

Subject: February Newsletter: Coping with Falling Markets, Spending FSA Dollars, and Finding a New Tax Preparer

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Hello Jennifer:

Welcome to the Greenleaf Guide

A Newsletter for Clients of Greenleaf Financial Group

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In Review

Market Update

The past few days have been difficult for stock investors. The spread of Covid-19 -- the coronavirus -- to additional areas outside of China has rattled investors. Infections in South Korea, Italy, Japan, and the Middle East have negatively impacted global stock markets.

The drop in stock prices on Monday, February 14th, was about -3.5%. According to Compound Capital Advisors, this was the 229th largest percentage drop since 1900 and, statistically, *a decline of this magnitude occurs an average of twice every year.*

February 2020

Spotlight On

Coping with Falling Markets

A sudden and steep fall in the stock market is always difficult to experience. We understand if it isn't enough to hear us encourage you to "stay the course."

If so, then hopefully the following details will help you get through this current market volatility with as few worries as possible.

Your Stock/Bond Allocation = Your Offense/Defense

We always approach investing with risk in mind and strive to have the right mix of stocks and bonds for your goals, time horizon, risk tolerance, and other factors.

Stocks, quite simply, provide the offense in your accounts, but bonds are there to play defense. Having an asset allocation (stock/bond) framework means your accounts are always **proactively positioned** for good **and** bad times. We do not need to react when the tough times roll around -- we are ready!

In addition, we use the cash that your

Therefore, although this decline is an ordinary event for long-term investors, the uncertainties of the illness likely mean more rough days and more volatility in the near term.

In essence, there is a wide range of possibilities that investors must contend with. Covid-19 will spread further and last longer than SARS. It will cause disruptions along the way. However, no fund managers are broadly selling stocks or going to cash.

Goldman Sachs estimates a decline of less than one percentage point to U.S. growth in the near term due to reduced tourism and supply chain and export disruptions. However, they note that it could easily be reversed by year-end if the virus is contained. There is an unprecedented global response to the outbreak with high levels of coordinated research, data sharing, and work toward a vaccine.

As reported in the *Wall Street Journal* yesterday, drugmaker Moderna has already sent out a coronavirus vaccine in order to begin a clinical trial with human volunteers. In addition, Johnson & Johnson, Sanofi, and Inovio Pharmaceuticals

accounts receive from capital gains, stock dividends, and bond interest payments to maintain your target asset allocation. Keeping your stock position near your target means keeping your investment risk in check.

The stock-market results of 2019 were extraordinarily good. We enjoyed seeing the substantial increases in our clients' accounts last year, but we knew we would eventually experience a downturn similar to the near -20% decline in late 2018. When, not if, the next recession arrives, your accounts are ready.

Risk-Aware Strategies

In difficult markets, investors turn to safe haven assets, including Treasury bonds, high-quality corporate bonds, blue-chip stocks with dividends, and companies that provide consumer necessities. Over the years, you'll have noticed that the investment strategies we select -- and describe in our quarterly performance reports -- emphasize these high-quality stocks and bonds.

For example, late last year, we added strategies such as AQR Large Cap Defensive Style Fund or AQR International Defensive Style Fund to clients' accounts. As described in the report you received in early January 2020, "The fund's goal is to outperform stock markets during downturns through active stock selection and proprietary risk management techniques."

We have long held Jensen Quality Growth, which Morningstar describes as buying stocks that are "consistent and enduring rather than high-flying growth stocks" and T. Rowe Price Dividend Growth, which Morningstar says is "resilient in down markets." And we could give you many more examples.

have also begun vaccine development using genetic techniques and technologies that did not exist when past virus outbreaks occurred.

Investing, even in the best of times, typically follows a two-steps forward, one step backward path. We always position your accounts for such a path and we truly believe that your accounts are well-positioned for a wide range of economic scenarios.

Please see the accompanying article to the right for more details, but let us know when you have concerns. *As always, your concerns are our concerns!*

Financial Planning Calendar: What to Do in March

Next month, we encourage clients to do the following.

Task: Spend your Flexible Spending Account (FSA) contributions by March 15 if you risk losing those dollars.

Why: FSA accounts have an annual "use it or lose it" deadline.

According to one estimate, employees forfeit about \$400 million annually in Flexible Spending Accounts. Because of this, many employers offer a grace period that extends the usual December 31st FSA

Minimize Risky Strategies

Besides emphasizing high-quality assets that typically hold up better than others in recessions, we actively minimize or avoid strategies with risky assets. Your exposure to speculative emerging markets, risky junk bonds, currency markets, and companies with high levels of debt is very, very low.

There will always be risks and disruptions, recessions and challenges. Please be assured that we invest in ways that recognize these risks. We will get you through this difficult period and other ones in the future, too.

Question of the Month



Question

I'm not sure that the tax-return preparer I've been using is doing a good job for me at a reasonable price. What should I look for as I seek a new person to do my taxes?

Answer

When looking for a new tax professional, think about your immediate needs, as well as the time after you file your return. Many firms hire temporary employees during tax season who may not be there for you if a problem arises after April 15th. The best tax preparers will take your call, respond to your

spending deadline to March 15.

If you contributed to a FSA account in 2019, then contact your HR department to see if you must spend those dollars by March 15.

Some employers allow employees to roll over \$500 from one year to the next in their FSA accounts. Again, verify rather than risk losing your savings.

If you have dollars that you must spend -- or risk losing -- then check the [FSAStore.com's eligibility list](#). Many drugstore items are eligible, such as blood pressure monitors, first aid kits, prenatal vitamins, breast pumps, shoe insoles, and contact lens solution.

You may not be able to see your doctor or dentist within the next two weeks, but you can use your FSA money to buy contact lenses, eyeglasses, and prescription sunglasses. If you do see a doctor, your FSA money can go to co-payments, prescription drugs, vision care, or dental care.

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Preparers will take your call, respond to your email, or welcome you for a visit.

Since anyone can call themselves a "tax professional," you should start by looking for someone with the right credentials. A certified public accountant (CPA) or enrolled agent (EA) has the education, skills, and expertise to handle all types of returns.

The [IRS' Directory of Federal Tax Return Preparers with Credentials and Qualifications](#) will help you narrow down your list.

Look for membership in a professional organization such as the National Association of Tax Professionals, the National Association of Enrolled Agents, or the American Institute of Certified Public Accountants. These organizations have codes of ethics, professional conduct requirements, and various certification programs.

If you are price comparing, it can be difficult for the preparer to estimate your exact fee before he or she sees the elements of your return. However, the potential preparer should be able to clearly identify how your final cost is determined. Is there a minimum fee? Is the state return extra? What about an office visit?

If the preparer's fee is a percentage of your tax refund, that's a red flag. You don't want a preparer taking questionable tax deductions on your return in order to receive a higher fee.

Finally, watch for signs that you need to change to a different preparer. For example:

-- You aren't given enough time to review your return and ask questions before signing it.

-- The preparer does not sign the return or does not include his/her Preparer Tax

Indianapolis, IN 46220

Identification Number.

-- Your preparer makes excuses for mistakes.

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