Eagle Wealth Strategies July 2020

THE EAGLE'S VIEW


Paul J. Tully, CFP®, RICP®

The number and severity of financially and life effecting impactful events over the past 6 months is incredible. It's been said that it is the country's biggest crisis since World War II and there is little doubt that between the pandemic, economy and social unrest, 2020 has been very challenging for everyone.

The investment market meltdown (described by one well known financial writer as ***"unprecedented economic cardiac arrest"***) started things off in mid-February, but as of June 30 the US equity markets have largely recovered, though with considerable volatility. Starting at the market bottom in March, the S&P 500 has risen almost 40%, the biggest 100-day surge in 80 years

The devastation and sadness of the global spread of the Covid19 virus has been and continues to be the largest public health crisis in almost a century, with almost 40 states still experiencing daily increases. It has been somewhat of a global near-death experience. It's estimated that the US may experience 200,000 deaths by October.

Just when it didn't seem it could get worse, social unrest caused by the death of George Floyd In Minneapolis has torn at the fabric of our nation and will result in generational changes in many ways.

All of these have occurred in a period of less than 6 months, but with economic and social repercussions that will last for years, perhaps decades. The events have shaken many people's personal confidence.

Although I have long term confidence in our eventual recovery, we are very likely to see more pain in the coming months, despite the early and significant recovery of the US equity markets. The pandemic seems a long way from over and as we ended June, a number of large states, including Florida, Texas and California are seeing record new infections daily

The economy, as measured by GDP, has yet to reach bottom and it is feared that

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Economy & Investment Markets


Chris Tully, CFP®, RICP®, CIMA®

The first half of 2020 is finally in the rearview mirror. 1st quarter investment performance was historically bad, but fortunately the 2nd quarter experienced a sharp rebound for the (recent) history books. The Dow Jones Industrial Average enjoyed its best quarterly gain since 1987, with the S&P 500 (1998) and Nasdaq (2001) experiencing their best in 22 and 19 years respectively. Historically, however, significant short-term increases generally have followed significant short-term decreases, so while a rebound itself should not have been a surprise, the quickness in

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the unemployment rate will remain high (over 10%) until 2022. The record setting 128-month economic expansion officially ended in recession on February 28. Assuming the recession ends as expected later this year, it may be the deepest but shortest recession ever because the fall was so severe in an otherwise good economy, it is unlikely to last long. A second wave of the virus is likely to postpone that quick recovery.

In May, 2.5 million new jobs were created when expectations had assumed an 8 million job loss. This is after the April jobs report where 43 states reported the highest unemployment rate in their history. Also, in May, retail sales were up 17%, a record for one month in the US. June's job creation was even better at 4.8 million new jobs, though unemployment still is over 11%, but hopefully on the right track.

How and when the economy will recover is completely unknown and there is a fairly wide range of potential outcomes espoused by a variety of very credible economists. It is certainly good to hear that all expect a recovery, but a bit frustrating to see the range of timeframes and the degree of recovery.

I'm in the camp that the US stock market, measured by the S&P 500, may reclaim its February 2020 high sometime in the first half 2021, though the ride may remain bumpy. One reason the markets are improving faster than the economy is that many companies in the public markets are less impacted by the pandemic than are smaller private local businesses. What really scares people is not the stock market, though that's a daily barometer. It's the local impact with schools and restaurants closed, neighbors out of work, revenue to support municipal services down due to lower income, sales and property taxes.

Vacations have been cancelled, people are avoiding flying unless necessary and on July 1, Major League Baseball announced the cancellation of all of the minor leagues for the season and as I finished this letter, the Ivy League has cancelled all Fall sports. One of my favorite events, golf's Ryder Cup has been postponed for 12 months. As a result of all of this, I think some people are a bit too optimistic on how quickly we will get past these current challenges. I think you need to look no further than the impact on professional and college sports, cancellations of thousands of business conferences and the looming dangers of opening schools in September to know that we are not at the end of this, probably until there is a vaccine.

The economy, as measured by total Gross Domestic Product, should get back to 2019 levels by 2022 and it is very likely the worst of the economy will be behind us very soon. Employment will take longer in my opinion. Firms have adapted to a reduced workforce and technology that would have adversely impacted employment at some point has accelerated out of necessity. It won't go backward. Commercial real estate has a current vacancy rate of 19% (Moody's Analytics) the highest since 1991.

As optimistic as I may be long term, things you think cannot continue often do so far longer than you anticipate and we are focused on every element of the decline and recovery and remain cautious as to a time frame. I think that people who believe we are close to a return of pre-Covid19 life may be disappointed as bankruptcies surge and many businesses remain closed, some no doubt permanently. In March 140,000 businesses closed and it is estimated by Yelp that over 40% will not re open.

As I have stated in previous communications, government assistance (more life support than stimulus) has been breathtaking in its scope and it has proven both financially and psychologically effective. While polls still show a majority of people concerned about opening the economy too soon and over 75% stating they won't fly until there is a vaccine, the sheer panic of a few months ago has largely abated.

We have had a 4th major issue this year, a harbinger of future economic risk, which is the deteriorating relationship with China. China has responsibility in the initial spread of the virus. They were not transparent and their ratcheting up tensions in Hong Kong at this time has increased the tension. China is the world's most populous country, the second largest economy in the

world, historically growing much faster than the US with a manufacturing capacity and a consumer market that the US cannot ignore. It is imperative for both our economy and the world's economy that in an interconnected world, efforts be made to coexist economically. Neither side wins in an acrimonious environment.

We now have over 130,000 people who have died and over 3 million infected. I have heard a number of experts say the true infected rate may be 10x the reported one, based on the relatively small number of tests performed. Needless to say, it has been a national tragedy and I know 7 people (one in my family) who have been infected, though fortunately all have recovered.

As if the medical pandemic was not a bad enough blow to the economy, the recent social unrest that started in Minneapolis and quickly spread throughout the US and some international cities as well, has also negatively impacted many retail businesses in cities. Though the societal implications are a bigger issue to resolve than the financial ones, these recent events will likely contribute to the slow recovery.

Despite the trifecta of major negative events this year, any one of which could cause serious financial outcomes, I remain optimistic long term. Some people may find that hard to do as recovery and progress from events like these often happen too slowly for people to notice while setbacks and declines happen too quickly to ignore.

You see the overnight tragedy and there are few overnight miracles and I don't expect a miracle this time, but I do expect to see our long history of American resolve and resilience, which has been the hallmark of our economic progress since the country began, lead us through the challenges.

There are some significant "headwinds" that we have not experienced to the degree I see coming.

Number 1 on this list deals with retirement, where Covid19 has exacerbated an already significant problem. Americans do not save enough for retirement in a longevity sensitive world. Before Covid, the Employee Benefit Research Institute estimated that American retirements collectively are underfunded by $3.7 trillion. There are a number of reasons, including that while wages since 1990 are up 14%, housing costs, educations costs and healthcare costs are up 290%, 51% and 311% respectively. The cost of living has simply risen much faster than have incomes. At the same time, close to 1/3 of employers don't offer retirement plans and even for those who do, many people don't participate. Its estimated by gobankingrates.com that over 25% of Americans have no retirement savings at all.

They include a likelihood that the next 10 years investment markets may produce much lower rates of return than the past 10 years and the likelihood that interest rates will remain lower for years. Also, the mountain of debt we have accumulated as a country has to be dealt with or we risk a long term, maybe permanent decline in the growth of the US economy and therefore our standard of living.

My crystal ball is no better than yours but when you see federal debt go from $5 trillion to perhaps $30 trillion in 15 years, something is fundamentally a problem. Whether it is our spending (which is supportive of the entire country's lifestyle) or our income shortfall (pretty much the sole source is taxes) there is a serious disconnect. As the saying goes, "when something can't last forever, it won't". But knowing that something is unsustainable does not provide information on when it will stop.

International consulting firm McKinsey & Company estimates that with a $30 trillion debt, you would need either 50% more revenue (taxes) or 25% less spending (entitlements, defense etc.) to recover. Neither is likely on its own, so both will be impacted. The good news is that they also believe that globally, there are trillions of dollars of efficiencies that will be available to reduce costs, which they call "fiscal leaking" due to uncollected revenues and unjustified outbound payments, which most of us call spending. Better procurement and fraud detection could globally save $3.5 trillion per year and the technology already exists to do this, assuming the political will is there to enforce it.

I have read recently a corporate tag line that I think will resonate with many people. It was from a major consulting firm. PriceWaterhouseCoopers and simply states, ***"Rethink Everything."***

It's a short but powerful thought that I think many businesses and individuals are doing right now. We are at EWS and I am personally as well. It's a life planning and business planning wakeup call opportunity for everyone.

For example, I have already had a number of conversations with people who have mentioned they plan to simplify their lives, however they define that. Maybe less work, maybe more travel (post Covid). The past 6 months have gotten people's attention in a way I don't recall occurring since 9/11, if even then.

Our world has been "rocked" by events this year that were unimaginable at Thanksgiving. We are digging our way out and will move forward as we have in the past.

Although it's easy to see the negatives today, and I think I have seen more discouraged and frightened people than in past crisis, I am confident we will look back on this as our parents and grandparents looked back on the Depression and other world changing events and we will emerge more grateful for what we have individually and as a society. We have seen in recent years that while growth is built over time, destruction can and has happened quickly and the resultant loss of confidence can occur in an instant and I think it has changed people permanently.

I would like to close this letter with some personal thoughts.

In April, I celebrated (maybe the wrong word in 2020) my 45th year in this profession of advising people about their finances and their goals. By the time you read this, I will have turned 70 (July 14) and those 2 events, coupled with the events of this year, are a good time to look forward.

Though some of my peers have retired, many have not. While I have considered the benefits and enjoyment of kicking back with less business commitments, I have decided that now is not my time, for several reasons.

First, people are still hurting and scared. Some of them I have advised for the entirety of my career and although I have a very talented team with which I am associated, this is not my time to "jump ship." I am committed to see this economic downturn through to a successful conclusion for our clients.

Second, I still have, at least in my opinion, more to give to people and organizations with which I am associated in business and charity. I have experiences and knowledge gained over 45 years that can still be of benefit, particularly at a time like this.

Having said all of that and knowing the strength of those on my team, ***I will be taking on fewer new relationships in the future beginning in 2021.***

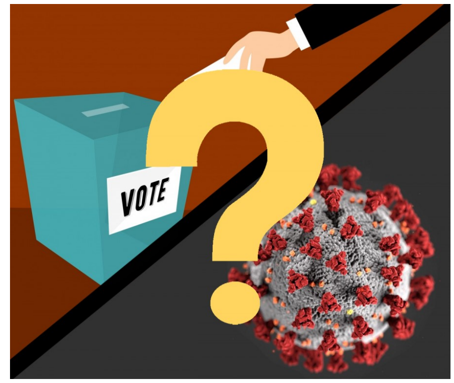
In fairness to my current clients, I have a reasonably full plate of people to advise already and overloading that plate dilutes my effectiveness.

As the "new abnormal" as someone has called it continues to evolve, I am also looking far and wide for new solutions to issues like creating security, income and achieving legacy goals for our clients. That's exciting as new solutions are emerging, but time consuming to discover and evaluate what's offered.

Given some of what I have seen this year, I will likely become more involved in charitable and civic ventures in the future.

Many of you know that my son Geoff and his wife Jess are expecting twin boys in a few weeks and we will be in Florida to help. I will continue to work from there for the rest of the summer. Timing is good in that we are still not seeing people face to face other than Zoom, etc. as a precaution to protect our clients and our team. I am available by email or by cell (856-305-6524).

Economy & Investment Markets *(continued from front page)*



this instance was. With US-China tensions re-emerging and a still-rampant virus causing chaos, confusion, and political partisanship, there is significant opportunity for a continuation of volatility ahead. As investors are seemingly tiring of discussing COVID-19, questions pertaining to the upcoming election have increased. During our daily reading, we came across a succinct post by Greg Valliere, Chief US Policy Strategist from AGF Investments, that we felt was worth sharing as the campaigns – and investor's subsequent angst over their favored party losing – begin to heat up (excerpt below):

"THERE ARE LIES, DAMNED LIES AND STATISTICS, according to Mark Twain and others, and that surely applies to the confusing track record when one party controls the White House, the Senate and the House. You can juggle the statistics and make any case.

MOST RECENTLY, ONE PARTY CONTROLLED ALL THREE — the Republicans in 2017-18. The S&P 500 rose by about 22% in 2017 but fell by about 4-1/2% in 2018. The Democrats controlled all three in 2009 -10, when the market rebounded from a disastrous 2008 (down 37%) and rose by 27% in 2009 and about 15% in 2010.

THE REPUBLICANS CONTROLLED ALL THREE in 2005 and 2006, when the S&P rose by only 5% in 2005 and by about 16% in 2006. The GOP controlled all three in 2003-04, and the market rose by about 27% in 2003 and about 11% in 2004. Early in Bill Clinton's presidency, the Democrats controlled all three; the S&P 500 rose by 9.4% in 1994 and only 1.3% in 1994.

IN SOME RECENT YEARS — 1995, 2013 and 2019, for example — the stock market did extremely well with divided government. We continue to believe the old adage that divided government is the best market scenario because "Washington does less harm."

IN THE FINAL ANALYSIS, we think one party controlling all three is only one of many variables — there are others, including where the country is in the economic cycle, the Federal Reserve's monetary policy, geopolitical developments, etc."

(Full article: https://perspectives.agf.com/reader-pushback-dem-sweep-may-not-clobber-stocks/)

The key – we believe – is the final bullet point: "…only one of many variables." Essentially, neither political party has a monopoly on positive stock market performance, with many variables helping drive investment returns. Time will tell how the elections play out, and in the meantime, we will continue to monitor and tweak the portfolios as needed.

Important RMD Announcement

Jessica L. Ortega, CFP®, RICP®

In June, the IRS announced that anyone who has already taken a required minimum distribution (RMD) in 2020 from certain retirement accounts now has the opportunity to roll those funds back into their retirement account in accordance the RMD waiver for 2020 outlined in the CARES (Coronavirus Aid, Relief, and Economic Security) Act in March. Normally this must be done within 60 days of the initial distribution to avoid taxation, but the deadline for those distributions has been extended to August 31, 2020. The RMD waiver includes IRAs, 401(k)s, and 403(b) but excludes defined benefit plans. If you would like to take advantage of this opportunity or discuss whether this option makes sense for your situation, please contact our office.

Disclosures—The New Normal

Melissa Phillips
Operations Manager

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News at EWS

In June, Chris got engaged to his girlfriend Molly. They started dating in early 2018. Molly is originally from Malvern, PA and works as a nurse at an animal hospital in Philadelphia. Congrats Chris and Molly!

Frank and his wife Jenna welcomed a healthy baby boy into the world on June 29, 2020. Francis Rocco Febbo IV was born 5 lbs. 6 oz. and 18 inches long. Congratulations to the proud parents!

In other baby news, our EWS family continues to expand with Dana and her husband expecting their second child, a boy, in November 2020!

In Our Community

In March, Anthony was honored by the Washington Township Board of Education for his 15 years of work leading the school district's Financial Literacy Program and the Junior Achievement of New Jersey who also celebrated their 100th birthday. Congratulations to Anthony — keep up the good work!

EAGLE WEALTH STRATEGIES

AN INDEPENDENT PRACTICE

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