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Your Copperwynd Financial Newsletter: January 2022

Market Commentary

Maybe you are in the camp that no longer sets New Year's Resolutions, but can you resist the temptation to look back on the year that we just finished and not reflect on what was and think about what may yet be in the year ahead?

Last year we reflected the number of extremes that were thrown at us in 2020 and the hope that we would continue the recovery in the economy, in the general healing of the world on multiple levels … and that maybe Mother Nature would cut us a break this year. While the economic recovery picked up incredible momentum with record everything – job creation, housing values, wage growth, prices on literally everything – the world was still a pretty angry place and Mother Nature just rotated her wrath to different areas.

Yet in spite of this, markets in 2021 continued to exhibit very impressive resilience since the pandemic began, as the strength of the U.S. economy and corporate America helped produce another year of substantially positive returns in stocks. And that resilient nature should continue to support markets and the economy as we begin a new year.

By market capitalization, large company stocks handily outperformed small companies both in the fourth quarter and throughout 2021. As mentioned, concerns about future economic growth were the main driver of large-cap outperformance and small-cap underperformance especially in the second half of 2021. The Delta and Omicron variants were headwinds on economic growth in the second half of the year, while the Fed potentially hiking rates more than expected made the growth outlook for 2022 less certain, and those two factors drove a rotation from small caps to large caps in the third and fourth quarters.

US Equity Indexes	Q4 Return	2021 Return
S&P 500	11.03%	28.71%
DJ Industrial Average	7.87%	20.95%
NASDAQ 100	11.28%	27.51%
S&P MidCap 400	8.00%	24.76%
Russell 2000	2.14%	14.82%

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In contrast, bonds struggled this year due to concerns about tightening monetary policy being discussed by the Federal Reserve and signs that inflation may be more persistent than transitory. Higher-yielding, but lower-quality corporate bonds posted a positive return and outperformed on a full-year basis, as investors flocked to riskier debt amidst low rates, elevated inflation, and strong economic growth. Lower-yielding and safer investment-grade corporate debt and US treasury bonds underperformed in the fourth quarter and posted a negative return for 2021, for only the second time in a decade.

US Bond Indexes	Q4 Return	2021 Return
BBgBarc US Agg Bond	0.01%	-1.54%
BBgBarc US T-Bill 1-3 Mon	0.01%	0.04%
ICE US T-Bond 7-10 Year	0.44%	-3.07%
BBgBarc US MBS (Mortgage-backed)	-0.37%	-1.04%
BBgBarc Municipal	0.72%	1.52%
BBgBarc US Corporate Invest Grade	0.23%	-1.04%
BBgBarc US Corporate High Yield	0.71%	5.28%

It will not all be such smooth sailing as we move forward. The pandemic launched a series of global changes that have resulted in tight labor markets, supply chain disruptions and geopolitical anxiety that can present numerous potential challenges to economic growth, corporate earnings, and market returns. Reductions in global stimulus, still stubbornly high inflation pressures, political uncertainty, and the ongoing pandemic - any one of these areas may pose the next trigger for a market correction. We expect volatility to be a common theme in 2022 as we enter this next and new phase of the recovery.

The counterpoint to these concerns, is that there still remain multiple, powerful tailwinds on stocks and other risk assets. Corporate earnings remain incredibly strong and the performance of corporate America through the pandemic has been nothing short of amazing. Interest rates, while they will likely rise in 2022, remain very, very low and not yet close to levels that would historically be considered a headwind on economic activity. Personal savings remain high, unemployment remains low, and broadly speaking the U.S. economy is in pretty strong shape.

What resolutions (not predictions!) would we make about the year in front of us? To understand that the world we knew in 2019 has changed forever. It will require more patience, more kindness, and more nimbleness to navigate your investment strategy as we move forward. We resolve to continue to work tirelessly on your behalf to ensure your financial plan stays on track.
Welcome to 2022.

We will be conducting our first Zoominar of the new year on Wednesday, February 9th at noon. Watch your email for a link to register for our Outlook for 2022!

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Financial Planning

With 2021 behind us, a new year is an opportunity to refocus on your financial goals and health. This monthly planning guide gives you tips and ideas that can help as you're putting together your plan—and monitoring it—throughout 2022. The most successful plans aren't one and done; they're revisited and adjusted regularly. Things can change throughout the year, but a thoughtful plan will help you stay focused.

January — Set Your Intentions
Prioritize your goals. Start categorizing by what's urgent, what's important, and what can wait. Draft a 2022 budget. Look at last year's income and expenses, and set your plan.

February — Prepare for Tax Time
Get organized. Gather last year's forms and records. Make sure you have access to all documents needed.

File your taxes. Submit your return as soon as you're ready but no later than April 18th for 2022!

March — Simplify Your Investments
Don't forget your old 401(k)! When was the last time you reviewed your allocation and risk there? If you haven't even looked at that account in a year, consider rolling that into the plan sponsored by your current employer or into an IRA. Before moving that account you should consider factors like tax benefits, investment choices, and costs to determine what's right for you. Automate investing. Contribute a set amount regularly to a tax-advantaged or taxable investment account.

April — Improve Your Financial Standing
Review your debt. Prioritize your debt repayments (credit card, mortgage, car loan). Target high-interest debt first.

Make your 2021 IRA or ROTH contribution. You have until April 18, 2022, to make a 2021 IRA contribution (and to file your taxes if you haven't done so already). Our office or your tax preparer can assist you with determining whether you can make a deductible contribution or not, as there are income limitations.

May — Invest in Education
Check your credit report. You can access one free report from each major credit bureau per year. Request yours, and resolve any issues.

Open a 529 account. Saving for college, graduate school, or vocation training can be more attainable with a 529 plan.

June — Do a Midyear Checkup
Check your budget. Are you sticking to your targets? If priorities have shifted, adjust accordingly. Fund your emergency account. Assess whether you are targeting an appropriate funding level (typically three to six months of expenses for most households).

July — Commit to Your Financial Health
Be aware of lifestyle inflation. Also known as "lifestyle creep," this is the tendency to spend more on discretionary purchases when your standard of living improves.
Practice mindful spending. Pause before you purchase anything deemed as a "want." Waiting a self-assigned period, such as 30 days, before you buy will help make sure you really want a particular item.

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August — Reassess Your Choices
Evaluate your insurance coverage. Review your insurance coverage levels, including life, health, disability, liability, auto, and property. Research and pursue any discounts you might qualify for. Review your memberships. Are you using the memberships you have to their full advantage (e.g., subscription and streaming services, gym membership)? If not, reevaluate if you really need them.

Septembe r— Organize and Give Back
Get yourself organized. Gather important documents, including tax returns, legal and estate planning documents, statements, and bills of sale, and store them as appropriate—electronically or as hard copies.

Make charitable contributions and donations. Consider different ways to make charitable contributions, such as through a donor-advised fund (DAF). Additionally, you can donate any items you no longer need.

October — Be Vigilant With Cybersecurity
Protect your passwords. The most effective passwords contain uppercase and lowercase letters, numbers, and symbols and do not contain words found in a dictionary.
Use multi-factor authentication (MFA). MFA provides an extra layer of security to prevent someone from logging in to your account. Once set up, in addition to your password, you will enter a one-time security code sent to your multi-factor method.

November — Focus on Family Matters
Talk with adult children about money. As you prepare for the later years of your life, you may want to involve your grown children in the conversation. Your plans can impact their futures, too.
Update your estate plan. Take into consideration the tax consequences on your estate and your heirs' income needs. Review and update beneficiary designations on your various policies and accounts.

December — Prioritize Your Retirement
Prepare for your retirement. Aim to save at least 15% of your salary (including any employer plan contributions) across your retirement accounts.

Take required minimum distributions (RMDs). Whether you're working or retired, at age 72, you must start taking withdrawals from your Traditional, Rollover, SEP, and SIMPLE IRAs. Pay special attention to the provisions of any Inherited IRAs.

Most importantly – come meet with us! We are here to help provide the framework for your financial plan, help you set objectives and monitor your progress. Our online Planning Portal is an ideal way to help you integrate your financial accounts with your plan to make sure you always see the whole picture. We will look forward to seeing you this year and helping to keep your financial resolutions for 2022!

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Tax Planning

Higher tax brackets and a larger standard deduction in 2022 may offer some relief for taxpayers who are seeing their budgets busted by inflation. The IRS has announced new standard deductions and new tax brackets for 2022, reflecting higher price levels thanks in part to inflation.

While the top federal tax rate remains at 37% for 2022, less of your income will likely get hit by this tax rate. Married couples filing jointly will not enter the 37% tax bracket until their taxable income passes $647,850 for 2022. This is almost a $20,000 jump from the tax brackets in 2021.

The most common tax deduction for the average taxpayer is the standard deduction. For married couples, this valuable tax break will be increased by $800. While not life-changing, every bit helps! The new standard deduction for married couples in 2022 will be $25,900. Likewise, the maximum contribution to a flexible spending account (FSA) for healthcare has increased to $2,850, up from $2,750 in 2021. Not to be confused with a healthcare savings account (HAS) – this contribution allowance has also increased moderately. Single taxpayers may contribute $3,650 toward their healthcare savings account and families may contribute $7,300; please note that this maximum should take into consideration any contributions made by your employer to these savings accounts. If you are over age 55, there is an additional $1,000 “catch-up” allowance that you may also take.

Those looking to further reduce their tax liabilities in 2022 will be allowed to make larger 401(k) contributions. The new maximum employee contribution to a 401(k) plan will be $20,500. The maximum contribution between employee and employer has increased to $61,000 per year. For taxpayers who are 50 or older, an additional $6,500 catch-up contribution is allowed bringing the grand total to $67,500 for 2022.

For yet another year, the IRA and Roth IRA contribution limits remain unchanged. For 2022, the IRA contribution limit is just $6,000. Similarly, the IRA catch-up contribution limit will remain at $1,000 for those age 50 and older in 2022.

A very important reminder! If you made a charitable contribution using appreciated stock, if you made a Qualified Charitable Distribution (QCD) from your IRA or if you made a ROTH conversion or “Back Door ROTH” contribution – all of these are very important pieces of information you need share with your tax preparer in order to insure you receive proper credit on your tax return.

Your 1099’s are required to be posted by TD Ameritrade no later than February 15, 2022, but many of you with IRA distributions may start seeing those as early as the end of this month. The past two years, due to the pandemic, we have seen the tax filing deadlines extended several months. At this point, there has been NO such discussion but due to the 16th falling on a weekend, your tax filing deadline will be Monday, April 18th.

Tax planning is important for everyone and if you ignore it, it’s like leaving a giant tip for the IRS. If you have questions on your contributions for 2022 or your tax situation, or need a referral to a tax preparer, please give us a call at the office!

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401(K) Allocation

No Trades.

Last month our risk off indicators flashed a warning signal and that prompted us to both lower stock risk exposure, but also to change the bond allocation out of your diversified bond portfolio and over to your plan's cash equivalent. It turns out that stocks rallied into the close of the year (thank you Santa!) so we may have missed out on a portion of those S&P gains for the end of the year, but exiting those bond funds (remember, what you have for bond options in your 401K plan is not what we trade here) is proving to be the right trade. Chairman Powell with the Federal Reserve came out mid-December and accelerated the timeline for ceasing some of the accommodative programs that had been in place since the start of the pandemic. Further, they announced estimates of 3 interest rate increases for 2022. Initially, markets shrugged off this information but with recent publication of the Fed meeting notes where we can read the details of their conversations, it has become obvious that their intent is to be even more aggressive in slowing down the stimulus their programs have provided the past two years. Problematic for bonds in the near-term and may prove the same for stocks, we shall see!

As always, if you have not looked at your 401K plan in awhile or need assistance with your allocation, we welcome your calls and are happy to help walk you through making any changes necessary.

Jan-22		Agg. Growth *100% Equity*	Growth	Moderate	Balanced	Conservative
		10%	25%	40%	50%	75%
Stable Asset - OR - Short Term Bond	*CASH*	*10%*	*25%*	*40%*	*50%*	*75%*
Total Return	*BKLN*	*0%*	*0%*	*0%*	*0%*	*0%*
High Yield Bonds	*JNK*	*0%*	*0%*	*0%*	*0%*	*0%*
Inflation Protected Bonds	*TIP*	*0%*	*0%*	*0%*	*0%*	*0%*
		75%	65%	50%	45%	25%
Large Cap Growth	*MGK*	*35%*	*30%*	*20%*	*20%*	*10%*
Large Cap Value	*VYM*	*40%*	*35%*	*30%*	*25%*	*15%*
		15%	10%	10%	5%	0%
Mid Cap Growth	*IWP*	*5%*	*0%*	*0%*	*0%*	*0%*
Mid Cap Value	*IWS*	*10%*	*10%*	*10%*	*5%*	*0%*
		0%	0%	0%	0%	0%
Small Cap Growth	*IWO*	*0%*	*0%*	*0%*	*0%*	*0%*
Small Cap Value	*IWN*	*0%*	*0%*	*0%*	*0%*	*0%*
		0%	0%	0%	0%	0%
Developed International	*EFA*	*0%*	*0%*	*0%*	*0%*	*0%*
Emerging Markets	*SPEM*	*0%*	*0%*	*0%*	*0%*	*0%*
		100.00%	100.00%	100.00%	100.00%	100.00%