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Your Copperwynd Financial Newsletter: December 2021

Market Commentary

In my house we are merrily taking turns picking the next holiday movie with White Christmas and The Grinch usually getting the most votes! Tree is up, shopping done and baking is next. Ready to relax and enjoy fellowship with family and friends and the end of another year.

Stock markets appeared to enter the holiday season in an equally festive mood, with the S&P and NASDAQ hitting new all-time highs right before Thanksgiving as our "Santa Claus rally" arrived early.

However, the mood turned decidedly less enthusiastic with the announcement of a new troubling variant of the COVID virus. Omicron has now been detected in three states. While there is a heightened level of concern, everyone understands we are very early in the cycle here with this mutation. Remember the mu mutation? No? It, too, caused some consternation and then quickly disappeared from the headlines. Time will tell if this is more transmissible, more lethal, or has now mutated to a level we can tolerate and live with. It is clear that no one is anxious to affect an economic hard stop once again.

We're still suffering the supply chain shocks from that move. Which likely explains why neither Black Friday nor Cyber Monday delivered the record sales businesses were hoping for. Stores were packed, shelves were not, but the debate is whether shelves were emptier because consumers bought more … or product is stuck in Long Beach Harbor …. Or stores simply didn't have enough people to restock shelves! See our Graphic of the Month for a view of what's going on in the labor market these days: CLICK HERE

The government has added a bit of coal to the stockings recently as well. The Federal Reserve seems to have become more concerned about inflation – now ticking above 6% - and have signaled a more aggressive taper of their bond purchases. And in a place where words carry great import, Chairman Powell has removed the term 'accommodative' from the Federal Reserve's policy, signaling to the markets that they are preparing to take away the punch bowl that has fueled this stock market rally for the past 18 months. Cue volatility!

And yet … even the Grinch had a change of heart as he realized he just couldn't keep Christmas from coming! Every day of negative news and ensuing volatility has quickly been followed by renewed optimism and positive markets. Our explanation is simply that the economy is on the road to recovery and in spite of these air pockets, the sheer amount of money awash in our economy, coupled with rock bottom interest rates, will continue to fuel investment in the stock markets for the near term.

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In your portfolios here, the volatility spike did trigger a few of our models to take "risk off" and raise some cash, so you will see that reflected in your statements this month. Bonds also stumbled a bit with an exit of preferred stocks in one of the Total Return portfolios. Whether more risk off is needed remains to be seen and we will be watching the virus, the Federal government and the retail sales numbers for more clues on what comes next.

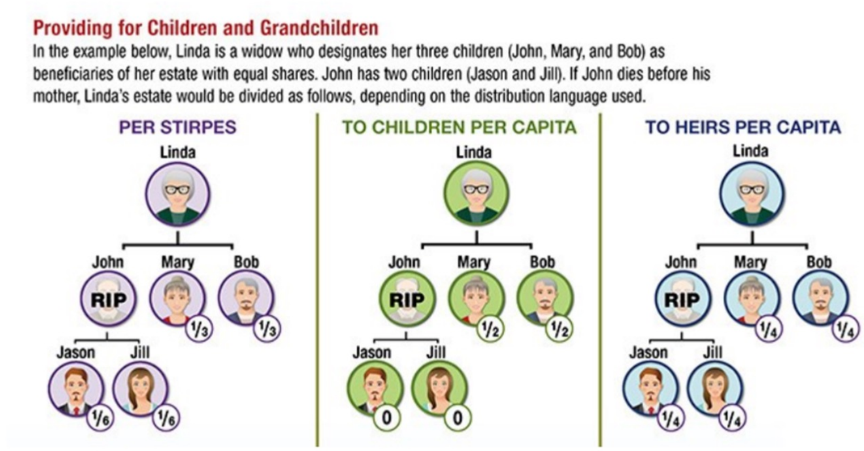
If you would like to hear more about the economy and markets, please join us for our Q4 Zoominar next Wednesday, December 8th at noon! If you have not already done so, you may register for your link to the presentation here: CLICK HERE

This is the last commentary of 2021, so let us take this time to wish everyone a very happy, healthy and safe holiday season!

Financial Planning

Did you know that your IRA beneficiary supersedes your will? No matter how carefully you've crafted your last intentions in your will, an IRA beneficiary that was never updated after your divorce and remarriage can unwittingly bestow your former spouse with your IRA inheritance, while also disinheriting your new spouse and children. That's why it's important to update your beneficiaries after major life changes such as marriage, divorce, births, illness, domestic issues and deaths.

While you're at it, make sure to check how the beneficiary form reads too. Most will default to either a "per stirpes" designation or a "per capita" designation. Knowing the difference in these two designations is important as is making sure you understand what the form you are signing defaults to so you can override it if necessary.



Both designations refer to what happens if one of your beneficiaries is no longer living. A per stirpes designation means that if one of your IRA beneficiaries is deceased, the deceased person's children will receive his or her share. Imagine you have two children – a son and a daughter – to whom you've split your IRA beneficiaries 50/50. Your daughter has three daughters and your son has two sons. At your death, if your children do not survive you, your three granddaughters would receive your daughter's 50% share of the IRA (16.67% each). Your two grandsons would receive your son's 50% of the IRA (25% each). Keep in mind that if your son had no heirs, the entire balance would go to your daughter or her heirs.

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A per capita designation does not look along the lineal lines. Rather, it attempts to treat remaining beneficiaries equally. In the scenario above, if you son and daughter predeceased you, under per capita your five grandchildren would receive an equal 20% of your IRA.

These are just two specific examples, with many more scenarios that could play out. If you want to review your beneficiaries on your accounts with us, give us a call at the office!

College and Tax Planning

In the final weeks of the year, it's smart to review your retirement, education (529, Coverdell), and health savings accounts (HSAs) to ensure you're taking full advantage of the benefits offered and finding ways to reduce your taxes. Here is a handy year-end checklist to use as a guide when evaluating your tax-advantaged accounts.

- **Fully fund your employer- sponsored retirement plan.** In 2021, you can defer a maximum of $19,500 into your 401(k), 403(b), 457(b), or Thrift Savings Plan (TSP). This limit is an aggregate of all pre-tax and/or Roth contributions. Plus, individuals age 50+ can defer an additional $6,500 in "catch up" contributions.

- **Have the "back-door" Roth discussion.** A backdoor Roth IRA is a retirement savings strategy where you contribute after-tax funds (nondeductible) to a traditional IRA, which virtually everyone can do, and then immediately convert the funds to a Roth IRA. Roth IRA eligibility is means tested—that is, an investor must satisfy an annual income threshold as set by the IRS. For you to contribute directly to a Roth IRA, your income must be under a threshold dependent on your tax filing status. However, high-income earners, regardless of the amount of household income, are eligible to convert funds to a Roth IRA.

- **Contribute to an HSA.** You may be eligible to contribute to a HSA if you are enrolled in a high-deductible health plan (HDHP). HSAs are triple-tax-advantaged savings accounts that are designed to be used for future medical costs. In 2021, an eligible individual with single coverage can contribute $3,600, whereas the limit is $7,200 for those with family coverage. In addition, a $1,000 catch-up contribution is available to those individuals age 55 and older. Once you determine the maximum allowable HSA limit, contributions can be made anytime between January 1 and April 15 of the following year.

- **Ensure your beneficiary designations are in order.** Retirement accounts generally are not subject to probate; therefore, the beneficiary designation on file versus a will is what prevails. Did you get married this year? Divorced? Did a previously designated beneficiary predecease you? Birth of a child? Adoption? Any of these life events could affect your beneficiary designation. Review and, if necessary, update your beneficiary forms for all your retirement accounts. Are the correct individual(s) designated to receive the benefits? If you are unsure who to name as your beneficiary (primary or contingent), You can discuss your estate planning needs with us. Refer to our Financial Planning Tip this month for some critical information about how beneficiary designations work.

Give us a call at the office if you have any questions about the accounts you have entrusted to us for management and if you want talk about any of these year end tips!

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401(K) Allocation

There are trades.

We did warn, last month, that volatility should be expected going forward. It probably comes as no surprise that models are currently recommending risk off (go to cash) given the current headline stressors. COVID isn't going away and the new variant, omicron, is spooking markets that further shut downs may upset the recovery in progress. Comments by the CEO of Moderna added to the angst as he reported the opinion of his scientists was that "this isn't good". We will have to let time give us those answers. Current anecdotal evidence is that it is more contagious, but may be less lethal. That last part is kind of important! Pile onto this, the comments made by Federal Reserve Chairman Jerome Powell this week that indicate a willingness to taper back their bond purchases more aggressively and to remove the language from their notes that they are going to continue to be "accommodative". This threatens the punch bowl that has fueled markets these past 18 months. Now toss on somewhat disappointing sales results for both Black Friday and Cyber Monday and a market already priced to perfection couldn't rise above these issues.

We are exiting any remaining small cap and some mid cap exposure depending on your risk level, and taking this to your Stable Value (cash equivalent) fund for now.

Should the variant in fact have a much lower fatality rate, supply chain issues start to sort themselves out, and headlines calm down, the stock market will likely be back to the races as there is still quite a lot of cash sitting on the sidelines. With current inflation over 6% - that cash is now losing quite a bit of purchasing power so cash will likely get put back to work quickly if we see some of these things resolve.

	Agg. Growth *100% Equity*	**Growth**	**Moderate**	**Balanced**	**Conservative**
	10%	**25%**	**40%**	**50%**	**75%**
Stable Asset - OR - Short Term Bond	*10%*	*25%*	*40%*	*50%*	*75%*
Total Return	*0%*	*0%*	*0%*	*0%*	*0%*
High Yield Bonds	*0%*	*0%*	*0%*	*0%*	*0%*
Inflation Protected Bonds	*0%*	*0%*	*0%*	*0%*	*0%*
	75%	**65%**	**50%**	**45%**	**25%**
Large Cap Growth	*35%*	*30%*	*20%*	*20%*	*10%*
Large Cap Value	*40%*	*35%*	*30%*	*25%*	*15%*
	15%	**10%**	**10%**	**5%**	**0%**
Mid Cap Growth	*5%*	*0%*	*0%*	*0%*	*0%*
Mid Cap Value	*10%*	*10%*	*10%*	*5%*	*0%*
	0%	**0%**	**0%**	**0%**	**0%**
Small Cap Growth	*0%*	*0%*	*0%*	*0%*	*0%*
Small Cap Value	*0%*	*0%*	*0%*	*0%*	*0%*
	0%	**0%**	**0%**	**0%**	**0%**
Developed International	*0%*	*0%*	*0%*	*0%*	*0%*
Emerging Markets	*0%*	*0%*	*0%*	*0%*	*0%*

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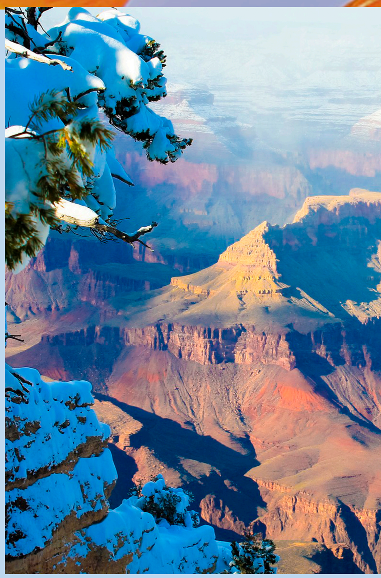

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Graphic of the Month

The labor markets continued to be stressed by what is now being called the Great Resignation. The number of Americans quitting their jobs has now exceeded pre-pandemic highs for six straight months. One of the chief drivers of this phenomenon is, of course, the pandemic, as this has led many people to reevaluate their work and their priorities about what is important in their lives. This will resolve itself in time – rent still has to be paid, after all – but until everyone settles into a more desirable position we are likely going to see continued issues with customer service times, small business closures (especially in service related industries which have historically paid lower wages) and geographic mis-matches with jobs and the labor force. Patience will be required.

https://www.statista.com/chart/26186/number-of-people-quitting-their-jobs-in-the-united-states/