FORMAN INVESTMENT SERVICES

Monthly Highlights • May 2020 • formanis.com

OFFICE NEWS

We'd like to share some good news with you!

Troy Forman, MBA, Branch Manager/Financial Advisor/Investment Management Consultant RJFS, recently received a significant honor.

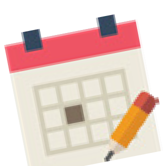
We're excited to share the good news that Troy was recently named a member of the 2020 Raymond James Financial Services Executive Council.*

This achievement would not have been possible without your continued trust and support. We hope you will join us in celebrating. Milestones like this serve to reinforce Troy's belief that putting our clients first is still the best, and only way to do business.

Sincerely,

Troy, Nick, Ann, Cindy, Morgan, Brian, and Alpa

MARK YOUR CALENDAR



- **July 13-17, 2020:** Shred Event

See the invitation below!

Shred Event

July 13-17, 2020 ▪ 8 am - 5 pm

Join us for our FREE shred event to celebrate the end of tax time!

We realize our clients accumulate lots of paper, some of which you don't want to toss in your regular trash. Our solution is to offer you an easy way to dispose of those obsolete yet confidential documents!

Stop by Forman Investment Services between July 13-17, and drop off papers you wish to have destroyed. They will be held in locked bins until Speedy Shred of Columbus arrives with their mobile shred truck to complete document destruction on our premises.

This event is for our clients only, and is intended to be used to shred sensitive documents, like things with account numbers and Social Security numbers. Staples and paper clips are okay, but be sure there are no binder clips.

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10 tips

for smarter distributions.

1. Make withdrawals for only qualified education expenses (QEEs).

These include tuition, room and board (more on this later), books, fees and computers.[1] For K-12, only tuition at qualified schools within Indiana is considered a QEE. QEEs do NOT include travel expenses, test prep and exam fees, application fees, health insurance premiums, fees for fraternities and sororities, or fees to participate in club or intramural athletics.

2. Consider who owns the 529 account before making withdrawals.

Many experts advise that withdrawals from accounts owned by grandparents should only be made in a student's last two years. That's because these withdrawals are viewed as untaxed income for the student, and can be considered up to 50% for financial aid eligibility. Conversely, only 5.64% of an account owned by a parent is weighed when considering financial aid.

3. Be sure this year's withdrawals are for this year's expenses.

Timing matters, especially when it comes to taxes. Money withdrawn from a 529 must be used to pay for qualified expenses in that same calendar year. Otherwise, taxes and penalties may be assessed. For tuition bills due January 1, clients may consider using other resources, then reimbursing themselves with 529 withdrawals made in the new year, or paying the bill prior to January 1.

4. Pay special attention to refunds received from school.

Let's say parents paid the full tuition bill at the start of the semester. Later, the student drops a class. The resulting refund paid back to the student must be accounted for in determining QEEs. Otherwise, the withdrawal amount will exceed QEEs, resulting in tax and penalty, unless the refunded amount is re-contributed to the 529 account within 60 days.

5. Don't "double dip" by claiming both the education tax credit and all of the year's qualified 529 expenses.

Claiming the American Opportunity Tax Credit of $2,500 will reduce a beneficiary's qualified education expenses by $4,000. If a client isn't eligible for the tax credit, but plans to claim the Lifetime Learning Credit, qualified 529 expenses can be reduced by as much as $10,000.

6. Just as you can withdraw too much too soon, you can also withdraw too little.

The goal, generally speaking, is to "zero out" a 529 account's balance by the time a child graduates. Remember: Any money left after graduation, if withdrawn, is subject to tax and a 10% penalty on earnings. If there's a remaining balance, you can change the beneficiary to a family member (including yourself) for future educational expenses.

7. If a student receives a scholarship, 529 withdrawals for non-QEEs can be made up to the amount of the award without a penalty.

Say your client's daughter receives a "full ride" for volleyball. Your client can withdraw an amount equal to the scholarship value without paying a 10% penalty on earnings. Normal taxes would still have to be paid on the earnings portion of the amount withdrawn.

CollegeChoiceAdvisor
529 SAVINGS PLAN

8. When a beneficiary has more than one 529 account, have a plan for spending them down.

Which account do you cash in first? Does it really matter? According to experts, it does. For example, consider exhausting a parent-owned account first before withdrawing from those owned by third parties (i.e., grandparents) to maximize potential financial aid benefits.

9. Don't worry about reporting 1099Q amounts on a tax return.

That is, as long as all the distributions and qualified expenses match. Make sure to keep all documentation for qualified 529 expenses.

10. Rest assured that you're covered living off campus as much as on.

Room and board are qualified 529 expenses for off-campus housing. However, the qualifying amount cannot exceed what's charged by the institution for living ON campus.[2] For example, if room and board at School X are \$10,000 per year, the amount considered as qualified for off-campus living cannot exceed \$10,000. Any withdrawal amounts above this would be viewed as non-qualified expenses.

> "The benefit to fully exhausting the 529 first is you can then delay any needed loans until later on, therefore incurring less interest."
>
> The Wall Street Journal, *The Best Strategy for Spending Down '529' Funds*, Jan. 6, 2019

JUST FOR FUN

Small businesses comprise what percentage of U.S. businesses? (Answer at end of newsletter.)

A. more than 39%

B. more than 59%

C. more than 79%

D. more than 99%

Stocks Regain Ground as States Discuss Plans to Reopen

Globally, billions remain at home under some variation of COVID-related lockdowns and social distancing, a phrase many of us hadn't heard or used up until this year. Unsurprisingly, this has affected just about every industry, from restaurants to airlines to the oil industry. Oil demand has dropped precipitously, prompting prices to briefly turn negative in April for the first time in history. While prices have begun to stabilize and governments are starting to ease lockdown policies, it will take a long time for oil demand to fully recover, explains Raymond James Energy Analyst Pavel Molchanov. "We anticipate COVID's oil demand impact peaking in the second quarter, and then subsiding in the summer and especially toward the end of the year," he added.

Reopening state economies is a leading theme in the news, however, we believe that doing so will need to be done carefully and deliberately, most likely in phases, according to Washington Policy Analyst Ed Mills. Federal reopening guidelines are more restrictive than some might think in an attempt to stave off a resurgence in cases, which, of course, would hinder a return to large-scale economic normalcy. The timing of an economic restart remains up in the air, and there are still challenges around therapies, a possible vaccine, the impact on consumer behavior and the general trajectory of an economic recovery, adds Joey Madere, senior portfolio strategist, Equity Portfolio & Technical Strategy.

In the meantime, the policy response has thus far activated close to $3 trillion to help people in need and bolster the economy, but lawmakers are not done yet. The scope and scale of another fiscal relief package will be heavily debated, but additional support for individuals, markets and the economy should arrive over the next few weeks, Mills notes.

Despite deteriorating economic data (e.g., U.S. jobless claims increased by 26 million over a four-week span; consumer confidence declined to multi-year lows) as a result of stay-at-home orders to combat the coronavirus, risk assets moved sharply higher during April, explains Chief Investment Officer Larry Adam. Investors looked through the near-term halt in economic activity with increased optimism for a potential coronavirus therapeutic (Remdesivir). Market observers are also seeking more clarity regarding a timeline for the reopening of the U.S. economy.

Record stimulus and a slowing of new COVID-19 cases has proved a more stable environment for U.S. equities, explains Madere. Stocks have continued to push higher, although they haven't yet made up for the deep losses of last month and still ended April in negative territory. The S&P 500 climbed about 12.68% for April, while the Dow Jones rose about 11% and the Nasdaq delivered 15.45%.

	12/31/19 Close	4/30/20 Close	Change Year to Date	% Gain/Loss Year to Date
DJIA	28,538.44	24,345.72	-4,192.72	-14.69%
NASDAQ	8,972.61	8,889.55	-83.06	-0.93%
S&P 500	3,230.78	2,912.43	-318.35	-9.85%
MSCI EAFE	2,036.96	1,664.94	-372.02	-18.26%
Russell 2000	1,668.47	1,310.66	-357.81	-21.45%
Bloomberg Barclays Aggregate Bond	2,225.00	2,335.43	+110.43	+4.96%

Performance reflects price returns as of market close on April 30, 2020.

Here is a look at some key factors we are watching, both here and abroad:

Economy

- As mentioned above, economic data has taken a hit. Real gross domestic product fell at a 4.8% annual rate in the advance estimate for the first quarter, reflecting sharp declines in consumer spending (-7.6%) and business fixed investment (-8.6%), notes Chief Economist Scott Brown. Second quarter figures are expected to be much worse, as one in six American workers filed a claim for unemployment benefits over the six weeks ending April 25.
- Following the April 28-29 policy meeting, Federal Reserve officials left short-term interest rates unchanged and retained their guidance that rates will remain low until the economy is firmly back on track. Fed Chair Jerome Powell said that the central bank will use its full range of tools to support the economy.
- The economic outlook depends critically on the virus and efforts to contain it. As the economy begins to re-open, consumer spending will pick up, but gradually, and there is a risk of a second wave of infections that could lead to a longer period of social distancing. Once the virus is truly under control, the economy should improve significantly, but consumers may be reluctant to resume normal activities, Brown adds.

Equities

- After dropping 34% from late February to late March, the S&P 500 has been able to recover over half of its losses since then, but Madere believes the move has been too far, too fast. It is likely, in his view, that we'll see a consolidation where the market can rebuild itself for a more durable path higher.
- Earnings seasons is moving along, and the S&P 500 is expecting earnings contraction for the first quarter, mostly from the Energy, Consumer Discretionary, Financials, Industrials and Materials sectors. We've seen better performance from Health Care, Technology and Consumer Staples names.

International

- Global equity markets outside of the United States also continued to build upon the stabilization seen toward the tail end of March, predominately on investor confidence about the economic outlook, according to European Strategist Chris Bailey.
- COVID-19 cases appear to have peaked across most of Europe and East Asia. While we have seen unprecedented downward revisions to economic data as well as a large demand for wage subsidies and unemployment assistance, hopes of recovery have been boosted by both the magnitude of government/central bank responses and also the lack of a secondary infection wave in East Asia.

Fixed income

- The bond market has calmed down considerably over the last couple of weeks. The 30-year Treasury is down 9 basis points from last month's close, while all other yield curve points are within 3 basis points of where they closed in March. Municipal and corporate spreads have narrowed for the month, yet remain wide vs. pre-crisis levels, according to Chief Fixed Income Strategist Kevin Giddis and Doug Drabik, managing director for fixed income research.
- Despite Treasury rates falling, municipal and corporate bonds have kept positive sloped curves with relatively wide spreads to maintain yield.
- Demand for high-quality credits is strong. The market is also easing on concerns for the lesser credits as the government continues to provide support to facilitate more normalized trading. Government stimulus is contributing to lower yields and spreads as they bridge the dislocation, making loans more readily available for small to large businesses and municipalities.
- Interest rates on Treasuries are near historic lows across the yield curve and reinvestment risk is limited. New cash and cash flows for longer term strategic fixed income allocations may serve investors' interests by pulling in maturities and reducing durations. Shorter holding periods will produce quicker reinvestment periods, thus positioning investors more strategically for an economic cycle turnover.

Bottom line

- Long-term investors may want to consider reserving some buying power to strategically add to positions during pullbacks.
- From a fixed income perspective, this is a period to stick with high quality and conservative maturities, in general.

We know life may feel very different from "business as usual" these days, but we hope you take some comfort in knowing your financial plan was tailored to your risk tolerance and ability to handle market volatility. Know, too, that we are thinking of you and your family and wishing you all good health.

The financial markets and our office will be closed May 25 for Memorial Day. As always, you can securely access your accounts through Raymond James Client Access – whenever, wherever.

ANSWER TO TRIVIA QUESTION

D. More than 99%

Despite their size, small businesses are a big part of the U.S. economy. According to the U.S. Small Business Administration, small businesses (independent businesses with fewer than 500 employees) comprise 99.9% of all firms. There are 30.2 million small businesses in the U.S. Small firms (fewer than 500 employees) accounted for 8.7 million net new private sector jobs since 2005, or 62 percent of the total. The larger small firms (with 20-499 employees) and the larger large firms (with 1,000 or more employees) have been the main drivers of growth.

Source: Small Business Association October 2019

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Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.

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[1]Earnings on non-qualified withdrawals are subject to federal income tax and may be subject to a 10% federal penalty tax, as well as state and local income taxes. The availability of tax or other benefits may be contingent on meeting other requirements.

[2]As reported by the educational institution in its cost of attendance for room and board.

As with other investments, there are generally fees and expenses associated with participation in a 529 plan. There is also a risk that these plans may lose money or not perform well enough to cover college costs as anticipated. Most states offer their own 529 programs, which may provide advantages and benefits exclusively for their residents. The tax implications can vary significantly from state to state.

For more information about the CollegeChoice Advisor 529 Savings Plan (CollegeChoice Advisor) call 1.866.485.9419 or visit collegechoiceadvisor529.com to obtain a Disclosure Statement, which includes investment objectives, risks, charges, expenses, and other important information; read and consider it carefully before investing.

Before you invest, consider whether your or the beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in that state's qualified tuition program.

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