# COPPERWYND FINANCIAL

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Your Copperwynd Financial Newsletter: March 2021

## Market Commentary

"March comes in like a lion and goes out like a lamb"…. Or the opposite! It is a very old expression meant to imply the variability of weather in the month of March as temperatures and precipitation can go either way, and sometimes violently. It is a good analogy for what we expect to see in markets this month with volatility on the rise. We are due for some of that "weather".

It will be a year this month from the start of the pandemic. We all know, in living color now, how that has played out from the stomach-churning drop in markets to the amazing recovery thanks to trillions of dollars from stimulus and Federal Reserve support. In spite of the chaos in Washington for most of January, markets shrugged off these events and pushed steadily higher on the strong earnings results for most companies and the promise of more stimulus.

So what happened at the end of February that has woken the lion (bear?) and stirred volatility?

The yield on the 10-year treasury spiked from 1.11% to 1.52%, a jump of over 30% in just one month. What exactly does that mean and why did it cause stocks to waffle? The yield on the 10-year treasury is determined based on demand at the bond auctions. If there is high demand then yields go down; if there is less demand, then yields go up. It is the 10-year treasury that determines your mortgage rate, so yields going up is not positive for new mortgages. The reason for yields spiking higher right now may point to concern over inflation and the future value of the dollar, so yields moving higher can also be problematic for stocks.

Chairman of the Federal Reserve, Jerome Powell, came out last week and stated that this spike does not concern him as he felt it was 'transitory' or temporary. It is also true that the Federal Reserve has other tools in their toolbox to help dampen yields if they continue to spike higher, much like we saw them employ following the financial crisis. Nevertheless, we will continue to monitor the situation to see whether this remains a temporary issue or symptomatic of a larger problem.

In your portfolios here, the sudden rise in bond yields squeezed us out of our longer-maturity bonds and into cash for the moment. Stocks have had a bumpy last few weeks, but so far the longer term up-trend is still in place and we have remained invested in all of the stock portfolios. The fact of the matter is … there is not a better alternative than stocks right now!


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Three administrative items to bring to your attention: normally at this time of year we are taking reservations for the spring training games. They will, in fact, be hosting spring training games in Arizona, albeit on a modified schedule and with limited attendance. It was with great regret that we made the decision to forego hosting our annual event out of an abundance of caution; we are so close to getting back to a degree of normal but we don't wish to let our guard down and put anyone at risk. We promise to be back bigger and better at next year's event!

We would also like to draw your attention to a new segment on our website this month. With the new administration, a number of topics are gathering airtime and, as some of these impact financial planning matters, we thought we would occasionally write an "Op Ed" piece on some of these topics to share our thoughts with you. This month we tackle the topic of student loan debt and where that may be headed and you can link directly to this editorial here: **CLICK HERE**.

And lastly, you may hear a new voice on the phones this week. Lauren Haefner is joining Amy in the front office to help with the whole myriad of things that Amy does to take care of you. She comes to us with a background in the financial services field and we think she is going to make a great addition to your team so please help us to welcome her!

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# Financial Planning

The views expressed here are my own and may not reflect the opinions of the other members of our team. Any constructive debate is welcome.

Should we forgive student loan debt?

As the first female in my family to graduate from college (actually the 2nd person in my entire extended family tree to have done so, my dad being the first) I hold my college degree out as one of my greatest accomplishments as a young adult. Coming from a family of very simple means, there was no money for my college education, so I worked and I took out loans. At the time I graduated, I had $10,000 in student loans – which was the maximum allowed at that point in time. I come from a time and place (good mid-west values!) where you accepted personal responsibility, you honored your commitments and you worked hard, so the thought of forgiving $10,000 or $50,000 in debt as though it were nothing … well, that doesn't sit very well with me.

And yet, I think we need to give this topic some careful consideration.

Since I graduated from my state college some 30 years ago, the cost of tuition and fees has risen by 7% compounded annually; twice the inflation rate. During this time the average amount of student loan debt has risen from $10,000 per student to $30,000. That same college education that I received in the early 80's will now set a family back almost $130,000 per student (includes tuition, fees, and living expenses). There is very little debate that higher education has gotten expensive and is placing a burden on so many of our young people who are effectively buying their first "house" but have no roof over their head to show for it!

So it is no wonder that Bernie Sanders and the rest of the Progressives have found an audience amongst those disenfranchised youth (or their parents) who now want us to wipe away a healthy amount of that debt so they can move forward into adulthood unencumbered, or at least have the burden lightened.

Here is my argument for why we shouldn't do that.

I want to start with a story (details are changed to protect privacy) to help illustrate my frustration with this whole idea.

We own rental property. In reviewing a couple of rental applications for a condo we had available, one credit report came back with a very low score. Looking further, I discovered it was due to the high amount of debt to income this young man had. Student loan debt totaling over $300,000. There isn't a school on the face of this planet that costs $300,000 for tuition, so what's obvious is that the loans were not just to cover school expenses, but also living expenses. We chose to not rent to this young man and when I explained the reason why, well, his response was … interesting.

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"Oh, yeah, I should have warned you that you might see that. But it's not a big deal – I mean, it's not like I'm going to actually pay back all that money or anything." Really? And how, I asked him, was that supposed to work out (wondering all the time why anyone who was seeking to commit to a contract that required him to pay rent on time would think this was a reasonable response to their potential landlord!) – and he replied that he had entered into an IDR arrangement for repayment. IDR stands for Income Derived Repayment plan and it allows the borrower to consolidate their loans and pay a percentage of their income toward repayment of the loan. It carries with it a variable interest rate and, if executed to perfection – no late or missed payments – can be fully forgiven in 20 years. He thought that sounded like a great solution.

I couldn't help myself, after all, look what I do for a living … so I asked him if he understood exactly what that meant for him and his new young family and their future. The interest rate on his loans was higher than the repayment rate, which meant he wasn't even covering the interest payments, which also meant that 20 years down the road, he wouldn't owe $300,000 but probably quite a bit more. No reaction. And then when that loan was forgiven, again if all went perfectly for tweeeeeenty years, he was going to get a 1099 for the $300,000 or more in loan forgiveness that was considered by the IRS as a gift (from us taxpayers to him) and he would owe taxes at ordinary income tax rates on that amount. A bit of a shocked look then. Oh, and that for the next tweeeeenty years, unless his income went up appreciably, that credit score wasn't getting any higher and good luck buying a house – shoot, I wouldn't even rent to him. Now he looked pretty depressed. I almost felt bad.

He wasn't the only candidate in the applicant pool with student loan issues. The other one about broke my heart. A young lady in her 70's also applied and had a similar credit score fail, but this one due to a combination of personal bankruptcy and debt. See, she had raised three children who also took out student loans that she co-signed for. When the financial crisis hit in 2008 and they all lost their jobs and couldn't make their loan payments, the loan companies came looking for the co-signor who guaranteed the payment – her. And when she, in retirement, could not also make the payments for them, she filed personal bankruptcy. Now student loans are generally not able to be discharged in bankruptcy (thanks to the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005) which means that, in order for her to be able to afford the student loan payments, she had to file bankruptcy in order to discharge all her other debt. Did you know that if you don't pay your student loan payments and you're retired, that they can garnish your Social Security check? But wait, there's a plan for this situation, too: when you die, your student loans are forgiven. How is that for golden years?

How did they and many others get into this position in the first place?

It was the perfect storm.

1. Escalating college tuition and expenses – 7% compounded increases over the past three decades.
2. The Financial Crisis of 2008 saw unemployment rates higher than 10% and many took this time to return to college and they used student loans to finance both classes and living expenses

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3. Almost non-existent lending guidelines for student loans – remember the mortgage crisis anyone?
4. The inability to discharge student loans in bankruptcy – the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 made it nearly impossible to discharge student loans when filing for personal bankruptcy.

My examples are not the norm, but they were certainly real and do illustrate some of the challenges in fixing the college cost / student loan problem. If we look at the big picture, what we find is that the amount of debt has certainly gone up, but that for the most part, any forgiveness of debt is likely to help those with advanced degrees (higher earning potential) and over 60% of the total outstanding debt is owed by those making more than $76,000 per year (See our Graphs of the Month).

President Biden made the comment recently that he didn't see any reason to forgive debt for someone who went to Harvard or Yale, or other Ivy-League school – and I have to agree with him!

At some level, these students are making a purchasing decision about their education. If they decide to buy a BMW rather than a Ford Taurus, shouldn't they expect to have to pay more money? And if they sign the loan documents to buy that vehicle, certainly they have an expectation of an obligation to pay off that loan and they understand that there are consequences if they fail in that obligation. What do we teach our young people if we always remove the discomfort of a bad decision?

There are obviously exceptions to every situation, things that fall outside of the norm. These students get student loans because universities and private lenders show them how easy it is to get them, with little or no credit counseling (and what does credit counseling even mean to an 18 year old?!) We replaced the mortgage crisis with the student loan crisis by making it easy to over-borrow at a time when some people were desperate to get ahead or simply put food on the table. Now they are paying the price, and we're all frustrated that they think it should be forgiven.

But I will also point out that we forgave a whole lot more debt following the mortgage crisis than we are talking about here. If you had the ill fortune to purchase a home at the peak of the market in 2007 and then lose your means of support, you had two options. You could 'short sell' your home – meaning you had a buyer for less than the amount of what you owed on the home. The bank would have to approve that transaction, but many of them did, understanding that something was better than nothing. That transaction would have normally resulted in a 1099 for the difference between what you owed the bank and what the bank was able to get from that sale as it represented a gift to you of the discharge of that debt, but we allowed for forgiveness of that obligation for several years following the mortgage crisis. The consequence of that transaction was a ding on your credit history for two years.

We also allow people to discharge their mortgage debt in filing for personal bankruptcy. When that happens, their credit record is impacted negatively for seven years. We allow businesses to file bankruptcy when they are unable to pay their debts. We discharge credit card debt in personal bankruptcy. You see where this is going. Why would we deny students or parents the same rights we provide under any number of other circumstances?

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It is in society's best interests if we educate our young people and give them the means to that education. It is equally important that there is a cost to that education (sorry, Bernie) so that it is valued by our young people and they can feel proud, just like I did, of having accomplished this great thing that would launch them into a better life! Just forgiving student loan debt does not solve this problem. So here are a few ideas of how we begin to solve the big problem, not just the debt problem:

- Allow for student loans to be discharged in bankruptcy as we do every other type of unsecured debt
- Offer a 'short sale' type of option, forgiving up to $10,000 in student loan debt if they can show need; forgive the taxation of that gift for the next two years, but negatively impact their credit report so there is a consequence to that decision.
- For future loans – certainly implement strict lending criteria that prevent excessive lending to students (some of this would self-resolve if creditors were no longer guaranteed that students could not default!)
- Make the universities responsible for the quality of their "product" – namely the education that they provide our children and the cost of that education. If they have to be responsible for some of the debt they encourage our students to incur, they might take more interest in helping students make smarter life decisions. I would love to see universities have to provide matching funds for federal loans – and then be responsible for collecting on those loans – just not certain we could ever get that to happen.
- The federal government does need to step up and fix the loan forgiveness they promised to certain professional degrees when those graduates satisfied the requirements of working in under-privileged communities. This was a program created during the Obama administration to incentivize teachers and medical and legal professionals to use their education and talents to help underserved communities in exchange for waiving their loans.
- State Universities need to remember the charters that established them and start making education affordable – or they no longer get funding from the state legislators. I believe there are currently few natural market forces being applied to colleges that would prevent them from continuing to increase costs excessively and at will – although the pandemic may just have given them a nudge.

Education of our young people is vital. That education has to include the education you get with a little bit of struggle and hard work and the consequences of sometimes making a bad decision. So for me, blanket forgiveness is a non-starter, but I think there is room for compromise. This has the attention of the press now, let's see where the current administration takes this.

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# College and Tax Planning

As taxpayers get ready to file their 2021 taxes, they may be thinking about hiring a tax preparer. People should choose a tax preparer wisely. This is important because taxpayers are responsible for all the information on their return, no matter who prepares it for them. There are different kinds of tax preparers, and a taxpayer's needs will help determine which kind of preparer is best for them. With that in mind, here are some quick tips to help people choose a preparer.

When choosing a tax professional, taxpayers should:

- Check the IRS Directory of Preparers. While it is not a complete listing of tax preparers, it does include those who are enrolled agents, CPAs and attorneys, as well as those who participate in the Annual Filing Season Program.
- Check the preparer's history with the Better Business Bureau. Taxpayers can verify an enrolled agent's status on IRS.gov.
- Ask about fees. Taxpayers should avoid tax return preparers who base their fees on a percentage of the refund or who offer to deposit all or part of your refund into their financial accounts.
- Be wary of tax return preparers who claim they can obtain larger refunds than others.
- Ask if they plan to use e-file.
- Make sure the preparer is available. People should consider whether the individual or firm will be around for months or years after filing the return. Taxpayers should do this because they might need the preparer to answer questions about the preparation of the tax return.
- Ensure the preparer signs and includes their preparer tax identification number. Paid tax return preparers must have a PTIN to prepare tax returns.
- Check the person's credentials. Only attorneys, CPAs and enrolled agents can represent taxpayers before the IRS in tax matters. Other tax return preparers who participate in the IRS Annual Filing Season Program have limited practice rights to represent taxpayers during audits of returns they prepared.

It never hurts to even ask family and friends who they use and who they trust. Of course, Copperwynd Financial works with several CPAs and tax preparers and we are happy to provide you with a referral!

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# 401(k) Allocation

No changes this month.

Despite the spike in volatility and a sell-off in technology stocks, the long term trend is still positive. There continues to be a rotation into Large US Value stocks and Small company stocks. If this persists, we could see the asset allocation leaving the technology-focused emphasis we have had over the past several years. For now, steady as she goes!

If you need any assistance in rebalancing your 401K / 403(b) / 457 plan, please do not hesitate to give us a call!

| **Mar-21** | | | | | |
|---|---|---|---|---|---|
| | **Agg. Growth** | **Growth** | **Moderate** | **Balanced** | **Conservative** |
| | ***100% Equity*** | | | | |
| | | | | | |
| | **0%** | **10%** | **30%** | **45%** | **60%** |
| *Stable Asset - OR - Short Term Bond* | *0%* | *10%* | *25%* | *30%* | *30%* |
| *Total Return* | *0%* | *0%* | *5%* | *15%* | *30%* |
| *High Yield Bonds* | *You may allocate up to 50% of your bond allocation here if this investment style* | | | | |
| *Specialty Bond* | *is available in your plan* | | | | |
| | **45%** | **45%** | **35%** | **25%** | **15%** |
| *Large Cap Growth* | *25%* | *25%* | *20%* | *15%* | *10%* |
| *Large Cap Value* | *20%* | *20%* | *15%* | *10%* | *5%* |
| | **20%** | **20%** | **15%** | **10%** | **10%** |
| *Mid Cap Growth* | *15%* | *10%* | *5%* | *5%* | *5%* |
| *Mid Cap Value* | *5%* | *10%* | *10%* | *5%* | *5%* |
| | **15%** | **15%** | **10%** | **10%** | **10%** |
| *Small Cap Growth* | *10%* | *10%* | *5%* | *5%* | *5%* |
| *Small Cap Value* | *5%* | *5%* | *5%* | *5%* | *5%* |
| | **20%** | **10%** | **10%** | **10%** | **5%** |
| *Developed International* | *5%* | *0%* | *0%* | *5%* | *0%* |
| *Emerging Markets* | *15%* | *10%* | *10%* | *5%* | *5%* |
| | | | | | |
| | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

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# Graphic of the Month