Your Copperwynd Financial Newsletter: October 2022

Market Commentary

By Jake Eggett

One of the most beautiful places that exist on this earth is Lake Powell. The desert scenery with large sandstone cliffs, endless canyons to explore, and the immense magnitude of stars you'll see at night make it hard to beat. If you don't yet have an appreciation or awe for Mother Earth, this place will convince you without a doubt.

Recently, I met a man who told me a story about the time he landed his small plane on Tower Butte in Lake Powell. This large sandstone butte rises 1000 ft above the lake and is roughly 500 ft long and 200 ft wide and is a common landing spot for helicopter tours.

The story unfolds by this man making a few preparatory passes to estimate his landing and then he begins to make his approach. Due to the air rising up the cliffs, he overshoots his anticipated landing spot (which is pretty small) and as his wheels land he presses hard on his brakes and skids sideways to a stop within 20 ft of the edge. This was not the soft landing that he had anticipated!

This remarkable landing made me think a lot about the Fed and the hopeful soft landing that they are trying to orchestrate. While certainly possible, the unexpectedly elevated inflation data in August cemented a larger rate hike in the recent September meeting and further reduced the odds of the economy making a soft landing. Chairman Powell's latest comments indicated some pain will occur in the economy as the Fed continues to raise rates; whether that translates into a recession or just a slowdown in our growth remains to be seen.

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Market Performance

Historically the month of the September doesn't have a great track record and this year didn't buck that trend. Every major asset class was down in the month of September and were highly correlated as the market made a new low for the year.

Equities	September	2022 YTD
S&P 500	-9.24%	-23.93%
Mid Cap	-9.21%	-21.57%
Small Cap	-9.65%	-25.13%
Nasdaq	-10.54%	-32.49%
International Developed	-9.22%	-27.20%
Emerging Markets	-10.09%	-24.46%
Fixed Income	**September**	**2022 YTD**
Bloomberg Aggregate Bond Index	-4.14%	-14.38%
High Yield Corporates	-3.87%	-16.20%

Source: *YCharts, 8/31/2022-9/30/2022, Total Return Data using SPY, IJH, IWM, QQQ, EFA, VWO, AGG, and JNK*

3 Major Headlines

1. Strong Dollar
It's not often we would need to talk about currencies, but this year one of the important story lines is the strength in the U.S. Dollar. If you've traveled to nearly any other country in the world, you'll notice that your dollar buys you a lot more than it used to. The dollar index is up 17.25% YTD. Why does this matter?

It's not so much the absolute level of the dollar but the pace of the move that matters. Major currencies generally don't fluctuate this much in a year. When this happens, it impacts global trade. Global trade occurs in U.S. dollars, especially for the trade of essential raw materials like oil, copper, aluminum, natural gas, etc. Foreign governments pay for commodities in U.S. dollars. If their local currency falls by 20% vs the dollar, that makes raw materials 20% more expensive – regardless of any additional price appreciation. This stresses foreign budgets, causes inflation, and reduces economic growth.

As the Fed tightens by raising rates and global recession fears mount, this continues to provide strength to the U.S. dollar. The good news…a strong dollar benefits the US because imports are cheaper; therefore, lowering our inflation.

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Source: *YCharts, 12/31/2021 - 9/30/2022, US Dollar Index (^DXY)*

2. Inflation Remains Stubbornly High So Rate Hikes Continue

In mid-September, the August inflation report as measured by the Consumer Price Index (CPI) came in at 8.26%, which was lower than the previous month (July 8.52%) but not as big of a drop as the market was anticipating. Inflation remains stubbornly elevated, and it hasn't been driven by just one factor. Even when you focus on Core CPI (which excludes food and energy) we saw an uptick in the latest report. These reports led the market to reprice how long and how fast the Fed will need to tighten. At the latest Fed meeting on September 20-21st, the Fed raised rates by another 75 bps and now the market seems to be pricing in a terminal rate of 4.0% - 4.5%. Keep an eye on the 2-year treasury because that is usually a pretty good indicator of where the Fed funds rate is heading, and it is sitting at 4.16% right now.

CPI is now the most important economic report each month, and the next report is due to be released on October 13th. There continues to be signs of lower inflation ahead, such as global container freight rates down 60%+ from its peak, the price of crude oil down 40% from its peak, and even used car prices down 13% over the last 9 months; however, all these items are still higher than where they were pre-pandemic.

What might keep inflation elevated?

Even though the real estate market is softening, housing prices are still significantly higher than we saw 12 months ago, and rents remain stubbornly high. Housing is the major component of CPI, representing 33% of the index. In the August report, the shelter component came in at 6.2%. CPI is notoriously slow to reflect increases in rents even though they've been elevated for well over a year now. Therefore, housing prices in CPI need to catch up with the real world, and this will support CPI even if "real" inflation is declining.

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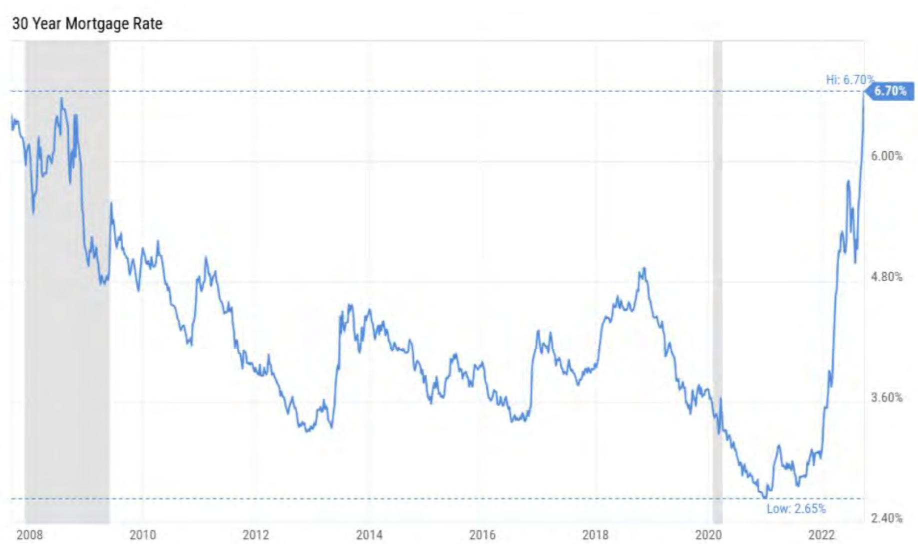
Source: *YCharts, 1/31/1960 - 8/31/2022, US CPI and Core CPI Indexes, BLS*

3. Housing Cooling

Rising interest rates continue to wreak havoc on the housing market. Again, it's not necessarily the absolute level of interest rates rather the pace of the move that matters. The 30-year mortgage rate has more than doubled since the first of the year. Combine that with the major price appreciation of homes over the last several years and that has led to a lack of affordability for housing. The median American household would now need to spend 44.5% of their income to afford payments on a median-priced home in the US.



Source: *YCharts, 9/06/2007 - 9/29/2022, Freddie Mac*

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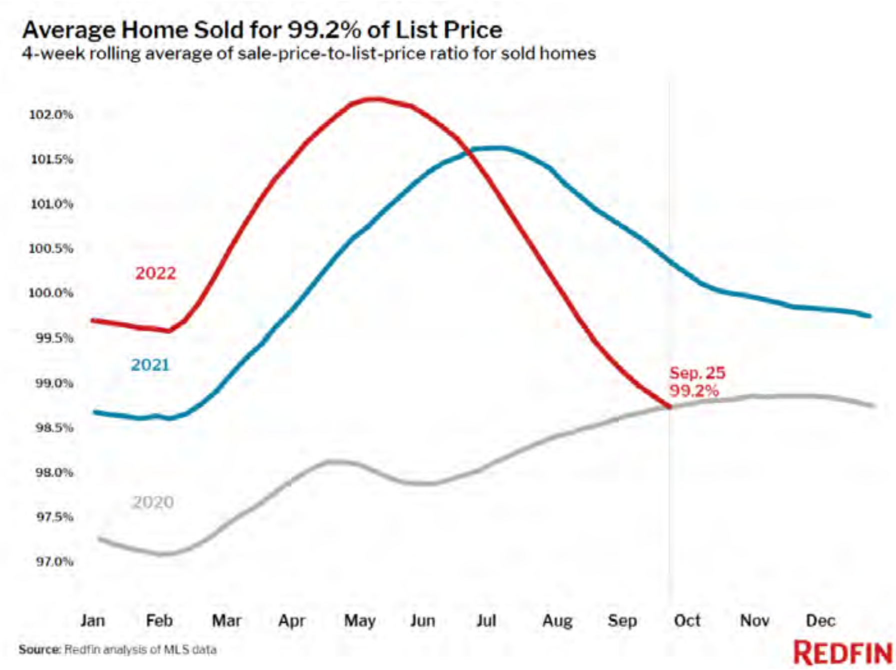
If Americans can't afford housing, that will mean lower demand and lower prices. We're just starting to see the impact of lower demand on prices. Existing home sales are at the lowest level since May of 2020 and the average sale-to-list price ratio fell to 99.2% from 100.8% a year earlier. This was the lowest level since February 2021. The chart below looks dramatic, but real estate prices have not dropped significantly yet.



Summary

Global markets are under significant stress due to rising interest rates, inflation, the war in Ukraine and weakness of most currencies relative to the dollar. As the year end approaches, we'll need to see a drop in inflation metrics in the upcoming reports before the Fed will begin taking their foot off the gas. Over the next several weeks earnings will be in focus and if they can remain resilient that could provide some much-needed relief to the equity markets. Time will tell how soft or hard this landing will be, but currently we are still just trying to land.

At Copperwynd, we believe the equity markets are "oversold" in the short term and so a week ago we allocated some of our cash back into the equity portfolio. With that being said, the overall trend remains down and so we continue to be defensive in our positioning but want to remain nimble as the trends change. On the bond side, we are currently focused on preservation but will reposition if needed. At the end of August, we sold out of our High Yield bond positions and avoided the 4% drop that they experienced during September. You'll see a significant amount of Treasury bills which make up most of our risk off positions. A year ago, those positions would have yielded close to 0% and now are yielding 2-3%. We think there will be some very good opportunities over the next year, and we will remain patient and disciplined so that we can take advantage as the markets recover.

Check out the Financial Planning tip for more information about our upcoming Medicare events in October.

Financial Planning

Medicare Enrollment Time is Here

By Myra Alport

I reached a new pinnacle in my life in that I turn 65 this month! Woohoo! In case I wasn't sure of my age, for the past year or so my mailbox has been flooded weekly with Medicare postcards and other mailers reminding me that 65 was around the corner AND coincidentally at the same time as the new open enrollment period. Sound familiar? Wrapping my head around the ins and outs of the enrollment process and reviewing the numerous options and drug plans was equivalent to choosing college courses back in the day!

With all of the reminders I wanted to get my ducks in a row early on. Did I want a Medicare supplement (aka "Medigap" or "Gap" policy") or a Medicare Advantage plan? Did I want a dental or vision plan (not included with basic Medicare or Medigap plans but offered through Medicare Advantage)? What prescription drug plan made the most sense for me? What were the costs of said plans and what medical carrier plans were approved for AZ residents? A family member in Minnesota may have different options, so best to keep an open mind. Fortunately, at my back was my friend Don, a Medicare broker who kept me on task along the way. He did much of the grunt work, for which I am truly grateful! Nothing about this process happens unless you are proactive.

Now, you may be wondering if I might have held off and remained on my employer's medical insurance plan. The more I thought about it, I could have but it didn't make sense for me to potentially incur the high deductible each year that I continue to work. I'm not a big gambler when it comes to my health, so I opted to drop my workplace insurance for Medicare Supplement G plus a drug plan. This was a personal choice based on many factors. There is no one size fits all approach.

The online Medicare enrollment process was fairly simple (remember we are dealing with a government agency). I learned pretty quickly that I needed to first log in to my online Social Security account at ssa,gov to confirm my eligibility to participate in Medicare. If you haven't established a log in, you can create one or call 1-800-772-1213 (avoid Mondays - long hold times typically but early morning or late afternoon are better - allow plenty of time). Since I'm not yet taking a Social Security benefit there's an **Apply for Medicare Only** tab that brought me directly to the **Start a New Application** tab. There are sections to enter your personal info, birth and citizenship information and other pertinent details that take 10 minutes to complete. I learned that once I submitted my application, Social Security would contact me if further clarification was needed. If not, I could expect to receive my Medicare card by mail within 3-4 weeks. Sure enough, it arrived in 3 weeks.

With my Medicare card in hand, the next step was to establish a log in at www.medicare.gov to sign up for my Part A (hospital insurance) and Part B (medical insurance) options here. The website provides a vast amount of information to educate yourself. At this point, if you are a DIYer, you can compare the various Medigap options yourself and proceed. If you are like me, you can work with a Medicare broker licensed by your state to complete your enrollment. Their services are free to you; agents are paid by the carriers they are licensed to represent. Don helped me narrow down my options, costs, services covered and ran a screen of my medications so I would know where to get my prescriptions filled at the lowest possible cost. I was surprised

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to learn that out-of-pocket costs at Walgreens were considerably higher than at CVS or the Fry's pharmacy where I usually get them filled. That may not be the case for you so please do your homework.

When all was said and done, I promptly received welcome letters and emails from the plans I selected. Within 2-3 weeks the Plan G supplement and prescription cards arrived, which are now on file with my pharmacy.

Medicare, here I come.

If you are able, please plan to attend our upcoming Medicare Lunch N Learn events in AZ (Oct 13) and UT (Oct 19). Call the office for more information.

Thursday, October 13th – 12 PM – 1:30 PM
Maggiano's Little Italy - 16405 N Scottsdale Rd (Promenade), Scottsdale, AZ 85254

Wednesday, October 19th – 12 PM - 1:30 PM
The Velvet Room, Water Tower Plaza at Thanksgiving Point - 3003 N Thanksgiving Way, Lehi, UT 84043

<u>Medicare Eligibility</u>

- **You're eligible for Original Medicare (Parts A and B) if:**
    - You're at least 65 years old, or you're under 65 and qualify on the basis of a disability or other special circumstances

  And
- You're a U.S. citizen or a legal resident who has lived in the U.S. for at least 5 consecutive years

<u>Currently Receiving Social Security Benefits?</u>

If you are receiving Social Security benefits prior to age 65, your Medicare card will automatically arrive in the mail approximately 90 days before your 65th birthday. This will get you set up for Part A (hospital coverage) and Part B (medical coverage) but you will still need to sign up for an optional Supplement/Medigap or Advantage plan and a prescription drug program independently.

<u>Parts of Medicare</u>

Part A - hospital coverage by the government
Part B - medical coverage by the government
Part C - Medicare Advantage Plans – coverage (details here) offered by Medicare-approved private companies. These plans bundle Part A and Part B with or without prescription drug coverage (Part D) and other optional services such as a gym membership, dental and vision, hearing, to name a few. You will most likely need to use health-care providers who participate in the plan network (ie, HMO, PPO).

Medicare Supplement Plans (Medigap) – there are several lettered plans that vary by state and benefits. These plans supplement your original Medicare benefits (Part A & B) and are offered by Medicare-approved private companies. You can go to any hospital or provider who accepts Medicare. Details found here.

Part D - Prescription drug plan - coverage from a private company.

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Fraud Alert – A Trending Payment Scam

By Corrina Olson

With the uptick in fraud/scams, we want to make sure our clients are aware of recent scams so they can stay protected. Each month, we will look at a trending scam and how you can avoid being a victim.

Do you use Zelle with your family and friends? It's a quick and easy way to send or receive money. Just like with all technology these days, you must be careful when using it! There has been a recent uptick in scammers using Zelle. It is being called the "pay yourself" scam.

Here is how it works:

- You receive a text message that looks like a fraud alert from your bank about unusual activity.
- If you respond to the text, the scammer knows they reached a live number and will call. They can "ghost" the number to make it appear to be from your bank.
- The scammer will pretend to be a representative from the bank and will ask you to send money to yourself with Zelle to help stop the alleged fraud.
- The scammer will ask you for the one-time code you received via text message from the bank.
- If you give them the code, they can enroll their own bank account with Zelle because they already have your email and phone number.
- The scammer now can receive your money into their account.

What can you do to help stay protected?

- Don't trust caller ID. If you need to contact your bank, look up their phone number or call the number on the back of your card.
- Don't share codes. Your bank will not ask you to share the code to resolve fraud.
- Don't be pressured to act immediately. Stay calm and take your time contacting your bank or someone you trust.

Remember, scammers can be very convincing, and they are good at what they do. If you are ever unsure about a situation, talk to your financial advisor for help. One of the benefits of having an advisor is having a second set of eyes and a different perspective look at the situation, which can make the difference on being able to avoid potential scams.

If you do find yourself in the unfortunate situation of being scammed, it's important that you report it. When you report a scam, authorities can use the information to build cases against scammers, spot trends, educate the public, and share data about what is happening out there.

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Tax Planning
How Income Affects Medicare Premiums

By Corrina Olson

Did you know that Social Security Income, pensions, IRA withdrawals, dividends, interest, and capital gains from non-IRA assets can increase your Medicare premiums? You are probably wondering how and in what way. In honor of October being the kick-off to Medicare open enrollment, we wanted to highlight how your income can impact your Medicare premiums. Medicare premiums are based on your modified adjusted gross income, or MAGI. All your sources of income can impact your MAGI. If you have higher income, you'll pay an additional premium amount for Medicare Part B and Medicare prescription drug coverage. The additional amount is called the "income-related monthly adjustment amount," or IRMAA. Social Security uses tax information from the year before last to determine if you are a "higher-income beneficiary" and they will tell you if you have to pay higher premiums. The income limits are released annually. For 2023, premiums will start to increase at $97,000 for single filers and $194,000 for married filing jointly.

Exactly how much can a high income impact your Medicare premiums? For most beneficiaries, the government pays a substantial portion — about 75% — of the Part B premium, and you pay the remaining 25% ($164.90/monthly in 2023). If it is determined that you're a higher-income beneficiary, you'll pay a larger percentage of the total cost of Part B based on the income you normally report to the Internal Revenue Service (IRS).

If your yearly income in 2021 (for what you pay in 2023) was			You pay each month (in 2023)
File individual tax return	**File joint tax return**	**File married & separate tax return**	
$97,000 or less	$194,000 or less	$97,000 or less	$164.90
above $97,000 up to $123,000	above $194,000 up to $246,000	Not applicable	$230.80
above $123,000 up to $153,000	above $246,000 up to $306,000	Not applicable	$329.70
above $153,000 up to $183,000	above $306,000 up to $366,000	Not applicable	$428.60
above $183,000 and less than $500,000	above $366,000 and less than $750,000	above $97,000 and less than $403,000	$527.50
$500,000 or above	$750,000 or above	$403,000 or above	$560.50

If you have both Medicare Part B and Medicare prescription drug coverage, you'll pay higher premiums for each. If you have only one, you'll pay an income-related monthly adjustment amount only on the benefit you have. If you decide to enroll in the other program later in the same year, an adjustment will automatically be applied to the other program when you enroll.

What does this mean for your retirement plan? When looking at your retirement plan, you want to be conscious of the income limits and make decisions accordingly. Should you consider a conversion to a Roth IRA? Is it time to start gifting some of the dividend stocks? Is charitable lumping an option? Does the higher premium impact your overall success in retirement? Like all financial decisions, it depends on your situation and your goals.

If you find yourself paying higher premiums, you may want to explore different ideas to minimize Medicare premiums paid. We would be happy to discuss your individual circumstances to see what makes sense for you and your plan.

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401(K) Allocation

By Lynda Elley

There *may* be trades.

Markets have been very punishing for growth stocks, value stocks, and bonds alike. There has been no safe place to hide since our rallies back in July. Times like this often lead to a situation known as an "oversold" market, which typically indicates a good time to buy. As is so often the case with the stock market – these buying days come when you probably feel more like hiding your money under the mattress! So the *maybe* trade this month will affect the Aggressive Growth and Growth allocations only, where we are recommending to add 10% of your stock position back into the markets. Understand that cheap markets can get cheaper, so this is not a perfect indicator by any means, but if you are a long term growth investor, this may represent an opportunity to take advantage of the fear that has led to the broad sell-off we have seen. If you are in the Moderate / Balanced / or Conservative allocations, there are NO changes to the 401K allocation and we are standing pat with our risk-off positioning.

As always, if you need assistance with rebalancing your 401K / 403B / 457 plan or we have not yet created a personalized "de-coder ring" for you, please reach out to us at the office and we will be happy to help.

		Agg. Growth *100% Equity*	**Growth**	**Moderate**	**Balanced**
Bonds / Cash		**10%**	**25%**	**50%**	**70%**
	Stable Asset - OR - Short Term Bond	*10%*	*25%*	*50%*	*70%*
	Total Return	*0%*	*0%*	*0%*	*0%*
	*High Yield Bonds***	*0%*	*0%*	*0%*	*0%*
	Inflation Protected Bonds	*0%*	*0%*	*0%*	*0%*
Large Cap:		**75%**	**60%**	**40%**	**25%**
	Large Cap Growth	*40%*	*30%*	*15%*	*10%*
	Large Cap Value	*35%*	*30%*	*25%*	*15%*
Mid Cap:		**10%**	**10%**	**5%**	**5%**
	Mid Cap Growth	*0%*	*0%*	*0%*	*0%*
	Mid Cap Value	*10%*	*10%*	*5%*	*5%*
Small Cap:		**5%**	**5%**	**5%**	**0%**
	Small Cap Growth	*0%*	*0%*	*0%*	*0%*
	Small Cap Value	*5%*	*5%*	*5%*	*0%*
International:		**0%**	**0%**	**0%**	**0%**
	Developed International	*0%*	*0%*	*0%*	*0%*
	Emerging Markets	*0%*	*0%*	*0%*	*0%*
		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.