1Q:2020

The Mosaic Financial Group LLC

Your Wealth Management Partner

A Primer On Setting Up a Trust Fund

Trust funds used to be the realm of the wealthy, providing a tool to pass money to heirs and charities. Nowadays, though, they are becoming a means for more people to engage in smart estate planning.

Trusts are legal arrangements allowing you to put assets into accounts that benefit another person or an organization, like a charity or college. They are often complicated and require a lawyer to put together — although there are online alternatives if you want to attempt to do it yourself.

The basic idea is to control who gets your assets, either when you're alive or afterward. A trust can help you lower estate taxes and avoid probate, the often-arduous legal procedure that proves a will is valid.

First Steps. As you set up a trust, you need to settle a few key questions:

1. What assets go into the trust: stocks, bonds, mutual funds, cash or property?

2. Who are the beneficiaries, meaning the people who receive the trust's benefits?

3. Who will be the trustee, the person who manages the assets and oversees the trust? The best thing is to appoint someone you know, who also is familiar with your financial situation and your beneficiaries. Plus, this person should be financially astute, and knowledgeable about taxes and investing.

4. How will assets be invested and managed, and when will they be paid out? For instance, you might not want your children to receive the benefits until they're 35, as an established adult.

5. What is the duration of the trust, and under what conditions will it end operations? Is it paid out over time, or all at once?

6. Can its conditions be changed? Some trusts are irrevocable, meaning they are chiseled in stone. Others are revocable, meaning for instance you can shift the beneficiary to be your daughter instead of your younger brother.

7. What stipulations do you want? Maybe the money will go to your son for everything except paying off his creditors. Or your daughter, but not your son-in-law if she should die.

Beyond these considerations, it's wise to find a good, experienced estate attorney. The lawyer will craft a document called a declaration of trust, which will set up the trust fund and establish its conditions.

Timing. Next, the trust fund is registered with the IRS, allowing it to file its own tax returns and legally open financial accounts at banks or other institutions. Then, you transfer the assets

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Spotlight On... Elena Rodriguez

Hello, my name is Elena Rodriguez and I am a tax associate at The Mosaic Financial Group.

I started working at Mosaic as a tax intern in February of 2018, after graduation, and was hired fulltime following completion of my internship. I feel very fortunate to have the opportunity to work with such talented and professional people. I have also enjoyed working with our wide range of clients. Mosaic has helped me develop professionally and I am looking forward to continue growing here throughout the years.

I graduated from DePaul University earning a Bachelor's degree in both Accounting and Finance, with eligible credits to take the CPA exam, which I look forward to starting later this year.

I grew up and continue to reside in Wilmette, a Northshore suburb of Chicago. I am blessed to have a loving and supporting family, my husband and two children. Outside of work, I keep myself busy with my kid's activities and household tasks. I enjoy spending family time and love to read history, religious books and keeping up to date with daily news. I also read many children books at home! I enjoy serving my church community as a catechism teacher. I speak Spanish and like traveling - I am hoping to make some time for a family vacation this year!

Boomers Working Past Age 65 Are A Surprise Boost

Americans over age 65 are staying in the labor force more often than expected, brightening the U.S. economic forecast and the outlook for U.S. stocks.

Turns out, the offspring of The Greatest Generation, those who served in World War II, deserve some respect, too. Baby boomers are characterized by a strong work ethic, and they are electing to work longer than government experts expected. Boomers are a key reason the economy continues to grow even as the labor market has tightened.

The Congressional Budget Office's long-term growth forecast did not count on so many boomers working past age 65. With new jobs continuing to be filled by a larger than expected number of workers in the 65-plus age group, U.S. GDP (gross domestic product) is benefitting from an unexpected boost, and it's no small thing.

Labor force growth is a key fundamental in math economics: total growth of the U.S. economy is the product of the labor force growth rate and productivity growth. The unexpected addition of workers in the labor force improves forecasts for economic growth in the years ahead.

Historically, the economy is unable to continue to create new jobs because we run out of people to fill them. Newly-created positions drive wages higher, increasing inflation, and then the Federal Reserve makes a monetary policy mistake, which results in two consecutive quarters of shrinkage in economic activity, aka, a recession. But these times are different.

This chart captures a snapshot of Americans choosing to continue working past age 65 more often than expected by forecasters. The Congressional Budget Office, a federal agency widely recognized as an authoritative non-partisan source, in January 2017 forecasted a decline in the labor force along the lines in red. The stair-step decline in the labor force that the CBO expected is not happening! The labor force participation rate has continued to grow since 2017, when it was expected to flatten and start a long decline, and no one is certain how long the trend will continue.

The labor force participation rate is reflecting the improved longevity of Americans, which the CBO economists did not figure on in their estimates of the future. If the trend since 2017 were to continue, the U.S. labor force could contribute a totally unexpected boost of growth in consumer spending in the years ahead, and consumers account for 70% of GDP. Higher consumer spending boosts earnings of corporate America and that's good for stocks. ●

Source: BLS actual data through November 2019; and Congressional Budget Office, January 2017 report *The Budget and Economic Outlook: 2017 to 2027.*

The Fed Just Cut Rates Again; What's It Mean To You?

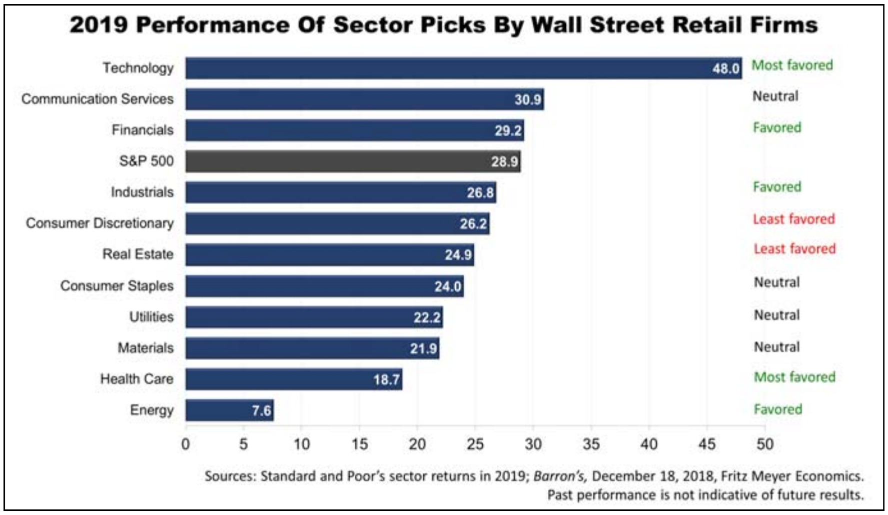
The Fed cut rates again on October 30th, for the third time in 2019. What's it mean to your long-term financial plan?

The rate cut is a reversal in policy and not what the Fed had expected to do, which is worrisome because the Fed has caused every recession in modern U.S. history by making a policy mistake. However, admitting its previous financial plan had been wrong, the Fed's abandonment of its earlier forecast, that inflation was a danger, is encouraging.

Federal Reserve policy has grown far more responsive to economic fundamentals and market sentiment. Former Fed Chair Ben Bernanke, who had studied financial crises for decades before becoming the nation's top central banker, was the right person to guide the economy when the global

Study: Wall Street's Tactical Methodology Isn't Working

Wall Street firms spend a great deal of time and money trying to forecast relative performance of stock sectors, styles, markets and asset classes, and on convincing investors to buy their advice. However, a comprehensive new study indicates Wall Street's tactical approach is unwise.

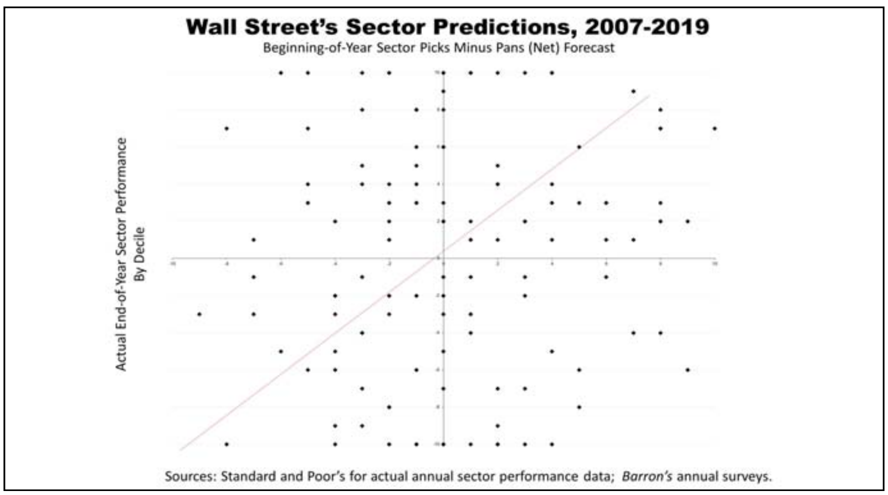


Sources: Standard and Poor's sector returns in 2019; *Barron's*, December 18, 2018, Fritz Meyer Economics. Past performance is not indicative of future results.

In mid-December every year, *Barron's*, a financial magazine, publishes a cover story featuring 10 top Wall Street strategists' picks for the best sectors to buy and avoid in the year ahead. In December 2018, the 10 strategists' picks and pans published in *Barron's* are shown in the corresponding table. How did their predictions turn out?

The blue bars show the performance of the 11 S&P industry sectors and on the right indicate the consensus predictions of strategists surveyed in *Barron's* December 18th, 2018 cover story. The sector most favored in December 2018 was Technology, and Wall Street correctly predicted tech would outperform in 2019. But apart from that big win, their picks were off, some disastrously.

For instance, Health Care was as popular a pick as Technology, and it badly lagged the S&P 500. The two industry sectors that Wall Street recommended underweighting — Consumer Discretionary and Real Estate — ended the year up more than 26%, only slightly underperforming the S&P 500 index.



Sources: Standard and Poor's for actual annual sector performance data; *Barron's* annual surveys.

The predictions for 2019 were actually fairly good relative to Wall Street's long-term track record.

This scattergraph shows the history of the Wall Street strategist sector performance based on their predictions published *Barron's* for the past 13 years. If Wall Street strategist predictions had been correct, the black dots would all fall along the red line, or cluster around it. The randomness of the picks show that Wall Street's predictions of the best sectors are not working.

This data was compiled by economist Fritz Meyer, an investment strategist at a Wall Street retail giant for over a decade before going independent in 2009, whose research we license. ●

financial crisis occurred in 2008. He implemented policies never-before tried in a major world economy. His successor, Janet Yellen, a labor economist, who fatefully had spent her professional life studying how to increase employment, continued Mr. Bernanke's quantitative easing plan and deftly extended the expansion.

Although opinions about the direction of interest rates or stock prices in the next year or two will always vary, it is clear that the Federal Reserve has made progress in achieving its dual mandate to promote employment and control inflation. The Fed — led by Jerome Powell and backed by a deep team of the world's best minds — has abandoned its long-held forecast for a 2% inflation rate — and in admitting its mistake to raise rates on December 14th, 2018, its change of policy should be viewed in the context of the Fed's progress. The third interest-rate cut of 2019 signaled that the Fed is no longer worried about inflation and determined to defend the 10½-year long expansion in 2020 and beyond, even if it means admitting it made a mistake and is changing course.

Amid the cacophony of modern-day living, don't lose sight of the unceasing progress in the world, and always try to frame your long-term investment perspective from this easily overlooked trend of civilization. ●

Three Major Investing & Tax Planning Trends For 2020

No one can predict the future of markets, but spotting major new trends in personal financial planning is quite doable. Here are three important new trends to consider in managing your wealth in 2020.

Delaying Distributions Until Age 72. Postponing required minimum distributions (RMDs) 18 months is a new thing you want to consider. The SECURE Act, which was signed on December 20th, 2019, delays RMDs on IRAs and other federally qualified retirement accounts from age 70½ to 72. This small change can amount to big bucks because your IRA can compound without being taxed for an extra 18 months. Deferring taxes 18 months on a large IRA is a no brainer, if you can afford it. This step in your retirement income plan should be part of your overall strategy to outlive your money and create a legacy for your family.

New Retirement Income Planning Choices. The Setting Every Community Up for Retirement Enhancement Act of 2019 will enable more lifetime income annuities to secure retirement. This will be good generally, but there is one huge caveat: annuities can be expensive. Lifetime income backed by an insurance company's creditworthiness makes for a great sales pitch but are best advised on by a professional who places your best interest above all else, including their sales commissions.

2% U.S. Growth & Low Rates. The latest indication of what to expect on interest rates and economic growth came on December 17th, 2019, in an interview with Robert S. Kaplan, President and Chief Executive Officer, Federal Reserve Bank of Dallas. "We expect, again, 2%-plus growth, 2% growth for next year, unemployment rate around 3½%.," Mr. Kaplan told the Council on Foreign Relations. "We'll have some firming in inflation gradually toward 2%. And I think with that profile, I think the right—at 1 1/2-1 3/4 fed funds rate, I think the right thing for us to do is stay right where we are unless something changes materially on the upside or the downside." In addition, on December 11th, the Federal Reserve released its latest expectations for growth, inflation, and unemployment for 2020, which are highlighted in the chart.

Economic Projections Of Federal Reserve Board

December 2019

Percent

Variable	Median[1]					Range[3]				
	2019	2020	2021	2022	Longer run	2019	2020	2021	2022	Longer run
Change in real GDP	2.2	2.0	1.9	1.8	1.9	2.1–2.3	1.8–2.3	1.7–2.2	1.5–2.2	1.7–2.2
September projection	2.2	2.0	1.9	1.8	1.9	2.1–2.4	1.7–2.3	1.7–2.1	1.6–2.1	1.7–2.1
Unemployment rate	3.6	3.5	3.6	3.7	4.1	3.5–3.6	3.3–3.8	3.3–4.0	3.3–4.1	3.5–4.5
September projection	3.7	3.7	3.8	3.9	4.2	3.5–3.8	3.3–4.0	3.3–4.1	3.3–4.2	3.6–4.5
PCE inflation	1.5	1.9	2.0	2.0	2.0	1.4–1.7	1.7–2.1	1.8–2.3	1.8–2.2	2.0
September projection	1.5	1.9	2.0	2.0	2.0	1.4–1.7	1.7–2.1	1.8–2.3	1.8–2.2	2.0
Core PCE inflation[4]	1.6	1.9	2.0	2.0		1.6–1.8	1.7–2.1	1.8–2.3	1.8–2.2	
September projection	1.8	1.9	2.0	2.0		1.6–1.8	1.7–2.1	1.8–2.3	1.8–2.2	
Memo: Projected appropriate policy path										
Federal funds rate	1.6	1.6	1.9	2.1	2.5	1.6	1.6–1.9	1.6–2.4	1.6–2.9	2.0–3.3
September projection	1.9	1.9	2.1	2.4	2.5	1.6–2.1	1.6–2.4	1.6–2.6	1.6–2.9	2.0–3.3

Source: Federal Reserve release December 11, 2019.

Strategic tax and financial planning can boost an individual's retirement fund year after year but requires personal attention from a qualified professional. ●

Setting Up A Trust Fund

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into the trust, a process called retitling.

Do you want the trust to take effect now or at your death? And should it be revocable or irrevocable? The argument for revocable is that your beneficiary, perhaps a young person, may not grow into someone who deserves your generosity. The case for irrevocable is if you want to earmark the assets to support an activity whose necessity won't likely change, such as educating a child or supporting a charity.

The question of how long the trust will stay around, before its last assets are paid out, is a tricky one. Common law is structured against letting trusts persist indefinitely. But many states let you get around that by setting up a so-called dynasty trust, which permits the wealth to grow for a long time without being taxed.

Types of Trusts. Aside from whether the trust is revocable or not, its structure can be very complex and carry advantages and disadvantages. Some examples:

- Generation-skipping trust, aka a dynasty trust. This lets you transfer money tax-free to beneficiaries who are two generations younger than you. The goal is to avoid the assets being taxed twice: once when they go to your grown children, and again when that generation passes the assets along to their own kids — namely, your grandchildren.
- Bypass trust. Here, you bequeath an amount up to the estate tax exemption (in 2019, that's up to $11.4 million from a single giver or double that from a couple). The rest goes to your spouse tax-free. After your spouse dies, you can stipulate that what's left goes to the kids.
- Qualified terminal interest property (QTIP) trust. This is best at singling out which particular relatives to direct your largesse to. A QTIP is often helpful in families where there are divorces, remarriages and stepchildren. Your surviving spouse can receive income from it, and once that spouse dies, the remaining principal goes to specific younger relatives.

For you, the donor, creating a trust fund gives you peace of mind that the legacy you want to leave is well-constructed and wisely directed. This article is not intended as personal advice, but rather as an educational resource about planning techniques available when working with a financial professional. ●