U.S. Economic Outlook: For 2020 and Beyond - What's Next?

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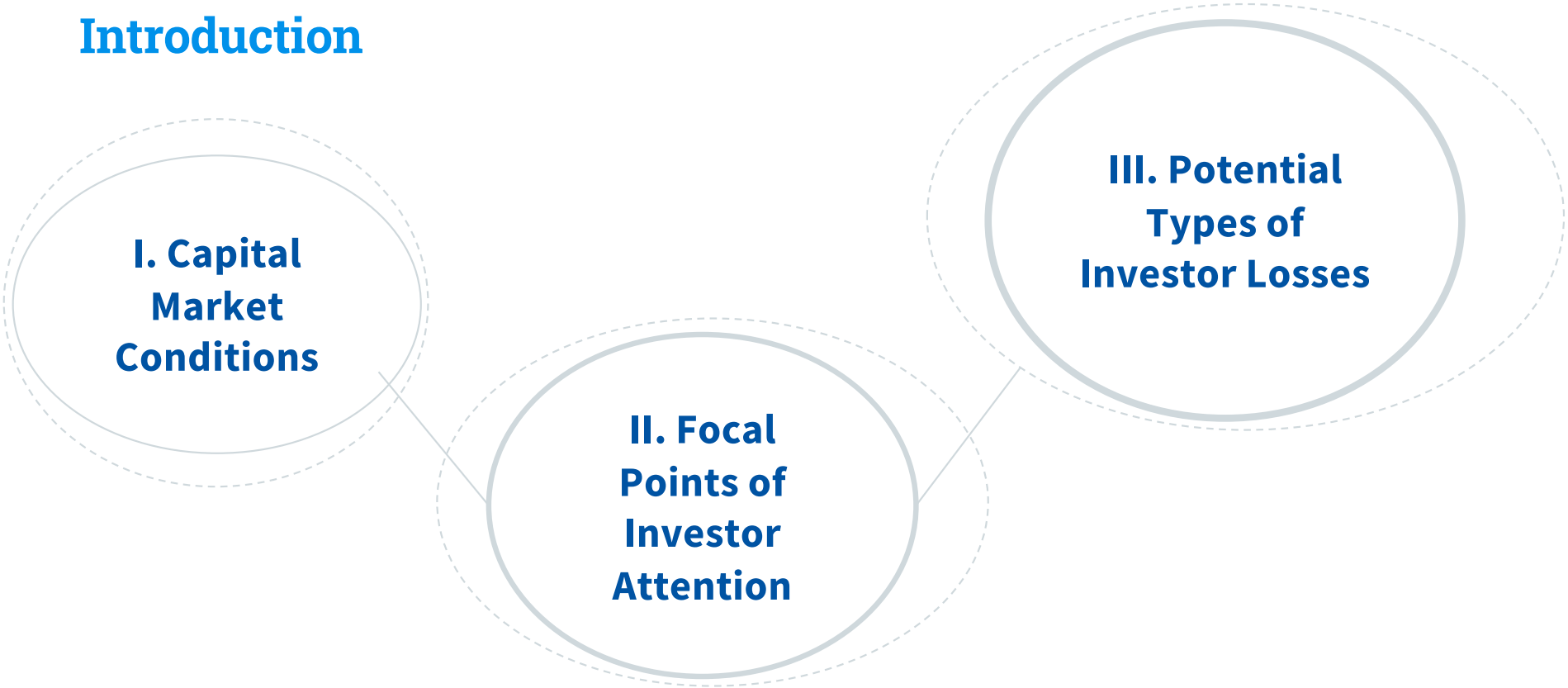
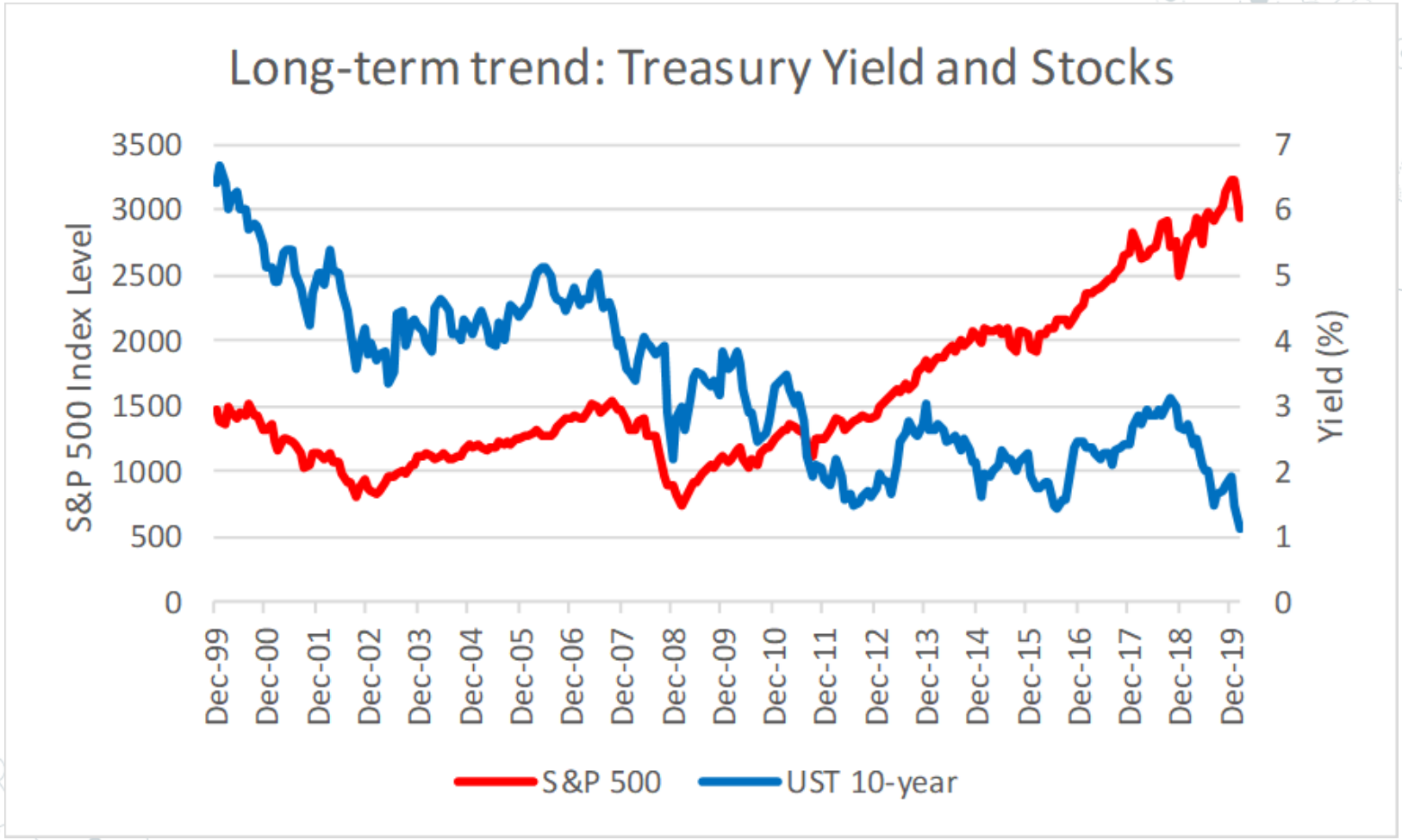
Introduction



1. Overview of Capital Markets

2019 - rewarding for both stock and bond investors

- Low volatility market environment
- Federal Reserve cuts rates
- Liquidity to repo markets


Long-term trend: Treasury Yield and Stocks
S&P 500 Index Level
3500
3000
2500
2000
1500
1000
500
0
Yield (%)
7
6
5
4
3
2
1
0
Dec-99
Dec-00
Dec-01
Dec-02
Dec-03
Dec-04
Dec-05
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Dec-11
Dec-12
Dec-13
Dec-14
Dec-15
Dec-16
Dec-17
Dec-18
Dec-19
S&P 500
UST 10-year

2020 - return of volatility

COVID-19

- Supply chain disruptions?
- Recession?

US Presidential Election

- Candidates' Platforms

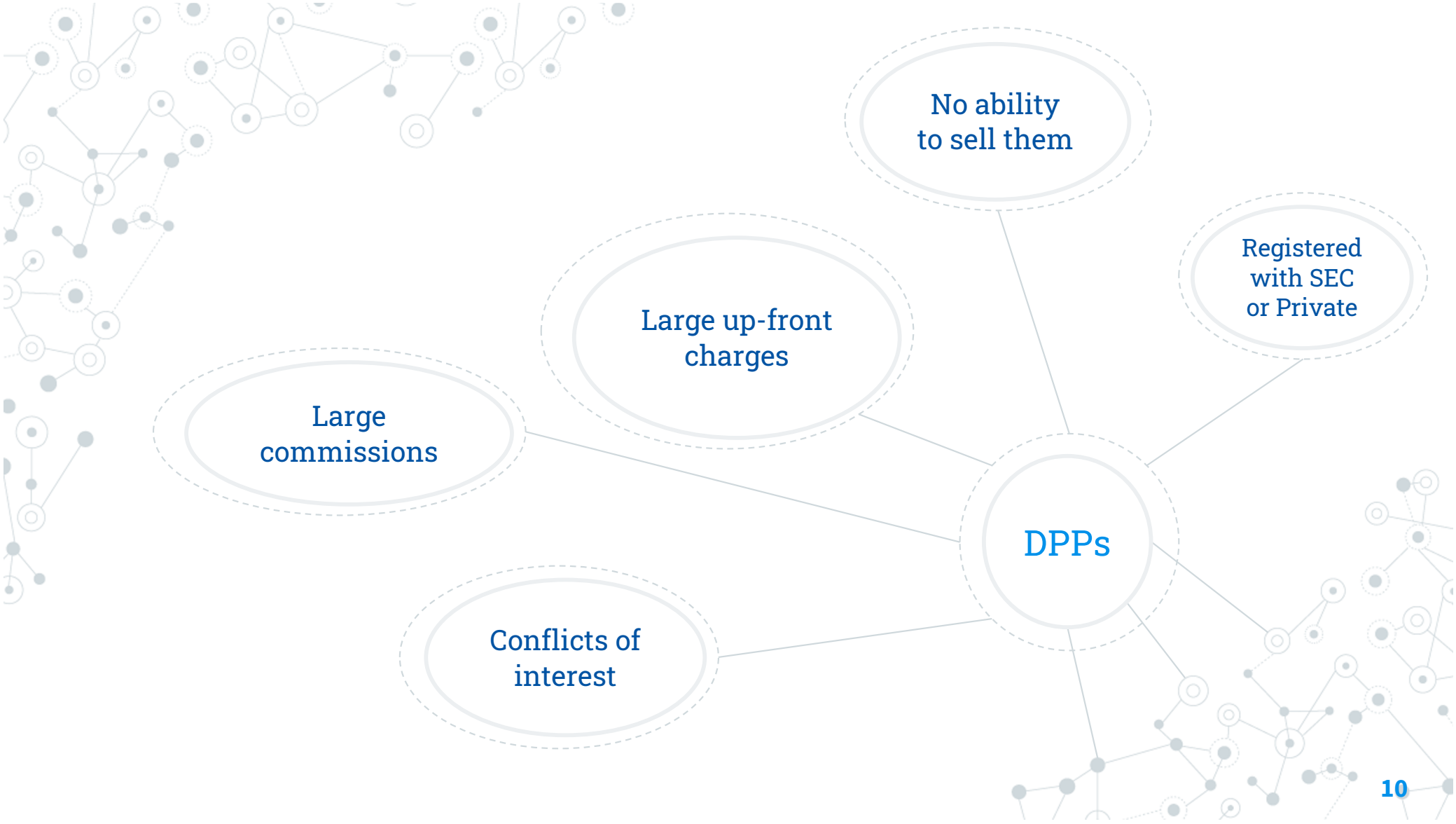
2. How will current market conditions impact investors, and what types of arbitration disputes are likely to result?

Types of investments vulnerable to current market conditions

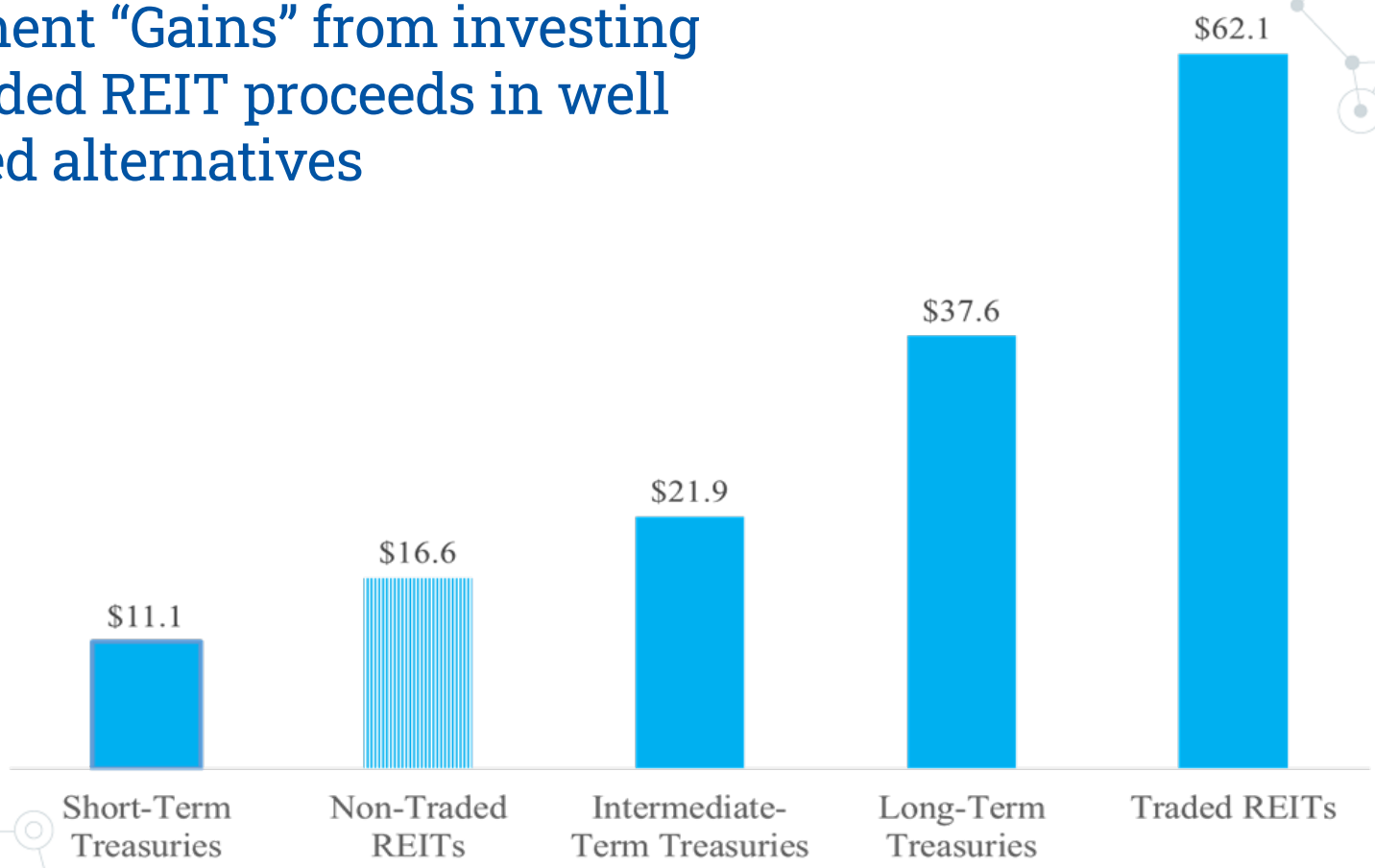
- Direct Placement Programs and private placements
- Yields
- Volatility liked products
- Over-insuring

2.1 High cost and illiquid Direct Placement Programs (DPPs) and private placements

- non-traded REITs
- non-traded Business Development Corporations (BDCs)
- oil and gas partnerships
- equipment leasing partnerships, and
- managed futures complexes.


No ability
to sell them
Registered
with SEC
or Private
Large up-front
charges
Large
commissions
DPPs
Conflicts of
interest

Investment “Gains” from investing non-traded REIT proceeds in well managed alternatives

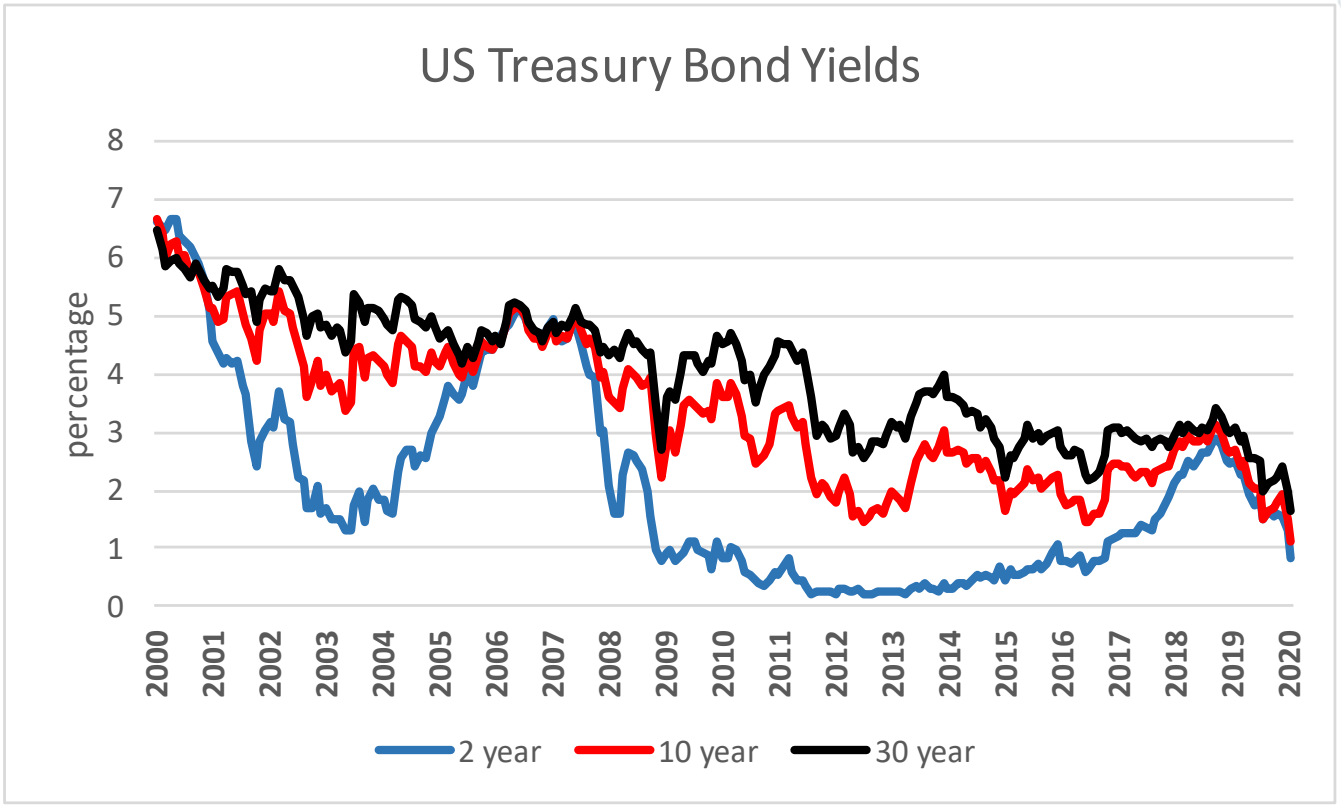


Investor losses due to high fees, non-traded REITs

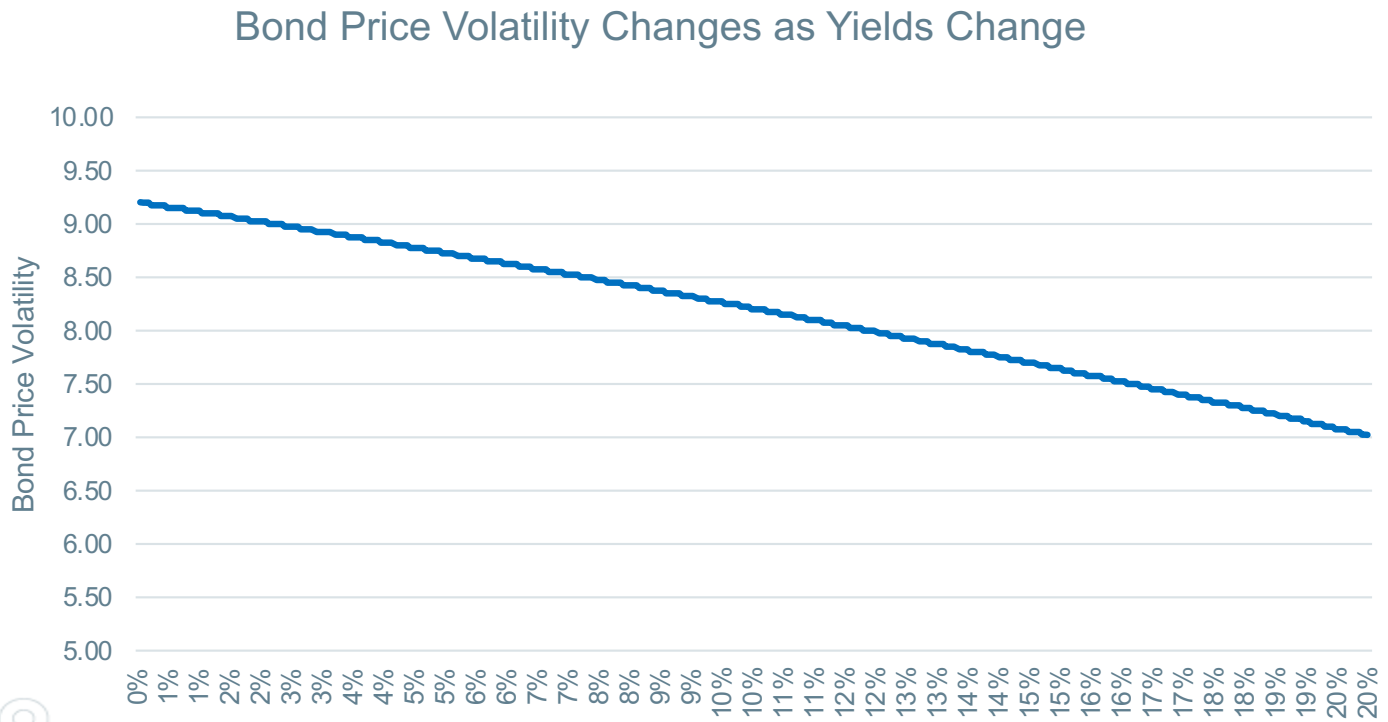
Event	Number	Upfront Fees	Future Value of Invested	Investor Shortfall
Liquidity Events	**43**	$8,522	$15,328	$24,519
Listing	20	$4,892	$8,180	$15,769
Merger	23	$3,630	$7,147	$8,751
Updated NAV/ Private/Bankrupt	**46**	$6,139	$10,402	$19,529
Total	**89**	**$14,662**	**$25,730**	**$44,048**

2.2 “Reaching for yield”

- Greater yield = Higher risk
- Common due to historically low interest rates



Interest rate sensitivity is greatest in low interest rate environments



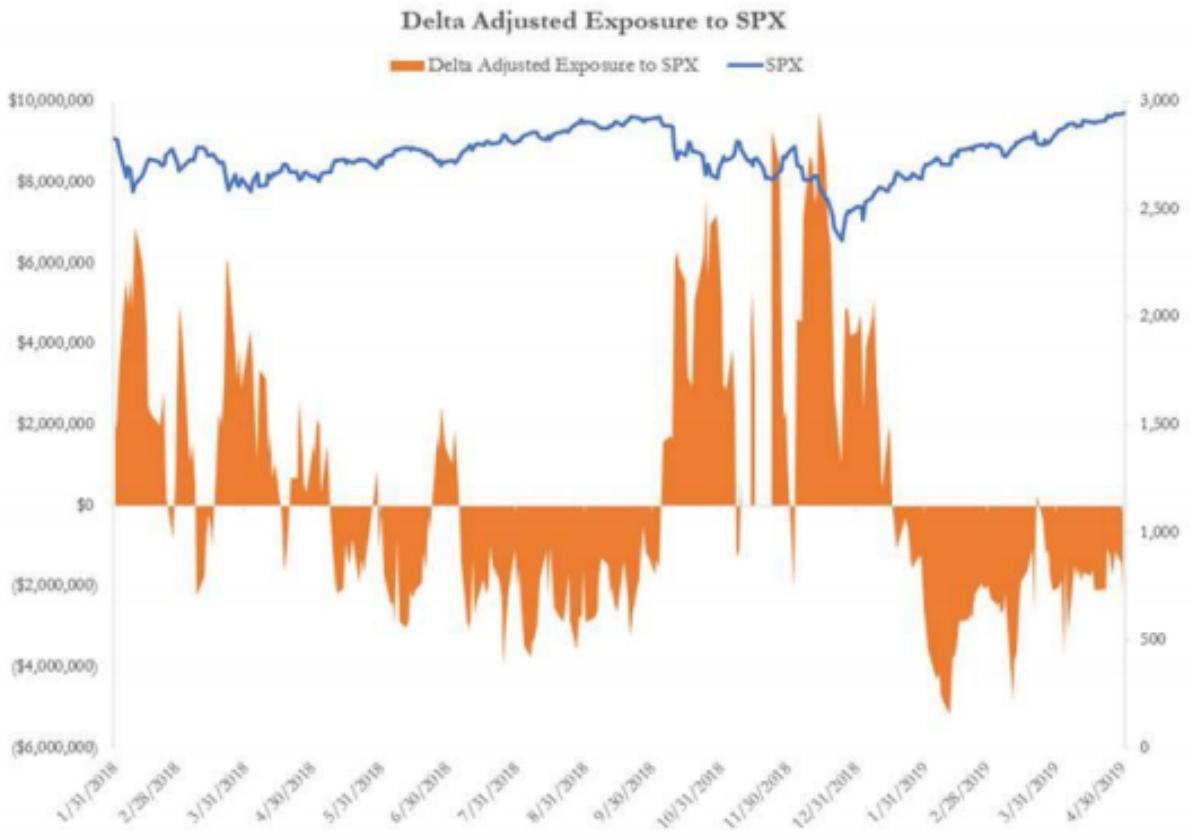
2.3 Volatility

- volatility futures
- structured products linked to volatility or volatility futures contracts
- exchange traded products investing in volatility futures, and
- options strategies aimed at managing or profiting from risk

Illustration: UBS Yield Enhanced Strategy (UBS YES)

- advertised as one that would use positions in S&P 500 Index options (SPX options) similar to Iron Condor Trades

Market risk exposure of UBS YES through time



Delta = option's exposure to changes in the value of the SPX

Positive Delta = subject to losses if market declines

Negative Delta = subject to losses if market rose

2.4 Unintended consequences of the SECURE Act

- requires all IRAs, ROTH IRAs, and Qualified Plans be distributed within 10 years of the owner's death

Exceptions:

- surviving spouse
- disabled beneficiaries

The "tax-risk" of early death

Accelerating distributions = greater tax

Solutions	Risks
Life insurance policies designed to offset the tax burden	Sales charges = Inappropriate insurance policies
Roth conversion over the retirement years	Penalty for dying too soon
Cash out the IRA & qualified plan assets and buy life insurance in an ILIT	Over-insuring

Conclusion

Q&A

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