CARLSON
CAPITAL MANAGEMENT

QUARTERLY
Newsletter

JANUARY 2022

Reasons to Sell(ebrate)

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

Back in November, when the weather was warmer and the world was a bit more open, I hosted a gathering in my backyard to celebrate the 40th birthdays of two of my closest friends. As a part of the evening's festivities, we all gathered around the roaring fires and each guest took a turn sharing a nugget of wisdom or lesson learned over the course of their ever-changing life. Some were funny enough to bring people to the edge of tears, while others were heartfelt and emotional enough to take some past that edge. When it was my turn, I shared how much I have grown to value and embrace the act of celebrating itself. The opportunity to take a pause from the day-to-day hustle and bustle—that often seems like an ever-constant state of being—in order to acknowledge and revel in the fact that something special has occurred, is too often passed up. Maybe it's a Midwestern characteristic related to humility and wanting to avoid any perception of tooting one's own horn too loudly (or at all), but sometimes when good things happen, you just gotta blow that horn!

Interestingly, when it comes to our work at CCM, I've noticed a hesitancy of clients to feel comfortable celebrating reaching financial milestones. For example, when a savings goal is met, or a portfolio milestone is reached, it's as if people are worried that if they crack a smile or acknowledge the positive shift, market karma will knock them back a few steps. The same fear of what's to come goes for strong portfolio returns. Although markets can be volatile (which is never enjoyable) and although it's true that every bear market has been preceded by an all-time high, so has every new all-time high.

It's rare that a day goes by that I don't get an email or see a story online about the next impending doomsday scenario clearly outlining the reasons to SELL NOW! As you would expect, these predictions rarely pan out, and even less often for anything close to the reasons provided. Interestingly, the rationale given to sell is often full of positive experiences from the recent past. So, with the strong performance of 2021 behind us, I want to take this opportunity to provide reasons to celebrate some of the highlights.

Stock Markets Brought Great Performance

Put plainly, 2021 was another great year to be invested in stocks. In the U.S., it

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was the third straight year that the S&P 500 generated double digit returns and was up nearly 30%.[1] And within our managed portfolios, our primary small cap value fund was up more than 42%.[2] Although international stocks trailed behind, most developed markets indexes were still up double digits.[3]

If the market hitting a new all-time high sounded to some investors like a reason to sell instead of celebrate, it would have been a long year for those who chose to sit in cash, because after the S&P 500 hit its first all-time high in January, it proceeded to do so again *69 more times*.[4]

Diversification Continues to Work

When thinking about ways to reduce risk in a portfolio, diversification is ***always*** something worth celebrating. Although there were a few bumps in the road in 2021 for stock market returns, even within a globally diversified stock portfolio, the past year was relatively calm. In fact, the maximum drawdown for the S&P 500 was just over 5%, which is the second lowest year since 1995.[5] While that's great, you might be wondering what it has to do with diversification. Well, although the index was down just 5% last year, every company within that basket of stocks fell further. In fact, 468 of the 500 had a period in which they were down more than 10% and 195 fell more than 20%.[6]

Inflation Occurred and Your Portfolio Was Ready

One of the significant financial stories of 2021 was the spike in inflation experienced across the economy. With a 7% year over year change in the consumer price index, it was the largest increase in the measure within the U.S. since the 1980s.[7] Being an integrated wealth management firm versus simply a money manager, we at CCM know the impact inflation can have on the long-term success of a financial plan. In our July newsletter we highlighted the interconnectedness between inflation and markets and outlined how we position our clients to be protected from such price shocks.

One traditional strategy that we touched on as not being worth its weight as an inflationary hedge was investing in gold and other precious metals. Although there were countless headlines in 2021 about pundits claiming that gold will get you through the upcoming inflationary spike, gold not only did not keep up with inflation in 2021, the metal actually lost 4.3% for the year.[8] Compare that with stock returns, which far outpaced the changes in prices for the year, and you can start to see why we think it is the asset class that is the best at protecting your long-term financial plan from the erosion of purchasing power.

Increasing Interest Rates Are Not a Cause for Panic

Related to the inflationary shift that occurred in 2021, the biggest headline topic going into 2022 has been the change in the position of the Federal Reserve and the potential for the increasing of the federal funds rate. There is much speculation about the number of potential increases, timing, and the level to which rates may (or may not) change. For many investors, the fear is that an increase in interest rates will have a detrimental effect on the value of bonds (as interest rates and bond prices move in opposite directions) as well as the concern of some that the economy, and therefore stocks, will be negatively impacted by rates moving up from zero.

Before the fear of the unknown sets in from what many are saying is a certainty for adverse outcomes, the truth is that no one truly knows what will transpire with rates, and if/when they do increase how that will impact the investments in your portfolio. For investors holding cash in a reserve account or for short-term savings, the increase in rates by the Fed are a good thing, as interest will likely recover from the extremely low rates of the past few years.

For the possible impact on stocks and bonds, the good news is that we have a recent real-world example that shows that all is not lost when rates increase. As we discussed in our April 2021 newsletter, interest rates on U.S. Treasuries bottomed out in August of 2020, and in the subsequent seven months that rate increased 1.22% by the end of March 2021.[9]

What happened to stocks over that stretch? The S&P 500 returned 21.9% while small cap value stocks were up over 70%.[10] As for bonds, long-term treasuries suffered significantly during this rising rate period nearly down 20%[11], but as we discussed in April, with our management of fixed income using both the levels of rates and the shape of the yield curve, we didn't have allocations to long bonds during this period.

Subsequent to that rise in rates, because these investments were now relatively favorable, we moved out on the curve where appropriate and captured very positive performance while rates fell through the summer months. We are currently monitoring the state of interest rates and the yield curve and will be prepared to adjust strategies as appropriate.

I hope you'll join me in 2022 in an effort to recognize and honor moments and occasions to celebrate. Our team at Carlson Capital Management looks forward to sharing them with you.

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1 Morningstar Direct. S&P 500 TR
2 Morningstar Direct. Avantis US Small Cap Value ETF (AVUV)
3 Morningstar Direct. MSCI EAFE NR USD, MSCI EAFE Value NR USD, MSCI EAFE Small Cap NR USD, MSCI EAFE Small Value NR USD
4 Morningstar Direct. S&P 500 TR
5 FactSet, Standard & Poor's, J.P. Morgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Guide to the Markets - U.S. Data sets are as of December 31, 2021.
6 Morningstar Direct. S&P 500 TR. Holdings analysis completed using Vanguard 500 Fund Index ETF as of December 31, 2021 with calculations made by CCM.
7 US Bureau of Labor and Statistics (*https://www.bls.gov/cpi/home.htm*)
8 Morningstar Direct. LBMA Gold Price PM USD
9 U.S. Department of the Treasury (*https://www.treasury.gov/*)
10 Morningstar Direct. S&P 500 TR & Avantis US Small Cap Value ETF (AVUV)
11 Morningstar Direct. Vanguard Long-Term Treasury ETF (VGLT)

FINANCIAL PLANNING

Retiring This Year? Read This First.

NICK KRAKOSKY, CFP®, ASSOCIATE INTEGRATED WEALTH ADVISOR

Entering retirement—even thinking about retirement—carries a host of emotions … excitement, stress, relief, anxiety, and joy among them. The team at CCM has experience helping clients navigate all of these emotions and so much more, and we're honored to provide support in this significant life transition. Before you make the leap, here are four things that you should consider:

Revisit Your Spending

As your retirement date nears, create a budget of all your fixed expenses (mortgage payments and car payments, for example) and variable expenses (such as travel) that you expect to have as you transition to and live in retirement. Outlining a budget can give you peace of mind while also allowing your advisory team to stress-test your retirement projections and build a retirement income strategy based on your personalized spending needs.

Understand Your Healthcare Options

As you think about retirement, it's important to know where you'll get your healthcare coverage. If you are retiring before age 65, you'll have to come up with your own coverage until you are eligible to enroll in Medicare. Some options may include:

- Staying on your employer plan: Depending on your employer, you may be eligible for continuing coverage as part of your retirement package. If not, you may consider using COBRA coverage to help bridge the gap to Medicare.
- Joining your spouse's plan: If your spouse is working and has employer-sponsored coverage, you may be able to be added to his/her coverage.
- Purchase through the Open Market Exchange. Start here: ***healthcare.gov***

If you are currently enrolled or are turning 65, you'll need to decide between Traditional Medicare or a Medicare Advantage Plan (Part C). If you choose Traditional Medicare, then you should also consider a Medigap policy, which is supplemental insurance that helps cover costs that aren't covered by Traditional Medicare. The best time to buy a Medigap policy is during your initial six-month Medigap open enrollment period, where you can purchase a Medigap policy regardless of pre-existing health conditions.

Social Security

While retiring may cause you to consider filing for your Social Security benefits, it is important to understand that there are many factors—such as your health, marital status and history, work history, claiming age, etc.—that play a role in determining your Social Security benefit and the optimal time to file for Social Security. The chart below outlines the potential impact of claiming Social Security at different ages:

Social Security Starting Age	Monthly Benefit at Claiming Age	Total Income Received by Age 85
Claim at 62	$1,760	$639,176
Claim at 67 (FRA)	$2,760	$753,775
Claim at 70	$3,632	$808,775

Assumptions: PIA: $2,500, Full Retirement Age 67, with a 2% Cost of Living Adjustment

Source: Savvy Social Security Planning®

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Revisit Your Asset Allocation

As you consider retirement, it's important to ensure your asset allocation aligns with your risk tolerance and spending needs. For example, we may want to consider decreasing your allocation in equities as you near retirement because you have less time to recover from potential market downturns. Alternatively, there may be scenarios where it may make sense to maintain your current allocation or even potentially increase your equity exposure. Ultimately, the key is ensuring your asset allocation fits with your financial plan and your ability to sleep at night during periods of market volatility.

The four areas outlined are a few of many considerations as you begin your transition to retirement. As you have questions that arise, we encourage you to reach out to your CCM advisor to discuss them in more detail.

TAX CONSIDERATIONS

Tax Milestones Through the Years

KEVIN KOSKI, CPA, PRINCIPAL TAX ADVISOR

Your birthday this year could mark an important tax and financial planning milestone. Following are opportunities and considerations as we move into 2022.

Age 50 » Catch-up contributions of up to $6,500 can be made to your employer-sponsored retirement plan, such as a 401(k), or up to $1,000 to a Traditional or Roth IRA. You can make the full catch-up contribution if you reach age 50 at any point in 2022.

Age 55 » You can make a catch-up contribution of up to $1,000 to your Health Savings Account (HSA).

Age 55 » You can access an employer retirement plan account without a 10% early distribution penalty upon separation of service from that employer. To qualify for the penalty exception, the money must stay in the employer plan and can't be rolled over to an Individual Retirement Account (IRA).

Age 59.5 » You now have access to employer retirement plan accounts or IRA accounts without a 10% penalty. Some employer plan rules may still disallow an in-service distribution if you are still employed.

Age 62 » Social Security benefits can be collected at the earliest possible date, but at a 30% reduction as compared to your full retirement age (FRA) benefit amount.

Age 65 » Enrollment for Medicare benefits begins. Enrolling late can incur a permanent enrollment penalty.

Age 66-67 » You can access your full retirement age Social Security benefits.

Age 70 » You can collect your maximum Social Security benefit. The benefit increases by 8% for each year that you wait past your full retirement age. Waiting past age 70 does not provide any additional benefit.

Age 70.5 » Charitable contributions of up to $100,000 each year can be made directly from your IRA account as a Qualified Charitable Distribution (QCD).

Age 72 » Required minimum distributions (RMDs) from your employer retirement plan and IRA accounts commence. An RMD will be required each year.

If you have any questions about what we've shared above or you'd like more information about how your tax situation might change this year, please contact us.

KEY 2022 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/2022-tax***

AT A GLANCE

FOURTH QUARTER AND YEAR-END RETURNS

	Q4 2021	ANNUALIZED 1-YEAR RETURNS	5-YEAR RETURNS	10-YEAR RETURNS
S&P 500 Index	+ 11.03	+ 28.71	+ 18.47	+ 16.55
US Large Value	+ 7.77	+ 25.16	+ 11.16	+ 12.97
US Small Cap	+ 2.14	+ 14.82	+ 12.02	+ 13.23
US Small Value	+ 4.36	+ 28.27	+ 9.07	+ 12.03
International Large Cap	+ 2.69	+ 11.26	+ 9.55	+ 8.03
International Large Value	+ 1.17	+ 10.89	+ 5.34	+ 5.81
International Small Cap	+ 0.07	+ 10.10	+ 11.04	+ 10.80
International Small Value	+ 0.24	+ 11.60	+ 8.25	+ 9.61
Emerging Markets	– 1.31	– 2.5	+ 9.87	+ 5.49
US Short-Term Treasury Bonds	– 0.02	+ 0.04	+ 1.22	+ 0.71
US Intermediate-Term Bonds	– 0.57	– 1.72	+ 2.33	+ 1.68
US Long-Term Treasury Bonds	+ 3.08	– 4.65	+ 6.54	+ 4.51

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, 2021, through December 31, 2021.

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 EAFE Small Value NR USD; MSCI EM NR USD; Bloomberg Short Treasury TR USD; Bloomberg Intermediate Treasury TR USD; Bloomberg Long Term US Treasury TR USD.

Key Takeaways:

- Global equity returns were mostly higher for the fourth quarter, with a slight decline in emerging markets stocks.
- Large companies outperformed in both the United States and Internationally, with U.S. Large Cap stocks leading the way.
- Interest rates were flat for the quarter, allowing higher yielding long-term bonds to outperform.
- Leading sectors in the quarter were Technology, Materials, and Consumer Staples.
- Lagging sectors in the first quarter were Telecom, Financials, and Energy.

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.

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 complimentary 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.

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

TAXCADDY

COVID-19 Meeting Protocols

It has been our pleasure to see many of you over the last several months for meetings. Although the most recent wave of infections is disheartening, our offices are open, and we will continue to host in-person meetings for those requesting them. As we've done throughout the pandemic, we will follow guidance from the CDC and Minnesota Department of Health. We ask that all of our colleagues and clients wear masks in our offices and for the entirety of any meeting.

We are grateful for your understanding as we do our best to protect our colleagues, clients, and communities.

Celebrating 35 Years

35 YEARS
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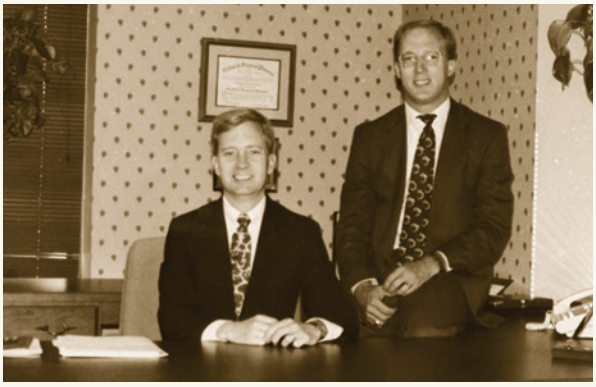
This year, CCM celebrates 35 years of providing exceptional wealth management service to clients. What began as two colleagues—Greg and Jeff Carlson—has blossomed into a firm with more than 65 colleagues and $3B in assets under management. Throughout it all, we have held fast to the values of integrity, trust, expertise, and care—hallmarks of the CCM experience. They are at the root of all we do and the essence of who we are. We hold a deep commitment to each client to serve as a fiduciary and act in their best interests. And we delight in every opportunity to bring wisdom and purpose to wealth and enrich the lives of our clients and colleagues.

Thank you for the trust you've placed in our firm and for the opportunity to serve you.



CCM WELCOMES NEW COLLEAGUES

HENRY ANDERSON
Operations Specialist

JENNY BARTHEL
Senior Client Servicing Representative

JANELLE SCHRUPP, J.D.
Director of Estate Planning

CCM ANNOUNCES COLLEAGUE PROMOTIONS & HIGHLIGHTS

CCM is pleased to share news of recent promotions.

Longtime CCM colleague **KELLY IRVINE** has been promoted to Chief Marketing & Communications Officer. In addition to overseeing all aspects of the firm's internal and external communications, Kelly serves as a member of CCM's six-person Management Team.

TANISHA JUSTUS, FPQP™, was promoted to Technology Support Supervisor. Tanisha supervises the firm's technology support team and focuses her time on cybersecurity and technology-related projects for CCM and its team.

ABBI KRAMAS, CFP®, was promoted to Integrated Wealth Advisor, recognition that acknowledges the breadth and depth of her work with clients in addition to the growing number of clients she serves.

BEN CARLSON, CFP®, has been promoted to Paraplanner Team Lead & Associate Integrated Wealth Advisor, a title that reflects the work he engages in with clients and newly hired paraplanners to mentor them in CCM's approach to integrated wealth management and culture of care.

Associate Integrated Wealth Advisor **RACHEL CHACKO, CFP®**, joined the Board of Directors of the Honors Choirs of Southeast Minnesota, an excellent match for her passion for music. The Honors Choirs of Southeast Minnesota aims to promote the highest standard of excellence in the preparation and performance of choral music. Before joining CCM, Rachel earned her Ph.D. in music theory and a Doctor of Musical Arts in flute performance.

Chief Investment Officer **ADAM HOFFMANN, CFP®, AIF®**, enters the new year having one less "to do" on his bucket list: ringing the bell at the New York Stock Exchange! Adam was fortunate enough to walk the trading floor and be a part of a celebration with one of CCM's investment partners, Avantis Investors. Reflecting on his time, Adam says, "It was a remarkable experience with A LOT of clapping! Many people are surprised to learn that the bell is operated by a button."

Senior Human Resources Generalist **JACKIE FINKBEINER, PHR®**, and her husband, Brad, welcomed their first child—Ruth Violet in late November.

Senior Investment Strategist **JAMES YAWORSKI, CFA**, and his wife, Brittany, also welcomed a new baby in late November, their third child—Sadie Lynn.

A CELEBRATION OF MARRIAGE

In October, Senior Tax Advisor **PAIGE WOODS, CPA**, was married. Paige and Joey celebrated their wedding on a beach in North Carolina—an area where they have spent a lot of time together over the last several years.