ACROPOLIS® INVESTMENT MANAGEMENT

PORTFOLIO INSIGHTS

July 2020: Volume 19, Issue 3 // David Ott, Editor

In this Issue:

Contact us:

P | (888) 882-0072 (Toll Free)
| (636) 449-4900 (St. Louis)
F | (888) 453-1266 (Toll Free)
| (636) 778-2400 (St. Louis)
E | info@acrinv.com
A | 14567 North Outer Forty, Ste. 200, St. Louis, MO 63017

Acropolis was born from a simple idea:

In an industry where high quality, objective advice is hard to come by, we make a difference by putting the client's interests above our own.

BEST OF TIMES, WORST OF TIMES

Although most of us probably haven't read Charles Dickens' A Tale of Two Cities, we all know the first part of the first sentence that informs this headline. And while it must have been the case in 1859 England, it feels more true today than ever when you look at the value of the stock market and the state of the economy.

Three months ago, the world was in a state of shock as governments effectively shut-down economies around the world to slow the spread of the coronavirus. Stock markets globally reacted accordingly and lost one-third of their value in a matter of weeks. Treasury bond prices soared as investors flocked to safety, but the corporate bond market seized up when there weren't enough buyers to match all of the sellers.

At the end of the first quarter, it was apparent that the US and the rest of the world were entering a deep recession. The data was relatively sparse at that point, mostly limited to initial jobless claims, which measures how many people claim unemployment benefits.

In the 12-months before the virus hit, initial jobless claims ranged between 201,000 and 282,000 per week. The highest number on record was 695,000, set back

"I take it the market is doing better?"

in October of 1982. In the third week of March, 3.3 million people filed for unemployment. One week later, it was 6.9 million. By the end of the second quarter, 48.7 million people filed for unemployment.

The unemployment rate, which took a little time to catch up, jumped from 3.5 percent in February to 14.7 percent in April. Although it has come down some to 11.1 percent by June, that's still above the highest rate outside of The Great Depression of 10.8 percent, set in 1982.

As the unemployment rate shot higher, the overall economy contracted. The unemployment numbers are released monthly, but the broadest measure of the economy, Gross Domestic Product

(Continued on page six)

STOCK MARKET SUMMARY

By David Ott

After the fastest 30 percent decline in stock market history, the S&P 500 enjoyed the most rapid 50-day increase on record in the second quarter.

Like the selloff in the first quarter, the rally in the second quarter was broad-based, with every sector posting gains, and nine out of eleven of them making double-digit returns.

The three best performing sectors, consumer discretionary, energy, and technology, which all jumped by more than 30 percent, were also among the hardest hit in the first quarter. Conversely, utilities and consumer staples fared worse, earning single-digit returns, but also fared best in the first quarter with the smallest losses.

Volatility decreased in the second quarter, down from record levels in the first quarter. The CBOE Volatility Index (VIX) hit an all-time high in March, surpassing the peak set after Lehman Brothers collapsed in 2008. While it remains elevated compared to regular times, it is half of the level experienced in the first quarter.

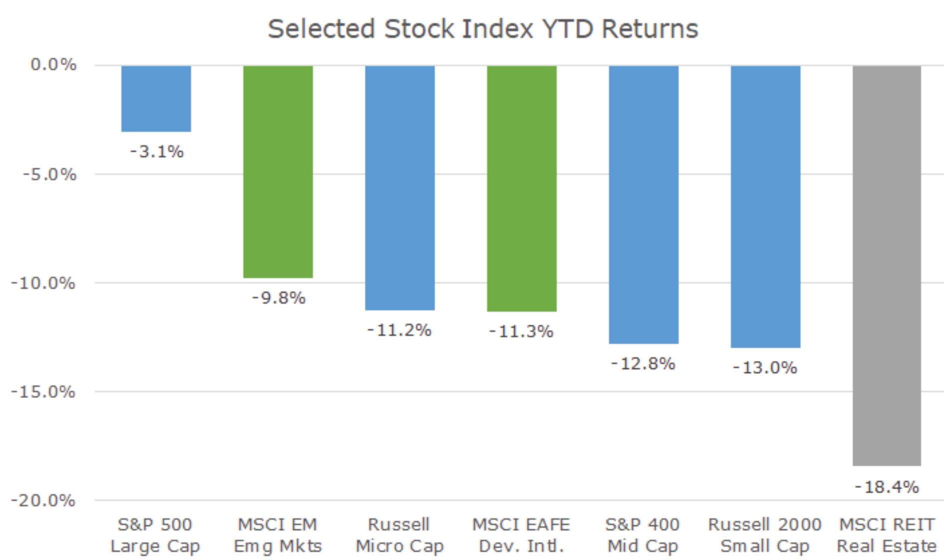
Outside of large-cap stocks at the high end, and Real Estate Investment Trusts (REITs) at the low end, stock market performance is relatively constant across most asset classes this year (see chart below).

REITs are suffering for several reasons, including 1) residential and commercial tenants are skipping their rent checks, 2) commercial tenants are going out of business, 3) the trend from physical stores to online retail is accelerating, and 4) there is general speculation about how the work from home movement could increase, making office space less vital.

Large-cap stocks may be outperforming other markets because some of the most valuable stocks in the index are benefiting from the current environment. For example, Amazon is taking an even larger share of online retail and is providing more cloud services to support remote workers and video-conferencing.

"Learning never exhausts the mind."

- Leonardo da Vinci, Polymath



Data Source: Bloomberg

BOND MARKET REVIEW

By Ryan Craft, CFA

Bonds have continued to have a solid year, with the Bloomberg Barclays Aggregate Index posting a +6.14 percent total return for the first half of 2020.

The Treasury market drove the first quarter's performance in the flight-to-quality trade. Treasury yields remained relatively unchanged in the second quarter, but credit exploded higher as the Federal Reserve provided massive support to credit markets. Investment Grade corporate bonds posted a total return of 8.98 percent for the quarter, while junk-rated bonds rose 7.36 percent.

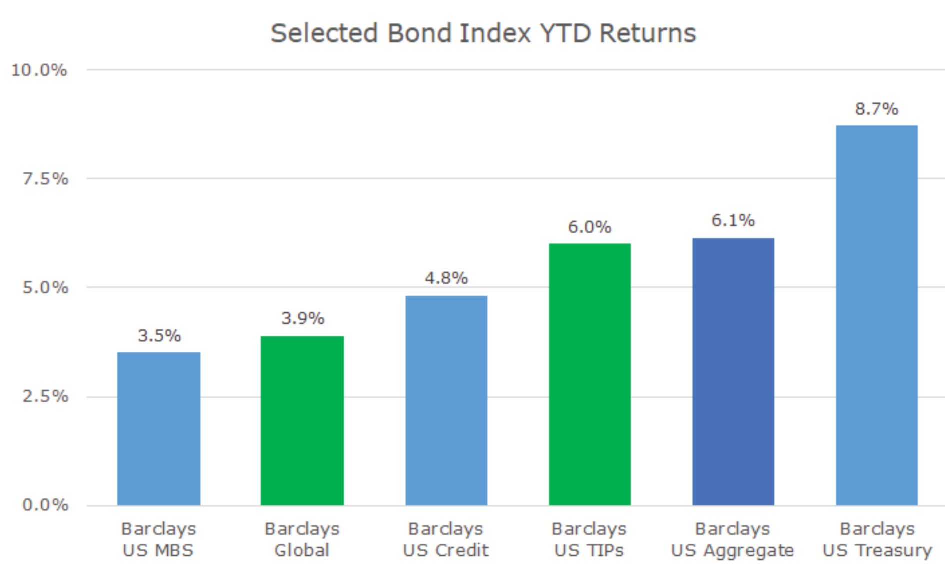
The driving force for all markets this past quarter was the Federal Reserve policy. As risk markets were in free fall in late March, the Fed quickly stepped in as a buyer of last resort. In the second quarter alone, the Fed's balance sheet increased by $1.8 Trillion, with most of that money flowing directly to the bond market through purchases of US Treasuries, Mortgage-Backed Securities, and even Corporate bonds. This unprecedented response has resulted in an increased appetite for risk despite depression level economic conditions. Corporate bond spreads and equity valuations are already back to pre-COVID levels.

Markets anticipate Treasury yields to remain low for a very long time. The Federal Reserve has forecasted the need to keep overnight rates pegged at zero through the end of 2022. They have also spent considerable time telling the market that they intend to keep long-term rates subdued as well. While the Fed is hoping their words along with the idea of increased bond purchases will be enough to keep long-term interest rates anchored, they have also floated the idea of rate caps, or Yield Curve Control.

The US government is faced with massive budget deficits as it finances the fiscal response to shutdowns amid a decline in tax revenue. Investors should expect the Fed to continue to be active in markets and likely to spend the trillions needed to maintain low yields and ample liquidity.

"We do not receive wisdom, we must discover it for ourselves, after a journey through the wilderness which no one else can make for us, which no one can spare us."

- Marcel Proust,
French Novelist



Data Source: Bloomberg

> **"Great things are done by a series of small things brought together."**
>
> *- Vincent van Gogh, Artist*

529 PLANS & TAX CREDITS

By Brad Combs, CFP®, CPA

Students will be returning to school in the Fall in some capacity, and tuition bills are coming. Due to the challenge of increasing tuition costs, having the right plan to save for education expenses is imperative.

529 plans provide potential tax advantages that are not available with other savings vehicles. Contributions to these accounts are made with after-tax dollars, and grow income tax-free when used for qualified education expenses.

In addition, a majority of states offer a specific state tax deduction or tax credit for contributions made to these plans, and there is no income limit on who can make contributions.

While 529s have been around for some time, they are becoming an even more attractive savings vehicle for education expenses due to several recent changes.

Thanks to the Tax Cuts and Jobs Act, many state's 529 plans now allow for these accounts to also be used for tuition for grades K-12.

Due to the tax-favored treatment of 529 plans when used for qualified withdrawals, funds in these accounts are typically best left to grow over time and apply towards future expenses.

However, for families who currently have K-12 tuition, this provides flexibility when making those payments.

If a family is not making the maximum annual contribution to the 529 account, contributing the tuition money due to the 529 plan first, and then taking a qualified withdrawal for the K-12 tuition allows for those taxpayers to use some of the available state tax deduction for that tax year.

The annual withdrawal limit for K-12 tuition is $10,000 per student, and while this is allowed for residents of Missouri, this is not permissible in all states.

Additionally, the SECURE Act passed in 2019 expanded 529 plans to allow them to pay up to a lifetime limit of $10,000 of student loans for an individual. This is subject to acceptance by the individual state plans, and Missouri's MOST 529 program has yet to approve of this change.

Missouri is one of just a handful of states that provides tax parity for 529 plan contributions. This means that a resident of Missouri can open and fund many state 529 plans and still receive the tax deduction on their Missouri tax return.

In Missouri, the annual contribution limits for maximizing the state tax deduction is $8,000 per taxpayer ($16,000 per couple).

Withdrawals for College Expenses

Qualified withdrawals include tuition, housing, books, and laptops. There may be an opportunity to claim a tax credit for some of these expenses if the individuals meet certain income limits and use non-529 resources to cover some of the costs.

Otherwise, taking a tax credit for

(Continued on next page)

expenses paid for with 529 funds is referred to as double-dipping, and the expenses used in determining the credit on the tax return may reduce the amount of the 529 withdrawal that is considered tax-free.

American Opportunity Tax Credit

The American Opportunity Tax Credit (AOTC) provides a credit for college expenses per eligible child, including tuition, equipment, and books, but does not include costs for room and board.

Eligibility for the AOTC requires that the student has enrolled at least half a regular full-time student workload and be in the first four years of a program that leads to either a degree or a certificate.

The credit covers $2,500 of undergraduate costs per year per child and is calculated as 100 percent of the first $2,000 of expenses and 25 percent of the next $2,000.

Forty percent of the tax credit is refundable, meaning potentially up to $1,000 could be paid as a refund on the tax return even if taxes due are reduced to zero.

The Modified Adjusted Gross Income (MAGI) limits for the AOTC:

Individual Filers: $80-$90,000
Filing Jointly: $160-$180,000

Lifetime Learning Credit

The Lifetime Learning Credit is available for undergraduate, graduate, and professional degree courses, and there is no limit on the number of years the credit can be used. Course expenses that qualify for the credit do not have to be related to a degree or certification; however, the credit can only be used once per tax return.

The credit is calculated as 20 percent of the first $10,000 of eligible expenses. The maximum credit possible per tax return would, therefore, be $2,000/year and is not refundable.

The Modified Adjusted Gross Income (MAGI) limits for Lifetime Learning Credits:

Individuals Filers: $59-$69,000
Filing Jointly: $118-$138,000

The American Opportunity Tax Credit and the Lifetime Learning Credit cannot be used for the same student in a tax year.

Still, you can claim the American Opportunity Tax Credit for multiple children, and the Lifetime Learning Credit for one other child on the same return.

Due to recent changes, 529 plans offer more flexibility than ever but are still dependent on state tax rules for what are considered qualified withdrawals.

It is essential to understand what your state plan offers to determine if it matches your specific needs.

Although Acropolis does provide general guidance on tax-related matters, we are not accountants and recommend that you consult your tax accountant or tax-preparer for specific answers regarding your situation.

"Everything we hear is opinion, not a fact. Everything we see is perspective, not the truth."

- Marcus Aurelius, Roman Emperor

> "Our greatest glory is not in never failing, but in rising every time we fall."
>
> *- Confucius, Chinese Philosopher*

BEST OF TIMES, WORST OF TIMES

Continued from page one.

(GDP) only comes out quarterly. The data for the first quarter, which showed a contraction of -5.0 percent, doesn't fully capture the impact of the virus since most of the economic damage came in the last month of the quarter.

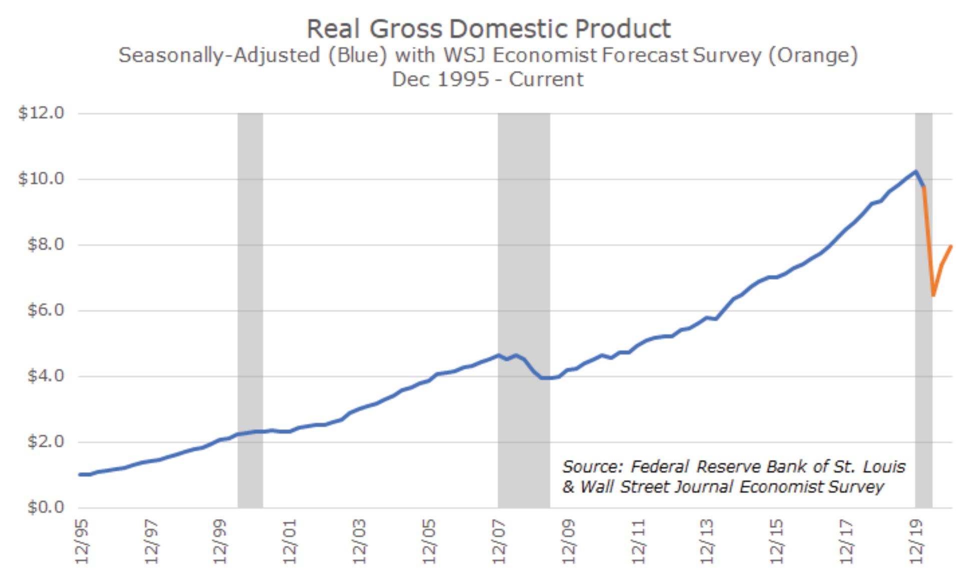
The Atlanta Federal Reserve produces a running estimate of GDP, called a 'GDPNow,' that attempts to measure the economy in realtime. Their 'nowcasts' are noisy and often miss the mark, but do offer some insight into the magnitude of the decline in the second quarter. As of June 30th, their GDPNow forecast estimates that the economy shrunk by -35 percent in the second quarter.

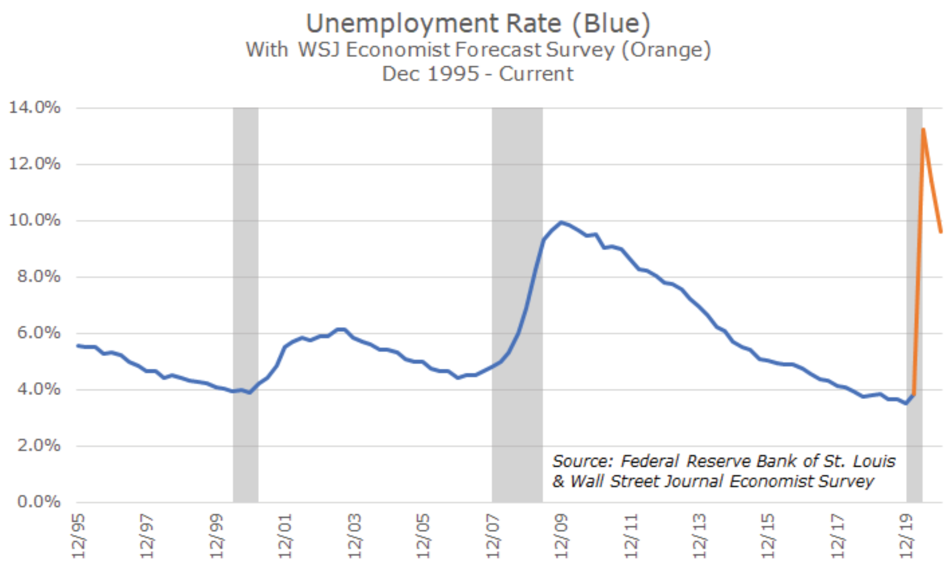
The Atlanta Fed GDPNow projection is similar to the results from the Wall Street Journal (WSJ) survey of economists, who (on average) forecast a 35 percent decline in the second quarter. The chart shows the growth of the economy over the past 25-years with the WSJ forecasts in orange. The economists surveyed show massive economic growth rates in the third and fourth quarters of this year of 14 and seven percent respectively, but on the back of a 35 percent contraction, growth still only comes back to 2017 levels.

Almost 70 percent of the forecasters surveyed expect a 'Nike swoosh' shaped recovery, which means that after the initial surge in growth, economic growth will slow, and the recovery will be gradual. As a result, they think that one year from now, unemployment will still hover around eight percent.

Given expectations about its short-term prospects, why is the stock market doing so well?

It's not because corporate profits look rosy: FactSet reported that analysts lowered their earnings estimates for the second quarter by 37 percent, the steepest cut since the fourth quarter of 2008. FactSet also reports that analysts expect earnings to decline by -21.5 percent for the calendar year 2020.





The combination of substantially lower earnings expectations and only marginally lower prices for the S&P 500 means that the forward price-earnings ratio (which looks at earnings estimates divided by the current price), calculated with Bloomberg data, is at a record high.

Other valuation metrics are high too, like the price-to-earnings ratio (75th percentile), the price-to-book ratio (86th percentile), and the Cyclically Adjusted Price Earnings ratio (92nd percentile).

The truth is that no one really knows why investors are willing to pay such high prices in the face of the current economy and a stubborn virus that we're still fighting.

The leading theory draws from an idea borne out of the bull market that followed the 2008 financial crisis, and is known as TINA, or, There is No Alternative.

As the Federal Reserve pushes down interest rates to try to stimulate the economy, bonds look less attractive compared to stocks. The yield on the S&P 500 is almost three times more than the yield on the 10-year US Treasury note.

Of course, 10-year notes aren't nearly as risky as the stock market. Stocks, while risky, still offer the best chance for returns. Our bond portfolio doesn't look too much like the 10-year Treasury because it's shorter in duration, is far more diversified, and has some embedded credit risk. While low-yielding, bonds are still relatively safe. The best approach, in our view, is finding the stock/bond allocation that works for each client's financial circumstances and risk tolerance.

It's impossible to know when the economy and market will more closely resemble each other, and we can only hope that the economy catches up to the market rather than the market declining to match the economy.

"The journey of a thousand miles begins with one step."

- Lau Tzu, Chinese Philosopher

Data Center	2020 Q2
Dow Jones	18.51%
S&P 500	20.54%
S&P Midcap	24.07%
Russell 2000	25.42%
MSCI EAFE (Intl)	15.15%
MSCI Emerging Mkt	18.14%

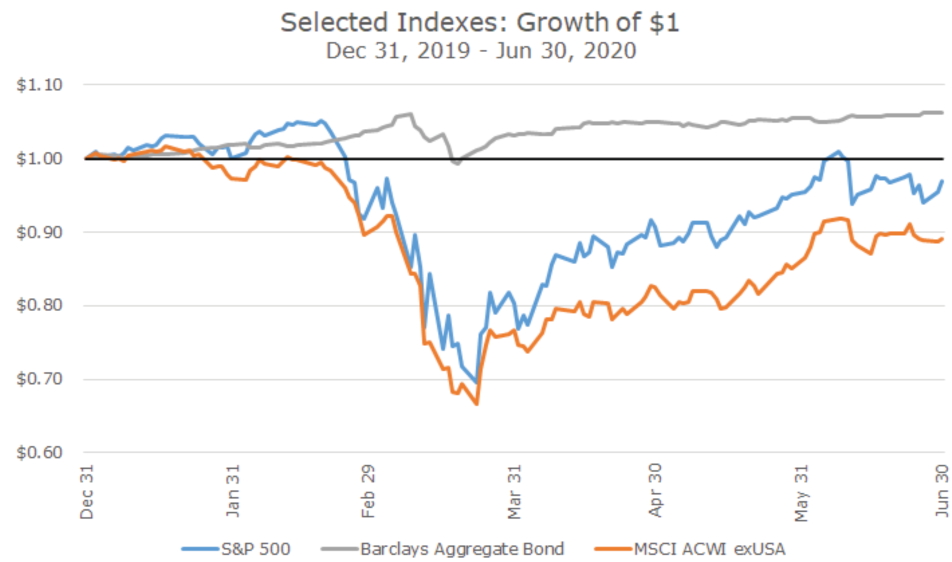
S&P Sectors	2020 Q2
Basic Materials	26.01%
Consumer Discretion.	32.86%
Consumer Staples	8.12%
Energy	30.51%
Financials	12.20%
Healthcare	13.59%
Industrials	17.01%
REITs	13.21%
Technology	30.53%
Communications	20.04%
Utilities	2.74%

Interest Rates	2020 Q2
Fed Funds	0.00%
Prime Rate	3.25%
3-mo. Treasuries	0.14%
2-yr. Treasuries	0.15%
5-yr. Treasuries	0.29%
10-yr. Treasuries	0.66%

Currencies	2020 Q2
Euro	1.1234
Japanese Yen	107.93
British Pound	1.2401

All Data as of 06/30/2020

THE BIG PICTURE



DID YOU KNOW?

Acropolis® has a team of advisers that specialize in **401(k) & Profit Sharing** plans.

We are here to help you protect your current plan or start a new one.

Call us at 636.449.4900

Notice to Clients

Please remember to contact ACROPOLIS® Investment Management, LLC if there are any material changes to your financial situation or investment objectives or if you wish to impose, add or modify any reasonable restrictions to our investment management services. A copy of our current written disclosure statement as set forth on Part II of Form ADV continues to remain available for your review upon request.

Legal Disclaimer

This publication is provided as a service to clients and friends of ACROPOLIS® Investment Management, LLC solely for their own use and information. The information in this publication is not intended to constitute individual investment advice and is not designed to meet your particular financial situation. You should contact an investment professional before deciding to buy, sell, hold or otherwise consider a particular security based on this publication. Information in this publication has been obtained from sources believed to be reliable, but the accuracy, completeness and interpretation are not guaranteed and have not been independently verified. The information in this publication may become outdated and we are not obligated to update any information or opinions contained in this publication.

© ACROPOLIS® Investment Management, LLC 2020. All rights reserved.