

Quarterly Tax Tip: **Important Tax Updates**

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

The passage of the CARES Act brought on many tax relief and temporary tax benefits in response to COVID-19. One lesser known deduction is the \$300 charitable deduction. Charitable deductions have been limited to taxpayers who itemize, but this one-time deduction is available only to those claiming the standard deduction. Remember to keep track of your charitable deductions for tax year 2020 even if you generally use the standard deduction.

For those who itemize, the deduction cap of 60% is temporarily eliminated. This means that a taxpayer could potentially reduce their taxable income to zero with charitable giving.

In addition, the CARES Act eliminated Required Minimum Distribution (RMD) requirements for qualified accounts in 2020. Since then, the IRS announced on 6/23/2020 that anyone who has already taken an RMD has the opportunity to roll those funds back into a qualified account prior to 9/1/2020. These are positive changes for those who do not wish to take an RMD this year.

Please consult with your tax professional or discuss with your relationship manager for more details.

Reference: <https://www.501c3.org/the-cares-act-increases-donation-tax-deductibility/>, <https://www.forbes.com/sites/berniekent/2020/04/03/giving-more-than-60-of-income-to-charity-cares-act-says-deduct-it/#5672d682b34f>, <https://www.irs.gov/newsroom/irs-announces-rollover-relief-for-required-minimum-distributions-from-retirement-accounts-that-were-waived-under-the-cares-act>

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Economic Commentary:

Top 5 Things:

- ◆ Fed to the rescue: Since March 23rd, when promising to do “whatever it takes”, the Fed printed 30% more money in three months than it did in 2008 and 2009 combined.
- ◆ Government spending to the rescue: The Federal Government launched the biggest fiscal stimulus (i.e. emergency spending program) in history. At \$3 Trillion, it is nearly 4x larger than government stimulus package of 2009.
- ◆ Equities rally: Major US stock indices, fueled by massive monetary and fiscal stimulus, sharply rebounded in Q2... with the S&P 500 erasing nearly all its losses.
- ◆ Unemployment spikes & subsides: US unemployment jumped to its highest rate since the Great Depression, rising to nearly 15% before falling faster than expected to 11% in June.
- ◆ Gold nears all time high: Gold is near a new historic high during the quarter, crossing \$1800 per ounce, as governments around the world aggressively printed money to bolster their economies.

Quarterly Recap: Warp Speed

2020 has been a year of superlatives. First, COVID-19 caused the greatest economic growth collapse in history, followed by the deepest one-month stock market decline in history. In response, the Fed and Government orchestrated the largest monetary (i.e. money printing) and fiscal (i.e. spending) bailout in history, triggering the fastest market recovery in history.

The warp speed at which all of this has happened is remarkable. From pandemic to decline to stimulation, policy makers have unleashed, in months, what previously took years in both the Financial Crisis and Great Depression. Also remarkable is that, despite the size of the response by the Fed, there is a clear willingness to do more. It has been this extreme money-printing and stimulus, and not improving fundamentals, that has driven the stock market recovery.

What seems clear is that we have now entered a new market paradigm... one whose primary drivers have become government policy versus traditional fundamentals. The US is not alone in making this transition. With interest rates at zero across most of the world, central banks have now shifted to enormous money printing to stimulate growth rather than rate cuts. This money is being used to buy bonds and fund the largest government deficits since World War II. We will discuss some of the longer-term implications for this shift in the next section.

Are Equities Overvalued?

In the past month or so, the question we get most often is “are stocks overvalued?”

In short, we don't think they are— at least if the Fed remains committed to printing and reflating markets as necessary. In word and deed, the Fed seems entirely committed. They have promised to do as much as necessary for as long as necessary... until employment normalizes. To understand their resolve, investors must first appreciate that the market environment we are now living in is very different from any we've experienced since the WWII era.

So what's different? First, we have zero interest rates... and not just for short term rates (i.e. cash and money markets) but also long-term rates (i.e. 10-year bonds). That means the Fed can no longer use interest rate cuts, either now or in the future, to stimulate economic growth.

Second, we have historic amounts of debt and will likely need much more as governments ramp spending amidst collapsing tax revenues to make up for the crisis in economic activity. By the way, it's not only the government with a bulging debt problem, it is companies and households as well.

Of course, that path is not without its own risks. After all, if governments could simply print their way out of any problem, why even bother with taxes? Rising inflation is the chaperone. It places limitations on how fast and effectively this printing will work. Print too much, and you can lose control of inflation and the government's ability to stimulate. Print WAY too much, and you lose your coin and currency to hyper-inflation (a la the Weimar Republic).

In the immediate aftermath of the pandemic, the resulting economic shock has placed extreme downward pressure on inflation, creating an obvious window for extraordinary amounts of money to be printed and spent to fill the economic crater without inflation consequences. And this is precisely what the Fed and other central banks have done— printing more money in a matter of weeks than they did during the entirety of the years following the 2008 financial crisis.

Meanwhile the Federal government went into emergency spending mode, initiating the biggest stimulus/bailout package in history. While the internal conversation wasn't explicitly “Fed, you print. Congress, you spend...”, these have been the mechanics. The Fed printed nearly 2 trillion and pre-bought Treasuries (i.e. Congress' IOU). Because any money the Fed prints must also first pass through markets, “Presto!” — investors also got the remarkable rebound in the stock market. Despite horrible earnings. Despite horrible economic conditions. Despite record unemployment.

So how long can the government keep this up? Until inflation becomes a real problem (i.e. greater than 4%...a level it hasn't endured since the early 90's). For context, inflation today is hovering around 0.5%. Once inflation is an issue, the choice to keep printing will be more difficult. If growth and employment are still intolerably weak (i.e. stagflation), we would expect the printing to moderate, but not stop. That is precisely what happened in the 1970s. In the end, all governments will print their way out of their debt/low growth corner. This time will be no different.

While we continue to believe in equities, that doesn't mean there won't be inevitable periods of loss or downside volatility. We just wouldn't expect the Fed to sit by and watch the stock market burn for long before once more dousing them with a new round of liquidity. So, as before and always, our recommendations are to 1) remain effectively diversified and 2) stay the course.

Hudock Happenings:

**Baby GIRL Phillips
is due on October 30th!**

**Congratulations to
Amanda and Bill on
their upcoming
addition!**



529 Plan/SECURE Act:

Under the SECURE Act, 529 plan distributions used to repay student loans are excluded from federal income tax. Qualified distributions are limited to \$10,000 over a lifetime for a 529 plan beneficiary and \$10,000 for each of the beneficiary's siblings. Pennsylvania did not conform to that portion of the Act; therefore the distribution would not be considered qualified for PA tax purposes and the earnings portion of a 529 plan distribution used to repay student loans is subject to state income taxes, and state income tax benefits previously claimed are subject to recapture.

Families should check with their state's rule to confirm student loan repayments are a qualified 529 plan expense at the state level.

Reference: <https://www.savingforcollege.com/article/state-tax-breaks-for-529-plan-student-loan-repayments>



Compliance Corner

In April 2020, Hudock Capital Group, LLC applied for, and subsequently received, a loan under the Paycheck Protection Program. Hudock Capital Group, LLC applied for the loan based upon future COVID-19 related economic uncertainties, including, but not limited to, the impact of COVID on the economy. ANY QUESTIONS: The Firm's Chief Compliance Officer/Branch Manager, Wayne Dieffenderfer, remains available to address them.

To view our updated relationship summary, please visit: https://reports.adviserinfo.sec.gov/crs/crs_149255.pdf.

What's Cookin' in Our Kitchens?

BLUEBERRY BREAKFAST CAKE

CAKE:

| | |
|--------------------------|--|
| 2 cups all-purpose flour | ¼ cup butter or margarine, softened (NOT melted) |
| ½ cup sugar | 1 tsp grated lemon peel |
| 2 tsp baking powder | 2 cups fresh or frozen blueberries |
| 1 egg, lightly beaten | |
| ½ cup milk | |

TOPPING:

| | |
|------------------------------|---------------------------------|
| ½ cup sugar | ½ tsp ground cinnamon |
| ¼ cup all-purpose flour | 3 Tbsp cold butter or margarine |
| ¼ cup finely chopped walnuts | |

1. Preheat the oven to 350°F and spray or grease a 9-inch square baking pan.
2. In a large bowl, whisk together flour, sugar and baking powder. Cut butter into small pieces. Add egg, milk, butter and lemon peel; mix just until dry ingredients are moistened.
3. You may need to finish mixing with your hands to get all the flour incorporated. The batter will be very thick.
4. Fold in the blueberries. Because the batter is so thick, this may take a few minutes. Spread into greased 9-inch square baking pan.
5. Combine sugar, flour, walnuts and cinnamon in a mini food processor or bowl. Add butter and process, or cut in if doing by hand, until mixture is crumbly.
6. I like to do this with my fingers so I can tell when it's ready by touch. Sprinkle over batter. Bake at 350°F for 40-45 minutes or until cake tests done.

GLAZE (optional):

½ cup powdered sugar
2 Tbsp of milk (more or less to get to a drizzling consistency)

1. Combine the powdered sugar and milk. If too thick, add a few drops of additional milk at a time until it reaches drizzling consistency. Drizzles over the top of the cake and allow to sit until sugar solidifies.



Find More Recipes from our Team on our Website at www.hudockcapital.com.

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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

A picture is worth a thousand words, and sometimes it speaks volumes for what's missing.

I've been struggling with something and felt that this is a good time to share it with you. Because we've had a number of changes in our team members, it's time to have a new team picture made. This will be the first time in 45 years that my precious and trusted friend and mentor, Jane Hawkins, isn't standing beside me in our picture (although I'm certain she'll be there with us in spirit). As you can see, the first "team" picture we took was in 1975... and there's Jane standing right beside me. For every picture, right before the picture was taken, Jane and I would look at each other, share a private joke between us, smile, and then look at the camera. However, for our picture in 2019, she looked at me and said, "this will be my last team picture." I had no idea how prophetic she was being.

We now have our next team picture scheduled which is why I am sharing this message; although you may not see Jane in our pictures anymore, she is still next to me, and she always will be. As is said in the Bible in Ecclesiastes so beautifully, "1. To **every** thing there is a **season**, and a **time** to **every** purpose under the heaven: 2. A **time** to be born, and a **time** to die..." I know you all share my sadness and, as Jane would say, it's time to move on. She will live forever in our hearts.

Barbara



And the STAR of the show is:

