Condor Capital Reviews 1st Quarter 2020

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COVID-19 and the ensuing shutdown have caused significant disruptions to the global economy. Domestic equities fell 19.60% in the first quarter of the year, a dramatic reversal from a 2019 that saw the S&P 500 Index rise 31.48%.

Large-cap stocks held up better than mid– and small-caps, and value stocks once again lagged their growth counterparts. While all major sectors finished the quarter lower, healthcare, technology, utilities, and consumer staples held up best, while energy was by far the biggest laggard.

Amid the crisis, bond yields fell sharply across the board. The Federal Reserve responded strongly, cutting interest rates to zero and ramping up its bond buying program of government, mortgage-backed, and even high-yield corporate bonds.

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The first quarter of 2020 was a difficult time for financial markets and the world more broadly. In addition to the medical toll, the sweeping pandemic known as the novel coronavirus, or COVID-19, and the shutdown it created shuttered small businesses, disrupted global supply chains, stunted demand for goods, and caused unemployment to spike. For the stock market, the result was a decline of 19.6% as measured by the S&P 500 Index. While the market did rally and rebound sharply in the quarter's final two weeks, the first three months of 2020 still ended as the worst on record since 1987. Meanwhile, the CBOE Volatility Index, a common measure of market volatility informally known as the VIX, tripled before calming during the late-quarter rally. While no area of the stock market was immune from this broader selloff, healthcare, technology, and the most defensive sectors like utilities and consumer staples held up relatively better. On the other hand, the energy sector was by far the worst hit, as a March falling out between major oil producers Saudi Arabia and Russia sent oil prices plunging as low as $20 per barrel. Frustrated by Russia's unwillingness to agree to production cuts, the Saudis vowed to price the Russians out of the market, leading oil markets to post their largest one-day decline since the Gulf War.

In the bond market, yields moved notably lower across the board, with the 10-year treasury falling by over 1.1% to finish the quarter at 0.70%. In response to the worsening pandemic, the Federal Reserve slashed interest rates to zero in mid-March. The move, which was announced unexpectedly on a Sunday rather than during a regularly scheduled policy meeting, was a notable show of urgency and just one of the stimulative measures undertaken by the central bank. Additionally, many of the concerns that had been keeping yields range-bound heading into the quarter, including persistently low inflation and an anemic global interest rate environment, were exacerbated by the coronavirus shutdown and ensuing flight to safety by investors. Even hopes of a multi-trillion-dollar stimulus package, which should theoretically be inflationary, were not enough to stem the fall.

Outlook: The novel coronavirus has upended our society in a way that no one could have expected a year ago. With the rate of infection still high in most places, it is not unreasonable to assume that quarantine measures could remain in place for some time. That being said, remember that the market is forward-looking, so it has already priced in a lot of expected bad news in recent months. As a result, when economic data inevitably starts to come out that millions of Americans are unemployed and domestic GDP is down drastically from prior-year levels, the market may hold up better than one might imagine. For example, on a day where devastating data came out that 6.6 million Americans had applied for unemployment benefits, the market actually gained 2%. This does not help those that lose their jobs or the small businesses that are forced to close their doors, but it should help to frame our expectations for how the stock market may react to those developments. In fact, the market is already rallying back from its lows, gaining over 15.5% from Monday, March 23 to March 31st. Since then, the market has moved another 10% higher and is now trading back around August 2019 levels.

Still, we at Condor do not presume to know when the outbreak will be contained and when life will return to some semblance of normalcy. There is no guarantee that the past few weeks' market move higher is permanent, and there may be further setbacks before we see stocks return to pre-virus levels. One thing we do know, however, is that the federal government is making every effort to flood the economy with stimulus measures. The $2 trillion stimulus bill was passed with rare bipartisan support, highlighting the seriousness of Congress's response. While the bill will not be a panacea and there are businesses that will not survive this quarantine, the legislation does appear to make a widespread effort to support companies of all sizes, with the Paycheck Protection Program coming to the aid of small businesses and targeted bailouts buttressing larger, publicly traded industries. Additionally, the Federal Reserve is using the full extent of its powers to maintain order and liquidity in domestic capital markets. The Fed slashed interest rates to zero, upped the amount of government- and mortgage-backed debt on its balance sheet, and even extended its bond-buying program all the way out to high-yield corporate bonds, all moves that indicate the robust path the Fed is taking in its efforts to prop up the economy and support public debt markets. Given the large rally late in the quarter, it is clear that investors believe the effects of these stimulus measures to be significant.

The sharp market moves in response to the coronavirus in the first quarter represent a painful but important reminder about the nature of market volatility. Throughout 2018 and 2019, there were bullish pundits emphasizing the strong domestic economy and corporate earnings growth and bearish pundits talking about an imminent recession due to the bull market being too old, the yield curve inverting, or various other reasons. Understandably, not one was touting the risks of a global pandemic that did not even exist until six months ago. This is not a criticism of market watchers, but a reminder that the biggest risks to the market are often unforeseen and almost always temporary. The only way to prepare for this is to set a suitable allocation of both stocks and bonds and to stick to it through thick and thin. This means both maintaining your bond allocation and not getting too greedy as markets rise as well as gritting your teeth and staying invested in the stock market when things get rough. Markets will eventually recover, and you will be glad you did not sell out at the lows and miss the rebound. As always, we at Condor Capital thank you for entrusting us with your hard-earned assets and we will continue to work our hardest for you. We wish you and your families health and safety as we navigate through this difficult period.

Tax Considerations for Retirees

Are you aware of these potential tax breaks and tax-saving opportunities?

The federal government offers some major tax breaks for older Americans. Some of these perks deserve more publicity than they receive.

At age 65, the Internal Revenue Service gives you a larger standard deduction. For 2020, standard deductions look like this for taxpayers 65 and older: single filer or married filing separately, $14,050; head of household, $20,300; married filing jointly or qualifying widow(er), $26,100 (when one spouse is 65 or older) or $27,400 (when both spouses are 65 or older). The standard deductions for younger taxpayers range from $1,650-$2,600 less.[1]

There are two situations where your standard deduction may be limited at age 65 or older, or disappear entirely. One is when another taxpayer claims you as a dependent. The other is when you are married and filing separately, and your spouse itemizes deductions.[1]

You may be able to write off some medical costs. The IRS will let you deduct qualifying medical expenses once they exceed 7.5% of your adjusted gross income (AGI). The list of eligible expenses is long. Beyond out-of-pocket costs paid to doctors and other health care professionals, it also includes things like insurance premiums for extended care coverage, travel costs linked to medical appointments, and payments for durable medical equipment, such as dentures and hearing aids.[2]

Are you thinking about selling your home? Many retirees consider this. If you have lived in your current residence for at least two of the five years preceding a sale, you can exclude as much as $250,000 in gains from federal taxation (a married couple can shield up to $500,000). These limits, established in 1997, have never been indexed to inflation. This exclusion is only allowed once every two years.[3]

Low-income seniors may qualify for the Credit for the Elderly or Disabled. This incentive, intended for people 65 and older, can be as large as $7,500 based on your filing status. You must have very low AGI and nontaxable income to claim it, though. It is basically designed for those living wholly or mostly on Social Security benefits.[4]

Affluent IRA owners may want to make a charitable IRA gift. Generally, once you reach age 72, you must begin taking required minimum distributions (RMDs) from a traditional IRA. You may not be looking forward to these annual withdrawals, especially if you are well off. You have another option: you can make a Qualified Charitable Distribution (QCD) using those traditional IRA assets.[5]

You can donate up to $100,000 of traditional IRA assets to a qualified charity in a single year this way, and the amount donated counts toward your required withdrawal. The amount of the QCD is excluded from your gross income for the year of the donation. Eligibility to make a QCD still begins at 70½, even though the Setting Every Community Up for Retirement Enhancement (SECURE) Act raised the starting age for annual traditional IRA distributions from 70½ to 72.[5]

It must be mentioned that withdrawals from traditional IRAs are taxed as ordinary income (and, if taken before age 59½, may be subject to a 10% federal income tax penalty).

Of course, some states also give seniors tax breaks. For example, the following 11 states do not tax federal, state, or local pension income: Alabama, Hawaii, Illinois, Kansas, Louisiana, Massachusetts, Michigan, Mississippi, Missouri, New York, and Pennsylvania. Twenty-eight states (and the District of Columbia) refrain from taxing Social Security income.[6]

Unfortunately, your Social Security benefits could be partly or fully taxable. They could be taxed at both the federal and state level, depending on how much you earn and where you happen to live. Whether you feel this is reasonable or not, you may have the potential to claim some of the tax breaks mentioned above as you pursue the goal of tax efficiency.[7]

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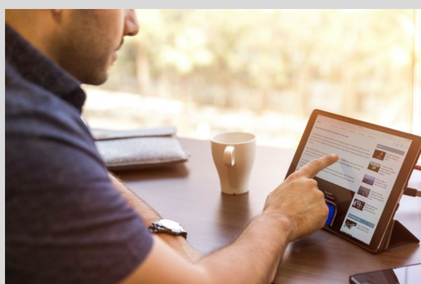

In the age of technology, it's critical to know what to do in the event of a data breach. Learn how to protect yourself from potential calamity.

Cybersecurity

Cybercrime affects both large corporations and private individuals. You've likely read about the large data breaches in the business world. These crimes are both expensive and on the rise. The U.S. Identity Theft Resource Center says that these corporate data breaches reached a peak of 1,632 in 2017. The response to the growing need for data protection has been swift and powerful; venture capitalists have invested $5.3 billion into cybersecurity firms.[1]

That's good news for the big companies, but what about for the individual at home? What can you do to protect data breaches to your personal accounts?

For most private individuals, the key idea is to both:

- Know what to do if you've had a data breach.
- Know what you can do that might help prevent a data breach.

Total cybersecurity for your financial matters isn't something that can be strategized in a single short article like this one, but there are two different precautions you can take. Both can be done from home and represent *reactive* and *preventative* measures.

Credit Freeze. A *reactive* step is one that you can take after the fact. In many cases, a credit freeze might be a reaction to identity theft or a data breach. What it specifically does is restrict access to your credit report, which has information that could be used to open new lines of credit in your name. The freeze prevents this, but it will not prevent a criminal from, for instance, using an active credit card number, if they've discovered it. For that reason, you still have to monitor for unauthorized transactions during the freeze.[2]

While the freeze is in place, you can still get your free annual credit report. You also won't have issues with credit background searches for job or renter's applications or when you buy insurance – the freeze doesn't affect those areas of your credit history. You can even apply for a new line of credit during a credit freeze, though that requires a temporary or permanent elimination of the freeze during the process. This can be done through either a call to the big three credit reporting agencies (Equifax, Experian, and Transunion) or a visit to their respective websites.[2]

Password Manager. This is a *preventative* measure. Yes, we all know the poor soul who uses "Password" as their password. While you are probably not that far gone, the truth is that there are many tricks that cybercrooks use to learn or intuit our passwords. In fact, 20% of Internet consumers have experienced some sort of account compromise. That comes at a time when about 70% of consumers operate 10 or more accounts. A few, against best practice, will use the same password across each of those accounts. A good security measure against that is password manager software – applications that allow us to keep all our numerous passwords encrypted in a vault and drop them into our browsers when requested. While yes, there are options to save these passwords, encrypted on most browsers, these security measures are limited. Password managers are focused solely on security and are more frequently updated than the browser security features might be. That attention might be the difference between a criminal obtaining access to your sensitive personal information or being blocked in the attempt.[3,4]

While this is a very basic pair of tips, they are worth thinking about and may prove to be helpful in your efforts to prevent identity theft. There are, however, additional, more-advanced choices for you to explore. Feel free to reach out to Condor at any time to discuss other cybersecurity best practices that you might consider.

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"Audit" is a word that can strike fear into the hearts of taxpayers.

However, the chances of an Internal Revenue Service audit aren't that high. In 2017, the most recent statistics available, show the IRS audited 0.5% of all individual tax returns.[1]

Being audited does not necessarily imply that the IRS suspects wrongdoing. The IRS says that an audit is just a formal review of a tax return to ensure information is being reported according to current tax law and to verify that the information itself is accurate.

Remember, this article is for informational purposes only, and is not a replacement for real-life advice. Be sure to consult with us and your tax accountant so we can review the specifics of your situation before you modify your tax strategy.

The IRS selects returns for audit using three main methods.

Random Selection. Some returns are chosen at random based on the results of a statistical formula.

Information Matching. The IRS compares reports from payers – W-2 forms from employers, 1099 forms from banks and brokerages, and others – to the returns filed by taxpayers. Those that don't match may be examined further.

Related Examinations. Some returns are selected for an audit because they involve issues or transactions with other taxpayers whose returns have been selected for examination.

There are a number of sound tax practices that may reduce the chances of an audit.

Provide Complete Information. Among the most commonly overlooked information is missing Social Security numbers – including those for any dependent children and ex-spouses.

Avoid Math Errors. When the IRS receives a return that contains math errors, it assesses the error and sends a notice without following its normal deficiency procedures.

Match Your Statements. The numbers on any W-2 and 1099 forms must match the returns to which they are tied. Those that don't match may be flagged for an audit.

Don't Repeat Mistakes. The IRS remembers those returns it has audited. It may check to make sure past errors aren't repeated.

Keep Complete Records. This won't reduce the chance of an audit, but it potentially may make it much easier to comply with IRS requests for documentation.

Citations

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