



COPPERWYND  
FINANCIAL

DECEMBER 2018

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*“Why are the markets not having a good year when profits are at all-time highs, unemployment is at all-time lows, and GDP is going quite well?”*

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**Market Commentary**

It is hard to imagine that 2018 is coming to an end. It started out with a roaring January that was followed by a crushing February to rebound to an all-time high in September for many indices, and then a ferocious downturn in October and November reset the market to pre-2018 levels. Many of the markets around the world are still down 10-20% this year. And even the safe haven of bonds has caused investors to lose money this year.

All of this occurred in a year when profits of US companies climbed by over 20%, albeit half of that is a direct one-time result of the tax cuts. So the real question is: “Why are the markets not having a good year when profits are at all-time highs, unemployment is at all-time lows, and GDP is going quite well?”

The answer is three things:

- Concern about rising interest rates!
- Fear of the tariff spat morphing into a global trade war!
- Concern that global growth is slowing due to the first two issues!

Interest rates will continue to rise for at least the next year, as the Fed wants to take away the gasoline from the economic fire we have been on the last few years. That will hurt businesses and consumers but it will help savers, who have been disproportionately hurt in this low interest rate environment. The real issue is how fast and how high rates rise. I think it will depend upon the inflation numbers.

The tariff spat that President Trump has initiated this year is of concern to nearly all nations and companies. The world is much more globally integrated than it used to be and nearly every item we use in our lives has parts and/or labor from many countries. Any disruption of that global supply chain could have long term negative consequences to companies and countries. For example, Ford has announced that the steel and aluminum tariffs will cost it \$1 billion dollars in profit this year alone! If this tariff strategy leads to better trade agreements and a quick settlement, then things should settle down and the markets could continue higher. If it leads to global trade war, then all bets are off. We hope cooler heads prevail around the globe.



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We are seeing a little—and I emphasize “a little”—bit of softening in global and US economic numbers. Growth has slowed globally, and we are seeing a slight increase in first-time claims for unemployment and continuing claims for unemployment. It could just be a pause, but investors are concerned about it and that has led to less risk appetite in the market and lower stock prices.

I would say that we are cautious at this point but not pessimistic. Most large declines in the stock markets (20-50%) have usually occurred in conjunction with a recession. But what we currently see is good profits, low unemployment, good GDP growth, and good wage growth. Those are not the normal precursors to a recession and lower stock prices. Corporate profits going up 20% this year with stock prices staying nearly flat means stocks are a better value now than a year ago. They are still a little bit pricey compared to historical norms but not outrageous by any measure. We are pessimistic on fixed rate bonds and therefore have moved most of the bond positions into floating rate bonds that will increase in yield as rates continue to rise.

We are confident that our rules-based models will help us navigate these more volatile times, as they take the emotion out of the investment decision. Once companies start releasing profit forecasts for 2019, we will get a better sense of how the trade and interest rate issues are affecting the real economy.

In the next week or so, we will be sending out updated tax reports showing realized gains, dividends, and interest since the first of the year to assist you in your year-end tax planning. We appreciate the trust you have placed in Copperwynd and look forward to our next review.

**Financial Planning Tip of the Month**

With the end of the year fast approaching, there are a number of financial moves you can consider making!

**Max Out Your Retirement Plans**

- To reduce your earned income, make sure you've maximized your contributions. In 2018, the maximum 401k employee contribution is \$18,500 (\$24,500 if over age 50)
- Self Employed Individual have even more options – With a SEP IRA, you can contribute up to \$55,000 or 25% of your eligible income

**Analyze Roth IRA Conversion Scenarios (Full vs Partial vs None)**

- Consider taking advantage of a lower income year by converting all or some of your IRA to a Roth.
- If you are in the 10-12% Tax Brackets, consider converting just enough before jumping into the next tax bracket. (\$38,700 for individuals, \$77,400 for couples)



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**Complete Your Required Minimum Distributions**

- Don't forget! All TD Ameritrade Required distributions must be processed before December 21st – 50% penalty awaits if not completed by December.
- Consider a Qualified Charitable Distribution (QCD) to keep income below certain thresholds. (Taxability of Social Security, Increased Medicare premiums, etc.)

**Tax Loss Harvesting**

- Capture your losses to offset capital gains, or gains to offset tax loss carryforwards.
- We also advise you to speak to your CPA regarding tax loss strategies and how they will impact your individual tax situation as this tip does not apply to all tax situations.

**Charitable Donations**

- Donate Appreciated Securities – See the Important Dates info at the end of the newsletter for TD Ameritrade Deadlines.
- Charitable Lumping – If you are close to the standard deduction (24,000 for couples), consider lumping two years of charitable contributions together to be able to itemize deductions and maximize tax savings.

**Max Out Your HSA Contributions**

- The annual HSA contribution limit for 2018 is \$6,900 for those that are eligible.

**Contribute To your 529 Plans**

- For Joint filers, a \$3,920 contribution will give you a \$196 state tax credit per beneficiary in the State of Utah. Many other states offer allow for a deduction on your state taxes.

If you have any questions on how any of these tips may benefit you, don't hesitate to reach out to discuss your financial plan!

**Graphic of the Month**

Technology stocks are now officially in "bear market" territory, defined as a drop of 20% or more from the peak price. The start of a major correction or just a typical market cycle? Only time will tell, but some of our models have moved to short-term bonds or rotated into value stocks as this market has devolved over the last two months.



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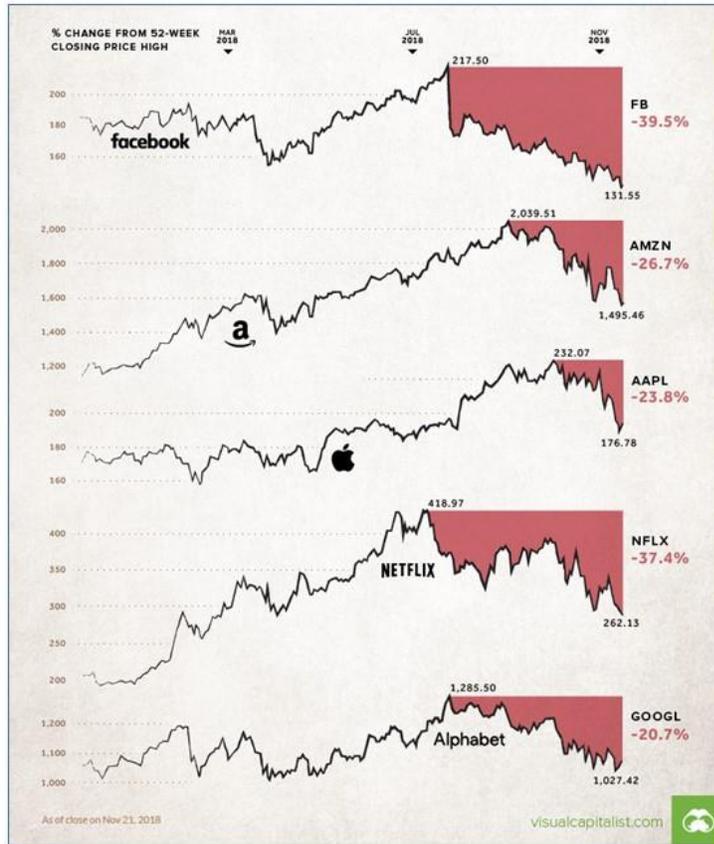
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**Your 401k Allocation**

We have changes this month. November continued October's negative sentiment and a "regime change" appears to be underway, as value stocks are trending better than the high-flying growth stocks which have led these markets for the past two years. In that spirit, we find ourselves shedding a bit more of the risk on the stock side and getting more defensive. As always, it's baby steps, no big bets, so we are balancing out the growth and value positions while lightening the midcap and adding to our "safe" holdings. The Santa Claus rally is being threatened this year by the trade tariff skeptics who do not believe Trump can get a deal done, or even if done, that the outcome will be as positive for the US economy as he would like to believe. On the interest-rate front, even comments by Fed Chairman Powell that we are approaching "interest rate neutrality" – indicating a pause in the rise of the short term rates - are not sustaining a market rally.

As always, please let us know if you need assistance in re-setting your 401K portfolios and be sure to change BOTH the future contribution allocation, as well as the current allocation





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December 2018					
		Agg. Growth	Growth	Moderate	Conservative
Bonds / Cash		20%	35%	55%	75%
	Stable Asset - OR - Short Term Bond	20%	35%	55%	75%
	Total Return	0%	0%	0%	0%
	World Bond	0%	0%	0%	0%
	Inflation Protected Bond	0%	0%	0%	0%
Large Cap:		60%	50%	31%	18%
	Large Cap Growth	35%	30%	15%	8%
	Large Cap Value	25%	20%	16%	10%
Mid Cap:		10%	10%	9%	5%
	Mid Cap Growth	5%	3%	0%	0%
	Mid Cap Value	5%	7%	9%	5%
Small Cap:		10%	5%	5%	2%
	Small Cap Growth	10%	5%	5%	2%
	Small Cap Value	0%	0%	0%	0%
International:		0%	0%	0%	0%
	Developed International	0%	0%	0%	0%
	Emerging Markets	0%	0%	0%	0%

### Important Year End Dates

The following are several approaching year-end activities with potential tax implications for 2018, and when action must be taken in order for TD Ameritrade Institutional to meet the year-end deadline.

### December 21st, 2018 - Deadline for Required Minimum Distributions (RMDs):

- Clients 70½ or older must take an RMD from their IRA and/or their QRP for the 2018 tax year. All RMDs must be withdrawn by December 31, 2018, with the exception of RMDs for clients who turned or will turn 70½ during this calendar year; these clients may defer their first distribution until April 1, 2019.
- We must receive all requests for accounts held at TD Ameritrade by December 21<sup>st</sup>!

### December 21st, 2018 - Deadline for Roth IRA Conversions:

- Clients must submit a Roth Conversion Form in good order by December 21, 2018. Forms received after that date will be processed on a best-efforts basis.



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### **December 18th, 2018 - Charitable Gift Deadlines\***

- December 18, 2018: Gift requests of mutual funds\*\*
- December 21, 2018: Gift requests between accounts custodied at TD Ameritrade
- December 21, 2018: Gift requests of cash delivered via check and/or federal funds wire
- December 21, 2018: Gift requests of equities and fixed-income products to external accounts
- If you are donating to a charity, please notify the charity that these assets are on their way, and also indicate, in the request to us, whether we are permitted to share donor information with the receiver.

### **December 31, 2018 - Deadline for Establishing a 2018 QRP:**

- Qualified Retirement Plans for 2018 must be established by December 31<sup>st</sup> 2018.

### **December 24<sup>th</sup> and 25<sup>th</sup>, 2018 – Copperwynd Office Closed**

### **December 31st and January 1st, 2019 – Copperwynd Office Closed**