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Commerce Concepts

Market Updates, Asset Allocation, and Investment Education for Plan Participants and Individuals

Tapping Retirement Savings During a Financial Crisis

As the number of COVID-19 cases began to skyrocket in March 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The legislation may make it easier for some Americans to access money in their retirement plans, temporarily waiving the 10% penalty on early withdrawals and increasing the maximum allowed amount on loans.

It is optional for employers to adopt the new loan and withdrawal provisions, so understanding these new guidelines and the other rules for loans and early withdrawals may help you determine the appropriate option during a financial crisis. Remember that tapping retirement savings now could risk your financial situation in the future.

Penalty Free Withdrawals

The newest exception to the 10% early withdrawal penalty allows IRA account holders and retirement plan participants to take distributions of up to $100,000 in 2020 for a “coronavirus-related” reason. These situations include a diagnosis of COVID-19 for account owners and certain family members; a financial setback due to a quarantine, furlough, layoff, or reduced work hours, and in the case of business owners, due to closures or reduced hours; or an inability to work due to lack of child care as a result of the virus. This temporary exception augments the other circumstances for which a penalty-free distribution may be allowed:

- Death or disability of the account owner
- Unreimbursed medical expenses exceeding 7.5% of adjusted gross income (will increase to 10% in 2021)
- A series of “substantially equal periodic payments” over your life expectancy or the joint life expectancy of you and your spouse
- Birth or adoption of a child, up to $5,000 per account owner
- Certain cases when military reservists are called to active duty

In addition, IRAs (but not employer-sponsored plans) allow penalty-free withdrawals for a first-time home purchase ($10,000 lifetime limit), qualified higher education expenses, and payments of health insurance premiums in the event of a layoff.

Employer-sponsored retirement plans allow exceptions for those who separate from service after age 55, and for distributions as part of a qualified domestic relations order.

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WIN A $25 GIFT CARD

to your choice of Amazon or Starbucks! (See page 2 for details)

Congratulations to our most recent winner:

Matt L. of Marmoset, LLC

Visit ***thecommco.com/commerce-concepts*** *for the answer to last issue’s question.*

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Retirement & Investment Services

Indexes are unmanaged and cannot be invested in directly. Past results are not predictive of future results. Individual results will vary. The trailing returns shown include dividends. See page four for index definitions.

Source: Raymond James Financial Services

To be entered into a drawing to win a

$25 GIFT CARD,

email free@thecommco.com with the answer to this question:

Which sector of the equity market produced most of the second quarter's growth?

Market Update

Through June 30, 2020

		Trailing Returns			
		3 mos	12 mos	5 yrs	10 yrs
Blue Chip US Stocks	Dow Jones Industrial Average	18.51%	-0.54%	10.62%	12.99%
Large Company US Stocks	S&P 500	20.54%	7.51%	10.73%	13.99%
Small Company US Stocks	Russell 2000	25.42%	-6.63%	4.29%	10.50%
Non-US Stocks	MSCI EAFE (Gross Div)	15.08%	-4.73%	2.54%	6.22%
US Bonds	Barclay's Capital US Aggregate	2.90%	8.74%	4.30%	3.82%
Cash Alternatives	ICE Bof A 3 Month US Tsy Bill	0.02%	1.63%	1.19%	0.64%

Economic Snapshot

Gross Domestic Product (GDP)

Gross domestic product is expected to have bounced sharply off the lows following a record decline in the first half of the year. Still, the level of activity will fall far short of where we started the year.

Employment

Job losses due to social distancing have been massive. Some will be recouped as state economies reopen. However, many job losses will likely be permanent, with workers transitioning to other industries.

Inflation

The pandemic has put downward pressure on prices. There may be a few bottleneck pressures as the economy recovers and supply chains adjust. We should see little strain from the labor market.

Manufacturing

Production is likely to improve following sharp weakness in the spring, however new orders are expected to improve only partially.

Housing and Construction

Housing demand was strong prior to the pandemic. Lower mortgage rates have helped to fuel an initial rebound. Supply constraints will support home prices, feeding ongoing concerns about affordability.

Monetary Policy

Fed officials expect short-term interest rates to remain low through 2022. Asset purchases have been unlimited – the pace may slow, but more will be done if needed.

Investment Strategy Quarterly: Published by Raymond James and Associates, July 2020 . For a complete PDF copy of the July 2020 issue of Investment Strategy Quarterly, click here or email newsletter@thecommco.com.

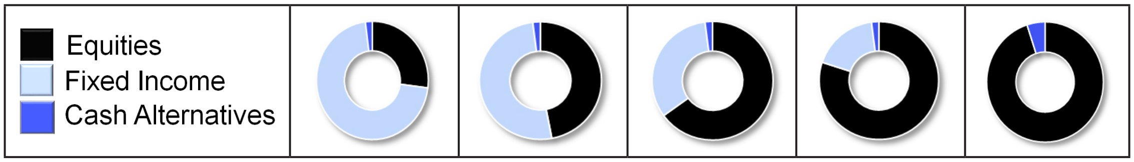
Mixed Results in June; Tech Stocks Continue to Outperform

- The equity market rose back into positive territory year-to-date in June, but June marks the first month since March where equity markets haven't closed meaningfully higher than where they opened. The rapid increase in COVID-19 cases after states ended lockdown restrictions weighed on stocks, as phased reopening plans have been paused or called into question in some areas.
- The COVID-19 pandemic continues to drive fiscal and monetary policy, and Federal Reserve Chairman Jerome Powell has said he expects the central bank to continue its support. Congress may soon start negotiating another round of fiscal stimulus. Investors should expect some volatility as states continue to move forward, pause, or step back on their phased reopening plans in response to ongoing changes in numbers of new cases.
- Currently, the state of the equity markets appears to be in two parts: tech and everything else. Much of the growth of the equity market has been on the strength of technology stocks, which continue to see gains where other industries have experienced downward pressure and disruption to their markets.

Asset allocation models can be viewed online anytime at ***thecommco.com***

Strategic Asset Allocation Models

As of July 2020



	Conservative	Moderate	Balanced	Growth	Aggressive
Equity	**27%**	**47%**	**65%**	**80%**	**95%**
Equity allocation comprises:					
U.S. Large Cap Blend	17%	19%	25%	30%	36%
U.S. Large Cap Growth	0%	3%	5%	7%	8%
U.S. Large Cap Value	0%	5%	7%	9%	10%
U.S. Mid Cap Equity	4%	7%	9%	11%	13%
U.S. Small Cap Equity	1%	3%	5%	7%	8%
Non-U.S. Developed Market Equity	5%	10%	10%	12%	15%
Non-U.S. Emerging Market Equity	0%	0%	4%	4%	5%
Fixed Income	**71%**	**51%**	**33%**	**18%**	**0%**
Fixed income allocation comprises:					
Investment Grade Intermediate Maturity	46%	34%	22%	12%	0%
Investment Grade Short Maturity	13%	9%	5%	3%	0%
Non-Investment Grade (High Yield)	7%	6%	3%	3%	0%
Multi-Sector Bond	5%	2%	3%	0%	0%
Cash & Cash Alternatives	**2%**	**2%**	**2%**	**2%**	**5%**
Totals	**100%**	**100%**	**100%**	**100%**	**100%**

These asset allocation targets are based on our changing views of the risk and return in the various asset classes, looking out over three or more years. The models assume fully allocated portfolios and do not take into account outside assets, additional cash reserves held independent of these models, or any actual investor's unique circumstances. Investors should consult their financial advisor to decide how these models might assist in the development of their individual portfolios. Material is provided for informational purposes only and does not constitute a recommendation.

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Tax Consequences

Penalty-free does not mean tax-free. In most cases, you must report the full amount of any distribution on your income tax return for that year. However, the income associated with a coronavirus-related distribution can be spread over three years for tax purposes. Additionally, the money can be contributed back into the plan within three years so that it is no longer considered taxable income (consult your tax advisor for details).

Retirement Plan Loans

If your employer-sponsored retirement plan allows loans, you typically can borrow up to the lesser of 50% of your vested balance or $50,000. Most loans must be repaid within five years, but if the money is used to purchase a primary residence, the repayment period may be longer. The CARES Act permits employers to increase this amount to the lesser of 100% of the vested balance or $100,000 for loans to coronavirus-affected individuals made between March 27, 2020, and September 22, 2020. Affected participants who have outstanding loans on or after March 27, 2020 will be able to delay any payments due in 2020 by one year.

Hardship Withdrawals

Many employer-sponsored retirement plans also permit hardship withdrawals in certain circumstances. Although these distributions are not exempt from the 10% early withdrawal penalty, they can be a lifeline for people who need money in an emergency.

While recent legislation has attempted to inject more options for investors during the current turbulent times, there's no general answer that will lead to the right decision for each person. If you'd like to discuss your own situation and options, please contact us at newsletter@thecommco.com.