



Second Quarter 2020 Newsletter—April 1, 2020

Make Sure to Take Care of Yourself, Especially Now!

With the COVID-19 pandemic affecting everyone, it has become even more important to practice self-care.

No one can control a pandemic, but we get to choose how we respond. The best advice I have heard is to recognize what we can control, and focus on what we can control.

So what does this mean for you? Do take precautions to stay healthy. Stay connected to family, friends, and loved ones. Limit time in front of screens. Be productive in your life. Take on a project around the house. Get outside and into nature. Get exercise, if you can. Keep healthy sleep and eating patterns. Think about others, practice kindness, and extend grace.

All the things our mothers told us to do! They are more important now than ever to support us, and keep us all moving forward, as best we can.

What Does the CARES Act and Other Legislation Mean for Me?

The CARES Act, signed March 27, buoys businesses and helps individuals. Most Americans will be getting a check for \$1,200 in the coming weeks.

It gives 401K and IRA owners more flexibility as Required Minimum Distributions (RMDs) are not required to be taken this year.

401K and IRA account holders younger than 59 ½ may withdraw up to \$100,000, without the standard 10% early withdrawal

COVID 19 Leads to Health Crisis and Financial Crisis

The coronavirus pandemic created a health crisis, which is presently unfolding in the States. To contain the virus, and reduce its effect upon us, businesses, schools, and more closed. Many received their income from these businesses, and now many people, families, and businesses, are in financial crisis. It is more than everyday life upended, but you already know this.

That said, be encouraged and take heart. We will get through this uncertain time. As Americans, we are a strong, resilient, creative, diverse, and forward-looking people. Though more dark days will come, we will persevere and prevail. We will move forward as individuals, families, businesses, and a nation.

Our Continued Mission

Our goal is to provide you with direction and confidence to help you increase your financial well-being, and your peace of mind, especially during trying times like these. We appreciate your trust and the opportunity to work with you. Feel free to reach out to us—we are here to serve you.

In Economic News

Although the US economic expansion carried through January and February, it came to an abrupt halt in March. The economic numbers showed the positive state of the economy prior to the shutdown. Generally speaking, healthy patients recover faster than sick ones. We will watch to see how the US economy does in the coming months with rapt interest.

The Federal Reserve and legislature put historic and heroic measures in place. In an effort to stay the impact of the virus induced economic shutdown, the Federal Reserve cut interest rates to almost zero, promised to backstop the financial markets, and began buying almost everything. At the same time, the US legislature enacted a \$2.2 trillion rescue package, the CARES Act, to try to maintain employment at as high a level as possible, and to keep businesses afloat through the shutdown.

What Happened In The Markets?

The longest bull market in history ended. The markets declined sharply during the 1st quarter, with the Dow Jones Industrial down 27.6%, the S&P 500 off 24.9%, and the NASDAQ 20.6% lower. The aggregate bond market rose 1.6%. Given a blend of stocks and bonds particular to you, your portfolio declined in value, but likely less than markets declined.

All eleven market sectors slumped. The energy sector fell 50%, while financials, industrials and materials declined more than 25%. Consumer discretionary, real estate, communication services, utilities, consumer staples, and health care declined double digits. Information technology declined the least, 11.9%.

penalty. Income taxes will still be due, though the tax burden may be stretched out over three years. However, with the markets compressed and tax consequences, we strongly recommend against this unless there is no other option.

Managing the Ups and Downs

Markets are resilient, and history shows that declines don't last. In the past 40 years, only 9 declines have led to a down year. Moving out of stocks could lock in losses, and may prevent you from profiting from any subsequent gains.

What Will This Stock Market Recovery Look Like?

Remember that the stock market looks ahead six to nine months. When visibility returns to the markets, they could rebound substantially. Alternately, if the shutdown takes out many businesses, we could see a negative ripple effect in the economy, leading the market lower.

This decline is a painful, but temporary. Over time, investing in the financial markets has been one of the surest ways to increase your wealth.

Even though we likely face further declines, we don't advocate selling at this point, because when the markets return to growth, we want you to have the full benefit of their rise. Patience is your most powerful tool for dealing with this crisis.

Dave Ramsey said you only get hurt when you jump off a rollercoaster halfway through the ride. So keep your eyes open, and take it one day at a time.

For S&P 500 company earnings, FactSet reported, "For Q1 2020, the estimated earnings decline for the S&P 500 is -5.2%. If -5.2% is the actual decline for the quarter, it will mark the largest year-over-year decline in earnings reported by the index since Q1 2016 (-6.9%)."

FactSet stated "The forward 12-month P/E ratio for the S&P 500 is 15.5. This P/E ratio is below the 5-year average (16.7) but above the 10-year average (15.0)" This indicates that stocks are close to "fairly valued" at the moment.

In the bond market, bond values moved higher as prevailing interest rates fell. The Federal Reserve (Fed) cut interest rates by 1.5% through emergency action this quarter.

The Crystal Ball – Our Economic and Financial Markets Outlook

US Economic Outlook: In 2020, Kiplinger projects gross domestic product (GDP) will contract by 2.0%. They conclude that business capital spending will be down, and consumer retail spending will increase 3.5%. FactSet said the "S&P 500 is projected to report its first double-digit decline in earnings (-10%) in Q2 in 10 years." As long as the economy is in the grips of the virus led shutdown, the economy will contract. The longer we are shut down, the deeper the decline. The economy will turn positive, but not yet.

US Financial Market Outlook: The markets fell more than 20% in three weeks, marking the fastest shift from a bull market to a bear market. As long as the US economy is shutdown, the US financial markets will decline. The longer the shutdown persists, the further the US financial markets will decline. The markets will absolutely turn higher. However, understandably, no one knows when that will happen.

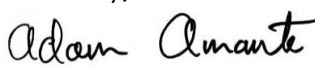
US Interest Rate Outlook: Interest rates returned to historical lows. Keep in mind that when interest rates rise, bond values fall, and vice versa.

World Economic Outlook: The World Bank has not updated its global economic growth outlook for 2020 to reflect the pandemic induced shutdown. When they do, it will show global economies contracting.

Foreign Markets Outlook: With emerging and developing markets shutdown, their outlook remains negative. However, they will open for business faster than the US. If the US consumer remains shut in, their outlook likely will not improve substantially. Since the US dollar strengthened this quarter, US goods and services cost more for foreign purchasers.

Opportunities Going Forward: For income, we favor money markets, fixed- and floating-rate preferreds, and investment grade bonds. Once the stock markets stabilize, we see historic opportunities across the board, especially in technology, health care, and infrastructure.

Sincerely,



Adam Amante, Founder



Ken Nesler, CFP®