



**Wealth
Management**

Di Vito Consulting Group

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Market update

The Di Vito Consulting Group

First and foremost we hope you, your family, and your friends are all well during this unprecedented time in history. This a special market update and timely opportunity report from our team so please read on.

Our team, and the RBC professionals who support us around the world, are committed to serving you. We have maintained a contingency plan for years as part of our business continuity protocol and we have been able to execute our daily responsibilities from different locations. We remain fully operational during this event.

We take our responsibility of managing our client's hard-earned capital seriously and are working tirelessly to navigate the dynamic market conditions and present opportunities. The current market volatility may be unsettling but we continue to follow our guiding principle - we are financial stewards and strive to give our clients one less thing to worry about. We manage assets in a well-diversified and defensive fashion and therefore are not feeling anywhere near the losses the stock market as a whole is experiencing...by design.

As of February 19, 2020 the S&P 500 index reached another all-time high. Six trading days later it declined more than 10% and entered correction territory, making it the fastest 10% drop in history. The DJIA (Dow Jones Industrial Average) proceeded to enter a bear market in just 20 days – the fastest 20% drop in history. A month later (as of 3/19/2020) the S&P 500 was down 25.42% and the DJIA was down 29.61%. Those large-cap indices have fared better than the mid-cap and small-

cap indices (MidCap 400 down 36.14% and SmallCap 600 down 37.8%).

These market declines create real opportunities to take action, there are several things we can recommend to be proactive with this opportunity and make a positive impact moving forward. These types of crisis opportunities don't come around often. It has been 11 years since the last bear market for equities and interest rates have now reached historic lows. Please consider the following ideas that may add value to your plan. If any of these ideas are of interest, please reach out so that we may discuss them further.

- PORTFOLIO REALLOCATION – In a diversified portfolio, trim from more defensive managers and add to those that present more upside potential.
- TAX LOSS HARVESTING – Consider harvesting tax losses while rebalancing in order to offset future gains.
- PUT CASH TO WORK – Money market rates are following the steep decline in the federal funds rate since the Fed has cut the overnight rate to 0.0%-0.25%. In our 28 years, we have only seen a few opportunities like this and they don't last long. Consider committing any funds above a comfortable cash reserve to a long-term investment portfolio. Don't expect money market funds to earn much for a while.
- EXTEND RISK – Consider inching out risk to something more appropriate for any assets set aside for long-term use.
- PORTFOLIO STRESS TEST – Run analytics to better understand downside exposure. We can run the analytics and present a report to illustrate exactly what risk and downside is embedded in a portfolio. We are happy to help friends and family with this as well. We've found most folks don't know what kind of downside they really have in their investment portfolios.
- ROTH CONVERSION - Three factors make a Roth IRA conversion worth considering now. First, the SECURE Act was signed into law in 2019 and limits the "Stretch-IRA" to 10 years or less making a Roth IRA conversion more compelling. Second, with portfolio values down, now is a good time to consider converting traditional IRA assets to a Roth IRA. You have to pay taxes on the amount converted, which currently has a lower value than a month ago. The Roth IRA is then positioned to grow income tax-free and does not mandate Required Minimum Distributions (RMDs) during your life. Third, income tax rates may increase in the future which makes doing a Roth IRA conversion now more impactful. It is a way to grow your assets income tax-free in the future.
- ESTATE PLANNING – There are opportunities to dramatically reduce estate taxes your heirs may eventually owe by taking advantage of estate planning strategies like GRATs (Grantor Retained Annuity Trusts) or ISGTs (Installment Sales to Grantor Trusts). These types of trusts work especially well in reducing estate tax in times when interest rates and asset values are low (but likely to increase in the future). Both of those are true today. The interest rate the IRS requires for GRATs and ISGTs is only 1.2% in April, an historic low. In addition, low interest family loans are another opportunity to transfer wealth to the next generation because of historically low interest rates. There has rarely been as attractive a chance to move assets to future generations with minimal estate tax as there exists today and we are not sure how long this will last.
- EXERCISE STOCK OPTIONS –Consider exercising Incentive Stock Options (ISO) while the price is lower to reduce your Alternative Minimum Tax (AMT) liability.
- REVIEW DEBT STRUCTURE – While interest rates are at historic lows, now may be the time to refinance a home or existing debt, set up a credit line for liquidity, or restructure long-term notes. Being smart about lowering borrowing costs is a big part of growing wealth. We can help.

This is the seventh severe virus (SARS, Avian flu, Swine flu, MERS, Ebola and Zika) in the last 20 years. None of them have caused the equity markets or economy to contract like this. We think the markets are oversold and approaching a point where they are now of interest. This is unlike the

recessions of 2000-2002 and 2007-2009 and more like 1987 when the market declined 32% in 2 months but rallied 50% in the following 18 months.

There is reason for optimism.

We are a very resilient country with some of the smartest people in the world. Our economy will suffer a minor setback but we can all rely in the knowledge that we will regroup and spring forward soon. We always have before, overcoming every challenge. A virus cannot destroy the essential strength of America. The ideas we share today will not be felt in days, weeks or even months but a year or two from now, we are confident you'll be happy to have made them.

We believe now is a time for random acts of kindness and for going above and beyond. We are ready to help so please let us know how we can help you, your family, neighbors, friends or colleagues.

All the best,

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