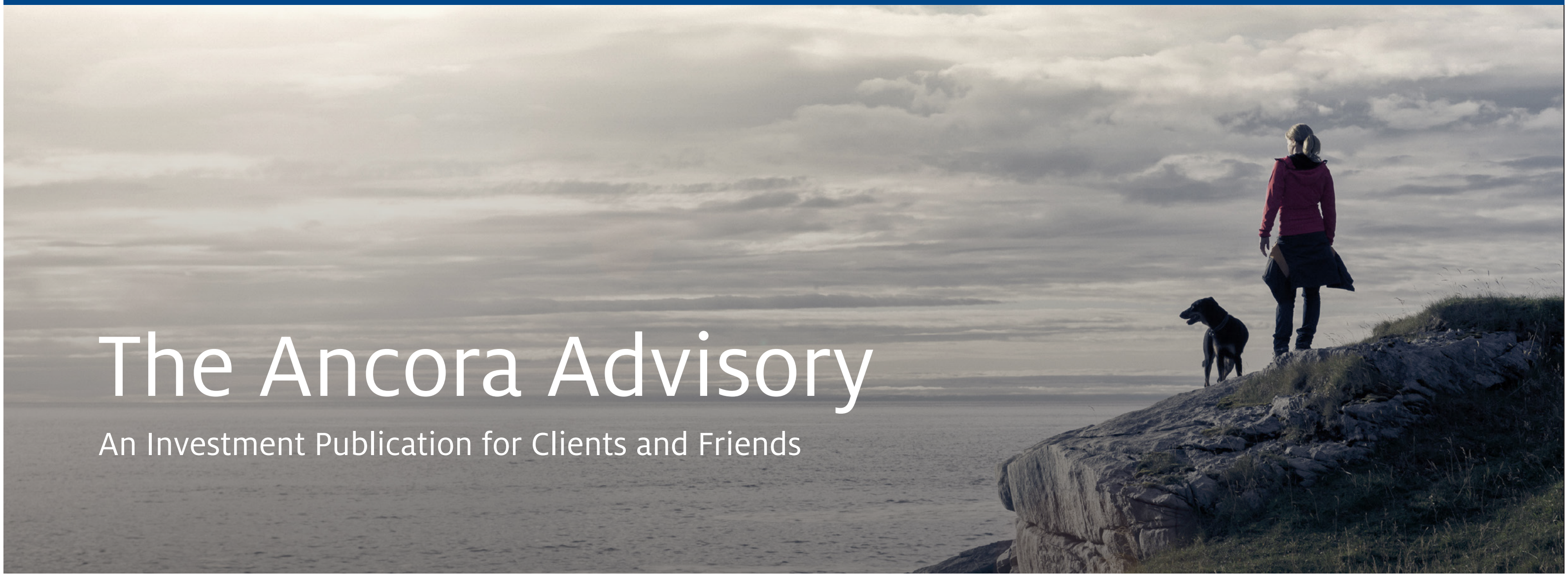
ANCORA

FAMILY WEALTH
ASSET MANAGEMENT
RETIREMENT PLANS

First Quarter 2020



The Ancora Advisory

An Investment Publication for Clients and Friends

Ancora Holdings Inc. consists of three business units; Family Wealth, Asset Management and Retirement Plans. With top-tier portfolio managers, unique investment strategies and an entrepreneurial spirit, Ancora delivers tailored solutions so you can achieve more ... on your terms.

An Update on Recent Market Volatility

John Micklitsch, CFA CAIA
Chief Investment Officer

Kevin Gale
Managing Director, Head of Fixed Income

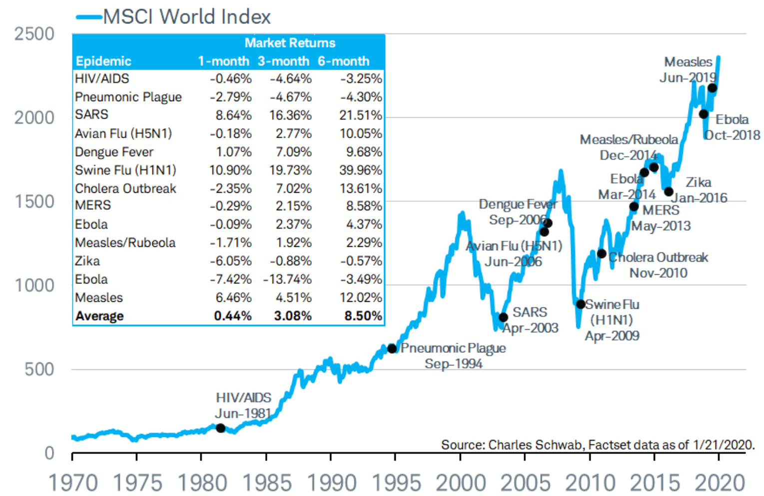
In our opinion, the recent pickup in market volatility is a reaction to a combination of the unknowns associated with the COVID-19 coronavirus, namely its impact on the global economy, Bernie Sanders' surge to frontrunner status in the Democratic polls, deleveraging and algorithmic trading that can exacerbate short-term market volatility. In addition, after a strong 2019 for equities and a fast start to this year, the market appears ready to consolidate some of those gains, which would be normal. In the short term, investors have reacted by seeking a higher margin of safety, which has pushed Treasury yields to the lows of the year and, for some parts of the yield curve, has pushed yields to all-time lows. For example, the 30-year Treasury yield at 1.66% is at an all-time low. The current 10-year Treasury yield at 1.14% is also at an all-time low. Interestingly, by comparison, the market, as measured by the S&P 500 now carries a 2.0% forward dividend yield or almost twice that of the 10-year, despite equities' long-term prospects for growth.

Despite the near-term discomfort, it is important to remain focused on long-term objectives and assess the probability that any of today's "wall of worry" items will have a material impact on the value of high-quality assets five, ten or even fifteen years from now. In the short-term they could, and we remind investors that a low double-digit percentage correction is the norm in most years. However, over an extended period, the value of equities regresses to a combination of long-term earnings power and prevailing interest rates. On that front, the interest rate outlook remains, in our opinion, low for longer with additional FED support likely if necessary, which could calm markets.

Regarding long-term earnings power, supply chains that are being disrupted today can be re-positioned for greater diversification, resilience and corporate strength in the future. Temporarily lost sales will force companies to become more efficient and to seek new markets and relationships for their goods and services. Health sciences companies can show the world their technological capabilities in response to the outbreak. In terms of global health policy, cooperation between global agencies will create new engagements to foster best practices that will make future health outbreaks potentially less severe. In other words, policy response and corporate strategy are dynamic, not static, and the uncertainty that periods like this create are the very seeds of innovation and corporate evolution that will lead to greater economic and market highs at some point in the future.

In terms of the coronavirus, there are still "unknown unknowns" at this point about the scope and severity of the outbreak that are contributing to market uncertainty. The length of the incubation period makes handicapping the virus' spread, the effectiveness of quarantining and the resulting impact on the global economy difficult to anticipate. As the chart from a recent MarketWatch article shows, the long-term impact of global health outbreaks tends to fade as treatment, cooperation and confinement eventually stem the tide. However, temporary economic disruption is also a byproduct of that process.

World Epidemics and Global Stock Market Performance



The MSCI World Index captures large and mid cap representation across 23 Developed Markets countries. With 1,646 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. **Past performance is no guarantee of future results.**

Source: MarketWatch.com

In terms of the potential Sanders nomination and the stated policy agenda that the market has so much angst over, from our viewpoint, the numbers are challenging as it appears Democrats will need a candidate that unites every facet of the party in order to gather the votes to unseat an incumbent President who scores well with voters on the strength and handling of the economy. But, never say never, as the chance of an upset, especially if the virus outbreak lingers, should keep the market on its toes for most of the year.

In closing, as an investor, market participation comes with periods of uncertainty. It is simply the other side of the handshake with return. In our view, asset allocation remains the first and best line of defense in managing risk. While no one likes to invest at such low yields, weeks like this remind us why it can be important to maintain a well-diversified portfolio that includes fixed income. We view fixed income investments as a ballast in a portfolio that helps offset exogenous shocks in the equity market, helping to lower overall volatility in portfolios. Alternative investments, especially strategies that hedge, contribute to portfolio diversification and resiliency as well. It is easy to get complacent about asset allocation in a bull market, but periodic flare-ups and the unpredictable events that cause them are a reminder of the importance of the three investor tenants we emphasize so consistently: diversification, quality and time.

If we can review any aspect of your portfolio in the current environment, including held-away assets you would like to incorporate into your overall asset allocation picture, please do not hesitate to reach out for further analysis and discussion. ◊

Safe Haven Assets Rule the Roost

Kevin Gale
Managing Director, Head of Fixed Income

The U.S. fixed income markets continue where they left off in 2019 as the "lower for longer" yield environment intensifies. Despite record low yields, investor demand for fixed income has not waned. Through the first eight weeks of 2020, investors have poured an additional $71 billion into investment grade fixed income mutual funds and ETFs and $17.8 billion into municipal bond funds and ETFs. Lower rated securities have not fared as well, with high yield seeing $2.0 billion added to funds and ETFs and the leveraged loan market experiencing modest outflows year-to-date.

Corporate borrowers took advantage of the strong demand from investors by issuing $223 billion of debt through the first eight weeks of the year, up 33% from the same period as last year. Despite the increased supply in the market, it has easily been absorbed by investors. In fact, demand for fixed income securities has been so strong that most new issue bonds in both the investment grade credit and municipal bond markets have been multiple-times oversubscribed, allowing issuers to lower yields.

Through February 28, 2020, high quality fixed income securities have been one of the few positives across the markets. The Bloomberg Barclays Aggregate Index has returned 3.76% year-to-date, led by U.S. Treasuries returning 5.16%. Despite 29 basis points of spread widening, investment grade credit has returned 3.71% year-to-date and municipal bonds, as represented by Bloomberg Barclays 1-10 Year Index, have returned 2.02%.

Increased concerns over the spread of the COVID-19 coronavirus and its potential impact on the global economy has pushed Treasury yields to record lows in the 10 to 30-year maturity ranges. Prior to the coronavirus outbreak, the Federal Open Market Committee (FOMC) had been expecting to leave interest rates unchanged for most of the year. Investors, on the other hand, are now pricing in three rate cuts, or 75 basis points, by the end of 2020. We believe the FOMC will act as needed to try to dampen the impact the virus could have on the U.S. economy. We could see the FOMC act as soon as the March 18th meeting, especially if the equity markets continue to deteriorate and the impact of the virus on the global economy appears to be greater than expected. We are in a “low for longer” yield environment, yet despite the record low yields, we believe demand for fixed income investments will remain strong. ◊

Captains Change, but the Ship Sails On

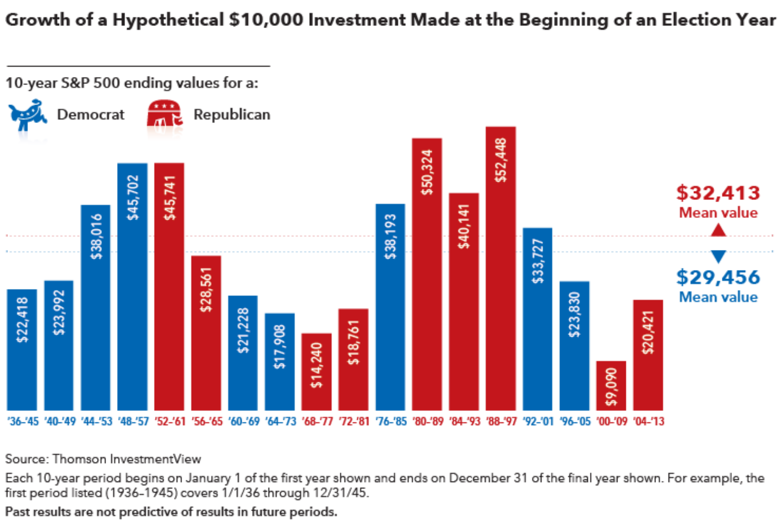
Jeffrey van Fossen, CFA
Managing Director, Portfolio Manager

Every four years, politics and finance converge as the U.S. chooses a presidential captain, and investors try to figure out what the outcome may mean for their pocketbooks and portfolios.

As in 2016, this November’s presidential contest is again steeped in extreme rhetoric, polarization, and emotion. And emotion is the real threat to your portfolio, not any one candidate’s platform (more on this below).

But while the inhabitant of the White House can indeed alter the lives of millions of people, history shows presidential politics have a surprisingly small impact on your portfolio. There’s absolutely no empirical evidence in the academic financial literature to suggest that the president, whether Republican or Democrat, should cause you to deviate from your investment strategy. The fact is, stocks generally rise over time no matter which party is in office.

Investment Growth in Election Years



Source: Capital Group

As the chart shows, long-term investors who began investing in any election year have uniformly come out ahead, regardless of the winning party. After all, an investor’s time horizon is likely to be much longer than a four-year presidential term. Those who look beyond the headlines, focus on long-term goals and avoid trying to time the market have tended to reap the rewards in the long run. That’s true not just during elections, but any time of the year. The bottom line is that beliefs about which political party is best for the markets may encourage you to vote, but shouldn’t discourage you from continuing to pursue your long-term investment strategy, for several key reasons.

Policy rhetoric will inevitably fall short in practice.

The genius of our American Republic is that its division into three branches of government creates checks and balances on the power to effectuate change. With few exceptions, it takes consensus to implement significant change, and separation of power makes this difficult, forcing consensus and compromise. Remember, the president is not a dictator. Just because he or she runs on a platform, doesn't mean that agenda will be enacted. And even if the president gets what he or she wants, the real economy may not cooperate. It is for this reason that significant policy changes don't typically come all at once, but in increments over years, sometimes decades. Only about 3% of bills are ever enacted during a president's first year in office, and presidents typically can deliver legislatively on only about half of their campaign promises even when their party also controls the legislature. So, take the soaring pre-election rhetoric and doomsday headlines with a healthy grain of salt.

Consumers and businesses have a far greater impact on the economy than the government.
The overwhelming majority of what happens in the U.S. economy depends on the actions of consumers and businesses. Thus, long-term investment success has depended more on the strength of the U.S. economy than on which party occupies the White House or controls the legislature during any four-year period. And the market has proven resilient to surprises and crises time and again.

The unsurprising corollary of this is that the state of the economy greatly influences who is elected president, not the president determining the state of the economy. Decades of history prove that a strong economy results in a win for the incumbent party candidate. Indeed, going back to 1964, if the misery index, which is comprised of the seasonally adjusted unemployment rate plus the annual inflation rate, is down in the last year of an incumbent's term, without exception the incumbent has been reelected.

The real threat to portfolios: Emotion.
This presidential election is generating especially strong emotion, and this may lead investors to be tempted to try to time the market or make other reactionary short-term investment decisions that are likely to negatively impact their longer-term investment returns.

The newly elected White House occupant will affect your investments only to the degree you fail to follow through with your established plan. Avoid letting your or others' emotions get the better of you, because when emotion takes center stage, critical thinking runs for the nearest exit. Stay disciplined and work with your Ancora team to manage your portfolio through the natural economic, market and political cycles within a framework that is customized to and consistent with your objectives, timeframe, and tolerance for risk.

To conclude, captains change, but the great American ship sails on. As Warren Buffett likes to say, don't bet against the success of the United States. America makes mistakes, voters sometimes hand power to misguided politicians and the public sometimes succumbs to manias that turn into panics and crashes. But left to work, trade and invest, Americans unleash their energies in productive fashion. Stocks fluctuate, but over time they go up, often in years you least expect it. ◊

The SECURE Act - Personal Planning & IRA Changes

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The Setting Every Community Up for Retirement Enhancement Act of 2019 (really, you can't make this stuff up), better known as the SECURE Act, was signed into law on December 20th as part of the year-end appropriations bill. The SECURE Act touches many topics, including employer retirement plans, 529 Plans, and other tax matters. Here, we concentrate on one aspect of the SECURE Act that affects many individuals: the impact of the law on IRAs.

The major takeaway is that if you have a large IRA that you had hoped to leave to your heirs, you should review your beneficiary designations and evaluate other strategies, especially if you have designated a trust to receive these assets.

First some good news.
The SECURE Act, recognizing that people are now living longer, increases the age at which you must start taking Required Minimum

Distributions, or RMDs, from an IRA. The age changed to 72, up from the current age of 70½. This new rule applies to anyone who had not yet turned age 70½ by December 31, 2019. Those who had previously turned 70½ must continue to take RMDs.

As before, you will have until April 1 of the year after you turn age 72 to take your first distribution, keeping in mind tax rates and Medicare premium surcharges when deciding which year to take your initial RMD in. Existing life expectancy tables are still utilized to determine the amount of the annual RMD. Although, unrelated to the SECURE Act, the IRS proposed new life expectancy tables last November that would reduce annual RMDs by as much as 10% or more compared to the current tables. The new tables, if they are adopted, would apply starting in 2021.

Now the bad news.

Prior law permitted that, if you inherited an IRA from someone other than a spouse, you could stretch out the RMDs over your life expectancy, called the "stretch" IRA. If you were relatively young when this happened, the economic benefit of the stretch could be very significant. However, the SECURE Act kills the stretch IRA, simply because Congress wanted to eliminate the IRA as an estate planning vehicle and needed to raise revenue to offset the revenue cost of some of the other provisions of the Act.

Now, with some exceptions, if you inherit an IRA from someone other than your spouse, you will be required to fully distribute the IRA and pay the income taxes within 10 years after the owner's death. Annual distributions will no longer be required, although periodic distributions may still make sense to manage tax rates. The new rules apply to inherited IRAs if the owner dies after December 31, 2019, so existing inherited IRAs are not affected. The new rules do not apply to spouses who continue to have the same special options as under prior law. Also, some beneficiaries, such as minor children, disabled or chronically ill individuals or anyone not more than 10 years younger than the IRA owner, can continue to use the old stretch rules under some circumstances.

Many wealthy individuals have used trusts as the beneficiary of their large IRAs to exercise some control after death, while still maintaining the tax efficiency of the stretch rules. The SECURE Act now requires that all IRAs inherited by trusts be fully distributed within 10 years after the owner's death. This change dramatically affects IRA trust planning, to say the least. Depending how the trust is drafted, both control over the assets and income tax efficiency could be lost. Moreover, certain types of trust commonly used as IRA beneficiary will now only work in very limited circumstances.

The bottom line is this: If you have designated a trust to be your IRA beneficiary (even as a contingent beneficiary), your estate plan should be reviewed soon to see if a trust should continue to be used, and if so, whether the trust should be modified to reflect this new realty. In fact, anyone with a large IRA needs to examine strategies to mitigate the tax effect of these rules. Solutions could include changing beneficiaries, Roth conversions, charitable giving, insurance replacement strategies or even taking larger than required distributions during life.

As always, Ancora is happy to answer any questions you may have. Please reach out to your relationship manager or the Retirement Plans team contact for more information. ◊

As always, don't hesitate to contact your Ancora advisor or relationship team if you have any questions or would like to learn more about these topics. Visit our website at www.ancora.net to read past newsletters and find other news and insights from the investment professionals at Ancora.