INVESTMENT
UPDATE

ROMANO BROTHERS & CO. WEALTH MANAGEMENT

Protecting Your Prosperity. Securing Your Future. Since 1962.

Member FINRA/SIPC

December 2019

2019: A YEAR IN REVIEW

As we approach the end of 2019, let's take a look back at this unusual year. As we came into the year, the equity markets were bottoming out after a very poor fourth quarter of 2018 and the beginning of a very steep ascent through the remainder of 2019 year to date. Since January 1, the Dow Jones Average is up 18.6%, the Standard & Poor's Index is up 23.1% and the NASDAQ index is up a whopping 27.1%. On an absolute basis, this is outstanding performance, but the divergence of 8.5 percentage points between the Dow and NASDAQ indices is also very notable.

We have experienced a rather sharp bifurcation of market behavior between the perceived growth stocks and the more old-line staples of the market as reflected in this divergence. Whereas many growth stocks are selling at 30, 40 or even 100 times current earnings, many financial, industrial and healthcare stocks are selling at single digit multiples of earnings. And those same highly valued stocks generally pay no cash dividends while those neglected companies often pay 3% or more in cash dividends.

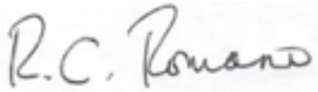
The story is not new. Investors tend to get too optimistic around stocks whose revenues are growing at a rapid rate without paying commensurate attention to company profits and whose market price is increasing rapidly. Price momentum begets more momentum---until it doesn't! And then we can experience rather significant price deterioration.

The phenomenon of price growth without company profit has been especially prevalent among some recent and abandoned Initial Public Offerings (IPO) such as Uber, Lyft, Netflix and WeWork. However, as the momentum train has left, the market prices have suffered commensurately. In the case of WeWork, the IPO was cancelled after the initial valuation dropped from $47 billion to less than $10 Billion. The takeaway is that going after "growth" stocks without paying attention to company profits or evaluation of price to profits is a risky business. Our investment philosophy is, and always has been, to pay a lot of attention to share price in relation to company earnings, company financial condition as reflected in the balance sheet, and though not a necessary condition for investment, a healthy dividend is a strong plus.

In 2019, the Federal Reserve Board has cut the short term interest rate target 3 times which has made our job of finding high quality bonds with reasonable interest rates rather difficult. My colleague, Doug Geisser has more to say on bonds inside. These low rates have caused us to modify our asset allocation in our client accounts modestly toward equities over bonds. Our rationale is simply that for our retired clients who seek current cash flow, we believe that we can get higher risk-adjusted cash income from selected equities than from bonds in today's rate environment. As mentioned above, there are selected stocks that are paying 3% or more in well covered dividends and whose market price tends to be of low volatility.

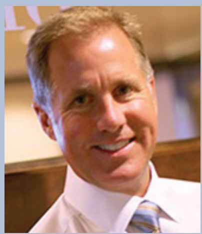
We feel that a stock with a 3 percent yield and modest possibility of dividend increases over a 5-year period will highly likely outperform a 5-year bond, for example, that might pay 2.6% or 2.7% interest. For sure, the market price of the stock will show more volatility than that of the bond, so the investor has to be willing to make that tradeoff. We recommend this tradeoff for clients who are willing to make it. If you would like to discuss this idea with your portfolio manager, please contact her/him.

As we enter this Holiday Season, we wish all a beautiful holiday and a happy, healthy and prosperous New Year.



Richard C. Romano
CHAIRMAN

NEGATIVE INTEREST RATES?



Interest rates in the United States moved lower in 2019, which was contrary to the economic and Federal Reserve forecasts in 2018. Ten- and thirty-year treasury yields reached record low levels at the end of August of 1.45% and 1.95% respectively. As low as rates are in the States, parts of Europe and Japan have experienced rates that are negative, a phenomenon that would have once been unheard of.

Negative rates have occurred due to central bank policies as a means to drive and increase economic activity. Currently there are five central banks that have negative rate policies: the European central bank, bank of Japan and the central banks of Sweden, Denmark and Switzerland. By reducing interest rates to levels that are below zero, policy makers are trying to make consumer spending and capital investment more attractive than holding low risk investments and bank deposits. The overall market for negative yielding debt has grown dramatically from basically zero in 2014 to over 17 trillion dollars in August!

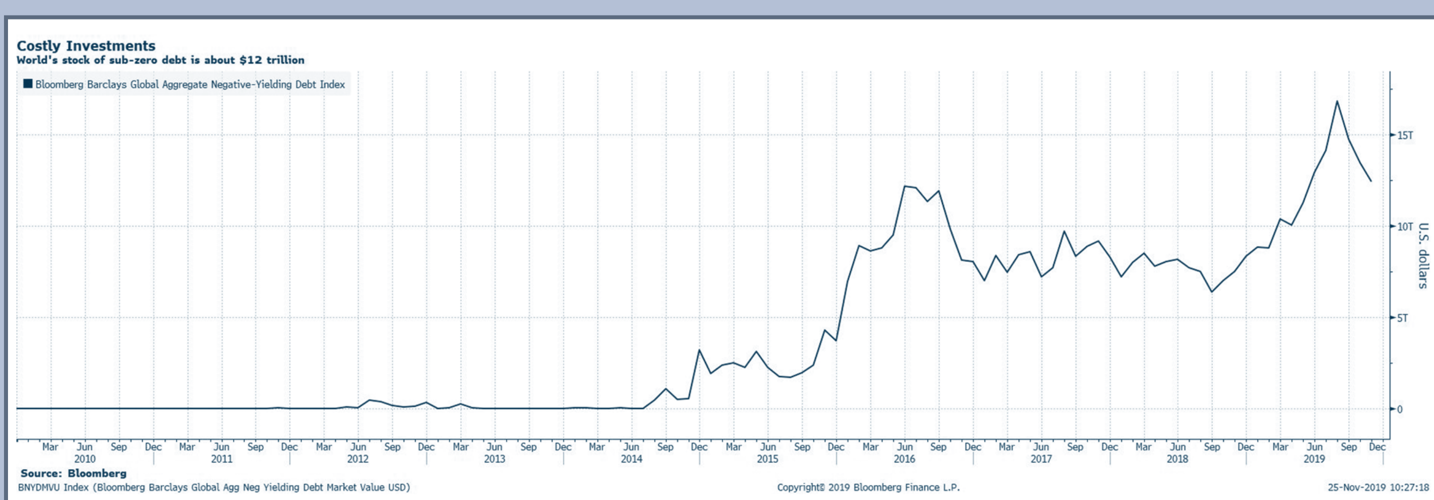
How have these policy makers created negative rates and why would any investor commit to them? Essentially various governmental entities issue bonds with 0% coupon rates and at issuance these bonds have a price over $100. For example, in July, Germany issued ten-year bonds with a 0% coupon at a price of $102.64. So, if held to maturity an investor would be guaranteed an annualized loss of -0.25%. Central banks have been significant purchasers of negative yielding debt as part of their quantitative monetary easing programs. Some institutional investors have been forced to buy these securities because of their investment policy mandates while other investors have purchased securities with hopes of rates falling even further in the future. The ten-year German bond above actually traded as high as $107.42 a month after issuance allowing an initial purchaser to sell at a profit if they chose to.

Despite the unattractive investment characteristics of this type of debt, if it was successful in driving economic growth and expansion, it could be a worthwhile policy tool. While these policies have been in place for a few years now, all indications are they have not had the desired effects and have created some negative implications.

There has been no evidence that negative rates have incentivized higher spending growth. In fact, households have become fearful and have shown a preference for holding more cash by increasing savings. Likewise, many businesses are not spending to expand their production capacity but instead are issuing debt to finance equity share buybacks. Foreign bank profits have been hurt by having to hold negative earning reserves at central banks and the weak economic conditions undermine loan demand. Lastly investors have been hurt by the removal of an asset class that offered conservative positive returns. This has made it difficult for pension plans and insurance companies to match the income earned on their assets with the payouts required on their liabilities.

Fortunately, our Federal Reserve has expressed a reluctance to use negative rate policies here. In addition, it is not clear if the Fed even has the legal authority to do so. However, negative rates abroad have certainly been a catalyst for the drop-in rates here. This drop has diminished some of the fixed income opportunities that were present just 10 months ago. This has forced investors to look elsewhere (dividend stocks as Dick points out) to achieve reasonable cash flows.

Doug Geisser, *VP Fixed Income Principal*



MARGARET V. ROMANO

1934—2019

On Friday, June 28, 2019 my mother, Margaret V. Romano, passed away peacefully in her Florida home at the age of 85. For the last three days until her final breath, she was constantly surrounded at her bedside by her devoted husband and our firm's founder, Dick, as well as all three of her loving children, Jim, Kathy, and Joe (me).

You may have found it curious that in this edition Dick takes my usual place in writing the front-page market commentary. Not only does this provide me the opportunity to say a few words about my mother but it also serves as a reminder, especially for those of you who don't often work with him, that at age 87 Dick is still a very active participant in the firm and with his 65 years of market experience, we are lucky to be able to learn from him and call him a mentor.

But why then write about my mother in our firm newsletter?

Aside from the fact that a few of you may have met my mother or have known through my father or me that her health was declining over the past few years, at the end of the day we began as a family firm. Over the last six decades, we have worked with families like yours for as many as four generations in some cases. In the course of managing our client's money over many years in the same manner we manage our own money, the lines between clients, employees, friends, and family have become blurred. In short, we're all in this together.

But there is also one important distinction that is most often overlooked in the history books of some of the most successful companies of all time. Just as brothers Dick and Bob Romano founded our firm in 1962, we have to remember that there were two women behind them who also made great sacrifices so that the firm could ultimately become what it is today.

In my mother's case, she supported our family on a modest salary as a Chicago public school teacher while my father pursued his dream to provide a more personalized investment service to a broader demographic of clients (remember in the 60's stock ownership was not nearly as broad as it is today and was generally limited to the very wealthy). But for the first five years, my father took home no salary for the firm. As he tells it, "We were starving, and it was the sheer naiveté that we could be successful in this business that kept us going."

Never once in those first five years did my mother ask when my dad was going to hang it up and bring home a comfortable paycheck like they had before when Dick was an Engineer at Monsanto in St. Louis. Many of his colleagues there thought he was crazy to give all of that up but my mother never doubted. She believed in Dick and in his and Bob's vision.

It wasn't until I got to the firm in my twenties and really learned the business that these stories came to life with new meaning. In trying to start my own book of business, I realized what they were all up against years earlier, and the sacrifice and patience all of them had. I always had seen my father as a founder of the firm but now understood that with my mother firmly behind him, she deserved equal credit and was a true matriarch of the firm.

But the story doesn't end there. Once the firm got on its own footing, this afforded my mother the opportunity to pursue her own passion and leave her own legacy.

In 1980, Margaret joined three other women who came together with a shared goal: to begin a high-quality school in the North Lawndale community, one of Chicago's most underprivileged neighborhoods. With limited resources, these women began renovating the second-floor of a three-flat building to create Lawndale Community School. Together, their perseverance and dedication allowed the small but mighty "schoolhouse" to grow from one school serving 11 students into the LEARN Charter School Network, with 10 campuses around Chicago and over 4,000 students enrolled.

My mother was more than just a matriarch of our firm. LEARN CEO and President Greg White describes Margaret as the mother and heart of LEARN noting she possessed a profound, unwavering commitment to LEARN as a founder, indefatigable volunteer, educator, board member and proud Life Trustee. "Mrs. Romano will be greatly missed not just by those of us who knew her and worked with her at LEARN, but by the entire community in North Lawndale," says Greg White, President and CEO of LEARN. "She has always believed in the dreams and goals of the scholars and inspired them to persevere and reach for the stars. Mrs. Romano has always been there for them and will be greatly missed."

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In the spirit of holiday gifting, Romano Wealth Management is pleased to make a gift of $15,000 to LEARN on behalf of the firm and clients like you in honor of Margaret. While we are all saddened by her passing, we rejoice in the opportunity to celebrate and share her warm and generous spirit with you.

Many of us ponder what legacy we will leave behind. Margaret left more than one. With her bright smile and positive spirit she, with the help of many others (she never took any of the credit), improved Lawndale and changed the trajectory of so many lives.

We'll miss you Mom, but your spirit truly lives on.

More information about LEARN can be found at www.learncharter.org.