



PERSONAL
INVESTMENT
MANAGEMENT, INC.

Quarterly News Release

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Special Thanks

We wish to extend our sincere appreciation to those of our clients, neighbors, friends and family-members who are health care professionals currently embattled in the ongoing fight against COVID-19. We hope that you are receiving ongoing expressions of gratitude, as you deserve, commensurate with the enormity of this challenge and your tireless efforts. Please know that you have our unwavering admiration and support.

General Matters

PIM continues to operate in a largely decentralized manner. As a practical matter, and as a regulatory requirement, PIM has written procedures and policies in place for business continuity and disaster recovery. We are pleased to report that through this transition, we experienced no business operations failures and no interruptions in our ability to manage portfolios and provide timely, complete and accurate service to you, our valued clients.

However, significantly increased activity has caused a slight delay in the delivery of data from certain technology providers, which may be attributable to delays with data aggregation and delivery from institutional custodians (Schwab, TIAA, Fidelity). This may result in a slight delay in the delivery of your normal PIM quarterly reports as well as a slight delay in our processing of quarterly investment management fees. We will work through this as efficiently as possible.

The Coronavirus Aid, Relief and Economic Security Act

The President signed the CARES Act into law on March 27th, 2020. What follows is a summary explanation of the provisions of the ACT that we judged would be of interest to you. The following are only summaries, not a comprehensive explanation of all of the provisions of the act or a complete explanation of any of the provisions. The definitive authority on the Act will be your tax professional, so please confer with that person for a complete understanding of what is allowable and what may be in your best interests from a tax planning perspective.

1. Required Minimum Distributions for 2020 have been waived. This may be an extremely important benefit to many PIM clients. If you are in a financial position to be able to reduce RMD, or to eliminate it altogether, you may do so without penalty. The government recognizes that taking unnecessary distributions in a falling market inhibits an investor's ability to fully participate in the market recovery, when it occurs. If you have already taken distributions intended to satisfy RMD, it may be possible to return these to the originating account. Doing so may be accomplished one of two ways. The easier method is available for distributions that were completed in the past 60 days. For earlier distributions, one must qualify as having been particularly negatively impacted by the Coronavirus and/ or related economic fallout. If you wish to consider returning distributions taken since January 1st to an IRA or qualified plan account, please consult a tax

professional to discuss the options.

2. The Act calls for direct payments, one-time only, as of now, of \$1,200 per individual, \$2,400 for couples who file taxes jointly, plus an additional \$500 per qualifying child. The dollar amount of these payments is reduced for individuals with adjusted gross income of \$75,000 or more and for joint filers with combined adjusted gross income of \$150,000 or more. The payment is zero for individuals with AGI of \$99,000 or more and for joint filers with AGI of \$198,000 or more. Payments should be received by around April 17th.

3. Those who do not itemize may receive an above-the-line tax deduction for a charitable contribution of up to \$300 in 2020.

4. The 10% early withdrawal penalty for distributions from IRA accounts and defined contribution plans such as 401(k) plans, is waived until the end of the year, and the taxable income such distributions represents may be spread over a three-year period. The maximum distribution is \$100,000.

Hurry Up and Wait

The most challenging aspect of the virus has been the speed with which it has overtaken both the social and economic aspects of our lives. The virus didn't exist in humans before November of 2019. In approximately four months it has spread to every continent on earth, minus Antarctica, and infected at least 800 thousand people. Studies suggest that three to four times more people carry the virus but are asymptomatic.

Government and monetary policy responses have been developed and implemented almost as quickly. The Federal Reserve has backstopped nearly every fixed-income security from US Treasuries and mortgage backed securities to investment grade and high yield corporate bonds. In six weeks, they've taken more policy action than what was done in eight months during the Financial crisis. The US government added two trillion dollars' worth of fiscal stimulus with barely two weeks of debate and are now working on another \$600 billion plan. Similar actions have been taken by other global central banks and foreign governments.

Financial conditions have shifted dramatically. Second quarter US GDP will likely fall by 25-30%. Unemployment is expected to spike into the 20-30% range. These data points are rarely seen outside of war-time periods. We made a similar observation about China's February economic data. The Chinese economy seems to be quickly recovering as mobility restrictions are eased.

China's purchasing manufacturing index (PMI) has moved back into expansionary territory. China's March data showed a PMI reading of 52, when 44 was the consensus estimate. A reading above 50 denotes expansion. The Chinese service sector index also moved above 50. This is the fastest rate of growth China has seen since before the tariff war was started in earnest during 2018.

It doesn't appear that the US public health response was as robust as China's, though recent readings do suggest regional successes in controlling the spread of the virus. The double-barreled actions of the Federal Reserve and Federal government are large enough to more than fully replace the expected fall in GDP for the second quarter. Credit markets are showing early signs of stabilization, even equity markets are experiencing short periods of lower volatility.

Soon we will shift into earnings season and gain a truer understanding of the effect of the virus on businesses. The market is expecting earnings to fall significantly, with the understanding that some version of normal economic life will begin in the third quarter. The global economy has a bridge loan from policy makers to get it through the next three months, with enough left over to jump start activity in the fall. There will be false starts, and we may reverse recent gains, but the worst economic fears appear to be unfounded.

Patience is still prudent. Value has been created in the fixed income market. The mortgage-backed securities that we sold for many clients a month ago now yield three times more than they did in February. Corporate bonds, which we haven't owned in years, now yield 8%. These are the types of securities that will recover first, and where we will look to opportunistically add exposure over the coming weeks and months.

We remarked in a recent communication that the impact of the current social and economic situation can be measured in lost time. Economists globally are saying the same thing, as part of overall guidance on how this particular bear market is likely to behave. "Fall, Stall and Surge" is how the process was described recently by Dr. David Kelly, Chief Global Market Strategist for JP Morgan Asset Management.

We are now in the "Stall" stage. During this period, accurate forecasting is not possible due to lack of information; worst case scenarios rule the day. Volatility is expected to continue. The surge, it is assumed, will be fueled by consumers' return to employment and pent-up desire to spend money.

Closing Comments

In summary, it is important to be prepared for this situation to get worse before it gets better, both socially and economically. The next 2-4 weeks may see a spike in confirmed Coronavirus cases and unfortunately, fatalities. It is hoped that following this period, the curve may flatten as the effects of social policy take hold.

The next 2-3 months may see increased unemployment, far lower corporate earnings and continued equity market volatility. Central banks and governments around the world are implementing measures to support the global economy during this period. We are hopeful, even optimistic, that a turn-around will materialize before the end of the year.

We know that it is difficult to cope with feelings of impatience and powerlessness entering into a period during which there's little to do other than wait. We mentioned in a recent communication that learning and helping others can be priorities. Another idea, embraced within some of our families, is ordering takeout from local establishments, as a way to support small businesses that are struggling at this time. More generally, temporarily reducing or ceasing distributions from retirement plan accounts (if applicable, RMD, as per the CARES Act discussed earlier), could be very helpful in the long term.

Going forward, we will continue to report to you with greater frequency. However, expect these communications, like this one, to be brief. We are cognizant that every news source covers the same story, twenty-four hours a day, seven days a week. We don't want to pile on.

As always, if you have any questions or concerns, please don't hesitate to reach out to your PIM financial advisor. We are here for you.