Condor Capital Reviews 4th Quarter 2019

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Domestic equities finished the year strong, gaining 9.06% in the fourth quarter and an astounding 31.48% for 2019 overall. Growth stocks continued to outperform, though value did make a bit of a comeback in the second half of the year. Technology and healthcare were among the top sectors in the quarter.

International equities generally had a strong quarter, with developing nations performing particularly well. The U.K. was a bright spot in developed markets, while China and Brazil outperformed in the emerging market space.

The Federal Reserve remains accommodative and, while still flat, the yield curve is no longer inverted. Still, yields remain historically low and risk-on areas of the debt market such as high yield continue to outperform.

December 2019

Financial markets finished the year near all-time highs, wrapping up a decade marked almost exclusively by bull markets. The S&P 500 Index gained another 9.06% in the fourth quarter, resulting in an overall gain of 31.48% for the U.S. benchmark in 2019. While it should be noted that this stellar year came off a low base thanks to a relatively large market downturn in December 2018, it still proved to be a year of strong economic growth and multiple expansion, with markets resilient against trade and political uncertainties. As was often the case in 2019, growth stocks outperformed their value counterparts in the fourth quarter, though the gap between the two did narrow in the second half of the year. Healthcare and technology stocks significantly outpaced many other sectors, while real estate and utilities lagged notably. Small-caps finished the quarter as the top performers, followed by large-caps and then mid-caps.

While there was some variation across international markets, broadly speaking the group had a very positive fourth quarter. Emerging markets equities tended to outpace their developed counterparts, with China benefitting from positive developments in trade talks with the U.S. and Brazil moving higher on the passage of a pro-market pension reform bill. The United Kingdom bounced back strongly in the quarter after a recent period of stagnation, as a relatively decisive election gave hope that the nation might finally be able to put the uncertainty surrounding Brexit in the rearview mirror.

Accommodative global central bank policies and low corporate default rates helped keep yields historically low in the fixed income space, with the 10-year Treasury yield finishing the year at just 1.92%. While the yield curve does remain relatively flat, it is no longer inverted, an important development at least psychologically for investors. The current low-rate environment has continued to lead yield-seeking investors towards more risk-on areas of the bond market, and high-yield debt was a top performer in the period. On a duration basis, short- and intermediate-term bonds tended to outperform the longest-dated issues. These patterns generally held true for both corporate and municipal bonds in the fourth quarter.

Outlook – Even with the unprecedented length of the current bull market, we remain cautiously optimistic moving forward. We have no reason to believe that consumer spending cannot continue to drive the domestic economy, especially with unemployment rates as low as they are. This strong consumer spending should help translate into corporate earnings, which are expected to return to positive territory next year with consensus estimates coming in at the high single-digit range. Even if this rosy outlook does not fully materialize, the Federal Reserve has shifted to an accommodative footing and stands ready to step in with more accommodative monetary policy to backstop markets if conditions do in fact weaken. The United States and China are as close to stabilizing trade relations as they have been in years and an end may finally be in sight for the prolonged drama of Brexit. All this being said, the approach of the 2020 presidential election is going to have a real impact on investor sentiment and could create temporary overhangs depending on the prevailing narrative at any one time. Still, absent a victory by a candidate likely to truly rattle financial markets, such as Elizabeth Warren, we don't expect any major disruptions on this front.

We are a bit less bullish on international markets, as reflected by our relatively low current allocation to foreign equities. Even with the potential resolution of major political question marks, such as the China trade deal and Brexit, population dynamics and fiscal policy structures in developed markets like Japan and Europe appear likely to continue to constrain growth moving forward. Meanwhile, the rising importance of China, in terms of both its growing economic influence globally and its increasing size in most international indices, raises further questions over the contamination of anti-competitive practices and state control on foreign markets more broadly.

Despite these risks, there are still a number of positive catalysts that could propel international markets higher moving forward. In fact, the U.S. and China have already taken the first steps towards reconciliation with the signing of a first-phase trade deal on January 15th. This will benefit not just the U.S. and China, who are directly embroiled in the dispute, but also many European firms whose supply chains and revenues are heavily intertwined with both economies. Perhaps most importantly, as with the U.S., global central banks almost across the board remain accommodative and prepared to step in to boost financial markets should the need arise. Though rates are already negative in many foreign markets, this continued loose stance by monetary policymakers should continue to act as a safety net.

As we mark the end of a decade that encapsulated the longest bull market in U.S. history, with the S&P 500 Index rising well over 300%, we would like to take this opportunity to emphasize the importance of viewing financial markets through a long-term lens. Investors who attempted to cut their losses in the depths of the 2009 financial crisis missed out on at least the early leg of the subsequent recovery, while others who "panic sold" due to factors like the U.S. credit rating downgrade of 2011, 2016 election uncertainties, the 2019 yield curve inversion, or any of a number of other highly publicized headwinds likely ended up leaving gains on the table. None of this is to say that recessions are a thing of the past or that the current bull market will continue uninterrupted forever. We will continue to experience market corrections and economic recessions. The point is simply that the entire basis for investing is a trade-off between risk and reward, and these competing factors must be balanced with a proper long-term allocation rather than swinging from one extreme to another. As famed investor Peter Lynch puts it, "Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves." This is the reason the vast majority of clients have both stocks and bonds in their portfolios and why the balance of the two is based on individual risk tolerance and long-term planning needs rather than the next round of trade talks or election cycle. As we head into this new decade, we wish you and yours all the best and thank you for your continued trust.

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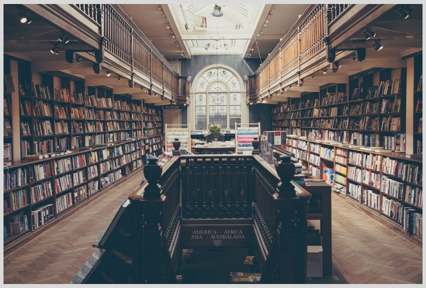

There are many ways to save for your child's eventual higher education expenses, and the options can sometimes feel confusing. Read on for more information on the 529 plan and why you may wish to consider one as a college savings vehicle.

For College Savings, 529 Plans Are Hard to Beat

Raising kids is hard enough, so why not make things easier for yourself when it comes to saving for college? Ideally, you want a savings vehicle that doesn't impose arbitrary income limits on eligibility; lets you contribute a little or a lot, depending on what else happens to be going on financially in your life at the moment; lets you set up automatic, recurring contributions from your checking account so you can put your savings effort on autopilot; and offers the potential to stay ahead of college inflation, which has been averaging 3% to 4% per year.[1] Oh, and some tax benefits would be really nice, too, so all your available dollars can go to college and not Uncle Sam. Can you find all of these things in one college savings option? Yes, you can: in a 529 plan.

Benefits

529 college savings plans offer a unique combination of features that are hard to beat when it comes to saving for college, so it's no surprise why assets in these plans have grown steadily since their creation over 20 years ago.

Eligibility. People of all income levels can contribute to a 529 plan—there are no restrictions based on income (unlike Coverdell accounts, U.S. savings bonds, and Roth IRAs).

Ease of opening and managing It's relatively easy to open a 529 account, set up automatic monthly contributions, and manage your account online. For example, you can increase or decrease the amount and frequency of your contributions (e.g., monthly, quarterly), change the beneficiary, change your investment options, and track your investment returns and overall progress online with the click of a mouse.

Contributions. 529 plans have high lifetime contribution limits, generally $350,000 and up. (529 plans are offered by individual states, and the exact limit depends on the state.) Also, 529 plans offer a unique gifting feature that allows lump-sum gifts up to five times the annual gift tax exclusion — in 2020, this amount is up to $75,000 for individual gifts and up to $150,000 for joint gifts — with the potential to avoid gift tax if certain requirements are met. This can be a very useful estate planning tool for grandparents who want to help pay for their grandchildren's college education in a tax-efficient manner.

Tax benefits. The main benefit of 529 plans is the tax treatment of contributions. First, as you save money in a 529 college savings plan (hopefully every month!), any earnings are tax deferred, which means you don't pay taxes on the earnings each year as you would with a regular investment account. Then, at college time, any funds used to pay the beneficiary's qualified education expenses — including tuition, fees, room, board, books, and a computer — are completely tax-free at the federal level. This means every dollar is available for college. States generally follow this tax treatment, and many states also offer an income tax deduction for 529 plan contributions.

Drawbacks

But 529 plans have some potential drawbacks.

Tax implications for funds not used for qualified expenses. If you use 529 plans funds for any reason other than the beneficiary's qualified education expenses, earnings are subject to income tax (at your rate) *and* a 10% federal penalty tax.

Restricted ability to change investment options on existing contributions. When you open a 529 college savings plan account, you're limited to the investment options offered by the plan. Most plans offer a range of static and age-based portfolios (where the underlying investments automatically become more conservative as the beneficiary gets closer to college) with different levels of risk, fees, and management objectives. If you're unhappy with the market performance of the option(s) you've chosen, you can generally change the investment options for your *future* contributions at any time. But under federal law, you can change the options for your *existing* contributions only twice per year. This rule may restrict your ability to respond to changing market conditions, so you'll need to consider any investment changes carefully.

Getting Started

529 college savings plans are offered by individual states (but managed by financial institutions selected by the state), and you can join any state's plan. To open an account, select a plan and complete an application, where you will name an account owner (typically a parent or grandparent) and beneficiary (there can be only one); choose your investment options; and set up automatic contributions if you choose. You are then ready to go. It's common to open an account with your own state's 529 plan, but there may be reasons to consider another state's plan; for example, the reputation of the financial institution managing the plan, the plan's investment options, historical investment performance, fees, customer service, website usability, and so on. You can research state plans at the College Savings Plans Network.

[1] College Board, Trends in College Pricing, 2014-2018

New Years Resolutions aren't just for diet and exercise anymore. This article looks back at common financial pitfalls and provides some simple, constructive ideas for improving our financial health in the new year.

Hindsight Is 2020: What Will You Do Differently This Year?

According to a recent survey, 76% of Americans reported having at least one financial regret. Over half of this group said it had to do with savings: 27% didn't start saving for retirement soon enough, 19% didn't contribute enough to an emergency fund, and 10% wish they had saved more for college.[1]

The saving conundrum

What's preventing Americans from saving more? It's a confluence of factors: stagnant wages over many years; the high cost of housing and college; meeting everyday expenses for food, utilities, and child care; and squeezing in unpredictable expenses for things like health care, car maintenance, and home repairs. When expenses are too high, people can't save, and they often must borrow to buy what they need or want, which can lead to a never-ending cycle of debt.

People make financial decisions all the time, and sometimes these decisions don't pan out as intended. Hindsight is 20/20, of course. Looking back, would you change anything?

Paying too much for housing

Are housing costs straining your budget? A standard lender guideline is to allocate no more than 28% of your income toward housing expenses, including your monthly mortgage payment, real estate taxes, homeowners insurance, and association dues (the "front-end" ratio), and no more than 36% of your income to cover *all your monthly debt obligations, including housing expenses plus credit card bills, student loans, car loans, child support, and any other debt that shows on your credit report and requires monthly payments (the "back-end" ratio).*

But just because a lender determines how much you can afford to borrow doesn't mean you should. Why not set your ratios lower? Many things can throw off your ability to pay your monthly mortgage bill down the road — a job loss, one spouse giving up a job to take care of children, an unexpected medical expense, tuition bills for you or your child.

Potential solutions: To lower your housing costs, consider downsizing to a smaller home (or apartment) in the same area, researching and moving to a less expensive town or state, or renting out a portion of your current home. In addition, watch interest rates and refinance when the numbers make sense.

Paying too much for college

Outstanding student debt levels in the United States are off the charts, and it's not just students who are borrowing. Approximately 15 million student loan borrowers are age 40 and older, and this demographic accounts for almost 40% of all student loan debt.[2]

Potential solutions: *If you have a child in college now, ask the financial aid office about the availability of college-sponsored scholarships for current students, or consider having your child transfer to a less expensive school. If you have a child who is about to go to college, run the net price calculator that's available on every college's website to get an estimate of what your out-of-pocket costs will be at that school. Look at state universities or community colleges, which tend to be the most affordable. For any school, understand exactly how much you and/or your child will need to borrow — and what the monthly loan payment will be after graduation — before signing any loan documents.*

Paying too much for your car

Automobile prices have grown rapidly in the last decade, and most drivers borrow to pay for their cars, with seven-year loans becoming more common.[3] As a result, a growing number of buyers won't pay off their auto loans before they trade in their cars for a new one, creating a cycle of debt.

Potential solutions: Consider buying a used car instead of a new one, be proactive with maintenance and tuneups, and try to use public transportation when possible to prolong the life of your car. As with your home, watch interest rates and refinance when the numbers make sense.

Keeping up with the Joneses

It's easy to want what your friends, colleagues, or neighbors have — nice cars, trips, home amenities, memberships — and spend money (and possibly go into debt) to get them. That's a mistake. Live within *your means, not someone else's.*

Potential solutions: Aim to save at least 10% of your current income for retirement and try to set aside a few thousand dollars for an emergency fund (three to six months' worth of monthly expenses is a common guideline). If you can't do that, cut back on discretionary items, look for ways to lower your fixed costs, or explore ways to increase your current income.

[1] Bankrate's Financial Security Index, May 2019

[2] Federal Reserve Bank of New York, Student Loan Data and Demographics, September 2018

[3] *The Wall Street Journal,* The Seven-Year Auto Loan: America's Middle Class Can't Afford Their Cars, October 1, 2019

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Could You Survive a No-Spend Month?

Would you take on a 30-day challenge to spend money only on necessities such as rent, utilities, and groceries? During a no-spend month, many common activities — including dining out, buying movie or concert tickets, and shopping for clothes — are avoided at all costs.

The idea behind a 30-day challenge is that the time period is just long enough to help change bad habits without seeming intolerable. If frugality isn't normally your forte, closely scrutinizing your spending could reap hundreds of dollars in savings. More important, it could help identify ways you might be wasting money on a regular basis.

Start by setting a positive goal for the money. Will you use the extra savings to pay down credit card debt or build up your emergency fund?

Where are some other ways to prepare for a successful challenge.

Time it right. Periods that include major holidays, planned vacations from work, and family birthdays are probably not the best for taking on this type of household experiment. On the other hand, it could be ideal to begin the new year with a "fiscal fast."

Establish rules. Take your fixed expenses (i.e., rent/mortgage, utilities, phone bill, insurance payments) into account when planning your no-spend month. Evaluate your typical monthly discretionary spending to figure out where you can reduce or eliminate your spending for the month.

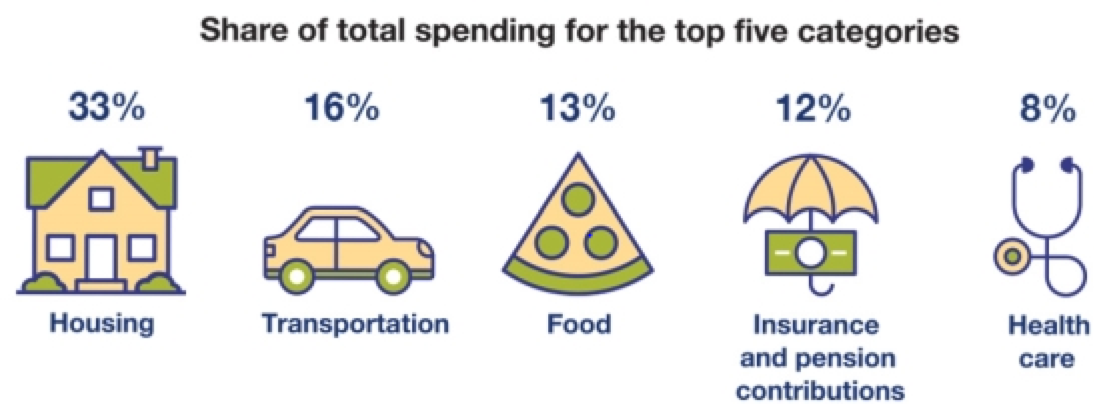
Plan to break patterns. Fill up your freezer and pantry with groceries and collect ideas for easy homemade meals. Steer clear of your personal spending triggers, which could mean staying off the Internet or waiting until later to meet up with friends who are big spenders.

Seek out free and fun entertainment. You don't have to stay home for an entire month. Spend the day visiting a public park or beach, or look for free concerts, outdoor movies, art festivals, workshops, and other special events hosted by community groups.

Stay focused. When you get tempted to spend, remember your goal for the money you've saved. Keep a record of your progress to have a tangible reminder that your efforts will pay off.

How Consumers Spend Their Money

Each year, the Bureau of Labor Statistics reports on consumer spending patterns. According to the 2019 report, consumers spent an average of $61,224 in 2018.*



*Average annual expenditures per consumer unit. Consumer units include families, single persons living alone or sharing a household with others but who are financially independent, and two or more persons living together who share major expenses.

U.S. Bureau of Labor Statistics, Consumer Expenditures 2018, released September 2019