

NEWSLETTER THIRD QUARTER



2020

IT'S MORE THAN THE MATH. IT'S THE PATH.



krista@spectrumfp.net
eric@spectrumfp.net
matt@spectrumfp.net

BELLEVUE OFFICE

11911 NE 1st St., Suite 103A
Bellevue, WA 98005

SEATTLE OFFICE

3715 S. Hudson St., Suite 104
Seattle, WA 98118

Phone: 425-598-2919
Fax: 425-526-5867
Twitter: @SpecFinPart

www.spectrumfp.net

This Third Quarter Newsletter Covers:

- Markets in 2020
- Mortgages: Re-financing in Retirement
- The Future of Long-Term Care Funding in Washington?

MARKETS IN 2020: A MOST UNUSUAL SIX MONTHS

It's worth repeating just how wild the ride in U.S. equity markets has been this year. The chart below shows just how far the S&P 500 fell in March and early April.



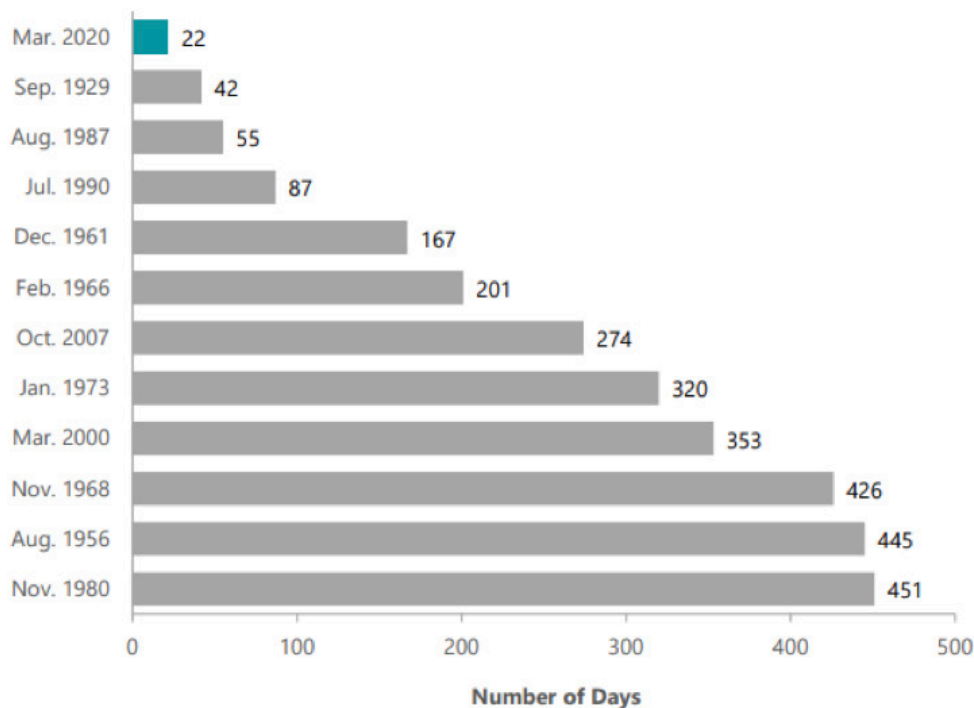
Source: fred.stlouisfed.org

The speed of the drop was literally without precedent.

Since reaching the bottom in April, the S&P500 has surged back to the level where it was trading in January. So if you were say, sailing around the world during this time ("Man who spent 267 days sailing solo during the pandemic returns home", Yahoo.com/lifestyle, July 28, 2020) the S&P 500 part of your portfolio is largely unchanged. The stories in other markets, however, run the gamut.

(continued to next page)

Days from Market Peak to Bear Market (-20%)



ANOTHER SIDE EFFECT OF COVID-19

Recently, we have seen long-term care and life insurance providers raise rates and adjust standards of insurability in response to the virus and its observed and projected impact on the population.

Source: Devin Eckberg, Investments & Wealth Institute, "Adding Value for Investment Mgmt. Clients", unpublished presentation, July 8, 2020.

Type of investment	Index	Year-to-date return as of June 30, 2020
Larger U.S. companies	S&P 500	-4.04
Smaller U.S. companies	Russell 2000	-12.98
Smaller U.S. companies with growth characteristics	Russell 2000 Growth	-3.06
Smaller U.S. companies with value characteristics	Russell 2000 Value	-23.50
U.S. Real Estate companies	Dow Jones US Select REIT	-22.01
Emerging economy stock	MSCI EM	-9.78
European stock	MSCI Europe	-12.78
Global bonds	Bloomberg Barclays Global Aggregate	2.98
U.S. corporate Bonds	Bloomberg Barclays US Corp Bond	5.02

(continued to next page)

SM Looking under the hood of U.S. large companies, we find big divergences of performance. Take for example Zoom Video Communications (NASDAQ: ZM). The share price of the now ubiquitous name and service has more than tripled since the beginning of 2020. Note that Zoom is not included in the S&P 500, but its capitalization has grown so much that it would qualify on that basis today.

ZOOM (NASDAQ: ZM) - JAN 1, 2020 - JULY 24, 2020



On the other hand, Carnival Corporation (NYSE: CCL), the operator of cruise ships, has lost about 70% of its value since January. Note that it is, for the moment, included in the S&P 500.

CARNIVAL (NYSE: CCL) - JAN 1, 2020 - JULY 24, 2020



The pandemic is significantly disrupting corporate fortunes. This environment offers opportunity for active managers to outperform passively managed funds. Just as some companies are being forced into bankruptcy others will find opportunities for substantial growth. Technologies like Zoom that were on a steady growth trajectory in 2019 have suddenly packed several years of projected growth into three months. Active management

offers the potential to discern the winners from the losers and outperform.

In our next re-balance, you will notice higher allocations to active managers and a more pronounced growth bias within our models as a measured effort to take advantage of this opportunity.

PRACTICAL PRACTICES

Transferring money between accounts - In most cases we can transfer money into and out of your checking/savings accounts via an Electronic Interactions Funds Transfer (EFT). There is rarely a need for you to write a check and send it to us by mail. Especially during the pandemic, we check mail at the office only once or twice per week, so EFT is preferred. If you are unsure whether EFT is set-up for your accounts, call Krista.

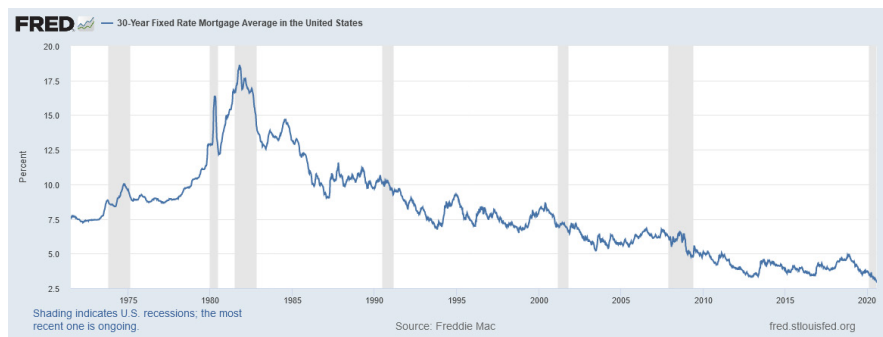
Secure document sharing - Remember that you can send us messages and documents securely via the message tab in Investor360. We are notified immediately when you send a message this way. A secure method is recommended especially for identifying information such as your Social Security number and account numbers. If you don't know what Investor360 is or can't find the message tab, call Krista.

(continued to next page)

MORTGAGES: RE-FINANCING IN RETIREMENT

Average 30-year fixed mortgage rates are at their lowest point since 1971, the earliest data point available on the St Louis Federal Reserve website. The mortgage brokers we know are mighty busy fielding re-finance requests and several clients have asked us as well.

AVERAGE 30-YEAR FIXED RATE MORTGAGE IN U.S. 1971-2020



In isolation, lower interest rates are a good thing if you're a borrower. But rates are not the only factor to consider when evaluating a re-finance. Here are some other factors that come into play:

- What is your goal in re-financing: lowering monthly payment or decreasing the number of years remaining until the mortgage is paid off?
- How much lower is the current rate compared to the rate on your current mortgage?
- How many years will it take to re-coup the expenses of the re-finance through the savings of the lower interest rate?
- When did you last re-finance (if you have)?
- How many years remain on your current mortgage?
- How long do you plan to stay in the house?

If you are considering re-financing your home mortgage, please call us to discuss and assess your options so that you can make an informed choice that fits your needs now and in the future.

NEARING RETIREMENT?

Review your mortgage before you retire. Because you won't have employment income in retirement, you may find banks more reluctant to provide a mortgage to you. Even though you may receive a pension or Social Security benefit or have substantial financial assets, banks, in our experience, like to see earned income when considering a loan application. A local or regional bank may be more flexible and there are some ways to show income that banks will consider – e.g., setting up distributions from an IRA. But generally speaking, you will have more options for refinancing prior to retirement when you can demonstrate having a higher earned income.

Call us if you would like to learn about different mortgage options in retirement.

PRACTICAL PRACTICES (CONTINUED)

Medical insurance if you've lost your employer-based coverage – The CARES act extended the time limit within which people who lose their employer-based medical insurance - e.g., due to a layoff - have to elect COBRA coverage (a time-limited extension of coverage under the employer plan paid for by the ex-employee). The new rule gives the ex-employee 120 days until after the COVID pandemic is no longer considered a national emergency.

This means that for someone laid off today, the 120-day clock has not yet started and they could put off the COBRA election waiting until they find a new job with coverage or suffer an illness that requires medical care. The rule requires that all premiums due from the time of separation of service be repaid. So that bill could be hefty. We always recommend that everyone obtain medical insurance. However, if your financial situation makes paying the premium impossible currently, delaying COBRA is an option to consider.

THE FUTURE OF LONG-TERM CARE IN FUNDING IN WASHINGTON

THE LONG-TERM CARE TRUST ACT OF 2019

If you are a W-2 employee in Washington state did you know that you have a long-term care benefit? (Some other employment classifications may opt into the program.) Washington state began the first public, state-level LTC insurance program in 2019. It is paid with a 0.58% payroll deduction (e.g., \$580 per year on a \$100,000 annual salary) and provides a lifetime benefit amount, after vesting, of \$36,500 that is adjusted for inflation. This is a helpful albeit small benefit. Median cost of a private nursing home room in Seattle is \$153,000 per year.

Given the high cost of long-term care, the likelihood that most elderly people will need some type of care, and the inability of the average resident to pay for care, the current and future

financial burden for the state is enormous. (Medicaid, which is jointly funded by federal and state dollars, pays for long-term care for people who can't afford to pay themselves.)



If you have your own long-term care coverage, you may permanently opt out of the state program. The filing period for exemption is between October 1, 2021 and December 31, 2022.

Sources: Genworth Cost of Care Survey, <https://www.genworth.com/aging-and-you/finances/cost-of-care.html>; John Hancock Advanced Markets Blog July 1, 2020.

BELLEVUE OFFICE

11911 NE 1st St., Suite 103A
Bellevue, WA 98005

SEATTLE OFFICE

3715 S. Hudson St., Suite 104
Seattle, WA 98118

425-598-2919

www.spectrumfp.net



SHARE THIS REPORT!

.....
If you know someone who would like this report, call Krista at 425-598-2919.

Securities and advisory services offered through Commonwealth Financial Network®, Member FINRA/SIPC, a Registered Investment Adviser. This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.