Schneider
WEALTH STRATEGIES

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WEALTH MANAGEMENT REPORT

Amid The Coronavirus Crisis, Nine Tax And Investment Tips

The stock market had recently lost about a third of its value before rebounding largely due to the $2 trillion economic stimulus package. The coronavirus crisis has reshaped the financial economic landscape and the situation is changing fast. Here are nine financial focal points for your immediate consideration.

CARES Act. Coronavirus Aid, Relief and Economic Security (CARES) would include direct payments of $1,200 to many American adults and $500 to children. It would pay for $850 billion in loan and assistance for businesses, states and cities. It also allocates large spending increases for unemployment insurance, as well as for hospitals and health-care providers.

Immediate Issues. Hunkered down across the country, practicing social distancing, you may not be at all ready yet to talk about the financial implications of the epidemic. However, if your family is in the throes of a medical crisis and has any tax or financial planning issues, please do not hesitate to contact our office.

What's Ahead. The CARES Act allocates hundreds of billions of dollars to individuals as well as businesses. There will be no shortage of questions about qualifying for tax relief in specific situations.

Virus-Related. CARE waives the 10% early withdrawal penalty on retirement account distributions for taxpayers facing virus-related economic challenges. According to The Tax Foundation, withdrawals are taxable over three years, but you can recontribute for three years without affecting retirement account maximums.

Business Owners. CARES

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The Surprise Rebound

Recent market action is a reminder that timing the stock market truly is impossible.

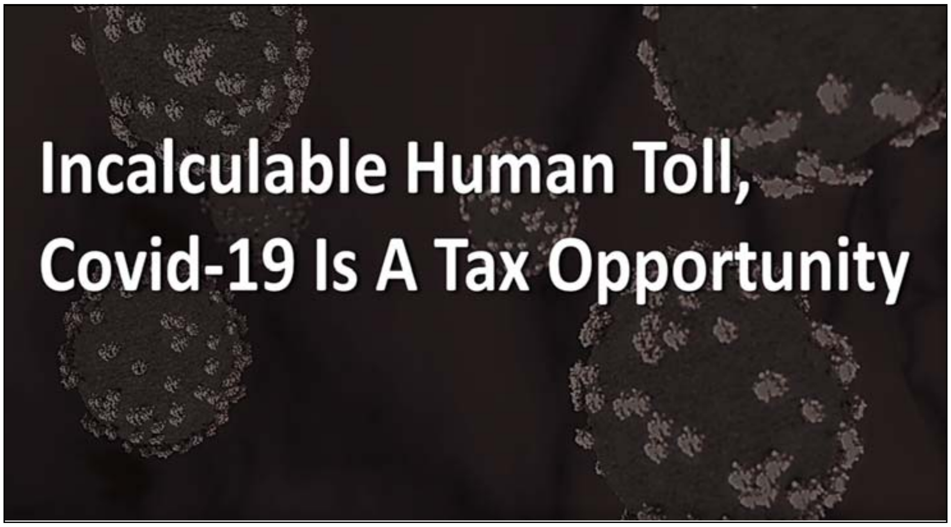
After the large U.S. market indices fell 12% in March, many people were expecting more of the same. It seemed obvious that the stock market would continue to produce bearish returns until there was certainty—that is, until we knew what the pandemic's impact on corporate earnings would be, and the extent of the economic damage from all those empty hotel rooms, restaurant and airline seats, record unemployment and everything else.

Instead, the S&P 500 jumped 12.7% in April!

It would be pure speculation to say that the stock traders who define our market movements are being a bit too optimistic about the very long recovery we are facing. We don't know whether the markets will decline from here or, against the odds, hold up while negative earnings reports pour in for the next two quarters. But the last two months serve as an interesting reminder of that humility. It would have been easy to listen to all the negativity coming from the pundits, and sell after seeing the downturn in March. Turns out, that would have cost one of the nicest one-month returns in market history.

The Market Drop Is A Tax Planning Opportunity

The human toll of Covid-19, in sickness, suffering, and death is incalculable. Preliminarily, CNN's Dr. Sanjay Gupta says Covid-19 transmission rate is about the same as the common flu but 20 times more likely to be fatal. The ultimate toll remains unimaginable.



For millions of Americans, is that the stock market plunge presents a tax and financial planning opportunity. Here's a short list of situations in which you want to consider proactive tax planning.

Next-Gen Strategy. If you have beneficiaries other than a spouse, converting traditional IRA or 401 (k) assets to a Roth IRA could become a more serious consideration, on January 1, 2020. That's when The SECURE Act (Setting Every Community Up for Retirement Enhancement Act of 2019) became effective. SECURE Act made Roth conversions advantageous to many more Americans. Converting to a Roth can be a way to manage your tax bracket, to reduce taxes owed on converting to a Roth IRA. Unlike a traditional IRA, income from a Roth account is not taxed under federal law. While you must pay income tax on the amount you convert from an IRA or 401(k) to a tax-free Roth account, your beneficiaries may benefit.

Wealth Transfers. For individuals with taxable estates, low interest rates make it smart to consider the use of specially designed trusts, such as a:

- Grantor Retained Annuity Trust (GRAT)
- Intentionally Defective Grantor Trust (IDGT)
- Generation Skipping Trust (GST)

Estates In Administration. If you are a beneficiary of an estate in the administrative process of distributing assets, the change in asset values may have created a tax-loss harvesting opportunity or a reason to use an alternate valuation date. In addition, the lower asset values make it prudent for spousal beneficiaries of a qualified retirement account under administration to evaluate a partial or complete disclaimer.

Bottom Lines. Covid-19's ultimate price is unimaginable, but the correction it's caused in the stock market clearly spawned new strategic tax planning opportunities for individuals in situations described above. Tax advice in these situations requires knowing your personal situation. If you have a question about your personal situation, please contact us. ●

Performance Anxiety: A Leading Cause Of Investor Dysfunction After Age 55

Are you nearing retirement and worried about your portfolio's performance? Do you fear outliving your money?

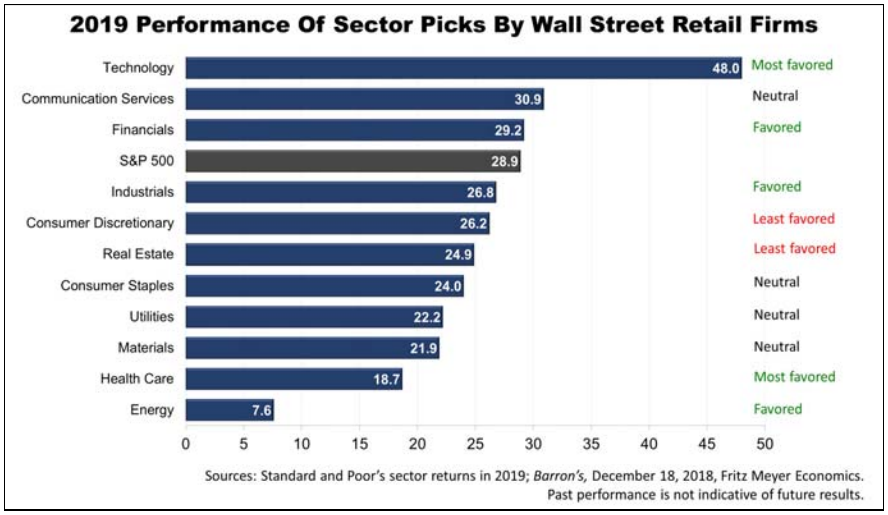
Investment performance anxiety is often hard to talk about for a pre-retiree and can lead to investor dysfunction. This revealing illustration vividly shows that retirement success is mostly about your savings rate when you're in your 50s and 60s!

Although your portfolio performance is more important in your 20s and 30s, your savings rate matters more to retirement success as your retirement nears.

A 25-year-old with a $35,000 income that rises annually by 3%, who saves 6% of their income in a tax-deferred retirement plan and averages a 6% portfolio return annually, would accumulate $528,007 at age 65. If the 25-year-old boosts their savings rate to 10%, the retirement account would grow to

Study: Wall Street's Tactical Methodology Isn't Working

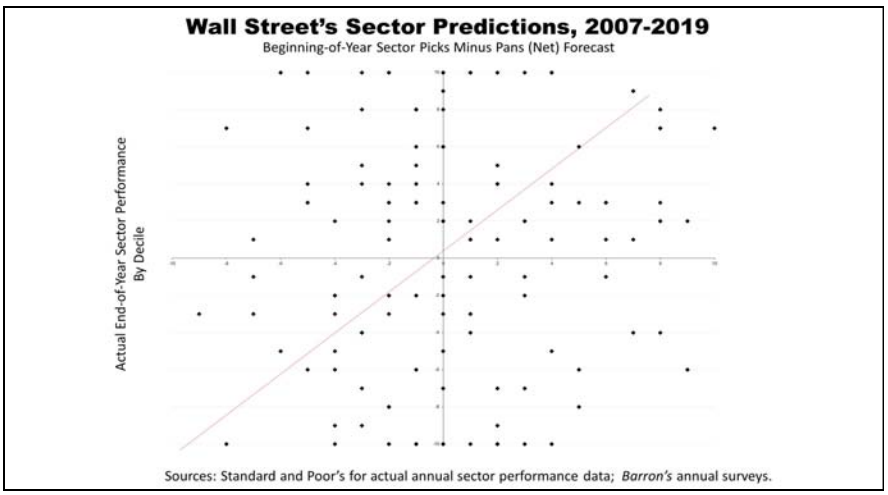
Wall Street firms spend a great deal of time and money trying to forecast relative performance of stock sectors, styles, markets and asset classes. However, a recent study indicates Wall Street's tactical approach is unwise.



In mid-December every year, *Barron's*, a financial magazine, publishes a cover story featuring 10 top Wall Street strategists' picks for the best sectors to buy and avoid in the year ahead. In December 2018, the 10 strategists' picks and pans published in *Barron's* are shown in the corresponding table. How did their predictions turn out?

The blue bars show the performance of the 11 S&P industry sectors and on the right indicate the consensus predictions of strategists surveyed in *Barron's* December 18th, 2018 cover story. The sector most favored in December 2018 was Technology, and Wall Street correctly predicted tech would outperform in 2019. But apart from that big win, their picks were off, some disastrously.

For instance, Health Care was as popular a pick as Technology, and it badly lagged the S&P 500. The two industry sectors that Wall Street recommended underweighting — Consumer Discretionary and Real Estate — ended the year up more than 26%.



The predictions for 2019 were actually fairly good relative to Wall Street's long-term track record, but that was an anomaly.

This scattergraph shows the history of the Wall Street strategist sector performance based on their predictions published by *Barron's* for the past 13 years. If Wall Street strategist predictions had been correct, the black dots would all fall along the red line, or cluster around it. But that isn't what has happened. Instead, the seemingly random performance of the picks show that Wall Street's predictions of the best sectors are not working.

This data was compiled by economist Fritz Meyer, an investment strategist at a Wall Street retail giant for over a decade before going independent in 2009, whose research we license. ●

$880,012 at age 65.

If the 25-year-old with the same income annually saves at the same 6% rate, but earns 10% annually, the account at age 65 would be worth $1,392,758.

Clearly, the extra 4% portfolio return annually boosts the retirement portfolio more for the 25-year-old than boosting the savings rate by 4%.

But look what happens when a 55-year-old is faced with the same dynamic.

A 55-year-old — earning $84,954 today after 3% raises annually since age 25 — who continues to get 3% raises annually, saves at the 6% rate, and earns a 6% portfolio return annually, would have $87,344 in their retirement account at age 65. Boosting their portfolio return annually to 10% would grow the account to $106,961 at age 65. In contrast, boosting the 55-year-old's savings rate to 10% puts the portfolio value at $145,573 at age 65 — a much better result.

While pre-retirees often grow anxious about portfolio performance, it's their savings rate that is more influential as retirement nears. Portfolio returns are subject to investment risks, which you do not control. Your savings rate, in contrast, is something you do control. Rather than suffering from investment performance anxiety, it's wise for pre-retirees worried about outliving their money to examine their ability to boost their savings rate. ●

The Federal Reserve's Powerful New Toolset

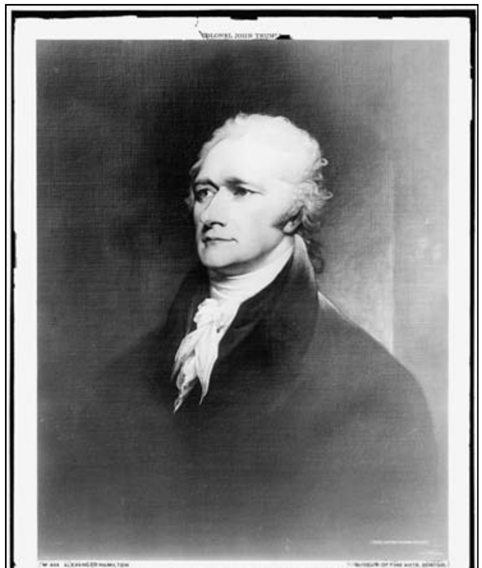
The Coronavirus financial crisis is being compared to the near collapse of the global financial system in 2008 and The Great Depression from 1929 to 1939, but there is one big difference this time: The Fed. The Federal Reserve Bank is using innovative new tools to contain the financial damage of the Coronavirus epidemic.

In the financial crisis of 2008, the chairman of the Fed at the time, Ben Bernanke, an academic who had spent decades studying previous financial crises, repeatedly deployed a technique called quantitative easing (QE). QE expanded the Fed's balance sheet to buy back U.S. Government bonds on the open market, thus, lowering long-term interest rates.

Never before had the tactic been used by a central bank in a major economy. It worked, however, and QE was one of the reasons the U.S emerged successfully from The Great Recession of 2008 and 2009. The Fed's present response to the Coronavirus crisis is literally 10 times more powerful.

Under the $2.2 trillion Coronavirus Aid, Relief, and Economic Security ("CARES") Act enacted March 27, 2020, the U.S. Government allocated $454 billion to Federal Reserve Bank Special Purpose Vehicles that the central bank can leverage 10 to 1, thus enabling it to lend up to $4.54 trillion to companies in financial distress.

That sum is reportedly more than all U.S. commercial and industrial loans outstanding at the end of 2019, plus all the new corporate bonds issued during 2019 combined! Although the expansion of the Fed's power has been widely criticized as a step toward a centrally planned economy, such government action limits the risk of potentially massive corporate bond defaults and corporate bankruptcies.



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The U.S. led the worldwide economic recovery following the global financial crisis of 2008, in part because of the Fed's innovative approach. And now, this most recent display of Yankee ingenuity — in the form of the Fed's new tools — is at play once again in fighting the Coronavirus-induced financial crisis.

In these frightening times, the Fed's new toolset is likely to become a mere footnote in history books that will be written about the pandemic in the decades ahead. Ever since Alexander Hamilton established the first U.S. central bank in 1791 to respond to the financial crisis that followed the Revolutionary War, the uniquely American central bank has enabled the progress of civilization through financial crises for generations. The Federal Reserve's response to the Coronavirus financial crisis is a shining example of what makes America exceptional among the nations of the world. ●

Amid The Coronavirus Crisis

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allocates billions of dollars for Small Business Interruption Loans, to help small businesses (fewer than 500 employees) make payroll and other expenses, according to The Tax Foundation, a non-partisan tax policy research group with a business-friendly reputation. "Notably, small businesses may take out loans up to $10 million and cover employees making up to $100,000 per year," according to the group. "Loans taken for this purposes are forgiven if the business does not lay off its employees (forgiveness is scaled down as layoffs rise)."

- Employer Social Security payroll tax payments may be delayed until January 1, 2021.
- Companies with tax credit carryforwards and previous alternative minimum tax (AMT) liability can claim larger refundable tax credits than they otherwise could.

Charity Encouraged. CARE creates a $300 above-the-line charitable deduction, even for filers taking the standard deduction and expands the limit on charitable contributions for itemizers.

Education Loans. The Department of Education announced that all borrowers with federal loans will have their interest rates automatically set at 0% for at least 60 days, giving borrowers with federal loans the option to suspend payments for at least two months without accruing interest.

Team Up. Your family and your business are likely to be impacted financially by Covid-19 and now is a good time to plan how you can efficiently communicate with your team. While clients can depend on our firm as part of their team, your team might also include members of your family as well as other professionals. If you own a business, your team might include key employees responsible for operations or accounting. Ideally, you have a way to meet and collaborate online.

Keep In Touch. The public health crisis is rapidly changing. So, too, is the financial, investment and tax planning situation. This update is a way for you to stay on top of the latest financial, tax and investment news. Please let us know the best way to keep in touch with you with updates. ●

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