Your Copperwynd Financial Newsletter: January 2021

Market Commentary

We have turned the page on 2020, a year of superlatives, amongst other less flattering terms!

… The fastest correction in history into Bear Market Territory
… The fastest recovery from that correction
… The greatest amount of federal stimulus ever delivered to the US economy
… The longest running first-time claims for unemployment in history
… The driest year on record for Arizona
… The deadliest health crisis since the Bubonic Plague of the 14th century
… The most number of hurricanes in a year
… The most number of acres burned by forest fires in a year
… The greatest voter turnout in history

I am sure we're missing a few. Perhaps it is best left for the historians to expand on everything that the world faced in 2020. The fatigue most of us feel from the events of the past twelve months may be gladly left in the pages of a history book and hopefully not a blueprint for this new year.

Had we been able to look into a crystal ball in January and foresee these events, we would never have projected a positive market return for 2020. Yet that is exactly how we finished the year in the stock market – with positive results for most markets and sectors!

US Equity Indexes	Q4 Return	2020 Return
S&P 500	12.15%	18.40%
DJ Industrial Average	10.73%	9.72%
NASDAQ 100	13.09%	48.88%
S&P MidCap 400	24.24%	13.10%
Russell 2000	31.37%	19.96%

From an investment style standpoint, value outperformed growth for the first time in 2020 during the fourth quarter. The outperformance by value stocks underscored investor optimism for an economic rebound in 2021, courtesy of multiple COVID-19 vaccines and more economic stimulus. For the full year, however, growth massively outperformed value due to strength in the tech sector. It was a pivot in the way the economy functioned during the pandemic with the focus on work-from-home, and a trend we will likely see continue well past 2021.

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In response to the worst pandemic in 50 years and a country at war with itself over lockdowns, individual freedoms and political results, the Fed and Congress airdropped an unprecedented amount of stimulus on the US economy: first in March with the CARES Act, again at the end of the year with additional direct payments and now more is anticipated with the results of the Georgia Senate run-off giving President-Elect Biden an arguably easier path to keeping the presses running (more stimulus). To keep you apprised on all of the latest developments regarding vaccines, government programs and details on stimulus packages, we refer you to the special section of our website COVID-19 Resources - https://www.copperwyndfinancial.com/covid-19-resources.

We have intoned frequently in our meetings with you all this year, and again in our online Zoominars, that when it comes to market performance, it matters less who controls the political power and far more what stage of the economic cycle we find ourselves in – and how accommodative the fiscal policy is. Today we are still in a recession, but the hope brought by vaccines and a return to normal, the sheer amount of cash sitting on the sidelines right now, and the potential for additional stimulus should provide plenty of tailwind for 2021. For more on what we see for this year, we encourage you to join us for our first Zoominar of 2021 on February 4th. Watch your email for more details!

So yes, markets ended a historic year on a high note, as federal economic support, record-breaking vaccine development, and an incredibly resilient corporate America helped to more than offset the worst global pandemic in more than a century. But there was damage to the economy and certain of those segments of the US fared far worse than others. While unemployment numbers collectively hover around 6.7%, the travel and hospitality sectors were particularly hard hit and have an unemployment rate over 20%. It is estimated that more than 6 million families cannot afford to pay their rent or mortgage and lines continue to be unconscionably long at food banks. We may return to "normal" once herd immunity and the vaccines have this thing under control, but there will be businesses and families that may never be the same.

As we turn our focus towards 2021, we want to acknowledge the hardship that so many have endured over the past 12 months, be it physical, emotional, or financial, and we sincerely hope that those burdens are eased in 2021 and beyond.

A new year, a clean slate, and a new look! We did a little early spring clean and would like to announce the launch of our new web site – fresh, streamlined, and hopefully informative. We welcome your comments! You may also notice a new face on our web site; **Myra Alport** joined our firm as a Paraplanner last month and you will likely meet her when we are all clear to get back to in-person meetings.

Welcome 2021.

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Financial Planning

Every year, millions of people make New Year's resolutions, hoping to spark positive change. One of the more popular New Year's Resolutions we hear about are those individuals looking to make their health a priority, and trim a bit of that quarantine 15. Just like slimming down your waist size is good for your health, trimming the fat in your monthly budget is a good way to bolster the health of your emergency fund, cut back on spending, and all-in-all have a healthy financial regiment. But like a diet, that takes discipline.

Pay yourself first. - When payday comes, dollars tend to disappear quickly. So put your savings on autopilot. Set up automatic deposits that move money directly from your paycheck to your savings account before those dollars have a chance to disappear.

Rid yourself of "recurring" charges. - Scrutinize your credit card statement and identify and cancel any "recurring charges" for services you no longer use, such as magazine or video streaming subscriptions, gym memberships, or premium access sites or upgrades.

Increase your insurance deductibles. - If you can afford the higher out-of-pocket costs in the event of a claim, consider increasing the deductible on your home and auto insurance policies. For example, raising your auto insurance deductible from $500 to $1,000 can save you approximately 13% on your auto premium. You can also save money by bundling policies, or having a number of different types of insurance policies, such as homeowners and auto, at the same carrier. It also doesn't hurt to shop around for a better deal around renewal time, either.

Save on stay-at-home. - Pandemic-related stay-at-home orders and related increases in the number of people working from home has resulted in many expenses that no longer need to be paid. For example, if you're no longer paying commuting expenses or for meals out or for your annual overseas vacation, funnel those one-time expenses into savings.

Save anywhere you can. - Every quarter or dollar or $20 you can save, no matter where you can find the savings, can add up fast. Consider enrolling in a program like Acorns, which sweeps your spare change on debit or credit card transactions into a savings account. Or save on shopping by making your purchases on online sites like Rakuten and Ibotta, which give you refunds for shopping at their sites.

Refinance your home. - If you haven't taken advantage of record-low mortgage rates, consider refinancing your home loan to a lower rate. Even a 1% reduction in your interest rate can result in very material interest savings over the life of your mortgage. A $250,000, 30-year-fixed home loan at 4.25% will cost you $1,230 in principal and interest each month. But you'll pay just $1,088 a month, saving $142 per payment, if you refinance to a 30-year loan at 3.25%.

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Don't buy the latest gadget. - Buying the hottest new smartphone or electronic gadget might give you bragging rights, but it will also dent your wallet A cellphone or computer two or three models older than the latest version can be 70% cheaper and still a major upgrade over what you have.

Buy used wheels. - One way to reduce your monthly bills is to shrink your auto payment which may mean steering away from buying a new vehicle, which loses 20% to 30% of its value in year one, or not leasing a vehicle that forces you to get a new lease when the current term ends.

By reviewing every expense that you have and asking yourself, 'Can I eliminate or reduce some of my expenses,' is that first step in becoming a bit more in control of your spending and savings habits. And by implementing even just a few of these tips, your financial fitness will be off to a great start in 2021!

College and Tax Planning

The IRS and the Social Security Administration have released 2021 inflation-adjusted figures for more than 50 tax provisions. Here are just a few updates and changes that have occurred for the year 2021 that you may want to be aware of:

Itemized Deductions and Standard Deduction
The standard deduction for married couples filing a joint return is slightly higher for 2021. The new standard deduction is $25,100 (up $300). For single individuals and married couples filing separate returns, the standard deduction is $12,550 for 2021 (up $150). The 2021 standard deduction for heads of household increases to $18,800 (up $150).

Estate and Gift Tax
For 2021, the lifetime exclusion from estate and gift tax has increased from $11,580,000 to $11,700,000. The annual gift tax exclusion in 2021 remains at $15,000. Gift splitting allows married couples to give up to $30,000 to a person without making a taxable gift. The exclusion for gifts to a spouse who is not a citizen of the United States increases $2,000 to $159,000 for 2021.

COLA Limits for Qualified Plans
The cost of living adjustments (COLA) affect the maximum limits for a variety of contributions and distributions for 2021, including defined benefit accounts, 401(k)s, and other defined contribution plans, as well as limits on employee stock ownership plans (ESOPs) and benefits to highly-compensated employees.

- **Defined Contribution Plans** - The limits on elective deferrals to 401(k), 403(b), certain 457 plans, and the federal government's Thrift Savings Plan remains at $19,500 for 2021 (same as 2020). The limit on annual additions to defined contribution plans is increased in 2021 to $58,000 (up $1,000).

- **Defined Benefit Plans and ESOPs** - The maximum amount a defined benefit plan may pay a participant each year remains unchanged in 2021 at $230,000 (same as 2020).

- **Individual Retirement Accounts (IRAs)** - Eligible taxpayers can contribute up to $6,000 to an IRA (excluding catch-up contributions discussed below), which is unchanged for 2021. The MAGI phase-out range for taxpayers making contributions to a Roth IRA in 2021 is $198,000 to $208,000 for married couples filing jointly, up $2,000 from 2020. For single taxpayers, the income phase-out range in 2021 is $125,000 to $140,000, up $1,000 from 2020.

- **SIMPLE Catch-up Contributions** - The elective deferral limit for a SIMPLE plan remains unchanged at $13,500 in 2021. The $3,000 catch-up amount for SIMPLE plans also remains unchanged for 2021.

RETIREMENT PLANS (Annual Contribution Limits)	2021	2020
401(k) + 403(b), most 457 plans, Thrift Savings Plan (Fed Govt.)	$19,500	$19,500
50+ Catch-up Contribution	$6,500	$6,500
IRA	$6,000	$6,000
50+ Catch-up Contribution	$1,000	$1,000
SIMPLE	$13,500	$13,500
50+ Catch-up Contribution	$3,000	$3,000

Social Security Wage Base Increases for 2021
The maximum amount of earnings subject to Social Security increased from $137,700 to $142,800 (up $5,100) in 2021. The Social Security Administration also reported that Social Security and Supplemental Security Income benefits will increase by 1.3% for 2021.

For our Arizona clients, we are sharing more detailed information on the tax credits unique to our state. These do not reduce your tax liability, just allows you to direct your taxes paid to specific organizations. For a comprehensive list of these credits, CLICK HERE to download Document.

While not monumental changes, it is important to know how each of these may impact you throughout the year, and especially as you begin to look at filing your taxes in 2022. If you have questions on how each of these changes may affect you and your tax situation, don't hesitate to reach out to us at the office!

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401(k) Allocation

No changes to your 401K allocations this month.

Going into year-end we saw market strength start to "pivot" into previously under-performing segments of the market. This, we believe, was in anticipation of a "return to normal" for the economy, a hope buoyed by the release of two vaccines for COVID. To that effect, we lowered our exposure to Large Cap Growth stocks, added to Large Cap Value, and beefed up the Small and Mid-cap stocks, as well as adding International for the first time in a very long time. As we said last month – this is the most diversified we have seen the 401K allocations looking in years! That trend has continued to bear fruit and your 401K/403B plans should have seen the results of that timely rotation. As the strength continues, we will stay invested.

As always, do your gut-check for risk and decide what you can do and still sleep at night! Markets are not cheap, but with a fresh round of $900 Billion in stimulus and quite likely another on the way, we see some tailwinds to markets marching on.

If you have not had us look at your 401K/403B options and would like us to prepare your customized "decoder ring" please give us a call and let us know. As always, if you struggle with how to get your plan rebalanced, we are here to help! Happy 2021 everyone!

Jan 2021		Agg. Growth *100% Equity*	Growth	Moderate	Balanced	Conservative
Bonds / Cash		0%	10%	35%	50%	70%
	Stable Asset - OR - Short Term Bond	*0%*	*10%*	*25%*	*30%*	*35%*
	Total Return	*0%*	*0%*	*10%*	*20%*	*35%*
	High Yield Bonds	*You may purchase half of your bond position in high yield if your plan offers this investment*				
	Specialty Bond					
Large Cap:		50%	45%	30%	25%	15%
	Large Cap Growth	*25%*	*25%*	*15%*	*15%*	*10%*
	Large Cap Value	*25%*	*20%*	*15%*	*10%*	*5%*
Mid Cap:		20%	20%	15%	10%	10%
	Mid Cap Growth	*15%*	*10%*	*5%*	*5%*	*5%*
	Mid Cap Value	*5%*	*10%*	*10%*	*5%*	*5%*
Small Cap:		15%	15%	10%	10%	5%
	Small Cap Growth	*10%*	*10%*	*5%*	*5%*	*5%*
	Small Cap Value	*5%*	*5%*	*5%*	*5%*	*0%*
International:		15%	10%	10%	5%	0%
	Developed International	*5%*	*5%*	*10%*	*5%*	*0%*
	Emerging Markets	*10%*	*5%*	*0%*	*0%*	*0%*
		100.00%	100.00%	100.00%	100.00%	100.00%

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