FINANCIAL SYNERGIES®
WEALTH ADVISORS

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INSIDE THIS ISSUE

Apologies to Stephen King

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If a month or so ago, someone said to you that all schools will be closed well before graduation; the vast majority of all public gatherings would be canceled; even though the economy was going gangbusters, Congress would be hurriedly crafting the largest economic stimulus package in history; the NCAA Basketball Championship (March Madness) would be canceled and (for us golfers) the Masters, British Open and U. S. Open would be canceled or delayed, you would have thought them completely deranged. You would have never believed even one of their assertions. But here we are...in our real life Stephen King movie.

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If you're like me, you have already received a mountain of emails, all the way from Walmart to your dog walker, telling you that they will be there for you and that "we will get through this together". I'm not going to go there. I don't need to. When it comes to you and Financial Synergies, this is all understood, old news. We have been through so much together that we already know we will be there for each other and that we will get get through this together. We always have. This time is no different.

It is true, however, that our economy is on hold. Americans are risking their livelihoods so that others might live. This isn't survival of the fittest, it is quite the opposite-our aim to protect our most vulnerable. But, there is something that has gotten lost in the shuffle of all this fear and confusion. Our economy can withstand almost anything thrown at it, even COVID19, because our economy is...us. It is our energy, our minds and our ability to tough things out. To stand fast. To be resilient. This is a tough one, but so are we.

Here are three facts I want you to remember as we go through this period together:

1. Busts plant the seeds of booms:
Every down day or week plants seeds for the next upswing. Down markets are temporary events, up markets provide long-term rewards to tough, patient investors.

2. Successful investing is not about earning the highest return possible.
It's about earning pretty good returns for the longest period of time possible.
Earning 20% a year and getting washed once a decade will leave you worse off than earning 6-8% a year and being able to survive when times get rough. Survival is the single most important ingredient to long-term growth.

3. What you see on TV and Twitter is mostly noise. Noise never gets it right.
In the summer of 2011, the market suddenly lost 20%. Every news and social media outlet was predicting deep financial crisis and reported that everyone was panicking out of this failing market. Vanguard published a study a few months after the market had experienced a dramatic rebound from its lows that year and found:

98% of investors didn't make a single change to their retirement portfolios in August, when market volatility peaked ... Ninety-eight percent took the long-term view. Those trading are a very small subset of investors.

I know that Financial Synergies clients are well within that 98% this time around, too. Noise over-hypes perceived panic. Tune out that useless noise.

Find a way to hang in there.

Things look bad right now.

Things might look bad tomorrow.

Things will continue to be bumpy.

If the bumps seem too big or feel like they are happening a little too often, call us. Let's talk.

Don't Let a Recession Faze You

MIKE MINTER, CFP®, CFS® | SHAREHOLDER, PORTFOLIO MANAGER

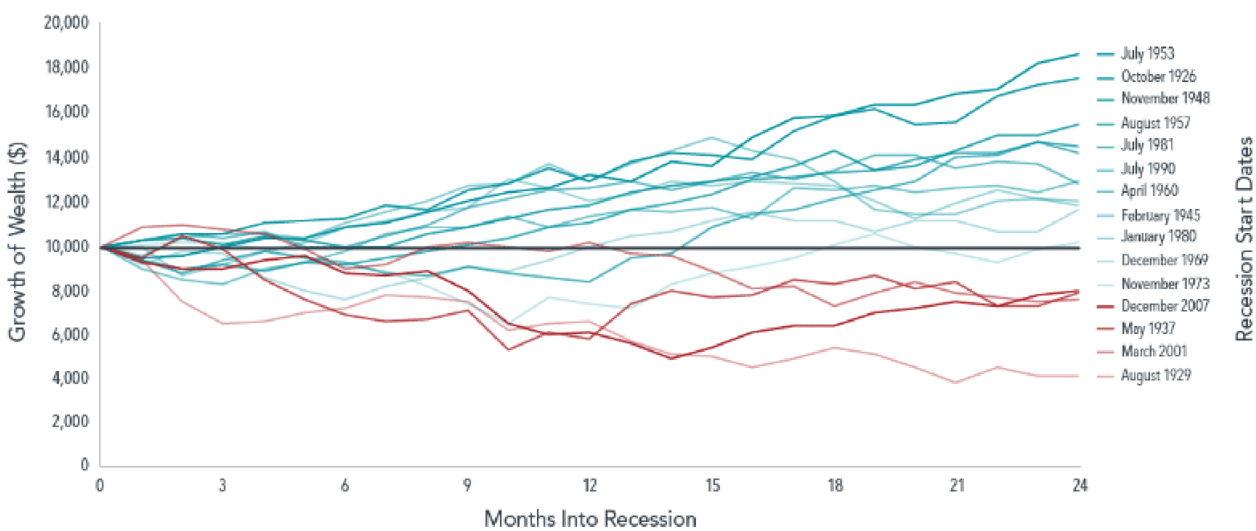
With activity in many industries sharply curtailed in an effort to reduce the chances of spreading the coronavirus, some economists say a recession is inevitable, if one hasn't already begun. From a markets perspective, we have already experienced a drop in stocks, as prices have likely incorporated the growing chance of recession. Investors may be tempted to abandon equities and go to cash because of perceptions of recessions and their impact. But across the two years that follow a recession's onset, equities have a history of positive performance.

Data covering the past century's 15 U.S. recessions show that investors tended to be rewarded for sticking with stocks. Exhibit 1 shows that in 11 of the 15 instances, or 73% of the time, returns on stocks were positive two years after a recession began. The annualized market return for the two years following a recession's start averaged 7.8%. Not too shabby.

EXHIBIT 1

Downturns, Then Upturns

Growth of wealth for the Fama/French Total US Market Research Index



Recessions understandably trigger worries over how markets might perform. But history can be a comfort for investors wondering whether now may be the time to move out of stocks.

Stick to the long-term game plan and you'll be rewarded.

Source: Dimensional Fund Advisors

Coronavirus Stimulus Package Overview

WILL GOODSON, CFP® | FINANCIAL ADVISOR

On Friday, March 27th, the President signed into law a $2.2 trillion-dollar stimulus plan known as the Coronavirus Aid, Relief, and Economic Security Act, or CARES Act. It is the largest stimulus package of its kind and is intended to help combat the economic impact of the COVID-19 virus. This federal aid package will provide much needed financial support for businesses large and small. Billions of dollars have been set aside to help corporations – especially airlines – with additional assistance for states and local municipalities.

Much of the stimulus has also been earmarked for the benefit of individuals, families, and small businesses. Families and business face significant financial strain while the country focuses on social distancing efforts to help reduce the spread of COVID-19. The CARES Act provides aid through a variety of channels, including direct payments, loans for small business, leniency on retirement distributions, short-term student loan relief, and much more.

Below is a summary of the provisions related to individuals, families, and small businesses.

Direct Payments to Individuals and Families

One of the major provisions of the CARES Act provides direct payments to qualifying individuals and families. Individual tax filers may receive up to $1,200 if their Adjusted Gross Income (AGI) is less than $75,000. Married filing jointly households are eligible for up to $2,400 if their AGI is less than $150,000. An additional $500 is available for each dependent child under age 17. These amounts are based upon the most recent tax return the IRS has on file (2019 or 2018 tax returns).

Individuals and joint filers whose AGI exceed these thresholds may still receive direct payments but they will be reduced based on how much one's AGI exceeds these limits. The credit faces a 5% reduction based on the amount of "excess AGI." For example, let's assume you're a married couple with two children under age 17 and have AGI of $160,000. You initially would qualify for a total payment of $3,400 ($2,400 for MFJ + $500 per child). However, AGI exceeds the stated $150k threshold by $10,000. Thus, the payment amount is reduced by $500 ($10,000 "excess AGI" x 5%). Thus, the family would receive a direct payment of $2,900 ($3,400 – $500).

For high income earners whose AGI far exceeds these thresholds, they may be completely phased out of any direct payment.

Special Rules for the Use of Retirement Funds

The CARES Act has relaxed many provisions that relate to retirement plan distributions given this unprecedented event. In order to qualify for a coronavirus-related distribution, the distribution must be made:

(1) on or after the date of the enactment of the bill and before December 31, 2020,

(2) to an individual –

(I) who is diagnosed with COVID-19 by a test approved by the Centers for Disease Control and Prevention,

(II) whose spouse or dependent is diagnosed with such virus or disease by such a test, or

(III) who experiences adverse financial consequences as a result of being quarantined, being furloughed or laid off, or having work hours reduced due to such virus or disease, being unable to work due to lack of child care due to such virus or disease, closing or reducing hours of a business owned or operated by the individual due to such virus or disease, or other factors as determined by the Secretary of the Treasury.

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Coronavirus-related distributions cannot exceed $100,000 for 2020. The distributions are taxable, but the bill allows these taxes to be spread over a three-year period. If you're under the age of 59 ½, the 10% early withdrawal penalty is waived. Additionally, distributions from retirement accounts can be repaid over a three-year period and do not count against the normal annual contribution limits.

For example, if a worker needs to take a distribution from his 401k, he can repay his account within three years and spread out the taxes from the distribution over the same time period.

401k loan provisions have also been temporarily expanded. Loan limits have been increased to $100,000 from $50,000, and the repayment of these loans may be delayed up to one year.

Lastly, the CARES ACT eliminates Required Minimum Distributions (RMD) for 2020. This includes anyone who turns age 72 this year (the new RMD age from SECURE Act), individuals who turned 70 ‰ in the second half of 2019 & elected to take their first RMD prior to April 2020, and beneficiaries of inherited retirement accounts.

Congress recognized the need for waiving RMDs this year. These distributions are calculated using year-end balances from 2019. Many retirement account owners have seen their accounts decline due to the impact of COVID-19. By waiving the RMD requirement, it should allow those retirement accounts time to recoup some of those losses as the market turns around in the future.

Expanded Unemployment Benefits

The spread of COVID-19 has already had a significant impact on unemployment. Many businesses have had to temporarily close and either furlough or lay off workers. As of last week, over 3.3 million people filed for unemployment benefits – the largest single reading ever.

The CARES Act expands the eligibility of unemployment benefits and increases the amount individuals may receive. The bill now covers the self-employed, those who have been furloughed, and gig workers. Benefits may increase by up to $600/week above traditional benefit amounts for up to 4 months. Typically, individuals are required to wait at least one week after losing their job before they can receive benefits. The bill now allows for immediate payment. For those who previously exhausted their unemployment benefits, they will receive an extension for up to 13 additional weeks.

Additionally, the CARES Act helps create short-term compensation programs for many states. These programs are designed to provide benefits for individuals who are still working but have had hours cut significantly. These individuals would not qualify for unemployment benefits under normal circumstances.

Charitable Giving Provisions

The CARES Act has introduced a temporary $300 Above-the-Line charitable deduction for 2020. It applies to taxpayers who do not itemize their deductions. It must be a cash contribution paid directly to a charitable organization. Thus, a contribution to a donor advised fund (DAF) does not qualify.

For those who do itemize, the bill suspends the AGI limits for charitable gifts for 2020. Under the current tax law, the deductibility of charitable donations is limited to 60% of AGI. Instead, the limit is increased to 100% of AGI for 2020. Any additional amounts may be carried forward for up to 5 years. Again, these cash donations must be made directly to charitable organizations. DAF contributions are not eligible.

Student Loan Relief

The CARES Act provides temporary student loan relief. Borrowers are not required to make payments for three months, and loan interest will not accrue during this time. Additionally, this three-month period will still count toward individuals who are pursuing loan forgiveness programs. It's unclear if these payments will automatically be suspended. Since many borrowers make automated monthly payments, it is recommended that they contact their loan service provider to ensure these payments are postponed.

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Relief for Small Business

Small businesses have suffered significantly as a result of COVID-19 and the social distancing efforts to help minimize its spread. The CARES Act provides several provisions to assist owners in these difficult times.

The bill provides small business owners access to SBA loans to help cover qualified costs. These loans are primarily directed toward businesses with less than 500 employees, but exceptions do apply. The loans must be specifically used to cover expenses related to things such as payroll (for workers making less than $100k), group health insurance premiums, rent, utilities, mortgage interest, and other debts. The SBA loan amount equals up to 2.5 times annual payroll costs from the previous year, not to exceed $10 million. The interest rates are capped at 4% and loans may be repaid over a 10-year period.

These loans may be forgiven if certain provisions are met. Business owners must use the loan proceeds within an 8-week period once approved, and the funds must be used on the qualified expenses listed above. Owners must also maintain the same number of employees they had prior to eligibility. If these requirements are met, business owners will not owe any tax on the amount forgiven.

Additionally, the CARES Act allows impacted business owners to delay making payroll tax payments for the time period between when the bill became law and December 31, 2020. If eligible, 50% of the payroll taxes that would have been owed at the end of 2020 may be paid by December 31, 2021. The remaining 50% may be paid by December 31, 2022.

Additional Considerations

President Trump suggested in a press conference on March 29th that his administration is considering modifying the deductibility of meals and entertainment expenses. The tax law changes passed in 2017 greatly minimized how these business expenses could be itemized for tax purposes. As the President suggested, this would be an additional measure to support local business, such as restaurants, who have seen their revenues significantly impacted by the social distancing measures to help prevent the spread of COVID-19.

This entire situation is fluid so it is likely that other provisions may be considered to help protect the economy and reduce the impact of COVID-19.

Conclusions

While these remain uncertain times, the efforts made by the passing of the CARES Act should help to mitigate some of the near-term damage done to the economy due to COVID-19. It provides relief to businesses and workers when it is desperately needed. It is unclear if additional measures will be needed, and how long these circumstances may last. Ultimately, it is our belief that we will persevere through this challenging time.

Financial Synergies Opens Branch Office in Tyler, TX

We are excited to announce the opening of our new branch office in Tyler, TX, with Will Goodson as the primary advisor at the location. This is Financial Synergies' first office beyond the greater Houston area. As we have continued to experience tremendous growth, we felt this was a unique opportunity to extend our footprint and serve the wealth management needs for families in the greater East Texas area.

If you have friends or family in the area that would benefit from a relationship with Financial Synergies, please let us know! We would love the opportunity to help with their wealth management needs. For more information reach out to Will at 903.258.9600 or check out the Tyler office website at www.financialadvisortylertx.com/