



PERSONAL
INVESTMENT
MANAGEMENT, INC.

Quarterly News Release

OFFICE 425-883-7990 WEB pim4you.com

Greetings

In this edition of our News Release: 1) New company logo, 2) Fee change announcement, 3) New PIM Team Member, 4) Portal Reminder, 5) Investment Commentary, 6) IRA beneficiaries and RMD.

New PIM Logo



PERSONAL
INVESTMENT
MANAGEMENT, INC.

You may have noticed that we recently unveiled a new company logo. We wanted something that represents the history of PIM as well as who we are today. Given the academic careers of our founders and many clients, we designed this to resemble a diploma seal, with the torch of knowledge illuminating a text book. Our company name adorns the outer ring, with the year of PIM's founding, 1984, at the 6 o'clock position.

This logo is intended to be a tribute to our clients and founders, and a reflection of our deep commitment to study and practice. We hope to have achieved our intention with this design.

PIM to Change Schedule(s) and Method for Calculation of Fees in January, 2020

PIM will be making changes to both the fee schedules and the manner in which your quarterly investment advisory fees are calculated, effective January 1, 2020. To minimize any anxiety this announcement may cause, please know that these changes are not about PIM raising fees to increase our revenue. Rather, we must consolidate and streamline the entire process for automation and have done so in a way designed to be as close to revenue-neutral as possible.

In the coming days, you will be receiving additional information about these changes electronically and/or via US Mail. Included will be a more detailed explanation of the nature and scope of these changes, as well as our rationale for making them. Also enclosed will be a written "acknowledgement" document that we kindly request that you review, sign, date and return promptly to our offices.

If you have any questions or concerns please do not hesitate to reach out to your PIM advisor.

New PIM Team Member

We are pleased to introduce Ms. Shalina Martos, PIM's newest team member.



Shalina brings a wealth of experience to Personal Investment Management, Inc. having served for more than 16 years in diverse and increasingly responsible industry career positions. Most recently, Shalina spent approximately three years as a financial advisor with a Bellevue, WA registered investment advisor firm (like PIM). She has a passion for helping individual investors clarify and develop their personalized wealth management plans, as well as navigate the accompanying complexities that may occur over time. During the course of her career, she has emphasized professional education and has earned the following important industry designations: Certified Financial Planner (CFP®), Certified Divorce Financial Analyst (CDFA®), and Accredited Asset Management Specialist (AAMS®).

Initially, Shalina will play two important roles at PIM. She will work directly with a select number of PIM clients, some of whom have already been introduced. And she will lead our financial planning work on behalf of clients, having already researched and recommended a new financial planning program for adoption company-wide.

Outside of the office, Shalina can be found on the golf course attempting to get that coveted 2nd hole in one! She logged her first ace in 2015 while playing an early, foggy morning round at Mt. Si; her grandpa Vernon would have been proud! She also enjoys spending time with her wife Lonna, adventurous dog “Koda Bubbles,” and a large extended family. She is an identical twin and has 2 nieces and 2 nephews that light up her life when she gets to see them. When vacation time rolls around, the family makes it a priority to live life with purpose and attempt to check an item off the bucket list every chance they get.

Portal Reminder

We wish to remind you that PIM recently launched a new online client portal. In addition to being an encrypted and secure “vault” to store important documents electronically, (i.e. your quarterly PIM portfolio holdings and performance reports), the new portal also provides a detailed view of your investment portfolio holdings, rates of return over various time periods and more. The information displayed is current as of the prior business day. If you haven’t yet logged into your new PIM portal, we encourage you to do so soon. If you would like some assistance with accessing your PIM portal, please don’t hesitate to contact us. We expect to be launching a new mobile app soon, which will allow you to access your PIM portal via your mobile device. Stay tuned!

Investment Commentary



Source: Worldscope, Datastream, Goldman Sachs Global Investment Research

In August of 2017, we adjusted our allocation models in order to increase diversification. The outgoing models had roughly 80% of the equity investments allocated to the US. This was a well-rewarded decision as US equities have outpaced the rest of the world significantly since the financial crisis as shown in figure 1. However, it also left us vulnerable to any slowdown or policy mistake in the US economy.

The outperformance of US equities is largely attributable to the remarkable success of the technology sector. For a point of reference, the global technology sector index has been the best performing area of the global economy since the financial crisis and 80% of the sector is comprised of US-based firms.



Source: Worldscope, Datastream, Goldman Sachs Global Investment Research

The reason for the tech sector’s outperformance is simple. The firms in the index earn much more than other areas of the global economy, as shown in figure 2’s last twelve months (LTM) earnings chart.

Today, there are real fears of a tech slowdown. The US-China trade battle is firmly centered on the sector. As anyone living in Northeast France during the World Wars will tell you, having your territory earmarked as the next battlefield is bad news. Tech imports from the US are one of the few areas China can target in retaliation to US tariffs and market access. For US firms, this means less growth from exports and new complexities in their

foreign supply chains. As a result, the US tech sector has issued more negative earnings guidance than any other sector for the second quarter. Overall, this has been the worst quarter for earning downgrades in the US since 2006.

The US Justice Department also appears to be increasing its scrutiny of “Big Tech” and its perceived monopoly control over certain areas of the economy. New equity offering (IPOs) from tech darlings Uber, Lyft, and Pinterest have shown that the industry may have gotten ahead of itself in terms of valuations. When viewed as a whole, it certainly appears that the tech growth story within US equities won’t be firing on all cylinders. Keep in mind, the anti-trust litigation

against Microsoft caused the stock price to move sideways for the better part of a decade before they were able to re-invent themselves. Today, Facebook and Google are potentially looking at a similar situation. Together, these two firms make up 5% of the S&P 500, which is cause for concern.

The decision to move a modest portion of our equity allocation out of the US was largely based on relative valuation. US equities are expensive, foreign equities are relatively less so. However, growth in the US has been higher than elsewhere in the developed world, until recently. This higher growth rate has been the justification for the difference in equity values. If those growth rates are coming together for various reasons, then the higher valuation for US equities may no longer be justified.

We can compare PIMs older and more recent investment models over the past two years. Over the period there have been times when the old model did better, and vice versa. However, as of the end of the second quarter 2019, the two models are roughly in the same place with new model ahead slightly.

This conclusion is counter intuitive as US equity markets have continued to outpace foreign. But keep in mind the new equity allocation only moved eight percent of portfolios overseas relative to the old allocation. Both US and non-US equity exposure in the new allocation is more weighted towards larger, more growth-oriented investments. It is these investments that have added to performance more than any other allocation decision. During a period of slowing economic output, firms that can grow earnings faster than the overall market have been rewarded regardless of where they are located.

From a performance perspective, the allocation adjustment has been neutral. However, from a risk perspective, the change has resulted in 12% less volatility over the past two years as measured by standard deviation. As we enter the tenth year of the expansion and face slowing economic data, risk management becomes increasingly important. The added exposure to international markets has lowered overall volatility because the portfolios incorporate additional aspects of the global economy. This added diversification has made the allocation more stable. During the selloff in December 2018, for example, international assets outperformed those in the US.

We are satisfied with our allocation decisions thus far. Earning similar returns with less risk is obviously preferable. Looking forward, the outlook for overseas investments appears more positive due to the increased likelihood of a weaker US dollar. The strong USD has been a significant headwind to the overseas portion of our allocation. The slowing US economy, a dovish Federal Reserve and large US budget deficits all build the case that the US dollar is due to weaken relative to other currencies.

With the S&P 500 at/near all-time highs, a Warren Buffet quote seems appropriate, “Be fearful when others are greedy, and greedy when others are fearful.” Changing our model allocations to increase diversification across a range of factors has reduced risk without negatively impacting returns over the past two years. In the face of a slowing global economy we continue to believe this is a prudent approach.

IRA Beneficiaries and Required Minimum Distributions

This is one of the few wealth management topics that applies to nearly every PIM client. Whether you are contemplating the beneficiary designations of your own account(s) or are an IRA beneficiary yourself, who may, in the foreseeable future, inherit such as account, it is important to understand the following about how IRA assets are transferred at the passing of the original account owner.

Spousal Beneficiary Options

Option 1: When inheriting an IRA, a spouse has one option that other beneficiaries do not. The spouse may choose what is called a “**Spousal Rollover**”. Assets are transferred into an IRA account in the surviving spouse’s name only. This can be an existing IRA or a new IRA established for this purpose. The account will be subject to RMD at the surviving spouse’s age 70 1/2. If the goal is to allow account assets to grow tax-deferred for as long as possible, then this could be an appropriate choice. However, if the surviving spouse is younger than age 59 1/2 and may require access to account assets, this may not be optimal. Generally, retirement plan assets distributed prior to age 59 1/2 incur a 10% early withdrawal penalty.

Option 2: A spouse may choose to receive inherited IRA assets into an **“Inherited IRA”** account, rather than into a regular IRA account in his/her own name. The primary benefit of doing so is penalty-free access to distributions if the surviving spouse is younger than age 59 1/2. The timing of future RMD will be based upon the age of the deceased spouse at the time of his/her passing.

For Non-Spouse IRA Beneficiaries

Non-spouse beneficiaries must use the “Inherited IRA” method.

Non-spouse beneficiaries may not roll over inherited IRA assets into an IRA account in their own names. Rather, the account type into which inherited IRA assets must be transferred is called an “Inherited IRA”. Regardless of the age of the decedent at the time of his/ her passing, distributions to the beneficiary must begin by no later than 12/31 of the following year. If the decedent was under age 70 1/2, then RMD is based upon the beneficiary’s life expectancy.

If the decedent was over age 70 1/2, then RMD is based upon the beneficiary’s life expectancy or the decedent’s life expectancy, whichever is longer. If you inherit an IRA from someone over 70 1/2 but younger than you are, you might like to have RMD be based upon the decedents life expectancy rather than your own.

If the decedent was over age 70 1/2 and had yet to complete RMD for the year of his/ her passing, then this must be completed by 12/31 of the year of death.

Roth IRA Account Beneficiaries

Spousal Beneficiary

The spousal beneficiary of a Roth IRA may either 1) Roll the account over into a Roth IRA (new or established for this purpose), in his/her name only, such as with a traditional IRA, 2) Choose to act as a non-spouse beneficiary and receive the account as an inherited Roth IRA. Option 1 results in no required minimum distribution for the lifetime of the surviving spouse. Option 2 triggers required minimum distribution to the surviving spouse. It would be rare for a surviving spouse to choose option 2.

Non-Spouse Beneficiary

A non-spouse beneficiary also has two choices: 1) Distribute all account assets by the end of the year containing the 5th anniversary of the passing of the original account owner, 2) Initiate required minimum distribution by December 31st of the year following the year of death of the original account owner. RMD is determined based upon the life expectancy of the beneficiary. If the objective is to stretch out the account for as long as possible, this is the better option.

Non-Spouse Beneficiary of Qualified Plan (401k, 403b, etc)

For both spousal and non-spouse beneficiaries, inheriting a qualified employer retirement plan is similar to inheriting an IRA, as described earlier. However, for non-spouse beneficiaries, there is one major caution to observe. If the intention is to place account assets into an inherited IRA (rather than lump sum distribution), make absolutely certain that the process used is a “trustee to trustee transfer”. The moment that a non-spouse beneficiary takes possession of the funds from an inherited qualified plan, this is considered a 100% taxable distribution. In other words, don’t let the plan administrator make a check out to you. You do not have 60 days to “roll over” the funds into your IRA, as you would with your own employer retirement plan. Let us know if you have any questions on this point.

Closing Comments

Please accept our very best wishes for a delightful summer. We are appreciative of, and honored by, the trust you have placed in PIM.