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Your Copperwynd Financial Newsletter: November 2022

Market Commentary

By Jake Eggett

Fall is a transitional time of the year where autumn slides relentlessly towards winter. One of the best parts about living in the Salt Lake Valley is watching nature's paintbrush at play with the abundant and colorful fall foliage during autumn. As the leaves change color from dark green to brilliant and vibrant hues of red, orange and yellows, it makes for a wonderful time to get into the mountains and enjoy the colorful scenery. Eventually those leaves fall, the weather cools down, and the mountains are covered with beautiful white snow. After a few months of colder temperatures, the weather will eventually warm up, turn to spring and in due course the hot summers again. This is the nature of season.

Just as with nature, the markets and the economy go through cycles as well. We see cycles occur with economic expansions and contractions, bull and bear markets during presidential cycles, and even the stock market has a seasonal tendency during certain months of the year. Given the challenging environment that the economy and markets are experiencing, it feels like we've been in winter all year! Rest assured; spring will come as it always does!

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Market Performance

The month of October has generally been the most volatile month of the year. Some of the largest crashes have occurred during this month but students of market history may find hope that October has frequently been the end of bear markets as well. This year, October turned out to be a fairly strong month and that doesn't come as much of a surprise given the large declines we saw in September. The US equity markets continue to perform better than international equities, partly due to the stronger dollar. Interest rates rose in October, which put pressure on bonds as indicated in the table below. Both stocks and bonds had a tough month mainly due to rising rates.

Equities	October	2022 YTD
S&P 500	8.13%	-17.75%
Mid Cap	10.61%	-13.25%
Small Cap	11.16%	-16.77%
Nasdaq	4.00%	-29.79%
International Developed	5.89%	-22.92%
Emerging Markets	-2.85%	-26.62%
Fixed Income	**October**	**2022 YTD**
Bloomberg Aggregate Bond Index	-1.28%	-15.48%
High Yield Corporates	3.06%	-13.64%

Source: *YCharts, 9/30/2022-10/31/2022, Total Return Data using SPY, IJH, IWM, QQQ, EFA, VWO, AGG, and JNK*

During the past month, these were some important things to note:

- The 3rd quarter's GDP showed an increase of 2.6% bucking the trend of the previous two quarters.
- The Fed hiked rates for a 6th time this year moving the Fed Funds rate to a range of 3.75%- 4.00%
- We are currently experiencing our 5th major bounce this year with the previous four failing to become a sustainable rally and leading to lower lows.

The long-term trend of both stocks and bonds continues to be down and time will tell if this latest rally has legs; however, we believe the driver of this market continues to be the Fed and their aggressive tightening will be a headwind on the markets.

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3 Thoughts on Cycles and Seasonality

1. Mid-term Elections & Presidential Cycle of Markets

The upcoming mid-term elections are set to take place on November 8th. Democrats currently control the Presidency, the Senate (50-50 deadlock but Vice President Kamala Harris has the tiebreaking vote), and the House (220 Democrats vs 212 Republicans, 3 Vacancies), and losing either the House or the Senate will decrease Democrats' power in the next 2 years of President Biden's term. Historically, the President's party usually faces stiff losses in the mid-term elections of the President's first term in office. In this upcoming mid-term election, the Senate appears to be a toss-up, but the House favors Republicans with economic and historical indicators flashing warning signals.

President
Bill Clinton (D)

Republican gains in the 1994 midterms:
52 seats in the House
8 seats in the Senate

President
George W. Bush (R)

Democratic gains in the 2006 midterms:
30 seats in the House
6 seats in the Senate

President
Barack Obama (D)

Republican gains in the 2010 midterms:
63 seats in the House
6 seats in the Senate

Republican gains in the 2014 midterms:
13 seats in the House
9 seats in the Senate

President
Donald Trump (R)

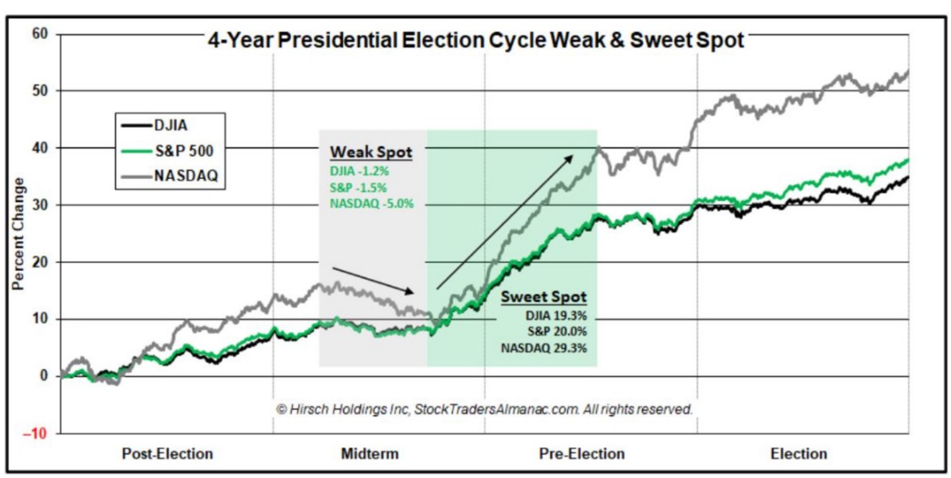
Democratic gains in the 2018 midterms:
40 seats in the House
-2 seats in the Senate

Source: Fidelity, Washington Update from Colin Masters 10/24/2022

How do stock markets perform after mid-term elections?

Data from the past several decades seem to support the "Presidential Cycle Theory" that market returns tend to be weakest in the years following a presidential election and the years following mid-terms generally post the strongest returns. This theory makes some intuitive sense. Some may argue that presidential candidates and parties seeking to be re-elected would do their best to promote economic growth prior to elections.

Historical Presidential Cycle Pattern



Source: Hirsch Holdings, Stock Traders Alamanac.com

We find this interesting data; however, the reality is we don't have enough observable data to rely on the statistical significance of the "Presidential Cycle Theory." We believe that the health of the economy and central bank policy carries greater weight than the midterm election results as it relates to stock market performance.

2. Year End Seasonality

Everything has a season, even the stock market has a history of making certain moves at specific times of the year. Historically, November through April has been a good time for stocks and market insiders would refer to this as seasonality. The table below shows the monthly return for the S&P 500 for nearly the last 60 years.

Monthly Return Stats for the S&P500 1964-2021

	Avg Return	% Positive	Best	Worst	Std Dev
Jan	1.1%	59%	13%	-9%	4.9%
Feb	0.0%	55%	7%	-11%	3.9%
Mar	0.9%	64%	10%	-13%	3.9%
Apr	1.8%	74%	13%	-9%	3.9%
May	0.2%	59%	9%	-8%	3.6%
Jun	0.2%	59%	7%	-9%	3.3%
Jul	0.7%	52%	9%	-8%	4.0%
Aug	0.1%	57%	12%	-15%	4.8%
Sep	-0.5%	47%	9%	-12%	4.3%
Oct	1.0%	60%	16%	-22%	6.0%
Nov	1.4%	67%	11%	-11%	4.4%
Dec	1.3%	72%	11%	-9%	3.4%

Source: Topdown Charts, Refinitiv topdowncharts.com

As you can see, seasonality in the market isn't a sure thing, it's simply a statistical tendency. At Copperwynd, we don't rely on seasonality as an indicator to buy and sell but we recognize the tendencies markets have during certain months of the year. A year-end rally would bring some relief, but the market seems to be driven more by Fed policy trying to rein in inflation than anything else.

3. Inflationary Cycles

Inflation is high in the United States, but it could be a lot worse! Of the 180+ countries around the world, 82 of them have double digit inflation and 106 of them have higher inflation than the United States. There are 5 countries with triple digit inflation over the last year!

Zimbabwe 269%
Lebanon 162%
Syria 139%
Sudan 117%
Venezuela 114%

Here is a list of the world's major developed countries (G20) and their current inflation rates.

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Country	Last	Reference
Turkey	83.45%	22-Sep
Argentina	83.00%	22-Sep
Netherlands	14.50%	22-Sep
Russia	13.70%	22-Sep
Italy	11.90%	22-Oct
Euro Area	10.70%	22-Oct
Germany	10.40%	22-Oct
United Kingdom	10.10%	22-Sep
Mexico	8.70%	22-Sep
United States	**8.20%**	22-Sep
Singapore	7.50%	22-Sep
South Africa	7.50%	22-Sep
India	7.41%	22-Sep
Australia	7.30%	22-Sep
Spain	7.30%	22-Oct
Brazil	7.17%	22-Sep
Canada	6.90%	22-Sep
France	6.20%	22-Oct
Indonesia	5.71%	22-Oct
South Korea	5.70%	22-Oct
Switzerland	3.30%	22-Sep
Saudi Arabia	3.10%	22-Sep
Japan	3.00%	22-Sep
China	2.80%	22-Sep

Source: tradingeconomics.com/country-list/inflation-rate

Inflation can also move in cycles. There were 3 separate inflationary cycles from 1968-1970, 1973-1975, and 1978-1980. (see chart below) Each cycle started with an inflation surprise that prompted central banks to raise rates, which drove the economy into a recession. After each inflationary peak, policymakers relaxed their guard, whereupon prices flared again. Time will tell how cyclical the current outbreak of inflation will be, but short-term pain may be necessary for long-term prosperity. Runaway inflation would be much worse.

Source: YCharts & BLS, 1/31/1960 – 9/30/2022

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A few bright spots to help with inflation:

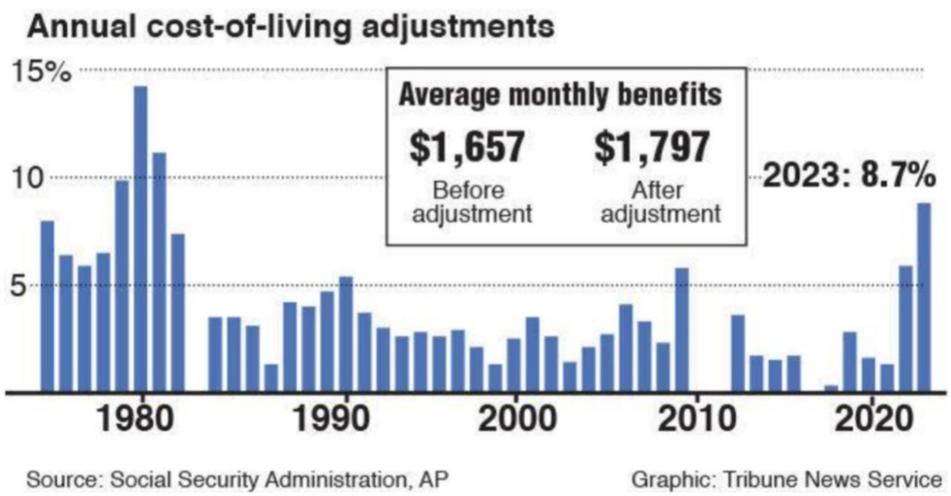
There are not very many positive aspects of high inflation; however, there are a few bright spots to help partially offset rising prices of food and fuel…

Tax Bracket Bands Increase by 6.7% (meaning a lower tax bill next year)

SINGLE:						SOURCE: IRS
2023	$11,000	$44,725	$95,375	$182,100	$231,250	$578,125
2022	$10,275	$41,775	$89,075	$170,050	$215,950	$539,900
COUPLE:						
2023	$22,000	$89,450	$190,750	$364,200	$462,500	$693,750
2022	$20,550	$83,550	$178,150	$340,100	$431,900	$647,850
TAX RATE:	12%	22%	24%	32%	35%	37%

Source: IRS

Social Security Cost-Of-Living Adjustments of 8.7% in benefits for 2023



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Summary

Clarity on the end to central bank rate hikes remains stubbornly uncertain and the Fed has made it clear that they are waiting for "compelling evidence of inflation easing" before a policy shift is made. The cycles and seasons of the economy/markets will continue, so as the weather cools just know that spring is around the corner.

At Copperwynd, we have allocated a small portion of the bond portfolio back into high yield; although, we will continue to be diligent followers of our models and will exit if the trend changes. Most of the bond strategy continues to be invested in short-term treasuries and with interest rates increasing the new treasuries have higher rates and you are benefiting from that. As for stocks, last month we allocated some of our cash back into the equity markets due to an “oversold” environment and we were able to capture a gain as we sold that position off recently. We continue to believe some very good opportunities will be available over the next year, and we will remain disciplined in following the trends so that we can take advantage as the markets recover.

Please join Copperwynd for our upcoming virtual Town Hall “2022 Transition: How Long Will This Last?” on Wednesday, November 16th at 12:00 PM Mountain Time.
Register in advance for this webinar:

https://us02web.zoom.us/webinar/register/WN_se_j1L4tSQSkRYpDtTir_g

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Tax Planning - Required Minimum Distributions and Beneficiary IRA

By Myra Alert

With the year-end fast approaching, we would be remiss if we didn't remind you to take your Required Minimum Distribution (RMD) before Dec 31. Here at Copperwynd our operations team has been diligently reaching out to all clients as custodians advise us of their tight processing deadlines to ensure clients' RMDs are timely met.

Here are some questions about RMDs that we are frequently asked:

Remind me again why I have to take an RMD

After all those years of working and contributing pre-tax dollars to an employer retirement plan or an IRA, Uncle Sam is ready to start collecting on the deferred growth in those accounts when you turn 72 (the age changed from 70.5 to 72 in 2021). This also includes SEP and Simple IRAs. You have until April 1 of the following calendar year after turning 72 to take your very first RMD. After that, the annual deadline is Dec. 31.

Note: if you are still working at age 72 and beyond, no RMD is required from your current workplace retirement plan. You are, however, still required to take an RMD from your IRAs or former employer plans.

How is the RMD calculated?

An RMD is calculated by dividing the Dec 31 account balance by a life expectancy factor that can be found in IRS Publication 590-B. An RMD taken in 2022 is based on the 12-31-2021 balance and so forth.

If married and one spouse is more than 10 years younger than the other, the IRS will allow you to use a Joint Life Expectancy Table so that the RMD for the older spouse will be less.

Are there penalties for missing the Dec 31 deadline?

Yes, if you miss this annual deadline, you will be hit with a 50% penalty based on the amount of your RMD. For example, the penalty for missing a $2000 RMD will be $1000. Ouch.

Do I withdraw from each of my IRAs, or can I combine all RMDs together and take from just one IRA?

Here you have some choices. What's important is to keep tabs on the RMDs from all of your IRAs, especially those that we don't manage for you. In these cases, we won't know those year-end balances unless you notify us. If you have multiple IRAs, you can add the RMDs for each account together and take the entire amount from one IRA if you prefer.

Note: If applicable, RMDs from former workplace retirement plans need to be satisfied individually. They can't be part of an aggregated number from IRAs.

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How are RMDs taxed?

Any withdrawal from a retirement account is taxed as ordinary income in the year you take it. If you made nondeductible contributions to your IRA, a portion of the amount won't be subject to taxation. This is not the case for most taxpayers.

Is an RMD required from a Roth IRA?

No, but if you have a Roth 401(K) held at a former employer you are subject to an RMD starting at age 72. This is an unusual quirk of Roth 401(K) plans in that they are treated the same as a traditional 401(K). However, if you roll this workplace account into a Roth IRA the year before turning age 72, no RMD will be required, ever!

Can a married couple combine their RMDs?

Retirement accounts are owned individually and RMDs must be taken separately.

Isn't there a new rule for taking an RMD from a beneficiary IRA?

Yes, but only if the deceased party passed away January 1, 2020, or later. A new IRS 10-year rule now requires that all funds from either an inherited IRA or inherited Roth IRA must be withdrawn within 10 years of the previous owner's passing (in the past, beneficiaries could take these RMDs over their lifetime). The notable exceptions to this rule pertain to surviving spouses, minor children of the account holder, disabled or chronically ill beneficiaries, among others.

You may be aware that the IRA has been dragging its heels on the implementation of this new 10-year rule and only recently provided a bit of clarity on this topic. If you missed taking an inherited RMD in 2021 and 2022 the IRS is waiving the 50% penalty. Unfortunately, the IRS has not yet specified in what year these RMDs will begin, so if you haven't taken your inherited RMD for 2021 or 2022 the choice is yours whether to take it or not. We hope to learn more soon.

What can I do with my RMD proceeds if I don't need the funds?

You might consider depositing the proceeds into a taxable brokerage account if you have no immediate need for these funds. Another option: if you are at least 70-1/2 you can make a Qualified Charitable Distribution (QCD) directly from the IRA to a 501(c)(3) charity or donor advised fund. In either of these cases, the QCD will not be subject to taxation.

We are happy to entertain any questions you may have on RMDs and Beneficiary IRAs as they are often complex topics. If you're interested in viewing the life expectancy tables for single, joint and beneficiaries, visit the IRS webpage here.

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Fraud Alert - How to Spot a Phishing Email or Text

By: Corrina Olson

The likelihood you'll receive a fake message is growing dramatically. Fake emails are the #1 most common cybercrime. Not only do you have to look out for fake messages via emails, but now you must keep an eye out for fake text messages too. So, how can you spot a fake message? What should you look out for when you receive a message from an unknown sender?

<u>Generic Greetings</u>

Phishing messages often begin with impersonal greetings, for example "Dear user" or "Hello, member". Most messages from your bank or other financial institutions will always use the full name listed on your account.

<u>Attachments</u>

Unless you are expecting an attachment, you should be wary since most banks and financial institutions will not send attachments via email/text, but rather upload them to a secure message center. Attachments can contain malware, so never open them unless you're 100% sure they're legitimate.

<u>A Sense of Urgency</u>

Don't let requests that are asking you to take fast action or warning you of problems that will compromise your account status scare you. If action needs to be taken, it's best to pause, evaluate the situation, and contact the institution directly (via their website or phone number).

<u>Fake URL</u>

If the web address is scrambled, looks suspect, deceptive, or inauthentic, don't click on anything and leave. It's always best to type in the URL for the site you want to visit rather than clicking the link in the message.

<u>Asks for Sensitive Info</u>

Do not provide personal, credit card, or account info via email, text, or phone. Your bank or financial institution should never ask you to provide this information in an email.

<u>Promises Monetary Rewards</u>

Be wary of the promise of money in return for a favor, notifications of lottery wins, and unsolicited job offers. If it sounds too good to be true, it's probably too good to be true.

<u>Poorly Written</u>

Typos, misspellings, and incorrect grammar are common in phishing messages.

Remember, scammers can be very convincing, and they are good at what they do. If you aren't sure if a message is from a legitimate source, pause and do your due diligence to confirm the legitimacy of the message. You can always log in to your account with that company and check for urgent messages, call the company directly, or reach out to Copperwynd. We are happy to help review any suspicious messages!

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401(K) Allocation

By: Lynda Elley

No changes this month.

Last month we added some "risk on", i.e. stocks, to the Aggressive and Growth allocations due to the oversold condition of the markets, and that should have worked out well for our more aggressive clients.

The increase from the Federal Reserve of an additional .75% to the short-term Fed Funds rate was expected, but it was hoped that they would signal an easing to the future pace of increases. Powell shot down those hopes the following day, so we maintain our risk-off for the balance of the risk categories. Next week has both the mid-term elections and the next monthly inflation numbers, so will be a busy week for providing some future guidance on whether a Santa Claus rally will be possible before year-end.

As always, if you need assistance in rebalancing your 401K, don't hesitate to reach out to us at the office.

Nov 2022		Agg. Growth *100% Equity*	Growth	Moderate	Balanced	Conservative
Bonds / Cash		**10%**	**25%**	**50%**	**65%**	**85%**
	Stable Asset - OR - Short Term Bond	*10%*	*25%*	*50%*	*65%*	*85%*
	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:		**75%**	**60%**	**40%**	**25%**	**15%**
	Large Cap Growth	*40%*	*30%*	*15%*	*10%*	*5%*
	Large Cap Value	*35%*	*30%*	*25%*	*15%*	*10%*
Mid Cap:		**10%**	**10%**	**5%**	**5%**	**0%**
	Mid Cap Growth	*0%*	*0%*	*0%*	*0%*	*0%*
	Mid Cap Value	*5%*	*10%*	*5%*	*5%*	*0%*
Small Cap:		**5%**	**5%**	**5%**	**5%**	**0%**
	Small Cap Growth	*0%*	*0%*	*0%*	*0%*	*0%*
	Small Cap Value	*5%*	*5%*	*5%*	*5%*	*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%

** If High Yield Bonds are not an option in your 401k, you can allocate that portion to a Total Return or Short Term bond fund

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