Perspectives

Newsletter I Quarter Ending June 30, 2020

Benefit Financial Services Group I 2040 Main Street, Suite 720, Irvine CA 92614 I Phone: 888.726.9378 I www.bfsg.com

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Market Recap

Is anyone thinking about Rip Van Winkle today? You know, the guy who fell asleep on February 24 and did not wake up until June 30? I kind of wish that had been me. It has been the most volatile period of my 30+ year career. Rip will just look at his portfolio returns as of June 30th and probably yawn and go back to sleep. No big deal. However, he slept through a period that will go down in history and included the best quarter for the S&P 500[1] in 22 years!

The S&P 500 hit an all-time high of 3393 on February 19th, and then fell an astonishing 35%, until bottoming out at 2192 on March 23rd. It was the fastest drop into a bear market of all time (defined as a 20% drop from a new high), and it coincided with a sharp decline in our economy resulting in the quickest fall into recession in our history. However, being part of history was not much comfort to investors!

Fortunately, the stock market turned on a dime on March 23rd, and we experienced the fastest rally of its size in history. The S&P 500 rose an astonishing (there is that word again!) 47% from the March 23rd bottom to June 5th, and then it sort of took the rest of the month off to catch its breath, closing the quarter at 3100. Not back to its February high, but under the circumstances, we will gratefully take it!

The decline in international developed and emerging stock indexes closely mirrored that of the S&P 500. However, their recovery, though strong, did not quite keep up with the S&P 500.

Fixed income went on a wild ride, also. The 10 yr. U.S. Treasury rose 17.1% from February 24th to March 9th (a flight to safety), then fell 15% from March 9th to March 18th (investors did not want to own anything!), and then rallied 17.7% from March 18th to quarter-end. You own bonds for times like these!

Rip, you might want to sleep with one eye open from now on!

- **Patrick Powers, CFA®, CPA, CFP®**
  Partner/Managing Principal

Forecast

The stock market has come back a long way since it bottomed out in March of this year. However, it may be time for a breather. Due to COVID-19 reinfection rates and lingering trade issues, the economic recovery may take longer than expected. With so much uncertainty in the air, it only makes sense to pause when the distribution of public health, political, and trade outcomes is so wide. Taking those factors into account, and combining them with elevated forward earnings, we remain cautious.

A resurgence in COVID-19 infection rates is not our investment concern at this moment, but it could become one if municipalities and states institute additional lockdown measures. Another reason for caution is that this is an election year. Mudslinging and rhetoric go hand in hand with elections and that can affect markets. However, one commonality on both sides of the aisle, is that almost every politician has a disdain for China. The trade spat could turn into a trade war, which would be a negative for stock markets. Throw in a border clash between India and China and you have a witch's brew.

Yet, all the news is not so glum, especially when the Federal Reserve bank and the fiscal side of the government are supplying so much liquidity to the securities markets, companies, and individuals. This capital has to go somewhere and it most likely will funnel through the markets.

Although we are cautious at this juncture, and think that the market may move sideways during the 3rd quarter, we remain constructive on a longer 9- to 12-month time horizon for the return prospects of the stock market. The pandemic should not exact a permanent and negative impact on corporate earnings.

- **Steven Yamshon, PhD**
  Partner/Managing Principal

Portfolio Management

No matter what's happening in the economy and financial markets, we're always on the lookout for ways to bring you closer to your goals; even as we remain focused on executing your financial plan, we're never standing still. At BFSG, we have a philosophy of continuous process improvement. With that in mind, the current situation presents us with opportunities to "clean up" or fine-tune a few aspects of your portfolio and how you access money to sustain your retirement. During the recent market volatility, we were applying our process-driven strategy and following some general investment principles:

- **Investment Principle "Buy low, sell high"** – It is vital to maintain a strategic asset allocation over time and we were busy rebalancing portfolios during the 2nd quarter, reallocating assets from the outperforming asset classes (bonds/cash) to the underperforming asset classes (stocks).

- **Investment Principle "It's not what you make – it's what you keep"** – We implemented a tax-loss harvesting strategy for securities with investment losses by selling that security and replacing it with a similar security. This serves to minimize taxes you may owe at the end of the year on taxable gains and/or regular income.[2]

- **Investment Principle "Use compounding to your advantage" -** The combination of being near all-time lows in tax rates, and stock markets being off all-time highs created an attractive opportunity to take assets out of a tax-deferred account like a 401(k) or IRA, and place the assets into a Roth account that will compound tax-free.

- **Investment Principle "Focus on what you can control"** – Volatility has, and always will be, a part of the stock market. So with many of you, we were reevaluating your risk tolerance, confirming our understanding of your time horizon, discussing spending rates and strategies for spending in retirement, reviewing your liquidity buffer, and implementing a financial plan.

- **Investment Principle "Diversification is the only free lunch"** – We were busy reviewing your holdings and asset allocation, addressing concentrated equity positions, and evaluating new investments.

Even during events that lie largely out of anyone's control, we still have meaningful levers within our control and yours to keep your financial goals on track.

- **Michael Allbee, CFP®**
  Partner/Senior Portfolio Manager

Talk With Us!

We are very excited to announce an upcoming Financial Planning Summer Webinar Series on some of the most common topics about which our clients ask us. This series will cover Social Security, Medicare, Estate Planning, and Financial Planning. Each webinar will be hosted by one of our Certified Financial Planner™ professionals along with a guest speaker who is an expert in the subject matter. Below are the dates and times for the webinars and click on the links to register (space is limited):

July 7th at 10:00 AM PDT – Social Security

July 14th at 10:00 AM PDT – Medicare Planning

July 21st at 10:00 AM PDT – Estate and Legacy Planning

July 28th at 10:00 AM PDT – The 7 Pillars of Financial Planning

These webinars will be very informative and are a great opportunity to have your questions or concerns answered by experts. The webinars are complimentary so please feel free to share the information on them with friends and family.

- **Paul Horn, CFP®, CPWA®**
  Senior Financial Planner

The Score Board

	6/30/2020	YTD Change
Dow Jones Industrial Average	25,812.88	-8.43%
S&P 500*	3,100.29	-4.04%
NASDAQ Composite*	10,058.77	12.10%
MSCI EAFE (USD)*	1,780.58	-12.59%
Bloomberg Commodity Index	64.98	-19.67%
Barclays Aggregate Bond Index	2,361.51	6.14%
10 Yr U.S. Treasury Bond Yield	0.66%	-122 bps
30 Yr Fixed Mortgage Rate	3.28%	-53 bps
Prime Rate	3.25%	-150 bps
Crude Oil ($ / Barrel)	$39.27	-35.69%
Gold ($ / Oz.)	$1,780.96	17.38%
U.S. $ / Euro €	$1.12	0.18%
Core Inflation (excluding food / energy)		1.20%**
Inflation (including food / energy)		0.10%**

**Without Dividends*

***Unadjusted 12-Months ended May 2020*

bps (1 Basis Point = 1/100%)

UNCH (Unchanged)

Sources for Score Board and quoted statistics:
WSJ, US Dept. of Labor, Federal Reserve

Sources:

1. The S&P 500 is designed to be a leading indicator of U.S. equities and is commonly used as a proxy for the U.S. stock market.
2. Investors can offset up to $3,000 per year, and losses can be kept in perpetuity. The U.S. federal government allows investors to use capital losses to offset capital gains in a current tax year or carry the loss forward into future years.