JOHNSON
INVESTMENT COUNSEL

QUARTERLY INSIGHT

2019: THIRD QUARTER

KEEPING UNCLE SAM IN MIND WHEN ALLOCATING INVESTMENTS

LOCATION, LOCATION, LOCATION

"Location, location, location" is a well-worn axiom keen-eyed investors employ when evaluating a potential real estate purchase. However, "location" can also be applied when thinking about the types of investment accounts that "house" stocks, bonds, and other investments. Some investors may reduce their tax liability and increase their after-tax returns by wisely allocating investments between taxable and non-taxable (retirement) accounts.

Why? Because the interest, dividends, and capital gains from investments in these accounts matters to Uncle Sam, who we all know is quite interested in collecting taxes on such income where he can.

So what's the message? In very broad terms, optimizing to some extent may help reduce your tax liability. It may benefit some to keep higher income-generating assets in traditional tax-deferred accounts and lower-income, growth-oriented assets in Roth IRA and/or taxable accounts. This isn't always applicable and depends on investors' specific circumstances, particularly stage of life, which is the key determinant of asset allocation.

TRADITIONAL TAX-DEFERRED ACCOUNTS

Let's start with what often makes sense for traditional tax-deferred accounts. These include traditional 401(k)s, traditional IRAs, and other retirement accounts. Contributions to these accounts are tax deductible (subject to limitations) and individuals do not pay taxes on dividends, interest, or capital gains. Given the tax-deferred nature of these accounts, investors may opt to hold their high income-earning assets in these accounts so the income paid throughout the year is not taxed. Income taxes are due when distributions are made from the account, often not until the retirement years. Typically, the taxpayer would be in a lower tax bracket at that time compared to the peak wage-earning years.

ROTH IRAS

The next account type to consider comes with many advantages. While contributions to a Roth IRA or Roth 401(k) are not deductible (and subject to eligibility based on income), they are usually best suited to hold higher-growth, higher-volatility assets. Mutual funds that are inefficient for tax purposes are also more appropriate in a Roth account. These funds tend to pay higher levels of capital gains distributions due to more frequent trading during the year, but in a Roth account no taxes are due on such gains. Withdrawals are not taxed either (after age 59 ½) due to the fact "after-tax" money was contributed. In addition, higher-growth, higher-volatility funds are likely to grow substantially over the long term. This does not create a tax issue, as the owner and their future heirs would not pay taxes on the capital gains when investments are sold. Further, there are no required distributions from Roth IRAs during the owner's life like those required in traditional IRAs.

FEATURING

TOTAL RETURNS

	3Q2019	2019
S&P 500	1.7%	20.6%
Dow Jones Industrial Average	1.8%	17.5%
NASDAQ	0.2%	21.6%
Russell 2000	-2.4%	14.2%
MSCI EAFE (International)	-1.0%	13.3%
Barclays Aggregate Bond Index	2.3%	8.5%

» WEALTH MANAGEMENT

» FAMILY OFFICE SERVICES

» TRUST COMPANY

» ASSET MANAGEMENT

TAXABLE ACCOUNTS

Finally, we have the standard taxable account which holds "non-retirement" assets. It's important to keep in mind that, as the name indicates, dividends and interest are taxable each year as income. In addition, capital gains tax is due annually on gains of appreciated assets that were sold. Under current law, the rate on long-term (held more than one year) capital gains is 15% for most taxpayers, which is favorable when compared to ordinary income rates. If held for less than a year, gains on a sale would be reported as a short-term capital gain, which are taxed at the higher ordinary income rates.

It may be wise to hold any cash reserves in these accounts, which can be accessed tax free for any unexpected expenses. And given today's low interest rates, the cash will provide minimal interest income and minimal tax liability as a result. Lower-income, lower-turnover mutual funds may also make sense in taxable accounts. Capital gains taxes can also be reduced by looking for opportunities to offset capital gains with capital losses, a process known as tax-loss harvesting.

THE BOTTOM LINE

Taxes are not the most stimulating topic to discuss, but in many cases the tax bill is a families' largest annual expense. So investors should keep a sharp eye on any means to legally minimize their tax burden. It's not easy to keep track of all the assets across a multitude of account types, nor is it easy for most people to keep up on changes in tax law. But with a holistic and top-down approach, a smart and tax-efficient allocation may provide some relief, allowing investors to keep more of their wealth in their own hands.

MARKET UPDATE

While the stock market posted a very modest increase for the third quarter, it's still been a great year by historical standards, primarily due to strong performance during the first half of the year. The S&P 500 Index ended September up more than 20% for the year, buoyed by a relatively resilient domestic economy and accommodative action by the Federal Reserve. For perspective, it's been 20 years since stocks have rallied this sharply through the third quarter. In contrast to 2018, when almost all asset classes posted negative returns, gains this year have been broad across diversified investment strategies. Bonds in particular have enjoyed a very strong year so far, with the Barclay's Aggregate Index returning over 8%.

The third quarter wasn't necessarily a smooth ride for investors however. After reaching a peak toward the end of July, stocks were volatile as investors digested various headline risks associated with the ongoing trade war with China, the presidential impeachment inquiry and recessionary fears. Volatility picked up with intra-day swings increasing in magnitude. From a sector standpoint, there was rotation from momentum stocks to more stable companies with higher dividends.

TRADE WAR FEARS CONTINUE

Trade tensions with China remain a hot button given the size of the U.S and Chinese economies and impact on global economic growth. While talks have vacillated between "encouraging" and "discouraging," the ante continues to rise in what appears to be a high-stakes stare-down between President Trump and Secretary Xi. Leaders of both countries are feeling increasing pressure to reach an agreement. While China's form of government theoretically allows it to have a longer-term view, its economy is more dependent than the U.S. on exports, which ratchets up pressure to keep its citizens employed and "in line." Here in the U.S., the state of the economy will have a critical role in how the presidential election plays out. If a compromise can be reached that diffuses the tensions, markets are likely to react very favorably.

ECONOMIC DATA IS SOFTENING

Related to the headwinds of the trade war, domestic data is showing more signs of softness. Most recently, the ISM manufacturing index reflects a slowdown of manufacturing activity, which is concerning. The most recent reading dropped to its lowest level since 2009, which was near the bottom of the economic cycle. Indicators also show hiring is slowing, which affects consumer spending, sentiment and the overall health of the economy. Typically, this type of data leads to a slower growth environment and raises recessionary fears. We also see the trend of global economies cooling off both in Europe and Asia. The U.S. has bucked that trend in recent years, but it's hard not to be affected in a globally-integrated world.

INTEREST RATES DECLINE FURTHER

A silver lining of weaker economic data, at least in the short term, is that central banks are motivated to reduce interest rates to spur growth. Markets like cheaper money, since it fuels the economic engine. Central banks in many developed countries, especially Europe, have dropped rates to the level where many government bonds now have negative yields. The Federal Reserve has been doing its part to keep pace, with two rate cuts in the third quarter. The 10-year treasury yield ended the quarter at 1.7%, down from 2% to start the quarter and almost a full percentage point below where we started the year. At the current pace of cuts, and given the relatively high level of yields in the U.S. compared to the rest of the developed world, it's not out of the realm of possibility that interest rates could fall further, possibly to zero in the U.S.

Zero interest rates may seem odd and unappealing, but it's been great news for bond investors as bond prices rise when interest rates decline. If rates were to fall to zero, bonds will continue to perform well. Investors have been pouring money into bonds this year as a result. However, this dynamic sets the stage for low bond returns subsequent to the rate declines, since yields will be at historically low levels at that point. For those seeking safer assets and income as part of their investment strategy, the options will become few and far between.

Importantly, historically-low yields around the globe signal a slower growth environment, which may have a negative impact on stocks. Stock prices are driven by corporate earnings, and growth is challenging when the economic backdrop is not favorable. The yield on the 10-year treasury was, for a brief time, lower than the 2-year treasury, which has historically been a decent predictor of recession. Each time the Federal Reserve cuts rates to boost growth, there is a short-term "sugar high" reaction, but given the low absolute level of rates, there aren't many arrows left in its quiver to boost growth on a fundamental level.

MAINTAINING A DISCIPLINED APPROACH

Heading into the fourth quarter, there are no shortage of uncertainties to evaluate. From an investment perspective, we are monitoring economic trends and the impact of the trade tensions on sectors and individual companies. We are also considering the political impact as well, since the economic policies of both parties are in stark contrast. While tactical decisions are appropriate to manage portfolios, it's never our philosophy to engage in market timing or make out-sized bets on factors that are impossible to predict. Maintaining a disciplined approach with proper asset allocation and sufficient diversification has a long history of sustained success. This time is no different.

JIC NEWS

2019 TOP WORKPLACE

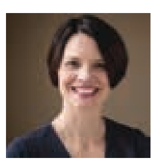
Johnson Investment Counsel has been awarded a Top Workplaces 2019 honor by the Cincinnati Enquirer for the sixth year in a row. Based solely upon employee feedback gathered through a third-party survey, companies were evaluated on criteria such as opportunities for career development, workplace culture, compensation, and overall job satisfaction.

BARRON'S RANKING

Johnson Investement Counsel was ranked 19th in the nation in Barron's "Top 50 RIA Firms" ranking for 2019. The 2019 ranking is up from 20th in the 2018 ranking.

*The Barron's ranking, which was evaluated on data as of June 30th, 2019, is based on a variety of qualitative and quantitative factors, including the assets overseen by the firm, its regulatory record, and the size and scope of its operations, including the number of clients, advisors and offices. Barron's generally sets a $2 billion assets under management minimum for participation. The ranking may not be representative of any one client's experience as it reflects a sample of client experiences. The award is also not indicative of future performance and there is no guarantee of future investment success.

PROMOTION



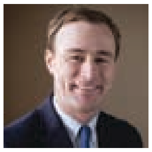
Mattern

We are pleased to announce the promotion of Laura Mattern, CFA, to Associate Portfolio Manager. Laura holds the Chartered Financial Analyst designation.

If you are a client of Johnson Investment Counsel, you should receive account statements on at least a quarterly basis directly from the qualified custodian that holds and maintains your assets. You are urged to carefully review all custodial statements for accuracy. If you are not receiving custodial statements, please contact our Chief Compliance Officer, Scott Bischoff at (513) 661-3100.

NEW DESIGNATIONS

Johnson Investment Counsel is committed to continuing education to provide personal development for our employees and better service to our clients. Josh Basinger, Manager of Trust Services, has earned his Certified Trust and Financial Advisor (CTFA) designation. Skye Barry, a Portfolio Manager in our Cincinnati office has earned her Certified Financial Planner (CFP®) designation. Bryan Andress, a Research Analyst in our Cincinnati office, and Michael Timm, an Associate Portfolio Manager in our Columbus office, have earned the Chartered Financial Analyst (CFA) designation.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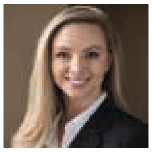
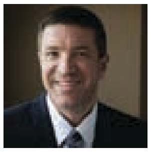
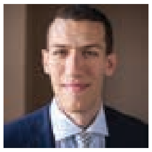

Barry


Basinger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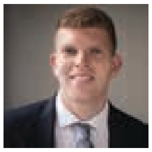
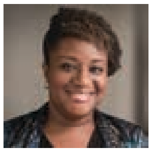
NEW ADDITIONS TO THE TEAM

- **Jacob Bick**
  Fund Services Representative
- **Patrick Foy**
  Portfolio Manager Assistant
- **Dalena Johnson**
  Client Support Assistant
- **Max Klett**
  Portfolio Manager Assistant
- **Brandon Plumb**
  Portfolio Manager Assistant


Bick


Foy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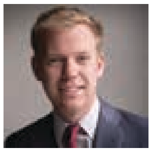
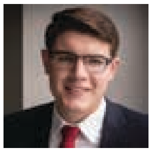

Klett


Plumb

2019 PATRICK CHONG MEMORIAL SCHOLARSHIP

The Patrick Chong Memorial Scholarship is in remembrance of Patrick Chong, a Portfolio Manager Assistant at JIC, who died of colon cancer in 2002 at the age of 31. Each year JIC awards two $2,500 academic scholarships to children of our employees. This year, we are pleased to honor two outstanding students, Abbie Brink and Lauren Tschieder.

Abbie is the daughter of Managing Director of Johnson Asset Management, Fred Brink and Michelle Brink. Lauren is the daughter of Portfolio Manager, Chris Tschieder and Beth Tschieder. A committee of educators and administrators at the University of Cincinnati judges applicants on the basis of scholastic achievement, extra-curricular activities, community involvement, and proven potential in college curriculum.

CINCINNATI CHAMBER LEADERSHIP PROGRAM

Tara Adams, Vice President of Trust Services, Senior Trust Officer, and Principal has been chosen as a member of WE Lead Class 14. WE Lead is the Cincinnati USA Regional Chamber's flagship leader development progam of Women Excel (WE).


Adams

JOHNSON
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ABOUT US

Johnson Investment Counsel, Inc. is one of Ohio's largest independent wealth management firms, managing over $10 billion in assets. Johnson Investment Counsel is an employee-owned firm, offering a full range of fee-based, integrated wealth management services, including: investment portfolios, education and retirement planning, cash management, estate planning, trust services, charitable giving, mutual funds, 401(k) plans, IRAs, and more. Johnson Investment Counsel has built strong, long-term relationships with individuals, families, charitable organizations, foundations, and corporations through four integrated divisions.

- WEALTH MANAGEMENT
- FAMILY OFFICE SERVICES
- TRUST COMPANY
- ASSET MANAGEMENT

LOCATIONS

CINCINNATI
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METRO DETROIT

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