Condor Capital Reviews 4th Quarter 2020

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For the final quarter of 2020, the S&P 500 rose 12.41% to finish the year 18.39% higher proving equities resilience over pandemic-induced uncertainties.

On the international front, both developed and emerging market equities produced strong returns, outpacing domestic equities. This came on the back of further economic recoveries in areas like China.

The Fed continued to express an accommodative stance, keeping rates unchanged at zero percent and reiterating its aim of supporting an economic recovery.

December 2020

- Condor Capital Reviews 4Q 2020
- Retirement Plan Considerations at Different Stages of Life
- Divorce and Estate Planning
- Getting a Head Start on College Savings

Despite a year defined by a global pandemic and political uncertainties, financial markets proved resilient, with the major indices finishing the quarter, and the year, at or around all-time highs. The S&P 500 Index moved 12.14% higher in the fourth quarter, resulting in an overall gain of 18.39% for the index in 2020. The nationwide rollout of two COVID-19 vaccines, coupled with greater clarity regarding the country's political backdrop, calmed market angst and set domestic equities up for a rally into the latter part of the quarter. Contributing most to the broader market's rise were cyclically oriented sectors, led by energy and financials. On a market-cap basis, small-caps fared substantially better than large-caps in the fourth quarter and outperformed on the year. Finally, the long-standing trend of growth stocks outperforming their value counterparts reversed this quarter, with value exhibiting its best quarter since 2009.

International equities from both developed and emerging market regions moved higher, outperforming domestic equities during the fourth quarter. Despite some countries still facing restrictive measures relating to the pandemic, a falling dollar and an overall increase in global trade activity proved beneficial to emerging markets. China was a significant contributor to emerging markets performance due to strong demand for medical supplies and tech products, particularly in the month of November. Within developed market economies, a relatively slower recovery had unfolded over prior periods but began to pick up during the fourth quarter. All told, the MSCI Emerging Market Index returned 19.61% versus a 16.09% gain in the developed market composite.

Although monetary policy went relatively unchanged during the quarter, the fixed income space continued to be guided by ultra-accommodative central bank policies put in place during the pandemic. The Federal Reserve reiterated keeping its discount rate at zero percent through the end of 2023, providing further stimulus to a post-pandemic economic recovery. That said, the yield curve moved only modestly, with the U.S. 10-Year Treasury Note yielding 0.91% at quarter's end, up slightly from the prior quarter's 0.68% yield. In the corporate bond market, both investment-grade and high-yield spreads tightened as investors continued to price in the expectations of improving corporate profitability over the near term. Against this backdrop, corporate bonds outperformed government issues.

Outlook: Even through the worst of the pandemic, equity markets showed shocking resiliency in 2020, ending the year at or near all-time highs. While one may scratch their head at this, it is important to note that markets are partially a forward-looking mechanism, pricing in future expectations today. At the same time, markets are in many ways a bit removed from the "Main Street" U.S. economy, a dichotomy that continues to play out. That said, one factor in markets' continued grind higher has been the shifting of discretionary income away from pandemic-ridden travel and leisure categories toward saving and investing.

Moving forward, we at Condor remain cautiously optimistic about the state of financial markets. We expect that equity markets in 2021 will be somewhat guided by news of vaccine developments and the ability to effectively distribute it across the country. We expect that the progress of vaccine distribution will be a key market driver through the first half of the year, with the second half being largely defined by the country's ability to spur a return to normalcy. Additionally, and perhaps most importantly, the slew of monetary and fiscal stimulus measures over the prior months should continue to provide assurance to the health and durability of markets and the economy. Monetary stimulus by the Federal Reserve has been of particular importance to the stock market, as accommodative measures, such as low interest rates and expansive bond-buying programs, provide a backdrop to investor confidence. Expect a continued dovish stance out of the Federal Reserve through and beyond 2021, creating further stability.

Valuing transparency, we would be remiss if we did not inform investors that the returns exhibited in the equity market over the prior two years are more of an anomaly than a norm. This is not to say that we believe 2021 will not produce strong returns, but we believe investors should put into context historical data to help guide future expectations. Equity markets have returned on average 10% over the prior 90 years, with some years returning higher or lower than that amount. To that end, a case can be made that the current market cycle has sped ahead of the economic cycle. However, we would note that the peak of the current economic cycle is yet to come, thus giving way to another potentially strong year for financial markets.

Finally, as we move into a new year, it is important to not forget what can be learned from 2020. This year has reminded us of the unexpected nature of not just the stock market, but of life's challenges more broadly. Perhaps most importantly, it reminded us that we can face these adversities and grow through them together. At Condor, we place great emphasis on togetherness, and whether it be financially or at times even personally, we aim to be there alongside you to help you achieve your long-term goals and objectives. We extend our sincere gratitude and appreciation for entrusting in us with these duties and come into the new year with a sense of thanks and optimism.

See disclaimer on final page

Retirement Plan Considerations at Different Stages of Life

Here are some things to consider for your retirement through various life stages.

The material for this article has been prepared by Broadridge Advisor Solutions.

Throughout your career, retirement planning will likely be one of the most important components of your overall financial plan. Whether you have just graduated and taken your first job, are starting a family, are enjoying your peak earning years, or are preparing to retire, your employer-sponsored retirement plan can play a key role in your financial strategies.

How should you view and manage your retirement savings plan through various life stages? Following are some points to consider.

Just starting out

If you are a young adult just starting your first job, chances are you face a number of different challenges. College loans, rent, and car payments all may be competing for your hard-earned yet still entry-level paycheck. How can you even consider setting aside money in your employer-sponsored retirement plan now? After all, retirement is decades away — you have plenty of time, right?

Before you answer, consider this: The decades ahead of you can be your greatest advantage. Through the power of compounding, you can put time to work for you. Compounding happens when your plan contribution dollars earn returns that are then reinvested back into your account, potentially earning returns themselves. Over time, the process can snowball.

Say at age 20, you begin investing $3,000 each year for retirement. At age 65, you would have invested $135,000. If you assume a 6% average annual return, you would have accumulated a total of $638,231 by age 65. However, if you wait until age 45 to begin investing that $3,000 annually and earn the same 6% return, by age 65 you would have invested $60,000 and accumulated a total $110,357. Even though you would have invested $75,000 more by starting earlier, you would have accumulated more than half a million dollars more overall.[1]

That's the power you have as a young investor — the power of time and compounding. Even if you can't afford to contribute $3,000 a year ($250/month) to your plan, remember that even small amounts can add up through compounding. So enroll in your plan and contribute whatever you can, and then try to increase your contribution amount by a percentage point or two every year until you hit your plan's maximum contribution limit. As debts are paid off and your salary increases, redirect a portion of those extra dollars into your plan.

Finally, time offers an additional benefit to young adults — the potential to withstand stronger short-term losses in order to pursue higher long-term gains. That means you may be able to invest more aggressively than your older colleagues, placing a larger portion of your portfolio in stocks to strive for higher long-term returns.[2]

Getting married and starting a family

You will likely face even more obligations when you marry and start a family. Mortgage payments, higher grocery and gas bills, child-care and youth sports expenses, family vacations, college savings contributions, home repairs and maintenance, dry cleaning, and health-care costs all compete for your money. At this stage of life, the list of monthly expenses seems endless.

Although it can be tempting to cut your retirement savings plan contributions to make ends meet, do your best to resist temptation and stay diligent. Your retirement needs to be a high priority.

Are you thinking about taking time off to raise children? That is an important and often beneficial decision for many families. But it's a decision that can have a financial impact lasting long into the future.

Leaving the workforce for prolonged periods not only hinders your ability to set aside money for retirement but also may affect the size of any pension or Social Security benefits you receive down the road. If you think you might take a break from work to raise a family, consider temporarily increasing your plan contributions before you leave and after you return to help make up for the lost time and savings. Or perhaps your spouse could increase his or her contributions while you take time off.

Lastly, while you're still approximately 20 to 30 years away from retirement, you have decades to ride out market swings. That means you may still be able to invest relatively aggressively in your plan. But be sure you fully reassess your ability to withstand investment risk before making any decisions.

On the other hand, with 20+ years of work experience behind you, you could be reaping the benefits of the highest salary you've ever earned.

Reaching your peak earning years

The latter stage of your career can bring a wide variety of challenges and opportunities. Older children typically come with bigger expenses. College bills may be making their way to your mailbox or inbox. You may find yourself having to take time off unexpectedly to care for aging parents, a spouse, or even yourself. As your body begins to exhibit the effects of a life well lived, health-care expenses begin to eat up a larger portion of your budget. And those pesky home and car repairs never seem to go away.

On the other hand, with 20+ years of work experience behind you, you could be reaping the benefits of the highest salary you've ever earned.

With more income at your disposal, now may be an ideal time to kick your retirement savings plan into high gear. If you're age 50 or older, you may be able to take advantage of catch-up contributions, which allow you to contribute up to $26,000 to your employer-sponsored plan in 2021 (unchanged from 2020), versus a maximum of $19,500 for most everyone else (unchanged from 2020). (Note that some types of plans have different limits.)

In addition, if you haven't yet met with a financial professional, now may be a good time to do so. A financial professional can help you refine your savings goal and investment allocations, as well as help you plan ahead for the next stage.[3]

Preparing to retire

With just a few short years until you celebrate the major step into retirement, it's time to begin thinking about when and how you will begin drawing down your retirement plan allocations with an eye towards asset protection (although it's still important to pursue a bit of growth to

[1] This hypothetical example of mathematical principles does not represent any specific investment and should not be considered financial advice. Investment returns will fluctuate and cannot be guaranteed.

[2] All investing involves risk, including the possible loss of principal, and there can be no assurance that any investment strategy will be successful. Investments offering a higher potential rate of return also involve a higher level of risk.

[3] There is no assurance that working with a financial professional will improve your investment results.

[4] Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against a loss.

[5] If you reach age 72 before July 1, 2021, you will need to take an RMD by December 31, 2021.

[6] Qualified withdrawals from Roth accounts are those made after a five-year waiting period and you either reach age 59½, die, or become disabled.

[7] Withdrawals from your employer-sponsored retirement savings plan prior to age 59½ may be subject to regular income taxes as well as a 10% penalty tax (unless an exception applies).

The material for this article has been prepared by Broadridge Advisor Solutions.

to keep up with the rising cost of living).[4] A financial professional can become a very important ally in helping to address the various decisions you will face at this important juncture.

You may want to discuss:

- Health care needs and costs, as well as retiree health insurance
- Income-producing investment vehicles
- Tax rates and living expenses in your desired retirement location
- Part-time work or other sources of additional income

Estate planning

You'll also want to familiarize yourself with required minimum distributions (RMDs). The IRS requires that you begin drawing down your retirement plan assets by April 1 of the year following the year you reach age 72. If you continue to work for your employer past age 72, you may delay RMDs from that plan until the year following your actual retirement.[5]

Other considerations

Throughout your career, you may face other important decisions involving your retirement savings plan. For example, if your plan provides for Roth contributions, you'll want to review the differences between these and traditional pre-tax contributions to determine the best strategy for your situation. While pre-tax contributions offer an up-front tax benefit, you'll have to pay taxes on distributions when you receive them. On the other hand, Roth contributions do not provide an up-front tax benefit, but qualified withdrawals will be tax free.[6] Whether you choose to contribute to a pre-tax account, a Roth account, or both will depend on a number of factors.

At times, you might face a financial difficulty that will tempt you to take a loan or hardship withdrawal from your account, if these options are available in your plan. If you find yourself in this situation, consider a loan or hardship withdrawal as a last resort. These moves not only will slow your retirement saving progress but could have a negative impact on your income tax obligation.[7]

Finally, as you make decisions about your plan on the road to retirement, be sure to review it alongside your other savings and investment strategies. While it's generally not advisable to make frequent changes in your retirement plan investment mix, you will want to review your plan's portfolio at least once each year and as major events (e.g., marriage, divorce, birth of a child, job change) occur throughout your life.

Divorce and Estate Planning

How does divorce affect estate planning?

Wills for both spouses are often drawn up sometime during the marriage--particularly if there are children involved. When divorce is contemplated, the selection of beneficiaries and executors will likely be revised to reflect the absence of your former spouse. Additionally, you will need to re-examine the gift and estate tax aspects of your estate plan. For these reasons, many divorcing couples revise their estate planning documents during the period of separation or soon after the divorce has been finalized.

What should you be concerned about during the separation period?

If divorce proceedings have begun, it's important to draft a formal separation agreement as soon as possible, establishing the spouses' rights regarding property, debts, temporary alimony, child support, and child custody. When drafting the provisions, you (or your attorney) will want to consider the possibility of your spouse dying prior to entry of the final divorce decree. You may wish to make the agreement binding on heirs and assigns so that the obligations will continue if one party dies.

If you expect to receive alimony and child support from your spouse, you may want to require (in the separation agreement) that your spouse buy a life insurance policy (or keep the existing one in force), naming you as the beneficiary. The policy should be in an amount sufficient to cover the sum of support obligations and property distribution payments contemplated. You could even be named as the owner of the policy insuring your spouse's life.

Similarly, your agreement might require your spouse to maintain minimum will provisions in favor of you (and/or your children). Often, the parties to a separation agreement include a provision that both waive the right to elect a share of the estate of the other in the event that one party dies before the divorce decree is entered.

When revising your estate plan, which areas require particular note?

First of all, you should make the necessary changes in your will or other estate planning documents to ensure that your former spouse isn't named as your personal representative, successor trustee, beneficiary, or holder of the power of attorney. A new will will likely be drafted during the separation period. Note that in some states, wills drawn up during a marriage are considered void after a divorce unless specifically ratified after the divorce. This means that intestacy rules would apply, instead of the will being controlling.

Next, consider gift tax implications if funding your children's education is required by your property settlement. Although your direct tuition payments (even for adult children) are exempt from gift tax when required by a property settlement agreement, be aware that your payments for related educational expenses (e.g., books and room and board) may be subject to gift tax.

Example(s): Liz and Frank have a daughter, Carol. Carol has reached the age of majority under state law. When the couple divorced, Frank agreed (as part of the settlement) to pay for Carol's college tuition, books, room, and board. During the year, Frank pays $20,000 tuition directly to Carol's university, and he gives Carol $15,000 in cash for living expenses. The tuition isn't a taxable gift, but the $15,000 in cash will be treated as a taxable gift.

Finally, consider the absence of the unlimited marital deduction. A deduction is allowed for qualifying transfers to one's spouse during lifetime or at death. Because this gift and estate tax deduction is one of the most important estate planning tools for married couples, your loss of this tool at divorce can affect your tax situation adversely when you die.

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Getting a Head Start on College Savings

The American family with a child born today can expect to spend about $233,610 to raise that child to the age of 18. And if you've already traded that supercharged convertible dream for a minivan, you can expect your little one's college education to cost as much as $198,000.[1,2]

But before you throw your hands up in the air and send junior out looking for a job, you might consider a few strategies to help you prepare for the cost of higher education.

First, take advantage of time. The time value of money is the concept that the money in your pocket today is worth more than that same amount will be worth tomorrow because it has more earning potential. If you put $100 a month toward your child's college education, after 17 years' time, you would have saved $20,400. But that same $100 a month would be worth over $32,000 if it had generated a hypothetical 5% annual rate of return. (The rate of return on investments will vary over time, particularly for longer-term investments. Investments that offer the potential for higher returns also carry a higher degree of risk. Actual results will fluctuate. Past performance does not guarantee future results.) The bottom line is, the earlier you start, the more time you give your money to grow.

Second, don't panic. Every parent knows the feeling – one minute you're holding a little miracle in your arms, the next you're trying to figure out how to pay for braces, piano lessons, and summer camp. You may feel like saving for college is a pipe dream. But remember, many people get some sort of help in the form of financial aid and scholarships. Although it's difficult to forecast how much help you may get in aid and scholarships, they can provide a valuable supplement to what you have already saved.

Finally, weigh your options. There are a number of federal and state-sponsored, tax-advantaged college savings programs available. Some offer prepaid tuition plans and others offer tax-deferred savings. (The tax implications of education savings programs can vary significantly from state to state, and some plans may provide advantages and benefits exclusively for their residents. Please consult legal or tax professionals for specific information regarding your individual situation. Withdrawals from tax-advantaged education savings programs that are not used for education are subject to ordinary income taxes and may be subject to penalties.) Many such plans are state sponsored, so the details will vary from one state to the next. A number of private colleges and universities now also offer prepaid tuition plans for their institutions. It pays to do your homework to find the vehicle that may work best for you.

As a parent, you teach your children to dream big and believe in their ability to overcome any obstacle. By investing wisely, you can help tackle the financial obstacles of higher education for them – and smooth the way for them to pursue their dreams.

Citations

1 - thestreet.com/personal-finance/cost-to-raise-child-14814957 [12/19/18]

2 - savingforcollege.com/article/how-much-to-save-for-college [7/12/18]

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