

We're Here to Help

Our core purpose, our passion, is to make a positive and profound difference in the lives of our clients and in the communities we serve.
~Hudock Capital

Now more than ever, we are helping our clients to weather the current environment by focusing on what's important—our health, our families, our community. Rest assured, we continue to deploy dynamic strategies to navigate the present challenges and opportunities. Please contact us with any questions or concerns you may have. We are here to help as we trust in the promise of brighter days ahead.

Quarterly Tax Tip: The CARES Act

With the passage of the CARES Act to help combat the current economic difficulties, there are potential tax strategies that could benefit you. For one, anyone who would've otherwise taken a required IRA distribution (RMD) is not required to do so in 2020. Instead, this may be an opportunity to evaluate doing a Roth IRA conversion with these funds, or simply forgoing distributions out of IRAs to continue tax-deferred growth.

Another benefit of the CARES Act is the extension of the tax filing deadline to 7/15/2020. This will give an individual more time to make IRA contributions for the 2019 tax year. With the recent pullback in the market, it may be a great time to cash in extra change laying around the house or use the stimulus funds to make an IRA contribution.

Please contact us to discuss your personal situation.

Reference: <https://www.forbes.com/sites/jamiehopkins/2020/03/30/cares-act-dramatically-changes-required-minimum-distribution-rules-for-2020/#593f3bee19a0>, <https://www.cnbc.com/2020/03/24/you-have-until-july-15-to-save-in-your-ira-and-health-savings-accounts.html>

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Economic Commentary

Q1 2020 In Summary

The first quarter of 2020 will be studied for years as one of the most wild and important quarters in market history. The quarter began very much where the prior quarter left off: with the price of most everything trading higher, especially US stocks.

On February 19th, the S&P 500 would set its final high of the nearly 11-year bull market, having appreciated over 18% since October 2nd, 2019 (despite continued slowing growth) on speculation that the Fed would soon deliver more stimulus to sustain the expansion.

Enter COVID-19. While its presence in China was well known in January, equity markets largely turned a blind eye. Bond markets were the first to take notice, and yields began dropping, pricing in accelerated Fed rate cuts well before the stock market began its steep descent. By late February, the COVID-19 virus had quickly and quietly permeated the rest of the world. Once stock markets took notice, they had their fastest meltdown in history, with the S&P 500 falling nearly 34% in just over a month, including the second largest one-day decline since the 1940s (surpassed only by Black Monday of 1987). Comparatively, this decline happened more than twice as fast as its 2008 financial crisis “black swan” counterpart.

The subsequent rebound from those lows was equally breathtaking, including the largest one-day percentage gain since 1933. Behind this remarkable bounce was the announcement of the largest monetary and fiscal intervention in history...magnitudes larger than the 2008 response. The quarter ended with most assets continuing to rebound as the market mood shifted from panic to cautious optimism.

The Best and Worst of Times

Q1 of 2020 was a quarter of superlatives, combining the best and worst of times for markets in decades. While the world has had many pandemics through history, the magnitude and speed of economic paralysis caused by COVID-19 is without precedent. This has made evaluating the risk of the epidemic especially challenging. Also, without precedent is the size and breadth of global monetary & fiscal stimulus being unleashed to provide life support to the stricken economy. In the US, the Fed has promised to do “whatever it takes” while Congress has already approved the largest stimulus bill in history (over 3x larger than the relief passed in the 2008 financial crisis) within weeks of the outbreak (versus months in the 2008 financial crisis). At this point, the US government is expected to run deficits comparable to those summoned to fight World War II.

The Bull Case

Looking forward, no one thinks we will avoid a deep recession, but the bullish case presumes that when the growth rate of infections and deaths peak, the economy will reopen. While devastating, revised estimates for the virus’ growth have

been steadily declining adding hope that things could get back to normal sooner than later. We believe that the sharp recession to follow will be deep, but short, lasting a few quarters. While the US quarantine is expected to create a multi-trillion dollar economic hole, it will be substantially filled in by money and credit provided by the government – the bull case presumes that the fiscal and monetary stimulus already announced should be adequate to fill in the gap, and more will be produced as necessary.

It should be noted that the US is in the unique position of being able to print the world’s reserve currency, the US dollar. This blessing means the US can be far more aggressive than any other country in printing the necessary shortfall of money to fill the gap with less fear our currency will collapse in value. Importantly, this bull case scenario is seemingly the base case markets are pricing in today.

The Bear Case

For now, we’ll frame the bear case within the optimistic scenario that the fight against the virus doesn’t take a dramatic turn for the worst and the economy can reopen within the next month or two.

The Bear Case’s core question: Will the economy wake up refreshed like it took an afternoon nap or groggy like an extended hibernation? We simply don’t know how quickly demand will come back online and life will go back to normal. What if people continue to stay home, eat out less, buy less, and remain self-isolated for fear the virus could return? What if it takes years for people and businesses to return to normal? If households and businesses alike choose to save rather than spend the stimulus checks being sent to them, the economic hole dug by social distancing will prove deeper and require more government money to prevent a self-reinforcing contraction in economic activity.

In the bear case, demand could take many years, not months, to recover. And that’s just looking at the US, where government stimulus has been swiftest and far larger than anywhere else on earth. What if Europe fails to stimulate enough, or emerging economies (who have far less capacity to borrow and spend) fail to fill the gap? Worst of all, what if there are multiple waves of the virus that will continue to dramatically deepen the current economic hole?

The Base Case

We think it will likely take much more printing by the Fed and far more government spending (i.e. larger deficits) before the economic crater created by the virus is filled. If so, we would expect more volatility like we saw in March since market action may very well be the gauge the government uses to measure if too little has been done. Based on the government response thus far (which has been bi-partisan and far quicker than 2008),

we think sufficient cash will eventually be deployed to fill the hole. The question will be at what lag?

Of course, a country cannot simply print and spend its way to prosperity. Overdo it, and we run the risk of dramatically debasing the value of the US dollar and eventually triggering unacceptable inflation (as is the constant challenge in other countries without reserve currency status). Our base case scenario is that the necessary stimulus is likely to put upward pressure on longer-term inflation risk, eventually to the benefit of inflation seeking assets. On the flipside, failing to do enough to fill the economic hole could easily result in a depression. Most elected officials, and especially those seeking re-election, will choose the former.

What to do? Diversify

The best framework for dealing with such a wide range of scenarios is TRUE diversification. That is, ensuring you own a mix of assets where SOMETHING can benefit no matter what scenario ultimately plays out (e.g. too much or too little stimulus delivered too fast or too slowly). This is how we try to design our portfolios.

To be clear, there are investment opportunities in every scenario discussed...not just the bull case.

While stocks tend to grab the most headlines, other assets like gold and long-term Treasuries have been making new highs. That's because the current low growth environment naturally favors them. If the bear case proves to be correct, this outperformance will likely accelerate.

Similarly, if our "base case" proves to be the scenario that plays out (i.e. much more stimulus to the point of inflation pressure), we would expect stocks to generically do well but inflation seeking assets (like gold and inflation-linked bonds) to perform even better.

The point is, there are better options than simply selling stocks and holding cash to ride out the pandemic...especially if what happens next is eventually more printing and deficit spending that will cause cash to lose value at an increasingly faster rate.

Looking Ahead

We know of no time in the past 50+ years when the range of possible outcomes was so wide and unknown. In these situations, diversification and grit are your best weapons.

All the same, remember this... the current state of emergency will pass. Eventually a vaccine will be developed, and the world will indeed be back to normal. The path to that end could very well be an escalator or a roller coaster. Our advice is to prepare for both.

When preparing, the most important thing is to be in a position to tolerate or (better yet) take advantage of losses...not to emotionally capitulate at the moment of maximum opportunity or pain. Stay safe!

Hudock Happenings:

What's Cookin' in Our Kitchens?

UNCLE STEVE'S FAMOUS MANHATTAN CLAM CHOWDER

2 dozen steamed clams	2 cup chopped potato
1-2 cans corn (or frozen)	2 cans diced tomatoes (w/ sauce)
1/2 to 1 lb crispy bacon	Salt and pepper to taste
2 cup white onion	Red pepper flakes (for serving)
2 cup celery	2 cartons of seafood stock
2 cup green pepper	2-3 bottles clam juice

1. Sauté veggies in olive oil, add potatoes, tomatoes. Add stock and clam juice.
2. Bring to a boil.
3. Reduce to simmer, add clams and bacon.
4. Simmer for 10-15 minutes or until veggies are tender.



BANANA BROWNIES WITH BROWN BUTTER FROSTING

1 ½ cups sugar	2 cups flour
1 cup sour cream	½ tsp baking powder
½ cup softened butter	1 tsp soda
2 eggs	¾ tsp salt
2 tsp vanilla	½ cup of chopped walnuts
1 ¾ cups mashed ripe bananas	

1. Cream together in a large bowl: sugar, sour cream, softened butter and eggs.
2. Add: mashed ripe bananas and vanilla.
3. Then add: flour, baking powder, soda and salt.
4. Blend all for 1 minute.
5. You can add chopped walnuts if desired.
6. Bake in cake pan at 375 degrees.
7. Ovens will vary so bake for 25 minutes and test the center to see if done – add 5-minute increments until done in the center (my oven generally takes 35 minutes).

FROSTING:

1. In small pan, melt a stick of butter and bowl until it just begins to get a golden-brown color. Not too long or it will burn. Stir the entire time.
2. Remove from heat and add 2 tsp vanilla, 3 cups of 10x sugar and 3 Tbsp milk. It will be thicker than glaze but not as thick as regular frosting. Cover the cake while it is still warm but not hot.

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Dream. Plan. Live.

If you have any suggested topics
or feedback about the Hudock
Capital Newsletter, please feel
free to call us and share!

After the Closing Bell

"Life doesn't come with a manual. It comes with a mother." – Unknown

She was the first to teach us the basics of life and continues to remind us what's most important. She was our first cheerleader and continues to be the person who cheers the loudest for us. By her example, she showed us what it means to love unconditionally and continues to envelop us in her unconditional love. No matter your age, and even if she's no longer here, our mothers are an ever-present part of our lives, continuing to teach, to cheer and to love. Especially in these uncertain times, our mothers and their guiding spirit are there to show us the way.

This Mother's Day, be sure to reflect on how much your mother means to you. And then, if you can, let her know.

Life doesn't come with a manual. It comes with a mother. And thank God it does.

Warmest regards,

Barbara

Looking Ahead... 2020 Holiday Events

The Club at Shepard Hills
Tuesday, December 8th
11:00 am — 2:00 pm

Williamsport Country Club
Friday, December 11th
11:00 am — 2:00 pm

Williamsport Country Club
Saturday, December 12th
11:00 am — 2:00 pm



Visit our website for up
to date news & events at:
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