Condor Capital Reviews 4th Quarter 2018

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The S&P 500 fell by 13.52% in the fourth quarter, giving back all gains from earlier in the year to finish 2018 down 4.39%. Utilities were the only sector to finish the quarter in the green, with all other sectors, styles, and market caps posting losses.

Though most international markets have underperformed the U.S. on a full-year basis, many outpaced domestic stocks in the fourth quarter. Emerging markets, while still negative, outperformed most other regions, with Brazilian equities performing particularly well.

The Fed followed through on its initial forecast for the year with a fourth rate increase of 2018 in December. The yield curve continued to push flatter, while safer debt issues outperformed riskier assets as the quarter's volatility caused a flight to safety.

December 2018

The final quarter of 2018 was tumultuous for equity markets. Investors have had to deal with rising U.S. interest rates, a marked slowdown in euro-zone business confidence, and weaker Chinese growth. Escalating geopolitical headwinds, including Brexit, Italy's debt concerns, and the ongoing U.S.-China trade conflict have all contributed to the amplified market volatility as well. U.S. Equity markets were negative across market capitalizations, styles, and sectors save utilities in the quarter. The S&P 500 fell 13.52%, erasing all of the gains from previous quarters in 2018 and finishing the year down 4.39%. The technology sector, where several esteemed technology companies had been market leaders earlier in the year, saw significant losses in the quarter and contributed to growth-oriented stocks underperforming value names more broadly. Large-cap stocks outperformed their mid-cap counterparts, with small-caps posting the worst performance on the quarter.

International equities, particularly emerging markets, generally outperformed domestic equities in the fourth quarter of 2018. Emerging markets, which have fared poorly for much of the year, dropped 7.60% as measured by the MSCI Emerging Markets Index, significantly less than many of their American and developed market counterparts, with a surge in Brazilian equities leading the way. The ongoing tariff dispute between the U.S. and China and slowing Chinese economic growth have put pressure on markets across Asia, while the ongoing Brexit uncertainty and rising concerns over Italian debt levels squeezed European markets.

The Federal Reserve continues to play an important role in markets, increasing interest rates for the fourth time this year in December. The broad U.S. bond market as measured by the Bloomberg Barclays U.S. Aggregate Bond Index returned 1.64% in the quarter, finishing positive for the year, and the yield curve ended the quarter flatter than it began. Results by duration were mixed, with short-term bonds outpacing long-term issues in the corporate space but failing to keep pace in municipal markets. Domestic government-issued debt outperformed, while high-yield taxable bonds were the biggest laggard amid a rush to safety in the volatile quarter. Overseas, emerging and developed markets were both among the better performers in the larger fixed income space. Municipal bonds finished the quarter positive across the majority of categories, with high-yield municipal issues lagging.

Outlook – While the fourth quarter of 2018 was a turbulent, at times stressful, stretch, one important point to note is that the fourth quarter selloff was largely decoupled from the underlying U.S. economic data, as GDP and other data points did slow down from a supercharged level following the 2017 corporate tax cut but still remain consistently positive. Additionally, the labor market is in a relative sweet spot of low unemployment and wage growth, which provides more consumers with discretionary income without rising wage costs compressing margins. Inflation, a closely watched metric by the Federal Reserve, has remained low, which we view as positive on multiple fronts. In addition to indicating that consumer goods remain affordable, low inflation readings increase the likelihood that the Fed will delay further quantitative tightening measures. With ever-volatile gasoline prices moving significantly lower over the quarter and anecdotal evidence of a very strong 2018 holiday shopping season as well, we continue to witness a very robust economic backdrop for the American consumer.

The economic picture internationally is not quite as robust, though these concerns have far less bearing on the domestic market than the U.S. data. Condor has favored domestic equities relative to international markets for some time now and has sported one of our lowest international allocations in recent years throughout 2018. In Europe, concerns over Italian debt levels may be starting to rise but with the experience gained from Greece's crisis, which was more severe, European policymakers should be better equipped to respond should the situation deteriorate. As for the uncertainty surrounding Brexit, a March 29, 2019 deadline means we are close to some form of resolution that can begin to put these concerns in the rearview mirror. U.S.-China trade disputes may also be receiving some clarity soon, as high-level meetings between the two nations beginning January 7th could provide at least a foundational framework for a resolution, if not more.

Another area that some market participants have viewed with concern is the Federal Reserve. While the Fed's recent interest rate increases and quantitative tightening do weaken some of the policy supports underlying the stock and bond markets, these measures were never intended to be permanent. In fact, the central bank is moving now precisely because the domestic economy is strong, and we feel that fact outweighs any temporary displacement of equity prices that these monetary policy moves may have. The fact that these moves provide the Fed with the flexibility to come to the aid of markets when the next recession does one day hit is heartening as well. Furthermore, recent commentary by central bank officials has indicated a greater willingness to attune their policymaking to financial markets, as evidenced by the Fed's December decision to revise its 2019 projections down to just two rate hikes. If this trend holds, it is very possible that the path of monetary policy will not be as hawkish in 2019 as some investors fear.

We know market moves like the fourth quarter's can be trying, which is why we always recommend a diversified mix of both stocks and bonds that prevents portfolios from bearing the full brunt of downturns and, equally importantly, keeps assets in a position to benefit from the capital appreciation of the inevitable recovery. A proper allocation, as always, depends on a suitable allocation for your long-term needs rather than inherently unpredictable short-term market fluctuations. We look forward to continuing to work with you to produce strategies that fit your long-term goals and objectives.

See disclaimer on final page

Gray Divorce: Dividing Assets Can Impact Retirement

The number of Americans getting divorced in the their 50s has doubled since 1990. We explore the impact this recent phenomena has had on retirements.

Although most people who marry hope their unions will last forever, about 50% of first marriages in the United States end in divorce.1 Individuals age 50 and older are still less likely to get divorced than those who are younger. Even so, the divorce rate for Americans under age 40 has declined since 1990, while it has roughly doubled for those age 50 and older.2 Unfortunately, a divorcing couple must typically negotiate a property settlement agreement (or seek the assistance of the courts) to divide assets. Retirement plan benefits are often among the most valuable marital assets to be divided, along with houses, cars, and bank accounts. The laws of your particular state will define which retirement benefits are marital assets (or community property in community property states) that are subject to division.

Trading marital assets You and your spouse may have one or more retirement accounts held by various financial institutions, or pension benefits from past and current employers. In some cases, one spouse may agree to waive any rights to all or some of the other spouse's retirement benefits in exchange for other marital assets (for example, a home). With 401(k) plans or IRAs where the value is clear, trading the account balance for other marital assets is generally straightforward. On the other hand, trading pension benefits should be done only if you're certain the present value of those future payments has been accurately determined. Before you give up a valuable lifetime income, make sure you'll have other adequate resources available to you at retirement.

Employer plans If assets in a qualified retirement plan will be divided, a qualified domestic relations order (QDRO) is provided to the employer. Pursuant to a QDRO, one spouse could be awarded all or part of the other spouse's pension plan benefit or 401(k) account balance as of a certain date. Be sure to consult an attorney who has experience negotiating and drafting QDROs, especially if the QDRO may need to address complex issues such as survivor benefits, benefits earned after the divorce, plan subsidies, and cost-of-living adjustments (COLAs), among others. (For example, a QDRO may state that a first wife is to be treated as the surviving spouse, even if the husband remarries.) Assuming the transfer is done correctly, the recipient is responsible for any taxes on benefits awarded pursuant to a QDRO. If the distribution is taken from the plan, the 10% penalty that normally applies to early distributions before age 59½ will not apply. The recipient may be able to roll certain distributions into an IRA to defer taxes.

IRAs and taxes Dividing assets in IRAs or nonqualified plans does not require a QDRO. However, a divorce decree may be needed to avoid the negative tax consequences of IRA distributions resulting from divorce. If the IRA assets are transferred to the former spouse's IRA in accordance with a divorce decree, then the original IRA owner will not be responsible for any taxes on the distribution. Going forward, the recipient spouse must pay ordinary income tax when distributions are taken from the IRA.

IRAs may play another important role in negotiations now that the tax deduction for alimony payments has been eliminated for divorce agreements executed after December 31, 2018. When a recipient spouse is older than 59½ (or doesn't need immediate spousal support), it might make sense to offer a lump-sum payment of alimony from a traditional IRA instead of making after-tax payments going forward.

1 National Survey of Family Growth, Centers for Disease Control and Prevention, 2017

2 Pew Research Center, 2017

Shutdown Consequences

We are in the midst of the longest government shutdown in US History. Read on to learn about the consequences of this unprecedented shutdown.

As the U.S. government shutdown enters its third week, you might wonder how so many shuttered government agencies and laid-off federal workers will affect the economy and your portfolio. The good news is that the economic impact, overall, is likely to be small. In late 2013, a similar government shutdown, spanning 16 days, trimmed overall economic (GDP) growth by about half a percentage point over the course of the year.

But of course the impact on any individual American depends on who you are and where you live. Roughly 800,000 government workers are going to have to do without their paychecks for the duration of the shutdown. About half of those are working without pay; the rest are on furlough, so the hours they would have worked will not be counted toward the nation's GDP. No paycheck probably means less money spent on dining out and other discretionary purchases that drive economic statistics. If some or all of those workers are eventually paid retroactively, this impact is likely to be minimal.

Meanwhile, national parks and attractions are closed, which will hurt sales at nearby stores and restaurants. Home buyers seeking FHA loans, and small businesses applying for SBA loans, and Americans seeking passports will all have to wait until the government opens its doors again. If the shutdown persists into late January or early February, it could also delay some of Americans' tax refunds.

The Securities and Exchange Commission staffers who would normally approve initial public offerings where companies raise cash to expand their operations are now sitting at home. The Commerce department has temporarily suspended the approval of export licenses.

Financial planners and other professional investors might also have to do without the reports from the Census Bureau and the Bureau of Economic Analysis, whose workers are not at their desks. This means we will have less information about the economy's health. Just this past week, the government failed to issue scheduled releases on new home sales and trade statistics. Investors might be less confident in their positions if they are no longer receiving key reports on retail sales, consumer spending and America's gross domestic product.

But overall, the shutdown will almost certainly not trigger a broad breakdown in the U.S. economy. Ironically, the politically-motivated shutdowns in the past have somewhat inoculated the consuming public from worrying too much about whether the government is, or is not, up and running. We're kind of used to this by now.

Investing in Yourself for a Change

It is easy to neglect yourself as you get busy with life. Here are some tips you can take to focus on yourself in 2019.

Retirement. College. An emergency fund. A new home or home improvement project. Check, check, check, and check. If you've been saving faithfully each month for some or all of these things, you might feel that you're on a never-ending financial treadmill. It takes discipline, perseverance, and sacrifice to maintain a robust savings effort month after month, all while meeting your day-to-day financial obligations. But with such planning and focus, it's possible to get into a rut of always saving for the future with nothing left for today. If so, it might be time to take a step back and focus on the present. If you can't remember the last time you felt energized or inspired in your daily life, consider investing in a new asset: yourself. Focusing on yourself from time to time might just give you the extra motivation you need to stick with your long-term savings plan. Think of it as seeing the trees instead of the forest for a change.

If you find yourself with a small windfall from a tax refund, bonus, flexible spending account reimbursement, or simply a cut in discretionary spending, here are some ideas for spending it.

Focus on your health and well-being Are you feeling sluggish or stressed out? Having trouble sleeping? Watching the pounds creep on little by little each year? It might be time to focus on your health and well-being. Staying active is critical to maintaining good physical and mental health. Regular exercise can help control your weight; prevent disease; improve your mood, sleep, and energy levels; and generally make it easier for you to tackle all the things — financial and otherwise — on your plate each day.

To get on the health track, you could join a gym; work with a personal trainer or nutritionist; or sign up for a yoga, weight, or other fitness class. Or start on your own personal fitness path by purchasing home exercise equipment and workout gear for training trips around the block or a 5K.

Sore muscles? Chronic backache? Neck pain from working at a computer all day? Maybe it's time to see a physical therapist and invest in an ergonomic office chair, a stand-up desk, or a new bed and pillows. What about your diet? Do your eating habits need improvement? Consider investing in some new kitchen equipment/appliances, cookbooks, a food delivery service, or even a cooking class so you can try new recipes and discover healthy dishes you enjoy.

Along with better physical health, maybe you could benefit from some inner peace and quiet, too. Consider creating a meditation spot inside or outside your home where you can go to relax and reflect on your day: a bench under a favorite tree, a new chair next to the fireplace, or a small desk near a window.

Expand your horizons, literally and figuratively Do you feel as though you're living the same day over and over again? Doing something outside your normal routine can shake out the cobwebs and give you fresh inspiration and a new perspective. Possibilities include taking a trip to a new destination, participating in a short volunteer vacation, enrolling in an adult education class, or getting involved in a new project or hobby and seeing how much fun a creative outlet can be. You don't have to limit yourself to one!

Get up-to-date Still sporting clothes, eyeglasses, or a hairstyle from your younger days? Carrying a worn briefcase or bag to work every day? Trying to accomplish tasks on an old laptop? Maybe it's time to update your wardrobe and accessories.

When you have many financial obligations, it's easy to put yourself last. But occasionally, it's important to put yourself first. In addition to the immediate benefits, investing in your health and interests might pay off in the future in the form of lower health-care costs, a wider social network of friends, fulfilling hobbies, and a new perspective on life.

Are my student loans eligible for public service loan forgiveness

Sometimes student loans might be eligible for public service loan forgiveness. Read on to see when student loans are eligible for public service loan forgiveness.

If you are employed by a government or not-for-profit organization, you may be able to receive loan forgiveness under the Public Service Loan Forgiveness (PSLF) Program. The PSLF, which began in 2007, forgives the remaining balance on federal Direct Loans after you have made 120 monthly payments under a qualifying repayment plan while working full-time for a qualifying employer.

Qualifying employers for PSLF include: government organizations (e.g., federal, state, local), not-for-profit organizations that are tax-exempt under Section 501C(3) of the Internal Revenue Code, and other types of not-for-profit organizations that are not tax-exempt if their primary purpose is to provide certain types of qualifying public services.

If you plan on applying for PSLF in the future, you should complete and submit an Employment Certification form annually or when you change employers. The U.S. Department of Education will use the information on the form to let you know if you are making qualifying PSLF payments.

You can apply for PSLF once you have made 120 qualifying monthly payments towards your loan (e.g., 10 years). Keep in mind that you must be working for a qualifying employer both at the time you submit the application and at the time the remaining balance on your loan is forgiven.

Recently, PSLF made headlines due to the fact that many borrowers who thought they were working toward loan forgiveness under the program found out they were ineligible because they were in the wrong type of repayment plan. Many borrowers claimed they were told by their loan servicer that they qualified for PSLF, when in fact they did not. In 2018, Congress set aside $350 million to help fix this problem. The Consolidated Appropriations Act provides limited, additional conditions under which borrowers may become eligible for loan forgiveness if some or all of the payments they made on their federal Direct Loans were under a nonqualifying repayment plan for the PSLF Program. For more information on PSLF, visit studentaid.ed.gov.

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Famous People who Failed to Plan Properly

It's almost impossible to overstate the importance of taking the time to plan your estate. Nevertheless, it's surprising how many American adults haven't done so. You might think that those who are rich and famous would be way ahead of the curve when it comes to planning their estates properly, considering the resources and lawyers presumably available to them. Yet there are plenty of celebrities and people of note who died with inadequate (or nonexistent) estate plans.

Most recently

The Queen of Soul, **Aretha Franklin,** died in 2018, leaving behind a score of wonderful music and countless memories. But it appears Ms. Franklin died without a will or estate plan in place. Her four sons filed documents in the Oakland County (Michigan) Probate Court listing themselves as interested parties, while Ms. Franklin's niece asked the court to appoint her as personal representative of the estate.

All of this information is available to the public. Her estate will be distributed according to the laws of her state of residence (Michigan). In addition, creditors will have a chance to make claims against her estate and may get paid before any of her heirs. And if she owned property in more than one state (according to public records, she did), then probate will likely have to be opened in each state where she owned property (called ancillary probate). The settling of her estate could drag on for years at a potentially high financial cost.

A few years ago

Prince Rogers Nelson, who was better known as **Prince,** died in 2016. He was 57 years old and still making incredible music and entertaining millions of fans throughout the world. The first filing in the Probate Court for Carver County, Minnesota, was by a woman claiming to be the sister of Prince, asking the court to appoint a special administrator because there was no will or other testamentary documents. As of November 2018, there have been hundreds of court filings from prospective heirs, creditors, and other "interested parties." There will be no private administration of Prince's estate, as the entire ongoing proceeding is open and available to anyone for scrutiny.

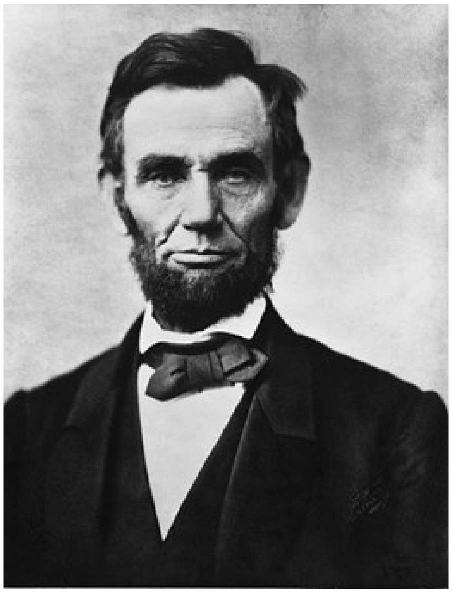
A long time ago

Here are some other notable personalities who died many years ago without planning their estates.

Pablo Picasso died in 1973 at the ripe old age of 91, apparently leaving no will or other testamentary instructions. He left behind nearly 45,000 works of art, rights and licensing deals, real estate, and other assets. The division of his estate assets took six years and included seven heirs. The settlement among his nearest relatives cost an estimated $30 million in legal fees and other related costs.

The administration of the estate of **Howard Hughes** made headlines for several years following his death in 1976. Along the way, bogus wills were offered; people claiming to be his wives came forward, as did countless alleged relatives. Three states — Nevada, California, and Texas — claimed to be responsible for the distribution of his estate. Ultimately, by 1983, his estimated $2.5 billion estate was split among some 22 "relatives" and the Howard Hughes Medical Institute.

Abraham Lincoln, one of America's greatest presidents, was also a lawyer. Yet when he met his untimely and tragic death at the hands of John Wilkes Booth in 1865, he died intestate —



without a will or other testamentary documents. On the day of his death, Lincoln's son, Robert, asked Supreme Court Justice David Davis to assist in handling his father's financial affairs. Davis ultimately was appointed as the administrator of Lincoln's estate. It took more than two years to settle his estate, which was divided between his surviving widow and two sons.