CARLSON CAPITAL MANAGEMENT

Quarterly

NEWSLETTER

INVESTMENT INSIGHT

ADAM HOFFMANN, CFP®, AIF®, DIRECTOR OF INVESTMENTS & RESEARCH

During our recent client event presentation at the Minnesota History Center, we discussed the importance of asking good questions. In a world in which most of us carry around small computers in our pockets that are capable of tapping into a seemingly infinite pool of data and information that is the internet, the value of the answers we find corresponds directly with the quality of the questions we ask. When exploring answers for many commonly asked financial questions, the risk that one faces is that the difference between good and bad questions can lead to either success or failure in meeting long-term goals.

One of the often-asked questions we explored at the event was, "How have markets performed?" To answer this question in the context of the past quarter—the past three months brought another very strong period for stocks in markets across the globe. In fact, returns were so robust that the S&P 500 Index closed daily trading at a new all-time high 17 times since June. While this is clearly something to celebrate and view positively, it's not uncommon for reports of new all-time highs to be met with some level of anxiety about some unknown future downturn. There is no shortage of 'answers' to be found and no shortage of talking heads shouting about the imminent end of the current bull market. What's important to realize is that many of these same sources have been repeating doom and gloom messages for years all the while there have been 229 new all-time highs reached in U.S. stocks. While we know capital markets do not always go up, fearing such growth is typically counter-productive. Confusing the inevitability of events like market downturns with their imminence can lead you far from the path of success.

What we need to remember is that a quarter, a year, or even a decade doesn't tell the full story of why or how to invest. Reaching all-time highs shouldn't drastically change how a portfolio is structured if personal goals have not changed as well. Capital markets have rewarded investors over the long term, and having an investment approach you can stick with—especially during tough times—may better prepare you for the next crisis and its aftermath.

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In 2008, the stock market dropped in value by almost half. Being a decade removed from the crisis may make it easier to take the past in stride. The eventual rebound and subsequent years of double-digit gains have also likely helped in this regard. While the events of the crisis were unfolding, however, a future of this sort looked anything but certain. Headlines such as "Worst Crisis Since '30s, With No End Yet in Sight," "Markets in Disarray as Lending Locks Up," and "For Stocks, Worst Single-Day Drop in Two Decades" were common front page stories. Reading the news, opening quarterly statements, or going online to check an account balance were, for many, stomach-churning experiences.

While being an investor today (or during any period, for that matter), is by no means a worry-free experience, the feelings of panic and dread felt by many during the financial crisis were distinctly acute. Many investors reacted emotionally to these developments. In the heat of the moment, some decided it was more than they could stomach, so they sold out of stocks. On the other hand, many who were able to stay the course and stick to their approach recovered from the crisis and benefited from the subsequent rebound in markets.

It is important to remember that this crisis and the subsequent recovery in financial markets was not the first time in history that periods of substantial volatility have occurred. The chart below, "The Market's Response to Crisis," helps illustrate this point. The illustration shows the performance of a balanced investment strategy following several crises, including the bankruptcy of Lehman Brothers in September of 2008, which took place in the middle of the financial crisis. Each event is labeled with the month and year that it occurred or peaked.

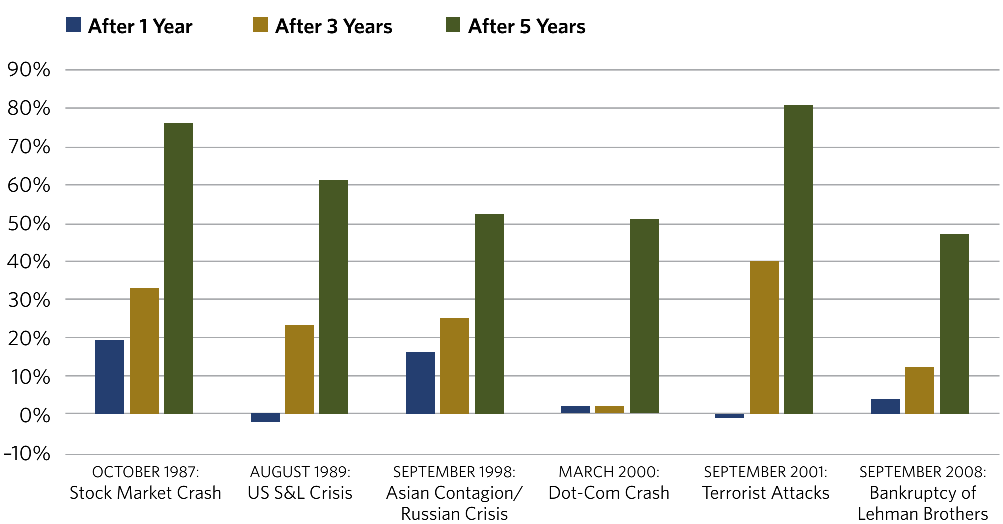
Although a globally diversified balanced investment strategy invested at the time of each event would have suffered losses immediately following most of these events, financial markets did recover, as can be seen by the three- and five-year cumulative returns shown in the chart. In advance of such periods of discomfort, having a long-term perspective, appropriate diversification, and an asset allocation that aligns with their risk tolerance and goals can help investors remain disciplined enough to ride out the storm. A financial advisor can play a critical role in helping to work through these issues and in counseling investors when things look their darkest.

In the minds of some investors, there is always a "crisis of the day" or potential major event looming that could mean the beginning of the next drop in markets. As we know, predicting future events correctly, or how the market will react to future events, is a difficult exercise. Thinking about the post global financial crisis recovery and the strength of equity markets to generate wealth and provide the engine for the long-term success of whatever your financial goals may be, and thinking about the challenges and stress inducing headlines that have been published in the past five years, how many of the 229 new all-time highs would you have missed if you reacted emotionally to the news instead of through a disciplined rebalancing strategy?

It is important to understand, however, that market volatility is a part of investing. To enjoy the benefit of higher potential returns, investors must be willing to accept increased uncertainty. A key part of a good long-term investment experience is being able to stay with your investment philosophy, even during tough times. A well-thought-out, transparent investment approach is what we focus on at CCM, and can help you be better prepared to face uncertainty. This will likely improve your ability to stick with your overall plan and ultimately capture the long-term returns of capital markets.

The Market's Response to Crisis

Performance of a Balanced Strategy: 60% Stocks, 40% Bonds (Cumulative Total Return)



In US dollars. Represents cumulative total returns of a balanced strategy invested on the first day of the following calendar month of the event noted. Balanced Strategy: 12% S&P 500 Index, 12% Dimensional US Large Cap Value Index, 6% Dow Jones US Select REIT Index, 6% Dimensional International Marketwide Value Index, 6% Dimensional US Small Cap Index, 6% Dimensional US Small Cap Value Index, 3% Dimensional International Small Cap Index, 3% Dimensional International Small Cap Value Index, 2.4% Dimensional Emerging Markets Small Index, 1.8% Dimensional Emerging Markets Value Index, 1.8% Dimensional Emerging Markets Index, 10% Bloomberg Barclays Treasury Bond Index 1-5 Years, 10% Citigroup World Government Bond Index 1-5 Years (hedged), 10% Citigroup World Government Bond Index 1-3 Years (hedged), 10% BofA Merrill Lynch 1-Year US Treasury Note Index. The S&P data are provided by Standard & Poor's Index Services Group. The Merrill Lynch Indices are used with permission; copyright 2017 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Citigroup Indices used with permission, © 2017 by Citigroup. Bloomberg Barclays data provided by Bloomberg. For illustrative purposes only. Dimensional indices use CRSP and Compustat data. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Not to be construed as investment advice. Rebalanced monthly. Returns of model portfolios are based on back-tested model allocation mixes designed with the benefit of hindsight and do not represent actual investment performance.

TAX CONSIDERATIONS

AN UPDATE FROM THE TAX TEAM: *First Look at Potential Tax Reform*

KEVIN KOSKI, CPA, DIRECTOR OF TAX SERVICES

On Wednesday, September 27, 2017, the Trump Administration, House Committee on Ways and Means, and the Senate Committee on Finance released a document titled, "Unified Framework for Fixing our Broken Tax Code"[1] with the hope that it will provide a framework for the upcoming debate on tax reform.

The proposal is missing many key details, but it does provide a general overview of the changes that we may ultimately see. For this quarter's Tax Update, we thought you might want to see a summary of what is included in the document:

Individual Tax Provisions:

- The number of tax brackets would be reduced from seven into three brackets of 12%, 25% and 35%. The document further states that a fourth bracket may be applied to the highest-income taxpayers to ensure that taxes are not shifted from high income to lower and middle income taxpayers.
- Most itemized deductions are eliminated (i.e. state income tax, real estate tax, medical expenses, investment expenses, etc.) but tax incentives for charitable contributions and mortgage interest will be retained.
- The standard deduction would be almost doubled to $24,000 for married taxpayers filing jointly and $12,000 for single filers.
- The deduction based on the number of personal exemptions would be eliminated but an enhanced child tax credit would be enacted.
- The Individual Alternative Minimum Tax (AMT) would be repealed.
- Tax incentives for retirement plan savings and education funding will be retained.
- The Estate Tax and Generation Skipping Tax would be repealed.

Business Tax Provisions:

- The maximum tax rate to be applied to business income generated through sole proprietorships, partnerships, and S corporations would be limited to 25%.
- The maximum tax rate to be applied to business income of C corporations would be 20%.
- Businesses would be allowed to immediately write-off the full cost of new investments in depreciable assets other than structures for a period of at least five years.
- The deduction for interest expense of C corporations would be partially limited.
- The incentive to keep foreign profits offshore to avoid corporate tax would be eliminated.

The framework documents leave many details incomplete or blank. They state that the details will be determined within the various committees that will mark-up the bill during the legislative process. Some examples of unanswered questions include:

- Will the existing preferential tax rate on qualified dividends and long-term capital gains be retained?
- Will a step-up in the basis of assets be allowed at the death of a taxpayer or will the heirs be subject to income tax on the unrealized appreciation?

We will continue to closely monitor any updates on tax reform as it moves through the process, and we will take our latest knowledge into account as we work through year-end planning strategies for CCM clients. Please contact us if you have any questions about how tax reform may impact your personal situation.

Tax updates featured in previous newsletters can be found at ***carlsoncap.com/articles***

[1] "Unified Framework for Fixing Our Broken Tax Code," *waysandmeansforms.house.gov/uploadedfiles/tax_framework.pdf*

FINANCIAL PLANNING

PLANNING FEATURE: *Financial Lessons and Key Discussions with Children and Grandchildren*

JASON KLEY, CFP®, AIF®, MBA, SENIOR INTEGRATED WEALTH ADVISOR

Like many parents, I want to help my children achieve success as much as possible. That success comes in many different forms – physically, mentally, emotionally, spiritually, and financially. I want to be able to give my kids enough to help them, but not so much so that it's detrimental. Many times it is a balancing act knowing how much to assist – while providing them with the right amount of independence.

When it comes to finances, there are many teachable moments throughout a child's life that form the way they think about money in the future. One of my favorite things to ask a prospective client the first time they visit us at CCM is, "What is your favorite money memory?" For me, it is saving enough money to buy a $135 bicycle as a 13-year-old.

Establishing these types of memories with my children includes taking them to a local retail store and going up and down the toy aisles. When they each have $6 in their pockets, they go through the process of recognizing the items they can and cannot buy – if something costs $7.99, it's not going to work. It also may be the case that one of my sons happens to have $20 in his pocket, and the other just the $6, due to differences in their savings habits – and this too becomes a lasting life lesson (although admittedly can test my conflict resolution skills in the middle of a store).

There are lessons applicable to children of all ages. For example, one of the best times to begin discussions around college funding with children or grandchildren is in middle school. Granted, conversations with beneficiaries many times occur after the plan is set in motion (in this case, it's not unheard of to establish a 529 account upon a child's birth or before). No matter when an account is established, I recommend setting expectations early as to how much you intend to contribute to your children's or grandchildren's education. For example, are contributions going to be made as gifts for birthdays and holidays? Based on academic performance? As a match on a percentage of their own contributions? This allows you to adequately plan for increasing college costs and mitigate surprises once a child reaches college age.

Discussions around bigger topics like family wealth and values can be optimal to begin when children are in their 20s or 30s. For example, are your children practicing healthy spending habits? Do they have expectations for your support? Do they understand their own investment accounts and the time value of money? Are there gifting or inheritance expectations? What values would you like to pass along to future generations? Do you have charitable intents you want to share with your children or other heirs?

Unfortunately, too many people wait to address questions like these, or have these conversations with their children or other heirs when they or a loved one are facing mortality. I encourage you to have these conversations within your family and with your advisor. CCM works with more than 900 families, giving us the breadth and depth of many family experiences to draw upon when we work with you. If you are wondering how to broach these topics with your own children, please contact your advisor. We enjoy facilitating these discussions as it brings numerous tenets of our wealth management role together and gives the families we work with peace of mind.

VANGUARD PROXY VOTE

CCM clients have likely received mail and/or email in the past several weeks from Schwab or from TIAA-CREF which included a Proxy Statement, and a request for your vote. Vanguard will be holding a Joint Special Meeting of Shareholders on November 15, 2017, and is requesting a vote of shareholders. The vote includes the election of trustees as well as proposals related to Vanguard funds and investment policies. The Proxy Statement includes the recommendations of the Vanguard Board of Trustees on these items. CCM is not able to vote on your behalf, and we do recommend that you exercise your shareholder right to vote. Should Vanguard not reach sufficient shareholder participation, they'll conduct phone campaigns and utilize other follow-up methods to solicit votes. It is our understanding that once you vote, you will not be contacted again by Vanguard.

You can vote:

- Online at ***proxyvote.com***
- By phone at 1.800.454.8683 or
- By sending in the ballot you received by mail [note: likely arrived in an envelope from Schwab and/or TIAA-CREF]

For more information:
carlsoncap.com/vanguard-2017-proxy-vote

CCM CELEBRATES 10 YEARS *of CEFEX Certification*

As one of the first firms in the country to be certified by the Centre for Fiduciary Excellence (CEFEX), CCM was honored to receive recognition at Fi360's annual conference in Nashville this summer.

"Client trust is not granted. It is earned. And, we earn that trust when our words, recommendations and actions are in complete alignment with the client's best interests. Further, the fiduciary standard of care that we, at CCM adhere to, is documented and independently audited every year by the Centre for Fiduciary Studies." stated Justin Stets, AIF®, CCM President and Chief Compliance Officer.

For more about CCM's on-going commitment to fiduciary standards, please visit our website: ***carlsoncap.com/fiduciary*** which includes a short video on what it means to be CEFEX Certified.

CCM WELCOMES A NEW COLLEAGUE

We are happy to introduce PETE who has joined CCM's Tax Team and CCM Tax & Trust Administration, bringing an additional Certified Public Accountant (CPA) to our team of advisors.

Pete Roseboom, CPA
Senior Tax Advisor
Rochester Office
Saint Mary's University of Minnesota Alumnus

Full colleague biographies can be read at ***carlsoncap.com/team***

THIRD QUARTER RETURNS

	Q3 2017	1-YEAR RETURNS	ANNUALIZED 5-YEAR RETURNS	10-YEAR RETURNS
S&P 500 Index	+ 4.48	+ 18.61	+ 14.22	+ 7.44
US Large Value	+ 3.11	+ 15.12	+ 13.20	+ 5.92
US Small Cap	+ 5.67	+ 20.74	+ 13.79	+ 7.85
US Small Value	+ 5.11	+ 20.55	+ 13.27	+ 7.14
International Large Cap	+ 5.40	+ 19.10	+ 8.38	+ 1.34
International Large Value	+ 5.87	+ 22.55	+ 7.80	+ 0.49
International Small Cap	+ 7.46	+ 21.84	+ 12.85	+ 4.63
International Small Value	+ 7.11	+ 23.06	+ 13.20	+ 4.45
Emerging Markets	+ 7.89	+ 22.46	+ 3.99	+ 1.32
US Short-Term Bonds	+ 0.47	+ 0.47	+ 1.32	+ 2.97
US Intermediate-Term Bonds	+ 0.85	+ 0.07	+ 2.06	+ 4.27

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 July 1, 2017 through September 30, 2017.

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.

- Equity and fixed income markets generated broad gains in the third quarter.
- For the third consecutive quarter, international stocks outperformed U.S. stocks.
- In the U.S., small companies outperformed large companies, while growth companies outperformed value companies.
- Internationally, small companies outperformed large companies, while the growth vs. value picture was mixed.
- The best performing U.S. industry was Technology, which was up 8.65% this quarter. Energy (+6.84%) and Telecom (+6.78) were second and third respectively.
- Consumer Staples was the worst performing sector, losing 1.35% in the quarter. Consumer Discretionary (+0.84%) and Utilities (+2.87) were the second and third worst performing sectors.
- Interest rates remained virtually unchanged in the third quarter. As a result, longer term bonds outperformed shorter term bonds.
- Short term bonds generated returns of 0.47% in the third quarter, while intermediate term bonds generated 0.85% returns.

EQUIFAX CONSUMER DATA BREACH

On September 7, 2017, Equifax announced what it described as a "cybersecurity incident" involving consumer information affecting up to 143 million consumers; that estimate was revised upwards to 145.5 million earlier this month. According to an Equifax statement, the incident of unauthorized access occurred from mid-May through July 2017. Information accessed primarily included names, Social Security numbers, birth dates, addresses, and in some instances, driver's license numbers.

CCM's recommendation is that all clients visit the United States Federal Trade Commission web page: The Equifax Data Breach: What to Do, [*consumer.ftc.gov/blog/2017/09/equifax-data-breach-what-do*] which includes clear steps to take regarding this breach.

For information on how CCM works to protect your data, and for tips to help keep your personal information secure, please see our website: *carlsoncap.com/cybersecurity*

SCHWAB MOBILE APP

With the Schwab Mobile App you have the ability to deposit checks, view transaction histories, view account balances, approve electronic wires, and much more. Schwab Mobile is available for numerous devices such as your iPhone, iPad, Android device or Kindle Fire. To learn more visit *schwab.com/mobile* and be sure to contact us if you have any questions.

THANK YOU!

30 years

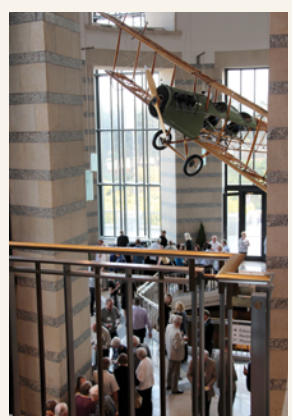
CARLSON CAPITAL MANAGEMENT

celebrates thirty years of serving clients in 2017

We are privileged to serve you and your families and thank our many loyal clients who have been with us for much of our journey as a firm.

MINNESOTA HISTORY CENTER

Fall Client Event



All of the CCM colleagues enjoyed an evening with clients and guests at our fall event at the Minnesota History Center on September 21. It was a fantastic evening and we appreciated the opportunity to spend time with everyone who attended!

PHOTOS BY JESSICA HAYES

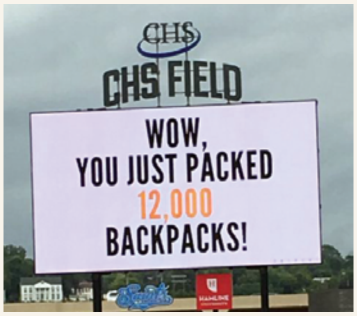
COMPANY NEWS & COMMUNICATIONS

The CCM Team congratulates MATTHEW RICH, 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. Matthew adds the CFP® certification to his Juris Doctor which he earned from the William Mitchell College of Law. *cfp.net*

Congratulations to MICHAEL LUND and his new bride, ERIN (Haglund) on celebrating their wedding day Saturday, September 2. The happy couple are pictured here with a surprise guest—Goldy the Gopher!

On October 4, the Dakota-Scott Workforce Development Board announced they were again awarding CCM the distinction of "Employer of Excellence." CCM Director of Human Capital, SCOTT FERARO accepted the award on behalf of the firm.

We are excited to share that LAURA VIRGEN, Client Servicing Representative in CCM's Northfield office, announced the arrival of ELIAS ANDRES on September 7. Warmest of welcomes to baby Eli!



On the evening of August 17, a group of CCM COLLEAGUES enjoyed volunteering for the United Way Action Day in St. Paul to help stuff 12,000 backpacks with school supplies for Twin Cities area students. Backpacks were distributed through 24 different United Way partner agencies.

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