

# Farmers Trust Company



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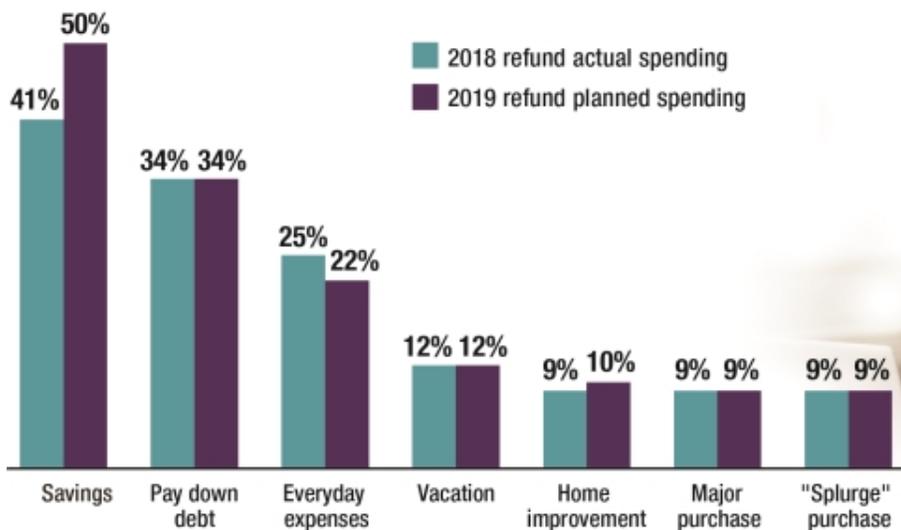
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**John D. Stewart, CFA**  
Chief Investment Officer

Please make sure to read John Stewart's article on the COVID Impact below.

## Tax Refund: Spend or Save

About 72% of taxpayers received a refund in 2018 and 2019. Here's how consumers spent the tax refunds they received in 2018 and what they planned to do with their 2019 refunds.



Sources: Internal Revenue Service, 2019; National Retail Federation, 2019 (multiple responses allowed)

# COVID Impact: Next Steps

The pandemic that is COVID-19 has wreaked tremendous havoc on the economy and financial markets due to government mandated shutdowns of business and the free movement of people. That is not to discount the human toll the virus has caused, which is obviously heartbreaking. While the impact caused by this pandemic from both an economic and public health perspective is far from over, the stock market appears to be sensing that there may be some light at the end of the tunnel. Indeed we have seen the growth rate of new cases begin to slow, and the broadest measure of U.S. equities, the S&P 500 Index, has rallied more than 20% from its closing low on March 23rd. This has also coincided with unprecedented monetary and fiscal stimulus from the Federal Reserve and the U.S. government, respectively.

While the slowing growth rate in new confirmed COVID cases is certainly encouraging, it will be necessary to begin to bring business activities back online for the equity markets to sustain a meaningful move higher. The Trump administration would like to begin reopening certain segments of the economy that have been on hiatus by May 1st. However, many other voices in the public sector, healthcare sector, and academia have proposed more elongated timelines. Who ultimately has the power to make this determination will prove an interesting experiment in governmental authority. There is also the question of what restrictions will remain, and what their economic impact may continue to be, even after shuttered business are allowed to reopen. If we are able to achieve a “V-shaped” recovery, it is likely that the slope of the right side of the V will be much flatter than the left side – i.e. the recovery will prove slower than the decline in activity that preceded it.

We have been discussing the possibility of building inflationary pressures for some time now, and while the current drop in economic demand looks deflationary, future inflation risks have now risen significantly. Not only has a supply shock hit the economy (a lot less people are working and many businesses are closed) in addition to the demand shock, but the aforementioned monetary and fiscal stimulus has been gargantuan in magnitude. There will be a cost associated with these actions, and it is likely a significant portion of the cost will be paid through inflation. In fact, we are already starting to see signs that the market is sniffing this out. The MSCI Commodity Index is up more than 5% in the past week, and that's with its largest component, Crude Oil, down nearly 5% over the same time frame. In addition, Treasury Inflation Protected Securities, or TIPS, have outperformed Treasuries by more than 3% in the past 30 days. While inflation is unlikely to roar higher in a straight line as the system contends with countervailing deflationary forces, we continue to position portfolios to have some protection against higher inflation over the medium term.

# Keeping Cool: Investment Strategy vs. Reaction

After losing ground in 2018, U.S. stocks had a banner year in 2019, with the S&P 500 gaining almost 29% — the highest annual increase since 2013.<sup>1</sup> It's too early to know how 2020 will turn out, but it's been rocky so far, and you can count on market swings to challenge your patience as an investor.

The trend was steadily upward last year, but there were downturns along the way, including a single-day drop of almost 3% on August 14. That plunge began with bad economic news from Germany and China that triggered a flight to the relative safety of U.S. Treasury securities, driving the yield on the 10-year Treasury note below the 2-year note for the first time since 2007. A yield curve inversion has been a reliable predictor of past recessions and spooked the stock market.<sup>2</sup> By the following day, however, the market was back on the rise.<sup>3</sup>

It's possible that a yield curve inversion may no longer be a precursor to a recession. Still, larger concerns about the economy are ongoing, and this incident illustrates the pitfalls of overreacting to economic news. If you were also spooked on August 14, 2019, and sold some or all of your stock positions, you might have missed out on more than 13% equity market growth over the rest of the year.<sup>4</sup>

## Tune Out the Noise

The media generates news 24 hours a day, seven days a week. You can check the market and access the news anywhere you carry a mobile device. This barrage of information might make you feel that you should buy or sell investments in response to the latest news, whether it's a market drop or an unexpected geopolitical event. This is a natural response, but it's not wise to react emotionally to market swings or to news that you think might affect the market.

## Stay the Course

Consider this advice from John Bogle, famed investor and mutual fund industry pioneer: "Stay the course. Regardless of what happens to the markets, stick to your investment program. Changing your strategy at the wrong time can be the single most devastating mistake you can make as an investor."<sup>5</sup>

This doesn't mean you should never buy or sell investments. However, the investments you buy and sell should be based on a sound strategy appropriate for your risk tolerance, financial goals, and time frame. And a sound investment strategy should carry you through market ups and downs.

It can be tough to keep cool when you see the market dropping or to control your exuberance when you see it shooting upward. But overreacting to market movements or trying to "time the market" by guessing at future direction may create additional risk that could negatively affect your long-term portfolio performance.

*All investments are subject to market fluctuation, risk, and loss of principal. When sold, investments may be worth more or less than their original cost. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. If not held to maturity, they could be worth more or less than the original amount paid.*

1) S&P Dow Jones Indices, 2020

2) *The Wall Street Journal*, August 14, 2019

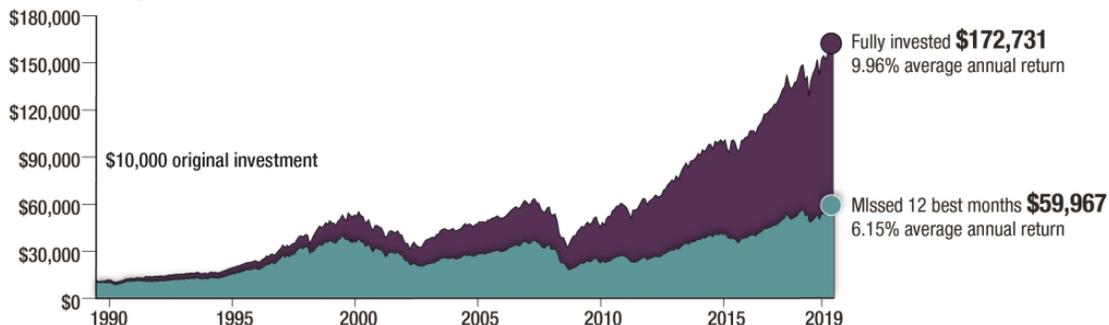
3-4) Yahoo! Finance (S&P 500 index for the period 8/14/2019 to 12/31/2019)

5) MarketWatch, June 6, 2017

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## Long-Term Commitment

"Time in the market" is generally more effective than trying to time the market. An investor who remained fully invested in the U.S. stock market over the past 30 years would have received almost triple the return of an investor who missed the best 12 months of market performance.



Source: Refinitiv, 2020, S&P 500 Composite Total Return Index for the period 12/31/1989 to 12/31/2019. The S&P 500 is an unmanaged group of securities that is considered to be representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. This hypothetical example is used for illustrative purposes only and does not consider the impact of taxes, investment fees, or expenses. Rates of return will vary over time, particularly for long-term investments. Actual results will vary. Past performance does not guarantee future results.

# How Long Should You Keep Financial Records?

Once tax season is over, you may want to file your most recent records and discard older records to make room for the new ones. According to the IRS, personal tax records should be kept for three years after filing your return or two years after the taxes were paid, whichever is later.\* (Different rules apply to business taxes.) It might be helpful to keep your actual tax returns, W-2 forms, and other income statements until you begin receiving Social Security benefits.

The rules for tax records apply to other records you use for deductions on your return, such as credit card statements, utility bills, auto mileage records, and medical bills. Here are some other guidelines if you don't use these records for tax purposes.

**Financial statements.** You generally have 60 days to dispute charges with banks and credit card companies, so you could discard statements after two months. Once you receive your annual statement, throw out prior monthly statements.

**Retirement plan statements.** Keep quarterly statements until you receive your annual statement; keep annual statements until you close the account. Keep records of nondeductible IRA contributions indefinitely to prove you paid taxes on the funds.

**Real estate and investment records.** Keep these at least until you sell the asset. If the sale is reported on your tax return, follow the rules for tax records.

**Loan documents.** Keep documents and proof of payment until the loan is paid off. After that, keep proof of final payment.

**Auto records.** Keep registration and title information until the car is sold. You might keep maintenance records for reference and to document services to a new buyer.

**Medical records.** Keep records indefinitely for surgeries, major illnesses, lab tests, and vaccinations. Keep payment records until you have proof of a zero balance.

Other documents you should keep indefinitely include birth, marriage, and death certificates; divorce decrees; citizenship and military discharge papers; and Social Security cards. Use a shredder if you discard records containing confidential information such as Social Security numbers and financial account numbers.

\*Keep tax records for at least six years if you underreported gross income by more than 25% (not a wise decision) and for seven years if you claimed a deduction for worthless securities or bad debt.

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## IMPORTANT DISCLOSURES

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