COPPERWYND FINANCIAL

JUNE 2020


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*"The Economy is not the Market."*

## Market Commentary

In May, states across the country began the painstakingly slow and delicate process of getting people back to work, as businesses began to re-open with new guidelines in place. The anticipation of a return to "normal" has buoyed optimism in the stock market with all major indices recording gains for the month. Technology continues to lead the way, but it was also nice to see small and mid-size company stocks join the rally. Continuing declines in the number of positive cases of the virus in Europe and Asia also helped drive positive markets overseas. By month-end, the S&P was officially out of "correction" territory and within 10% of its all-time high.

A look behind us at the past three months would make most anyone wonder how we managed to be where we are in the stock market today. There have been 40 million people file claims for unemployment through last week. Just a point of comparison – in the Great Recession of 2008-2009, the largest single week of unemployment claims was 600,000 vs. *6 million* during this crisis. The unemployment rate, due out the end of this week, is expected to show an unemployment percentage of 19%. In 2009, the unemployment rate peaked at 10.6%. We do not believe we will recover all of the jobs lost during this crisis any time soon, but the number we are watching most closely is the Continuing Claims for Unemployment. This is the total number of people who filed for unemployment and have continued to file every week. That number has finally begun to decline with the last week's reading, dropping a substantial 3.8 million claims from the prior week. It is this trend that has given markets some hope.

In terms of growth of sales in manufacturing and services, we have seen similar devastation to demand, with statistics rivalling the 2008-2009 correction. The latest estimates from Goldman Sachs would have GDP dropping 36% for the second quarter, and that is an improvement from prior estimates. Again, as bad as that sounds, they are seeing signs of recovery with the re-opening of the economy.

Real estate will lag the other economic factors as this market has been put in a state of suspended animation with restrictions on evictions for both residential and commercial rentals, and a myriad of complicated laws at both the federal and state levels with respect to whom this affects. We have seen, not surprisingly, sales of new and used homes fall dramatically, yet prices and rents have been stable to higher across the country.

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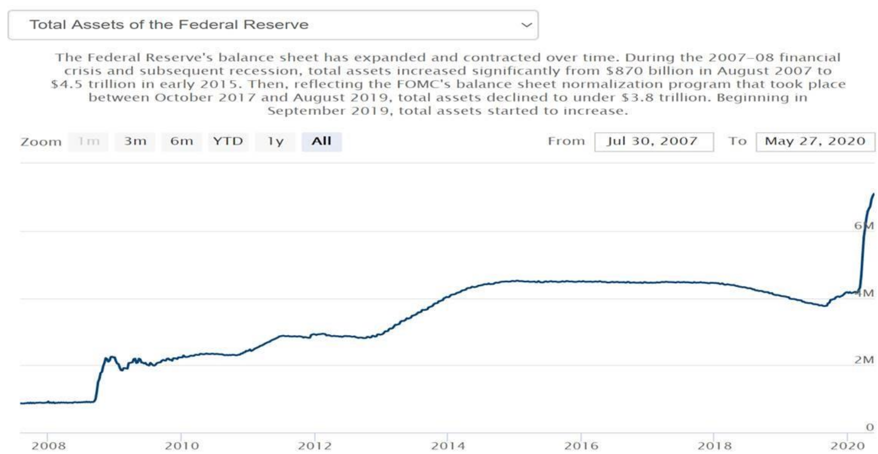
We expect this to change as the evictions and loan forbearance rules are lifted toward the end of the summer and we begin to understand how many will be unable to truly pay their rents and mortgages.

With all of this as a backdrop, how did the market recover from the correction so quickly? Hope, in the form of states re-opening, and Help in the form of record amounts of stimulus from both the Federal Reserve and the Federal Government. During the Great Recession, the Federal Reserve stepped in numerous times – you may recall the many references to Quantitative Easing, or QE 1, 2, 3 - to help prop up the economy to allow for a recovery. They did this through numerous financial tools, but the effect was to increase the size of their balance sheet. The result was a bull market as those dollars found their way into the stock market. Where is the Federal Reserve balance sheet now?




Source: Federal Reserve.gov

It took almost five years during the 2008 recession for the Federal Reserve to add the same amount to their balance sheet that they just added in less than three months. That liquidity, that $3.8 trillion increase in their balance sheet, has pushed into the stock markets. Even though the markets should reflect the health of the country, it is true more than ever now: the stock market is not the economy.

Make no mistake, we do not feel it is clear sailing moving forward. There are plenty of challenges ahead to our economy and our nation and there will be a new "normal" as we work through these issues. Growing tensions with China, civil unrest, the threat of new outbreaks, all have the potential to create volatile days once again, so we remain watchful.

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In your portfolios here we have been fully invested on the bond side – with very nice results – for over a month now. In the stock portfolios, most are fully invested and picking up the gains from this tailwind. Over the coming months we will be launching a variety of Dave Talks to talk about how various portfolios work, so watch here for coming links.

And finally, we would be remiss if we did not acknowledge the events occurring recently around our country. Like most of you, we have watched with horror, sadness, and disbelief as events in Minneapolis have launched a series of reactions around our country. We have come together as a firm for our response here: (See Notable and Quotable)

Stay safe.

## Financial Planning Tip

Health savings accounts or HAS's are perhaps the best retirement planning tool available. HSAs are tax-advantaged savings accounts designed to help people who have high-deductible health plans with paying for out-of-pocket medical expenses. There are major advantages to these types of accounts, For instance you can contribute to an HSA until age 65, when Medicare becomes available, and you can contribute up to age 65 even if you're not working. And unlike a Flexible Spending Account, your HSA money is yours forever, and it's portable.

An HSA has three powerful tax benefits. Contributions to the account are tax deductible, or excluded from gross income when an employer makes them. The account can be invested, and income and gains compound tax free in the account. When distributions are taken from the account to pay for qualified medical expenses, the distributions are tax free. You can contribute to an HSA until age 65, even when you're not working. And unlike a Flexible Spending Account, your HSA money is yours forever, and it's portable.

The annual contribution limit for an HSA in 2020 is $3,550 if you have individual health insurance coverage and $7,100 if you have family coverage. For people age 55 and older, an additional $1,000 catch-up contribution is allowed. You can make the contribution, or an employer can contribute to your account. You must have a qualifying high-deductible medical insurance policy. The deductible for individual coverage must be at least $1,400 and for family coverage the deductible must be $2,800.

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Most people aren't aware that if you're looking for cash to fully fund the year's HSA contribution, a transfer from an IRA might do the job. When you're fully or partially funding the HSA, a possible source of cash for contributions is your IRA using a qualified HSA funding distribution (QHFD). The QHFD is a once-in-a-lifetime limit per taxpayer and can only rolled over to cover the maximum contribution for that year only.

The best way to use an HSA is to treat it as an investment tool that will improve your financial picture in retirement. By waiting as long as possible to spend your HSA assets, you maximize your potential investment returns and give yourself as much money as possible to work with. You'll also want to consider market fluctuations when taking distributions, the same way you would when taking distributions from an investment account. If you want to talk through your HAS investment options, give us a call at the office!

## Tax Planning Tip

In the wake of the Pandemic, the desire to gift to charities is on the rise. But with the standard deduction doubled and many popular deductions eliminated, it may not make sense to itemize your tax deductions. But how can you still receive a tax benefit for charitable giving?

One strategy to consider is called "bunching." To take advantage of this strategy, you contribute multiple years' worth of your charitable giving in one year to surpass the itemization threshold. In off-years, you take the standard deduction. Under the tax reform law, your charitable donation alone no longer surpasses the standard deduction threshold, which is now set at $12,400 for single filers. However, if you were to "bunch" two years of donations into one year, you can itemize every other year and receive the full tax benefit of this charitable giving.

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 |
|---|---|---|---|---|---|---|
| | Pre-Tax Reform Strategy | | | | | |
| Donation | $10,000 | $10,000 | $10,000 | $10,000 | $10,000 | $10,000 |
| Deduction | Itemize | Itemize | Itemize | Itemize | Itemize | Itemize |
| | Post-Tax Reform Strategy | | | | | |
| Donation | $20,000 | $0 | $20,000 | $0 | $20,000 | $0 |
| Deduction | Itemize | Standard | Itemize | Standard | Itemize | Standard |

Another strategy if you are looking to donate to charities you can do so using long-term appreciated securities which in effect, reduces income tax liability and may eliminate capital gains tax on the assets. Capital gains taxes are eliminated when you contribute long-term appreciated assets directly to a charity instead of selling the assets yourself and donating the after-tax proceeds. When you assume 20 percent for federal long-term capital gains taxes, plus a 3.8 percent Medicare surtax, this leads to a potential increase of 23.8 percent of both your tax deduction and your charitable contribution.

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Lastly, A donor-advised fund is an ideal vehicle for tax-savvy charitable giving. By making a charitable contribution to a donor-advised fund, you become eligible to take an immediate tax deduction for the amount contributed. Your contributions are invested so they have the potential to grow tax-free and generate more money for the charities you care about. You can then support your favorite charities in a time frame that works for you.

If you are looking to donate to a charity in the near future, give us a call at the office to see how to do so in the most tax advantaged way for your situation!

## 401k Allocation

The markets continue to shrug off … well, everything! Which makes us nervous and leery, but the inescapable fact is that the market is being driven forward by the significant forces of the Federal Reserve. To that end, we are now fully invested in all risk levels for the 401K. Those of you who have let me know you're actively monitoring these changes are on my watch list now, so that should we get a pivot in these fast moving markets, we will send out a specific notification regarding your allocation to risk.

Don't forget to change both your CURRENT allocation as well as FUTURE allocation to the appropriate risk level, and as always, please feel free to reach out if you need assistance in rebalancing your account as we are here to help!

| **June-20** | | | | | | |
|---|---|---|---|---|---|---|
| | | **Agg. Growth** | **Growth** | **Moderate** | **Balanced** | **Conservative** |
| **Bonds / Cash** | | **0%** | **10%** | **35%** | **50%** | **70%** |
| | **Stable Asset - OR - Short Term Bond** | **0%** | **0%** | **0%** | **10%** | **10%** |
| | **Total Return** | **0%** | **10%** | **35%** | **40%** | **60%** |
| | **High Yield Bonds** | **If you have a high yield bond option, you may have HALF of your bond weighting to this position** | | | | |
| | **World Bond** | **0%** | **0%** | **0%** | **0%** | **0%** |
| | **Inflation Protected Bond** | **0%** | **0%** | **0%** | **0%** | **0%** |
| **Large Cap:** | | **70%** | **65%** | **45%** | **35%** | **25%** |
| | **Large Cap Growth** | **50%** | **45%** | **30%** | **25%** | **15%** |
| | **Large Cap Value** | **20%** | **20%** | **15%** | **10%** | **10%** |
| **Mid Cap:** | | **20%** | **15%** | **10%** | **10%** | **5%** |
| | **Mid Cap Growth** | **10%** | **10%** | **5%** | **5%** | **5%** |
| | **Mid Cap Value** | **10%** | **5%** | **5%** | **5%** | **0%** |
| **Small Cap:** | | **10%** | **10%** | **10%** | **5%** | **0%** |
| | **Small Cap Growth** | **5%** | **5%** | **10%** | **5%** | **0%** |
| | **Small Cap Value** | **5%** | **5%** | **0%** | **0%** | **0%** |
| **International:** | | **0%** | **0%** | **0%** | **0%** | **0%** |
| | **Developed International** | **0%** | **0%** | **0%** | **0%** | **0%** |
| | **Emerging Markets** | **0%** | **0%** | **0%** | **0%** | **0%** |

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## Notable and Quotable

**“The only thing necessary for the triumph of evil is that good men should do nothing”.**
**~ Edmund Burke**

This country is going through some very difficult times with health, financial, economic, social and political consequences. Most of us would never have imagined these events occurring in such a short period of time, even in our wildest dreams. While we provide financial guidance, we are first and foremost human beings with very real feelings. We live in an unjust world and while we would not attempt to impose our own personal non-financial opinions on you, we do feel that we must speak out against injustice. There is no room for prejudice in an enlightened society. We must hold one another accountable.