DeBoer Financial Group
Retirement and Estate Specialists

Financial focus

Second Quarter, 2020

April 16, 2020

Message from Jeffrey DeBoer, ChFC®

Greetings from my in-home office! First of all, our very best goes out to each of you during what is arguably one of the most challenging periods we have encountered together. Please know that we are working hard for you to help protect your finances and dreams during this unprecedented time. Each of our team members are working from home during this crisis to help protect them and their families, as well as you. We do have one person in our office each day from 8 am – 5 pm. Even though we are primarily working from home, please know that nothing changes regarding what we are doing to assist you, other than we can't meet in person! You can still reach us the way you normally do, whether it be by phone, email or through our website. Unfortunately, we haven't figured out how to get our fresh-baked cookies to you through the internet! Please know that we are here to help you in any way we can. All you need to do is contact us!

We are changing the format of our quarterly update as we navigate through this crisis. As the news is changing so rapidly, by the time we had our quarterly newsletter approved by Compliance and in the mail to you, it would probably be old news. Instead, I thought it would be more beneficial to email you a much more frequent update during this crisis to keep you as informed as possible in a timely manner. I look forward to hearing your feedback and please let me know if there is anything at all that we can help you with. And remember… consistently wash your hands for 20 seconds and maintain at least 6 feet!

Current Economic Update

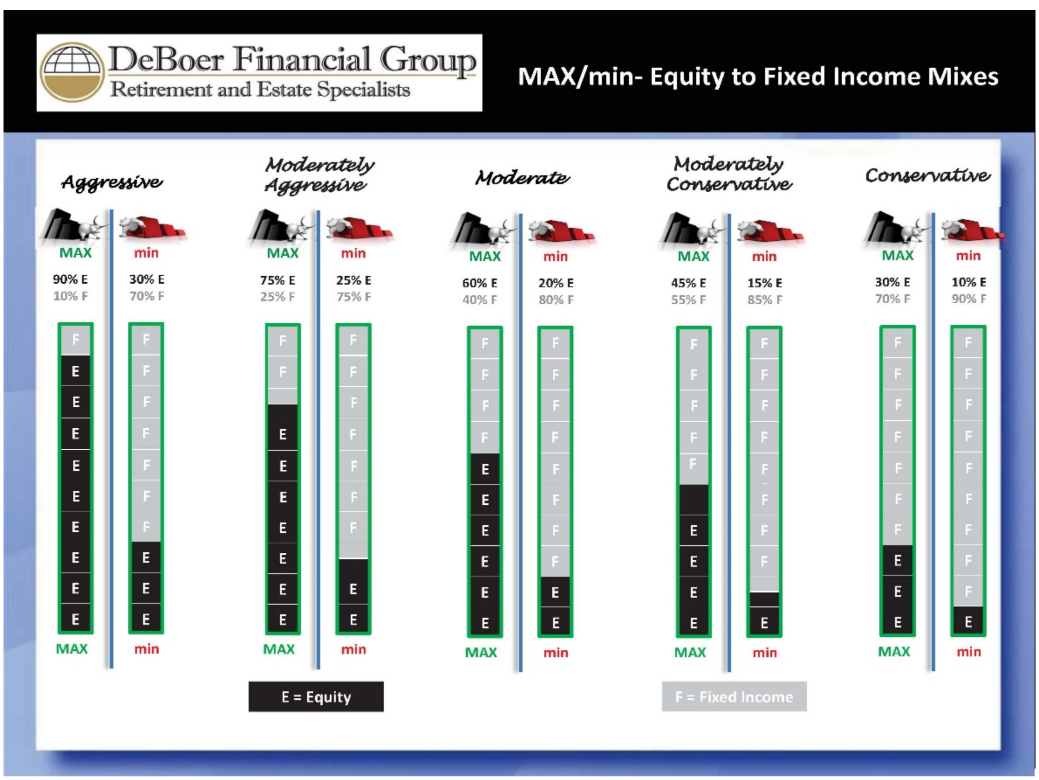
You can probably vividly recall the financial crisis of 2008. The economy was quickly contracting, several financial institutions required bailouts, layoffs abounded, and the stock market plunged. But we weren't grappling with fear tied to a health crisis then. We could still attend the theater, eat at a restaurant, travel, or enjoy a live sports event. The roots of today's crisis are different, and nowadays we are in the midst of both an economic and health crisis. Activities outside the home have been greatly curtailed. It's unsettling for everyone.

As we are all aware, the speed of the decline in stocks has been swift. Since the February 19 peak, the S&P 500 Index shed 34%, plummeting to its most recent low on March 23 *(St. Louis Federal Reserve data)*. The pace of the sell-off can be traced to the enormous amount of uncertainty tied to shutting down major portions of the economy. What will its ultimate impact be? The brightest minds continue to debate this.

Our investment strategy for you is designed to reduce your risk when the recession indicators that we closely monitor turn to an overall reading of "red". As you can see here, this occurred in March. We made the adjustment to the "Minimum" equity allocation in March.

		March 31, 2020	March 15, 2020	January 2020
Financial	Yield Curve	✖	✖	✖
	Credit Spreads	✖	✖	⬆
	Money Supply	⬆	⬆	●
Inflation	Wage Growth	✖	✖	✖
	Commodities	✖	⬆	●
Consumer	Housing Permits	⬆	⬆	⬆
	Jobless Claims	✖	⬆	⬆
	Retail Sales	⬆	⬆	⬆
	Job Sentiment	●	●	⬆
Business Activity	ISM New Orders	✖	●	●
	Profit Margins	✖	✖	●
	Truck Shipments	⬆	⬆	⬆
	Overall Signal	✖	●	●

⬆ Expansion ● Caution ✖ Recession



Your own individually crafted financial plan remains our guide, as the plan is rooted in the precept that the U.S. and global economy expands over time…and with it, so do equities. We don't know what might happen next year, but the long-term historical trend has been favorable. Let's continue to keep our long-term financial goals in mind, even during these trying times. As I always tell you, how you perform in a down market is more important than how you perform in an up market.

A Bounce Off the Bottom

Since last month's low, the S&P 500 Index rallied 25% through April 9. Technically, a 20% rally from the market's bottom constitutes a new bull market–technically. As of April 9, the S&P 500 Index was a modest 16% below its February 19 peak *(St. Louis Fed data)*. The recovery has been cautiously encouraging, and I believe there are three variables that can be cited.

First, the federal government passed the CARES Act. The bill includes over $2 trillion in spending, generous jobless benefits, loans and grants to businesses, stimulus checks, and more. It offers a much more aggressive response than in 2008. More will be needed, but it's a good start.

Second, the Federal Reserve has aggressively responded. Pre-crisis, there were questions whether the Fed had the necessary tools in its tool kit, given that interest rates were already low. Apparently, they do. With much greater speed than in 2008, the Fed has launched numerous programs aimed at propping up the economy–from big business to Main Street. The two-pronged attack has not been executed flawlessly, but it has cautiously encouraged investors to dip their toes back into stocks. While the economic outlook remains fluid, investors are trying to discern some form of an economic recovery in the second half of the year.

Third, there are signs the virus may be peaking. An April 12 headline in Bloomberg News offered a cautiously upbeat headline: "CDC Says U.S. Near Peak; 70 Vaccines in Pipeline." With signs that new cases may be peaking, talk is surfacing over how to best reopen shuttered industries.

This Quarter Will Be Ugly

The St. Louis Federal Reserve estimates that GDP, the largest measure of economic activity, could contract at an annualized pace of 50% in the second quarter. That's unprecedented. Yet, forecasts vary widely. In reality, we don't know how steep the downturn may be during the April-June period. In just a three-week period, the number of first time claims for jobless benefits totaled an astounding 17 million *(Dept. of Labor)*. For perspective, during the 18-month long 2007-09 recession, first-time claims totaled 9.6 million. A sharp contraction in the economy this quarter is expected, and layoffs are the first, bitter fruits of the economic crisis.

However, the discouraging number of layoffs seemed to be brushed aside by investors. The Dow Jones Industrial Average (DJIA) added 2,107 points over the three days (respective Thursdays) when the massive number of new unemployment claim reports were released *(St. Louis Fed)*. It's not that bad news is a reason for Wall Street to celebrate; far from it.

We are in uncharted economic territory, and the future is quite opaque. But the rally in stocks is an attempt by investors to sniff out an economic bottom and eventual economic recovery. Remember, no one rings a bell that sounds the all-clear signal. Collectively, markets attempt to price in future events. I would expect large daily swings, both to the upside and downside, to continue amid the uncertainty.

We don't know if we'll see an uptick in new COVID-19 cases this summer after the economy reopens. We don't know if an effective treatment will be developed or how quickly a vaccine might come online. And, for that matter, we don't know how quickly most folks will venture back into restaurants, airplanes or public events. The bottom line right now is that there is a lot of uncertainty. When there's so much uncertainty, it is much better to be prudent and cautious, which is exactly what we have done with your portfolio.

Potential Opportunity from the CARES Act: RMD Exemption

Last month, after a lot of debate, the Senate and House finally passed the 883-page Coronavirus Aid, Relief and Economic Security Act (CARES) Act. This legislation is in addition to tax relief legislation contained in the Families First Coronavirus Response Act also recently passed. There are some potential opportunities from this Act that we may want to consider in your personal planning this year.

If you are subject to Required Minimum Distributions (RMD) from retirement accounts this year, you can skip them for 2020. This rule applies to first time RMDs due April 1 (held over from 2019) and to 2020 RMDs that aren't due until December 31. The RMD reprieve also applies to Inherited 401(k)s and Inherited IRAs.

Some of you may need your RMDs for your cash flow, but many of you may not need your RMDs for current income this year. If you do not need the RMD for income in 2020, you may want to consider not taking it!

We may want to take this RMD holiday as an opportunity to do some distribution planning in 2020. For example, it might make good sense to perform partial Roth conversions now that accounts are down somewhat and RMDs aren't required (driving down the taxable income). If Roth conversions can be done in the 12% or possibly 22% tax bracket, this is a window of opportunity that should not be missed! Just imagine, when the market recovers, we can have a plan in place within the Roth IRA to make some of that rebound tax-free for you and your beneficiaries!

What if you already took your distribution in 2020? Those RMDs can still be put back into an IRA in what is called an indirect rollover, provided you do so within 60 days and haven't made any other indirect rollovers in the past year (and don't intend to do so with any of their IRAs in the next year). If the 60-day rollover period has expired, then under the CARES Act, a penalty-free rollover can still be completed anytime for the next three years from the date the distribution was received (if you can satisfy the very liberal standard for a Coronavirus Related Distribution).

And although there is an RMD holiday for Inherited IRAs, be careful as these strategies to replace already taken RMDs discussed in the previous paragraph don't seem to apply to RMDs already taken from beneficiary IRAs.

Final Thoughts and Hope

We can't downplay the havoc created by COVID-19. I am sure that many of us have friends and loved ones who are dealing with this disease. Just last week, one of our dear clients who was such a talented and inspirational man, lost his battle to this horrible virus. Our heart is broken for his wife, family, close friends and former students who he had such a positive impact on.

We are living in a world that nobody could possibly have envisioned a few months ago. The impact caused by the virus has disrupted life around the globe. It's incredibly unpleasant.

Yet, unexpected blessings have surfaced. People are reaching out to family and friends via texting, emails and now Zoom. Some are even connecting the old-fashioned way…by phone. Families are closer than they have ever been before. Activities and jobs around the country have been suspended but not ended.

I am confident we will see an economic recovery take root and the pandemic will subside. We are a resilient people. Together we will get through this dark night, and we will be stronger for it.

Remember… **"Stay Positive"**!

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