COPPERWYND FINANCIAL

JANUARY 2017

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"The markets can remain irrational longer than I can remain solvent." -John Maynard Keynes

Market Commentary

Well, we made it through 2016 intact. We had a lot of improbable things that occurred from a billionaire new president to a double digit return for the S&P 500. It was not a year without its ups and downs as the markets diverged many times and most developed international markets ending up flat or slightly negative for the year. We saw the rates on bonds and mortgages go up to levels not seen in the last 3 years and holders of long term Treasuries losing nearly 20% from the highs for the year. We have all heard the saying of "losing your shorts in the market" but it looks like that was true in 2016 for underwear makers Hanes brands and Under Armour as they both declined over 25%. Fortunately these proved the exception as most US indices hit all-time highs in the fourth quarter.

The gains since the election have been nothing less than astonishing as money has come pouring back into the stock markets from the sidelines and out of bonds. Will this continue or reverse? Check back with us in a year and we can tell you. This is clearly an emotional reaction and nothing can forecast emotions very well. What we can tell you is that the positive emotions are coming from these ideas:

- Lower regulation should help companies be more efficient and this should help smaller companies more than larger one.
- Lower corporate taxes will spur growth and more money will come back to the US from overseas' subsidiaries.
- Potential infrastructure spending will goose GDP over the next few years and make the economy more efficient.

We doubt that all these will come to fruition or result in all the benefits shown above, but that may not matter as investor sentiment is the big mover of markets in the short run.

What will this mean to the markets in 2017? Goldman Sachs and Barron's both think that the market will rise about 5% for 2017 with earnings growth coming in at 7%. Value will do better than growth and the dollar will continue to strengthen. Sounds like a good time to go to Europe or Japan. A strong dollar is good for the markets in the short run but could hurt our global competitive position in the long term. Make no mistake though, the markets are not cheap at these levels. We saw for several years in the 1990's that markets can be overvalued and still keep going up. It reminds us of the quote attributed to John Maynard Keynes the

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famous economist, “The markets can remain irrational longer than I can remain solvent”.

Emotion is the enemy to good investing. That is why we use models in most of our investment decision making. Those models served us very well in 2016 with our stock strategies up double digits and our low risk income strategies up over 7.5% soundly ahead of our 4-6% target on the low risk piece of the portfolio.

We think 2017 will be a challenging year as a new president takes over and portfolios are re-allocated. The Fed is still expected to raise rates several times this year and that adds more uncertainty to the puzzle. Stay tuned for a bumpy ride.

We appreciate the trust you have placed in us and look forward to assisting you this year in reaching your goals. We look forward to discussing your results and our thoughts on 2017 during our next review!

Market Metrics

	Dec. 31	Nov. 30	1 Year Ago
Dow Jones Ind. Avg.	19,762	19,123	17,405
S&P 500	2,239	2,238	2,038
Nasdaq	5,383	5,324	4,898
The Russell 2000	1,357	1,322	1,134
EFA	57.7	56.79	58.72
MSCI Emerging Markets	353	355	312
AGG	108.06	108.24	108.01
2-Year US Treasury Yield	1.22%	1.11%	1.06%
10-Year US Treasury Yield	2.49%	2.37%	2.27%
US$ / Euro	1.06	1.06	1.1
Gold ($/oz)	$1,163	$1,175	$1,074

Portfolio Spotlight

It was a very good year for all of the Copperwynd portfolios, and three of our stock portfolios beat the S&P index this year – with less than 1/10th of a percent separating the winner from the other two portfolios! For the second year in a row the Stock Oscar goes to the Momentum Strategy, our 5-stock strategy based on a combination of several technical factors, including pricing momentum. While it surpassed S&P results for the year, it has clobbered the S&P results since its inception in 2012. Not for the faint of heart, this strategy can be very volatile and,

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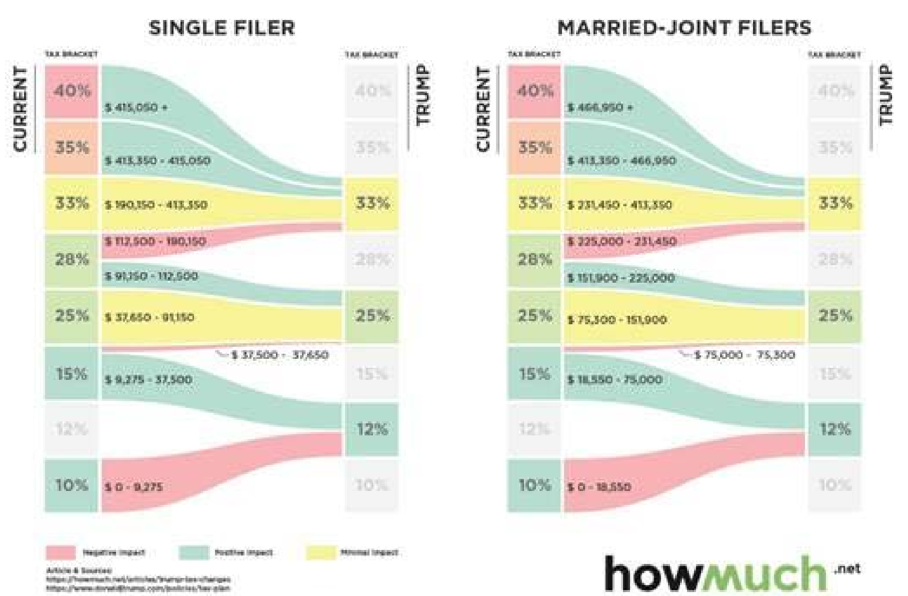
in fact, lagged the S&P for the bulk of 2016 before picking up momentum toward the end of the summer and then never looking back.

But it was our low risk portfolio, Total Return Income, that took the Best Portfolio Oscar in significantly outperforming its target return! In a year when bonds were shunned by the financial press, our models worked to preserve capital as well as generate income for a very nice result that we will enjoy sharing with you during your next review!

Graphic of the Month

One of the core ideas of the Trump administration is to simplify the tax code. Under their initial proposed plan, he would reduce the number of tax brackets to three from seven. As you might expect there will be some "winners" and some "losers" if that plan can get passed! We found the following graphic to help you see which camp you would be in. Obviously this won't happen in time to help your 2016 taxes and, depending on the strength of his coalition in Washington, we will have to see what if anything does indeed change!



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Financial Planning Tip of the Month

With tax preparation in full swing, now is a great time to take advantage of potential deductions by contributing to your IRA, or if under the AGI limit, boosting your tax free savings in your Roth IRA. IRA and Roth IRA contribution limits have not changed much over the past few years. For 2016 and 2017 they are$5,500 if you're under age 50. If you're age 50 or older, you can contribute an additional $1,000 for a total of $6,500. Note: You can never contribute more than you've earned for the year. You have until April 15th or the day you file your 2016 tax return to make contributions for 2016.

The contribution limits to your 401K / 457 / 403b plans have remained the same for 2017 at $18,000 for the regular contribution and $6,000 for catch-up contributions for those over age 55. Like the traditional 401K plans, SIMPLE plan limits have remained at $12,500 with $3,000 for age 55 catch-up contributions. For SEP and Solo 401K owners, the maximum contribution has increased slightly from $53,000 to $54,000.

Start making your 2017 contributions today! Keep in mind that procrastination can be costly. If you make your IRA contribution at the last minute, you miss out on nearly 16 months of potential gains as well as the chance for those gains to compound over time. So the earlier you contribute to your retirement accounts, the better. A reminder that we offer guidance in this monthly newsletter to help you position your employment-based retirement accounts appropriately and are happy to assist you if you have any questions at all.

Your 401k Allocation

While market enthusiasm tapered a bit going into the final days of 2016, there was still plenty to cheer about following the election in November – at least for your portfolio. We had a regime change of the greatest magnitude! Not only have Republicans replaced Democrats in the White House, but everything that had been working in the stock market leading into the election changed places with the sectors of the market that had been lagging. Now leaders became laggards and bonds, tech stocks, and US large cap were the losers, replaced by bank stocks, small and midcap stocks and to a lesser extent, healthcare. With all that money in motion, we were happy to have increased our equity exposure, specifically in those small and midcap areas. December carried through on the early euphoria from November as markets nudged another 2% higher, with the S&P finishing up 11.8% (including dividends) for the year. For the first time since the 2008 financial crisis, the S&P was not the top performing segment of the market – that award goes to both midcap and small cap stocks.

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Bonds took the brunt of that regime change with the Bond Index (AGG) giving back more than half of its gains for the year in the few short weeks following the election, and 401K plans will have really paid the price for that change as bond options within the retirement plan world are severely limited. It's why we shifted to a "neutral" stance on the bonds the past several months – but even so, you will likely have seen losses in the "Total Return" segment of your bond allocations over the final two months of the year. The Federal Reserve finally issued its second rate increase in eight years at their December meeting with an unexpected prediction of 3 rate increases in 2017. Of course, they had predicted 5 increases during 2016 and we see how that turned out! So for the low-risk portion of the portfolios, we are sticking with the ultra-conservative short-term bond or stable value options in your plans as most 401K plans do not offer high yield bonds or floating rate bonds such as we use in our bond strategies here.

As always, if you have any questions regarding your re-allocation, please don't hesitate to contact us.

January 2017					
		Agg. Growth	Growth	Moderate	Conservative
Bonds / Cash		0%	10%	30%	65%
	Stable Asset - OR - Short Term Bond	0%	10%	30%	65%
	Total Return	0%	0%	0%	0%
	World Bond	0%	0%	0%	0%
	Inflation Protected Bond	0%	0%	0%	0%
Large Cap:		47%	46%	40%	17%
	Large Cap Growth	25%	25%	20%	9%
	Large Cap Value	22%	21%	20%	8%
Mid Cap:		27%	25%	16%	10%
	Mid Cap Growth	10%	10%	6%	3%
	Mid Cap Value	17%	15%	10%	7%
Small Cap:		20%	15%	12%	8%
	Small Cap Growth	8%	5%	5%	3%
	Small Cap Value	12%	10%	7%	5%
International:		6%	4%	2%	0%
	Developed International	0%	0%	0%	0%
	Emerging Markets	6%	4%	2%	0%