COPPERWYND FINANCIAL

SEPTEMBER 2018

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Market Commentary

They had snow in Montana last week. Last week was still August, so I'll grant you that might have been on the early side. But it certainly did remind us that time has once again sped along and here we are just about to enter the last quarter of the year. Kids are back at school. Leaves are close to changing. Temps in Arizona are dipping below 100 finally (well in the morning, anyway!). And right around the corner….?

Tax season. Not skipping by the holidays necessarily, just thinking that this year more than any year in recent history, doing some year-end tax planning is probably a good idea given the monumental changes enacted at the end of 2017. Maybe not so much tax planning as tax "anticipation" because there were three changes in particular that could have a profound impact on what you expect out of your tax returns next year.

Standard Deductions have doubled. For 2018, the standard deduction for a single person is now $12,000 and exactly double at $24,000 for married filing jointly. What we gave up – since there is no free lunch – was the personal exemption. So if you were married in 2017 with 3 children, your total deductions would have looked like this:

Standard Deduction	$11,700	
+ Personal Exemptions	$20,250	(total number in household x $4,050)
= Total Deduction:	$31,950	

In 2018, that means our family of five loses $7,950 in income deductions. While this may seem to unfairly penalize large families, the expanded Child Tax Credit should make up for some of this. Of course, if you itemize then you do not use the standard deduction. Well, you say – I've always itemized, so that won't affect me, right? Maybe. But there were changes there, too. The three biggest deductions are typically mortgage interest, state and local taxes which include both income and property taxes, and charitable gifting.

Mortgage Interest. Is now capped at whatever interest you paid on up to $750,000 of loans (includes second residences in that total). Any interest paid on loans over $750,000 cannot be included. Just to complicate matters, mortgages prior to 2017 are "grandfathered" into the old rules. And home equity loan interest is no longer deductible at all.

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State Income Tax / Property Tax. The new tax laws limit your deduction for state income tax and property tax, combined, to $10,000. For states like Arizona, we pay fairly reasonable property taxes, but now add the taxes you pay on your income and you could easily find you surpass that $10,000 threshold. Now imagine if you are a dual income household or live in a state like California or along the east coast where property tax alone runs over $10,000? Any taxes in excess of the $10,000 are no longer deductible. Getting over the $24,000 threshold is now not so easy and you may find you cannot do better than the standard deduction! Estimates are that as much as 94% of households will file using just a standard deduction this year.

All is not lost – the tax tables were changed to drop tax rates lower for many of the income brackets, making up some of the losses from exemptions or itemizing (see this month's Graphic for details). And in our Financial Planning Tips section this month, we have a few ideas to help you lower the tax bite for next year.

In the meantime, for corporations the tax cuts have been the wind under their wings as corporate profits have continued to shine and push stock prices higher. The only fly in the ointment has been policy threats on tariffs, as we mentioned in the July newsletter. The saber-rattling continues for now and we just saw trade deficit numbers jump to 9.5%, with 2018 on pace to be the biggest trade deficit in over a decade. We believe this reinforces our position that manufacturers are pulling forward orders for goods and materials in anticipation of higher costs resulting from future tariffs. This likely means a strong GDP number for this quarter once again; but pulling forward demand doesn't magically make a country grow. At some point, this will correct itself and then GDP numbers will not be so rosy.

For now, risk-on has been the word, with small company stocks continuing to set the pace, out-performing even the hot tech sector this month. The dollar continues to suppress returns in the international stocks and commodities, with gold now down over 9% and emerging market stocks losing more than 10% thus far this year. At some point, these things will get so cheap that this trend will reverse and set up a nice potential upside, but trends can sometimes persist longer than we expect! For that, we leave it to our models for direction.

Don't forget we have posted your year-to-date income and capital gains information on the client portal for your tax planning purposes. We welcome your other specific tax questions at our next meeting or phone call - or maybe we will see you at one of our Medicare lunch-and-learns coming up next week

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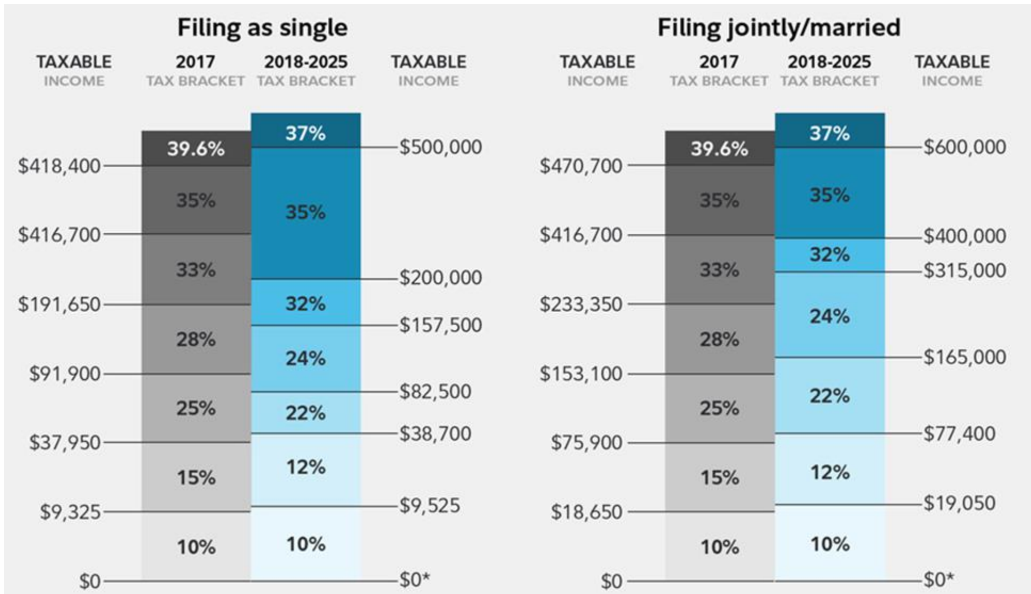
Graphic of the Month

With the tax reform at the end of 2017, there are a number of changes to the 2018 tax law. These include new federal tax brackets for 2018, standard deduction changes, and elimination of the personal exemption. To better compare the 2017 tax brackets to the new 2018 tax brackets, they are shown side by side.



College Planning Tip of the Month

The two major college entrance exams—the SAT® and ACT® tests—can cause stress for college-bound high school students every year. These exams are certainly important, as they can have a significant impact on which colleges or universities accept a student. However, with planning and preparation, there's no need for these tests to be a fear-inducing experience. Neither is an intelligence or IQ test, and their scores do not indicate how smart a student is. The tests are designed to measure knowledge in areas predetermined to predict academic success in college. Colleges use test scores alongside high school grades and a variety of other factors to try to identify students with the highest potential or probability of success. Students should realize the importance of the tests, but not place undue burdens on themselves to achieve because of them. The best ways to prepare for these tests include: Familiarizing yourself with which test is necessary for your college of choice, Practice with purpose, and don't be afraid to test several times. Students who fair the best around college admission time and have the most options are those who work hard, take a solid college preparatory curriculum and perform well, become active in their school and community, prepare for and do well on college admission tests, and pursue outside interests.

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Financial Planning Tip of the Month

QCD stands for “Qualified Charitable Distribution” and is a way to gift directly from your IRA and simultaneously satisfy your Required Minimum Distribution. As such, this is a tax planning tip for those over age 70 ½ only. To qualify as an eligible distribution, the donation must be made directly from the IRA to the qualified charity and it must be the first distribution from your IRA for the year. The effect of doing this is to lower your taxable income, especially helpful if you do not qualify to itemize.

For those of us charitably inclined of all ages, another possibility is the “bunching” of donations. This involves gifting potentially several years’ worth of donations in one calendar year. This can be effective if you’re close to being able to itemize deductions as it could push you up over that threshold, now making your charitable contributions deductible where they might not otherwise be. Sadly, it is estimated that individuals will reduce charitable giving by as much as $13 Billion because their donations will no longer be tax deductible.

These tips are intended to help you with your planning process. Please consult with your CPA or tax preparer to ensure these will work in your specific situation.

Your 401k Allocation

Our third month in a row with no changes to your 401K allocation! Tech (growth) and small cap continue to be our “overweight” market segments, with international and commodities left far, far behind due to the strength of the dollar. Bonds have nowhere to go, so continue to stick with your Stable Value (money market) allocations to minimize risk. As always, please call us if we can help you with getting your account rebalanced and don’t forget to change both the CURRENT allocation as well as the FUTURE allocation where new dollars will flow.

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Sept. 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%

Notable and Quotable

It is not too early to begin RMD planning! Beat the rush and take care of your 2018 RMD before the hustle and bustle of the Holiday Season! Give us a call at the office to complete your distribution today!