

the BENCHMARK

Newsletter



04

We've Moved to the Upper Level of Our Building

BCS Wealth Management has moved our Johnson City offices from the lower level to the upper level of our building.

When you visit us, instead of turning down the hill, make a left turn at the building and park in front of the double

doors in the center of the building.

The continued growth of our company necessitated the move, and it comes with many upgrades to better serve our clients.

Second Quarter Continues Positive Trend for the Year

Nick Clay recaps recent market action and economic news.

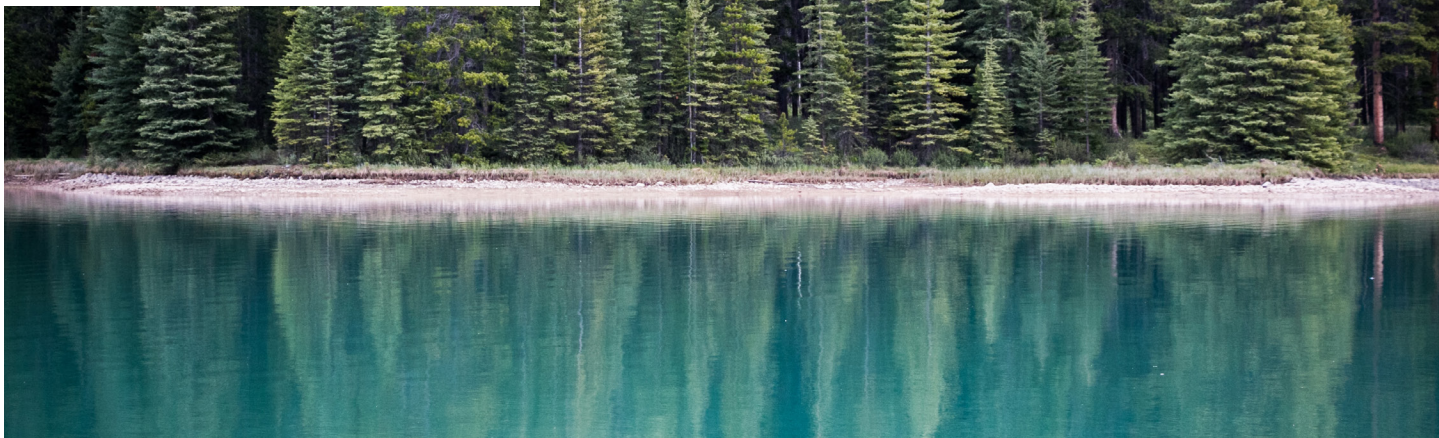
Window of Opportunity in Estate Planning

Guest contributor David Greene explains new options in estate planning.

07



Second Quarter Continues Positive Trend for the Year



By Nick Clay

A lackluster final week of the quarter ended a strong month of gains for the stock market. All major sectors of the S&P 500 are now handily up for the year, with technology leading the way. The DJIA, NASDAQ, and S&P 500 continue to bump against all-time high watermarks.

In many ways, the second quarter was nearly an identical picture of the three previous quarters all rolled up into one three-month period. The quarter started on a positive note as stocks captured all-time highs in late April. But as the calendar flipped to May we were greeted with renewed trade tensions and tariff talk, which erased all of April's gains. As June rolled around we were pleasantly greeted with a relatively new stance from the Federal Reserve on interest rates and renewed positivity surrounding trade. Now here we are sitting at fresh new all-time highs for the stock market just after Independence Day.

We should also note that we are now in the longest economic expansion period in U.S. history. While it has been

quite the ride from the financial crisis and recession, it's still not the most intense expansion from bottom to top. I would argue a controlled and prolonged expansion is the preferred method of growth, as opposed to an intense period of growth that creates inflation and other negative economic patterns.

With the longest bull market in history comes the theory of "What goes up must come down." This is a fair concern, and many investors worry if the market is overvalued. One key measure of stock market value is the forward P/E ratio. Without boring you with the details, the forward P/E, and many other valuation

measures, show the market to be valued right around average compared to the last 25 years.

If you recall, the market pulled back in 2015. Many thought the run was over. They thought it was time to take cover and be more conservative. However, all that did was allow earnings to catch up to prices and create value and strength for continued market growth. We very well could be seeing the same thing with the market pullback in 2018, but I wouldn't expect continued market growth at the furious pace we've already seen this year. In relative terms, the

Continued on Page 3

Major Stock Indexes	2nd Quarter 2019	YTD
DJIA	2.6%	14.0%
Nasdaq Composite	3.6%	20.7%
S&P 500	3.8%	17.3%
Russell 2000	1.7%	16.2%
Global Dow	2.5%	12.4%
Japan: Nikkei 225	0.3%	6.3%
Stoxx Europe 600	1.5%	14.0%
UK: FTSE 100	2.0%	10.4%
Major Bond Index	2nd Quarter 2019	YTD
Bloomberg Barclays US Aggregate (Total Return)	3.1%	6.1%

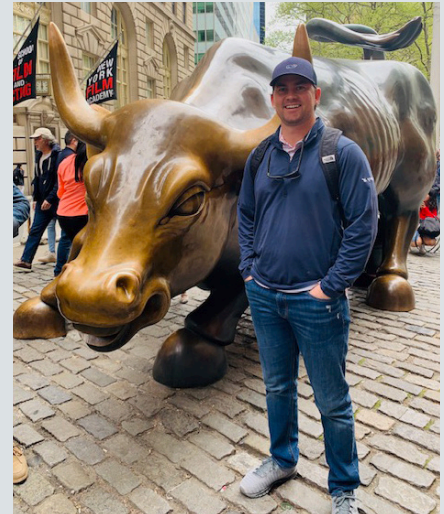
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earnings yield on stocks is still much higher than investment grade bonds, which have struggled somewhat due to low inflation and low short-term interest rates.

As we enter the summer months we expect continued volatility, which is common in the summer months due to holidays and lower market volume. While we plan for volatility, it still creates a good time to evaluate your portfolio allocation and risk tolerance. We

regularly review our clients' portfolios, but if you have questions or concerns please schedule some time to review things with our team. As Sir John Templeton once said, "The time to reflect on your investing methods is when you are most successful, not when you are making the most mistakes."

We've enjoyed seeing so many friends and clients at our client events this year. Our team continues to plan future client events, and we look forward to seeing you at these events. Stay tuned for announcements.



We've been busy this last quarter! Myra and Lauren volunteered at the Salvation Army store for the United Way Week of Caring. Paul and Scott both were instructors in the RBI Tri-Cities Annual Paul Hoilman Baseball Camp.



We've Moved Upstairs!

By Nathan Goodwin

BCS Wealth Management has moved our Johnson City offices from the lower level to the upper level of our building. The continued growth of our company necessitated the move, and it comes with many upgrades to better serve our clients. Managing partner Nick Clay said, "We're excited to announce our move.

More square footage, more conferences rooms, technology upgrades and room for further growth are just some of the ways this move will benefit our clients." This is the third move of the company, with the last coming in 2010. We are very thankful for our clients who put their trust in us. It is these deep relationships that have been the catalyst for our continued growth.







The Financial Crisis: 10 Years Later

By Philip Bachman & Jeff Burgess

It has been 10 years since the end of the Great Recession. Lasting from December 2007 to June 2009, the Great Recession occurred in tandem with a deep financial crisis. It was the longest economic downturn in the U.S. since World War II. Now that a decade has passed, we look back to recap that difficult period.

The Decline

A subprime mortgage crisis became the primary catalyst of the 2007-2009 Financial Crisis. Low interest rates after the “Dot-Com” crash of 2001 fueled an apparent boom in lending, especially in the housing market. Believing real estate values would only rise, a credit bubble brewed as financial institutions and asset managers turned to subprime mortgage lending and high-yield mortgage-backed securities. The credit bubble began cracking when homeowners, notably subprime (low credit score) borrowers, started defaulting on their mortgages. The housing market fell as delinquencies rose. The drop in real estate values hit mortgage lenders and financial institutions heavily exposed to real estate lending. It also hit “Main Street America” as the economy simultaneously turned down.

These developments set off a domino effect in the financial markets. Investment banks poured money into innovative securities like collateralized debt obligations and credit default swaps. These derivatives circulated through the entire financial system. The leverage behind many of these derivatives was massive, and it intensified the downward spiral.

The financial crisis culminated with the bailout of Fannie Mae and Freddie Mac

and the collapse of Lehman Brothers in 2008. Many other financial institutions failed around that time as well. Credit dried up as banks pulled back into survival mode. By the time the financial crisis ended, the government had bailed out key financial institutions to help restore liquidity in the broader financial system. The Great Recession and the 2007-2009 Financial Crisis strained nearly every niche of the economy. The U.S. gross domestic product growth rate fell to as low as -7.2% (seasonally adjusted annualized rate) in the fourth quarter of 2008, a historically awful number. Less than a year later, U.S. unemployment peaked at 10% in October 2009. Meanwhile, economic weakness, bank failures, and uncertainty about the government’s intervention caused a precipitous decline in the markets.

The Recovery

The broad economy is in a much better place now than a decade ago. The recovery has been impressive by most measures. In fact, the National Bureau of Economic Research indicates that the current expansion that began in June of 2009 now matches the longest on record, March 1991 to March 2001. Three frequently cited economic readings illustrate the economy’s strength. The Q1 2019 U.S. gross domestic product growth rate is a respectable 3.1% (seasonally adjusted annualized rate). Unemployment is at 3.6%, a 49-year low. Consumer confidence is near an 18-year high.

The U.S. stock market as gauged by the S&P 500 index lost over 50% between October 9, 2007 (the pre-crisis high) and March 9, 2009 (crisis low). However, it has had a strong recovery. The S&P 500 ended June 2019 at 2,941.76, a 335% return (15.3% annualized) from its 2009 low of

676.53. From the 2007 high, it has been an 88% return (5.6% annualized).

Ten years into the recovery, the U.S. stock market continues to press ahead in one of the longest bull markets in history. Many wonder how long the good fortune can continue. When will the stock market finally cool off? When will another recession occur? Although we cannot predict the future, history tells us that no bull market runs forever. The volatility seen in the stock market during 2018 and thus far in 2019 serve as a reminder that markets do not move exclusively in a straight line. However, we believe long-term investors stand to be rewarded just as they have been historically, even those who remained invested during and after the Great Recession.

Recessions are an inevitable – even healthy – part of the business cycle. The Great Recession just happened to be a nasty one. Remember that not every recession is as deep as the Great Recession, despite it being freshest on our minds. As an economic downturn will happen eventually, we believe time-tested financial planning concepts will be as important as ever, like saving and investing according to one’s unique goals and appetite for risk.



PB & Jeff presented this topic at the annual BCS Accounting Update in May at MeadowView.



Window of Opportunity in Estate Planning

By Guest Contributor David Greene

The Tax Cuts and Jobs Act (TCJA), passed in December 2017, was the largest shake-up of the Internal Revenue Code since the 1986 revision. Among the changes in the TCJA was a doubling of the exemption for estate taxes, from \$5 million (indexed for inflation) to \$10 million (indexed for inflation). After adjusting for inflation, the 2019 exemption amount is \$11.4 million per person. This is good news for individuals and couples with higher net worth. The bad news is that this is, as a TV infomercial personality might say, a limited time offer. This doubling of the exemption amount is set to expire after 2025. Do taxpayers have to die before 2026 to take advantage of the new rules?

Thankfully, the answer is no. Gifting strategies can be implemented during life to shelter wealth from future estate taxes at death. But the built-in collapse (back to pre-TCJA levels) of the exemption amount raised a prickly question: if a taxpayer utilizes a portion of his or her exemption before the end of 2025, what happens to

that taxpayer's remaining exemption? For example, if an individual with an \$11.4 million exemption makes a \$10 million taxable gift in 2019, and dies in 2026 (when the inflation-indexed amount is estimated to be \$6.2 million), what is his or her exemption at that point? Would there be a "clawback?"

Proposed regulations issued in November provide a specific way to calculate estate tax such that no "clawback" applies. The rationale provided for that answer was that the statute was intended to provide a benefit to taxpayers, and not to retroactively deny taxpayers dying after 2025 the benefit of the higher exclusion amount. The special rule allows a taxpayer to get the larger of the exclusion amount as of the date of death OR the benefit of exclusion amounts allowable in computing gift tax payable on lifetime taxable gifts. The result is that the doubling of the exemption amount is, in essence, a "use it or lose it" proposition. This provides higher net worth families what is now about 6 ½ years to take advantage of this window of opportunity. Sizeable outright gifts and

gifts in trust to intentionally defective trusts can be made with little tax downside by people who intend to be around in 2026. Carpe diem!



David Greene, JD, CPA, is the Senior Trust Officer at First Covenant Trust & Advisors in Johnson City, TN. David has extensive experience in estate planning and administration.

BCS Wealth Management is an independent financial planning firm in Johnson City, TN. We help individuals, families, and businesses reach goals important to their financial wellbeing. We provide investments and financial planning, insurance, and group benefits.

Open House Fun



We enjoyed hosting clients and friends at our Open House and Ice Cream Social on July 18. We feel blessed by a great turnout and good weather. The firm made a donation to the Alex's Lemonade Stand Foundation for Childhood Cancer on the occasion of the successful event.

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