CARLSON
CAPITAL MANAGEMENT

QUARTERLY
Newsletter

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Are We There Yet?

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

The oft-repeated phrase for almost every family road trip in recorded history—"Are we there yet?"—is also appropriately asked by investors experiencing stock and bond markets in 2022. Although we're not traveling together in the back of a wood-paneled station wagon to grandma's house halfway across the country, we are all experiencing an uncomfortable journey.

Questions that I hear and questions I'm asking myself along this investing voyage include:

- Have stocks reached their bottom for this cycle?
- Has the Federal Reserve reached its limit on increasing interest rates?
- Have mortgage rates peaked, or will they continue to move higher?
- When will inflation come back down to "normal" levels?
- How long can unemployment rates stay at record lows?

These questions are all very interesting to ask, but we need to understand that there is no way to have a definitive answer to any of them. Moreover, the answers may not be necessary in order to be a successful investor. The answers may impact your portfolio and your financial plan, while at the same time, getting those answers may not tell you exactly what's to come or what turn you should take next.

For example, the policy of the Federal Reserve has an impact on interest rates and, therefore, financial assets like stocks and bonds. Bonds, in particular, are sensitive to the changing of interest rates, as there is a direct relationship between yields and market prices. That said, the changes that have already taken place so far in 2022 as described in our recent article, ***Why Now? Context for Recent Volatility,***[1] are more impactful on bond prices than future rate increases may be. In quantitative terms, the last one percent increase in interest rates will have had a greater effect on prices than a potential future shift of one percent can have. Additionally, the yield received from holding

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bonds today is many times higher than just last year, regardless of the direction of future rates. If you liked bonds then, you should love them now.

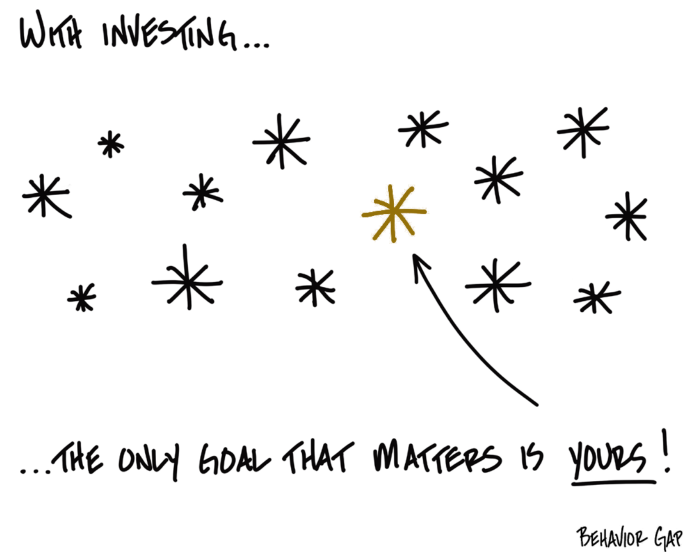
One challenge we face in this journey is understanding how best to measure success as an investor. Is it solely based on the rate of return on our portfolio, and, if so, over what time period? Is it based on the size of our balance sheet, or our goals reached? Do we base our success on the actions we've taken, or the risks we've avoided?

In situations like we are in today, it often feels like action is needed, regardless of the risks. It feels that if we are not individually "doing something" dramatic, we are willingly subjecting ourselves to the will of the market. But isn't that the same thing we do when markets are going up? Aren't we more than willing to accept market rates of return when they're strongly positive? Why does the downside feel more painful than the upside feels good, and why do we feel the need to intervene?

Entering 2022, we were coming off of over a decade of incredibly strong stock market performance, which grew the balance of our collective investments to record highs. At the same time, we were experiencing inflation that was the lowest in 50 years. Said differently, the value of our assets (stocks, bonds, houses, etc.) was worth more than it had ever been before, while at the same time the things we spent our money on were hardly increasing in price.

This combination of events was the perfect storm for a persistent experiencing of the "wealth effect" within our economy. The wealth effect is a theory suggesting that when households have more wealth, whether through earnings or because of the increased value of their assets, they tend to spend more and are more optimistic about future financial goals, which may have the impact of perpetuating further financial gains. If the value of our assets is increasing, all will be well; right?

When I think about this concept, I think of a commercial that aired in the mid-2000s by a large financial institution revolving around the amount of money that will be necessary for a successful retirement. They coined the campaign and concept, *Your Number*. For many, this resonated, as it gave a tangible objective to be reached. Who wouldn't want to have such a goal? In such a world, once you reach your number, the game is over. You've won, and you're destined for a future without worry or concern. But what they don't mention is what to do when your portfolio falls below that number as it may have in a bear market like 2022. Do you need to go back to work or stop spending? I certainly hope not.



Although I think that at a base level this concept is helpful to get people pointed toward a goal, it's very misguided as to why that goal is important. The reality is, there is no magic orange number for each of us to carry around under our arms and be reminded of every day. There is a true downside to the wealth effect. When the numbers don't continue to go up at the same rate or in the same manner as they have in the past, there can be an equally impactful downside risk to how we feel about our financial stability. That is why it's important to move away from a tendency toward a wealth effect mindset and how a number plucked from the air may guide our spending and ability to have a successful retirement. Rather, I'll assert that the more important way to think about wealth is through what I call the *Plan Effect*.

The Plan Effect is the security you feel by having a well thought out and rigorously tested financial plan supporting your spending and gifting strategies, not simply increasing spending according to the value of your portfolio at any given point in time. The Plan Effect is the understanding that with the strong foundation of a financial plan that accounts for your current state, potential future outcomes, taxes, desires, goals, dreams, and risks on the horizon that may affect you in the future, you will be OK. The Plan Effect might not feel as fun at times as the wealth effect, in that you're not just focusing on the proverbial scoreboard to see if a new digit is added to the total, but hopefully the sense of ease, comfort, and stability that it provides in up markets and in down, are worth the effort.

[1] *https://carlsoncap.com/articles/why-now-context-for-recent-volatility*

FINANCIAL PLANNING

What Do Women Really Want in an Advisor?

KATY VERMEER, CFP®, SENIOR INTEGRATED WEALTH ADVISOR

While the gap appears to be narrowing, research shows that women, particularly women of the baby boom generation, feel less confident than men about managing money.[1] At CCM, we are very intentional about involving all of our clients—*women and men*—in the integrated planning process. It's very important to us that all clients feel heard and understood, such that they have the confidence that their financial plan is designed with their individual goals and priorities at the center.

CCM WOMEN'S INITIATIVE

For more than six years, the CCM Women's Initiative has existed to promote the financial empowerment of women. Our Women's Initiative develops articles, events, and educational sessions specifically designed to connect with and empower women in their financial journey. We think it's working! It's rewarding for us, as advisors on the CCM team, to have the opportunity to engage with so many clients who are women. Of nearly 1,200 client relationships, 90% of them involve a woman, and more than 25% are with women who are single, divorced, or widowed.

In addition to serving clients, CCM's Women's Initiative amplifies the voices of women on our advisory team. While the financial services industry is actively working to expand the number of women in the profession, at present just 23% of all CERTIFIED FINANCIAL PLANNERS™ (CFP®s) are women.[2] At CCM, we're proud to say that 35% of our advisory team members are women—60% of the women on our advisory team have obtained their CFP® certification, three of our women colleagues are CPAs, and two of our women colleagues hold a JD. Overall, more than 50% of our colleagues at the firm are women.

WHAT WE KNOW ABOUT SERVING WOMEN

Please, make no mistake about it: all of our clients are very important to us, and each has different needs. The following points are based on industry research as well as my own observations having advised clients for many years. They are some of the key tenets we have in mind when identifying how our Women's Initiative can best provide support.

- A recent study published by Merrill Lynch reports that just 52% of women say they are confident about investing, compared to 68% of men.[3] We believe everyone should feel more confident with a partner like CCM supporting them in their financial journey. To accomplish this, it's important for us to communicate clearly, educate, and inform our clients about why we recommend the solutions offered to them, and how we arrive at those recommendations.
- Collaboration is often more enjoyable for women than for men and therefore may be more highly valued. In this regard, advisory relationships may be more important for women, especially those who find comfort in knowing any question can be asked and will be answered, and that the important strategies recommended can be discerned over time when their impact can be better understood. At CCM, we strive to advise all clients in a comprehensive, collaborative manner.
- Another important consideration is that, in general, women tend to be more conservative investors.[4] While greater risk aversion can help investors avoid unnecessary losses, the potential downside is that it can lead to falling short of long-term financial goals. CCM's philosophy about risk is to help our clients understand the relationship between risk and reward so that they take the appropriate amount of investment risk to meet their goals.
- One of the practical realities for women is that according to current statistics, on average, American women live nearly six years longer than men.[5] This means that most women will likely be managing their own finances at some point in their lives. For this reason, it is important for married women who have traditionally deferred to their spouse's financial interests and knowledge to actively engage in the planning experience. Our intent is to make this as comfortable, valuable, and enjoyable as possible.

When it comes right down to it, many men might say they have the exact same wishes as women with regard to their financial advisor. They want to be confident in their investment decisions, understand and be educated, take the appropriate time to discern a decision's impact, and collaborate with us. From our perspective, this is a good thing. At CCM, we pledge to work with all clients, women and men, to earn their trust by understanding their goals and desires for their financial future and then help them meet those goals.

[1] *https://www.usbank.com/dam/images/about-us-bank/company-blog/Women_in_Wealth_PDF.pdf*
[2] *https://www.cfp.net/initiatives/diversity-and-inclusion/womens-initiatives*
[3] *https://www.realsimple.com/work-life/money/women-wealth*
[4] *https://spectrem.com/Content/are-women-more-conservative-investors.aspx*
[5] Centers for Disease Control and Prevention, National Center for Health Statistics, United States, 2020. *https://www.cdc.gov/nchs/products/databriefs/db427.htm*

The Newlywed
FINANCIAL PLANNING CHECKLIST

BEN CARLSON, CFP®, ASSOCIATE INTEGRATED WEALTH ADVISOR

If you have been keeping up with the CCM newsletter lately, you may have noticed a record number of our colleagues have gotten married in the past 18 months, myself included. And if you or a recently married friend or family member are anything like me, you made a financial planning checklist immediately upon returning from the honeymoon.

All joking aside, there are many aspects around one's financial life that can change after marriage, some of which are time sensitive. Below is a checklist for some of the action items to think about after marriage and the financial planning "why" behind them. We invite you to share this with friends and loved ones who will benefit from it.

- ☐ **W-4** Your tax filing status is dependent on your marital status on the last day of the tax year (December 31). As such, it is important to notify your employer of a change in filing status to ensure the amount withheld from your paycheck is in alignment.

- ☐ **CONTACT INFORMATION** When you go through a name change, address change, or both, you will want to update this with your employer, financial institutions, and insurance companies. It is important to keep a copy of your marriage certificate on hand, as many institutions require this to change the name on record.

- ☐ **BENEFICIARY DESIGNATIONS** Review and update your beneficiary designations, including your employer-sponsored retirement plan, life insurance policies, bank and investment accounts, and individual retirement accounts.

- ☐ **ANALYZE EMPLOYER-PROVIDED BENEFITS** Marriage is a qualifying event for employer-provided benefits, allowing you to make changes outside of open enrollment. This includes employer-provided health plans, disability insurance, and life insurance. A cost-benefit analysis of health care plans and the specific in-network providers, prescription costs, and Health Savings Account (HSA) eligibility should be considered. Additionally, it may be wise to look at some ancillary benefits, such as legal assistance. Some employers provide this as a benefit, which can reduce the cost of legal fees for updating your estate documents.

- ☐ **ESTATE DOCUMENTS** It's an opportune time to create or update wills, trusts, health care directives, and power of attorney documents. While some people will avoid this as it can be an unpleasant topic to think about, it is important to consider the toll on the surviving spouse if the documents don't exist or if they aren't current. Health care directives and power of attorney documents can help with medical situations, incapacity, and even ordinary transactions. It is important not only to have the documents, but to review the roles each spouse holds, such as trustee, agent, attorney-in-fact, or personal representative.

- ☐ **DEEDS** Now is a perfect time to review the titling of property ownership and either title jointly or place transfer on death deeds on properties.

- ☐ **CREATE A BUDGET** Whether you use a spreadsheet or data aggregation budgeting tools like Mint or Personal Capital, it is important to determine your household cash flow and develop a strategy to allocate any surplus toward items such as:

  - **Establishing an Emergency Fund** This is typically held in a bank account to maintain liquidity and is ideally equal to around 3-6 months of fixed expenses.
  - **Pay Down High Interest Debt** Personal debt (credit cards, car loans) and student loan debt may fall under this category.
  - **Optimize Employer-sponsored Retirement Plans** At a minimum, this means contributing to the matching amount up to the IRS limits ($20,500 in 2022 for defined contribution plans) if cash flow allows.
  - **Contribute to Other Tax Preferential Accounts** This includes contributing to Roth IRA and Health Savings Accounts.

- ☐ **CONSIDER LIFE AND DISABILITY INSURANCE** There are several options in this category, including group coverage, permanent insurance, or term insurance. Many young couples look at term life insurance to cover income protection, outstanding liabilities, final expenses, and any future education expenses for their families.

If you or someone you know has any questions, we invite you to reach out to your CCM advisor for more information.

How You Could Benefit FROM THE INFLATION REDUCTION ACT OF 2022

KEVIN KOSKI, CPA, PRINCIPAL TAX ADVISOR

It's difficult to ignore inflation: the prices of everyday goods have soared in recent months and many investors are pausing to question large, discretionary purchases. To support individual taxpayers and bolster the U.S. economy, President Biden signed into law the Inflation Reduction Act of 2022.[1] Here are some important highlights from which you could benefit.

ENHANCED PREMIUM TAX CREDITS

First enacted under the American Rescue Plan of 2021, an extension and enhancement of the premium tax credits for the purchase of health insurance in the marketplace is available through 2025. This makes the credit available to more taxpayers, including those with income above 400 percent of the poverty line, and increases the amount of the credits available to those who had already qualified. Visit ***healthcare.gov*** for the latest updates.

ELECTRIC VEHICLE CREDITS

A federal tax credit for the purchase of electric vehicles (including plug-in hybrids and fuel cell vehicles) is extended through 2032. Modifications include the elimination of the cap system for specific manufacturers and requiring final vehicle assembly in North America. The maximum credit will remain at $7,500 for new vehicles. A new credit of up to $4,000 will be available for the purchase of used vehicles. The credit will now be subject to income limitations, along with maximum vehicle price limitations. Visit ***fueleconomy.gov*** for the latest updates on vehicles that qualify.

RESIDENTIAL CLEAN ENERGY CREDIT

The enhancement of the Residential Clean Energy Credit makes a tax credit available equal to 30% of the cost to install qualifying solar, wind, geothermal, biomass, or fuel cell systems to produce electricity, heat water, or control home temperatures through 2032. The credit percentage drops to 26% in 2033 and 22% in 2034. Visit ***energystar.gov*** for the latest updates on residential energy credits.

ENERGY EFFICIENT HOME IMPROVEMENT CREDIT

Beginning in 2023, a tax credit equal to 30% of the project costs, subject to a $1,200 annual credit limitation, will be available for qualifying energy efficient home improvements, such as insulation, windows, doors, water heaters, heat pumps, central air conditioners, furnaces, hot water boilers, biomass stoves, and electric panels. The enhanced credit will replace the old credit, which remains in effect for 2022, and includes a $500 lifetime credit cap.

If you want to leverage one of the benefits outlined above or desire more information, connect with your CCM advisor to discuss. In addition, don't forget to mention the Inflation Reduction Act credits you take advantage of when you partner with CCM Tax & Trust Administration to complete your upcoming tax returns.

[1] Sources for numbers and data cited throughout this summary can be found at: *https://www.congress.gov/bill/117th-congress/house-bill/5376/text*

'Tis the Season for …
REQUIRED MINIMUM DISTRIBUTIONS (RMDS)

The end of the year will soon be upon us, which has our team thinking about RMDs. RMDs are required for everyone 72 years of age or older with IRAs and retirement plan accounts (but not defined benefit plans). Roth IRAs are not subject to RMDs until after the death of the owner.

If you inherited an IRA prior to 2020, you are required to take a distribution every year, regardless of age. If you inherited an IRA in 2020 or later, you are not required to take a distribution every year, but you are required to distribute the full balance of the account within 10 years. There are some exceptions, such as for a surviving spouse, a child who has not reached the age of majority, a disabled or chronically ill person, or a person not more than 10 years younger than the IRA account owner.

NEXT STEPS

We are in the process of reaching out to all individuals who require an RMD from a CCM-managed account and will be in touch soon, if we haven't contacted you already. If you have any IRAs not managed by CCM, including inherited IRAs, please remember that you are responsible for fulfilling the RMD requirement from those accounts.

A CHARITABLE GIVING STRATEGY TO CONSIDER

Qualified Charitable Distributions (QCDs) are distributions made from an IRA directly to a qualified charity and "count" toward an account holder's annual RMD requirement. Despite the RMD age being increased to age 72, individuals age 70½ and older are allowed to make QCDs, up to $100,000 per calendar year. Note that funds from employer plans are not eligible for QCDs.

QCDs can be a very attractive option as they support charitable organizations, satisfy an RMD, and can reduce taxable income.

'Tis the Season for … YEAR-END DONATIONS

One of our greatest honors is to support our clients in their charitable giving. As year-end approaches, we encourage clients with donor-advised funds to note the submission deadlines to ensure grant requests are fully processed in the 2022 calendar year. Schwab Charitable grant requests must be submitted by November 30. American Center for Philanthropy (ACP) grant requests must be submitted by December 15.

If you have any questions about your ACP account, please contact Gresina Cole, FPQP® at ***gresina.cole@carlsoncap.com*** or 507.321.4027.

American Center *for* Philanthropy

SCHWAB CHARITABLE®

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 the American Center for Philanthropy and Schwab Charitable. For more information about a donor-advised fund, please reach out to your CCM advisor.

The Psychology of Money

OUR CONVERSATION WITH MORGAN HOUSEL

— VIEW THE RECORDING —

It was a pleasure for us to hear from acclaimed author, award-winning columnist, and behavioral finance expert Morgan Housel during our virtual event last month. CCM's Cody Tresselt-Warren, CFP®, CPA and Housel covered numerous interesting points helping us understand the many ways our own life experiences with money shape our behaviors as investors.

Morgan's message that ensuring your financial plan is custom to you is a critical discussion point in every client-advisor relationship and is a key component of CCM's pledge to clients to help them use their wealth as a tool to accomplish what is important to them.

We believe investors of all ages will enjoy hearing Morgan's perspectives. We invite you to view the recording of the webinar or share it with a friend.

VIEW THE RECORDING:
carlsoncap.com/housel

COMPANY NEWS & COMMUNICATIONS

WELCOME, NEW COLLEAGUES!

CHRISTA HURLEY
Marketing & Communications Generalist

LANA WALLIN
Operations Specialist

MELISSA STAGMAN, CPA
Senior Tax Advisor

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

COMPANY NEWS & COMMUNICATIONS

COLLEAGUE ACCOLADES

NEW CREDENTIALS

We're delighted to share that Client Servicing Representative and ACP Administrator **GRESINA COLE, FPQP®** has earned the Financial Paraplanner Qualified Professional™ designation from the College for Financial Planning®. The curriculum covers a broad range of financial planning topics and positions her to further deepen her collaborations with clients and advice teams across the firm.

Congratulations to CCM Paraplanner **CONNOR MISCH, 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 17 CFP® certified advisors on the CCM team.**

PROMOTIONS

Please join us in commending two of our tenured colleagues on their promotions to new roles of increasing responsibility. **TONYA QUADE** serves as Senior Finance and Benefits Manager and **ANGIE OLSON, APHR®** holds the title of Talent Acquisition Specialist. Throughout their time at CCM, Tonya and Angie have contributed significantly to the success of the firm and the many ways in which our clients and colleagues experience CCM's culture.

A CELEBRATION OF MARRIAGE

Wedding season continues at CCM with the marriage of Associate Integrated Wealth Advisor **ASHLEY JOHNSON, CTFA®** and Dan, who celebrated with an outdoor ceremony in Minneapolis on Labor Day weekend.