

April 2020

The Capstone Quarterly

We hope this letter finds you and your family safe and well. Here at Capstone Pacific, our job is to find financial solutions for you and our other clients. In other words, we want to do everything we can to reduce your financial stress so we can increase your financial wellbeing. But we also spend a lot of time worrying about your *personal* wellbeing – especially now, given the pandemic. So, we hope you are staying healthy, and that you can find pleasure in being with your family during these uncertain times. In this newsletter, Bryce discusses the recent market events and Casey talks about some relief that might be headed your way.

Bryce's Point of View



-By Bryce Pease, CFP®, Chief Investment Officer

Lately, many clients have told us how slowly time seems to be moving, given social distancing and the never-ending barrage of virus-related headlines we're all subjected to. Despite that, spring is now here, and the first quarter of 2020 has closed. Your statement will be arriving soon and there are two things to know before it does.

First is that we have just been through one of the swiftest and most sudden bear markets on record. As a result, almost every investor experienced a setback during March, including those with relatively conservative portfolios. We'll explain why in a moment.

Second, and most important, is that while bear markets aren't fun, they are *normal*. After a historic eleven-year bull market, we were frankly overdue. As you know, we invest for your *long-term* future, not for a specific week, month, or quarter. While the coronavirus has knocked our *short-term* results down, it has not changed our long-term outlook. It has *not* knocked you off course to reach your financial goals.

So, let's take a quick look at what's going on. While the coronavirus has infected hundreds of thousands of people, it's *affected* billions. People have lost their jobs or seen their pay drastically reduced. Others have had to change the way they work. Whole industries are dealing with snarled supply chains, smaller workforces, and plummeting demand. The fact the virus has spread so far, so fast proves that we live in a global, interconnected world – with a global, interconnected economy. Those who are sick, have lost loved ones, or who are on the front lines combatting this virus have the most on their minds, of course, but almost everyone has seen life change in some way.

In a historic pandemic, nothing is immune – and that includes the markets.

Having coached clients through several bears, we know from experience that it's not fun to open a statement or go online during times like this. It's normal to feel frustrated or concerned whenever the markets don't perform the way we want them to. So, we encourage you to remember a few things:

1. Bear markets are temporary. Again, we have seen this story play out many times. The cause of every bear is different, and some last longer than others. But they *always* end – and when they do, the markets eventually rebound, and often go on to new heights! It happened after the crash in 1987. The dotcom bust in the early 2000s. The financial crisis of 2008. You get the idea.

2. Epidemics usually don't affect the markets for very long.

While we may see more volatility in the short term as the markets take time to settle, remember that we're invested for the *long term*. The day-to-day noise of the markets is just that: Noise. Our job is to filter out that noise and keep you focused on what's really important: Your long-term goals. In fact, during recent conversations with our clients, most have told us some variation of this: *"I'm not stressing about it too much. I know the markets will recover eventually."* This is the exact right attitude to have! It's what all great long-term investors have in common – and thankfully, it's the attitude our clients are currently displaying.

We've been sending out updates regularly over the last month as to how we were attempting to protect clients on the downside. The markets were down over 30% at one point, and while our clients were not down nearly that much, they were still down, and we are not happy with that. All of us at Capstone have our personal money in the same models as our clients so we understand the highs and lows firsthand that our clients are feeling.

So, here's our advice: When you get your statement, simply nod, and remember that our team will keep stressing about your money so that you don't have to. Of course, if you have *any* questions or concerns about your statement, please don't hesitate to give us a call. That's what we're here for. At one point we were 100% out of the stock market for most of our accounts. Bond accounts were switched mostly to very short-term U.S. treasuries, T-Bills and treasury bonds. Our reasoning is we are trying to protect principal especially since the general bond markets have started to wobble a bit.

Your statement will also show we have returned to the stock market and bought many of the same funds for less than we sold them. We also included a couple of new funds. Since no one knows if the market has bottomed out yet we may have to make some adjustments going forward.

But in the meantime, remember this: We've studied the situation. We've been warning about this for years. We are crunching the numbers. We've reviewed every stone and left none unturned. After doing that, do you know what we found?

You're still on course. It's not the end of the world! The best is yet to come.

We're excited about what the future holds. We hope you are, too. So, stay safe and stay healthy.

Casey's Corner

-By Casey Morris, CFP®



The CARES Act and Tax Emergency Declaration

The CARES Act (Coronavirus Aid, Relief, and Economic Security Act) was signed into law on Friday, March 27th. It's a massive, \$2 trillion stimulus package designed to help everything from hospitals, to individuals, to businesses large and small, providing some relief due to the economic hardships created by the Coronavirus disease.

There are a lot of parts to this Act, so I'd like to touch on a couple of the relevant details:

- The Treasury Department will send a one-time direct payment of up to \$1,200 per eligible individual and \$500 per qualifying child under age 17. The amounts will be phased out for taxpayers with Adjusted Gross Income (AGI) over \$75,000, or \$150,000 for Married Filing Joint.
- It is a credit against 2020 taxes that may be advanced now as a cash payment by using 2019 or 2019 tax return information. The law treats it as an overpayment and therefore not taxable. Most individuals won't have to take any action to receive this money.

- All Required Minimum Distributions (RMDs) are suspended for 2020.
- The CARES Act also waives the 10% early withdrawal penalty for retirement accounts for those directly affected by the Coronavirus. Withdrawals will still be taxed but spread over a three-year period. Under most circumstances, my advice is to leave your retirement savings where they are, but it's nice to know that early withdrawals are an option if you need them.

The Treasury Department and the Internal Revenue Service (IRS) announced a special Federal income tax return filing and payment relief in response to the Coronavirus disease (COVID-19). Any person with a Federal income tax return or payment due on April 15, 2020 is eligible for relief, you do not have to be sick, quarantined, or have any other impact from COVID-19 to qualify for relief.

This relief postpones the tax filing deadline from April 15th to July 15th, and if you are self-employed it also provides extension of your first quarterly estimate until July 15th. If you have not filed your 2019 taxes yet there is nothing you need to do, except file by July 15th. If you have already filed and have a payment due, that payment is now due by July 15th. If you've scheduled a payment to automatically come out of your bank account, you can cancel and reschedule that payment to a later date if you wish to do so. If you expect to have a refund due, we'd suggest filing right away to get your refund. There is no need to wait until the July due date. The California Franchise Tax Board is also following these same deadlines.

Thank you to those on the frontline giving their time and talents to keep the rest of us safe. With questions on the CARES Act or Tax Relief, please call or email at any time.

Around the office...

Our offices are still open with limited hours during this time, although we are not taking in-person meetings until the government has lifted their stay-at-home order. In this digital age, we can review client accounts over the phone and virtually for those that request. Should we have to move completely remote, we are able to do so with the same secure access to client accounts as we have in our office. Whether we are in the office or working from our own homes, our service to our clients remains our top priority.

Finally...

Deadlines to contribute to IRAs for tax year 2019 have also been extended to July 15, 2020. If you would like to contribute to your IRA or Roth IRA for last year, you still have until July to do so. Contact us for the information on how to make that contribution.

As always, if you have any questions about the markets, or about your portfolio, please let us know. We welcome your calls and emails. Also, feel free to share this report with others that may be interested.

Sincerely,

The Team at Capstone Pacific

P.S. If you ever run across anyone who could use our services or is unhappy with their current adviser, we always appreciate it when you pass on our name.

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