

A Tale of Two Quarters ... and the 160 Prior

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

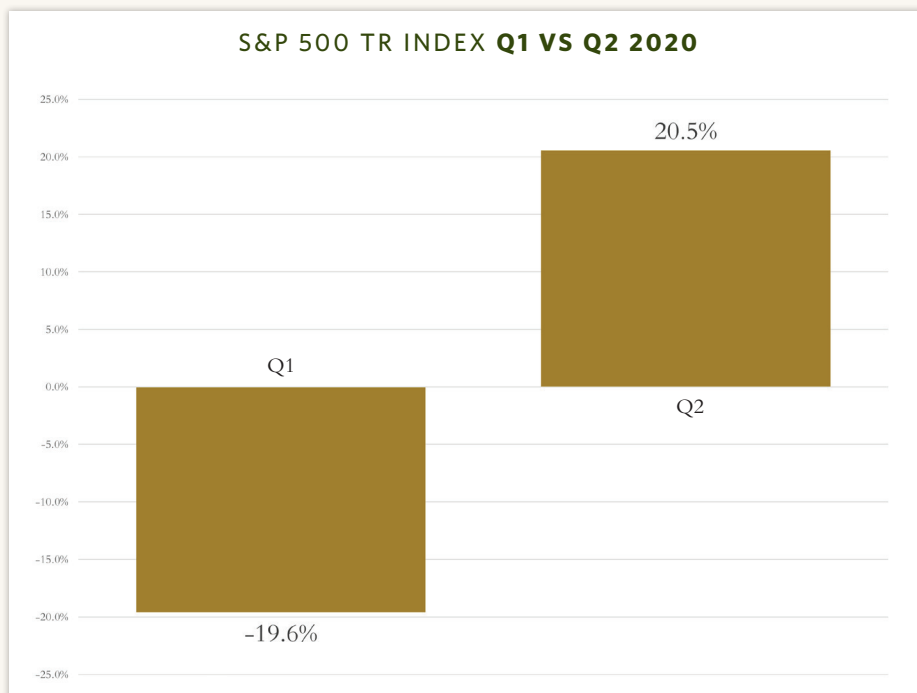
As the chart below shows, 2020's second-quarter rise in equity market performance was as dramatic as the previous quarter's decline. With plenty of bumps along the way, the S&P 500 is now up more than 40% from the bottom on March 23.¹ If we view these recent extreme market events as isolated time periods, we can see the sharp contrast between the first two quarters of 2020 (Chart 1, below). These quarters were truly "tail events." Q1 produced the fifth worst return, and Q2 produced the fourth best return of calendar quarters over the past 80 years.² This likely isn't surprising given the unprecedented events we're experiencing in the world today.

The Bigger Picture

When we step back and isolate these points in time, it underscores why it was such an uneasy experience for investors. It's natural and helpful to look at stock market return data within the confines of specific time periods, whether it's calendar months, quarters, or years. That data helps us see time-specific market realities,

while also giving us the ability to view the bigger picture and getting us beyond the noise of daily movements. It's important to remember that even an annual return is just one number and doesn't capture the breadth of experiences and emotions that the year contained. A number alone cannot convey how the actual volatility "felt" at the time.

When we extend this kind of data out over a 40-year-time-period we gain additional critical context.



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 January 1, 2020–June 30, 2020. Source: Dimensional Fund Advisors.

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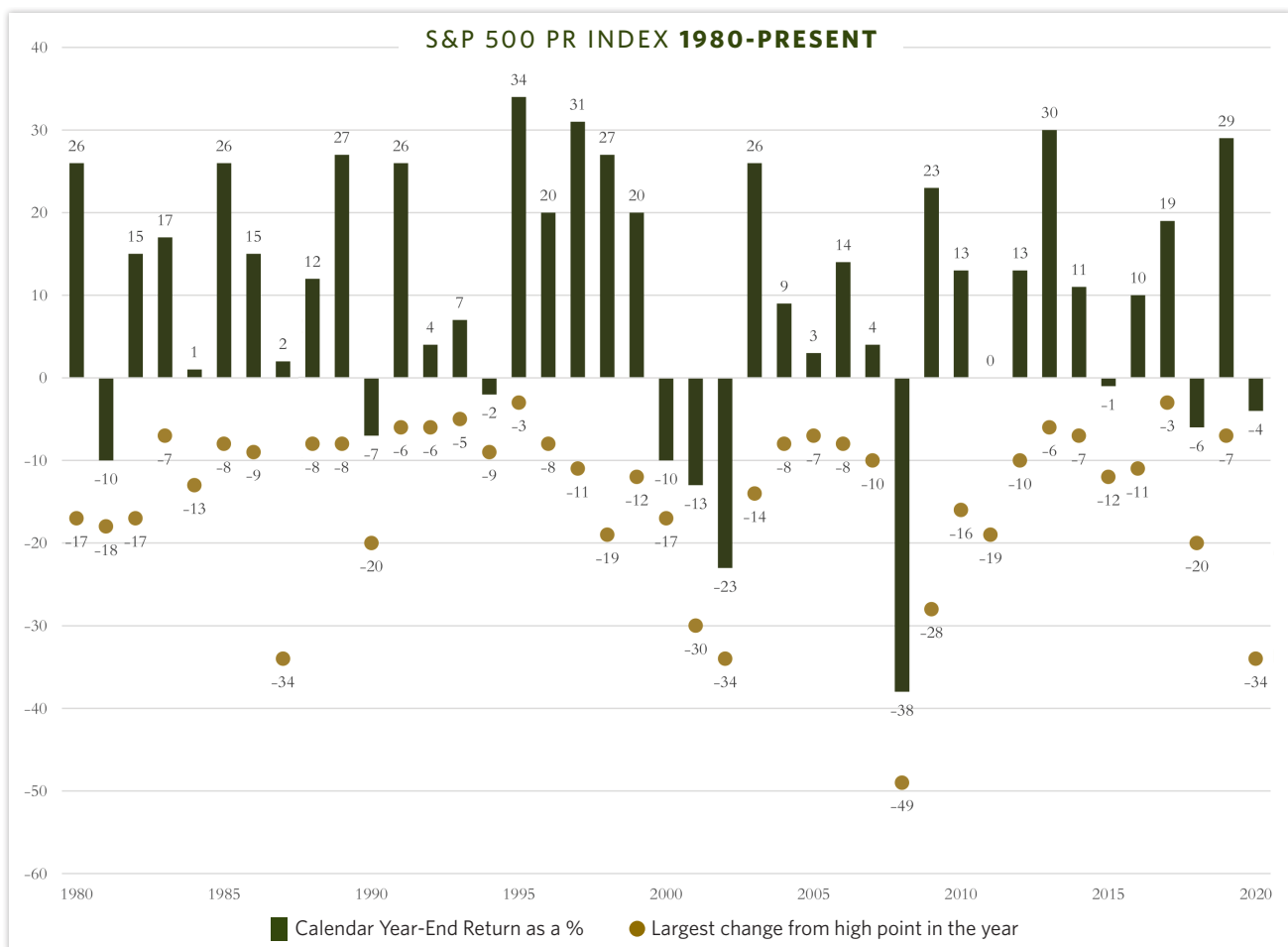
The chart below illustrates calendar year returns and intra-year declines for the S&P 500 since 1980. By just looking at the individual years, it's hard to see the compounding growth that investing in stocks has provided. Each dollar invested at the beginning of 1980 is worth more than \$84 at the end of June 2020.³ That sounds great, but it wasn't always easy to weather the storms along the way. Looking more narrowly at the calendar year bars, 30 out of the 40 years ended up providing positive returns—that is, 75% of the time, investors were rewarded for being in the markets. Interestingly, however, in this same period, almost 75% of the time, markets were down 10% or greater from the highs of the specific year, and, in fact, 40% of the time they were down 15% or greater. Certainly, these kinds of roller-coaster experiences are more common than we might recall.

Lessons From Equity Market Performance

When you note 2020's combination of unremarkable year-to-date returns, and extreme intra-year loss, you'll observe

that there are other years with similar market experiences. Like this year, these other periods represent extreme and unprecedented events such as wars, global credit crises, 9/11, the tech bubble bursting, the crash of 1987, the global financial crisis, and many more. Hopefully, these illustrations underscore some key points as we continue to navigate a global pandemic. Many things in our lives and society feel, and remain, uncertain.

When it comes to equity markets, we are reminded by looking at historic performance that, 1) Markets can change rapidly and dramatically—volatility is, has been, and always will be part of the experience, 2) Higher returns have historically been the reward for accepting risk and volatility, and 3) 40 years of market history underscores what has been magnified by our experience during the pandemic—you simply can't time the markets. Where these snapshots in time are perhaps most beneficial, is to reinforce how to behave in the future—with patience and discipline.



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 PR for the time period of January 1, 1980–July 8, 2020. Source: JP Morgan, Guide to the Markets.

COVID-19 Tax Relief

KEVIN KOSKI, CPA, PRINCIPAL TAX ADVISOR



At the onset of the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed to provide economic relief to people across the United States. With the continued impact of COVID-19, the IRS has issued further guidance on the provisions of the CARES Act to expand the opportunity for economic relief.

Coronavirus-related Distributions

In March, it was announced that the CARES Act will provide favorable tax treatment for qualified individuals receiving up to \$100,000 of coronavirus-related distributions from retirement plan accounts between January 1, 2020 and December 31, 2020, including: exemption from the 10% early distribution penalty; the option to report the taxable distribution over three years; and the option to roll the funds back within three years to avoid taxation on the distribution.

The CARES Act defines a qualified individual as an individual:

- Who is diagnosed with COVID-19;
- Whose spouse or dependent is diagnosed with COVID-19; and
- Who is experiencing adverse financial consequences as a result of:
 - Being quarantined, furloughed, laid off, or having work hours reduced;
 - Being unable to work due to lack of childcare; and
 - Closing or reducing hours of business.

In late June, the IRS issued notice of expanded eligibility under the definition of a qualified individual to include an individual:

- Who is experiencing adverse financial consequences as a result of:
 - Reduction in pay or self-employment income or having a job offer delayed or rescinded; and

- Having a spouse or member of the household experience adverse financial consequences for any of the reasons previously stated.

The notice further clarified that any qualified individual may take a coronavirus-related distribution whether there is a financial need for it or not.

Required Minimum Distribution Waivers

In addition to the distribution relief detailed above, the CARES Act provides for a waiver of required minimum distributions (RMDs) in 2020 for retirement account owners and beneficiaries.

When the CARES Act was first announced in March, it did not provide specific guidance on what options may be available to those who had already taken an RMD distribution in 2020. However, in late June, the IRS announced that anyone who had already taken a 2020 RMD as an owner or beneficiary of a retirement account will have the opportunity to roll the funds back in order to avoid taxation. The notice also waives the one rollover per year rule for purposes of returning an RMD already taken. The rollover must be completed by August 31, 2020, in order to qualify under the notice.

We will continue to provide relevant updates as they're announced. If you have any questions on the application of the new guidance and how it may impact your specific financial situation, please contact us.

To read other recent articles by the CCM Tax Team, visit carlsoncap.com/tax-planning.



Considerations When Selecting a Trustee

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

As a firm dedicated to providing an integrated wealth management experience, we help our clients effectively maximize their assets and unlock opportunities to realize their personal and financial goals. An important aspect of this comprehensive approach is advising clients on the intricacies of their estate plan.

One of the most consequential decisions in estate planning is who to name as trustee. The trustee's knowledge, commitment, ability, and skill will have an enormous impact on fulfilling the intended purpose of a trust. Despite the importance of this decision, it is often given less consideration than the structure of a plan or choice of attorney.

Whether you choose a friend, family member, or professional corporate trustee, the roles and responsibilities of a trustee are the same. Not everyone is aware of the extent and importance of the job, and understanding the responsibilities are a significant part of the decision-making process.

What Does a Trustee Do?

The trustee's role is complex, and includes, among many other administrative tasks, the following duties and responsibilities:

- Reading and understanding the trust document;
- Inventorying and valuing assets;
- Communicating with the beneficiaries;
- Investing trust funds prudently, as defined by state law and fiduciary principles;
- Accounting for principal and income debits and credits;
- Making discretionary distributions;
- Preparing, executing, and filing tax returns;
- Managing unique, non-marketable assets;
- Complying with fiduciary duties, including the duty of loyalty, the duty of impartiality, the duty to inform beneficiaries, etc.; and
- Interpreting complex documents.

Who Can Act as Trustee?

A wide array of people and institutions can act as a trustee, including individuals, such as a spouse, child, or friend; professionals such as attorneys, CPAs, or a professional fiduciary; a corporate trustee; or combination of the above.

You may consider it honorable to ask an individual to serve as trustee, or feel it is an honor to be asked to serve as the

trustee, but most individuals are unaware of the requirements and the time-consuming, complex matters they will need to address during an emotional time.

For the interest of all parties, consider any unusual circumstances or extraordinary duties that may be involved with trust administration and ask yourself:

- Is my selected trustee the best choice for the role?
- Is the selected trustee willing/able to serve in such capacity?
- Is there a clear understanding of the commitment, responsibilities, and potential pitfalls?
- Do the family members all get along?
- Do I have a successor trustee in place in the event an individual trustee is not willing/able to serve?

At Carlson Capital Management, we are privileged to help our clients navigate this space and recommend an approach to selecting a trustee that will allow you to best realize the potential of your wealth. Please contact your advisor if you'd like to discuss the selection of a trustee in more detail.

DID YOU KNOW?

Carlson Capital Management has a team of professionals with deep estate planning experience who work alongside all of the CCM advisors to ensure our approach to wealth management is optimized to help clients reach their goals at the end of their lives.

Included in this team:

- Dan Edwards, CPA,
Director of Estate Planning
- Callie Geist, CFP®, J.D.,
MBA, *Integrated Wealth Advisor*
- Kevin Koski, CPA,
Principal Tax Advisor
- Matt Morehead, J.D.,
CEBS, *Senior Integrated Wealth Advisor*
- Matthew Rich, CFP®, J.D.,
Integrated Wealth Advisor



Live Life in Awe:

A VIRTUAL EVENT WITH
JOHN O'LEARY

*In partnership with our fellow ZAG firms,
Carlson Capital Management is pleased to
present you with a special webinar event featuring
our friend, bestselling author, and prominent
inspirational speaker John O'Leary.*

**TUESDAY, JULY 28, 2020
1:00–2:00 P.M. CENTRAL
ONLINE VIA ZOOM**

REGISTER BY VISITING:
carlsoncap.com/awe

ABOUT THE EVENT

Think back to the time when you once joyfully raised your hand high to answer every question, connected more easily with others around you, believed that anything was possible; when you experienced your days, not as something to endure, but as a marvelous gift to absorb and savor in awe of the ordinary moments of the day and eager for the promise of tomorrow.

Many of us experience life very differently today. The pace of change has never been so stunningly rapid, and it will never be this slow again. We often find ourselves caught in a life of dogged responsibility and mind-numbing repetition, we feel disconnected and burned out. Social media reminds us we don't measure up and mainstream media barrages us with constant negativity. The years of test-taking, relentless striving toward someone else's goals, and the daily struggle to earn a living have caused us to lose the sense of wonder that we once awoke with every day.

John O'Leary invites us to return to the joy of navigating life like a child. John will identify the five senses children innately possess, explain why those senses fade, and share emotional, humorous, and inspirational stories of how we can return to them. He will walk us through the most substantial challenges we face in living more fully, calling out the cause of those challenges, while providing practical and inspired solutions to address them. John will show us how to seek fresh insights, reach for new solutions, and live our best lives.

AT A GLANCE

SECOND QUARTER RETURNS



	Q2 2020	1-YEAR RETURNS	5-YEAR RETURNS	ANNUALIZED 10-YEAR RETURNS
S&P 500 Index	+ 20.54	+ 7.51	+ 10.73	+ 13.99
US Large Value	+ 14.29	- 8.84	+ 4.64	+ 10.41
US Small Cap	+ 25.42	- 6.63	+ 4.29	+ 10.50
US Small Value	+ 18.91	- 17.48	+ 1.26	+ 7.82
International Large Cap	+ 14.88	- 5.13	+ 2.05	+ 5.73
International Large Value	+ 12.43	- 14.48	- 1.59	+ 3.53
International Small Cap	+ 19.88	- 3.52	+ 3.81	+ 8.02
International Small Value	+ 14.61	- 11.51	+ 1.24	+ 6.32
Emerging Markets	+ 18.08	- 3.39	+ 2.86	+ 3.27
US Short-Term Bonds	+ 0.40	+ 5.40	+ 2.30	+ 1.90
US Intermediate-Term Bonds	+ 2.90	+ 8.70	+ 4.30	+ 3.80

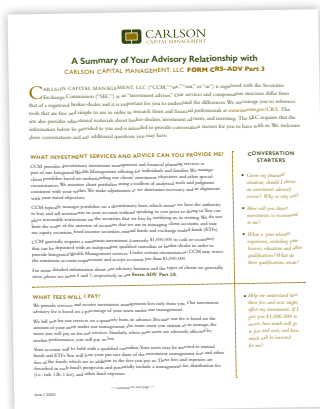
Key Takeaways:

- Global stock markets rebounded strongly in the second quarter
- U.S. companies outperformed international companies, and small companies outperformed globally
- Leading sectors in the second quarter were Consumer Discretionary, Technology, and Energy
- Lagging sectors in the second quarter were Utilities, Consumer Staples, and Financials
- Bonds provided another positive quarter, with the Federal Reserve supporting riskier areas of credit markets.

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 April 1, 2020 through June 30, 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.

INTRODUCING THE NEW FORM CRS



Effective June 30, 2020, the U.S. Securities Exchange Commission (SEC) is prescribing that registered investment advisers (as well as broker-dealers) provide a new customer relationship summary (FORM CRS) to investors.

The SEC created the form with the goal of assisting investors with the process of selecting and working with a financial services firm or professional. CCM has created a FORM CRS and made it available to all clients via your Client Portal. It can be found by going to the Updates > Commentary > CCM Compliance and Disclosures. It is also available on our website, or can be requested at any time from a member of our client servicing team. In addition, it will be provided to you upon opening new accounts at CCM.

We will continue to make you aware of how to access FORM CRS, along with our other ADV forms and Privacy Policy, on an annual basis.

KIM DIEMER EARNS CFP® DESIGNATION



Congratulations to CCM's Kim Diemer, Associate Integrated Wealth Advisor, who recently earned the Certified Financial Planner™ designation. In addition to completing a board-

certified education program, passing the exam, and agreeing to uphold rigorous ethical standards, candidates must also have completed several years of financial planning experience.

MEETING WITH CCM

This month, CCM colleagues will begin gradually transitioning back to our offices. During this time, in order to optimally protect the health and wellbeing of our clients, colleagues, and community, we will continue to host our meetings virtually. In the event that you need to exchange documents in person, we invite you to contact your advisor to arrange a convenient time to visit, and we ask you to observe the safety protocols outlined on our website: carlsoncap.com/COVID-19.

We look forward to the time that we can meet with each of you in person. Until such time, we are committed to doing everything we can to make you feel “at home” virtually.

WELCOME, NEW COLLEAGUES!

Carlson Capital Management is delighted to welcome four new colleagues to our team:

Beverly DeWitte
*Client Servicing
Representative*

Jackie Finkbeiner, PHR
*Senior Human
Resources Generalist*

Justin Roach
Paraplanner

Selene Serkland
Paraplanner

These colleagues, all of whom are based in our Bloomington office, have the distinct honor of beginning their positions during a time when CCM colleagues have been working from home. We look forward to the time when we can introduce you to them in person.

Bloomington Office Expansion Complete

Although the COVID-19 pandemic won't allow us to host the ribbon cutting ceremony and open house celebration we imagined, we're pleased to share that CCM's new, expanded space in Bloomington is complete.

As you may recall, our team is located in two office suites on the main floor of the Southpoint Office Center. Client meetings are held in Suite 150, and many colleague offices are located in Suite 110. With this expansion, we've nearly doubled our Bloomington footprint, allowing for increased integration of our team and an even more collaborative approach to client service.

WE LOOK FORWARD TO
WELCOMING YOU INTO OUR
BLOOMINGTON OFFICE SOON.



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CAPITAL MANAGEMENT

Integrated Wealth Management Since 1987

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