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Market Update

Since December 2019, the stock market has continued to move higher and hit new highs. I believe this is the result of more optimism that U.S. corporate earnings and world economies will pick up. In addition, I think most investors believe that many industrialized countries' central banks will continue to provide stimulus and accommodative monetary policy, thereby, leading to stable and/or low interest rates. With the recent truce and phase one agreement between China and the United States there is optimism that this will also lead to increased trade and growth worldwide.



After a year like 2019, the big question is whether the stock market has gotten ahead of itself. This is a question that many investors are asking. PE ratios have expanded in anticipation of increased earnings. And while I think the stock market is a collective prediction of the future by investors, no one can predict or forecast the stock market. We've seen a dramatic increase in valuations of big tech companies last year and it's continuing this year. They have led the market higher and the most prolific bellwether would probably be Apple computer. "Apple has accounted for nearly 8 ½% of the S&P total return last year."¹ It was up 86.2% in 2019 and with the trade agreement in place there are no longer the fears that Apple's China sales would fall off a cliff. Apple is perceived as transforming its' company more into services and many investors feel it is well prepared for the future, especially with 5G.



We almost had an incident with Iran that could have derailed the stock market rally and upward climb. However, in my opinion, investors view Iran as extremely weak (both economically and politically) and don't foresee a dramatic escalation occurring. On the positive side, we hope this could be a turning point in history prompting both sides to put aside some of their differences to try to resolve the conflict and potentially help world growth.

Regulations & Tax Changes

As we closed the year, there were important changes in U.S. regulations and policies with the signing of the SECURE Act with significant changes such as:

1. Required minimum distributions increased to age 72.
2. No more age restrictions on traditional IRA contributions.
1. Stricter rules for post death RMDs; in other words, curtailing stretch IRAs.
4. Part time employees will have access to 401k's.
5. Employer can offer annuities in 401k plans.
6. Possible withdrawal from 529 Plans for repayment of student loans.



It would be advisable for investors interested in these changes to contact their respective professionals.



Another major government policy change occurred in 2017 when President Trump signed the Tax Cut & Jobs Act (TCJA). This made major changes to the tax code which was the biggest change in 30 years. This has prompted many wealthy investors to move their residence from high tax states to low tax states and has shifted the prosperity of many state and local governments.

Another major change in 2017 was the tax law regarding art. Many wealthy investors would exchange one piece of art for another utilizing a 1031 Exchange, which allowed deferral of capital gains. But after the 2017 tax act, this is no longer allowed. I believe this had a major impact on sizeable purchases of art. Yet, the 1031 Exchange for real estate was mostly kept intact perhaps because the President has made his fortune investing in real estate.



The government also introduced new incentives for real estate investments by creating nearly 9,000 opportunity zones which are disadvantaged or economically distressed U.S. communities and neighborhoods. The investment purpose of the opportunity zones is to either defer or potentially eliminate capital gains for investing in these zones. Furthermore, it helps areas of the country that haven't seen much growth and/or capital influx to help turn around these communities. These tax law changes may prompt investors to defer their art sales and invest in opportunity zones but it's not without risk. Generally, these areas have been neglected for investment and may never rebound or if they do, it could take a long time. In fact, one must invest 10 years before capital gains are eliminated hence liquidity could be a concern. However, the final opportunity zone tax breaks and regulations were issued a couple of weeks ago. Therefore, do your homework and consult professionals before investing in this new asset class.

Future of the Retail Industry



Another important area that is seeing disruption is retail and its related real estate such as shopping malls and/or strip malls. There are too many retail outlets to accommodate the demographic and generational forces which are dramatically changing this real estate sector. Therefore, real estate developers and investors must adjust their strategies accordingly. Consumers are demanding more from retail outlets including the desire to have new experiences. Consequently, new shopping malls must offer experiences that entertain and enlighten the consumer while offering convenient necessities such as professional services like dentistry or medical offices...

On the flip side of this industry, is the desire for consumers to shop online which has created a great opportunity in the industrial real estate sector and is fueled by the ecommerce explosion. Many online companies need facilities close to the consumer, not only to deliver goods and services but to handle returns as well. It is estimated that 30% of all ecommerce goods are returned. This activity has created further investment in this area and private equity has been incredibly active in buying many companies and facilities to take advantage of this disruption. Consequently, one can see how disruption within an industry can create opportunity in another facet of that industry.



Conclusion

In conclusion, we reviewed how real estate and art investing have been affected by taxes and other variables. But stock investors also need to be cognizant of similar impacts to their net returns such as:

1. Are you assuming more risks to achieve higher returns? Do you look at beta... a measure of stock volatility and systematic risk?
2. Are there tax consequences that diminish your returns and to what extent?
3. Do you have adequate liquidity in your investments?
4. Are your returns not as valuable due to inflation? For example, a 10 year treasury yield of 2% with an inflation rate of 2% would be a net return of zero.

All of these are important factors to measure total net return and see if your investments are on the right course and achieving the desired results. We are always cognizant of these variables and consequences and hope for continued success and a healthy and prosperous new year.

Optimistically Yours,



Raymond F. Saleeby
President

Did You Know

Long-Term Capital Gains Tax Rates in 2020

<https://www.fool.com/investing/2019/12/07/long-term-capital-gains-tax-rates-in-2020.aspx>

The massive triumph of the rich, illustrated by stunning new data

<https://www.washingtonpost.com/opinions/2019/12/09/massive-triumph-rich-illustrated-by-stunning-new-data/>

Just 26 of the world's richest men have more combined wealth than the poorest 3.8 billion people

<https://www.businessinsider.com/worlds-richest-billionaires-net-worth-2017-6>

Warren Buffett will only hire people with high integrity - here are 5 ways they separate themselves from the pack

<https://www.businessinsider.com/warren-buffett-hire-people-with-integrity-heres-how-to-find-them-9>

11 ways people dodged the draft during the Vietnam War

<https://www.businessinsider.com/11-ways-people-dodge-the-draft-during-the-vietnam-war-2020-1>

Chinese restaurants are closing. That's a good thing, the owners say.

<https://www.nytimes.com/2019/12/24/upshot/chinese-restaurants-closing-upward-mobility-second-generation.html>

Bill Gates, Warren Buffett, and Oprah all use the 5-hour rule – here's how it works

<https://www.businessinsider.com/bill-gates-warren-buffet-and-oprah-all-use-the-5-hour-rule-2017-7>

4 positive tax changes you should know about for 2020

<https://www.fool.com/taxes/2020/01/04/4-positive-tax-changes-you-should-know-about-for-2.aspx>

Eat better, feel better? Food advice from the year in well

<https://www.nytimes.com/2020/01/01/well/eat/eat-better-feel-better-food-advice-from-the-year-in-well.html>

How the U.S. became a nation divided

<https://www.wsj.com/articles/how-the-u-s-became-a-nation-divided-11576630802>

New Year's Resolution: Be more honest

<https://www.nytimes.com/2020/01/01/well/new-years-resolution-be-more-honest.html>

10 lessons from Warren Buffett

<https://www.fool.com/investing/2020/01/07/10-lessons-from-warren-buffett.aspx>

The ultimate 2020 tax planning guide

<https://www.fool.com/taxes/2020/01/01/the-ultimate-2020-tax-planning-guide.aspx>

The 16 best new products we saw at CES 2020

<https://www.businessinsider.com/best-products ces-2020>

Footnotes

1. Ramkumar, Amrith. (12 Jan 2020). “DJ Bets on Global-Growth Rebound Power Stock-Market Gains”. Dow Jones News. Retrieved from <https://www.morningstar.com/news/dow-jones/20200112689/bets-on-global-growth-rebound-power-stock-market-gains> 13 Jan 2020

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