



COPPERWYND FINANCIAL

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Your Copperwynd Financial Newsletter: June 2023

Market Commentary

Party like it's 1999

By Jake Eggett



The iconic song "Party Like It's 1999" by Prince encapsulates the celebratory mood of the late 90's when the stock market experienced a sense of irrational exuberance, fueled by the dot-com boom. Investors were captivated by the rapidly growing technology sector and were willing to overlook traditional valuation metrics. Today, the technology sector has gathered a bit of euphoria particularly when it comes to anything related to Artificial Intelligence (A.I.). Some feel that AI is perhaps the greatest investment opportunity since the internet and that it will drastically improve productivity, setting off another productivity boom like we had in the 90's and potentially increasing annual global GDP by 7%. While that may be true, fundamentals may not matter in the short run, but they do become significant in the long run, as demonstrated during the previous technology boom. Although today's environment differs from 1999, in the number of technology companies having actual profits, one parallel we can draw is the presence of numerous uninvited companies at this party.

The S&P 500 is made up of the 500 largest companies in the U.S. From the beginning of the year until May 31st, the S&P 500 (SPY) has returned 9.68%. However, if you look at who's been invited to this party, the 5 largest companies have been the only ones that have shown up.



Copperwynd Financial

14256 N. Northsight Blvd
Suite B-115
Scottsdale, AZ 85260

Office: 480-348-2100

Toll Free: 877-658-2100

<https://www.copperwyndfinancial.com>

David Daughtrey, CFA, CFP®

Erick S. Newton, CFP®

Jake Eggett, CFP®

Corrina Olson, CFP®

Javier Jimenez, CFP®



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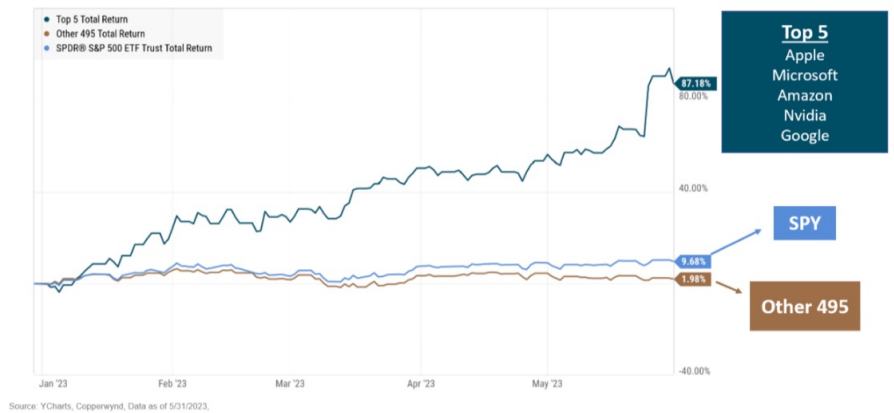
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The chart (Figure 1) shows that this group of 5 companies have increased over 87% while the remaining 495 companies are up less than 2%. This year's rally has been remarkably concentrated and narrow. Market breadth, which measures the participation of stocks in a particular move, is typically a reliable indicator of market strength and the presence of a broad market trend. Therefore, the current lack of breadth raises concerns.

Figure 1:

Narrow Number of Stocks Driving Returns

Top 5 Stocks Driving Nearly 100% of Return YTD

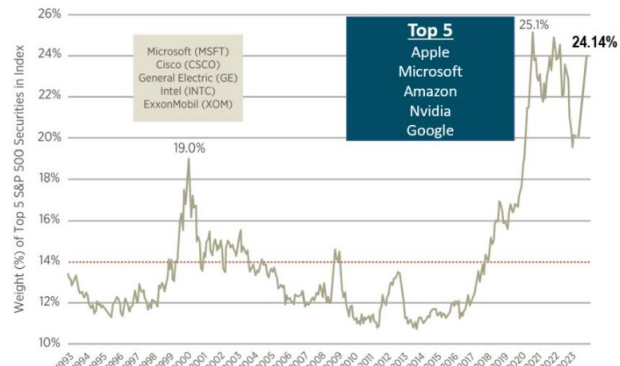


Furthermore, the S&P 500 operates as a market cap-weighted index, assigning each stock a weight based on its current share price multiplied by the number of shares outstanding. In August 2020, the top 5 companies accounted for 25% of the S&P 500 market value, meaning the other 495 companies made up the remaining 75%. The index had never been this concentrated. See Figure 2. The previous high in S&P 500 concentration took place in 1999-2000 when it reached 19%. With the recent surge in the stock prices of these companies, the concentration is back to 24%, near the all-time highs.

Figure 2:

Concentration of Top 5 Holdings of S&P 500

Nearing All-Time Highs



Source: Bloomberg, Meridian 6, Copperwynd, Data as of 5/31/2023.



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To revert to the long-term average of 14% concentration will require significant outperformance of the other 495 stocks or underperformance from the top 5. In the last bubble, it was the underperformance of the top 5 that brought it back to the average. It would be a sign of broad market strength if the rest of the companies were invited to the party.

Market Performance

The markets were mixed in the month of May. The debt ceiling drama increased volatility throughout the month and other than the strong positive performance from the biggest companies in the US, the majority of asset classes were down for the month. The strength of the dollar contributed to International equity declines and the rise in interest rates led the bond market to give up some of the yearly gains.

As we discussed above if you take away the strong performance in technology names associated with A.I., the major assets classes have been flat this year. This year has been the exact opposite of last year. The worst performing areas of the equity market in 2022 (Nasdaq/Tech/Growth) have been the best performers so far in 2023. And the best performers of 2022 (Energy/Value) have become the worst. Small Caps and Value have underperformed this year, resuming a trend that has persisted for much of the last decade.

Equities	May	YTD 2023
S&P 500	0.46%	9.68%
Mid Cap	-3.22%	-0.29%
Small Cap	-0.82%	0.03%
Nasdaq	7.88%	30.89%
International Developed	-4.01%	7.66%
Emerging Markets	-2.96%	0.25%

Fixed Income	May	YTD 2023
Bloomberg Aggregate Bond Index	-1.14%	2.64%
High Yield Corporates	-1.25%	3.08%

Source: YCharts, 4/30/2023 - 5/31/2023, Total Return Data using SPY, IJH, IWM, QQQ, EFA, VWO, AGG, and JNK. YTD returns as of 5/31/2023.

The Bottom Line

At the end of last week, the market exhibited strength driven by two factors: the resolution of the debt ceiling issue and a better-than-expected employment report on Friday. Unlike previous advances seen this year, this rally displayed strong breadth as money flowed into not only the largest companies but also small-caps and mid-caps. While it is still early to determine if this shift in the market environment will persist as a lasting change, it was a noteworthy development deserving serious attention.

The current market behavior suggests an anticipation of a Fed pause, ongoing decline in inflation, and sustained economic strength. If any of these assumptions prove to be incorrect, the market could experience another sell-off. However, if all three assumptions hold true, this could potentially market the beginning of a long-awaited bull market. As we cannot predict the future, our approach remains aligned with market dynamics, adjusting as conditions evolve.



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We are fully invested in both our stock and bond portfolios, incorporating defensive measures within both sides of the portfolio. While the events of 1999 serve as a valuable lesson in the perils of unchecked enthusiasm and the importance of maintaining a balanced investment strategy. It also highlighted the importance of considering both short-term trends and long-term fundamentals. As of now, we'd like to see more companies invited to the party. As always, if you are concerned about your risk level, please reach out to us, and schedule a time to review your allocation and financial plan.

Upcoming Events

Schwab Transition

You may remember back in 2020 Charles Schwab & Co., Inc. bought TD Ameritrade. In 2023, Schwab and TD Ameritrade will become one company solely under the Schwab brand. Your relationship with Copperwynd Financial will not change. Schwab will automatically transfer your assets and holdings over Labor Day weekend 2023.

In preparation for this change, you must have access to all your accounts online at TD Ameritrade using the portal www.advisorclient.com. Using your existing login ID and password will help ensure a smooth transition to the Schwab platform. This is the first critical step to take if you haven't done so already.

If you have any questions, please do not hesitate to contact our office at [480-348-2100](tel:480-348-2100).

Client Appreciation Event – Save the date!

We plan on hosting another Client Appreciation Event at Real Salt Lake Stadium on Saturday, August 26th at 5:30pm (Food) and 7:30pm (Game). For now, just save the date and expect to receive more information about tickets in the coming months.



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Why Do I Need Life Insurance?

By: Javier Jimenez, CFP®

Life insurance can help to protect your spouse and children from large financial losses in the event you were to pass away. This important financial planning pillar can provide financial security for your family to pay off debts, pay for their living expenses, and pay for medical or final expenses.

Upon your death, the designated beneficiaries will receive the life insurance proceeds, which are generally not subject to federal income taxes.

Reasons to buy life insurance:

- **Guaranteed Protection** - To act as a financial safety net if you have a family, a business, or others who depend on you.
- **Income Replacement** - To supplement cash flow, for example mortgage payment, childcare, healthcare, college tuition, debt payoff.
- **Tax-free Benefits** - Generally, life insurance proceeds aren't taxable so your beneficiaries will be able to receive every penny you leave them.

Is Life Insurance Worth it?

This depends on several factors such as your finances, your retirement goals, and the type of life insurance policy you choose. But, if you have loved ones that depend on you financially, it may be worth consideration.

Work with your financial advisor to see if life insurance makes sense. An in-depth analysis will help us determine whether adequate and appropriate resources exist to meet your family's future financial needs.

Additional Resources: <https://www.newyorklife.com/articles/six-reasons-to-buy-life-insurance>
<https://www.usnews.com/insurance/life-insurance/how-does-life-insurance-work>



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How to Spot 5 Common Online Life Insurance Scams

The internet has made buying life insurance more convenient but has also increased the risk of fraud. Common online life insurance scams involve tactics such as falsely claiming issues with your policy, surprising you as a beneficiary, creating fake websites, offering unrealistic teaser rates, and providing dishonest online quotes.

1. There's a Problem with Your Life Insurance Policy

This scam begins with an email saying there's a problem with your existing policy. You may receive an email that looks like it comes from your life insurance company — but it's been sent by a fraudster who carefully designed the message to make it look official.

The email will claim there's a problem with your policy. For example, the email may say your last premium didn't go through, or the insurance company canceled your policy altogether. It will then tell you that if you want to keep your coverage, you'll need to provide personal information like your Social Security number, the password to access your life insurance policy online or your credit card information.

2. Surprise! You're a Beneficiary

For this scam, you receive an email claiming you benefit from someone else's policy. The email will say you're connected to another life insurance policy in some way — perhaps through someone who supposedly died and named you as beneficiary or because someone purchased a policy on your behalf. Once again, the fraudsters will ask for your personal information in the hope that you reply.

3. Fake Life Insurance Websites

Scam websites pretending to be actual life insurance companies often promise you can sign up online. They may promote rates that are much lower than the competition — or they may make it incredibly easy to sign up, perhaps claiming they don't require any health underwriting. You'll need to submit your credit card or bank information to "sign up," and when you do, the fraudsters steal your money.

4. Unbelievable 'Teaser' Rates

A life insurance website will promote unbelievable "teaser" rates. This is less of a scam and more of a dishonest marketing approach. An online life insurance company will advertise premiums at their very best underwriting class, one where people are the healthiest and receive the highest possible discount. Only a tiny share of applicants will qualify for this rate. Only after you apply do you realize your coverage will cost much more.

5. Dishonest Online Quotes

For this scam, the website lies about a quick online quote. Websites say they'll give you an instant quote online in exchange for your contact information. What they actually do is sell your information to multiple insurance agents so they can contact you and prepare a quote themselves. You think you'll be receiving information when you're just signing up to put your name on a sales list!



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How to Avoid Life Insurance Fraud

So, how do you avoid being the victim of a life insurance scam? Here are some quick tips to protect yourself.

- Don't reply to unsolicited emails.
- Verify information with your insurance company directly.
- Be cautious of unexpected payouts and aware of too-good-to-be-true offers.
- Read fine print and verify company legitimacy.
- Consult trusted sources, like your financial advisor.

The internet has opened up countless new opportunities for us — but it's done so for fraudsters as well. Keep this advice in mind to help avoid becoming another victim of life insurance fraud.



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401(k) Allocation

By: Jake Eggett

No Trades.

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The current market behavior suggests an anticipation of a Fed pause, ongoing decline in inflation, and sustained economic strength. If any of these assumptions prove to be incorrect, the market could experience another sell-off. However, if all three assumptions hold true, this could potentially market the beginning of a long-awaited bull market. As we cannot predict the future, our approach remains aligned with market dynamics, adjusting as conditions evolve. We are fully invested in both our stock and bond portfolios therefore we'll maintain our risk-on posture with the 401k allocation. While growth stocks have had the strongest trend, we suggest keeping the allocation to value for some defensiveness.

June 2023

Asset Class	Description	Agg. Growth 100% Equity	Growth	Moderate Growth	Balanced	Conservative
Bonds / Cash		0%	15%	40%	50%	70%
	Stable Asset - OR - Short Term Bond	0%	0%	10%	10%	20%
	Bond Index	0%	0%	10%	20%	30%
	Floating Rate Loans**	0%	10%	10%	10%	10%
	High Yield Bonds**	0%	5%	10%	10%	10%
	Inflation Protected Bonds	0%	0%	0%	0%	0%
Large Cap:		60%	60%	40%	30%	20%
	Large Cap Growth	30%	30%	20%	15%	10%
	Large Cap Value	30%	30%	20%	15%	10%
Mid Cap:		20%	10%	10%	10%	5%
	Mid Cap Growth	10%	5%	5%	5%	0%
	Mid Cap Value	10%	5%	5%	5%	5%
Small Cap:		10%	5%	5%	5%	0%
	Small Cap Growth	5%	5%	5%	5%	0%
	Small Cap Value	5%	0%	0%	0%	0%
International:		10%	10%	5%	5%	5%
	Developed International	10%	10%	5%	5%	5%
	Emerging Markets	0%	0%	0%	0%	0%

100.00% 100.00% 100.00% 100.00% 100.00%

** If High Yield Bonds or Floating Rate Loans are not an option in your 401k, you can allocate that portion to either your Bond Index or Short Term bond fund

As always, if you have any questions about how to rebalance your 401K, we encourage you to reach out to us at the office and we'll be happy to help!



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