



April 9, 2020

Here is our newsletter for the 2nd Quarter of 2020

The Markets Update

All of the investment markets around the world were severely impacted by the Coronavirus. It was one of the fastest drops in our lifetime. The only asset that was not crushed were high-quality intermediate and short-term bonds. Daily volatility has been over the top, with annual moves occurring almost every week.

In addition to the stress in the equity markets, many bond markets also suffered. Corporate high-yield, floating rate and even municipal bonds lost value. Clearly there has been a shift from little concern to much concern about defaults. Alternative assets such as commodities and real estate also saw big losses.

Asset Class Returns- Ending 3/31/20

Asset Class	1st Qtr	One Year
US Large Cap Stock	-19.6	-7.0
US Small Cap Stock	-30.6	-24.0
Foreign -Developed Mkts Stock	-22.9	-14.5
Emerging Mkts Stock	-24.5	-18.4
US Intermediate-Term Bond	3.1	8.8
Emerging Markets Local Bond	-17.0	8.7
High Yield Bond	-12.8	-7.1
Inflation-Protected Bond (TIPS)	1.7	6.7
Cash	0.4	2.0
US Real Estate	-24.1	-16.6
Commodities	-29.2	-46.8

The Economic and Market Outlook

So what happens now? The pandemic has exposed several weaknesses in our economy. The biggest is most families in the country are living paycheck to paycheck with little savings for an emergency like this. We have always advised families to have at least 3 to 6 months of non-discretionary expenses in the bank, and at least one year of expenses for retirees. There also has been a trend of companies taking on more debt over the last 10 years, and in many cases, using the debt to help buy back their stock. All this makes the economy less resilient to a big shock. Clearly we are going into a tough worldwide recession; it just took a black swan event to trigger it. The only question is how bad and how long. It has been 11 years since the last recession. Every time the economy would show some weakness over the last 10 years the Federal Reserve would lower interest rates and/or buy securities (QE) to jump-start the economy. This time the Federal Reserve cannot stop the recession. Lower interest rates will not slow the spread of the virus. They and congress will take even more actions to try to soften the blow (already talk of another rescue bill). However, as we are already running a Trillion dollar annual deficit, they have limits as to what they can do.

Some may think equities are cheap after the 1st quarter drop. The CAPE ratio from Robert Shiller is our favorite long term measure of the U.S. equity market. It is not a good short term

measure; it only gives us an indication of value over the long term. The value has fallen from above 30 to 23.4 in March. Prices are far from cheap, especially since earnings going forward are going to take a big hit.



Congress Rescue Plan

Congress enacted the Coronavirus Aid bill (CARES) swiftly and with bi-partisan support and offer aid for families, retirees and business owners. This is the 3rd bill passed to address the crisis. Here are the highlights. If you want more detail let me know.

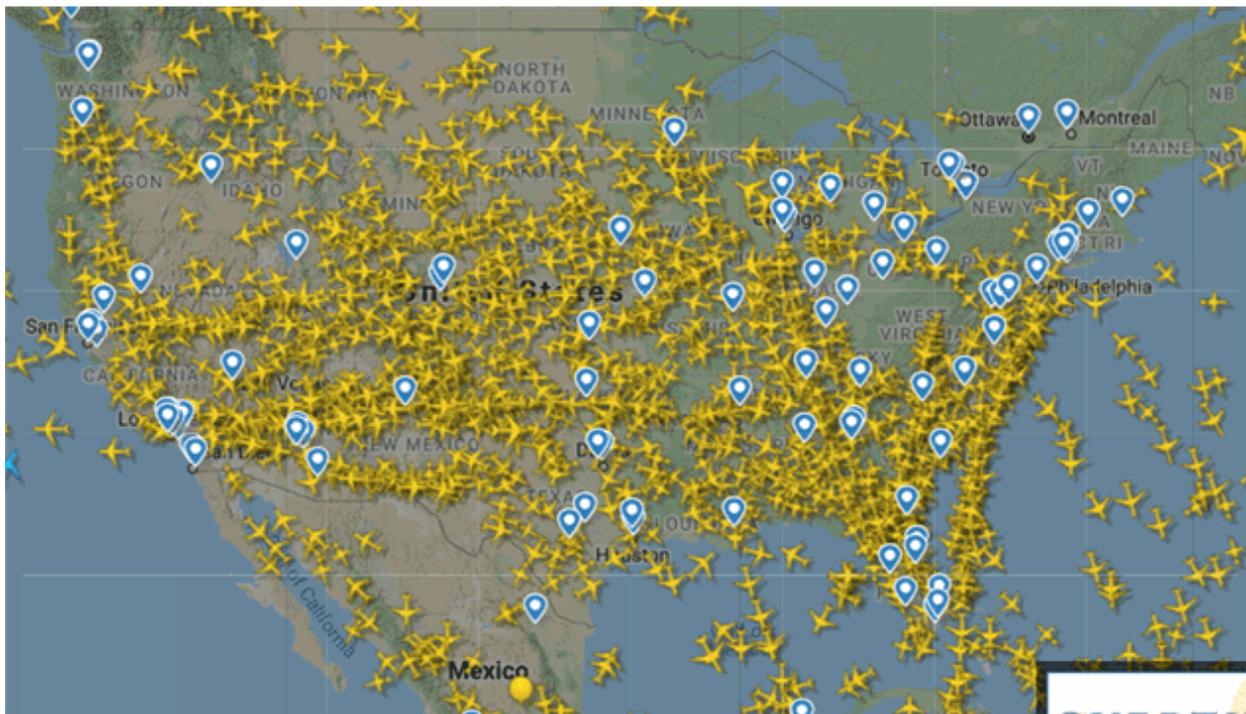
- Recovery rebate at \$1,200 per adult and \$500 per child under 17. You qualify for the full amount if your 2019 Adjusted Gross Income is under \$75,000 for single and \$150,000 for married couples. The rebate is reduced over the thresholds and eliminated at around \$200,000 for married couples. They will transfer the funds to your bank account if you use one to pay your taxes. If you are on Social Security you should get the funds in the same account you get your benefits.
- Required Minimum Distributions from IRAs and other company retirement plans are waived for 2020. If you have already taken your RMD for this year, you may be able to essentially roll it back. Not simple so give me a call if you want to consider.
- Student loan payments are deferred until 9-30-20.
- Many unemployment compensation benefits, including adding those who have not been qualified in the past (like self-employed), an additional \$600 per month over current coverage for up to four months, and extension of coverage for 3 months.
- For business owners, so-called Paycheck Protection program that provides loans at 1% interest for up to 2 year terms. Loan amount is 2.5 times monthly payroll and other costs. Any amounts used to pay salaries of employees (or for business owner income) and for other costs during the first 8 weeks after the loan is made will be forgiven. Also, if you don't take a loan you can get a payroll tax credit.
- Those who have contracted the virus have several options for benefits.

The above is just an overview so give me a call if you think any of this impacts you.

What Can We Do?

In times of crisis it may seem we have little control over what will happen next. One thing I would encourage all to do is help those who are less fortunate than us.

Another thing we can do is just stay at home. This illustration caught my attention. It shows all the commercial planes in air on 3-27-20. My daughter happened to be on one of those planes, moving back home from Hawaii. She said there were no controls in the 3 airports she went thru, very few people wearing masks, and no screening for Coronavirus visible. This probably best illustrates why the virus spread so quickly across America.



Thanks for reading and let me know when I can help with anything.

Sincerely,

Stan Johnson
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