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NFI, LLC
FINANCIAL INSIGHTS

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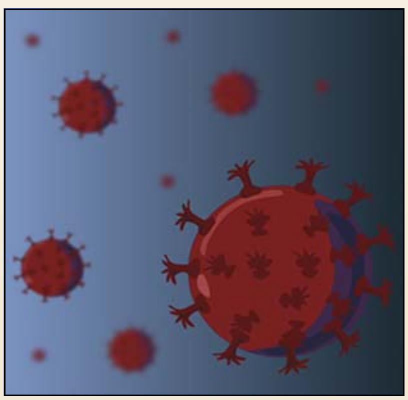
Financial Planning For The Long Run Amid The COVID-19 Epidemic

By August 4, 2020, the Institute of Health Metrics and Evaluation (IHME), an independent public health research center at the University of Washington, expected 68,841 deaths from COVID-19 in the U.S. IHME's April 13 statistical model, if accurate, would exceed the 58,209 Americans killed in the 14-year Vietnam War. and the 54,246 American lives lost in the three-year Korean War. The human toll in sickness, suffering, and grief is unimaginable.

Almost overnight, the crisis has changed the financial and economic outlook. Change like this is frightening and brings new risks, but it also brings new opportunities. Here's a short list of what to do now.

Do Not Despair. As grim as things are, the models forecast an end to the epidemic. It's not a permanent condition. It will end. IHME, which is funded by the Bill and Melinda Gates' foundation, may turn out to be imprecise about the exact date of the end of COVID-19 deaths, and a second wave of the virus is a risk. Life may not be quite the same, for at least a couple of years and possibly longer, but life goes on. A survivor of the 1918 Spanish flu epidemic, according to The Wall Street Journal, said it took a couple of years before social, and, in turn, economic conditions returned to normalcy.



Stocks. The Standard & Poor's 500 lost about a one-third of its value from an all-time closing high on February 19 through the ultimate low on March 23 and it then has subsequently rebounded 25% off its low. Lower stock valuations may present a unique tax and financial planning opportunity. For example, if you own securities with large losses in a taxable portion of your portfolio, you might consider selling those assets at a loss. This concept is known as tax-loss harvesting. Losses on assets held for more than one year can be used to offset capital gains realized on other assets. So long as you do not buy securities that are identical or substantially the same, you can buy a similar asset to match your portfolio's risk level. The replacement asset will then have a lower cost-basis and more of your investment will ultimately be subject to favorable long-term capital tax treatment.

Roth IRA Conversions. Lower stock values make present an opportunity to convert some portion, or all, of a traditional IRA to a Roth IRA. Traditional IRAs are taxed as ordinary income upon withdrawal, while Roth IRAs are always tax free upon withdrawal. However, when you convert any portion of a traditional IRA to a tax-free Roth account, you must pay tax on the withdrawn amount at

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The Statistic That Matters To Investors For The Long Run

The end of the Coronavirus financial crisis hinges on the end of the health crisis. So it was notable when the Institute of Health Metrics and Evaluation, an independent public health research center at the University of Washington, was cited recently at a professional education class for financial advisors, forecasting an end to deaths from the epidemic ending on August 4, 2020.

IHME, which is backed by the Bill and Melinda Gates Foundation, expects 68,841 deaths from COVID-19 in the U.S. on August 4, 2020. IHME's projection, if accurate, means the death toll from the Coronavirus epidemic of 2020 would exceed the 58,209 Americans killed in the 14-year Vietnam War and the 54,246 American lives lost in the three-year Korean War.

The sickness, suffering, and grief from the outbreak is incalculable, but, according to IHME, it does come to an end.

For investors, especially those depending on their portfolio for retirement income, stocks losing a third of their value in the Coronavirus bear market has been frightful, and fear is likely to return to financial markets before life becomes normal again in the months ahead. However, the forecast from public health experts is that the epidemic will indeed come to an end. That's the statistic that matters most to investors for the long run.

The Federal Reserve's Powerful New Toolset

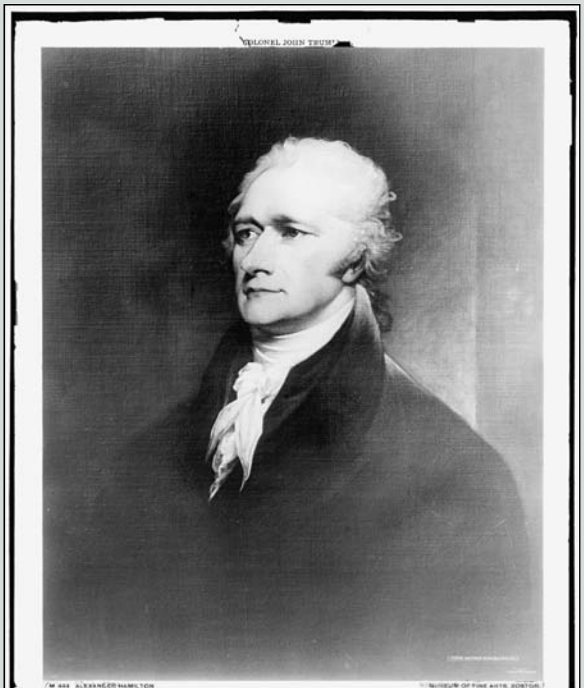
The Coronavirus financial crisis is being compared to the near collapse of the global financial system in 2008 and The Great Depression from 1929 to 1939, but there is one big difference this time: The Fed. The Federal Reserve Bank is using innovative new tools to contain the financial damage of the Coronavirus epidemic.

In the financial crisis of 2008, the chairman of the Fed at the time, Ben Bernanke, an academic who had spent decades studying previous financial crises, repeatedly deployed a technique called quantitative easing (QE). QE expanded the Fed's balance sheet to buy back U.S. Government bonds on the open market, thus, lowering long-term interest rates.

Never before had the tactic been used by a central bank in a major economy. It worked, however, and QE was one of the reasons the U.S emerged successfully from The Great Recession of 2008 and 2009. The Fed's present response to the Coronavirus crisis is literally 10 times more powerful.

Under the $2.2 trillion Coronavirus Aid, Relief, and. Economic Security ("CARES") Act enacted March 27, 2020, the U.S. Government allocated $454 billion to Federal Reserve Bank Special Purpose Vehicles that the central bank can leverage 10 to 1, thus enabling it to lend up to $4.54 trillion to companies in financial distress.

That sum is reportedly more than all U.S. commercial and industrial loans outstanding at the end of 2019, plus all the new corporate bonds issued during 2019 combined! Although the expansion of the Fed's power has been roundly/widely? criticized as a step toward a centrally planned economy, this/such government action limits the risk of potentially massive corporate bond defaults and corporate bankruptcies.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The U.S. led the worldwide economic recovery following the global financial crisis of 2008, in part because of the Fed's innovative approach. And now, this most recent display of Yankee ingenuity — in the form of the Fed's new tools — is at play once again in fighting the Coronavirus-induced financial crisis.

In these frightening times, the Fed's new toolset is likely to become a mere footnote in history books that will be written about the pandemic in the decades ahead. Ever since Alexander Hamilton established the first U.S. central bank in 1791 to respond to the financial crisis that followed the Revolutionary War, the uniquely American central bank has enabled the progress of civilization through financial crises for generations. The U.S. Government response to the Coronavirus financial crisis is a shining example of what makes America exceptional among the nations of the world. ●

Expect An Outbreak Financial Fraud

Predictions of a crash in commercial real estate are rampant, as are forecasts of explosive growth in tech and biotech. Should you believe them?

Every crisis spawns new sales pitches and outright frauds, and the unprecedented nature of the Coronavirus epidemic makes it harder to know what to believe. Here are some facts to keep in mind as financial gurus, Wall Street seers and outright fraudsters bombard shell-shocked investors with predictions of which sectors will prosper most in from the epidemic.

This scattergraph shows the history of the Wall Street strategist sector performance based on their predictions published in Barron's for the past 13 years. If Wall Street strategist predictions had been correct, the black dots would all fall along the red line or cluster around it. The randomness of the picks shows that Wall Street's predictions of the best sectors are not working.

This data was compiled by economist Fritz Meyer, a strategist at one of the world's largest investment companies for over a decade before going independent in 2009. We periodically share Mr. Meyer's updates to this chart and it's worth repeating amid these surreal times.

If Wall Street strategists' predictions had been correct, if Wall Street could predict which industry is doomed and which will prosper the most, then the black dots would all fall along the red line.

The randomness of the picks shows that Wall Street's top strategists' picks and pans, as published in Barron every year since 2009, were usually way off the mark. Past performance is not indicative of future results, but the Covid 19 epidemic does not suddenly make it easier to predict which industry sector will be best or worst in 2020.

Instead of trying to predict the future, rebalancing into undervalued sectors is a prudent choice. It's not as exciting as the stories spawned by Coronavirus financial schemes, but it can provide a sensible, low-expense choice for investors over the long run. ●

Paycheck Protection For Businesses

The first tranche of $349 billion forgivable loans to businesses provided payroll assistance to more than 1.6 million small businesses across the U.S. before running out money. A second tranche of $320 billion in forgivable loans may also run out quickly, making it wise for business owners to act ASAP.

The Paycheck Protection Program offers small businesses a forgivable loan to help retain employees during the social-distancing mandate spawned by the COVID-19 crisis. Under the program, more U.S. Small Business Administration loans in 14 days in April than in the previous 14 years, and 74% of them were for less than $150,00, according to the SBA.

PPP is a safety net for businesses with fewer than 500 employees — mom and pop shops, restaurants, professional services and other small businesses that created 70% of the new jobs in the U.S. in the past decade — the vast majority of which have 10 employees or less. Self-employed and contract employees also qualify for PPP.

PPP provides small businesses with funds to pay up to eight weeks of payroll costs including:

- Salary and wages
- Commissions
- Tips
- Paid leave
- Health insurance and healthcare payments
- Retirement benefit payments
- Some independent contractors

Funds can also be used to pay interest on mortgages, rent, and utilities. So long as you use the loan proceeds to pay for qualified expenses within eight weeks, the loan is forgiven.

- Funds are provided in a loan that may be fully forgiven if used for payroll costs, interest on mortgages, rent, and utilities.
- At least 75% of the forgiven amount must have been used for payroll.
- Loan payments will also be deferred for six months.
- No collateral or personal guarantees are required.
- The government will pay the origination and other costs for administering these loans.

The maximum PPP loan you are eligible to receive is 2.5 times your average monthly payroll for the past 12 months for the eight-week period, subject to these key limitations:

- If you pay more than $100,000 a year to an employee, the excess over $100,000 does count toward the maximum you loan you qualify to receive.
- The maximum loan a company is $10 million.

For example, if you paid 10 employees $1 million for the past 12 months, then your average monthly payroll for the period was $83,333. Your maximum loan would be 2.5 times the $83,333 in monthly payroll, or $208,333.

The loan will be forgiven, but you must use the proceeds to pay these qualified expenses within eight weeks:

- Payroll
- Group health care benefits
- Salaries
- Mortgage
- Rent
- Utilities

The loan amount that is forgiven will not be subject to tax and you also can deduct it as an expense, putting even more power behind the PPP benefit. You must certify that the loan is necessary to support the ongoing operation of your business and will be used to retain workers, make payroll, mortgage, lease and utility expenses. ●

CERTIFICATIONS

The Business and each 20% or greater owner must certify in good faith to all of the below by **initialing** next to each one:

____ Current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.

____ The funds will be used to retain workers and maintain payroll or make mortgage payments, lease payments, and utility payments; I understand that if the funds are used for unauthorized purposes, the federal government may pursue criminal fraud charges.

____ Documentation verifying the number of full-time equivalent employees on payroll as well as the dollar amounts of payroll costs, covered mortgage interest payments, covered rent payments, and covered utilities for the eight week period following this loan will be provided to the lender.

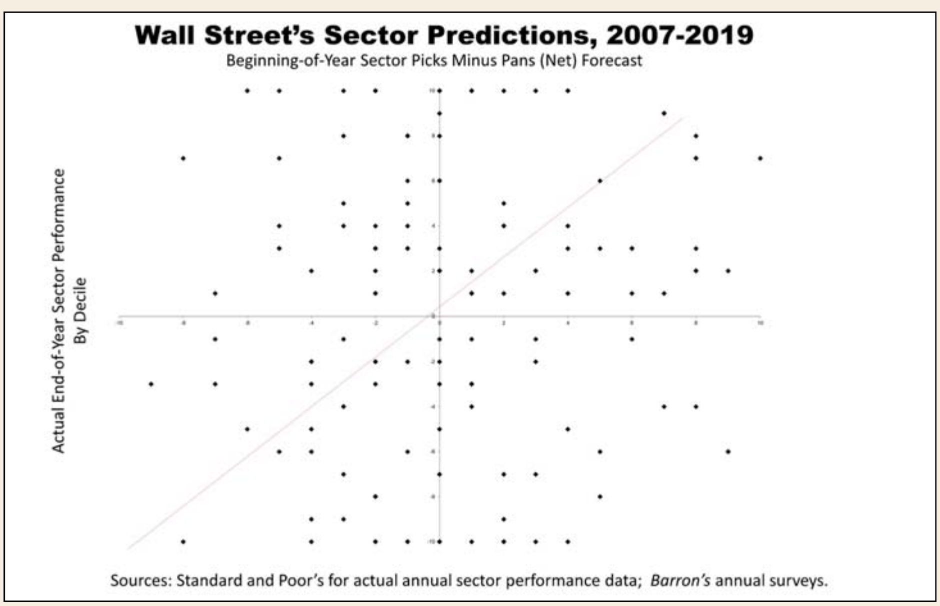
____ Loan forgiveness will be provided for the sum of documented payroll costs, covered mortgage interest payments, covered rent payments, and covered utilities. Due to likely high subscription, it is anticipated that not more than twenty-five percent (25%) of the forgiven amount may be for non-payroll costs.

____ During the period beginning on February 15, 2020 and ending on December 31, 2020, the Applicant has not and will not receive another loan under this program.

____ I further certify that the information provided in this application and the information that I have provided in all supporting documents and forms is true and accurate. I realize that knowingly making a false statement to obtain a guaranteed loan from SBA is punishable under 18 USC 1001 and 3571 by imprisonment of not more than five years and/or a fine of up to $250,000; under 15 USC 645 by imprisonment of not more than two years and/or a fine of not more than $5,000; and, if submitted to a Federally insured institution, under 18 USC 1014 by imprisonment of not more than thirty years and/or a fine of not more than $1,000,000.

____ I acknowledge that the lender will calculate the eligible loan amount using tax documents I have submitted. I affirm that these tax documents are identical to those I submitted to the IRS. I also understand, acknowledge and agree that the Lender can share the tax information with SBA's authorized representatives, including authorized representatives of the SBA Office of Inspector General, for the purpose of compliance with SBA Loan Program Requirements and all SBA reviews.

Source: U.S. Small Business Administration Paycheck Protection Program Application Form.



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your current income tax rate. With asset values having been lowered by the bear market, the taxes owed on assets you wish to convert are commensurately lower, making the cost of converting to a tax-free Roth account less costly and lowering your tax bracket in the years ahead on withdrawals from the Roth IRA.

Paycheck Protection Program (PPP). On Friday, March 27, 2020, the Coronavirus Aid Relief Economic Security Act, a history-making $2.2 trillion stimulus law, allocating $349 billion in loans to business owners in need, and the loans are to be forgiven if you spend the money within the proscribed eight- week time frame to retain your employees. PPP is the primary relief program sponsored by the U.S. Government to aid business owners. PPP is expected to distribute its $349 billion by late April. Additional funding from Congress is widely expected, but it should be noted that the forgivable loans are distributed on a first-come, first-served basis. With 30 million small businesses, this is the one thing business owners want to get right. Contact us if you have questions about how to proceed.

Wealth Transfers. For individuals with taxable estates, unprecedented low interest rates make it smart to consider the use of specially-designed trusts, such as a:

- Grantor Retained Annuity Trust (GRAT)
- Intentionally Defective Grantor Trust (IDGT)
- Generation Skipping Trust (GST)

Estates Currently In Administration. If you are a beneficiary of an estate in the administrative process of distributing assets, the change in asset values may have created a tax-loss harvesting opportunity. In addition, the lower asset values make it prudent for spousal beneficiaries of a qualified retirement account under administration to evaluate a partial or complete disclaimer of inherited assets.

Stay In Touch. The strategic opportunities for individuals described above do not necessarily contemplate your unique personal situation. If you have a specific question about any of this, or how it may apply to you, please contact us. ●