RESOLUTE FINANCIAL

Fee Only Financial Planning & Investment Management

May

2020

We put your interests first.®

Resolute Connections

The four articles below hit upon a few relevant topics of the day - the performance of the stock market and the impact of the coronavirus on our everyday lives. If you have been furloughed and are over or approaching Medicare enrollment age, 65, pay particular attention to the third article, *Laid off Workers Over 65 Face Medicare Complexities*.

Please be safe and we wish you continued health. If you have any questions about anything we have covered in the articles, or a specific situation please feel free to give us a call, or visit our website, www.ResoluteFinancial.com.

The Unexpected Rebound

Do you believe the worst is over? Wall Street traders seem to think so.

After the large U.S. market indices fell 12% in March, I think most of us were expecting more of the same. We thought the stock market would continue to produce bearish returns until there was certainty regarding the pandemic's impact on corporate earnings, and a realization of the extent of the economic damage from all those empty hotel rooms, restaurant and airline seats, and record unemployment.

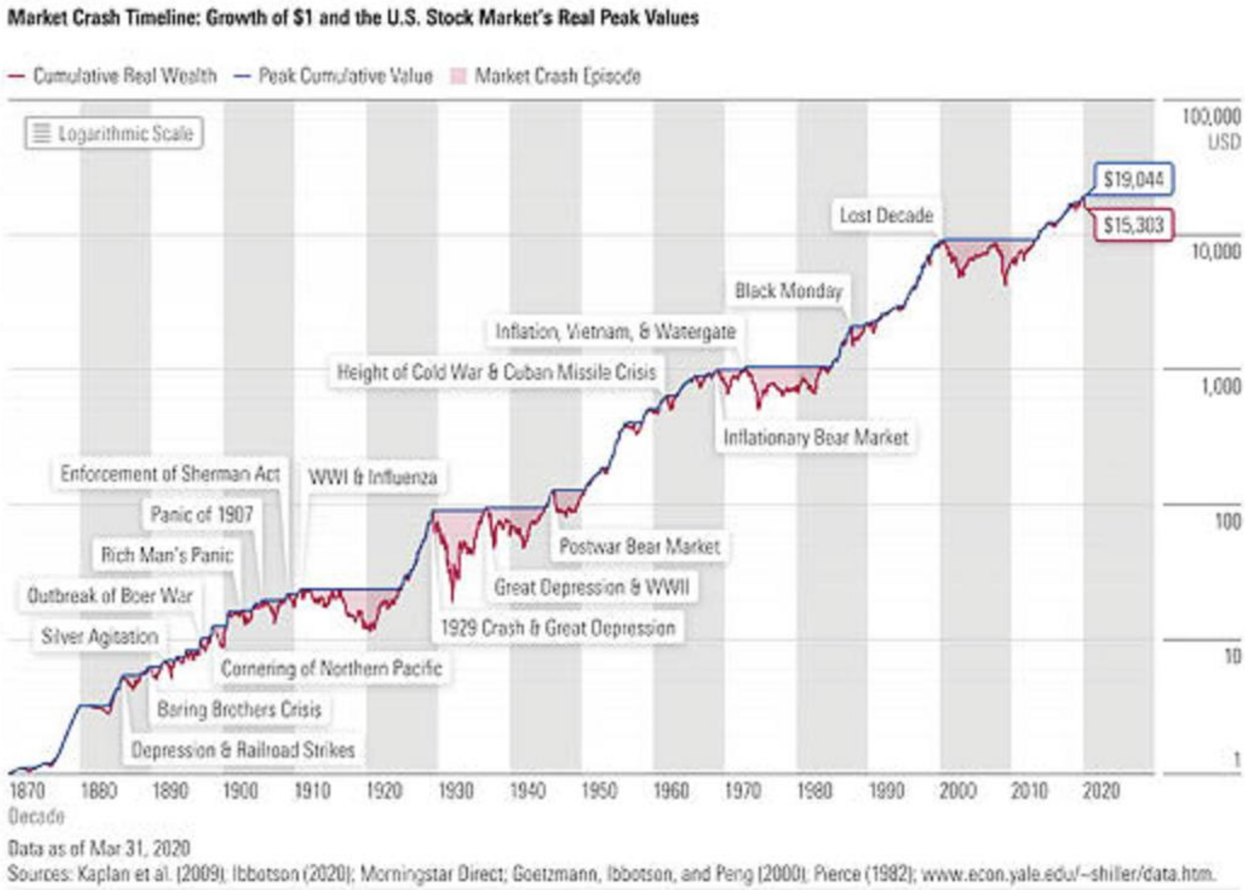
Instead, the S&P 500 jumped 12.7% in April, with all eleven of the sectors gaining during the month. Only 29 stocks in the broad index showed a loss in April. This was the best monthly performance since January 1987—and the S&P was not alone. The technology-heavy Nasdaq Composite gained 15.4% for the month, its best performance since the height of the tech mania in June 2000.

It would be pure speculation to say that the stock traders who define our market movements are being a bit too optimistic about the very long recovery we are facing. We don't know whether the markets will decline from here or, against the odds, hold up while negative earnings reports pour in for the next two quarters. But the last two months serve as an interesting reminder of that humility. It would have been easy to listen to all the negativity coming from the pundits, and sell after seeing the downturn in March. Turns out, that would have cost one of the nicest one-month returns in market history.

Bears in History

From an investing standpoint, we are in uncharted waters, right? The two-month downturn, February and March, were certainly severe. But an article authored by Paul Kaplan of Morningstar, using data from Ibbotson Associates (a Morningstar subsidiary), shows that bear markets can come in all shapes and sizes, and they are not actually very unusual.

The chart here goes back 150 years, and shows 17 bear markets, ranging in severity from the 1929 crash through the Great Depression to the relatively quick downturn during the Cuban Missile Crisis in 1962. Over that long time period, bear markets (defined as a 20% decline in the major indices) occurred roughly every nine years. Each time, obviously excepting the present one, the markets eventually recovered to achieve new highs, but some—as you can see—took much longer than others.



The article ranks all 17 bear markets according to the length from the beginning of the downturn until the time when the index had recovered to the same level, and also takes into account the severity of the decline. For example, an investor holding equities at the beginning of the bear market beginning in August of 1929 would have experienced a 79% decline in the value of his holdings, and wouldn't have gotten back to even until November of 1936—seven years later. The next bear market started the following February, and saw another 49.93% drop, so this was a pretty painful time to be invested.

In contrast, the Black Monday crash starting in August of 1987 saw a downturn of 30.21%—pretty scary, until you consider that an investor would have been made whole less than two years later, in July 1989. The downturn associated with the Cuban Missile crisis barely qualified as a bear market; investors experienced a 22.80% decline, and were back where they had been before a year and a half later.

The article doesn't attempt to minimize the pain that investors are experiencing during the present downturn, or extrapolate how long it will take to get back to the previous high. But it does note that over the last 150 years, a one-dollar investment in the U.S. market would have grown to $15,303 by the end of March 2020. As you can see from the chart, we are far from experiencing the pain of some of the more severe downturns of the past, and overall, staying invested through the scary times has inevitably turned out to be a winning strategy.

Laid off Workers Over 65 Face Medicare Complexities

When workers are laid off, they often lose their health insurance as well—at a time when medical coverage is arguably more important than it ever was. For workers over age 65, who delayed taking Medicare in favor of their more generous employer health plan, it might be tempting to apply for Medicare and get coverage through the government and then switch back to the employer insurance plan once they are rehired.

Sounds easy, right?

The good news is that if these furloughed workers do accept Medicare benefits, they can, indeed, unenroll in Medicare when they get their job back. The bad news is that it can be a bit complicated to make this work in their favor. Unfortunately, a temporary enrollment in Medicare Part A (hospital coverage) can jeopardize any Health Savings Account contributions they might have made. Any recent contributions would be subject to withdrawal and a 6% penalty.

Moreover, once rehired employees drop Part A, they would likely have to repay Social Security for any benefits they received while on furlough. If they decide to stay on Part A, they will no longer be able to make contributions to an HSA.

When those furloughed workers enroll in Part B, they face new complications. To unenroll, they would have to schedule an interview at their nearest Social Security office to discuss their situation and complete some paperwork. And if that process works, they should understand that they might not be able to get a Medicare Supplement (or Medigap) policy in the future, because they would be giving up their Guaranteed Issue Right. If there is a preexisting condition that shows up (and many of them do for over-65-year-olds) the insurance companies could deny them coverage.

Why couldn't the furloughed employees simply go on the company's COBRA coverage? They would have to pay more for the policy, since the company would no longer be subsidizing part of the costs. But more importantly, according to Medicare regulations, once health coverage is no longer related to active employment, any health coverage through an employer comes secondary to Medicare. Over-65 people who go on COBRA would also have to enroll in Medicare Parts A and B. Otherwise, they risk having to pay most or potentially all of their health care bills out of their own pocket.

The bottom line here is that the simple solution is not nearly as simple as it might appear on the surface.

Corona-Changes

We're starting to hear talk from the White House and elsewhere about cautiously reopening the economy. In these conversations you are hearing the idea that we will return to normalcy.

But some experts believe that the COVID-19 global pandemic will cause permanent changes in our lives, our psyches, and in the normal way that business is conducted in America and around the world. Will we ever go back to the way we were before the virus struck?

There are obvious changes, like companies having purchased the equipment that allows their staff to work from home. Many businesses large and small are overcoming their reluctance to allow their staff to work, at least part of the time, without having to make the commute into the office.

This could have a ripple effect in other areas. If staff can work from anywhere, companies might consider downsizing their offices, and instead provide desks that anyone who comes in to work can plug into. Employees who escape brutal commutes might be more productive while enjoying more flexible hours. On the downside, commercial real estate owners would suffer lost rental income, and demand for commercial space would decline.

The importance of sick leave and health insurance (or greater access to effective healthcare) is something people who survived the coronavirus are not likely to forget. There could be a move to more universal healthcare, which would impact middlemen like pharmacies and insurers.

People who are suddenly forced to work from homes that have young children (who are, of course, no longer trekking off to school) are beginning to realize the extraordinary value of our school teachers and caregivers. Men in the workforce, now trying to concentrate while children are running around the kitchen table, are discovering a new appreciation for the amount of labor put in daily by stay-at-home mothers. But those same full-time workers may be forming new bonds with children that they formerly saw only in the morning and in the evening before bedtime.

Will education ever get back to the "normal" that we knew a few months ago? K-12 schools are discovering that kids can be educated remotely. Colleges are discovering the same lessons as corporations: that sitting in a lecture hall is not necessary when the same lesson can be delivered online. How long before the very best and most charismatic professors in every field, wherever they happen to be, will record their best lectures, accelerating the trend toward online learning without leaving auditory learners behind?

Another obvious change: people have become more comfortable using Zoom and Google Hangout for remote meetings. When we're once again free to move outside our homes, will people be as motivated to get on a plane to make sales calls, visit headquarters or otherwise physically travel to remote locations when they can save time and money by hopping on a teleconference? Companies might set new policies banning non-essential travel, and the post-COVID definition might be strict.

The result? Potential savings of time and money for companies, declining revenues for airlines, rental car companies and hotels, and fewer opportunities to catch disease in crowded airports and even more crowded airplanes.

With the malls closed, people have moved en masse to online shopping. Will they go back to patronizing stores that they have to drive to, or avoid the frustrating search for parking? Instead of going to a restaurant, will they be more likely to opt for takeout and eat in the comfort of their homes? Online grocery shopping has become more popular during the lockdown; will the trend become a part of our lives going forward?

A catastrophe on the scale of the COVID-19 pandemic can also change the psyche in interesting ways. Think of people who survived the Great Depression and the rationing during World War II. The most telling residue of those times is people living frugally for the rest of their days, right through a long period of abundance. At the very least, people will have an enhanced appreciation of things we once took for granted, like being able to move around freely without gloves and a mask, and knowing that toilet paper will be on the grocery store shelves when we need it.

Meanwhile, millions of people thought putting money away for a rainy day was just a cute saying. Now, through hard experience, they realize now how important it is to have cash on hand for emergencies.

Finally, tragically, friends, neighbors, relatives and loved ones are leaving our midst as the virus ravages their bodies. This must be something like what people in previous generations felt like during wars, except that the human cost of this pandemic is likely to be greater than any war that America has ever experienced. As we mourn, we also may feel a renewed gratitude for our own lives and the people we love—and be less likely to take our (and their) unique, precious mortal existence for granted in the future.

Everywhere, we see people stepping up with courage and responsibility, vowing to take the fight to the virus until it is exterminated, and we are determined not to surrender our lives or the lives of our loved ones. People are finding new ways to connect and support each other in adversity. Hopefully, we will come out of this with a new sense of community, all of us fellow survivors of the pandemic, and we may find new energy toward making our corner of the world more fun, interesting and engaging.

How are you changing? Will you ever feel comfortable again in a crowded bar scene or sitting elbow to elbow with strangers at a sporting event? Will you be more likely to stock up on supplies in case there's a new unexpected shortage just around the corner? Are you more frugal now than you were a couple of months ago? The virus isn't over, but the changes it has wrought have just begun.

Source:
Bob Veres Inside Edition Newsletter

For more information on these topics or for a free consultation, contact Resolute Financial, LLC at (978) 463-8771 ext. 1003.