



# Farmers Trust Company

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## Market Melt-Up?

Last month we discussed how the anticipation of the Federal Reserve riding to the rescue (with interest rate cuts) was buoying financial markets after a rough May. In fact, after being down more than 6% in May the S&P 500 index finished more than 7% higher in June. July is off to a pretty good start with the aforementioned index of the largest American companies crossing the 3,000 mark for the first time ever. This past week in his testimony before Congress, Fed Chairman Jerome Powell confirmed the market's hopes with what amounted to a clear indication that the U.S. central bank will indeed cut the Fed Funds rate target by at least a quarter percentage point. Based on current futures pricing, there is about a 20-25% chance the cut could be one-half of one percent.

So why does the Fed need to cut interest rates if the equity market is trading at all-time highs? Well, cutting rates with markets at or near highs is far from unprecedented. In fact, the Fed has cut rates with the S&P 500 within 2% of its all-time high 17 times since 1980. What's more, is that the market was indeed higher a year later all 17 times. Could this time be different? It's possible, but the odds don't seem to be in your favor if you're betting against this market. In other words, it has rarely made sense to fight the Fed when they're willing to provide cheaper money to the markets. The biggest reason Mr. Powell and friends have plenty of leeway to reduce interest rates despite a relatively robust economy is that inflation continues to be very mild, and is in fact slowing against prior readings. The one longer-term concern could be that the seeds are being sown for inflationary pressures to accelerate in the future. While this has been a concern of some market participants in recent years without coming to pass, it is likely that eventually the piper of profligate monetary policy must get paid.

The biggest concern for the broader market at this juncture is that corporate earnings estimates continue to decline. The pace of decline has slowed based on the anticipated interest rate cut(s), but it will be telling to watch what happens to second half earnings guidance once companies begin to report second quarter results in earnest starting this week. With global economic growth still slowing, we have remained somewhat defensive in our positioning by overweighting sectors like Utilities and Real Estate while underweighting more cyclical sectors such as Financials and Materials. It appears, however, that the market is beginning to sniff out a reacceleration in global economic (and profit) growth in the coming months. Should the upcoming earnings season corroborate the market's hopes, a shift to more cyclical and value-oriented stocks and sectors may be warranted. Any disappointment relative to expectations and the equity market may experience significant volatility during the dog days of summer.

## Farmers Trust Company July 2019 Newsletter

Should You Invest Internationally?

Why Not Do It Now? New Research on Procrastination

Have you checked your tax withholding lately?

Do I need to pay estimated tax?





## Should You Invest Internationally?



*In April 2019, despite some positive economic developments, the International Monetary Fund cut its outlook for global growth in 2019 to 3.3%, the lowest level since 2009. At the time of that report, IMF Managing Director Christine Lagarde said a recession was not expected in the near term.*

*Source: Bloomberg, April 9, 2019*

*The risks associated with investing on a worldwide basis include differences in financial reporting, currency exchange risk, and economic and political risk unique to the specific country. These risks may result in greater share price volatility and should be carefully managed in light of your goals and risk tolerance.*

Investing in foreign stocks provides access to a world of opportunities outside the United States, which may help boost returns and manage risk in your portfolio. However, it's important to understand the unique risk/return characteristics of foreign investments before sending a portion of your money overseas.

### Reasons to go abroad

Here are some of the potential benefits of international investing.

**Additional diversification.** Other countries may be at a different stage in the business cycle than the U.S. economy. They could recover more quickly (or more slowly) from a recession.

**Long-term growth potential.** Some of the world's most rapidly growing economies are located in emerging markets that may be reaping the benefits of new technologies, a growing consumer base, or natural resources that are in high demand.

**Possible hedge against a weaker dollar.** The U.S. dollar has been strong in recent years, but having some investments denominated in foreign currencies may help offset (or even take advantage of) any future dips in its value.

### Reasons to proceed with caution

Here are just some of the potential risks.

**Politics and economic policies.** A nation's political structure, leadership, and regulations may affect the government's influence on the economy and the financial markets.

**Currency exchange.** Just as a weak U.S. dollar could work for you, additional strengthening in the dollar could work against you. That's because any investment gains and principal denominated in a foreign currency may lose value when exchanged back.

**Financial reporting.** Many developing countries do not follow rigorous U.S. accounting standards, which often makes it more difficult to have a true picture of company and industry performance.

### Risk/return potential

Some international investments may offer the chance for greater returns, but as with other investments, stronger potential comes with a greater level of risk. For example, over the past 30 years, foreign stocks have outperformed U.S. stocks, bonds, and cash alternatives 11 times. However, they have also underperformed 11 times, tying cash for the highest number of lowest-performing years during the same time period.

	Number of highest-performing years, 1989-2018
Cash	4
Bonds	5
U.S. Stocks	10
Foreign stocks	11

	Number of lowest-performing years, 1989-2018
Cash	11
Bonds	6
U.S. Stocks	2
Foreign stocks	11

If you decide to spread some of your investment dollars around the world, be prepared to hold tight during bouts of market volatility. And remember to rebalance your portfolio periodically to help align your asset allocation with your long-term investment strategy.

Performance is from January 1, 1989, to December 31, 2018. Cash is represented by the Citigroup 3-month Treasury Bill Index. Bonds are represented by the Citigroup Corporate Bond Composite Index. U.S. stocks are represented by the S&P 500 Composite Price Index. Foreign stocks are represented by the MSCI EAFE Price Index. All indexes are unmanaged, accurate reflections of the performance of the asset classes shown. Returns reflect past performance, which does not indicate future results. Taxes, fees, brokerage commissions, and other expenses are not reflected. Investors cannot invest directly in any index.

The principal value of cash alternatives may fluctuate with market conditions. Cash alternatives are subject to liquidity and credit risks. It is possible to lose money with this type of investment. The return and principal value of stocks may fluctuate with market conditions. Shares, when sold, may be worth more or less than their original cost. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest, whereas corporate bonds are not. The principal value of bonds may fluctuate with market conditions. Bonds are subject to inflation, interest rate, and credit risks. Bonds redeemed prior to maturity may be worth more or less than their original cost. Diversification is a strategy used to help manage investment risk; it does not guarantee a profit or protect against investment loss.





## Why Not Do It Now? New Research on Procrastination



### Advantage of an Early Start

Saving for retirement may be a low priority when you're young, especially if you're earning a low salary. But starting early can make a big difference, as you can see in the accompanying chart.

This hypothetical example of mathematical compounding is used for illustrative purposes only and does not represent the performance of any specific investment. It assumes a monthly deferral of salary and monthly compounding of earnings. Fees, expenses, and taxes were not considered and would reduce the performance shown if they were included. Actual results will vary.

Do you have a tendency to push off important tasks? Do you do things at the last minute, or maybe not do them at all? If so, you're not alone. About one in five adults is a chronic procrastinator.<sup>1</sup>

Procrastination can be frustrating in the short term for even the simplest tasks. But it can have far-reaching effects on important activities and decisions such as completing work projects, obtaining medical treatment, and saving for retirement. Recent research offers insights that may be helpful if you or someone you know has a tendency to procrastinate.

### Blame the brain

A study using brain scans found that the amygdala, the almond-shaped structure in the temporal lobe of the brain that processes emotions (including fear), was larger in chronic procrastinators, and there were weaker connections between the amygdala and a part of the brain called the dorsal anterior cingulate cortex (DACC). The amygdala warns of potential dangers, and the DACC processes information from the amygdala and decides what action a body will take.<sup>2</sup>

According to the researchers, procrastinators may feel more anxiety about the potential negative effects of an action and be less able to filter out interfering emotions and distractions. The good news is that it is possible to shrink the amygdala and improve brain connectivity through mindfulness meditation exercises.<sup>3</sup>

### What's important to you?

Another recent study found that people were less likely to procrastinate about tasks that they personally considered important and were within their own control, as opposed to tasks that were assigned to them and/or controlled by others. This is probably not surprising, but it suggests that procrastination may not be a "weakness" but rather a result of personal values and choices.<sup>4</sup>

### Tips for procrastinators

Here are a few suggestions that may help overcome a tendency to procrastinate.

**Consider the triggers.** One researcher found that people are more likely to procrastinate if a task is characterized by one or more of these seven triggers: boring, frustrating, difficult, ambiguous, unstructured, not intrinsically rewarding, or lacking in personal meaning.<sup>5</sup> You might try to identify the triggers that are holding you back and take steps to address those specific problems. For example, if a task seems too difficult, ambiguous, or unstructured, you could break it down into smaller, more definite, and manageable tasks.

**Meet your resistance.** If you don't want to work on a task for an hour, determine how long you are willing to work on it. Can you work on it for 30 minutes? What about 15? If you don't want to do it today, what day would be better?

**List the costs and benefits.** For big projects, such as saving for retirement, make a list of all the negative ways not making progress could affect your life and all the positive outcomes if you were to achieve your objectives. Imagine yourself succeeding.

**Take the plunge.** Although a big project may seem daunting, getting a start — any start — could reduce the anxiety. This might be just a small first step: a list, a phone call, an email, or some Internet research. For a written project, you might start with a rough draft, knowing you can polish and improve it later.

**Forgive yourself.** If you've postponed a task, don't waste time feeling guilty. In most cases, "better late than never" really does apply!

<sup>1</sup> *Frontiers in Psychology*, July 5, 2018

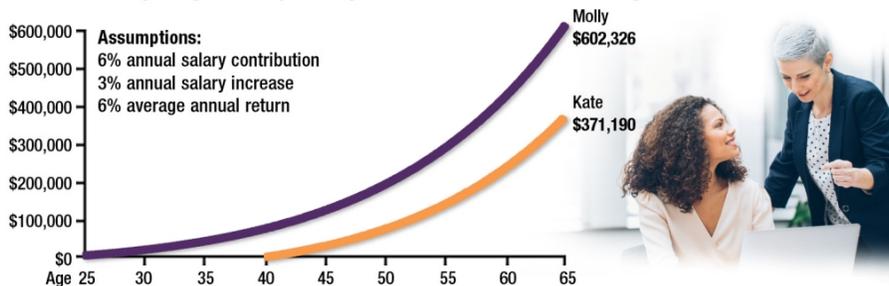
<sup>2-3</sup> BBC News, August 26, 2018

<sup>4</sup> *Psychology Today*, January 9, 2018

<sup>5</sup> *Harvard Business Review*, October 4, 2017

### Advantage of an Early Start

Molly begins saving at age 25 when she earns a \$40,000 salary, and Kate begins at age 40 when she earns an \$80,000 salary. At age 65, Molly's savings total would be more than 60% higher than Kate's total.



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## Have you checked your tax withholding lately?

If you were unpleasantly surprised by the amount of tax you owed or the amount of your tax refund when you filed your 2018 tax return, it may be time to check your withholding.

It may also be time if there are changes in your life or financial situation that affect your tax liability. For example, have you recently married, divorced, had a child, purchased a new home, changed jobs, or had a change in the amount of your taxable income not subject to withholding (e.g., capital gains)?

You can generally change the amount of federal tax you have withheld from your paycheck by giving a new Form W-4 to your employer. You can use a number of worksheets for the Form W-4 or the IRS Withholding Calculator (available at [irs.gov](https://www.irs.gov)) to help you plan your tax withholding strategy.

If changes reduce the number of allowances you are permitted to claim or your marital status changes from married to single, you must give your employer a new Form W-4 within 10 days. You can generally submit a new Form W-4 whenever you wish to change your withholding allowances for any other reason.

In general, you can claim various withholding allowances on the Form W-4 based on your tax filing status and the tax credits, itemized deductions (or any additional standard deduction for age or blindness), and adjustments to income that you expect to claim. You might increase the tax withheld or claim fewer allowances if you have a large amount of nonwage income. (If you have a significant amount of nonwage income, you might also consider making estimated tax payments using IRS Form 1040-ES.) The amount withheld can also be adjusted to reflect that you have more than one job at a time and whether you and your spouse both work. You might reduce the amount of tax withheld by increasing the amount of allowances you claim (to the extent permissible) on the Form W-4.

You can claim exemption from withholding for the current year if: (1) for the prior year, you were entitled to a refund of all federal income tax withheld because you had no tax liability; and (2) for the current year, you expect a refund of all federal income tax withheld because you expect to have no tax liability.



## Do I need to pay estimated tax?

Taxpayers are required to pay most of their tax obligation during the year by having tax withheld from their paychecks or pension payments, or by making estimated tax payments. Estimated tax is the primary method used to pay tax on income that isn't subject to withholding. This typically includes income from self-employment, interest, dividends, and gain from the sale of assets. Estimated tax is used to pay both income tax and self-employment tax, as well as other taxes reported on your income tax return.

Generally, you must pay federal estimated tax for the current year if: (1) you expect to owe at least \$1,000 in tax for the current year, and (2) you expect your tax withholding and refundable tax credits to be less than the smaller of (a) 90% of the tax on your tax return for the current year, or (b) 100% of the tax on your tax return for the previous year (your tax return for the previous year must cover 12 months).

There are special rules for farmers, fishermen, and certain high-income taxpayers. If at least two-thirds of your gross income is from farming or fishing, you can substitute 66-2/3% for 90% in general rule (2)(a) above. If your adjusted

gross income for the previous year was more than \$150,000 (\$75,000 if you were married and filed a separate return for that year), you must substitute 110% for 100% in general rule (2)(b) above.

If all of your income is subject to withholding, you probably don't need to pay estimated tax. If you have taxes withheld by an employer, you may be able to avoid having to make estimated tax payments, even on your nonwage income, by increasing the amount withheld from your paycheck.

You can use Form 1040-ES and its worksheets to figure your estimated tax. They can help you determine the amount you should pay for the year through withholding and estimated tax payments to avoid paying a penalty. The year is divided into four payment periods. After you have determined your total estimated tax for the year, you then determine how much you should pay by the due date of each payment period to avoid a penalty for that period. If you don't pay enough during any payment period, you may owe a penalty even if you are due a refund when you file your tax return.

Withholding and estimated tax payments may also be required for state and local taxes.



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