Comprehensive Investment Management, LLC
Fee Only Personal Financial Planning
Fall 2019

A Review of the Financial Markets at September 30, 2019

As the quarter came to an end the Wall Street Journal ran this headline: *S&P 500 turns in best performance in the first three quarters of a year since 1997*. The index had rallied nearly 19% but you had to keep reading to learn that the S&P was a mere 2.2% higher than it was a year before. That was because of a brutal selloff in the fall of 2018. It's misleading to tout stock performance during a period that was immediately preceded by a horrible one. You can see the same significant disconnect in the reported performance of the mutual funds. For example, year to date 2019 Brown Capital is up 24% but over the last twelve months is down 6%. Same for T Rowe Price Diversified Small Cap up 22% in 2019, down 1% from September 30, 2018.

The following article and accompanying charts describe the performance of a select group of mutual funds. Recent market activity can be newsworthy, but for investment purposes performance over longer periods, while not predictive, is significantly more meaningful.

US Stocks

For the quarter our best performer was Vanguard's Dividend Growth (DG) fund (+3.4%). DG tends to do better when our more aggressive funds hit a rough patch. As the chart shows they have hit a rough patch. DG focuses on high-quality companies with both the ability and commitment to grow their dividends. It's hard to find anything wrong with that approach. Dan Weiner, our major source of information about all things Vanguard has always liked DG. One reason is DG is one of the very few funds Vanguard offers that has only one manager, Don Kilbride of Wellington Management. Weiner hates it when funds have multiple managers because he thinks it leads to a divergence in the investing decisions. The more managers the more a fund starts to perform like an index fund. In other words too many cooks in the kitchen. Should we sell out of some of our

Annual Returns Through September 30, 2019					
US Stocks	**1 yr**	**3 yr**	**5 yr**	**10 yr**	**15 yr**
Large Cap	-2.4	11.7	10.3	14.1	11.5
Mid Cap	-9.0	12.3	11.3	15.0	11.0
Small Cap	-5.5	12.8	12.1	14.6	11.3
Average	-5.6	12.2	11.2	14.6	11.3
VG Stock Mkt Index	2.8	12.7	10.3	13.0	9.1

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Mutual Fund Categories	Quarter Return	Annual Returns Through September 30, 2019				
		1 Year	**3 Years**	**5 Years**	**10 Years**	**15 Years**
Short Term Bonds	1.0	5.8	2.1	2.1	2.3	3.0
Intermediate Term Bonds	1.8	9.6	3.2	3.6	4.7	4.7
US Diversified Stocks	-.9	-3.0	13.3	11.6	14.2	11.3
Healthcare Stocks	-4.6	-7.6	8.2	8.4	15.6	12.5
Foreign Stocks	-3.3	-1.8	8.1	5.6	8.4	8.6

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funds like PRIMECAP Aggressive Growth (PCOAG) because it's negative 13% over the last twelve months. If ten years ago you invested $25,000 in PCOAG the balance now would be $126,000. With Dividend Growth after ten years the balance would be $95,000. In reality CIM clients have been invested in both those funds for well over ten years and have been rewarded with double digit returns. The question for our mutual fund managers is not*: What have you done for me lately?* Instead it is: *What have you done for me in the long term?*

Foreign Stocks

As you know the argument for investing in foreign funds is for our portfolios to reflect to an extent the diversity of the global markets. The US economy continues to outpace foreign countries and the stock returns reflect that. For awhile now we have been reducing our foreign allocation, settling now at 8% of the portfolio, which is 16% of stocks. We have never bought into Vanguard's much higher recommendation for foreign stocks, which is now at 40%. The average ten year return for our foreign funds is 8.4%. Using the same $25,000/10 year scenario described above for PCOAG and DG the balance would have grown to $54,000.

Intermediate Bonds

Bonds are enjoying their best twelve months in a long time. During the period the bond heavier Wellesley fund out performed the stock heavier Wellington fund. When interest rates go down, as they have, bond prices go up. In the long run, bond investors are better off with high interest rates, so the good news is short term. Our expectation for bonds is that they temper the risk of our portfolio and provide returns consistent with their historic long term average of 6%**.**

Annual Returns Intermediate Bonds	1 yr	3 yrs	5 yrs	10 yrs	15 yrs
Corporate	10.9	3.3	3.9	5.1	4.9
Treasury	9.9	1.9	2.7	3.2	4.0
Inflation Protected	7.0	2.0	2.3	3.3	3.7
High-Yield Corporate	8.0	5.7	5.4	7.4	6.2
Bonds vs. Stocks: Balanced Funds With Opposing Allocations					
Wellesley 65% bonds	10.5	6.6	6.5	8.1	7.0
Wellington 65% stocks	8.6	10.0	8.1	9.8	8.3

Looking Ahead

Here's an understatement. It's hard to say how the markets are going to perform going forward. It's not everyday there are plans afoot to impeach the President and not everyday is a trade war waged between the two biggest economies in the world. There is another trade tiff as well. The US trade representative said it's going to impose tariffs on billions of dollars of imports from the European Union. The United Kingdom has the world's sixth largest economy and the Prime Minister is preparing to leave the EU with or without an amicable deal. And it's not everyday that a presidential election looms with the country divided perhaps more than it has ever been. More than anything financial markets don't like uncertainty. We now have the mother load of uncertainty.

The US economy is still reasonably strong. Credit for that is being given to the consumer. The unemployment is the lowest it has been in fifty years and there is more wage growth than we have seen since the Great Recession. But consumer confidence is a lagging fickle indicator, ready to turn south at the first sign of trouble. Global growth weakening further with manufacturing in recession due primarily to trade wars. Bell-weather companies like Fed Ex have been sending negative signals for close to a year.

How much of the uncertainty is already priced into the market? Banks, retailers, transportation companies and energy producers are now valued near ten year lows. Will interest rate cuts by the Federal Reserve be enough to boost a positive economic cycle that is already the longest in history? Even if they do, with rates at historic lows there's not much more to cut. We know this. Through it all, large and diverse economies like the US have shown they can take a beating and keep on ticking.

Reporter's Roundup

Grandparents and 529 Education Accounts:

Helping fund the education of grandchildren through 529 accounts is an intriguing option which has several advantages and one potential disadvantage. First the advantages. The account grows tax free. As owner of the account you remain in control of the money. If one child wins a scholarship you can move the money into another's account. If parents divorce there's no risk the money will get divvied up and spent for other purposes. If you later find you need the money yourself, you can just close the account, although I find that goes a lot smoother if you didn't tell the named beneficiary about the account in the first place. If withdrawn funds are not used for qualified education expenses the growth will be taxed along with a 10% penalty.

The disadvantage involves eligibility for financial aid. You'll want to time your 529 withdrawals carefully. When applying for financial aid, a grandparent-controlled 529 doesn't show up as an asset belonging to either the parents or the child, which is a plus. But when a grandparent makes a 529 withdrawal to pay college expenses, it counts as income for the student, which causes 50% of it to be considered income which can seriously reduce aid eligibility. To get around this problem, you might use the 529 to pay education expenses after your grandchild has filed his or her final aid application, that way there is no impact. However, if your grandchild goes to a private college, it may require the CSS Profile financial aid form and may be asked to disclose whether they are beneficiaries of a 529 account including those funded by grandparents. Another option as the time for applications gets close is to gift the 529 account to a parent. It will still count against financial aid but at a much lower percentage.

Avoid Probating a Will:

At death, assets are transferred to heirs by probating the will of the deceased. The county office issues certificates which are used to get the release of assets to the estate. The executor is responsible for seeing that all expenses including taxes are paid. The remainder of the assets are then distributed to the heirs in accordance with the will. To avoid probate, designated beneficiaries can be added to most bank and investment accounts. At Vanguard beneficiaries can be added to IRA and non-IRA individual accounts, but not to joint accounts. The IRA designations may include "per stirpes" which means if one of the primary beneficiaries predeceases the owner that individual's portion will go to their children if any. Per stirpes is not available for non IRA Vanguard accounts, so in that situation the owner will have to make the change to add the children. If the decedent was a Pennsylvania resident, designated beneficiaries simplifies the Vanguard process but does not necessarily speed it up. Vanguard does not release non-IRA funds until a certification is issued by the State indicating an inheritance return for the deceased was filed and accepted. Typically that takes between three and six months from when the return was filed. Surprisingly the certificate is not a Pennsylvania requirement, but is determined by the financial institution. A bank may not require it. The Inheritance tax rate depends on the heir's relationship to the decedent. For a spouse or a charity the rate is 0, for lineal heirs 4.5%, siblings 12% and all others 15%.

Comprehensive Investment Management, LLC

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Personal Financial Planning Services

It's morning in the personal financial services industry

The CIM investment strategy:
Control risk yet outperform the market by using well managed, no commission, low cost mutual funds. Maintain appropriate asset allocation and diversification. Minimize taxes.

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Recession Q & A with Dan Weiner

Q: Dan, thanks for taking my question. You seem like a pretty smart guy, so let me ask how can I recession-proof my portfolio? With all the crazy news lately I've been having trouble getting a good night sleep. And what is a recession, anyway?

A: A recession is when economic activity declines over two successive quarters. Since the Depression the US economy has had thirteen recessions. They range in length from eight months to a year and a half with an average of eleven months. Most start before anybody realizes it and end the same way. For example we are just learning that US manufacturing is in recession. Who knew? Germany yes, but the US? It takes awhile for the statistics to be available. Only after a recession is long over, will the National Bureau of Economic Research announce its start and end dates.

Even if you knew when a recession was going to occur, remember that the stock market and the economy are not the same thing. They don't move in lock-step. The S&P 500 index rose during four of the last nine recessions.

The typical recession is an another example of the noise long term investors should ignore. However, a few recessions have been noisier than others. During the Great Recession the S&P dropped 38%. At the end of November 2007 it stood at 1481 and 919 at the end of June 2009. We didn't see 1400 again until March 2012. They were the days. The worst part was similar to being stuck in a traffic jam. While in the middle of it you have no idea when it will end. After you are out of it you often look back and say that it wasn't so bad. Today the S&P is at 2977. The average CIM client portfolio fully regained its Great Recession drop in market value in just a little over two years.

Dan Weiner and partner Jeff De Maso are the editors of The Independent Adviser for Vanguard Investors.

Submit your questions at CIMontheweb.com.