FINANCIAL SYNERGIES®
WEALTH ADVISORS

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★Quarterly★ Newsletter

INSIDE THIS ISSUE

Heading Into the Next Six Months

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SHAREHOLDER, FINANCIAL ADVISOR

I'm not allocating much space to this column to discuss the past six months. I think we might all agree that it will be regarded as one of the most tumultuous periods in history, if not in our lifetimes. Like you, I hope and pray that the next six months will be dramatically better than the last six months in both financial markets and society in general.

What I did want to spend a little time on was answering a question I have been getting with greater frequency than normal when leading up to a presidential election. That question is:

What impact will a Biden or a Trump presidency have on the markets and economy?

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It is a fascinating question and before I answer it, let me offer a brief history as to the impact presidents have had on financial markets and the economy in the past. I have listed the top five presidents based solely on the performance of the stock market during their respective term in office. As you will see, stellar market performance while they were president doesn't tell the whole story.

Calvin Coolidge, 30th President (Term: August 2, 1923 to March 4, 1929)
Annualized Compound Market Performance: 26.1% per year

Achievements:

- In Coolidge's five-and-a-half years in office, the Dow soared an incredible 266. His fiscal policy encouraged a speculation-driven over-heated economy and margin trading, policies which contributed to the Great Depression.
- The Revenue Acts of 1924 and 1926, which sharply reduced income taxes, especially gift, excise, and inheritance taxes

Bill Clinton, 42nd President (Term: January 20, 1993 to January 20, 2001) Annualized Compound Market Performance: 15.2% per year

Achievements:

- Financial Services Modernization Act that repealed Glass-Steagall. The repeal of Glass-Steagall consolidated investment and retail banks and promoted high-risk speculation, which contributed to the 2008-2009 Great Recession

Barack Obama, 44th President (Term: January 20, 2009 to January 20, 2017) Annualized Compound Market Performance: 13.8% per year

Achievements:

- The Dodd–Frank Wall Street Reform and Consumer Protection Act overhauled financial regulation in the aftermath of the financial meltdown for almost every part of the nation's financial services industry

George H.W. Bush, 41st President (Term: January 20, 1989 to January 20, 1993) Annualized Compound Market Performance: 11.0% per year

Achievements:

- The Financial Institutions Reform, Recovery and Enforcement Act of 1989, giving the Federal Deposit Insurance Corporation (FDIC) regulatory oversight over troubled savings and loans

Dwight Eisenhower, 34th President (Term: January 20, 1953 to January 20, 1961) Annualized Compound Market Performance 10.9% per year

Achievements:

- Embarked on the Interstate Highway System, a 41,000-mile road system, one of the most ambitious infrastructure projects in American history;
- Expanded Social Security;

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These five presidents presided over incredible market performance. Despite impressive double-digit market returns during the terms of Calvin Coolidge and Bill Clinton, for example, the fiscal policies they championed proved to be highly detrimental to the economy and financial markets after they left office. Clearly, stock market performance during a president's tenure tells only part of the story.

So, what president provided the most positive impact on the financial markets and the economy as a whole during their time in office? This guy:

Franklin Delano Roosevelt, 32nd President (Term: March 4, 1933 to April 12, 1945) Annualized Compound Market Performance: 6.2% per year

Achievements:

- The Securities and Exchange Act, which created the Securities and
- Exchange Commission to regulate financial markets
- The Federal Deposit Insurance Corporation, guaranteeing the savings of average citizens;
- The Glass-Steagall Act (part of the 1933 Banking Act), which prevented commercial banks from engaging in investment banking.
- The Department of Commerce and Labor (later separated into two cabinet departments)
- The Pure Food and Drug Act (precursor to the Food and Drug Administration)

What president provided the most detrimental impact on the financial markets and the economy as a whole during their time in office? This guy:

Herbert Hoover, 31st President (Term: March 4, 1929 to March 4, 1933)
Annualized Compound Market Performance: -30.8% per year

Hoover took office just months before the 1929 crash that ushered in the Great Depression and a decade of the worst bear markets in U.S. history. That was bad luck for him. But he made conditions worse by signing into law the Smoot-Hawley Tariff Act. Virtually every economist of his day warned him it would exacerbate things. It did, turning what might have been a modest recession into the worst depression in U.S. history.

Ok, so what about Biden and Trump? What sort of impact will they have on the financial markets/economy? First of all, you have learned from our little history lesson that, contrary to popular belief, it hasn't been a democrat vs. republican thing. Good and bad markets have been sprinkled over both parties' presidential representative while in office.

What I believe is this: When we invest in the financial markets we are investing in companies. Companies are run by people. People, particularly capable ones, adapt to governmental policies. They endure. They make do. There have been temporary setbacks and no doubt, there will be more in our future. But those who bet against our economy and financial markets because a particular individual does or does not reside in the oval office have suffered more than benefited financially. Markets cannot be timed. The future cannot be accurately predicted. Continue to stay the course, keep your eye on the ball and continue to be a long-term, successful investor.

Source: Wealthmanagement.com

IRS Suspends Required Minimum Distributions (RMD) for 2020

WILL GOODSON, CFP® | FINANCIAL ADVISOR

Last week the IRS made a surprising announcement that they are waiving required minimum distributions (RMD) for retirement accounts in 2020. IRS Notice 2020-51 outlines the relief granted to retirement account owners, as part of an extension to the CARES Act.

As you may recall, Congress passed the CARES Act in late March to provide a wide range of financial support to Americans impacted by COVID-19. The CARES Act allowed individuals to return their RMDs back into their retirement accounts if the distributions had been within the standard 60-day rollover window. Given that the bill was passed toward the end of March, anyone who took an RMD in early January found themselves outside that rollover window. Hence the IRS' decision to extend the timeline to return these distributions.

Retirement account owners who have taken a distribution this year can now return these funds back into their retirement account by August 31, 2020. This applies to retirement accounts such as 401k, 403b, 457b, and Traditional IRAs. Additionally, beneficiaries of inherited IRAs may return or forgo their RMD distributions for 2020. Essentially, anyone who has taken a distribution in 2020 from a tax-deferred retirement account can return the funds by the end of August. Historically, the IRS has been very stringent with RMD rules, which is why this announcement has been so surprising.

Many individuals rely on regular distributions from their retirement accounts to supplement their ongoing living expenses. In this case, it may not make sense to roll funds back into your retirement account. However, if you normally must make an RMD withdrawal but do not need the funds for ongoing expenses, it may be beneficial to roll them back into your account. Also, if you are the beneficiary of an inherited IRA and do not need the funds this year, this is a great opportunity to return them. Doing so will help reduce your tax liability for 2020.

Additionally, if you're a Medicare recipient and subject to means-tested premium increases (IRMAA), forgoing an RMD could lower your modified adjusted gross income (MAGI). Medicare does a two-year look-back on MAGI when setting future premium amounts. Thus, it could potentially reduce your Medicare premium costs in 2022.

If you have questions about this new announcement and how it may impact your retirement planning, please feel free to contact us. Additionally, we recommend contacting your tax professional prior to making any tax-related decision.

Negativity Sounds Sophisticated

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

Have you ever noticed how negativity sounds sophisticated? This is especially true when talking about investing and the financial markets. Think about it – it's true. Many investors simply tune out the person always saying, "the market will recover" or "staying invested is the best course." The optimist investor risks being called a Pollyanna or unsophisticated.

On the flip side, the Negative Nelly investor is taken seriously and is considered cautious and sophisticated. Just observe the financial media (which I hardly ever recommend!). For every optimist (bullish) investor they bring on for commentary, they'll have ten Permabears (constantly negative on the markets) on. Negativity sells.

And man, do the Negative Nellies hate it when they are almost always proven wrong! You've never seen someone so mad that the market is doing well despite their "expert" predictions.

I think it's part of our human psyche, but we always seem to seek out negative thoughts or commentary when it comes to the market. Funny thing is, optimism overwhelmingly wins when it comes to investing. You can't argue with the numbers.

In US dollars. CRSP data provided by the Center for Research in Security Prices, University of Chicago. The CRSP 1–10 Index measures the performance of the total US stock market, which it defines as the aggregate capitalization of all securities listed on the NYSE, AMEX, and NASDAQ exchanges. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

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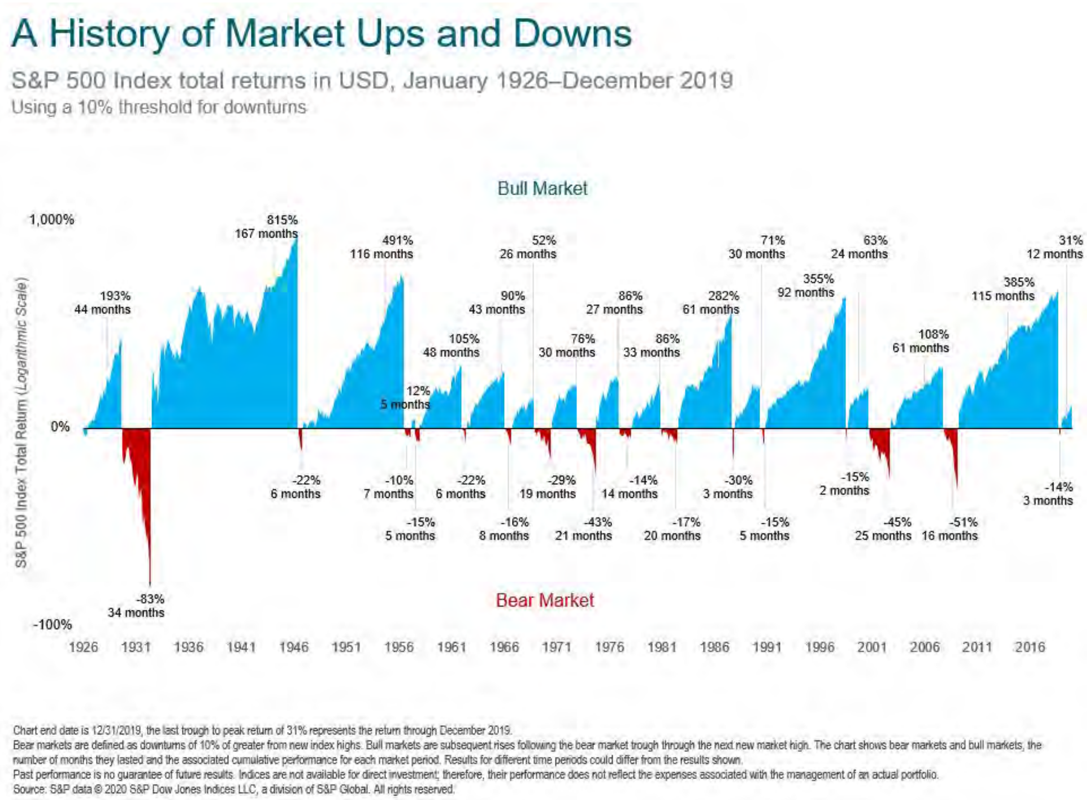
Since 1926, stocks have had positive returns 74% of the time. I wouldn't go to Vegas and bet against those odds.

Speaking of Vegas, I have a friend who likes to argue that investing in the stock market is tantamount to gambling. This friend also likes to gamble in Las Vegas (not that there is anything wrong with that). I say that investing in the stock market is nothing like gambling. Fundamentally, the market is structured for us to win an overwhelming majority of the time. All you have to do is participate.

Vegas is structured to ensure you DO NOT win the majority of the time. I'll press the argument further by pointing out that the rooms, drinks, meals, etc. he's always being "comped" is precisely because the casinos are absolutely positive they will beat you in the long-term. He isn't being comped anything – he paid for the room, drinks, meals, etc. with his losses.

Okay, enough of the sidebar. Sure, investing isn't always fun. And 2020 has really sucked. But the markets and history are on our side. The good times far outweigh the bad.



We're in the midst of one of the greatest market comebacks in U.S. history, and the Permabears hate it. **Like it or not, optimism pays when it comes to investing.**

WELCOME, SUMMER INTERNS!

We are thrilled to have two bright minds joinin us for our 2020 Summer Internship. Please join us in welcoming Rachel Buckhoff and Jared Tobin. Rachel attends University of Texas majoring in Finance, and Jared attends Texas Tech majoring in Personal Financial Planning. They will be with us for two months in June and July. Welcome, Rachel & Jared!

Should You Use Fidelity's BrokerageLink® Option?

BRYAN ZSCHIESCHE, CFP®, MS, MBA | SHAREHOLDER, FINANCIAL ADVISOR

If you are one of the 22 million investors with a retirement plan at Fidelity, you may have access to an option within your plan that could dramatically improve the success of your 401k. Fidelity's BrokerageLink® option is a self-directed brokerage account within the 401k or 403b plan. In this article, you'll learn what the BrokerageLink® option is and when it may make sense to take advantage of it.

Most retirement plans provide a short list of investment choices across stock and bond categories along with "one stop shopping" in target date retirement funds. It is usually possible to craft a fairly well-diversified portfolio using the standard options offered by most plans. Interestingly, most investors don't undertake the effort. As of Q1 2019, 52% of individuals with a Fidelity 401k had all of their retirement savings in a target date fund.[1]

For investors who want more control over their asset allocation, BrokerageLink® may be the way to go. For purposes of our discussion today, we'll focus on Fidelity's offering, but many retirement plans administered by other institutions such as Charles Schwab, Alight, Ascensus, Vanguard, and Merrill Lynch offer similar "brokerage window" options.

What is BrokerageLink®?

BrokerageLink® gives you the ability to open a brokerage account within your 401k. This opens the universe of available investment choices to a much broader spectrum of securities. Some companies limit the types of investments you can own or the percentage of your 401k that can be moved into the BrokerageLink® account. Still, the wider selection of thousands of investment choices increases the level of diversification you can achieve and may give you access to investments that are superior to those offered in the standard 401k plan.

Benefits of BrokerageLink®

In addition to the ability to select from a much wider range of investment choices, BrokerageLink® accounts can be professionally managed. If you don't have the time or temperament to manage the account, consider engaging a financial advisor to help.

Many of our clients rely on us to manage their 401k or 403b accounts, and access to a brokerage window such as BrokerageLink® greatly enhances our ability to add value to their plan. For those who work for Chevron, Cemex, Baylor College of Medicine, Memorial Hermann, and Houston Methodist Hospital, we can link directly to their Fidelity BrokerageLink® account.

As noted above, the benefit of a brokerage window is not limited to Fidelity. Many of our clients have access to brokerage windows with their employers at LyondellBasell, BHP, Accenture, Caterpillar and United Airlines. A quick call to your plan administrator will reveal if you have access to a brokerage window in your plan.

Another benefit is that it may also be possible to reduce the internal costs of the funds in your 401k plan by using the exchange traded funds (ETFs), index funds, and in many cases, institutional share class mutual funds available through your brokerage window.

Additional Considerations

The following are some additional considerations to make before opening a BrokerageLink® account:

1. **Account Size** – The "hassle factor" may not be high enough if the size of your 401k is relatively small. Starting with the standard fund options in those cases may make more sense.
2. **Fees** – Transaction fees or account maintenance fees may be different for BrokerageLink® accounts than your primary 401k. Those fees can often be offset by careful selection of lower cost funds and ETFs within the brokerage window, but careful analysis may be required to achieve this.
3. **Ease of Rebalancing** – Within most standard 401k plans, there are usually options to automate the rebalancing of the account. With a BrokerageLink® account, the rebalancing will be completely up to you or your financial advisor. If you have the account professionally managed, this is actually a good thing because you have more control over what triggers a rebalance. However, if you plan to manage the BrokerageLink® account yourself, this may create an ongoing hassle that could have been avoided by sticking with the automatic rebalancing in the standard 401k.
4. **Time** – Do you have the time to open a BrokerageLink® account, create an asset allocation starting with a blank slate, and monitor the account for rebalancing opportunities or needed investment changes? If not, consider engaging a financial advisor to help.

If you have questions about BrokerageLink® availability in your company retirement plan or whether it is right for you, please give us a call.

[1] Fidelity Q1 2019 Retirement Analysis

WELCOME, GRANT BALL!

Grant joined Financial Synergies in 2020 as Associate Portfolio Manager, where he focuses on investment portfolio allocations, investment research, rebalancing, trading, billing, and reporting. Grant graduated from Texas A&M University in 2012 with a BS Industrial Engineering degree. He is a recent MBA Graduate from the University of Houston Bauer School of Business, where he was a Portfolio Manager at the Cougar Investment Fund. We are so excited to have Grant on the team!

WELCOME, AMBER LOEHR!

Amber grew up in a small town outside of Houston and is a second-generation Aggie. After graduation from Texas A&M University in May of 2020, she joined Financial Synergies as an Associate Financial Advisor working with Skyler and Pathway clients. She graduated magna cum laude from Mays Business School with a minor in Financial Planning. Amber is currently pursuing the CERTIFIED FINANCIAL PLANNER™ certification. We are happy to have Amber join the team!

WELCOME, ZACH ROBINSON!

Zach joined the team Assistant Director of Operations in June of 2020 with over ten years of experience in the Financial Services industry. Zach started his career at Wells Fargo, working as a licensed senior banker specializing in Wealth Management. Using his skills in client relations, he went on to work for Capital One Investing and then onto Charles Schwab, where he learned the Registered Investment Advisory business from behind the scenes – an invaluable journey into the client experience. So glad to have Zach on the team!