RIVERVIEW QUARTERLY INSIGHTS

RIVERVIEW trust company

ALWAYS LOOK ON THE BRIGHT SIDE OF LIFE:

It's really hard to be optimistic these days: political turmoil, environmental catastrophes, ongoing battles in Africa and the Middle East . . . The world's just falling apart.

Except it isn't.

In fact, life on the planet by almost every measure is better than it's ever been. As the late Hans Rosling pointed out in his book Factfulness, every group of people he has polled (and he made a career of it, among other things) "thinks the world is more frightening, more violent, and more hopeless – in short, more dramatic – than it really is." From questions about poverty and wealth to those about health and education, educated people from around the world score much worse than chimpanzees picking answers at random. To make it worse, the human errors all tended to err on the pessimistic side. In one important example, the proportion of the world population living in extreme poverty has dropped by half. Yet only 7% of respondents asked about that change get it right. Almost all of those who got it wrong guessed that poverty had stayed the same or gotten worse.

John Tierney and Roy F. Baumeister, in a December 28-29 article in The Wall Street Journal entitled "For the New Year, Say No to Negativity," identify the scientific reason behind our pessimism: Negativity bias. There is a "universal tendency for bad events and emotions to affect us more strongly than positive ones. We're devastated by a word of criticism but unmoved by a shower of praise."

Discovered only in the last twenty years, social scientists found a recurring pattern in people's reactions. A bad first impression had a greater impact than a good one, and a financial loss "loomed much larger than a corresponding

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financial gain." Bad health or bad parenting has a much larger negative impact than good health or good parenting has a positive one. And to make matters worse, there are no offsetting examples of the good outweighing the bad. In fact, one of the most-cited articles in social science literature is entitled simply "Bad is Stronger than Good."

This bias is a holdover from our cave-dwelling ancestors. At the time, a bias toward negativity was developed as a survival mechanism: a hunter-gatherer who was very sensitive to potential threats lived longer, and passed along more of his or her genes, than one who lived a self-satisfied life picking flowers, oblivious to the saber-toothed cat nearby. But today, such an instinct creates cognitive dissonance, because it is deeply rooted in our psyches while it is largely unnecessary for survival.

Aware of this dissonance, journalists of all sorts use it to sell papers. As Rosling puts it,

> [w]e are subjected to never-ending cascades of negative news from across the world: wars, famines, natural disasters, political mistakes, corruption, budget cuts, diseases, mass layoffs, acts of terror. Journalists who reported flights that didn't crash or crops that didn't fail would quickly lose their jobs. Stories about gradual improvements rarely make the front page even when they occur on a dramatic scale and impact millions of people.

To make matters worse, news coverage is broader than it was a hundred years ago, meaning that the negativity bias is spread further, faster, in digital-epidemic fashion. Rosling chalks it up to feeling, not thinking. We often feel uncomfortable even when presented with data that tells us otherwise. Many of us experience extreme fear when boarding an airplane, even after being presented with overwhelmingly positive data about air travel safety.

So how do we counteract this negativity bias?

1. Cline's Rule: Unplug. Although I know it means I'll never get Mark Zuckerberg as a client, I'm convinced that nothing good comes from social media. People spread negative disinformation through it, they say offensive things on it they'd never say in person. Personal propaganda showing a person's (unrealistically) beautiful life simply makes those viewing it feel worse. Honestly, if someone is that important to you, send the pictures of your grandkids directly to them (it'll help with your Rule of Four, discussed below). Unplug. Tune out. Pick up the phone. And talk about something nice (because there's a lot of it around).

2. The Rule of Four. As Tierney and Baumeister point out, many studies have shown that negative events or emotions usually have at three times the impact of positive ones. They recommend using the "Rule of Four" as a rule of thumb: "It takes four good things to overcome one bad thing." Four happy customers for every unhappy one, four good days for every bad. So keep this in mind as you go through your life: "If you're late for one meeting, you won't redeem yourself by being early the next time. If you say or do something hurtful, don't expect to atone for it with one act of goodwill. Plan on at least four compliments to make up for one bit of criticism."

3. Share Good Moments and Relive Them. Share your good news (but only with your true friends, those who will respond enthusiastically). Spend more time "savoring good memories instead of obsessing about today's worries."

4. See the Big Picture. As Tierney and Baumeister point out, "[j]ust about every measure of human welfare is improving except one: hope. The better life gets, the gloomier our worldview." They recommend choosing your online friends carefully, curating your newsfeed, "rationally looking at long-term trends instead of viscerally reacting to the horror story of the day," don't "wallow for hours" watching live coverage of politicians, pundits and terrorist attacks.

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So what does this have to do with what we do here at Riverview? Everything. Much of what we do involves reminding people about the good investment news contained in the long-term trends, and warning them against reacting to the bad financial news of the day. Performance of publicly traded securities is completely unpredictable in the short run, but pretty reliable in the long run.

Financial news headlines that seem tragic in the moment appear irrelevant a year later. Think of December 2018: a recession was right around the corner, stock values were plummeting, the Fed was going to raise rates, consumer confidence and the economy in general was on the ropes.
Except that by December 2019, the S&P 500 rose over 23%, the Fed lowered rates three times and the U.S. economy stayed strong.

This is not to say that you should put on your rose-colored investment glasses. Stock and bond prices CAN swing wildly (even though history shows they recover pretty quickly), so make sure you have enough cash so that you don't have to sell in a down market, for example. Be prepared but not depressed.
Let's apply our four rules above to our finances:

1. Cline's Rule: Unplug. Jim Cramer is an entertainer, not an investment advisor. Money, Barron's and Forbes are interested in selling magazines, not furthering your financial well-being. Stay away from ALL financial press; they're not providing unbiased advice, they're selling sensationalism.

2. The Rule of Four. Every time you hear something potentially catastrophic about markets, gather four pieces of real data about long-term trends: how quickly down markets snap back, how well stocks perform over long periods of time, how well your portfolio has done (if you've stuck with it), how well positioned you are for the future.

3. Share Good Moments and Relive Them. Relive the good, sound decisions you've made, and savor the strong financial position you're in as a result. If you have someone you can share it with (a spouse, a life partner, a long-time and very close friend), do so.

4. See the Big Picture. Finally, just remind yourself what an amazing result you can achieve with a little discipline and a solid plan. Success stories abound, and they aren't that hard to achieve. Just remember that the good news is boring but powerful (20-year stock trends, for example), while bad news is sensational but usually irrelevant (like recession predictions).

So let's put aside all of our hard-to-reach new year's resolutions (no, I'm not going to look as good as George Clooney), and instead pick an easy and effective one: Be Positive.

SPOTLIGHT ON PLANNING

THE SECURE ACT AND YOUR RETIREMENT SAVINGS

The Setting Every Community Up for Retirement Enhancement (SECURE) Act was enacted in December 2019 as part of a larger federal spending package. This long-awaited legislation expands savings opportunities for workers and includes new requirements and incentives for employers that provide retirement benefits. At the same time, it restricts a popular estate planning strategy for individuals with significant assets in IRAs and employer-sponsored retirement plans.

Here are some of the changes that may affect your retirement, tax, and estate planning strategies. All of these provisions were effective January 1, 2020, unless otherwise noted.

Benefits for retirement savers

Later RMDs. Individuals born on or after July 1, 1949, can wait until age 72 to take required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans instead of starting them at age 70½ as required under previous law. This is a boon for individuals who don't need the withdrawals for living expenses, because it postpones payment of income taxes and gives the account a longer time to pursue tax-deferred growth. As under previous law, participants may be able to delay taking withdrawals from their current employer's plan as long as they are still working.

No traditional IRA age limit. There is no longer a prohibition on contributing to a traditional IRA after age 70½ — taxpayers can make contributions at any age as long as they have earned income. This helps older workers who want to save while reducing their taxable income. But keep in mind that contributions to a traditional IRA only defer taxes. Withdrawals, including any earnings, are taxed as ordinary income, and a larger account balance will increase the RMDs that must start at age 72.

Tax breaks for special situations. For the 2019 and 2020 tax years, taxpayers may deduct unreimbursed medical expenses that exceed 7.5% of their adjusted gross income. In addition, withdrawals may be taken from tax-deferred accounts to cover medical expenses that exceed this threshold without owing the 10%penalty that normally applies before age 59½. (The threshold returns to 10% in 2021.) Penalty free early withdrawals of up to $5,000 are also allowed to pay for expenses related to the birth or adoption of a child. Regular income taxes apply in both situations.

Tweaks to promote saving. To help workers track their retirement savings progress, employers must provide participants in defined contribution plans with annual statements that illustrate the value of their current retirement plan assets, expressed as monthly income received over a lifetime. Some plans with auto-enrollment may now automatically increase participant contributions until they reach 15% of salary, although employees can opt out. (The previous ceiling was 10%.)

More part-timers gain access to retirement plans. For plan years beginning on or after January 1, 2021, part-time workers age 21 and older who log at least 500 hours annually for three consecutive years generally must be allowed to contribute to qualified retirement plans. (The previous requirement was 1,000 hours and one year of service.) However, employers will not be required to make matching or nonelective contributions on their behalf.

Benefits for small businesses

In 2019, only about half of people who worked for small businesses with fewer than 50 employees had access to retirement benefits.1 The SECURE Act includes provisions intended to make it easier and more affordable for small businesses to provide qualified retirement plans.

The tax credit that small businesses can take for starting a new retirement plan has increased. The new rule allows a credit equal to the greater of (1) $500 or (2) $250 times the number of non-highly compensated eligible employees or $5,000, whichever is less. The previous credit amount allowed was 50% of startup costs up to $1,000 ($500 maximum credit). There is also a new tax credit of up to $500 for employers that launch a SIMPLE IRA or 401(k) plan with automatic enrollment. Both credits are available for three years.

Effective January 1, 2021, employers will be permitted to join multiple employer plans (MEPs) regardless of industry, geographic location, or affiliation. “Open MEPs,” as they have become known, enable small employers to band together to provide a retirement plan with access to lower prices and other benefits typically reserved for large organizations. (Previously, groups of small businesses had to be related somehow in order to join an MEP.) The legislation also eliminates the “one bad apple” rule, so the failure of one employer in an MEP to meet plan requirements will no longer cause others to be disqualified.

Goodbye stretch IRA

Under previous law, nonspouse beneficiaries who inherited assets in employer plans and IRAs could “stretch” RMDs” – and the tax obligations associated with them – over their lifetimes. The new law generally requires a beneficiary who is more than 10 years younger than the original account owner to liquidate the inherited account within 10 years. Exceptions include a spouse, a disabled or chronically ill individual, and a minor child. The 10-year “clock” will begin when a child reaches the age of majority (18 in most states).

This shorter distribution period could result in bigger tax bills for children and grandchildren who inherit accounts. The 10-year liquidation rule also applies to IRA trust beneficiaries, which may conflict with the reasons a trust was originally created.

In addition to revisiting beneficiary designations, you might consider how IRA dollars fit into your overall estate plan. For example, it might make sense to convert traditional IRA funds to a Roth IRA, which can be inherited tax-free (if the five-year holding period has been met). Roth IRA conversions are taxable events, but if converted amounts are spread over the next several tax years, you may benefit from lower income tax rates, which are set to expire in 2026.

If you have questions about how the SECURE Act may impact your finances, this may be a good time to consult your financial, tax, and/or legal professionals.

[1] U.S. Bureau of Labor Statistics, 2019

WHAT WILL YOU PAY FOR MEDICARE IN 2020?

Medicare premiums, deductibles, and coinsurance amounts change annually. Here's a look at some of the costs that will apply in 2020 if you're enrolled in Original Medicare Part A and Part B.

Medicare Part B premiums

According to the Centers for Medicare & Medicaid Services (CMS), most people with Medicare who receive Social Security benefits will pay the standard monthly Part B premium of $144.60 in 2020. However, if your premiums are deducted from your Social Security benefits, and the cost-of-living increase in your benefit payments for 2020 will not be enough to cover the Medicare Part B increase, then you may pay less than the standard Part B premium.

People with higher incomes may pay more than the standard premium. If your modified adjusted gross income (MAGI) as reported on your 2018 federal income tax return is above a certain amount, you'll pay the standard premium amount and an Income Related Monthly Adjustment Amount (IRMAA), which is an extra charge added to your premium, as shown in the following table.

You filed an individual income tax return with MAGI that was:	You filed a joint income tax return with MAGI that was:	You filed an income tax return as married filing separately with MAGI that was:	Monthly premium in 2020 including any IRMAA is:
$87,000 or less	$174,000 or less	$87,000 or less	$144.60
Above $87,000 up to $109,000	Above $174,000 up to $218,000	N/A	$202.40
Above $109,000 up to $136,000	Above $218,000 up to $272,000	N/A	$289.20
Above $136,000 up to $163,000	Above $272,000 up to $326,000	N/A	$376.00
Above $163,000 and less than $500,000	Above $326,000 and less than $750,000	Above $87,000 and less than $413,000	$462.70
$500,000 and above	$750,000 and above	$413,000 and above	$491.60

Other Medicare costs

The following out-of-pocket costs for Original Medicare Part A and Part B apply in 2020:

- Part A deductible for inpatient hospitalization: $1,408 per benefit period
- Part A premium for those who need to buy coverage: up to $458 per month (most people don't pay a premium for Medicare Part A)
- Part A coinsurance: $352 per day for days 61 through 90, and $704 per "lifetime reserve day" after day 90 (up to a 60-day lifetime maximum)
- Part B annual deductible: $198
- Skilled nursing facility coinsurance: $176 for days 21 through 100 (for each benefit period)

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MARKET SNAPSHOT

MARKET SUMMARY – Short- and Long-Term Index Returns

Equity markets around the globe posted very strong performance in the fourth quarter, adding to already solid returns through the first three quarters of the year. For full year 2019, all major global equity indexes ended in double-digit territory. Over the last decade, the US equity market outperformed foreign equities by a wide margin.

	STOCKS				BONDS	
	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
4Q 2019	9.10%	7.86%	11.84%	0.80%	0.18%	-1.11%
1 Year	31.02%	22.49%	18.42%	23.12%	8.72%	7.57%
5 Years	11.24%	5.42%	5.61%	5.56%	3.05%	3.87%
10 Years	13.42%	5.32%	3.68%	9.31%	3.75%	4.29%

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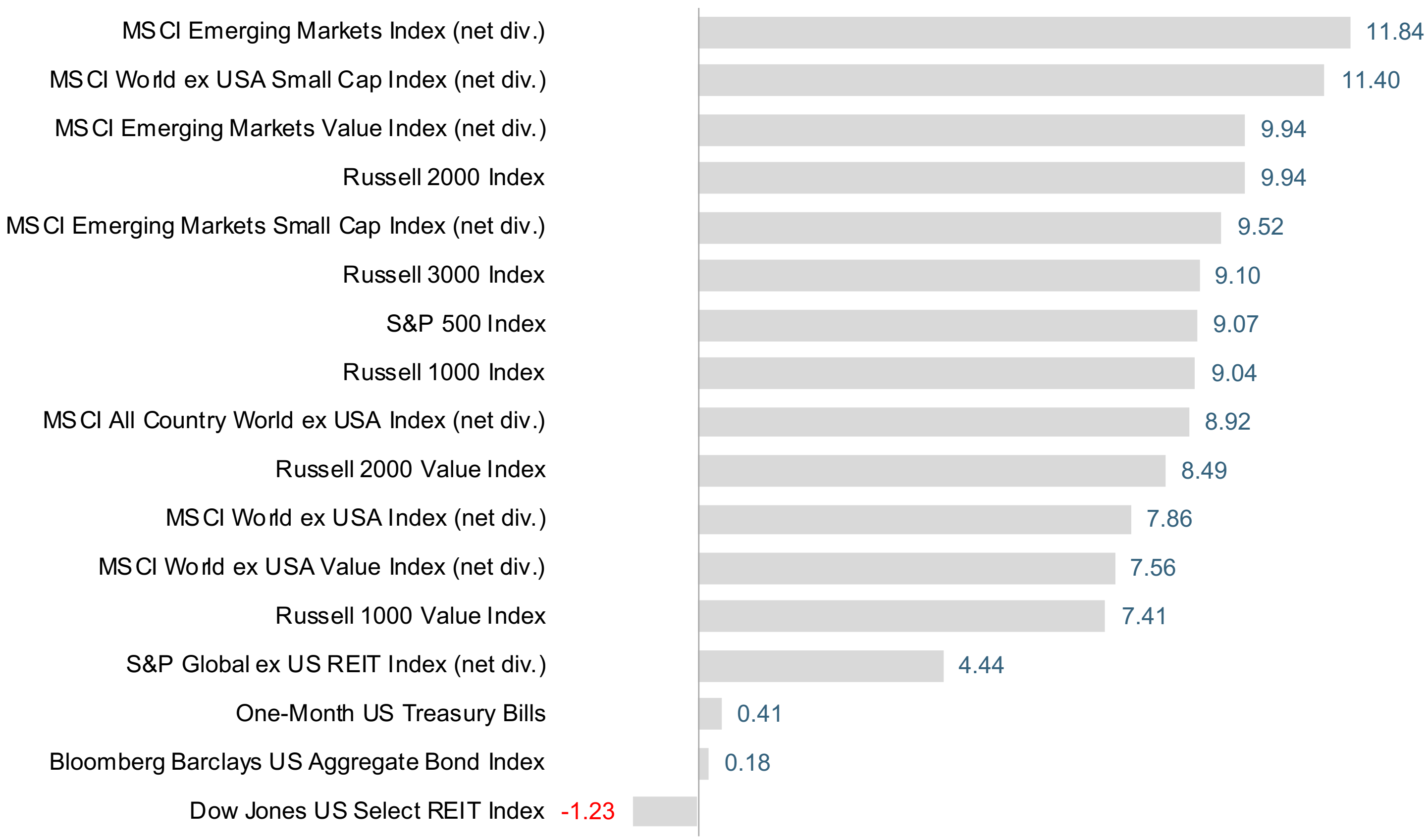
GLOBAL MARKETS - Third Quarter 2019 Index Returns (%)

Looking at broad market indices, US equities outperformed non-US developed markets but underperformed emerging markets.

Value stocks underperformed growth stocks in all regions. Small caps outperformed large caps in the US and non-US developed markets but underperformed in emerging markets.

REIT indices underperformed equity market indices in both the US and non-US developed markets.



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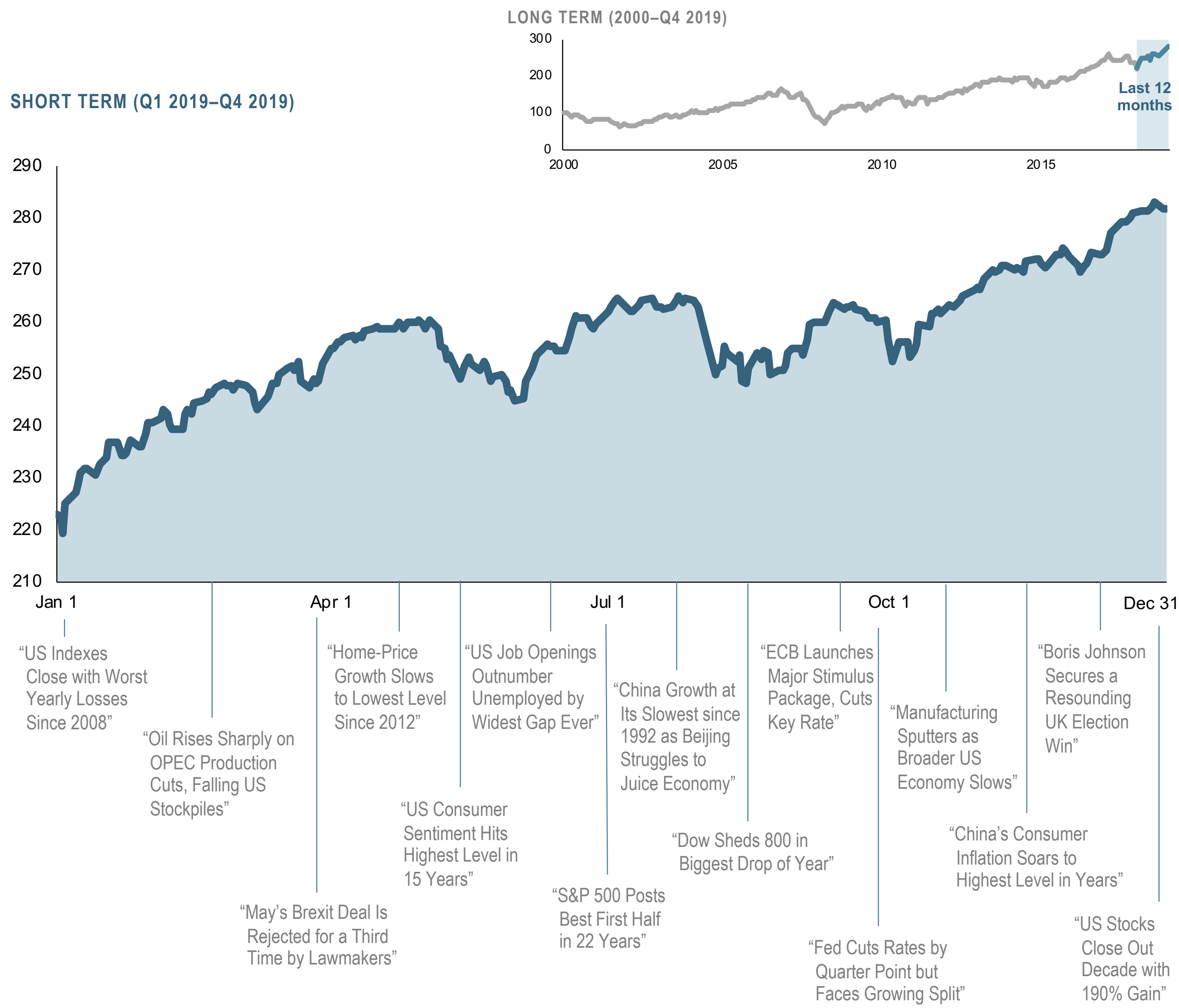
WORLD STOCK MARKET PERFORMANCE

MSCI All Country World Index with selected headlines from past 12 months

These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.



Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2019, all rights reserved. It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

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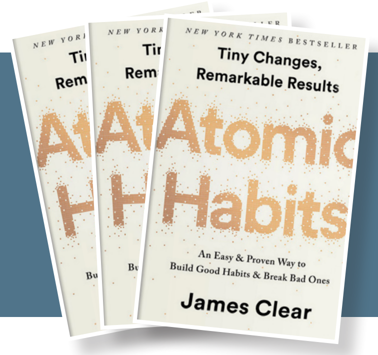
BOOK REVIEW



ATOMIC HABITS
by James Clear

The older I get, the more I love January. I used to think of it as the post-holiday hangover month, but I've grown to appreciate the feeling of new beginnings that January brings. Unfortunately, however, that feeling typically wears off around February. In fact, as I write this on January 3rd I'm full of optimism, but by the time you read this the odds are good that I will already have broken at least one of my resolutions. This year, though, I'm armed with a new tool: Atomic Habits by James Clear. It claims to provide "an easy and proven way to build good habits and break bad ones." And mostly it really does.

The book begins by emphasizing the importance of small changes. It uses the example of the British national cycling team, which for almost 100 years had chronically underachieved. In the early 2000's, the team brought on a new performance director, who began implementing a series of "1 percent improvements," including apparently mundane things like choosing the right massage gel and training on proper handwashing to reduce colds. As a result of these small and incremental changes, within five years the team dominated in the 2008 Olympics, and for the past decade has had the most successful run of victories in cycling history.

The larger point is that, while we pressure ourselves to make some "earth-shattering improvement" that everyone will talk about, real progress is made in building a series of small barely noticeable habits that collectively create significant and lasting change. For instance a daily improvement of one percent, made consistently over a year, would make you "thirty-seven times better by the time you're done." On the other hand, a daily decrease of the same amount over the same time would have a similarly dramatic effect in the opposite direction. Habits always have a compounding effect either for you or against you, depending whether the habits are good or bad.

This compounding effect supports an important insight: focus on the system you use, rather than the goal you hope to achieve. Although this runs counter to the common wisdom, it makes perfect sense. After all, everyone has goals (or resolutions): losing weight, improving performance. Further, achieving goals isn't the most important thing: the achievement provides only a temporary win (as many people who've hit weight-loss goals can attest), and can create a "yo-yo" effect (for example, many marathoners who finally cross the finish line stop training afterward). The system, on the other hand, relies on implementing "atomic habits:" a "regular practice or routine that is not only small and easy to do, but also the source of incredible power."

Building a habit is divided into four steps: cue, craving, response, reward. All four steps have to occur in order for an action to become a habit, and when all four DO occur, they become an endless feedback loop (after receiving the reward, you are likely to repeat the response to the craving). For example, a cue can be waking up; a craving can become the desire to be alert; the response can be drinking coffee; and the reward is becoming more alert. As a result of all four things happening, drinking coffee becomes associated with waking up and becomes a habit (a very deeply engrained one in my case).
These four steps provide the means for creating better habits, because each step has a corresponding action to enhance it (what the book calls the "Four Laws of Behavior

Change"). First, make the CUE obvious; second, make the CRAVING attractive; third, make the RESPONSE easy to do; and fourth, make the REWARD satisfying.

- The first law, make it obvious, means find an obvious cue. The most common are time ("as soon as I wake up, I will . . . ") and location ("as soon as I get to work, I will . . . "). It's better to have more than one trigger, but rather make an entire context a cue (for instance, by creating a space specific to one task, not many).

- The second law, make it attractive, refers to the fact that good and bad habits are created by the neurotransmitter dopamine, which creates the desire to do and achieve things (even the most basic things like eating and drinking). And dopamine spikes in animals and people not only when they obtain the reward, but when they first anticipate it (at the craving stage); craving causes us to take action. So you can make a habit more attractive by bundling it with something you want (if you like following sports, you can bundle making sales calls with checking scores by promising that you will first make three calls, then check ESPN online).

- The third law, make it easy, can be followed, for instance, by changing your environment. If you want to eat better, put a bowl of fruit in front of you each day at work, for instance. Create an environment "where doing the right thing is as easy as possible." Reduce the friction to doing something. And make the action achievable in two minutes or less.

- The fourth law, make it satisfying, means make the reward immediate. This might mean creating a secondary reward that is more immediate than the ultimate reward. For example, if you want to eat out less as a means of losing weight, the long term benefit of weight loss is not immediately satisfying. However, if every day you put the cash you would have spent on food into a separate bank account, and spend that money on a new jacket instead, you have created an immediate source of satisfaction. Eventually, the weight loss itself will become noticeable and a reward on its own.

The way to break a bad habit is simply the reverse of the way to build a good one. Make the cue invisible, make the craving unattractive, make it difficult to accomplish and make the reward unsatisfying. The book explains in more detail how this is accomplished, including making the "costs of your bad habits public and painful," like telling your coworkers that you plan on stopping.

The book also includes advanced tactics, like picking new habits which are naturally easier for you to "win" at, and avoid boredom by working on tasks that are at the edge of your abilities. This is one of the most practical self-help books I've read in a while, one that is easy to read and with an approach that seems easy to master. Who knows, maybe I will have stuck with one of my resolutions as you're reading this.

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