"What a difference a year makes, right?"

JANUARY 2020

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Market Commentary

What a year.

At the start of 2019, markets faced four significant macroeconomic uncertainties: Could the U.S. and China strike a trade deal? What was the Fed policy for 2019 and would they continue to increase interest rates? Could U.S. and global economies stabilize? Would Brexit get resolved? Each of these unknowns, which had weighed on markets throughout the early part of 2019, saw positive progress during the final three months of the year, resulting in solid gains for the fourth quarter and the best annual return for the S&P 500 index since 2013!

By far, the most important event for markets during the fourth quarter was the agreement to a "phase one" trade deal by the U.S. and China. Since early 2018, the U.S.-China trade war, and the tariffs that came with it, pressured the global economy and weighed heavily on investor sentiment. Twice in 2019, first in May and again in August, tariff increases caused a significant spike in market volatility.

Improvement in U.S.-China trade relations wasn't the only positive event in 2019, however. The Federal Reserve, at the first of the year, had backed off of the idea to continue interest rate increases and announced no further rate increases for 2019. Then followed this change of course with an even more dramatic move, decreasing the short-term bond rates three times, the largest annual reduction in over a decade. Additionally, at the December policy meeting the members of the Federal Open Market Committee showed they do not expect to raise interest rates in 2020. That added clarity for Fed policy expectations, specifically that the market can expect rates to stay low for the foreseeable future, also helped power stocks higher in the fourth quarter.

By market capitalization, large company stocks outperformed small company stocks for the full year. That reflected investor concerns about a potentially slowing global economy, as large caps are historically less sensitive to slowing growth than small cap stocks. Notably, however, small caps did narrow the performance gap in the fourth quarter, which implied rising optimism towards the global economy in 2020, following the announcement of the U.S.-China trade deal. From an investment style standpoint, growth stocks outperformed value stocks again in 2019, due to strength in the technology sector. Looking internationally, foreign markets registered solidly positive returns, with foreign developed markets modestly outperforming emerging markets. However, both underperformed the S&P 500 in 2019.

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Even bonds fared well last year, as the Federal Reserve's cuts in interest rates helped lift bond prices and produced stellar returns for most classes of bonds. Many of the components of our Total Return portfolio – high yield bonds, preferred stocks, and non-agency mortgages – all garnered double-digit returns. The Fed's commitment to keep interest rates stable in 2020 should continue to support bond prices, although we are more tempered in our outlook for this year.

The markets' performance in 2019 was a good reminder of the difference a year can make. In January 2019, the S&P 500 was coming out of its first negative year in a decade; worries about the global economy were surging due to the U.S.-China trade war and the Federal Reserve had just hiked interest rates the previous month. For us, the takeaway from this is clear: What happened in the markets last year doesn't mean much for what could happen in the markets this year.
And so what do we expect for 2020?

First, we are monitoring several unknowns that, with the market at historically high valuation levels, could cause volatility in 2020. Regarding U.S.-China trade, markets are now wondering what's in the phase one trade deal. The text of the agreement should be released in early-January, and while sentiment towards the deal is clearly positive, specific details remain very light. At some point, the market will demand that the details of the trade deal meet now-elevated expectations.
Turning to the economy, markets are expecting a rebound in global economic growth. So, the upcoming economic data needs to continue to show signs of stabilization and, ultimately, a re-acceleration of economic growth not just in the United States, but globally.

The Federal Reserve will continue to play a role in the markets this year, despite promising no movement on interest rates. The quiet addition of over $400 Billion to the Fed balance sheet since the middle of September certainly helped lift stock prices in the fourth quarter. This move was in response to stress in the over-night lending market, called the "Repo Market", used by global banks. Given that this is not a typical event for that market, we are keeping a watchful eye. For more details on what this market is and how this is impacting stocks and bonds, please see our latest Dave Talks on the web site.

Looking at domestic politics, markets have ignored the impeachment of President Trump and that's not likely to change as the odds he is removed from office by the Republican-controlled Senate are very low. But there is an election coming in November, and while many analysts don't expect it to begin to influence the markets until later this summer, we could know who the Democratic nominee is by the end of March. Depending on who that person is, we may see some unexpected volatility in the stock market.

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Meanwhile, on the geopolitical front, we have the unexpected execution of the Iranian general, Qassem Soleimani, leader of Iran's Islamic Revolutionary Guard Corp, as authorized by President Trump. Soleimani has been described as "the single most powerful operative in the Middle East today" and his position is considered to be second only to the Ayatollah. The impact of this action will be the focus of headlines, a spike in oil prices, and very likely market volatility, in the near term.

Bottom line, the fundamental outlook for the economy and asset markets has improved since the depths of the 2018 correction, and stocks have responded accordingly. But it's very important to realize that, despite the strong performance in 2019, markets still face significant uncertainties, and we are committed to monitoring these situations and their impact on the markets and your portfolio.

Financial Planning Tip

The Secure Act:

The Setting Every Community Up for Retirement Enhancement (SECURE) Act is a bill designed to expand opportunities for individuals to increase their retirement savings. The bill passed the U.S. House of Representatives in July 2019 but was not expected to pass the Senate. In a surprise move, the legislation was included in the spending and tax-extension bill which flew through the Senate on December 19th and was signed by President Trump on the 20th. Here are a few of the major highlights that will go into effect for 2020.

Stretch IRA Provisions Substantially Modified:

One of the most significant changes made by the SECURE Act to is the elimination of the 'Stretch' provisions for most non-spouse beneficiaries of defined contribution plans and IRA accounts. Under this 10-Year Rule, the entire inherited retirement account, including both IRA's and ROTH IRA's, must be distributed by the end of the 10th year following the year of inheritance.

There are five groups of designated beneficiaries to which the new 10-Year Rule will not apply. They are referred to as "Eligible Designated Beneficiaries":

- Spousal beneficiaries
- Disabled beneficiaries – with exception
- Chronically ill beneficiaries - with exception
- Individuals who are not more than 10 years younger than the decedent
- Certain minor children of the original retirement account owner, but only until they reach the age of majority.

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IRA Changes:

RMDs from age 70 ½ to age 72: This change to the new required beginning date for Required Minimum Distributions (RMDs) only applies to those individuals who turn 70 ½ in 2020 or later. So even though an individual turning 70 ½ on December 20, 2019 will not yet be 72 in 2020, they will still be required to continue RMDs under the existing rules, and to take an RMD for 2020.

Qualified Charitable Donations: There are no changes to the date at which individuals may begin to use their IRAs (and inherited IRAs) to make QCD's. Even though an individual turning 70 ½ in 2020 will not have to take an RMD for 2020, they may still use their IRA to make a QCD of up to $100,000 for the year, subject to certain adjustments outlined below.
IRA Contribution Age Changes: Beginning in 2020, individuals of ANY AGE will be allowed to contribute to a Traditional IRA, provided such individuals or their spouses have "compensation" – defined as income earned from either wages or self-employment. The maximum QCD, defined above, would be reduced by the amount of any pre-tax contributions to an IRA or spousal IRA.

529 Plans:
The SECURE Act introduces a new provision for using 529 Plan money to pay for "Qualified Education Loan Repayments," which may be used to pay the principal and/or interest of qualified education loans and are limited to a lifetime amount of $10,000. The $10,000 lifetime limit is a per-person limit, and in addition to using the funds in a 529 plan to pay for the 529 plan beneficiary's debt, an additional $10,000 may be distributed as a qualified education loan repayment to satisfy outstanding student debt for each of a 529 plan beneficiary's siblings.

The SECURE Act also includes several other key changes and updates to current law:

- An allowance for a penalty-free distribution up to $5,000 for a qualified birth or adoption
- The creation of a Fiduciary Safe Harbor for selecting a "Lifetime Income Provider" (i.e., annuity company) for ERISA fiduciaries
- A substantial increase in the tax credit available to small businesses when establishing a retirement plan. As well as a brand-new tax credit for small businesses that adopt an "auto-enroll" provision in their retirement plans
- An increase in the allowable auto-enrollment "default" 401(k) plan contribution, improved access to employer plans for long-term part-time workers
- A repeal of the Kiddie Tax, which reverts away from a requirement to use trust tax brackets and back to using the parents' top marginal tax bracket
- Adjustments to the medical expense deduction threshold (back to 7.5%-of-AGI again for 2019 and 2020

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DECEMBER 2019

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As with any new large-scale change, it is always important to evaluate these changes to your own financial life and retirement plan. If you feel like you have additional questions, do not hesitate to reach out to us so we can discuss how any of these changes may impact your personal financial plan.

Tax Planning Tip

AZ Tax Credits for 2020

By making these donations you get, dollar for dollar, a credit on your Arizona state return. A current list of the available credits include:

Qualifying Charitable Organization (QCO) Tax Credit, which doubles the allowable amount of what formerly was known as the Charitable Tax Credit. Extended to the 2019 tax year, the QCO single or head-of- household credit is up to $400; for those filing jointly, it is up to $800. Like its predecessor, the QCO supports organizations providing assistance to Arizona residents who are low income, chronically ill or have physically disabled children.

The Qualifying Foster Care Organizations (QFCO) Tax Credit, which also is new, is similar to the QCO but is intended for foster-care community services. Extended to the 2019 tax year, the QFCO single or head-of-household credit is up to $500; for joint filers, it is up to $1,000.

The Public/Charter School Tax Credit supports extracurricular activities that require students to pay a fee in order to participate. Taxpayers are not required to have children to take the credit, which is $200 for single or head-of-household, and $400 for joint filers.

The Private School Tuition Credit provides scholarship money to students attending private school. It is a maximum of $1,135 for single or head of household, and $2,269 for joint filers.

The Arizona Military Family Relief Fund (MFRF) is administered by the Arizona Department of Veterans' Services and helps families of injured or killed service members with special expenses. Certain cash contributions to the fund qualify for a credit. The fund has an annual cap of $1-millon for refundable Arizona tax credits. Single or head-of-household taxpayers can take up to a $200 tax credit; joint filers, up to $400. This year the donations can be made online.

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401k Allocation

Timing is everything … as we were ready to go to press with NO changes to the 401K allocation for this month, President Trump was calling a drone strike on an Iranian general. Out of an abundance of caution – and because this will be your allocation for the next month – we are pulling a bit of risk off the table here. Whether this has the potential to blow up into something very ugly, or if, as has been the case with just about any other negative news lately, the market shrugs this off … well, time will tell.

Remember to not only change your FUTURE allocation for new dollars coming into the plan, but also change your CURRENT allocation to reflect this update. As always, if you need assistance with getting your portfolio re-set or establishing a "decoder ring" for your personal 401K options, please don't hesitate to give our office a call and we'll help you out.

January 2020					
		Agg. Growth	Growth	Moderate	Conservative
Bonds / Cash		10%	20%	45%	70%
	Stable Asset - OR - Short Term Bond	0%	10%	25%	40%
	Total Return	10%	10%	20%	35%
	High Yield Bonds				
	World Bond	0%	0%	0%	0%
	Inflation Protected Bond	0%	0%	0%	0%
Large Cap:		60%	60%	38%	20%
	Large Cap Growth	35%	35%	23%	10%
	Large Cap Value	25%	25%	15%	10%
Mid Cap:		20%	15%	12%	5%
	Mid Cap Growth	5%	5%	0%	0%
	Mid Cap Value	15%	10%	12%	5%
Small Cap:		0%	0%	0%	0%
	Small Cap Growth	0%	0%	0%	0%
	Small Cap Value	0%	0%	0%	0%
International:		10%	5%	5%	0%
	Developed International	10%	5%	5%	0%
	Emerging Markets	0%	0%	0%	0%

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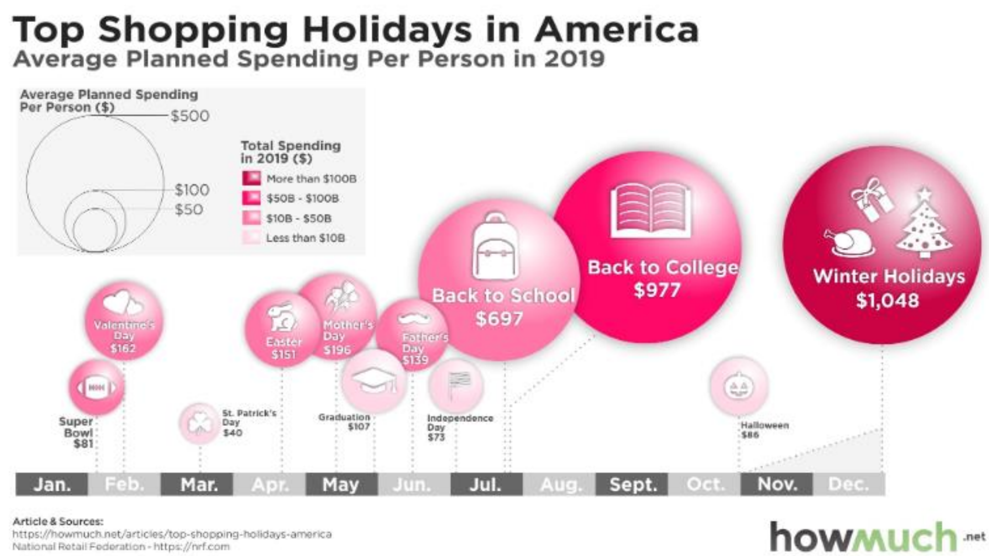
Graphic of the Month

Winter is the season for sleigh rides, chestnuts roasting on an open fire--and lots of holiday shopping. Holiday spending in November and December has seen a dramatic upswing since the 2008 recession. But how does spending for the winter holidays like Christmas stack up against spending for other holidays and events throughout the year?



Every year, Copperwynd Financial makes a donation to Charities both in Utah and Arizona for the holiday season. This year, Copperwynd made donations to St. Mary's Food Bank, Habitat for Humanity - Arizona, Primary Children's Hospital, and Huntsman Cancer Institute. Here are a few of our Associates presenting the charities with the donation!