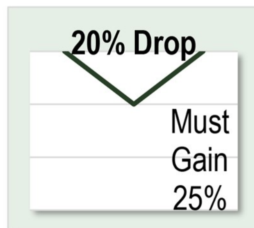
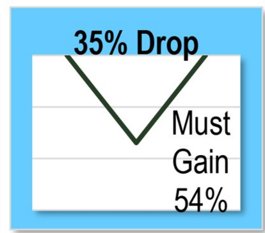
Fleming Watson Financial Advisors, LLC
(740) 373-4877 • (800) 860-4871
www.flemingwatson.com

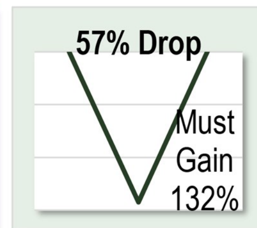
# INVESTMENT MATH

June 30, 2020

Investment math can be complex. If a stock dropped 10% this quarter and gained 10% the next, you might think you have recovered the loss. Unfortunately, you are still down 1%. To recover the loss, the stock has to increase 11%.



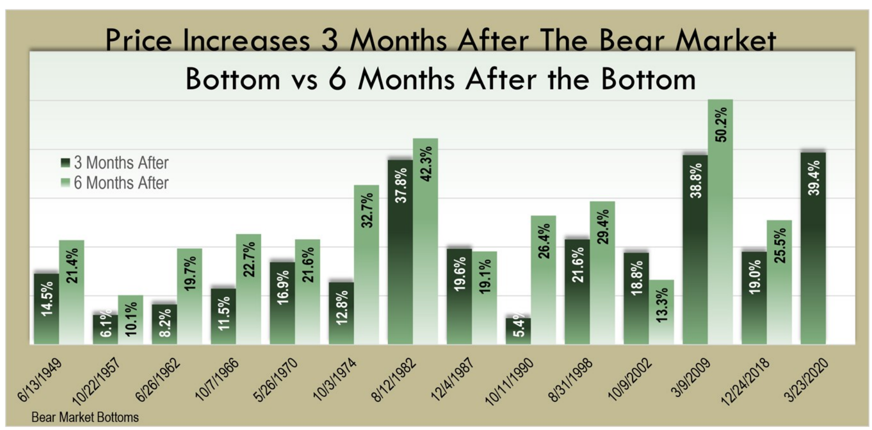

The bigger the decrease, the more it takes to recover. A 20% loss means you need to earn 25% to break even. If you lose 35%, you'll need to make 54% to erase the red ink. A 57% drop like we saw during the great recession *requires a whopping 132% increase* to completely recover.

Investment math isn't addition and subtraction. It's multiplication.


From February 19 to March 23, the stock market dropped 34%. In the 99 days that followed, it gained over 38.6%! It didn't erase all the losses, but it was a strong start.

In mid-June, Fidelity made a shocking announcement. Earlier this year, one-third of all their account holders, age 65 and older, sold *all* their stock positions. Nearly one out of every six account holders—regardless of age—sold *all* their stock positions.

It is possible a few sold before the market crashed. But remember, we went from an all-time high to 34% lower *in 33 days*. More than likely, most of those sales happened after the damage began.




Sitting on the sidelines means the investors who sold missed the incredible gains. They wanted to limit further damage, but doing so limited their ability to recover. Remember, if your account drops 20%, you need to earn 25% to break even. Those who sold their stocks will have trouble doing that in a money market fund or CD.

Bear markets are extremely unpleasant. But when they happen, one of the worst things you can do is move to the sidelines. Bottoms happen without notice. Often times the first few months after produce incredible gains. Missing those gains makes recovering the losses difficult at best.

## WHAT'S NEXT?

Uncertainty remains a common theme. The coronavirus is still a part of the story, and it looks like it will be for the foreseeable future. An ugly and intense election season will start soon. Being a patient and disciplined investor is an ongoing challenge.

Over the long term, we remain optimistic. We believe the great businesses will continue to not just survive, but thrive. But in the short term, anything is possible. The next several months could be a very bumpy ride.

# AN UPDATE TO 2020 REQUIRED MINIMUM DISTRIBUTIONS

The CARES Act passed on March 27. One of the provisions waived required minimum distributions for 2020. This affected IRA's, beneficiary IRA's, and many types of retirement plans.

If you had taken a distribution from your IRA to satisfy the RMD requirements, you could return it under the rollover rules. But, the rollover rules require the funds be redeposited within 60 days. That means if you took your distribution in January, it was too late to undo it.

Recently the IRS issued a ruling that will allow you to return your distribution to your IRA. Under IRS Ruling 2020-51, you have until August 31, 2020 to return your distribution.

If you would like to discuss this in greater detail, please call.

# CHECK OUT *MONDAY MORNING MONEY*

Every Monday, we release a new episode of our podcast, Monday Morning Money. We talk about investing, retirement, and other financial topics. Most of the episodes are about three minutes long.

On the first Monday of each month, we do an extended episode where we answer your questions. If you have question you would like answered on our next *Ask a CFP® Pro* show, send it to us. You can email it, follow the link on our website, or you can call.

To listen, visit https://flemingwatson.com/MondayMorningMoney

# A NEW TAX DEDUCTION FROM THE CARES ACT

The CARES Act created a small tax deduction for charitable donations. Since the tax laws changed a couple of years ago, most people can no longer itemize their deductions. (The IRS estimates over 90% of filers claim the standard deduction.) This means most people cannot deduct those contributions they make to charity.

The CARES Act now allows for a deduction of up to $300 for charitable contributions even if you can't itemize.