MONTAG

Viewpoints

FOURTH QUARTER 2019

"He gets so dramatic when I lower the thermostat."

Inside This Issue

MONTAG *Viewpoints* is published quarterly by MONTAG Wealth
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January 3, 2020

2020 VISION: MORE THAN AN EYE EXAM — *Ned Montag*

This newsletter marks the end of a lot of things: the fourth quarter, the year of 2019, and the decade of the 2010s. What does the market hold for us in 2020 and the next decade?

Ten years ago, my kids were obviously much smaller, and I've watched them grow much like I've watched the investment markets grow. Who had heard of Bitcoin ten years ago, for example? 1 in every 3 Americans had a smart phone. Amazon was only selling books, for crying out loud! And my five year old daughter's primary focus was on cartoons.

And now? Bitcoin had the biggest return of any asset or asset class this decade, everyone has a smart phone (or maybe two), and Amazon sells you... everything. And cartoons have been replaced by beauty products and skin care regimens for my now fifteen-year-old.

In other words, a lot can happen in ten years and at MONTAG, we look forward to providing you all with sound investment counsel and personal service... even if we're doing it in virtual reality in the next ten years! M

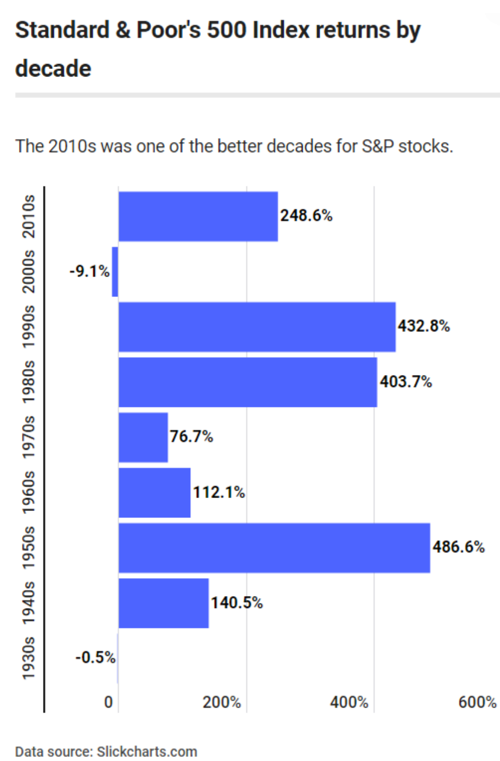
MARKET OBSERVATIONS — *Chris Guinther*

2019 was a great year for stock investors with the broader market delivering some of its best returns in six years. For the fourth quarter, the S&P 500 finished up 9%, the Dow added 7% and Nasdaq advanced 12%. For the year as a whole, their total returns were 31%, 25% and 37% respectively. Although we had a great year, I instead want to take a look back and reflect on the past decade.

Stocks in the 2010's were on fire

The stock market has had a fabulous ride over the last decade, more than tripling its price. You might have forgotten that, what with all the years of worry over Brexit, an inverted yield curve, falling interest rates, tariff wars, impeachment and the occasional (hourly) tweet from president Trump, but through all that 'noise' the S&P 500 finished up nearly 250% for the decade.

A decade ago, sometimes called 'the lost decade' from 2000-2009, the U.S. economy was dealing with the worst economic crisis since the Great Depression and the S&P had seen its worst decade ever – even worse than the depression-era 1930. But that set up a period of solid gains in the 2010's.



This past decade saw Amazon's stock ($126 rise to $1787) and Apple ($26 rise to $280) become the first trillion dollar companies and

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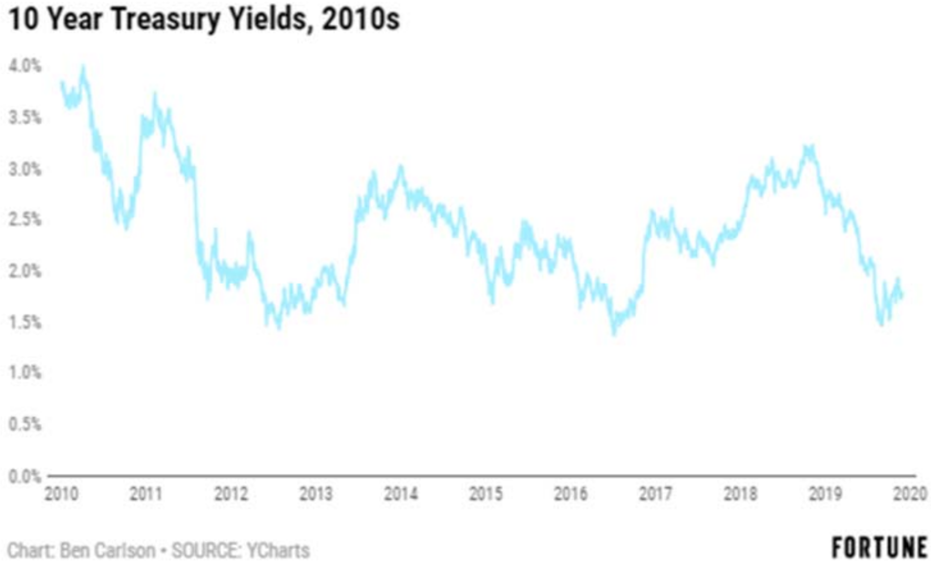
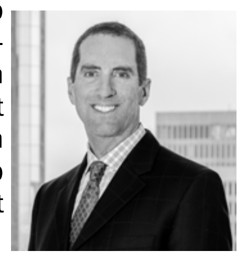
witnessed Facebook rise from its IPO at $38 in 2012 to currently over $200. Ride sharer Uber became a thing, too, although its shares have struggled since going public in May while WeWork (the office sharing company) once claimed a $47 billion dollar valuation on paper never made it public at all. I won't bring up bitcoin. And let's not forget about cars without engines (Tesla) went public in 2010 ($18 rose to $418). Maybe the 10's was actually the decade of 'scale' where companies tapped into the worldwide markets more so than ever before. The innovative sector, Technology, climbed over 400% while the stodgy old commodity sector fell 45% this decade.

Let us not forget about the bond market and interest rates in our review of the 10's…the part of your portfolio aimed at generating some income and offsetting the wild ups and downs in stocks. The 10-year yield began the decade just shy of 4% and touched an all-time low of 1.4% in July of 2016, finishing the decade around 1.8% and generating a total return for investors of roughly 42%. After getting taken to task for more or less missing the financial crisis, you have to hand it to the Fed for their role in getting the economy on better footing this decade. Quantitative easing and near 0% real interest rates for a number of years led many to predict hyperinflation, a double-dip recession and more pain in the stock market but instead, we've had the biggest decline in the unemployment rate since WWII, falling from a peak of 10% to recent 50 year lows of 3.5% and a fabulously long economic cycle. The Fed is not perfect nor omnipotent but we have to give them credit for navigating the recovery thus far.



How do we prepare for what lies ahead? First, have a healthy skepticism around forecasters, no matter how authoritative they appear on television or how right they may have been in the 10's, it's should be easy to see how what seems obvious now, wasn't at all obvious in 2009. Second, don't worry too much about the macro-economy. Recessions are difficult to predict -you've lived through several already and the markets have done quite well, so expect the future to have more ups than downs… long term. Third, understand your time frame and don't hesitate to discuss your risk tolerance and concerns with your portfolio manager at MONTAG so you can work closely together to ensure your overall asset allocation is appropriate for your individual situation. M



Chris Guinther is a Portfolio Manager

SPECIAL FX… THE STRONG DOLLAR — *Steve Whittington, CFA*

Recently, I took a day to go out to the park to contemplate my next assignment (which turned out to be this article). As I was thinking, I decided to go around to folks sitting and watching their kids play, and ask them a simple question: Is the American dollar, when it is "strong," good for the economy?

It seems to be a straight forward question with an obvious answer. YES! If the dollar is strong, and we are Americans using that dollar, how is that a bad thing? When does "strong" really mean "weak"? They have a point; if you went on a vacation outside of this country right now, your dollar can get you not just one tamale, but three. Not just one schnitzel, but 1.3 schnitzels. How is that bad for us?

Well, users of the currency may benefit, but what about large multinational companies? At MONTAG, our primary work centers around the examination and selection of large- (and mega-) capitalized companies. That is, the companies that have the best economies of scale, the best funded, and the farthest reaching and internationally integrated companies on the globe.

Foreign exchange rates are a very real phenomenon, and they can greatly affect U.S. corporations and their financial statements

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DID YOU KNOW?

According to StadiumTalk.com, what Super Bowl commercial is considered the greatest of all time?

A. "Frogs" Budweiser (1995)

B. "Betty White" Snickers (2010)

C. "1984" Apple (1984)

D. "Early Showers" Coca Cola (1980)

(Answer on Page 4)

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A foreign exchange rate is a ratio of one currency to another. Take the Euro-to-Dollar rate, for example (See chart below). In perfect parity, 1 dollar would equal 1 euro, and the conversion rate is, therefore, 1. Easy right? Sure, but it's not always (in fact, almost never) 1-to-1. Back on August 8, for example, the Euro-to-Dollar rate (€/$) was 0.8926. On October 1, it was 0.9166. In other words, the dollar strengthened over that time because one dollar got you more euros on October 1 than it did on August 8 (0.9166>0.8926). *More crepes for everyone!*

Large U.S. companies weren't celebrating that, necessarily. These companies make sales in other countries, as we mention above... and they report those sales in the currency where the sale was made. So let's say Coca Cola, for example, sold €1 million worth of Cokes. They have to translate that back into dollars. What does that look like? ⟵ Check out the math in the gray box.

On August 8, their American dollar sales would have been:
€1 million / €/$ 0.8926 = $1,120,322

On October 1, their American dollar sales would have been:
€1 million / €/$ 0.9122 = $1,096,250

In other words, Coca Cola's translated sales actually go DOWN despite having a strengthening domestic currency. So yes, "strong" can mean "weak" in some instances.

Foreign exchange rates are a very real phenomenon, and they can greatly affect U.S. corporations and their financial statements, as you can see in the example above. Companies know this, of course, and while foreign currency hedging is something that can help mitigate swings in rates that carries a cost as well (but beyond the scope of this article). Needless to say, at MONTAG we consider not just foreign markets, but U.S. large cap companies' exposure to foreign markets, and while a strong dollar is good for a consumer using that dollar, it can be a detriment to large U.S. corporations without some "Special FX" planning. M

Steve Whittington, CFA is Business Development

The New Year is a great time to review your situation as to investment objectives and portfolio structure. Continue your dialog with your portfolio manager to make sure your financial house is still the right fit for you.

DOES YOUR HOUSE STILL FIT YOUR NEEDS? — *Larry Mendel*

Back in the spring of 2017, MONTAG hosted our Facts and Finances for Women, where we discussed personalized investment objectives. We used the analogy of building a house and turning it into a home. To build a house, you first must hire the architect to design the plan. From there you pour the concrete and solidify the foundation and then add the framing and ultimate structure to this secure foundation. You then finish the house with all of your chosen finishes, including the kitchen appliances, flooring, and a multitude of other ancillary selections. Voila, your house is built and ready to move in. Before moving in, you still need to further personalize it to make it

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a home and to be the wonderful living experience you were wanting to achieve. The decorating! Your final decoration sets your home apart from everyone else's and is furnished to fit your comfort and lifestyle.

Similarly, it is important to build your financial home with many of the same characteristics. In relation to investing, the home is built through the investment objectives and in this case, your financial advisor, along with your professionals such as your CPA and Estate Attorney are part of your architectural team. Your portfolio manager then coordinates and transforms the plan into action and personalizes the portfolio with appropriate holdings to make it uniquely yours. Just like right sizing your house, it's important to work with the portfolio manager to create the plan, pour the foundation, and build the framework for how to reach your goals. Of course, the portfolio manager will assess your views of investments, your ultimate needs and desires for how this money will work for you, what are reasonable risk and return objectives based on your time horizon and your cash flow needs.

We are fortunate at MONTAG to have many long term relationships with our clients and have been a part of the life cycle changes which can impact your portfolio makeup and investment goals. As maintenance is an important part of keeping your home in good working order, likewise, it is important to do your financial maintenance. At MONTAG, since our clients actually work directly with a portfolio manager versus a relationship manager, instead of just shifting into another bucket of broad holdings, we want to be involved in building and modifying your new objectives and align this with any tax considerations, adjusted cash flows, philanthropy, estate issues etc.

So for the New Year, please take time to review your situation. Do your investment objectives line up with your needs? What changes should you be considering to impact change in these objectives? How would we change your portfolio to align with these changes? Make sure to continue your dialog with your portfolio manager to make sure your financial house is the right fit for you. M

Larry Mendel is VP of Sales

DID YOU KNOW? *(from page 3)*

Answer: D.

"Early Showers" (1980), Coca Cola: When a 9-year-old kid (Tommy Okon) reduced the baddest, greatest Pittsburgh Steeler ever (Mean Joe Greene) to a puddle, who knew it would still rank as the greatest Super Bowl ad four decades later? Indeed, who can forget when the kid offers his bottle of Coke to the gimpy, sweaty Mean Joe on the way to the locker room, only to have the future Hall of Famer offer his game-worn jersey in return?

"Hey, kid – catch!"

"Wow! Thanks, Mean Joe!"

The other three answers constitute the other top 4 Super Bowl commercials of all time: Answers C (#2), B (#3), and A (#4), respectively. M

UPCOMING EVENTS:

EXECUTIVE BREAKFAST SERIES—**Tuesday, February 11** ***(7:30am – 9:30am)***

MONTAG hosts the next in our series of breakfasts, with a timely presentation by one of our Portfolio Managers. This series is designed for those who want a deeper dive into investment themes being discussed around the MONTAG research table.

FACTS & FINANCES FOR WOMEN —**Wednesday, April 22** ***(9:30am – 1:00pm)***

Since 1985, MONTAG has hosted a semi-annual seminar designed to be informative and actionable. We select speakers to present on timely topics from the non-profit community, estate and legal sensitivities, tax issues, healthcare, insurance, and – of course – investments. Be on the lookout for more information in the coming days, or feel free to contact us for details.

A PARTING THOUGHT

"Hope smiles from the threshold of the year to come, whispering, 'it will be happier.' "

- Alfred Lord Tennyson

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