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Qtr Notes

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Has Your Plan Changed?

The end of the year is always a good time to revisit financial plans, but this year in particular has led many to modify their goals, priorities, and plans for the future. Here are some questions to consider:

- Has your spending noticeably increased or decreased? Do you need to review your budget, debt, or expenses? Do you have any major upcoming expenses?
- Has your household income changed? Are you considering changing jobs or starting your own business?
- Is it time to update your estate plans and documents? Do you need to update the beneficiaries on any accounts?
- What is your mortgage rate? Should you refinance?
- Are you considering downsizing or moving? If you do, will your living expenses go up or down?
- Have you reviewed your Social Security benefits recently? Should you begin claiming benefits now?
- Is it time to establish a succession plan for your business?
- Do you, your children, or your parents have unaddressed financial planning needs?

If you have any new questions since our last conversation with you, please reach out to us.

The COVID Crisis Is Driving a K-Shaped Recovery

This year will be remembered, to quote Queen Elizabeth II, as our *annus horribilis*. During a hotly contested election year, when even the President has tested positive, COVID is driving the economy. The numbers are hard to digest: we had a lightning-fast recession followed by some degree of "alphabet" recovery, but just what letter of the alphabet we're experiencing is still being debated.

The stock markets collapsed 34% in 33 days but rebounded almost as quickly, highlighting the folly of trying to time markets. The recovery is uneven: the tech-heavy S&P 500 shows a clear "V-shaped" profile, but other sectors, particularly small-cap stocks, value stocks, and real estate, remain 10% or more off their highs.

The economy, on the other hand, suffered an annualized 39% drop in GDP. Some bounceback was stimulated by the Congressional rescue bills, but current data, including a soft jobs report and lack of additional stimulus, suggest a "W-shape", a rapid initial improvement followed by weakness, with delayed further recovery.

Between the markets and the broader economy lies the landscape where we live and work. Wide disparities present what's being called a "K-shaped" recovery. The top arm of the K is improving steadily: industries that allow telecommuting, and businesses whose offerings meet the needs of the pandemic (technology, communication, health care, logistics) remain healthy. Those individuals whose investment portfolios weathered the panic and whose households have not experienced job loss or pay cuts are able to feel secure.

The lower arm of the K is everyone else. While many businesses have experienced little or no disruption, countless others lost access to most or all of their customers. The travel, tourism, and entertainment industries will have a long road to recovery. Millions of jobs in the service and retail sectors have been lost, placing numerous households in economic jeopardy. Those who

Index	*9/30/2020*	*YTD*
Dow Industrials	**27,781.70**	**-2.7%**
S&P 500	**3,363.00**	**4.1%**
S&P Small-Cap	**855.27**	**-16.2%**
MSCI EAFE	**1,855.32**	**-9.0%**
Bloomberg US Bond	**2,376.13**	**6.8%**
US Treas 10-yr yld	**0.7%**	

live paycheck to paycheck, or have lost their jobs, face overwhelming adversity.

A wide swath of the economy falls between the extremes. Many employees have had to accept significant pay cuts, but hope to see their income restored next year. Many firms are surviving with materially reduced revenue, but are witnessing consumer demand that suggests business could be back to normal before long. Some economists and politicians even argue that the economy is approaching self-sufficiency, slowly returning to growth and no longer dependent on additional stimulus.

That may be true, but the effects of the stimulus bills are wearing off with the expiration of supplemental unemployment benefits. Consumer spending makes up approximately 70% of the US economy, so the long-term drag on household income will keep the economy under pressure for some time. This fact suggests to us that another major stimulus bill is needed.

Taken together, the aggregate data is expected to show that the US economy has contracted by 4% this year, with over eight million jobs lost. Current trends are positive, and suggest the economy will improve significantly in 2021. Continued growth is expected in 2022. In brief, the first quarter of 2020 was a tragedy, the second quarter was a horror story, the third quarter recovery was a fairy tale, and the fourth quarter is hoped to be, at best, slightly encouraging. It might even be boring, at least in economic terms, although not necessarily politically or socially.

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Safety in Numbers: Scam Season

2020 has set another Worst Ever record: it's the worst year on record for scams, fraud, and cyberattacks. From threatening phone calls, texts, and emails to COVID and Medicare scams, the stress of the entire year has been fertile ground for the extra stress of fraud.

This isn't a coincidence. Social engineering, the psychological craft behind the con artist, deliberately looks for stress points and aims at emotional buttons. Insecurity and anxiety make us vulnerable.

Greed has always been the traditional mainstay of fraud: the "too good to be true" deal now takes the form of unsolicited "free" medical equipment, quack remedies, or extended warranties. Spoiler alert: if you didn't order it, don't accept it.

But fear has become more widespread and easier to trigger: fear of COVID, fear of job loss or legal action, fear of terrible things going wrong in a world where the safety nets are in shreds. The phone rings with a threat from (supposedly) the IRS, or Social Security, or the police. An email lands at 4:30 on a Friday with a nebulous threat of layoffs and a link to click to ward off disaster. An unsolicited text warns of a compromised account or a nonexistent package. There's always a reason to panic and a link to click.

Breathe and relax. Don't click the link. Hang up the phone: it is ***not*** the IRS.

Markets and the Election

The stock market does not like uncertainly, and a looming Presidential election always creates worry for the country and investors. Adding to election anxiety is the trajectory of COVID-19 infections, the timeline for an effective vaccine, and the proposed but as yet unapproved trillion-dollar stimulus package. It is reasonable to expect that market volatility will increase over the coming weeks. However, as we anticipate market jitters to spike, history reminds us that it will not last forever.

Allowing politics to distort the decision-making process of a well-thought-out, disciplined, multi-year strategic investment plan is a risky proposition. If you find yourself nervous about the election outcome, we recommend focusing on what you can control today, such as spending, savings, how long you continue to work, and most critically, your behavior as an investor. For our part, we will continue focusing on what we can control: asset allocation, tax impact (to some degree) and rebalancing.

As the US stock market has roared back from its March lows, we have been combing through portfolios, taking profits, and rebalancing as necessary. We have also been raising cash, and replenishing cash and short-term bond allocations for retirees who are taking distributions from their accounts. For clients in the accumulation phase, market volatility can be beneficial, creating an attractive time to put some cash to work.

As long-term investors, we plan to remain steadfast with global asset allocation portfolios, which are designed to withstand periods of volatility and uncertainty. The rest must and will take care of itself. Once the results are final, we will evaluate whether changes should be made to our investment, financial, and estate plans.

In the meantime, please block out the election noise, and do your part this November: *vote*.

A Quick Medicare Primer

Since 1966, Medicare has provided health insurance for Americans 65 and older, as well as for some disabled people. But Medicare is confusing and can be intimidating.

The next Medicare Open Enrollment period, when existing enrollees can change their plan choices, runs from October 15 to December 7 this year, so now is a good time to review.

New enrollees sign up for Medicare three months before the month of their 65th birthday, or up to three months after that month. Signing up is done through the Social Security system, either online or in person. An initial choice must be made between Original Medicare and Medicare Advantage.

The Medicare system comprises two options:

1. **Original Medicare**:

   Part A: covers hospital costs, hospice, and post-hospital skilled nursing care

   Part B: covers roughly 80% of physician costs, medical supplies, some drugs

   Part D (optional): covers prescription drugs

   "Medigap" supplemental policies (advised): cover what Medicare does not

2. **Medicare Advantage:**

   Part C: is at least as inclusive as Original Medicare's Parts A, B, and D, but comes with additional restrictions, similar to an HMO plan.

Part A is almost always premium-free. Your monthly premium for Part B will depend on your income level. In addition, Original Medicare enrollees are encouraged to buy the Part D prescription drug policy and a supplemental "Medigap" policy to cover out-of-pocket costs, which can be substantial.

Review your situation carefully before choosing, particularly with regard to Medicare Advantage. Premiums, copayments, and other costs for Medicare Advantage plans vary widely. If you initially choose Advantage and later want to switch back to Original Medicare, you will need to disclose health issues and show evidence of insurability. This disclosure, which is not required for your initial Medicare signup, often makes it difficult to get back on Original Medicare.

Please let us know if we can answer any questions, or help you analyze your situation and understand your options. We also have a Medicare specialist we can refer you to if your situation is particularly complicated.