COPPERWYND FINANCIAL

SEPTEMBER 2020

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"What does matter, and matters a great deal, is what the Federal Reserve is doing."

Market Commentary

2020 has been a year for records. As of the end of August, Phoenix had set a record for number of days over 110 degrees with 50, shattering the previous record of 33. Over 1.5 million acres of California have burned so far this year, in comparison to 56,000 acres through this same period a year ago. We saw the fastest race into bear market territory earlier this year with a 34% decline in the markets in 3 weeks. Then we reversed that with one of the fastest recoveries from said bear market in April and May. Then there is the whole virus thing. I don't know about anyone else, but boring sounds really appealing to me right now!

With elections looming and the global economy still working through what it means to deal with a pandemic, unfortunately "boring" doesn't seem to be in the cards this year. It is two months to election day and I would have to say that more than half of the conversations we are having with you these days revolves around what markets will do depending on who is elected. While it certainly matters who is in the White House when it comes to legislation on taxes, judge appointments, etc. it may surprise you to know that the markets are fairly agnostic (see our Chart of the month for reference). What does matter, and matters a great deal, is what the Federal Reserve doing.

Since the start of the crisis, the Federal Reserve has added over $3.5 Trillion to their balance sheet. To put it simply, that's printing money. Coming out of the 2008 financial crisis, it took the Federal Reserve five years to add that much to their balance sheet. It took them six weeks to do the same thing this spring. This week, Chairman of the Federal Reserve Jerome Powell, added another element to their plan to right the economic ship: they have changed the target of 2% inflation to a target of 2% average inflation. What is the difference and why the distinction?

What it signals to the markets is that they will not begin to raise interest rates, as they did during the past decade, when we start to see inflation; they will wait until the average inflation is in that range. This means they will wait longer and let inflation run "hot" for a period of time before beginning to slow the printing presses. And generally speaking – that is virtuous for stocks.

Whether they are successful in this approach remains to be seen but we will certainly be watching closely and I am sure, commenting on this in future commentaries.

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In the meantime, we closed out August with a 7% gain in the S&P for the month, the third best August in the stock market's history. There we go with those records again! And September has kicked off with some profit-taking as markets sold off the most we have seen since June. In fact, in your portfolios here, one of our key risk metrics pulled us into cash in part of the stock portfolios. Bonds continue to be fully invested for the moment, and we did part with Tesla in the Momentum and Alpha strategies as the gains were too big to give away! So closing out the month with big gains in the market and starting the next with big losses. We expect that this is exactly the kind of market swings we will see through to the election as the Federal Reserve provides the fuel to push stocks higher while at the same time fear of the unknown stokes volatility and sell-offs much like we are seeing right now.

As always, we remain vigilant in how we navigate these markets for your portfolios and appreciate the faith and confidence you have placed in us. Thank you to everyone who joined us for our inaugural Zoom-inar! If you missed it, please follow the link here for a recording of the presentation and we plan more of these before year-end. LINK HERE.

A note to all our near-retirees, that we will still be hosting our Medicare Lunch-n-Learn in October, and it will be entirely online as well! That date is October 6th with details to follow in just a few weeks.

Financial Planning Tip

If it feels like your dollar doesn't go quite as far as it used to, you aren't imagining it. The reason is inflation, which describes the rise in prices and slow decline in purchasing power of your dollars over time. The impact of inflation may seem small in the short term, but over the course of years and decades, inflation can drastically erode the purchasing power of your savings. Here's how to understand inflation, and steps you can take to protect the value of your money.

Inflation occurs when prices rise, decreasing the purchasing power of your dollars. In 1980, for example, a movie ticket cost on average $2.89. By 2019, the average price of a movie ticket had risen to $9.16. If you saved a $10 bill from 1980, it would buy two fewer movie tickets in 2019 than it would have nearly four decades earlier.

Don't think of inflation in terms of higher prices for just one item or service, however. Inflation refers to the broad increase in prices across a sector or an industry, like the automotive or energy business—and ultimately a country's entire economy. The chief measures of U.S. inflation are the Consumer Price Index (CPI), the Producer Price Index (PPI) and the Personal Consumption Expenditures Price Index (PCE), all of which use varying measures to track the change in prices consumers pay and producers receive in industries across the whole American economy.

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Though it can be frustrating to think about your dollars losing value, most economists consider a small amount of inflation a sign of a healthy economy. A moderate inflation rate encourages you to spend or invest your money today, rather than stuff it under your mattress and watch its value diminish.

What Causes Inflation? The gradually rising prices associated with inflation can be caused two main ways: demand-pull inflation and cost-push inflation. Both come back to the fundamental economic principles of supply and demand. Demand-pull inflation is when demand for goods or services increases but supply remains the same, pulling up prices.

For example, at the start of the coronavirus pandemic, the increase in demand for indoor, socially distant activities combined with the highly anticipated release of Animal Crossing: New Horizons saw the price of the Nintendo Switch gaming system almost double on some secondary markets. Because Nintendo could not increase production, due to factory production halts from Covid-19, Nintendo could not raise its supply to meet rising consumer demand, resulting in increasingly higher prices.
Cost-push inflation is when supply of goods or services is limited in some way but demand remains the same, pushing up prices. Usually, some sort of external event, like a natural disaster, hinders companies' abilities to produce enough of certain goods to keep up with consumer demand. This allows them to raise prices, resulting in inflation. For example, think about oil prices. You—and pretty much everyone else—need a certain amount of gas to fuel your car. When international treaties or disasters drastically reduce the oil supply, gas prices rise because demand remains relatively stable even as supply shrinks.

Protect Yourself Against Inflation By:

- Appropriately investing in your bond portfolio by keeping a relatively short maturity
- Buying Treasury Inflation Protected Securities (TIPS)
- Investing in stocks, which over time have potentially growing dividends and also capital appreciation to protect against inflation
- Consider adding gold and/orcommodities as a hedge
- Purchasing real estate whether publicly traded securities or physical real estate
- Fixing any liabilities to the degree possible to get certainty around your future expenses

Incorporating even a few of these steps can help you find a bit more peace of mind about your retirement savings. Inflation is a market force that you cannot control, but with proper planning, it can be accounted for and built into your retirement plan. Give us a call at the office if you want to review your plan and the possibility of higher inflation.

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Tax Planning Tip

Between deepening Washington gridlock and election year politics, just a few months ago we were expecting 2020 to be a quiet year in terms of tax law changes. But, boy, were we ever wrong! The government funding bills signed by President Trump in December 2019 included a lot of tax provisions. The economic stimulus packages enacted in March 2020 to help boost the U.S. economy dragged down by the coronavirus added more. Plus, there are several other 2020 tweaks from new rules or annual inflation adjustments. All in all, this means American taxpayers are staring at a long list of tax changes for the 2020 tax year.

Here are just a few examples:

Tax Brackets - Although the tax rates didn't change, the income tax brackets for 2020 are slightly wider than for last year. The difference is due to inflation during the 12-month period from September 2018 to August 2019, which is used to figure the adjustments

2020 Tax Brackets for Single/Married Filing Jointly/Head of Household

Tax Rate	Taxable Income (Single)	Taxable Income (Married Filing Jointly)	Taxable Income (Head of Household)
10%	Up to $9,875	Up to $19,750	Up to $14,100
12%	$9,876 to $40,125	$19,751 to $80,250	$14,101 to $53,700
22%	$40,126 to $85,525	$80,251 to $171,050	$53,701 to $85,500
24%	$85,526 to $163,300	$171,051 to $326,600	$85,501 to $163,300
32%	$163,301 to $207,350	$326,601 to $414,700	$163,301 to $207,350
35%	$207,351 to $518,400	$414,701 to $622,050	$207,351 to $518,400
37%	Over $518,400	Over $622,050	Over $518,400

Capital Gains Rates - Tax rates on long-term capital gains and qualified dividends did not change for 2020, but the income thresholds to qualify for the various rates did go up. In 2020, the 0% rate applies for individual taxpayers with taxable income up to $40,000 on single returns ($39,375 for 2019), $53,600 for head-of-household filers ($52,750 for 2019) and $80,000 for joint returns ($78,750 for 2019). The 20% rate for 2020 starts at $441,451 for singles ($434,550 for 2019), $469,051 for heads of household ($461,700 for 2019) and $496,601 for couples filing jointly ($488,850 for 2019).

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Charitable Deductions - More donations to charity can be deducted for 2020 under the CARES Act. The 60%-of-AGI limit on deductions for cash donations by people who itemize is suspended (gifts to donor-advised funds and private nonoperating foundations are excluded). Nonitemizers can also write off up to $300 of charitable cash contributions. This is a new "above-the-line" deduction for people who don't file Schedule A.

College Loans - The CARES Act allows employers to pay down up to $5,250 in workers' college loans in 2020. The payments are excluded from the workers' wages for federal tax purposes. The $5,250 cap applies to both student loan repayment benefits and other educational assistance (e.g., tuition, fees, books, etc.) offered by an employer under current law.

Medical Expenses - The 2020 threshold for deducting medical expenses on Schedule A is 7.5% of AGI. The adjusted-gross-income threshold was slated to jump from 7.5% to 10% after 2018, but the 2019 government funding law revived the 7.5% figure for 2019 and 2020.

The limits on deducting long-term-care premiums are higher in 2020. Taxpayers who are age 71 or older can write off as much as $5,430 per person ($5,270 for 2019). Filers age 61 to 70 can deduct up to $4,350 ($4,220 for 2019). Anyone who is 51 to 60 can deduct up to $1,630 ($1,580 for 2019). For people age 41 to 50, the max is $810 ($790 for 2019). Finally, for whippersnappers age 40 and younger, it's $430 ($420 for 2019).

Standard Deductions - Many of the standard deduction amounts were increased for 2020. Married couples get $24,800 ($24,400 for 2019), plus $1,300 for each spouse age 65 or older. Singles can claim a $12,400 standard deduction ($12,200 for 2019)—$14,050 if they're at least 65 ($13,850 for 2019). Head-of-household filers get $18,650 for their standard deduction ($18,350 for 2019), plus an additional $1,650 once they reach age 65. Blind people can tack on an extra $1,300 to their standard deduction ($1,650 if they're unmarried and not a surviving spouse).

It's never too early to start thinking about next year's return. Proper tax planning requires an awareness of what's new and changed from last year—and there are plenty of tax law changes and updates taking effect in 2020 that you need to know about. Use this information now to start your tax planning this year so you can save money next April when you file your 2020 return.

401k Allocation

Small changes this month, but we have some sells. Another month gone by, another record! But the undercurrent was telling a slightly different story and one of our key indicators for risk has just given us a signal, so we will be taking some off the table today. It works out that international markets have not been able to hang onto their earlier promising rallies as the re-opening of economies has created problems for them just as it has for us here.

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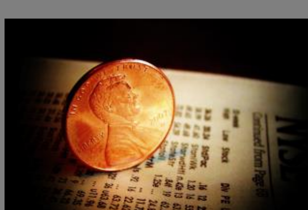

So we are swinging that trade over to your safest place right now – which should be a "stable value" or "short term bond" fund, depending on your plan's choices. As always, should you need help in re-allocating your 401K account, don't hesitate to give us a call.

September-20		Agg. Growth	Growth	Moderate	Balanced	Conservative
Bonds / Cash		10%	20%	50%	60%	75%
	Stable Asset - OR - Short Term Bond	10%	10%	15%	20%	15%
	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:		65%	55%	35%	25%	20%
	Large Cap Growth	45%	40%	20%	15%	10%
	Large Cap Value	20%	15%	15%	10%	10%
Mid Cap:		20%	15%	10%	10%	5%
	Mid Cap Growth	15%	15%	5%	5%	5%
	Mid Cap Value	5%	0%	5%	5%	0%
Small Cap:		5%	5%	5%	5%	0%
	Small Cap Growth	5%	5%	5%	5%	0%
	Small Cap Value	0%	0%	0%	0%	0%
International:		0%	5%	0%	0%	0%
	Developed International	0%	5%	0%	0%	0%
	Emerging Markets	0%	0%	0%	0%	0%

Graphic of the Month

First Year Of A Four-Year Presidential Term (S&P 500 Index & Sector Index Total Returns)

	1993	1997	2001	2005	2009	2013	2017
White House	Democrat	Democrat	Republican	Republican	Democrat	Democrat	Republican
Senate	Democrat	Republican	Democrat	Republican	Democrat	Democrat	Republican
House	Democrat	Republican	Republican	Republican	Democrat	Republican	Republican
S&P 500	10.08%	33.36%	-11.89%	4.91%	26.46%	32.39%	21.83%
Comm. Svcs.	15.06%	41.24%	-12.24%	-5.63%	8.93%	11.47%	-1.25%
Cons. Disc.	14.64%	34.36%	2.79%	-6.37%	41.31%	43.08%	22.98%
Cons. Staples	-3.86%	32.89%	-6.40%	3.58%	14.89%	26.14%	13.49%
Energy	15.88%	25.28%	-10.39%	31.37%	13.82%	25.07%	-1.01%
Financials	10.60%	48.15%	-8.95%	6.48%	17.22%	35.63%	22.18%
Health Care	-8.18%	43.73%	-11.96%	6.46%	19.70%	41.46%	22.08%
Industrials	21.71%	28.53%	-25.87%	0.99%	61.72%	28.43%	38.83%
Info. Tech.	18.58%	27.04%	-5.74%	2.32%	20.93%	40.68%	21.03%
Materials	13.46%	8.41%	3.48%	4.42%	48.59%	25.60%	23.84%
Real Estate	N/A	N/A	N/A	12.56%	27.10%	1.60%	10.85%
Utilities	13.69%	24.65%	-30.45%	16.84%	11.91%	13.21%	12.11%

Source: Bloomberg and The Spokesman-Review. **Past performance is no guarantee of future results.**