RBC Wealth Management
The Crescent Group
Carsten Frederiksen, CFP®
Senior Vice President
Financial Advisor
Senior Portfolio Manager
Portfolio Focus
Direct: 214-775-6401
NMLS#: 1321563 City National Bank
The Crescent Group website

Paul Hendershot
Senior Vice President
Financial Advisor
Senior Portfolio Manager
Portfolio Focus
NMLS # 1370978 City National Bank

Nick Weege
Financial Advisor
214-775-6408

Lindsey Vickers, MBA
Client Service Associate
214-775-6458

Andrew Ielmini
Client Service Associate
214-775-6448

January 2020 Monthly Commentary

How could coronavirus impact your financial plan? After a historically tranquil end to 2019 for investment markets, 2020 has gotten off to a turbulent start. Although several factors have contributed to recent market volatility, it was ultimately the emergence of coronavirus in China that led U.S. stocks to decline for the month of January. In this commentary, we'll review past viral outbreaks and their economic and financial market impact, and determine what implications the coronavirus outbreak could have for your financial plan. We'll end the commentary with a brief review of The SECURE Act, which took effect in January. The SECURE Act makes changes to some retirement plan laws in the U.S., with the goal of expanding retirement savings.

The most comparable recent, wide scale viral outbreak in China that we can look to is the SARS virus outbreak of 2003. The World Health Organization estimates that SARS infected 8,100 people and killed 774. SARS surfaced in the early stages of an economic recovery in the U.S., during a time when the U.S. stock market bottomed after the technology stock crash. Given that SARS was rather quickly contained, and the U.S. economy had just hit bottom, it isn't surprising that U.S. stocks increased 21% in the year following the SARS outbreak. This market movement reflects economic recovery more than any impact from the virus. The same holds true for other recent viral outbreaks where economic conditions as a whole mattered more for investment markets than the virus, such as with Avian flu in 2006 and Swine flu in 2009[1][2].

If we go further back in time, we can find two flu pandemics, 1957 and 1968, that coincided with U.S. recessions. How much they contributed to the economic contractions is unknown[2].

The above mixed data show the importance of overall economic conditions in determining what happens with investment markets, rather than just looking at the impact of the virus itself. Of course, the scale of the virus does matter, and so far coronavirus cases exceed those of SARS with more than 40,000 people infected, and with more reported deaths of 910 as we write this commentary. Without a doubt, it's too early to know what overall economic impact coronavirus will have on the U.S. economy and investment markets, but we should at least acknowledge that circumstances with the economy and virus differ from when the SARS outbreak occurred[3].

When SARS surfaced, economic expectations were low, as the U.S. stock market had just bottomed out after a brief recession following the technology stock crash. Coronavirus comes at a time of exuberance and speculation for many segments of the U.S. stock market, as well as expectations of improved economic growth as a result of the trade truce reached between the U.S. and China. Coronavirus has the potential to curb those hopes of improved global economic conditions. Without a doubt, there has already been an impact to U.S. corporations and there will be a drag on economic growth, but we won't know the extent of the impact for some time. The investment strategy that our Group follows in light of this uncertainty is to position client assets for growth by investing in proven companies at reasonable prices, while avoiding the most popular areas of speculation that will fall the hardest if unfavorable economic developments do occur. For clients in retirement or preparing for retirement, we maintain a balanced asset allocation with selected stocks and stable fixed income investments.

While most investors rightly focused on the impact of coronavirus on their financial plans last month, another event with financial planning impact occurred in January – The SECURE Act (The Act) took effect. The Act modified three key rules for individual investors with regards to IRAs and employer-sponsored retirement plans (i.e. 401k, 403b, and 457 plans).

First, The Act increased the age for the mandatory start date of required minimum distributions (RMDs) from age 70 ½ to age 72 for individuals turning 70 ½ after 12/31/19. For those not familiar with RMDs, once you reach a specific age (previously 70 ½, but now 72 under the new law), the federal government requires you to withdraw a minimum amount from your IRA every year so they can begin collecting tax on your IRA withdrawals. The Act provides for an additional 1 ½ years for your qualified investment accounts to grow tax-free before you must make withdrawals.

Second, The Act repealed the maximum age for IRA contributions. Previously, individuals could not contribute to IRAs after the age of 70 ½. Now, taxpayers with earned income can make IRA contributions at any age, reflecting the fact that many Americans are living longer and working into their later years.

Third, The Act modifies RMD rules for non-spouse beneficiaries (i.e. siblings, children, and grandchildren) who inherit IRA or employer-sponsored retirement plan assets upon death of the account owner. Under the new law, beneficiaries who inherit IRAs or employer-sponsored plans must distribute the full account balance no later than December 31 of the 10th year following the year the account owner died. Previously, there was no time limit for withdrawing the entire account balance. The following beneficiaries are exempt from the new rule requiring ten-year account withdrawal: spouses, disabled beneficiaries, chronically ill individuals, individuals not more than 10 years younger than the account owner, and specific minor children of the original account owner who have not reached the age of majority[(4)].

Best Regards,

The Crescent Group
Carsten Frederiksen, CFP® | Paul Hendershot | Nick Weege | Andrew Ielmini | Lindsey Vickers, MBA

Sources:

(1) MarketWatch
(2) The Wall Street Journal
(3) CNBC
(4) RBC Wealth Management

Past performance is not indication of future results.

Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.

The information contained in this report has been compiled from sources believed to be reliable, but no representation or warranty, express or implied, is made by RBC Wealth Management, its affiliates or any other

person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute the author's judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility.

Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult your Financial Advisor if you are in doubt about the suitability of such investments or services. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. The information and services contained herein are intended only for individuals residing in the states that the Financial Advisor is properly registered. This report is not, and under no circumstances should be construed as, a solicitation to act as a Financial Advisor in any state where the Financial Advisor is not registered.

To the fullest extent permitted by law neither RBC Wealth Management nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein.