

FIDUCIARY PULSE



1st Quarter 2020: The COVID-19 Crisis

By Clark Kendall

The Quarter in Brief

The spread of COVID-19 sent stocks tumbling in the first quarter, as health and economic costs of the pandemic began to mount. Stocks remained under pressure despite the Federal Reserve's lowering of short-term interest rates and the government's stimulus efforts through the Coronavirus Aid, Relief, and Economic Security Act (CARES) Act. The DJIA sank 23.2% and the S&P 500 dropped 20% on the quarter. The volatility following the novel coronavirus has left all but a handful of sectors in a prolonged period of uncertainty. With millions of Americans staying at home in an effort to "flatten the curve" of COVID-19's impact on people,

businesses are coping with closing for the duration, altering practices, or facing staffing issues. As I've said many times in the past several weeks, the markets are watching for the depth and duration of the coronavirus pandemic, and until we have more clarity on that, the volatility may continue.

The Kendall Capital team is here to help you through this challenging time, and we encourage you to reach out to us at any time.

Domestic Economic Health

The Federal Reserve cut interest rates to zero on March 15 and announced several monetary actions designed to support households and businesses. However,

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The COVID-19 Crisis

By Clark Kendall

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markets were unfazed by the Fed's aggressive move, electing to instead focus on the contraction of economic growth that many are expecting. Millions of Americans have applied for unemployment, with a spike of 3.3 million seen in March. Layoffs and furloughs are foreseen throughout early Q2.

The Consumer Price Index (CPI) registered an annualized advance of 2.4% in February, ahead of the COVID-19 volatility in the United States. Inflation was ahead 0.1% in the same period. Consumer spending was at 0.2% in the middle of the quarter, with the University of Michigan's Consumer Sentiment Index at 101.0. Retail sales were at 4.35%, annualized. The Institute of Supply Management (ISM) Purchasing Managers Index (PMI) up nearly two points to 57.3, mid-quarter. All these figures may be revised dramatically in the second quarter as more data is compiled about the economic cost of the pandemic.

Global Economic Health

The main story in China for the first quarter of 2020, affecting nearly every aspect of the Chinese economy, has been the COVID-19 outbreak. Anticipating the rough road ahead, a number of international financial institutions have revised their growth estimates for China downward, leaving some to predict the worst year in decades. Despite this, the Caixin/Markit Manufacturing PMI came in at 50.1 in March, just within the realm indicating growth, and up from February's 40.3. As the quarter came to a close, U.S. lawmakers

were questioning the accuracy of China's reported number of COVID-19 cases as the U.S. grappled with the pandemic.

European countries are also facing hardship, with Italy and Spain seeing a higher-than-average number of cases. The European Commission predicts a recession, with the overall gross domestic product (GDP) sinking 1% for 2020. This follows 1% of growth for the GDP in the final quarter of 2019. Facing heavy unemployment, the European Commission set up a 100 billion euros (\$110 million in U.S. dollars) program to help keep workers employed, while also pledging to purchase as much as 750 billion euros to keep markets at ease through the purchase of financial assets.

World Markets

The arrival of COVID-19 signaled volatility around the globe. The numbers at the end of the quarter include: the U.K.'s FTSE 100 (-13.81%), the German Dax (-16.44%), the French CAC 40 (-17.21%), Japan's Nikkei 225 (-10.53%), Australia's All-Ordinaries (-21.51), Mexico's Bolsa (-16.38%), Brazil's Bovespa (-29.90), China's Shanghai Composite (-4.51), Hong Kong's Hang Seng (-9.67), South Korea's Kospi Composite (-11.69), and Russia's RTS (-21.95).

The MSCI EAFE Index (which measures performance across developed stock markets outside North America) took a 14.77% fall at the end of Q1.

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As people and businesses adapt to extended periods of quarantine, the only thing that seems clear is that no aspect of American life will be unchanged.

Commodities Markets

The oil market dominated the commodities headlines during the first quarter. The failure of Russia to join Saudi Arabia in supporting lower oil production targets left Saudi Arabia fuming and responding with an announcement of its intention to raise oil output. Oil prices plummeted on the news, contributing to the stock market's woes. While lower oil prices represent a boon to consumers in the form of lower gasoline prices and a relief to companies with high energy consumption (e.g., airlines, chemical), the problem is that consumers are staying at home not driving their cars, not flying in airplanes, and the U.S. is now stock piling oil. The American energy industry is feeling a one/two punch from lower oil prices and the

COVID-19 Crisis.

Should low oil prices persist, it will most likely lead to lower capital expenditures, labor force reductions, and troubles in the credit markets as less-capitalized companies struggle to meet their debt obligations. As the quarter came to a close, there was some speculation that President Trump would take a larger role in working with Russia and Saudi Arabia on production targets.

Elsewhere, WTI crude closed out the quarter at \$20.34 a barrel. Gold finished the quarter at \$1,572 an ounce on the NYMEX; silver, at \$13.98 an ounce.

Real Estate

Across the first quarter, new home sales moved from -0.4% for December to 7.9% in January and down again to -4.4% in February. Existing home sales for February rose 6.5%, compared to a 1.3% decrease for January and a 3.6% increase in December 2019. Housing starts declined over Q1 starting at 16.9% for December, -3.6% for January, and -1.5% for February.

Mortgage rates started the first quarter (January 2) at 3.72% for 30-year mortgages, 3.16% for 15-year mortgages, and 3.46% for 5/1-year mortgages. At the end of the quarter (March 26), the 30-year mortgages were at 3.5%, 2.92% for 15-year mortgages, and 3.34% for 5/1-year mortgages.

Looking Back, Looking Forward

Looking at the chart to the right, this first quarter of 2020 was one of the worst for stocks in U.S. history. The Dow Jones Industrial Average (DJIA) closed at 21,917.16 for the quarter. The Standard and Poor's 500 (S&P 500) ended Q1 at 2,584.59, while the NASDAQ Composite Index closed at 7,700.10.

It is difficult to see, in the middle of the COVID-19 epidemic, exactly what the full impact will be. Suffice it to say, the cost in human terms has been staggering so far and seems certain to affect the remainder of 2020, with a real possibility of not seeing a return to normal economic activity until 2021. As people and businesses adapt to extended periods of quarantine, the

MARKET INDEX	Y-T-D CHANGE	Q1 CHANGE	2019
DJIA	-23.20	-23.20	+22.34
NASDAQ	-14.18	-14.18	+35.23
S&P 500	-20.00	-20.00	+28.88
RUSSELL 2000	-30.89	-30.89	+23.72
YIELD	3/31 RATE	3 MO AGO	1 YR AGO
10-YR TIPS	0.70	1.92	2.41

Sources: barchart.com, wsj.com, bigcharts.com, treasury.gov - 3/31/20

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.

only thing that seems clear is that no aspect of American life will be unchanged. CARES Act stimulus checks are on the way for millions of Americans. The Federal Reserve has lowered interest rates. Further measures are being considered at the state and federal level. The only two things that seem truly certain are that action is being taken and that we'll all breathe a sigh of relief once this crisis subsides.

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Key Provisions of the CARES Act

By Carol Petrov



Prepare for the CARES Act

Recently, the \$2 trillion “Coronavirus Aid, Relief, and Economic Security” (“CARES”) Act was signed into law.

The CARES Act is designed to help those most impacted by the COVID-19 pandemic, while also providing key provisions that may benefit retirees.

To put this monumental legislation in perspective, Congress earmarked \$800 billion for the Economic Stimulus Act of 2008 during the financial crisis.

The CARES Act has far-reaching implications for many. We know you may have a lot of questions on how this may affect you and your investments. Here are the most important provisions to keep in mind:

Stimulus Check Details.

Some Americans can expect a one-time direct payment of up to \$1,200 for individuals (or \$2,400 for married couples) with an additional \$500 per child under age 17. These payments are based on the 2019 tax returns for those who have filed them and 2018 information if they have not. The amount is reduced if an individual makes more than \$75,000 or a couple makes more than \$150,000. Those who make more than \$99,000 as an individual (or \$198,000 as a couple) will not receive a payment. These payments will also be provided for Social Security recipients who qualify based on their income. So, the payments are based on total taxable income, regardless of the type of income.

Business Owner Relief.

The act also allocates \$500 billion for loans, loan guarantees, or investments to businesses, states, and municipalities.

RMDs Suspended.

Required minimum distributions (RMDs) for 2020 are suspended for retirement plans, IRAs and Inherited IRAs (traditional and Roth) to help retirement accounts try to recover from stock market losses. This includes the first RMD, which individuals may have delayed from 2019 until April 1, 2020 for those who turned 70 ½ in 2019. In 2009, Congress passed a similar rule, which gave retirees some flexibility when considering distributions.

Withdrawal Penalties.

Affected, eligible participants in workplace retirement plans and IRA owners can take an aggregate distribution in 2020 of up to \$100,000 from all retirement accounts without incurring the usual 10% early withdrawal penalty. To qualify for this, the affected participant or IRA owner (including a spouse or dependent) would need to either be diagnosed with SARS-COV-2 or COVID-19 or experiencing adverse financial consequences as a result of an event, including but not limited to quarantine, furlough, lay-offs, reduced work hours, no available childcare, business closing or reduced business hours (self-employed), or other factors determined by the Secretary of the Treasury. In addition, the income tax on the distributions may be spread evenly over 3 years. Or, the distribution may be repaid to an eligible retirement plan within a 3-year period.

Tax Deadlines

While this was not part of the CARES Act, it is also important to note that the Federal

Government extended tax deadlines. The deadline for filing and payment of 2019 federal income taxes has been moved from April 15 to July 15, 2020, by the Internal Revenue Service (IRS). The IRS confirmed that July 15, 2020, will also be the deadline to make 2019 contributions to IRAs and health savings accounts (HSAs). Deadlines associated with contributions to workplace savings plans are not affected.

Kendall Capital is Here for You.

Many businesses and individuals are struggling with the realities that COVID-19 has brought to our communities. The CARES Act, however, may provide some much-needed relief. Kendall Capital is here to guide you through ways to take advantage of these changes to meet your short- and long-term financial goals. We are a phone call or email away and encourage you to reach out as needed.



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The Coronavirus Pandemic and Your Retirement Accounts—What You Should And Should Not Do

By *Brian Mattox*

Most economists expect the Coronavirus outbreak to cause a recession.

Since many people made bad financial investment decisions in the last recession, it is important to remind ourselves of what we should and should not do.

First, pause with gratitude if you have a retirement account—nearly half of workers do not. If you don't have a retirement plan this is a good time to get one.

Second, know that in the last recession, workers who did not lose their jobs and did not have to withdraw from their retirement accounts to pay basic bills were back to where they had been fairly quickly.

The morbid joke about the Great Recession was that it turned Americans' 401(k)s into 201(k)s. The nation's 401(k)s and IRAs lost about \$2.1 trillion over the course of 2008. But people who did not withdraw funds from their retirement accounts and kept saving did better than those who withdrew money for whatever reason. People who continue to add stock to their retirement accounts may be able to benefit. Stock market swings can have surprisingly little impact on your wealth if you don't sell now.

The Do's and Don'ts of Saving in a Recession

Do stay the course.

If you're considering pulling money out of the market right now, know that this is the absolute worst time to do so. Buying high and selling low is the biggest mistake individual investors make. It may look bad now, but it will look worse if you sell at the trough and

only buy back in when the market is up 10-20%.

Don't look at your account balance too often.

Studies show that people who check their accounts frequently and trade more frequently tend to buy high and sell low compared to people who rebalance once a year. Evidence suggests that people who are open-minded and have neurotic traits are especially vulnerable.

Do consider talking with your portfolio manager, Brian Mattox or Jason Tkach, about allocating a greater share of contributions into stocks versus bonds at this time.

With interest rates at historic lows, bonds are unattractive looking forward (as interest rates go up, bond values go down). If you truly want a "safe-haven" for your new contributions, you can use the money market option instead.

Consider adding to existing stocks you own that are still solid companies with strong balance sheets – remember, many of the companies you own in your portfolio are the companies that offer the products and services you use on a daily basis.

Do contact your human resources department and start contributing at the maximum level.

The maximum annual 401(k) contribution is \$19,500 in 2020, and up to \$26,000 for those 50 and older this year. Only 4.6 million taxpayers out of 140 million get the maximum tax advantage for saving in retirement accounts. Your HR department will celebrate your joining

the elite club of maxers. Remember, if you're not in the higher tax brackets, you may wish consider utilizing the Roth 401k option as well for some or all of your contributions.

Don't add more years to your mortgage if you are refinancing.

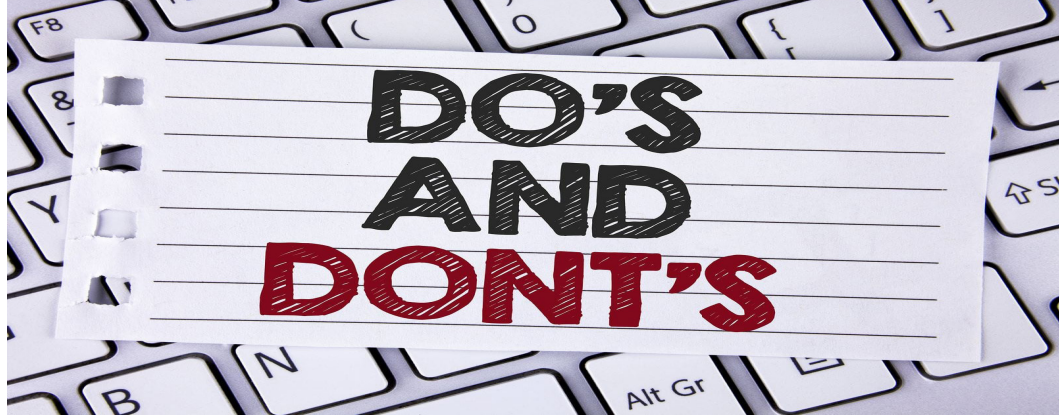
You want to make sure you are never in a situation where you have to sell stocks to pay a mortgage when you or a family member loses a job, hours, or gig in a recession.

Do practice social distancing.

Do wash your hands.

Do comfort the anxious and the sick. Though maybe not in person.

And lastly, please reach out to an advisor at Kendall Capital at any time for guidance.



Does Leaving Maryland Purely for Tax Reasons Really Make Sense?

By Clark Kendall

Many of our Montgomery County clients dream of moving to a lower-cost area of the country when they retire in order to stretch their retirement savings out further.

In particular, they envision saving thousands of dollars every year in taxes by moving to a state with no state income tax like Florida, Texas or Nevada.

However, the big-time tax savings they envisioned don't always materialize for many of these retirees. From what I see, frequently they end up spending dimes and quarters moving in order to save nickels in taxes.

Offsetting Costs Eat into Tax Savings

What many of these retirees don't realize is that while some states may feature no state income tax, this is often offset by higher property and sales taxes and higher insurance rates. For example, the median property tax rate in Maryland is 0.87%, which is lower than the median tax rate in Florida (.97%) or Texas (1.81%).

Let's take a look at Mark and Mary, a recently retired couple living in Montgomery County. They are thinking about moving to West Palm Beach to live out their retirement years since they

will pay no state or local income tax in south Florida.

Mark and Mary have annual income of \$100,000 and their home here in Maryland is valued at \$700,000 — they plan to buy a Florida home for about the same amount of money. My experience is that everyone says they are going to downsize when they retire. More often than not, retirees do buy a smaller home but often it is just as expensive, if not more. They're currently paying about \$6,500 a year in property taxes on their Montgomery County home, but taxes on the same value home will rise to over \$7,800 a year when they move to south Florida. This will result in an increase of nearly \$1,300 a year in property tax.

Mark and Mary's homeowner's and car insurance will also be more expensive in Florida. Here in Montgomery County, they pay about \$900 a year for homeowner's insurance and \$1,400 a year for car insurance, or \$2,300 total. In West Palm Beach, they will pay about \$2,100 a year for homeowner's insurance and \$1,800 a year for car insurance, or \$3,900 total. This will result in an increase of around \$1,600 a year in homeowner's and car insurance.

Now let's add state and local income tax to the equation. Mark and Mary will save \$4,200 a year in state income tax and \$2,870 a year in local income tax by moving to Florida, or \$7,070 total. Subtracting the increase in property



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tax and insurance from this results in a net savings for Mark and Mary of \$5,470 by moving to south Florida.

Are the Savings Worth It?

The question Mark and Mary have to answer is this: Does saving about \$5,400 a year justify uprooting their lives and moving to West Palm Beach?

If there are other reasons they want to move that aren't financial related, then maybe it does. For example, maybe they are avid outdoor people and want to enjoy the year-round nice weather south Florida has to offer. Or maybe they have family in West Palm Beach and want to live near them during their retirement years.

But if they are moving strictly for financial reasons, Mark and Mary might want to reexamine their thinking. Saving a little more than \$5,000 a year might not be worth all the hassle and expense involved in moving. This is especially true if they have put down roots in their community and have lots of friends and family here in Montgomery County.

It's worth noting that if Mark and Mary had a higher annual income and more expensive home, they would save much more money by moving to Florida. For example, if their annual income is \$1 million and their home is worth \$1.5 million, their net annual savings would be more than \$82,000. This can make moving for financial reasons much more appealing and tempting.

Lower Retiree Taxes in the Future?

It might get even less expensive for retirees to live in Maryland if Governor Hogan has his way. In an effort to make it more affordable for retirees to stay in Maryland, the Governor has made a commitment to eliminate all retirement taxes in our state "just as other states have done," he said.

He recently announced a billion-dollar-plus tax relief proposal that would lower taxes for more than 230,000 state retirees. The Retirement Tax Reduction Act of 2020 would eliminate all state income tax on the first \$50,000 of income for retirees with up to \$100,000 in federal adjusted gross income per year.

Governor Hogan said that this legislation is an effort to address the fact that Maryland was rated the worst state in the country for retirees from an affordability standpoint in a recent study. "The legislation will keep tens of thousands of Maryland retirees from being forced to flee our state," he said.



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Think About More Than Just Taxes

If you and your spouse are thinking about where you want to live when you retire, be sure to consider factors other than taxes in your decision-making process. While you might save some money in taxes by leaving Montgomery County, chances are you might not save as much as you think.

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