2nd Quarter 2020 Newsletter
April 2020

NovaPoint CAPITAL LLC

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MARKET UPDATE

By JOSEPH SROKA, CFA, CMT

The first quarter of 2020 will be remembered as the quarter impacted by the COVID-19 crisis.

Solid economic growth from 2019 came to a standstill as the spread of COVID-19 forced closure of businesses initially in the travel, dining, and entertainment industries. The Federal Reserve took immediate action by lowering short-term interest rates and providing liquidity to the financial markets.

After some political wrangling, Congress was able to pass the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The Act provides a financial package to help bridge the economic gap caused by the widespread business shutdowns required to help stem the spread of the virus. My colleagues go into detail on the practical considerations for individuals and small businesses to better under the CARES Act in other sections of the newsletter and I would encourage anyone with questions to reach out.

At the same time the coronavirus was spreading, the Russians and Saudis decided to engage in an oil price war. Oil had already been suffering from demand destruction as airlines were reducing flight schedules, spring break vacations were cancelled, and stay-at-home orders were reducing driving miles. As I write this there is some speculation that the two countries may come to some truce, likely through production cuts, to help stabilize oil prices globally. Ultimately, return of demand from economic activity is likely to be the longer term determinant for oil prices.

As we move into the quarterly corporate reporting season, we should get better clarity into the impact of the environment on many individual companies and industries. We think investors are likely going to be less focused on the impact in the quarter and more focused on what actions companies are taking to adjust to the current economic environment. Many companies have withdrawn their financial guidance for the year due to the uncertainty of when activity levels start returning to normal.

The duration and full economic impact of the COVID-19 crisis is still unknown. Worldwide economic growth is likely to be severely impacted until the virus is contained and life gets back to normal around the world. We believe this is a question of "when" and not "if", as both the public and private sectors have been aggressively addressing ways to help those suffering both health and economic impact of the virus.

Our equity holdings are well diversified across sectors. We favor high-quality stocks with a demonstrated track-record of increasing dividends as we believe they are more durable through economic cycles, especially in times of crisis, as the dividends can provide some ballast in a volatile market.

	1Q20 Return	YTD Return
S&P 500 Index	-19.6%	-19.6%
Dow Jones Industrial Average	-22.7%	-22.7%
NASDAQ 100	-10.3%	-10.3%
Russell 2000 (Small Cap Index)	-30.6%	-30.6%
International Stocks (MSCI ex-US)	-23.4%	-23.4%

	1Q20 Return	YTD Return
Aggregate Bond Index	2.5%	2.5%
U.S. Dollar Index	2.8%	2.8%
WTI Crude Oil	-66.5%	-66.5%
Gold	3.6%	3.6%
Real Estate (US REIT Index)	-27.5%	-27.5%

Sources: S&P Global, Thomson Reuters / YTD Returns through 3/31/2020

Rebalancing: A Proactive Process

"...plans are useless, but planning is indispensable."

-Dwight D. Eisenhower

While this famous quote from the former President and World War II Army General is referring to battle, it is no less relevant in a tumultuous economic and market environment. We can plan as if investments will provide predictable positive returns, but comprehensive planning is how an investor can prepare for the unexpected, and it is what allows constructive action amidst it.

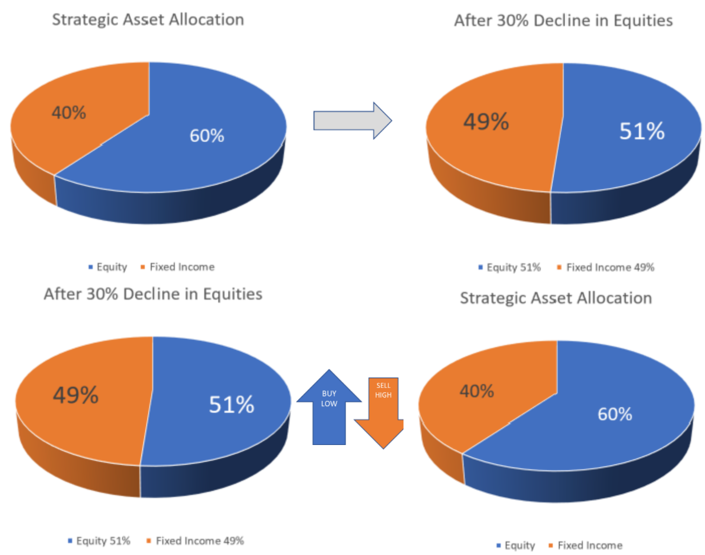
At the end of the first quarter 2020, investors find themselves in the midst of the most rapid bear market in history, as defined by a 20% decline in stock markets (or more). Due to the COVID-19 crisis, fear and uncertainty are at extreme levels.

These are the times when the disciplines of investing are tested and where the fundamentals of constructing an appropriate investment plan based on time horizon, liquidity requirement, and risk tolerance prove critical.

With proper planning we still have an opportunity to take constructive action and capitalize on market volatility in a disciplined way without assuming excessive risk or speculation.

A well-designed wealth plan provides the liquidity to provide for short term spending needs with a diversified portfolio invested for a long-term time horizon. With the appropriate time horizon, a periodic, process-driven rebalance allows an investor to unemotionally invest in declining assets such that their portfolio can be repositioned back to its appropriate allocation.

As stocks have declined, bonds have closer held their value causing some investors to now be under-allocated in stocks. Selling a portion of the bonds that are up and buying stocks can bring a portfolio back to it's target allocation.



Our investors know that we often quantify portfolios by risk score. This same concept plays out as a portfolio's risk score has likely strayed with its asset allocation. Rebalancing to the investor's defined risk score will accomplish the same objective, and is often implemented via rebalancing as described above.

This may not seem easy to do during extreme and unexpected market volatility. As investment advisers, this is a time where we can provide impactful value by communicating these concepts and implementing our strategies unemotionally. A combination of discipline and the experience to act prudently.

As we like to remind investors– stay the course, but know your course first.

In difficult environments like this, knowing that course becomes all the more imperative because it allows our investors to stay on course because they can trust the process.

How can we help you evaluate your course, and navigate the challenges to stay on course?

CARES Act impact on Retirement Plans and IRA Accounts

The recently passed CARES Act has implications for both Business Retirement Plans and Individual Retirement Accounts (IRA's)

Business Retirement Plans

If you are a plan sponsor or a participant in a 401(k) plan there are new rules allowing for increased loans (up to $100,00 of your vested balance, up from $50,000 previously). Interest will still have to be paid on any loan. There are also changes to the payment requirements, allowing up to a one-year deferral on payments. An accelerated payback schedule is also available should you wish to pay back the loan sooner, otherwise, doing so would require you to contribute more than the annual employee contribution limit. Keep in mind that there are some qualifications you must meet in order to be eligible for the additional loan amount, so reach out to us for guidance beforehand.

If you were planning to make your 2019 Defined Benefit Plan contributions in 2020, that deadline has been extended to January 1, 2021. This does not mean you should wait until the last minute, but it does allow you to make monthly contribution amounts, rather than one lump sum. If you are considering this option, please contact us or your plan administrator to see if there are any plan specifics that need to be considered.

IRA and Roth IRA Accounts

The CARES Act also made some changes for IRA's. Last year the SECURE Act was passed which changed required minimum distributions (RMD's) from age 70 ½ to age 72. If you were supposed to take an RMD in 2020, that requirement has been waived.

The CARES Act also allows up you to take a Coronavirus-related distribution in 2020 of up to $100,000 without being subject to the 10% penalty. In addition, the taxes can be paid over three years. In the event you are able to pay the funds back in this three year timeframe, there are ways to get a refund for the taxes paid. Call us for details on how to do this.

As a side note to the CARES Act, with the market decline in the first quarter, now may be a good time to consider either a partial or complete Roth conversion. If you would like to talk more about how this could benefit you, and the tax implications, please schedule a time to talk.

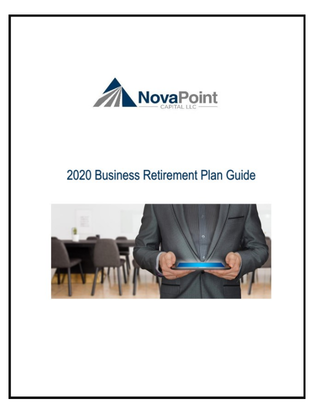
Finally, Rebalancing is a key part of a long-term investment plan. My colleague Jeff Wright covers this on page 2, so please take some time to review that and, as always, let us know if you have any questions.

No Plan? Make it a Priority for 2020

While the economic environment may be uncertain, it still makes sense to considering establishing a plan for your company in 2020.

Please contact us if we can help with a fiduciary review of an existing plan or design of a new one. If you would like a copy of our 2020 Business Retirement Plan Guide, please use the link below or contact us and we can send you a copy.

DOWNLOAD THE GUIDE



CARES Act

Understanding Paycheck Protection Program and Economic Injury Disaster Loan

Two ways small businesses can access government funds as part of the CARES Act is through the Paycheck Protection Program and the Economic Injury Disaster Loan program.

Our colleague Christina McGeehen from sister-company My Professional CFO has provided a fact sheet to help business owners, independent contractors, and nonprofit organizations understand the two programs. This is a rapidly evolving program and new information is available almost daily on how it is being implemented.

You can access the fact sheet HERE.

If you have questions, please reach out to Christina. She is a CPA with over 20-years experience in both public accounting and private industry.

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Do You Know Your Risk Number?

Individuals often classify their investment risk tolerance with adjectives such as "Conservative", "Moderate", or "Aggressive".

These can be highly subjective and may not correctly identify the amount of risk someone is actually comfortable taking.

One Moderate investor may feel uncomfortable if their portfolio fell 5% while another may not feel uncomfortable until their portfolio falls more than 10%.

While investors understand that the purpose of taking risk is to achieve investment returns, they may not have a realistic sense of how much risk is required to achieve a targeted level of return. In this case, they may not be taking enough risk and wondering why they are not able to achieve the returns they want.

We work with our clients to identify the risk they are comfortable taking and balance it with the investment objectives they are seeking to achieve.

Follow this link to take our complimentary risk analysis questionnaire.

Follow our Weekly Blog Posts

Each Monday, we publish a report on the NovaPoint Capital website blog highlighting important financial and investment issues for the week. We also have our Dissecting Headlines section where we dive deeper to explain what some of the news headlines mean in an investment context. You can find the blog on the website on the News dropdown menu or at https://novapointcapital.com/blog/

NovaPoint CAPITAL LLC

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NovaPoint Capital is an investment management and advisory firm. We manage investment portfolios for individuals, family offices, businesses and their retirement plans, nonprofit organizations, and institutions.

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