GATEWAY INVESTMENT MANAGEMENT OF RAYMOND JAMES®

THE COMMUNIQUE

June 2020

MAJOR INDICES	CLOSE	MTD	QTD	YTD
S&P 500	3055.73	0.38%	18.23%	-5.42%
Dow Jones Industrials	25475.02	0.36%	16.23%	-10.73%
NASDAQ Composite	9552.05	0.66%	24.05%	6.46%

U.S. TREASURIES	YIELD
5-yr Treasury Note	0.31%
10-yr Treasury Bond	0.66%
30-yr Treasury Bond	1.46%

Information as of June 1, 2020 Source: Thomson Reuter's Thomson One

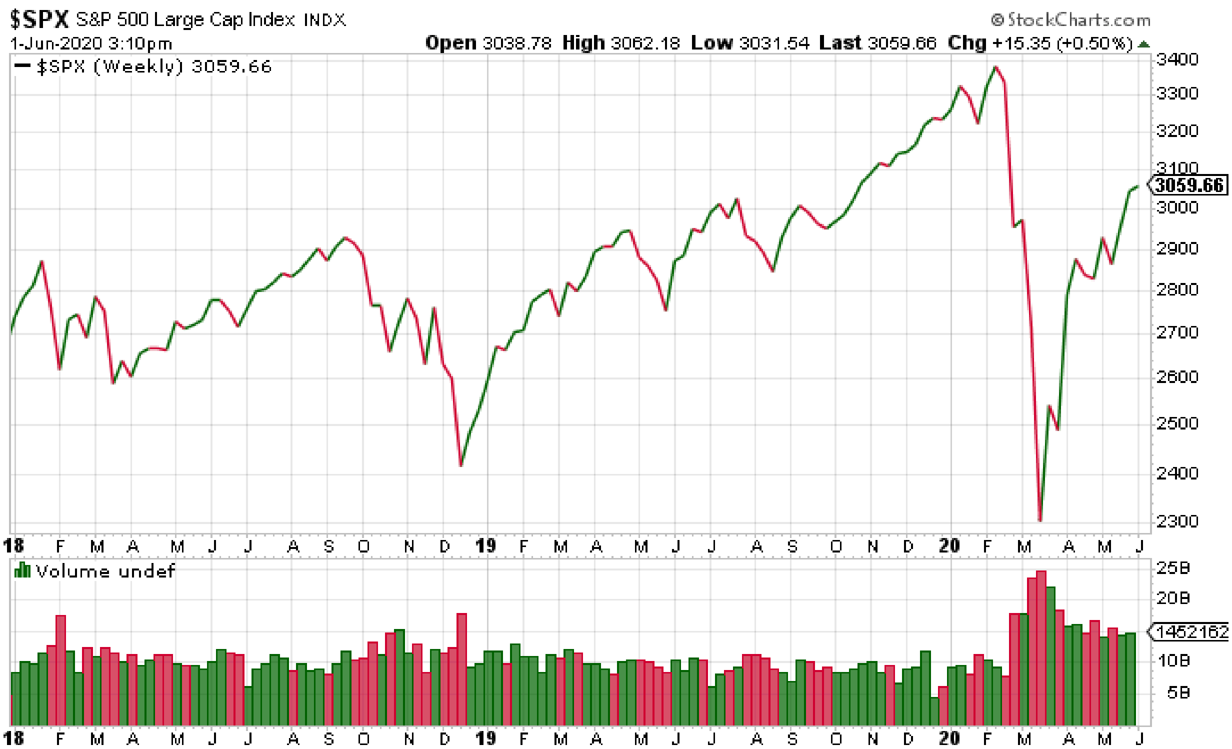
MARKET COMMENT

Has the World Really Changed?

As I scour through the files collected in my mind over the past 66 years, I can't remember a more transformative event than the recent Coronavirus pandemic. Over the years I've witnessed great medical advances, like the elimination of polio. I've seen technology change our personal and professional lives (*e.g.* our current remote operations), all the while overcoming the much-feared Y2K collapse. I've seen China rise from a closed-off and poverty stricken country to become the second largest global economy. I survived the 1987 stock market crash, the Great Recession of 2008-2009, and times when our country supported "guns and butter" economies. But never has my personal life, along with the lives of the global population, changed so significantly and abruptly than during the current virus pandemic.

As a result of COVID-19, the global economies went from very robust to bust in a matter of two months. But the question that I just can't shake is, "is the world really permanently changed?" No one knows with certainty what the future holds, but assuming global economies stabilize, employment rises with the re-opening of businesses, and another virus outbreak doesn't occur, the global economies should move forward (albeit at a slower pace due to social distancing). It will take time – and a creation of a widely available vaccination – to forget about the recent shut downs. Until then, we may very well experience a slower pace to life, our economies, and some permanent adjustments to our lifestyle.

What about the financial markets, will they keep advancing? As you can see in the chart below, there has been a substantial snap-back from the bottom registered in March, yet the stock market is still well below its old high set in February. As such, there could be some pull-backs in the coming months due to the quick rise in asset values. But any future market action will likely depend on how the investors react to future economic activity. As mentioned in our last newsletter, what sets this stock market recovery apart from the past is the unprecedented monetary activity by the Federal Reserve and the Federal government's massive financial stimulus. We must now wait to see if the economy positively responds or if the boost fails to sustain. We know from past experience that massive government liquidity usually results in money moving into investments – some prudent, others very speculative. This should support the financial markets into the future, despite the heightened risk from the pandemic.



As always, we thank you for your continued trust and support. It is highly valued and greatly appreciated. All the best to you, and your family.

PLANNING STRATEGY

Raymond James "Point of View" article. M20-3072431

How Different Types of Investment Income Are Taxed

The federal tax system is not exactly straightforward. There are myriad deductions and credits, various tax brackets, additional payroll and Medicare surtaxes, and a slew of different categories to help us define our income … for tax purposes.

You'd think there'd be only two: regular income and investment income. Regular income would be what you get in your paycheck, and investment income would be the money you earn from investments. But even something as seemingly simple as investment income has subcategories, each taxed differently from the next. Let's break it down.

Interest income

There are certificates of deposit and high-yield savings accounts (rare these days), and bonds. Interest income becomes part of your regular income and is generally taxed at your marginal rate during the year in which you receive it, even if it's reinvested. This is what gets reported on your 1099-INT forms.

Capital gains

When you sell a security, any positive difference between what you paid and what you earned is called a capital gain. If you bought 1,000 shares for example, at $14 each and sold them for $20,000, you'd have a $6,000 gain that would be subject to taxes. For most people, securities held over a year (long-term capital gains) will either incur a 0%, 15% or 20% tax. Short-term capital gains are taxed at your ordinary income tax rate.

Dividends

Dividend income is derived from equities that pay shareholders dividends on a regular basis. Qualified dividends are treated to the same preferred rates as long-term capital gains.

Retirement income

Withdrawals from traditional IRAs, 401(k)s or annuities and pension income are typically taxable, while withdrawals from Roth IRAs or employer-sponsored plans funded with after-tax contributions are not taxable. But some subcategories are trickier. If you make more than $25,000, or $32,000 if married filing jointly, up to 85% of your Social Security benefits will be taxed. Income from an immediate annuity is taxed if the annuity was purchased with money that has never been taxed, say in an IRA. Interest income from municipal bonds is generally exempt from federal taxes, but it could still be subject to state or local income taxes, alternative minimum tax, or partial taxation of the income in certain instances.

These examples are merely guidelines. It's important to remember that taxes aren't the only thing to consider. Your personal tax and financial advisors can help you select appropriate income-generating securities for your needs and determine your exact tax liability.

Next steps

As you plan for what taxes you'll pay on your investments, start by:

- Understanding the different types of income
- Considering your entire investment portfolio
- Asking us about the tax liability for each of your investments

Raymond James does not provide tax services. Please discuss these matters with the appropriate professional.

Raymond James "Point of View" M19-2861111

Cash Fact from Cash Fiction

Combat common cash myths with cold, hard facts.

We hear it all the time. Cash is king. And like a monarch, cash isn't worth much if it just sits there doing nothing. No less an authority than the Oracle of Omaha himself, Warren Buffett, makes it a rule to keep enough cash on hand to seize potential investment opportunities and to serve as ballast in rougher market environments. As interest rates have risen over the past few years, cash and cash alternatives – including checking and savings accounts, Treasury bills, certificates of deposit, corporate commercial paper and money market mutual funds – have become viable sources of relative liquidity while offering a hedge against downturns.

So how much cash should you put to work? Here are a few myth-busting facts to help you find that cash sweet spot.

FALLACY: Cash drags on performance.
FACT: Cash's performance may seem lackluster during rising markets, but its low risk/reward profile is intended to provide stable value during market declines. Under certain conditions, such as periods of rising interest rates or times of stock market turbulence, cash tends to do well relative to other asset classes. You don't have to search too hard for ways to earn interest on your cash, even when the Federal Reserve changes its benchmark rate. Holding cash or cash alternatives is part of a well-allocated portfolio in which diversification of asset classes may offer different benefits in a variety of market environments. Your advisor can help you strike the right balance so you can deploy enough cash to gain the benefits without sacrificing in other areas of your financial plan.

FALLACY: Cash is for coffee and convenience stores.
FACT: It's helpful to think of cash in two ways. Everyday spending and strategic cash for future needs. While the $20 bills in your wallet offer a convenient way to pay for everyday items, cash in your portfolio buys you time to think. Access to enough liquidity gives you flexibility during times of opportunity or uncertainty. You need confidence AND capital to opportunistically add fundamentally sound positions to your portfolio when the stock market is "on sale." Cash allows you to do just that and help stay on track with your established financial plan.

FALLACY: Cash is for skeptics.
FACT: A right-sized cash cushion can actually be a sign of optimism. If market turbulence makes you skittish, increasing your allocation in cash might restore your confidence in your long-term financial plan. Plus, cash tends to do well as a "defensive asset" with low or negative correlation with equities. Some investors may try to chase yield during unexpected market movements or low-interest rate environments. But when it comes to cash, access is very important. How much you hold depends on your risk tolerance and your investment objectives, but everyone can benefit from a cash cushion that can help stave off impulsive selling in shaky markets or help pay for unplanned expenses.

BONUS FACT: Cash is covered.
Cash holdings are generally protected under SIPC or FDIC coverage, but there's a difference between the two. The Securities Investor Protection Corporation (SIPC) protects cash and investments in a brokerage account, in case the financial services firm folds or cannot conduct business, and cash or securities are missing. Its aim is to replace the value of the investment that was held with the broker/dealer, but it doesn't protect against market loss. The Federal Deposit Insurance Corporation (FDIC) protects bank deposits, including interest, up to $250,000 per account holder, per account type, per bank. FDIC coverage does not cover stocks and bonds.

Progress, not perfection

There's a reason investing pros do not recommend stuffing the proverbial mattress with cash. Holding too much cash for too long could mean missing out on stronger performance from other asset classes or losing buying power to inflation. Ask your advisor to help you optimize your payable, on-demand cash so you gain low-risk, high-liquidity flexibility to help you make progress toward your long-term goals.

Every investor's situation is unique and you should consider your investment goals, risk tolerance and time horizon before making any investment. Investing involves risk and you may incur a profit or loss regardless of strategy selected. Asset allocation and diversification do not ensure a profit or protect against a loss. U.S. Treasury securities are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. Certificates of deposit offer FDIC insurance and a fixed rate of return. The market value of fixed income securities may be affected by several risks including interest rate risk, default or credit risk, and liquidity risk. Sources: Investopedia; fdic.gov; sipc.org; reuters.com

Quote of the Month: "Nothing is so painful to the human mind than great and sudden change."
Mary Wollstonecraft Shelly

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