COPPERWYND FINANCIAL

APRIL 2018

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"What does appear certain, is that volatility is back and we have to decide if that makes us uncomfortable as an individual investor."

Market Commentary

"In like a lion out like a lamb" – or the reverse; that's the way the old adage goes when talking about March's spring weather. When talking about the markets this month, we just have to say it roared and there was nothing "lamblike" about it at all. There were days the market roared angrily after worrying about rising interest rates, or the potential for a trade war with China. And days when it roared higher following tempering of fears over such a trade war, and reassuring statements from our new Federal Reserve Chairman Jay Powell who reiterated three interest rate increases for 2018 – not the four the market speculated could occur as the economy appears so strong.

And at present, the economy continues to put up impressive results for employment, housing, and manufacturing. So why then the concern? Well let's break this down a little.

Employment. First time claims for unemployment continue to drop, and the unemployment rate is steady at a very low 4.1% nationwide, with regional unemployment in the southwest and southeast hitting record lows between 2.1-3%. With a tight labor market like this, employers have to compete for the better candidates and they do that with wages. Higher wages can translate into higher business costs which then get passed along in form of higher product costs to you and I, also known as inflation. How does the Federal Reserve fight inflation? By increasing the short-term lending rate, known as the Fed Funds Rate. This is the rate that banks pay on their deposit accounts and certificates of deposit, and we have finally started to see those tick (slowly) higher.

Housing. There are some very tight housing markets out there as well. Across the country, the available housing inventory is about 4 months – which is shy of the 6 months for a "normal" housing market. Lower supply is pushing prices higher at a time when credit scores are healing and wages appear headed higher, giving more potential home buyers incentive to move out of rentals. But what looks affordable today gets less affordable if mortgage rates increase. Remember the Federal Reserve interest rate increases? While that affects the short term rates, it has a tendency to push the intermediate bond rates higher as well and it is the 10-year treasury rate that sets the mortgage rates. The current 30-year mortgage rate averages 4.54%, up from 4.17% a year ago.

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The trend is now moving higher for the first time in a decade and will eventually have an impact on housing prices and demand. For now, however, a lack of inventory trumps higher interest rates as demand continues to be strong.

Manufacturing. A weaker dollar over the past two years has been very helpful for exports, and improving demand from US consumers who all have jobs now, has kept manufacturers busy. Tariffs on steel and aluminum, however, could threaten to devolve into a broader trade war, having the dual impact of slowing demand and increasing product costs. This is probably the most immediate concern we have that could impact markets longer term.

Now we mix this data in with a topic we touched on back in December, namely "liquidity" and how that had the very positive impact for our markets last year but how that was starting to change. There is a relationship between liquidity and volatility. When the Federal Reserve adds liquidity to the monetary system, it suppresses volatility. Lowering interest rates, printing money through Quantitative Easing – all of these things supplied great buckets of liquidity over the past decade. The European Central Bank joined that party in a really big way in 2015. Lots of liquidity, low volatility, happy stock markets. Now we are raising interest rates. We are decreasing the size of the balance sheet at the Fed. The European Central Bank announced it was cutting its bond purchase program in half. These are all pulling liquidity from the markets and we see the resulting volatility.

Does this mean a bad year for the stock markets? Not necessarily. Like housing, we could see job and wage growth continue to spur demand at a pace that is stronger than a trade war could keep up with. We could see the impact of the tax reform enacted at the end of last year drive corporate profits and off-set higher product and wage costs. What does appear certain, is that volatility is back and we have to decide if that makes us uncomfortable as an individual investor.

As always, we encourage you to contact us if this volatility is making you uncomfortable so we can talk to you about the changes we have been making in your portfolios here. Over the course of the past few weeks, we have taken risk off the table in several of the models we use and you will see this reflected in your accounts.

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Market Metrics

	Mar 29	Feb 28	1 Year Ago
Dow Jones Ind. Avg.	24,103	25,029	20,663
S&P 500	2,641	2,714	2,368
Nasdaq	7,063	7,273	5,914
The Russell 2000	1,529	1,512	1,382
Developed International Markets	69.68	70.27	62.38
MSCI Emerging Markets	483	480	397
Bond Index	107.25	106.77	108.41
10-Year Treasury Rate	2.74%	2.87%	2.42%
Gold ($/oz75)	$1,325	$1,319	$1,251

College Planning Tip of the Month

For most families paying for college, a 529 plan on its own is not enough to cover all of the costs. The number of years to save for college is short. Every dollar is stretched thin for young families, and many parents still have student loans of their own that they are paying on. When faced with the high cost of college, parents may be forced to consider using their retirement savings or home equity to help pay for it. Choosing these options should be done as a last resort. Preserving retirement assets and retiring mortgage free are high priorities. College should not be looked at in a vacuum. As you know, good financial planning is about choices and understanding the trade-offs if a family raids their retirement or home equity. They will either need to work longer, or retire on less. Just be sure they understand the long-term impact on the overall financial plan. Yes, paying for college is a huge bill, but they have many options available to help them. Can they get a loan to pay for college? Yes. Can they get a loan to pay for retirement? Not really. So, making the decision to use retirement funds to pay for college should be done with careful consideration. In general, we always stress a blended approach to paying for college: incorporating smart college choices, cash flow options, tax planning, student loans, work-study, and only tap retirement and home equity to fund a small gap. Understanding the impact on retirement and taking a holistic approach is always the wisest course.

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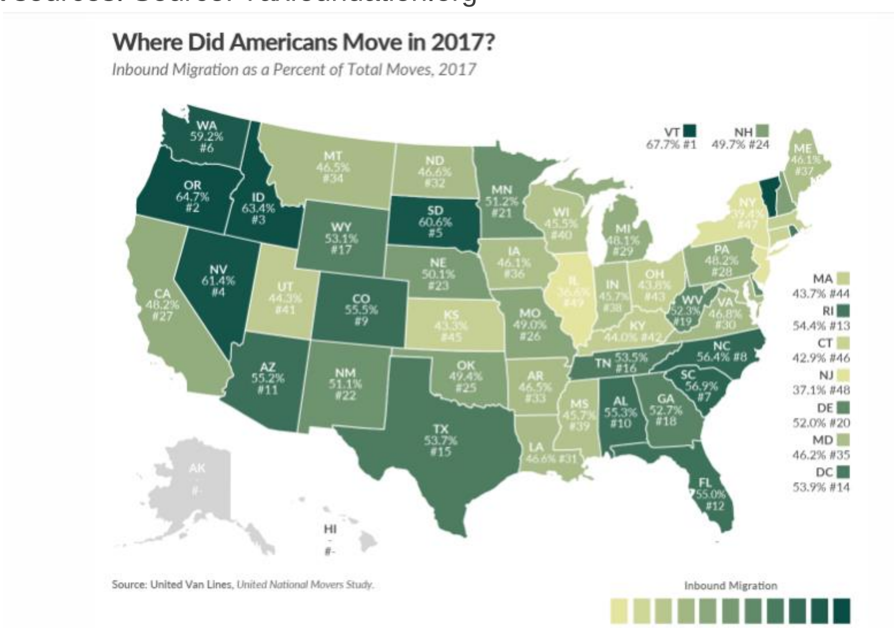
Financial Planning Tip of the Month

Tax credits and tax deductions may be the most satisfying part of preparing your tax return. Both reduce your tax bill, but in very different ways. Tax credits directly reduce the amount of tax you owe, giving you a dollar-for-dollar reduction of your tax liability. A tax credit valued at $1,000, for instance, lowers your tax bill by the corresponding $1,000. Tax deductions, on the other hand, reduce how much of your income is subject to taxes. Deductions lower your taxable income by the percentage of your highest federal income tax bracket. So if you fall into the 25% tax bracket, a $1,000 deduction saves you $250. So which one is better? Tax credits are generally considered to be better than tax deductions because they directly reduce the amount of tax you owe. The effect of a tax deduction on your tax liability depends on your marginal tax bracket. Still, if you're eligible for both a tax credit and a deduction for the same expenses, crunching some numbers can help you determine which one will offer the biggest break at tax time.

Graphic of the Month

States compete with each other in a variety of ways. Competing to attract and retain new residents is just one example. Vermont, Oregon, Idaho, Nevada, and South Dakota had the most inbound migration in 2017, while Illinois, New Jersey, New York, Connecticut, and Kansas had the highest outbound migration. Nebraska and New Hampshire were balanced, having essentially equal inbound and outbound moves. United Van Lines tracks its customers' state-to-state migration and releases the data yearly. By comparing the number of inbound moves to the number of outbound moves, United Van Lines data gives us early insights into annual interstate migration, available much sooner than government data sources. Source: Taxfoundation.org



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Your 401k Allocation

Up …down … no, it’s back up … and that’s all in the course of one day! While most major indices finished down for the month, small cap and emerging markets actually eked out a small positive. Due to the volatility of the past month, we also see “Cash” in an uptrend, so given the aggregate view on the markets right now, we are taking more risk off but only in the MODERATE profile as it was the least affected by the March changes, and didn’t get as much of a risk-off as the other risk models did. We need to see how this recent spike in volatility plays out. Here is the full 401K view, in case you didn’t make any changes last month. As always, please feel free to call us if you have any questions or need assistance if making these updates.

April 2018					
		Agg. Growth	Growth	Moderate	Conservative
Bonds / Cash		25%	40%	58%	75%
	Stable Asset - OR - Short Term Bond	25%	40%	58%	75%
	Total Return	0%	0%	0%	0%
	World Bond	0%	0%	0%	0%
	Inflation Protected Bond	0%	0%	0%	0%
Large Cap:		50%	45%	26%	20%
	Large Cap Growth	38%	32%	15%	16%
	Large Cap Value	12%	13%	11%	4%
Mid Cap:		10%	5%	5%	0%
	Mid Cap Growth	5%	5%	5%	0%
	Mid Cap Value	5%	0%	0%	0%
Small Cap:		5%	0%	0%	0%
	Small Cap Growth	5%	0%	0%	0%
	Small Cap Value	0%	0%	0%	0%
International:		10%	10%	11%	5%
	Developed International	0%	0%	0%	0%
	Emerging Markets	10%	10%	11%	5%