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Your Copperwynd Financial Newsletter: December 2022

Market Commentary

By Jake Eggett

Have a look at this photo and see if you can tell whether it is a sunrise or sunset?

Sunrises and sunsets can appear identical, the sun is low on the horizon, and the rays of sunlight pass through the same distance of atmosphere. Since we never see both side by side in nature it's hard to detect any difference. Researchers and scientists claim there are some differences. For example, some argue that there are more particles in the air at sunset which can lead to brighter reds. Others might also argue that our perception is different at the start of the day compared to the end of the day because our eyes become adapted to the dark, making the colors we see in the morning more vibrant. The obvious difference is the sun sets in the west and rises in the east, but that is no help in gauging this photo unless you know where the photo was taken. Without more information, determining the answer is tricky indeed.

Just as the sun has a pattern for rising and setting, the economic business cycle goes through similar patterns of rising and falling. The major difference is that it is not as precise and predictable as the sun; however, if you can tell where the sun is in the sky you might have a pretty good idea of the time of day. So it is, if you know what stage of the business cycle the economy is in, you may be able to gauge how best to invest during these times. Let's explore this idea a little further… oh and before I forget, it's a sunrise!

Market Performance

Although the markets didn't start off very well in the month of November, they finished strong, and most of the major asset classes posted positive results. We also saw some long-term trends start to shift direction, for example, international markets were the major standouts for the month rising more than 13% and outperforming the US markets. The main reason for that outperformance, the dollar declined by nearly 5%. We also saw interest rates decline, which gave a much-needed boost to the bond market. It appears the change of trend is due to the market starting to price in peak inflation and therefore a slowdown in the pace of rate hikes and Fed tightening.

Equities	November	2022 YTD
S&P 500	5.56%	-13.17%
Mid Cap	5.97%	-8.07%
Small Cap	2.20%	-14.94%
Nasdaq	5.54%	-25.90%
International Developed	13.17%	-12.77%
Emerging Markets	14.30%	-16.12%
Fixed Income	**November**	**2022 YTD**
Bloomberg Aggregate Bond Index	3.81%	-12.26%
High Yield Corporates	3.61%	-10.52%

Source: *YCharts, 10/31/2022-11/30/2022, Total Return Data using SPY, IJH, IWM, QQQ, EFA, VWO, AGG, and JNK*

Will this rally continue through the end of the year?

We would point to December 13th – 14th as the days that might answer that question. The November Inflation report (CPI) will be released on the 13th and the Fed announces its decision on interest rates the following day. How the market reacts on those critical days will likely determine if this year ends on a positive or negative note.

The two-day Fed meeting will produce the Fed's dot plots which should provide insight into future rate expectations. Fed Chair Powell recently spoke and essentially told the markets that the Fed will hike 50 bps in this December meeting but what is still unclear is what they project the terminal fed funds rate to be. Will it rise above 5%? If the inflation report can continue its downward trajectory this may continue to pressure the Fed to slow their rate hikes and that is what this market is anticipating.

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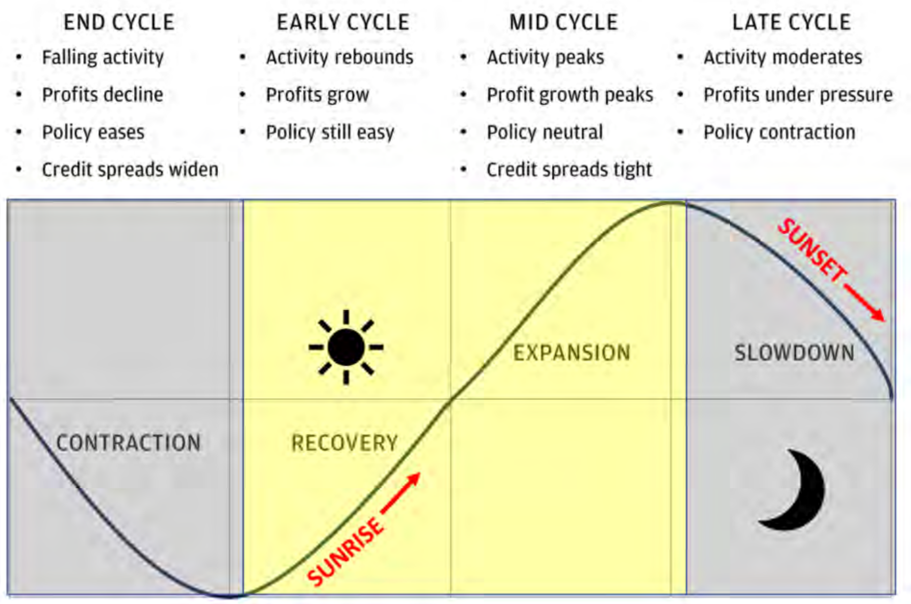
Stages of the Typical Business Cycle

This chart shows the typical stages of a business cycle and the financial conditions that are common in each.



Source: JP Morgan Private Bank, Copperwynd Financial

The economy is currently exhibiting late cycle behavior, where economic activity often reaches its peak, implying that growth remains positive but slowing. Rising inflation and a tight labor market may crimp profits and lead to higher interest rates. Sound familiar?

Activity Moderates

One of the signs that the economy is slowing down is evident in the ISM Purchasing Managers Index (PMI). The PMI is a measure of the manufacturing and service activity in the US. Historically when the index is above 50 it represents expansion and below 50 represents a shrinking of the manufacturing and the service activity in the economy. The November manufacturing number fell into contraction territory at 49 and the service side is decreasing but remains resilient in expansionary territory at 56.5.

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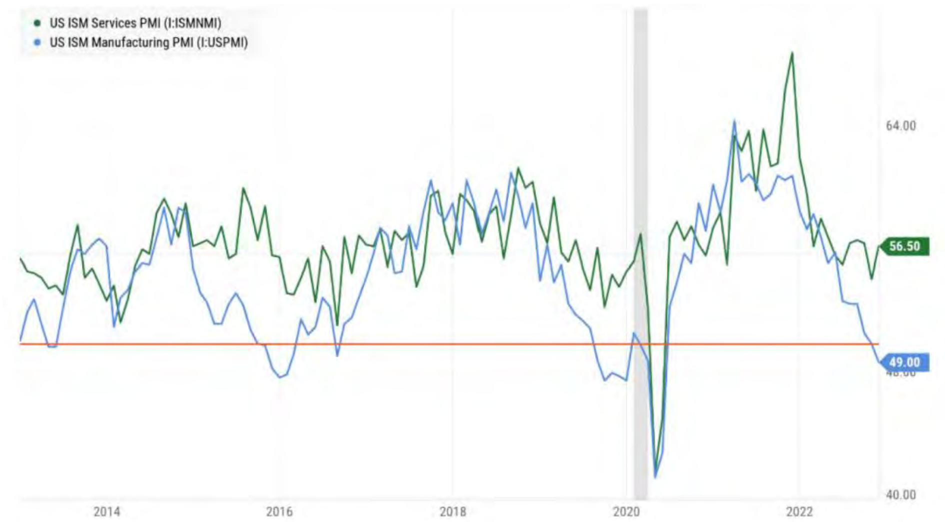

Source: *YCharts, 12/31/2012 – 11/30/2022*

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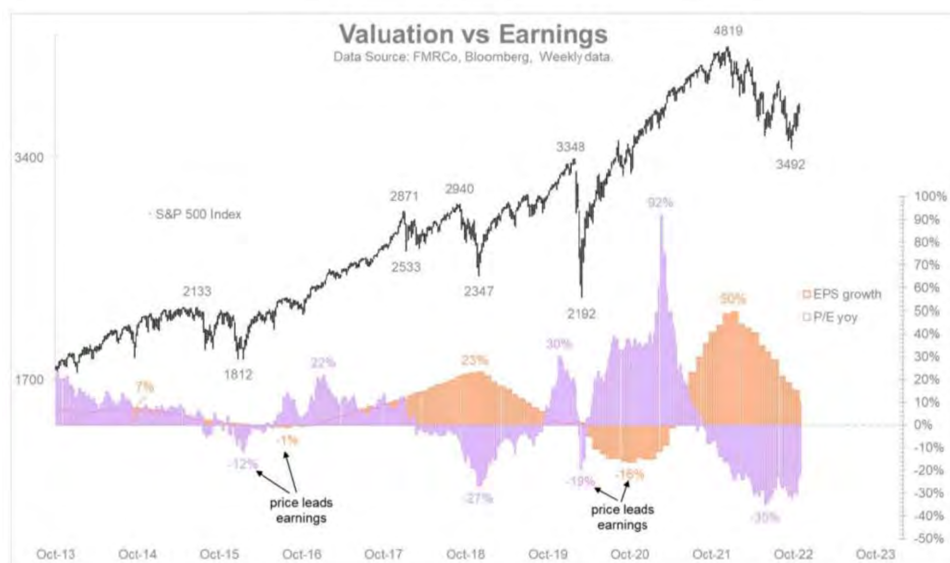
Profits Under Pressure

Figuring out markets is not as simple as knowing the “correct” Price to Earnings (P/E) ratio or the “correct” forward earnings estimate. The markets are just as non-linear as everything else in life; however, there is a clear pattern of price bottoming before earnings at inflection points.



Data source: FMRCo, Bloomberg, Haver Analytics, FactSet. Data as of 11/20/2022. Past performance is no guarantee of future results.

If earnings growth recovers in 2023, the October price low could be the bottom. But the inverted yield curve, the length of the business cycle and continued Fed tightening suggest that may be unlikely.

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Summary

Although the economy is exhibiting late cycle behavior and seems to appear more like a sunset rather than a sunrise, we know that stock market generally will rise and recover well in advance of the economy. The markets have some positive short-term momentum and seem to be pricing in the expectation that the Fed will quickly return to a neutral policy of 3-3.5% after reaching a terminal rate of 5%. A continuation of that positive momentum may hinge on next week's upcoming inflation data and future Fed expectations.

At Copperwynd, we have allocated 40% of our bond portfolio into high yield and bank loans and maintaining 60% in short-term treasuries. Your bond portfolio is benefiting from higher rates, and we will continue to be diligent in following the changes in market trends. As for stocks, we have allocated a little bit more into equities but remain somewhat defensive with some cash on hand. We continue to believe some very good opportunities will be available over the next year, and we will remain disciplined in following the trends so that we can take advantage as the markets recover.

We wish everyone Happy Holidays and are thankful to know and work with wonderful people like you!

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Year-End Financial Planning Tips

1. Max Out Your Retirement Plans

- To reduce your earned income, make sure you've maximized your contributions. In 2022, the maximum 401k employee contribution is $20,500 ($27,000 if your over age 50).
- Self-employed individuals have even more options—with a SEP IRA or Solo 401k, you can contribute up to $61,000 or 25% of your eligible income.

2. Analyze Roth IRA Conversion Scenarios

- Consider taking advantage of a down market this year by converting all or some of your IRA to a Roth.
- If you are in a lower tax bracket than when you contributed to the IRA, consider converting just enough before jumping into the next tax bracket.

3. Complete Your Required Minimum Distributions

- Don't forget! Must be done before December 31st – 50% penalty awaits if not completed.
- Consider a Qualified Charitable Distribution (QCD) to keep income below certain thresholds. (Taxability of Social Security, Increased Medicare premiums, etc.)

4. Tax Loss Harvesting

- Capture your losses to offset capital gains or realize loss carryforwards for future gains.
- We also advise you to speak to your CPA regarding tax loss strategies and how they will impact your individual tax situation as this tip does not apply to all tax situations.

5. Charitable Donations

- Donate appreciated securities.
- Charitable lumping – If you are close to the standard deduction, consider lumping two years of charitable contributions together to be able to itemize deductions and maximize tax savings.

6. Max Out your HSA Contribution

- If you are eligible to make HSA contributions, consider maxing it out this year. The contribution limits are $3,650 for self-only and $7,300 for families. Those 55 and older can contribute an additional $1,000 as a catch-up contribution.

7. Contribute to your 529 Plans

- For Utah 529s, a taxpayer who is an account owner may take a Utah state income tax credit on contributions up to certain limits if the beneficiary was younger than age 19 when established as the beneficiary on the account.
- Arizona offers a tax deduction each year for investing in the AZ 529 Plan or any state's 529 plan of up to $4,000 per beneficiary for married tax filers who file a joint return and up to $2,000 per beneficiary for individual tax filers.

All or some of these tips may apply to you! Before implementing any of these year-end strategies, we would like to meet with you to review the pros and cons to make sure it makes sense for your individual situation. If you haven't already, reach out to your financial advisor to touch base before year-end.

Fraud Alert: Impersonation and Holiday Season Scams

By: Corrina Olson

It's the most wonderful time of the year! Unfortunately, it is also the time of year that scams are rampant as people are furiously shopping for gifts and our inboxes receive an influx of messages offering discounts and goodies. Here are the top scams to be aware of this holiday season:

Impersonation Scams — US Federal Trade Commission (FTC) reports that impersonation scams are the number one consumer complaint! These appear in various forms, but the most popular this holiday season is via Amazon fake order confirmations. How does it work? The scammer tricks a customer into confirming a supposed purchase—and instructs the customer to do it ASAP! Once the customer clicks the link in the email / text or calls the "customer service" phone number, the scammer is ready to steal any personal or financial information.

Gift Card and Giveaway Frauds — When the shopping season is in full swing, gift card and giveaway scams are too. Scammers may attempt to trick people into purchasing a gift card for them. The scammers have technology that allows them to make it look like it's coming from someone in your contact list. They may also dangle a free prize in exchange for sharing your credit card information. If you receive an email from your friend asking you to buy them a gift card, send them a quick text to confirm they really sent the request. And if a giveaway looks too good to be true, it just may be fraudulent.

Charity-Related Scams — Attackers don't show any restraint during the season of giving. In fact, charity-related scams and phishing attempts get worse this time of year, hurting both those who fall prey to the scams and the charities that would have benefited from the giving. Whether it's a supposed charity tied to a subject in the news, or an organization with a familiar name, be on the lookout for anyone asking you to contact them on their personal email or send money to them directly.

Subscription Renewals Frauds — As we approach the end of the year, subscription renewal scams can spike. A particularly unwelcome version of these emails spoof antivirus services, which lure victims with the promise of improved security. While some scammers can make their message look very convincing, always be sure to check the sender's email. If it looks off, it may be fraudulent.

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All these scams might seem more personal because they include some specific information about your life or identity. Whether it is spoofing communications from a local animal shelter or sending fraudulent emails targeted at particular age groups, keep your eyes open for malicious emails this holiday season. Here are some golden rules on how to avoid becoming a victim of a scam:

Slow It Down — Scams are often designed to create a sense of urgency. Take time to ask questions and think it through.

Spot Check — Do your research to double check the details you are getting. Does what they are telling you make sense?

Stop! Don't Send — No reputable person or agency will ever demand payment or your personal information on the spot.

Remember, scammers can be very convincing, and they are good at what they do. If you aren't sure if a message is from a legitimate source, pause and do your due diligence to confirm the legitimacy of the message. If you still aren't sure, you can always reach out to your financial advisor. We are happy to help review any suspicious messages!

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Tax Tip - How to Reconcile Capital Gains and Losses?

We know when preparing our taxes for the year we must net out our capital gains and losses, but not all gains and losses are created equal. Do you know how the netting process works?

First, let's understand the terminology. The terms short-term and long-term apply to asset ownership periods. If you hold an asset for more than 1 year before you sell it, the gain or loss is considered long-term. If you hold an asset for 1 year or less, the gain or loss is considered short-term. This is important because short and long-term gains and losses are taxed differently and will ultimately impact your tax liability.

Long-term gains (LTG) are netted out separately from short-term gains (STG). Let's say that this year you sold two positions that you held for more than a year (making them long term), one for a $1,000 gain and the other for a $400 loss. You would subtract the $400 loss from the $1,000 gain, giving you a total LTG of $600.

Short -term gains are netted separately from LTG. Now let's say that you also sell two positions that you held for less than a year, one for a $300 STL and the other for a $100 STG. When you net these two out, you have a $200 STL.

This leaves us with a $600 LTG and a $200 STL that nets out to a $400 LTG. Depending on your taxable income for the year, you would pay tax of either 0%, 15%, or 20% on the $400 LTG.

Everything comes down to four situations:

- Long-term gain with short-term gain
- Long-term loss with short-term gain
- Long-term gain with short-term loss
- Long-term loss with short-term loss

Long-term gain with short-term gain

As mentioned above, based on your taxable income, long-term gains receive preferential tax treatment at rates of 0%, 15%, or 20%. Short-term gains are taxed as ordinary income.

Long-term loss with short-term gain

In this situation, it would depend on which is larger, the loss or the gain. If your gain is larger than your loss, then you have a net short-term gain. As mentioned above, the short-term gain is taxed as ordinary income. If your loss is larger than your gain, then you would have a net long-term loss. A max of $3,000 in losses is allowed to be used to offset other kinds of income. Any unused long-term losses will be carried forward to following years until they are used up.

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Long-term gain with short-term loss

This would also depend on which is larger. If the gain is larger than the loss, you will end up with a net long-term gain and will be taxed at the preferential tax rate depending on your taxable income for the year. If your loss is larger than your gain, then it's a net short-term loss. As mentioned above, $3,000 may be used against other types of income, with any unused short-term losses being carried to future years.

Long-term loss with short-term loss

While this seems self-explanatory, there is a catch. We know we can use up to $3,000 of losses in a year to offset ordinary income, so if total losses are less than $3,000, we're done. If losses are more than $3,000, some may be carried over to the following years. The loss that can be carried over can be long-term or a combination of long- and short-term, but never just short term. Why? Because short-term losses must be used first.

If you have questions or concerns as to how the gains and losses in your taxable accounts can affect your personal tax situation, feel free to reach out to schedule a meeting with your advisor. We have tax-planning software that will help us determine your potential tax liability under a variety of scenarios.

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401(K) Allocation

There are trades.

Santa Claus rally? Well, the Chairman of the Federal Reserve, Jerome Powell, may have finally given us the signal that markets need to calm some of the volatility we've seen in stock prices all year long. We have said that once the inflation numbers began to show signs of continued improvement, that could be the catalyst for slowing the pace of interest rate increases. This is in fact what he announced at his press briefing as we headed into December and expectations look like a .5% increase for their December meeting, an improvement from the .75% increase. Markets have rallied around the news – at least temporarily – and so we are adding a small bit of risk back to all asset allocations. In fact, … we are adding to developed international stocks! In a rising or high interest rate environment, the dollar strengthens, and this proves a powerful headwind for both commodities as well as anything non-dollar denominated, such as international stocks. Now that the trend on rates appears to be cooling here in the US, the dollar strength is relaxing and that is providing some positive momentum for both asset gold and international stocks. We will see if that momentum can continue past Christmas!

As always, please let us know if you need help with rebalancing your 401K and if we have not yet created a custom 'de-coder ring' for you, please reach out to us and we can put that together for you.

Merry Christmas, Happy Hannukah and lets all hope for a positive finish to a crazy year!

Dec 2022		**Agg. Growth** *100% Equity*	**Growth**	**Moderate**	**Balanced**	**Conservative**
Bonds / Cash		**5%**	**20%**	**45%**	**60%**	**80%**
	Stable Asset - OR - Short Term Bond	*5%*	*20%*	*45%*	*60%*	*80%*
	Total Return	*0%*	*0%*	*0%*	*0%*	*0%*
	*High Yield Bonds***	*0%*	*0%*	*0%*	*0%*	*0%*
	Inflation Protected Bonds	*0%*	*0%*	*0%*	*0%*	*0%*
Large Cap:		**70%**	**60%**	**40%**	**25%**	**15%**
	Large Cap Growth	*35%*	*30%*	*15%*	*10%*	*5%*
	Large Cap Value	*35%*	*30%*	*25%*	*15%*	*10%*
Mid Cap:		**10%**	**10%**	**5%**	**5%**	**5%**
	Mid Cap Growth	*0%*	*0%*	*0%*	*0%*	*0%*
	Mid Cap Value	*10%*	*10%*	*5%*	*5%*	*5%*
Small Cap:		**5%**	**5%**	**5%**	**5%**	**0%**
	Small Cap Growth	*0%*	*0%*	*0%*	*0%*	*0%*
	Small Cap Value	*5%*	*5%*	*5%*	*5%*	*0%*
International:		**10%**	**5%**	**5%**	**5%**	**0%**
	Developed International	*10%*	*5%*	*5%*	*5%*	*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