The Quarterly Perspective

WRITTEN BY:

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ABOUT

Harman Wealth Management

At Harman Wealth Management, we provide private, advanced, independent planning and investment management to individuals, families, and institutional clients.

We value in-depth economic research, evidence-based investment methods, and rigorous risk management. We are committed to insightful, objective solutions, and always working solely for the best interest of our clients.

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Risk Looms Large as Economy Begins Phased Re-Opening

After a month of full-scale coronavirus containment shutdown, the president on April 17th initiated the policy process of reopening. While controversy remains heated across states and cities as to "how fast" and "how much", the pain is now becoming more visible as emerging economic data rolls in.

As prevesouly warned, March's metrics confirmed recessionary conditions were instantaneously thrust upon the U.S. economy. The result to the Economic Systemic Risk Index (our guage for measuring against past recessionary conditions) was a plunging score of 39. Unfortunately, the reading is consistent with deep recessionary conditions of the last 60 years.

So, even though the economy will begin the process of a phased re-opening, investors must adjust to the idea that the economy is in a severe state of recession.

Prior to the coronvirus outbreak, the U.S. had already achieved the longest stretch of uninterupted economic growth in history. A proper understanding of that same history shows growth never goes on forever. Eventually, growth ends and recessions ensue. It is apparent that moment is upon us now.

Ultimately, March will likely be declared the first month of the 2020 recession. As a result, risk looms large over markets even though society prepares to re-open.

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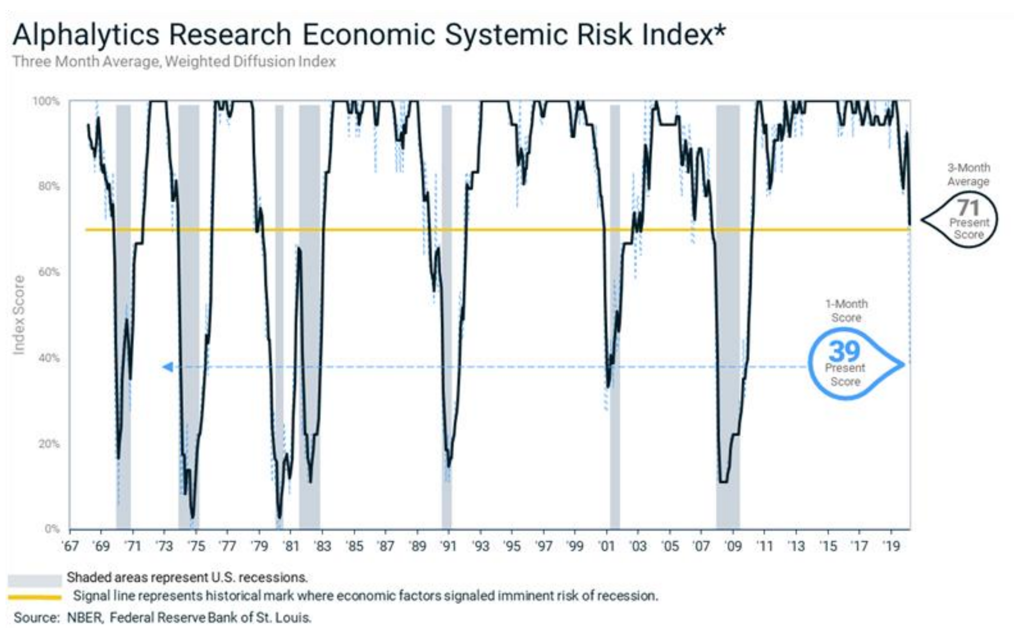
For investors who cannot tolerate the potential of sizeable drawdowns, diversifying away from stocks and into a capital preservation mode remains justified. For investors who are more comfortable with volatility, one should still remain cautious before jumping into risky assets. The saving grace for all investors is realizing the hardship ahead doesn't last forever. Over the last four decades, severe recessionary risk has been faced in about one year for every ten-year period.



"All minimum distributions requirements from defined contribution plans (like 401(k) and 403(b) plans) and IRAs are waived for 2020."

CARES Act Changes Rules on Required Minimum Distributions from IRAs

Bypassing your 2020 RMD Might be Right for You

On March 27th, the Coronavirus Aid, Relief, and Economic Security Act (CARES act) was signed into law. While specifically targeted as emergnecy assistance for health care aid and small business assistance, the act did offer a reprieve for those taking mandatory withdrawals on their IRAs.

See below for your questions on who qualifies and how it works:

Who can defer?

- All minimum distributions requirements from defined contribution plans (like 401(k) and 403(b) plans) and IRAs are waived for 2020.
- This includes those who turned 70 ½ in 2019 and deferred payment into 2020.
- The waiver also applies to those who own an inherited IRA.

What if I already took my withdrawl and met my distribution requirements?

- For those who don't need the money, it can be paid back into your IRA within a 60-day grace period.
- It is expected the IRS will provide relief by allowing indivudals who took withdrawals earlier in the year to pay them them back within the plan as they choose.

Will a waived required distrbution be required to be made up in 2021?

- The distribution requirements are simply waived for 2020, you will not have to make it up in 2021 or any future year.

What if I want to take adavantage of the waiver of required distributions this year?

- Many retirees are on automatic payments in order to meet their requirements. If you'd like to waive your 2020 RMD, please contact us for help.

✓ Take Action: If you choose to defer your 2020 payment, or if you think it might be beneficial for you, consult with your advisor or client assistant to get help.

Preparing for What's Ahead: Mortgages

Lenders Reverse Loose Standards Post-Shutdown

In the wake of the containment shutdown, the winds of the mortgage market are shifting. Just two months ago, lending standards were incredibly loose. Potential buyers seemed to easily qualify for loans. Now, after waves of unemployment, missed payments and delinquencies are climbing. Both banks and non-bank lenders find themselves unders distress and playing defense.

"With rising defaults, mortgage companies are cautiously taking on new loans. This means increasing standards in order to prevent problematic loans from passing into the system."

As missed payments mount, the reaction is to stop the flow of new potential defaults by quickly increasing standards for new loans. Just in the last few weeks, reports of various tightening methods have hit the news:

- JP Morgan Chase announced new requirements of a 700 credit score and a 20% downpayment, much higher than previously required.
- With unemployment counts growing, many lenders are conducting employment verification by voice confirmation on the day of close.
- Wells Fargo and US Bank each raised their credit score requirements for government-eligible loan programs.

So, if expecting to refinance or buy a new home in the coming year, what could you expect?

1. **Higher, stricter standards.**
   With rising defaults, mortgage companies are cautiously taking on new loans. This means increasing standards in order to prevent problematic loans from passing into the system.

2. **Reduced Access for Low-Quality Borrowers.**
   For lower credit score applicants, expect limited access to a home loan or refinance. This may put undue requriements on busines owners or high commission earners. Unfortunately, this may also close off home purchasing options to new borrowers with limited ability to pay more up front in a down payment.

3. **Eventual Opportuntiy for High-Quality Borrowers.**
   Historically, the average rate for a 30-year conventional mortgage falls during periods of recession. Even more, they commonly keep falling in economic recoveries as policy makers maintain low rates and banks compete for business.

   For high-quality, well-financed buyers, an opportunity to lower monthly mortgage payments through refinancing may be down the road. Already, an important anchor rate attached to the 30-year U.S. treasury bond is at record lows.

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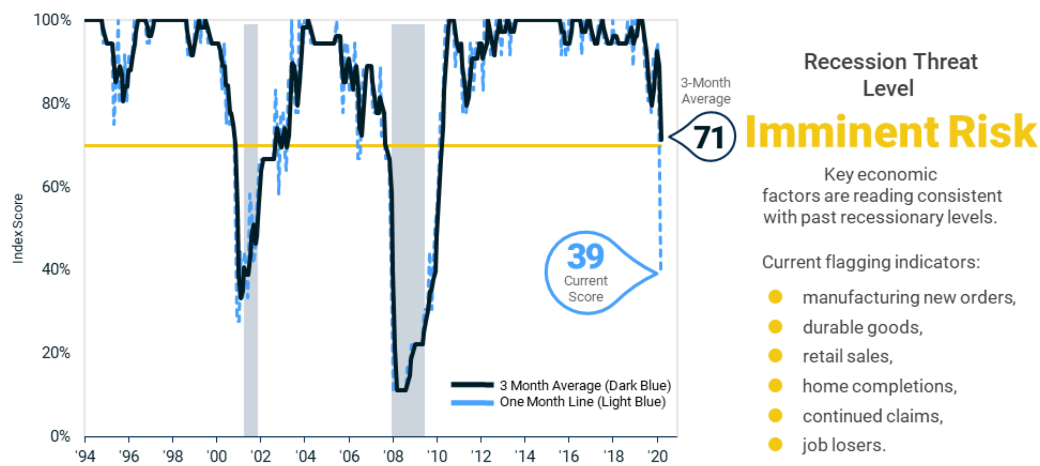
Business Cycle Risk Profile

- As expected, March data revealed five leading indicators crossing critical thresholds. As a result, the one-month index score plummeted to 39 while the three-month average dipped to 71. The one-month score is the lowest since November of 2009.
- The present score reflects five indicators scoring consistent with past recessionary conditions.
- Areas of the economy that were once bright spots, such as retail sales and housing, have fallen abruptly due to the coronavirus containment efforts and now sit at recessionary levels.
- In just five weeks, more than 26 million Americans have applied for unemployment insurance, significantly surpassing the highs of the 2008 recession.
- The latest figures merely represent the half-month of closures for the month of March. April's numbers should be reliably worse.

Alphalytics Research Economic Systemic Risk Index
Weighted Diffusion Index



Shaded areas represent U.S. recessions.
Signal line represents historical mark where economic factors signaled imminent risk of recession.
Source: NBER, Federal Reserve Bank of St. Louis.

Interpreting the Index Score:

- The index score measures nine economic factors that have demonstrated co-movement with the deteriorating conditions of the past seven recessions dating back to 1970.
- When the index score is at 100, it means all nine of the factors are measuring at levels consistent with past economic expansion.
- When the index score is below 100, it means that one or more of the weighted factors has moved to a level consistent with past economic contractions.
- In aggregate a score of 70 or higher is interpreted as a composite profile consistent with past economic expansion. A score lower than 70 is interpreted as a composite profile consistent with past economic contraction.
- Markets can, and sometimes do, demonstrate volatility even though the economic factors are measuring consistent with expansion.

Interested in Adaptive Business Cycle Investing?

Today's markets, economies, and policies are more complex than ever, challenging investors on what to watch and when to take action.

At Harman Wealth Management, we understand sound investments are uniquely supported by the conditions that favor them. And, when conditions change, so do the investments that benefit.

That's why we conduct rigorous and disciplined tracking of the U.S. business cycle. We also track the cyclical factors that shape our investing environment, like currencies, commodities, and rates. We embrace a world where investing dynamics are constantly evolving and believe it's imperative to have an investment strategy that adapts with it.

With Adaptive Business Cycle Investing we invest consistent with business cycle forces, aligning investments with the conditions driving returns in the present, rather than chasing what worked in the past.

About Harman Wealth Management

At Harman Wealth Management, we provide private, advanced, independent planning and investment management to individuals, families, and institutional clients.

We value in-depth economic research, evidence-based investment methods, and rigorous risk management. We are committed to integrative advanced planning by aligning investment objectives with business cycle opportunities and risks.

At Harman Wealth Management, our aim is to help clients realize their goals within a disciplined, insightful, and rewarding relationship.

For more information about Harman Wealth Management or investing with the business cycle, contact us at 281-719-8601.

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It is our goal to help investors by identifying changing market conditions. However, investors should be aware that no financial advisor can accurately predict all of the changes that may occur in the market. Information is based on sources believed to be reliable; however, their accuracy or completeness cannot be guaranteed.

Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values. Past performance is no guarantee of future results. There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio in any given market environment.

Please note that individual situations can vary. Therefore, the information presented here should only be relied upon when coordinated with individual professional advice.

The Standard and Poor's 500 is an unmanaged index generally representative of the U.S. stock market and cannot be invested in directly.

In general, the bond market is volatile as prices rise when interest rates fall and vice versa. This effect is usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss. Bonds are also subject to other types of risks such as call, credit, liquidity, interest rate, and general market risks.

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