MODERA
WEALTH MANAGEMENT®

Modera Perspectives – First Quarter 2019

Investment Commentary
By George Padula, CFA®, CFP®, Chief Investment Officer, Principal and Wealth Manager

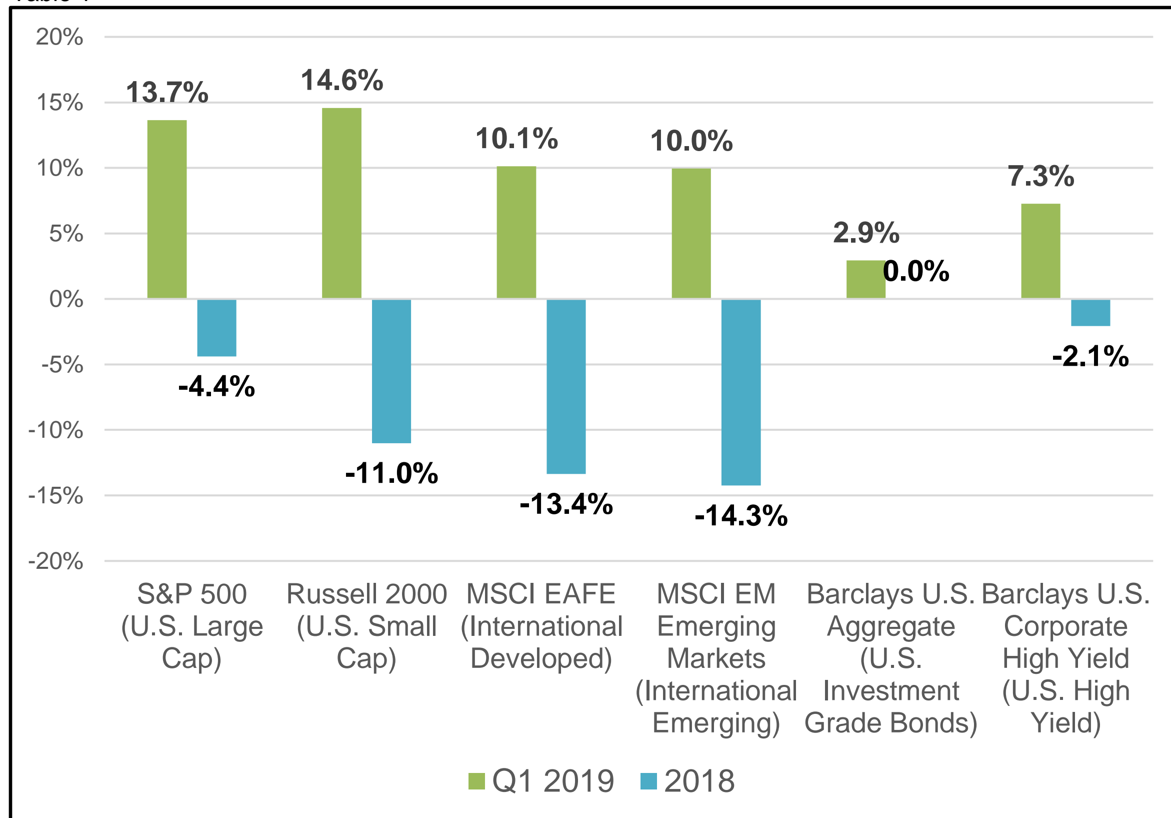
Record.

Record is our word of the quarter. It describes the first quarter of 2019 and the fourth quarter of 2018, both of which were historically extraordinary performance quarters for the stock market, both up and down. The word record may also describe Modera Wealth Management because we often sound like a broken one when we say: “Stick with your financial plan, and do not try to time the stock market.” These past two quarters are prime examples of why we have always advocated this long-term perspective. With that said, there seems to be two overarching themes to the first quarter: one being the dramatic rebound in the equity markets, and the second being the interest-rate environment.

Theme 1: Equity Markets

Let’s look at the quarterly numbers and also the longer-term picture. The stock market collapse experienced during the fourth quarter of 2018 led to the worst annual performance for stocks since the financial crisis. However, the S&P 500 finished the first quarter of 2019 up 13.7%, after being down 13.5% in the fourth quarter of 2018 and more than erasing the full-year losses during all of 2018.

Table 1



Source: Zephyr Analytics & Morningstar

MODERA
WEALTH MANAGEMENT®

As the chart shows on the prior page, riding out short-term market volatility proved to be a wise strategy.

International stock markets also rebounded during the first quarter, with both developed and emerging markets bouncing by 10.1% and 10.0%, respectively (as represented by the MSCI EAFE and MSCI EM Emerging Markets indices). Bond prices also improved in the first quarter as high-quality bonds and corporate high yield bonds rebounded 2.9% and 7.3%, respectively. (see our discussion of the yield curve below for more detail).

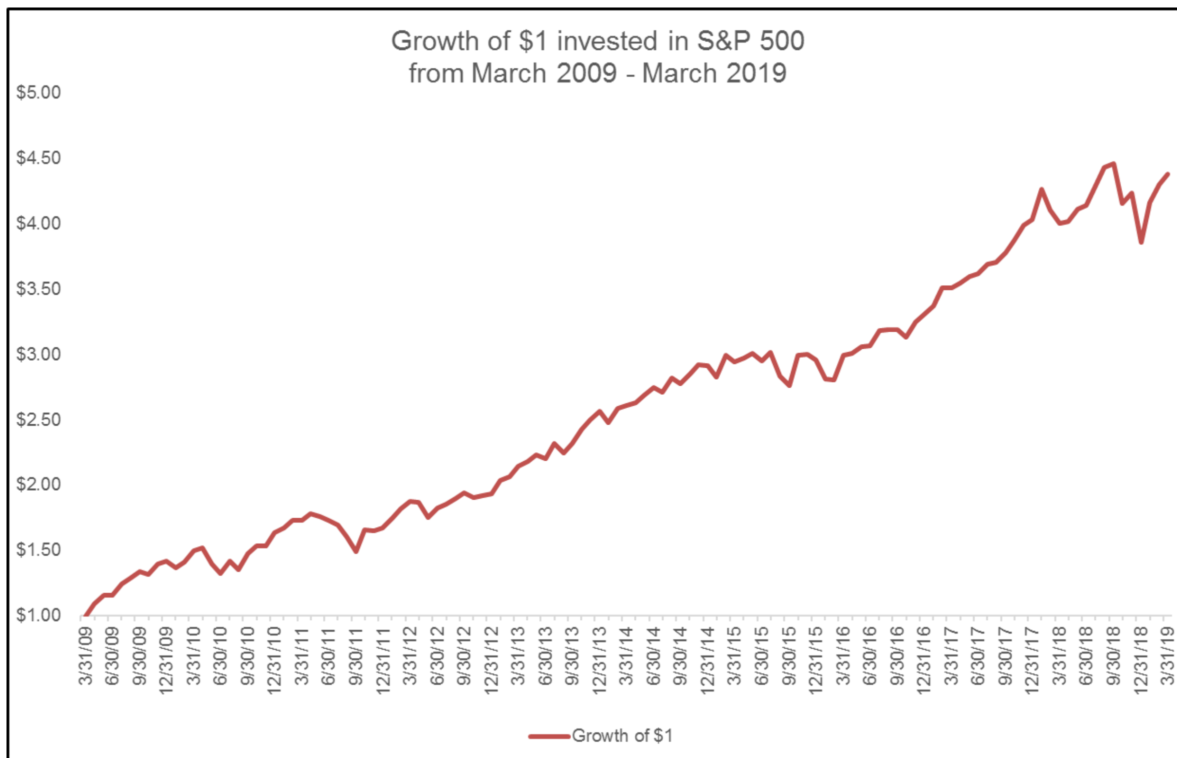
Table 2

Data ending 3/31/2019 (not annualized if less than 1 year)

Indices	Q1 2019	1 year	3 years	5 years	10 years
Equities					
MSCI ACWI (All Country World)	12.3%	3.2%	11.3%	7.0%	12.6%
S&P 500 (U.S. Large Cap)	13.7%	9.5%	13.5%	10.9%	15.9%
Russell 2000 (U.S. Small Cap)	14.6%	2.1%	12.9%	7.1%	15.4%
MSCI EAFE (International Developed)	10.1%	-3.2%	7.8%	2.8%	9.5%
MSCI EM Emerging Markets (International Emerging)	10.0%	-7.1%	11.1%	4.1%	9.3%
Fixed Income					
FTSE World Government Bond Hedged (Global Bonds)	2.7%	4.8%	2.5%	3.7%	3.6%
Barclays U.S. Aggregate (U.S. Investment Grade Bonds)	2.9%	4.5%	2.0%	2.7%	3.8%
Barclays Municipal Bond 5Y (4 - 6) (Municipal Bonds)	2.1%	4.4%	1.8%	2.2%	3.1%
Barclays U.S. Corporate High Yield (U.S. High Yield)	7.3%	5.9%	8.6%	4.7%	11.3%
Other Indices					
S&P Developed REIT (Global Real Estate)	14.6%	16.2%	5.9%	8.1%	16.4%
HFRI FOF: Conservative Index (Diversifiers)	2.8%	1.4%	3.4%	2.0%	3.3%

Source: Zephyr Analytics & Morningstar

This is probably not the last time we will see short-term whip-saw investment performance. March 9, 2019 marked the 10th anniversary of the stock market bottom during the last financial crisis of 2007-2009. The decline from the highs back in 2007 to the market trough in 2009 was without a doubt unsettling. However, in the ensuing decade the stock market not only recouped all those financial crisis losses but has eclipsed to new all-time highs.



Source: Zephyr Analytics. Assumes all dividends have been reinvested over the period shown.

This longer-term resurgence in stock prices was not always smooth, yet was grounded in substantial positive changes including the following:

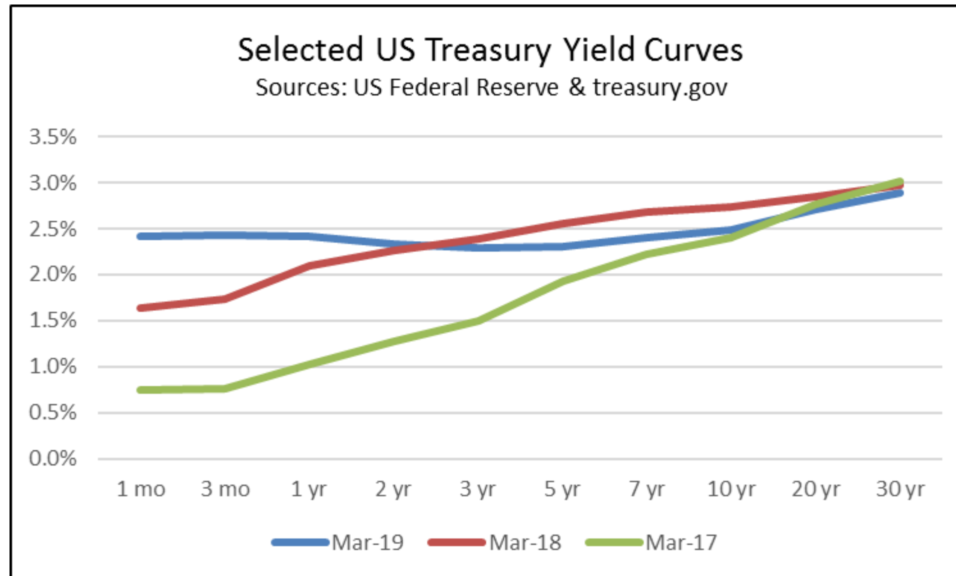
- Gross Domestic Product cumulatively grew over 45% from the economic recession low in 2Q 2009[1];
- In the U.S., the unemployment rate has consistently fallen over the last 10 years from 10% in 2009 to below 4 percent today[2];
- Average home prices in the U.S. have not only bounced back from the financial crisis but have reached new highs in this cycle[3].

We have written multiple times, including last quarter, about the benefit of having a broadly diversified strategy for investing. This advice has proven to be beneficial not only in the past six months, but also, and more importantly, over the past 10 years.

[1] https://fred.stlouisfed.org/series/GDP
[2] https://fred.stlouisfed.org/series/UNRATE
[3] https://fred.stlouisfed.org/series/CSUSHPINSA

Theme 2: The Yield Curve Has Changed

We have also written in the past about the Federal Reserve and the impact of interest rate changes on the bond market and investment portfolios. These past few months have seen significant changes in the Fed's guidance, and it is worthwhile to revisit this theme again.



The yield curve represents a plot of all current U.S. Treasury yields, across various maturities and it has shifted significantly, becoming flatter over the past few years.

The Federal Reserve has been slowly raising short-term rates now that the economy is stronger, to counter rising inflation and to normalize the accommodative monetary policy during the financial crisis. At the same time short-term rates have risen, longer term rates have also declined. As a result, the yield curve has been slowing flattening and recently started to "invert" (meaning, some shorter-term interest rates are now above longer-term rates).[4]

As has been reported in the news lately, and research has shown, an inverted yield curve has been a good predictor of future economic slowdowns. However, an inverted yield curve has also not been a consistent predictor of the future direction of stock prices[5]. In fact, there have been several instances in history where the yield curve inverted, and the S&P 500 was meaningfully higher in the periods that followed.

We have taken some steps to counteract the impact of rising rates by maintaining a broadly diversified approach to the fixed-income portion of portfolios, using a mix of both U.S. and international bonds, municipals, and corporate bonds, for example. The duration of the fixed income allocation has been shorter than the Aggregate Bond Index and we have sought out higher-than-average yields to try to mitigate the impact of rising rates. The Aggregate Bond Index duration is 5.8 years and our average for fixed income is 5.0 years overall and 4.3 years for US bonds only.

[4] https://fred.stlouisfed.org/series/T10Y3M
[5] https://www.barrons.com/articles/yield-curve-inversion-stock-market-history-51553536568

MODERA
WEALTH MANAGEMENT®

One of our goals is to focus on helping our clients stay on track toward their specific financial long-term objectives. We will, of course, monitor short-term economic and market conditions and make periodic adjustments in our clients' accounts where warranted. We like our record of sticking to the plan that we and our clients have set in motion over many years, and then striving to outperform over the longer-term through a well-diversified and risk-controlled approach to investing.

Financial Planning Perspectives

Qualified Charitable Distributions Are More Attractive Under New Tax Law
by Chuck Roberson CFP®, CLU®

The effects of the Tax Cuts and Jobs Act that was passed in December 2017 are being felt by many individual taxpayers for the first time in 2019, as they prepare their 2018 income taxes.

One of the biggest changes from the Act is the significant increase in the standard deduction, from $12,700 to $24,000 for married couples filing jointly (or from $6,350 to $12,000 for single taxpayers).[6] The result of this change, however, is that the threshold for being able to itemize deductions – which includes charitable donations – is also much higher, since many previously deductible expenses have also been eliminated or capped. Therefore, charitable donations that were deductible in prior years, may no longer be tax deductible under the new tax law.

The Benefits of a QCD

One potential solution is a Qualified Charitable Distribution (or QCD), which offers retired taxpayers who are limited to the new standard deduction the opportunity to still receive a tax break from charitable donations.

Here is how it works: If you own a traditional Individual Retirement Account, and you are at least 70½ years old, you must take required minimum distributions every year from that account by law. Typically, every dollar that is distributed from your traditional IRA account will be taxable at your current income tax rate.

However, a QCD provides a tax shelter for required minimum distributions from your IRA. With a QCD, you can instead request that Modera Wealth Management arrange to have a check sent from your IRA account directly to the qualified charity of your choice. That charitable distribution from your IRA offsets the taxable income that would otherwise occur, dollar for dollar, since you do not receive the money.

So as an example, say your required minimum distribution from your traditional IRA is $5,000. Instead of receiving the distribution yourself and increasing your taxable income by $5,000, you could gift that same $5,000 to a charity directly from your IRA balance. Therefore, the QCD would instead *lower* your adjustable gross income by $5,000. Best of all, you can gain this tax benefit even if your tax return is now subject to the new and higher standard deduction

---

[6] https://turbotax.intuit.com/tax-tips/irs-tax-return/2017-tax-reform-legislation-what-you-should-know/L96aFuPhc

(remember, charitable donations made outside of a QCD are not deductible if you cannot itemize deductions on your tax return).

A QCD also provides the less-obvious benefit of lowering the tax burden of other items that are tied to your adjustable gross income (AGI). Since a QCD lowers your AGI, you also may potentially lower taxes owed on Social Security benefits, alternative minimum taxes, or surtaxes on Medicare premiums or investment income. Thus, the net benefit of a QCD could be larger than just that gained from the charitable deduction alone.

Do You Qualify for a QCD?

To qualify for a QCD, there are some important rules to keep in mind:

- Distributions must be paid directly to the charity from an IRA account (most likely a traditional IRA, since all Roth IRA distributions are not taxable).
- Checks must be made payable to the charity, not to you.
- You must be at least 70½ by the date of the charitable contribution to be eligible for a QCD.
- QCD-related donations are limited to $100,000 annually per person.
- The charity must be IRS-eligible and public. QCDs cannot be made to private foundations, charitable gift annuities, or donor-advised funds

If you do not qualify for a QCD, a donor-advised fund (DAF) may be another charitable-gifting alternative. With a DAF, you could receive a tax deduction up-front for your lump-sum contribution to a DAF, and then recommend grants to charities from the fund over time. While a potentially more complex solution relative to a QCD and longer in duration, a DAF also has the potential to help those who wish to take charitable tax deductions, regardless of the level of their other current tax deductions.

Changes to the tax law usually create new complexities when it comes to financial planning. Modera Wealth Management can help you wade through these issues and find potential strategies to optimize both your taxable income and charitable gifting options. Consult with your Modera Wealth Manager to learn more about QCDs and other options available to you.

Disclosures

Modera Wealth Management, LLC ("Modera") is an SEC registered investment adviser with places of business in Massachusetts, New Jersey, Georgia, North Carolina and Florida. SEC registration does not imply any level of skill or training. Modera may only transact business in those states in which it is registered or qualifies for an exemption or exclusion from registration requirements.

For additional information about Modera, including its registration status, fees and services and/or a copy of our Form ADV Disclosure Brochure, please contact us or refer to the Investment Adviser Public Disclosure web site (www.adviserinfo.sec.gov). A full description of the firm's business operations and service offerings is contained in our Disclosure Brochure which appears as Part 2A of Form ADV. Please read the Disclosure Brochure carefully before you invest or send money.

This quarterly commentary is limited to the dissemination of general information pertaining to our investment advisory services and financial planning services and general economic and market

conditions that is not suitable for everyone. The information contained herein should not be construed as personalized investment, financial planning, legal, tax or accounting advice. For legal, tax and accounting related matters, we recommend that you seek the advice of a qualified attorney or accountant.

The returns shown in tables 1 and 2 are annualized returns, except for periods less than one year, for selected asset classes as represented by benchmark indices. Investors cannot invest directly in an index. Unmanaged indices do not reflect management fees or transaction costs associated with some investments. Past performance is no guarantee of future results, and there is no guarantee that the views and opinions expressed herein will come to pass. This document contains forward-looking statements that indicate future possibilities. Due to known and unknown risks, other uncertainties and factors, actual results may differ materially from the expectations portrayed in such forward-looking statements. Readers are cautioned not to place undue reliance on forward looking statements, which speak only as of the date of this document.

Investing in the equity and other markets involves gains and losses and may not be suitable for all investors. Information presented herein is subject to change without notice and should not be considered a solicitation to buy or sell any security or to engage in a particular investment or financial planning strategy. Individual client asset allocations and investment strategies differ based on varying degrees of diversification and other factors. Diversification does not guarantee a profit or guarantee against a loss. Not all asset classes or funds discussed herein are held in all Modera client accounts, and the asset classes and indices discussed in this quarterly letter were selected for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell any securities. The performance of Modera client accounts may differ depending upon actual composition.

S&P data © 2018 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2018, all rights reserved. Bloomberg Barclays data provided by Bloomberg.