand that the outlook for bond returns for the foreseeable future, will certainly not resemble past bond returns. The same may be said for equities. Since interest rates play a significant role in our economy, equity returns and company earnings growth may not resemble what we've experienced in the past. From a portfolio standpoint, all of this is considered as we build and modify portfolios to be in line with the current environment. So for a while, abnormal may just be normal. M

Chris Guinther is a Portfolio Manager

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The information provided is for illustration purposes only. It is not, and should not be regarded as "investment advice" or as a "recommendation" regarding a course of action to be taken.

COVERAGE: NOT JUST FOR FOOTBALL SEASON — *Brent Eden, of Nease, Lagana, Eden and Culley, Inc.*

Just as people regularly review their investment portfolios, they should also regularly review their estate planning goals, legal documents and insurance coverages. In a similar fashion to how MONTAG reviews investment objectives as a person's life (or lifestyle) changes, as tax laws change, reviewing coverage of these plans and assets to confirm they still achieve the specific goals they were originally implemented to meet is paramount. At Nease Lagana Eden & Culley (NLEC), we manage our clients' life insurance portfolios and how they fit with their long-term plans.

Many clients implemented life insurance strategies to pay federal estate taxes when exemptions were much lower and rates were higher than they are today. In 1997, the federal estate tax exemption was $600,000 and the rate was 55%. In 2008, the exemption was $2,000,000 and the rate was 45%. For those with potential exposure, life insurance offers a cost-efficient way to pay the liability at a discount, allows the full value of other assets to be passed to family members instead of selling them to pay the government, and can provide a hedge against selling assets at an inopportune time (e.g. a down market).

As a result of the 2017 Tax Cut and Jobs Act, the exemption is now $11,400,000 ($22,800,000 for a married couple) and the rate is 40%. This is, simultaneously, the largest exemption and the lowest tax rate we've experienced in the gift/estate tax area. So with such a unique environment, doesn't it make sense to review your legacy insurance plans?

A large majority of people who planned to utilize life insurance proceeds to fund their estate tax liability at death are finding they may no longer be subject to it. As a result, many of those people, and their advisors, may be thinking they should cancel their coverage. But...what if these coverage tools can be utilized in a different way that is still beneficial to you and your family?

Decisions should not be made without re-evaluating objectives and determining if the coverage can be "repurposed" for achieving other and/or new goals. After all, our clients' lives change, just like the estate exemption amount. In addition, it is important to note that the part of the Tax Cut and Jobs Act that relates to the estate tax exemption is slated to expire at the end 2025, a term called "sunsetting." It is entirely possible that the exemption amount will return to old levels at

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Don't just surrender life insurance policies, but instead consider ways to repurpose them to meet other goals

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DID YOU KNOW?

Who wrote the lyrics to the song "Autumn Leaves", the last two lines of which are:

"But I miss you most of all my darling, When autumn leaves start to fall"?

A. Irving Berlin

B. Bernie Taupin

C. Stephen Sondheim

D. Johnny Mercer

(Answer on Page 4)

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that time, or possibly even before depending on who is running the government. The possibility of an expiration of this Act could lead to some unpleasant, and unexpected situations without a proactive look at your existing insurance plan and its flexibility.

Some options for "repurposing" coverage might be:

- *Redesigning coverage (either existing or new coverage through a tax-free 1035 exchange) to maximize cash value growth/income instead of death benefit (or vice versa);*
- *Lower the death benefit so as to reduce/ eliminate premiums;*
- *Implement a tax-free exchange to coverage for long term care expenses;*
- *Implement a tax-free exchange to an annuity for long-term steady income;*
- *Keep the coverage as a financial asset in your overall financial portfolio, due to attractive rates of return at life expectancy;*
- *Donate the coverage to charity to meet/ enhance charitable goals;*
- *Sell the coverage to a 3rd party in a life settlement transaction;*
- *Implement a tax-free exchange to a private placement life insurance policy designed for tax-efficient investing. A private placement life insurance policy is a type of life insurance policy that is specifically designed to minimize the effect of income tax drag on the growth of a tax-inefficient investment.*

These are only some of the strategies and ideas that can be achieved with life insurance coverage that was implemented in the past for a purpose that is no longer valid. Most people simply think of surrendering the coverage since it's "no longer needed" without learning about how the coverage might be helpful to planning in other ways. For trustees of trust-owned coverage, there may be a fiduciary duty to the beneficiaries to explore all options before simply surrendering a policy. At the very least, coverage should be reviewed by a life insurance professional to better understand what you have, how it projects to perform and what other options might be available should changes be warranted. M

Brent M. Eden, JD is a Principal at Nease, Lagana, Eden and Culley, Inc.

AROUND THE RESEARCH TABLE

MONTAG Portfolio Managers continue to debate stocks, the economy and other recurring themes that may impact clients' investments. Here are a few of the highlights for Q3:

⇒ Politics will continue to pose market risk and potential volatility.

⇒ Trade wars continue to put pressure on U.S. and Global Growth. The global economy is sliding towards the weakest growth in a decade, potentially impacting future earnings growth.

⇒ Continue to discuss credit spreads, inflation/interest rate expectations and other indicators to make informed decisions about duration and quality in bond portfolios.

⇒ Keeping an eye on unemployment. Although we have not seen the signs yet, historically as claims rise the chances of recession increase. M

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THIRD PARTY AUTHORIZATION FORM *— Client Service Team*

We recently sent out Third Party Authorization (TPA) forms to clients who currently do not have one on file. If you received a form and letter in the mail, we ask that you complete it promptly and return to us. The TPA form identifies whom we're authorized to speak with about your account(s), whether it's an attorney, CPA, family member or even a trusted friend. There are a number of situations that may arise which necessitate the need for us to consult with third-parties on your behalf. If we don't have this authorization in place, we will not be able to do so. Even if there isn't the need for a TPA form currently, it's preferable for us to have a completed form in our files...simply initial the line declining to provide this information. Keep in mind that circumstances change, so anytime there is a need to alter which third parties are authorized to speak with us, please contact us for a new form. As always, we welcome any questions or concerns you may have about this topic, so don't hesitate to contact us. M

CHECK OUT MONTAG'S ACTIVE BLOG *— www.montagwealth.com*

MONTAG's prolific Investment Team makes regular posts to the firm's Blog, found on its website under the **RESOURCES** tab. Entries from the Third Quarter were:

DATE	AUTHOR	BLOG TITLE
July 11	MONTAG Staff	***Recent Grads: Do's and Don'ts about your Money (a Schwab Primer)***
July 25	Steve Whittington, CFA	***The Pit (in your stomach) and The Pendulum (of Investment Choices): Are Complex Investment Solutions Right for You?***
August 15	Hayley Hall, Esquire	***Careful with Those Gifts — How to Preserve Your Exemption and Avoid Filing a Gift Tax Return with Simple Gifting Principals***
August 29	Ned Montag	***Lessons from Major Mike***
September 12	MONTAG Staff	***Private Wealth Management***
September 26	MONTAG Staff	***Characteristics of a Superior Business Model***

UPCOMING EVENTS:

EXECUTIVE BREAKFAST SERIES—**Tuesday, October 15** ***(7:30am – 9:30am)***

MONTAG hosts the next in our series of breakfasts, with a timely presentation by Portfolio Manager Brendan Wagner. This series is designed for those who want a deeper dive into investment themes being discussed around the MONTAG research table.

FACTS & FINANCES FOR WOMEN —**Wednesday, November 6** ***(9:30am – 1:00pm)***

Since 1985, MONTAG has hosted a semi-annual seminar designed to be informative and actionable. We select speakers to present on timely topics from the non-profit community, estate and legal sensitivities, tax issues, healthcare, insurance, and — of course — investments. Be on the lookout for more information in the coming days, or feel free to contact us for details.

DID YOU KNOW? *(from page 3)*

Answer: D. Johnny Mercer

Savannah, Georgia native John Herndon Mercer (November 18, 1909 – June 25, 1976) was an American lyricist, songwriter, and singer. He was also a record label executive who co-founded Capitol Records. From the mid-1930s through the mid-1950s, many of the songs Mercer wrote and performed were among the most popular hits of the time. M

A PARTING THOUGHT

"I can smell autumn dancing in the breeze. The sweet chill of pumpkin and crisp sunburnt leaves."

- Unknown

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Georgia-Pacific Center
133 Peachtree Street NE
Suite 2500
Atlanta, Georgia 30303
404.522.5774
montagwealth.com
info@montagwealth.com

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