CARLSON CAPITAL MANAGEMENT

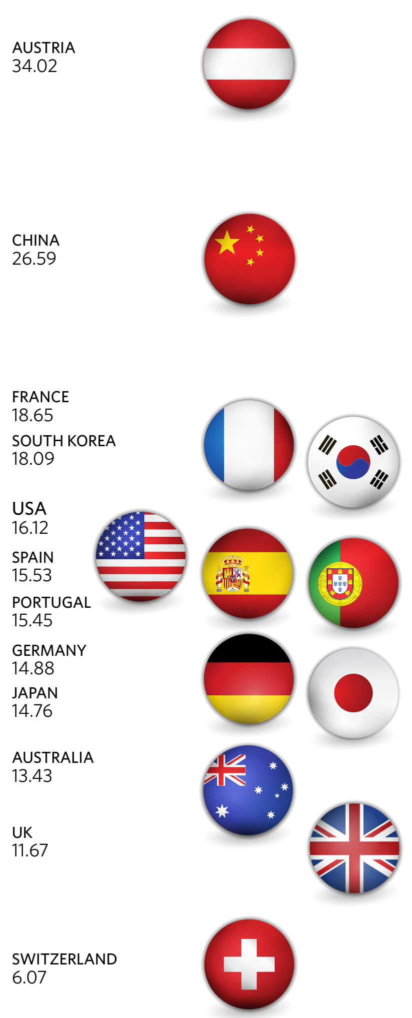
Quarterly NEWSLETTER

INVESTMENT INSIGHT

ADAM HOFFMANN, CFP®, DIRECTOR OF INVESTMENTS & RESEARCH

POST-BREXIT EQUITY RETURNS FOR SELECTED COUNTRIES

Two Year Annualized Returns
July 1, 2016–June 30, 2018



Data represents past performance. Past performance is no guarantee of future results. Chart is for illustrative purposes only. Specific indexes used for the illustration are as follows: MSCI Switzerland NR USD; MSCI United Kingdom NR USD; MSCI Australia NR USD; MSCI Japan NR USD; MSCI Germany NR USD; MSCI Portugal NR USD; MSCI Spain NR USD; S&P 500 TR; MSCI Korea NR USD; MSCI France NR USD; MSCI China NR USD; MSCI Austria NR USD.

Although it may not be immediately apparent depending on where you're reading this, much of the world is currently engrossed in the World Cup. The 2018 FIFA World Cup (including 64 total matches) is being hosted in cities throughout Russia, with the championship match to be played on July 15th. The largest tournament of the world's most popular sport often takes over the lives of its fans – typically ranking as the most watched global event every four years. As a frame of reference, while the 2018 Super Bowl between the Philadelphia Eagles and New England Patriots had over 100 million viewers worldwide, the 2014 World Cup final between Germany and Argentina had more than 1 billion viewers.[1]

In the coming together of nations around events like the World Cup, the hope is that within sport, great competition is coupled with great sportsmanship while each nation's distinguishing characteristics are on display and celebrated. Of course, it's not all hugs and handshakes. The competition is fierce and every team is striving for the ultimate goal of winning it all.

Just over two years ago, the world's focus was similarly fixated on the outcome of a competition of a different kind. Unfortunately, the two sides contending for victory in this rivalry weren't necessarily displaying the behaviors of good sportsmanship and weren't acknowledging the best qualities of the other side. This battle wasn't to be won or lost on the pitch, with the winner hoisting a trophy at the end.

[1] www.fifa.com

Continued on page 2

ENRICHING LIVES: FIDUCIARY MATTERS *page 2*

AN UPDATE FROM THE TAX TEAM *page 3*

RETIREMENT PLANNING: REFLECTING ON THE JOURNEY *page 4*

WELCOME NEW COLLEAGUES AND PROMOTION ANNOUNCEMENTS *page 5*

SECOND QUARTER RETURNS

CCM NAMED A FINANCIAL TIMES FT 300 TOP RIA *page 6*

NEW CLIENT PORTAL IN THE WORKS

BLOOMINGTON OFFICE EXPANSION

CCM EVENT FEATURES FORMER VANGUARD CIO GUS SAUTER *page 7*

CCM NEWS BRIEFS *page 8*

CARLSON
CAPITAL MANAGEMENT

Integrated Wealth Management Since 1987

This competition was to be waged through the ballot box to determine the fate of the political and economic realities of modern day Europe. Perhaps that sounds hyperbolic today, but in June of 2016 those fears were real.

As a refresher, in late June of 2016, British citizens went to the polls to vote on whether they would remain members of the European Union (EU) or begin the official process of leaving the political and economic union—an act that became known to the world as Brexit. Concerns for the future of the global economy, particularly the economies most closely impacted within the EU, were as dire as anyone could imagine. Some speculated that a Brexit would push us all into a global recession deeper and longer than what we experienced in 2008. Indeed, some investors undoubtedly aligned their portfolios with their fears and went to cash (or worse) right before or right after the vote, with the hope of dodging what they expected to be an inevitable cascade of losses in stocks and bonds.

In a review of the past two-years' performance of stock market returns for a variety of countries across the world (see illustration on front page), we see that an investor who sold stocks and went to cash fearing the worst, missed out on significant global equity returns. Contrary to the dire headlines of the time, the U.K.'s stock market has not crashed post-Brexit and instead has posted double-digit annualized returns. The U.S. fared well over the past 24-months, but our returns were less than half of Austria's, which falls in the midst of the EU and Eurozone. Like any short-term window of time, predictions of market movements after Brexit varied wildly and mostly missed the mark.

For those unfortunate enough to have made drastic moves in their portfolios, rather than being ahead of the game, they may now be years behind in terms of reaching their goals. Simply stated, this experience illustrates yet again the fact that when investing, it's best to stick with "what works," such as the time-tested strategies of diversification and tax-optimization, while remaining disciplined during volatile markets and in the face of daunting headlines, is what will serve you well.

As we continue to face challenges in global economics and politics, we know that changes in regulations, treaties, and trade policies will impact how markets function and therefore impact outcomes for investors in the future. What we don't know is exactly how and when those influences will present themselves and manifest into returns. While it's too early to know what the long-term impact of what we're experiencing in today's global conversation of trade wars and escalating tariffs will be, we can look back to the not-so-distant past to see how markets reacted to unexpected shifts in the "rules of the game."

COMPANY NEWS & COMMUNICATIONS

CARLSON CAPITAL MANAGEMENT FILM SERIES

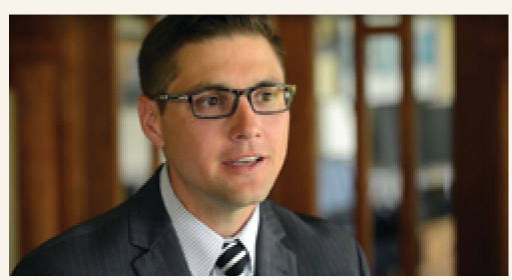
Enriching Lives

We're excited to share the second film in our new *Enriching Lives*, series. "Fiduciary Matters" centers on our commitment to always do what is in the best interest of our clients. Carlson Capital Management has provided wealth management to clients under a fiduciary standard of care for many years. Acting as a fiduciary is truly at the core of our relationships, processes, decision making, advising and culture. We hope you'll enjoy hearing our advisors and other colleagues discuss how meaningful this commitment is to all of us at CCM and what it means for our clients.

"It's doing the right thing, because it's the right thing to do."

– CALLIE GEIST, CFP®, INTEGRATED WEALTH ADVISOR

VIEW THIS FILM AT *carlsoncap.com/video*



TAX CONSIDERATIONS

AN UPDATE FROM THE TAX TEAM: *Utilizing Your Health Savings Account as a Retirement Planning Strategy*

KEVIN KOSKI, CPA, DIRECTOR OF TAX SERVICES

A Health Savings Account (HSA) is a type of investment account that allows you to save for medical expenses while also reducing your taxable income. In order to establish an HSA, you must be enrolled in a High Deductible Health Plan (HDHP) as defined by government regulations. An HSA is unique in that it is the only type of investment account that provides for both tax-deductible contributions and tax-free distributions (for qualified medical expenses). This unique feature makes the HSA a potential foundational piece of retirement planning due to the near certainty of incurring significant medical expenses during retirement. Some studies indicate that a married couple may expect to incur over $250,000 in health carerelated expenses during retirement which notably does not include long-term care expenditures.[1]

Most HSAs are utilized today as a tax preferred conduit to pay for current out-of-pocket medical expenses. In other words, the accounts are funded to a certain level of expected health care related expenditures and then routinely depleted. This approach is very effective and tax efficient for paying out-of-pocket medical expenses, but the HSA is not generally viewed as part of a longer term savings strategy.

Building a retirement health care nest-egg in an HSA alongside a retirement living expense nest-egg in traditional retirement savings accounts (i.e. IRA, Roth IRA, 401k, 403b, etc.) provides enormous tax benefits, efficiency, and flexibility all along the way. Contributions to the HSA are tax deductible, all earnings and growth accumulate with no immediate tax impact, and distributions for qualified medical expenses are completely tax free. It is also important to note that if you are fortunate enough to accumulate more funds in your HSA account than are needed for health care, the HSA account can be utilized for non-medical expenditures after reaching age 65, similar to taking a distribution from an IRA account. In that situation, you would incur ordinary tax rates on the full distribution but no penalties. Prior to age 65, HSA distributions that are not used for qualified medical expenses incur ordinary tax rates plus a 20% penalty.

Steps to implement this savings strategy:

- Enroll in an HSA eligible High Deductible Health Plan (HDHP).
- Contribute the maximum amount each year (based on type of coverage) to the HSA account on a pre-tax basis.
- As financial resources allow, pay for out-of-pocket medical expenses (i.e. deductibles, co-pays, prescriptions, etc.) from other sources in order to allow the HSA account to grow.
- In consultation with your CCM advisor, invest the funds within your HSA account looking at the time horizon of your retirement years.
- Access the HSA account on a tax-free basis during retirement to pay for Medicare premiums and other qualified medical expenses as they are incurred.
- Utilize funds from other retirement savings vehicles to fund your retirement living expenses.

Please contact us with any questions about how a Health Savings Account may work for you as a planning strategy within your integrated wealth plan.

[1] https://www.fidelity.com/viewpoints/personal-finance/plan-for-rising-health-care-costs

FINANCIAL PLANNING

PLANNING FEATURE: *Retirement Planning, Reflecting on the Journey*

CALLIE GEIST, CFP®, J.D., MBA,
INTEGRATED WEALTH ADVISOR

KATY VERMEER, CFP®,
SENIOR INTEGRATED WEALTH ADVISOR

Retirement planning involves a multi-faceted analysis that requires a combination of data gathering, quantitative and qualitative analysis, and discernment. It is an on-going process that offers peace of mind to our clients as their life goals evolve.

As people approach their retirement years the number one question advisors are often asked is, "Do I have enough?" While the internet offers a host of formulas, calculators, and rules of thumb to answer this question, such resources do not take into consideration a person's evolving circumstances, goals, and needs, nor do they encourage the individual to evaluate their spending from a values-based perspective.

At Carlson Capital Management, we understand that retirement modeling is both quantitative and qualitative in nature, requires review and adjustments on an ongoing basis, and must be customized to each individual and family. Furthermore, we encourage clients to reflect on their values and align their spending accordingly.

On the quantitative side, CCM uses robust software that allows us to input a vast amount of financial information and then analyze and stress-test the outputs. This type of analysis helps us understand the impact of additional saving, adjustments in spending, and volatility of the markets, to name a few. We are then able to make recommendations that further advance an individual's likelihood of success in ensuring that accumulated assets can sustain retirement spending.

The qualitative component of retirement planning emerges from in-depth conversations between the individual and the advisor and may include a variety of topics such as current and future spending goals, evolving health issues, family support needs, charitable intentions, gifting and estate planning implications, etc. These conversations are ongoing and inform adjustments to the existing model or additional scenarios to consider.

However, the most important aspect of retirement planning isn't found in analyzing the data or running additional scenarios. You can't find the answer in formulas, and there isn't a rule of thumb to guide you. At the core of retirement planning is reflecting on the journey you took in accumulating your assets and discerning the people, experiences and things in life that bring you the most joy and fulfillment so that your spending is aligned with what matters most to you.

The quantitative and qualitative components of retirement planning are paramount in their ability to provide the reassurance necessary to make the transition into retirement and answer the common question of, "Do I have enough?" However, it is the discernment of *what matters most to you* during your retirement years, then aligning spending with such values, that contribute to help make those years meaningful, intentional, and joyful.

WELCOME NEW COLLEAGUES

We're happy to introduce six new colleagues who have recently joined the team at Carlson Capital Management: ABBI, COLLEEN, JILL, JORDAN, KIM and TANISHA.

Abbi Kramas
Paraplanner
Northfield Office
University of Wisconsin-Steven's Point

Colleen Schneider
Client Servicing Representative
Bloomington Office

Jill Metz
Client Servicing Representative
Northfield Office
Saint Mary's University-Winona

Jordan Peck
Client Servicing Representative
Rochester Office
Rochester Community Technical College

Kim Diemer
Associate Integrated Wealth Advisor
Bloomington Office
Tulane University

Tanisha Justus, FPQP™
Technology Officer
Northfield Office
Northern Arizona University

In addition, as CCM grows to serve clients with additional depth and breadth, we've been working to further define and expand our management structure. As one outcome of this work, we are very pleased to share the news of PROMOTIONS to expanded roles and responsibilities for the following colleagues:

Jason Kley, CFP®, AIF®, MBA
Director of Financial Planning/ Senior Integrated Wealth Advisor

Jessica Hayes
Senior Technology Officer

Lynall Malecha
Senior Client Servicing Representative

Mary Schubbe
Senior Client Servicing Representative

Tom Pesek, MBA
Chief Administrative Officer

We encourage you to review full colleague biographies at *carlsoncap.com/team* where you can also connect directly with any colleague at the firm.

AT A GLANCE

SECOND QUARTER RETURNS

	Q2 2018	1-YEAR RETURNS	ANNUALIZED 5-YEAR RETURNS	10-YEAR RETURNS
S&P 500 Index	+ 3.43	+ 14.37	+ 13.42	+ 10.17
US Large Value	+ 1.18	+ 6.77	+ 10.34	+ 8.49
US Small Cap	+ 7.75	+ 17.57	+ 12.46	+ 10.60
US Small Value	+ 8.30	+ 13.10	+ 11.18	+ 9.88
International Large Cap	– 1.24	+ 6.84	+ 6.44	+ 2.84
International Large Value	– 2.64	+ 4.25	+ 5.37	+ 2.17
International Small Cap	– 1.57	+ 12.45	+ 11.32	+ 6.81
International Small Value	– 2.87	+ 8.68	+ 10.27	+ 6.73
Emerging Markets	– 7.96	+ 8.20	+ 5.01	+ 2.26
US Short-Term Bonds	+ 0.14	– 0.30	+ 1.24	+ 2.45
US Intermediate-Term Bonds	– 0.16	– 0.40	+ 2.27	+ 3.72

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 US indices, MSCI for international and Barclays for bonds for the time period of April 1, 2018 through June 30, 2018.

Specific 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 US Govt/Credit 1-5 Yr TR USD; Barclays US Agg Bond TR USD.

- U.S. equities were positive in the second quarter, led by small company stocks.
- The best performing U.S. sectors were energy (+13.48%), consumer discretionary (+8.17%) and technology (+7.09%).
- Industrials (-3.18%), financials (-3.16%) and consumer staples (-1.54%) were the worst performing sectors.
- The U.S. dollar rose 5.5% in the second quarter, causing international equity returns to end the quarter with negative returns.
- Trade concerns and tariffs affected Chinese equities significantly, causing emerging markets to decline nearly 8%.
- Fixed income returns were flat for the quarter as interest rates remained in a tight trading range.

COMPANY NEWS

CCM NAMED A *Financial Times FT 300 Top RIA*

Carlson Capital Management has again been named to *Financial Times*' Annual FT 300 Top Registered Investment Advisers listing. In the publication's fifth edition of the listing they assess registered investment advisers (RIAs) on "traits desirable to clients." According to Editor Loren Fox, "We present the FT 300 as an elite group, not a competitive ranking of one to 300. This is a fair way to identify the industry's elite advisers while accounting for the companies' different approaches and different specialisations." Inclusion in this listing is an honor for all of us at CCM. *ft.com*

More information and related methodology at: *carlsoncap.com/news/ccm-named-a-financial-times-300-top-ria*

NEW CLIENT PORTAL IN THE WORKS

The CCM Technology, Operations, and Investment teams are working diligently behind the scenes to bring you a new client portal experience in the coming months.

Among numerous enhanced features, the new CCM Client Portal will include:

- An interactive big picture, real-time overview of all of your accounts,
- Numerous dynamic online reports that adjust as you select custom criteria,
- A snapshot of your current investment holdings,
- Seamless and secure access to important documents related to your financial plan and CCM communications.

We're eager to share the new Portal with you. Please watch for future communications that will include login instructions for this exciting new tool and interactive experience.

CCM BLOOMINGTON OFFICE EXPANSION

We're very pleased to announce that we have expanded our space in our Bloomington location at the Southpoint Office Center to include new conference rooms and offices. Our additional suite, with three new meeting spaces complete with interactive technology features, is ready for visitors. For clients who typically meet with us in Bloomington, we look forward to welcoming you to our new space—Suite #150—which you'll see just as you enter the 1700 Building, up the steps and to your left. We continue to work from Suite #110 as well so, if you arrive there out of habit, we'll be glad to welcome you and walk together to the new space across the hall.

CCM EVENT FEATURES FORMER VANGUARD CIO GUS SAUTER

In May, we had an excellent opportunity to host an event in Rochester with featured guest former Vanguard CIO, Gus Sauter. Jeff Carlson interviewed Gus in a fireside chat-style conversation in which Gus advised attendees that among the three most important tenants in investing are to, "Stay the course, diversify, and establish asset allocations." We were honored to have Gus with us. If you weren't able to attend, *Rochester Post Bulletin* reporter, Jeff Kiger summarized highlights of the conversation in the publication's May 19 online edition. We've posted a link to the article here: *carlsoncap.com/news [see: CCM Event Features Former Vanguard CIO Gus Sauter]*

COMPANY NEWS & COMMUNICATIONS

On Thursday, June 28, CCM COLLEAGUES joined other Minnesota recipients of the annual "100 Best Companies to Work For," hosted by *Minnesota Business* magazine, for a dinner and evening of celebration. CCM Colleagues attending were surprised by the magazine staff with additional recognition announced at the event, where CCM was honored with an Editors' Pick award for Outstanding Collaborative Spirit. The "100 Best" award has special meaning to all of us at CCM as it is presented as the result of surveys completed by our colleagues regarding their personal and professional experiences at the firm. According to the magazine, companies included "excel in the areas of work environment, employee benefits, and overall employee happiness, making them the 100 Best Companies to Work For."

In June, a team of CCM COLLEAGUES served as volunteers for the Northfield Community Action Center's (CAC) weekly meal service—THURSDAY'S TABLE. Thursday's Table invites everyone, particularly people experiencing transitions in life, to a hot, healthy meal. Pictured here are Northfield office colleagues GINGER, ABBI and ANGIE. The opportunity to serve at the CAC is always a highlight for us.

We are excited to share that MATT MOREHEAD, CCM Integrated Wealth Advisor based in our Rochester office and his wife Heather announced the arrival of their daughter, ZOE ANN, on May 13. She was the perfect Mother's Day gift. Welcome to precious Zoe!