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Q3 2020

THE QUARTERLY

It Gets Tougher from Here

BY JAMES WALDEN, CFA
Partner and Chief Investment Officer

An optimist would say that we've had a heckuva rebound in the economy and the markets in 2020. A pessimist would say that we still have three highly uncertain months left in a crazy year that we'd all like to forget.

They'd both be right.

When the U.S. Bureau of Economic Analysis releases its advance estimate of third-quarter gross domestic product (GDP) at the end of October, we won't be surprised to see headline growth of 30%-plus. Through the end of September, the economy regained more than half the record jobs lost from the coronavirus shutdown.

The so-called "V-shaped" recovery contributed to another quarter of stellar stock-market gains. In fact, the S&P 500 posted its strongest two-quarter performance since the Great Recession.

Gains will likely be tougher to come by from here. Many of those still sidelined in the jobs market are in industries that remain hardest hit by COVID-19, and layoff headlines are increasing. (See the airlines, movie theaters, and Disney.)

Even with strong GDP growth in the third quarter, the economy will still be below its 2019 peak. We continue to believe it won't return to full steam until there is a safe, effective, and widely distributed COVID vaccine. There's no doubt that the economy and markets benefited from early-year fiscal stimulus, but a

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QUARTERLY SEMINAR UPDATE

Due to the continued 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 present a live webinar on **Thursday, November 12, at noon**, so you can join us from the comfort of your home or office. We will send the webinar invitation via email soon and hope you are able to join us. If you are unable to tune in on November 12, we will email the recorded presentation afterward. Please be safe, and we look forward to seeing you all soon.

CONTINUED FROM PAGE 1 ▸ much-needed additional fiscal boost is caught in congressional crossfire.

As we write this, it remains uncertain whether additional stimulus legislation will be passed before the election—which leads us to the elephant in the room.

Big elections in any year involve uncertainty, and uncertainty can create market volatility. This year's presidential election serves up uncertainty in spades. The political atmosphere is the most charged we can recall. We've already written about how the election results could be contested. As we write this article now, President Trump has been diagnosed with COVID.

Meanwhile, the Fed remains extremely accommodative. Earlier this year, it cut its target federal funds rate to near 0% and launched a program to buy a massive amount of Treasury bonds. Both were designed to aid the economy by helping lower interest rates on Main Street. More recently, the Fed tweaked its strategy of targeting 2% inflation (which it has failed to consistently achieve) to targeting "average" inflation of 2%.

It's a subtle difference, but it indicates that the Fed will be looking for periods of inflation above 2%. This means that the Fed will be very unlikely to raise interest rates any time soon.

With interest rates so low, stocks are more attractive to investors than bonds, pushing equities up into territory historically considered expensive. While we are wary of equity valuations, we continue to believe equities can sustain such levels so long as interest rates remain low. In our opinion, this is not the same high-valuation market that existed at the time of the dot-com bubble.

Finally, although the low-interest environment has caused high-quality bonds to lose some luster, they remain a staple in most diversified portfolios because they act as a ballast in times of stock market duress.

These are trying times, to be sure. We remain vigilant and won't hesitate to continue adjusting portfolios as necessary. In the meantime, please call in with any questions or concerns you might have.

TAKE NOTE!

Our office will be closed on the following dates:

THURSDAY, NOVEMBER 26, AND FRIDAY, NOVEMBER 27
Thanksgiving

FRIDAY, DECEMBER 25
Christmas Day

FRIDAY, JANUARY 1, 2021
New Year's Day

A FRIENDLY REMINDER:
Don't forget to adjust your clocks back one hour on Sunday, November 1.

Additionally, and with great reluctance, due to the ongoing issues with the pandemic, we are canceling the annual holiday party this December. Our first priority is the safety and health of our clients and staff, and canceling feels like the responsible thing to do. **However**, we are hoping for an even bigger and better celebration in 2021!

We wish you a wonderful holiday full of good health and happiness!

My Cash Reserves Are Earning Next to Nothing. What Should I Do?

BY ZAC POHLENZ
Associate Wealth Advisor

On March 3, the Federal Reserve cut interest rates to 1.00% (down from 1.50%) in response to the coronavirus outbreak. Just 12 days later, the Fed cut rates again, this time down to 0%, after the agency received significant criticism for not doing enough to support the economy.

When interest rates get cut, yields on savings accounts and certificates of deposit (CDs) go down. With prevailing rates at 0%, banks have a minimal margin by which to pay interest on deposits. According to the FDIC, the national average interest rate being paid on savings accounts is only .05%[1] That said, let's cover some options for any excess cash savings you may have.

Certificates of deposit (CDs) are an option you might consider. CDs offer a higher interest rate on your cash than your standard savings account. You have some important considerations when evaluating CDs. A CD may offer a higher interest rate on your money; however, it is important to consider liquidity when putting money into a CD. Ask yourself: "When am I going to need this money?" If the answer is "In one year or less," a CD is probably not the right option for you. For this same reason, it would not be wise to put your emergency fund into a CD.

If you do not have a reasonable expectation that you will need to spend your spare cash in the next two to five years, CDs may be a place to earn a higher yield than your savings account. Take time to carefully consider interest rates, the length of the certificate (typically in denominations of months), and any penalties or costs you might incur if you need your money before the end of the term.

Another option worth considering is an **online high-yield savings account.** Several banks offer online-only savings accounts at a higher yield than your traditional savings account. Without the overhead costs of having a brick-and-mortar bank building to pay for, these accounts can offer a higher yield on your deposits. Online high-yield savings accounts pay in the range of .5%-.8% (with .8% being the current "rate cap").[2]

An advantage of these accounts is that they offer a higher degree of liquidity than a CD. Typically, with high-yield online savings accounts, you can access your money within a couple of business days. Most do not have any transfer fees associated with taking out funds.

Money market accounts may offer similar, if not slightly higher, interest rates than high-yield savings accounts. There are, however, some differences worth noting when comparing a money market account with a high-yield savings account. Money market accounts are not FDIC insured, and they can go down in value, although they very rarely do.

If you're unimpressed with the interest rates on the above options, then you may consider

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Office Staffing

Clayton Wealth Partners has been rotating staff in recent weeks to reduce the amount of in-person contact in our office. We plan to continue a weekly rotation for the foreseeable future—quite likely until the end of the year.

Rest assured that all our staff members are set up to work remotely, and we will continue to have staff onsite to meet your in-person needs.

During this time, you may be asked to leave a voicemail for someone if they are not in the office. All employees receive voicemails immediately, so if an employee is working remotely, you can expect a prompt return call as soon as they are available.

We will continue to conduct client meetings via video conference, phone conference, or in person, depending on your preferences.

Please let us know if you have any questions about the measures we are taking to help ensure the safety of staff and clients. We look forward to continuing to deliver the high-quality customer service you have come to expect from us, even in these challenging times.

CONTINUED FROM PAGE 3 ▸ investing your excess cash in a **conservatively managed, diversified portfolio**. It is important to stress that you should consider this option only if you have cash above and beyond your immediate needs and an emergency fund set aside for the unexpected. The stock market is not the place to park your emergency fund.

We can work with you to find a diversified portfolio that is the right fit, given your tolerance for risk, circumstances, time horizon, and overall goals. It is also essential to keep in mind that while there is potential for higher long-term returns by investing in the market when compared with CDs or savings accounts, there is also a higher degree of risk.

[1] https://www.fdic.gov/regulations/resources/rates/

[2] Same source as above

Year-End Reminders

As we approach the end of yet another calendar year (sayonara, 2020!), don't forget about the financial items that need to be completed this year to be counted for 2020:

- **Contribute to a 529:** Kansas taxpayers can receive a deduction on their state tax return for contributions up to $3,000 per child ($6,000 if married filing jointly). If you are outside of Kansas, be sure to check with your state for specific tax benefits.
- **Make desired charitable donations:** Whether you give via checkbook, appreciated assets, or donor-advised fund, make sure any charitable bequests that you want to be counted for 2020 are completed before December 31.
- **Use funds from flexible spending accounts:** Funds in FSAs are typically forfeited at the end of the year if not used for eligible medical expenses. Some plans offer a grace period or may allow you to carry over some monies to use in the following year. Be sure you know the rules of your plan so that you don't lose any balance that remains.
- **Complete a Roth conversion:** If you are experiencing a low-income year and are early in retirement, before required minimum distributions start at age 72, you may want to consider whether a Roth conversion is worthwhile. Roth conversions create additional ordinary income, so the strategy isn't for everyone. To have a Roth conversion count for 2020, you will need to complete it by year-end.

One important item that would typically make the above list is making sure you take care of required minimum distributions (RMDs). A couple of notes to remember on RMDs:

- The age at which RMDs begin is now age 72 (previously age 70.5).
- RMDs have been suspended for 2020. You can still voluntarily take funds from an IRA, but there is no required amount that has to be taken out this year. As of now, RMDs will return in 2021. We will keep you updated if any new legislation passes that would further suspend them.

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