THE EAGLE'S VIEW

AN INDEPENDENT PRACTICE

IN THIS ISSUE:

Paul J. Tully, CFP®, RICP®

As I walked in and out of the local bank the other day, wearing a mask that a year ago would have gotten me arrested or shot, I was amazed at how different life has become. Then I turned on my radio to the tune of "**The Way We Were"** ("can it be that it was all so simple then…") by Barbara Streisand and it really hit me. What in the world has happened to us? It's certainly not simple.

We are one third through the 4th quarter of the most unusual year of my 45 years in finance. It is a real challenge to grasp all that has already happened.

US deaths from COVID now approach 250,000. And the stock market keeps rising despite it all. It's been quite a week as we head toward the end of quite a year.

The COVID virus, which as of 12 months ago we had never heard of, has completely dominated both US and global geopolitics, economies, our election and healthcare since March.

We have clients on every side of the political spectrum and strong supporters for each candidate in every election. This year however, we seem to have gotten a lot more questions and concerns about the economic impact of the outcome.

Over my 45 years in this field, I have seen a lot of elections. Each one, in their day, ***"the most important election of our lifetime"****, the pundits claim. To elect the opposing candidate is to end life as we know it.*

Yet here we are, leading the world in pretty much everything financial. Unfortunately, now also among that leadership is an almost incalculable debt load. In my opinion, that makes the future look truly different. I'm just not sure how different or how we will solve this growing problem, but we will solve it.

I see every election as a watershed event, because depending on how deci-

Continued on page 2

SPECIAL POINTS OF INTEREST:

- *Economic update and the potential impact of the upcoming election*
- *Investment market review*
- *Tax planning for 2020*
- *Cyber Security Awareness*
- *EWS news*
- *COLA update*

Economy & Investment Markets

Chris Tully, CFP®, RICP®, CIMA®

Off the March 23rd lows, and in the face of continued uncertainty, stock and bond markets have maintained a steady climb. COVID-19, ongoing stimulus negotiations, and the upcoming elections create potential for choppiness in the short-term; however, low interest rates (likely for the foreseeable future), positive news on vaccines and therapeutics, and inevitable additional stimulus (whether pre- or post-election) should fuel the economic recovery in the intermediate-term.

With the final Presidential debate in the rearview, the homestretch has arrived with the election now less than two weeks away. And while we may not know the winner Tuesday

Continued on page 4

sive the outcome, national policies in many areas (finance, defense, healthcare, environment, regulation etc.) can change if a new group takes over. We have experienced that regularly, though generally it's been an 8-year cycle not a 4-year one as is quite possible this year. Philosophically, the parties are far apart in proposed solutions to our systemic problems but hopefully will ultimately work together.

We would expect changes if Mr. Biden wins. Taxes for sure, especially at the upper brackets. Financially, the US is the equivalent of a battleship and not able to be turned around like a jet ski, so changes may be more incremental than campaign slogans. There may be sectors of the economy that would do better, others may not do as well as they have, but generally speaking, ***in normal times,*** the US economy marches forward regardless. These are not normal times, so changes take on an added level of systemic risk. There will be, regardless of the outcome, less room for mistakes in policy.

Under virtually every president we have ever had, the statement, "this is the biggest/best economy in world history" can be made, because our economy grows pretty much every day we are not in recession. Since we are the world's biggest economy, every day we are literally the biggest economy the world has ever seen. That may not be forever, but it's been true almost since the inception of the US.

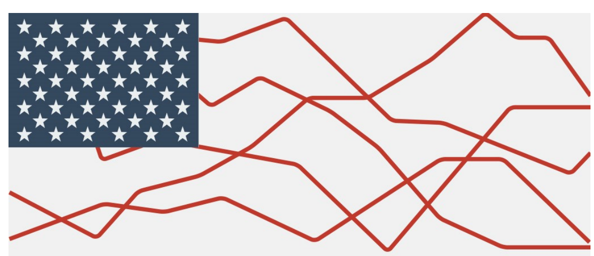
This recession was "man-made" as we partially shut down to battle COVID. A very rapid decline for 2 months and an initial rapid recovery, which is now slowing and will continue at a slower pace until a vaccine is widely available, regardless of who is president. Hopefully that vaccine is in the near future.

Although EWS may make some shifts in our strategy and investment allocation in the future depending on the outlook post-election, we have not made major shifts (like selling everything in anticipation of who wins) before a new administration is in place for at least a few months.

Big moves before an election have historically been a losing strategy. Many "experts" felt, first under Barack Obama in 2008 and then Donald Trump in 2016, that the markets would crash and we would all be destitute if either was elected. Obviously, we survived both quite nicely, though not always smoothly. I have witnessed people who have made their investment decisions primarily because of their support or disdain for a president or candidate, with disappointing to disastrous results for them. I learned recently from Fidelity that between February 15^{th} and May 20^{th}, 1/3 of Fidelity clients over age 65 sold ***all*** of their stock mutual funds. Depending on individual circumstances, it is quite possible, even likely, that depending on whether they bought those funds back later, they may never quite recover their losses.

It's time like these that need experience and guidance, and many of those Fidelity account owners are self-directed investors, prone to emotional decisions just like the rest of us.

There is some history as to which political party the markets perform best under and in general, a divided government has been better for the stock market than a one-party government. I don't think that is the cause of the success, but the pubic frequently and in my opinion mistakenly ascribes economic success or failure to political power when in fact, it's often in spite of political influence.



My experience is that the economy and markets rise under all political combinations (president, Congress, etc.) and to a large degree, presidents are given credit and blame well beyond their actual influence. Circumstances already in place as they assume office and events they cannot control while in office play a much bigger role than any individual decisions. In the past 20 years alone, September 11, 2000, the housing crisis in

2008 and COVID are examples of events beyond the control of the then sitting president that had broad economic implications afterwards.

Since 1976, there have been 4 first years of a presidential term where the S&P rose by over 30%. Two were Republican presidents, two were Democrats. Since 1950, the best annual outcomes were with a Democrat president and a Republican Congress or a Republican president and a split Congress. Under every combination, markets grew (Source: Morningstar).

There is little doubt though, that in the short term, COVID will impact financial decisions to a very large degree, regardless of who wins. Already, both parties have supported the massive increase in US debt without much debate. Today, the parties are pretty far apart on additional financial aid, but neither party rejects the idea of more borrowing to get the US through what will be a multiyear recovery period.

I believe that the coming 5 to 7 years will be extremely challenging for the US, regardless of who is elected, unless they have a magic wand to make our financial and social problems disappear. Before COVID, unemployment was at record low levels, but still the federal government was borrowing over 20% of the budget annually. If you can't balance your books at full employment, something is wrong.

In a season of consistently bad news, there is some good news as well. Employment has recovered roughly 50% of the 22 million jobs lost in March and April. That recovery has slowed lately but it is a start. People are coming back to offices. In many cases it is modified schedules as people attempt to maintain safety, but highways are a bit more crowded, airplanes have passengers (including me on September 21st) and I sense a cautious attempt to restore some normalcy to everyday life. People remain on guard, scared and careful as the pandemic has taken over 200,000 American lives and continues to cause 40,000 new cases per day with no real sign of ending anytime soon.

As of October 6th, the US stock market as measured by the S&P 500 has recovered and is actually positive for 2020.That in itself is both good news and a sign of American resilience and belief in the future. It is not however, the entire stock market that is doing well. The largest 6 companies in the S&P 500 are having a great year and are worth as much as the bottom 350 companies, an amazing statistic about the value of American companies and the dominance of a few technology firms. (Source: S&P 500)

I remain optimistic that we will get through to the other side of our financial problems, but not easily. In 2000, the federal debt totaled $5.6 trillion and we had just finished 4 years of a surplus. Today it's over $22 trillion with annual shortfalls of over $1 trillion with estimates that by 2030 it will be over $30 trillion - and that assumes no other recessions and a growth rate we haven't seen in years.

At Eagle Wealth Strategies, we are confident that we can meet the financial challenges on behalf of our clients through prudent investment management, tax planning and a comprehensive approach to providing lifetime income planning in a world of 1/4% (pre-tax) per year CDs. In May 1981 that same CD yielded over 18%! It did decline to a little over 3% 12 years later and has struggled ever since, but creating income from these interest rates today is the biggest challenge of my professional career.

Our mission, as the saying goes is, "Simple…but not easy." Stay safe!

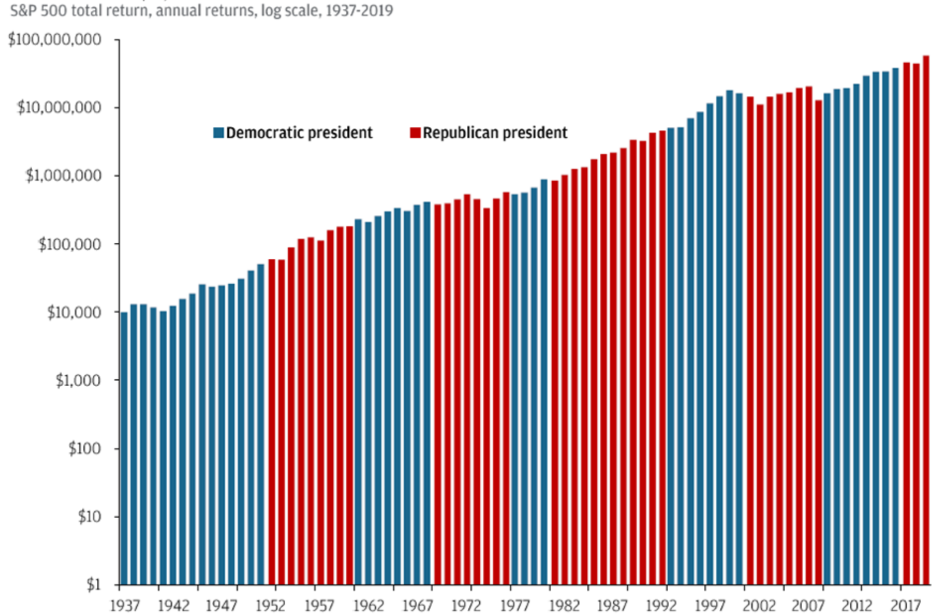
Economy & Investment Markets *(continued from front page)*

night, we will certainly know the winner at some point. In 2000, the winner was not announced until December 12th, and during that stretch the US stock market – as measured by the S&P 500 – fell by 4.25%. Though in today's world of volatility, a short-term decrease of 4.25% may not even register on most investors' radars (we have already had many such decreases since the market recovery began in late March).

Over the past months, our team has studied research reports, investment and economic charts, and attended conference calls and webinars hosted by economists, professional money manager, and political analysts. As you can imagine, as the election has drawn nearer much of the research has centered around politics. In terms of the investment markets, much of the research shows that the political party in power is not nearly as consequential as many in the news would have you believe. Ultimately, Presidents tend to manage the hand they are dealt, rather than act as the dealer themselves. As an example, per Bespoke Investment Group when reviewing the Trump and Obama presidencies: "Both Presidents couldn't be more different from each other, but the two best performing sectors under Obama – Consumer Discretionary and Technology – have also been the two best performing sectors under President Trump. Conversely, the worst sector for each President is also the same – Energy." In the past 120 years we have had 20 Presidents, with President Trump and President Obama both ranking in top 6 in terms of average annualized stock market performance.

As the old saying goes, "history does not repeat, but it often rhymes", so it is important to understand what has happened in the past to have a better idea of future possibilities. And while many people will remind you that 2020 is a year like no other, we have had many other years "like no other" in our country's history. The chart below by JP Morgan Asset Management in early October should highlight an obvious trend – over the long-haul stocks tend to go up, regardless of which party is in control.

Exhibit 4: Growth of $10,000
S&P 500 total return, annual returns, log scale, 1937-2019



Source: Standard & Poor's, J.P. Morgan Asset Management. Returns are total return, shown on a log scale. Data are as of October 5, 2020.

In times of uncertainty, investors often are at risk of making their worst mistakes, particularly during an election season when how you feel about politics can overrule how you think about investing. As stewards of other peoples' money, it is our job to remain disciplined, particularly in times of such confusion. In our advisor-managed accounts, you may have noticed a flurry of activity in mid-October following our team's monthly Investment Committee Meeting. Most of the trades were related to a scheduled rebalance of portfolios (our last rebalance was October of 2019). Rebalancing is a risk-control strategy that re-aligns a portfolio back to the original targets, typically in the context of how much an investor has within stocks versus bonds. With the heightened level of uncertainty, we felt it was best to re-align portfolios at this time.

Our next Investment Committee is the Thursday following the election, with another in early December (and interim meetings always a possibility as the world changes). The outcome of the elections may lead to further changes in our portfolios; however, we do not anticipate a large-scale movement in the amount of risk our clients are taking. Rather, we think changes around the margins – as in, which sectors of the US market we are currently tilting towards – may be more likely. The election results could also impact our view on items such as taxes, particularly with capital gains. At year-end we generally review non-retirement accounts for possible tax-loss harvesting (selling investments at a loss and booking them for accounting purposes in order to offset current or future gains). This year, however, it is possible we harvest *gains in certain situations so they are taxed at current rates, considering the possibility that tax law changes may be coming down the road.*

If you have any questions about your portfolio or our current thinking, please give us a call at any time. In the meantime: stay patient, stay disciplined, and stay focused on long-term goals rather than short-term fears.

Tax Planning for 2020

Jessica L. Ortega, CFP®, RICP®

With the summer now behind us and the holiday season quickly approaching, now is a great time to ensure you won't be missing any year-end opportunities.

Review Your FSA Balance
If you have funds in a flexible spending account (FSA) through your employer, they typically must be used by year-end or the balance will be forfeited. Now is the time to address any outstanding medical bills you may have, buy new prescription glasses, stock up on prescriptions, or replenish your medicine cabinet with FSA-eligible items such as first aid kits, heating pads, and ice packs.

Check Retirement Account Contributions
Retirement accounts such as 401(k)s and 403(b)s have year-end deadlines for making employee contributions for 2020. The contribution limit for 2020 is $19,000, plus an additional $6,000 for anyone over 50. These contributions must be withheld from wages. Consider increasing your contributions, with the goal of reaching the maximum contribution amount.

Make Charitable Contributions
For a charitable contribution to appear on your 2020 tax return, it must be made by the end of the year. Even though Required Minimum Distributions (RMDs) are waived for 2020, anyone over 70 ½ can still make a Qualified Charitable Distribution (QCD) from their IRA without having the distribution count as taxable income (up to $100,000 per year). Additionally, you may want to consider making a gift of appreciated stock.

Gifts to Family
If you'd like to make a financial gift to someone which can reduce your taxable estate, the deadline is December 31. You can currently gift up to $15,000 from each spouse to each individual tax-free. This includes contributions to 529 college savings plans.

Strategic Sales of Investments
If you have investments with unrealized capital losses, you can sell them to offset any gains you have realized for the tax year or offset up to $3,000 of ordinary income. Alternatively, depending on your tax situation, you may want to sell investments with embedded capital gains as part of a larger tax strategy.

Consider a Roth Conversion

Depending on your situation, you may want to convert all or a portion of your IRA assets to a Roth IRA. Unlike a traditional IRA, contributions to a Roth IRA and any associated earnings are generally not subject to federal income taxes upon distribution if the account has been open 5 years and you're at least 59 ½. You will be required to pay income tax on the amount you convert, but it could be beneficial for you to pay the tax now and have future tax-free withdrawals from your Roth IRA.

Upcoming Election

There is potential for major tax legislation in 2021 depending on the results of the upcoming election. However, it is generally not advisable to take action based on what may or may not happen at the polls. Not yet! We are following closely and will inform you of any additional opportunities or strategies to consider based on the next President's positions.

October is National Cybersecurity Awareness Month

Melissa Phillips
Operations Manager

Cyber criminals never sleep – and it shows. Cyber threats continue to grow around 10% year over year, and the first line of defense starts with <u>you</u>. There are a number of seemingly small yet powerful actions you can implement to help protect you against bad actors. Here are just a few:

1. **Be aware, be suspicious** – Never give out personal information unless you are 100% sure who is on the receiving end. If anything seems "off", contact the company directly to get verification. Same goes for links in emails – think twice before clicking!
2. **Shred it!** – Make sure you use a cross-cut shredder to destroy old documents with any personal information on it. Also – be sure you properly wipe any electronics before disposal. An I.T. professional can do this for you if you're unsure what to do.
3. **Make that password complicated** – Yes, I know it's much easier to use something like Winter2020 – but guess what? Easy to guess passwords like that are a gift to hackers. Consider using a password manager, such as LastPass, to store them.
4. **Turn on the 2FA** – 2FA stands for two-factor authentication. Most websites now offer this, and if they do, say yes! This means that in addition to entering your password, you'll also have to enter a code that is texted to your phone. This is like adding a deadbolt to your front door.
5. **Keep watch** – Check your financial accounts frequently for unauthorized or suspicious activity. The sooner you catch it, the better. Notify the financial institution immediately if you notice anything.

If you'd like to learn more, Raymond James has a great page full of additional knowledge articles on the subject here: www.raymondjames.com/commentary-and-insights/cybersecurity-resources

Use Client Access and Vault to Securely Share Documents

If you are a current Client Access user, did you know that you have access to Vault? Vault is a helpful hidden gem, giving you and your advisor the ability to easily and securely store and share files. To access, log into Client Access and click on the word "Vault" in the top toolbar on the homepage.

Once in Vault, you'll see that you have the options to upload files and even create your own folders to stay organized. This is a completely free, unlimited storage option available to you.

If you are not yet enrolled in Client Access or interested in Vault, and would like some guidance, please contact me. I will be happy to set up a call or Zoom to walk you through the basics so that you're comfortable with the platform and able to take advantage of its features. You can email – melissa.phillips@eaglewealthstrategies.com – or call the office.

Life During a Pandemic: Business as Usual?

In March, we were suddenly tasked with protecting our clients and employees while staying fully functional. Given the technology already in place, it was a smooth and swift transition. We are proud to report that our service to clients was not negatively affected and we were able to balance caution with outstanding client service.

Since we have always been a closely-knit group, camaraderie and communication among staff has also become an important focus for us. Evidence shows that teams who are bonded and enjoy each others' company are not only happier, but also more productive. This was a vital aspect that we did not want to sacrifice while remaining physically distant. Regular Zoom staff meetings to keep current on workflows and "virtual happy hours" to catch up and share what's been happening in our personal lives have been helpful to both maintain and foster coworker relationships.

Today, we continue to stay vigilant and let common sense prevail as cases of COVID-19 wax and wane for the foreseeable future. We are limiting the number of associates in the office at a given time, conducting meetings via Zoom as much as possible, utilizing e-signature where appropriate, and encouraging all visitors to wear a mask or face covering when entering the office. We've stocked up on cleaning supplies, hand sanitizer, and extra masks to ensure that if you need to come in the office, you can be assured we've taken the appropriate precautions to help keep you safe.

It may look a little different, but it certainly is business as usual at EWS.

News at EWS

Paul and Kathy spent July through mid-September in Miami welcoming and helping with their twin grandsons, Virgil and Henry, who were born on July 28th. Both boys and their parents Geoff and Jess are doing great. It was an unforgettable, wonderful experience to spend the first few months of their lives watching them change every day…and changing them numerous times every day! A bit tiring at times, but worth every moment. With COVID pretty much eliminating in person meetings for a while, it was pretty easy for Paul to work remotely which was a bit of an added bonus.

Social Security
Cost of Living Adjustment
For 2021:

1.3%

EAGLE WEALTH STRATEGIES

AN INDEPENDENT PRACTICE

Eagle Wealth Strategies is not a registered broker/dealer and is independent of Raymond James Financial Services located in West Deptford, New Jersey. Our team of financial advisors provides comprehensive financial and retirement planning services to successful individuals and families, retirees and those nearing retirement, single, widowed and divorced women, and attorneys, accountants and physicians.

Each of our financial advisors – **Paul Tully, Steffanie Lerch, Chris Tully, and Jessica Ortega** – holds the Certified Financial Planner™ certification and the Retirement Income Certified Professional® certification. The CFP® credential is awarded to a select number of financial professionals who satisfy the CFP® Board of Standard's rigorous educational and examination requirements, and who agree to adhere to its high level of ethical and professional standards. In order to receive the RICP® designation, one must meet experience requirements and ethic standards, successfully complete three courses which include rigorous tests to pass, and agree to comply with The American College Code of Ethics and Procedures.

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