

# SPOTLIGHT ON FINANCE

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## View on the Market April 2020

In the world of competitive cycling and bike racing, it's often said that there are only two types of cyclists: those that have crashed and those that will. The same is not only true of market cycles but of investors. If history has taught us anything, it's that bear markets are an unavoidable part of the stock market's behavior. Given this fact, the best thing that investors can do is to have an appropriate financial plan and while seeking proper guidance. Eventually, even the worst market downturns give way to bull market recoveries.

While investors should trust in their hard work and preparation, this doesn't make market downturns any less challenging as they are happening. As such, many investors naturally have questions about what took place during the first quarter and what will matter in the quarters ahead. To better understanding what is happening in the markets, it's helpful to separate the coronavirus from how it affects the economy, the ripple effect across industries, the government's response, and what investors can do to protect themselves across all parts of the market cycle.

### **A Historic First Quarter**

The U.S. stock market officially entered a bear market in March with the S&P 500 finishing the first quarter down 20%, falling as much as 34% at its lowest point. With the index at all-time highs as recently as mid-February, this was a swift decline. However, market swings have been large in both directions, with several large positive moves as well. Global stocks have performed similarly with developed markets and emerging markets declining 23% and 24% respectively during the quarter.

Interest rates also plummeted in Q1 as investors sought the safety of U.S. Treasuries. The 10-year Treasury yield fell to its lowest level in history, ending the quarter below 0.7%. Due to emergency Fed rate cuts, the yield curve has actually steepened in recent weeks with short-term rates declining even more. Oil prices also fell significantly with WTI priced at around \$20 per barrel due to limited demand and excess supply.

In the middle of a bear market, these are the types of numbers one would expect. Unlike other factors that have resulted in market volatility over the past few decades, nothing has turned everyday life upside down like the coronavirus. The fact that its spread is exponential means that the public health and economic picture has changed rapidly. At the moment, states and cities are locked down in an effort to mitigate the spread and the burden on the healthcare system. The critical side effect of these societal measures is the deep financial impact on many businesses and individuals.

## **The Economic Impact of the Coronavirus**

While it's unclear how long these lockdowns will last, their effects are now being seen in the economic data. For instance, initial jobless claims spiked from about 200,000 per week to 3.3 million recently. However, economic data on their own can only tell us about what has already taken place. In normal times, we rely on this data to help us paint a picture of what is happening beneath the surface. In this case, we not only know the underlying cause, but we also know that the numbers will get worse. Many economists are expecting unemployment to rise well above 10% and GDP growth to slow to recession levels for at least a quarter or two.

The fact that the economy was fundamentally healthy going into this crisis increases the likelihood of a full recovery. Whether businesses and individuals can reach the other side will depend on the strength of their balance sheets, access to capital, and the government's response. This is because the problems being faced are not ones inherent to the economy itself - this is not 2008 when many individuals and financial institutions were significantly over-leveraged. However, without assistance, it's possible that short-term financial distress could result in long-term solvency problems.

For instance, a shop owner might be able to survive for a few weeks or months even as bills pile up. In the worst-case scenario, the shop owner would have to lay off workers, furlough staff or shut down the business, even if they would be economically sound otherwise. If this scenario is multiplied across the whole economy, cracks could begin to form. One indicator of this is in the credit market where bond yields spiked as concerns of company financial situations increased. They have settled down slightly along with overall market volatility, but many investors are still concerned.

## **Government Support**

It's for these reasons that the government has pulled out all the stops. As a matter of principle, philosophy and politics, this has been a controversial topic among economists for centuries. As a practical matter, there are few alternatives. The Federal Reserve has cut interest rates to zero and has activated a number of programs from the 2008 financial crisis, including open-ended asset purchases (i.e. quantitative easing). Congress passed a \$2 trillion bill, the largest in history, to provide stimulus checks to households, forgivable loans to small businesses, bailouts to some critical industries, and more.

How soon Americans can return to work and shops can reopen depends on the spread of the coronavirus. The experience in China and elsewhere suggest that this could happen within the next couple of months if the virus is contained. If individuals and businesses can make it to the other side while staying safe and healthy, then work can resume and the economy can get back on track.

## Investor Behavior

In times of uncertainty, the only thing we can directly control is our own behavior. While the cause of this bear market is unique, the fact that the market has declined is not. Market corrections and bear markets are natural parts of the stock market and of the investor experience.

While bear markets are typically defined as declines of 20% or more from recent peaks, they are usually much worse. True bear markets almost always occur alongside economic recessions, and this one is no exception. On average, these economic crises result in market declines of about 35%. Coincidentally, the worst decline for global markets this year has been nearly that amount.

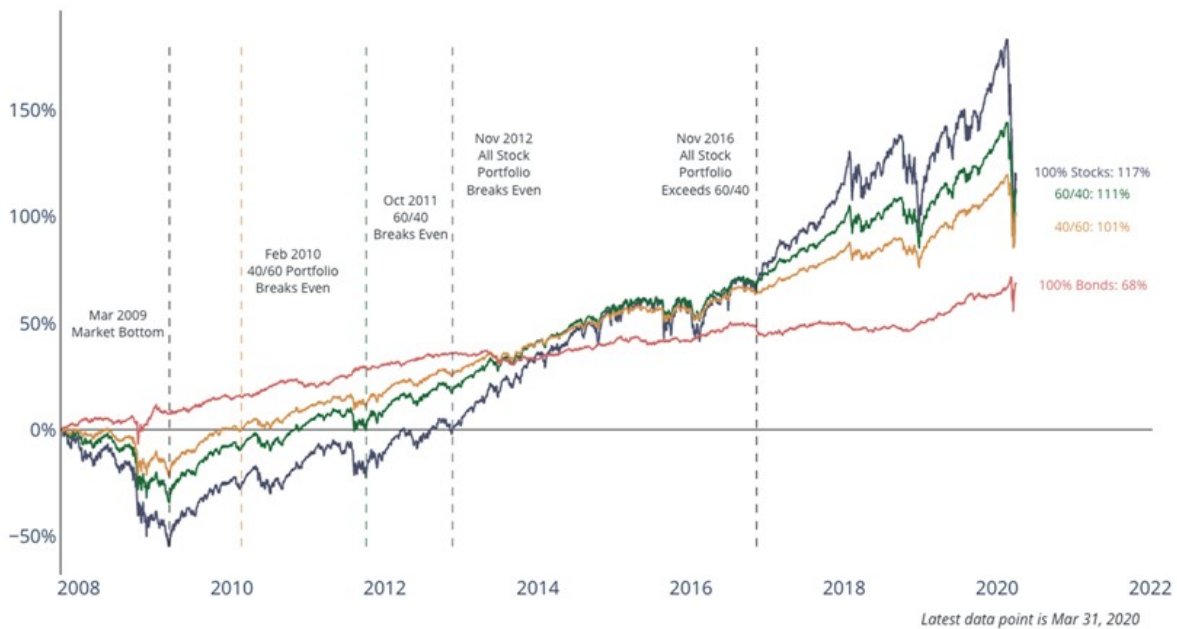
So, what can investors do? It's important to view bear markets with the proper perspective. Not only are bear markets a normal part of the cycle, *they often turn around when it's least expected*. For instance, the stock market began to recover from the 2008 financial crisis in March of the following year when there was still significant uncertainty in the world. The average bear market then fully recovers over the next couple of years. Missing out on the subsequent gains makes the bear market experience that much worse.

## Asset Allocation Performance

Market and Economic Chartbook | April 1, 2020

### Asset Allocation Performance

Total returns of hypothetical stock/bond portfolios since 2007 pre-financial crisis peak using the S&P 500 and iShares Core U.S. Bond indices, before expenses and fees



In times of economic crises and market uncertainty, it's important for investors to remain disciplined and consider their financial plans and portfolios with their objectives in mind. These are all factors that investors can control in the months ahead, regardless of how the fight against the coronavirus plays out.

The bottom line? Investors should continue to set expectations around poor economic data and market uncertainty. They should focus on remaining disciplined and ensuring their portfolios match their long-term financial goals.

## 2020 Coronavirus Aid, Relief, and Economic Security (CARES) Act

The 2020 Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed by President Trump on March 27th. Below are some of the highlights in a simplified chart and some links with more detail.

### KEY 2020 CARES ACT PROVISIONS

RECOVERY REBATES	CORONAVIRUS-RELATED DISTRIBUTIONS	OTHER PROVISIONS	UNEMPLOYMENT COMPENSATION BENEFITS	SMALL BUSINESS BENEFITS
<p>Refundable Income tax credit against 2020 income of up to \$2,400 for married couples filing a joint return. All other filers begin with a refundable credit of up to \$1,200. The credit amount then increases by up to \$500 for each child a taxpayer has under the age of 17.</p> <p>AGI threshold amounts:</p> <ul style="list-style-type: none"> <li>- Married Joint, \$150,000;</li> <li>- Head of Household, \$112,500;</li> <li>- All Other filers, \$75,000.</li> <li>- Payment reduced by \$50 for every \$1,000 over threshold amounts.</li> </ul> <p>Individuals must have a work-eligible Social Security number (and not be claimed as a dependent), but they do not need to have had reportable income in 2019 and can also be eligible for other income-benefit programs as well.</p>	<p>Coronavirus-Related Distributions are distributions of up to \$100,000, made from IRAs, employer-sponsored retirement plans, or a combination of both, which are made in 2020 by an individual who has been impacted by the Coronavirus.</p> <p>Distributions are exempt from the 10% penalty, not subject to mandatory withholding requirements, are eligible to be repaid over 3 years, and the income may be spread over 3 years.</p>	<p>Required Minimum Distributions are waived in 2020, and taxpayers who have already taken their RMDs for 2020 have the option of returning them, if they so desire.</p> <p>2020 is ignored for the purposes of the 5-Year Rule that applies to Non-Designated Beneficiaries (e.g., charities, estates, non-See-Through Trusts) who inherit a retirement account from decedents who die prior to reaching their required beginning date.</p> <p>New \$300 above-the-line deduction for "qualified charitable contributions*", and the AGI limit for cash charitable contributions has been temporarily repealed.</p> <p>Student loan payments deferred until September 30, 2020, and employers can exclude student loan repayments from compensation.</p>	<p>"Regular" Unemployment Compensation is "bumped" by \$600 per week, and the benefit period is extended by 13 weeks.</p> <p>Unemployment benefit will be available the first week of unemployment, waiving the "normal" one-week waiting period.</p>	<p>Certain small business can qualify for small business loans up to a maximum of the lesser of \$10 million, or 25 x average payroll, rent, utilities, mortgage interest, group insurance premiums, etc.</p> <p>Such loans (which have a maximum interest rate of 4%) are eligible for full or partial forgiveness. Eligible amounts must be spent during the first 8 weeks after the loan is made if spent on payroll costs, rent, utilities, and group health insurance premiums, BUT business MUST maintain the same number of employees (subject to certain timeframes).</p> <p>Payroll tax credit for qualifying businesses not receiving a covered loan (above).</p> <p>Employers are eligible to defer payroll taxes from the date of enactment through the end of the year, until the end of 2021 and 2022.</p>

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Source: Coronavirus Aid, Relief, and Economic Security Act

**[Additional Links for more detailed information:](https://www.pbmares.com/cares-act-helps-individuals/)**  
<https://www.pbmares.com/cares-act-helps-individuals/>  
<https://www.pbmares.com/business-benefits-cares-act/>

<https://www.pbmares.com/forgivable-small-business-loans/>

**Please see below for links to the official Maryland, Virginia and IRS websites for more information.**

### **State of Maryland:**

<http://www.comp.state.md.us/index.php>

<http://www.comp.state.md.us/schedule/covid.php> – Message from the Comptroller re COVID-19 tax relief.

Here's an excerpt:

- The deadline to file a 2019 income tax return is July 15, 2020. Interest and penalty shall be assessed on any unpaid tax from July 15, 2020 until the date the tax is paid. Maryland individual, corporate, pass through entity, and fiduciary taxpayers are afforded the same relief at the Maryland level. Unlike the federal extension, which included only those taxpayers who owed under a certain amount of tax, the Maryland extension applies to all taxpayers.
- The extension to July 15, 2020 for filing of returns and payment of 2019 taxes is automatic; no filing or request is required to take advantage of the extended deadline.
- Fiscal year filers with tax years ending January 1, 2020 through March 31, 2020 are also eligible for the July 15, 2020 extension for filing returns and payment. The due date for March quarterly estimated payments of 2020 taxes is also extended to July 15, 2020.

Federal/IRS:

<https://www.irs.gov/coronavirus>: Tax Deadline Changed: The deadlines to FILE and PAY federal income taxes are extended to July 15, 2020.

IRS link to State Websites for Businesses: <https://www.irs.gov/businesses/small-businesses-self-employed/state-government-websites>: use this link to find your state's official website for taxes. It links to the State's business website, but you can find the link for Individual tax filing as well.

If you're curious, here's a website Tracking State Legislative Responses to COVID-19 - <https://taxfoundation.org/state-tax-coronavirus-covid19/>

### **State of Virginia:**

<https://www.tax.virginia.gov/coronavirus> : Here's an excerpt: Any income tax payments due during the time period of April 1, 2020, to June 1, 2020, will now be due on June 1, 2020. This includes individual and corporate income taxes paid to Virginia Tax. Late payment penalties will not be charged if payments are made by June 1, 2020. However, interest will still accrue, so if you can pay by the original filing due date, you should.  
<https://www.tax.virginia.gov/sites/default/files/inline-files/tb-20-4-covid-19-income-tax-bulletin.pdf>

Federal/IRS:

<https://www.irs.gov/coronavirus>: Tax Deadline Changed: The deadlines to FILE and PAY federal income taxes are extended to July 15, 2020.

IRS link to State Websites for Businesses: <https://www.irs.gov/businesses/small-businesses-self-employed/state-government-websites>: use this link to find your state's official website for taxes. It links to the State's business website, but you can find the link for Individual tax filing as well.

If you don't live in Maryland or Virginia, look to your state's website for guidance on any tax relief. It may go a long way to relieve some stress during this difficult time.

## Your personal email account

Over the past two weeks, the financial industry has seen a huge rise in the number of clients' email accounts being hacked. The biggest concern is that once the hackers get access to an account, they will initiate wire transfers that could slip by normal vetting procedures. Clients are encouraged to enable two-step verification login procedures, usually found in the security settings of your personal email accounts. This can entail a code being sent to your cell phone to enter or you'll receive a notification to grant access via an app on your phone. The options may vary depending on your email provider.

## COVID-19 Emergency Loans for Small Businesses

The Coronavirus Aid, Relief, and Economic Security (CARES) Act allocated \$350 billion to help small businesses keep workers employed amid the pandemic and economic downturn. Known as the Paycheck Protection Program, the initiative provides 100% federally guaranteed loans to small businesses who maintain their payroll during this emergency.

To find out if you are eligible, lender requirements, how much you can borrow and other details, the U.S. Chamber of Commerce has created a small business guide and checklist for Coronavirus Emergency Loans. You can find the guide [here](#) or by going to the U.S. Chamber of Commerce website at [uschamber.com](https://uschamber.com)

## Your Financial Profile

It's common for people to wait until a crisis occurs before initiating or updating their financial plans. However, financial planning is an ongoing process that requires regular attention and adjustments. When there has been a change in your financial situation, either positive or negative, it is important that you keep us in the loop. We would like to review these changes with you to determine if adjustments need to be made to your portfolio or the management services we provide. Please contact us to set up a time to review your financial plan.

## What XML Financial is doing during the COVID-19 Pandemic

It isn't "business as usual" for most of the world, but here at XML, we are conducting our usual business. We have deployed our Business Continuity Plans during this unprecedented global

pandemic which enables our employees to work efficiently with the flexibility needed to support our clients no matter what the situation.

In doing our part to contain the spread of COVID-19, our branch offices are closed for the time being and we are working remotely. We are utilizing online meetings and video conferencing in order to continue meeting with clients and all phone calls are being routed to the appropriate staff. We are monitoring and processing mail and checks that are delivered via U.S. mail, however the following alternate methods are also available:

- Contact us to set up ACH instructions. This will enable us to transfer cash to or from your account(s).
- Submit forms to us electronically. We often complete and submit documents via Citrix Sharefile (encrypted transmission).
- Urgent checks or rollovers can be mailed directly to the custodian for deposit. Ask us for those instructions should you have a check to deposit via this method.

We hope this transition is seamless in the service we provide and your ability to connect with us. Please don't hesitate to reach out to us if you have any questions.

## Some things to do while you are quarantined

Most of us aren't used to be stuck in the house, day after day. After all, there is only so much movie binge-watching and closet cleaning a person can stand! XML advisor, John Sciuto, rounded up a variety of free resources that can help take the edge off being quarantined:

- [Peloton](#) is offering their complete app content for free for 90 days. You don't need the bike for their great yoga, strength, and meditation classes.
- [Silver Sneakers](#) has on demand workout videos for members
- [Coursera](#) offers excellent academic courses in almost any field including history, science, and personal development. Many of the courses are taught by Ivy League professors.
- [Duolingo](#) is an online program and app that helps you learn another language in a really unique way. Says John, "I'm trying to expand my knowledge of Italian beyond lasagna and gnocchi!"
- Music always lifts the spirit! The [Seattle Symphony](#) and [Met Opera](#) are offering free broadcasts of their performances. Also [here is a list](#) of other concerts being broadcast online.
- [Hoopla](#) is an online service that allows you to borrow digital movies, music, eBooks with your library card.
- [Travel & Leisure Magazine](#) has links to virtual tours of famous museums
- [House Beautiful magazine](#) provides links to virtual garden tours

We hope this list provides some solace and distraction during these uncertain times. If we can be of services to you, friends or family, please let us know

## XML Financial Staff News

Before the pandemic (seems like a long time ago, right?), the XML staff enjoyed a team-building event at the Potomac Curling Club, in Laurel Maryland.





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We value our client relationships and appreciate you sharing your opinion  
About our firm. Any suggestions? Ways for us to improve? Let us know!

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