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THIRD QUARTER MARKET OVERVIEW

Stocks around the world continued to bounce back from the spring sell-off. Despite a significant downturn in September, the major domestic and foreign stock indices notched gains for the quarter, continuing to build on the Second Quarter's rapid rebound in equities.

In the U.S., the S&P 500 index finished the Third Quarter up 8.93%, while the Russell 2000 small stock index gained 4.93%.

International stocks also enjoyed gains during Third Quarter 2020. The MSCI EAFE index of large stocks in Europe, Australasia, and the Far East gained 4.80%, while the MSCI EAFE Small-Cap index gained 10.25%.

Alternative asset classes were more of a mixed bag during the quarter. The MSCI Emerging Markets index gained 9.56%, while the Dow Jones International REIT (real estate stock) index gained 4.40%. Meanwhile, the Dow Jones U.S. REIT index eked out a 0.83% gain.

Bonds saw modest gains during the quarter as the prospect of rising interest rates impacted bond yields. The Barclays U.S. Aggregate bond index gained 0.62% in Third Quarter.

The rapid recovery in stocks the past six months caught many people off-guard. After the four-week period from February 20 to March 23 that saw the S&P 500 plunge more than 30%, the speed of the rebound has been almost as dramatic. Historically, rapid stock recoveries have followed rapid stock declines, and they happen when the news cycle is still deeply negative.

TAGStone CAPITAL INC

Third Quarter 2020

Six Financial Best Practices for Year-End 2020:

Has 2020 left you feeling like the fabled Sisyphus, forever pushing a boulder up a steep hill? Thankfully, with multiple COVID-19 vaccines in the works, there's hope the load will lighten in the new year, fast approaching. While we prepare for a fresh start, here are six financial best practices for year-end 2020 and beyond, none of which require any heavy lifting.

1. **Give as you're able, get a little back.** What the 2017 Tax Cuts and Jobs Act (TCJA) took from charitable giving, this year's CARES Act partially gave back – at least for 2020.
   - **A $300 "Gift":** Under the TCJA, it became much harder to realize itemized tax deductions beyond what the increased standard deductions already allow. But this year, the CARES Act lets you donate up to $300 to a qualified charity, and deduct it "above the line." In other words, even if you're taking a standard deduction, you can give a little extra, and receive an extra tax break back, without having to itemize your deductions.
   - **Giving Large:** If you are itemizing deductions, the CARES Act also temporarily suspends the usual "60% of your AGI" limit on qualified cash contributions. The exception does NOT apply to Donor Advised Fund contributions, and has a few other restrictions. But if you've already been thinking about making a large donation to a favorite charity, 2020 might be an especially good year to do so – for all concerned.

SELECTED 2020 EQUITY INDICES

	Sep. '20	3rd Qtr.	YTD
S&P 500 Total Return (Large-Cap Stocks)	-3.80%	8.93%	5.57%
Russell 2000 Total Return (Small-Cap Stocks)	-3.34%	4.93%	-8.69%
MSCI EAFE (Developed International Stocks)	-2.60%	4.80%	-7.09%
MSCI Emerging Markets (International Emerging Stocks)	-1.60%	9.56%	-1.16%

SELECTED 2020 FIXED INCOME INDICES

	Sep. '20	3rd Qtr.	YTD
Barclays U.S. Aggregate (Broad Domestic Bonds)	-0.05%	0.62%	6.79%
Barclays 1-5 Yr. Credit (Short-Term Domestic Bonds)	-0.09%	0.82%	4.20%
Barclays 5-10 Yr. Credit (Intermediate-Term Domestic Bonds)	-0.20%	1.76%	7.05%
Barclays U.S. TIPS (Treasury Inflation Protected Securities)	-0.37%	3.03%	9.22%
FTSE World Gov't 1-5 Yr. Hedg'd (Short-Term Global Bonds)	0.12%	0.24%	3.04%

2. **Revisit life's risks.** As the pandemic reminded us, life is full of surprises. That's why it's imperative to build wealth, *and* protect it against the inevitable unexpected. Is your current coverage still well-aligned with your potentially altered lifestyle? Perhaps you're driving less, with lower coverage requirements. Or new health or career risks now warrant stronger disability insurance. Might it be time to consider long-term care or umbrella coverage? Bottom line, there's no time like the present to prepare for your future greatest risks.

3. **Leverage lower tax rates.** While it's never a sure bet, Federal income tax rates seem more likely to rise than fall over the next little while. Even before this year's massive relief spending, the TCJA's reduced individual income tax rates were set to expire after 2025, reverting to their prior, higher levels. As such, it may be worth deliberately incurring some lower-rate income taxes today, if they'll probably spare you higher taxes on the same income later on. As a prime example, consider converting or contributing to a Roth IRA. You'll pay income taxes today on the conversions or contributions, but then the assets grow tax-free, and remain tax-free when you withdraw them in retirement.

4. **Harness an HSA.** Health Savings Accounts (HSAs) are another often-overlooked tax-planning tool. Instead of paying for a traditional lower-deductible/higher-cost healthcare plan, some may benefit from a higher-deductible/lower-cost plan plus an HSA. If a high-deductible plan/HSA combination is available to you, it may be worth considering – especially if a career change, early retirement, or some other triggering event has altered your healthcare coverage. HSA assets receive generous "triple tax-free" treatment – going in pre-tax, growing tax-free, and coming out tax-free (if spent on qualified medical expenses).

5. **Read a great book (or few).** As we swing into a winter of continued social distancing, you may have more time than usual to curl up with a good book – whether in print or on your favorite device. Why not add a best financial book or two to the list? As good timing would have it, *The Wall Street Journal* personal financial columnist Jason Zweig recently shared an excellent "short shelf" list of his top picks. As Zweig reflects, "they all will help teach you how to think more clearly, which is the only way to become a wiser and better investor." Looking for our own favorites? Let us know.

6. **Live a little more.** Really, it's always a best practice to ensure your financial priorities are driven by your life's greatest goals – not the other way around. Perhaps our greatest purpose as your wealth advisor is to assist you and your family in achieving a satisfying work-life balance, come what may. What does this balance look like for you? Speaking of good reads, in his new book, "The Coffeehouse Investor's Ground Rules," Bill Schultheis offers his take:

> "When you … have everything you need materially, how do you honor that part of your DNA that will forever yearn for more? It seems to me that the challenge is to turn this pursuit of 'more' away from material consumption and toward a 'more' that fosters more family, more community, more connections, more art, more creativity, more beauty."

What more can we say about how to make best use of your time and money, this and every year? As always, we're here to help you implement any or all of these best practices. In the meantime, we wish you and yours a happy and healthy 2021.