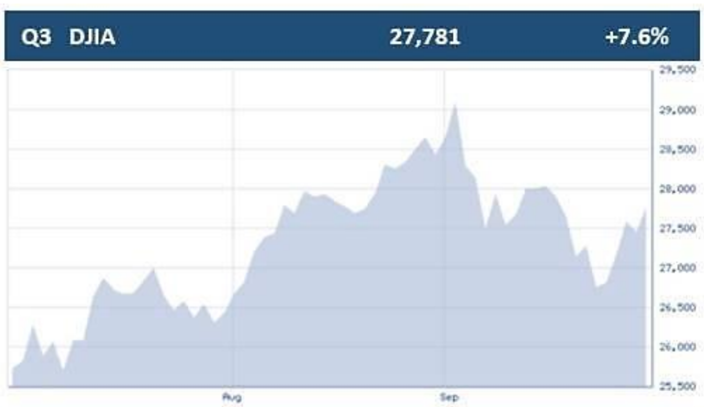
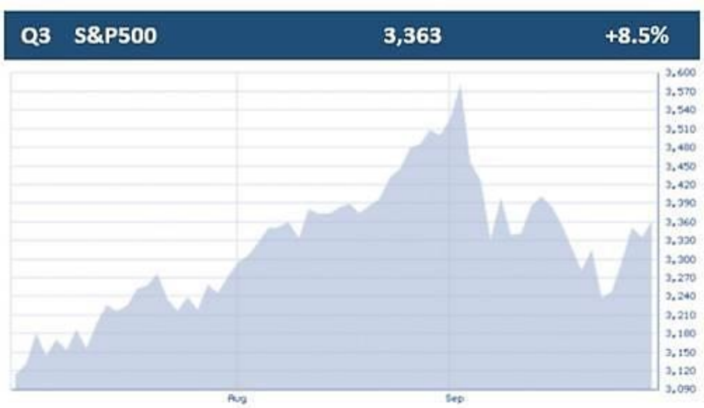
HUGHES FINANCIAL SERVICES, LLC

Q3'20 Economic *update*

Nearly six months after the large waterfall drop of equity prices in March, most broad indexes have found their way to a better place. For the third quarter of 2020, the Dow Jones Industrial Average (DJIA) advanced over 7% and the S&P 500 rose over 8%.





Although the third quarter was strong, the month of September brought these two major indexes their first negative returns since March. The DJIA moved over 2% lower, while the S&P 500 was down almost 4%. Many media outlets reported that the late September decline was due to developments on Capitol Hill overshadowing the positive data on housing and jobs that had been a focus for much of the quarter.

Positive signs for the quarter included record-high home-contract signings in August and the creation of 749,000 private-sector jobs in September (ahead of estimates for a gain of 650,000 and the strongest reading in three months) according to the National Association of Realtors and Automatic Data Processing, respectively.

CONCERNED ABOUT THE IMPACT OF THE 2020 PRESIDENTIAL ELECTION ON THE MARKETS?

Go to **www.h4fs.com** > **Events** > **Workshops and Webinars** and click on our on-demand webinar recording, ***Donkeys, Elephants, Bulls and Bears***, to hear Scott Hughes of Hughes Financial Services discuss what the potential impact of presidential elections may or may not be on investments and the stock market

HUGHES FINANCIAL SERVICES, LLC

Hughes Financial Services, LLC, is an independent Registered Investment Advisor (RIA) working closely with individuals and families to provide direction and strategies on how to financially achieve their personal goals and dreams.

We adhere to the highest fiduciary standards when providing advice that is truly unbiased and has only our clients' best interests in mind.

We offer our clients a wealth of comprehensive financial planning expertise in the following areas:

- retirement planning
- investment management
- estate planning
- risk/protection management
- education planning

The financial advisors at Hughes Financial Services hold a variety of professional designations and certifications and are well-versed in several financial disciplines. We specialize in helping employees and retirees of local government, school systems and U.S. military with their retirement options. Our combined education and experience allow us to offer you independent financial advice and solutions we are proud to provide.

Located in Herndon, Virginia (Fairfax County), Hughes Financial Services works with clients across the country.

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However, not all the statistics released this quarter were healthy. For example, the Commerce Department revealed in late September that personal income — a measure of what Americans received from salaries, investments, and government assistance programs — fell 2.7% in August from a month earlier. The data showed this decline was fully due to a drop in unemployment benefits. While the quarter included many inconsistent data points, the overriding theme for many investors is that there is still a high degree of concern as we await more positive news on potential coronavirus treatments.

MONEY RATES
(as posted in Barron's 10/5/2020)

	LATEST WEEK	YR AGO
Fed Funds Rate (Avg. weekly auction -c)	**0.09%**	**1.88%**
Bank Money Market -z	**0.10%**	**0.22%**
12-month Cert -z	**0.27%**	**0.82%**

c- Annualized yields, adjusted for constant maturity, reported by the Fed Reserve on a weekly average basis. z – Bankrate.com (Source: Barron's; bankrate.com)

The Federal Reserve has pledged to keep interest rates low for years, so the days of relying on strong returns from money market accounts and certificates of deposit may be in the rear-view mirror. While many investors this quarter enjoyed a nice rise in equity prices, some analysts caution that based on historical numbers, like price earnings, the case can be made that equities are highly overvalued and overpriced. Others debate that with ultra-low interest rates and high levels of liquidity, equities are still attractive.

This quarterly update will focus on a few central themes for investors. With markets entering the fall period that historically has been associated with heavy volatility, investors should continue to maintain focus on their personal objectives, time frames and risk tolerance level.

INTEREST RATES TO REMAIN LOW

Rates are projected to stay near zero for years. What does this mean for investors?

Changes in interest rates are still important for investors to watch because they can produce both positive and negative effects. At the Fed's September session, Federal Reserve Chairman Jerome Powell said that interest rates are likely to stay low for years as the economy continues to fight its way back from the coronavirus pandemic.

Powell said, "We think that the economy's going to need low interest rates, which support economic activity, for an extended period of time." He shared that the movement of this recovery "will be measured in years." Powell acknowledged that the jobs growth pace is rising faster than many expected, but still indicated that it may take years before the economy has fully recovered. "However long it takes, we're going to be there. We're not going to prematurely withdraw the support that we think the economy needs," he added.

Fed officials holding interest rates near zero and signaling that they would stay there for at least three years effectively means that the key rate will remain at or near 0% until 2023.

This is the second time rates have been this low. After the 2008 Global Financial Crisis, rates remained near 0% for seven years. While the low interest rate environment has been described as a bonus for borrowers and a nightmare for income-oriented investors.

Interest rates will continue to stay near the top of our watchlist, but for now, the consensus is that rates are going to be low for a long time.

4 WAYS LOW INTEREST RATES CAN IMPACT YOU

1. Home Mortgages and Personal Loans

Low interest rates can certainly help when it comes to home financing. Fixed-rate mortgages have locked-in interest rates but anyone looking to buy or refinance a home can benefit from lower rates. This is true for all fixed-rate financial products, including car and personal loans. Those who are locked into a loan and not able to refinance will not benefit from lower interest rates.

Homeowners with an adjustable-rate mortgage may have already seen their monthly payments decrease after the rate dropped. **Now may also be a good time to consider the benefits of changing to a fixed-rate loan so your interest rate can be locked in, taking away the worry about your mortgage payments going up in the future.**

2. Credit Card Debt

Many credit card issuers base their variable interest rates off of the prime rate. Since this rate is directly influenced by the Fed's benchmark, a rate cut could mean that credit card annual percentage rates (APRs) also drop. The benchmark rate has been low since March and unfortunately, a 1% drop will not make that big of a dent in your outstanding credit card balances. **Now may be a good time to look at ways to reduce any credit card debt you have.**

3. Savings Accounts

If you have a high-yield savings account, the Fed's announcement means you could see ultra-low rates for a long time as most savings annual percentage yields fluctuate in accordance with the Fed rate. Therefore, your yields most likely will not go back up until the Fed decides to raise the benchmark rate. A lower rate means that savers will earn less on their money**. Since March, interest rates on even the highest-yielding savings accounts have been less than 1% and many times closer to 0%.**

4. Income Investors

Income investors also experience lower rates when the Federal Funds rates are near 0%. The idea that this rate will be low for a long period of time requires income-oriented investors to carefully think through their personal strategies. **This is an area where we can help you review your choices to work towards meeting your specific needs. If you are concerned about your income requirements, please call us.**

INVESTOR AREAS TO WATCH

| SOCIAL SECURITY COST OF LIVING ADJUSTMENT (COLA) FOR 2021: 1.3%

The Social Security Administration announced in October that benefits will increase by 1.3% in 2021, the smallest COLA since 2017. The estimated average monthly Social Security benefit payable in January 2021 will increase from $1,523 in 2020 to $1,543. The average monthly benefit for a couple who are both receiving benefits will rise $33, from $2,563 to $2,596. And the maximum Social Security benefit for a worker retiring at full retirement age will increase from $3,011 per month to $3,148, an additional $137. Further, more of workers' incomes will be subject to the Social Security tax in 2021. The Social Security tax will apply to the first $142,800 of earnings, up $5,100 from 2020.

| ECONOMIC AND POLITICAL CONCERNS

The U.S. economy is the largest in the world and nearly 70% of it is driven by consumer spending. Analysts feel that until employment and wages increase, the economy will remain at best, bogged down and at worst, digging a deeper hole.

The U.S. Commerce Department reported in late September that the U.S. economy shrank by 31.4% in the second quarter, representing the largest drop in U.S. Gross Domestic Product (GDP) in a single quarter in history. The decline was more than three times as bad as the previous worst quarter in history, a 10% drop in the first quarter of 1958. The record second-quarter contraction follows a 5% drop in the first quarter.

Many economists are already shifting their attention to the third and fourth quarters, when economists are expecting record growth due to the recovery from the pandemic shutdowns. They are anticipating 30% GDP growth in the third quarter, which would almost double the previous record of 16.7% growth in the first quarter of 1950.

Officials such as Treasury Secretary Steve Mnuchin have expressed optimism that the economy can rebound strongly. While the stock market has remained relatively strong amid the pandemic, the Fed has stepped in aggressively to counter the damage, effectively leaving interest rates at zero and injecting vast amounts of cash into the banking system.

Unlike during the Great Depression, the economic damage today is mostly the result of strict nationwide lockdowns as we grapple with the current public health emergency. One main concern is the potential long-lasting setback to the economy because some businesses will close permanently. Prime examples are clothing retailers and restaurants, businesses that cannot respond to a work from home economy and therefore many of them may never reopen when the economy recovers.

The American economic dilemma is still the creation of jobs and economic growth, areas most affected by the current recession in the lower and middle classes.

Markets do not like uncertainty and today's political environment is certainly uncertain. The Presidential election and important Congressional races remain one of the more talked about subjects globally. Clearly, the economic and political results during the fourth quarter could impact the outlook of investors. It is our position as financial advisors to focus on the facts and determine how the political landscape can affect your investments. As they unfold, we will be watching and monitoring them.

| UNEMPLOYMENT UNCERTAINTIES

The decade since the end of the Great Recession in 2009 was one of historic economic growth in the U.S. Over that period, the U.S. economy added about 20 million jobs and the unemployment rate hit its lowest level in decades. Then came COVID-19 and a devastated U.S. work environment. The COVID-19 outbreak and economic downturn it caused swelled the ranks of unemployed Americans to more than 14% in April, from a historically low number of 6.2 million in February (a 3.5% rate).

August's 8.4% was a great improvement, but the current rate and uncertainties created by the pandemic are still concerning. With millions of people still out of work and an enormous amount of uncertainty about the trajectory of the virus, it is understandable why investors may be concerned.

INVESTOR STRATEGIES DURING MARKET VOLATILITY

"People who succeed in the stock market also accept periodic losses, setbacks, and unexpected occurrences.

Calamitous drops do not scare them out of the game."

PETER LYNCH

While the reality of key economic indicators has been more negative than positive, the level of federal stimulus has already surpassed what was done during the previous financial crisis. September included a downward market challenge that concerned many bullish investors but by quarter's end, the "new" bull market remained intact. Uncertainties around a contentious political environment and the fact that October is historically the stock market's most volatile month requires long-term investors to be prepared for potential market volatility.

Market downturns can be confusing and painful for investors. Many times, when investors suffer a sharp decline in their portfolios, it may feel never-ending. However, making emotional decisions during turbulent times can prove to be costly and problematic. A better strategy is to be prepared and be comfortable with your time frames and risk tolerance level.

UNDERSTAND YOUR PERSONAL SITUATION

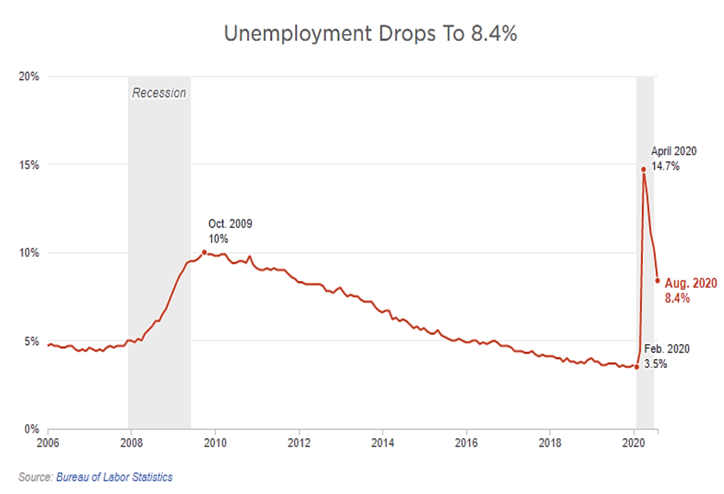
In your planning, consider ways to maintain a long-term outlook and try to ignore the short-term fluctuations. When making investment decisions, it is always best to keep your emotions in check especially when the daily swings in the stock market seem chaotic. Predicting market movements is near impossible so, for many investors, there is no reason to subject yourself to daily market headlines. If you have long-term investment outlook of at least five years, any short-term volatility may likely pass before you reach your time horizon.

KEEP IT IN PERSPECTIVE: CORRECTIONS ARE A NORMAL PART OF THE INVESTING EXPERIENCE

Market pullbacks (typically defined as between 5 and 10%), corrections (defined as 10 to 20%) and even bear markets (defined as 20% or more), are all a normal part of the stock market cycle. Since 1950, the S&P 500 has undergone 37 separate stock market corrections of at least 10%, not including rounding (i.e., declines of 9.5% to 9.9%). Considering that it has been over 69 years, this works out to a correction every 1.87 years on average.

VOLATILITY AND RISK ARE NOT THE SAME THING

When a stock is volatile, it tends to make big up or down moves. When a stock is risky, it typically means it can lose money for an investor. In financial terms, risk is the potential permanent loss of money whereas volatility is how rapidly an investment tends to change in price. Volatility does not just imply risk of loss; it simply refers to the price action. Some investments may be more volatile while others may be less. Equity investments as a category are much more volatile than a bank deposit, but that does not mean that an investor should avoid investments in equities. Just because an investment is more "volatile" does not necessarily mean it is "riskier" in the long term. When meeting for a portfolio review, investors should always consider the impact of potential short-term volatility on the daily value of their investments and plan accordingly.



INVESTORS SHOULD ALWAYS FOCUS ON THEIR OWN PERSONAL GOALS AND OBJECTIVES

It is very important that you understand your situation and your financial plan. A wise strategy is to continue to proceed with caution while allocating your investments to match your risk tolerance and time frame.

EXIT OR ENTRY POINT?

S&P 500 Largest Declines & Next 12-Month Results (1987-2020)

As this chart shows, there have been several large declines in the S&P 500 brought on by large, impactful events since 1987. It also shows that during the next 12 months after the decline, the equity market moved to a better place. While past performance is not considered an indication of future performance, this data confirms that panicking and selling after a decline might not be the best solution for investors.

Understandably, many investors get nervous when markets decline. However, others view it as an entry point for purchasing new or additional funds at a lower cost.

We enjoy discussing strategies and approaches to investing with our clients. Reach out to us to discuss your plan.

LARGEST DROPS IN S&P 500	DECLINE	NEXT 12 MONTHS
Black Monday (8/25/87 – 12/4/87)	- 33.5%	+ 21.4%
Gulf War (7/16/90 – 10/11/90)	- 19.9%	+ 29.1%
Asia Monetary Crisis (7/17/98 – 8/31/98)	- 19.3%	+ 37.9%
Tech Bubble (3/27/00 – 10/9/02)	- 49.0%	+ 33.7%
Financial Crisis (10/9/07 – 3/9/09)	- 56.8%	+ 68.6%
U.S. Credit Downgrade (3/10/11 – 10/3/11)	- 19.0%	+ 32.0%
Trade War (10/3/18 – 12/24/18)	- 19.6%	+ 37.1%
COVID-19 Pandemic (2/19/20 – 3/23/20)	- 33.8%	?

Sources: BlackRock and Morningstar, March 2020. Returns are principle only and do not include dividends. Past performance is not a reliable indicator of current or future results. This chart is for illustrative purposes only.

"Whether we're talking about socks or stocks, I like buying quality merchandise when it is marked down."

WARREN BUFFETT

INVESTOR OUTLOOK

Predicting short-term changes in the equity markets is near impossible. Equities are primarily for long-term investors. With interest rates near zero until 2023 and 5- and 10-year Treasury Notes yielding less than 1%, equities become more pronounced on an investor's choice list.

Jeremy Siegel, the Wharton professor credited with predicting the Dow Jones Industrial Average would surpass 20,000 in 2015, explained to CNBC on September 28th why he believes the stock market "is looking forward to a really good run" next year, regardless of who takes the White House. Siegel explained that the "tremendous burst of liquidity" from the Federal Reserve and Congress will continue to provide a huge tailwind for stocks. Siegel added, "I think that uncertainty is going to continue to weigh onto the markets."

Equity investors need to have realistic time horizons and return expectations but more importantly understand their own risk tolerance levels. Markets could go down before they go up or the reverse. Equity investors need patience, and to identify their goals and plan based on their specific situations and time frames. Remember, panic is not a plan! If you have carefully created a strategy with realistic financial goals, try to not allow emotions or media magnification influence you to shift away from your investment approach.

OUR CLOSING MESSAGE

As financial advisors, our purpose is to focus on your goals and objectives, timeframes, and risk tolerances and using this information, provide you with strategies and suggestions to help achieve your financial dreams.

When stocks are taking a beating, remember that the fundamentals – the core financial precepts – are always the building blocks of any credible financial plan. If you have a carefully created strategy with realistic financial goals, timeframes, risk tolerance levels and return expectations, DO NOT shift away from it because of emotions or media magnification. A financial strategy is only as good as your ability to consistently follow it.

To that end, three questions you can ask yourself:

- **Are you confident in your strategy?**
- **Are you comfortable with your strategy?**
- **Are you consistent with your strategy?**

If you answered No to any of these questions, reach out to us so we can discuss your situation. We want to be proactive, not reactive.

We hope you found this review to be helpful and educational. We have addressed various issues with you, but if you have questions or concerns, let's have a conversation. We are here for you. Be safe, be well.

PLEASE SHARE

HELP US *Help others*

Our goal is to offer our services to several other clients just like you. If you would like to share this report with a friend or colleague, please call Elise at (703) 669-3660.

2020 RETIREMENT CALENDAR CHECKLIST

Use this checklist to stay on top of important actions you should consider taking before the end of the year and annually. Questions? Just give us a call and we'll be glad to help!

FINAL (4th) QUARTER TASKS

- Project income for 2020 and 2021
- Review unrealized investment gains and losses
- Collect cost-basis information on sold investments
- Review sales of appreciated property
- Review potential credits and deductions
- Track donations to charity
- Take Required Minimum Distributions
- Review Medicare enrollment options
- Review and fund trusts
- Contribute to college education accounts or gift cash to family
- Review any gifting plans

REVIEW ANNUALLY

- Review and update health care directive, health care proxy, power of attorney, will and trusts, estate plan, and letter of intent
- Adjust investment portfolio as retirement needs change
- Decide which trusts can save on current taxes, reduce estate taxes, and benefit heirs and charities
- Review beneficiaries on all pensions, IRAs, annuities, life insurance, investments, bank accounts, CDs, etc.
- Discuss potential gifting to families or charities

BIRTHDAY MILESTONES

Age 55	Penalty-free distributions allowed from 401(k) if retired
Age 59½	Penalty-free distributions allowed from IRAs and qualified plans, and Roth IRAs at least five years old
Age 60	Can apply for early Social Security benefits under deceased spouse's earning record
Age 62	Can apply for early Social Security benefits under own earnings record (benefits reduced)
Age 65	Apply for Medicare (A/B) beginning 3 months before 65th birthday; coverage begins 1st of the month you turn 65
Age 66-67	Full retirement age for full Social Security benefits
Age 70	Apply for Social Security to get maximum benefits
Age 72	Start IRA Required Minimum Distributions (RMDs)*

* Age 72 for those born on/after 7/1/49; per the CARES Act, all RMDs are waived for 2020

7 TIPS ON FILING THE FAFSA

Do It Soon, Do It Right

The FAFSA (Free Application for Federal Student Aid) is the basis for all college financial aid. Here are some tips to help you out:

1. **Complete the FAFSA even if you don't think you qualify:** the FAFSA is needed to qualify for a campus work-study job or if you think you might end up borrowing money for college as the federal direct loan for students is often the best deal
2. **Some schools also require the CSS Profile:** there are about 200 colleges and universities that require both the FAFSA and the CSS Profile
3. **File as soon as you can:** October 1st was the first day to fill out the forms; students applying sooner tend to be more likely to get money
4. **Tax returns are the main source of data:** the FAFSA uses tax returns from two years ago using a data retrieval tool that links to the IRS to populate the information
5. **What assets are counted?** FAFSA and CSS have different financial filing requirements
6. **Only the custodial parent's assets are considered.** The FAFSA definition of child custody only pertains to where the child physically lived the majority of the 12-month period before you file the FAFSA
7. **Sometimes life changes.** Both applications require you to refile every year but as we all know, life circumstances can change. Be proactive and – ASAP – reach out directly to the school to alert them of any changes to your income that is not reflected on your tax returns.