Copperwynd Financial
14256 N. Northsight Blvd
Suite B-115
Scottsdale, AZ 85260

Office: 480-348-2100
Toll Free: 877-658-2100

https://www.copperwyndfinancial.com

David Daughtrey, CFA, CFP®
Lynda Elley, CTLC, CCFS® CFP®
Erick S. Newton, CFP®
Jake Eggett, CFP®

Your Copperwynd Financial Newsletter: August 2022

Market Commentary

Hovering above the Salt Lake City Valley on the eastern skyline are several prominent peaks; the highest one is called Twin Peaks. Named, as you might have guessed, because there are two sister peaks next to each other. With an elevation of ~11,330 feet, the Twins rise nearly 7,000 vertical feet above the valley floor. Due to the steepness of the ascent and ruggedness of the wilderness, navigating the terrain requires some fortitude to overcome the sharp drop offs into Little and Big Cottonwood Canyons but reaching the summit will reward the hiker with incredible views of the entire Salt Lake Valley.

Having hiked this mountain many times and successfully avoiding falling to my death, I've learned that there is another hazard to be aware of… rattlesnakes! Although they are common in this area, for some reason I've come across them more on Twin Peaks than any other mountain. Once you come across a snake on the trail, you become extremely vigilant about looking for snakes. In fact, your mind starts to tell you that every stick on the trail is a snake and you become very careful of each step you take. You tend to get tunnel vision, your head stays focused on the trail, and you only focus on one thing…not stepping on a rattlesnake! Avoiding this danger and being vigilant of other hazards is extremely important when hiking, but if the risk of getting bit by a rattlesnake consumes you then you'll miss out on all the wonder around you while you are hiking on the trail.

So, what does this all have to do with your investments and the markets? We've encountered an overwhelming number of hazards and risks to deal with this year and they have driven market sentiment to be extremely negative. While we can't ignore these risks, tunnel vision and constantly dwelling on all the potential negatives will often sabotage finding the opportunities that are present and missing the many positives that surround us. Even though July presented some very negative headlines, the markets offered a little bit of sunshine in an otherwise very cloudy year.

Market Performance

The majority of asset classes rebounded strongly in the month of July to improve the YTD results, but more is needed to recoup the losses for the year.

Equities	2022 YTD
S&P 500	-13.87%
Mid Cap	-11.99%
Small Cap	-16.03%
International Developed	-15.75%
Emerging Markets	-15.21%

Fixed Income	2022 YTD
Bloomberg Aggregate Bond Index	-7.89%
High Yield Corporates	-9.22%

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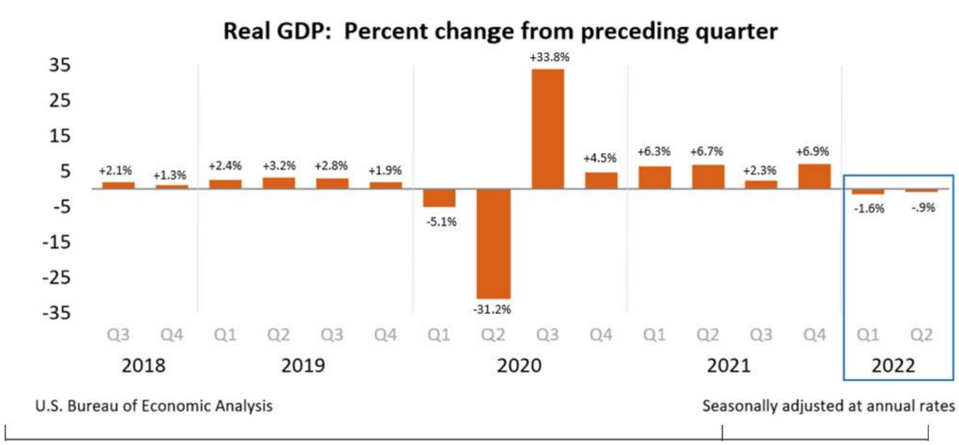
4 Major Headlines

1) Recession Risks Building

The number one risk and major question this month is whether the US is currently in a recession or will we be in one soon. The U.S. real gross domestic product (GDP) decreased at an annual rate of 0.9% in the second quarter of 2022, which is the second straight quarter of negative GDP growth (Figure 1). The National Bureau of Economic Research (NBER) is the official arbiter of recessions, and they consider a range of monthly measures of economic activity rather than just looking at 2 consecutive quarters of decline in real GDP. Regardless of whether an official announcement is made or not, we continue to see signs of slowing in the economy along with other indicators such as an inverted yield curve, which are warning signs that recession risks continue to build. On the positive side, the labor market, consumer and manufacturing activity have weakened slightly but remain strong historically.

Figure 1



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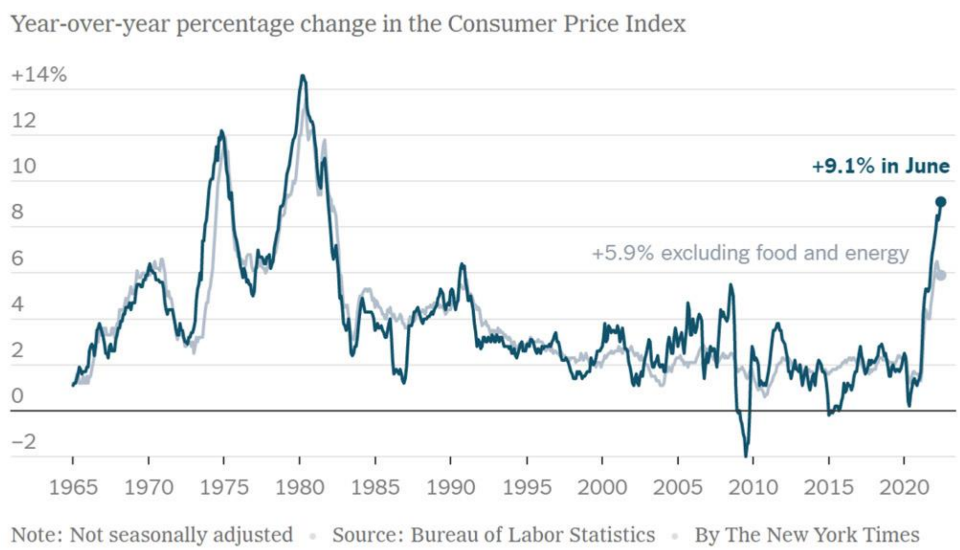
2) Inflation Surges to 40-year high

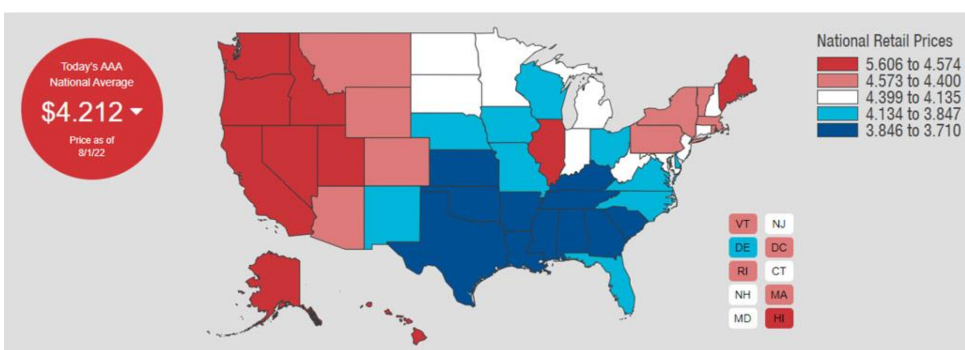
The US Inflation Rate, as measured by the consumer price index (CPI), has surged to 9.1% and close to 6% for the core rate that excludes food and energy (Figure 2). The latest CPI report showed inflation firm across most areas and the effects of higher prices continues to ravage not only the US but most of the world. The good news: we've started to see some inflationary relief in commodities such as the price of corn and wheat, both having decreased 30-40% from their May highs.

Figure 2



Also, the national price of gasoline has moved down to $4.21/gallon, a decline of $.80 from their all-time high in mid-June (See Figure 3). Time will tell if these inflationary pressures continue to subside, but for now, we'll enjoy a little bit of relief at the pump.

Figure 3



Source: *gasprices.aaa.com*

3) Fed Fights Inflation

The Fed hiked interest rates another 75 basis points (0.75%) in order to get ahead of inflation and slow the economy (Figure 4). It seems to be working in the housing market as we have seen

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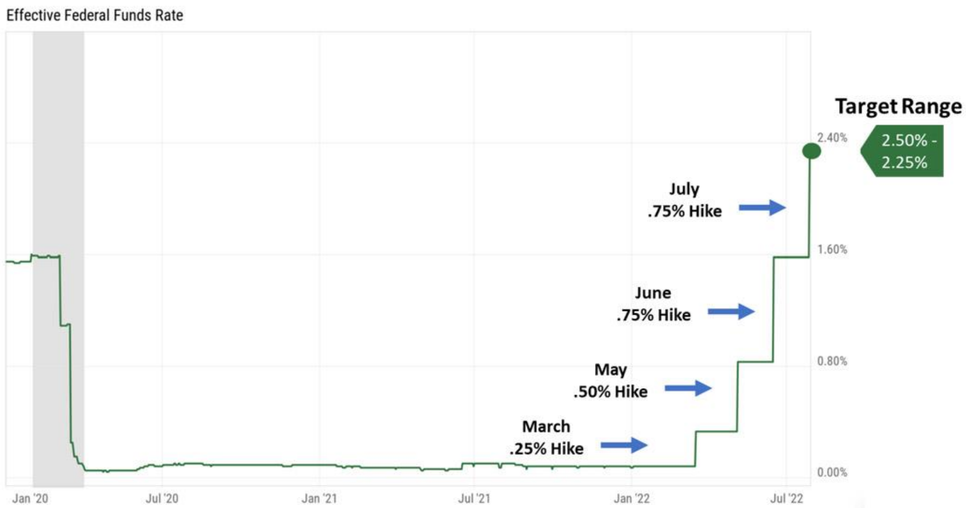
mortgage rates increase and existing home sales decrease by 21% since January. The expectations are that the Fed will continue to raise rates towards 3.5% by the end of 2022; however, the market has recently begun to anticipate lower rates in the next few years due to a potential recession and inflation declining. The risk we are monitoring closely is the Fed's plan to reduce its balance sheet, which hasn't materially changed up to this point. The expectation is that this will change starting in September.

Figure 4

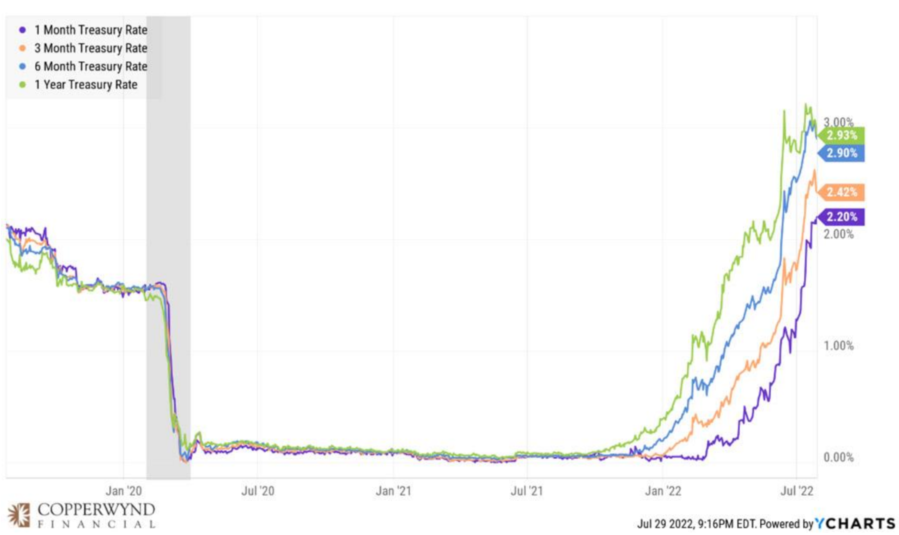


Source: *Ycharts, Copperwynd Financial*

4) The Positive of Higher Rates

With the Fed raising the short-term rates to combat inflation, a positive development for savers, short-term treasury yields have moved higher! At the start of the year, the 1-year Treasury Bill was yielding .39% and has risen recently to around 3% (Figure 5). We've been able to take advantage of this over the past few months by shifting cash into Treasury Bills to earn some additional interest as we wait for trends to change.

Figure 5



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Summary

A potential upcoming recession, inflation ravaging the purchasing power of your dollar, or the headwinds from the Fed tightening policy are hazards that have created a challenging market environment this year. We hope that you can keep your head up and enjoy your surroundings because we are constantly monitoring your investments and making the necessary adjustments to navigate the ever-changing market environment. Over the last 2 weeks, we started allocating back into the bond side of the portfolio by adding High Yield and Bank Loans and if the trends continue to persist, we hope to get back to being fully allocated. The equity side of the portfolio remains defensive but as the short-term trends have improved, this has led to incremental exposure being added to stocks. As always, we encourage you to reach out if the market is keeping you up at night.

Please save the date for our quarterly Zoominar, which will be held on Wednesday, August 17th at 1pm UT (12pm AZ). We plan to share additional commentary on the economy, markets and investment trends. Register in advance with this link:
https://us02web.zoom.us/webinar/register/WN_x58oTPZfRvysIm6gIyU3-w

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Financial Planning

It's back to school season and that has us talking about one of my favorite topics…college savings and financial aid! As the cost of college tuition keeps climbing, it's no surprise that 73% of parents' number one financial concern is paying for college.[i] Depending on your child's age, there are different things to consider as you prepare for college.

If your child is already in college…

Whether they are about to embark on their freshman year or take their final lap as a senior, you want to maximize financial aid. For the 2022-2023 school year, it is not too late to fill out the FAFSA if you haven't already! However, keep in mind that some aid is first come, first serve. Even if you don't think your family will qualify for financial aid, the FAFSA should be completed regardless, as loans and scholarships may also take the information on the FAFSA into account, and with tuition prices where they are these days, every dollar counts.

If you are using 529 savings to help cover the cost of college, here are three things to remember to make sure you are making the most out of the funds:

- Withdrawals for qualified expenses from 529 plans are not taxed at the federal level, but you will have to report your 529 plan spending to the IRS, so keeping careful records is important.
- Withdrawals you take from your 529 savings account must match the payment of qualifying expenses in the same tax year—this is the calendar year, not the academic year.
- If your child has more than one 529 savings account, such as an additional account through a grandparent, know which account to use first or how to take advantage of them concurrently.[ii]

If your child is in high school…

While college may seem like a lifetime away on the first day of high school, it's important to start the college planning conversations early. Doing this gives you and your child the chance to consider the advice of college planning experts and set long-term goals. I encourage you to sit down with your child to have a realistic conversation about covering the cost of college. The process of figuring out how to pay for college can be daunting and time-consuming, so here are some tips.

1. *Set clear expectations on how much you (or other relatives) will be contributing.* It's important your child understands what portion of their education they will be responsible for covering.
2. *Don't make assumptions about financial aid eligibility.* Apply even if you think you may not be eligible.
3. *Don't shop based on sticker price.* Families should pay attention to the net cost, which is the sticker price minus grants and scholarships.
4. *Avoid paying third parties for scholarship searches.* There are free resources to use, including the College Board, FastWeb.com and the U.S. News Scholarship Finder.
5. *Be aware of deadlines.* The FAFSA opens every Oct. 1, but the federal deadline to apply isn't until June 30 of the following year. State and college deadlines can be sooner.
6. *Apply early.* Students should not only meet deadlines but apply early, as some financial aid is awarded on a first-come, first-served basis. Pay attention to priority deadlines, experts advise.
7. *Look at out-of-pocket costs.* At first glance, a financial aid package from one college may seem larger than an offer from another school. But pay attention to out-of-pocket costs. [iii]

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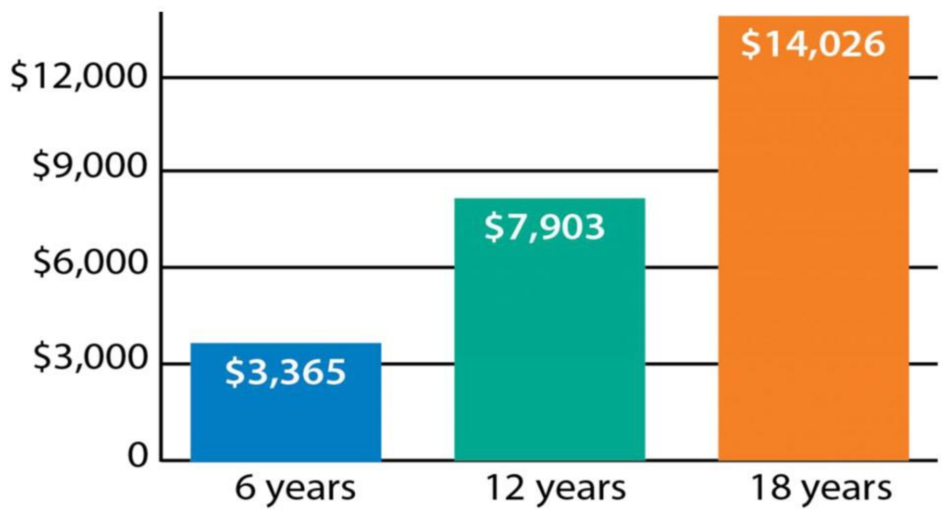
If your child is in junior high or younger…

The earlier you start saving for college, the better! You may not be touring college campuses or looking into scholarships at this age, but it is important to think about how much you plan to contribute to their education. Do you want to pay for 100% of the cost? Maybe half? It's good to start setting these goals now because even small sums set aside regularly over time help make higher education more affordable. Each dollar saved is a dollar you don't need to borrow and repay with interest. Here's an example of $40 contributed the first day of each month.[iv]



There are different options to consider for college savings. The 529 plan is one of the more popular options. With a 529 plan, earnings aren't subject to federal or state tax when used for qualified higher education expenses and many states offer tax credits or deductions on contributions. The funds can be used for K-12, college, university, post-secondary vocational or technical school, or graduate school. Some of the other options are Roth IRAs, Coverdell Education Savings Account, Savings Bonds, and UGMA/UTMA. Determining which savings options is best depends on your unique financial situation.

To learn more about how to save and pay for college, please set-up time to discuss with us. We would be happy to dive into your college savings goals.

[I] Gallup 2001-2015 Economy and Personal Finance Survey
[ii] Source: Fidelity Viewpoints: How to spend from a 529 college plan
[iii] Source: US News: 10 Financial Aid Tips for College Students
[iv] Source: my529.org; All numbers are my529 estimates. Earnings on a my529 account assume a contribution of $40 at account opening and a 5 percent rate of return compounded monthly over 18 years.

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Tax Planning

Starting at age 72, Uncle Sam wants to make sure you start paying taxes on the money you deferred over the years you were employed. If you celebrate your 72nd birthday this year, you have until April 1, 2023, to take your first RMD from your tax-deferred accounts (traditional IRA, SEP IRA, Simple and former employer retirement plans if applicable.) Keep in mind, though, that if you wait until 2023 to take your first RMD you will also have to take another RMD later in the year to meet your 2023 RMD.

The amount of your RMD varies from year to year because it is based on your age and the Fair Market Value (FMV) of your account(s) as of December 31 of the previous year. The RMD is calculated by dividing the Fair Market Value by the IRS's "Uniform Lifetime Table" (Table III). If your spouse is more than 10 years younger and the sole beneficiary of the IRA, you may be entitled to a lower RMD amount.

You can certainly withdraw more than the RMD if needed, but keep in mind that these withdrawals will be included in your taxable income, thereby increasing your adjusted gross income (AGI). There's another tax-savings option to consider when it comes to taking your RMD – a Qualified Charitable Distribution. Read on.

Uncle Sam allows you to satisfy all or part of your RMD by taking a Qualified Charitable Distribution (QCD). If you are charitably inclined, you are able to make a QCD at age 70 ½, even if you are not subject to RMDs. Generally, if you complete a QCD it's a non-taxable distribution if made directly from your IRA to an eligible charitable organization. What's important to note when preparing your taxes is the custodian of your IRA will not report a QCD as a tax-free distribution on IRS Form 1099-R. To report a QCD on Form 1040 you or your tax preparer will report the full amount of the charitable contribution on the line for IRA distributions. Then, on the line for the taxable amount, enter zero if the QCD represented the entire RMD or a lesser amount with "QCD" notated next to this line.

With the standard deduction being much higher now, fewer taxpayers are able to itemize. The good news is a QCD would help to lower your AGI and could potentially lower your income taxes (see examples below). If you do itemize, a QCD may not be listed as an itemized deduction on Schedule A of your tax return as it would be double-counted. Another caveat: a QCD cannot exceed $100,000 per taxpayer, per year.

Below are 2 scenarios to illustrate the tax benefit for a retired married couple, filling jointly in 2022 by taking a $110,000 RMD and donating a $15k to an approved charity:

1.Take full RMD and donate $15,000 in cash

Taxable Social Security	$50,000
Annual RMD:	+ $110,000
QCD:	$0
Total income: =	**$160,000**
Schedule 1 Deductions:	$0
AGI:	**$160,000**
Standard deduction:	– $28,700
Taxable income: =	**$131,300**
Estimated taxes due:	**$20,120**

2. Donate $15,000 RMD directly to charity using a QCD

Taxable Social Security	$50,000
Annual RMD:	+ $110,000
QCD:	– $15,000
Total income: =	**$145,000**
Schedule 1 Deductions:	$0
AGI:	**$145,000**
Standard deduction:	– $28,700
Taxable income: =	**$116,300**
Estimated taxes due:	**$16,820**
(Tax Savings	**$3,300)**

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Pros of QCDs vs an Itemized Charitable Donation:

- May lower your taxable Social Security
- May lower Medicare Part B & D premiums
- Lowers your Modified Adjusted Gross Income
- May allow a greater amount of itemized medical expenses to be deducted

We would be happy to discuss your individual circumstances to see if a QCD makes sense.

401(K) Allocation

There are trades.

The long-term trend of the market continues to be down; however, the markets showed strength in July as the US markets rallied off the June lows. Almost all sectors participated in the current advance and time will tell if this is just a rally within a bear market or the beginning of a longer-term uptrend. Bears are looking at the Fed's rate raising cycle and the second consecutive quarter of negative GDP growth and view this as just a bear market rally. Bulls envision lower rate hikes in the future, a return to positive GDP numbers in Q3, and strong employment as signs that this is the beginning of a new bull market in stocks.

The truth is no one knows the future. We do know that the trends tend to be your friend and within the last few weeks our models recently indicated a buy for most of the bond positions. We have made some adjustments with the 401k allocations to reflect those changes.

On the equity side, we are taking a little more of a cautious approach. We made some small adjustments to add stock exposure but remain mostly focused on large cap equities.

As always, if you need assistance in rebalancing, please call us at the office and we will be happy to help!

August 2022		Agg. Growth *100% Equity*	Growth	Moderate	Balanced	Conservative
Bonds / Cash		**20%**	**35%**	**50%**	**70%**	**85%**
	Stable Asset - OR - Short Term Bon	*0%*	*10%*	*25%*	*40%*	*50%*
	Total Return	*10%*	*15%*	*15%*	*20%*	*25%*
	*High Yield Bonds***	*10%*	*10%*	*10%*	*10%*	*10%*
	Inflation Protected Bonds	*0%*	*0%*	*0%*	*0%*	*0%*
Large Cap:		**65%**	**50%**	**40%**	**25%**	**15%**
	Large Cap Growth	*30%*	*20%*	*15%*	*10%*	*5%*
	Large Cap Value	*35%*	*30%*	*25%*	*15%*	*10%*
Mid Cap:		**10%**	**10%**	**5%**	**5%**	**0%**
	Mid Cap Growth	*0%*	*0%*	*0%*	*0%*	*0%*
	Mid Cap Value	*10%*	*10%*	*5%*	*5%*	*0%*
Small Cap:		**5%**	**5%**	**5%**	**0%**	**0%**
	Small Cap Growth	*0%*	*0%*	*0%*	*0%*	*0%*
	Small Cap Value	*5%*	*5%*	*5%*	*0%*	*0%*
International:		**0%**	**0%**	**0%**	**0%**	**0%**
	Developed International	*0%*	*0%*	*0%*	*0%*	*0%*
	Emerging Markets	*0%*	*0%*	*0%*	*0%*	*0%*
		100.00%	100.00%	100.00%	100.00%	100.00%

** If High Yield Bonds are not an option in your 401k, you can allocate that portion to a Total Return or Short Term bond fund.