September 2020

FIDUCIARY PULSE

3rd Quarter 2020: Stocks Gain, Economy Rebounds, and the Federal Reserve Changes Approach to Inflation

By Clark Kendall

The Quarter In Brief

The summer brought an economic rebound and an extension of the stock market rally that began in spring. In late September, the Federal Reserve Bank of Atlanta's GDPNow tracker estimated real Gross Domestic Product (GDP) growth of 32.0% for the third quarter. All three of the major Wall Street benchmarks advanced in Q3; the S&P 500 added nearly 8%, ending the quarter up about 4% for the year. Even so, U.S. equities slumped in September as traders worried that the stock market might be getting ahead of the economy.

In Washington, the Federal Reserve altered its monetary policy stance and forecast low-interest rates for the near future. Hopes for another economic stimulus dimmed in Congress. On Main Street, the coronavirus pandemic remained top of mind, but improvements in hiring, consumer confidence, and retail sales were evident.

Entering the fourth quarter, analysts wondered how skillfully the financial markets might manage some unknowns: a potential uptick in COVID-19 cases in the fall, the pace of vaccine development, the outcome of the presidential election, and undetermined prospects for additional economic support of businesses and households.

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In This Issue

Stocks Gain, Economy Rebounds, and the Federal Reserve Changes Approach to Inflation

By Clark Kendall

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The U.S. Economy

Many positive signals appeared in the quarter. Millions of Americans went to work again; monthly net job growth topped 1.7 million in July and 1.3 million a month later. Unemployment, which had hit 14.7% in April, fell from 10.2% in July to 8.4% in August, and the U-6 rate counting both underemployed and unemployed Americans declined from 16.5% to 14.2%.

Consumer confidence, as measured by the Conference Board's monthly index, leaped to 101.8 in August from 86.3 in July. Households kept up their buying—retail sales were up year-over-year through August even though supplemental unemployment benefits expired at the end of July.

Industries also grew, according to research from the Institute for Supply Management. When ISM's Monthly Purchasing Manager Index for the manufacturing and services sector surpasses 50, those sectors are judged by ISM to be expanding. ISM's services PMI was at 58.1 in July and 56.9 in August; its manufacturing index reached 54.2 in July (a month that saw a 6.4% rise in U.S. factory orders) and 56.0 in August.

Home sales soared as summer began, and although that momentum tailed off, sales did not retreat. Residential resales were up 24.7% in July, and another 2.4% in August. New home buying increased 4.8% for August after a 14.7% July climb. Housing starts and building permits were both up 17.9% in the first month of the quarter, but then they both declined; permits dipped 0.9% and starts 5.1% in the eighth month of the year.

For more than a century, the Federal Reserve has had two primary monetary policy objectives: to manage inflation and to guide the economy toward a state of maximum employment. Historically, managing inflation has come first. So, it made news on August 27 when Fed Chairman Jerome Powell announced that the central bank would "seek to achieve inflation that averages 2 percent over time," rather than proactively adjust short-term interest rates when inflation approaches that established target. In other words, it would tolerate a little more inflation than it had in the past as a trade-off for spurring the economy. The Fed kept the federal funds rate in the 0%-0.25% range in the quarter, and its September consensus interest rate forecast showed it expected no change for short-term interest rates through 2022.

The Global Economy

During April, the International Monetary Fund As economies worldwide continued to labor under the coronavirus pandemic, the International Monetary Fund (IMF) and Organization for Economic Cooperation and Development (OECD) revised their estimates of global economic activity for 2020 and 2021. The IMF sees a 3.0% contraction for global Gross Domestic Product (GDP) this year, with the global economy growing 5.8% next year. The OECD estimates a 4.5% pullback for global GDP in 2020, and then a 5.0% rebound in 2021.

The quarter ended with no agreement yet on a post-Brexit trade deal between the United Kingdom and the European Union, as the post-Brexit transition period ends December 31. Complicating matters, U.K. lawmakers

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introduced a bill that would disregard conditions for trade with Northern Ireland established as part of Brexit, which the E.U. has hotly protested. U.K. Prime Minister Boris Johnson wants both parties to reach a free trade agreement this month; Johnson is aiming for a pact without quotas or tariffs attached, similar to the arrangement the U.K. has with Canada.

Looking at foreign stock exchanges, some significant quarterly gains stand out. South Korea's Kospi index rose 11.2% in three months; no other consequential overseas benchmark advanced double digits in Q3I. China's Shanghai Composite added 7.82%, Taiwan's TWII 7.70%, Argentina's Merval 4.69%, Japan's Nikkei 225 4.02%, and Germany's DAX 3.65%. On the other side of the ledger, Hong Kong's Hang Seng retreated 3.96%, and Spain's IBEX 35 dipped 7.12%. MSCI's EAFE index, which tracks large companies across developed countries in Europe and Asia, rose 4.90% in Q3.

MARKET INDEX	Y-T-D CHANGE	Q3 CHANGE	Q2 CHANGE
DJIA	-2.65	7.63	17.77
NASDAQ	24.46	11.02	30.63
S&P 500	4.09	8.47	19.95
YIELD	**9/30 RATE**	**3 MO AGO**	**1 YR AGO**
10 YR TREASURY	0.69	0.66	1.68

Sources: wsj.com, cnbc.com, treasury.gov, finance.google.com - 9/30/2020

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year Treasury yield = projected return at maturity given expected inflation expressed as a percentage.

Looking back, Looking Forward

Stocks powered through July and August, entering historic territory in mid-summer. In particular, August saw a powerful rally. The Nasdaq Composite climbed 9.59% in August, and the Dow Jones Industrial Average gained 7.57%, finishing with its best August since 1984. Advancing 7.01% to cap a 5-month winning streak, the S&P 500 had its best August since 1986. September got off to a good start, with a new record close for the S&P: 3,580.84

Then, reservations about the rally surfaced. Traders began to question the sustainability of the summer economic recovery, and whether a fall uptick in coronavirus infections might hurt business and consumer spending. The S&P ended September at 3,363.00, retreating 3.92% for the month. The Dow lost 2.28% in September to fall to 27,781.70, and the Nasdaq gave up 5.16%, declining to 11,167.51.

The 10-year Treasury yield spent all of Q3 between 0.52% and 0.74%, reaching the top of that range in late August.

Wall Street enters the fourth quarter with a bit of uncertainty. The November election results may produce any number of reactions. There are only educated guesses as to when coronavirus vaccines may appear, and how effective they may be. The first reading on 3rd-quarter Gross Domestic Product growth is on October 27, roughly one week before election day.

Federal Reserve officials expect low-interest rates and very little inflation through 2022. Sustained low-interest rates could drive more borrowing and business investment, and improve the outlook for the housing market.

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Clark A. Kendall
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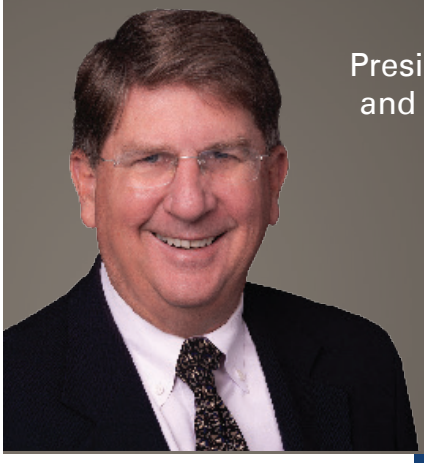
President and CEO



Conquering Retirement Challenges for Middle-Class Millionaire Women

By Carol Petrov

When it comes to retirement, some women face obstacles that can make saving for retirement a challenge.

Women typically earn less than their male counterparts and often take time out of the workforce to care for children or other family members. Added to the fact that women typically live longer than men, retirement money for women may need to stretch even further.

Despite these challenges, there are a lot of reasons to be hopeful. Many of our clients here at Kendall Capital are women. Below are considerations we often explore with them as we plan for their future.

Review your existing situation.

Do you want to spend your years traveling together, or do you envision staying closer to home? Do you see yourself moving to a retirement community, or do you want to live as independently as you can? Sit down with your spouse, if you're married, to discuss your visions for retirement.

You can't see if you're on track for your goals if you haven't defined them. And if you find you're falling short of where you want to be, you can work together to strategize about how you can either get to where you want to go or to adjust your strategy so that it fits your existing situation.

Get creative.

These challenges don't have to stop you from saving for retirement if you're willing to get creative. If you plan to or have taken off time from the workforce, try and increase your contributions to your retirement accounts while you are working. If you're staying home while your spouse works, you may be able to contribute to an individual retirement account.

Under the SECURE Act, once you reach age 72, you must begin taking required minimum distributions from a Traditional Individual Retirement Account and other retirement plans in most circumstances. Withdrawals from Traditional IRAs are taxes as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty. Under the CARES Act, the 10% penalty may be waived in 2020. Traditional IRA may be fully or partially deductible, depending on your adjusted gross income.

If you're caregiving for an elderly relative, there are ways to be paid for your time.

According to AARP, the Veteran's Administration or Medicaid may be a potential source of income. Working with a professional who has expertise in this field can help you navigate the complicated medical structure while also helping you earn income for work that you're doing.

Get involved.

One of the best things you can do is to get involved in conversations about finances. Many women undervalue their knowledge in this area and having regular conversations with your family and various professionals can help ensure that you always know where things stand.

> **One of the best things you can do is to get involved in conversations about finances.**

While women may face additional challenges, careful preparation with your advisor here at Kendall Capital may help you live a fulfilling and financially stable retirement.

Carol Petrov
CFP®

Vice President and Senior Relationship Manager

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Students & Parents are Re-thinking Higher Education in a Covid World

By Clark Kendall

Even before COVID-19 changed the face of higher education — and the world — college and university enrollment had been dropping. Students and the parents that pay the college experience bill have already long been questioning if the high cost of tuition and the major time investment are worth it.

Low enrollment has meant that higher education institutions have been shutting down. "In the last five years, about half a million students have been displaced by college closures, which together shuttered more than 1,200 campuses," according to The Chronicle of Higher Education. For-profit colleges have borne the brunt of these closures, making up 85% of recent closures.

It's no surprise, considering how much one year of tuition and fees runs for the average student, according to The Balance:

- $36,880 at private schools
- $26,820 for out-of-state residents at public schools
- $10,440 for in-state residents at public schools

Tack on the cost of rent, food, books, and other supplies, and students (or their families) are left with a hefty bill. A bill that is often paid for via student loans with high interest rates. According to credible.com from 2006 through 2021, average federal student loan interest rates were 4.66% for undergraduates, 6.22% for graduate students, and 7.27% for parents and graduate students taking out PLUS loans. There is a small bright side-students and parents taking out federal student loans during the 2020-21 academic year will pay the lowest interest rates in history and will be 1.79 percentage points lower than last year.

The pandemic

In an already challenging atmosphere, the pandemic has hit colleges and universities especially hard. Admission is declining further because of lack of state funding, loss of foreign students, and more online courses.

Additionally, sports are a major part of the experience for many students, as they foster local pride, school loyalty, social interaction, and excitement. But, of course, many sports teams are not playing for safety reasons, so some students are less interested in attending when they won't be able to have what they consider a true college experience. And for those colleges offering instruction virtually at the same cost? Students don't value a virtual college education as much as they do the 'college experience'. The very thing that justifies the cost for many of higher education institutions is the very thing that COVID kills-social connection. The classes, the friends, the experience.

For the dollar conscious students

Instead of heading off to college or university a few months after high school graduation, some young people may take a gap year to travel (when allowed), work a job, or live with their families while saving money. This last alternative also gives parents to stow away more savings into any 529's they may be feeding.

Some students may decide to continue to live with their families while attending a community college, saving money on room and board and taking as many or as few credits as they want. For example, one year of tuition and fees at Montgomery College is $4,650 (assuming 20 credit hours per year), or around $12 per day. Attending community college for the first two years of advanced education and getting those core classes achieved can save students a lot of money, as they are about half the cost of universities, according to the American Association of Community Colleges. That means a student in Montgomery County could still graduate from a four-year university, but lower their overall cost of a degree by nearly $10,000.

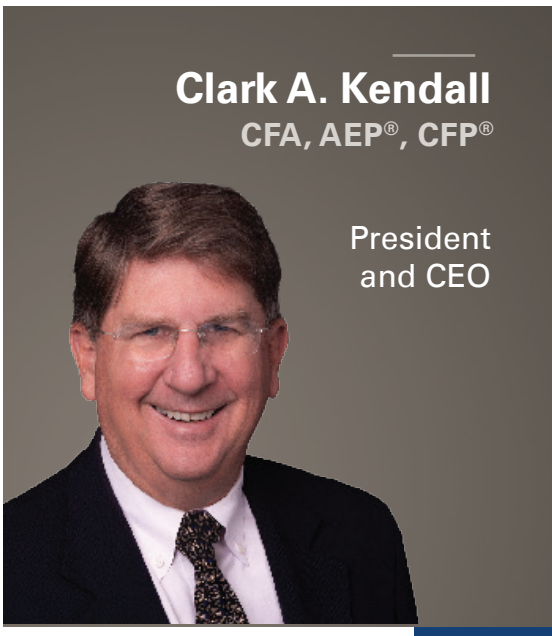
Montgomery College and local community college students also have many financial aid options, including federal Pell grants, Maryland state grants, and hundreds of scholarships offered by organizations, businesses, foundations, and individual donors.

Another unique higher education opportunity in Montgomery County is The Universities at Shady Grove. Nine of Maryland's public universities offer some of their most popular degrees on a central campus in Rockville. By providing access to 80 undergraduate and graduate degrees and certificate programs, USG gives Montgomery County students an affordable way to earn a higher education.

Researching the many affordable higher education opportunities available in your own backyard could be time well spent for college students and their families that can yield big results in overall education savings.

A Chance To Re-Evaluate?

Many facets of life will take on a new, permanent shape in the future and higher education is most likely one of them. Perhaps this will result in college and university leaders finally re-evaluating with better focus on what matters-education. An education that will have greater emphasis on building people's skills for work and civic life. Their long-term survival will depend upon their ability to provide what will be most meaningful to students, employers and society. COVID-19 will reshape what it means to go to college. And the urgency of the pandemic shouldn't distract us from seizing an opportunity for reinvention that centers on meeting the needs of today's students.



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The A, B, C, & D of Medicare

By Jason Tkach

Breaking down the basics.

Whether your 65th birthday is on the horizon or decades away, understanding the different parts of Medicare is critical, as this government-sponsored program may play a role in your future health care decisions. This is such an important and timely topic for some of our clients here at Kendall Capital that we recently hosted a webinar for our age-appropriate clients to go over the current Medicare options and some of their complexities. We plan to offer more events like this in the future.

Parts A & B: Original Medicare.

There are two components. In general, Part A covers inpatient hospital care, skilled nursing facility costs, hospice, lab tests, surgery, and some home health care services. One thing to keep in mind is that, while very few beneficiaries must pay Part A premiums out of pocket, annually adjusted standard deductibles still apply.

Many pre-retirees are frequently warned that Medicare will only cover a maximum of 100 days of nursing home care (provided certain conditions are met). Part A is the one with these provisions. Under the current Part A rules, you would pay $0 for days 1-20 of care in a skilled nursing facility (SNF). During days 21-100, a $176 daily coinsurance payment may be required of you.

Knowing the limitations of Part A, some people look for other choices when it comes to managing the costs of extended care.

Part B covers physicians' fees, outpatient hospital care, certain home health services, durable medical equipment, and other offerings not covered by Medicare Part A.

Part B does come with some costs, however, which are adjusted annually. The premiums vary, according to the Medicare recipient's income level, but the standard monthly premium amount is $144.60 for 2020, and the current yearly deductible is $198.

Part C: Medicare Advantage plans.

Sometimes called "Medicare Part C," Medicare Advantage (MA) plans are often viewed as an all-in-one alternative to Original Medicare. MA plans are offered by private companies approved by the federal government. Although these plans come with standardized minimum coverage, the amount of additional protection offered can differ drastically from one person to the next. This is due to unique provider networks, premiums, copays, coinsurance, and out-of-pocket spending limits. In other words, comparing prices and services offered from different vendors may be the best way to find a Medicare Advantage plan that works for you.

Part D: Prescription drug plans.

While Medicare Advantage plans often offer prescription drug coverage, insurers also sell federally standardized Medicare Part D plans as a standalone product to those with Medicare Part A and/or Part B. Every Part D plan has its own list (i.e., a "formulary") of covered medications. Visit Medicare.gov to explore the formulary of approved drugs for your Part D plan as well as their prices, organized by tier.

> **"Whether your 65th birthday is on the horizon or decades away, understanding the different parts of Medicare is critical.**

Medicare.gov is a great place to start all your research.

Once there, you'll find answers to your most common questions and more information on the different Medicare plans offered in your area. And of course, feel free to reach out to your advisor at Kendall Capital with any questions.

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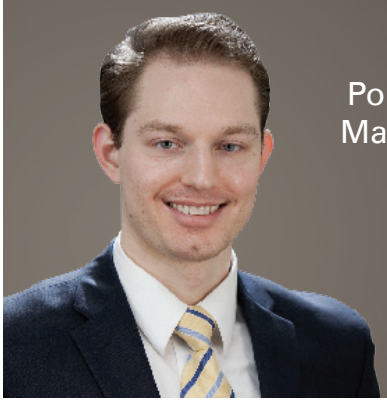

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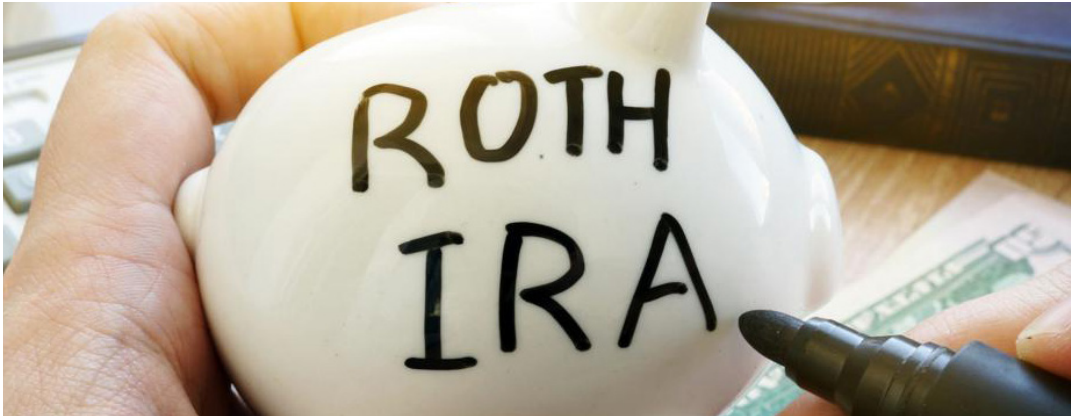
Why Roth IRA Conversions May Now Be Advantageous

By Brian Mattox



Thanks to a couple of factors, some Middle-Class Millionaires are thinking about this move before 2020 ends.

Roth IRAs have attracted retirement savers since their introduction in 1998.

They offer the potential for tax-free retirement income, provided Internal Revenue Service rules are followed. We often have clients inquire about this type of IRA, and we are here to help evaluate if this is a strategic move.

Do Roth IRAs seem even more attractive these days?

Perhaps. You can cite two factors: current tax rates and the passage of the Setting Every Community Up for Retirement Enhancement (SECURE) Act.

Roth IRAs differ from traditional IRAs.

Typically, distributions from traditional IRAs must start once you reach age 72, and the money distributed is taxed as ordinary income. When distributions are taken before age 59½, they may be subject to a 10% federal income tax penalty (although, the CARES Act does allow for some exceptions to those penalties for the 2020 tax year).

On the other hand, if you are the original owner of a Roth IRA, you do not have to start taking distributions at age 72. And if you are least 59½ years old and have owned the Roth IRA for at least five years, any distributions you take may be exempt from federal taxes.

> **A Roth conversion may be appealing simply from an income tax perspective.**

Converting a Traditional IRA to a Roth IRA is a taxable event.

You pay ordinary income tax on the converted amount. And federal tax rates are now near historic lows, thanks to the Tax Cuts and Jobs Act, and they are scheduled to stay there through 2025.

The SECURE Act ruled that a non-spouse beneficiary of an IRA must completely withdraw that inherited IRA balance within 10 years rather than over the beneficiary's lifetime (the previous guideline). The distribution can be taken as a lump sum or in payments over the 10 years. There is no set guideline other than it must be empty in 10 years.

The rules are similar for a non-spousal beneficiary of a Roth IRA. The new owner must deplete the inherited IRA in 10 years. However, there may not be any federal income taxes on the withdrawn amounts, assuming I.R.S. rules have been respected.

A Roth conversion may be appealing simply from an income tax perspective. Taxable incomes have declined for many households due to recent economic slowdown, resulting from the COVID-19 pandemic in 2020, and it might put some traditional IRA owners in lower tax brackets this year. Add in the fact that federal income tax rates are low, to begin with, and 2020 could be a good time to go Roth.

Remember that any Roth IRA conversion is a taxable event, and these conversions can no longer be undone. Also, keep in mind that tax rules change from year to year, and future tax changes may affect IRAs.

Be sure to consult a tax professional and your financial advisor at Kendall Capital before making any decisions regarding your traditional IRA or Roth IRA.

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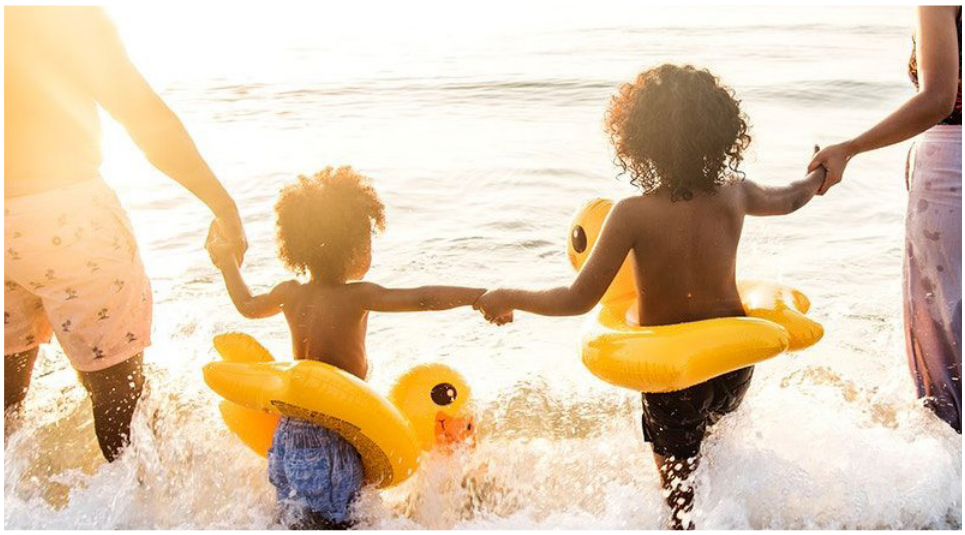

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