

A Rollercoaster of Change

ADAM HOFFMANN, CFP®, AIF®, CHIEF INVESTMENT OFFICER

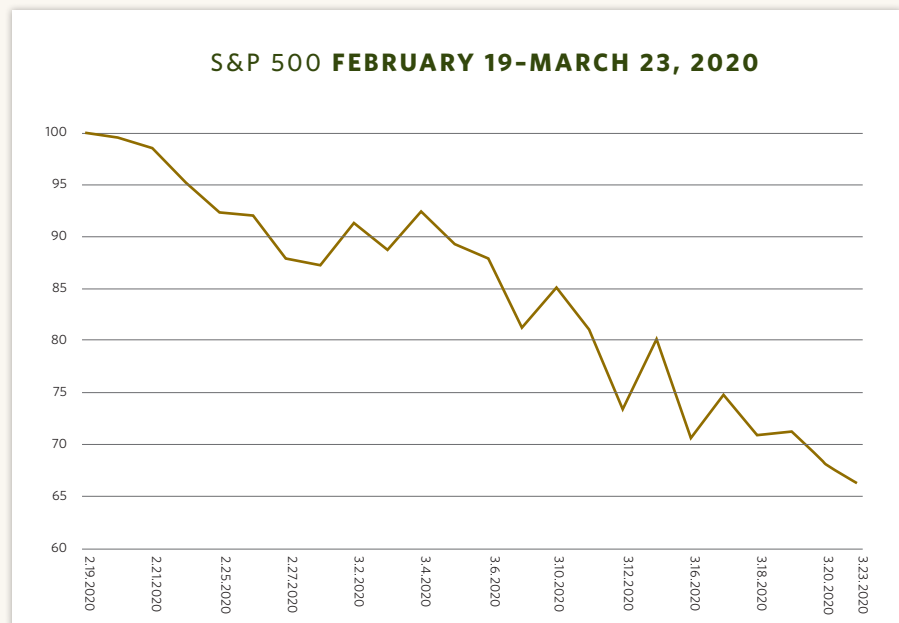
The events of the past quarter hold no superlative or adjective strong enough to capture the disruption that many are experiencing. What would have been hyperbole just days or weeks earlier, was quickly becoming our reality. During the past two months, we've been introduced to many new terms and experiences like social distancing, sheltering-in-place, and virtual hang outs with friends and family. What was once saved for extreme snow days in Minnesota, distance learning, is now just “school” for millions of children (and parents!) around the country and the world.

No matter the extent to which your life has been directly affected by the COVID-19 pandemic, the emotional impact of these trying times is real and profound. Many have experienced a wide spectrum of emotions—from fear, hope, and uncertainty to concern, compassion, loneliness, and love. These emotions are real, and they all contribute to our wellness and state of being.

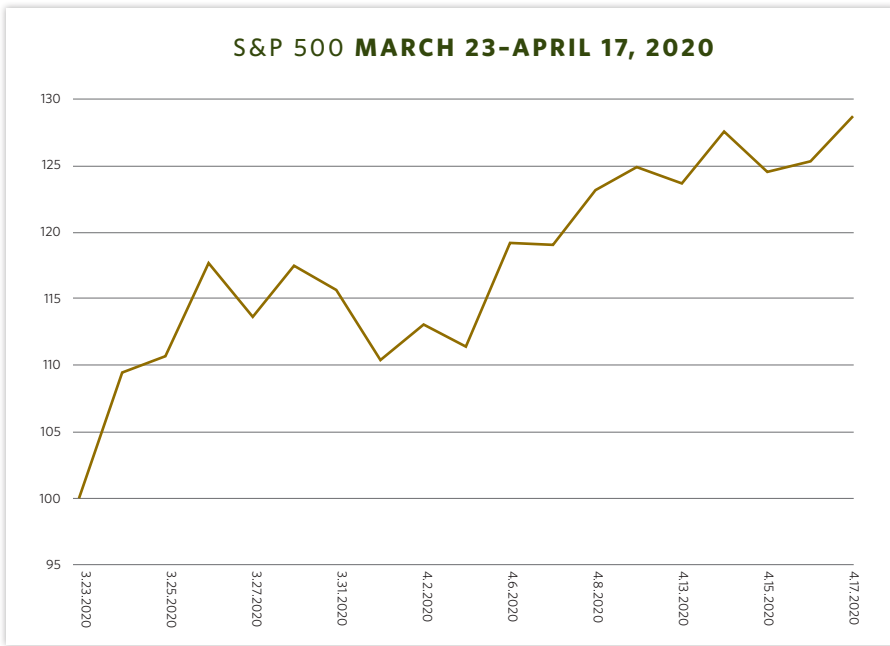
Record-breaking Declines

This time of extremes in our broader world has also certainly been replicated in financial markets and the global economy. In February, the S&P 500 reached its 330th all-time high since the lows of 2009, fueled in part by low unemployment and an economy that seemed to be continuing to move in a positive direction. And yet, in just over one month, the broad stock market fell more

than 30%, with new claims for unemployment benefits shattering past records. The daily news related to COVID-19 left many feeling as if we were in the midst of an economy at a standstill. The chart below illustrates the record-breaking decline experienced in U.S. stocks from their highs to the recent lows of March 23.



Data represents past performance. Past performance is no guarantee of future results. Chart is for illustrative purposes only. Returns are based on data from the S&P 500 TR, for the time period of February 19, 2020–March 23, 2020. Source: Yahoo! Finance



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Capturing the Highs

In stark contrast, the chart above shows the returns of the same index since that low. As of April 17, the S&P 500 had increased in value by more than 28% over the previous 18 trading days, the largest increase over such a time period in more than 85 years.

While in the midst of a crisis like this, it's hard for investors not to feel scared. As a matter of fact, from an evolutionary perspective, some level of fear in times like this is healthy and important to our collective survival. Rational fear can be a positive motivator to take the precautions necessary today, like washing hands, social distancing, and wearing a mask in social settings. Unfortunately, when fear becomes overwhelming it can shift into the realm of irrational fear or panic. The most important and effective way I know to avoid panic is through preparedness.

Preparing for Risk

“No astronaut launches into space with their fingers crossed, that's not how we deal with risk.”

This quote from Canadian astronaut Chris Hadfield has lodged in my head over the past few months as it resonates with my thoughts about how we structure portfolios, opportunistically rebalance, and work as a team with each of our individual clients. Whether in a time of calm or time of crisis, we're not crossing our fingers and hoping for the best. We're constantly planning for risk by working to improve outcomes today, while preparing for what's on the horizon.

We know that risk of loss in stocks is always present—it's one of the reasons that returns are higher with stocks than with bonds. The preparedness for your portfolio for these losses comes from knowing that the most important protection from loss is having the right types of bonds in a portfolio to act as a “shock absorber” and protect against a downturn.

The Big Picture

Although the daily flow and subsequent whipsaw caused by new information, shutdowns, and changes to our daily lives has seemingly slowed, we're still in a time of many unknowns. Change is not over, and neither, likely, is the volatility that comes with uncertainty. The two charts shown earlier are just snapshots of time—one bad, one good. To prepare for the future, we need to step back and see the big picture, as noted in the chart below. When we do, we see the incredible

benefits that have come to those who have been invested in the market over the last 93 years, weathering the 10,692 down days and benefitting from the 12,179 days of growth that have led to the incredible long-term growth of wealth. With this knowledge, perhaps the historic events of 2020 will be shaped into future stories of adaptation, success, challenge, and change.

If you have any questions that you've not yet asked, or as new questions arise, please reach out and connect. We're here for you and positioned to support you through these continually shifting times.



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Tax News of Note

KEVIN KOSKI, CPA, PRINCIPAL TAX ADVISOR



There's no question that the 2020 tax season has been unlike any other with deadlines shifting, new policies being introduced, and emergency funding all unfolding over just a matter of weeks. We will continue to provide updates as frequently as necessary to keep you informed of the ever-changing landscape. Below are some of the most important pieces we're tracking:

Tax Filing Dates

The IRS has delayed the filing of 2019 federal tax returns and payments with an original due date of April 1 or later until July 15, 2020. The due date for 2020 first and second quarter estimated federal tax payments has also been delayed until July 15, 2020.

Economic Impact Payments

As of April 13, the IRS started the several-week process of sending out stimulus payments, while launching an online application where you can check on the status of your payment: <https://www.irs.gov/coronavirus/get-my-payment>. On this site, you can update bank account and mailing address information to speed up the process of receiving your payment.

Those not required to file a tax return in 2018 or 2019 can also access the online application to establish eligibility for a payment. Non-filer recipients of Social Security or Railroad Retirement Benefits do not need to use the tool to establish eligibility, but they can use the tool to check on the status of their payment.

College Refunds and 529 Plan Distributions

If you have received a refund of college tuition, housing, meal plans, or any other qualified educational expense which was originally paid out of a 529 plan account,

NOTE:

Please be sure to access the official site at [irs.gov](https://www.irs.gov) to avoid being a victim of fraud.

you can re-contribute the funds back into the 529 plan by the latter of July 15, 2020, or 60 days following receipt of the refund. If you do not re-contribute the refunded amount, income taxes and penalties will be due on the earnings portion of the distribution.

Waiver of 2020 Required Minimum Distributions and Roth IRA Conversion Opportunities

Required retirement account distributions have been waived for 2020. The deadline to complete 60-day rollovers for distributions received after February 1, 2020, is extended to July 15, 2020.

The waiver of required distributions will create an opportunity for many to consider a Roth IRA conversion to optimize the use of tax brackets, while also taking advantage of current investment market conditions. A Roth IRA conversion will be taxed as ordinary income in the year of conversion, but all future earnings and growth on the converted amount will be tax free.

Payroll Protection Program Loan Updates

The Payroll Protection Program Loan (PPPL), offering forgivable loans to small businesses and the self-employed, has been immensely popular and ran out of funding on April 16, 2020. A bi-partisan group of Congressional and Administration leaders is working to finalize an agreement to add new funding. If it passes, it is important to act quickly as the loans are oftentimes offered on a first-come, first-served basis.

If you have any questions about any of the updates provided above or any program that is announced in the future, please reach out to us to schedule a conversation.

To read recent tax-related posts, visit carlsoncap.com/tax-planning.

Lessons From a Previous Life

MATT MOREHEAD, J.D., CEBS, SENIOR INTEGRATED WEALTH ADVISOR



For nearly 20 years, I've had the privilege of working with clients to create financial plans that are designed to help them achieve their life goals. In this time, I have found that experience is the greatest teacher. I have learned so much by going through multiple market cycles and working with a wide variety of individuals and families, each with their unique set of circumstances. Periods marked by significant market volatility and economic uncertainty, most especially the Global Financial Crisis, provided me with experience and tools to help guide clients through challenging times in the markets. Similarly, almost 20 years of walking alongside many families through life's events has given me the ability to learn from each of those experiences and apply those learnings to assist other clients.

As I reflect on how experience anchors me in advising the clients I work with, I think about another chapter in my life that provided me with invaluable insight and wisdom. It also relates to how our team at CCM is providing counsel to clients through challenging times, such as what we're all experiencing now. I am a graduate of the U.S. Coast Guard Academy and was an officer in the U.S. Coast Guard prior to becoming a financial advisor. While on my first shipboard assignment after graduation, there were many times where I was assigned to be the Officer of the Deck (OOD). In essence, I was steering the ship and had full responsibility for keeping the ship and our crew safe, while carrying out our assigned mission. Frequently, I was commanding the ship at night in the total darkness and fog of Lake Superior.

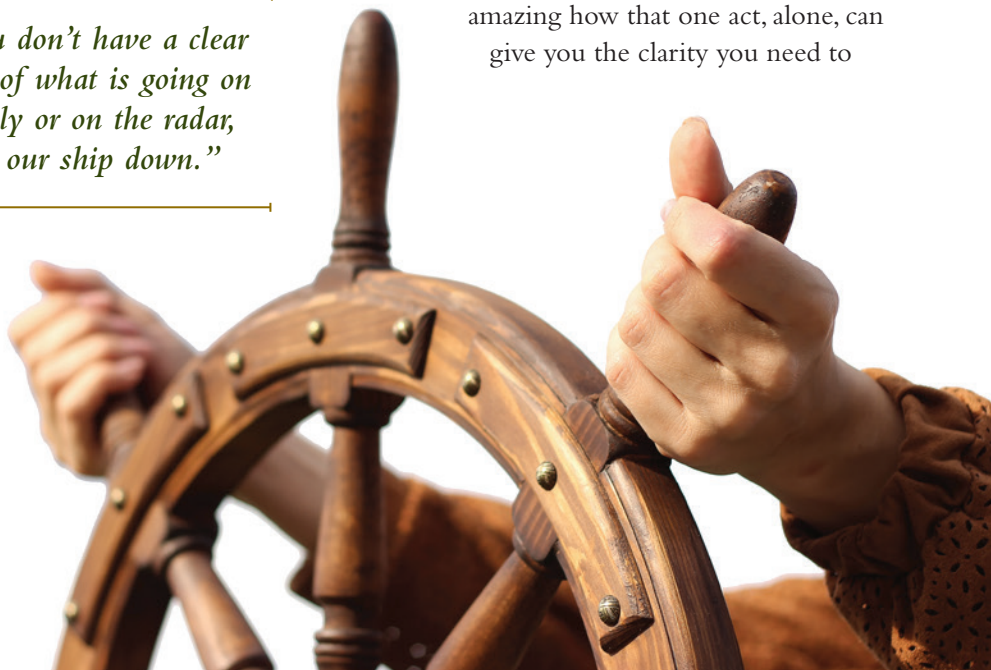
When other vessels were far away on the horizon, running at full speed, it was difficult to ascertain their direction by just looking at their running lights. Fortunately, we had radars and other sophisticated equipment on board to help identify what was in front of us. Even then, it was very easy to "lose the big picture" of what was going on. Especially when there were multiple vessels on the radar

screen going different directions and speeds amongst the chaos of all the other decisions I was needing to make in furtherance of our mission. Losing the big picture in this type of role was very easy to do and meant lives could be lost.

Unforgettable Advice

During my training, I received an important piece of advice from one of my senior commanding officers. He said, "When you are up here on the bridge, you have all of our lives in your hands with your decision making. If you don't have a clear picture of what is going on visually or on the radar, *slow our ship down*. It is amazing how that one act, alone, can give you the clarity you need to

"If you don't have a clear picture of what is going on visually or on the radar, slow our ship down."



CCM'S WEALTH EQUATION®

make the right decisions and keep everyone safe.”

It was during this training that my senior commanding officer was reminding me that there are some things that we can control during times of uncertainty, and it is those things on which we should focus. At CCM, we constantly focus on areas we can control with our clients, such as asset allocation, diversification, proactive financial planning, tax efficiency, and discipline, to name a few.

Things We Can Control

Given these unprecedented times, some of the ways you can “slow the ship down” while we get better optics into the future, include the following:

Evaluate Spending. Consider reducing the draw on your portfolio—that is, spending. It is always prudent to review spending to make sure it is consistent with your values, priorities, sense of stewardship, and goals. Additionally, keep in mind that any dollar not spent can participate in future growth.

Spending is the “a” variable in the Wealth Equation.® As we manage your bucket of wealth, we are cognizant of the fact that having enough money for your short-term needs as well as long-term goals and throughout the span of your life, is a very important, if not the most important, objective. If you manage your expenses with a budget, you have ready access to a tool to help determine which levers you can pull to adjust spending. If you don’t use a budget, a spending rate of 3-4% of your portfolio continues to be a reliable benchmark.

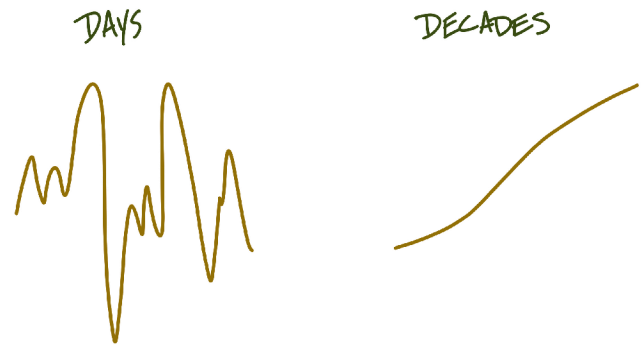
Stay Disciplined. In addition to evaluating spending, recognize that staying disciplined is in your control. That is, staying committed to your financial plan and your asset allocations. While we may be managing this with you, your commitment to this is what matters the most. As we shared earlier, CCM clients collectively have stayed very, very disciplined through the present market volatility. This is highly commendable as it is not easy to do, but it is a key to long-term success.

$$\text{TOTAL FINANCIAL WEALTH} = a + (b_1 + b_2) + (c_1 + c_2) - (t_1 + t_2)$$

| | SPENDING | FAMILY HEIRS PEOPLE | GENEROSITY CHARITY | TAXES |
|--------|----------|---------------------|--------------------|----------------|
| LIVING | a | b ₁ | c ₁ | t ₁ |
| LEGACY | | b ₂ | c ₂ | t ₂ |

CCM's Wealth Equation® is a proprietary financial planning tool used to illustrate the core variables of one's assets to enhance and bring clarity to important conversations and decisions about wealth.

Focus on Time, Not Timing. While trying to time the markets becomes very tempting in times like this, when we slow the ship down, we’re reminded that for long-term investing success we need to focus on time, not timing. This applies to other things in life right now as well, including making major decisions. It’s okay to put things on pause as this pandemic unfolds, ultimately passes, and creates an altered landscape. Use the time to reflect versus act. Think about the longer arc of time versus the short.



YOU DECIDE WHICH TO FOCUS ON...

BEHAVIOR | GAP

All of us at CCM are here to help you navigate through both the calm and the choppy waters. We’ll always apply our experience to your situation to the best of our abilities.

CONTINUING TO SERVE YOU

Carlson Capital Management is built on three core principles of care: care for our clients; care for our colleagues; and care for our community. The care that we hold for all three has driven our efforts as we have transitioned to a remote service structure. Our full intention is that your experience will continue to fully exemplify this care.

In coordination with Minnesota Governor Walz' stay-at-home order, all Carlson Capital Management offices are closed. During this time, we are continuing to serve you remotely via phone, email, and video conferencing conversations. If you need to share paper documents with a member of our team, please call one of our main office lines and we are happy to make arrangements to meet you. Thank you!

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AT A GLANCE

FIRST QUARTER RETURNS



| | Q1 2020 | 1-YEAR RETURNS | 5-YEAR RETURNS | ANNUALIZED 10-YEAR RETURNS |
|----------------------------|---------|----------------|----------------|----------------------------|
| S&P 500 Index | - 19.60 | - 6.98 | + 6.73 | + 10.53 |
| US Large Value | - 26.73 | - 17.17 | + 1.90 | + 7.67 |
| US Small Cap | - 30.61 | - 23.99 | - 0.25 | + 6.90 |
| US Small Value | - 35.66 | - 29.64 | - 2.42 | + 4.79 |
| International Large Cap | - 22.83 | - 14.38 | - 0.62 | + 2.72 |
| International Large Value | - 28.20 | - 22.76 | - 3.83 | + 0.62 |
| International Small Cap | - 27.52 | - 18.15 | + 0.97 | + 4.81 |
| International Small Value | - 30.61 | - 22.11 | - 0.86 | + 3.64 |
| Emerging Markets | - 23.60 | - 17.69 | - 0.37 | + 0.68 |
| US Short-Term Bonds | + 3.81 | + 6.91 | + 2.25 | + 2.02 |
| US Intermediate-Term Bonds | + 3.15 | + 8.93 | + 3.36 | + 3.88 |

Key Takeaways:

- Strong stock market losses were realized around the world in the first quarter.
- Large companies with strong balance sheets performed best relative to peers.
- Leading sectors in the first quarter were Health Care, Consumer Staples, and Technology.
- Lagging sectors in the first quarter were Energy, Financials, and Industrials.
- High-quality bonds followed an excellent 2019 with strong Q1 2020 returns.

Data represents past performance. Past performance is no guarantee of future results. Chart is for illustrative purposes only. Returns are based on data from the S&P 500, Russell Investments for U.S. indices, MSCI for international, and Barclays for bonds for the time period of January 1, 2020 through March 31, 2020.

Indexes used for the table are as follows: S&P 500 TR USD; Russell 1000 Value TR USD; Russell 2000 TR USD; Russell 2000 Value TR USD; MSCI EAFE NR USD; MSCI Value NR USD; MSCI EAFE Small Cap NR USD; MSCI Small Value NR USD; MSCI EM NR USD; Barclays U.S. Govt/Credit 1-5 Yr TR USD; Barclays U.S. Agg Bond TR USD.

WELCOME, NEW COLLEAGUES!

We are thrilled to welcome three new colleagues. Jackie Rother joins our Tax Team as a seasonal employee in Hastings, and Nick Krakosky, CFP®, and Connor Misch join our Rochester advisory team.



Jackie Rother
Tax Support Specialist

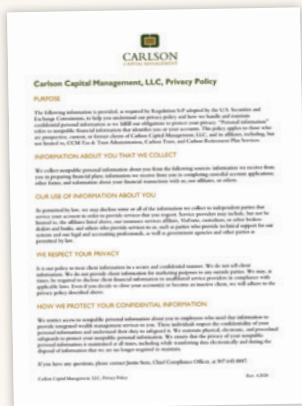


Nick Krakosky, CFP®
*Associate Integrated
Wealth Advisor*



Connor Misch
Paraplanner

Full biographies are featured at carlsoncap.com/team.



ANNUAL PRIVACY POLICY AND FORM ADV

Each year, CCM is pleased to provide clients with our Privacy Policy and Form ADV Part 2A Brochure, the latter of which all investment advisors are required to file annually with the U.S. Securities Exchange Commission. We supply these documents to keep you informed and support our pledge to serve as your fiduciary partner. You'll note that there were no material changes made to CCM's Privacy Policy or ADV

this year. While we spotlight these pieces annually, they are always available by phone request, online at carlsoncap.com/ADV and in your Client Portal.

CCM & ViaForte Colleagues Pack Meals at Feed My Starving Children

At a time when remote work has us distributed in many places, it's especially powerful to reflect on our experience in late January, packing meals together at Feed My Starving Children in Eagan, Minnesota.



CCM and ViaForte colleagues collaborated to pack nearly 62,000 meals for children across the globe.

Welcome to the CCM Family, Hudson!

On February 21, CCM's Senior Investment Strategist James Yaworski, CFA, and his wife Brittney welcomed a sweet little boy into the world. Hudson joins his big sister, Harper.



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