UMPQUA Wealth Management

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Insights provided by Umpqua Wealth Planning

Navigating volatility in a time of crises

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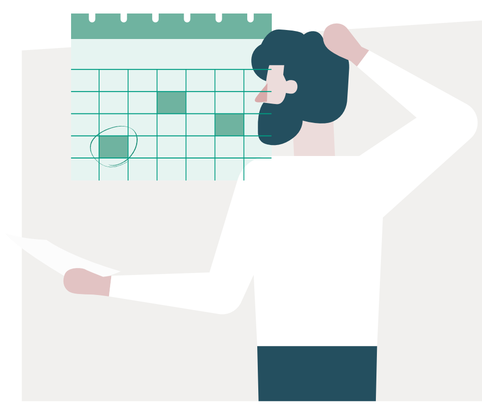
In our Q1 2020 newsletter, we highlighted the advantages a purpose-driven financial plan offers as life and markets change over time. This perspective helps keep investors focused on the financial objectives most important to them while allowing Private Wealth Advisors to better understand the circumstances shaping their clients' decisions.

In this issue, Umpqua Wealth Management shares insights about the importance of staying disciplined and not letting emotions drive long-term wealth plans and portfolio decisions. Fears surrounding the coronavirus pandemic and its impact on the markets and economy have taken center stage. Many investors are reevaluating their tolerance for risk as volatility surges given the market's recent uncertainty.

In our attempts to seek out certainty in uncertain times, we often refer to historical similarities for perspectives and find ourselves struck by what is called, "recency bias." This is when we focus on events closer to our point in time, perhaps at the risk of missing a better example if our analysis reached further back in time. We can look to past health crises and see what the market has done post-crisis.



"The short-term fluctuations in market, which loom so large to investors, have little to do with the long-term accumulation of wealth."

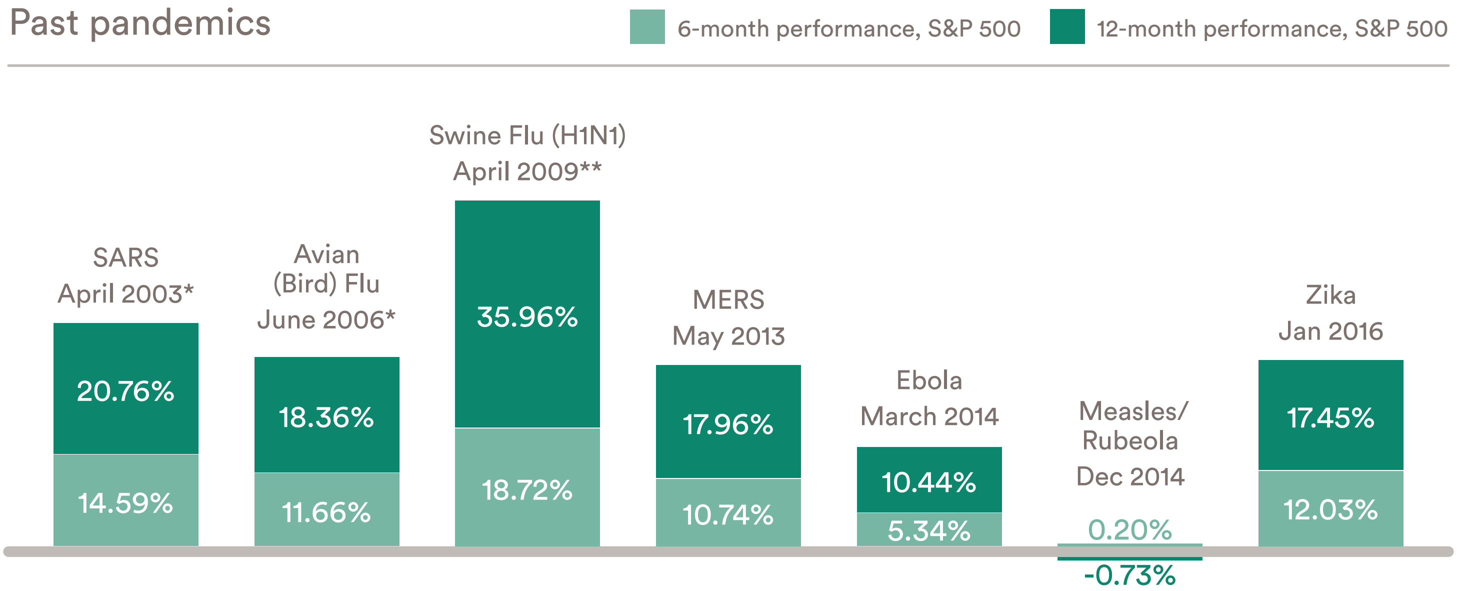
– Jeremy Siegel, economist from the Wharton School, University of Pennsylvania, 1994

Coronavirus concerns?

Consider past health crises

Since the turn of the millennium, the market's negative response to health crises has been relatively short-lived. As the chart on the next page demonstrates, approximately six months after early reports of a major outbreak, the S&P 500 bounced back by an average of 10.47%. After 12 months, it rebounded by an average of 17.17%. Although there are no guarantees the current situation will follow a similar pattern, it may be reassuring to know that over even longer periods of time, stocks typically regain their upward trajectory, helping long-term investors who hold steady to recoup their temporary losses, catch their breath, and go on to pursue their goals.

Past performance is not an indication of future results.



*End of month during which early incidents of outbreak were reported.

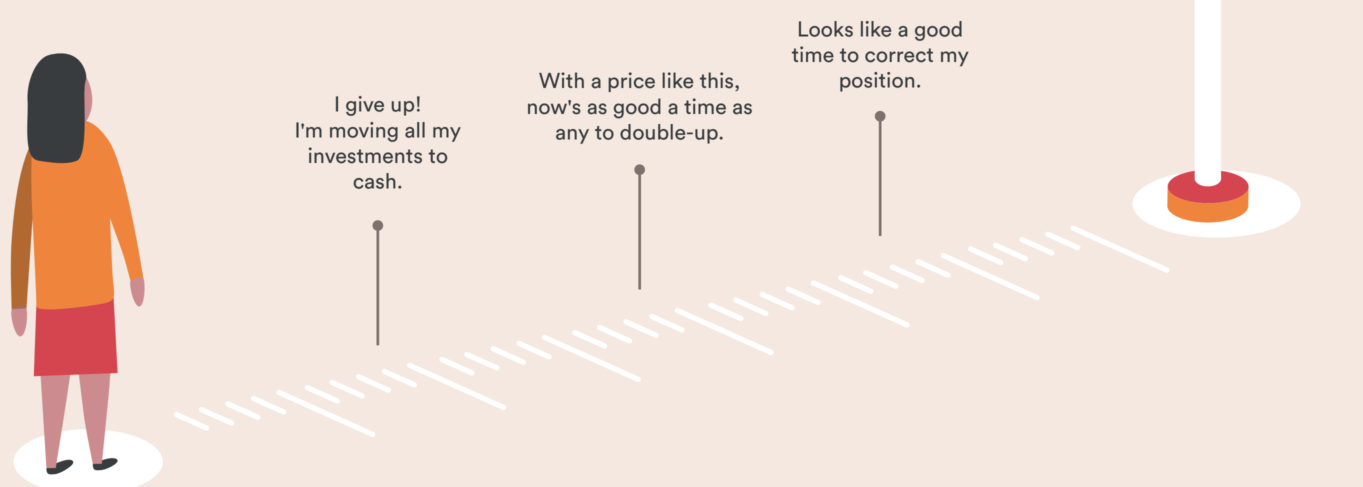
**H1N1 occurred during the financial crisis, when, as during other periods, many different factors influenced stock market performance.

Source: Dow Jones Market Data, as cited on foxbusiness.com, January 27, 2020. Stocks are represented by the Standard & Poor's 500 price index. Returns reflect the change in price, but not the reinvestment of dividends. The S&P 500 is an unmanaged index that is generally considered to be representative of the U.S. stock market. Returns shown do not reflect taxes, fees, brokerage commissions, or other expenses typically associated with investing. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in any index. Actual results will vary.

Even if we compare our current scenario to a catastrophic collapse, we have typically recovered and more. Look at Germany post-WWII, for example. By any account, a very catastrophic scenario, as 90% of the German stock market value was wiped out by the war and its aftermath. But their market completely recovered those losses by 1958. Taking the longer-term view, the German equity market has returned approximately a 6.6% return, including WWII and its recovery. Today, while we are still unsure of the degree of the impact this crisis will have on the U.S. economy, there is light at the end of the tunnel, and here is how we can help you focus on what's important to you.

Staying focused on the long view

Staying focused on the big picture in this current environment can be challenging as we navigate our daily lives through much uncertainty, where the anxiety of reacting to current events results in decisions that don't accomplish the universal benefits from careful, disciplined long-term thinking. When you maintain a long view, you are thinking much more broadly and making disciplined, patient decisions that are going to impact future generations.



When investors overreact to the market's short-term extremes, it often negatively impacts their investment outcomes, especially those of new, recent, and soon-to-be retirees, as well as business owners.

Your Private Wealth Advisor can share how many years of distributions you have planned for before you may have to liquidate any securities that have been impacted by the market decline. Investors who weather the storm best are often those who consider the scenarios within the context of their own plan, versus trying to predict the market.

Adapting to changes in your life

An unexpected life event, such as the coronavirus outbreak or a divorce, can be accompanied by the need for financial guidance in the face of new challenges. We also know that different life phases often mean a change in priorities.

Regardless of whether or not these changes require a shift in your investment strategy, these life events create great opportunities to connect with your Private Wealth Advisor who can help you:

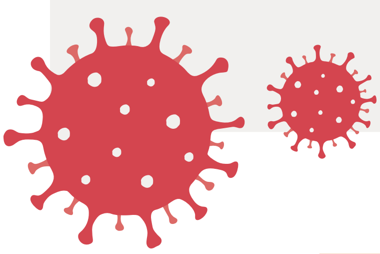
clarify your highest priority goals → address your concerns about changes you may encounter in the future → adjust your plan to fit your unique needs

By helping you recognize and anticipate what these challenges might entail, your Advisor will help prepare you for what is ahead and provide you with the financial guidance you need.

COVID-19: Meeting financial needs

Many immediate financial needs can be met from two primary sources:

- Personal financial resources
- Existing government relief programs



Personal financial resources

There are a number of personal financial resources you can potentially use.[1]

- **Personal savings:** We recommend establishing an emergency fund that provides you with access to liquidity for 6-12 months of personal and business expenses. The amount depends on your situation and comfort level. Liquidity can mean ready cash or lines of credit, or a combination of the two.
- **Cash value life insurance:** Certain types of life insurance policies develop “cash values” which the policy owner can access through withdrawals or policy loans.[2]
- **Deferred annuities:** Many deferred annuities allow an owner, prior to annuitization, to withdraw all of the funds in the annuity, although a surrender charge may apply. Partial withdrawals may also be allowed, sometimes without a surrender charge.[3]
- **Withdrawals from retirement plans:** You may be able to withdraw funds from retirement plans such as IRAs or 401(k)s. With the recent, significant market declines, this may not be the best time to sell retirement assets. If you are younger than 59½, there may also be an additional 10% federal penalty tax, unless an exception applies.

A good rule is to hope for the best and prepare for the worst.

Planning for an unexpected “what if” is like wearing your seatbelt. On any given day, we expect to arrive safely to our destination, but we still wear a seatbelt as a precaution. Being prepared for an unexpected “what if” is similar; proper planning can mitigate the financial obligation associated with the scenario.

Government programs

There is a growing list of government-sponsored programs to help U.S. households affected by COVID-19.

- **Families First Coronavirus Response Act (FFCRA):** The FFCRA Act requires certain employers to provide employees with paid sick leave or expanded family and medical leave for specified reasons related to COVID-19. These provisions will apply from the effective date through December 31, 2020.
- **Coronavirus Aid, Relief, and Economic Security (CARES) Act:** The CARES Act was signed into law on Friday, March 27, 2020, introducing the Paycheck Protection Program (the “PPP”) with the goal of preventing job loss and small businesses’ failure due to losses caused by the COVID-19 pandemic. The loans cover qualified payroll costs, rent, utilities, interest on mortgage, and other debt obligations. These loans also have the ability to be forgiven with certain criteria being met. As of printing, we are anticipating those specific guidelines to help our clients navigate the loan forgiveness process.

COVID-19 business owner relief

There are several major programs and initiatives available from the Small Business Administration (SBA) to address the needs of small businesses.

Families First: Employers may recover the costs of providing these benefits by claiming new refundable payroll tax credits for qualified sick leave wages and qualified family leave wages paid for the period beginning on April 1, 2020 and ending on December 31, 2020.

Paid Sick Leave for Workers: For COVID-19-related reasons, employees receive up to 80 hours of paid sick leave and expanded paid childcare leave when employees' children's schools are closed or childcare providers are unavailable.

Eligible employers can receive a tax credit for the full amount of coronavirus-related sick and family leave, plus related health plan expenses and the employer's share of Medicare tax on the leave for the covered period. The refundable credit is applied against certain employment taxes on wages paid to all employees.

Employee Retention Credit: The Employee Retention Credit is a refundable tax credit against certain employment taxes equal to 50% of the qualified wages an eligible employer pays to employees after March 12, 2020 and before January 1, 2021. You can get immediate access to the credit by reducing the employment tax deposits you are otherwise required to make. Also, if your employment tax deposits are not sufficient to cover the credit, you may get an advance payment from the IRS.

A CARES Act provision allows employers to defer the employer's share of Social Security taxes and self-employed individuals to defer payment of certain self-employment taxes. Deferrals may occur between March 27, 2020, and December 31, 2020.

Looking toward the future

Let's discuss any changes in your circumstances and adjust your strategy, if necessary, based on your individual situation.

Even amidst the current uncertainty, it's a good idea to look toward the future to consider any potential changes to your needs or new opportunities as the economy opens up. For instance, it may be worthwhile to weigh options such as intra-family gifts and Roth IRA conversions, look at refinancing debt, or find other solutions that may strengthen your family's position on the other side of this. Mortgage rates have fallen to near-record lows, and credit card and personal loan rates are likely to fall as a result of the recent Federal Reserve rate cut – and there's reason to believe they may drop even lower in the future.

We're here for you

Social distancing doesn't mean you can't still get great advice and guidance. Your Private Wealth Advisors at Umpqua Wealth Management can help during times like these by:

- ✓ Helping you stay focused on the big picture.
- ✓ Bringing specific ideas and strategies to you based on your unique situation.
- ✓ Acting as a sounding board as you consider financial decisions.
- ✓ Partnering with you to navigate the ever-changing economic and market landscape.
- ✓ Providing insight into how current conditions affect your plans by modeling scenarios specific to your situation.

As always, our team is here to support you no matter what the future holds. We appreciate being your partners and the opportunity to continue with you on your journey.

For more information, contact your Umpqua Private Wealth Advisor, or reach out to us at:

(833) 898-0973 WealthManagement@UmpquaBank.com UmpquaBank.com/Wealth/Planning Follow us

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Sources: 1 Some of the options discussed here have federal income tax implications. State or local income tax law may vary. 2 Policy withdrawals will reduce the death benefit available under a policy. If an insured dies with a policy loan outstanding, the policy's death benefit is reduced by the amount of the loan balance. Excess use of withdrawals and policy loans can result in a policy lapsing; such a lapse can result in unexpected, negative income tax consequences. 3 Funds withdrawn from an annuity prior to annuitization are considered to be made from interest or other growth, taxable as ordinary income. If the annuity owner is under age 59½ at the time of the withdrawal, a 10% federal tax penalty may apply to the earnings, unless an exception applies. Withdrawals from the owner's initial investment are received tax-free.

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