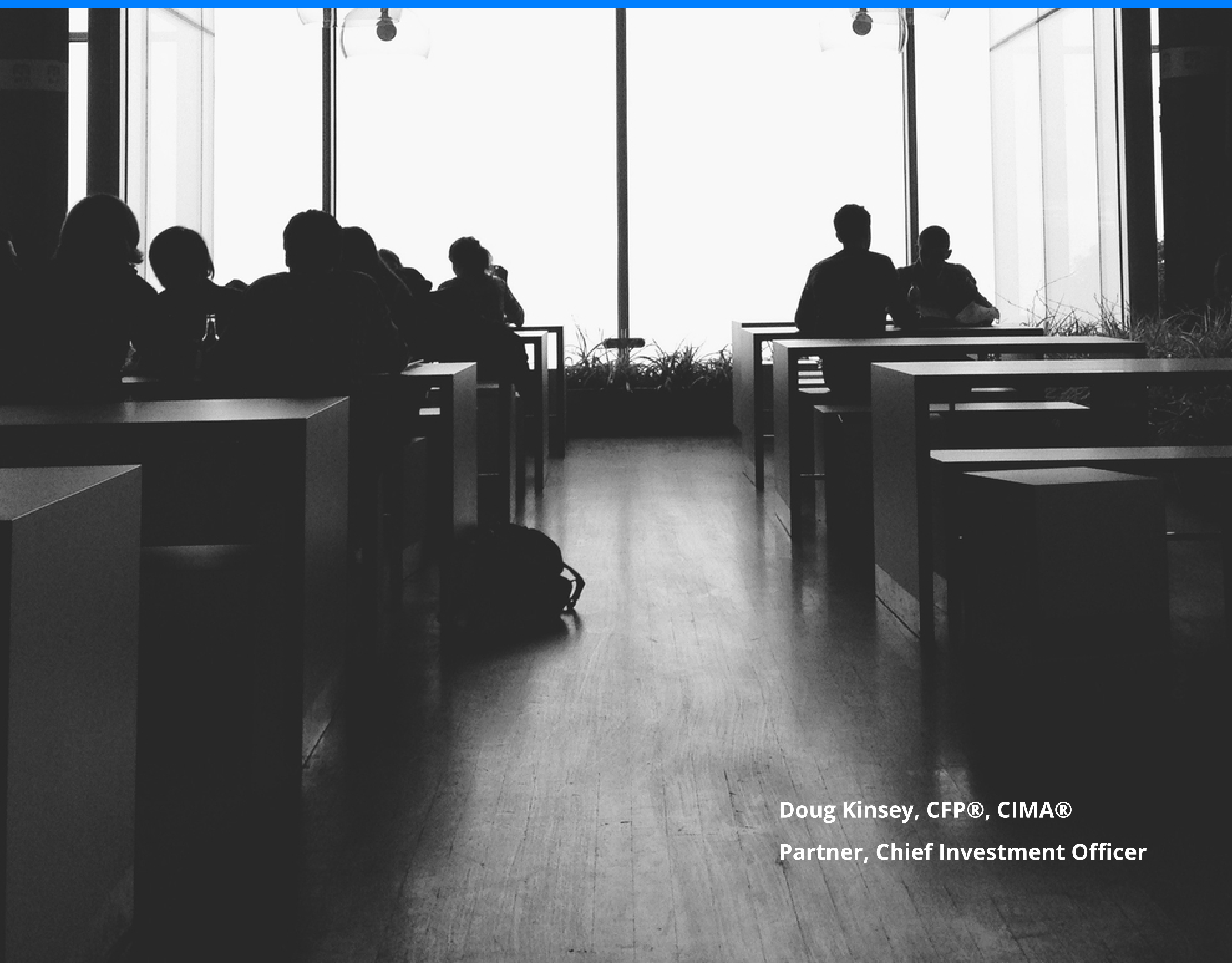
Artifex Financial Group

2020

SURVIVING THE PANDEMIC

Financial Planning Tools & Tips From Artifex Financial Group



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Partner, Chief Investment Officer

'HAVE AN UP-TO-DATE FINANCIAL PLAN IN PLACE'

The subject of this report is probably the last thing I thought we'd be addressing this year. Coming off of a banner year in the markets in 2019, hopes were high for continued economic and investment growth. While there was some concern that the market was at a point of fair, if not over-valuation, it's safe to say that nobody expected what was to come. However, life has a way of throwing curves, and we all need to adjust our tactics to continue hitting and scoring in our portfolios and our personal lives. This is an unprecedented period in history, and as we are in the process of digesting the daily data and evaluating what this period means for professional advisors as well as clients, some themes are emerging, which I will attempt to address in this communication. The goal is to provide you with ideas and concepts to weather this storm, and come out on the other side with your finances intact.

Wealth Preservation & Financial Planning

It probably goes without saying, but have an up-to-date financial plan in place. Have this completed with a fee-only fiduciary advisor, one who will not try to sell you products or earn outside compensation (commissions) for the advice. This will ensure an objective analysis of your situation, and avoid conflicts-of-interest. The plan should include such things as:

- An analysis of your current living standard and projected retirement needs.
- Alternate best-case, normal and worst-case scenarios.
- Investment allocation reviews and recommendations.
- Insurance sufficiency analysis.
- Estate planning review.
- Tax projections.
- Appropriateness of Roth IRA conversions, RMD requirements, and Social Security planning.
- A current **risk analysis** evaluation.

Among other potential considerations.

Level One - Verify that you have ample liquidity

Although the inclination may be to reduce or eliminate all debt at this time, take a balanced approach to this idea. With the uneven state of the economy and employment, we advocate increasing your emergency funds and cash cushion at this time. We've always recommended that retirees keep enough of their portfolios in safer, liquid investments to get them through 5-7 years of living needs. If you're still working, this would be an excellent time to evaluate your cash position. This is not the time to try to outsmart the markets and "buy the dips." It is a time to evaluate the "best-case," "worst-case," and "normal" scenarios. Even though cash investments and short-term bonds may not create much of a return, it's times like these where "cash is king."

Level Two - Income

The outlook for bonds is challenging. In a normal market, bond funds and individual bonds add a small amount to returns, and we expect the next few years to diminish those returns even further. We expect yields to fall, possibly to the point where income investors will generate little to no return. That means potentially considering high-quality stocks of companies with strong balance sheets that pay reliable dividend streams of income. With the recent rout in the equity markets, there are some opportunities here to pick up shares of select companies at reasonable prices.

Level Three: Growth

For many people with longer time horizons, being too conservative with their portfolio is a prescription for failure. An allocation to growth for a portion of assets is almost a necessity. So what to do now?

- Be narrowly focused - this isn't the time to blindly follow modern portfolio theory and sprinkle your assets across the globe or across broad-based indexes. Some sectors of the domestic and global economies are not going to recover for years. Some companies will cease to exist. Don't expose your portfolio to pockets of disaster.
- Be very cautious of small cap, international, high-yield debt, unsustainable dividend payors, and other asset classes or sectors that will be bruised and battered in the coming years.
- Be sensitive to valuations, as investors will bid up prices of favored equities, which will periodically be overvalued to the point of becoming non-investable.
- Be patient. This is a time for cautious action, not plunging in on the latest idea or fad.
- Consider alternative investments that provide a higher degree of flexibility, and that offer risk management characteristics not found in traditional equity mutual funds. There aren't many worth investing in, but we've identified a few.
- Don't buy annuities - the imputed yields will not provide a reasonable return on investment and these types of products tend to be outrageously expensive.

'LOOK AT YOUR ASSETS IN THREE LEVELS - LIQUIDITY, INCOME AND GROWTH.'

What are Alternative Investments?

The term "alternative investments" can refer to a variety of non-traditional assets that add additional diversification or protection to a portfolio. We typically think of hedge funds, real estate, private businesses, commodities or "long-short" strategies as alternatives. In "normal" times, they don't really add a lot to performance, but can serve to smooth returns and provide for non-correlated volatility, i.e. when the stock market zigs, alternatives zag.

I've never been too keen on many "long-short" strategies, as the fund managers often do not deliver on their stated promise. We have, however, identified some in the more recent years that do perform as advertised, and have a reliable track record.

So, we are using these in a methodical, measured way currently, and hope to be able to revert back to more traditional approaches later, when the economy stabilizes. While there's nothing wrong with using these strategies in the long run, they tend to moderate positive returns in exchange for reducing negative returns.

More conservative investors may prefer this trade-off, but we've found that a more traditional diversification approach when economies are working normally will reduce management costs and provide for a more identifiable risk-return projection.

Know Thyself and Your Money Relationship

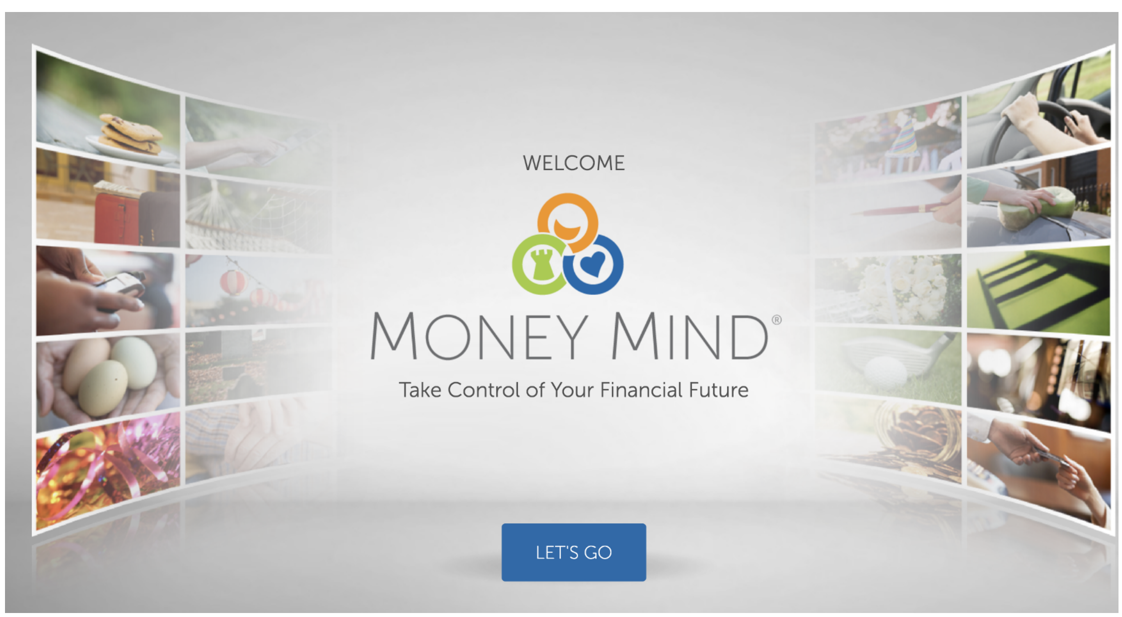
You may be wondering what this headline is all about. Understanding your behavioral tendencies and thought processes around money decisions is a critical part of financial planning, and one that is often given very little attention by typical financial planners. We believe that it is integral to the process.

The first step

With the help and guidance of a qualified advisor, asses your built-in tendencies when making money decisions. There are some very good tools available to assist you in this process. We prefer to use the "Your Money Mind" quiz and report, created by FinLife Partners, our national advisory network. It's a quick exercise, and is based on behavioral science as proposed by Daniel Kahneman, the author of "Thinking Fast and Slow" which theorizes that we all tend to make decisions with the fast part of our brains (where biases and behavioral histories reside), and then try to justify them with our slow, or logical brain.

What we learn through the MoneyMind exercise is to recognize when we may be falling prey to emotions over logic, and to identify situations where this tendency may derail our financial decisions.

If you'd like to get a free Money Mind report, you can access the quiz **here**.



The second step

It's time for a risk sensitivity check-up. In this step, you'll find out about your overall attitude toward portfolio risk. Again, there are many tools available for this step, but not very many good ones, in my estimation. These types of analysis tend to be misused as well, and find their way to setting investment policy if other factors are not considered, such as lifestyle, personal preferences, and financial capacity to achieve goals.

We only use this as one data point, and as a way for us to make sure we understand each client's feelings toward various portfolio types.

The program we use for this stage is Riskalyze, and it has become the gold standard for risk preference evaluation, in my opinion.

If you want to check out your personal risk preference, use this link and we'll send you a complimentary risk tolerance report:

Riskalyze

The third step

The first two steps will give you insight into your current mindset during this crisis. The third step is to take stock of your overall financial picture, and to either create or update your financial plan with a qualified fiduciary advisor. With the recent market volatility, this is a great time to have a review meeting to determine if your goals, assumptions, resources and time frames are still valid. This should give you added confidence and the information you need to navigate the current economic crisis.

Here are some things to consider:

- Has your spending changed as a result of stay-home orders or reduced entertainment, dining, travel, and fuel costs? Has it increased due to scarcity of grocery or perishable items, or constant orders on Door Dash?
- Have you or your significant other experienced a change or loss of income?
- Does the current situation alter your thinking on your stated goals, such as retirement dates, planned large expenditures, etc.?
- Do your tax planning assumptions need to change?
- Are your investments properly positioned given the sudden global and domestic economic changes?

If we can be of assistance, schedule a discussion with us **here**. If you aren't an existing client, the introductory discussion is complimentary.

'THERE ARE DEFINITELY OPPORTUNITIES TO CONSIDER AT THIS TIME...BUT DON'T GO IT ALONE. '

CARES Act and Tax Law Changes

There has been a flurry of legislative activity since the inception of the Covid-19 pandemic. Most of this is targeted to either help businesses or individuals survive financially during this period. From PPP loans to IRA distributions, the rules have changed substantially for this year. Here are some things to be aware of if you are in need of creative solutions for financial stability.

1. For 2020, Required Minimum Distributions (RMD's) from IRA accounts are not required.
2. Distributions from IRA's prior to age 59 1/2 of up to $100,000 are not subject to the 10% excise tax.
3. Distributions of up to $100,000 this year can be reported as income over three years and/or repaid.

In order to qualify for items 2&3, you need to be affected by the Coronavirus in various ways - either contracting the virus, being quarantined, furloughed, laid off, having reduced hours, unavailability of care, and some additional factors.[1]

Additionally, it is also possible to temporarily discontinue loan payments to 401(k) plans, if you have taken a loan or plan to take one from your plan. It is also possible to take an increased loan amount during this period of up to $100,000 if necessary.

It has also become apparent that many loan providers, such as mortgage companies, banks and credit card companies are offering payment suspension options for a period of time.

While these options are not particularly attractive or recommended during normal economic periods, if you find yourself in a financial crunch as a result of all of this, it's good to know what's available.

It's important to talk to your advisor and / or accountant about this prior to taking action.

[1]Bernie Kent, COVID-19 And Your IRA: Here's What You Need to Know, Forbes March 28, 2020 https://www.forbes.com/sites/berniekent/2020/03/28/covid-19-and-your-ira-heres-what-you-need-to-know/#353e6df82131

There have been quite a few tax law changes in the past three years, from broad tax legislation to changes relating to the CARES act. Now is an excellent time to discuss these changes with your advisor, particularly if you are in need of extra funds, or if you do not need to take RMDs from your IRA accounts.

Additionally, the legislation around PPP loans is in flux and worth a discussion if you are a business owner. We have a separate set of resources regarding PPP loans. Reach out if we can help you navigate this area.

Hope and Opportunity

In the midst of the changes we've all encountered over the last few months, there is hope that the crisis will be managed, and the economic situation will return to a state of normalcy. There are definitely opportunities to consider at this time, whether it's simply to reallocate your holdings, revise your plan, or take advantage of depressed asset prices. But don't go it alone, as there are also dangers to be avoided.

In times like these, a qualified advisor is worth the cost

In more normal times, a qualified, fiduciary financial advisor is worth it, as the process of financial planning and coordinating your investments to meet your goals is an endeavor that will add immeasurably to your results.

An experienced advisory firm will add incrementally to that benefit in times of crisis, by serving as a sounding board and adding perspective to every financial decision. The caveat here is that any firm you hire should be made up of experienced professionals who are completely objective in their advice and investment implementation. This means that the advisor should be fee-only and a full fiduciary. Not simply "fee-based." You'll only find these advisors in independent Registered Investment Advisory firms, preferably members of NAPFA, the National Association of Personal Financial Advisors.

For more information on selecting an advisor, ask us for our report on that topic. We'll be happy to give you a checklist of best practices to look out for.

Visit our website for more information about how Artifex Financial Group works with individuals and business owners to live their "one best financial life."

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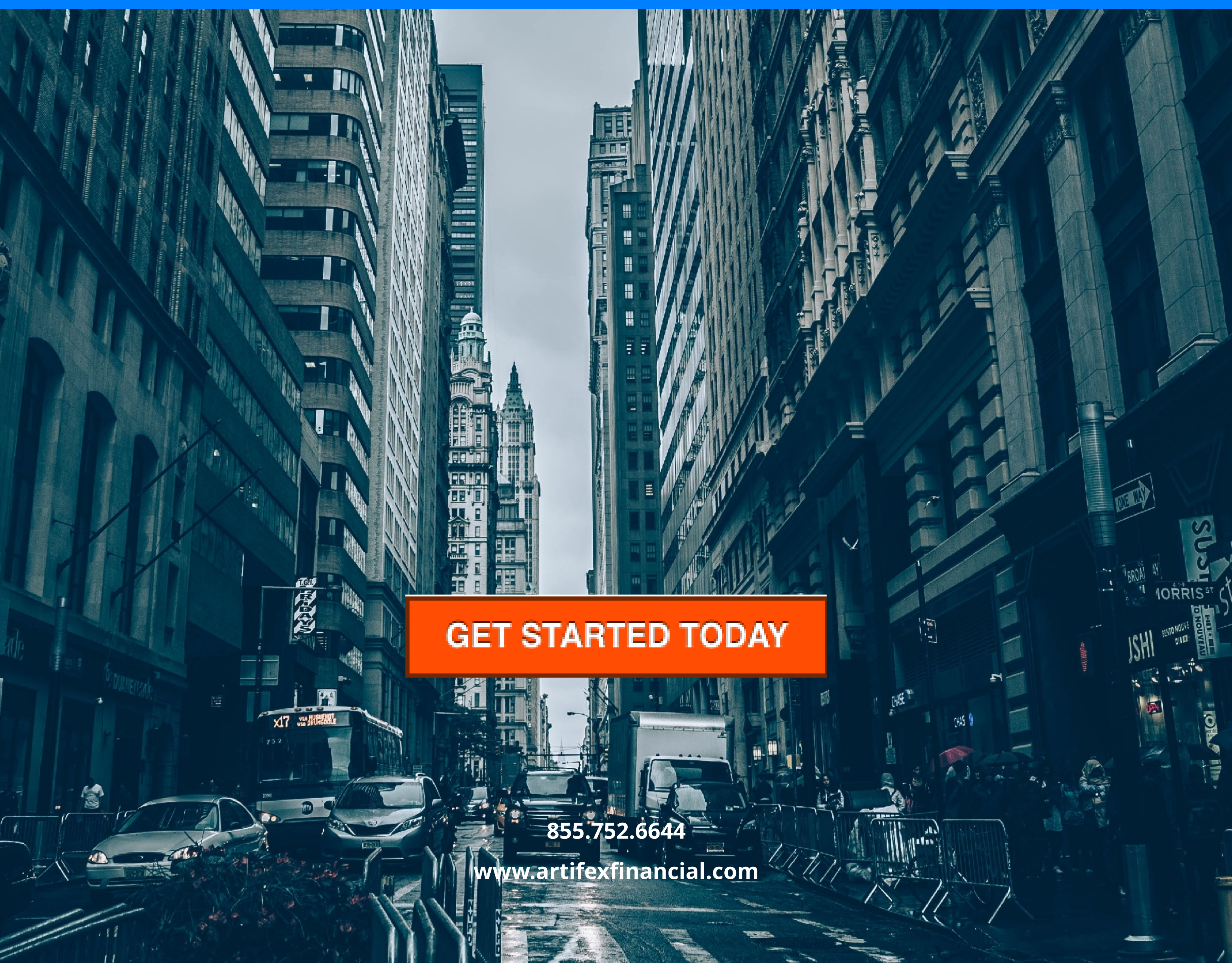

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