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Your Copperwynd Financial Newsletter: July 2022

Market Commentary

Throughout much of the southwest this year, 4th of July fireworks displays were cancelled due to drought conditions, or shortage of either staff or the fireworks themselves! It was a bit of a muted celebration this year given all of the social challenges that continue to face our nation. Besides … the stock market has provided us with ample fireworks of its own.

The S&P 500 just realized its worst first-half performance since 1970 as initial market headwinds of high inflation and sharply rising interest rates combined with growing recession risks and extreme geopolitical uncertainty pushed stocks and bonds sharply lower through the first six months of the year.

Those declines reflect the 40-year high read for inflation at 8.6%, the Federal Reserve raising interest rates at the fastest pace in decades, coupled with China, the world's second-largest economy effectively shut down, and the on-going Russia-Ukraine war continuing to pressure multiple commodity prices.

So just how ugly has it been this year?

US Equity Indexes	Q2 Return	YTD
S&P 500	-17.41%	-19.96%
DJ Industrial Average	-12.17%	-14.44%
NASDAQ 100	-23.50%	-29.22%
S&P MidCap 400	-16.62%	-19.54%
Russell 2000	-18.02%	-23.43%

And bonds have not fared any better. Historically, the bond market has served as a safe haven when stocks have sold off, with positive returns in the bond index (AGG) for every year the S&P has finished negative. Not so this year as we mark the end of a three-decade long bull market in bonds with the Federal Reserve raising interest rates to combat inflationary pressures. Thus far into 2022, the bond index has returned -10.35%. Short of cash, there has been no safe place to hide.

But while the volatility and market declines of the first six months of 2022 have been unsettling and painful, the S&P 500 now sits at much more historically attractive valuation levels. And at current prices, a lot of negativities have been priced into the market, opening the possibility of positive surprises as we move forward in 2022.

Regarding inflation and Fed rate hikes, markets have aggressively priced in stubbornly high inflation and numerous additional rate hikes from the Federal Reserve between now and early 2023. But if we see a definitive peak in inflationary pressures in the coming months, then it's likely the Federal Reserve will hike rates less than currently feared, and that could be a materially positive catalyst for markets.

On economic growth, the Chinese economic shutdown has increased global recession concerns, but recently officials in Shanghai declared "victory" against the latest COVID outbreak and if Chinese economic activity can return to normal, that will be a positive development for global economic growth. Meanwhile, recession fears are rising in the U.S., but stocks are no longer richly valued, and as such, aren't as susceptible to an economic slowdown as they were at the start of the year.

Finally, regarding geopolitics, the human tragedy in Ukraine continues with no end in sight, but the conflict has not expanded beyond Ukraine's borders, and many analysts believe that some sort of conflict resolution can be reached in the coming months. Any sort of a truce between Russia and Ukraine will likely reduce commodity prices and global recession fears should decline as a result.

Bottom line, the markets have experienced numerous macro-and micro-economic headwinds through the first six months of the year, and they have legitimately pressured asset prices. But the sentiment is very negative at the moment, and a lot of potential "bad news" has been at least partially priced into stocks and bonds at these levels, again creating the opportunity for potential positive surprises.

To that point, the S&P 500 has declined more than 15% through the first six months of the year five previous times since 1932. And in all those instances, the S&P 500 registered a solidly positive return for the final six months of those years.

Obviously, past performance is not necessarily indicative of future results, and we will continue to be vigilant to additional risks to portfolios, but market history provides a clear example that positive surprises can and have occurred even in difficult markets such as this. Patience will be required as we work our way through this transition!

In your portfolios here, models have vacillated back and forth between risk-on (fully invested) and risk-off (to cash) several times and we currently have some cash raised by both stock and bond risk-off measures. As always, we encourage you to reach out and speak with us so we can continue to adjust your risk tolerance to meet your long-term financial plan needs.

Please join us for our next quarterly Zoominar on August 17th at noon as we discuss the outlook for the balance of 2022. An email will be sent out shortly for those of you who wish to register for the presentation and, as always, a video will be posted to our website following the event.

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6 Ways Single Women Sabotage Their Retirement Years

By Myra Alport

So, you've recently retired or are about to retire; congratulations on achieving this major life milestone! It is truly something to celebrate as you move beyond your work life into a permanent "out of office" status. For many retirees, this next chapter is filled with extreme happiness; for others it's met with a mixture of stress and trepidation on several levels.

Statistically speaking, women live 3-5 years longer than men. In 2021 the average life expectancy for a female in the U.S was 82.65 years. If there is longevity in your family, then you may very well live until 100 or more! That means your hard-earned savings will need to last a long time. As a single woman, you have only your assets and Social Security to draw upon unless you have been awarded a portion of an ex-spouse's pension as part of a divorce settlement.

Retirement is referred to as the "spend-down" or "withdrawal" phase in financial planning. With careful thought and planning, I sincerely hope that you will outlive your money because the alternatives aren't so pleasant. A catastrophic health event can jeopardize even the soundest plan. No one likes to think this could happen to them but it's a reality that most of us aren't thinking about because it's a heavy topic.

During my years of working with women in the financial planning world, I have watched many inadvertently sabotage their retirement in a variety of ways. I'd like to share my observations here along with some fixes and thought processes.

Not Having a Plan

What are your plans for retirement? What does a typical day in retirement look like for you? Is it volunteering, travel, moving closer to family, binge-watching Netflix series you haven't had the time to watch, starting a business or charitable organization, getting a fun part-time job? The list is endless and it's one you have a blank slate to create. It's not about deciding what every minute of every day needs to look like; you left that 7a-3p, 9a-5p, 3p-11p world behind you. What is important is to explore. Will you miss the camaraderie of your workmates or being on a schedule?

The Fix? Make a list of everything you want to do with different time frames for them. If this is difficult, think of what's important to you as you enter this new phase. What are you passionate about? What brings you joy? Get yourself a journal and start putting your thoughts on paper to better visualize your life ahead.

NOT ACCEPTING THAT YOU'RE LIVING ON A FIXED INCOME

Your "paycheck" will now be a monthly pension and/or Social Security check/deposit. No more pay raises unless the government decides to make a cost-of-living adjustment, no more bonuses, commissions, or other pay incentives. Are you able to adjust to living on a monthly deposit instead of a semi-monthly or bi-weekly pay system? This requires more careful thought so your money lasts throughout the month. Can you comfortably cover your basic necessities (ie, mortgage, utilities, auto insurance, etc) and variable expenses (everything else) without having to tap your savings or retirement accounts to any great extent? Allowing your invested assets to grow will benefit you in the long run. Compound growth is a beautiful thing, don't you agree?

The Fix? Compare what's coming in each month with what's going out. Sure, some of your expenses may go down (transportation, meals, work clothing) but you may spend more on dining

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out, travel, new experiences. What are you willing to compromise on and what's not negotiable? After you figure that delta, you may need to supplement with monthly withdrawals from your retirement accounts, which will have tax consequences to consider.

KEEPING ADULT CHILDREN ON YOUR PAYROLL

As parents, we like to help our kids through life's ups and downs. At some point, they become adults with separate lives and responsibilities. Are you continuing to subsidize them by covering their cell phone bills, auto insurance, rent, student loans and the like?

The Fix? Have a conversation with your adult kids. Share your evolving situation in retirement. Help them shop around for good deals on whatever costs you've been helping them cover. It's time for them to launch without relying on you for financial support. You can always provide free emotional support, which is priceless!

HIGH CREDIT CARD BALANCES

Debt and retirement don't really go together. There's good debt like a mortgage, and bad debt like credit cards and personal loans. Things can quickly get out of hand if you continue to rack up credit card balances and don't pay them off in full each month. Easier said than done, I know.

The Fix? Look into the avalanche or snowball methods for paying down debt. This will take time, but it's completely doable with patience and perseverance. It's easy for me to say this, but if spending is a problem, I suggest leaving your credit card at home and switch to paying with cash or with debit card. And, plan your shopping trips ahead of time.

HEALTH INSURANCE MIS-STEPS

Health insurance takes on a new light in retirement. Health care costs are the single largest expense for retirees. You may be able to stay on your employer's COBRA plan for 18 months after you retire, but that comes at a higher price. Some generous employers and unions offer health insurance to their retirees; this happens less frequently now than in the past.

The Fix? If you need health insurance prior to 65, the earliest age you can enroll in Medicare, it helps to find a professional insurance broker to help you find the best Affordable Care Act (ACA aka Obama care) policy for you. The ACA offers subsidies, also known as tax credits, that work on a sliding scale. They limit the amount you pay in monthly premiums to a percentage of your annual income. For assistance visit this website: https://www.healthcare.gov/find-assistance/

When it comes to Medicare, locate a Medicare broker to help you make the best choice. They are independent agents who represent many insurance companies that offer Medicare supplement policies and Medicare Advantage Plans. They don't charge you a fee because they are paid by the insurer. You can Google "Medicare brokers near me" to find a broker who is licensed in your state.

BOREDOM

Boredom can often lead to financial behaviors that will not serve you well. You may find yourself a regular Home Shopping Network viewer, internet shopping junkie or a frequent visitor to a local casino. These behaviors can become addictive, helping to fill a void in your life that employment used to provide you socially and professionally.

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The Fix? Recognize these new habits for what they are - a crutch. It will take time to undo them as you replace them with healthier habits such as getting together with friends and family, volunteering, exercising, broadening your social circle to include others with shared interests, for example. Stay true to the long-term goals that you wrote down and check in with them regularly. Meet with a financial coach who can provide guidance and support during this new phase.

Tax planning opportunities during down markets

Well, it's official, the market just finished the worst first half of the year since 1962 down 20.6%. What will happen the rest of the year? Anything is possible but if history is a guide, the last 5 times that the market was down greater than 15% in the first half of the year, the market rebounded in the second half. Down markets create opportunities for portfolio rebalancing, and we are actively monitoring investment portfolios to take advantage of that. In addition to portfolio rebalancing, there are several tax strategies that can create long term benefits. Below is a list of proactive tax strategies that we think are worth exploring in this current market environment.

Tax Loss Harvesting:

How it Works: When positions drop in value below your cost basis in a non-retirement account, it may make sense to sell the security to capture the loss. We generally recommend simultaneously purchasing another security to make sure you do not miss out on any market recovery. The IRS does not allow you to repurchase the same or a "substantially identical" investment within a 30-day window. If this period is violated, you will be subject to the "Wash-Sale Rule," disallowing the loss, which could make your taxes for the year higher than you hoped.

Planning Tip: We are actively reviewing your portfolio for opportunities to tax loss harvest meaningful losses; however, it's always good to connect with us before year end to make sure we aren't missing something you did outside of your portfolio that we manage.

Benefit:

- A means of improving after-tax return on taxable investments.
- Most often used to limit the amount of taxes due on short-term capital gains, which are generally taxed at a higher rate
- Tax losses can be used to offset future capital gains. If you do not have capital losses to offset, you can use up to $3,000 per year to offset ordinary income and may be carried forward into following tax years. These losses can also be used to offset gains from real estate sales or gains from selling a business

Reducing Concentrated Stock Positions:

How it Works: If you own a highly concentrated stock position and it has dropped in value, consider reducing exposure to concentrated stock positions and reinvesting in the broader market. By diversifying you may not rebound as quickly but it will spread out your risk and help you avoid having all your "eggs in one basket". Oftentimes, the concentrated position is highly appreciated and therefore you have a large gain. You may also find it helpful to sell other positions that have incurred losses to help offset some of the large gains you have in a concentrated position, allowing you to diversify your risk.

Planning Tip: We encourage taking advantage of strategies that help reduce concentrated equity. If you'd like to discuss other ways to address a concentrated position, please give us a call.

Benefit:
- Diversification helps to reduce company specific risk in your portfolio

<u>Roth IRA Conversions:</u>

How it Works: When your Traditional IRA has declined in value, you may find it helpful to do a Roth conversion while the market is low. Roth Conversions involve converting funds from your Traditional IRA to your Roth IRA. You may incur taxes on the conversion, but this is an advantageous strategy if you are able to convert while you're at a low tax rate and then the funds can recover in a tax-free vehicle.

Planning Tip: It is important to work closely with your Advisor and CPA on how much to convert each year. We have tax software that can show you the impact of the Roth conversion and the optimal amount to convert without pushing you into a higher tax bracket.

Benefit:
- Potentially lower your future taxes
- Tax-free growth
- Tax diversification
- Roth IRAs are not subject to Required Minimum Distributions, like Traditional IRA's are
- Be aware, the SECURE Act, which passed at the end of 2019, changed how IRAs and Roth IRAs pass to beneficiaries. Under new rules, IRAs and Roth IRAs must be distributed to non-spouse beneficiaries within 10 years. Roth IRAs will still be able to pass tax-free, so this is an advantageous estate planning strategy

Tax planning is an important part of every investor's long-term plan, and we are here to help you explore various options. If you have specific questions or would like to understand if you can benefit from any of these tax strategies, reach out to us. We look forward to working with you and your CPA to understand what options may be available to you.

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401(K) Allocation

There may be trades.

It's been a year of financial push-me-pull-me as markets got concerned about inflation and earnings and global conflicts and any number of political and social issues … so moving back into some risk last month started out on a positive note, then finished on a rather sour one. Markets have tried to price in the effect of all these stressors and may be oversold at this point, but until we have clarity on inflation and the intent of the Federal Reserve on interest rates, it's hard to say if any rally can be sustained. For this reason, we will continue in the 401K allocations with a more conservative stance. If you consider yourself a more growth-oriented investor, do not make any changes at this point. If you wish for more clarity before committing to this market, then you should proceed with this month's allocation for the 401K plans.

As always, if you need assistance with rebalancing your 401K plan or we have not yet created a decoder ring for you, please reach out to us at the office and we'll be happy to help you.

July 2022		**Agg. Growth** ***100% Equity***	**Growth**	**Moderate**	**Balanced**	**Conservative**
Bonds / Cash		**20%**	**35%**	**55%**	**75%**	**90%**
	Stable Asset - OR - Short Term Bond	*20%*	*35%*	*55%*	*75%*	*90%*
	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%**	**55%**	**40%**	**25%**	**10%**
	Large Cap Growth	*30%*	*20%*	*15%*	*10%*	*5%*
	Large Cap Value	*40%*	*35%*	*25%*	*15%*	*5%*
Mid Cap:		**10%**	**10%**	**5%**	**0%**	**0%**
	Mid Cap Growth	*0%*	*0%*	*0%*	*0%*	*0%*
	Mid Cap Value	*10%*	*10%*	*5%*	*0%*	*0%*
Small Cap:		**0%**	**0%**	**0%**	**0%**	**0%**
	Small Cap Growth	*0%*	*0%*	*0%*	*0%*	*0%*
	Small Cap Value	*0%*	*0%*	*0%*	*0%*	*0%*
International:		**0%**	**0%**	**0%**	**0%**	**0%**
	Developed International	*0%*	*0%*	*0%*	*0%*	*0%*
	Emerging Markets	*0%*	*0%*	*0%*	*0%*	*0%*
		100.00%	100.00%	100.00%	100.00%	100.00%

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