

Wealth Management Update and Q&A

REDW Wealth_{LLC} expertise.

May 13, 2020 Presented by:

Paul Madrid, CFA[®], CFP[®], AIFA[®], Principal

Daniel Yu, CFA[®], AIF[®], Chief Investment Officer

Robert Elzholz, CRPC[®], AIF[®], AAMS, Senior Investment Manager

- Welcome
- Federal Reserve's Impact
- Pension Plan Performance
- Roth Conversions
- Questions & Answers



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Federal Reserve's Impact on the Economy

What led to Fed actions

- In February 2020, as the extent of the COVID-19 problem became more clear investors began to reduce exposure to various assets
- Bonds do not trade on exchanges but from buyer to seller
- With the flight to safety, seller/buyer imbalance in fixed income began to place great pressure on bond prices
- An “orderly” market became harder and harder to maintain
- Bond exchange traded funds began to spiral down in price

A Brief History

- 03/15/2020 – Sunday – Cut Rates to Zero, QE, Reduced Capital Requirements, Coordinated with other Central Banks
- 03/17-03/20/2020 – Additional actions and coordination to inject liquidity into the fixed income markets
- 03/23/2020 – Established New Lending Facilities:
 - Primary Market Corporate Credit Facility
 - Secondary Market Corporate Credit Facility (Today's focus)
 - Revived Term Asset-Backed Securities Loan Facility

What is it – From the Fed’s Term Sheet

- Special Purpose Vehicle of the Federal Reserve
- Can purchase corporate bonds in the secondary market: American Corporation, Investment Grade (or recently downgraded from Investment Grade), 5 years or less until maturity, not a insured bank, has not received CARES act support
- Can ALSO “The Facility also may purchase U.S.-listed ETFs whose investment objective is to provide broad exposure to the market for U.S. corporate bonds. The preponderance of ETF holdings will be of ETFs whose primary investment objective is exposure to U.S. investment-grade corporate bonds, and the remainder will be in ETFs whose primary investment objective is exposure to U.S. high-yield corporate bonds.”
- Announce in March, 2020; began purchases on May 12, 2020

Why is it Important

- Past liquidity actions limited to banking participants
- Liquidity actions in 2008-2009 tended to stay stuck in the banking system as increased capital requirements hindered banks from lending
- Federal Reserve wants liquidity to get to the market place faster

Implications

- Will need to watch how the Fed unwinds this Facility – How and How Long
- Will need to see if the added liquidity becomes inflationary – too many dollars chasing too few goods (services)

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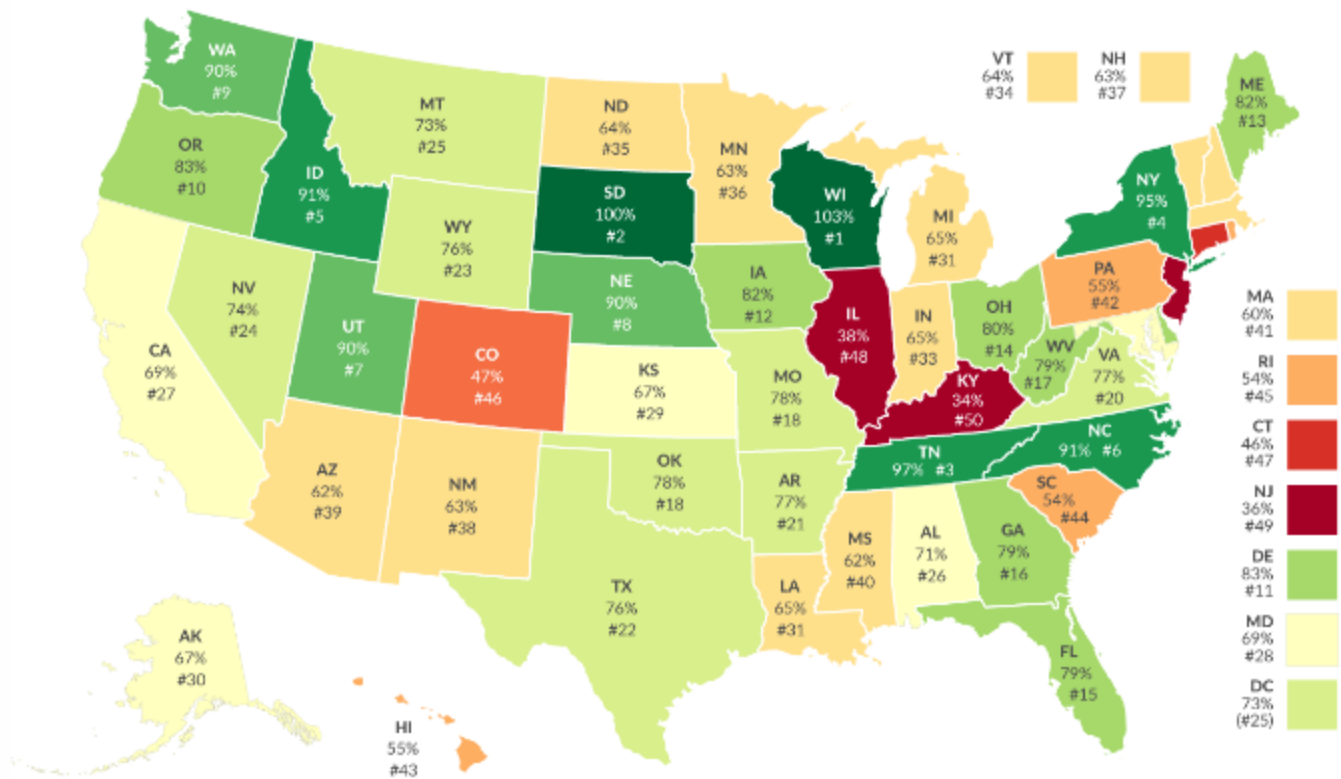
Unintended Consequences of the Recent Downturn in Pension Plan Performance

Available to many firefighters, public school teachers, nurses, librarians, sanitation workers, and other public employees.



How Well-Funded Are Pension Plans in Your State?

Funded Ratio of Public Pension Plans, Fiscal Year 2017

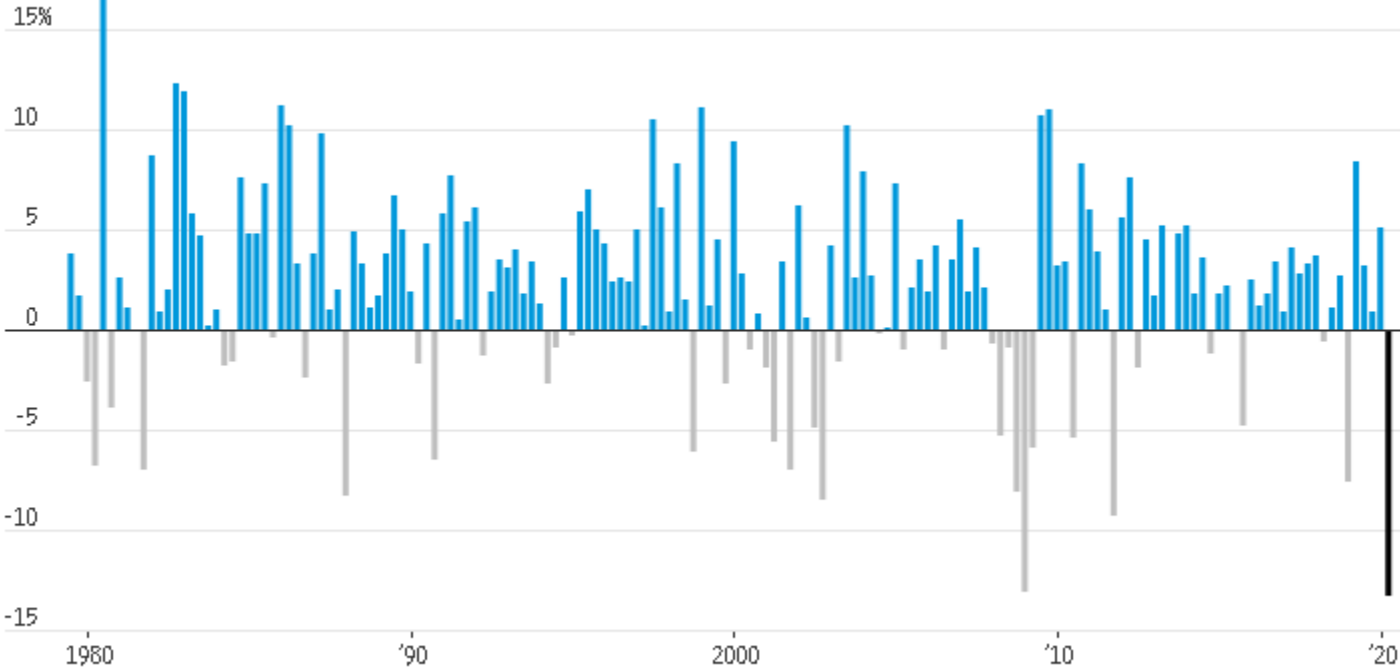


Note: Funded ratio is defined as the level of assets in proportion to accrued pension liability.

Source: The Pew Charitable Trusts, "The State Pension Funding Gap: 2017" (2019).



Quarterly returns for all public pension plans



Source: Wilshire Trust Universe Comparison Service

- Only 31% of retirees currently receive pension income down 6% from 2019.
- Potential reduced benefits, resulting in an adjustment in life style.
- Plans may move from a pension plan to a 401(k) in the future

Pro

- Creditor Protection
- Match
- High Contribution Limit
- Funding Requirement Removed from the States
- Moving Retirement Options to the employee

Cons

- Moving Retirement Options to the employee
- All investment options moved to employee
- Funding moved to employee

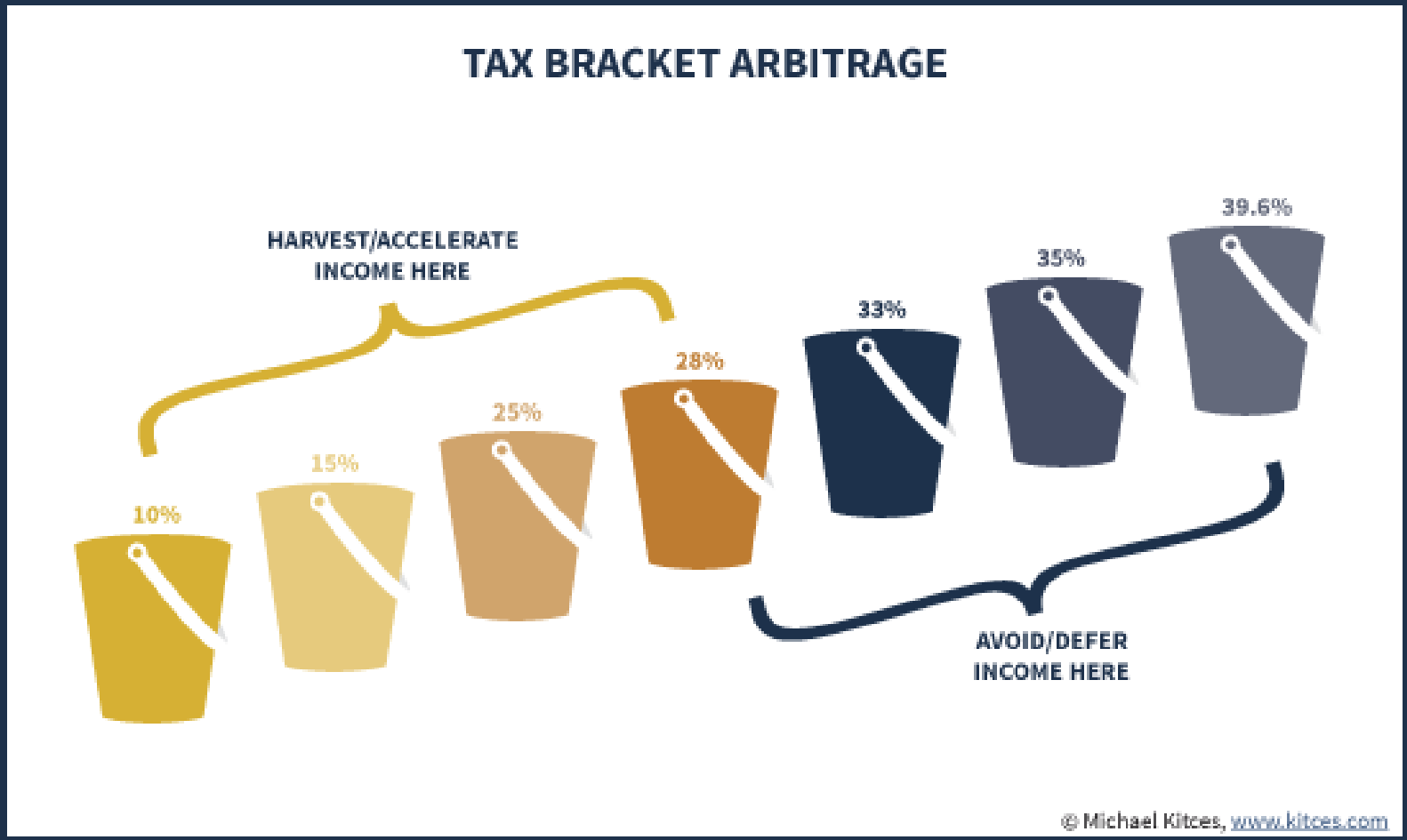
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What are Roth Conversions & When do they Make Sense?

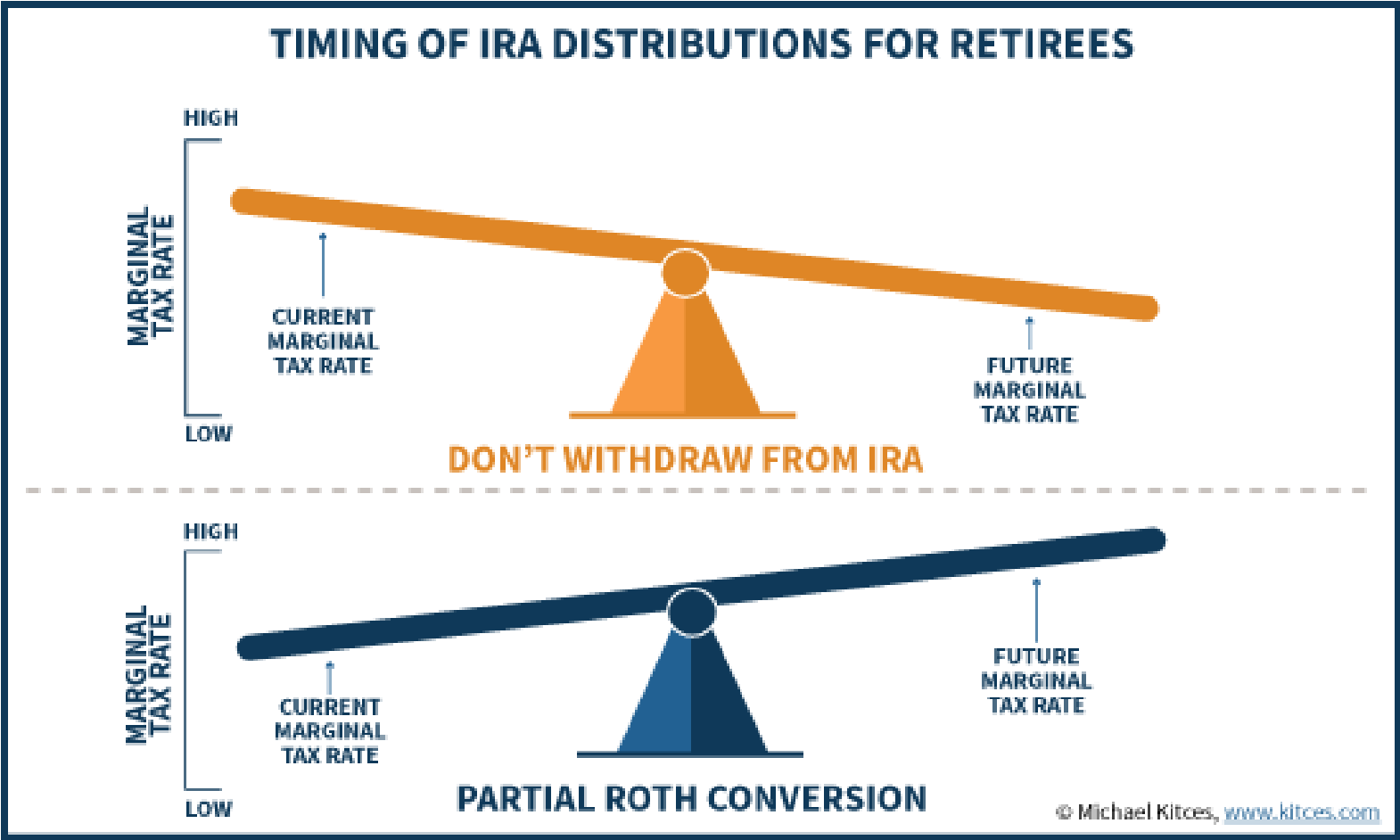
What/Why Roth conversions?

- A Roth conversion occurs when you move “convert” some or all of your traditional/rollover IRA to a Roth IRA, thus causing a taxable event.
- Roth conversions are beneficial when:
 - Tax rates are low now and higher later
 - Time is on your hands
 - When you want to pay tax for your beneficiaries

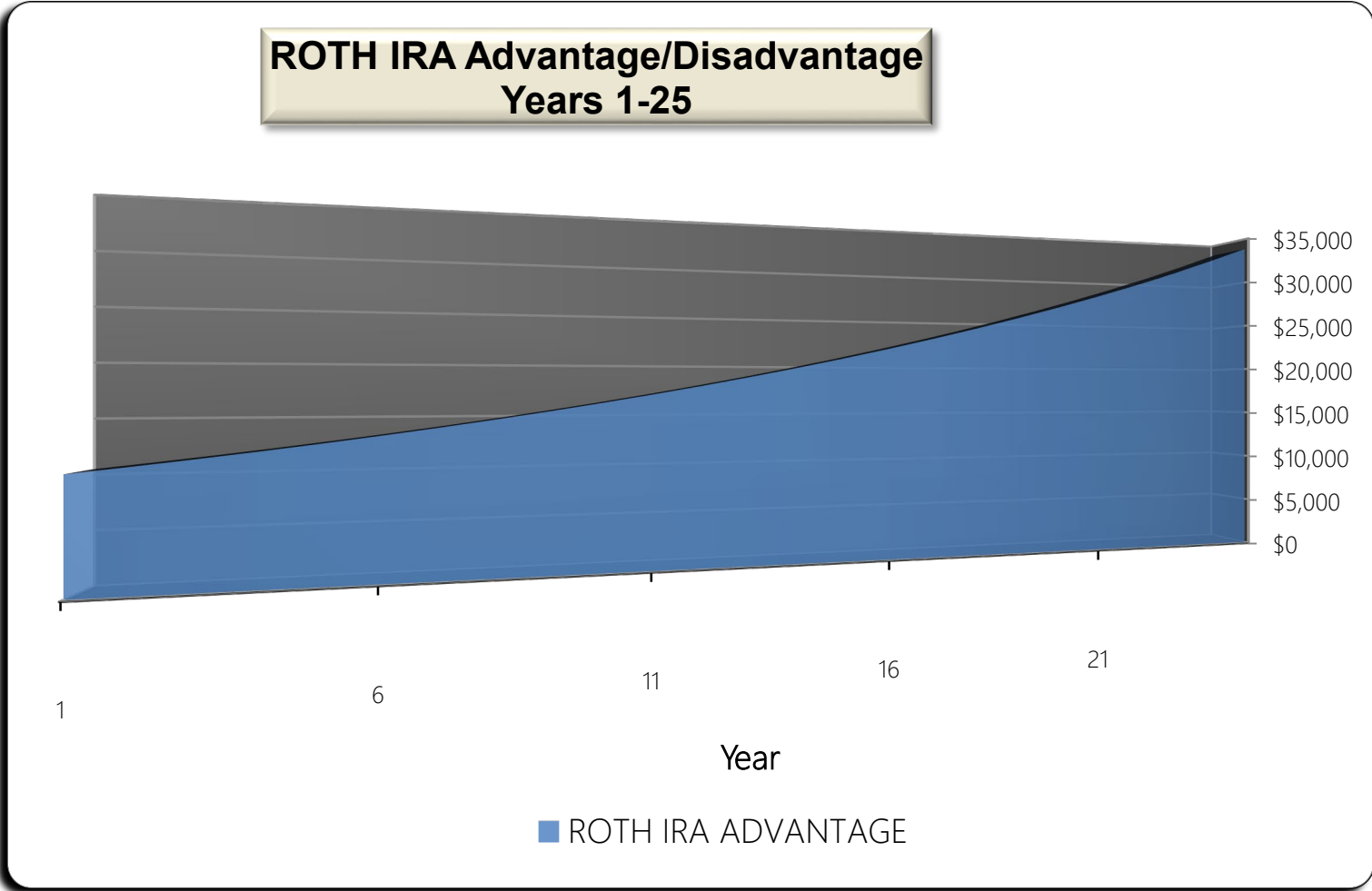
Why Roth Conversions?



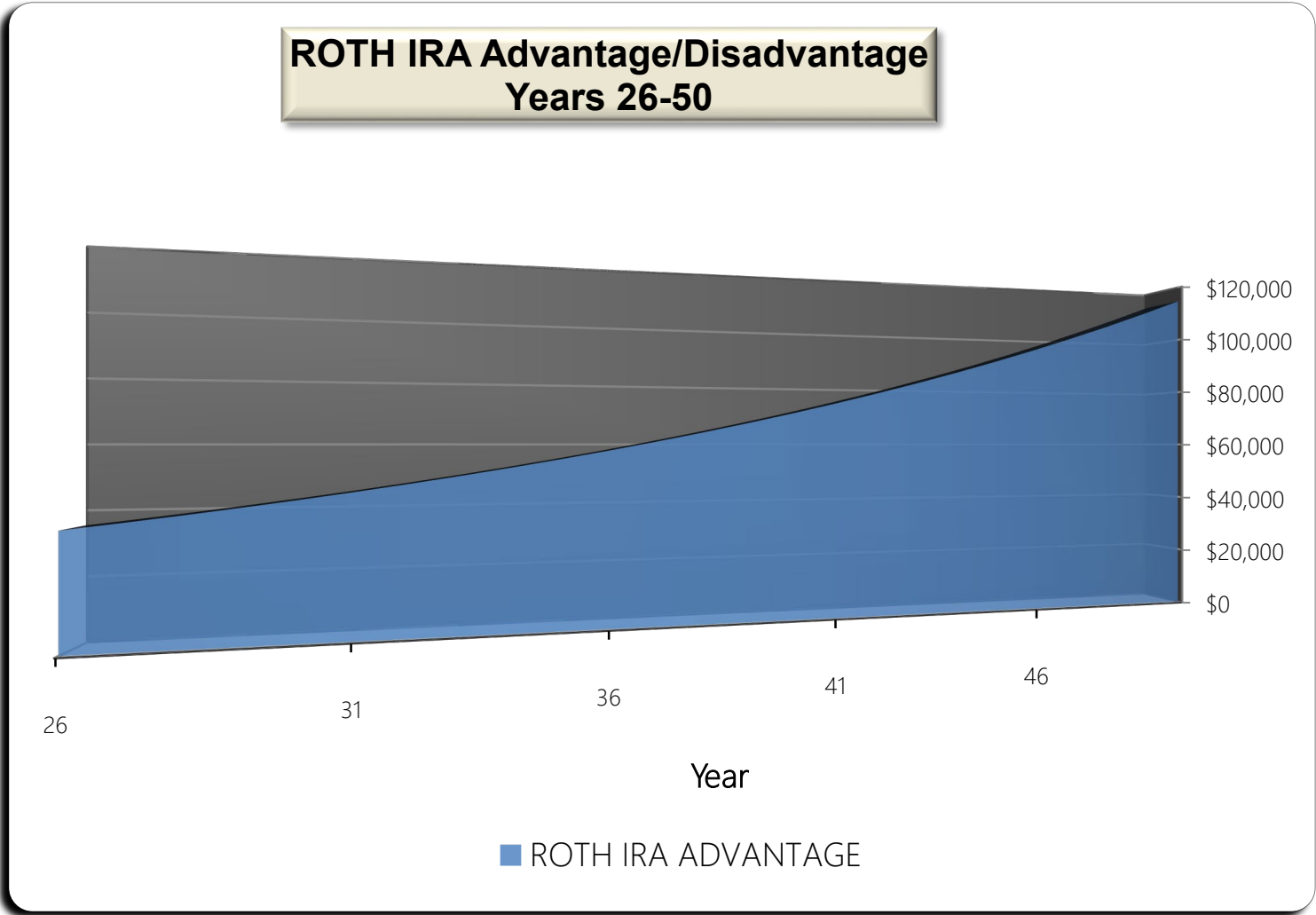
Convert to Roth or Not?



Assuming 100k conversion at 25% tax now & 35% later



Assuming 100k conversion at 25% tax now & 35% later



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Staying Connected in the Community

- Updates from you and your community
 - Submit to Daniel Yu via email at dyu@redw.com
 - Painted rocks on side of road
 - Teddy bears in windows
- Nonprofit client updates
 - Learn how community organizations are doing in this environment
 - Next time we'll hear from Animal Humane of NM

REDW Wealth LLC
CPAs | Advisors



Daniel Yu, CFA[®], AIF[®],
Chief Investment Officer
dyu@redw.com



Robert Elzholz, CRPC[®],
AIF[®], AAMS, Senior
Investment Manager
Robert.elzholz@redw.com



Paul Madrid, CFA[®], CFP[®],
AIF[®], Principal
pmadrid@redw.com