COPPERWYND FINANCIAL

JUNE 2017

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"To the positive, the markets have thus far been able to ignore all of the noise and drama coming out of Washington and global markets..."

Market Commentary

We have reached the mid-year point – in record time, it seems to me! The only thing not in a hurry these days appears to be any legislative efforts by Congress and the Arizona monsoon season.

There has been sufficient ink devoted to the Trump presidency and the continuing dis-function in Washington, so we will dispense with more commentary on this topic for the moment. Frankly the weather is much more interesting!

Every summer, we in Arizona lament the heat and then wait for the inevitable build-up of dust and wind and humidity that we fondly call the Monsoon Season. Mind you, the humidity doesn't compare to what the Midwestern and eastern states deal with during the summer, but when your overnight low is in the 80's and daytime highs are in the 110's it doesn't really take much humidity to feel uncomfortable. Typically we see humidity rise and dust devils begin to stir as we head into July but we seem to be getting a late start on the monsoons this year – not that anyone doubts the storms are coming.

That same sense of inevitability has peppered your reviews with us this year, as well as the pundits in the press. When will we get a correction and how painful might it be? Are we seeing a build-up of those storm clouds on the horizon?

We will say that our views have shifted from "cautiously optimistic" to "cautious". To the positive, the markets have thus far been able to ignore all of the noise and drama coming out of Washington and global markets, rallying back after each event or tweet-driven bad day. Employment numbers and manufacturing numbers continue to be very strong and even Europe finally shows signs of some improvement. Oil continues to plague traders, but low prices at the pump have been a nice gift to travelers and transportation companies like the airlines. Housing remains strong and we are even seeing some signs of wage increases as the labor market has tightened. All good stuff!

Why are we starting to watch for those clouds on the horizon? It is the change in the conversation coming out of global central banks. Here at home, the Federal Reserve continued increasing short-term interest rates with two increases thus far this year, and another one or two increases projected to occur prior to year-end. Of greater significance is the move now by the Federal Reserve to begin to shrink their balance sheet. Currently, the Federal Reserve carries a $4.5 Trillion balance sheet made up of all those bonds and mortgages they purchased since

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2008 as a part of the Quantitative Easing (QE) programs that provided a foundation for ultra-low interest rates. They are now discussing a movement toward what we are calling “Quantitative Tightening” where they begin to decrease the size of that balance sheet by not reinvesting in new mortgages and bonds as they mature. This will have potential consequences to both the bond and stock markets as we expect this to drive interest rates higher (specifically on the 10-year Treasury) as well as shrinking the pool of dollars that have driven asset (stock) prices higher. We view it as significant that this move was not forecasted to occur prior to late 2018 or 2019 but they appear now ready to begin this program as early as next quarter.

When our Federal Reserve finally turned off the spigots of Quantitative Easing in the fall of 2015, both the European Central Bank and the Japanese stepped in to replace the flow of money into the global markets by implementing or adding to their own Quantitative Easing programs. Most recently, the amount of money being printed by these two central banks was double the amount we printed at the height of our QE program. Now out of Europe we hear Mario Draghi changing the tone about supporting additional QE for Europe and beginning to slow the pace of their program. Taken in concert with the movement by our Federal Reserve to shrink the balance sheet, this could mark the build-up of those clouds on the horizon and kick off the storm that becomes a more sizeable correction.

As always, we rely on our models to keep us focused on what “is” rather than what “might be” and today we remain fully invested on both stock and bond portfolios. During our reviews over the next quarter we would be happy to take you through how each of those models addresses risk so you are prepared for the next storm.

Please enjoy your summer!

Market Metrics

	June 30	May 31	1 Year Ago
Dow Jones Ind. Avg.	21,287	21,008	17,924
S&P 500	2,420	2,411	2,099
Nasdaq	6,144	6,198	4,837
The Russell 2000	1,416	1,370	1,152
Developed International Markets	65.16	66.34	55.84
MSCI Emerging Markets	414	412	346
Bond Index	109.5	109.5	112.7
10 Year US Treasury Yield	2.35%	2.20%	1.49%
Gold ($/oz)	$1,247	$1,275	$1,277

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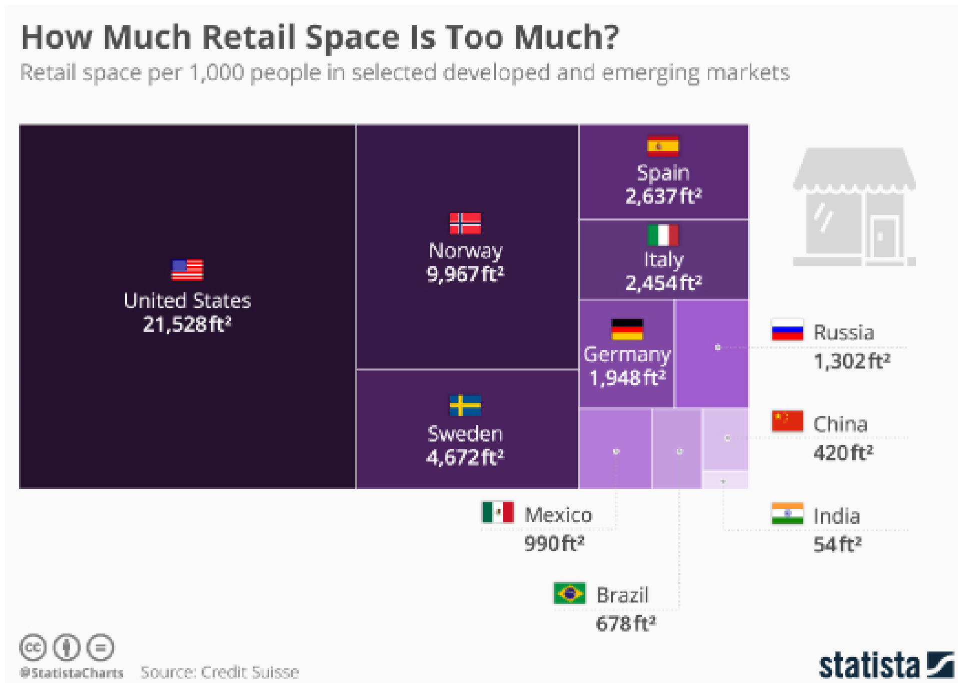
Graphic of the Month

Visits to shopping malls have been declining for years with the rise of e-commerce and huge shifts in how shoppers spend their money. People are now devoting bigger shares of their wallets to restaurants, travel, and technology than ever before, while spending less on apparel and accessories. According to Credit Suisse, the United States has more retail space than any other country in the world. With more than 21,500 ft² per 1,000 people, the U.S. leads similarly developed nations by a wide margin. Several retail chains recently announced the closure of stores, indicating an unhealthy degree of oversaturation with retail space, while moving more of their sales focus from a brick-and-mortar business to an online model.



Financial Planning Tip of the Month

If you're the parent or a grandparent of a child who has earned income, a minor Roth IRA can be a great way to teach the value of saving and investing. Besides getting a head start on saving, your child may be able to use the funds for college expenses—or even to buy a first home. To qualify for this savings vehicle, minors must be under the age of 18 and must have employment compensation. Qualifying income can come from a job and/or self-employment such as babysitting, mowing lawns, or shoveling snow. It's preferable if your child works for a family other than your own. And whenever kids don't get a Form W-2, they should keep a record of the date of each job, the person who employed them and the amount they earned. IRA contributions cannot exceed a minor's earnings, e.g., if a minor earns $1,000, then only $1,000 can be contributed to the account, and there's an annual maximum contribution of $5,500 per child.

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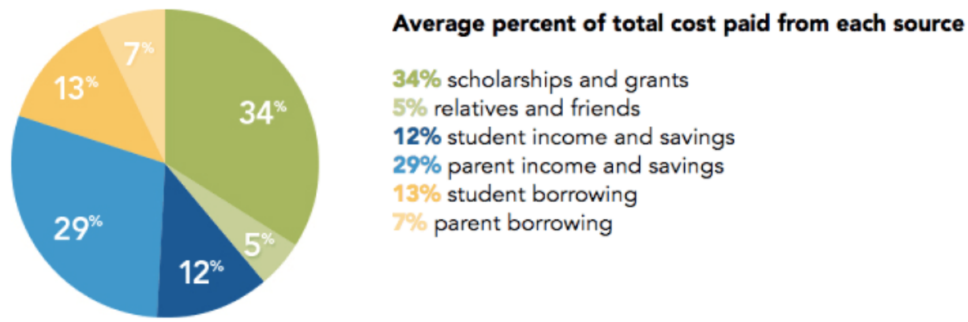
College Planning Tip of the Month



Source: Sallie Mae's "How America Pays for College 2016"

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Believe it or not, a four-year degree for your child could end up costing over $200,000 - but that doesn't mean you'll actually pay that much out of pocket. According to Sallie Mae's "How America Pays for College 2016", only 29 percent of total costs were funded with parent income and savings. So how much should you really be putting away? Your "magic number" will depend on where your child goes to college. You don't need a 100 percent solution, and a realistic goal is to save about 25%-30% of projected total costs.

Your 401k Allocation

While technology stocks have stumbled going into the close of the quarter, their relative outperformance for the year still earns them a spot on the momentum wagon and a larger weight to our overall portfolios than typical. Whether that sell-off continues remains to be seen as we now enter the more difficult time of the year for stocks historically. Market volume tends to decline going into August, Washington is on recess (thank goodness for some favors!) and the final Federal Reserve meeting of the summer is typically a retreat to Jackson Hole to discuss a broad economic agenda that rarely results in immediate rate change decisions. So believe it or not – no news tends to make markets even more volatile! Joining technology stocks in decline, energy stocks have struggled to find positive direction this year and continued to struggle at the end of this quarter. This has put pressure on emerging markets and high yield bonds (where energy represents 15-16% of this bond market), so we are shifting our international weighting in the 401K plans to emphasize developed international over the emerging markets for now. We may find the high yield bonds will follow suit, as they did in 2015 when oil dropped from over $100 a barrel to under $30 a barrel, but time will tell. As always, please let us know if you need any assistance in re-allocating your 401K portfolio.

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July 2017					
		Agg. Growth	Growth	Moderate	Conservative
Bonds / Cash		10%	15%	35%	65%
	Stable Asset - OR - Short Term Bond	10%	15%	35%	35%
	Total Return	0%	0%	0%	30%
	World Bond	0%	0%	0%	0%
	Inflation Protected Bond	0%	0%	0%	0%
Large Cap:		42%	42%	35%	20%
	Large Cap Growth	35%	35%	30%	16%
	Large Cap Value	7%	7%	5%	4%
Mid Cap:		15%	12%	7%	5%
	Mid Cap Growth	10%	10%	7%	5%
	Mid Cap Value	5%	2%	0%	0%
Small Cap:		8%	6%	3%	0%
	Small Cap Growth	8%	6%	3%	0%
	Small Cap Value	0%	0%	0%	0%
International:		25%	25%	20%	10%
	Developed International	10%	10%	10%	5%
	Emerging Markets	15%	15%	10%	5%

New and Noteworthy

- **July 13, 2017: Women's Lunch and Learn – Long Term Care Basics – Gardner Village, West Jordan, Utah**

  We invite you to join us for a continuation of our Women And Finances series as we introduce you to Long Term Care basics, from cost to services to solutions. Please join us for lunch and feel free to invite a guest. If you would like to attend, please RSVP to Amy Diamond by email at adiamond@copperwyndfinancial.com or by calling us at the office, and we look forward to seeing you there!