YOUR PENSION MATTERS
09/30/19 Edition
End of FY 2018 - 2019

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Board Chairperson
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"Adapt or Die."
Movie – Moneyball

Moneyball was a great book / movie about the changes in baseball. It was also a great lesson about leadership in our ever-changing world (both in baseball & in business). A great example in baseball was the Oakland A's (the basis for the book / movie). A great example in business was McDonald's (MCD). Not too long ago (September 2015) the stock was trading around $97 / share. The latest quote puts the stock over $200 / share! What happened and how did it happen?

Let's flashback to the 1940's when brothers Dick & Mac McDonald operated a single BBQ drive-in in San Bernardino. Ray Kroc saw something no one else saw at the time; ***franchise***. In 1961, Ray Kroc bought out the brothers for $2.7 million and the rest is history.

Fast forward to recent times where we find Steve Easterbrook as the current CEO (and has been since 2015). At that time, McDonalds was losing market share to a host of competitors and the stock price was tanking. Steve Easterbrook saw what the competitors were doing and was convinced MCD could do the same thing; *only better*. He met with Tim Cook (Apple) and signed-up to be a "*launch partner*" for the Apple Pay mobile payment system. The company introduced the "All Day Breakfast" and partnered with Uber Eats for deliveries. In addition, touchscreen kiosks, free Wi-Fi and modern furniture were introduced. The "Adapt or Die" philosophy was in full swing and it continues today. As Steve Easterbrook recently stated, "in the modern day, the fast eats the slow."

As a side note to the above, Mr. Easterbrook was terminated by the Board of Directors during the first weekend of November. He took his "eye off the ball" when he developed a romantic relationship with a co-worker; which is strictly against corporate policy. MCD declined by 2.5% on November 4th; the first day of trading after the termination was announced. The Board of Directors did the right thing and did it in the right way; full transparency and disclosure to the shareholders and to the market.

As we discuss the success of MCD above, let's take that same lesson "Adapt or Die" and apply to our self. In a recent article in AARP (October, 2019) Allan Roth (20+ years as a financial planner) wrote about the "four ***new*** rules" of retirement. Here is a nutshell review:

1. *Wealth is not a dollar amount*. By this he means it is not how much money you have saved for retirement; it is **how you spend** in retirement what you have saved. Lifestyle is critically important as you spend your savings during your retirement years. Put another way, adjust your lifestyle and live within your means keeping in mind that (*hopefully*) your life in retirement will last a long, long

time. Thus, you want your savings to last a long, long time! Adapt accordingly!

2. *A penny saved is not a penny earned….it's more!* Which is easier to do – make more money or spend the money you have more wisely? Of course, the latter is easier! Many of us will not be lucky enough to work in a full time, well-paying "retirement job". More likely, if we do work in retirement, we will work doing charity work or some not-so demanding work and the pay will reflect that. We will be well past our high earning days. Thus, spending wisely our retirement savings truly is the very best course of action. Adapt accordingly!
3. *He who hesitates cashes in!!* Social Security will pay you for waiting. If you wait until you are 70 years of age to begin collecting social security your monthly benefit will increase by 32%!! Understand that no two persons are alike. Each of us has different needs and different genes. Life expectancy in your genes will be different from everyone else. In addition, your health needs will be different from everyone else. So, if you can wait, do wait. Adapt (if you can) accordingly!
4. *All rules should be turned upside down!* An old rule of thumb was spending down your retirement savings at a rate of 4% per year. That rule **WAS** a good guideline for minimizing the chances of running out of money over a 30-year retirement. That old rule will not apply to everyone. Again, it is the lifestyle in which you live that will impact the lifespan of your savings. Adapt accordingly!

So, how did our Fund do in the **final quarter of our FY 18-19** (3rd Q for calendar 2019)?

Our Fund's performance for FY 2018 – 2019 (end of our fiscal year): Attached you will find the performance reports for our Fund. The quarterly rate of return was 0.40%. Here are the general market numbers for the quarter ending as of 9/30/19: **DOW was up 1.82% and S&P 500 was up 1.70%** and for the most recent 12 months ending 9/30/2019: **DOW was up 4.21 and S&P 500 was up 4.25%.** The year-to-date return since January 1 is: **DOW up 17.50% and S&P 500 up 20.60%.** What this demonstrates is that the 4th quarter of 2018 was really bad (down 20%) and the most recent quarter was lackluster. The first two quarters of the year this year were great for large cap – S&P and Dow because they were bouncing off the bottom of the 4th quarter of last year – read this as the market having a lot of volatility and risk. Large cap stocks did well. The S&P 500 and the Dow were the two best performing asset classes. When you consider the broad market, (small cap lost 2.4% for the quarter and 8.89% for the year; mid-cap was up only 0.48% for the quarter and made 3.18% for the year, and international lost 1.07% for the quarter and lost 1.34% for the year). Lastly, bonds were up 2.27% for the quarter and 10.30% for the year – much better than stocks. It just goes to show that having a diverse portfolio that focuses on downside risk mitigation and protecting plan assets creates the best performing portfolios over the long-term.

Please remember our Fund has a mixture of equities, bonds and alternative investments. The Fund will **never** match the aforementioned indices. Our Fund diversifies over a broad range of investments in an effort to capture most (but not all) of the up market and as little as possible of the down market.

The first three quarters of 2019 were the best opening three (3) quarters seen in over a decade. However, starting with the opening of the fourth quarter things turned "south." The ISM Manufacturing Index was released on October 1st showing **lighter** than expected numbers (the worst report in over a decade); a precursor to a slowdown? Well, that was how the market read it and the downward drift continued for the next few days as the Dow dropped over 800 points. Then on Friday, 10/04 the jobs report was released showing that unemployment hit a record low (3.5% unemployment) not seen since the 60's! The market rallied on that report. Bottom line…. the volatility continues!! Regardless of the events in Washington, eyes should continue to be focused on a pending **Trade Deal** with China and how the **Brexit** process in the UK plays out. The UK is heading for a general election to be held before the end of the year. The EU extended the exit deadline to January 31, 2020 as the UK tries to "*get its act together*." Another hotspot is **Hong Kong**; how this series of protests and the government's response play out is anyone's guess!

Impeachment*…*.. it is Politics at its best or its worst; depending on your point of view. We should be prepared for impeachment as it is "very likely." A conviction requires a 2/3 majority vote by the U.S. Senate which currently sits at 53 (R), 45 (D) and 2 (I). Conviction is **VERY, VERY** unlikely. As a side note; when Nixon resigned ahead of a pending Articles of Impeachment Vote by the U.S. House of Representatives in August, 1974, the market declined 33% over the next 12 months. When Clinton was impeached (October 1998), but not convicted by the Senate (February, 1999), the market rose 39% over the next 12 months. (On a historical note, Trump will be the first president to be impeached (**if**) during his first term since Andrew Johnson (1868). Johnson survived the trial by a *single vote* as the Senate failed to reach a 2/3 majority (36 votes to convict); 35 in favor of conviction & 19 opposed to conviction; 27 states each with 2 Senators.) What this information may be telling us is that politics and the games played by the politicians have minimal impact on the market. Growths in jobs and earnings (corporate & personal) have big impacts on the market and these are some of the things our investment managers look at when making investment decisions on our behalf. Watch the consumer holiday spending this season; hopefully it will be very positive!!

Kiplinger: The folks at Kiplinger issued its annual list of "predictions" recently and these are a few things they see coming for the year 2020:

- Inflation will be tamer at 1.9% versus 2.3% in 2019

- The cost of borrowing will be less as the Fed will cut the prime rate by 50 basis points in 2020.

- Corporate profits will rise to a healthy 5.7%

- Energy costs will remain steady….but much will rely on the continuing trade talks.

- Average pay raises will be about 3.3% as the labor markets remain tight.

Take note of the above and check back in late 2020 to see how Kiplinger did with its predictions!

As we enter our new FY 19-20, your new Board of Trustees is seated and hard at work. Several Trustees attended the Florida Public Pension Trustee Association (FPPTA) School in Jacksonville as they worked to attain the designation of "*Certified Public Pension Trustee*" (or maintain CE requirements) which is a grueling challenge to master the many facets of pension law and pension fund investment.

Finally, committee work is where the seeds of our accomplishments are planted. Committee work may seem tedious and mundane; but this work is critical to getting the job done. At our September Board meeting we appointed the following Trustees to the following Committees:

Investment Committee:	**Sharra Aaronian**, Chair Dan Christophers; David Hall, Pat Hanrahan, Peter McGinnis, Jorge Rossi
Professional Advisory Committee:	**Richard Samolewicz**, Chair Vincent Femia, David Hall, Jorge Rossi
Budget Committee:	**David Hall**, Chair Paul O'Connell, Peter McGinnis
Communications/Cyber Review Committee	**Jorge Rossi,** Chair Sharra Aaronian, Rich Samolewicz

The Board of Trustees selected Paul O'Connell as Chairperson and Richard Samolewicz as Vice-Chairperson for the Board of Trustees for the coming FY. Both Richard and I extend our thanks to the Board Trustees for their continued trust and confidence in us.

Redesigned Website: On October 4th, the Board announced the release of its new and improved website design at www.pbpfrs.org. The home page is redesigned with Quick Links for quick and efficient access to member information and forms. Also, please take time to explore the member portal located on the website for your specific pension and account information.

"A Hero Remembered Never Dies!"

Rededication of the Scott Winters Park: please mark your calendar….

Sunday, January 12, 2020 at noon we will rededicate this park to mark the 30th Anniversary of Scott's supreme sacrifice…..yes, it is about six (6) months early; but we wanted the ceremony to parallel the loss of Firefighter Bill Elliot (it will be the 8th Anniversary of his death).

Note that the City placed a new sign at the Park, closer to Riverside Drive, thus more visible. Plans for this event are coming together nicely!

Finally……..Mark your calendar…….the **Annual Symposium** is right around the corner….**April 30**, **May 1 & 2, 2020** and will be held at the Pompano Beach Marriott on A1A.

In the meantime and on behalf of the Pension Board of Trustees and our staff, I wish you a very happy and safe holiday season as we look forward to a New Year……2020 here we come; hopefully with 20/20 vision!! As always, please stay safe and stay in touch!