COPPERWYND FINANCIAL

AUGUST 2018

CONTACT US:

Copperwynd Financial
14256 N. Northsight Blvd
Suite B-115
Scottsdale, AZ 85260
Office: 480-348-2100
Toll Free: 877-658-2100

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David Daughtrey, CFA, CFP®

Lynda Elley, CTLC, CCFS® CFP®

Erick S. Newton, CFP®

Jake Eggett

"Is the economy heating up?"

Market Commentary

We may be into the dog days of summer right now, but the heat does not appear to have given pause to this economy. In addition to strong corporate earnings results this quarter, Gross Domestic Product (GDP) scored the best growth since the third quarter of 2014, jumping 4.1%. Is the economy heating up?

Maybe not as much as the 4.1% would indicate. Tariffs, as well as last year's massive tax cut, are likely the biggest factors fueling these results. Why would tariffs improve our GDP? With the threat of an additional tax on various exports, we saw exports in products such as soybeans to China jump as farmers rushed to deliver product ahead of those anticipated tariffs. Industry analysts estimate as much as 2.2% of the increase can be attributed to such sales, effectively pulling demand forward. As a result, we should expect to see a reversal of this "growth" in the second half of the year.

Tariff-driven activities aside, growth has still been respectable, with last year's tax cuts continuing to fuel corporate growth and due to strong consumer spending gains. With unemployment rates at historic lows fueling wage increases, we saw personal spending rise 4% during this quarter. On the heels of rising wages and continued inventory shortages, housing prices have also jumped higher.

On the stock side of our portfolios, we continue to be fully invested and enjoying the great gains in the Momentum strategies. As well, our Rotation portfolios have benefited from our addition of small company stocks over the past few months. Interesting to note – small company stocks have been the largest benefactor of the tariff concerns as they should be less impacted than large multi-national companies by these taxes.

Bonds continue to struggle this year, as a result of a strong dollar and rising interest rates. The Federal Reserve met again this month and, while not making any additional increases, hinted that the economy is on sound enough footing that two additional increases in the short-term lending rate could be on the table before year-end. This will continue to pressure any longer maturity bonds and continues to support our position of using floating rate bonds for a majority of our bond portfolio for you this year.

I am sure I say it every year, but here we are … kids are headed back to school, we are looking at fall calendars for events and Christmas will be here before we realize it. Time flies far too fast. We hope you have been able to enjoy some time with friends and family this summer and we look forward to hearing about your adventures in our next meeting!

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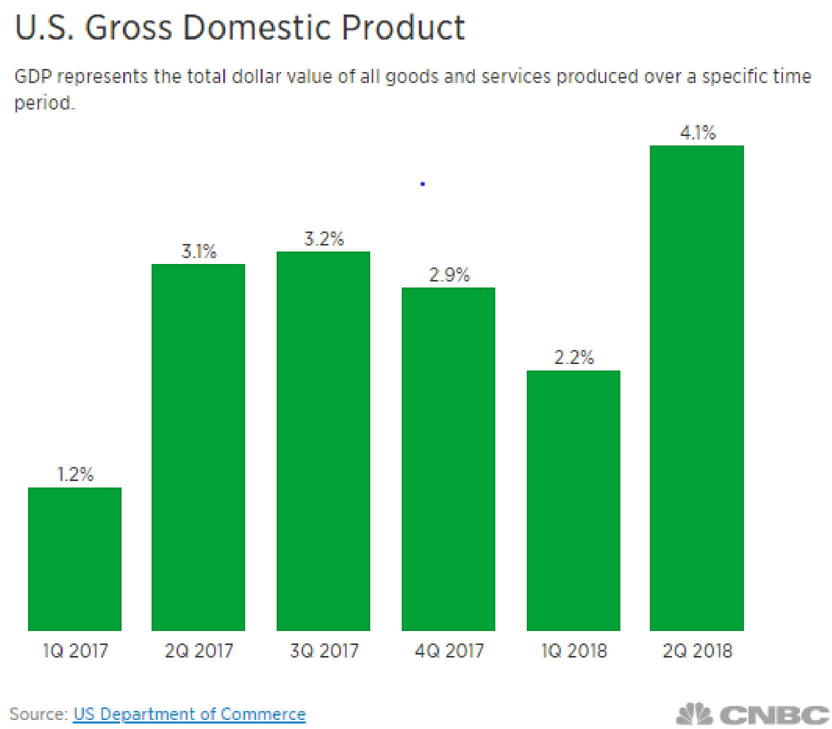

Portfolio Spotlight: Rotation Strategy.

This month we highlight our Rotation Strategies. These models, as with all our others, utilize statistical data to arrive at what segments of the market are trending best. Segments such as US vs international stocks, small company vs large companies, and certain select sectors. There are two different Rotation portfolios, each rebalancing at a different time, either monthly or quarterly. Dependent on the market data measured by these models, they may be fully or partially invested in stocks, or switch completely to cash or short-term bonds in the event of a weak market. They are riskier than bonds, but lower risk than individual stocks or buy-and-hold strategies.

Financial Planning Tip of the Month

Financial independence is a process that begins when the child is young. Rear your children with a sense of independence and self-sufficiency. Have them take a course in personal finance. Involve them in family discussions about money. Empower them to make good decisions. How do you go about that? First, remind them of the importance and perks of having good credit, and show them how to do this–the right way. Most Americans do credit cards the wrong way. The most important way to maintain good credit is to stop paying the minimum every month. Pay your balance back in full at the end of the month.

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If you can't do this, it means you are living above your means, and that is no way to live. You can't get financially independent by living above your means.

Secondly, show them how to live within their means by setting a good example first. Children learn by osmosis. If they see you doing something, they will copy. You need to show them what smart buying is all about. First of all, have a budget and stay within it. Your budget can include calculated indulgences, of course! The point here is: you can't teach good personal finance if you don't at least try to practice it yourself.

And lastly, teach your children about hard work, the value of money and the art of negotiation. The basic concepts of working to earn money, paired with the fact that negotiation is a key element of improving the work environment and improving one's pay, is a key part of a financially and professionally successful life. Money will not be handed to you in life, and the financial rewards you get for your work will be low if you don't advocate for yourself. Putting your children in a position to intimately understand the connection between hard work and reward is a key part in helping them build a work ethic. Encouraging them to negotiate on their own behalf and giving them opportunities to do so is helpful, too.

College Planning Tip of the Month

2017 brought with it a complete overhaul to the country's current tax landscape. Recently, House Republicans released an outline of "tax reform 2.0" which would further change provisions to the Tax Code. This proposal may not pass in its entirety, but it's important to understand how these changes could affect your family's college savings strategy. H are two of some of the new proposals related to family savings. First is the creation of Universal Savings Accounts. The plan proposes establishing an account that offers tax-free savings regardless of how the funds are used. Some families are hesitant to use 529 plans because they aren't sure whether or not their child will go to college. USA accounts could offer a more flexible alternative, but they will likely have contribution limits. Secondly, 529 plans allow families to save in a tax-advantaged account for education costs. Earnings grow tax-free and are not taxed when the funds are used to pay for qualified education expenses. 529 plans were traditionally used to save for college, but the Tax Cuts and Jobs Act of 2017 included a provision to allow up to $10,000 of elementary, middle or high school tuition as a qualified expense. House Republicans had also proposed including homeschooling costs and apprenticeship fees as qualified expenses, but these items were not included in the final tax law. However, tax reform 2.0 reintroduces the idea of making home schooling and apprenticeship expenses qualified, and also proposes allowing tax-free 529 plan withdrawals to pay down student loans. By paying off student loan debt using leftover 529 plan money, young parents can start to focus on saving for emergencies, retirement and their own children's college education.

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Your 401k Allocation

No changes this month! The move a few months ago into small company stocks has paid dividends (for those with a decent small cap choice in their 401K anyway) as small company stocks have been sheltered from some of the tariff volatility. Growth continues to outperform value, as technology continues to lead the markets this year. International, both developed and emerging, continue to struggle due to a stronger dollar, fears of a messy ending for Brexit, and now concerns about Turkey. We are steering clear for the time being. And bonds ... nothing exciting there and we fully expect four interest rate increases this year (two more to come) which will certainly spell more volatility and price pressure for bonds. Steady as she goes!

August 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%

If you haven't rebalanced in awhile, you really need to make sure you're caught up. We are re-printing July's allocation for you here. As always, let us know if we can be of any assistance as you get your portfolio re-set.

Notable and Quotable

Believe it or not, fall is right around the corner! Medicare open enrollment starts in October and we will be hosting our annual Medicare Lunch and Learn in Utah on September 10th and in Arizona on September 11th!! Watch your email inboxes if you are or near Medicare age for more details!

Monthly Rotation Strategy

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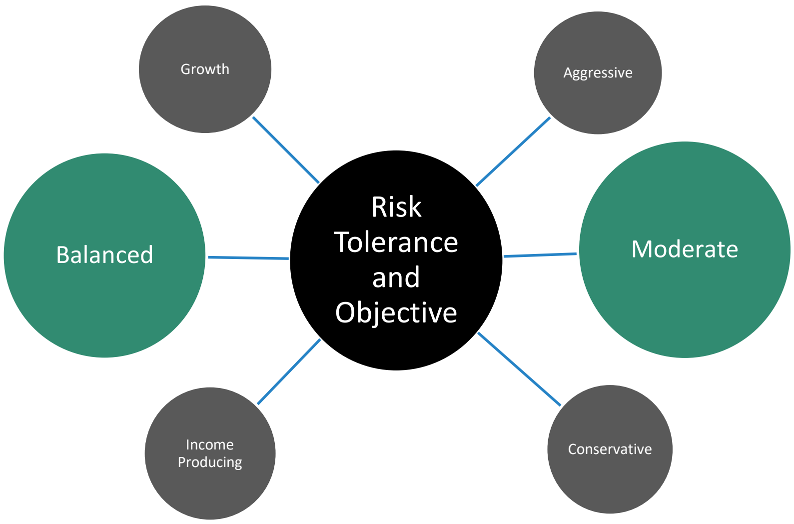
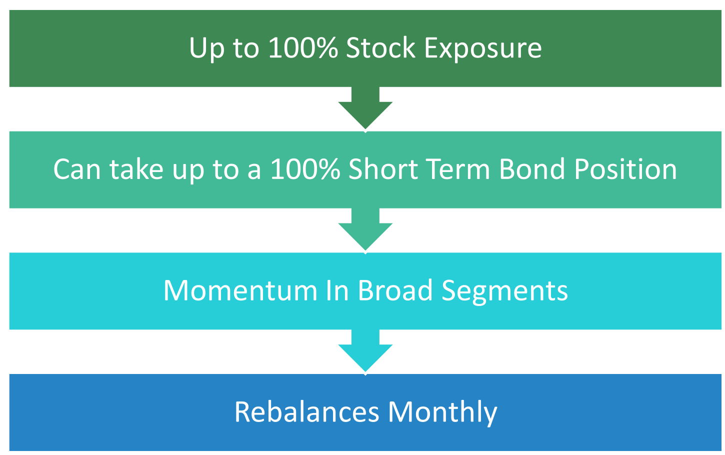
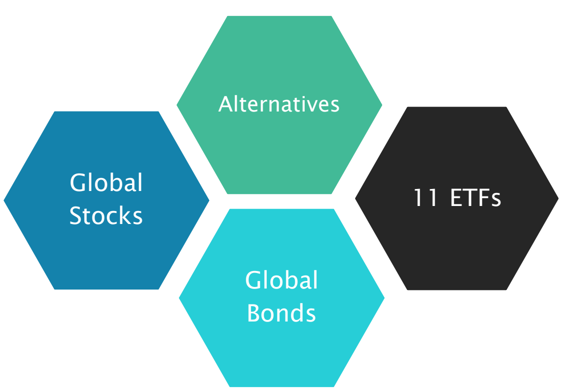


The Monthly Rotation Strategy is relative strength model. It is designed to participate in bull markets and reduce risk during bear markets.

Key Features

The Monthly Rotation Strategy has the ability to take up to a 100% stock exposure positions and can also go up to 100% short term bond position based on market trends. The strategy is rebalanced monthly.





Investment Universe

The Monthly Rotation Strategy starts with a universe of 14 total segments of the market. Utilizing a rules-based, relative strength research process, the strategy selects the top 5 trending segments. It further compares the strength relative to short term bonds to determine if we are in a risk on or risk off environment.

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Quarterly Rotation Strategy

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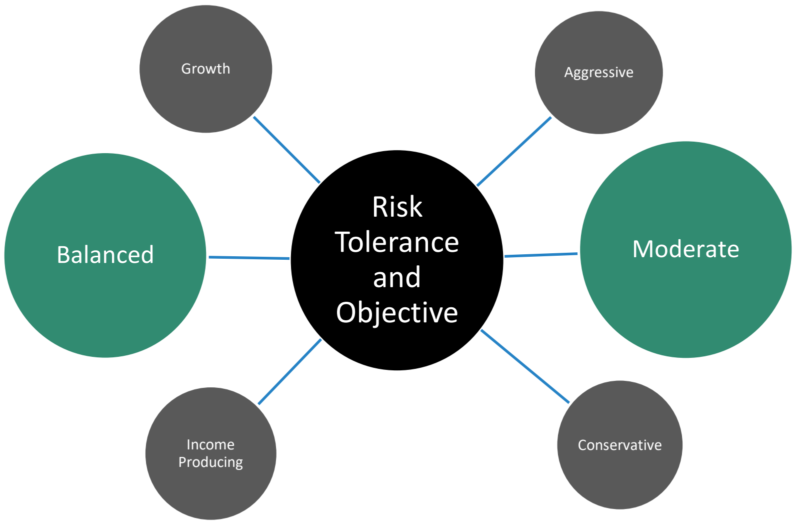
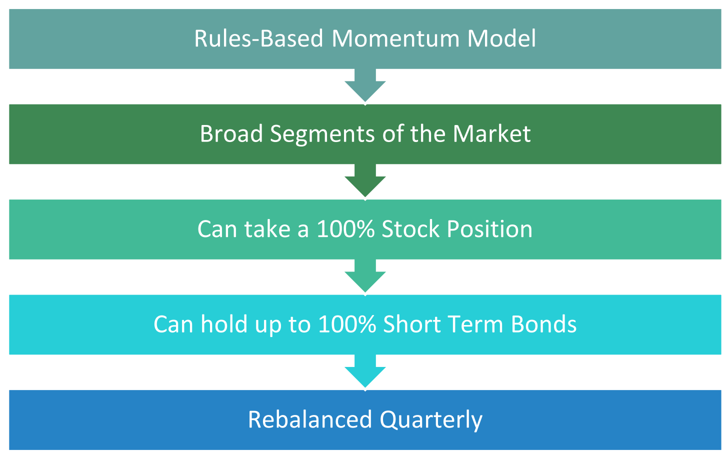
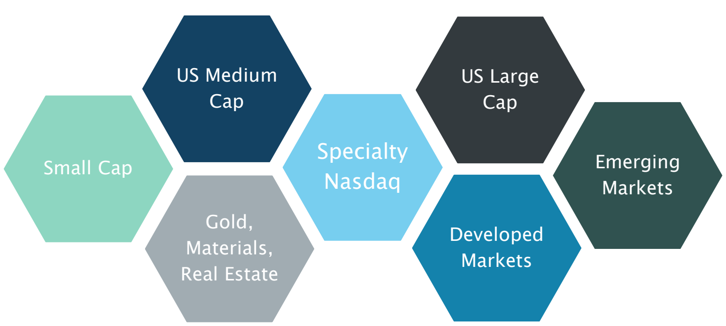


The Quarterly Rotation Strategy is a relative strength model that utilizes a rules-based approach. It is designed to participate in bull markets and reduce risk during bear markets.

Key Features

The Quarterly Rotation Strategy has the ability to take up to a 100% stock exposure position and can also go 100% to low risk positions based on market trends. The strategy is rebalanced quarterly.





Investment Universe

In the Quarterly Rotation Strategy, Equity portion of the portfolio consists of the equal allocations to asset classes that rank above average. The low risk portion of the portfolio is a short term bond ETF.

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