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THE COMPASS

cares act | resources | shifting sentiment

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UNDERSTANDING THE IMPACT OF **THE CARES ACT**

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On March 25, 2020, Congress passed the $2 trillion Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, which will provide relief and assistance for millions of Americans impacted by the coronavirus pandemic.

This legislation includes, but is not limited to:

- Direct cash payments
- Temporary changes to the rules governing retirement accounts
- A suspension of Required Minimum Distributions (RMDs) for 2020
- A change to tax laws regarding charitable contribution limits
- Mortgage forbearance for up to 360 days
- Enhanced unemployment coverage
- Changes to student loan debt requirements

Below is a breakdown of some of the key elements of the CARES Act that you should know about.

DIRECT PAYMENTS TO INDIVIDUALS

With exceptions, cash rebates are currently on the way to most Americans in the amount of $1,200 per individual and $2,400 for couples (with an additional $500 for each child under the age of 17). But not everyone will qualify. Payment amounts begin to phase out for individuals with adjusted gross incomes (AGI) over $75,000, stopping entirely once an individual's AGI passes $98,990.

For married couples filing jointly, the "phase out" begins once your AGI reaches $150,000, with payments eliminated entirely for couples whose AGI exceeds $197,990. For people who utilize the "head of household" filing status, your payment progressively decreases once your adjusted gross income surpasses $112,500 and is eliminated entirely once your AGI passes $136,490.

For those who are eligible, payments should arrive within three weeks. If the IRS has your bank account information from your 2018 or 2019 tax return, you do not need to apply. The money will be directly deposited into your account. If the IRS does not have your bank information and you want to receive your payment electronically instead of through the mail, you will soon be able to submit your request through a web portal that the Treasury is developing. For more information about the economic impact payments, please visit **irs.gov/coronavirus**.

PENALTY-FREE WITHDRAWALS FROM PRE-TAX RETIREMENT ACCOUNTS

The CARES Act loosens the rules pertaining to defined contribution plans (401[k]s, 403[b]s and 457s) and IRAs.

This year, you can withdraw up to $100,000 without the 10% early withdrawal penalty.

While you'll still have to pay income tax on the withdrawals, you'll be able to spread the payment of those taxes over three years. If you decide to repay the withdrawal back into your account and you do so within three years, you will owe no income tax, the repayment will not be counted against your yearly contribution limits. However, our recommendation is to not do this unless absolutely necessary.

NO REQUIRED MINIMUM DISTRIBUTIONS (RMDS) FOR 2020

The new bill temporarily waives Required Minimum Distributions (RMDs) from IRAs and employer-sponsored retirement plans (401[k]s) for 2020.

Typically, neglecting to take an RMD results in a penalty equal to 50% of the required distribution. If you need the money to live on, you likely don't have a choice and need to take a distribution. But for those who don't need the money, with the market hammered by volatility, it might be a good time to skip your RMDs and hope for a market rebound before the end of 2021.

NO CHARITABLE CONTRIBUTION LIMITS FOR 2020

To motivate benevolent giving during the coronavirus pandemic, and to lower individual tax burdens for those who itemize deductions, the CARES Act suspends charitable contribution limits for 2020. To benefit from the change in the law, you'll need to donate to a qualified charity and not a donor-advised fund.

Typically, tax-deductible cash contributions are capped at 60% of your AGI, but the new bill allows you to deduct 100% of the contribution against your AGI. Please note that this is exclusively for cash donations to qualified charities. For example, if you have $500,000 in income, you can give $500,000 to a qualified charity and deduct the full amount for this year (2020).

MORTGAGE FORBEARANCE FOR UP TO 360 DAYS

The new bill includes far-reaching relief for homeowners with federally-insured mortgages in the form of loan forbearance. People who are unable to make their mortgage payments should contact their lenders directly. You should be granted an initial payment waiver of 180 days, with the possibility of an additional 180-day extension. The bill also has clear provisions for stopping foreclosures.

ENHANCED UNEMPLOYMENT BENEFITS

The CARES Act goes to previously unseen lengths to cover all unemployed persons, and not just people who have recently lost their jobs. This includes self-employed individuals and even part-time and "gig" employees.

Benefit amounts vary by state, but while typical payments replace roughly 40 to 45 percent of pre-unemployment income, the new bill attempts to close that gap by increasing (by roughly $600 per week) and extending payment amounts.

STUDENT LOAN DEBT RELIEF

For 2020, employers can now pay up to $5,250 in student loan payments for an employee without that employee being required to report that payment amount as income. This is an enhancement to an existing tax provision which allowed employers to pay certain qualified educational expenses, such as sending an employee to college for a degree.

Additionally, the CARES Act not only allows persons with federal student loan debt to pause loan repayments until September 30, 2020, it also directs that no interest will be added to the loan over that period. However, loan recipients can still apply those six months toward most loan forgiveness agreement programs.

SPEAK TO YOUR ADVISOR

The information provided here is intended to alert you to some of the aspects of the CARES Act which are most likely to impact either you or a family member. Also known as the Coronavirus Stimulus Bill, or the COVID-10 Act, this sweeping, emergency legislation is 883 pages long and very likely has other provisions that could financially benefit or impact you or a loved one.

If you have any questions about the impact of the CARES Act on you, your family, or your financial situation, please contact your Relationship Manager.

JOIN US FOR A **WEBINAR**

We hope you and your loved ones are staying safe and well. While we are sad to miss the opportunity to share this time with you face-to-face at our seminars this year, your well-being and that of those close to you is our top priority.

To continue providing you with ongoing guidance and updates during this time, we're excited to offer a series of webinars you can enjoy from the comfort of your home.

The first webinar will be centered around estate planning and will be emailed to you next week as well as be posted on our website. Stay tuned for more details.

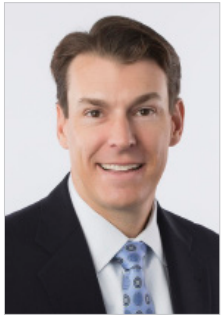
FINANCIAL UPDATES & **COVID-19 RESOURCES**

In light of the rapidly progressing COVID-19 pandemic, we created a page of resources and tools to help you and your family navigate this stressful time.

Click the button below to listen to a roundtable discussion with active pilots, download a budgeting worksheet, and more.

VIEW RESOURCES

SHIFTING SENTIMENT



By Jeremy Merchant, CIMA®, Chief Investment Officer

At the beginning of this year, my family and I visited Machu Picchu in Peru and had a great time exploring the Andes mountain range. Did you know that the Andes mountain range is growing taller each year? At the same time, the Swiss Alps are slowly becoming smaller each year as tectonic plates shift pressure away from the Alps and towards the Andes. The concept of how shifting tectonic plates creates pressure on one side while relieving pressure on the other side is an interesting concept.

Shifting sentiment within investments creates the same experience. While we experienced positive sentiment last year, 2020 so far has been fraught with worries. Changes in sentiment tends to result in higher volatility. However, for those who maintain a diversified portfolio, we see that volatility is much lower than what is experienced in the overall market.

Clients at RAA experienced much lower volatility than the overall markets during the first quarter of 2020, as well as experienced less of a drawdown than what was experienced in the market overall. We will continue to manage the portfolios for reduced volatility versus the markets as we move forward.

CORONAVIRUS IMPACT

During early March, our portfolio models moved into an equity underweight posture as worries over the coronavirus's impact on global growth intensified. Looking ahead, we expect a recession in the second quarter of 2020. However, we also expect the recession to be short-lived and for a recovery to begin during the second half of the year.

The economic effect of the COVID-19 pandemic is very different than what the economy experienced in 2008. During a recent interview, former Fed Chairman, Ben Bernanke, stated that, "This is a very different animal from the Great Depression." He went on to say, "This has some of the same feel, some of the feel of panic, some of the feel of volatility that you're talking about. It's much closer to a major snowstorm or a natural disaster than a classic 1930s-style depression."

We believe that the COVID-19 pandemic will ultimately lead to investment opportunities within the portfolios. Valuations are now reasonable, and some asset classes may become very attractive as sentiment continues to change.

FEDERAL RESERVE

Recent monetary policy actions by the Federal Reserve will be very aggressive in stabilizing our markets. In late March, the Fed announced unlimited quantitative easing (QE).

Other actions the Fed is taking to support the market include:

- Purchasing approximately $125 billion in securities every day of the week of March 23, 2020
- Starting to buy corporate bonds, asset-backed securities, muni bonds, and mortgage-backed securities
- Setting up a $300 billion Treasury-backed lending program
- Setting up a Main Street lending facility to support loans to small and medium-sized businesses

From a fiscal policy viewpoint, as you may have read about earlier in this issue, the government has recently implemented a multi-trillion-dollar CARES Act relief bill. Such unprecedented monetary and fiscal stimulus, combined with attractive valuations, should result in a strong market during the second half of 2020.

ECONOMIC RECESSION

Remember that while we may experience an economic recession during late spring and early summer, the stock market will start to look past current events and price in expectations for the future. In other words, we could see a scenario where the stock market is experiencing a recovery, while at the same time, economic statistics remain depressed.

As of late March, JP Morgan had GDP estimates for the first quarter of this year at -4% and GDP estimates for the second quarter of this year at -14%. However, estimates for the remaining quarters of this year are still at positive 8% and positive 4% respectively. Some firms have drawdown and growth estimates more extreme than JP Morgan. We note that estimates are hard to determine right now, but the overall narrative most firms have is an economic recession in the second quarter of this year with some form of economic recovery starting in the late summer months.

The combination of extremely low bond yields, extremely accommodative monetary/fiscal policies, and hopefully improving future conditions with COVID-19 might set the stage for a very strong second half of this year. While we are slightly conservative now, the opportunity may come for us to become aggressive within the portfolio's asset allocation.

OUR PLAN

Within equities, we are currently focused on dividend-paying positions within larger-sized companies. These positions tend to be less volatile than the general equity market on average. However, we do note that small and mid-sized companies are becoming more attractive now that valuations have contracted. We also note that at some point, we may have an opportunity to go to an equity overweight posture if valuations remain reasonable and economic conditions start to improve.

Within fixed income, we remain committed to staying extremely conservative within the portfolio. We also note that high yield bonds have experienced an extreme price adjustment during the first quarter of this year and are down nearly 20% in some cases. The price adjustment within high yield bonds could create an opportunity to reinvest in this asset class if valuations remain reasonable and economic conditions start to improve. We created a similar trade in 2010, after the Great Recession of 2008. We may be able to purchase this asset class again in the future, if conditions warrant. In the near term, we will remain out of high yield as we monitor the economy.

Now is not the time to abandon your long-term asset allocation strategy. As we move towards the spring season, we will continue to keep you updated. If you have any questions, please do not hesitate to contact your Relationship Manager.

ACTIVE ALLOCATION VIEWS

Themes	Category	Change	Negative	Neutral	Positive
Main Asset Classes	Equities	▼	○○○	●	○○○
	Bonds	▲	○○○	○	●○○
	Cash	-	○○○	●	○○○
Domestic Equities	Large Value	-	○○○	○	●●○
	Large Growth	▼	○○○	●	○○○
	Mid Value	▼	○○○	●	○○○
	Mid Growth	▼	○○○	●	○○○
	Small Value	▼	○○○	●	○○○
	Small Growth	▼	○○●	○	○○○
	Tactical Equity	▼	○●●	○	○○○
Foreign Equities	Developed	-	○○○	●	○○○
	Emerging	-	○○○	●	○○○
Fixed Income	Intermediate	-	○○○	○	●○○
	Short Term	▲	○○○	○	●○○
	High Yield	-	○●●	○	○○○
	Cash	-	○○○	●	○○○

KEY THEMES AND THEIR IMPLICATIONS

Themes	Category	Rationale
Equities	Economic Growth	Economic growth will be negative in the spring and early summer.
	Business Cycle	A Recession in the near term but it may be brief.
	Inflation	Inflationary pressures are not a concern.
Bonds	Bond Yields	The Federal Reserve's policy is extremely accommodative.
	Duration	Interest rates will remain low for longer.
	Quality	Lower quality credits should be avoided but are becoming attractive.

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