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Financial Success

SPRING 2020

When Will It End?

If you're not sure what to do in the current market situation, you're not alone. Investors around the world have been battered recently, as the coronavirus has taken on broader implications.

The questions on everyone's minds are: Just how bad are the markets and the economy going to get? What should we do about it? Is it time to sell every stock we own, withdraw all of our money from banks, and bury everything in the backyard? Or are we really looking at an opportunity to purchase stocks at low prices?

Don't let your fear about the coronavirus and concern about the market declines affect your investment plan. Some points to keep in mind include:

- **Don't sell now.** While stocks may still go lower, they have already declined substantially. If you have held them this long, don't give in and sell now. You would then lock in those losses without an opportunity to participate in a market recovery.
- **Quit looking for the bottom of the market.** The bottom of the market will only become apparent in hindsight. In the meantime, if you are waiting for that event, you aren't investing at current prices. If you were comfortable purchasing stocks in 2019, why not purchase them at today's much lower prices? There is always a risk that stock prices will go lower, but over the long term stocks have historically had positive returns. Take advantage of today's lower prices and keep investing.
- **Diversify your investments.** Be

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Are We Headed for a Recession?

Investors look at several indicators to determine if the economy is headed for a recession. And those indicators are currently sounding loud alarm bells. A few weeks ago, Wall Street analysts were predicting that the U.S. economy might dodge a bullet and not fall into recession, but now with information changing minute-by-minute, many economists fear that we are already there.

The World Health Organization declared the coronavirus a pandemic, President Trump declared a national emergency, many states have issued stay in place orders, major league and college sports organizations have suspended their seasons, numerous colleges switched to online learning, many schools systems have been closed for a period of time, major companies are encouraging employees to work from home, and most major gatherings have been canceled for the near term. And this is just the beginning of the coronavirus impact.

The uncertainty of what's next is going to impact the economy, and the real question is, how big will the impact be?

Stock Market Volatility

In a mere 19 days, the stock market, including the Dow Jones Industrial Average, the Standard & Poor's 500, and the Nasdaq Composite, went from market highs to bear market declines of over 20% (Source: Barron's, March 16, 2020).

Another concern is that the yield on 10-year U.S. Treasuries fell to below 0.5%, which is a full percentage point lower than after the financial crises when it dropped 1.5%

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honest — is your current emotional distress caused solely by the bear market or was the impact of the bear market compounded by an overallocation in stocks? The main lesson to learn from the current bear market is that diversification helps reduce risk. Take another look at your asset allocation, making sure you are adequately diversified among a variety of investment categories. Don't just consider the traditional asset classes of stocks, bonds, and cash. Investigate alternative investments like real estate, gold, and commodities.

- **Purchase stocks with less volatility.** Stocks do not perform as a group. Some have higher average returns while others have lower average returns. Some swing significantly above and below those average returns while others don't fluctuate as much. Before purchasing a stock, review its return volatility so you select stocks compatible with your risk tolerance.
- **Don't be concerned that you didn't time the market.** Don't even think about what would have happened if you had sold all your stocks in early 2020. Most professionals didn't even accomplish that feat. Timing the market is a very difficult strategy since it is affected by so many factors. Instead of timing the market, concentrate on establishing an investment program that works in all market environments and that you can stick with in both good and bad times.
- **Save more.** When returns are declining, other strategies are needed to help you increase your portfolio. One of the most effective strategies is simply to save more of your income. Even modest savings increases can make a dramatic impact on your portfolio's ultimate size.
- **Make sure you enjoy your job.** This may sound like an odd tip for investment planning, but the reality is that the current bear market significantly reduced many investors' portfolios. At least some of those investors are now likely to find that they won't be able to retire when they had planned to. They may need to work longer or part-time during retirement. If you have to work longer, doesn't it make sense to enjoy what you are doing?
- **Take another look at your investment plan.** While your plan should serve as a long-term investment guide, it is difficult to go through a period like this without needing some changes to your plan. Perhaps your actual asset allocation doesn't reflect your current risk tolerance. Maybe you used an estimated rate of return that was too optimistic. Or you may need to adjust your retirement date so you have more time to accumulate your retirement portfolio. Now is a good time to thoroughly review your investment plan, making sure your assumptions are reasonable and that you can live with the plan in the future. (Keep in mind that past performance is not indicative of future results.) Please call if you'd like help with this process. ❍❍❍

The Real World Test

Remember all those questions about your risk tolerance that you answered when developing your investment strategy? Questions like: Are you comfortable with the risks associated with stocks? How much could you lose in a one-year period without being tempted to sell the investment? Could you hold out through a sustained bear market without selling investments at a loss?

After an 11-year bull market, the possibility of dealing with a bear market may have seemed remote. Now that we're actually faced with a bear market, it's important not to overreact. Understanding some natural reactions can help:

- We tend to think that the stock market can only continue in its current direction. When the market was going up, we thought that would continue indefinitely. Now that it is going down, don't make the mistake of thinking that is the only direction it can go. This can cause you to become discouraged and sell at market lows.
- While investors don't typically like risk, they tend to be more risk tolerant when their investments have gains. However, as those gains disappear and their principal is at risk, investors often become more risk averse.
- Many investors believed their investment performance was a result of their ability, rather than a result of an overall rise in the stock market. Now that the market is declining, those investors can lose confidence in their abilities, leading to inaction or rethinking their strategy.
- Investors hate to sell stocks at a loss, often trying to hold until the loss has been recouped. They probably don't want to make selling decisions when the market is at a low. But when the market starts to recover, investors should take a look at all their investments. It may make sense to sell some, even at a loss, using the money to purchase investments with better prospects.

Please call if you'd like to discuss your risk tolerance or your investment portfolio in more detail. ❍❍❍

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in 2012 (Source: Marketwatch, CBS News, March 9, 2020). The reason yields are falling is because investors are racing to put their money into bonds.

For now, we will have to wait and see if the numbers are going to get worse and if we are headed toward a mild or major recession.

Plunging Oil Prices

Another concern regarding the fate of the economy is the price of oil. Because most economies are dependent on oil, it is a good indicator of the health of the global economy. The recent 25% drop in oil prices to under $35 a barrel is at its lowest level since 2015. Five years ago, oil prices dropped $30 a barrel, but the U.S. economy was strong enough to avoid a recession (Source: Marketwatch, CBS News, March 9, 2020).

Supply is a factor in the drop in oil prices. In the past, Saudi Arabia has upped its production of crude with a limited impact on global prices. What is different now is that there isn't enough demand for the extra oil they are producing. And with the changes that are beginning with travel restrictions and quarantines, the demand for oil will most likely continue to drop.

The plunge in oil prices combined with the coronavirus is leading to a fragile global economy.

Coronavirus

Now at pandemic status, the coronavirus is currently the biggest indicator that the economy is headed into a recession, as it is battering the economy. The difference between the 2008 financial crisis and this crisis is that rather than being concentrated in the housing market, this crisis has broad implications for our economy as well as the world's economy.

As the impact of the virus continues to expand, it is highly likely to damage the economy. The outbreak is already causing cities, states, and countries to shut down, travel is being grounded, and major U.S. companies are closing stores and warning that the virus will hurt their profits.

The concern is that when a recession starts to form, it begins feeding on itself. As the virus spreads, people will stop going out, traveling, and spending money. As revenues start to fall, companies may start laying off employees, causing spending to decrease even more. There will also be more disruptions in the supply chain, and with empty retail shelves or the inability to get parts in manufacturing, there is nothing to sell and nothing to build.

The bottom line is that once the virus impacts the job market, more layoffs may occur, leading to more job loss and less spending. It's easy to see how this can spiral out of control.

A Bright Spot

The next several weeks and months will determine how severe things may become. As the virus starts to subside, hopefully, the economy will not be severely impacted. One bright spot to keep in mind is history. After every major recession, the U.S. economy has recovered. ❍❍❍

A Look at Past Bear Markets

It took only 19 days to go from a market high to bear market territory (a decline of 20% or more), the fastest decline on record. This is the first bear market since 2009. And although we just recently entered bear market territory, most investors are wondering how long the current bear market will last. The answer is that no one really knows, but a quick look at history can provide some clues as to what to expect.

Prior to this, the Standard & Poor's 500 has experienced 11 bear markets since 1956. These bear markets lasted from 62 days to 630 days, with an average length of 370 days. The range of declines was 21.6% to 51.9%, with an average decline of 33.3%. Details of those 11 bear markets follow:

Start and End Date	Percent Decline	Length in Days
1/6/2009 to 3/9/2009	27.6%	62
10/9/2007 to 11/20/2008	51.9	408
1/4/2002 to 10/9/2002	33.8	278
3/24/2000 to 9/21/2001	36.8	546
8/25/1987 to 12/4/1987	33.5	101
11/28/1980 to 8/12/1982	27.1	622
1/11/1973 to 10/3/1974	48.2	630
11/29/1968 to 5/26/1970	36.1	543
2/9/1966 to 10/7/1966	22.2	240
12/12/1961 to 6/26/1962	28.0	196
8/2/1956 to 10/22/1957	21.6	446

Source: Ned David Research, January 2020. The Standard & Poor's 500 is an unmanaged index generally considered representative of the U.S. stock market. Past performance is not a guarantee of future results. Investors cannot invest directly in an index.

While it's instructive to look at bear markets, what's really important is how long it takes until the markets find a bottom and start to recover — marking a new bull market with new opportunities. During bear markets, the stock market doesn't typically just head straight for a bottom and then start rising again. Bottoms tend to be choppy, with the markets advancing and declining over a period of time.

In the end, it's important to remain calm during bear markets. Please call if you'd like to review your portfolio. ❍❍❍

Consider Converting to a Roth IRA Now

Roth individual retirement accounts (IRAs) offer some significant tax advantages over traditional IRAs:

- ❍ While contributions to Roth IRAs are not tax deductible, earnings are withdrawn free from federal income taxes for qualified distributions. Contributions can be withdrawn anytime on a tax-free and penalty-free basis.
- ❍ You aren't required to withdraw funds from a Roth IRA, even after age 70½. If you don't need the money, the balance can continue to grow on a tax-free basis.
- ❍ Roth IRAs can provide a tax-advantaged way to accumulate assets for beneficiaries. Both traditional and Roth IRAs may be subject to estate taxes. However, the beneficiaries of a traditional IRA must also pay income taxes on the proceeds, while beneficiaries of a Roth IRA receive qualified amounts free from federal income taxes. This advantage is even more important now that the SECURE Act requires most beneficiaries to withdraw all funds from an inherited IRA within 10 years, rather than over their life expectancy.

A Roth IRA conversion involves taking funds from a traditional IRA, paying tax on any previously untaxed funds, and then putting the funds in a Roth IRA so that you can have tax-free income in retirement. Once the balance is converted, qualified distributions cannot be made until after the five-tax-year holding period. Distributions before then are subject to the 10% federal income tax penalty, unless one of the exceptions applies.

Transferred amounts must be included in income if they would be taxable when withdrawn (i.e., contributions and earnings in traditional IRAs and earnings in nondeductible IRAs), but are exempt from the 10% federal tax penalty. While there are many factors to consider before converting, a major factor is the ability to pay the income taxes from the conversion.

Recent declines in stock prices, however, mean that converting now would result in a lower tax bill. For example, assume that you have a traditional IRA with $200,000 in stocks (all taxable). If you are in the 32% marginal tax bracket, converting would have resulted in a tax bill of $64,000. Now, however, your balance has declined by 30% to $140,000. Converting now would result in a tax bill of $44,800, reducing your tax bill by $19,200. (This example is provided for illustrative purposes only and is not intended to project the performance of a specific investment.)

The stock market may have given you added incentive to convert to a Roth IRA. If you'd like to review the specifics of your situation, please call. ❍❍❍

Coronavirus Relief Bill

On March 18, 2020, President Trump signed the Families First Coronavirus Response Act into law. Some of the provisions include funding to ensure that testing for the coronavirus is free and extending student lunch programs while schools are closed. There are also some major provisions for workers:

- ❍ Government workers and employees of companies with fewer than 500 employees will be entitled to 14 days of paid sick leave at two-thirds or more of their regular pay rate, provided they meet certain conditions related to COVID-19.
- ❍ Expansion of the family leave act to employees of companies with fewer than 500 employees, requiring paid leave at two-thirds of the regular pay rate after 14 days.
- ❍ Employers will receive a quarterly payroll tax credit of their share of payroll taxes equal to 100% of sick leave benefits paid to workers. The amount of the credit is limited by employee.
- ❍ Additional funding for state unemployment programs. If states experience an increase of 10% or more in unemployment, the federal government will fund 100% (rather than the normal 50%) of extended benefits up to an additional 26 weeks after regular benefits run out (usually 26 weeks)

As of the date of publication of this newsletter (March 25, 2020), the Senate and House of Representatives are working on a $2 trillion stimulus bill that will include direct payments to Americans, support for small businesses, support for larger businesses and states (including for the airlines and travel industry), enhanced unemployment benefits, and support for hospitals. It is hoped that the bill will pass both houses quickly and be signed into law by the President. ❍❍❍