3rd Quarter 2020 Newsletter
July 2020

NovaPoint CAPITAL LLC

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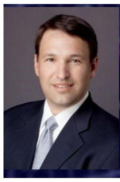

MARKET UPDATE

By JOSEPH SROKA, CFA, CMT

While COVID-19 dealt the financial markets a harsh blow in the first quarter of 2020, the second quarter staged a significant recovery.

A large part of the investor confidence was due to the bridge that the U.S. government and the Federal Reserve supplied to the economy. The government passed multiple relief and stimulus bills to provide relief to both individuals and businesses. The Federal Reserve kept the banking system and financial markets liquid and fully functioning.

Many economic data points have been improving over the past few months, but we still have a long way to go to get back to pre-COVID levels of activity. Employment is possibly the most important factor to the economy recovering from the recession experienced in the first half of the year. The monthly employment report has shown net creation of 2.5 million jobs in May and 4.8 million jobs in June. The weekly continuing claims for unemployment peaked in early May at over 24 million and has declined to 17 million. Again, we still have a long way to go.

Employment is vital to the health of the economy because consumer activity accounts for up to two-thirds of Gross Domestic Product. Retail sales, housing, and consumer confidence are all key metrics to monitor to assess economic growth. With regard to GDP, the first quarter of 2020 saw a 5.0% contraction in the economy and the second quarter, which bore the brunt of the COVID economic impact, saw a 32.9% decline. Barring another COVID-like event, this should mark a trough in the economy.

We always felt that 2020 would be a year of market volatility, but that was based on the anticipation of a high degree of noise heading into the 2020 election. With less than 100 days until election day in the U.S., there have been much nosier events occupying news headlines other than the election. That is likely to change shortly as both major parties are having their conventions in August.

We remain optimistic that the economy is on the mend, but acknowledge that it is likely to not be a straight-line recovery. Despite the market recovery in the second quarter, we are likely to see continued risk-on, risk-off days based on economic and political news.

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.

	2Q20 Return	YTD Return		2Q20 Return	YTD Return
S&P 500 Index	20.5%	-3.1%	Aggregate Bond Index	4.0%	6.6%
Dow Jones Industrial Average	18.5%	-8.4%	U.S. Dollar Index	-1.7%	1.0%
NASDAQ 100	30.3%	16.9%	WTI Crude Oil	91.7%	-35.7%
Russell 2000 (Small Cap Index)	25.4%	-13.0%	Gold	13.3%	17.4%
International Stocks (MSCI ex-U	14.8%	-12.0%	Real Estate (US REIT Index)	10.6%	-19.8%

Sources: S&P Global, Thomson Reuters / YTD Returns through 6/30/2020

Thrive Over Survive

"My mission in life is not merely to survive, but to thrive; and to do so with some passion, some compassion, some humor and some style." -Maya Angelou

From a financial and investment planning perspective, 2020 has been a challenging year so far. As strategists who identify objectives and manage risk, our goal is to position investors to thrive- not just survive- through environments like we are seeing in 2020.

When the COVID-19 pandemic emerged, the markets declined swiftly and severely, even without a full understanding of the magnitude of that impact. Subsequently markets have recovered quickly as well, as the economic and medical scenarios seem to have played out as less dire than initially feared, particularly with the government's economic aid.

The practical implication is that markets behave based on better-or-worse outcomes versus expectations, and in anticipation of future economic performance.

This market movement is indeed much quicker than we are historically accustomed to and the decline was the fastest bear market on record. The market's anticipation of the economy is not new, however. During the financial crisis, the market peaked in the fall of 2007 and then bottomed in March of 2009 before the second quarter of GDP decline was released, or before the economy was technically in a recession. Understanding this market dynamic allows a patient investor to evaluate relevant information and make incremental decisions rather than reacting emotionally with the market.

How do we thrive? A first step is to identify and quantify goals. Staying focused on goals helps to clarify the actions needed to work towards them. A next step is identifying an investor's risks, both quantitative market risk and qualitative risks, to achieving those goals. By understanding and mitigating unnecessary risks it can better frame windows of opportunity to take action. Systematic rebalancing is an example of sticking to a goal based plan through market ups and downs.

Above all, it is understanding the long-term goals that allow you to look for opportunities and understand how to capitalize on them, or at least how not to make strategic mistakes. It also allows the confidence to take a longer-term view.

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.

CARES Act impact on Retirement Plans and IRA Accounts—Mid Year Update

Business Retirement Plans

If you are a plan sponsor or participant in a 401(k) plan there are new rules allowing for increased loans (up to $100,00 of your vested balance versus $50,000 previously). *Update – Just because the Act permits this new loan amount, employers will have to amend plan documents to allow this change*. 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. There are some qualifications you must meet to be eligible for the additional loan amount, so reach out to us or your plan administrator for guidance beforehand. *Update – Do not assume that you automatically qualify*. The updated guidance is specific. If you are not qualified, you could be subject to penalty and repayment requirements.

If you were planning to make your 2019 Defined Benefit Plan contributions in 2020, that deadline has been extended to January 1, 2021. This can allow you to make smaller 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.

Update – Tax filing deadline was July 15th, but if you have extended your tax filing, you can still make SEP IRA contributions for 2019.

IRA and Roth IRA Accounts

The CARES Act also made some changes for IRAs. Last year the SECURE Act was passed which changed required minimum distributions (RMDs) 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 can pay the funds back in this three-year timeframe, there are ways to get a refund for the taxes paid. *Update – As with the expanded loan options above, the $100,000 distribution has very specific requirements*. Call us for details on how to do this, as failure to follow guidance can result in penalties.

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. *Update - A Safe Harbor Plan must be in place by August 21, 2020 to be exempt from nondiscrimination testing for 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.

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.

[DOWNLOAD THE GUIDE]

TAX STRATEGY

By Tina McGeehen, CPA

Filing a Tax Return versus Executing a Tax Strategy

The initial tax season for 2019 has come to an end following the extended July 15th deadline. It may be a great relief to have your personal and business taxes complete.

You may have filed your returns, but did you execute a tax strategy? Having a well defined tax strategy at the start of the year can lead to fewer surprises when your returns are filed. A lot of frustration that we sometimes hear from clients is that they wrote a larger check to the government than they anticipated or they withheld too much during the year.

If you are an independent contractor or business owner, tax strategy can start with making sure you have the correct business structure. Whether you should be a sole proprietor, LLC, S-Corp, or C-Corp can have a great impact on your taxes. These can impact not only your taxes but your retirement plan contribution limits as well.

Even if you are not a business owner, having a strategy to maximize your retirement plan contribution, benefit from charitable contributions, and investing with tax efficiency can all save you money at tax time.

In some cases the savings is as little as $2,000 or $3,000 per year but in other cases it can be up to hundreds of thousands or more.

Importantly, a solid tax strategy can help set you on a path of savings for more than just a single tax year.

A great time to start planning for a lower tax bill next year is now. Please give us a call if we can help.

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

Visit our website: www.novapointcapital.com

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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