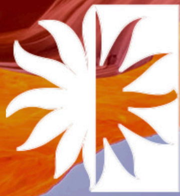

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Your Copperwynd Financial Newsletter: May 2021

Market Commentary

Welcome to May! Hard to believe we're rolling into summer when the last year feels like it took a decade. This time a year ago we were giddy about the possibility of re-opening parts of the economy and getting back to normal. We're still working on that "normal" thing, but it would be fair to say that things are moving in the right direction from where we were last spring. Not withstanding the personal toll the Pandemic has taken, it is fair to say that the economic outcome could actually have gone much worse than it did.

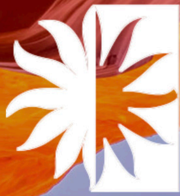
Recessions tend to have a pattern. First you have a big unexpected and negative event. Pandemic, check. Then you have consumer confidence deteriorate and markets react negatively. Fastest bear market decline of 34% in three weeks, check. Unemployment numbers skyrocket and companies struggle to stay in business. Longest first time claims for unemployment ever, check. Then we see government intervention to help shore up confidence. Over $5 Trillion and counting, big check. Then goods and services get cheaper as businesses lure consumers back to buying. Hmmm. Maybe not so fast on that one. Anyone been trying to buy a house lately? (or a car, or lumber, or appliances, or …)

How did we get here?

- Home builders were shy after the 2008 Financial Recession and have under-built single family homes compared to historical averages.
- Millennials are now forming households and deciding that luxury apartments really aren't that much fun when that's where you sleep … and go to work … and teach your kids.
- Credit scores and bankruptcies have healed from those impacted by the Great Recession and with interest rates low, they too are wading back into home ownership
- Investors aren't selling what they bought in 2008 (for the most part) because there is simply no other place to go to derive income right now, so low interest rates are attracting buyers and detracting potential sellers
- Let's not forget about the moratorium imposed on evictions for those unable to pay their rent – or their mortgage – due to the Pandemic; for the most part those restrictions are still in place, leaving stagnant properties unavailable to be sold or rented.

And then let's throw in the issues with the supply chain disruptions created by the Pandemic. We shut down the global economy. We stopped making a lot of stuff, we stopped shipping a lot of stuff, and now everyone wants more stuff to make up for the stuff they didn't get to buy when we were shut down. More demand than supply and we have higher prices.

Is this temporary, or could this endure for awhile and why is it important? Well, it is likely the supply chain disruptions will sort themselves out within the year, but houses don't just spring up from the earth overnight. Those gun-shy builders will have to find land, buy land, get permits, put in infrastructure and utilities and that's all before they sell the first lot.



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Existing home sellers aren't anxious to jump into the fray because many of them refinanced a few years back to those nice low interest rates on 15-year mortgages and, well, where are they going to move to?! So the housing supply may take some time to come in line with demand, especially as households are actually in a better position now to buy a home than they were a year ago as the individual savings rates climbed to multi-decade highs (couldn't go out and buy stuff!). See our graphic of the month **HERE** for affordability by state.

This is important because housing and all its ancillary economic components (buying/renting/building/servicing) account for over 17% of annual GDP and construction accounts for more than 7 million jobs. When our housing market is healthy so is our economy – and so is our stock market.

Indeed, markets have continued their push higher from last year with the S&P gathering returns just over 12% as we started into May. Corporate earnings season has been stellar and in the US, as the vaccination percentages have been climbing and the fear of contagion subsiding, local economies are reopening and it seems that everyone is anxious get out and enjoy their savings. Internationally, we have not seen as strong a recovery as their vaccination rates have struggled – and India is a humanitarian disaster right now – so global markets are a bit behind us today.

In your portfolios here, we remain fully invested in stocks with a more balanced allocation between growth companies and value companies than we had a year ago. In the wake of continued economic growth, small company stocks have enjoyed good gains and even oil has made a recovery as we are back on the road and in the air. Bonds waffled a bit in the first quarter as we saw a sharp spike in the 10-year treasury rate (which is what sets those mortgage rates so pretty important right now) – but that settled into a narrow range for the moment and mortgage rates are near their lows once again.

David has many sayings, and I will borrow another one here: High prices are the cure for high prices. Simply put, when everything is expensive, be it houses or stocks, higher prices will eventually put the lid on more buying, so we would not be surprised to see a small pullback here as this market takes a breather. That being said, the table has been set for continued economic growth and we will be here to trade the market it gives us.

As always, we welcome your questions and concerns and hope you remember to join us for our quarterly Zoominar where we take on the Inflation Question! If you have not yet registered, please follow this link to get signed up for the live show at 11 am Arizona time, 12 pm Utah time: **LINK**. As always, we will provide the recording online in the day or two following the presentation in the event you are unable to attend.

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Financial Planning

Making Life Easier for Your Loved Ones: Part 2

Last month we talked about making sure that the names on utility accounts and subscriptions were jointly titled (if appropriate) in order to smooth the transition to your loved ones.

This month on our estate maintenance checklist, we are adding updating information regarding your social media access. In some cases, sites such as Facebook and Twitter will oblige a verified relative with shutting down access with a copy of a death certificate. Facebook takes that a bit further by allowing you – while you are still with us – to designate a "legacy contact" to manage your account after you are gone. That "legacy contact" can use your page to post information about you and your memorial services, but cannot log on or modify information. There may be reasons your family does wish to remove information or pictures from your social media but now are not allowed to do so. In order to give your family the best control:

1. Keep login information and passwords somewhere they have access
2. Update your profile in Facebook to take advantage of the Legacy Contact feature
3. Double-check your trust or will to make sure that it contains language relating to "digital media" and how that may be handled upon your passing

We live in a digital world these days and it has certainly made it convenient to share information about ourselves; sometimes that makes it doubly challenging to limit that information to those we wish to have access to it. A few simple steps helps our family keep this information where it belongs when we no longer can.

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College and Tax Planning

Now that you have your 2020 tax return in hand, it is never too early for taxpayers to take the time now to prepare for the possibility of higher taxes. A multiyear tax planning approach is essential when considering how to combat future tax increases. As a result of the pandemic, state and federal deficits have risen to unprecedented levels, making it likely that taxes will increase in the coming years for wealthy individuals, particularly those who live in certain states with significant budget deficits. President Biden campaigned to eliminate many of the tax cuts enacted by President Donald Trump's administration and place higher taxes on the wealthy. The federal tax overhaul signed into law by Trump in 2017 reduced individual income tax brackets. The overhaul's income tax provisions will expire in 2025 unless there is further legislation to make the cuts permanent, and the tax bill could be repealed sooner.

Know Your Effective and Marginal Tax Rate

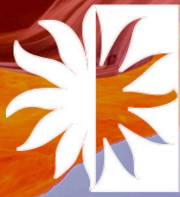
It is critical to know your effective and marginal tax rates when evaluating tax strategies that accelerate the reporting of income from one year to another. It is also essential to assess any unanticipated costs of accelerating income such as higher Medicare premiums resulting from the income shift since higher-income earners pay higher premiums for their plans.

Reassess Your Retirement Accounts and Roth Conversion

One strategy that could benefit wealthy individuals is converting all or part of an individual retirement account to a Roth IRA. Conversions can take place in one year or over a series of years and should be considered in conjunction with a review of the tax implications of the conversion. Once funds are converted, today's low tax rates are made permanent. Funds in the Roth grow income tax free and do not have required minimum distributions. When assessing this situation, remember that you will need to have the funds available to pay the taxes due to conversion when taxes are due the following April 15. Roth conversions are most beneficial when the taxes paid come from resources outside of the dollars converted, the Roth account is not expected to be used for many years or at all and it is invested aggressively to allow the account to grow significantly.

Review Your Plans for Charitable Giving and Charitable Lumping

For those age 70 1/2 or older who have high IRA balances, qualified charitable distributions, known as QCDs, are a preferred method of making charitable donations. This type of donation goes directly to the charity from your IRA. While you will not get a deduction for this donation, you do not have to pay the income tax on the distribution. QCDs are the most tax-efficient way to make charitable gifts because they reduce taxable IRA balances and offset required minimum distributions, commonly called RMDs. QCDs are limited to $100,000 per year for each IRA owner.



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Charitable Lumping can also be a way to help your tax bottom line. Many taxpayers won't qualify for the necessary deductions to surpass the standard deduction threshold established by tax reform in 2017. However, you can still receive a tax benefit by "bunching" multiple years' worth of charitable giving in one year to surpass the itemization threshold. In off-years, you take the standard deduction.

With financial planning being our center focus for our clients, in concert with strategic tax planning creates an optimal track for growth and tax savings in your investments. If you would like to review your 2020 tax return and see how some of these strategies could help you, don't hesitate to give us a call at the office!

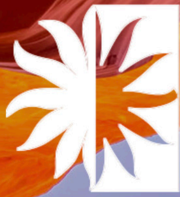
401(k) Allocation

There are trades.

It's May; time to sell and go away? That's the old adage, reflecting less trading activity and – sometimes, but not always – a market sell-off. All trends, however, still remain positive although we would expect stocks might take a rest, as they often do when the earnings announcements end for the quarter. For the moment, we stay the course with a bit of a tack out of international and emerging markets and those funds are re-deployed to the US Large company space with a fairly equal weight to Growth and Value today.

As always, please let us know if we can be of any assistance in rebalancing your 401K portfolios!

	Agg. Growth *100% Equity*	**Growth**	**Moderate**	**Balanced**	**Conservative**
	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					
Inflation Protected Bonds					
	65%	**55%**	**45%**	**35%**	**20%**
Large Cap Growth	*30%*	*25%*	*20%*	*15%*	*10%*
Large Cap Value	*35%*	*30%*	*25%*	*20%*	*10%*
	20%	**20%**	**15%**	**10%**	**10%**
Mid Cap Growth	*10%*	*10%*	*5%*	*5%*	*5%*
Mid Cap Value	*10%*	*10%*	*10%*	*5%*	*5%*
	15%	**15%**	**10%**	**10%**	**10%**
Small Cap Growth	*10%*	*5%*	*5%*	*5%*	*5%*
Small Cap Value	*5%*	*10%*	*5%*	*5%*	*5%*
	0%	**0%**	**0%**	**0%**	**0%**
Developed International	*0%*	*0%*	*0%*	*0%*	*0%*
Emerging Markets	*0%*	*0%*	*0%*	*0%*	*0%*



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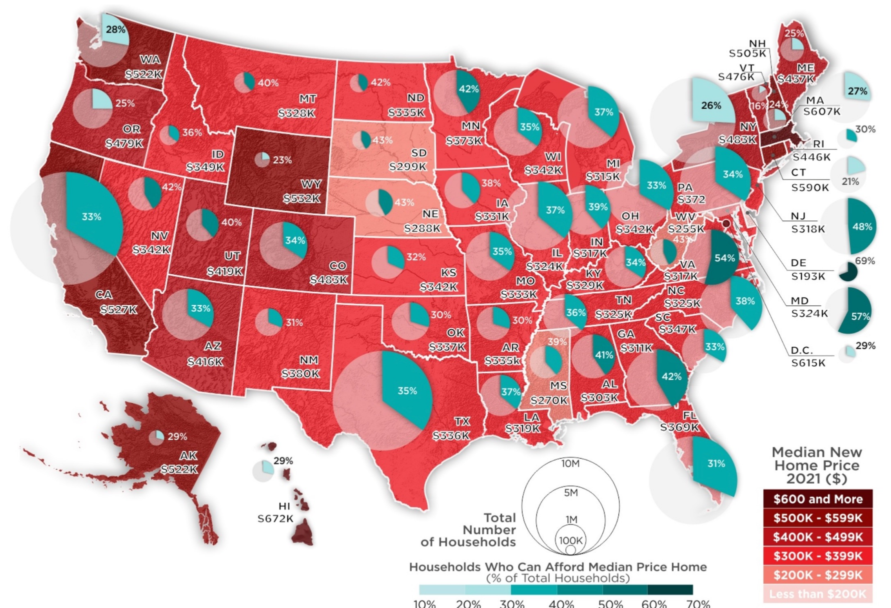
Graphic of the Month

Housing starts rose across all regions: the South (9.3 percent to 810 thousand); West (19.8 percent to 411 thousand); Midwest (37.3 percent to 254 thousand); and Northeast (25.5 percent to 133 thousand). Considering 2019 full year, housing starts were up
3.2 percent to an estimated 1.290 million units. – Reuters

The current market doesn't meet the definition of a bubble yet," says RedFin's Marr, "At least not nationally or in most places. According to the Case-Shiller index, home prices grew more than 11% in January from one year earlier, which is definitely more than wages increased, but that's not the whole picture. Mortgage rates fell 88 basis points during this year as well from 3.62% in January 2020 to 2.74% in January 2021 per Freddie Mac. This drop in mortgage rates almost completely offsets the rise in home prices according to a recent analysis by the Fed.

Additionally, most households received stimulus checks and pulled back spending money on things like travel, eating out, and gyms during the pandemic and instead opted to spend more money on housing, which gave a short-term boost to prices as well."



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