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Your Copperwynd Financial Newsletter: June 2022

Market Commentary

It is that time of year again … when we in Arizona moan about the repetitious drone of 100+ degree days. Which also signals that the kiddos are out of school, summer vacations are in full swing – oh, and it's time for our annual Client Appreciation event in Utah! We welcome you to join us in Salt Lake City on July 9th to watch the Real Salt Lake take on the Colorado Rapids. **CLICK HERE** to reserve your spot, and watch your email for additional details.

With the fun stuff out of the way, let's turn to the serious business of what on earth is happening in the world and the stock markets. May was the poster child for the volatility we have been talking about all year with the NASDAQ once again taking it on the chin. At one point the S&P was down 18.2% for the year, flirting with bear-market territory (defined as a decline of 20% or more) while the tech-heavy NASDAQ was firmly in bear market space, racking up losses of 28.4%. Yet going into the closing days of the month, both rallied with the S&P able to finish flat, at least for the month of May, and the NASDAQ off a little more than 1%. Phew!

The catalyst for this volatility is still being driven by the moves of the Federal Reserve. Anxiety was high going into their latest meeting as markets were fearful of an increase of more than .5% in the short-term lending rate. Remember, the short-term lending rate is all the Federal Reserve can really directly set and this affects what you and I get on money market accounts or CD's. Indirectly, the movement of this interest rate can impact longer term treasury rates which are then what influence mortgage rates. In raising rates, the Federal Reserve is hoping to slow down the economy and help chill the inflation burn we are all feeling at the pump and the grocery store. Just the mere threat of the short term rates going up caused the mortgage rates to jump dramatically, from 3.25% a year ago to currently a national average of 5.4%, which we haven't seen since 2000. This will slow demand in the housing market, especially once inventories catch up.

The devil will be in the details and here it is nuanced. The Federal Reserve has two tools they can use: raising the short term interest rates, and decreasing the amount of assets – bonds – on their balance sheet. Can the Federal Reserve raise rates, sell bonds, and engineer a soft landing in slowing the pace of inflation while keeping the economy growing just enough to avoid throwing us into a recession? We refer you once again to the graphic (**CLICK HERE**) we used in our zoominar last month as we looked at what the S&P behavior was during the last time the Federal Reserve began a program of "quantitative tightening".

After moving the short-term lending to zero during the peak of the financial crisis, it took The Federal Reserve three years to begin slowly increasing interest rates. From December of 2015 until December of 2018, they methodically raised rates in .25% increments until that short term lending rate rested at 2.5%. Then they began to decrease the size of their balance sheet

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by selling bonds in the range of $50M per month. You will see in the corresponding period that the S&P suffered from some bouts of volatility as this process commenced – and then righted and actually moved higher until we were hit by the pandemic.

The Federal Reserve has currently telegraphed their intent to raise rates, now in .5% increments, to 2.25% by the end of this year. They are going to take one year to accomplish what it took them three years to do following the Great Recession of 2008. And the size of their balance sheet sales will almost double from where they were from 2018-2020. Faster and larger increases and larger bond sales are causing market volatility in both stocks and bonds. Whether the markets can weather the volatility to rally remains to be seen, however it should be noted that both corporate and individual balance sheets are in much better condition that they were during that last recession, so they could prove resilient.

In your portfolios here, we were able to move back into some segments of the bond market, so cash was put back to work. The impending moves by the Federal Reserve may make this a short-term trade, but as always we rely on the models to keep us on track. In stocks, we have re-entered part of our risk-off trade from April as parts of the market had certainly gotten oversold. As always, if the volatility means you don't sleep at night, let's discuss steps to help that keep your plan on track.

Enjoy your summer vacations and we hope to see you in Utah for some great soccer!

Financial Planning

Nobody's perfect. That's why you buy liability insurance: You can avoid financial ruin if you accidentally cause major injuries or property damage to others. Problem is, your insurance isn't perfect, either. That's where a personal umbrella insurance policy comes in. Think of umbrella insurance — sometimes called personal liability insurance — as a fail-safe for your savings and other assets. If you're sued for damages that exceed the liability limits of your car insurance, homeowners insurance, boat insurance or some other policies, an umbrella policy helps pay what you owe.

What does umbrella insurance cover?

Umbrella insurance covers you and members of your household against lawsuits involving personal injury to others, damage to other people's property and a variety of claims such as defamation, landlord liability and false imprisonment, depending on your policy.

In addition to paying out any damages up to your liability limit, your umbrella insurance will typically also cover associated legal costs over and above that amount. For example, if you have an umbrella policy with $1 million of liability coverage, and you were sued for that full amount, your insurer would pay out the $1 million plus provide your legal defense or cover your fees. A "retained limit" — which is similar to a deductible in that you're responsible for paying it before your coverage begins to pay out — might apply.

Details and exclusions can vary significantly between umbrella policies, but here are a few sample scenarios that would generally be covered:

- Your teenage son gets into a car accident, and the cost of injuries to other drivers is above your auto insurance liability limit.
- A houseguest falls down your stairs and sues you for her medical bills plus pain and suffering, exceeding your homeowners insurance liability limit.

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How much umbrella insurance do you need?

It's wise to have at least enough liability insurance to cover your net worth. To calculate how much umbrella insurance coverage you need, one quick method is to add up the value of your assets (including the value of your property, savings and investment accounts). Then, take a look at the liability insurance you already have through your existing policies and buy enough umbrella insurance to make up the difference.

You may also want to include potential income if you're likely to earn much more in the near future than you do now — if you're a medical student, for example. When considering potential lawsuits, keep in mind that employer-sponsored retirement accounts such as 401(k)s are protected from most lawsuits under the federal Employee Retirement Income Security Act of 1974 (ERISA). IRAs aren't, except for funds rolled over from an employer-sponsored account. However, IRA accounts and the equity you have in your home are often protected at least in part by state laws. Check your local laws before deciding how much umbrella insurance you need.

Insurers typically sell umbrella insurance in million-dollar increments. This means the cheapest policy available provides $1 million in coverage, the next-cheapest policy offers $2 million in coverage, and so on — so you get a decent amount no matter what you choose.

How much does umbrella insurance cost?

An umbrella policy with $1 million in coverage costs about $150 to $300 per year, according to the Insurance Information Institute. With its high coverage limit, umbrella insurance generally offers good value for the cost. However, you may also end up paying more for your other insurance policies if you need to increase your liability coverage to meet the minimum limits required for umbrella insurance. This last point is extremely important!

Do not assume that your umbrella insurance picks up from dollar $1 as soon as other coverages are exhausted. Gaps between types of insurance could still be very painful financially. The good news is that a comprehensive insurance review by a qualified professional can help you understand where those gaps are and suggest ways to improve your risk management.

We have some great resources to help you with that, so please call the office or your advisor so we can give you guidance and direct you appropriately!

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Tax Planning

You're never too young to … start paying taxes?! This month we talk about Tax Tips for Kids!

Does your child have earned income from babysitting, pet sitting, mowing grass? Have them keep a journal of what they did for work: who they did the work for, the date and the amount they made. Then start funding a ROTH IRA for them! As long as they have earned income, they can make a ROTH contribution up to the amount of their earnings or the maximum for ROTH contributions, whichever is less. This has two benefits: you get to start showing your child the importance of saving early and understanding the concept of money, as well as the ability to develop a healthy balance of tax-free savings for their retirement way, way down the road. Just think of all that compounding!

Do you own a business or rental property? Similar concept as above, as you now become the employer putting them to work on cleaning out rental property or helping in the shop, except now you can also take a tax deduction for your business. Dependent children are entitled to a limited standard deduction (much like we get on our own tax returns) of up to $5400, effectively allowing them to earn money and pay no taxes – and don't forget to fund that ROTH IRA!

Is your child now in college and working a part time job? If so, and your earned income is above $160,000 (married, filing jointly) then it may help you and your student to file a tax return for them as an independent and not claim them as a dependent on your own return. This would allow them to potentially take the full benefit of the American Opportunity Tax credit of $2500, thereby lowering their taxable income. As it is a credit, they could potentially get cash back, even if no tax is owed.

Do you have US savings bonds that you purchased for your student? US EE or I bonds can be used to pay for college tuition tax-free under certain conditions. Parental income is a main consideration, so if you are married and filing jointly and make in excess of $154,800, the interest accrued on the savings bonds will not be tax free. But wait! There is a loop-hole. If you have a 529 college savings account for your student, you can deposit the savings bonds into their 529 account and this is considered a qualifying deposit, meaning that no tax is due on the bond interest due to the rollover. Distributions from the 529 plan then, assume their normal tax-free status when used to pay qualifying higher education expenses!

With all of these options, details matter, so it would be wise to consult with your tax preparer or cpa before pursuing any of these strategies.

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401(K) Allocation

There are trades.

Risk off for most of this month felt pretty good. Well, maybe that takes it a bit far! But there were days when that felt better than being all in….Have exercised a few demons, however, the market oversold and we did manage to finish the month on a more positive tone.

Recovering segments of the market included those most hard hit – growth stocks and small cap stocks – so we find the 401K model adding slightly in each of these areas. We are still not at full risk back ON until we see if this trend has the strength to keep building. There are certainly a few headwinds we are watching right now, between corporate earnings and the beginning of the Federal Reserve's move to decrease their balance sheet. The latter is not an insignificant headwind, so we may find this trade is short-lived. The counterpoint to that sentiment is that there is a whole bunch of cash on the sidelines right now and all it would take for sentiment to become more positive is for the inflation numbers to decline – and the price of oil coming down would be a good place to start, am I right? Time will tell.

As always, if you need assistance in rebalancing, please call us at the office and we will be happy to help!

	Agg. Growth ***100% Equity***	**Growth**	**Moderate**	**Balanced**	**Conservative**
	10%	**25%**	**40%**	**60%**	**80%**
Stable Asset - OR - Short Term Bond	*10%*	*25%*	*40%*	*60%*	*80%*
Total Return	*0%*	*0%*	*0%*	*0%*	*0%*
High Yield Bonds	*0%*	*0%*	*0%*	*0%*	*0%*
Inflation Protected Bonds	*0%*	*0%*	*0%*	*0%*	*0%*
	75%	**60%**	**50%**	**35%**	**15%**
Large Cap Growth	*35%*	*20%*	*20%*	*15%*	*5%*
Large Cap Value	*40%*	*40%*	*30%*	*20%*	*10%*
	10%	**10%**	**10%**	**5%**	**5%**
Mid Cap Growth	*0%*	*0%*	*0%*	*0%*	*0%*
Mid Cap Value	*10%*	*10%*	*10%*	*5%*	*5%*
	5%	**5%**	**0%**	**0%**	**0%**
Small Cap Growth	*0%*	*0%*	*0%*	*0%*	*0%*
Small Cap Value	*5%*	*5%*	*0%*	*0%*	*0%*
	0%	**0%**	**0%**	**0%**	**0%**
Developed International	*0%*	*0%*	*0%*	*0%*	*0%*
Emerging Markets	*0%*	*0%*	*0%*	*0%*	*0%*

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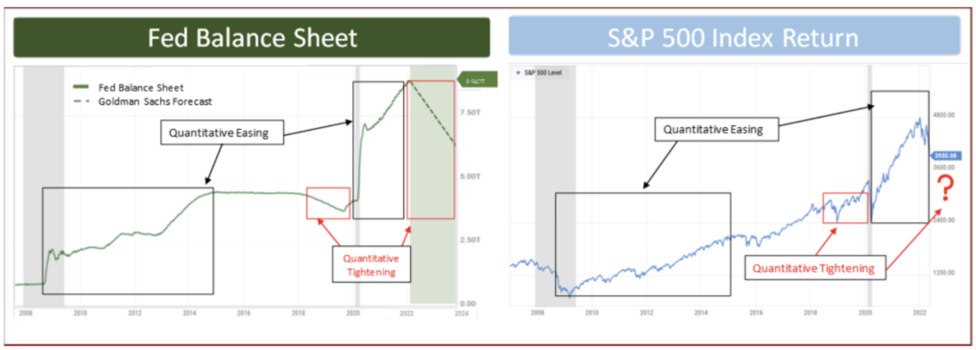
Graphic of The Month

On the left hand side, we have the balances for the Federal Reserve's Balance Sheet since the Financial Crisis in 2008. On the right, we show the corresponding period of returns for the S&P. When the Federal Reserve has been 'printing money' – balance sheet is on the rise – it has generally been very favorable for the stock market. When the Feds begin to take the punchbowl away, we see periods of volatility. The Federal Reserve tends to raise rates when the economy has recovered and it becomes necessary to put the brakes on growth for fear of triggering uncomfortably high levels of inflation, such as we are experiencing now. The higher rates tend to slow investment by companies and speculation by investors, having the effect of taming price increases. Having never seen an increase in their balance sheet the magnitude of what we experienced in 2020 in response to the pandemic, it will be important to see how markets react as they now begin this process once again.



Source: Left Side- Federal Reserve Economic Data, Goldman Sachs Global Investment Research, and Goldman Sachs Asset Management. As of March 31,2022, Right Side: Ycharts, S&P 500 Index Return 1/1/2007 –thru 5/12/22

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