

KCM CLIENT NEWSLETTER

APRIL 2020

Coronavirus Dominates Global Discussion

During these trying times, we are reminded of an old movie called “Mrs. Miniver” that was set in World War II-era London. The sacrifices and challenges the world faced, as seen in the movie, is very reminiscent of what we are experiencing today. Thankfully, more often than not, troubling times bring out the best in people. America and our fellow human beings around the world will show up to fight, endure, and overcome the coronavirus. These are adverse circumstances in which we find ourselves in. No government was prepared for this unfortunate outbreak. Even though we are a democracy with freedom for all, we know 100% observance of shelter-from-home orders is not easy. However, we must all do our part if we want this outbreak to pass.

We believe the recently approved coronavirus stimulus package combined with the Federal Reserve’s ability and willingness to print trillions of dollars should help cushion a longer and steeper downturn. Roughly half the money will benefit individuals directly (checks in the mail and greater unemployment benefits) and indirectly (forgivable loans to small businesses who keep their workers on the payroll). To gain proper perspective, the \$2.2 trillion package (if it is all spent) would roughly offset a 10% drop in annual GDP. Will this be enough? No one knows for certain.

RMD NOTIFICATION:

As part of the recent CARES Act, Required Minimum Distributions (RMDs) have been waived for 2020, including for inherited IRAs. Additionally, the waiver covers the first RMD, which individuals may have delayed from 2019 until April 1, 2020.

If you are currently taking distributions from an IRA, please reach out to your KCM relationship manager to discuss waivers.

The impact on the financial markets has been dramatic. The stock market declined 34% from its peak to its recent trough, making it the third worst decline in the past 45 years. In a flight to safety the ten-year Treasury yield dipped below 0.5%, but corporate bond yields rose sharply due to concerns over rating downgrades, possible bankruptcies and reduced liquidity. The stock market gained back some ground in recent weeks as the economic stimulus bill was passed. Also, the Federal Reserve dropped their lending rate to 0% and pledged trillions for open market purchases. These included investment grade corporate bonds, Treasury bonds, asset and mortgage backed securities, commercial paper, municipal securities, bond ETFs -- and they guaranteed the safety of money market funds.

Finally, as part of the stimulus package, the Federal Reserve will provide the funds for low interest loans to large corporations in financial distress. These actions greatly improved confidence and liquidity and allowed numerous large corporations to issue a record number of bonds at reasonable interest rates. This is very good news. However, nobody knows the extent of damage to small businesses or the speed at which they will recover, or what percent of these business will recover.

What should we expect in the coming weeks and months? In our earlier communications we suggested a steep but short-lived recession was most likely. We also hinted that no one could predict the stock market bottom but the recovery would be V-shaped and prices would be marked up very quickly. We still expect a full recovery but getting there may take a bit longer.

During this difficult period, it is important to put things in proper perspective. Beating the coronavirus outbreak requires some personal sacrifice, as we are all in this together. Most people in the U.S. will remain healthy and we expect individuals will resume their normal lives in a matter of months, or up to one year for elderly people.

TAX FILING CHANGES:

The deadline for filing and payment of 2019 federal income taxes has been moved from April 15 to July 15, 2020, by the Internal Revenue Service (IRS).

The IRS confirmed that July 15, 2020, will also be the deadline to make 2019 contributions to IRAs and health savings accounts (HSAs). Deadlines associated with contributions to workplace savings plans are not affected.

Many states have also followed the decision of the IRS, and will be delaying the deadline of filing state income taxes until July 15, 2020. Please check your state's tax or revenue department to determine if your state deadline has changed.

We expect a national lockdown will work and new case growth will slow and eventually peak. This expectation will be reinforced by a clear peak in Europe. The market will then begin a slow but steady rise with reduced volatility.

Our investment strategy with your money is to gradually buy more shares of great companies on down days. During any period of weakness, we will also upgrade the quality of existing holdings when it makes sense to do so. We want no impediments to the upside when the recovery takes hold. We will continue to research each company we own to verify its safety and ability to pay dividends, if needed.

We welcome your questions and comments and we will continue to keep you apprised of our thoughts in future communications as needed. ■

CORONAVIRUS SHELTER-FROM-HOME TIPS:

How to Stay Safe

- 1. Stay home as much as possible.**
Avoid social gatherings in groups of more than 10 people. Utilize home delivery of groceries and meals. Avoid discretionary travel, shopping, and social visits.
- 2. Practice social distancing.**
Avoid close contact with people who are sick. Put distance between yourself and others when in public. Remember that some people without symptoms may be able to spread the virus. Keep about 6 feet between yourself and others.
- 3. Wash your hands often.**
Use soap and water for at least 20 seconds, especially after you have been in a public place. You can also use hand sanitizer that contains at least 60% alcohol. Avoid touching your eyes, nose, and mouth, especially with unwashed hands.
- 4. Cover your mouth and nose with a cloth face cover when around others.**
Everyone should wear a cloth face cover when they have to go out in public. The cover is meant to protect other people in case you are infected.

Things to Do While at Home

- Do a budget review — figure out what's necessary and what's not.
- Clean up files, basement, closet, etc.
- Make sure your wills and Power of Attorney for both medical and financial decisions are in order.
- Contact friends and family by phone who are alone. Try a Skype, Zoom, or FaceTime video meeting for added connection.
- Don't over-binge on TV, especially don't watch the news 24/7 — it can lead to unnecessary anxiety and concern.
- Review your financial plans.
- Learn something new. There are online courses for so many different things these days, and many courses are free.
- Puzzles. It may sound boring but there is nothing more satisfying than completing a jigsaw puzzle or a crossword.

***We're all in this together!
We wish you good health.***

DON'T FORGET TO MAXIMIZE YOUR IRA CONTRIBUTION

With the new extended filing deadlines, the last date for adding to your IRA is now **July 15, 2020**. However, don't delay until the last minute. Remember, time in the market is more important than market timing.

Contribution limits for 2019 are \$6,000 for individuals under age 50 and \$7,000 for individuals age 50 or older.



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Contact one of our Relationship Managers and learn how KCM can help you achieve your financial objectives.

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