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Q2 2020

THE QUARTERLY

"So, What'd I Miss?"

BY JAMES WALDEN, CFA
Partner and Chief Investment Officer

Imagine a modern-day Rip Van Winkle who began his slumber this past New Year's Day. Six months later, he awakens, checks his stock quotes, yawns, and asks, "So, what'd I miss?"

We'd have to forgive Mr. Van Winkle for his nonchalance, for he correctly observed that the S&P 500 slipped a benign -4% during his nap. But of course, the answer to his question is "a lot."

During the first quarter, the S&P 500 plunged -20% (-34% at its worst point), one of the 10 *worst* calendar quarters in almost 100 years. The economy entered a deep freeze from drastic and widespread social distancing to combat the coronavirus pandemic.

As a result, the National Bureau of Economic Research announced that the United States officially entered a recession in February. The lion's share of the economic decline will show up in the as-yet-unreleased second-quarter estimates for gross domestic product (GDP).

However, the S&P 500 has thus far enjoyed a remarkable V-shaped recovery. During the second quarter, the index soared 20%, one of the 10 *best* calendar quarters in almost 100 years.

We attribute the strong rebound to three things:

- Unprecedented monetary-policy response by the Fed to provide the liquidity necessary for Wall Street and the banking system
- Unprecedented fiscal-policy response

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INSIDE THIS ISSUE

QUARTERLY SEMINAR UPDATE

Due to the uncertainty of the COVID-19 pandemic, and for the health and safety of our clients and staff, we will not host an in-person seminar this quarter. Instead, we will do a live webinar presentation, so you can join us from the comfort of your home or office.

The webinar is scheduled for **Thursday, August 13, at noon.** We will also record and send the presentation afterward in case you are unable to join us.

As usual, our investment team will speak on the current happenings in the market and economy. Also this quarter, the advisor team will talk about how significant market volatility is accounted for in a financial plan.

We will send the webinar invitation via email soon and hope you are able to join us on August 13. Please be safe, and we look forward to seeing you all soon.

CONTINUED FROM PAGE 1 ▸ by Congress and the administration to provide direct support to Main Street

- Initial favorable coronavirus trends that led to the partial reopening of the economy

So, things have been getting marginally better, and that's good. That's boosted the confidence of governments, companies, and consumers. For example, after hitting a record unemployment rate of 14.7% in April, employers added 2.5 million jobs in May, according to the Bureau of Labor Statistics.

Retail sales rebounded by 17.7% in May, according to the Commerce Department, albeit off an extremely depressed level. Also, U.S. government plans to launch phase 3 trials of three COVID-19 vaccine candidates in the coming months have contributed to new optimism.

But it's far too early to sound the "all clear," in our opinion. In the near term, we see a couple of coronavirus-specific risks:

- **Vaccine setback.** Since the coronavirus was the catalyst for this recession, we continue to think the recovery will be determined by the development of a safe, effective, and widely distributed vaccination. There's no guarantee of success, and timing is uncertain at best.

TAKE NOTE!

Our office will be closed on the following date:

MONDAY, SEPTEMBER 7
Labor Day

- **Second wave.** Meanwhile, the risk of a material second wave of infections increases as people relax restrictions to reopen economies. As of this writing, the number of new reported cases in the U.S. has surged to new highs, causing some local governments across the country to freeze, cancel, or roll back reopenings.

We expect that markets will be volatile for much of the rest of the year because COVID-related uncertainty should remain. And lest we forget, 2020 is a presidential election year. Historically, significant elections have injected markets with additional volatility. We anticipate the same this year as political races heat up over the next few months.

Clayton Wealth Partners knows this is a stressful time for many. Please call us with any of your concerns or questions. We're here for you.

Would Refinancing My Mortgage Be the Right Move for Me?

BY ERIC PURCELL, CFP®
Wealth Advisor

Everywhere you look right now, there are competitive financing offers across the consumer discretionary retail sector. For instance, you might have seen television commercials lately for new vehicles with financing terms of 0% for 72 months. If it fits into your budget and is part of your financial plan, then I say go for it!

Despite not being in the discretionary sector, the housing market is no different. As you may have heard, the Federal Reserve cut rates twice in March this year. The second cut dropped rates to between 0% and 0.25%.

Please note, with the Fed lowering the fed funds rate range to 0%–0.25%, this does not mean that banks are required to drop their loan rates to this range. However, the Fed funds rate and bank rates generally run parallel to one another (though there are exceptions to this rule).

The Fed lowered rates in March in response to the COVID-19 health crisis, which carried over into a financial crisis, in an attempt to boost the economy. And with lower interest rates, mortgage refinancing looks appealing—but would refinancing your mortgage be in your best interest?

WHAT IS REFINANCING?

Refinancing is the replacement of an original debt, or mortgage obligation, with another obligation under different terms. Through the process, the first obligation is paid off and replaced by the second obligation.

Most commonly, people will replace their existing mortgage terms with new terms to try to:

- **Lock in a lower interest rate.** A lower interest rate equates to a lower monthly payment. However, refinancing is generally not recommended if the difference in rates is less than 1%.

  Expect to pay closing costs when refinancing. If you do not take closing costs into consideration during the refinancing process, then you might be better off not refinancing, especially if the difference between your existing mortgage rate and your anticipated rate is minimal.

  If you have a large number of years remaining on your mortgage and you think you can qualify for interest rates 1-2% lower, then consider running a break-even analysis to confirm whether refinancing is right for you.

- **Reduce the length of a mortgage.** If your existing mortgage has a current length greater than 20 years, then it may be to your benefit to refinance and lock in a 15-year mortgage with a lower monthly payment.

  However, if your existing mortgage has a shorter length for payoff, then refinancing an existing short-term mortgage for another short-term mortgage may not be in your best interest.

  Again, make sure to include closing costs when running your break-even analysis.

- **Replace an adjustable-rate mortgage (ARM).** ARMs are not so common, but we do come across them from time to time. I have even met someone who was not aware that they had an ARM, and it surprised us both to find that their monthly statement clearly

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Employee Highlight: Meet Zac Pohlenz!

Full name: Zachary Wayne Pohlenz

Position: Associate Wealth Advisor

Nickname: Zac

Hobbies/interests outside of work: I love plants and gardening, not that I'm any good at taking care of them. My indoor plants are doing really well, but I kill basically anything I plant outdoors. I'm still learning, but it's a lot of fun!

Favorite food: Thai.

Favorite vacation spot: Anywhere in Colorado. If I'm in the mountains, whether I'm hiking, camping, or fishing, I'm happy.

Hidden talent: I wouldn't call it "hidden," but I'm a pretty decent guitar player. I've been playing for about 13 years.

Phobia: Mice. There is nothing worse than that feeling when you're pulling the cover off your grill, and a little gray mouse jumps out onto your feet.

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showed they had one.

ARMs are typically recommended if you want to own your residence but know that you will not live there for long (three to five years). In this case, an adjustable-rate mortgage may be most helpful by providing a low fixed interest rate in the initial years of the mortgage.

Because the rate is subject to change—most likely increase—as time goes on, it could benefit you to refinance the ARM and lock in a low interest rate. This will eliminate interest rate risk, or the risk of an adjustable interest rate increasing in the future.

DO I QUALIFY?

After shopping around and finding mortgage interest rates at an appealingly low level, if serious about refinancing, you will want to reach out to a lender to see if you qualify. Lenders will look at several factors to conclude whether you qualify, like:

- **Your credit.** Lenders will run a hard inquiry on your credit score. The lower the credit score, the more unlikely or unfavorable the terms you will qualify for.
- **Your equity.** They will want to see if you have above a certain level of equity in your home to refinance.
- **Your housing cost ratio.** They may want to see how much your monthly housing costs (principal, interest, property taxes, and homeowner's insurance premium, or PITI) compare with your monthly gross income.

  Monthly Housing Costs ÷ Monthly Gross Income

  General rule: Not to exceed 28% of gross monthly income.
- **Your total debt ratio.** They may want to see how much your total debt (monthly housing costs plus any consumer debt payments—e.g., car payments) compares with your monthly gross income.

  Total Monthly Debt ÷ Monthly Gross Income

  General rule: Not to exceed 36% of gross monthly income.

AM I REFINANCING FOR THE RIGHT REASON?

Now can be a great time to refinance to a lower rate, to a shorter term, or potentially both. However, refinancing to lower your monthly payment to then allow yourself to add more debt to your situation (e.g., a new vehicle) is not a smart approach.

You will have added a depreciating asset (such as that new vehicle) at the expense of your home's built-up equity. You could find yourself in a tough spot if you were to experience financial hardship, such as the loss of a job or loved one.

Overall, refinancing now while rates are low may lead you to some savings, which in turn, can lead to continued wealth accumulation. Please review all these variables when deciding if now is the right time for you to refinance.

As always, please reach out with your Wealth Advisor with any questions or continued discussion on this topic.

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