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FIDUCIARY PULSE

KENDALL CAPITAL
Serving Middle-Class Millionaires®

2nd Quarter 2020: The Economy Measures the Impact of the Coronavirus

By Clark Kendall

In This Issue

The Quarter In Brief

As a new quarter begins, we look back on an eventful second quarter for households and investors – a quarter in which the economy took a massive hit, while the stock market soared. Complying with stay-at-home orders, Americans abruptly cut back on discretionary spending, traveling, and commuting, resulting in a dire scenario for some industries. Unemployment rose as business revenue declined. Fundamental economic indicators saw big swings, and on one trading day, oil prices actually collapsed into negative territory. Homes became easier to finance; though, transactions declined. The Federal Reserve made proactive moves to try and foster a bit more economic stability. While Main Street quieted, Wall Street rallied, sensing that an economic rebound might be starting. The Standard & Poor's 500 gained 19.95% for the quarter.

Domestic Economic Health

The economy was certainly thrown for a loop this spring. Statistically speaking, some of the numbers were startling. Others were not as bad as some analysts thought they would be.

As workers were laid off, the jobless rate went north. The April employment report from the Bureau of Labor Statistics showed unemployment at 14.7% in March. Of these unemployed, 78.3% were furloughed with the potential to return to their jobs. May's report showed a record monthly job gain, as nonfarm payrolls swelled with more than 2.5 million net new hires in April; the jobless rate fell to 13.3%. As the May numbers went public, however, the BLS admitted it probably undercounted the furloughed in April and that unemployment likely topped 16% in the fourth month of the year. The U-6 unemployment rate, which also counts part-time workers and discouraged job seekers, reached 21.2% in May.

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The Economy Measures the Impact of the Coronavirus

By Clark Kendall

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Many Americans received an economic stimulus from the federal government this spring, an Economic Impact Payment of up to $1,200, resulting from the passage of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Will there be another? With the current $600 monthly boost to unemployment insurance slated to fade away at the end of July, a decision on a second stimulus payment could happen in the third quarter.

The stay-at-home orders hurt consumer spending and retail sales, but there was also a comeback. Personal spending weakened 12.6% in April, while retail sales slumped 14.7%. May's numbers were different: with help from states relaxing stay-at-home orders, personal spending rose 8.2%, and retail sales advanced 17.7%.

Americans definitely put more of their money in the bank during Q2, or at least, under the mattress. The personal savings rate, already up to 12.7% in March, increased to a record 33.0% in April. It was still at 23.2% in May.

The Conference Board's monthly Consumer Confidence Index stayed under 90 in the first two months of Q2 before staging a June rebound. The gauge came in at 85.7 in April, 85.9 in May, and 98.1 in June. The University of Michigan's Consumer Sentiment Index never cracked 80. It displayed an April reading of 71.8, a May reading of 72.3, and a June mark of 78.1.

Monthly reports from the Institute for Supply Management found that the service sector had contracted sharply at the start of spring along with manufacturing. ISM's Purchasing Managers Index for service businesses came in at 41.8 for April and 45.4 for May; any number under 50 indicates reduction rather than growth. The Institute's factory PMI showed similar numbers: 41.5 in April, 43.1 for May.

Amid all these developments, the Federal Reserve remained proactive. With short-term interest rates back near zero, the central bank used other tools to try to help the economy and send dovish signals to financial markets.

In their June 10 policy statement, Fed officials pledged to increase their purchases of Treasury notes and mortgage-linked securities in the "coming months." During each month of Q2, the Fed bought $80 billion of the former and $40 billion of the latter. On June 15, following up on a provision of the CARES Act, the Fed announced that it was ready to build a portfolio of investment-grade corporate bonds, as a nod to big businesses dealing with financial anxieties. The median 2020 forecast of Fed policymakers now projects 9.3% joblessness by the end of the year and gross domestic product (GDP) retreating 6.5% for 2020. Most Fed officials now think short-term interest rates will remain at historic lows into 2022.

Last month, the private-sector National Bureau of Economic Research, a respected arbiter of U.S. economic cycles, stated that America's ten-and-a-half-year economic expansion had ended. By its analysis, a recession had begun in February.

Global Economic Health

During April, the International Monetary Fund forecast the global economy to shrink by 3.0% in 2020. In June, it estimated the economic damage would be worse. The IMF's chief economist, Gita Gopinath, termed the coronavirus pandemic a crisis "unlike anything the world has seen before," one that could send both developed and emerging economies simultaneously into recession for the first time since the 1930s. Gopinath did state that "pent-up consumer demand" for goods and services might hasten a global rebound.

China's closely watched manufacturing industry contracted slightly in April, but expanded again in May, at least by the measure of the Caixin/Markit Manufacturing Purchasing Managers

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Index. The private survey showed a factory PMI reading of 49.4 in April, then improvement to 50.7 a month later. China's official factory PMI displayed a 50.8 mark for April, a 50.6 reading for May, and a 50.9 mark for June.

The European Central Bank made a major policy decision on June 4, nearly doubling the amount of its current monthly bond purchases to €1.35 trillion for at least the next 12 months. Seventy-six percent of European economists in a June Reuters poll believed the ECB would make further policy moves this year, and 56% felt that the bank would expand the scope of its bond-buying to an even greater degree. In addition, the European Commission proposed creating a €750 billion recovery fund to help eurozone nations ride through economic challenges.

World Markets

The MSCI EAFE Index (a benchmark for developed equity markets in Europe and the Asia-Pacific region) and the MSCI Emerging Markets Index posted double-digit gains in the quarter;

although, they were still down year-to-date as June ended. The EAFE rose 14.17% in three months; the Emerging Markets, 17.27%.

A quick look across the world reveals many other climbs for stock indices. Three-month gains of 10% or more were common this spring. For example, Russia's RTS soared 26.51%, while Germany's DAX jumped 25.42%. France's CAC 40 rose 12.73%; Spain's IBEX 35, 8.58%. Away from Europe, Australia's All Ordinaries gained 15.54%, and South Korea's Kospi, 22.78%. Japan's Nikkei 225 increased 16.78%; India's Nifty 50, 24.40%. China's Shanghai Composite and Hong Kong's Hang Seng both saw smaller gains: the former benchmark rose 8.64%; the latter, 5.40%. Argentina's Merval improved 67.54%; Brazil's Bovespa, 30.38%.

MARKET INDEX	Y-T-D CHANGE	Q2 CHANGE	Q1 CHANGE
DJIA	-9.55	17.77	-23.2
NASDAQ	12.11	30.63	-14.18
S&P 500	-4.04	19.95	-20
YIELD	6/30 RATE	3 MO AGO	1 YR AGO
10-YR TIPS	0.66	0.7	2.03

Sources: cnbc.com, cnn.com, treasury.gov - 6/30/20

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

Commodities Market

April 20 was a historic day in commodities trading. With a May contract expiring and demand for oil suddenly drying up, the price of West Texas Intermediate (WTI) crude oil dropped more than 300% in a single trading session, sliding from $17.85 down to an all-time low of -$37.63 at close. Oil quickly rebounded from this aberration. By the end of the quarter, a barrel of WTI crude was worth $39.70. The commodity gained 32.11% across the three months, ending in June. RBOB gasoline made an even greater advance, gaining 57.37% in the same period. Natural gas was a Q2 loser, with prices slipping 12.67%.

Key precious and semiprecious metals also posted quarterly gains. Silver jumped 23.57%, and gold improved 7.65%. Silver was worth $18.06 an ounce when the quarter ended; gold, $1,781.20 an ounce. Copper futures advanced 23.45%; platinum futures, 11.62%. Palladium futures pulled back 11.51%. The U.S. Dollar Index lost 1.04%.

Agricultural futures were a mixed bag. Cotton notched a 3-month advance of 11.48%, while coffee retreated 14.63%. Orange juice improved 7.61%, and sugar, 4.81%. Wheat slumped 12.62%; corn, 7.65%. Soybeans fell 1.74%; cocoa, 1.63%. Lumber had one of the quarter's biggest gains, up 32.35%.

Real Estate

Mortgages grew cheaper as declining inflation pressure influenced long-term interest rates. The average interest on a 30-year, fixed-rate home loan fell to a historic low of 3.13%, as reported in Freddie Mac's June 18 Primary Mortgage Market Survey. That was where it remained in the last PMMS of the quarter, released on June 25. The average interest rate on the 15-year, fixed-rate mortgage also trended downward, landing at 2.59% in the June 25 PMMS.

30-year, and 15-year, fixed-rate mortgages are conventional home loans generally featuring a limit of $510,400 ($765,600 in high-cost areas) that meet the lending requirements of Fannie Mae and Freddie Mac, but they are not mortgages guaranteed or insured by any government agency. Private mortgage insurance, or PMI, is required for any conventional loan with less than a 20% down payment.

Stay-at-home orders and COVID-19 fears disrupted existing home sales. The National Association of Realtors announced a 17.8% fall for residential resales in April (following an 8.5% slip in March). In May, sales fell another 9.7%. The spike in joblessness thinned the number of potential buyers, and analysts wondered if sellers might soon reduce their asking prices. The inventory of existing homes for sale grew, at last, increasing 6.2% between April and May. New home sales were down 5.2% in April, but improved 16.6% in May, according to the Census Bureau.

Homebuilding activity slowed as the quarter began, then picked up. Housing starts dipped 26.4% in April and improved 4.3% in May. In another positive development, building permits for upcoming projects increased by 14.4% in May.

Looking back, Looking Forward

The rally that started in late March continued in the second quarter. Traders were encouraged by better-than-expected earnings in certain industries, positive news about potential COVID-19 treatments and vaccines, and the commitment of the Federal Reserve to address turbulence in the economy and the markets.

All three of the big Wall Street benchmarks recorded their best quarters of the century. As you look at the table below, note the difference in their year-to-date performance. The Nasdaq Composite closed at 10,020.35 on June 10, reaching a new milestone. The Nasdaq ended Q2 at 10,058.77; the S&P, at 3,100.29; the Dow Jones Industrial Average, at 25,812.88.

As this quarter starts, investors are wondering… is the worst of this recession now behind us? A quick answer may prove elusive. The third quarter may bring more signals that Main Street is bouncing back, but it could also bring a reversal of economic momentum if states continue to halt or reverse phases of opening. For the market to climb higher off of its Q2 melt-up, earnings and economic indicators have to keep showing improvement or least stability. The same goes for COVID-19 case counts. If they keep rising this summer, the bulls could easily be held back.

The Pros and Cons of In-Service Retirement Plan Rollovers

By Carol Petrov

Should you withdraw and reinvest your retirement plan money while you are still employed?

Did you know you might be able to take some or all of the money in your 401(k), 403(b), or 457 plan and roll it over into another type of retirement account? Were you aware that you could do this while you are still working for your current employer – without any withholding or early withdrawal penalties?

There is often a little-known aspect to retirement plans that allows employees of a certain age (typically 55 or 60) to rollover a portion of their account to an IRA while they're still working and contributing to the plan. This is called an In-Service withdrawal or rollover to an IRA. Usually, we don't think to rollover our 401ks until we've left the employer, but in an era when many of us have large balances in the retirement plan, knowing this tip could be a helpful tool to achieve several financial planning goals. For example, you may have limited investment options in your 401k plan or you may find the mutual fund expenses are high. Rolling over a portion to an IRA would give you a wider range of investment options that you could choose yourself or hire an investment adviser to build you a portfolio that complements your remaining retirement plan assets. Another goal may be simplified estate planning. Rather than naming multiple beneficiaries on your 401k which may affect their ability to stretch their inherited IRA, you could utilize an In-Service rollover to create a separate account with a beneficiary such as a charity with a fixed dollar amount or a sibling who follows different rules than your children, once they inherit your 401k.

How would this affect your RMDs?

If you're nearing 72 (the new age to take your first Required Minimum Distribution or RMD), it's important to understand that RMDs are not required to be taken from employer-sponsored retirement plans like 401ks, so long as you're still employed. If you rollover a portion to an IRA, you will have to take a distribution from that IRA which will count as taxable income. Here again, this could be seen as an advantage to making an In-Service rollover if you're in the 24% or lower federal marginal tax brackets because you may find yourself in a higher tax bracket in your 80s.

What if I make Back-Door Roth IRA Contributions?

If you've been reading our newsletters, then you've learned about the "Back-Door" Roth IRA strategy. Remember, this strategy works best when you do not have an IRA so performing an In-Service rollover would mean skipping the Roth IRA contribution. However, if you haven't been doing those, you could now begin to convert some IRA to Roth IRA – another great strategy if you're in the 24% bracket or less.

The criteria for making in-service withdrawals can vary.

First, check your Summary Plan Description (SPD) on your plan provider's website or simply call them to learn if In-Service rollovers are available. Typically there are parameters such as your age and how long you've been in the plan. Also, there's usually a limit as to how much you can rollover while still employed.

Weigh the pros and cons.

If this is available to you, it's important to understand why you would want to make an In-Service rollover. Compare the costs as well as investment expertise you currently receive to what you could receive. Fully understand the tax ramifications if you're over 72 or taking advantage of some strategies to build up your Roth IRA assets.

> **"Usually, we don't think to rollover our 401ks until we've left the employer, but in an era when many of us have large balances in the retirement plan, knowing this tip could be a helpful tool to achieve several financial planning goals.**

Here at Kendall Capital we believe it's especially important to look at your whole picture not only today but in the future. As Fee-Only Fiduciary advisors, we see opportunities like In-Service rollovers as just another tool to utilize if it's in our client's best interest. Whether we manage 401k assets or an IRA, makes no difference to us. But it could mean a big difference in your future income tax or estate planning goals.

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When a Windfall Comes Your Way

By Brian Mattox

What do you do with big money?

Sudden wealth can help you address retirement saving or college funding anxieties, and it may also allow you to live and work on your terms. On the other hand, you'll pay more taxes, attract more attention, and maybe even contend with jealousy or envy. You may also deal with grief or stress, as a lump sum may be linked to a death, a divorce, or a pension payout decision. Nonetheless, Kendall Capital is here to help you if a windfall comes your way.

Windfalls don't always lead to happy endings. Take the example of Alex and Rhoda Toth, a Florida couple down to their last $25 who hit a lottery jackpot of roughly $13 million in the 1990s. Their feel-good story ended badly: by 2006, they were bankrupt and facing tax fraud charges. Or Janite Lee, who won $18 million in the Illinois Lottery. Just eight years later, she filed for Chapter 7 bankruptcy; she had $700 to her name and owed $2.5 million to creditors.

Windfalls don't necessarily breed "old money" either. Without a long-range vision, one generation's wealth may not transfer to the next. As Fast Company notes, the wealth built by one generation fails to migrate to the next 70% of the time, and two generations later, it is gone 90% of the time.

What are some wise steps to take when you receive a windfall? What might you do to keep that money in your life and your family for years to come?

Keep quiet, if you can.

If you aren't in the spotlight, don't step into it. Who really needs to know about your newfound wealth besides you and your immediate family? The Internal Revenue Service, the financial professionals you consult or hire, and your attorney. The list needn't be much longer.

What if you don't have the opportunity to keep quiet?

Winning a lottery prize, selling your company, signing a multiyear deal – when your wealth is publicized, expect friends and strangers to come knocking at your door. Be fair, firm, and friendly – and avoid handling the requests on your own. One generous handout may risk opening the floodgate to others. Let your financial team review appeals for loans, business proposals, and pipe dreams.

Get a team.

If big money comes your way, you need skilled professionals in your corner: a tax professional, an attorney, and a financial advisor.

Think in stages.

When a big lump sum enhances your financial standing, you need to think about the immediate future, the near future, and the decades ahead. Many people celebrate their good fortune when they receive sudden wealth and live in the moment, only to wonder years later where that moment went.

In the immediate future, an infusion of wealth may give you some tax dilemmas; it may also require you to reconsider existing beneficiary designations on IRAs, retirement plans, and investment accounts and insurance policies. A will, a trust, or an existing estate plan may need revisiting. Resist the temptation to try and grow the newly acquired wealth quickly through aggressive investing.

Now, how about the next few years? Think about what financial independence (or greater financial freedom) means to you. How do you want to spend your time? Should you continue in your present career? Should you stick with your business, or sell or transfer ownership? What kinds of near-term possibilities could this open for you? What are the concrete financial steps that could help you defer or reduce taxes in the next few years? How can risk be sensibly managed as some or all the assets are invested?

Looking further ahead, tax efficiency can potentially make an enormous difference for that lump sum. You may end up with considerably more money (or considerably less) decades from now due to asset location and other tax factors.

Think about doing nothing for a while.

Nothing financially momentous, that is. There's nothing wrong with that. Sudden, impulsive moves with sudden wealth can backfire.

Welcome the positive financial changes, but don't change yourself.

Remaining true to your morals, ethics, and beliefs will help you stay grounded. Turning to a financial advisor here at Kendall Capital, along with other trusted professionals, who know how to capably guide that wealth, is just as vital.

Brian Mattox
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Senior Portfolio Manager

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Before You Claim Social Security

By Jason Tkach

There are a few things you may want to think about before filing for benefits.

Whether you want to leave work at 62, 67, or 72, claiming the retirement benefits you are entitled to by federal law is no casual decision. Our clients here at Kendall Capital often want to evaluate this as they approach retirement age. Here are several key factors we typically discuss with them to decide what is best for their situation:

How long do you think you will live?

If you have a feeling you will live into your nineties, for example, it may be better to claim later. If you start receiving Social Security benefits at or after Full Retirement Age (which varies from age 66 to 67 for those born in 1943 or later), your monthly benefit will be larger than if you had claimed at 62. If you file for benefits at FRA or later, chances are you probably a) worked into your mid-sixties, b) are in fairly good health, and c) have sizable retirement savings.

If you really need retirement income, then claiming at or close to 62 might make more sense. If you have an average lifespan, you will, theoretically, receive the average amount of lifetime benefits regardless of when you claim them. Essentially, the choice comes down to more lifetime payments that are smaller versus fewer lifetime payments that are larger. For the record, Social Security's actuaries project that the average 65-year-old man to live 84.0 years, and the average 65-year-old woman, 86.5 years.

Will you keep working?

You might not want to work too much, since earning too much income may result in your Social Security being withheld or taxed.

Prior to Full Retirement Age, your benefits may be lessened if your income tops certain limits. In 2018, if you are aged 62 to 65, receive Social Security, and have an income over $17,040, $1 of your benefits will be withheld for every $2. If you receive Social Security and turn 66 later this year, then $1 of your benefits will be withheld for every $3 that you earn above $45,360.

Social Security income may also be taxed above the program's "combined income" threshold. ("Combined income" = adjusted gross income + nontaxable interest + 50% of Social Security benefits.) Single filers who have combined incomes from $25,000 to $34,000 may have to pay federal income tax on up to 50% of their Social Security benefits, and that also applies to joint filers with combined incomes of $32,000 to $44,000. Single filers with combined incomes above $34,000 and joint filers whose combined incomes surpass $44,000 may have to pay federal income taxes on up to 85% of their Social Security benefits.

When does your spouse want to file?

Timing does matter, especially for two-income couples. If the lower-earning spouse collects Social Security benefits first, and then the higher-earning spouse collects them later, that may result in greater lifetime benefits for the household.

Finally, how much in benefits might be coming your way?

Visit SSA.gov to find out, and keep in mind that Social Security calculates your monthly benefit using a formula based on your 35 highest-earning years. If you have worked for less than 35 years, Social Security fills in the "blank years" with zeros. If you have, say, just 33 years of work experience, working another couple years might translate to a slightly higher Social Security income.

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> **If you have a feeling you will live into your nineties, for example, it may be better to claim later.**

A claiming decision may be one of the most significant financial decisions of your life.

Your choices should be evaluated years in advance – with insight from your advisor at Kendall Capital.

Jason Tkach
CFA

Portfolio Manager

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Eldercare Choices in the COVID-19 Era

By Tae Kneidinger

Exploring your long-term care options may be wise at this time.

Given the threat of COVID-19, you may be considering your long-term care options more deliberately.

According to Genworth's 2020 Cost of Care Survey, the median annual cost of a semi-private room in a nursing home is now $90,000. A single-occupancy room may cost over $100,000 a year.

While you could designate a portion of your retirement savings for possible long-term care costs, there are other choices to consider as well. Having a thorough financial plan will help determine your ability to self-insure

Most long-term care insurance policies offer benefits for eldercare at home.

While traditional long-term care policies are becoming harder to qualify for and more expensive, some insurers are bundling long-term care features into other types of insurance policies such as annuities and life insurance, with the goal of making such coverage more accessible. It's important to consider your options and if resources are recommended, use an insurance professional who can shop around and make sure the policy covers in-home care.

Another possible option – a Health Savings Account (HSA).

Not to be confused with a Flex-Savings Account (FSA). This is a tax-advantaged savings account designed to help pay for medical expenses. You are eligible to open an HSA if you choose a qualifying high-deductible health plan (HDHP) and have not yet enrolled in Medicare.

HSA dollars can be used to pay for a wide range medical expenses, including prescription drugs, dental, eye care and premiums for long-term care insurance. The account may be set up by your employer or completely funded yourself or both; but if you contribute, you get the tax deduction and can choose how it's invested. There are annual HSA contribution limits which in 2020, are $3,550 if you are single, $7,100 if you have a spouse or family plan. An additional "catch-up" contribution of up to $1,000 is allowed for each person in the household over age 55 – so that's $9100 for a couple over 55! Think of it as a "Healthcare IRA" which is yours to manage and grow over the long-term. There's no "use or lose it" feature and in fact, the wise thing would be to let it grow tax-deferred like an IRA, and only use it when you need it most; in your senior years. If you must use it for medical expenses, the money is tax and penalty free at any age. However, after age 65, it can be used for anything with no penalty, but you'll pay income tax (like an IRA) if it's used for a nonmedical purpose.

Medicare and Medicaid.

Generally speaking, medicare will pay for no more than 35 hours a week of home health care and only up to 100 days of nursing home care after a hospitalization. It also pays for hospice care if requested when a patient is terminally ill. Medicaid is different: and in fact most of the residents in nursing homes today are on Medicaid. But qualifying for Medicaid means either giving away or spending down your assets and having very little income.

Think ahead and take some time to explore your long-term care options. As always, we encourage you to reach out your financial advisor at Kendall Capital as you consider which strategies may help you meet this challenge.

Announcing Kendall Capital's Webinar!

Topic: Medicare planning

Date/Time: Tuesday, August 4th @6:00pm

We'll have "Medicare Guru" Leta Blank explain the 4 parts of Medicare and what you need to know by age 65, especially if you have or currently work for the Federal government.

If you're a client over 60 and under 70 be on the lookout for an email with details. You're welcome to invite a guest.

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