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ADVANCE CAPITAL MANAGEMENT

FINANCIAL LIVING

volume Q4 2019

A QUARTERLY NEWSLETTER FOR THE CLIENTS AND FRIENDS OF ADVANCE CAPITAL MANAGEMENT

LETTER FROM THE CEO

Focus on What Truly Matters

As we near the end of 2019, it seems that another year has flown by in the blink of an eye. If you don't take a step back every once in a while, you risk missing the things that truly matter. Contributing to that is the ever-accelerating pace of change in the world with the accompanying bombardment of endless information both good and bad.

Today, organizations must be nimble in order to continue to thrive. In our case, Advance Capital's investment team must constantly monitor capital markets and the economy to adjust our investment recommendations to changing conditions.

Further, our information technology team is constantly improving our infrastructure so we can continue to deliver the world-class service and advice you expect while safeguarding your confidential information. The team's stellar work hasn't gone unnoticed. It was named the Best Overall Security Program (Small Network Category) in 2017 and given an Excellence in Network Security Award in 2018 by AT&T and Digital Defense Inc.

With all this change, however, it's worthwhile to step back and note what hasn't changed: our core principles. We are successful because we continue to do the right things for our clients and employees. We always strive to put our clients' interests first, maintain a low-cost approach for better results, and never stray from our disciplined processes to deliver positive investment performance over the years.

We treat our employees with respect and always try to foster a prosperous working environment for them. We demand excellence but recognize the importance of a healthy work/life balance. In fact, we are especially proud of a recent award by Investment News naming Advance Capital as one of the best places to work in the financial advisory field.

Most importantly, none of this would be possible without your support. The opportunity to work with you and earn your trust and the gratification that comes from seeing you achieve your goals is what truly matters. No matter how much everything else changes, we promise to never lose sight of that.

Thank you for another wonderful year. On behalf of everyone here at Advance Capital, I wish you and your family a happy holiday season. ■

Joseph R. Theisen

JOSEPH R. THEISEN
Chief Executive Officer

Market Insights: Q3 2019

At times, the investing environment can feel like the weather in Michigan. One day, it is cold and rainy; the next, hot and sunny. It can change quickly and unexpectedly, even by the hour. Perhaps this analogy best sums up the gyrations in the capital markets over the past year.

Clouds give way to sunny gains

For a refresher, the S&P 500 Index fell around 20 percent during the fourth quarter of 2018 amidst heightened trade tensions and rising interest rates. The first quarter of 2019 witnessed a complete reversal when stock prices jumped considerably higher as investors anticipated a resolution to the trade wars and an interest rate cut by the Federal Reserve. Throughout the spring and summer, the markets remained volatile and whispers of recession fears began to spread among investors. Then interest rates fell to fresh new lows in early September, after spiking to cyclical highs this time last year. But like sudden changes in weather patterns, the markets did an about-face with stocks heading back to all-time highs and interest rates rising higher during mid-September. With so much volatility in the capital markets and global economies recently, investors are left scratching their heads and wondering what's next.

Where growth stalls, central bankers step in

To help answer this question and gain some perspective, let's first analyze trends in the global economies and the support of central bankers, then focus on the capital markets. In the United States, second quarter economic growth came in at 2.3 percent annualized, after a solid 2.7 percent for the first quarter. Next year, growth is expected to moderate to around 1.9 percent because of softer manufacturing activity, trade wars and subdued growth in corporate capital expenditures. Yet, employment should remain robust with the lowest unemployment rate in about 50 years. Wage growth continues to increase, and the number of unfilled jobs is near an all-time high. In Europe, growth is expected to pick up over the remainder of this year and into 2020, as external demand is projected to recover and temporary negative factors fade. Emerging economies, including Asia, are expected to grow at 6.2 percent in over the next year. This slightly reduced forecast largely reflects the impact of tariffs on trade and investment. In China, the negative effects of escalating tariffs and weakening external demand have added pressure to an economy already in the midst of a structural slowdown and needed regulations to rein in high dependence on debt. Policy stimulus is expected to support activity in the face of external pressures, with growth forecast at 6.2 percent for all of 2019 and 6.0 percent in 2020.

The combination of softer world growth, lower corporate earnings growth and heightened volatility in the capital markets prompted global central bankers to alter their monetary policies going forward. In the U.S. for instance, the Federal Reserve went from hiking to lowering interest rates in a matter of months. After raising interest rates nine times over the three-year period through December, they abruptly cut interest rates this past July and September when economic data disappointed. Investors appear to be pricing in the possibility of further rate cuts in the months ahead should growth and inflation underwhelm. The theme is similar in Europe, where central bankers lowered deposit rates to a record low of negative 0.5 percent and restarted their quantitative easing program in response to a weakening economic outlook and potential downside risks. Unlike the U.S. Federal Reserve, China's central bank doesn't have a single primary monetary policy tool. Instead, they use multiple methods to control money supply and interest rates in the world's second-largest economy. Amidst an ongoing trade war with the U.S. and slowing internal growth, they have pushed interest rates lower and adjusted their currency exchange rate to make their economy more competitive.

Our take

The combined effects of trade wars, lower corporate earnings, slowing global growth and aggressive global central bank policies have led to volatile returns in the capital markets over the past year. One-year results are quite underwhelming for most major indices, with returns for large-cap stocks modestly positive, while smaller capitalization names have returned flat or negative results. International and emerging market index returns are positive this year, but uninspiring over the one-year period. Meanwhile, most fixed-income sectors have benefitted from a decline in interest rates and investors' appetite for risk. Corporate investment-grade, high-yield and longer-dated U.S. Treasury bonds have performed well.

Looking forward, we expect that economic data could flirt with a recession over the next few quarters amidst slowing growth and subdued corporate earnings. Yet, with the Federal Reserve poised to lower rates, along with a stellar jobs picture and modest inflation, any weakness appears man-

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It is not possible to invest directly into an index. The indices mentioned in this article are unmanaged and are not affiliated with Advance Capital Companies.

Why a Recession Isn't Imminent

A recession is coming... someday.

The fact is, recessions are a normal feature of the economy.

The National Bureau of Economic Research defines a recession as "a significant decline in economic activity spread across the economy, lasting more than a few months." One is commonly declared when Gross Domestic Product shrinks for two consecutive quarters (six months), businesses cease to expand, the unemployment rate rises and housing prices decline.

There have been 12 recessions since 1945, occurring at least once every 10 years. So, we know a recession will occur again, but it's impossible to predict when. A recession never announces its arrival ahead of time.

With a brief inversion of the yield curve and some market volatility this summer, we saw an increase in recession fears – and a subsequent increase in discouraging news headlines.

It's true there are some concerning economic signals flashing, such slowing economic growth, sluggish wage growth and a weak manufacturing sector.

Despite all that, there are several positive trends that provide good reasons to think the long expansion can continue. For one, the stock market is booming, as corporate earnings and consumer spending remain robust. The unemployment rate remains near its lowest level in five decades. Disruptions from trade disputes have been confined to certain sectors, not the economy as a whole. Finally, recent interest rate cuts by the Federal Reserve are likely to help keep things afloat and reduce the risk of recession.

Of course, there is always room for surprises, but for now a recession remains a far-from-certain possibility.

But what if a recession does occur?

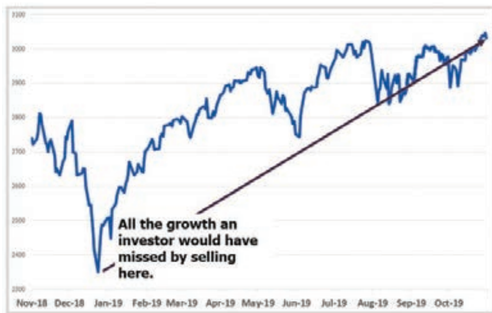
Well, one thing to keep in mind is that recessions don't last long – only around 10 months on average. By the time we know a recession is here, we've already been in it for six months, so it is likely already halfway over.

Further, recessions come in all shapes and sizes. Some worse than others. For every 2008, you have many that no one remembers. A recession doesn't always portend a market downturn, and vice versa. Investors are wise to keep a long-term perspective, as you cannot predict how a recession will impact your portfolio, if much at all.

Therefore, it's a good time to exercise prudence and avoid making long-term financial changes in response to something that is only temporary.

Case in point: the stock market took a steep downturn to close out 2018. At the time, there was also a lot of talk about a recession, bear market, the need to put everything in cash, and so on. Those who listened to the chatter and changed their portfolios likely made a costly mistake. One year later, the stock market is charting new all-time highs.

S&P 500 10/31/18 – 10/31/19



You can't control the economy, nor can you entirely control how a recession will impact you. But you can prepare. By taking the right preventive steps with your investments and the rest of your financial life, you can stay on track toward your financial goals. To learn more about those steps, we recommend that you read our latest educational guide: **Protecting Your Money Against a Recession.** (Found at acadviser.com/education-center)

Federal Workers: What You Need to Know about the TSP Withdrawal Options Bill

From VA doctors to national security officers, we've had the pleasure to work with many federal government employees. One way in particular is by providing help navigating the Thrift Savings Plan (TSP). Recently, there has been some important changes in the TSP that we would like to highlight.

As of September 15, there were some significant modifications to the way you can access money from your TSP account. Essentially, you now have more options.

First and foremost, after you retire or leave federal work, you can now take multiple post-separation withdrawals.

For those over age 59 ½ and still working, you are now allowed to take up to four in-service withdrawals per year, opposed to just one in your entire career.

Further, you can now choose whether your withdrawal comes from your Roth

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Last-Minute Medicare Open Enrollment

Medicare's annual open enrollment period is under way and closes Dec. 7. Now's the time to pick a new Medicare Part D drug plan, a new Medicare Advantage plan, or switch from original Medicare into a Medicare Advantage plan or vice versa.

With plans varying from year to year — including the drugs they cover and the amount you pay for them — you could be setting yourself up for a financial shock if you don't review your options.

If you haven't chosen a plan yet, here are some tips to help pick the right one for you.

- Even if there aren't any changes to your plan, it's good to check if another plan covers your drugs more cheaply. However, don't just go with the cheapest plan you find; it might have the most restrictions.
- You can compare plans through Medicare.gov's Plan Finder. Type in your drugs and dosages to see how much you'd pay for premiums plus co-payments for plans in your area.
- Make sure your doctors, hospitals and other providers are covered in your plan from year to year.
- Be aware that for 2020 the amount that Part D enrollees must pay out of pocket before qualifying for "catastrophic coverage" will jump to $6,350 from $5,100 this year.

- Remember, if you choose a standalone drug plan and pair it with original Medicare, you're stuck with it for a year unless you qualify for a special enrollment period. But, if you choose drug coverage through an Advantage Plan, you can get a do-over early next year. (Between Jan. 1 and March 31, you can switch to another Advantage Plan that suits you better or drop the plan and go to original Medicare.)
- Take advantage of your local State Health Insurance Assistance Program (SHIP). It offers free, unbiased help selecting a plan based on your needs. ■

Federal Workers *(Continued from page 3.)*

balance, Traditional balance, or a proportionate combination of both. You also no longer need to make a full withdrawal election after you turn age 70 ½ and are separated from federal service. (However, you will still need to take your RMDs!)

Finally, if you're a separated participant, you now have greater flexibility with your withdrawals – monthly, quarterly or annual. And, you can make changes to those monthly, quarterly or annual payments at any time.

This is just a high-level overview, and you should consult your adviser to see what strategies may be appropriate for your situation. ■

Market Insights *(Continued from page 2.)*

ageable. Considering most of this news is already priced into stocks, any surprises will have a corresponding impact on prices. We continue to expect modest returns for both stocks and bonds for the remainder of the year, although volatility could pick up. In this environment, we have positioned client portfolios slightly defensively with respect to bond duration and a slight overweight to credit. In stocks, we modestly favor domestic over international and growth over value. Rest assured, we are diligently working on your behalf and only make portfolio changes after thorough research and sound investment analysis.

As always, investing in capital markets comes with some risk and uncertainty. We thank you for your continued support of our investment process as we work hard to deliver positive risk-adjusted portfolio returns to our clients. Should you have any questions, please do not hesitate to reach out to your financial adviser. ■

HEADQUARTERS
One Towne Square
Suite 444
Southfield, MI 48076
(800) 345-4783
(248) 350-0115 Fax

GRAND RAPIDS, MI
625 Kenmoor Avenue SE
Suite 307
Grand Rapids, MI 49546
(800) 444-1053
(616) 954-2499 Fax

LISLE, IL
4225 Naperville Road
Suite 160
Lisle, IL 60532
(800) 327-3770
(630) 955-3404 Fax

INDEPENDENCE, OH
Crown Centre
5005 Rockside Road, Suite 215
Independence, OH 44131
(800) 457-4304
(216) 520-1535 Fax