Nicholson Financial Services

Did You Know...?

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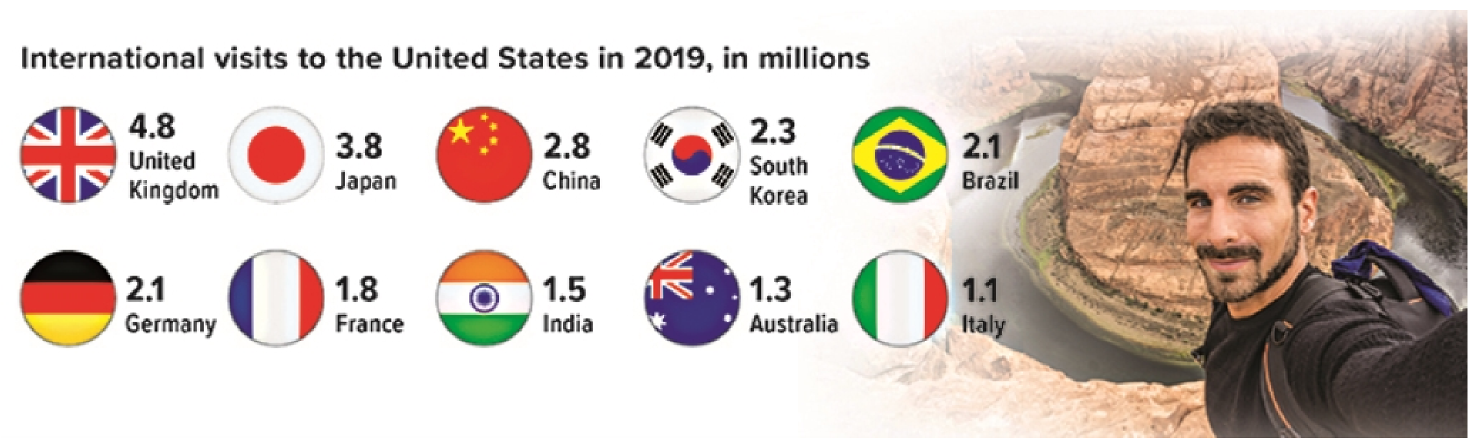
RAYMOND JAMES®

As many of you know, I have coached lacrosse for many years. This spring, I was excited to take that part of my life to the next chapter as I had accepted the head coaching position for the junior varsity team at Ursuline Academy (where my daughter attends). That season never took place as all spring sports were cancelled. It is sad that so many kids missed a whole season of playing a sport they enjoy. I feel even worse for the graduating seniors (like my niece) who didn't have a prom, graduation, or most of the social functions they would normally have. Of course, compared to those who have actually gotten sick, been hospitalized, or died to this virus, all these other things are trivial. However, it is time and experiences those kids will never get back. I discuss some of my financial concerns due to Covid 19 in the second article titled "Covid Concerns." I hope you will read it and as always, contact me with any questions or concerns.

Foreign Tourists

More than 79 million foreign tourists visited the United States in 2019, adding $254 billion to the U.S. economy. Residents of Canada and Mexico accounted for almost half of the total, while the countries below were the top 10 sources of overseas visitors. Travel restrictions and lockdowns due to COVID-19 have severely disrupted the flow of foreign tourists in 2020. It's too early to know the full extent of the damage to the tourism sector, but the effects may continue for some time after the virus is controlled.



Source: National Travel and Tourism Office, 2020

Summer 2020

Covid Concerns

Needless to say, this has been a very tough year so far. I know for a fact that some of you reading this have lost someone you love to Covid 19. I know others of you contracted it and survived it, but in some cases, it was quite an ordeal. A number of you have shared your stories with me. Before I discuss finance, I wanted to acknowledge how difficult this year has been for some, and how I hope the rest of you avoid such experiences.

Back on March 23rd, I sent an email to all my clients to address their concerns and calm their nerves. In that email, I wrote "Due to the nature of this sell off (the fastest 30% drop in history), I believe the market is set up for a "snap back" rally where it can recover quite a bit in a short period of time. Of course, the big question is "when does it begin?" Little did I know how prophetic that would turn out to be. The next day the DJIA rallied over 2,300 points, the largest daily point gain ever. Over the next month, the market rallied violently, much in the same way as it had fallen in March. After treading water for most of May, the rally has continued in June and July.

Some clients have asked my why the markets have done so well despite the growing Covid 19 pandemic and likely economic impact. Here are a few reasons:

***** Interest rates are once again at their lowest point ever. As low rates reduce the return potential of some other investments (fixed accounts, bonds), stocks become more attractive.
***** $2 Trillion of stimulus has been injected into the economy.
***** The Federal Reserve continues to buy U.S. Treasuries, mortgage-backed securities and has indicated it may start buying corporate bonds as well.
***** Unemployment decreased more than expected in the last month.
***** We have not seen a significant impact on corporate earnings…yet.

As many of you know by now, I am a long-term "bull" on the stock market. If the US economy continues to grow (and some other variables remain favorable), the stock market should follow.

However, I cannot help being a bit concerned about the short-term. Although I expected a rebound from the March sell off, I frankly did not think the recovery would happen as quickly as it has. My concern now is that the markets may have gotten a bit ahead of themselves. Reasons for concern:

***** The stimulus and asset purchases are not permanent. They are short-term band aids.
***** The unemployment numbers improved as states started to reopen. Since then, there has been a significant spike in Covid 19 cases in those states, increasing the chances they are forced to shut down again. As I write this, California just shut down again today. Unemployment will likely increase again.
***** The real impact on corporate earnings has not been felt yet. Most likely, we will see the impact of Covid 19 on earnings in 2nd quarter reports (starting now) and 3rd quarter reports starting in October.
***** The S&P 500's forward price-to-earnings ratio is currently 21.5, a level last seen during the dot-com boom 20 years ago. If earnings growth is strong, that is not as much of a concern. However, …
***** Several money managers I follow have said they are concerned about earnings expectations for the next couple of quarters as there can be a wide range of variables.

What does this mean for investors? I feel this environment is like driving a car through a thick fog. When the visibility is low, you are better off slowing down. For long-term investors in managed money, I would not necessarily recommend changing anything. For those with shorter time horizons, it warrants a conversation and possible changes. No matter what, I think we should all expect more volatility this year. There are still reasons to be optimistic, but the fact that we are in a recession has meant little to the stock markets. That fact has been largely ignored by investors, and I cannot help but think there is another market pullback coming this year. These points will be dominating my upcoming client conversations.

Five Key Benefits of the CARES Act for Individuals and Businesses

By now you know that Congress has passed a $2 trillion relief bill to help keep individuals and businesses afloat during these difficult times. The Coronavirus Aid, Relief, and Economic Security (CARES) Act contains many provisions. Here are five that may benefit you or your business.

1. Recovery Rebates

Many Americans will receive a one-time cash payment of $1,200. Each U.S. resident or citizen with an adjusted gross income (AGI) under $75,000 ($112,500 for heads of household and $150,000 for married couples filing a joint return) who is not the dependent of another taxpayer and has a work-eligible Social Security number, may receive the full rebate. Parents may also receive an additional $500 per dependent child under the age of 17.

The $1,200 rebate amount will decrease by $5 for every $100 in excess of the AGI thresholds until it completely phases out. For example, the $1,200 rebate completely phases out at an AGI of $99,000 for an individual taxpayer and the $2,400 rebate phases out at $198,000 for a married couple filing a joint return.

Rebate payments will be based on 2019 income tax returns (2018 if no 2019 return was filed) and will be sent by the IRS via direct deposit or mail. Eligible individuals who receive Social Security benefits but don't file tax returns will also receive these payments, based on information provided by the Social Security Administration.

The rebate is not taxable. Because the rebate is actually an advance on a refundable tax credit against 2020 taxes, someone who didn't qualify for the rebate based on 2018 or 2019 income might still receive a full or partial rebate when filing a 2020 tax return.

2. Extra Unemployment Benefits

The federal government will provide $600 per week to those who are eligible for unemployment benefits as a result of COVID-19, on top of any state unemployment benefits an individual receives. Unemployed individuals may qualify for this additional benefit for up to four months (through July 31.) The federal government will also fund up to an additional 13 weeks of unemployment benefits for those who have exhausted their state benefits (up to 39 weeks of benefits) through the end of 2020.

The CARES Act also provides assistance to workers who have been affected by the COVID-19 pandemic but who normally wouldn't be eligible for unemployment benefits, including self-employed individuals, part-time workers, freelancers, independent contractors, and gig workers. Individuals who have to leave work for coronavirus-related reasons are also potentially eligible for benefits.

3. Federal Student Loan Deferrals

For all borrowers of federal student loans, payments of principal and interest will be automatically suspended for six months, through September 30, without penalty to the borrower. Federal student loans include Direct Loans (which includes PLUS Loans), as well as Federal Perkins Loans and Federal Family Education Loan (FFEL) Program loans held by the Department of Education. Private student loans are not eligible.

4. IRA and Retirement Plan Distributions

Required minimum distributions from IRAs and employer-sponsored retirement plans will not apply for the 2020 calendar year. In addition, the 10% premature distribution penalty tax that would normally apply for distributions made prior to age 59½ (unless an exception applied) is waived for coronavirus-related retirement plan distributions of up to $100,000. The tax obligation may be spread over three years, with up to three years to reinvest the money.

5. Help for Businesses

The CARES Act includes several provisions designed to help self-employed individuals and small businesses weather the financial impact of the COVID-19 crisis.

Self-employed individuals and small businesses with fewer than 500 employees may apply for a Paycheck Protection Loan through a Small Business Association (SBA) lender. Businesses may borrow up to 2.5 times their average monthly payroll costs, up to $10 million. This loan may be forgiven if an employer continues paying employees during the eight weeks following the origination of the loan and uses the money for payroll costs (including health benefits), rent or mortgage interest, and utility costs.

Also available are emergency grants of up to $10,000 (that do not need to be repaid if certain conditions are met), SBA disaster loans, and relief for business owners with existing SBA loans.

Businesses of all sizes may qualify for a refundable payroll tax credit of 50% of wages paid to employees during the crisis, up to $10,000 per employee. The credit is applied against the employer's share of Social Security payroll taxes.

The ABCs of Finance: Teaching Kids About Money

It's never too soon to start teaching children about money. Whether they're tagging along with you to the grocery store or watching you make purchases online, children quickly realize that we use money to buy the things we want. You can teach some simple lessons today that will give them a solid foundation for making a lifetime of sound financial decisions.

Start with an Allowance. An allowance is often a child's first brush with financial independence and a good way to begin learning how to save money and budget for the things they want. How much you give your children will depend in part on what you expect them to buy and how much you want them to save. Make allowance day a routine, like payday, by giving them a set amount on the same day each week or month.

Help Them Set Financial Goals. Children might not always appreciate the value of putting money away for the future. Help them set age-appropriate short- and long-term financial goals that will serve as incentives for saving money. Write down each goal and the amount that must be saved each day, week, or month to reach it.

Teach younger children some simple lessons today that will give them a solid foundation for making a lifetime of sound financial decisions.

Let Them Practice. As children get older, they can become more responsible for paying other expenses (e.g., clothing, entertainment). The possibility of running out of money between allowance days might make them think more carefully about their spending habits and choices and encourage them to budget more effectively.

Take It to the Bank. Piggy banks are a great way to start teaching young children to save money, but opening a bank savings account will reinforce lessons on basic investing principles such as earning interest and the power of compounding. Encourage your children to deposit a portion of any money they receive from an allowance, gift, or job into their accounts.