CARLSON
CAPITAL MANAGEMENT

QUARTERLY
Newsletter

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Appealing Fictions

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

In what is one of my absolute favorite financial books of the past decade, *The Psychology of Money,* Morgan Housel introduces us to the concept of "appealing fictions." Housel defines an appealing fiction as follows:

- Something you desperately want to be true because of potential huge upside.
- Is backed up by limited or no data, observation, or reasonable common sense.
- Polarizing in nature drawing people into factions or tribes.

He goes on to describe these "extremely powerful" narratives occurring because, "when you are smart, you want to find solutions, but face a combination of limited control and high stakes." He also states, "We all want the complicated world we live in to make sense. So we tell ourselves stories to fill in the gaps of what effectively are blind spots."[1]

To me, his description so aptly sums up challenges inherent in investing, and in planning for a successful retirement. That is—the combination of limited control and high stakes. Few things in life carry higher stakes—in terms of both dollars and emotional capacity expended—than trying to build, protect, and steward wealth for your life and your legacy. While at the same time, few things put us in a such position of so little overall control. In periods like the past six months, for example, you may have felt a desire to pump the proverbial brakes. Of course, this is why you have CCM as a partner on your journey; it is our job to help guide you through complex decisions to build a robust and data-driven financial plan designed to increase your chance of success. The proactive plan is key in order to avoid kneejerk reactions that are so enticing when volatility and economic disruption incite emotional responses in us all.

Let's explore why, for investors, the past six months have tested resolve. There's no question that 2022 has brought challenges. Inflation continues to dominate the financial headlines as levels not seen in decades persist. Prices at the pump, the grocery store, and elsewhere, continue to be affected by pandemic-era fiscal stimulus, the ongoing war in Ukraine, unresolved global supply chain challenges, and a historically strong job market that have left too many dollars chasing too few goods.

As a consequence of persistent inflationary pressures, the Federal Reserve continues to focus on its mandate to control price changes by increasing interest rates to slow the flow of money into the economy. These moves have resulted in increasing interest rates across the broad U.S. bond market causing those prices to fall. With these moves, when measured broadly, the U.S. bond market had its worst six month return since 1980.[2]

Flipping over to the stock market, when measured by the S&P 500, U.S. stocks finished the quarter at the edge of bear market territory (a 20% decline) for the year so far, after recovering slightly from the late quarter lows.[3] That said, there continue to be bright spots for investors who focus on quality and value stocks, such as how we structure our portfolios at CCM. But for investors who were, for example,

Continued on page 2

[1] Housel, Morgan. *The Psychology of Money: Timeless lessons on wealth, greed, and happiness.* Hampshire, Great Britain: Harriman House, 2020.
[2] Dimensional Returns Web, Bloomberg U.S. Aggregate Bond Index for the time periods of September 1, 1979–February 29, 1980 and January 1, 2022–June 30, 2022.
[3] Morningstar Direct. S&P 500 TR for the time period of January 1, 2022–June 30, 2022.

trying to ride the wave of high-priced technology stocks (which have been so rewarding for many years), that broad-based sector index is down more than 30% year-to-date while some of the work from home transition gainers like Zoom and Peloton are down more than 80% and 90% from their highs.[4]

You may read those last few paragraphs, pause, scratch your head, and craft a variety of narratives as to how these outcomes could have been avoided, predicted, or taken advantage of for further gain. Your thoughts may start with phrases like, "Had I just …" or "If I only …" or "But next time …" And although those conclusions could be accurate at some point in the future, the odds would not be on your side. These are powerful "appealing fictions" that can cause us to think that we could be that one in a million success story, or the next Warren Buffet had we just followed our gut.

While the returns laid out above are the unfortunate facts of recent short-term performance, and these facts most certainly matter, it's important to understand that these particular facts may not actually matter materially to the quantitative success of your long-term financial plan. This is so important, it bears repeating … the experience of recent short-term performance may not impact the quantitative success of your long-term financial plan in as material a manner as it may feel at present. It's certainly intuitive to think that a sharp decline in asset values would have a significant impact on success rates in both financial modeling and real-life outcomes, but the reality is that these types of challenging market scenarios are built into the modeling of future outcomes. More importantly, they have always been part of our past experiences and are one of the reasons why stock market returns have rewarded investors—over time—for taking on such risks.

The good news is that you don't have to take my word for it; you don't need to believe my appealing fiction, as the facts bear this reality out, as detailed in the chart below. If we look backward, expanding our view to a slightly longer window of time, maybe to include even MORE volatility, say right before the onset of COVID-19 at the beginning of 2020, the returns of the S&P 500 from then, to now, increase to almost 22% in total or 8.3% per year. And by expanding our view to include that time period, we now have a drawdown of more than 30% on top of this year's 20% decline.[5]

What about expanding the scope even further to the beginning of 2018 in order to include yet another bear market drawdown? In doing so, we see that total returns on the S&P 500 increase to 53% in total, or about 10% per year. During this four-and-a-half-year span, stock market investors experienced three periods of losses of 20% or greater, with a very attractive annual return of 10%.[6]

S&P 500 RETURNS

	Year To Date January 1, 2022 to June 30, 2022	**Two and a Half Year Span** January 1, 2020 to June 30, 2022	**Four and a Half Year Span** January 1, 2018 to June 30, 2022
Total Return	- 20%	+ 22%	+ 53%
Max High to Low Loss	- 23%	- 34%	- 34%
# of Bear Markets	1	2	3

Data represents past performance. Past performance is no guarantee of future results. Table is for illustrative purposes only. Returns are based on S&P 500 Total Returns for the time periods of January 1, 2022–June 30, 2022; January 1, 2020–June 30, 2022; January 1, 2018–June 30, 2022. Source: Morningstar Direct. A bear market is when a market experiences prolonged price declines. It typically describes a condition in which securities fall 20% or more from recent highs. Source: Investopedia.

As is always the case, the future is uncertain. The latter half of 2022 may bring additional volatility in both stock and bond markets linked to events currently unfolding or others that haven't yet presented themselves. It's also possible that markets will stabilize and be on their way back toward new all-time highs by the close of December. Just as we've seen in the examples of the recent past, bear and bull markets tend to follow closely and that doesn't mean that investors should be fearful.

No one truly knows what will come as related to the economy and the markets, and that is an important fact to always acknowledge to help avoid having your long-term financial goals sidetracked by the siren song of appealing fictions.

Note: *We're happy to announce that all clients of CCM, and their guests, will have an opportunity to hear directly from Morgan Housel this fall. See page 5 for more information.*

[4] The Center for Research in Securities Prices, U.S. Technology TR and Morningstar Direct. Time periods of October 20, 2020-June 30, 2022 (Zoom: ZM) and January 14, 2021-June 30, 2022 (Peloton: PTON).

[5] Morningstar Direct. S&P 500 TR for the time period of January 1, 2020-June 30, 2022.

[6] Morningstar Direct. S&P 500 TR for the time period of January 1, 2018-June 30, 2022.

QUALIFIED CHARITABLE DISTRIBUTIONS AND DONOR ADVISED FUNDS:
Six Things to Know About Each

KEVIN KOSKI, CPA, PRINCIPAL TAX ADVISOR

At CCM, we believe an integrated financial plan is key to best supporting our clients in fulfilling their financial goals. In our experience, families benefit most from integration that incorporates investment, estate, tax, retirement, risk management, and philanthropic plans. Since qualified charitable distributions (QCDs) and donor advised funds (DAFs) are tax-efficient charitable giving strategies, their impact is significant across three of the disciplines CCM emphasizes and, thus, the subject of many financial planning discussions.

As you consider your philanthropic wishes, and how they integrate with your overall financial goals, it's helpful to have a general understanding of the tax-related ramifications of two of the most widely used charitable giving strategies—QCDs and DAFs.

Qualified Charitable Distributions

A qualified charitable distribution (QCD) is a cash distribution made directly from an individual retirement account (IRA) to a qualifying charitable organization.

- You must have reached age 70 ½ to be eligible for a QCD.
- Each taxpayer is subject to a maximum QCD limit of $100,000 per tax year. A QCD is not limited to the RMD for that year.
- A QCD can only be completed from an IRA account (including traditional IRA, inherited, SEP, and SIMPLE IRA accounts). 401k and 403b accounts are not eligible for a QCD, but can be rolled over to an IRA account to become eligible.
- A QCD can be used to fulfill a required minimum distribution (RMD) from an IRA account.
- A QCD cannot be deposited to a donor advised fund or private foundation, as they are not considered to be qualifying charitable organizations for this purpose.
- A QCD is required to be reported on Form 1099-R as a taxable distribution by the IRA custodian. The taxpayer and tax preparer are responsible for excluding the distribution from income on the tax return by following required Internal Revenue Service (IRS) reporting procedures. A QCD is not reported as a charitable contribution on Schedule A (itemized deductions), because it is excluded from income.

Donor Advised Funds

A donor advised fund (DAF) operates as a charitable investment account established for the sole purpose of supporting charitable organizations through the recommendation of grants from the DAF.

- Cash or securities (stocks, bonds, mutual funds, and exchange traded funds) can be contributed to a DAF account.
- Unrealized appreciation on securities held for more than one year which are contributed to a DAF, are permanently excluded from taxable income.
- Grants from a DAF cannot be used to fulfill a personal pledge to a charitable organization.
- Grants from a DAF are not reported as charitable contributions on Schedule A because the original contribution *to* the DAF was reported as a deduction in the year assets were contributed into the DAF.
- A DAF account is not subject to an annual required grant amount or percentage.
- A DAF account can name a successor to the account for purposes of making grants upon the passing of the original named grantor.

If learning more about QCDs and DAFs stirs questions or new conversations about your charitable giving goals, please contact your CCM advisor for a discussion.

To read more: ***americancp.org; schwabcharitable.org***

Responding to the FINANCIAL COMPLEXITIES OF DIVORCE

DAVID SAYERS, CFP®, CDFA®, MBA
SENIOR INTEGRATED WEALTH ADVISOR

"I'm sad and happy for you."

Some might consider that an odd response to news of a divorce. I have found it to be the best way to acknowledge a very complex situation. I lead off my response with sad, as divorce is a uniquely painful experience. On top of the emotional and psychological challenges, there are many impactful financial matters to be worked through.

Division of Financial Labor

In many couples, there is one partner who gravitates toward doing more of the financial workload. It is common for us to hear comments like, "I just want to know we're OK, but Partner would love to hear more about the details." This arrangement can work beautifully … until Partner is no longer part of the team. Many divorcing clients will benefit from a competent guide they can trust to level the playing field of knowledge during the divorce and help them learn to operate financially day-to-day as a newly single person.

Fair Does Not Mean Equal

While we frequently hear about someone getting "half" via a divorce, courts focus on reaching outcomes that are fair. As I've told my children many times, "fair does not mean equal." Reaching fair financial outcomes in a divorce is not trivial. Does $1 of IRA equal $1 of Roth IRA? Would you rather have $1 of appreciated stock or $1 of cash? How do you properly account for differences in future earning potential, especially when the couple decided it was best for one partner to focus on family instead of professional advancement? The best answers to those questions and many others require an integrated understanding of a divorcee's situation, goals, and values.

It Takes a Village

While you can obtain a "do it yourself" divorce, many will benefit from professional help. A divorce attorney will often provide counsel and shepherd the process. Financial professionals with expertise in financial planning and modeling, taxes, investments, insurance, employee benefits, and estate planning can help guide a divorcee in shaping and evaluating proposals and counterproposals. Professionals with the Certified Divorce Financial Analyst (CDFA®) certification have obtained additional specialized training to assist in working through divorce. In an already overwhelming situation, the ability to access more specialists under one roof can save precious time, reduce strain, and often improve the outcomes.

Who are You Calling Gray?

In recent decades, the term "gray divorce" has become familiar, as divorce rates involving people age 50 and older have rapidly increased. These cases often feature bigger balance sheets, higher incomes, more complex family situations, and fewer years to recover post-divorce. Since the financial stakes are heightened, people in this situation can benefit even more from seeking the right professional guidance.

So, Why the Happy?

My personal and professional experience is that as painful as divorce can be, it can often be the beginning of a happier future for both partners. As the great philosopher Rocky Balboa told us, "…it ain't about how hard you can hit. It's about how hard you can get hit and keep moving forward." Divorce is one of life's hardest hits. I generally find folks are better off in their Plan B (or C) a few years later. Having the right guidance along the way can help accelerate that process.

Our team stands ready to help families navigate a range of life transitions. Talk with your CCM advisor for more details or to refer someone you care about for financial advice that considers their personal situation.

SAVE THE DATE

Behavioral Finance Lessons for Uncertain Times:

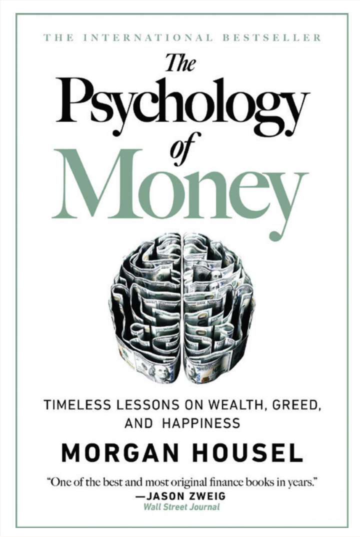
A VIRTUAL Q&A WITH MORGAN HOUSEL

THURSDAY, SEPTEMBER 15

7 P.M. CENTRAL · ZOOM

Registration information will be available soon.

Amid continued economic uncertainty, we're delighted to invite you to a virtual event with acclaimed speaker, author, and behavioral finance expert Morgan Housel.



FOR MORE THAN TWO YEARS we've experienced a range of economic emotions, many of them familiar but with new-to-us inputs that cause us to pause and wonder, "Maybe this time, the outcome will be different." As disciplined investors, managing our emotions will always be one of our most important jobs.

Housel's bestselling book—*The Psychology of Money: Timeless lessons on wealth, greed, and happiness* — is a collection of short stories that explores the ways people think about money and Housel's belief that doing well with money isn't necessarily about what you know. It's about how you behave.

CCM NAMED A TOP WORKPLACE *for the Second Year*

Carlson Capital Management has been named one of the 2022 Top 200 Workplaces in Minnesota by the Star Tribune. This is the second year in a row that CCM has been named a Top Workplace. The award, which is given annually, recognizes companies with more than 50 employees in Minnesota that, based on employee opinions, score most favorably in seven areas of organizational health. CCM is one of just seventy-five honorees in the Star Tribune's Small Employer category. A complete list of those selected is available on the Star Tribune's website.

> *"What an honor it is to receive the Top Workplaces award again. The recognition is especially meaningful because it speaks directly to the high-quality culture that our colleagues have stewarded with such intentionality since our founding 35 years ago. The CCM team is comprised of talented, values-driven professionals. I'm grateful that, together, we're building a firm that cares deeply about people."*
>
> — JUSTIN STETS, AIF®, PRESIDENT OF CARLSON CAPITAL MANAGEMENT

If you know of anyone who is interested in a career in wealth management, opportunities to join the Carlson Capital Management team can be found on our website: *carlsoncap.com/careers.*

Follow Us on LinkedIn Connect with Carlson Capital Management on LinkedIn for more information about firm happenings and news from our wealth management team.

Neither rankings and/or recognitions by unaffiliated rating services, publications, media, or other organizations, nor any amount of prior experience or success, should be construed by a client or prospective client as a guarantee that he/she will experience a certain level of results if CCM is engaged, or continues to be engaged, to provide investment advisory services. The criteria for the Star Tribune's Top Workplace award can be found here: https://www.startribune.com/nominate-your-company-for-2022-minnesota-top-workplaces/600131823/. *The Star Tribune partnered with an independent organization, Energage, to conduct the research and administer employee surveys in order to determine awardees. CCM did not pay a fee to receive this award and has paid no fees to the Star Tribune to promote this award. CCM did pay the Star Tribune for advertising in print and digital ads featuring receipt of the award. The Star Tribune independently honored CCM.*

WELCOME NEW COLLEAGUES

Ashley Johnson, CTFA®
Associate Integrated Wealth Advisor

Audrey Day
Paraplanner

Carter Justice
Tax Specialist

Drew Owen
Paraplanner

Jake Meyer
Investment Specialist

Josh Hopkins
Database Analyst

Kyle DeGross
Tax Specialist

Full biographies are featured on ***carlsoncap.com/team,*** where you can also connect directly with any colleague at the firm.

COLLEAGUE ACCOLADES

Selene Serkland Earns CFP® Certification

Congratulations to CCM Paraplanner SELENE SERKLAND, CFP® on earning the CERTIFIED FINANCIAL PLANNER™ certification, one of the most respected achievements in the industry. Individuals who hold CFP® certification are well trained in myriad disciplines of integrated wealth management and are equipped to support clients' financial plans throughout life transitions. There are 16 CFP® certified advisors on the CCM team.

Colleagues Promoted

We are pleased to share the news of two recent promotions at CCM—PAIGE WOODS, CPA now holds the title of Senior Tax Advisor and Manager of Tax Services and NICK KRAKOSKY, CFP® serves as Integrated Wealth Advisor. Through their actions, these colleagues demonstrate a deep commitment to CCM's mission and guiding principles in service to clients, colleagues, and the firm.

WEDDING SEASON AT CCM

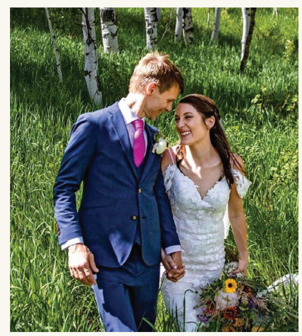
We're dubbing 2022 as "The Year of All the Weddings" here at CCM, and we're glad to celebrate alongside our colleague-friends as they journey into new chapters of their lives.

In May, Associate Integrated Wealth Advisor and Paraplanner Team Lead **BEN CARLSON, CFP®** and Julia were married in the Twin Cities at Our Lady of Grace Church.

CCM colleagues **TANISHA JUSTUS, FPQP™**, Technology Support Supervisor, and **JOSH HOPKINS,** Database Analyst, were married in June in the Twin Cities.

In June, Paraplanner **CONNOR MISCH** and his college sweetheart McKenna were married in Rochester.

Also in June, Integrated Wealth Advisor **KIM (DIEMER) WURL, CFP®** and Joe were married in a quiet ceremony alongside the Yampa River in Steamboat Springs, Colorado.



WELCOME, KELLER!

ANGIE OLSON, APHR®, Administrative Specialist, and her husband, Adam, welcomed sweet Keller into their family in early June. His future no doubt includes many exciting adventures with his two older brothers, Charlie and Henry.