SUMMER 2020

INFORM

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Highlights of the PPP Flexibility Act

By Beau Carpenter

We've all heard the old adage, "the only certainties in life are death and taxes." But in the last three months, it seems like the only certainties have been **uncertainty and changes**. This has been especially true for business owners amidst the COVID-19 pandemic. They have either been faced with ever-evolving requirements from the health departments and government officials to continue operating their businesses, or have been forced to close their doors entirely.

To ease these new burdens, in late March, President Trump signed into law the **Coronavirus Aid, Relief and Economic Securities (CARES) Act**. This $2.3 trillion relief package was designed to help businesses with the economic damage stemming from the pandemic. This included the Paycheck Protection Program (PPP), which earmarked $600 billion for small businesses to use to pay employees and other critical expenses. Borrowers hoped that this loan would be treated more like a grant and would be forgiven under certain requirements, but many businesses found the original regulations difficult to meet.

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As the first wave of borrowers were at the end of their 8-week period to use the loan proceeds, a sweeping change was made to the program. On June 5, the **Paycheck Protection Program Flexibility Act (the Flexibility Act) of 2020** was passed, making several dramatic changes intended to help businesses meet full forgiveness of their PPP loans.

- The period during which expenses can count toward forgiveness of the PPP loan was increased from 8 to 24 weeks.
- Employers now have until December 31, 2020 to restore their workforce to its pre-pandemic levels, which is required for full forgiveness.

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Updating Your Retirement Plan

By Chris Nadler & Tracy Wells

In light of the events of the past six months, you might be thinking it's time to update your retirement plan and we couldn't agree more. The SECURE ACT, the COVID-19 pandemic, and the CARES ACT, brought about many changes that make this a great time to review your retirement plan. Here are some highlights that might impact you:

SECURE Act passed December 20, 2019

- Effective 1/1/2020, required Minimum Distributions (RMDs) start at age 72 (previously age 70 ½)
- Eliminated maximum age for traditional IRA contributions
- Changed distribution rules for non-spouse inherited IRAs: non-spouse beneficiaries now have 10 years to withdraw the entire balance of an inherited IRA.

CARES Act signed into law March 27, 2020

- Required Minimum Distributions (RMDs) suspended for 2020
- Early Access to retirement accounts
  - 10% early withdrawal penalty is waived as well as 20% mandatory tax withholding
  - Distributions are still subject to income tax but can be spread over the next 3-year period
  - Loan Limits on 401(k) plans increase from $50,000 to $100,000 (if plan allows)

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Fixing an Unwanted RMD

If you took your Required Minimum Distribution before you heard that the CARES Act suspended RMDs for 2020, we have some good news for you. **The IRS recently announced that any RMDs taken in 2020 can be deposited back into your IRA through a rollover.** This must be completed by August 31st, 2020. If you don't need your RMD, a rollover will save you paying some taxes and allow more of your money to grow in your IRA.

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Is it Time to Invest More Aggressively? Probably not.

2020's second quarter rally was a breath of fresh air for investors, following a dismal first quarter in which a bear market emerged as a result of the coronavirus pandemic.

Throughout history, several unique events have caused significant market declines. However, there has been one common theme among them all: **a rally to follow**. The table below shows common investment benchmark performance numbers for the 2nd quarter and year-to-date. The main theme of the second quarter? Stocks had fantastic returns.

	Q1	Q2	YTD
S&P 500 Composite	-19.60%	20.54%	-3.08%
Russell 2000	-30.61%	25.42%	-12.98%
MSCI World Ex-US	-23.26%	15.34%	-11.49%
Barclays US Aggregate Bond	2.90%	2.90%	6.14%

Stocks rallied in the second quarter with the Russell 2000 (U.S. Small Cap) index leading the way. The S&P 500 (U.S. Large Cap) and the MSCI World Ex-US Aggregate (International Stocks) trailed, but still showed attractive returns. The Barclays US Aggregate Bond index also continued to march higher in the second quarter. The table shows how bonds have outperformed when stocks are down, but lagged when stocks rebound.

Many investors are asking themselves why the stock market rallied despite the economy being shut down. The answer? **The stock market looks forward.** During crisis periods, markets often start their rebound before any positive economic news becomes apparent. The market is not focused on the current situation, it is looking months down the road to better days ahead.

After positive stock performance like we saw in the second quarter, it can be tempting for investors to be more aggressive with their investment decisions in an attempt to capitalize on market trends: adding stocks (more risk) and reducing cash and fixed income (less risk). However, we typically advise our clients to **stick to their current plan**, rather than making emotionally-driven decisions.

Buying low and selling high is difficult. Human nature encourages investors to sell an investment that is performing poorly, and buy more of one that is performing well. Doing this helps satisfy feelings of fear, anxiety, or excitement, but the actual result is selling low and buying high — the exact opposite of that original goal. So rather than making short-term emotional decisions based on the state of the market, we advise our clients to review their financial position, tolerance for risk, and stick to the portfolio that is tailored to your financial goals.

Ryan Gilmer, CFA®, CMT®
Chief Investment Officer
Direct Line: 419.496.2121
E-mail: rgilmer@whitcomb.com

MARKET UPDATE as of June 30, 2020

DOW JONES IND AVG	2ND QTR | 18.51%	2020 YTD | -8.43%	5 YR AVG | 10.62%	10 YR AVG | 12.99%
S&P 500 COMP	2ND QTR | 20.54%	2020 YTD | -3.08%	5 YR AVG | 10.73%	10 YR AVG | 13.99%
RUSSELL 2000	2ND QTR | 25.42%	2020 YTD | -12.98%	5 YR AVG | 4.29%	10 YR AVG | 10.50%
MSCI WORLD ex US	2ND QTR | 15.34%	2020 YTD | -11.49%	5 YR AVG | 2.01%	10 YR AVG | 5.43%
BARCLAYS US AGG BOND	2ND QTR | 2.90%	2020 YTD | 6.14%	5 YR AVG | 4.30%	10 YR AVG | 3.82%

What Can a Roth IRA Conversion Do for You?

For some individuals, the Tax Cuts and Jobs Act may have created the perfect opportunity to use a technique called a Roth IRA conversion. Historically low tax rates, high standard deductions, and increased tax credits might present the right time to consider this option.

What is a Roth IRA conversion?

Typically a person would build a Roth IRA over time by making contributions to it (current annual contribution limits are $6,000 per year if you're under 50 or $7,000 per year if you're 50 or older). But with a Roth IRA conversion, funds are moved from an existing traditional IRA to a Roth IRA.

What are the advantages of a Roth IRA conversion?

- **Roth IRA withdrawals are tax-free, traditional IRA withdrawals are taxable.** This can serve as a valuable option in retirement as you balance spending goals with other sources of income. Additionally, there's a good possibility tax rates will increase in the future, so conversion while tax rates are low could be beneficial.

- **Roth IRAs do not have required minimum distributions.** You could leave funds in a Roth IRA for as long as you live and pass your Roth IRA to your beneficiaries tax-free. Non-spouse beneficiaries of both traditional and Roth IRAs must withdraw the entire account within 10 years, but they will not pay tax on any Roth proceeds (inherited traditional IRA distributions are still taxable).

- **There are no limits to the amount you can convert from IRA to Roth.** Some people choose to convert small portions over a number of years depending on the tax projections for each year.

What are the potential pitfalls of a Roth IRA conversion?

- Most importantly: keep in mind that any assets that are converted from a traditional IRA to Roth IRA will be considered a taxable distribution in the year the conversion takes place. There is not a 10% early-withdrawal penalty for a conversion, but be prepared to handle the taxes on the distribution. Also make sure that the distribution amount doesn't unintentionally push you into a higher tax bracket.

- If you are currently in a high tax bracket and expect to be in a much lower bracket in retirement, a Roth IRA conversion might not be right for you. Tax-free distributions sound great, but it could make more sense to actually pay the taxes while in retirement, since the percentage would be lower.

A Roth IRA conversion has the potential to be a very beneficial move, but there are a lot of factors to consider. If you're not sure where you stand, a Roth IRA conversion analysis can help determine if this is the right tool for you. Give us a call; we're always happy to walk with you through decisions like these.

Tim Hilterman, CFP®, CAP®
Investment Advisor Representative
Direct Line: 419.496.2260
E-mail: thilterman@whitcomb.com

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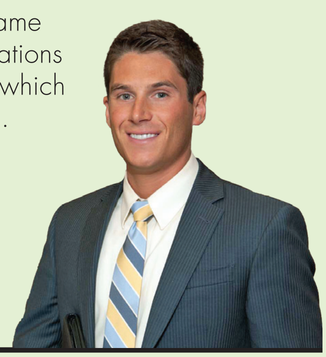
- Employers who are not able to restore their workforce to pre-pandemic levels receive two additional exceptions to what was previously listed.
    - The employer must be able to document its inability to rehire individuals who were employees on February 15, 2020, or an inability to hire similarly-qualified employees for unfilled positions, on or before December 31, 2020.
    - The employer is also eligible if it can document that it is unable to restore business operations to February 15, 2020, levels due to COVID-19-related operating restrictions.
- The requirement to spend 75% of the forgiven amount on payroll has dropped to 60%.
- Deferral of payroll taxes is now allowed with the loan. The employer's share of FICA payroll taxes can be deferred for two years. Half will be due in 2021, with the remainder due in 2022.
- Existing PPP loans payment terms are 2 years, but with the new bill, can be negotiated with your lender to 5 years.

Additionally, a new forgiveness application form was released: Form 3508EZ. Borrowers can use this form when at least 1 of 3 conditions stated on the face of the application have been met. As the name implies, this form reduces the computations necessary in the original application which helps simplify the application process.

We know navigating uncertainty can be difficult, but we are here to help guide you through the changes life may throw at you. Please let us know how we can help you today.



Beau Carpenter, CPA
Senior Accountant
Direct Line: 419.496.2276
E-mail: bcarpenter@whitcomb.com

Retirement Plan continued from page 1

- Stimulus Checks
  - $1,200 – Single tax payer with income up to $75,000
  - $2,400 – Married Filing Jointly with income up to $150,000
  - $500 – Per child

COVID-19 Impacts Markets, Taxes, and Investments

- We have seen sudden and extreme bouts of volatility in markets
  - S&P 500 down 34% in a matter of 5 weeks, from February 19th to March 23rd lows
  - S&P 500 has rebounded by 38.58% since the March 23rd lows (as of the end of the 2nd quarter)
- Tax deadline was extended to July 15th
  - IRA funding for 2019 tax year also extended as a result

Has the market volatility affected your retirement plan timeline? Does the change to the IRA inheritance rules have you reconsidering aspects of your estate planning? We'll be addressing concerns like these in our review meetings throughout the year. However, if you would like to schedule a meeting sooner to make sure that you are still on track to meet your goals, let's talk.

Tracy Wells
Investment Advisor Representative
Direct Line: 419.496.2225
E-mail: twells@whitcomb.com

Chris Nadler, CFP®, CTFA®
Investment Advisor Representative
Direct Line: 419.496.2227
E-mail: cnadler@whitcomb.com

WHITCOMB & HESS
1020 Cleveland Avenue
Ashland, OH 44805

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New Faces at Whitcomb & Hess

By Jordan Kvochick

Matthew Lefelhoc joined the W&H team as an Investment Advisory Services Summer Intern. A 2017 graduate of Ashland High School, Matthew is a Junior at The Ohio State Fisher College of Business, majoring in Finance. After college he hopes to find a job close to home in the Financial Services industry, and continue to work toward becoming a Financial Advisor. He has been helping create retirement plans for clients and when asked, Matthew said, **"My favorite part of working at W&H is the opportunity to learn from those around me, en route to becoming more knowledgeable in finance."** Outside school and the office, Matthew enjoys staying active outdoors (basketball, golf, biking), as well as spending time with his family and friends. Feel free to say hello next time you stop by!