

INVESTMENT INSIGHT

When Politics and Investments Collide

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

The upcoming U.S. election is proving to be one of the most highly contested and polarizing in recent history. With control of the presidency, house, and senate on the line, in addition to a multitude of key state and local races occurring across the country, the stakes are clearly high. Adding further complexity and complication to the mix, we continue to navigate the challenges of a global pandemic, where the health and safety of the electorate are at risk.

It may come as no surprise that the most common questions our investment and advisory teams at CCM have been addressing over the past several months relate to the potential impact of the election on our clients' investment portfolios. As there are wide ranging differences on policies proposed by each side of the aisle, these questions take on a different inference depending on who's asking and where one's interests and political leanings fall. Interestingly, regardless of the beliefs or concerns that may motivate the question, the same answers apply. With the election so close at hand, for this quarter's insight, we're addressing two of the most common questions arising.



With all of the uncertainty around the upcoming election, should I go to cash and wait to reinvest until it's all over?

It's true that markets typically don't like uncertainty, and the uncertainty around election outcomes are no different. That said, it is important to know that markets have already "priced in" the likelihood of the uncertainties around this year's election. This includes the possibility that the presidency and many congressional seat outcomes may take days or weeks to solidify as both absentee and in-person ballots are counted. But even if we knew the results before everyone else, we

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still wouldn't know how markets would respond. In other words, it's most prudent not to make guesses regarding the future and put all your eggs in one basket.

Looking back at the elections of 2016 gives us a clear example of how uncertainties around election outcomes can play out. After a surprise Brexit vote in June in the UK, markets tumbled. Seeing how markets reacted to the unexpected Brexit result, many investors would have gladly sold their stock portfolio to cash ahead of the U.S. election if they knew for certain that Donald Trump would have defied the political prognosticators and won the election. In fact, they would have felt pretty good about their decision as they went to bed the night of the election, with U.S. stock market futures tumbling to massive losses upon the news. However, not only did the markets not post large losses the day after the election, they actually provided investors with gains. Had you sold to cash on Election Day and waited for losses to come, ignoring what could have been substantial potential tax costs, you'd have missed out on nearly a 5% gain through the end of the year in the S&P 500.¹



Is it bad for investors if the White House and Legislative Branch are controlled by the same party?

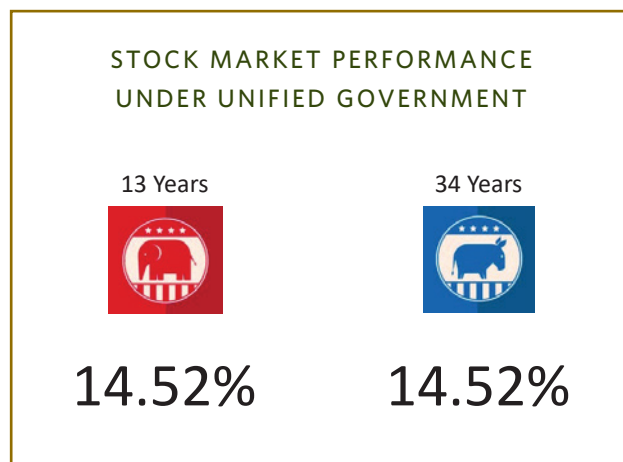
This question is most often asked this year when a client is considering the possible outcome of Democrats unifying these bodies and taking control of the government. This is usually paired with the concern that there would be higher taxes and increased regulation to follow. While this may sound like a reasonable conclusion given the Democratic platform, looking at historical evidence, there is little to support the conclusion that either party is good or bad with regard to expected stock returns. In fact, if we analyze the returns for all of the years that each party has had such a monopoly, they end up having had the exact same average returns.

How to Best Manage Uncertainty

While it can feel less than satisfying to stay the course in the face of so much uncertainty, we can draw confidence in applying historical outcomes to our present situation. Knowing that while "today may be different," uncertainty, surprise outcomes, and political conflict have occurred in the past as well. We can also remind ourselves that markets are constantly pricing in uncertainty, and accepting risk is one reason stock investors are rewarded long term with higher returns.

In short, don't let any emotions related to politics guide an emotional reaction related to your portfolio. We believe the best way to manage through our world's ever-changing landscape is to have a well-designed, comprehensive plan that integrates all of the various disciplines of one's financial life. Although we don't know what will happen regarding next month's elections, with our experience and team of advisors and specialists at CCM, we are preparing for a variety of outcomes so that we can continue to act in your best interests.

To view Adam Hoffmann's recent video on this topic, visit carlsoncap.com/election2020



Past performance is not a guarantee of future results. Chart is for illustrative purposes only. Indices are not available for direct investment, therefore their performance does not reflect the expenses associated with the management of an actual portfolio. Data is from the S&P 500, for the time period of January 1, 1926–December 31, 2019. "Unified government" refers to years in which the Presidency as well as control of the Senate and the House of Representatives all align under one party affiliation. Source: Dimensional Returns Program

¹Yahoo! S&P 500 November 8, 2016–December 31, 2016.

If You're Going to Give it Away, Be Intentional Above All Else

MATTHEW RICH, CFP®, J.D., SENIOR INTEGRATED WEALTH ADVISOR



Chuck Feeney has finally achieved his goal—he’s broke. More importantly, Chuck Feeney is proud of his accomplishment. Feeney, the 89-year-old who amassed billions as the cofounder of airport retailer Duty Free Shoppers in 1960, has spent the last few decades of his life disbursing his financial wealth (upwards of \$8 billion) to worthy nonprofits around the world. He has championed the concept of Giving While Living, which is the notion that it’s better to make a charitable impact while you’re alive and can see the fruits of your work rather than leaving your wealth to a foundation at your passing. To use the nomenclature clients at Carlson Capital Management have become accustomed to through conversations about their Wealth Equation, Chuck Feeney has prioritized his “C1” giving.

Chuck Feeney’s story is interesting and thought provoking to be sure, but the takeaway is less about the perfect timing for charitable gifting and more about intentionality. Our charitably minded clients have varied preferences when it comes to the form, structure, and timing of their charitable support. Some clients strongly prefer inter vivos gifting, choosing, as Chuck Feeney has, to distribute their wealth to their charitable causes while still alive. Others are captivated by the notion of a legacy gift that will continue to impact a cause or community in perpetuity.

When it comes to charitable gifting and the timing, the structure, the amount, and the beneficiary of the gift, it’s clear that there is no single “right” answer. Every donor is different. However, there may very well be a wrong answer. We often see this in cases where the donor doesn’t act with intentionality.

Which Account to Designate

The best example is classic, simple, and tragically common. The donor has decided to leave a legacy gift to charity and has options as where to source the gift. That is, the donor has assets spread between different accounts and thus needs to decide which account will be designated as the one that will pass to charity instead of the donor’s heirs. Most often the choice is between a pre-tax retirement account, such as an IRA or 401(k), and an after-tax investment account, such

as a brokerage account or Roth account. It’s common to see the brokerage account owned by the donor’s trust. It’s also common to see the donor’s trust documentation contain legacy distribution provisions in favor of the donor’s favorite charitable organizations. In that case, the choice has been made—the donor has sourced their charitable legacy gifting from the trust account. Had the donor been more intentional in the process, the donor would likely have sourced the charitable gifting from a pre-tax retirement account instead. Unlike heirs who must pay income taxes on distributions from inherited pre-tax accounts, charitable beneficiaries who inherit pre-tax accounts don’t pay income taxes. That’s an incredibly important distinction and should be a determining factor in the sourcing decision. If the donor had the option to source the gift from a pre-tax retirement account instead, then selecting the trust account almost certainly means that more taxes were paid than was necessary.

The recently enacted SECURE Act changes the timing and taxation of distributions from pre-tax retirement accounts to non-charitable beneficiaries, so now it’s even more important to be intentional when sourcing legacy charitable gifts.

As the season of charitable gifting is upon us and many people are revisiting their estate plans, we encourage you to connect with your CCM advisor to ensure your charitable intentions will be best fulfilled.

To read Chuck Feeney’s story, visit <https://www.forbes.com/sites/stevenbertoni/2020/09/15/exclusive-the-billionaire-who-wanted-to-die-broke-is-now-officially-broke/>

Presidential Elections and Tax Policy

KEVIN KOSKI, CPA, PRINCIPAL TAX ADVISOR

With any impending national election, competing political campaigns put forward tax policy position statements for voter consideration. In order to become law, these tax positions, of course, require the electorate to speak their voting minds, and Congress to enact and pass legislation in accordance with those positions. It's important to note that tax policy has not historically driven equity returns.

Like you, we will be anxiously awaiting the results of this year's national, state, and local elections. In the meantime, rest assured that our CCM tax professionals are currently and thoroughly reviewing these proposed policy statements. After the election results are known, we will be prepared to offer customized and appropriate year-end counsel and advice no matter the outcome.

If you would like to discuss how the range of election outcomes may impact your specific situation, do not hesitate to connect with us.



PLEASE JOIN US!

A Fireside Chat with LIZ ANN SONDEERS

A TIMELY CONVERSATION ABOUT THE IMPACT OF COVID-19 AND THE UPCOMING ELECTION ON OUR ECONOMY AND INVESTMENTS

In partnership with our fellow ZAG firms, Carlson Capital Management is pleased to present you with a special webinar event featuring Schwab's Chief Investment Strategist Liz Ann Sonders.

WEDNESDAY, OCTOBER 21, 2020

1:00–2:00 P.M. CENTRAL ■ ONLINE VIA ZOOM

REGISTER BY VISITING carlsoncap.com/sonders

The life-changing events of 2020—what we've experienced thus far and what's yet to come—are significant and stimulate many questions, including how they impact our economy and investments. Please join us for this one-hour event with noted investment strategist and keynote speaker Liz Ann Sonders to hear her thoughts on the impact of COVID-19 on the economy and markets; the unprecedented monetary liquidity/fiscal policy support; the expected shape of the economic recovery; and the election and its impact on the market.

This session will be recorded and available on CCM's website, however, given the timeliness of the content it will only be available through Wednesday, October 28. If you have a question that you'd like Liz Ann to address during the webinar, we welcome you to submit it when you register.

AT A GLANCE

THIRD QUARTER RETURNS



	Q3 2020	1-YEAR RETURNS	5-YEAR RETURNS	ANNUALIZED 10-YEAR RETURNS
S&P 500 Index	+ 8.93	+ 15.15	+ 14.15	+ 13.74
U.S. Large Value	+ 5.59	- 5.03	+ 7.66	+ 9.95
U.S. Small Cap	+ 4.93	+ 0.39	+ 8.00	+ 9.85
U.S. Small Value	+ 2.56	- 14.88	+ 4.11	+ 7.09
International Large Cap	+ 4.80	+ 0.49	+ 5.26	+ 4.62
International Large Value	+ 1.19	- 11.93	+ 1.14	+ 2.10
International Small Cap	+ 10.25	+ 6.84	+ 7.37	+ 7.33
International Small Value	+ 7.22	- 5.19	+ 4.30	+ 5.45
Emerging Markets	+ 9.56	+ 10.54	+ 8.97	+ 2.50
U.S. Short-Term Bonds	+ 0.37	+ 4.88	+ 2.59	+ 2.09
U.S. Intermediate-Term Bonds	+ 0.62	+ 6.98	+ 4.18	+ 3.64

Key Takeaways:

- Global stock markets posted strong gains again in the third quarter.
- Performance was mixed, with international small companies and emerging market companies leading the way.
- Leading sectors in the third quarter were Consumer Discretionary, Materials, and Industrials.
- Lagging sectors in the third quarter were Energy, Financials, and Health Care.
- Bonds posted another strong quarter, as interest rates declined further.

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, 2020 through September 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 1-5Yr TR USD; Barclays U.S. Agg Bond TR USD.

100%
of CCM
Colleagues
Participating

110
Organizations
Receiving Gifts



\$106,000
in Charitable Contributions

CARING FOR OUR COMMUNITIES

We continue to be mindful of the many organizations and members of our communities in need. We're pleased to have partnered in The CCM Circle of Care Charitable Initiative, and are excited about the ways in which our team continues to engage with these organizations. From attending virtual events and volunteering to sharing the work of the nonprofits with others, the unfortunate events of 2020 have provided an extraordinary opportunity to live out our guiding principle of extending care to the greater community. To learn more, visit carlsoncap.com/giving2020

CCM INCLUDED IN FINANCIAL ADVISOR MAGAZINE'S 2020 RIA RANKING



Financial Advisor magazine has included Carlson Capital Management in its 2020 RIA Ranking, an annual list of independent registered investment advisors, ranked by assets under management. CCM has a long history of being ranked in *Financial Advisor*.

As one of the most-read industry publications, *Financial Advisor* reaches more than 100,000 readers each month, delivering market information and investment strategies to decision-makers.

In addition to the honor from *Financial Advisor*, CCM has received the praise of *Financial Times*—naming it to the publication's annual listing FT 300: Top Registered Investment Advisers.



See important disclosures at:
carlsoncap.com/disclosures

CONVERSATIONS WITH CCM



We're pleased to launch a new video series—Conversations With CCM—featuring CCM colleagues answering questions about a variety of wealth management topics. The first piece, featuring CEO Greg Carlson, CFP®, and Senior Investment Analyst James Yaworski, CFA, compares today's market performance to that of 1999, recalling timeless advice from Warren Buffett, chairman of Berkshire Hathaway. To see this video and others, visit carlsoncap.com/videos. If you have a wealth management question that you'd like addressed in an upcoming video, please send it to info@carlsoncap.com.

YEAR-END DONATIONS

The increase in grant submissions to provide support to nonprofit organizations in these challenging months of 2020 has indeed been an inspiration to us all at CCM. With this in mind, as end-of-year approaches, we encourage clients with donor-advised funds to note the submission deadlines to ensure your grant requests are fully processed in the 2020 calendar year. Schwab Charitable grant requests must be submitted by December 1. American Center for Philanthropy (ACP) grant requests must be submitted by December 11.

If you have any questions, please contact Angie Olson, ACP Administrator, at angie@americancp.org or 507.321.4014.

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 American Center for Philanthropy and Schwab Charitable. For more information about a donor-advised fund, please reach out to a member of your advisory team.



Colleague Accolades

THREE CCM COLLEAGUES EARN CFP® CERTIFICATION

Congratulations to CCM’s associate integrated wealth advisors BRENT LANGE, CFP®, CFA, RACHEL CHACKO, CFP®, and BEN CARLSON, CFP®, all of whom recently earned the CERTIFIED FINANCIAL PLANNER™ certification, one of the most respected achievements in the industry. Individuals who hold CFP® certification are well trained in the myriad disciplines of integrated wealth management and are equipped to support clients’ financial plans throughout life transitions. There are 15 CFP® certified advisors on the CCM team.

CCM COLLEAGUES PROMOTED

We are pleased to share the news of three recent promotions at CCM—BEN CARLSON, CFP®, to Associate Integrated Wealth Advisor, MATTHEW RICH, CFP®, J.D., to Senior Integrated Wealth Advisor, and TANISHA JUSTUS, FPQP™, to Senior Technology Specialist. Through their actions, these colleagues demonstrate a deep commitment to CCM’s mission and guiding principles and unyielding loyalty to clients, colleagues, and the firm.



Brent Lange, CFP®, CFA
*Associate Integrated
Wealth Advisor*



Rachel Chacko, CFP®
*Associate Integrated
Wealth Advisor*



Ben Carlson, CFP®
*Associate Integrated
Wealth Advisor*



Matthew Rich, CFP®, J.D.
*Senior Integrated
Wealth Advisor*

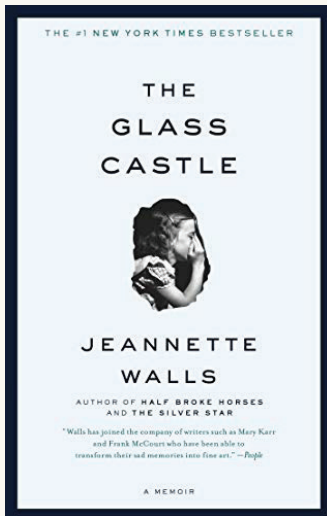


Tanisha Justus, FPQP™
*Senior Technology
Specialist*

To learn more about the colleagues recognized above, please visit our website: carlsoncap.com/team

What We're Reading, Watching, and Listening To

COVID has many of our CCM colleagues searching for new content to fill quieter nights and weekends. Here are just a few of the pieces we're enjoying.



READING

JACKIE FINKBEINER, PHR®, Senior Human Resources Generalist, enjoyed *The Glass Castle* by Jeannette Walls, describing it as an intriguing memoir about a family's love, whimsy, and dysfunction. This bestselling book, which spent a remarkable eight years on the *New York Times* bestseller list, is also a major motion picture that can be streamed on Amazon Prime.



WATCHING

TIARA ELG, Client Servicing Representative, is watching *The Great British Bake Off*. The Netflix show is billed as, "The ultimate baking battle where passionate amateur baking fans compete to be crowned the UK's Best Amateur Baker." As colleagues, we're in full support of Tiarra's latest binge. We're crossing our fingers for some tasty baked treats post-COVID.



LISTENING TO

Senior Integrated Wealth Advisor VAL THOMAS, CTFA, likes listening to *The School of Greatness* podcast by Lewis Howes. She and her son especially enjoy hearing the "Five Minutes of Greatness" episodes for a quick dose of encouragement.

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Historical performance results for investment indices, benchmarks, and/or categories have been provided for general informational/comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your CCM account holdings correspond directly to any comparative indices or categories. Please Also Note: (1) performance results do not reflect the impact of taxes; (2) comparative benchmarks/indices may be more or less volatile than your CCM accounts; and, (3) a description of each comparative benchmark/index is available upon request.

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