Market Insights: New Developments, What to Consider, and Top Questions Answered

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TRANSCRIPT

SPEAKERS:

Jim Armstrong Jurrien Timmer Leanna Devinney

JIM ARMSTRONG: Hello, and welcome to "Market Insights". Thank you for joining us today. I'm Jim Armstrong with Fidelity.

With 2020 accelerating toward its end, suddenly we're looking right at the holidays...and many of us are stopping to take stock in what we're grateful for. Especially in a year where nothing has seemed very normal.

Traditionally this is the time of year where, as part of their end of year planning, people tend to give to the causes they care about. Sometimes it's referred to as giving season. And it brings with it more than just the intangible benefits of feeling good...it also brings the opportunities to help your bottom line.

So that's what we're here to discuss today. How giving can help the charities you care about...and help you. And as always, we'll take a look at what the markets have been up to and what it can mean to your investments/end of year planning.

For today's webcast, Jurrien Timmer joins us to share his latest thinking based on his work studying our economy's big picture. And Leanna Devinney is here to talk about how she and her team of Fidelity representatives work 1:1 with customers building plans to achieve their financial goals.

Remember, the views and opinions in this webcast are those of our speakers. This discussion is for educational purposes and should not be considered investment advice.

Leanna, Jurrien... It's great to have you here.

JURRIEN TIMMER, LEANNA DEVINNEY: – THANKSGIVING!!!]

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JURRIEN TIMMER: Financial markets spent last week churning in a narrow range, as investors juxtaposed worsening news on covid-19 - and the implications this has for the economy and therefore the need for more fiscal/monetary intervention - against increasingly promising developments on a vaccine, which ironically seem to be reducing the political urgency to extend this policy bridge. A catch-22.

The result: a sideways market in which the "re-open" vs "stay-at-home" battle has been put on hold for now.

Economically speaking, at stake is the pace with which the US and global economy can continue to close the massive output gap that was opened back in March when the world went into lockdown.

For the US, the output gap has been reduced considerably already, which is an impressive feat over such a short time span. But with cases surging again and various countries and states going back into some form of lockdown, the risk is that the path back to full capacity and full employment will take longer and be more jagged than seemed possible a few months ago.

JIM: As we look ahead to the coming months, lots of milestones and indicators...like the COVID ones just mentioned. The holiday shopping season, which unofficially kicks off on Black Friday, could be another indicator. For those of us thinking medium to long term, can you talk more about what you're seeing?

JURRIEN: My guess is that investors will continue to look past the current rise in Covid cases and on to the prospects for better days in 2021. If the output gap continues to close, it suggests that value and small caps and non-US equities should continue to out-perform growth and large caps and US equities.

But how will the value side of the ledger do past the next few months? Does a more sustainable period of out-performance lie in store, or will this end up as just another frustrating head fake for the value crowd?

That suggests that the market should continue to advance, but at an increasingly less-positive rate of change. In my view this marks an important milestone.

Larger message: earnings need to continue to improve in order to justify price, but that they will likely do so

JIM: Thank you, Jurrien. Now, we're going to switch gears from the impacts of Black Friday and the kickoff to shopping season...to the impact of what's called Giving Tuesday – typically the first Tuesday after Thanksgiving – which is the kickoff to what some consider giving season. For those who are able to donate money to charities this year, there can be some benefits beyond just feeling good. Leanna, before you tell us more....

...this is a good time for me to say Fidelity does not provide tax advice, and nothing we discuss today should be interpreted as tax advice. The information being provided is going to be general in nature and it may not apply to your situation. If you have tax questions about your specific situation, we encourage you to talk to your tax advisor.

LEANNA DEVINNEY: Yes. Generally, if you itemize your deductions, making charitable contributions can reduce your tax bill. And since high- income earners generally pay tax at higher rates, they may enjoy a particularly large tax benefit from charitable contributions.

So, while I can't talk in specific numbers about taxes and tax savings, I want to talk about some different strategies for giving...Starting with the assets you choose to give. While giving cash or writing a check are by far the most popular methods, they may not be the most tax efficient ways to give. For starters, when you use a check or cash, you're giving money that you already paid taxes on.

So many people instead choose to donate other assets that can be smarter for their finances.

Contributing stocks, bonds, or mutual funds - that you have owned for at least one year - has become increasingly popular recently, and for good reason.

Most publicly traded securities may be donated to a public charity. When the donation is made, the donor can claim the fair market value as an itemized deduction on their federal income tax return. The amount deducted can be up to 30% of the donor's adjusted gross income (AGI).

Other types of securities, such as restricted or what's called "non-publicly traded securities", may also be deductible, but additional requirements and limitations may apply. No capital gains taxes are owed when the securities are donated, not sold.

Quick note – "non-publicly traded securities" are things like private stock in your company, and even some kinds of cryptocurrencies (LEANNA TO EXPLAIN)

Another consideration to make is giving from a stock bonus. Oftentimes people who receive bonuses in the form of stock from their employer can end up with more stock in that company than they're comfortable having. Gifting shares of company stock can help satisfy your philanthropic goals as well as the common goal to diversify your company awards, all while managing the impact on your capital gains tax.

JIM: I think that might be interesting to some folks who might have never thought about giving anything OTHER than cash. Can you walk us through an example of how it can be better for the charity and possibly better for you as the donor, too?

LEANNA: Happy to.

This hypothetical example onscreen shows the difference between donating $20,000 to charity by writing a check versus by donating appreciated stock with a fair market value of $20,000 and a cost basis of $10,000...which is the stock's purchase price in this example.

So let's look at the value, or the purchasing power, of each asset. The check has a clear purchasing power of $20,000.

What about the stock? To find its value, you'd liquidate it. In our example, we're assuming that this hypothetical client is in the 15% long-term capital gains tax bracket, and would pay $1,500 on the $10,000 worth of growth. That makes the stock worth $18,500.

So, in this case there is more value in giving the check and not the proceeds from the sale of the stock, since it has a lesser value.

But let's look at what would happen if they donated the stock instead? Because the charity is exempt from paying the long-term capital gains tax, giving the stock nets the charity $20,000. The same amount as they'd receive if the client gave the check. So they can give the same amount to charity by giving something of lesser value.

JIM: $1,500 in tax savings is nothing to sneeze at. Now, Leanna, can you talk a little bit about the process of bunching your charitable giving? I recently learned about bunching myself in a webcast some colleagues ours recently created about charitable giving and I think it is a strategy that our viewers might be very interested to learn about.

LEANNA: Of course. First, a little background.

In 2017, tax laws simplified tax filing for many people by increasing the standard deduction and capping many itemized deductions.

But if you're considering itemizing, to make the most of the potential tax deductions that still exist, you can consider "bunching" your charitable giving.

In its simplest form bunching means: increasing or accelerating your gifting into one year, then skipping the next 1 or 2 years, as a way to increase the amount of money you're able to deduct from your taxes.

This strategy can work well when your total itemized deductions for a single year fall below the standard deduction. The catch is that this strategy requires having the financial capacity to pack all of your deductions into one year. And of course, not everyone has the ability to do this. But for those who do, it can be worth learning more about it.

Take a look at this chart to see a hypothetical example of how it can work.

In this example, a couple that typically deducts a total of $15,000 a year between mortgage interest and property taxes also donates about $10,000 a year to their favorite charities.

Using their current strategy, they surpass the standard deduction by just a few hundred dollars—which equates to about $70 a year in tax savings based on their tax bracket.

If they were to instead bunch their giving, assuming they have the financial ability to do so, their tax savings can grow. So to the right side of the chart you can see what could happen by frontloading deductions into a single year in order to itemize taxes. In interim years, they'd take the standard deduction. By accelerating their charitable giving, they can potentially enjoy over $7,000 in tax savings—a greater benefit than three years combined of annual giving.

JIM: Wow, Leanna thank you for those useful strategies. Jurrien, question for you... but I do want to invite our viewers to check out that charitable giving webcast I mentioned. It goes into detail on some of the strategies Leanna mentioned & there's also a lot of information about how people use Donor Advised Funds to help grow the amount they're able to give. You can find it at www.fidelity.com/CharitableGiving

Now, back to Jurrien. I know you look a lot at trends and where we're going based on many factors – what are you seeing as we wrap up 2020?

JURRIEN: While China has more than made up its gap, the rest of the world and especially Europe and North America remain far behind. While the US has dipped only slightly in recent weeks, Europe has lost more ground.

The positive news flow on the vaccine front seems to have lifted investor sentiment towards equities

JIM: Thank you both for sharing your knowledge – really good insights for our viewers. And *to* our viewers... thank you as well.

If you need help, or just have questions, about building or updating your financial plans, remember that you can always call Fidelity to speak to one of our representatives. You can also visit our website or check out our app to learn more.

One quick programming note – We'll be off a bit for Thanksgiving break. Our next live broadcast is on Tuesday, December 8th – with the replay available immediately thereafter as always.

Again, huge thanks to Fidelity's Leanna Devinney & Jurrien Timmer ... and thank YOU for joining us.

Stay safe - Be well...and we'll see you in two weeks.

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