

Lessons (Re)Learned

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

Reflecting on a year gone by is often, at least to some extent, an exercise in revisionist history. This isn't necessarily a bad thing; many of the differences between our memories and experiences are minor and inconsequential. In some cases, the variations in these realities can help us persevere and move out of the past and into future endeavors. But as investors, revising the memories of the past can be problematic and potentially hinder future success.

Behavioral finance is the study of how psychology influences our actions as investors. Within it, there is a specific phenomenon known as the hindsight bias, which describes the propensity of investors to look back and "see the obvious" only after it has occurred. In a year like 2020, with every unprecedented and unpredictable event that unfolded in our collective experience, it's important not to forget the lessons from the events as they actually were and not as we may want them to have been.

Here are five lessons that we learned, once again, in 2020.

1 MARKETS ARE FORWARD-LOOKING AND TEND TO CHANGE QUICKLY

The U.S. stock market started 2020 with strong performance. The S&P 500 rose by 5% through mid-February, peaking on February 19. Throughout the beginning of the year, investors started pricing in the growing risk of COVID-19 by selling stocks with exposure to China, but by late February it became clear that no country would be immune to the evolving pandemic. In just a few weeks, from February 20 through

March 23, the S&P 500 fell 33.8%. Performance was even worse for the companies that would be most affected, such as airlines, cruise lines, and hospitality-oriented businesses. Small companies (-40.7%) and real estate (-42.2%) were also hit hard.¹

Applying lessons learned from the 2008 global financial crisis, the Federal Reserve stepped in quickly, with the objective of preventing the economic and health care crisis from becoming a financial liquidity crisis. The strength and breadth of the Federal Reserve's response, along with subsequent fiscal

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stimulus programs and continued progress on vaccine development, allowed for a strong recovery. From the market close on March 23 through December 31, the S&P 500 rallied an incredible 70.2%, while small U.S. companies rallied 99.1%, leaving investors who were sitting on the sidelines regretting their decision.¹

2 THE STOCK MARKET IS NOT THE ECONOMY

An additional lesson from the wild swings of the first part of the year is that in the short-term, the stock market is not the economy. At the end of March, when the market bottomed and began recovering, the unemployment rate stood at 4.4%, higher than the 3.5% recorded the month prior. By the end of April, that number stood at 14.7%, the largest number outside of the Great Depression and significantly higher than what was experienced in the 2008 global financial crisis. The stock market sometimes reacts to daily headlines and may seem short-sighted, but this is simply the mechanism of pricing in new information to future, forward-looking expectations and anticipating the multitude of risks and policy reactions that might be on the horizon. As a result, market activity was even more noticeably divergent from economic reporting this year.²

3 RISK IS REAL (RISKY ASSETS BEHAVE LIKE RISKY ASSETS)

Stocks are risky—that is a constant in investing. However, it’s important to understand that other assets can be just as risky, even if they’re called bonds. Knowing the risk associated with fixed-income investments is incredibly important. Although the bonds that CCM owns in our managed allocations weathered the storms of March with stability and protection, many other investors were rudely reminded that some bonds, like corporate high-yield bonds, can be as risky as stocks. So, what should have been the “safe” part of their portfolio, in the grips of the bear market, was down 10% to 20%.³ For investors outside of CCM who were taking these risks, it would have made rebalancing and providing a stable source of income challenging in these already difficult times.

With interest rates likely to remain low in the near future, it’s important to remember that stretching for higher yields typically means taking higher risks, which can be costly when risk is repriced.⁴

4 MARKET TIMING IS A RISKY ENDEAVOR

With the volatility of the year, it’s easy to look back and see when an investor could have sold to avoid the drawdown and bought to ride the recovery. But don’t be tempted into succumbing to the siren song of the hindsight market timer. The reality is that timing these moments with accuracy or repeatability is nearly impossible. Even if you were the hypothetical investor who “saw it coming” and sold to cash in February, do you think that you would have bought in March? April? At all? With markets recovering so fast, it’s most likely that the perfect market seller was worse off than the buy, hold, and rebalance investor. And for the imperfect market timer who sold too late, the outcomes were likely even worse.

5 DIVERSIFICATION WORKS

Even with all of the attention being focused on U.S. stocks, and often just a handful of them, the experience of 2020 illustrates that the benefits of diversification are alive and well. In Q1, investors who had a balanced portfolio fared better than those only holding stocks. As the recovery pushed forward, U.S. large cap growth stocks provided the strongest returns, while in Q4, U.S. small value stocks stole the show with returns almost 25% higher than their large growth counterparts.⁵ We saw U.S. small stocks outperform the S&P 500 for the first year in many and saw emerging markets stocks match the returns of their U.S. counterparts.⁶

Over the past few years it’s been easy to be lulled into thinking that owning a handful of the largest stocks in the world is all that’s needed to be a successful investor. As investors, it’s prudent to consider this quote from George Orwell, “Whoever is winning at the moment will always seem to be invincible.” By spreading out risk across markets and asset classes, a more stable path forward is often the result.

¹ Morningstar; S&P 500 TR USD; Russell 2000 TR USD; Wilshire Global REIT TR USD

² <https://data.bls.gov/timeseries/LNS14000000>

³ <https://carlsoncap.com/articles/fixed-income-the-optimal-shock-absorber/>

⁴ <https://www.wsj.com/articles/fed-signals-interest-rates-to-stay-near-zero-through-2023-11600279214>

⁵ Morningstar US Large Growth TR USD; Morningstar US Small Val TR USD

⁶ S&P 500 TR; Russell 2000 TR; MSCI EM NR

A FAMILY MEETING:
*One of the Best Things You Can
 Do for Your Family in 2021*

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



In my 20 years of working as a wealth advisor for hundreds of high net worth families, I have found facilitating family meetings to be one of the most meaningful and impactful things I do. An effective family meeting opens up the lines of communication regarding a family's shared values around money and wealth and can become an unforgettable family bonding experience paying dividends for many years into the future.

Taboo Topics Handled With Care

We live in a society where conversations around money and wealth tend to be intentionally ignored or are even considered taboo among even the most cohesive families. With that, it is no wonder that many families have never held a family meeting to focus on these topics. It can no doubt be uncomfortable for parents and adult children alike. That is where proper facilitation from a trusted family advisor, using the structure of a highly personalized agenda, in a comfortable meeting environment, can create an unforgettable dynamic of sharing, vulnerability, and togetherness.

At CCM, our family meetings are typically not about sharing the ins and outs of a parent or parents' net worth with the next generation, though we can certainly do that if desired. Rather, our family meetings are typically geared toward the unveiling of family values around money, lessons learned from the past, and aspirations for the future ... with a lot of laughs and sometimes tears adding depth to the conversation. Most important, we aim to create a safe space via our facilitation where family members can

communicate their genuine care and appreciation for one another, the type of meaningful conversations that are often only had at the end of someone's life.

The Right Time

While we've seen family meetings be extremely impactful for all different types of families, we find that families with adult children in their 20s, 30s, and 40s tend to get the most benefit from this kind of facilitated discussion. It becomes a wonderful opportunity for a parent or parents to share their story and relay the values of money stewardship that lead to a family's wealth, in a safe and non-threatening way. The conversations often lead to a common understanding of the parents' wishes for their family, and their wealth, in ways that foster healthy ongoing conversation and decision-making.

Because planning for a family meeting can sometimes take several months, and the meetings themselves are best hosted in-person, we encourage you to take affirmative steps now if holding a family meeting is one of your goals for 2021.

To take the first step, contact your CCM advisor. For more information on preparing for a family meeting, visit: carlsoncap.com/articles/you-considered-a-family-meeting/

Highlights of the Most Recent COVID-19 Relief Bill

KEVIN KOSKI, CPA, PRINCIPAL TAX ADVISOR



There are myriad ways to describe 2020. One word that I suspect resonates for everyone is pivot. With all of the new and changing legislation last year, the CCM Tax Team analyzed and strategized, and reanalyzed and restrategized, on behalf of clients more times than I can count. And we suspect with the most recent election results in Georgia, we'll continue to pivot throughout 2021. But for now, let's start with what we know.

On December 27, 2020, President Trump signed the Consolidated Appropriations Act of 2021 into law, which includes more than \$900 billion allocated to pandemic-related relief. Highlights of the bill include the following:

Additional Direct-to-Taxpayer Rebates

Additional stimulus payments of up to \$600 per eligible family member, including taxpayer, spouse, and qualifying children, will be distributed in the same manner as the earlier payments under the CARES Act (\$1,200 for taxpayer/spouse and \$500 for qualifying child). These additional payments will be calculated based on reported income on 2019 tax returns and will be phased out as income exceeds \$75,000 for single filers or \$150,000 for joint filers. If you qualify, the status of your payments can be tracked by visiting the IRS website at <https://www.irs.gov/coronavirus/get-my-payment>. The stimulus payment information will be reported and reconciled with the filing of 2020 income tax returns where you can claim additional credit if your income in 2020 is lower than the income used by the IRS to calculate the advance payments.

Paycheck Protection Program (PPP) Loan Updates

The bill includes additional funding for PPP loans to include access to a second round of loans for businesses hit most hard by the pandemic based on loss in revenue. The bill also overrides an IRS interpretation by confirming that the forgiveness of PPP loans will not result in taxable income or the loss of business deductions.

Above-the-Line Charitable Contribution Deduction Extended

The CARES Act allowed for an above-the-line-deduction (i.e. available for those who do not itemize deductions) for cash charitable contributions of up to \$300 for single or married taxpayers for tax year 2020. The new bill extends this provision

to tax year 2021 and increases it to a maximum of \$600 for married taxpayers for 2021.

Other Stated Provisions

The following provisions have been included in the Act and are of interest to a great number of our clients:

- The AGI (Adjusted Gross Income) threshold for determining deductible medical expenses is permanently reduced to 7.5% of AGI from 10%.
- Business-related meal expenses are 100% deductible for tax years 2021 and 2022, rather than 50%.
- Federally assisted unemployment benefits are extended for an additional 11 weeks.
- Employer reimbursements of student loan payments of up to \$5,250 annually are excluded from an employee's income through the end of 2025 under an employer's qualified educational assistance program.

CARES Act Relief Provisions NOT Extended

Notably, the Act *did not* extend certain relief provisions under the CARES Act to tax year 2021 including:

- Waiving Required Minimum Distributions (RMDs) from retirement accounts, which were waived for tax year 2020.
- Coronavirus Related Distributions with favorable tax and penalty attributes, which were allowed for tax year 2020.
- Tax filing and payment dates, which were delayed for returns or payments due in 2020.

As 2021 continues to take shape, we'll keep you informed of relevant changes in tax laws and work proactively alongside CCM advisors to deploy tax strategies that support your goals.

If you ever have any questions about your tax situation, we encourage you to connect with your CCM advisor.

KEY 2021 TAX FIGURES

From tax rates to HSA contribution limits and estate tax exclusions, many important tax-related figures have been updated. See a table of some of the most commonly referenced data here: carlsoncap.com/2021-tax

2020 Learnings and Highlights

JUSTIN STETS, AIF®, PRESIDENT



As we all anticipate what turning the page on a new calendar year will bring, there are learnings and highlights from 2020 that have deepened our well of experience for clients. Here are a few that are top-of-mind for me.

- Our clients have communicated that they highly value connectivity with our colleagues. Connectivity ensures that questions can be answered, information can be transferred, and timely advice can be received. By investing heavily in hardware, software, and systems in previous years, CCM seamlessly moved into a remote working environment with our clients.
- Market volatility increased substantially in February and March of 2020. We've learned, once again, during this period of market decline, to keep our eyes trained on the cash flow needs and overall financial success of our clients. If we focus on their needs and what is important to them, the market will take care of itself. And, indeed, that is exactly what happened.
- Alongside our clients, our most treasured assets are our colleagues. Providing them with the support that they need to serve clients during a pandemic is giving us a heightened appreciation for the incredible depth and breadth of work that they do.
- Our local communities were hit very hard with closures of schools, businesses, and nonprofits. In response to the crisis, CCM colleagues distributed \$106,000 to 110 charities to help lessen the pain of the pandemic on those most vulnerably exposed.
- We heard from our clients that while they treasure in-person meetings and look forward to the return of handshakes and hugs, they also value virtual conversations. We will continue to enhance the virtual experience. Virtual meetings will not go away and may always remain a complement to our in-person and email/phone connectivity with clients.
- Through our fall of 2020 client survey process, we received clear feedback that our clients really appreciate our platform of integrated services. The attribute that our clients consider most important is CCM's TEAM-BASED APPROACH. Thank you for this feedback.
- On the improvement side, in the same survey, clients noted that RESPONSIVENESS is most valued by them in their CCM advisory relationship. You have encouraged us to provide more timely responses back to you. We have heard you!

Of course, other items deepened in 2020:

- We continue to foster financial alignment between the firm and our colleagues. As of January 2021, 85% of our colleagues are direct shareholders of CCM. And for that we are humbled and grateful.
- We support a commonsense and long-term approach to growing our firm. Growth allows for new thinking, new talent, new resources, and an enhanced experience for our clients. We added nine colleagues in 2020, notwithstanding the impact of the pandemic. We are confident in our ability to invest during a downturn so that we can provide future value to you, and to new families as well.

As we close the book on a historic year that we've navigated together, I hold in my heart an abundance of gratitude. Thank you for your grace as we've transitioned to a virtual environment. Thank you for sharing your life story with us. Thank you for allowing CCM to serve as your trusted advisor. We look forward to partnering with you in the journey ahead.

FOURTH QUARTER AND YEAR-END RETURNS



	Q4 2020	ANNUALIZED		
		1-YEAR RETURNS	5-YEAR RETURNS	10-YEAR RETURNS
S&P 500 Index	+ 12.15	+ 18.40	+ 15.22	+ 13.88
US Large Value	+ 16.25	+ 2.80	+ 9.74	+ 10.50
US Small Cap	+ 31.37	+ 19.96	+ 13.26	+ 11.20
US Small Value	+ 33.36	+ 4.63	+ 9.65	+ 8.66
International Large Cap	+ 16.05	+ 7.82	+ 7.45	+ 5.51
International Large Value	+ 19.20	- 2.63	+ 4.20	+ 3.37
International Small Cap	+ 17.27	+ 12.34	+ 9.40	+ 7.85
International Small Value	+ 19.78	+ 2.13	+ 7.12	+ 6.33
Emerging Markets	+ 19.70	+ 18.31	+ 12.81	+ 3.63
US Short-Term Bonds	+ 0.01	+ 4.38	+ 2.35	+ 1.79
US Intermediate-Term Bonds	+ 0.67	+ 7.51	+ 4.44	+ 3.84

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 October 1, 2020 through December 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 1-5Yr TR USD; Barclays U.S. Agg Bond TR USD.

Key Takeaways:

- Progress on the development and rollout of a vaccine led to strong global stock returns in the fourth quarter.
- U.S. stocks performed better than international stocks, due to the announcement of a second stimulus package.
- Small companies, that are more economically sensitive, were the best performers in the fourth quarter.
- Leading sectors in the fourth quarter were Financials, Materials, and Industrials.
- Lagging sectors in the fourth quarter were Consumer Discretionary, Consumer Staples, and Health Care.
- Bonds delivered subdued fourth quarter returns as interest rates held steady.

A MESSAGE FROM CCM'S CHIEF COMPLIANCE OFFICER

JUSTIN D. STETS, AIF®, PRESIDENT AND CHIEF COMPLIANCE OFFICER

As part of Carlson Capital Management's active disaster recovery plan, each year we remind clients of how we will reach you, or how you can reach us, should there be an event causing significant business disruption at the firm. Following physical safety and data protection, our priority is to be able to effectively communicate with you. Please note the following methods will be deployed if needed:

- CCM has a long-standing contract with an organization that is equipped to immediately notify all CCM clients via your primary phone number (or voicemail) should an emergency arise. If the system is activated, you will receive a message instructing you on how to reach us.
- The homepage of our website will also be updated to contain pertinent contact information. With multiple physical office locations, assets custodied with third parties such as Charles Schwab, TIAA,

and Vanguard, and all of our electronic data housed at a secure off-site data center, we believe that CCM is well protected from incidents. Nonetheless, please know that we actively review and update our disaster recovery plan in order to help mitigate any potential risks.

Thank you for the opportunity to serve you—it is truly our pleasure. We are humbled by the responsibility, and never take for granted the trust that you place in the CCM team.

NINE CCM COLLEAGUES NAMED FIVE STAR WEALTH MANAGERS

Carlson Capital Management is pleased to announce that nine of our colleagues have been named to a list of Five Star Wealth Managers. The list appears in the December/January issue of *Twin Cities Business* and January issue of *Mpls. St. Paul Magazine*. More information online: carlsoncap.com/five-star



KIM DIEMER PROMOTED

With the new year brings new responsibilities for Kim Diemer, CFP®, who now holds the title of *Integrated Wealth Advisor*. As an advisor, Kim brings a passion for integrated wealth management to each client relationship, a well as an extraordinary commitment to delivering exceptional client service.



CCM WELCOMES TWO NEW COLLEAGUES

We're pleased to introduce you to two new CCM colleagues—Colin Lodermeier, CPA, and Emdad Haider.



COLIN LODERMEIER, CPA
Senior Tax Advisor

Serving as a tax resource for clients – preparing, reviewing, and completing individual and trust tax returns and projections – and collaborating to deliver a fully integrated wealth management experience and proactive tax planning.



EMDAD HAIDER
Technology Support Specialist

Providing support to colleagues in leveraging the use of technology systems, applications, and resources in order to best serve clients.

Streamline Your Tax Returns

Carlson Capital Management clients who leverage the tax return preparation services of CCM Tax & Trust Administration, a commonly held affiliate of Carlson Capital Management, are invited to establish a complementary account with TaxCaddy.

Instead of using a paper tax organizer, with TaxCaddy you may: electronically and securely share your tax documents with our tax team; communicate with your tax advisor during the return preparation process; electronically sign documents such as your e-file authorization; and use your account to save key tax documents year-round.

New this year: in order to best care for our clients in the midst of the COVID-19 pandemic, we're happy to offer a hybrid option that allows you to submit your documents via a paper organizer and then transition to TaxCaddy for communicating with your tax advisor, signing documents, and submitting payments.



To learn more about TaxCaddy and set up an account, visit: carlsoncap.com/taxcaddy



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HAPPY NEW YEAR!



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