GALECKI FINANCIAL SENSE

GALECKI FINANCIAL MANAGEMENT

	LAST MONTH	LAST 3 MONTHS	YTD
S & P 500 Index	3.02%	9.07%	31.49%
Russell Midcap Index	2.29%	7.06%	30.54%
Russell 2000 Index	2.88%	9.94%	25.52%
Dow Jones Industrial Average	1.87%	6.67%	25.34%
Morgan Stanley EAFE Index	3.25%	8.17%	22.01%
DJ US Real Estate Index	0.97%	0.79%	28.92%
S&P Commodity Index	6.99%	8.31%	17.63%
Barclays Aggregate Bond Index	-0.07%	0.18%	8.72%

INDEX RETURNS

Equities finished the year strong in the final quarter of the year with almost all asset classes advancing. Large companies continued their advancement with the S&P 500 gaining 9.07% in the fourth quarter to finish the year up 31.49%. Large Cap value stocks slightly outperformed growth stocks in the final quarter with gains of 9.93% versus 8.32%. Mid Cap stocks were up 7.06% in the fourth quarter and finished the year up 30.54%. Small Cap stocks also fared well with the Russell 2000 advancing 9.94% in the final three months and 25.52% on the year.

International stocks showed some life late in the year with the MSCI EAFE index advancing 3.25% in December to finish the year up 22.01%. Emerging markets were up 11.84% in the final quarter and finished the year up 18.42%. Emerging stocks were the best performers over the last three months of the year.

The Barclays Aggregate Bond index had a quiet final quarter but did finish the year up 8.72%. Emerging bonds were up 2.09% in the fourth quarter and finished the year up 16.09%. High Yield bonds were up 2.77% in the final quarter to finish the year up 14.65%.

ECONOMIC REVIEW AND OUTLOOK

The U.S. economy grew at a 2.1% annualized rate in the third quarter following the 2.0% rate in the 2nd quarter of 2019. Early estimates for the fourth quarter are in the 1.0-2.0% range. Expectations are for the economy to slow in 2020. The Fed has become more accommodative over the last 9 months. However, business spending is contracting and consumer spending will not be able to keep the expansion going forever. It is likely that 2020 will see growth slow even further with the potential for contraction at some point in the year.

The Leading Economic Index was unchanged in November at 111.6 after three consecutive monthly declines.

Industrial Production rebounded in November by 1.1%. The increase in manufacturing was due in large part to the end of the GM auto strike. The Capacity Utilization rate (which measures how much slack is in the economy) was at 77.3 percent in November which is still 2.5 percentage points below the long-term average.

Non-farm payrolls increased by 145,000 in December. The unemployment rate remained at 3.5% and the number of unemployed was unchanged at 5.8 million. In December, the labor force participation rate was at 63.2%. Initial weekly unemployment claims were 214,000 for the week ending January 4, 2020. According to the JOLTS survey, there were 7.3 million new job openings which is a new high for the series. This means there are more jobs available then there are unemployed Americans.

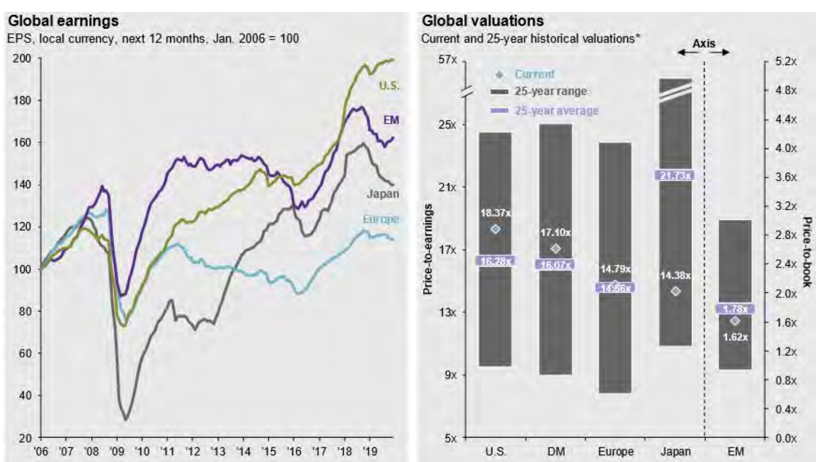
Manufacturing decreased in December to 47.2% from 48.1% in November on the ISM PMI index. This is the lowest reading since June of 2009. The New Orders Index came in at 46.8 percent, a drop of 0.4% from November. The ISM Non-Manufacturing index was at 55% in November which was up 1.1% from November. This marks the 119th consecutive month of expansion. This data tells us that the manufacturing sector is in contraction while the U.S. consumer is continuing to spend and keep the economy from drifting lower. But for how long?

Global economies are starting to recover as the U.S. is cooling. The JP Morgan Global PMI was at 50.3 in December which is a 7-month high. Any reading above 50 represents expansion. The Euro Area is at 45.9 with Germany struggling at 43.4. Emerging economies are also starting to improve with the EM PMI at 51.0.

EQUITY AND BOND MARKETS

Entering 2019, there were many reasons to be concerned about how stocks would perform. Trade negotiations with China were not going well. Brexit was impacting the confidence of European companies and consumers. The Federal Reserve was in a rate hike cycle. In addition, economic activity was slowing all around the globe. In fact, the best performing asset class in 2018 was cash, an occurrence rarely seen over the last 20 years.

Despite all of the concerns entering the year, equities staged an impressive rally in 2019. U.S. equities performed exceptionally well with the S&P 500 advancing 31.5%. U.S. small and mid-cap companies were up roughly 25% and 30% respectively. International stocks finished the year strong as developed international stocks were up 22% and emerging international stocks were up nearly 19%.



What will stocks do in 2020? It is an election year, Brexit is still in process, and trade concerns linger. Business confidence is at levels not seen since the last two recessions. Equity valuations have changed dramatically after this year's increase in prices. You can see in the chart above, the S&P 500 is trading at a forward P/E ratio of 18.4 which is well above the 25-year average. International developed stocks are trading slightly above their 25 - year average and emerging stocks are still trading under their long-term price-to-book ratio.

It is hard to see equities advancing dramatically higher off of these elevated levels. Expectations are for earnings to slow in 2020. If the U.S. consumer fails to carry the weight in spending, then look for equities to struggle.

PORTFOLIO MANAGEMENT

Our Investment Committee has spent much of the last year looking at the portfolios to understand where any excess risks lie and how they can be minimized. We are 10.5 years into this bull market and economic expansion. They typically last about 4.5 years. We do not feel that it is appropriate to have excess risk in the portfolio given where we are in this cycle. Therefore, we have made a number of changes.

We continue to maintain a diversified asset allocation approach. However, we have added some downside protection into the portfolios with the use of Exchange Traded Funds that have equity index exposure, but come with 15% downside buffers. This means that if the underlying equity index is down 15% or less, we won't lose any money in that position. This enables us to stay invested, but have some airbags that are ready to be deployed.

We have also spent a fair amount of time on the bond side of the portfolio. We have minimal exposure to high-yield bonds and we removed our exposure to convertible bonds. We increased exposure to intermediate-term bonds and short-term bonds. We have maintained our exposure to our market neutral fund. It will be important to keep a long-term focus in 2020 as volatility will likely increase as we get closer to the election.

FINANCIAL PLANNING

December 2019 was an eventful time for the financial planning world. On December 20, 2019, the SECURE Act was signed into law. The law contained a variety of provisions that will impact planning for future years. We will briefly cover a few of the changes in this section.

- The Required Minimum IRA Distribution (RMD) age has been increased to 72 for anyone who has not reached age 70.5 by 12/31/19. Anyone who has already reached age 70.5 by 12/31/19 is still required to continue their Required Minimum Distributions.
- However, Qualified Charitable Distributions (QCD) can still be utilized at age 70.5. The QCD strategy allows individuals to give up to $100,000 from a qualified retirement account directly to charity. The amount given as a QCD is not included in Federal Taxable Income.
- Traditional IRA contributions are now allowed at any age. Previously, IRA contributions had to stop upon reaching age 70.5. You are still required to have earned income to make a contribution.
- The "Stretch IRA" strategy has been eliminated for non-spousal beneficiaries of retirement plans (IRAs, 401(k)s, and Roth IRAs). If you inherit a retirement account from someone other than your spouse, the full balance of the account must be liquidated in 10 years. This change is effective for retirement accounts whose account owner dies after 12/31/2019.
- The list of qualified education expenses for 529 plan distributions has been expanded to include

apprenticeships and up to $10,000 of student loan repayment. The $10,000 for student loan repayment is a per-person lifetime limit.

The impact of these changes will be an area of concentration for our firm this year.

In addition to the SECURE Act, the 2020 maximum contribution limits increased for a variety of accounts:

- 401(k), 403(b), and 457 plans increased to $19,500. The catch-up contribution increased to $6,500 for individuals over age 50.
- SIMPLE IRA/401(k) plans increased to $13,500. The catch-up contribution remained the same at $3,000 if over age 50.
- IRA and Roth IRA limits stayed the same at $6,000 with a $1,000 catch-up if over age 50.
- Health Savings Account contributions increased to $3,550 for an Individual plan and $7,100 for a Family plan. The catch-up contribution remained the same at $1,000. Please note that the catch-up is available if over age 55, not 50.

Company News

30 YEARS 1990–2020 GALECKI FINANCIAL MANAGEMENT

2020 is our 30th anniversary as a firm! To celebrate, we are offering our Initial Financial Overview (IFO) for $300 until December 31, 2020. The normal fee for our IFO is $775.

The Initial Financial Overview is a two-hour interactive review of your current financial situation. There is no sales pitch as we do not sell any products or earn any commissions. The IFO may cover items such as retirement cash flow analysis, education funding and planning, tax planning, insurance analysis, estate planning and investment allocation and planning. The direction of the IFO typically depends on the needs of the Client.

The IFO will come with reports outlining the projections and a letter discussing the assumptions, results and recommendations.

To take advantage of this offer, please contact our office directly at 260-436-8525.

We are also excited to introduce our newest team member: Missy Jensen! Missy joined our team in August 2019. Missy's primary role is preparing for meetings and assisting clients with their financial needs. Missy works closely with Chloe Blythe to build and maintain client relationships.

Missy graduated from Manchester University in 2006 with a Bachelor's Degree in Elementary Education and was a collegiate soccer player while attending Manchester.

Outside of the office, Missy enjoys being a devoted football wife to her husband, Nate, who is a head football coach at a local university. Missy also enjoys spending time with her son, Matthew, whether he's playing sports or just hanging around the house.

Please join us in welcoming Missy to our GFM Family!

- Galecki Financial Management Investment Committee

Special Note: If you would like to schedule an appointment with a Certified Financial Planner™ Professional, please visit www.galecki.com.