



WORTH A REED

Fourth Quarter 2020

New Market Highs in the Middle of a Pandemic?

James M. Reed, CPA, CFP®, President

Why is the stock market setting new records in the middle of a worsening pandemic?

The simple answer is “hope” that the vaccines recently approved work and we can get back to a normal lifestyle by mid-2021. Understanding the reasons is a bit more involved.

Economic Recovery

The U.S. economy was booming before COVID arrived in early 2020 and has proven to be more resilient than most expected. After taking a massive hit when the economy was shut down for two months, it has rebounded nicely since then. Initially, only parts of the economy that benefited from the stay-at-home and work at home themes rebounded. Those themes have now triggered a strong demand for new housing, which is at 15-year highs¹, away from the high cost and high-density locations. Because the massive physical stimulus totaling \$2.7 trillion to-date, plus probably another \$1 trillion coming soon², consumers have continued to spend. Back-to-school spending was strong and early indications of Christmas spending may be greater than 2019. The big change is how it is purchased. Online purchases are up unbelievably, while shopping in person is down significantly. Manufacturing and corporate profits have also rebounded to pre-COVID levels.

Unemployment

In early 2020, unemployment was only about 3.5%³ which was a 50-year low. Following the shutdown, it jumped to over 16% with about 20 million individuals unemployed³. To-date, over half of those that have lost jobs are back working. While employers in the travel industry like airlines, hotels, and cruise ships and the energy industry have been hit hard and have yet to recover, much of the balance of the economy has rebounded nicely. Currently, nearly 93%³ of the workforce is working, where most economists think 96%³ working is considered full employment. The work and stay-at-home need have also resulted in additional savings from less commuting, eating out and vacations. That money is being saved at record levels and expected to be spent in 2021.

Consumer Confidence

Consumer confidence has rebounded back to pre-COVID levels. Reopening much of the economy this summer, learning about COVID and how to treat it and who it affects the most, has helped many feel better. The stimulus checks of \$1,200 per person, plus the savings from limited commuting and staying and working from home, has also helped. Interest rates on mortgages under 3%⁴ has also enhanced confidence and having the uncertainty of the ugly election mostly behind us is positive.

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Market Highs (continued)

Why does the market continue to go up?



The strong economic recovery, reduced unemployment and massive government stimulus has resulted in a strong rebound in corporate profits in 2020. During these times, some companies have eliminated less profitable operations and others like Amazon added employees. Collectively, corporate earnings are forecast to be up about 20% in 2021⁵.

While the forecast looks good for stocks based on earnings, bond rates are likely to remain near zero into 2023. Currently, there is nearly \$20 trillion⁶ sitting in checking, savings, CDs, and money markets earning nearly nothing. The current feeling is that some of that money will likely want better yields in 2021 and beyond. We will likely see more equity rotation since dividend paying stocks are only yielding 1.5% to 4.5%⁷. With the entire U.S. stock market valued at about \$35 trillion⁸, a little movement of that \$20 trillion money to stocks/equities could have a big impact on valuations in 2021.

Overall, a strong rebound in the economy, corporate earnings and consumer confidence has created a lot of momentum for stocks going into 2021. Assuming the vaccines work, 2021 could be a good year for stocks. ■

Digital Authorization with Pershing

One new feature that Pershing just rolled out this quarter is Digital Authorization. The Digital Authorization feature enables clients to authorize money movements on their Investor Portal or via the BNYM / Pershing mobile application.

This feature can be used when sending Fed Fund wires or third party check requests from the following account registration types:

- Individual / Joint
- Individual Transfer on Death / Joint Transfer on Death

To use the Digital Authorization feature, the client must subscribe to this feature. You can subscribe via the Settings page after logging into the Pershing Investor Portal or via the BNYM / Pershing mobile application. Upon subscription, the client can authorize money movement requests that we have initiated on your behalf. Once we submit a money movement request on your behalf, the client will receive an email or SMS that a request is awaiting your approval.

So if you send out checks or wires to a third party, this will alleviate the need to sign a Letter of Authorization or Fed Fund Wire form. If you are interested and would like to set this up, let us know. ■

IRS to Offer Identity Protection PINs (IP PINs) to All Individuals Beginning in January

- Colleen M. Cleary, CPA/PFS, CFP®



In mid-January 2021, the IRS will unveil a new portal which will allow taxpayers to voluntarily apply for Identity Protection

PINs (IP PINs) to help protect them from misuse of their Social Security Numbers and the fraudulent filing of income tax returns. In the past IP PINs were only issued to victims of identity theft. With the issuance of 6-digit IP PINs under this new program, taxpayers will be provided with an additional level of security when filing their returns electronically or by paper.

IP PINs can be obtained by the primary taxpayer, their spouse and dependent children. The online tool uses Secure Access Authentication, which verifies an individual's identity using several different methods. After the successful verification of identity, the site will immediately display the IP PIN for the taxpayer to use. IP PINs will only be valid for a period of 1 year, so taxpayers will need to apply for a new PIN annually.

Please visit the following IRS site in mid-January to apply:

<https://www.irs.gov/identity-theft-fraud-scams/get-an-identity-protection-pin>

Individuals without access to a computer may apply via Form 15277 *Application for an Identity Protection Personal Identification Number*. This form may be mailed or faxed to the IRS. Please note that the identity verification process for the mail in form will require either a return phone call from the IRS or an in-person appointment at a Taxpayer Assistance Center. PINs will be mailed to individuals approximately three weeks after in person visits to a Taxpayer Assistance Center. Opting for a phone call to verify your identity will mean your PIN will not be valid until the following filing season.

Please remember, the IRS will never call to request your IP PIN. It should only be shared with your tax preparer. ■

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Year End Financial Checklist

– Janet Edwards, Director of Client Relations



This year has sure been a very interesting year for most. Some people have had their finances and business extremely impacted from the pandemic. Others have had to learn how to adjust to working remotely while juggling kids and a whole new “co-worker” dynamic. While some may not be sad to see 2020 come

to a close, most could probably say they have had to learn to adapt and be prepared for what lies ahead. I am not sure that explains the complete lack of toilet paper at the stores, but that is a completely different article!

As the year comes to a close, it is a good time to prepare our finances to finish the year strong and get off on the right foot for 2021. Here are a few things to think about as we approach the end of the year.

- 1. Review your spending-** This year, many people have had meaningful changes to their budgets which could be due to working remotely, job loss, lack of trips and going out. It is a worthwhile effort to see where your money is going.
 - *Are there subscriptions and services you pay for that you are not using?*
 - *Are there services that you could call and negotiate the terms down?*
 - *Has the balance significantly increased in your checking or savings accounts, and would it make sense to transfer the excess cash into your investment account?*
- 2. Additions to your IRA-** For the 2020 tax year, you can put \$6000 into your traditional IRA or ROTH IRA (with an extra \$1000 if you are 50 or older) up until April 15, 2021.
- 3. Contribute to your 401(k) by 12/31-** If you receive additional payroll or a bonus before the end of the year, it may be worth putting as much of that as possible towards your 401(k).
- 4. Review your Debt-** It is a good time to review your balances. Are they being paid down and what interest rates are you paying? It is a good time to review credit card rates and benefits as many credit card issuers have added new reward benefits and reduced rates and zero interest intro periods.
- 5. Review your savings and goals for the future -** Evaluate your goals for the future. Many issues can affect your planning and you will want to assess if any changes need to be made.
 - *Has anything changed due to the pandemic?*
 - *Are you saving enough for your children’s college education?*
 - *Are you still on track toward the retirement lifestyle you’ve envisioned?*
 - *Or have your retirement plans changed as a result of the pandemic?*
- 6. Review your Beneficiaries-** It is always a good idea to review your beneficiaries on your life insurance, retirement plans and other accounts on a periodic basis to make sure the primary and contingent beneficiaries are correct. Perhaps there has been a change in your situation—a divorce or re-marriage, for example—since you originally listed the beneficiaries? Make sure these documents reflect your true intentions.
- 7. Review your Estate Documents-** The end of the year is a good time to review your trust documents and make sure they accomplish what you want. Additionally, it is a good time to make sure you have all your key important documents in order including your Durable Power of Attorney (POA), Healthcare POA, a Medical Information Release and a Living Will.
- 8. Review your Insurance Policies-** Take a look at your home, auto and life insurance policies to ensure they still meet your needs. Check to see if you have enough coverage or if you need to adjust your deductibles. It is also a good idea to shop around to make sure the rates you are paying are a good deal.
- 9. Review your FSA and / or HSA accounts-** Would it make sense to maximize a Health Savings Account (HSA) contribution for 2020 or potentially increase your contribution amount for 2021? If you have a Flexible Savings Account (FSA), check your balance to see how much you have left to spend so you do not lose it.
- 10. Request a free copy of your credit report-** You can get a free credit report annually. It is important to make sure that everything is correct and to monitor your credit for any potential fraud or inconsistencies.

As always, if you would like to review any of these topics, please give us a call. ■

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Helping Others Through Charitable Donations

- Colleen M. Cleary, CPA/PFS, CFP®

The holiday season is quickly approaching. As we all reflect on the difficulties of this past year and struggle to plan a safe way to gather with our loved ones to give thanks for our blessings, our thoughts turn to those less fortunate than us. Besides the feeling of personal satisfaction that comes from charitable giving, your donations may entitle you to an income tax deduction. There are a few hurdles that must first be cleared before you can claim that deduction.

The first step for a charitable gift to qualify for a tax deduction is that it must be made to what is known as a qualified charity. Charities must be registered and approved by the IRS before donations to them qualify for a tax deduction. In most cases, qualifying organizations must be formed within the US but may carry on activities in foreign countries. There are some exceptions due to tax treaties with other countries, such as Canada. The IRS.gov website has a Tax-Exempt Organization Search tool available to help taxpayers identify which charities are qualified to receive tax deductible donations.

<https://www.irs.gov/charities-non-profits/tax-exempt-organization-search>

Even if you donate to a qualified charity, in most years you must itemize deductions in order to claim a charitable donation. Your deductible donation for a year is subject to limitations based on a percentage of your adjusted gross income (AGI). For 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) has temporarily suspended these AGI limits on cash charitable contributions, and individual taxpayers are allowed to deduct qualified contributions of up to 100% of their AGI. Any contributions in excess of 100% of AGI are eligible for carryforward to future years.

If you are one of the 90% of individuals who cannot itemize and therefore claim the standard deduction on your tax return, there is some good news for charitable contributions made in 2020. The CARES Act allows you to claim an “above the line” charitable contribution of up to \$300 for your 2020 cash contributions to qualifying organizations, even though you are not itemizing. For purposes of this deduction, qualifying organizations include religious, charitable, educational, scientific, or literary organizations. Please check the IRS website mentioned above to confirm if a specific charity qualifies. Non-cash donations are still subject to the normal AGI limitations and are not deductible in full.

There are also substantiation hurdles for charitable contributions, dependent upon whether you make a cash or non-cash gift. For a cash contribution to qualify for a deduction, one of



the following forms of substantiation is required:

- Proof of payment that shows the name of the qualified organization such as a credit card statement, scanned image of a cancelled check, or bank statement
- Receipt or other acknowledgement from the qualified organization showing the entity name, date of contribution and amount, or
- Payroll deduction records.

In addition, if your contribution is \$250 or more, the IRS requires you to have a “contemporaneous written acknowledgement” from the qualified charity. In the eyes of the IRS, this means the acknowledgement must be received by you by the earlier of the date you file the return for the year you are claiming the deduction or the due date for filing the return.

There are valuation and substantiation requirements for various types of non-cash gifts based on the dollar amount of the gift and the type of property donated. Non-cash gifts are usually deductible based on the fair market value of the item, but there may be some adjustments or limitations necessary to arrive at the deductible amount. See [IRS Publication 526](#) and [IRS Publication 561](#) for more details. Please consult your tax preparer if you are making a significant non-cash gift or if you have any questions.

In addition to making outright gifts of cash and non-cash items, there are numerous other charitable giving strategies that can be used during your lifetime including:

- Qualified Charitable Distributions from IRAs (QCDs) – Taxpayers 70 ½ and above can make qualified charitable distributions of up to \$100,000 directly to an eligible charity from IRAs. This amount counts toward satisfying a taxpayer’s annual required minimum distribution requirement.
- Establishing a charitable trust that either solely names a charity as beneficiary, or one that provides for both a charity and your family members and/or heirs.
- Via the use of a donor-advised fund (DAF).

Qualified charities can also be provided for after your death by making a bequest in your will or trust document, or by using an account beneficiary designation. If you would like more information on any of these charitable giving strategies, please contact our office for more information. ■

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Best Practices for Passwords

- Mark Lisachenko, Operations Associate

“Please enter your password”, words all of us dread. The first computer password was traced back to the Massachusetts Institute of Technology (MIT) in the 1960s for use on a time-sharing system. Given all the advancement in technology, it is extremely frustrating to know that we are still stuck with them. At last look I had over fifty personal passwords and counting. When was the last time you took inventory of your accounts with passwords? Unfortunately, the average person tends to place convenience over safety and overall is not very good with managing passwords. This helps explain why cybercrime is expected to reach \$6 trillion by 2021.

By now we have all heard the usual advice on what to do with passwords. This article’s intent is certainly not to properly educate one on password usage and opinions will vary. At the top of most password tip lists is to use long and complex passwords. Complex passwords increase the level of entropy, which is a measurement of how unpredictable a password is. So, the more combinations you have (upper case, lower case, number, special character, etc) the better the password in theory. High entropy is important in a password since today’s hacker is using a program to steal your password (which automatically tries every possible combination).

As human beings, long and complex passwords are not easy to use and remember. Password managers (Dashlane, LastPass, 1Password, etc.) are great for helping create long and complex passwords and recommended by most experts. Password managers themselves must be managed to properly decrease risk so if you purchase one be sure to take training on it and follow best practices.

If you do not have a password manager, you still have hope. In June of 2017, the National Institute of Standards and Technology (NIST), changed its recommendation of long and complex passwords to say

that passwords should be “easy to remember” but “hard to guess.” In an interview with NPR, Paul Grassi, NIST’s senior standards and technology advisor, said “If you can picture it in your head and no one else could, that’s a good password.” So even NIST acknowledges memorizing complex passwords is not practical but still recommends at least 8 characters in length. Passphrases, which are strings of words or phrases, are recommended by most security firms to help manually create longer passwords. A passphrase example is ‘jumpedoverthecowinmayfield’.

Password manager or not, the other key to managing passwords is to avoid password re-use and use multi-factor authentication (MFA). Hackers tend to try a compromised password on all of a victim’s accounts as the average person re-uses the same password (or combination of) many times over. Multi-factor authentication is an extra step and inconvenience but well worth the effort. MFA is not always enabled by default so always check your accounts for an option to enable. Facial recognition and fingerprint readers have certainly helped us as password helpers but they still rely on a base password. Everyone is hoping for technology to someday eliminate the password but until then please stay vigilant with best practices so that we can all stay safe.■



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FOOTNOTES

1. Information regarding the demand for housing was obtained from the National Association of Realtors, a source believed to be generally reliable. However, RFS has not independently verified such information, and makes no representation of its completeness.
2. Information regarding the value of Stimulus in 2020 was obtained from the CNBC, a source believed to be generally reliable. However, RFS has not independently verified such information, and makes no representation of its completeness.
3. Information regarding the unemployment information was obtained from the Federal Reserve, a source believed to be generally reliable. However, RFS has not independently verified such information, and makes no representation of its completeness.
4. Information regarding the mortgage interest rates was obtained from Bankrate, a source believed to be generally reliable. However, RFS has not independently verified such information, and makes no representation of its completeness.
5. Information regarding the expected earnings for 2021 was obtained from the FactSet, a source believed to be generally reliable. However, RFS has not independently verified such information, and makes no representation of its completeness.
6. Information regarding the amount of checking, savings, CDs, and money market funds was obtained from the Federal Reserve, a source believed to be generally reliable. However, RFS has not independently verified such information, and makes no representation of its completeness.
7. Information regarding Dividend Yields was obtained from JPMorgan, a source believed to be generally reliable. However, RFS has not independently verified such information, and makes no representation of its completeness.
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