July 2020

PINNACLE QUARTERLY

Is the RECOVERY REAL?

The Pinnacle Investment Team

Creating Your Retirement Plan Checklist

Deb Kriebel

Are You Downsizing Or Moving In Retirement??

Mindy Gasthalter

POTOMAC

INSURANCE & FINANCIAL SERVICES

July 2020

At Potomac Insurance and Financial Services, our goal is to help business owners protect and grow their business and family wealth. Since 1985, we have been overseeing our clients' insurance and financial affairs, from commercial to personal, so they can focus on what's important to them: Running their business.

We help our clients select the best investment management approach for their private wealth with the least amount of risk. This approach includes personal retirement planning, risk management, family education funding, financial protection planning and assisting the business owner with company-sponsored retirement and group-health plans. We unite insurance and financial planning so that our clients know their business and personal wealth are taken care of in one place.

POTOMAC INSURANCE & FINANCIAL SERVICES

Table of Contents

Investment strategies are provided by subadvisor Pinnacle Advisory Group, Inc., Columbia, MD

What Should Your Retirement Plan Checklist Include?

Deb Kriebel, CFP®, MBA
Partner, Wealth Manager

Every year, when our kids were young, we took a summer family vacation. We spent months dreaming about our vacation and planning our trip. We talked about where we would go… where we would stay… and what sights we wanted to see. Our family saved money throughout the year to pay for our trip.

Planning for retirement is like planning a family summer vacation… albeit an extended vacation. But how do you convert your dreams into reality? It is important that *every retirement plan include some core fundamentals*. I hope this retirement plan checklist will help you plan for the exciting journey ahead.

Goals

Write down your goals. Where do you want to live? What activities will you enjoy doing every day? Will you join a club or association? Do you enjoy travel? Will you visit family and friends? Will you find a sense of community as you did in the workplace? Will you be happy with a different sense of purpose? Where will you find a new sense of purpose?

Expenses

Compile your fixed and variable expenses that are associated with your goals. What will you typically spend each year? Have you included health care and long-term care costs? Do you have any big events coming up, such as a graduation, a wedding or perhaps a new grandchild? Do you plan on putting an addition on your current home or buying a vacation condo?

Income

Record your sources of income. Do you qualify for Social Security benefits? When will you claim your benefits? Will you receive a pension from a current or past employer? Do you have an annuity? How will you convert your assets to cash flow?

Taxes

Incorporate federal and state taxes into your plan. How much of your income will be subject to federal or state taxes? Will the withdrawals from your 401k or IRA be subject to federal and state taxes?

Inflation

Add inflation to your plan. Remember to increase your expenses by inflation each year. As an example, a reasonable current rate of inflation for typical expenses would be 2- 2.5%. For health care and long-term care expenses, you should use a higher rate, such as 6 – 6.5%.

Net Worth

Assemble a list of your assets and liabilities. What is your net worth? How much of your assets are liquid

assets? How much is tied up in real estate or business ownership? Which assets can be used for future expenses? How much are your debts? Do you still have a mortgage? Are you planning on paying off your mortgage or any other debts before you retire?

Insurance

Secure good health care coverage before you retire. Health care insurance is one of the most important components of your retirement plan. Make sure you have good medical and dental insurance. Remember to start the Medicare part A enrollment process 3 months before your 65th birthday. Investigate long-term care insurance and see if it is necessary or desired for your plan. Will you be subject to the Medicare income-related monthly adjustment amount for Medicare parts B and D?

Estate Plan

Update your estate plan. Make sure you have current estate planning documents and your beneficiary designations are up to date. At a minimum, your suite of documents should include a Power of Attorney, Health Care Directive, Will, and possibly a Revocable Trust. Is the ownership of your assets in sync with your estate plan?

There are a range of considerations to work through and plan prior to retirement, and for many, a few year's head start is a big help, allowing them to work through some of the many emotional considerations that go with the financial and practical aspects of the next phase of your life. This isn't a comprehensive check list, but more like a guide or series of conversation starters, to spur the thought process toward crafting a final plan. If you have questions about what should be considered, what should or shouldn't be included, be sure to ask your financial advisor. Retirement happiness isn't automatic… you have to give it some consideration and thought in advance to reach the goal you've been saving for a lifetime to achieve.

Deb Kriebel, CFP®, MBA is a partner and Wealth Manager at Pinnacle Advisory Group.

Five Things to Consider When Downsizing or Moving in Retirement

Mindy Gasthalter, CFP®, MBA
Wealth Manager

As a Wealth Manager, one of the questions I ask my clients is "Are you considering moving when you retire?"

If you are thinking about moving or downsizing when you retire, there are a few basic things that you may want to consider:

Do you want to move to be closer to family?

This is a classic reason why clients think about moving. Recently, a client told me he is considering moving to Maine and/or Arizona in 2022 when he retires. Why? Because one daughter lives in Maine and the other daughter lives in Arizona.

Remember that moving to be closer to family doesn't guarantee that you will see them more often or that they will be there to help. In many cases, they have their own lives and their own families; the assumption that they will be there as you age is not a promise.

What about public transportation, or is it a walking community?

As we age, driving may no longer be a good option. Do you want to be in a place that has good, accessible public transportation, or one where walking is an option? Having to drive 10 minutes to get milk may be all well and good when you are 68, but perhaps not the best option when you are 85. A friend who retired about eight years ago refuses to consider leaving Washington, D.C. because he knows that when he reaches the age when he should no longer drive, getting around town will be very easy (Metro, buses, or walking).

Do you want to move to be closer to good, high-quality medical care?

For many people, this is a big consideration. Being nearby to at least one good, high quality hospital is a necessity. If there is no hospital nearby, you may not want to consider it. You want to know that if you need care, you don't have to drive (or be driven) 50 miles to find it.

Does the place that you are moving to offer the activities that you enjoy?

Moving to Maine to be near your child may sound great, but if you are a theater lover and the nearest theater is 45 minutes away, that might not be a good fit. People have heard me say many times that I

won't retire to Rehoboth where I've had a second home for more than 20 years because they don't have any of the cultural activities that I enjoy.

Not a good fit; I love being there, but I couldn't live there.

What type of property do you want to move to?

As you downsize, does that mean going from a single family home to a townhouse, in a community where they mow the lawn, plow the snow, and take care of the maintenance? Does it mean staying in a single family home but moving to one that is all on one floor? Does this mean moving to a condo? Does this mean moving to a Continuing Care Retirement Community (CCRC) where you can start in independent living but know that if you need more care, you can move to another wing/building in the same community?

There are many options to consider when thinking about what type of retirement residence is best.

No matter what your answers are to the questions above, here's an important final point: The last thing you need to consider is time. In other words, give yourself time to think about your options. Don't rush into making a decision. Planning now helps because you don't want to wait until you have to make a decision. It's much better to make these choices while we are healthy, active, and able.

Disclosure

Pinnacle Advisory Group, Inc. ("Pinnacle") is a registered investment advisor. Advisory services are only offered to clients or prospective clients where Pinnacle and its representatives are properly licensed or exempt from licensure.

The information provided is for educational and informational purposes only and does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your attorney or tax advisor.

Mindy Gasthalter, CFP®, MBA, is a Wealth Manager at Pinnacle Advisory Group.

MARKET OUTLOOK

Ken Solow, CFP®

Chief Investment Officer

Carl Noble, CFA®

Senior Analyst

Sean Dillon, CMT, CFTe®

Technical Analyst

Sauro Locatelli, CFA®, FRM™

Quantitative Analyst

Dan Mento, CFA®

Fixed Income Analyst

The first half of 2020 was a real doozy. After a gut-wrenching freefall into the fastest bear market decline in history in the first quarter as the COVID-19 pandemic unfolded, the stock market seemed to defy logic by turning on a dime and delivering one of the strongest rallies in nearly 100 years from its late March low. While certainly a welcome reprieve for investors who were still reeling from the market's collapse, it also left even the most grizzled market participants scratching their heads and trying to make sense of the moves.

By the end of the quarter, the S&P 500 Index (including dividends) had recovered to a loss of just -3.2% on the year by posting its best quarter since 1998 with a gain of 20.2%. Developed international equities weren't far behind, gaining more than 15%. Diversified commodities also gained, but gold was the clear winner within that asset class with a gain of 14%. Bonds managed to deliver modest gains, mostly thanks to corporate credit outperforming. Treasury bonds were flat, with the 10-year Treasury yielding a paltry 0.65%.

The Big Reopening

The stock market rally was driven largely by signs that the U.S. economy was beginning the process of reopening from a virtual standstill. It may seem like a distant memory considering how things have back-tracked as the third quarter gets underway, but the U.S. was able to “bend the curve” lower in terms of slowing the rate of new infections beginning in early April. According to data from the Johns Hopkins Coronavirus Resource Center, infections peaked at just under 35,000 per day based on a 7-day average on April 9th, and began a slow but steady decline from there. This allowed states to start to lift stringent restrictions that were put in place to slow the spread of the coronavirus. From late April and into early May, stay at home orders were either lifted or eased in many states around the country.

By that point, economists were braced for a disastrous downturn but were hampered by a lack of visibility due to most major economic data being reported on a lag. Instead, they began to focus on alternative but more timely sources of data, including restaurant reservation activity as measured by Open Table, airport travelers passing through TSA checkpoints, and mobility data collected through smartphone usage by Apple and Google. All of these reflected a sudden collapse in the economy, but being more real-time they also were the first to indicate the faintest signs of a pulse as the economy began to slowly reopen in parts of the country. For instance, data tracked by Open Table showed that the number of seated diners at U.S. restaurants measured on a year-over-year basis utterly collapsed from flat growth on March 8th to nearly -100% by March 20, as restaurant shutdowns were imposed across the country. This largely remained the case until the beginning of May, when it began to slowly creep higher, and by the end of the quarter this data showed the number of diners had “improved” to -62.5% year over year. While still an awful environment for the restaurant industry, it did show things were starting to head in the right direction.

As the situation stands today, there remains debate about the ultimate shape of the economic rebound—whether it will snap back quickly in a V-shape, or proceed less rapidly in more of a U or W pattern. However, there’s no denying that at least for the second quarter, the underlying trend in economic data was one of steady improvement, albeit from very depressed levels in many cases. Initially, this was apparent in the aforementioned alternative data sources, as well as some traditional survey-based indicators that were viewed skeptically since they didn't reflect "hard" or actual data, such as the monthly Purchasing Manager's Indexes that ask a sample of manufacturing companies if business improved or not compared to the prior month. But the most unexpected and concrete example of economic healing arrived on June 5 with the monthly employment report, which showed that there was a job gain of 2.5 million in May, which far surpassed the official consensus expectation of a loss of 8 million jobs. The sudden restart of the economy and subsequent broad improvement in economic data was also captured in the Citigroup Economic Surprise Index, which is designed to gauge whether economic data turns out to be better or worse than official economist forecasts. This indicator sank to a near record low of -145 on April 30th as economists scrambled to revise their estimates lower, but has since surged to a record high of +181 by the end of the quarter, which underscores that they grew overly pessimistic even as data started picking up.

However, complicating all of this is that on June 8, the Business Cycle Dating Committee of the National Bureau of Economic Research, which is the official arbiter of business cycles in the U.S., officially declared that the economy peaked in February, meaning that a recession began in March. This was actually one of the quickest decisions that they've made, which is often determined on a considerable lag. But the severity of this particular downturn sped up that process. The big question now is, could this end up being the shortest duration recession on record? Currently, the shortest is the 1980 recession that lasted six months. Based on the degree of economic improvement over the past few months, it's possible that the trough of this recession is determined to have been reached in May, meaning it would be the shortest on record by far in lasting only two months. Whether this turns out to be the case or not will depend on whether the current rebound can sustain over the remainder of the year. But there seems to be a good chance that the trough of the recession has passed, especially when factoring in the tremendous amount of fiscal and monetary stimulus that's been marshaled over the past few months—as long as the country can avoid another full shutdown.

Are We in a New Bull Market?

Considering everything that's happened over the past few months, in some ways it's hard to believe that the S&P 500 was down by just -3.2% for the year at the end of the quarter. The market has experienced a stunning rally of 38.9% from its low on March 23rd. With the common definition of a bull market being an increase of 20% from a recent low, which the S&P 500 hit back on April 8th, it's naturally raised the question of whether or not we've already entered a new bull market? To some, that may seem preposterous considering the current state of the economy and the ongoing pandemic. Others are quick to point to the fact that prior bear markets did experience large countertrend rallies that ultimately failed. But it's important to consider that bull markets are born of investor despair, and often take hold when an economic downturn is at its nadir.

There is concern related to recent gains being increasingly led by a small group of large cap Growth stocks that belong primarily to the Technology, Consumer Discretionary, and Communication Services sectors. An index of the so-called FANG+ stocks (Facebook, Apple, Netflix, Google, Amazon, Microsoft) has gained 25% through the end of the second quarter, compared to a loss of -6.5% for the remaining 494 companies in the S&P 500. That's certainly a wide disparity, and does raise some questions regarding whether the current rally is sufficiently broad enough to sustain further gains.

However, although there may be some frothiness building in those stocks, there's other evidence showing that the gains from the March 23rd bottom have been widespread. For starters, all 11 sectors of the S&P 500 Index have risen by more than 20% since then. In addition, the strength and size of the move off the bottom has triggered several different technical indicators that are designed to measure "thrusts," which often occurs in the early stages of a bull market and have reliably forecasted additional gains over the next six to twelve months. Lastly, the character of the rally so far actually compares favorably to the initial stages of major bull markets that began in 1982 and 2009, as Jim Paulsen of the Leuthold Group recently pointed out. He noted that not only are they tracking closely together in terms of the magnitude of the gains at this point, but those two bull markets were launched in the wake of very severe economic downturns, as is this case this time, too.

Positioning

In light of the economic improvement and possibility of being in a new bull market, Pinnacle's Dynamic Prime portfolios were gradually repositioned from a defensive posture to neutral from an overall risk standpoint by the end of the quarter. This involved a combination of purchasing cyclical U.S. equity sectors, international equities, gold, and corporate credit within fixed income. Overall, portfolios are tilted towards cyclical Growth equity sectors that tend to benefit in low growth and low inflation environments, with a corresponding underweight to cyclical Value sectors. Within commodities, we continue to carry an overweight to gold and actually added to that during the quarter. We believe that the current environment is very conducive for gold to continue to perform well, with interest rates so low that they're actually negative on an inflation-adjusted basis and plenty of liquidity being provided by central banks around the world.

We're now closely watching the behavior of the U.S. dollar, which has started to weaken. If the dollar fell significantly from here, it could have several implications for security selection within portfolios, potentially boosting the attractiveness of cyclical Value sectors and international equities.

Looking Ahead

As the quarter drew to a close, risks to the market outlook seemed to be on the rise again. New infections stopped falling and began surging in parts of the country, reaching a new record high of more than 45,000 per day by the end of the quarter. Some states were reluctantly moving towards imposing new restrictions on certain activities in what seemed like a replay of March and April. In addition, investors are also bracing for second quarter earnings season which is just about to get underway. Expectations are very low, with current estimates predicting a -45% contraction on a year over year basis. Perhaps more importantly, in the first quarter, many companies withdrew future guidance due to the amount of uncertainty created by the pandemic. What these companies are willing to disclose this quarter in terms of their assessment of business conditions going forward will be closely watched. And last but not least, the November election is now less than four months away, with current polling data suggesting that there's an increasing possibility there will be a change in leadership. A lot can happen between now and November so it's too early to have a high degree of confidence in the outcome, but a potential risk to the market is that a new administration would likely implement a very different economic policy backed in part by higher taxes. All of which leads to the question: Is this recovery for real? Or were the past couple of months a temporary reprieve that's destined to falter?

While there are certainly risks looking ahead, and the recovery is bound to be uneven, we do believe that the worst is behind us and that the trajectory should remain up—assuming that the recent spike in the number of cases of the virus doesn't result in another complete shutdown of the economy. Unfortunately, COVID-19 will remain a part of life until a vaccine is eventually available, but in some ways the country is better prepared to manage this compared to the initial outbreak in March (based on medical advances since then as well as social distancing measures that can make a real difference in slowing the spread when properly followed). In addition, a potential silver lining to the economic downturn is that it's created a significant amount of slack in the economy, which should prevent inflation from picking up meaningfully anytime soon; that will allow the Fed to maintain a highly accommodative monetary policy for an extended period of time. Indeed, Fed Chair Jay Powell recently claimed that they're "not even thinking about thinking about raising rates."

In addition, there's a strong possibility of another round of fiscal stimulus being enacted in the coming weeks that's projected to be about $1 trillion, which should provide additional support to both consumers and businesses with emergency unemployment benefits currently scheduled to run out on July 31.
In our view, there has been enough improvement in both the economy and financial markets to be positioned at a neutral level of risk in client portfolios. Volatility is likely to remain elevated until there's more clarity about future business conditions, as well as on the medical front with developments in COVID-19 treatments (or even a vaccine) that would give consumers the confidence to resume normal activities. In the meantime, we will continue to diligently monitor incoming data, and continue to look for investment opportunities that exist in a challenging environment.

Disclosures

Pinnacle Advisory Group, Inc. (“Pinnacle”) is a registered investment advisor. Advisory services are only offered to clients or prospective clients where Pinnacle and its representatives are properly licensed or exempt from licensure.

The information provided is for educational and informational purposes only and does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your attorney or tax advisor.

The views expressed in this commentary are subject to change based on market and other conditions. These documents may contain certain statements that may be deemed forward□looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected. Any projections, market outlooks, or estimates are based upon certain assumptions and should not be construed as indicative of actual events that will occur.

Past performance shown is not indicative of future results, which could differ substantially. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income. You cannot invest directly in an Index.

Risk associated with equity investing include stock values which may fluctuate in response to the activities of individual companies and general market and economic conditions.

Investing in foreign domiciled securities may involve risk of capital loss from unfavorable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations.

Although bonds generally present less short-term risk and volatility risk than stocks, bonds contain interest rate risks; the risk of issuer default; issuer credit risk; liquidity risk; and inflation risk.

POTOMAC
INSURANCE & FINANCIAL SERVICES
4604-H Pinecrest Office Park Drive Alexandria, VA 22312
www.PotomacIFS.com

Liza Brown
President, Investment Advisor
703.354.3501 Ext. 152
lbrown@PotomacIFS.com

Robert Reilly
Senior Investment Advisor
703.354.3501 Ext. 154
breilly@PotomacIFS.com

George Nabti, CFP®
Senior Investment Advisor
703.620.5573
gnabti@PotomacIFS.com