INVESTOR'S EDGE

Patience should continue to pay off for investors

Legislation changes rules for minimum distributions

"It was never my thinking that made the big money for me. It was always my sitting."
— Jesse Livermore

Jim Burns, CFA
Contributing columnist

To start, I want to give you some thoughts on coronavirus and the stock market.

Since March 23, stocks have had a furious 25%-30% rally from their lows. While it has not made up for all the losses incurred so far in 2020, it sure helps if you didn't panic sell — as I advised last month.

Be aware, the economic data will surely get worse, but that doesn't necessarily mean the stock market will.

For example, during the financial crisis over a decade ago, the stock market bottomed on March 9, 2009. The headline that morning on the front page of the New York Times quoted a trader from the N.Y. Stock Exchange: "THE ONLY HOPE WE HAVE IS THERE IS NO HOPE."

Nevertheless, on March 9, for absolutely no fundamental reason, the stock market went up — and the Dow Jones Industrial Average would go on to rally 57% from the low to the end of that year! This, despite the fact the economy and unemployment data continued to deteriorate for several more months.

The stock market is a forward pricing system, and it is my contention that when risk appetite returns, investors won't be looking out the usual six to nine months but instead two to three years. They will compare near 0% returns on 10-year government bonds to the 3% yields on many quality stocks. Simply put, I would again encourage you to stay the course and not let short-term fear scare you out of owning high-quality companies, which are vital to almost any long-term investment plan.

Switching gears, I want to share with you some valuable information that you will find of interest. In the last several months, Congress has passed two major laws that impact investors — The SECURE Act and CARES Act. While there are numerous minute details that would take several columns to explain, I instead want to give you some of the major (investment related) highlights.

THE SECURE ACT

Late last year, President Trump signed into law the Setting Every Community Up for Retirement Enhancement Act. The SECURE Act implements several changes to how investors save and plan for retirement.

- Beginning in 2020, the mandatory age to begin taking required minimum distributions (RMDs) has increased from 70½ to 72. This applies if you are an owner of a Traditional, SEP, SIMPLE, or Rollover IRA account (Roth IRAs do not have RMDs). This allows an additional year and a half for potential tax deferred growth on your entire retirement account before having to take taxable withdrawals.
- Recognizing that Americans are living longer and retiring at later ages, the SECURE Act eliminates the age limit for IRA contributions (previously it was 70½). Now, an individual over that age with earned income can continue to contribute to their IRA account.
- Prior to 2020, non-spousal owners of inherited retirement accounts were required to take an RMD each year, which could be stretched over their lifespan. The SECURE Act significantly changes this, eliminating RMDs on inherited retirement accounts and instead requiring beneficiaries to completely distribute the account within 10 years. This new law only applies to retirement accounts inherited after January 1, 2020 — all others are grandfathered in under the old rules.
- Other highlights to the SECURE Act include allowing certain part-time workers to participate in 401k plans, allowing annuities to be offered in 401k plans, and permitting Americans to pay down student loan debt using distributions from a 529 college savings plan (up to $10,000).

THE CARES ACT

I am sure many of you know that in March, Congress passed a historic $2 trillion stimulus bill called the Coronavirus Aid, Relief, and Economic Security Act, which is aimed at combating the economic fallout from the coronavirus. What you might not know is that some of the lesser talked about details that will, in fact, impact millions of American investors. Most importantly, the CARES Act waives Required Minimum Distributions for 2020. This means that you do not have to take your RMD in 2020 and will not incur any tax penalty. You also won't have to add this amount onto your 2021 RMD; it is simply waived in full. This rule also applies to beneficiary IRA's that were inherited prior to 2020.

No doubt, these are stressful times, but staying patient with your investments and being aware of opportunities in new legislation can pay off big time.

Stay well!

Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment. Contact him at jburns@jwburns.com