MARKET

RWA
RAINSBERGER WEALTH ADVISORS

MARKET COMMENTARY **APRIL 2020**

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"There is a Chinese curse which says, 'May he live in interesting times'. Like it or not we live in interesting times. They are times of danger and uncertainty; but they are also more open to the creative energy of man than any other time in history." *(Robert Kennedy in a speech in Cape Town, South Africa, June 1966)*

I hope this finds you and your loved ones in good health and spirits. The events of the past few weeks from the COVID-19 pandemic have been difficult to say the least. While the focus has been on preventing exposure to the virus, protecting loved ones, learning what social distancing means and assisting those in need, there has been a corresponding reaction to this in the financial markets.

This most recent bear market takes the prize for being the fastest – with the market dropping by 32% in just 22 days. I have included some remarks from James Paulsen on what led to such a rapid decline in the stock market which I found very compelling and help explain the suddenness and severity of the drop in the financial markets.

This shut down of our economy almost overnight across the country has pushed us into near recession (a recession is marked by two negative quarters of negative GDP growth) and accompanying bear market for the first time in over ten years, leaving many investors wondering what lies ahead. All long-term investors must accept that they will eventually face a bear market. However, past bear market cycles indicate that recessions typically don't last long, and the stock market has always recovered.

For many of us, we have or will see multiple market cycles in our lifetime. How we react and deal with them will have a profound impact on our ability to successfully emerge on the other side of the bear market. I have personally advised on and lived through at least four major recessionary periods and accompanying bear markets, and while at the time painful, have always seen the markets eventually recover and move beyond the previous high point. What I learned is that bear markets represent an opportunity to add great companies to your investment portfolio at once in a decade price. For those of us that enjoy a good bargain, this is what today looks like for stock investors.

In the spring of 1982, when I entered the financial world, the Dow Jones Industrial Average was at 820. Today, even after this recent downturn, it stands at 23,236. Yes, that is correct – from 820 to 23,245 over the past 37 years the Dow Jones Industrial Index has grown long-term investors wealth at an incredible rate, easily outpacing bonds, CD's, money markets, inflation and taxes. Investors have been handsomely rewarded for their patience and enduring past bear market cycles and I believe this period, while different in its cause, is not an exception to future growth.

And, yes, it takes patience and an incredible amount of belief and courage to stay the course and remain patient for the financial markets to recover. But they always have. I know many of us ask ourselves, "Will it do it again going forward?" and we make this leap of faith based on past history – without any real assurance the future will be repeated, because no one can say for certainty what the future will hold.

And for those of us who say, "But what if I don't have the next 5 or 10 years to recover?" Well, that is what asset allocation does, and why it is so important for investors to be aware of how different assets behave differently at various times. Cash is king today, but at historically low yields – almost to zero, so those of us living off the income of our portfolio, cash can't pay the bills, beat inflation or even take care of the taxes at that low of a return.

What's important is the need to create a balanced portfolio strategy that reflects our goals, age and penchant for taking risk. That is why we spend so much time assessing your current risk tolerance to build a portfolio strategy and asset allocation that fits where you are in your life and can meet your needs going forward.

With many of us being urged to stay at home to help slow the spread of the virus, there are a great many individuals who are taking the risks to provide us with needed healthcare, food, utilities and vital necessities to sustain us. I give my deepest thanks and praise to those dedicated individuals, and to our clients and families, and I pray for the health and safety of everyone.

Bud

INSIDE THIS ISSUE

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2020 CORONAVIRUS RELIEF LAW (CARES ACT)

Written and compiled by Mindy Sutton, COO— Excerpts from Kimberly Amadeo, https://www.thebalance.com/2020-stimulus-coronavirus-relief-law-cares-act-4801184; The American Retirement Association, Coronavirus, Aid, Relief and Economic Security Cares Act White Paper

On March 27, 2020, the president signed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The $2 trillion aid package is intended to provide financial aid to families and businesses impacted by the COVID-19 coronavirus pandemic. There is a lot of information and many provisions in the Act. This article hopes to highlight some of the items we think most relevant to our clients.

Impact on Individuals

Direct Payments

The CARES Act provides a $1,200 stimulus check to eligible adults earning up to $75,000. Couples earning up to $150,000 will receive $2,400. This is based on 2019 adjusted gross income (or 2018 AGI if you haven't yet filed your 2019 tax return). Eligible families receive an additional $500 for each child under the age of 17.

Eligible individuals can expect a direct deposit payment around April 16, 2020, if the IRS has your bank information. Checks sent via mail will take longer—potentially months—and they will be sent to the address listed on your most recent tax return. If you made too much in 2019 to qualify for the rebate but lost your job in 2020, you will not receive a stimulus check, instead you will be able to claim the credit when you file your taxes next year.

Tax Filing Deadlines

The CARES Act extends the tax filing deadline and concurrently the deadline to contribute to an IRA or Employer Profit Sharing contribution until July 15, 2020. Taxes may be filed earlier.

Retirement Accounts

Retirement: The CARES Act contains multiple provisions for those saving in retirement accounts and those taking distributions from retirement accounts. It waives the 10% early withdrawal penalties on up to $100,000 of 401(k) or IRA distributions for certain participants. The Act also increases the loan limit to $100,000 or up to 100% of a participant's account balance. This only applies to loans made on or before Sept 23, 2020 and only for eligible individuals. Eligible individuals are those directly impacted by COVID-19 (either they were diagnosed, were responsible for caring for someone diagnosed, or had a reduction/loss in income as a result of the pandemic).

Participants that take a COVID related distribution from retirement plans will have three years from the day after the distribution was received to repay the amount into a qualified retirement plan (or any other plan or IRA that can accept rollovers). The distribution will be taxable if it's not repaid.

Required Minimum Distributions (RMDs)

The CARES Act waives the requirement for any RMD that is required to be paid in 2020. This includes an individual's RMD which is attributable to 2019 (not paid by January 1, 2020). If an RMD has already been received during 2020, then the participant may roll it over and defer paying taxes, including rolling back into the plan.

Why does this matter? An RMD is calculated using the balance of an individual retirement account on December 31st of the year prior to the date it must be distributed to a participant. An RMD calculated based on a December 31, 2019 value could lead to a disproportionate RMD relative to today's account values, forcing a disproportionately large taxable distribution.

Enhanced Unemployment Insurance

Those receiving unemployment insurance through their states' unemployment insurance will receive an additional $600 a week for four months. That's in addition to what states already pay, which has been extended an additional 13 weeks. The Act notably extends unemployment insurance benefits to the self-employed and independent contractors. It allows anyone who couldn't work because of the coronavirus to receive benefits. That includes those who were laid off, became ill, or had to care for someone else with coronavirus.

Forbearance of Mortgages

Holders of *federally backed* mortgages *can request forbearance* if they have been affected by COVID-19. If approved by the bank, the borrower won't have to pay the mortgage for 180 days. The bank can't impose any penalties or other fees. This can be extended another 180 days. Banks must halt foreclosure proceedings until May 18, 2020. You must contact your mortgage holder to request forbearance, this is not an automatic benefit.

Student Loan Payments

Borrowers can request to delay payments on federal student loans until September 30, 2020. All federally-owned student loans will automatically have a 0% interest rate until then. Contact your federal student loan servicer to request forbearance as this is also not an automatic benefit.

Note: Only loans owned by the Department of Education are eligible. Most federal student loans are owned by the government, but some loans issued under previous programs are held by private lenders or schools.

Impact on Businesses

All businesses, regardless of size, are eligible for a 50% refundable payroll tax credit. The credit is applied toward the first $10,000 of an employee's wages. The business must demonstrate a 50% reduction in receipts compared to the same quarter in 2019. Employers' portion of the Social Security payroll tax can be delayed until Jan. 1, 2021.

Small Businesses

The $350 billion Paycheck Protection Program lends up to $10 million to small businesses with fewer than 500 employees. The loan amount is tied to payroll costs. It covers employees making up to $100,000 a year.

The loan program is for payroll and other expenses between Feb. 15 and June 30, 2020. Loans may be forgiven if used for payroll, mortgage interest payments, rent, and utilities.

Mid-Size Businesses

The Treasury Department will create a lending program for US-based, mid-size businesses, and nonprofits between 500 and 10,000 employees.

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A Bear At WARP SPEED!

By James Paulsen — The Leuthold Group, LLC

Compiled by Bud Rainsberger, CEO; Excerpts from A Bear At WARP SPEED! By James Paulsen, The Leuthold Group, LLC

About the Author — Jim is Chief Investment Strategist of The Leuthold Group, LLC. He is a member of the investment committee, authors market and economic commentary, and works with the Leuthold investment team in serving institutional, financial advisor, and investment professional clients. Paulsen has been an investment industry professional since 1983, most recently as Chief Investment Strategist at Wells Capital Management where he worked for 20 years. For more than 30 years, Jim has published commentary assessing economic and market trends. He is nationally recognized for his views on the economy, frequently appears on CNBC and Bloomberg TV, and is invited to speaking engagements across the country. He has been named a top economic forecaster by Business Week, and Money Magazine called his newsletter one of "101 Things Every Investor Should Know." Jim earned a Bachelor degree and a Doctoral degree in Economics from Iowa State University.

This has been a "speedy" Bear Market. Measured through the first 22 days of all bear markets in post-war history, the contemporary bear market declined by almost 6.5 times more than all the others! In 2020, the market dropped 32% in 22 days versus an average of just -5.1% for the previous 13 bear markets.

We believe the outsized decline in the current bear market is due to the unique nature in which the economy entered the 2020 recession. Normally, there is a great debate about whether a recession is looming: Economic reports begin to disappoint and, only then, does the national discussion about the risk of recession begin to intensify. Often, the stock market reacts slowly to potential evidence of a recession because a "string of bad news" could simply be reflecting an economic slowdown. For this reason, bear markets have typically unfolded in a relatively gradual and faltering manner. Only when economic data clearly convinces everyone that a recession has arrived does the stock market ultimately suffer a colossal collapse, and policy officials finally reverse course with aggressive shock-and-awe policies to ward off economic hardship.

This year, by contrast, a recession was simply "proclaimed." Because of the coronavirus, officials announced a temporary economic shut-down and everyone instantly knew, without a doubt, that a recession was imminent. Consequently, the stock market skipped all the normal foreplay associated with a bear market (i.e., the debate about the likelihood of a recession or slowdown) and went right to its conclusion. Rather than waste time with a mere 5% decline to start the bear, the stock market promptly—in an unprecedented manner—dropped by more than 30% nearly overnight!

The "warp speed" reaction of the stock market has been matched by equally impressive haste across the financial markets. Because of the massive economic malaise, which is coming this quarter, many equate this recession to the Great Recession of 2008. We discuss several aspects of the present-day financial response — the VIX volatility index, S&P 500, bond yields, credit spreads, commodity prices, and the real bond yield — with how they responded during 2008. In every case, today's Bear has so far been much swifter than in 2008.

Speed Of S&P 500 Collapse: Once the VIX (Volatility Index) began to escalate, the overall stock market also suffered a much deeper and more rapid collapse this year than it did in 2008. Indeed, at its low on March 23rd, the S&P 500 had fallen by 34%. By comparison, at this stage in 2008, the stock market had only declined about 10%. That is, at its recent low, the stock market already discounted almost 3.4 times as much pending bad news than it did in 2008!

There is considerable uncertainty in the present situation surrounding a health emergency that, in the modern era, we have never experienced. But in some ways, there is more "certainty" than there was in past crises. For example, never has a recession been as predictable as early as it was in this catastrophe. This has allowed the stock market to more quickly and more fully markdown the pending recession. At the same point that the stock market reached a low on March 23, 2020, in the 2008 edition, investors were still debating whether a recession was in fact coming. Consequently, in 2008, the stock market suffered much more downside as the recession, its depth, and its length all still had to be assessed and discounted. By contrast, while investors are still debating how long today's recession will last, the stock market has already likely factored in that it is not only impending, but it will prove to be dramatically deep.

Bond Yields: In addition, bond yields have collapsed much faster in 2020 than they did in 2008. The 10-year bond yield reached a low of about 0.5% on March 9th, 2020, a mere 13 days after the stock market peaked! Who knows if this will prove to be its final low of the current recession? However, in 2008 (based on today's timeline), the 10-year yield initially kept rising, did not begin to decline until May 6th, and did not reach its debacle low until June 22nd!

In today's bear market, the bond market has been ahead of stock prices. Bond yields collapsed at a record pace and have since remained lower. By contrast, in 2008, bond yields did not begin declining until two months after the stock market peak and did not reach their ultimate lows until almost three-and-a-half months later. Again, like the stock market, bond yields have been much speedier to discount the current crisis!

Commodity Prices: The commodity market has also been lightninging fast in reflecting this crisis. Commodity prices had fallen 40% by March 18th, whereas by that point in 2008, commodities had declined by only 5%! Perhaps commodity prices will fall much more — as they did in 2008 — but, like the stock market in 2020, commodity prices have been swift to reflect a lot of bad news.

Concluding Comments: Who knows how long the financial markets will remain under stress? At a minimum, the stock market is likely to be volatile in the

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Big Businesses

The Act contains $500 billion in business and local government lending. The largest amount of $454 billion supports Federal Reserve lending. The rest is divided as follows:

- Passenger airlines would receive $25 billion in loans.
- Cargo air carriers would receive $4 billion.
- Boeing and other companies deemed crucial for national security would receive $17 billion in assistance.

Notably, businesses that receive the loans may not issue dividends or buy back their own stocks and they must maintain at least 90% of their employment levels as of March 24, 2020.

There are many more provisions in the CARES Act, this article only contains a snippet of what is covered. If you have any questions about individual, retirement tor business benefits please call anyone on our team and we will help you navigate how the Act applies to you.

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coming weeks as economic data portray an economy in full collapse, which will not improve until the switch is turned from "off to on" again. We also believe a re-test, or multiple re-tests of the recent stock market low, is likely, and it could well establish a new crisis low as it often has in the past.

Yet, we think investors should be mindful of the "warp speed" of this debacle across the financial markets. Without precedent, this recession was almost immediately predictable; therefore, stock, bond, and commodity markets have probably discounted far more of the total downside risk than would be traditional at this point (only about six weeks since its start) versus past crises.

MARKET REVIEW
1st Quarter 2020

INDEX/ETF PROXY	Q1/2020	YTD (3/31/2020)
S&P 500 (VOO)	-20.64%	-20.64%
Russell 2000 (IWM)	-30.96%	-30.96%
MSCI Developed Mkts (EAFE) (VEA)	-24.94%	-24.94%
MSCI Emerging Markets (VWO)	-26.31%	-26.31%
Barclays US Aggregate Bond (AGG)	2.39%	2.39%

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"As Rainsberger Wealth Advisors continues to grow and expand in the services we offer, we would value the opportunity to assist your family members and friends in achieving their future financial goals. If you know someone who could benefit from our services and expertise, we would appreciate a personal introduction to learn more about their needs. As a reminder, if you have had any recent life changes or events, please reach out to someone on our team so we can assure the services we are providing you are as up to date as possible. Thank you for your continued support and trust in our firm." – Bud Rainsberger –

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