
Your Copperwynd Financial Newsletter: July 2021

# Market Commentary

So far this summer, we have experienced some record heat and another record high in the stock market! Time will tell which one cools off first but for now we are enjoying the march higher in the market and just trying to survive the heat while we celebrate Independence Day. We would be amiss if we did not express gratitude for the freedoms that we all enjoy in this country. Many of us have been given these freedoms without any sacrifice of our own so now is a great time to remember those that went before us and as Abraham Lincoln said, "laid so costly a sacrifice upon the altar of freedom".

Personal freedom makes us one of the happier countries, just look at the graphic of the month to see global happiness levels around the world.

**Quarterly Insights - July 2021**

The S&P 500 rose to another record high during the second quarter as a substantial decline in U.S. COVID-19 cases combined with a near-total economic reopening across the country led a surge in economic growth that helped stocks rally to new highs over the past three months. The S&P 500 had a strong start to the second quarter thanks to numerous positive developments. First, the increased pace of vaccinations combined with a decline in COVID-19 cases helped numerous states more fully reopen their economies or prompted the announcement of plans to do so in the near future. That served as a positive signal to investors that a return to pre-pandemic normal was now likely just a matter of time.

Meanwhile, the Federal Reserve reiterated its support for the economy and promised not to remove any accommodation in the near term. That continued "safety net" gave investors' confidence in the future economic outlook and the sustainability of the economic recovery. Finally, first-quarter corporate earnings were very strong, as the vast majority of U.S. companies beat earnings estimates. These positive factors helped stocks rally throughout the quarter. The rally paused several times, thanks to uncertainty regarding inflation, the labor market and when the Federal Reserve would begin to reduce, or taper, its quantitative easing (QE) program. A disappointing jobs number in early May implied the labor market might not be recovering as quickly as expected. That, combined with inflation metrics hitting multi-decade highs, elicited some concern the economic recovery might not be as strong as forecasted, and that a return of inflation might make the Federal Reserve begin to reduce accommodation earlier than previously expected. But after some volatility, it became apparent that the lackluster job growth was more a function of a labor supply issue rather than there not being enough jobs available, and investors came to believe that issue will resolve itself as the economy and society continues to return to pre-pandemic "normal." Meanwhile, Federal Reserve officials reiterated their long-held position that any increase in inflation would be temporary and due to pandemic-related supply chain

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disruptions and not the return of 1970's style inflation problems. Investors were comforted enough for stocks to rebound, and the S&P 500 hit another record high during the last few days of the quarter.

In sum, the strong gains of the second quarter and the first half of 2021 reflected continued government support for the economy combined with a material improvement in the pandemic in the U.S., and as we start the second half of 2021, we are happy to say the world looks a lot more like it did pre-pandemic than it did for most of 2020, and that sentiment is supportive of risk assets going forward.

**3rd Quarter Market Outlook**

Markets reflected a legitimate improvement in the macroeconomic outlook during the second quarter as substantial progress against the pandemic helped underwrite the gains in stocks over the past three months. But that strong performance should not be taken as a signal that risks no longer remain, and in fact the next three months will bring important clarity on several unknowns including inflation, future Federal Reserve policy, and the pandemic.

Regarding inflation, some metrics in June implied that the spike in inflation during the second quarter is starting to reverse, but that debate is far from settled. To that point, no one knows what the trillions in pandemic stimulus combined with 0% interest rates and the Fed's ongoing QE program will do to inflation over the longer term. If this sudden surge in inflation is indeed just temporary, we should see more conclusive evidence of that during the third quarter.

The Federal Reserve, meanwhile, has started the process of communicating how it will begin to reduce support for the economy via "tapering" or reducing, its quantitative easing program. The last time the Fed had to deliver that message, they triggered the "Taper Tantrum" of 2013, which saw stock and bond market volatility rise significantly, and it remains to be seen how expected removal of accommodation and an eventual increase in interest rates will impact markets.

Finally, despite significant progress against COVID-19 here in the U.S., the pandemic is not over. Vaccination rates for most countries are well behind that of the United States, and the second quarter saw an explosion of COVID-19 cases in India and an outbreak in China. Meanwhile, England delayed its planned economic reopening over concerns about the spread of the "Delta" COVID-19 variant that was behind the surge in cases in India. Then, late in the month, both Australia and South Africa reimplemented local lockdowns due to rising cases of the Delta variant. Point being, there remains a possibility that a new COVID-19 variant appears and renders the vaccines less effective. If that happens, markets will become concerned that progress towards a return to economic "normal" will be reversed, and that will cause volatility.


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In summary, while there has been material progress made in the United States against the pandemic, and life as we know it has thankfully returned mostly to normal, now is not a time to become complacent as numerous economic and pandemic-related risks remain. As such, while the macroeconomic outlook is still decidedly positive, we should all remain prepared for bouts of market volatility.

At Copperwynd, our models continue to have us fully invested.  We have made several shifts this quarter both on the bond and stock side as we are committed to effectively navigating this still-challenging investment environment. Successful investing is a marathon, not a sprint, and even temporary bouts of volatility like we experienced during the height of the pandemic have shown the value of our investment models to help meet your long-term investment goals. Notwithstanding the economic and medical progress achieved so far in 2021, we remain vigilant towards risks to portfolios and the economy, and we thank you for your ongoing confidence and trust.

As always, we continue to encourage you to reach out with questions or concerns and we hope you enjoy those much-needed vacations during the summer months.

## Financial Planning

Is it really a problem to have too much of a good thing? Well, with concentrated stock positions, you may find yourself in that very situation. Maybe you bought Apple stock in the early 1980s after it went public. Maybe you've worked at the same company for years, and you've built up a pile of company equity. Maybe an IPO served as your personal jackpot. Or maybe you inherited some stock that has since skyrocketed in value. No matter how you got there, if you've made a decent chunk of change (or more) thanks to a certain stock in your investment portfolio, you might be resisting the idea of parting with it. After all, hanging on has worked out pretty well for you so far (not to mention those capital gains you'd have to pay if you sold).

The fear of missing out on the upside is real. What many people forget is the potential downside: Only a small number of companies outperform the broad market over the long term. And the risk of a permanent drop in a stock's value is real, even if it does feel like the hot company this year or even this decade. So … why should you consider diversifying? Well, concentrated stock may make you rich, but diversification is meant to help you stay that way.

**Here are 4 ways that you can diversify a concentrated Stock Position:**

1. **Incrementally Selling Shares** - A sale of stock is might be the most appropriate and simplest means of reducing a concentrated stock position. Tax considerations, potential market impact, reinvestment of proceeds and timing of sales, however, are all elements for you to consider within the context of your overall financial plan. that any increase in inflation would be temporary and due to pandemic-related supply chain


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2. **Using Options to Hedge the Position** - You also might consider using singular or multiple combinations of options to help guard against a significant drop in stock value. For example, purchasing a put option is similar to buying insurance against the risk of loss in your stock. A protective put option provides an investor the right to sell all or a portion of his or her shares at a predetermined price. Similar to insurance, if the price of the stock goes up, the value of the option could expire worthless. In addition to purchasing puts, selling call options can provide income against a decline in share value.

3. **Gifts of Stock** - When gifting to your children or grandchildren, they will not receive a step up in cost basis of the stock, unfortunately; however, if the person receiving the gift is in a lower tax bracket (such as the 10% or 15% marginal tax bracket), he or she will not pay long-term capital gains tax on the sale of the stock.

4. **Donate Shares to a Trust or Charity** - By donating highly appreciated stock to a charitable remainder trust (CRT), you might be eligible to receive a tax deduction at the time of the contribution. The trust's future payout rate may be managed in a manner conducive to income objectives or tax planning, as appropriate. When you donate stock to charity, you'll generally take a tax deduction for the full fair market value. And because you are donating stock, your contribution and tax deduction may instantly increase over 20%.

Concentrated stock positions can represent a fortunate outcome for some investors but do come with significant potential risks. And, to help minimize risk, they should be part of an overall, diversified portfolio. A Copperwynd, we will work to develop a strategy to help manage your concentrated position.


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## College and Tax Planning

Trade schools provide an opportunity to quickly learn career skills without the need for a four-year degree. Instead, you can earn an associate's degree or the skill certification necessary to pursue a career in fields like dental hygiene, information technology, carpentry, HVAC, and more. Although most students attending four-year colleges take out student loans to fund their education, student loans for trade schools are limited. Here's a look at some student loan options available for individuals attending a trade school.

**Federal student loans**

Federal student loans are designed with four-year college students in mind. The first requirement is being enrolled at least half-time to qualify for federal student aid. Then, the coursework you're pursuing must be from an eligible program at an accredited school. The best way to get clarity on federal financial aid is to contact the school's financial aid office. The school's financial aid administrators can tell you immediately what funding options are available and how to qualify.

If the school is eligible, apply for student loans by submitting the Free Application for Federal Student Aid (FAFSA). The federal government uses the FAFSA form to determine a student's financial need. Exhaust federal student loan options before taking out a private loan. Federal student loans come with additional benefits like more repayment plans, loan deferment and forbearance, loan forgiveness, and more. The Federal direct loan program features fixed interest rates for the life of the loan.

**Private student loans**

Private student loans are another potential source of funding to pay for trade school. Unfortunately, private loans tend to be just as restrictive for non-degree borrowers, like undergraduate and graduate students. Some private lenders offer specific student loans for trade school and other career training. Sallie Mae, for example, has the Sallie Mae Career Training Smart Option Student Loan for individuals pursuing trade certificate programs and other professional training.

Your child or grandchild might qualify for student loans with other private lenders, but they will need to meet their requirements. Typically, private lenders only lend money to students attending an approved Title IV not-for-profit college or university. Requirements like this and others limit how many places you can get a private student loan for trade school. Also, remember that qualifying for a private student loan is based on their credit. If they can't meet specific credit and income requirements, your child or grandchild's may need a cosigner to qualify. However, keep in mind that puts someone else on the line, financially, if they can't pay the bill.

If the school being attended school qualifies for federal or private funding, taking out a student loan is a viable option to help cover trade school costs. Since trade school programs typically last under two years, your total bill should be less than at a traditional college. If you have questions on the best way to fund your child or grandchild's trade school cost, give us a call at the office to set up a review!


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## 401(k) Allocation

In July, we've made some adjustments to both the stock and bond portions of the portfolio. On the bond side, interest rates have stabilized and our models still have us fully invested so we are adjusting the bond allocation to own less short term bonds and allocating a little more into higher yielding bonds. The stock side is adjusting to be pick up a little bit more Growth as that has started to trend better and that pushes the allocation to be more equal weighted from a Growth and Value standpoint. We are maintaining our large overweight to Domestic equities, our small exposure to International Developed equities and avoiding Emerging Markets for now.

If you need any assistance with re-allocating your 401k plan, just give us a call at the office and we'll be happy to help!

**July-21**

| | **Agg. Growth** ***100% Equity*** | **Growth** | **Moderate** | **Balanced** | **Conservative** |
|---|---|---|---|---|---|
| | **0%** | **10%** | **30%** | **45%** | **60%** |
| *Stable Asset - OR - Short Term Bond* | *0%* | *0%* | *10%* | *10%* | *15%* |
| *Total Return* | *0%* | *10%* | *20%* | *35%* | *45%* |
| *High Yield Bonds* | *You may allocate up to 50% of your bond allocation here if this investment style is available in your plan* | | | | |
| *Inflation Protected Bonds* | | | | | |
| | **60%** | **50%** | **47%** | **35%** | **25%** |
| *Large Cap Growth* | *30%* | *25%* | *22%* | *15%* | *10%* |
| *Large Cap Value* | *30%* | *25%* | *25%* | *20%* | *15%* |
| | **20%** | **20%** | **10%** | **10%** | **10%** |
| *Mid Cap Growth* | *10%* | *10%* | *5%* | *5%* | *5%* |
| *Mid Cap Value* | *10%* | *10%* | *5%* | *5%* | *5%* |
| | **10%** | **10%** | **8%** | **5%** | **5%** |
| *Small Cap Growth* | *5%* | *5%* | *4%* | *2%* | *2%* |
| *Small Cap Value* | *5%* | *5%* | *4%* | *3%* | *3%* |
| | **10%** | **10%** | **5%** | **5%** | **0%** |
| *Developed International* | *10%* | *10%* | *5%* | *5%* | *0%* |
| *Emerging Markets* | *0%* | *0%* | *0%* | *0%* | *0%* |
| | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |


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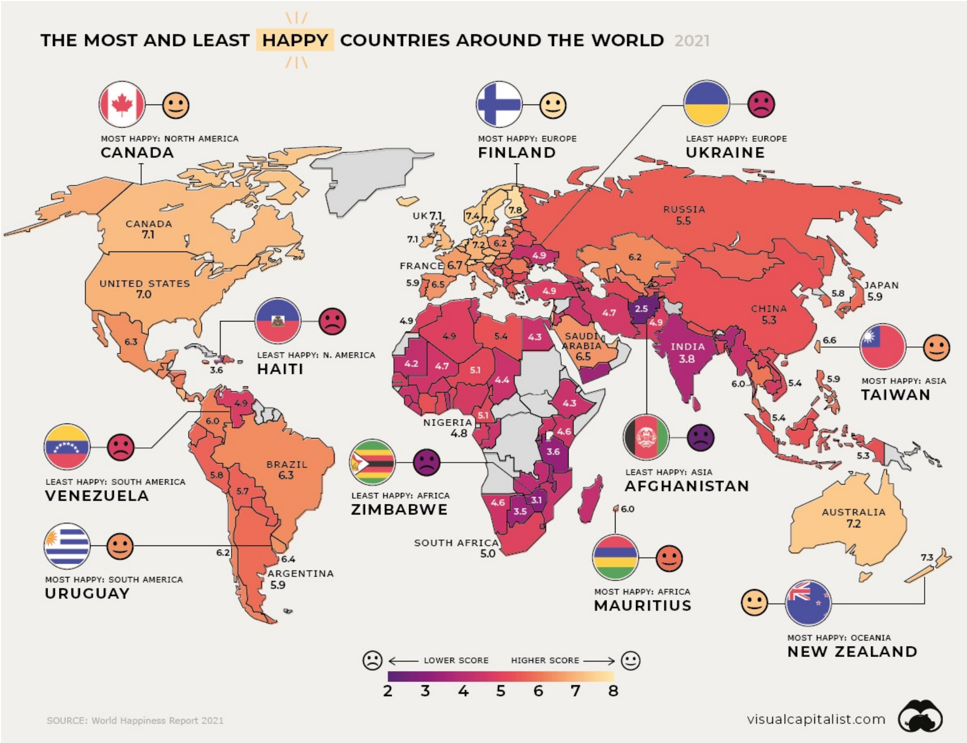
## Graphic of the Month




## Mapped: Global Happiness Levels in 2021

*"Are you happy?"* is a deceptively complex question to both ask and answer.

It's generally understood that having enough money to cover your needs and wants can help you live a relatively happy, comfortable life—and recent research shows this relationship may increase linearly as income levels grow, as well.

However, there's much more to it than that. Happiness levels depend not just on financial security, but also broader perceptions of one's social support, personal freedom, and more.

This series of map pulls data from the World Happiness Report to uncover the average scores of 149 countries between 2018-2020, and which ones emerged the happiest or unhappiest. We also look at the most and least improved countries in every region.


## Graphic of the Month

**How is Happiness Measured?**
First, let's look at the factors used to calculate world happiness levels. Some clear indicators are health and wealth, both metrics that have been steadily on the rise worldwide. The report takes these into account, weighting GDP per capita and life expectancy at birth into the scores.

The report also looks at more intangible aspects, collecting survey responses around:

- Social support
- Freedom to make life choices
- Generosity
- Perceptions of government/ business corruption
- Positive or negative affects (Recent experience of emotions)

This year, there was a natural focus on the negative affect measure of the COVID-19 pandemic on happiness levels, such as exacerbating mental health risks. In addition, such measurements varied depending on each country's response to the crisis.

## Looking Closely at Regional Happiness Levels

Worldwide happiness comes in at an average score of 5.5, a marginal improvement since our previous coverage of this report in 2019. Let's dive into regional outlooks for happiness levels.

- North America
- South America
- Europe
- Middle East and Central Asia
- East Asia and Oceania
- Africa

For individual graphs, please click here.

*Source (Pages 7-8): https://www.visualcapitalist.com/mapped-global-happiness-levels-in-2021*

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