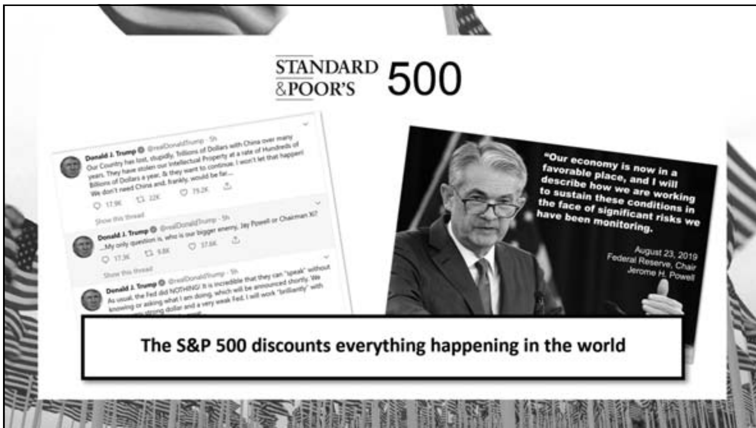
The Mosaic Financial Group LLC
Your Wealth Management Partner

The Reality Gap Widens

Stocks have been more volatile because the difference between perception and reality of financial economic conditions is growing wider.

The S&P 500 — the key benchmark of America — is supposed to price shares after discounting everything — the Federal Reserve's policies, politics, inflation, and population trends.

When fundamental facts grow harder to discern, stocks grow more volatile, and that's what's been happening lately, especially with the widespread misperception of the yield curve inversion.



A yield curve inversion is when the yield on 10-year US Treasury Bonds is less than the yield on three-month T Bills.

Since the 1960s, when investors thought the 10-year long term outlook for bonds looked worse than the three-month outlook, inverting the yield, recessions usually followed 12 to 18 months later.

While the recent inversion of the yield curve is perceived as evidence a recession is on the way, the reality is very different.

The inversion of the yield curve currently is being driven by negative interest rates in Europe.

Negative yields in Europe and Japan — an unprecedented condition in the largest economies in the world — is a new thing and it's not widely understood.

Bond yields are set in a global market, and the U.S. and Germany supply globally-traded, highly-liquid, government-guaranteed securities owned by the world's largest financial institutions.

Because yields in Europe have been kept low by European central bankers to stimulate growth — and another round of quantitative easing is planned — it's

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Spotlight On... Caryn Glover

We are excited to welcome Caryn Glover to The Mosaic Financial Group. Caryn recently joined the investment advisory practice as a senior advisor and will serve as a member on the investment selection committee.

Caryn has worked in the Wealth Management industry as an Advisor to High Net Worth families for the past 15 years, having spent most of her career at JPMorgan Private Bank. There, Caryn assisted her clients with all facets of their financial affairs, including estate planning, charitable giving, asset allocation and investment management. We believe Caryn is an excellent addition to Mosaic as she shares our philosophy of putting her clients' needs first and making sure informed decisions are made about their futures.

Caryn grew up in Wheaton, Illinois, and obtained her undergraduate degree from the University of Illinois, Urbana-Champaign and received a Masters in Math Education from DePaul University. She has her Series 6, 7, and 63 and is currently enrolled in the Certified Financial Planning program through Northwestern University.

Caryn lives in Chicago, and is an active Board Member for the Robert Crown Center in Hinsdale. Caryn enjoys playing tennis, boxing, traveling and visiting Nationals Parks.

The Explosion In Retail Sales You Never Hear About

What's happening in the world often goes unnoticed, even when it occurs in plain sight right before our eyes.

That's happening to investors right now with the explosion in the growth of retail sales that's been under way for years, but has gone unnoticed.

The boom is being muted by inflation, but is loud and clear with that adjustment.

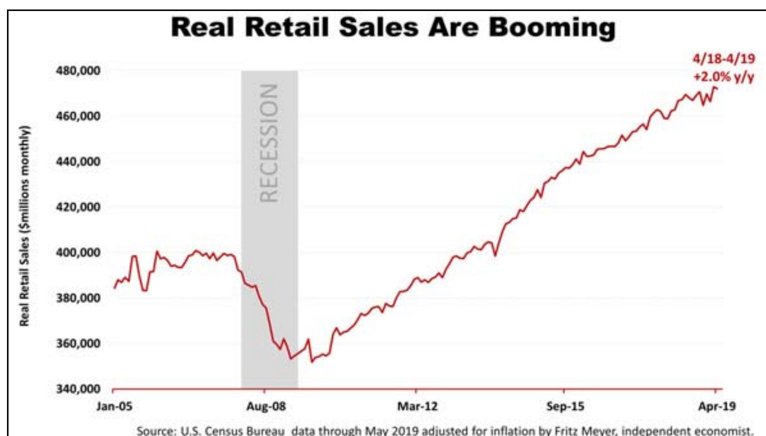
Since consumers account for 70% of U.S. growth, retail sales is a key driver of the economy, so this is a big miss, a big misperception for investors to make.

These were the top stories on Google the day after the latest retail sales figures were released by the U.S. Census Bureau.

The headlines show retail sales were up, but there's no hint of the boom.

Yet, when adjusted for inflation, retail sales have grown explosively for years!

Here's the proof: This line charts monthly retail sales data over the last 15 years, adjusted for inflation, and this boom — over the past 10 years — is clear.



Source: U.S. Census Bureau data through May 2019 adjusted for inflation by Fritz Meyer, independent economist.

Look at where real retail sales after inflation is today versus the peak of the last economic expansion, in 2007.

Real retail sales were flat throughout the peak years of the last economic expansion; in contrast, this 10-year expansion has been marked by this steep growth-trajectory in real retail sales, and it does not get mentioned in the news!

Here's why.

Every month, the media are given a press release that does not adjust for inflation.

Excluding volatile gasoline prices, which can distort the monthly figures, retail sales in the 12-month period through May, rose 3% without adjusting for inflation, which is not bad but certainly not a boom!

The media doesn't know that reporting the Census Bureau retail sales data without adjusting for inflation masks the retail explosion that's been under way for a decade.

Biases and gaps in knowledge often clouds how the world is viewed.

That's where a financial professional's perspective adds value. ●

Give To Charity From An IRA To Lower Your Tax Bill

To keep your tax bill down, if you are over 70½, consider a qualified charitable contribution, which makes donations of up to $100,000 from an Individual Retirement Account (IRA) to a fully deductible charity.

A qualified charitable distribution (QCD) lets you donate from a traditional or inherited IRA, provided you meet the age requirements.

A QCD can help you eliminate, or at least reduce, taxes owed on your required minimum distribution (RMD). That's the amount you are required to take out of your IRA account annually after turning 70½.

Example: Your yearly RMD is $20,000, which counts as taxable income. But if you donate that amount to a charity, it's not counted as income, which may drop you into a lower tax bracket.

Moreover, you don't have to itemize to take this tax deduction. That's good news for Americans no longer itemizing deductions on their returns. To be sure, some taxpayers are hurt by the Tax Cuts and Jobs Act's $10,000 cap on state and local tax deductions, so a qualified charitable distribution can make sense.

As A Final Act of Love, Plan Thoughtfully

"Everybody wants to go to heaven," according to a classic blues song, "but nobody wants to die." Nor does anyone like to think about dying. And that must be why some people don't put much thought into estate planning, much less in drawing a schematic for distributing one's earthly possessions to those you love the most.

But this is important. It's something you want to do diligently. It's something you want to get right.

Your heirs and the executor of your estate — the person you choose to oversee that your wishes are carried out — will remember you kindly for your clarity of purpose; it's good for all involved. Otherwise, you risk setting off a family feud. Resolving not to leave your property open to legal dispute, here are three key rules for further planning your estate:

Name Beneficiaries Correctly. Putting someone's name in your will may not be enough, of course. It's wise to name who gets what in documents filed with your insurer, annuity provider and retirement fund sponsor, usually for individual retirement accounts. To be clear, if you want your daughter to get your ABC Stock 500 fund, naming her in the will does no good. It must be on file with a custodian. Moreover, listing multiple beneficiaries of real estate often is an invitation to a quarrel. What if you give your home to your three children? Maybe one wants to keep it for old time's sake, and the other two want to unload it and pocket the money. Or perhaps they all want to sell but can't agree on a broker or a fair selling price. In the meantime, they would need to chip in to maintain the house, which can cause further disputes.

Keep Estate Plans Current. Years or decades may pass between when an estate plan is devised and your death. Lots can change. Like spouses. If you divorced and never updated your will afterward, your ex could end up inheriting your worldly possessions. And what about your nephew, who was so delightful as a kid but grew up to be someone you don't really want to help financially. What's more, the tax laws could have changed, and old plans may be totally out of sync with current rules. Reviewing your will annually makes sense.

Provide Vital Information. Another problem is not furnishing your executor and heirs with a thorough up-to-date list of accounts and how to get access to them. Account titles, user names, and passwords — along with security questions — must be stored. Encrypting and saving this information is best. Writing it down and storing it in a safe deposit box is next best. However, not everything should be stored digitally. Mortgage documents, the deed to your home, your last mortgage payment and paperwork on your car are best kept in a safety deposit box, which requires a key and a photo I.D. to access. So, remember to arrange access for your executor with the bank. In leaving an item of sentimental value, consider who among your heirs would most appreciate its significance. Your Facebook, Instagram and Amazon account can be managed from the grave using online services such as Mylennium. It's wise to have a master list with all user names and passwords for financial holdings. This can be in your safe deposit box or in a secure place in your home. Trouble is, keys tend to get lost. Encrypting it and storing it online or on secure media you keep in your home is better.

Nobody wants to die but if you want to go to heaven, making your final wishes easy on loved ones is a thoughtful final act to help get you there. ●

You don't have to donate the entire amount to a single charity. You can divvy up a QCD among multiple IRS-eligible charities, within the $100,000 annual limit. You don't have to use 100% of your RMD for the donation, of course, and can keep what you need to pay for your living expenses and donate the rest.

QCDs require careful attention to ensure your donation is made from an individual retirement account — not a 401(k) or 403(b). In addition, you may not make a QCD and also itemize charitable deductions. You must pick one. Plus, the charity must not be a private foundation or a donor-advised fund. These technical details are crucial.

Another QCD tip: Make the contribution straight from your IRA. The RMD money must never be in your personal, non-IRA account. Send your IRA custodian instructions to send the check directly to the charity, with the organization's name on the check. Have the IRA custodian send you documentation that you made the donation.

Finally, be sure to make the donation before you take your RMD. Should you take the RMD first, you can't give the money back to the retirement account and will be ineligible to deduct it.

The QCD is a fairly complex solution to lower taxes and requires the advice of a qualified tax professional. ●

Tax Law Changes Delayed But Not Dead

For years, year-end tax tips were delivered in this space every September, but this year's story is a real cliffhanger. The twist in the plot is the pending tax legislation. Ironically known as the SECURE Act, an acronym, the legislation is officially named, "Setting Every Community Up for Retirement Enhancement." The bill is likely to cause frantic last-minute tax maneuvering at the end of 2019.

In the spring of 2019, the SECURE Act passed a vote in the House of Representatives by a 417 to 3 margin and seemed like it would sail through enactment because it gained favor with both the House of Representatives and Senate as well as the President. But its enactment was stalled in the Senate all summer. However, it has some popular provisions, like delaying from age 70½ to 72, and expanding the use of annuities in 401(k)s and other federally-qualified retirement accounts. The Act still is expected to be signed into law, though it might not happen until this December.

Perhaps the biggest impact financially would be felt by distributions of income from IRAs to your children and other non-spouse beneficiaries. Non-spouse heirs, under current rules, may elect to draw minimum annual distributions from inherited IRAs over their actuarial life expectancy. Under the SECURE Act, they'd be required to withdraw everything in an inherited IRA in 10 years, accelerating tax payments.

This provision would prevent your heirs from taking minimum annual distributions based on their life expectancy on inherited IRAs — a popular strategy known as a "Stretch IRA." If the SECURE Act is indeed enacted and you have already set up a Stretch IRA for your children or other beneficiaries other than your spouse, be aware that you may need to consider some careful tax planning. IRA owners in this situation would be wise to be prepared for enactment, particularly if you live in a state with a high income-tax rate. You may want to consider utilizing a trust to move the IRA distributions to a state with no income tax, enabling your beneficiaries to avoid state income tax on those required distributions of income on inherited IRAs.

This aspect of retirement income planning is fraught with complexity. New York and California recently enacted laws adversely affecting non-spouse beneficiaries residing in states with an income tax. Please contact us with questions about this topic, as this strategy requires personal advice from a qualified tax professional. ●

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depressed yields on long-term U.S. Government bonds.

That's a market problem, a "technical" issue of supply and demand of government bonds, and investors will want to consider the effect of lower returns on their bond allocations in the years ahead.

However, this inversion is not a fundamental economic problem!

It won't cause a recession, though it has led to a widespread misperception about current economic conditions.

The underlying cause of negative yields in Europe is its aging labor force which is an important fundamental trend affecting Japan and China as well as Europe.

A nation's economic growth potential is a simple equation, driven by the size of its labor force — the working age population — and its rate of productivity.

The working age population trends in China, Japan, and Europe, the world's largest economies after the U.S., are unfavorable relative to the United States.

GDP growth potential in Europe is limited by its aging working population.

To increase growth in Europe, China and Japan in the face of this demographic headwind would require higher productivity but productivity gains are hard to plan.

The U.S. has favorable long-term demographic prospects compared to the world's major economies.

The baby boom peaked in from 1957 to 1961, and peak retirement for the boomers will occur from 2022 to 2026; then, growth in the working age U.S. population picks up.

Although you often hear that the next generation of Americans won't have a standard of living comparable to ours, the U.S. demographic trend compared to the other developed economies — Europe, Japan and increasingly China — is very favorable.

The U.S. has a large echo boom population coming — and they don't.

This fundamental driver of economic growth is one reason why the U.S. will likely continue to be a magnet attracting foreign investment capital in the years ahead.

As markets continue to piece together the puzzle driving financial economic reality, expect stock market volatility. ●

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