COPPERWYND FINANCIAL

"Inflation is here."

JULY 2018

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Market Commentary

It was early in the spring of 2015 when I had one of those amazing days … not because the skies were clear blue and the air crisp and fresh, but rather because I had just paid less than $1 a gallon for a tank of gas (in the interests of full disclosure, it was with the benefit of a "Fry's fuel points" discount of $1 per gallon)! I filled up the tank on my SUV for less than $20. So it was with some dismay this weekend, in the blistering 100+ degree heat (still no clouds) that I refilled my car and it cost almost $50 for the tank. And I was still using fuel points.

Technically, this isn't inflation, it's simply higher oil costs. But the financial impact is the same; stuff got more expensive. And it's not just the gas that goes in your car that is affected as petroleum is a widely used material in almost anything plastic, many cosmetics, and so on. Rising fuel costs affect everyone and serve as an additional tax on those purchases. The chief driving force behind the 31% increase in fuel prices since last year was the US bailing on the Iran nuclear treaty. And that's not the only policy decision coming out of Washington that could add "taxes" to what you and I buy every day.

The threat of trade tariffs is a daily headline. Only this time the threats are not just headlines, some have already been made a reality. The following is far short of a comprehensive list, but we thought it would give some insight into where you and I will see rising costs:

From	Target	Subject	Rate	Imposed or Threatened?
U.S.	China, South Korea & Mexico	Washing Machines	20%-50%	Imposed
U.S.	Most countries, China mostly	Solar panels	30%	Imposed
U.S.	Canada	Newsprint	22%	Imposed
U.S.	Primarily EU, Canada, Mexico	Steel	25%	Imposed
U.S.	Primarily EU, Canada, Mexico	Aluminum	10%	Imposed
EU	U.S.	Bourbon, orange juice jeans, other consumer products	25%	Imposed
Mexico	U.S.	$3 Billion of U.S. goods including steel and pork	20%-25%	Imposed
Canada	U.S.	$12.8 Billion of US goods, including maple syrup and whiskey	10-25%	Imposed

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India	**U.S.**	**$241 Million of apples stainless steel and other consumer prods**	**7.5%-60%**	**Eff Aug 4**
U.S.	**China**	**$50 Billion of US goods**	**25%**	**To take effect July 6 on $34 Billion worth; $16 Billion pending review**
China	**U.S.**	**$34 Billion of U.S. goods**	**25%**	**Effective July 6**
U.S.	**China**	**Additional $200 Billion of U.S. goods**	**10%**	**Threatened**
U.S.	**EU**	**Automobiles**	**20%**	**Threatened**
Inflation Protected Bond	**0%**	**0%**	**0%**	**0%**

Inflation is here.

The result may or may not have a negative impact on stocks. Thanks to an ever-tighter job market, we would expect wages to rise which gives consumers more purchasing power. If spending can keep pace with the rising prices, plus the benefits of the tax cuts that we saw at the end of 2017, we could still see markets creep higher. The next earnings season will give us some hints about which side is winning.

In the meantime, the trade tariff concerns have been helpful for small company stocks as they should see the least impact of a trade war. Indeed, we have both Rotation models with heavy weightings to small company stocks, in addition to the technology sector. The technology sector has been this year's big winner thus far, outpacing all other market segments with 10% gains, greatly benefiting both of our Momentum portfolios. On the other end of the spectrum, emerging market stocks have gotten pummeled down more than 7% this year, as they are very sensitive to a strong US dollar. Nestled in the middle is the S&P with a slight gain of 2.5% through the end of June.

The other loser this year has been bonds. Most bonds do not like a rising rate environment, which we clearly have this year. It is why in your 401K plans, we have recommended the short-term bond or money market funds for your low risk allocation, and why in your portfolios here we have floating rate investments that should provide steady prices while we collect our dividends every month. These types of investments have allowed us to stay flat to positive when the bond index is down almost 2% for the year.

We are fully invested in all your portfolios here on both the stock and bond sides of the equation. As we meet with you over the course of this year, we will be checking in on your comfort levels with the volatility you have seen to make sure we continue to gauge your risk tolerance and make adjustments where warranted.

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We hope you are finding time to enjoy your summer days with friends and family and wish everyone a safe 4th of July holiday!

Portfolio Spotlight: Tax Efficient Momentum Stock Strategy.

This month we are introducing our newest stock portfolio, the Tax Efficient Momentum Stock Strategy. We designed this portfolio to fulfill the best characteristics of the Value Stock and the Momentum Stock portfolios we already use. The Value Stock is known for being very tax efficient with good diversification, while the Momentum strategy is more known for its ability to generate alpha in positive markets. In combining these qualities, the new portfolio still uses a momentum-driven, rules-based selection criteria in order to try to achieve market outperformance but with a more tax friendly trading style. The portfolio consists of just 10 stocks, so more diversification than our 5 stock Momentum Strategy with a shock absorber feature that will reduce risks if the market goes into a bear market. We will be introducing this model at your next meeting with us and more information is included at the end of this month's newsletter. For details about performance on this or any of our portfolios, email us for a guest pass to our online portfolio monitor and we're happy to give you that access.

Financial Planning Tip of the Month

These days you're probably thinking about the beach, the mountains, or a road trip with the family. But summer, when life may be a little slower and your mind a little less cluttered, is actually a good time to do a quick midyear financial reality check. A midyear checkup can accomplish several things. You can stop and think about your financial goals, such as saving for retirement, a house, a child's education, or a financial cushion, and then make sure that you are investing appropriately for those goals. And while you are looking at your accounts, take care of "housekeeping" items too, like checking beneficiaries, which isn't complicated but can have serious consequences if neglected. While this might sound like a lot of ground to cover, a midyear checkup is well worth the effort when you consider the hard work you have invested in building and protecting your savings. As you review these items, always keep us in mind to review your accounts and let us know of any questions or concerns!

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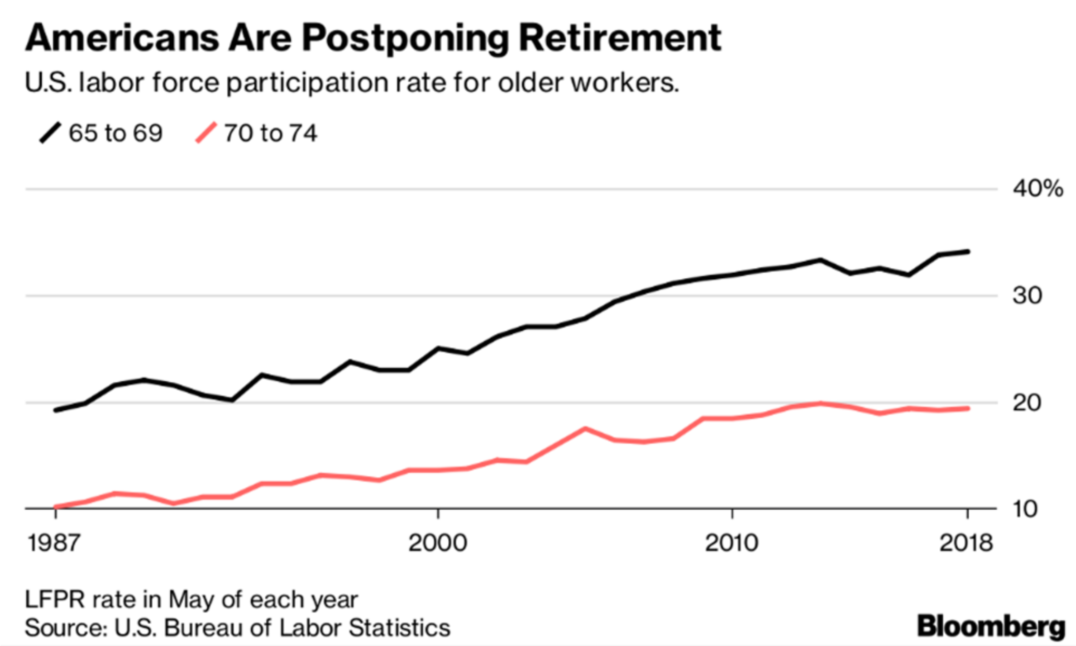
College Planning Tip of the Month

Students typically have to work their tails off to earn money for college. They write proposals, perform interviews and suffer rejection in their quest to land a choice scholarship. But once they've secured it, they may be surprised to learn that their work is not even close to being over. In fact, the same vigilance that got them that scholarship in the first place is critical if they're going to use the money properly. Here are four tips for helping students get the most out of a scholarship.

1. Read the fine print. Know everything there is to know about the scholarship. Including the timeframe, minimum grade point average to maintain or a specific path of study to follow in order to be eligible.
2. Make sure it doesn't impact financial aid. Something that doesn't occur to every scholarship awardee right away is how an outside scholarship (rather than an in-institution one) can alter their other financial aid packages.
3. Create a plan. Making a budget is absolutely the most important step when accepting scholarship money. It's helpful to focus on essentials when allocating scholarship funds like tuition, room and board, and books
4. Students must account for themselves. Master personal finance and learn how to create bank accounts, and open one for "excess" scholarship money, compartmentalize funds and don’t use them for non-essential purposes. It's essential that students avoid going into debt (or further debt).

The best advice: Stay on target, stay on budget and stay above water!

Graphic of the Month



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Across a generational time-frame, people are still living much longer than their parents. By today's standards, a man who is "chronologically" 65 is actually more like a 55-year-old from the perspective of 1957. With the extra years, a longer career doesn't necessarily mean a shorter retirement. Retirement-age Americans are already working in record numbers. Whether by choice or necessity, because of boredom or fear, a full third of those between 65 and 69 were in the workforce in May, according to the Bureau of Labor Statistics, along with 19 percent of those aged 70 to 74—together almost double the number 30 years ago.

Your 401k Allocation

This month finds us risk back on for all equities, although you will notice the allocation is a little lopsided! The strength of technology continues and small company stocks appear to be the big winners in the trade-war conversation. Throw in continued strength in oil prices, which tends to support the midcap sector, and you see we have as heavy a weighting to small and midcap as we have had in … more than 8 years? Absent this month, as last, is anything international related due to continued strength in the dollar and plenty of trade tariff worries of their own. As before, any "bond" allocation is in your short-term bonds or money market. About as exciting as watching paint dry – but that's why it's called the "low volatility" part of your allocation. As always, should you need any assistance with interpreting this allocation or navigating your plan's website, don't hesitate to call one of us. And remember to change BOTH the Current allocation as well as the Future allocation for your 401K plan!

July 2018					
		Agg. Growth	Growth	Moderate	Conservative
Bonds / Cash		0%	10%	40%	65%
	Stable Asset - OR - Short Term Bond	0%	10%	40%	65%
	Total Return	0%	0%	0%	0%
	World Bond	0%	0%	0%	0%
	Inflation Protected Bond	0%	0%	0%	0%
Large Cap:		40%	38%	23%	15%
	Large Cap Growth	30%	28%	17%	10%
	Large Cap Value	10%	10%	6%	5%
Mid Cap:		30%	27%	19%	10%
	Mid Cap Growth	20%	20%	14%	5%
	Mid Cap Value	10%	7%	5%	5%
Small Cap:		30%	25%	18%	10%
	Small Cap Growth	20%	20%	12%	5%
	Small Cap Value	10%	5%	6%	5%
International:		0%	0%	0%	0%
	Developed International	0%	0%	0%	0%
	Emerging Markets	0%	0%	0%	0%

Tax-Efficient Momentum

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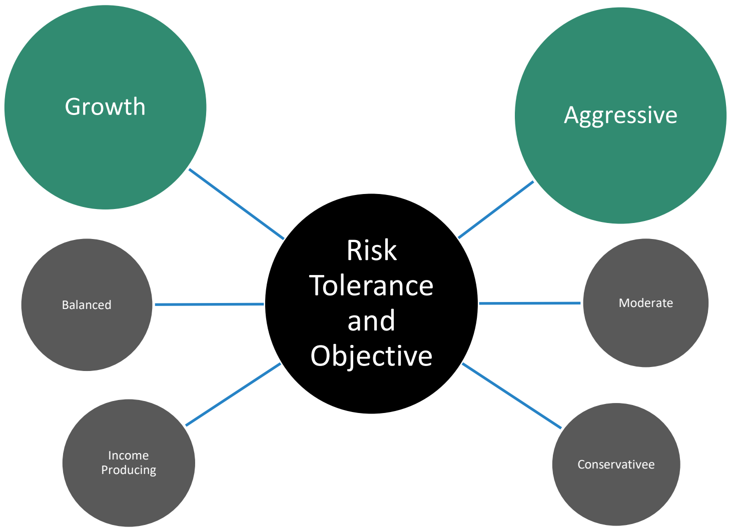
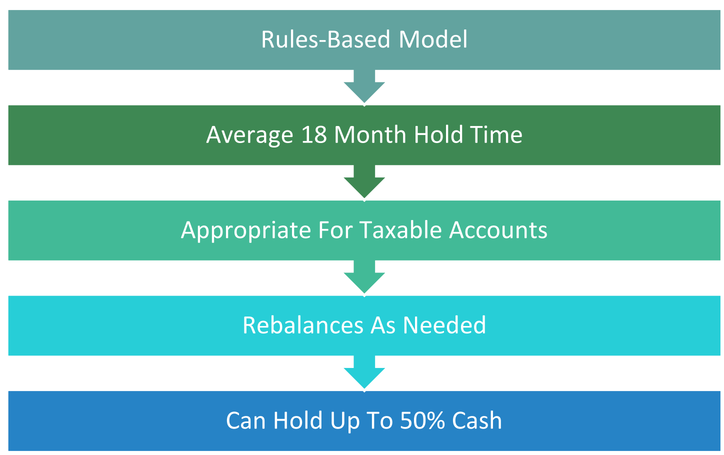
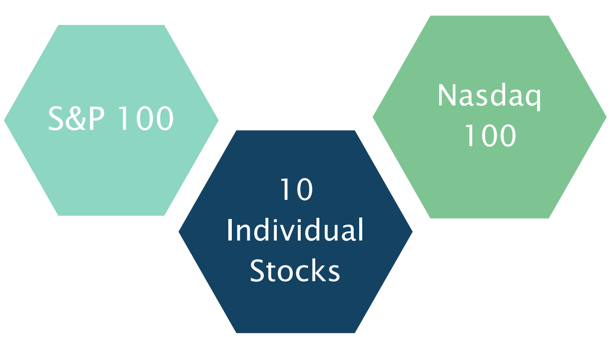


The Tax-Efficient Momentum Strategy uses momentum screens on the S&P 100 and the NASDAQ 100 to select 10 stocks that are performing better than the market. These stocks are monitored on a daily basis but are not sold until their performance deteriorates below a defined level. This model will tend to hold stocks longer than many momentum models, which makes it an option to generate Alpha in taxable accounts.

Key Features

The Tax-Efficient Momentum Strategy seeks stocks whose momentum outperforms the S&P over an 18 month timeframe. Based on historical data, it is expected that 60% of gains from sales should be long-term and taxed at preferential tax rates. It does incorporate a macro risk component so that in bear markets the strategy will move to short term bonds to lower the overall risk.





Investment Universe

The investment universe consists of 200 individual stocks. Utilizing a rules-based model that focuses on momentum and trendiness the stocks are then ranked, with the top 10 being selected for the portfolio. The strategy is rebalanced as needed.

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