



WEALTHSPIRE  
ADVISORS

## Wealthspire Advisors 2019 Q4 Review

### *“Farsighted Expectations”*

- The last time a balanced 50% stock/50% bond portfolio performed better than in 2019 was back in 1997
- Market observers have a mixed track record on short-term (1 year) predictions but much better on a longer term (10+ years)
- Those longer-term market projections suggest more tepid performance for a balanced portfolio over the next decade than what was enjoyed over the most recent 10 years and especially over the last year
- Politics can lead to sub-optimal decision making – make portfolio changes, if desired or needed, because of your financial circumstances and where you are versus your financial goals; we would suggest not making changes because of a reaction to who may occupy the White House one year from now

We have many reasons to reflect at the end of 2019 – end of the year, end of the decade, and Bronfman Rothschild’s and Sontag Advisory’s first year as Wealthspire Advisors. It is easier writing an “end of decade” letter than an “end of year” letter because of the obvious follow-up question: “what about next decade (year)?” Unlike the weather, where predicting over the long term has much more error than predicting for tomorrow, we have a better idea of probable outcomes for how markets will perform in the 2020s than how they will do in 2020. That is why we are strategic investors at Wealthspire Advisors. Tactical trading requires you to be right 1) on the way into a trade/portfolio change, 2) on the way out, and 3) for many of our clients, on an after-tax basis. Tall order indeed. Let’s look at some of JP Morgan’s 2019 Outlook published at the end of 2018, which is remarkably consistent with what we saw from many others:

- “The U.S. economy should slow but not stall in 2019 due to fading fiscal stimulus, higher interest rates and a lack of workers...” [verdict: mostly correct but for the wrong reasons]
- “Central banks in the U.S. and abroad will tighten monetary policy in 2019 – this should continue to push yields higher. In the latter stages of this cycle, investors may want to adopt a more conservative stance in their fixed income portfolios” [verdict: wrong and wrong]
- “Higher rates should limit multiple expansion, leaving earnings the main driver of U.S. equity returns...” [verdict: way wrong]

Interestingly, short-term futility on specific calls stand in stark contrast to longer-term guidance for broader portfolios. JP Morgan and others who put out return assumptions, many going back to the early 2000s, have done a much better job setting longer-term expectations for a balanced portfolio than any shorter-term call on a specific event, stock or category. How did they do over their 10+ year horizon? More often than not, long-term assumptions for a 60/40 stock/bond allocations have been within 1% of what ultimately transpired, which for an industry littered with bad short-term predictions is not bad.

Whether you look at our internally generated return assumptions or those from third parties, stock markets are unlikely to replicate their annualized double digit run of the 2010s. High quality bonds will likely return about what they currently yield, say low 2% for municipal bonds and low 3% for taxable bonds. Worried about a rise in interest rates? Maybe the greater fear is if rates continue to



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decline. Any rise in rates early this decade will likely see greater decade-long total return as the initial (negative) mark-to-market will eventually be more than offset by re-investing at higher rates (positive). The reverse would also be true. The bad news? With interest rates bouncing around historic lows and stock valuations in the upper range of history, expectations for the next ten years for a 60/40 portfolio today are as low as they have been in 15 years. The better news? Most longer-term projections (20-30 years) are for better returns than over the subsequent ten years.

A final anecdote on an interesting dichotomy we are hearing from clients: while we generally eschew politics here at Wealthspire Advisors (difficult in an election year), many clients do not! We have heard from as many clients asking about the prospects of a second Trump term (“should I reduce equity risk?”) as we have from those concerned about a Warren or Sanders presidency. The aggregate potential for bad investment behavior owing to politics seems very high. We do not take sides but have often written about the dangers of political portfolio construction. Reduce risk because you have enjoyed a 11-year bull market and you can afford to take less risk and still meet your goals, or reduce risk because your stock allocation has crept up and you have resisted your advisor’s suggestions to rebalance. Do not change risk profiles trying to crystal ball elections and their investment implications.

What could go wrong with our more subdued outlook? What may result in returns significantly better or worse than these? The short answer is a lot, and likely most of the variables are still quite unknown. One better known variable, which we alluded to in our Q3 video commentary, is the velocity of the recent Federal Reserve re-sizing of its balance sheet (post September 2019). Their stated reason is to fix a “technical and temporary” issue in the short-term money (repo) markets, but the size of this response is eyebrow-raising. With 1) foreign Central Banks reducing their purchases of U.S. Treasuries over the last five years and 2) the Federal deficits rising, the Federal Reserve is the buyer of last resort for the current Treasury issuance. Any out of consensus take on the next decade still comes down to interest rates, in our opinion. If the Federal Reserve slows its bond buying without lower deficits, interest rates likely rise and we have it “worse than consensus”; if they continue, then risk assets likely rise (in nominal terms) and we could have a “better than consensus” decade (again, in nominal terms). We suspect investing in the 2020s will be a wilder ride than in the decade just completed. As we begin our first full year as Wealthspire Advisors and look out to the decade ahead, we thank you again for the trust you place in us.



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## Markets

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Higher Return	US SM 11.51	US SM 4.72	US LC 1.94	US LC 4.05	FIXED INC 1.78	US SM 7.09	US LC 1.44	FIXED INC 2.59	INTL 2.55	EM MKTS 4.18	US SM 4.29	EM MKTS 7.32	US LC 31.49
	REAL ASSET 8.79	US LC 3.21	REAL ASSET 1.93	US SM 3.50	MULTI ST -0.68	US LC 7.05	HEDGE EQ 1.07	MUNI 0.84	EM MKTS 1.92	INTL 3.56	US LC 3.63	INTL 4.41	US SM 27.77
	EM MKTS 8.39	INTL 1.97	FIXED INC 1.92	INTL 2.58	REAL ASSET -1.43	EM MKTS 5.98	US SM 1.04	REAL ASSET 0.33	US LC 1.87	US LC 2.17	0.99	REAL ASSET 3.37	INTL 21.63
	US LC 8.01	HEDGE EQ 1.16	EM MKTS 0.85	EM MKTS 1.90	HEDGE EQ -2.01	INTL 5.80	MUNI 0.74	HEDGE EQ -0.17	US SM 1.77	US SM 1.91	MULTI ST 0.93	US LC 3.02	REAL ASSET 18.94
	INTL 7.60	REAL ASSET 1.13	HEDGE EQ 0.79	MULTI ST 0.96	INTL -5.34	REAL ASSET 2.76	MULTI ST 0.38	MULTI ST -0.51	REAL ASSET 1.57	REAL ASSET 1.44	HEDGE EQ 0.88	US SM 2.11	EM MKTS 17.65
	HEDGE EQ 3.92	MULTI ST 1.04	MULTI ST 0.75	HEDGE EQ 0.68	US LC -6.35	MULTI ST 1.70	FIXED INC 0.22	US LC -1.58	HEDGE EQ 0.88	HEDGE EQ 0.52	FIXED INC -0.05	MULTI ST 1.35	HEDGE EQ 10.71
	MULTI ST 2.49	EM MKTS 0.34	INTL 0.54	REAL ASSET -0.12	EM MKTS -7.01	HEDGE EQ 1.39	REAL ASSET -0.08	INTL -3.06	FIXED INC -0.53	MUNI 0.32	MUNI 0.23	HEDGE EQ 1.22	FIXED INC 8.72
	MUNI 0.86	MUNI 0.45	MUNI 0.88	MUNI 0.12	MUNI 1.09	MUNI 0.43	INTL -1.14	US SM -4.00	MULTI ST -0.68	FIXED INC 0.30	EM MKTS -0.19	MUNI 0.30	MULTI ST 7.88
	FIXED INC 1.06	FIXED INC -0.06	US SM -0.82	FIXED INC 0.03	US SM -7.11	FIXED INC 1.26	EM MKTS -1.25	EM MKTS -4.89	MUNI -0.76	MULTI ST 0.25	REAL ASSET -1.82	FIXED INC -0.07	MUNI 5.63
	Lower Return												

  

LEGEND	
US LC	Domestic Large Cap
US SM	Domestic Small-Mid Cap
INTL	International
EM MKTS	Emerging Markets
REAL ASSET	Real Assets
FIXED INC	Taxable Fixed Income
MUNI	Tax-Exempt Fixed Income
MULTI ST	Multi Strategy
HEDGE EQ	Hedged Equity

## A year of few losers follows a year of few winners:

- U.S. large cap stocks rose again during the quarter, bringing YTD returns north of 30%, the strongest year since 2013.
- U.S. small-mid caps and international equity indices also strong in Q4, though finished the year slightly behind the S&P 500. Small-Mid cap stocks also enjoyed their strongest year since 2013, while international stocks were last up more than 20% in 2017.
- Taxable bonds were effectively flat for the quarter, yet still generated the strongest calendar year returns since 2002. Municipal Bond 1-12-year index topped 5% for the first time since 2011.
- Alternative investments generally kept up with fixed income for the year, making up ground in the fourth quarter. Strategies with significant exposure to interest rates and credit (both in the U.S. and abroad) tended to outperform.
- The Fed closed the year with another 25-bps rate cut, bringing it to three cuts for the year. The 25 bps cuts in September and October were well telegraphed, and markets are pricing one more cut in 2020. Fed members, however, are showing a much more mixed outlook, with no cuts presumed in the next 15 months. Interestingly, the fickleness of the fed is actually quite typical. The less than 12-month turnaround from hikes to cuts is actually the norm, with the longest period over the last 40 years being 18 months from 1997-1998.
- Despite record deficits and overall debt levels, the interest the U.S. government is paying on its debt is below 2.5%, more than 2% lower than what it was paying 15 years ago. On the same wavelength, the average interest rate across the country on a 30-year mortgage at the end of the year was ~3.7%, compared to 5.7% 15 years ago.



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## Looking Ahead

- **January** – Less looking ahead and more in the rearview: The World Economic Forum just wrapped up in Davos, Switzerland. twenty-fifth anniversary of the WTO, Russia's entire cabinet resigned, U.S.-China signed stage one of trade pact, New Wuhan Coronavirus spreading, Brexit takes next step?
- **February** – Parliamentary elections in Iran, Super Bowl.
- **March** – Super Tuesday, Parliamentary elections in Israel, National People's Congress in China.
- **April** – Nuclear Non-Proliferation Treaty reviewed in NY, Parliamentary elections in South Korea, 2020 Census.
- **May** – 50th anniversary of the last time the Knicks won the title.
- **June** – Eurocup begins across 12 European countries. Copa America will be held in Argentina and Colombia.
- **July** – Summer Olympics in Tokyo Japan, DNC, Planned launch of Mars 2020 mission.
- **August** – RNC, 2,500th anniversary of the Battle of Thermopylae (Xerxes vs. Leonidas).
- **September** – UN General Assembly.
- **October** – 30th Anniversary of the reunification of Germany, 80 years since the birth of John Lennon and Pele.
- **November** – U.S. Presidential and legislative election, U.S. withdrawal from Paris Climate Agreement, G20 meeting, 18-year anniversary of SARS outbreak.
- **December** – End of Brexit Transition period?

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