



MARKET UPDATE

By JOSEPH SROKA, CFA, CMT

Investor optimism for continued improvement in the economy remained high in the third quarter.

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 reports totaled 3.9 million net jobs created during the third quarter. Combined with the job growth that returned starting in May, more than half the jobs lost during the COVID-induced lockdowns have been recovered.

Along with employment, several other indicators such as retail and automobile sales, transportation activity, and orders for durable goods have increased. This leads to a significant anticipated increase for GDP growth for the third quarter. The contractions in GDP in the first and second quarters of the year marked a recession. Positive sequential GDP growth in the third quarter should mark the end of the short but deep economic downturn seen in the first half of this year.

With just days left until the Presidential Election, we acknowledge that uncertainty can cause short-term volatility. Assuming the election is resolved without any significant delay, investors should embrace the certainty once the election passes.

COVID-19 cases have started to increase in several countries, including the United States, in recent weeks. While concerning, countries are much better equipped to provide care for citizens that contract the virus. While an increase in cases could slow social and economic recovery in some areas, most countries have not seen a need to return to the extreme actions that were taken in the early part of the year.

Businesses have also made adjustments and have re-opened in most areas allowing activity to return to normal and create jobs.

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 as the dividends can provide some ballast in a volatile market.

	<u>3Q20 Return</u>	<u>YTD Return</u>
S&P 500 Index	8.9%	5.6%
Dow Jones Industrial Average	8.2%	-0.9%
NASDAQ 100	12.6%	31.6%
Russell 2000 (Small Cap Index)	4.9%	-8.7%
International Stocks (MSCI ex-US)	6.4%	-6.4%

	<u>3Q20 Return</u>	<u>YTD Return</u>
Aggregate Bond Index	0.7%	7.3%
U.S. Dollar Index	-3.6%	-2.6%
WTI Crude Oil	2.4%	-34.1%
Gold	5.9%	24.3%
Real Estate (US REIT Index)	0.6%	-19.5%

Sources: S&P Global, Thomson Reuters / YTD Returns through 9/30/2020



Onward

“Life is like riding a bicycle, to keep your balance, you must keep moving.” -Albert Einstein

In the third quarter, markets continued their recovery from the year's lows in March. This has been partly fueled by signs that the economy is beginning to recover as well.

If nothing else, 2020 has shown how resilient the economy and markets can be. Despite a contentious election, social unrest, and further uncertainty around COVID-19, major indices have reached all time highs.

At the time of this writing, S&P 500 earnings estimates for calendar year 2020 are -19.6% and the estimate for calendar year 2021 earnings is estimated at +27.4%.

We're not in the clear yet, but these expectations mean S&P 500 earnings are expected to *grow* over the full time period of 2020-2021, despite the unprecedented circumstances of the pandemic.

If 2020 was a year of fear and turmoil from an unprecedented pandemic, 2021 might be a year of

recovery.

The lesson here is to *keep going*.

How do we do that with our financial and investment strategies? Identifying financial objectives and risks allows investors to look for opportunities and understand how to capitalize on them, with the confidence to take a longer-term view.

In other words, having a strategy is what allows you to keep moving.

In the midst of uncertainty, a strategy and plan help you to take proactive action to preserve your goals, and to keep moving.

Further, an adviser can provide the perspective, analysis, and courses of action to keep moving.

How can we assist you in evaluating your strategy, or in setting up your strategy to keep going forward to your goals and objectives?

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](#).



BUSINESS RETIREMENT PLANS

By ALAN J. CONNER

It's Not too Late to Reduce Your Tax Bill for 2020

Now that we are in the Fourth Quarter of 2020 (and for most of us, this year cannot end soon enough), we should all commit to the end of year planning that will benefit you into 2021 and beyond.

Review your existing 401(k) plan

It is not uncommon for a plan sponsor to simply establish a 401(k) plan and forget it. For many reasons (liability being one of them) these plans should undergo some type of review every year, or at least every other year. Give us a call if it has been a while.

Investment options – It is not uncommon for various investment options to change from year to year. This can be due to consolidation or the closing of a particular fund. Now is a great time to review all of your investment options to make sure you have the best possible choices for your participants at the lowest possible cost.

Expenses – There are many types of plan expenses, and the common theme is usually that they go up more often than they go down. If you have not performed a review of your plan expenses, give us a call. We can do a benchmark on your plan, and perhaps provide some options that will both reduce cost and increase efficiency.

Participation – Employee participation rates will significantly impact the highly compensated persons in the plan. If the participation rate is low, give us a call. We can provide the education to better inform participants about your plan and how it can help them achieve their retirement savings goals, rather than simply instructing compensated persons to reduce their contribution amounts.

Do you have a Defined Benefit Plan?

Now is a great time to look at starting a defined benefit plan. We work with several independent contractors and small businesses that benefit greatly from these plans. Depending on your annual income, we have plans contributing between \$100,000 to \$400,000 annually. This provides both a substantial tax savings,

as well as increasing retirement assets. These plans must be established before December 31st, so if you would like to determine the feasibility of a defined benefit plan for your company, give us a call for free estimate. As a side note, Paycheck Protection Program (PPP) and Economic Injury Disaster Loans (EIDL) funds can be used to make defined benefit contributions. Additionally, the actual contributions do not have to be made until later into 2021, so there is flexibility depending on your cash flow.

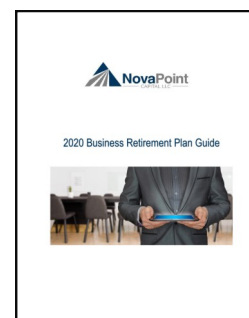
How to Increase your Withholdings

It is not too late to work on reducing your 2020 Tax bill. We would much rather help you reduce your taxes than show you how to increase your withholdings, but we can certainly help there as well.

If you need to increase your withholdings, the first step should be to review your tax return for 2019 and decide if your situation for 2020 will be similar to last year. If your income will be similar, and you want to avoid a tax bill due April 15, 2021, you should increase the amount of tax you have withheld from your salary. The easiest way to do this is to divide your tax bill by the number of pay periods you have in a year, and file an updated Form W-4 with your employer.

For more information on the types of business retirement plans available, please download our 2020 Business Retirement Plan Guide

[DOWNLOAD THE GUIDE](#)





TAX STRATEGY

By Tina McGeehen, CPA

Paycheck Protection Program and Economic Injury Disaster Loans Update

In early October, the Treasury Department along with the SBA developed a simplified forgiveness application for the PPP for borrowers of \$50,000 or less. Depending which lender you used, they may have additional steps, so be sure and check with them first.

Keep in mind that the proceeds from the PPP must have been used for payroll, rent, and/or utilities. Other uses will not qualify for forgiveness. As for the EIDL, these funds can be used for general business purposes, other than what was allocated to PPP proceeds.

The SBA has also re-opened the EIDL to non-agricultural businesses. There are still funds available under the CARES Act, and businesses should see if they qualify before the program comes to an end.

While not all businesses have fared the same during COVID, if your business has managed to thrive, EIDL

funds are eligible to be used to fund Defined Contribution and Defined Benefit plans. It is always best to confirm your specific situation to see if you can utilize the EIDL for these contributions.

Personal Tax Check-Up

As we get later in the year, now is a great time for a check-up on your personal tax situation.

Start by looking at last year's tax return, specifically your earned income (W-2) and interest and capital gains (1099). Do you expect your interest income and capital gains to be the same as last year? Keep in mind, mutual funds may pay capital gains this December, even if the value of your investment went down. Interest income will most likely be similar unless you had a one-off event. If your earned income didn't change much, then your taxes should be in a good place.

We want you to pay as little in tax as possible. If you would like a year-end tax check-up, please let us know.

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