This Publication Brought To You Courtesy Of:
STEVEN F. CARTER
CERTIFIED FINANCIAL PLANNER™ Practitioner
4225 Executive Square, Suite 1030
La Jolla, California 92037-1486
Phone: (858) 678-0579 • Fax (858) 546-0792
www.CarterFinancialLLC.com
CARTER FINANCIAL, LLC

CLIENT BULLETIN

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➢ *What We're Working On*

For all of the human and economic misery that the coronavirus has caused, there are some silver-lining financial planning strategies to take advantage of. Here's what we are working on now for clients:

- **Required Minimum Distributions** (RMDs): RMDs are waived for 2020 as part of the Cares Act legislation. Clients who can forgo their required distributions from a cash flow standpoint should consider skipping their 2020 RMD.
- **Relatively low taxes:** 2020 may turn out to be a tax-friendly year:
    - Marginal income tax rates are still relatively low because of the Tax Cut and Jobs Act of 2018
    - Capital gains distributions from mutual funds will be lower this year
    - Higher tax rates in the future are a likely consequence of the exploding government debt taken on to battle the economic effects of the coronavirus
- **Tax Loss Harvesting**: Triggering unrealized losses in taxable accounts and immediately reinvesting the proceeds in similar securities to maintain the overall portfolio balance retains a portfolio's recovery potential while banking tax savings for the future
- **Roth conversions:** Consider strategically converting some IRA funds to a Roth IRA in 2020 to take advantage of the lower marginal income tax brackets.

➢ *Bending the Other Curve*

For the first time ever, the coming recession is intentionally engineered in response to the health concerns brought on by COVID-19. A sharp and short (hopefully) recession is already baked into the cake. This can be both disturbing and comforting at the same time. Disturbing because it has never been done before and comforting because economic activity will bounce back in line with relaxing the policies that caused the recession in the first place. This is much different than the Global Financial Crisis of 2007-2009, which took years to unfold and unwind instead of weeks as with COVID-19. A smart and speedy restart of economic activity can protect those most vulnerable to the virus and safeguard those most vulnerable to the catastrophic economic consequences of a prolonged recession.

➢ *What shape?*

You have probably noticed the incessant media focus on what shape the economic recovery of the American economy will take. Along with the standard "V", "U" and "L" shapes, I have seen some pretty creative ones. There's the hockey stick, the Nike Swoosh and even the square root sign. So which shape will the recovery take? Probably none of these. The economic activity of 330 million people and countless diverse sectors of the economy are far too complex to be captured by a simple letter of the alphabet or a symbol. So, the next time you see an article about the shape of our recovery, pass on by this simplistic but media-friendly view.

- ***High Frequency***

It will be many quarters before the economic data tells us how quickly the U.S. economic recovery took and we will only know in hindsight. Some economists do, however, study "high frequency" data to get a real-time look at how the economy is doing. The usefulness of this data is somewhat questionable, however. Initially, it will look wildly positive. For example, movie box office receipts through mid-May were up 2,096.80% vs a **month** ago! This sounds encouraging only until you realize that they were **down 99.9%** from the same period a **year** ago. The same goes for TSA checkpoint data which was up nearly 100% over the past month but also down nearly 100% over a year ago (source: Box Office Mojo; Transportation Security Administration).

- ***Doling it Out***

In the **February** edition of this Client Bulletin I lamented that the federal government was on track to have a **$1 trillion** deficit when its fiscal year ended on 9/30/20. My how things have changed. The CARES Act and other legislation to battle the economic effects of the coronavirus is projected to increase the budget deficit of the US to **$3.7 trillion** for fiscal year 2020 and **$2.1 trillion** in 2021. The previous largest annual budget deficit in US history was **$1.41 trillion** in fiscal year 2009. These were badly needed funds to keep businesses and individuals afloat until the virus is defeated, but boy do we have a lot of work to do on the other side (sources: Office of Management and Budget and CBO).

- ***Thelma and Louise***

Many describe our federal government's debt situation as "driving off of a cliff." The common definition of "driving off of a cliff" is defaulting on our government debt. That's not going to happen. Defaulting would forever shut off the U.S. government from ever borrowing again. It would be like Chuck Yeager's description of bailing out of a malfunctioning aircraft at supersonic speed as "committing suicide to keep from getting killed."

- ***Turn!***

A more realistic way to view the government debt situation is this: we were driving directly toward the Grand Canyon at 60 miles per hour and were scheduled to get there in an hour. We just punched the accelerator and are now going 100 miles an hour. Before we get to the cliff, however, we are going to turn. So, what will make us turn when we're 1 mile from the cliff when we won't turn 60 miles from the cliff? I think part of the answer must be higher interest rates. At some point the world will demand a lot more return (interest) for loaning us money as our credit worthiness deteriorates. That's one cause of inflation and at that point the situation worsens because higher interest on the outstanding debt causes the problem to grow bigger and faster. The current trajectory of government debt is unsustainable – it's just a matter of when politicians will no longer be able to even pretend to make promises that have no chance of being kept.