

The SWA July 2020 Newsletter



The SWA Team
Strategic Wealth Advisors
9375 E Shea Blvd, Ste 100 • Scottsdale • AZ • 85260
480-998-1798 • fax: 480.522.1798
info@xpertadvice.com • www.Xpertadvice.com



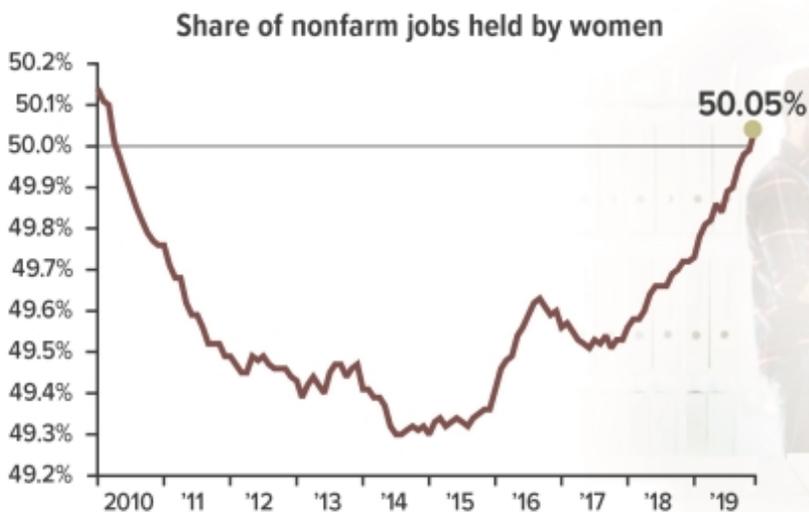
Now that we made it past tax season, it might be a good time to review and update beneficiary designations and legal documents. Have you experienced any life event in the last few years such as a marriage, birth, death, divorce, move, job change or mortgage refinance? Perhaps your teenager reached adulthood? If so, you may want to review the titles and beneficiary designations for various assets including homes, cars, investment accounts, trusts, business and investment partnerships and life insurance and annuity contracts. If not properly updated, assets can fall into the wrong hands, become encumbered during legal proceedings or probate or be mismanaged or consumed by a beneficiary not ready for such responsibilities. Please call us if you have experienced a life event and/or would like to review your situation in more detail.

Until August...

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New Twist in the Labor Market

In December 2019, women outnumbered men in the U.S. workforce for the first time since April 2010, when layoffs due to the recession disproportionately affected male workers. A larger percentage of men age 16 and older (69.2%) are participating in the workforce than women (57.7%). However, there are more women than men in the population, and big industries such as health and education are keeping more of them in the workforce.



Source: U.S. Bureau of Labor Statistics, 2019

Tapping Retirement Savings During a Financial Crisis

As the number of COVID-19 cases began to skyrocket in March 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The legislation may make it easier for Americans to access money in their retirement plans, temporarily waiving the 10% early-withdrawal penalty and increasing the amount they could borrow. Understanding these new guidelines and the other rules for loans and early withdrawals may help you determine if they are appropriate options during a financial crisis. (Remember that tapping retirement savings now could risk your financial situation in the future.)

Penalty-Free Withdrawals

The newest exception to the 10% early-withdrawal penalty allows IRA account holders and retirement plan participants to take distributions of up to \$100,000 in 2020 for a "coronavirus-related" reason.* These situations include a diagnosis of COVID-19 for account owners and certain family members; a financial setback due to a quarantine, furlough, layoff, or reduced work hours, and in the case of business owners, due to closures or reduced hours; or an inability to work due to lack of child care as a result of the virus. This temporary exception augments the other circumstances for which a penalty-free distribution is typically allowed:

- Death or disability of the account owner
- Unreimbursed medical expenses exceeding 7.5% of adjusted gross income (increases to 10% in 2021)
- A series of "substantially equal periodic payments" over your life expectancy or the joint life expectancy of you and your spouse
- Birth or adoption of a child, up to \$5,000 per account owner
- Certain cases when military reservists are called to active duty

In addition, IRAs (but not work-based plans) allow penalty-free withdrawals for a first-time home purchase (\$10,000 lifetime limit), qualified higher-education expenses, and payments of health insurance premiums in the event of a layoff.

Work-based plans allow exceptions for those who separate from service after age 55 (50 in the case of qualified public safety employees) and distributions as part of a qualified domestic relations order.

Tax Consequences

Penalty-free does not mean tax-free, however. In most cases, when you take a penalty-free distribution, you must report the full amount of the distribution on your income tax return for that year. However, the income associated with a coronavirus-related distribution can be spread over three years for tax purposes, with up to three years to reinvest the money.¹

Retirement Plan Loans

If your work-based retirement plan allows loans, you typically can borrow up to the lesser of 50% of your vested balance or \$50,000. Most loans must be repaid within five years, but if the money is used to purchase a primary residence, the repayment period may be longer. The CARES Act permits employers to increase this amount to the lesser of 100% of the vested balance or \$100,000 for loans to coronavirus-affected individuals made between March 27, 2020, and September 22, 2020.* Affected participants who have outstanding loans on or after March 27, 2020, will be able to delay any payments due in 2020 by one year.²

Hardship Withdrawals

Many work-based retirement plans also permit hardship withdrawals in certain circumstances. Although these distributions are not exempt from the 10% early-withdrawal penalty, they can be a lifeline for people who need money in an emergency.

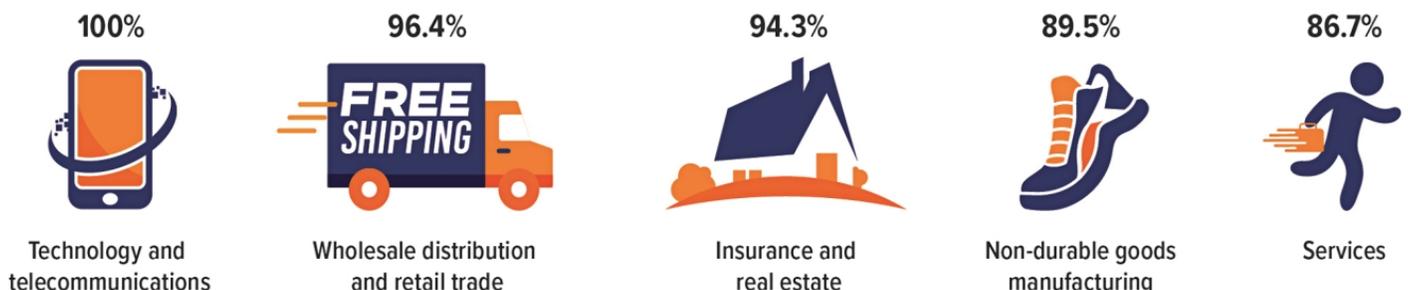
For more information about your options, contact your IRA or retirement plan administrator.

*Employers do not have to adopt the new withdrawal and loan provisions.

1) Amounts reinvested may reduce your tax obligation on the distributions; however, due to the timing of distributions and required tax filings, you may have to file an amended return to seek a refund on any taxes previously paid on withdrawn amounts. 2) The original five-year repayment period will be extended for the delay, but interest will continue to accrue. 3) Source: Plan Sponsor Council of America, 2019 (2018 data)

Five Industries Most Likely to Offer Retirement Plan Loans

Percentage of plans that offer loans, by type of industry³



Turbulent Times: Bear Markets Come and Go

The longest bull market in history lasted almost 11 years before coronavirus fears and the realities of a seriously disrupted U.S. economy brought it to an end.¹

Bear markets are typically defined as declines of 20% or more from the most recent high, and bull markets are sustained increases of 20% or more from the bear market low. But there is no official declaration, so often there are different interpretations and a fair amount of debate regarding when these cycles begin and end.

Between February 19 and March 23, 2020, the S&P 500 fell 34% and then took just 15 days to bounce back above the 20% threshold that would technically mark the beginning of a new bull market.²

Still, most investors wait to see if volatility subsides and higher prices persist before they cheer the exit of a bear market. And in the midst of the pandemic, without a clear economic picture, it could be more difficult than usual to tell whether any market advance is a short-term rally or the start of a longer upward trend.

Historical Perspective

The CBOE Volatility Index (VIX), a closely watched measure of stock market volatility and investor anxiety, hit all-time highs in March 2020.³

If you are losing sleep over volatility driven by disheartening news, it may help to remember that the economy and the stock market are cyclical. There have been 10 bear markets since 1950 (not counting the one that began in 2020). Each of these declines was triggered by a different set of circumstances, but the market recovered eventually every time (see table).⁴

On average, bull markets lasted longer (1,955 days) than bear markets (431 days) over this period, and the average bull market advance (172.0%) was greater than the average bear market decline (-34.2%).

The bottom line is that neither the ups nor the downs last forever, even if they feel as though they will. There are buying opportunities in the midst of the worst downturns. And in some cases, people have profited over time by investing carefully just when things seemed bleakest.

| Bear Markets Since 1950 | Calendar Days to Bottom | U.S. Stock Market Decline (S&P 500 Index) |
|-------------------------------|-------------------------|---|
| August 1956 to October 1957 | 446 | -21.5% |
| December 1961 to June 1962 | 196 | -28.0% |
| February 1966 to October 1966 | 240 | -22.2% |
| November 1968 to May 1970 | 543 | -36.1% |
| January 1973 to October 1974 | 630 | -48.2% |
| November 1980 to August 1982 | 622 | -27.1% |
| August 1987 to December 1987 | 101 | -33.5% |
| July 1990 to October 1990 | 87 | -19.9%* |
| March 2000 to October 2002 | 929 | -49.1% |
| October 2007 to March 2009 | 517 | -56.8% |

*The intraday low marked a decline of -20.2%, so this cycle is often considered a bear market.

Making Changes

If you're reconsidering your current investment strategy, a volatile market is probably the worst time to turn your portfolio inside out. Dramatic price swings can magnify the impact of a wholesale restructuring if the timing of that move is a little off.

Changes in your portfolio don't necessarily need to happen all at once. Having appropriate asset allocation and diversification is still the fundamental basis of thoughtful investment planning, so try not to let fear derail your long-term goals.

The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

The S&P 500 is an unmanaged group of securities that is considered to be representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

1-2,4) Yahoo! Finance, 2020 (data for the period 6/13/1949 to 4/7/2020)

3) MarketWatch, March 31, 2020

The ABCs of Finance: Teaching Kids About Money

It's never too soon to start teaching children about money. Whether they're tagging along with you to the grocery store or watching you make purchases online, children quickly realize that we use money to buy the things we want. You can teach some simple lessons today that will give them a solid foundation for making a lifetime of sound financial decisions.

Start with an Allowance. An allowance is often a child's first brush with financial independence and a good way to begin learning how to save money and budget for the things they want. How much you give your children will depend in part on what you expect them to buy and how much you want them to save. Make allowance day a routine, like payday, by giving them a set amount on the same day each week or month.

Help Them Set Financial Goals. Children might not always appreciate the value of putting money away for the future. Help them set age-appropriate short- and long-term financial goals that will serve as incentives for saving money. Write down each goal and the amount that must be saved each day, week, or month to reach it.

Teach younger children some simple lessons today that will give them a solid foundation for making a lifetime of sound financial decisions.

Let Them Practice. As children get older, they can become more responsible for paying other expenses (e.g., clothing, entertainment). The possibility of running out of money between allowance days might make them think more carefully about their spending habits and choices and encourage them to budget more effectively.

Take It to the Bank. Piggy banks are a great way to start teaching young children to save money, but opening a bank savings account will reinforce lessons on basic investing principles such as earning interest and the power of compounding. Encourage your children to deposit a portion of any money they receive from an allowance, gift, or job into their accounts.

IMPORTANT DISCLOSURES

The information presented here is not specific to any individual's personal circumstances.

To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances.

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