CASTLE ROCK
WEALTH MANAGEMENT

Registered Investment Advisor Firm

©ISSUE XI, VOL. IX – NOVEMBER – 2020

Savings Retirement Trouble

While waiting for a vaccine to become available to all that want it and the results of the election, I thought this issue would deal with several issues related to the COVID-19 pandemic economy.

The coronavirus is tempting those of a certain advanced age to stop working. Some have grown accustomed to staying home and are worried about commuting and returning to crowded workspaces. The pandemic has provided companies with options for employees to work from home. You should strongly review the cost-benefits. There is no way to perfectly time the market for retirement, but the current volatility means former assumptions about stock and bond returns may no longer be valid. Unfortunately, if the numbers don't work out, in an economy, afflicted with layoffs, it will be harder than ever to change your mind. On the other hand, now is a good time to negotiate a part-time schedule or work from home.

Experts estimate you will need on average 70 percent of your pre-retirement income to live comfortably after exiting the workforce. Also, the traditional rule of thumb on withdrawals is that you can expect 4 percent a year. You might think you have enough in savings to sustain your lifestyle. But the current crisis has the potential to disrupt that model. Low interest rates introduce problems. Low rates help buying a home, refinancing a mortgage, leasing a car or paying of student debt, but it means savers have to live on less. Long-term government bonds paid 6 percent 20 years ago are now yielding 1.3 percent and are expected to remain low for several years.

This uncertainty about returns makes it especially dangerous to take advantage of one of the emergency provisions in the economic stimulus package. If you've been affected by COVID-19, you can get emergency access to your retirement funds, taking out up to $100,000 without penalty and paying taxes on the withdrawal over three years. But even if you need the money badly, consider other avenues first. You have three years to return the funds to your retirement accounts, but most people who make the withdrawals won't, and will lose out on future tax deferred returns. And even spread over three years, the taxes on your withdrawal will be substantial.

Social Security raise in 2021?

In the last issue I wrote that the forecast of a raise in the Social Security cost-of-living adjustment (COLA) would be below 1%. Social Security and Supplemental Security Income recipients will see a 1.3% COLA adjustment in 2021, the Social security Administration announced. The increase begins December 31, 2020.

The Social Security Act ties the annual COLA to increases in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) as determined by the Labor Department's Bureau of Labor Statistics. There was no increase in 2010, 2011 or 2016.

Based on the increase, the maximum amount of 2021 earnings subject to Social Security tax (taxable maximum) will increase to $142,800 from $137,700.

However, the tax rates will remain the same for 2021 as in 2020 for employees (7.65%, with another 7.65% paid by employers) and self-employed workers (15.3%).

The estimated average monthly Social Security benefit will be $1,543 for all retired workers; $2,596 for an aged couple, both receiving benefits; $1,453 for retired widow(er)s; and $1,277 for all disabled workers.

Coming Slowdown?

US economic data continues to impress despite the pandemic. Durable goods orders for September, and Richmond Federal Reserve data for October, showed the manufacturing sector continues to top expectations.

Durable goods rose 1.9% while core orders rose 0.4%. Economists noted the headline figure was flattened by orders in the airline industry.

Meanwhile, the Richmond Fed's manufacturing index hit a record high. This report marked the fourth-straight month of positive readings. The figure is a diffusion index, which is the difference between the number of respondents saying conditions are getting better minus those saying things are getting worse.

Meanwhile, the report also showed a pre-pandemic trend of employers unable to find skilled labor.

"Survey results indicated that many manufactures continued to increase employment and wages in October," the Richmond Fed's report said. "However, firms struggled to find workers with the necessary skills. Contacts expected these trends to continue in the next six months."

A reading on consumer confidence also outlined an economy that remains stronger than many had feared after the CARES Act expired in August. The Conference Board's reading on consumer confidence in October came in at 100.9, down from 101.3 last month but still around the levels before the 2016 levels. Additionally, the reading's present situation index actually rose in October, while the expectation index declined modestly

Historic GDP data report

A consensus forecast of Wall Street economists for gross domestic product (GDP) expanding at a 32% annualized rate in the third quarter, the fastest on record. The third quarter gain stands in contrast to the 31.4% annualized contraction we saw in the second quarter, which was the most on record. The actual was 33.1 % beating the forecast.

Yet compared to last year, total economic output in 2020 is still expected to fall by about 3.5%. That we are seeing back-to-back record swings in output this year makes sense. The economy was forced into a shutdown in late March through the month of April, in an effort to slow the spread of the coronavirus. Since May, all 50 states have taken steps to re-open the economy. And while some regions are implementing new restrictions amid the resurgence in COVID-19 cases, through much of the third quarter (July 1 through September 30) the country remained on a re-opening course.

After peaking in late July, COVID-19 cases across the country declined through the summer. The benefits of stimulus from the CARES Act have had a durable impact on household finances and consumer spending over the last few months. The fact remains that growth is still far below potential.

Even with a record rebound in GDP, it will take at least another two years before policymakers can start talking about economic growth nearing its potential, and that assumes that there is substantial policy aid, which will almost take the rest of this year.

If you need help understanding any of the above issues or any other financial questions, contact me at (707) 648-2024.

Q&A Corner

Q: Are criminals using election confusion to attempt to steal data and assets?
A: As we near the end of the year we are all reminded once again that fraud attempts tend to spike during the holiday season. But this year's fourth quarter offers additional reasons for concern – not only due to the ongoing global pandemic, but the tensions surrounding the upcoming US election.

Fraudsters are already doing their best to take advantage of voters' confusion about how, where and when they can cast their ballots. For example, there are already reports of fraudulent websites that are offering inaccurate mail-in voting guidelines, as well as robocalls purporting to be from presidential candidates. As election day approaches, fraudsters will also try phishing campaigns and other scams designed to steal personal and account information, infect devices with malware and gain access to email and financial accounts. BE AWARE

STAY THE COURSE

FED Watch

There was no October FED meeting.

The FED had the following notes from the September meeting:
-Maintain accommodating stance until inflation target is achieved.
-Economic activity and employment have picked up from depressed levels.
-The Fed is taking forceful action to ensure recovery.
-Fed average inflation will largely be flexible.
-Inflation is running well below 2%.
-The Fed seeks 2% inflation long-term, but will allow above 2% for some time.
-They will maintain the current range until confident of recovery.
-Rates near zero through 2022.
-The path of the economy will depend significantly on the course of the virus.
-Keep rates near-zero until central bank is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals.
-The slowdown induced sharp declines in activity.
-The economy to run above trend in 2021 and 2022.
-The economy will need support from Congress.
-Signs of improvement in business investment.
-Weak demand and oil prices held inflation down.
-The Fed will purchase additional assets to support the economy.
-Despite increased prices for some consumer goods, inflation is subdued and the path ahead remains highly uncertain.

Currently, there is very little chance of a rate change for the remainder of this year or next.

Next meeting:
November 4th and 5th.

Castle Rock Wealth Management

Castle Rock Wealth Management is a Hybrid Advisory firm servicing the needs of clients across the United States.

Castle Rock Wealth Management custodies some client assets at Charles Schwab & Co. Bob's office is located at 714 Marin Street, Suite #C, Vallejo, CA 94590. The telephone number is (707) 648-2024.

If you have questions or would like further information on this month's topics or any other financial or investment related subjects, please contact me by phone or through my email address at:
bob@crwmadvisors.com