STEWARDSHIP
Financial Advisors, LLC
A Member of the Pyke Family of Firms

April 2019

When is the Next Recession?

That's one of the most frequent questions we hear. And for good reason. Recessions can be complicated, misunderstood and sometimes downright scary. With the U.S. expansion a decade old and market volatility elevated, investors may be wondering whether the next recession is just around the corner. In our view, we don't believe a recession is imminent in 2019. But with the economy firmly in late cycle territory, we should be more aware about the possibility down the road. The implications go much deeper than just the economy — the business cycle has very real consequences for portfolios too. Since equities tend to peak several months before the start of a recession, it's never too early to start planning.

When looking out at the equity markets today, one of the most common fears is that some of the market action during recent rallies seem eerily similar to the dotcom era or pre-2008. With technology companies in particular enjoying phenomenal returns the last several years, many question whether now might be the time to reduce exposure to these high-flying stocks. However, not all companies with higher P/E ratios are expensive. Some technology companies whose shares led the bull market have businesses with long runways of potential growth. Consider cloud computing, software and services that run on the internet. By 2021, cloud spending will rise to $302.5 billion, nearly double the $153 billion spent in 2017, according to industry researcher Gartner. The movement of IT workloads to the cloud is boosting demand for the services of some of the largest names in technology, and this trend is set to continue and accelerate. Investors in high-flying innovative companies, however, should expect volatility going forward. Since the financial crisis of 2008, tech shares have declined significantly on several occasions beyond the rest of the market. But following each of the previous corrections, tech shares hit new highs. This type of volatility should likely be expected for the next several years to come, particularly when growth scares reemerge.

No Charge for us to Review Your Investments!
Free Second Opinion!

If you are not an SFA client and would like us to analyze your current portfolio, e-mail Traci Carver to schedule an appointment.

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Another headwind facing the US economy, aside from the potential age of the bull market, is the declining impact of the tax cuts enacted at the end of 2017, which propelled profit growth in 2018, but will continue to fade as the year progresses. This one-time bump to profits has quickly been put into context, and earnings are set to likely return to single-digit growth this year. What's more, after a 10-year bull market, U.S. stocks have gotten expensive. The S&P 500 Index has advanced nearly 400% over that timeframe, and market valuations have expanded. Given that higher starting point for valuations, we believe it will be increasingly difficult for the market to generate better than single-digit returns over the next few years, however, there will still be opportunities to pursue superior returns, but selectivity will be crucial.

THINGS TO THINK ABOUT...

Managing money is a great way to test character.

When you create a basic budget and stick to it, it will suddenly seem like you have more money.

Broke people giving financial advice is like a shop teacher with missing fingers.

While the age of the bull market, the fading boost from tax cuts and Federal Reserve stimulus, and geopolitical flashpoints loom large, equity markets still offer the best value for long-term investors. We continue to maintain the heaviest exposure to US equities, while also keeping a ballast with fixed income for reduced volatility and current income. Diversification and tactical moves seem to be ever-more prescient in the current market environment, as the days of unprecedented Federal Reserve stimulus boosting all asset prices are now officially behind us. As for the initial question, “When is the next recession?”, we believe it is likely to be sooner rather than later, but that as far as history goes, the next one may be one of the mildest on record. Just as the expansion has been slow and weak, the next potential downturn will likely be muted, as no financial excesses are apparent and the Fed is still at the ready to provide a backstop. Whatever the future holds, being prepared and ready to navigate bumpier times will be paramount looking forward.

For ongoing updates to our outlook and portfolios, please read Stewardship Financial Advisor’s **The Pulse** at www.stewardshipfinancialadv.com/pulse or like our Facebook page! At our new and improved website you can find a treasure trove of valuable information and tools, and sign up for our mailing list!

Pyke Family News

Our Family is consistently busy with new and exciting events.

Charles is now considered a “professional” scuba diver having received his PADI Divemaster. His next goal is to become a PADI dive instructor.

Lane is well on her way to recovery from her ACL and MCL surgery in January. She is expected to be fully recovered by November 2019. Still a long way to go but making progress.

Chad (24) - Our oldest son Chad is graduating from the University of Tennessee in Chattanooga with an MBA on May 3, 2019. He has already accepted a position with Unum, a fortune 250 Company. It appears he’ll be in Portland, Maine training for 18 months and then transferred back to the Chattanooga office. He was 1 of 4 hired out of 1,100 applicants!

Chandler (22) - Our youngest son is finishing his first year of law school and is currently in the top 25% of his class at the University of South Carolina School of Law.

Ellie (2) - Our Border Collie remains the favorite amongst our family.

You need to be Proactive in Preparing for a Long–Term Care Event!

With the help of modern medicine Americans are living longer than ever. In 1960 the average life expectancy was 69.8 years and increased to 78.9 years for someone born today in the United States.[1] The longer people live the greater the chances they will need assistance due to chronic conditions. Approximately 44% of the people reaching age 65 are expected to enter a nursing home at least once in their life- time.[2] Of those who do enter a nursing home, about 53% will stay for one year or more.[3] Finally for a couple turning 65, there is a 70% chance that one of them will need long-term care.[4] With these staggering statistics it is easy to see that we all have a good chance at needing long term care at some point in our life.

Understanding that the odds are we will need long-term care, let's take a look at **what it costs** to take care of someone who needs care. Most people think a long-term care event takes place when a loved one is placed in a nursing home, and they stay there for 2-3 years. However, the typical length of a long-term care event is a 6-9 year process. The care usually starts at home and lasts on average 8 months at $3,813 a month. Then the care becomes more than what can be handled at home so our loved one moves into an assisted living facility. The average length of stay is 2.35 years at $3,100 a month. Then more substantive care is needed and our loved one now transitions to a Nursing Home. The average stay is 2.28 years at an average cost of $6,707 a month. If we add all that up, the cost is a staggering $301,427!!!

For most of us, paying for these expenses out of pocket is not an option, so how do we plan for this event. In planning for long-term care, we first calculate how much the client can private pay with out going broke. Then back into determining the best method to pay the shortfall. Sometimes it is with long-term care insurance and sometimes it's with government benefits. For some people long-term care insurance will not be an option either due to personal resources or health issues. Those individuals will either need to self-pay or utilize government assistance. However, if the resources are available and you are healthy enough to qualify, long-term care insurance could be the tool for you. If we mutually determine that this could be the answer for you then the hard questions have to be answered such as what kind of policy should I buy (Traditional vs. Deposit Based), what benefits do I need (30, 60, 90 day elimination period, home healthcare or not, respite care, inflation protection, etc.). You would be surprised by the different benefits and options that are available on a long- term care policy. With the advent of the internet you can research virtually any topic you want and convince yourself that you are an expert. And you may be! But, what happens if you are wrong? If you are wrong, it will be too late to correct the issue, because you won't know it until you need your policy benefits! So what should you do? Come to one of our long-term classes (page 2) or call our office to set an appointment with a qualified person to give you counsel on your situation and your options so that you can make an informed decision to fit your needs. You may have more options than you think!

1. Google Public Data 3/8/2013
2. Stillman and Lubitz, "Medical Care" 40 (10): 965-967
3. Stillman and Lubitz, "Medical Care" 40 (10): 965-967
4. National Center for Assisted Living 2013

LAUGH FACTORY

A toddler can do more in one unsupervised minute than most people can do all day.

I'm going to retire and live off of my savings. What I'll do the second day, I have no idea.

If money doesn't grow on trees, then why do banks have branches?

We Can Show You How to Turn Retirement Assets Into an Income Stream

Now you have the daunting task of replacing that check that deposits to your bank account every two weeks like clockwork with income from your investments that have accumulated over your life. How much money should you withdraw and from where? What are the tax consequences from withdrawals and how can you manage distributions tax efficiently? There are many different options and no strategy is the best. The important thing is to have a distribution plan in place. The plan needs to be monitored and possibly changed as different life events occur.

There are two main sources of income during retirement, fixed income and variable income. Fixed income sources can be comprised of Social Security, pensions, and income annuities. These guaranteed sources are an important part of a distribution plan as the payments will (most of the time) continue for your life and possibly your spouse's as well.

Most people have earned enough quarters to qualify for Social Security benefits. When is the best time to start drawing benefits? If you retire at age 62, should you start collecting benefits then? Electing benefits before your full retirement age will result in a decreased benefit, while delaying up until age 70 will increase your benefit. Knowing how these different amounts are calculated and how that would impact your cash flow or lack thereof is an integral part of planning for retirement income.

Some employers offer a pension plan from which you may begin drawing benefits at a certain retirement date or age. Pensions can provide guaranteed income, and sometimes, if elected, for your spouse should you predecease him or her.

If your expense needs are greater than your fixed sources of income, those needs will be funded from your variable sources of income in retirement. These are 401(k)s, IRAs, Roth IRAs, taxable brokerage accounts, bank accounts, etc. These investment accounts generate income through dividends, interest and capital appreciation. Investment returns are not predictable, hence why these are classified as variable sources of income.

Supplemental withdrawals should be made in a tax efficient manner. Amounts withdrawn from retirement accounts such as IRAs and 401(k)s are taxed as ordinary income. Withdrawals from taxable accounts may generate capital gains. Roth IRA withdrawals are tax free (there are some requirements that have to be met). Planning your savings to utilize all three types of investment accounts will give you much more flexibility from a tax standpoint when it comes time to spend down your assets. Typically, retirees make supplemental withdrawals from taxable accounts first, then retirement accounts. Depending on your income tax situation, this may not always be the most efficient withdrawal approach.

Replacing the reliability of a paycheck once you retire can be less stressful with proper planning and monitoring. Building your retirement savings into different types of accounts (asset location) and devising a withdrawal plan that will meet your spending needs is a cornerstone of your financial plan.

To learn more about retirement income options and to get started on creating your personal plan today, call Traci Carver at 770-507-0025 to schedule an appointment.

There is a surrender charge (CDSC) imposed generally during the first 5-7 years that you own your annuity contract. Withdrawals prior to age 59 1/2 may result in a 10% IRA tax penalty, in addition to any ordinary income tax. The guarantee of the annuity is backed by the claims paying ability of the issuing insurance company.