INVESTMENT UPDATE

Saltmarsh
Financial Advisors, LLC
AN AFFILIATE OF SALTMARSH, CLEAVELAND & GUND

2nd Quarter 2020

Dear clients,

As we watch events unfold over the course of the past few months, we recognize these are challenging times and the level of anxiety may be high due to physical, emotional or financial concerns.Recent events are a daily reminder that no one has the power to predict what will happen and uncertainty can be uncomfortable if not downright stressful! Dealing with this uncertainty in a strategic and thoughtful manner can provide both hope and control. Our goal at Saltmarsh Financial Advisors is to empower clients by working together to develop a strategy that weathers the good times, the bad times, and the 'unprecedented'. It's important to focus on a level of risk based on your specific goals and tolerance and be prepared to ride out the difficult times so you can reap the rewards during good times. There is no one right solution for all, but we are committed to working closely with each and every client to prepare for the unexpected and design a plan for the future with the goal of a better tomorrow.

As always, we thank you for the trust you have placed in us,
Saltmarsh Financial Advisors

Inside This Issue

CANCELED: Annual Night at the Ballpark in Pensacola

Unfortunately, due to COVID-19 we will not be able to host our annual client appreciation night at the Pensacola Blue Wahoos. Though we will miss the opportunity to see you and your family this year, we look forward to gathering next season to cheer on our Wahoos!

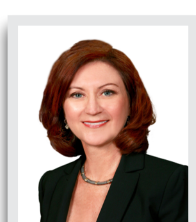
Fast Approaching-Tax Deadline!

As a reminder, in response to COVID-19, the IRS extended the 2019 tax filing and payment deadline to July 15th. Please ensure you plan accordingly as both first AND second quarter 2020 estimated income tax payments will be due on July 15th.

Saltmarsh Wins Marketing Achievement Award for Commitment to Service

We AAM to Serve

We're excited to announce Saltmarsh, Cleaveland & Gund was presented the "We AAM to Serve" Marketing Achievement Award by the Association for Accounting Marketing (AAM) in recognition of our "Road to 1,944 Service Hours" campaign! In 2019, our team dedicated more than 2,300 hours of service to 108 different community organizations in honor of our 75th Anniversary, and we couldn't be more proud!



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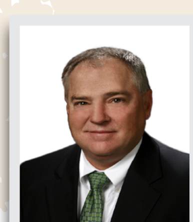

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Sticking to Principles

From the Dimensional Fund Advisors Blog | April 2020

Financial downturns are unpleasant for just about everyone. For investors, sticking to core principles can help.

A famous American football coach once said, "You don't rise to the occasion, you sink to the level of your training."1 The implication is that, in times of great stress, the most reliable recipe for success is sticking to a set of fundamental principles.

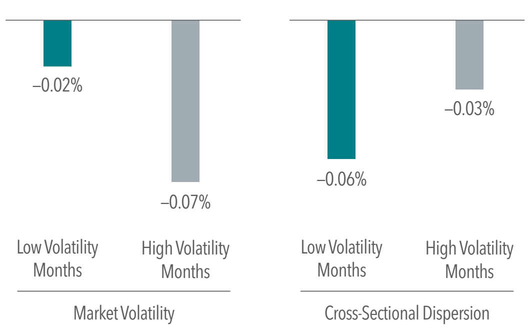
From February 20 to March 20, the S&P 500 Index returned –37.4%, with daily returns ranging from –12.0% to +9.4%. A drop of nearly 40% in the stock market combined with a spike in volatility can make many investors reconsider their investment approach. Some might suddenly find stock-picking approaches more alluring. After all, who has not heard the claim that a volatile market is precisely the environment in which many traditional active managers thrive? But is there any truth to this claim?

To explore this issue, we looked at the performance of active US mutual fund managers over the past two decades (**Exhibit 1**). We considered two different ways of measuring stock market stress: market volatility (or how much stocks rise or fall in a given month) and return dispersion (or the range of returns across all US stocks). In each case, active managers underperformed their index benchmarks.

Another way some investors might react to a market that has fallen is to jump ship and sell out of stocks. The intuition may be that sitting out of the market for a period of time can help avoid further losses. However, the data suggest this type of market timing may instead reduce investors' gains over time.

Exhibit 2 (on page 3) illustrates this point using hypothetical timing strategies that switch from US stocks into US Treasury bills after market downturns of various magnitude and switch back to US stocks following different lengths of time out of the market. Compared to the market's long-term annualized return of 9.57%, nearly all of the timing strategies underperform the simple buy-and-hold strategy.

Exhibit 1: Average Excess Monthly Returns for Active US Equity Mutual Funds, *1/1999–12/2019*



Sample of active managers consists of mutual funds categorized as active US equity by Morningstar. Fund returns are average returns computed each month, with individual fund observations weighted in proportion to their assets under management (AUM). Index benchmarks are those assigned by Morningstar based on the fund's Morningstar category. Benchmark returns used in the excess return calculation are averages computed each month by weighting in proportion to each fund's AUM. The sample period is split into two groups: months with standard deviation of daily returns in the top half and bottom half (left panel) and months with cross-sectional stock return dispersion in the top and bottom half (right panel). Daily returns used for standard deviation calculation are from the Fama/French Total US Market Research Index. Cross-sectional dispersion computed across all US common stocks. Details on the index can be found on Ken French's website: mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html.

Should these results be surprising? One of the challenges with trying to outguess markets is the unpredictable nature of outcomes. For example, how many pundits would have expected the equity market in China, ground zero for the COVID-19 outbreak, to outpace global equities[2] by over 10% year to date, as of March 31?

Financial downturns are unpleasant for all market participants. Investors can reduce exacerbating the experience by adhering to core principles. Two such principles supported by a long history of research are broad diversification and maintaining a consistent asset allocation. Investors who deviate from these principles by pursuing stock picking or market timing may undermine their ability to achieve their investment goals.

GLOSSARY

- ***Return Volatility***: A statistical measure of the variability of returns for a given security or portfolio. Volatility is often measured using standard deviation.
- ***Cross-Sectional Return Dispersion***: A statistical measure of the variability of individual stocks' returns.
- ***Standard Deviation***: A measure of the variation of a set of data points. Standard deviations are often used to quantify the historical return volatility of a security or portfolio.
- ***Market Downturn Threshold***: Magnitude of the US stock market's decline used to determine when to switch from US stocks to US Treasury bills.
- ***Days Out of Market***: Number of days during which the hypothetical strategy is invested in US Treasury bills instead of US stocks.
- ***Fama/French Total US Market Research Index***: The value-weighed US market index is constructed every month, using all issues listed on the NYSE, AMEX, or Nasdaq with available outstanding shares and valid prices for that month and the month before. Exclusions: American Depositary Receipts. Sources: CRSP for value-weighted US market return. Rebalancing: Monthly. Dividends: Reinvested in the paying company until the portfolio is rebalanced.

1. phillymag.com/birds247/2014/10/10/inside-voices-practice-versus training/
2. China equities represented by MSCI China IMI Index (net div., USD). Global equities represented by MSCI All Country World IMI Index (net div., USD).

Exhibit 2: Hypothetical Timing Strategies Withdrawing from US Stocks After Downturns,
US Stocks, 7/1926–12/2019

	Timing Strategies									Buy and Hold Market
Market Downturn Threshold	–10%			–20%			–30%			
Days Out of Market	100	200	300	100	200	300	100	200	300	
Annualized Return	7.11%	6.67%	5.89%	6.80%	6.08%	5.75%	8.71%	8.55%	8.66%	**9.57%**

Performance shown is hypothetical and for illustrative pu poses only. The performance was achieved with the retr active application of a model designed with the benefit of hindsight; it does not represent actual performance, and it does not take into account any individual investor circu stances. Hypothetical performance does not reflect trading in an actual portfolio and may not reflect the impact that economic and market factors may have had on trading decisions. Market represented by Fama/French Total US Market Research Index. Downturns are defined as the first instance of a cumulative return meeting the –10%, –20%, or –30% threshold following a day when the index has reached a new all-time high level. Timing strategies switch from the US stock market (represented by the Fama/French Total US Market Research Index) to One-Month US Treasury Bills (represented by the IA SBBI US 30 Day TBill TR USD provided by Ibbotson Associates via Morningstar Direct) following each downturn and switch back to the market following the number of trading days denoted. Past performance is not a guarantee of future results. No costs included.

CARES Act Brings Important Changes to Retirement Plans

By Chris Stennett, CFP®, Saltmarsh Financial Advisor | June 4, 2020

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law on March 27, 2020. The $2.2 trillion emergency package represents a massive fiscal effort to lessen the impact associated with COVID-19 across many sectors of the country. The information below provides a brief outline of the provisions within the bill that will have a direct impact on retirement plans, their participants, and their administration. The information contained in this article is current as of the date of publication, but as with most COVID-19 related topics, changes may occur. Please consult with your Advisor or CPA as needed for the most current information.

IMPACTED RETIREMENT PLANS

401(k), profit-sharing, and employee stock ownership plans (ESOPs), 403(b) plans, 457 plans, and IRAs described in Section 408(a) or Section 408(b) of The Tax Code.

WHO QUALIFIES?

Those who have been diagnosed with COVID-19, or whose spouse and/or dependent has been diagnosed with COVID-19. Also included are individuals who have experienced an adverse financial impact because of the disease, as outlined by the Secretary of the Treasury. That includes individuals who've lost their jobs, had reduced hours, been unable to work due to lack of childcare, and those quarantined, furloughed, or otherwise affected. These circumstances may be expanded or amended at a future date.

WHAT'S CHANGED?

Temporary Waiver of Required Minimum Distributions (RMD)

The requirement for minimum distributions from retirement accounts has been suspended for all of 2020 (though not from defined benefit plans like traditional pension plans and cash balance plans). If you have not taken your RMD for 2020, and do not wish to, you will not be penalized. If you have already taken your 2020 RMD and wish to redeposit the distribution, there may be options depending on when the RMD was distributed. Absent additional guidance from the IRS, RMDs taken in January 2020 will not be allowed to be returned unless it qualified as a coronavirus-related distribution (see below). Distributions taken from February 1, 2020 to July 15, 2020 are eligible to be returned to a retirement account by July 15, 2020. Individuals who turned 70 ½ in 2019 and had not yet taken their first RMD prior to March 27, 2020 can now waive both previously required withdrawals (2019 and 2020).

Coronavirus-related Distributions (CRD)

Any distributions (including participant loan offsets) made from an eligible retirement plan to a qualified individual (section 2202 of the CARES Act) from January 1, 2020 to December 30, 2020. These distributions have several unique characteristics that distinguish them from normal retirement plan withdrawals.

- ***New Distribution Category*** – While the coronavirus-related distribution may seem like a hardship distribution, it is actually a separate distribution category. A plan that elects to offer CRD's to its participants, can do so without allowing other distributions. Like hardship distributions, the CRD allows for an exception to the general distribution restrictions prior to attainment of age 59 ½. Any qualifying distribution is eligible for tax treatment as a coronavirus-related distribution, even if the plan does not elect to offer it as a new distribution category.
- ***Temporary Waiver of Early Withdrawal Penalties*** – Typically, pre-retirement age withdrawals (younger than 59 ½ years old) are subject to a 10% penalty on the amount distributed. That penalty will now be waived though the end of the year for all qualified CRDs, not exceeding $100,000 per individual.
- ***Temporary Waiver of Tax Withholding Requirement*** – Eligible rollover distributions (like a lumpsum payment) are subject to 20% mandatory tax withholding. For withholding purposes, coronavirus-related distributions are not treated as eligible rollover distributions and are subject to 10% default withholding that may be waived. It's important to note that this does not absolve the participant's income tax liability on the distribution.
- ***Taxation of Distribution*** – Unless repaid, coronavirus-related distributions can either be included in income in the year received or can be spread, ratably, over the next 3 tax

(continued on page 4)

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years. Ex. if you took a $3,000 distribution in 2020, you would report $1,000 in income on your federal income tax return for 2020, 2021, and 2022 or $3,000 in 2020. Distributions and repayments will be reported on Form 8915-E, similar to disaster distributions for recent hurricanes and wildfires.

- ***Repayment of Distribution*** – Part, or all of the withdrawal can be repaid to any qualified plan or IRA that will accept rollovers over 3 years from the date the distribution was received. You will not owe federal income taxes on amounts repaid. If you chose to repay an amount you have already included in income for a prior year, you can file an amended return for a refund or carry a credit forward to the next year. Ex. you took a $3,000 distribution in 2020 and reported $1,000 in income on your 2020 federal income tax return. During 2021, you decided to repay the full $3,000 back to a qualified plan. You would file an amended tax return for 2020 to accurately reflect the repayment of the distribution.

Temporary Increase to Participant Loans

Qualified individuals in employer sponsored retirement plans that elect to offer coronavirus-related loans, can borrow the lesser of $100,000 or 100 percent of their vested account balance. This increase is only available for 180 days beginning March 27, 2020. IRA's are not eligible.

Outstanding Participant Loan Repayment Relief

If offered by the plan, participant loans that are outstanding on or after March 27, 2020, may delay repayments scheduled through December 31,2020. The delayed payments are added to the remaining payment schedule. The existing 5-year repayment requirement (or longer if the loan is for the purchase of a primary residence) will be extended by the length of the delay, and future repayments will need to be revised to reflect the delay and accrued interest.

Charitable Deductions

- $300 above the line charitable deduction for individuals claiming the standard deduction. Contributions must be made in cash and cannot be made to a Donor Advised Fund or Non-operating private foundation.
- AGI limit for cash gifts to charities is temporarily suspended for individuals planning to itemize deductions in 2020. Previously, contributions of cash to a public charity were limited to 60% of adjusted gross income.

INVESTMENT INSIGHTS

Find more investment insights and updates at **saltmarshfa.com/insights**

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