

Quarterly

NEWSLETTER



OCTOBER 2019

INVESTMENT BRIEF

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

The Index Bogeyman

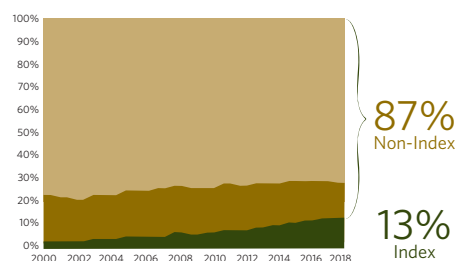
Index funds are receiving increased attention, mostly centered on the virtues of low-cost and broadly diversified vehicles for accessing stock and bond markets. In a competition in which one side's success is another side's loss, it's not surprising to hear active managers railing against passive investing. Some claim that increased usage of index funds is distorting market prices. The Carlson Capital Management team firmly believes that markets continue to work and investors can still rely on market prices.

Here's why:

- Assets invested through index funds still make up a relatively small percentage of overall assets in markets.
- It's the totality of the assets and participants in markets that matters. Security prices reflect the viewpoints of all investors, not just the population of mutual funds.
- While the volume of assets held in index-based funds has increased, so has global market trading volume.
- Active mutual fund managers continue to underperform, suggesting that the rise of indexing has not made it easier to outguess market prices.

WHY THERE'S NO SUCH THING AS AN INDEX BOGEYMAN

Indexing Is Still a Fraction of Total Market Cap



Global Markets Provide Liquidity

\$120 Trillion
Annual Global Equity Market Trading Volume 2018

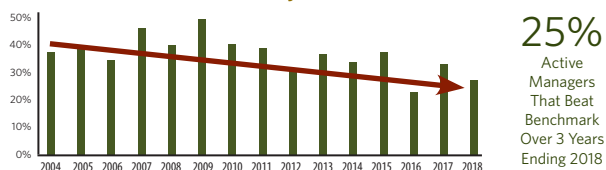
71%
Increase in Annual Global Equity Market Trading Volume Since 2009

Costs Matter

0.76%
Non-Index Equity Funds

0.08%
Index Equity Funds

And the Results Stay the Same



Upper left: https://www.ici.org/pdf/2019_factbook.pdf & https://www.ici.org/pdf/2018_factbook.pdf • Upper right: Source: Dimensional, using data from Bloomberg LP. Includes primary and secondary exchange trading volume globally for equities. ETFs and funds are excluded. • Bottom left: Sources: Investment Company Institute, Lipper, and Morningstar. See ICI Research Perspective, Trends in the Expenses and Fees of Funds, 2018. Note: Expense ratios are measured as asset-weighted averages. Data exclude mutual funds available as investment choices in variable annuities. • Bottom Right: Equity mutual fund outperformance percentages are shown for the three-year periods ending December 31 of each year, 2004–2018. Each sample includes equity funds available at the beginning of the three-year period. Outperformers are funds with return observations for every month of the three-year period whose cumulative net return over the period exceeded that of their respective Morningstar category index as of the start of the period. U.S.-domiciled non-Dimensional mutual fund data is from Morningstar. Dimensional fund data provided by the fund accountant. Past performance is no guarantee of future results. For more methodology details, see the latest Mutual Fund Landscape brochure: hub.dimensionalfund.com/exLink.asp?40838454OC19S68188753842.

As you can see, the data continue to support the conclusion that markets are working, and that while indexing has been a great financial innovation for many, it is only one solution in a large universe of different investment options.

AN UPDATE FROM THE TAX TEAM: *Is Now the Ideal Time to Consider a Roth IRA Conversion?*

KEVIN KOSKI, CPA, PRINCIPAL TAX ADVISOR



Carlson Capital Management works with many clients each year to implement a Roth IRA conversion strategy in which a portion of their tax-deferred accounts (i.e. 401(k), IRA) are converted to a Roth IRA. Generally speaking, the long-term benefits of a conversion strategy are measured by comparing the amount of taxes paid today upon conversion versus the taxes avoided in the future on all of the investment earnings and growth accruing after the conversion. Many will avoid paying the taxes today on a Roth IRA conversion under the belief that they or their heirs will be subject to a lower tax rate in the future. That said, it's important to note the potential implications of recently-enacted and pending federal legislation on the current versus future tax-rate analysis: Tax Cuts and Jobs Act of 2017 and Setting Every Community Up for Retirement Act of 2019.

- **Tax Cuts and Jobs Act of 2017**

The Tax Cuts and Jobs Act of 2017 (TCJA) has placed current tax rates at historic lows. The 22% and 24% federal tax rate brackets now extend to income levels where many paid federal taxes at rates of as high as 32–35% under prior law. The tax rates under TCJA are set to expire December 31, 2025, at which time tax rates will revert back to prior law. Tax rates could change earlier based on results of the 2020 election, which places even more urgency on finding and utilizing opportunities in 2019 and 2020.

- **Setting Every Community Up for Retirement Act of 2019 (Secure Act)**

The Secure Act was overwhelmingly passed by the House of Representatives in June 2019. The consensus at that time was that the legislation would be fast-tracked to passage in the Senate

and signed into law. The bill has since stalled in the Senate, but it is still expected to become law due to its bi-partisan support.

If it passes, along with increasing the Required Minimum Distribution (RMD) age to 72, the bill will eliminate lifetime distributions for most non-spouse beneficiaries of tax-deferred accounts. Beneficiaries will, instead, be required to distribute the account in full within 10 years—meaning that all deferred income taxes will be paid within that timeframe. The accelerated distribution schedule could push tax rates for heirs to much higher levels than previously planned, depending upon the size of the accounts and the age and financial situation of the beneficiaries. Roth IRA conversions completed now to mitigate these future impacts are worthy of strong consideration if you wish to maximize the amount of after-tax wealth transferred to your heirs.

There's no question that the team at Carlson Capital Management will be incorporating Roth IRA conversion considerations into many year-end planning conversations. Please reach out with any questions or if you would like to better understand the impact on your situation.

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

New Laws Impact Estate Plans, Prompting Reviews

DAN EDWARDS, CPA, DIRECTOR OF ESTATE PLANNING



Estate tax laws continually change, making it important to review your estate plan periodically. Working alongside a Carlson Capital Management tax professional will help you understand how the new laws will impact your estate and its beneficiaries, as well as your financial position today.

Federal Level: Higher Exemptions and Portability

Consider the new, higher lifetime estate exemptions: Only individuals with taxable estates greater than \$11,400,000 and estates of married couples greater than \$22,800,000 will have exposure to federal estate tax. After the year 2025, the higher exemptions are scheduled to revert back to the pre-Tax Cuts and Jobs Act of 2017 levels of approximately half the current exemption amounts. This makes now an ideal time to review your estate plan to make sure you are taking full advantage of the higher exemptions.

In addition to the higher lifetime estate exemptions, the federal law also includes a portability provision that allows a surviving spouse to benefit from the unused portion of their spouse's exemption. Use of this provision is important to make sure you get the full benefit from both of your individual lifetime exemptions.

State Level: Varied Laws

Although most states no longer assess an estate tax, depending on your state of residency, state estate tax may still need to be addressed through planning. The state of Minnesota, for example, has a \$3,000,000 exemption beginning in the year 2020, but doesn't allow for portability of exemptions.

Increased Focus on Income Tax

There has always been a tension between reducing estate tax and reducing income tax. For many people, estate planning techniques used several years ago no longer make sense. We can no longer assume that removing an asset from the estate tax base will result in an overall tax savings. Because of

higher exemptions and the potential for capital gain tax, many individuals have changed their estate tax planning strategies to focus on income tax.

Trust Provisions to Save Income Tax

For individuals who believe they may not be subject to estate tax at death, even when the federal exemptions revert back to the lower level, a credit shelter or bypass trust can be developed to allow for the surviving spouse to disclaim assets to a trust. This provides flexibility to ensure the best estate and income tax result. Another simple change may be to give the trustee spouse a general power of appointment, which will cause the trust assets to be included in the beneficiary spouse's gross estate. This ensures the assets will obtain a basis step up upon the death of the second spouse and provide income tax savings upon disposition of the assets.

For trusts that have already been created, but as a result of changes in the law will provide no estate tax savings, there may be some simple solutions to reduce future capital gain taxes. For example, the trustee may be able to distribute some trust assets to beneficiaries now. In addition, some states allow the "decanting" of trusts. This allows for the transfer of trust assets to another trust for the benefit of one or more of the same beneficiaries. The new trust would grant the beneficiary of the trust a power of appointment over the trust assets, causing inclusion in the surviving spouse's estate and obtaining a basis step up. Note, however, that because decanting statutes vary widely from state to state, the effectiveness of this strategy will depend almost entirely on the terms of the trust and applicable state law.

ESTATE TAX QUICK FACTS

- Federal exemption for individuals: \$11,400,000 (adjusted annually)
- Minnesota exemption: \$2,700,000 and rising to \$3,000,000 in 2020
- Federal law provides for portability of exemptions, but Minnesota does not
- Annually, under federal law, \$15,000 may be gifted to any individual without requiring a gift tax return
- Minnesota law does not include a gift tax, but gifts made within three years of death are pulled back into the estate to be taxed

Carlson Capital Management reviews clients' estate plans and advises on the estate and income tax consequences of the plans. If you have any questions regarding your estate plan, please reach out to us to schedule a meeting or a call.

THIRD QUARTER RETURNS



	Q3 2019	1-YEAR RETURNS	ANNUALIZED 5-YEAR RETURNS	10-YEAR RETURNS
S&P 500 Index	+ 1.70	+ 4.25	+ 10.84	+ 13.24
U.S. Large Value	+ 1.36	+ 4.00	+ 7.79	+ 11.46
U.S. Small Cap	- 2.40	- 8.89	+ 8.19	+ 11.19
U.S. Small Value	- 0.57	- 8.24	+ 7.17	+ 10.06
International Large Cap	- 1.07	- 1.34	+ 3.27	+ 4.90
International Large Value	- 1.74	- 4.92	+ 0.99	+ 3.23
International Small Cap	- 0.44	- 5.93	+ 6.02	+ 7.45
International Small Value	+ 0.07	- 6.07	+ 4.85	+ 6.49
Emerging Markets	- 4.25	- 2.02	+ 2.33	+ 3.37
U.S. Short-Term Bonds	+ 0.76	+ 5.72	+ 1.69	+ 1.69
U.S. Intermediate-Term Bonds	+ 2.27	+ 10.30	+ 3.38	+ 3.75

- Equity performance was mixed in the third quarter, both in the U.S. and international markets.
- Leading sectors in the third quarter were Utilities, Consumer Staples, and Technology.
- Lagging sectors in the third quarter were Energy, Health Care, and Materials.
- Bonds continue to perform very well as interest rates have fallen. Intermediate term bonds have risen over 10% in the last 12 months.

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 July 1, 2019 through September 30, 2019.

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.

WHO'S YOUR TRUSTED CONTACT?



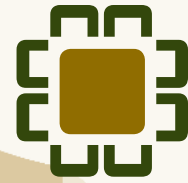
In accordance with newly released FINRA rules, which aim to protect aging adults from financial exploitation, Carlson Capital Management and Charles Schwab are in the process of requesting and documenting clients' trusted contacts.

A trusted contact is an individual 18 years of age or older and might also be a joint account holder, trustee, or individual with powers of attorney. A trusted contact serves as a single point of contact for Carlson Capital Management or Schwab in the event that financial exploitation is suspected or if it is believed that a client's health—such as dementia—is impacting his or her decision making.

You may have already received an email from Schwab encouraging you to name a trusted contact. Be sure to reach out to your CCM advisor if you have any questions about this.

CCM WOMEN'S INITIATIVE

Nora McInerny Unites Generations With Laughter, Urges Wellness



On Thursday, September 26, Carlson Capital Management welcomed renowned speaker, bestselling author, and podcast host Nora McInerny to speak at the first-ever Women's Forum, an event of CCM's Women's Initiative. The standing-room-only event was alive with conversation and laughter.

Nora's message about doing well and being well is one that aligns seamlessly with CCM's Women's Initiative, which recognizes that part of being well is having peace of mind in your financial life.

Throughout the evening, Nora shared her story of profound loss and journey to healing with heart and humor. When she was just 31 years old, she miscarried her second baby, lost her dad to cancer, and then her husband, Aaron, died from a brain tumor—all within six weeks. Reflecting on her experience and grief, Nora encourages women, especially, to care for themselves, appreciate occasions for growth, and be honest about how they feel—not everyone is fine all of the time and experiences and emotions matter.

Nora's message about doing well and being well is one that aligns seamlessly with CCM's Women's Initiative, which recognizes that part of being well is having peace of mind in your financial life. Similarly, the most effective financial planning strategies will consider each individual's unique life experiences.

To learn more about Nora and her message for women, visit: noraborealis.com

To read content written by women at CCM as part of the Women's Initiative, visit: carlsoncap.com/w-articles



The first-ever CCM Women's Forum with guest speaker Nora McInerny was a lovely evening for generations of women.

YEAR-END DONATIONS

As end-of-year approaches, American Center for Philanthropy (ACP) donors should note Friday, December 13, 2019, is the deadline for submitting a request for a grant distribution from an ACP donor-advised fund to a qualified charity. Submissions received by this date will be fully processed in the 2019 calendar year. If you have any questions, please contact Tonya Quade at tonya@americancp.org or 507.321.4027.

WHAT IS A DONOR-ADVISED FUND?

A donor-advised fund offers individuals and families an easier and more efficient way to manage their charitable giving. It allows them to make a charitable contribution and then recommend additional grants from the donor-advised fund over time. When the initial contribution is made, donors may receive a tax deduction.

Carlson Capital Management is pleased to offer clients donor-advised funds through its independent nonprofit, American Center for Philanthropy. For more information about a donor-advised fund, speak with your advisory team.

American Center for Philanthropy



CLIENT PORTAL

New, Enhanced Client Portal is Live

CCM's new, enhanced client portal is now live—you can find it by visiting carlsoncap.com/portal, or by clicking the **Client Login** button anywhere on the CCM website. Among numerous enhanced features, it includes seamless online access any time to:

- An interactive big picture, real-time overview of all of your CCM-managed accounts;
- A snapshot of your current/daily investment holdings;
- Dynamic reports that adjust as you select custom criteria;
- Secure document-sharing with CCM;
- Quarterly statements; and
- CCM communications, such as quarterly newsletters and the news feed.

We encourage all clients to create a portal login for convenient access to your accounts—and for secure document sharing with CCM. A portal welcome message and login instructions were sent out on Tuesday, October 8. If you have any questions or need assistance logging in, please contact our client servicing team at 952.230.6700.

WELCOME NEW COLLEAGUES

We're pleased to introduce you to three new CCM colleagues who will add breadth and depth to our robust team.



Benjamin Lane

Investment Specialist

A graduate of St. Olaf College, Ben is based in CCM's Bloomington office.



Nick Bonfe

Investment Specialist

A graduate of the University of St. Thomas, Nick is based in CCM's Bloomington office.



Leah Rich

Senior Manager, Marketing & Communications

A graduate of Gustavus Adolphus College, Leah is based in CCM's Northfield office.

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

CCM AFFILIATE VIAFORTE WELCOMES *Managing Director*

ViaForte, affiliate firm to Carlson Capital Management that serves both CCM clients as well as clients of other professional advisors with advanced wealth strategy planning and insurance solutions, announces the addition of Heidi Pederson, J.D., CLU, as Managing Director. Heidi joins ViaForte with more than 25 years of experience.

Built on the core belief that clients are best served when surrounded by a team that provides an integrated wealth management experience—a platform that includes investment, retirement, estate, tax, philanthropic, and insurance/risk management planning—CCM has always considered insurance an important component of a comprehensive approach. Reflecting on her new role, Heidi says, “I am thrilled to join ViaForte and partner with my colleagues to provide exceptional, integrated risk management solutions that are personalized for each client.”

To learn more about ViaForte, visit viaforteadvisors.com.



ViaForte welcomes Heidi Pederson as Managing Director.

CCM Colleagues Partner With Ronald McDonald House Charities

CCM colleagues teamed up to serve lunch at Ronald McDonald House Charities in the Twin Cities. The organization, which this year celebrates 40 years, provides a comfortable, home-like setting for families who have a child with a serious illness. More information about volunteer opportunities for individuals or groups can be found online: rmhtwincities.org/volunteer



Colleagues Katy Vermeer, Val Thomas, Matthew Rich, Matt Morehead, Kim Diemer, and Omer Abramovich dished up lunch at Ronald McDonald House Charities in late August.



CCM's John Ostrand and his wife, Krista, alongside CCM's Greg Carlson and his wife, Nancy.



Chicago performs live in Hastings.

Friday in the Park With Chicago

Queue the music! CCM colleagues and their families enjoyed a night out in Hastings with a performance from the band Chicago. The event, Rivertown LIVE!, was hosted by the Hastings Area Rotary Club, and CCM's Jeff Carlson helped to organize it. All proceeds benefitted United Heroes League, which helps children in military families stay active through community sports programs.

CCM and ViaForte Colleagues Participate in MN Run Relay

In mid-September, three CCM and two ViaForte colleagues participated in the MN Run Relay to benefit Hope 4 Youth, a Twin Cities nonprofit aimed at ending youth homelessness. Omer Abramovich, Kim Diemer, and Katy Vermeer ran on behalf of CCM and Michael Boho and Marissa Wallrich ran on behalf of ViaForte. Altogether, the team completed 26.2 miles in 4 hours and 17 minutes—whew! Team Captain Omer Abramovich says, “It was a great day! We enjoyed spending time together as a team and contributing to a worthy cause. We already have our sights set on next year’s relay.”



Colleagues Kim Diemer and Marissa Wallrich cross the finish line.

IMPORTANT DISCLOSURE INFORMATION: Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Carlson Capital Management, LLC (“CCM”), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from CCM. Please remember to contact CCM, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or modify any reasonable restrictions to our investment advisory services. CCM is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of CCM's current written disclosure Brochure discussing our advisory services and fees is available upon request.

© 2019 Carlson Capital Management



CARLSON
CAPITAL MANAGEMENT

NORTHFIELD
507.645.8887

HASTINGS
651.437.2360

BLOOMINGTON
952.230.6700

ROCHESTER
507.288.9797

CARLSONCAP.COM