CARLSON
CAPITAL MANAGEMENT

Insights

A NEWSLETTER FROM CCM

NOVEMBER 2023

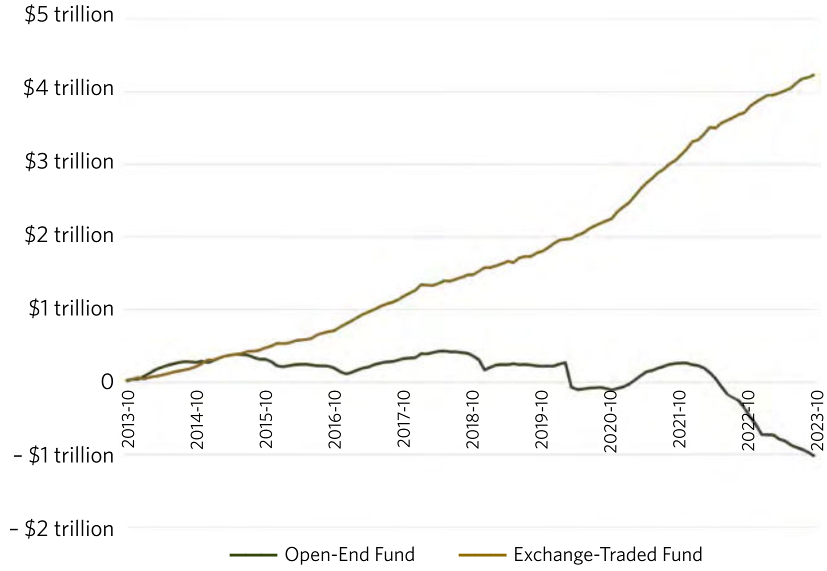
The ability for investors to access stock and bond markets has evolved considerably over the past 50 years. Long gone are the days in which only the extremely wealthy had access to these markets through brokers directly connected to Wall Street. The idea of taking a call in order to be pitched on a handful of individual stocks likely to "hit it big" may seem foreign today, but it wasn't so long ago when that was exactly how portfolios were built. Unfortunately for those investors, although it wasn't certain whether the pitched stocks would be winners or losers, what was known was that they were going to have to pay high commissions in order to find out.

With the original stock broker structure eventually giving way to mutual funds as a primary means for investing, a much larger population was granted access to diversified investment portfolios. Although an improvement over the past, the early days of mutual fund investing still put the weight of high fees and commissions on investors. Fortunately, those frictions were reduced over time. The shift away from high cost active management to the democratization of investing in the form of low-cost index and systematic asset class funds that no longer carried commissions to buy and sell was transformative.

And although great improvements have been made over time, and the value of those improvements have been passed on to investors, mutual funds still carry structural challenges for how investors are taxed as a part of ongoing fund ownership. These tax-efficiency challenges are one primary reason for the advent of exchange-traded funds (ETFs) and are a large factor in their continued growth relative to mutual funds.

Along with greater access to an ever-expanding opportunity set of innovative strategies and what can often be lower cost alternatives, the greater tax efficiency of ETFs compared to mutual funds is a primary driver for CCM's shift in utilizing these vehicles with the goal of improving our clients' net after-tax returns.

THE RISE OF ETFs
AGGREGATE FLOWS OVER TIME



Data represents past performance. Past performance is no guarantee of future results. Table is for illustrative purposes only. Data is based on monthly US dollar asset flows for the time period of October 1, 2013–October 1, 2023. Source: Morningstar Direct. Morningstar Asset Flows: US Open-end & ETF ex MM ex FoF ex Feeder. Market Share Basis: Estimated Net Flow.

Don't just take our word for it, one real time way to see this evolution unfolding is to look at where investors are allocating their dollars. The chart featured here shows the flow of investor capital over the past 10 years to both mutual funds and ETFs. Over the past decade, more than $1 trillion has flowed out of mutual funds while more than $4 trillion has flowed into ETFs.

With firms like Vanguard continuing to see the majority of investors' cashflows going to ETFs over mutual funds, and legacy mutual fund manager Dimensional Fund Advisors actively converting billions of dollars worth of their long-standing mutual fund strategies to ETFs, we continue to see a future with ETFs leading the way.[1]

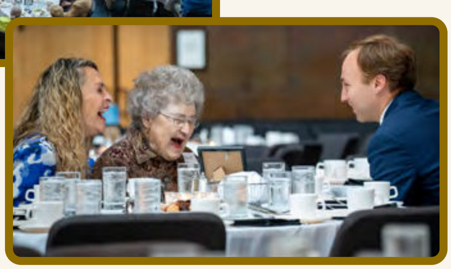
— ADAM HOFFMANN, CFP®, AIF®, CHIEF INVESTMENT OFFICER

[1] Sources: Morningstar Direct Estimated Net Flows for Vanguard data. *https://www.dimensional.com/us-en/newsroom/dimensional-lists-four-new-etfs-following-the-industrys-largest-mutual-fund-to-etf-conversion* for Dimensional.

Our Conversation With Pat Miles

CCM was honored to host so many of you for an exclusive sit-down event with Pat Miles, author of *Before All Is Said and Done: Practical Advice on Living and Dying Well*. Taking Pat's advice to heart, we're kicking off a series of articles to break down the wisdom Pat provides into actionable steps and highlight the ways in which CCM is well positioned to walk alongside you in documenting important details and engaging in meaningful conversations with loved ones about your wishes.

As always, we encourage you to contact us or your CCM advisor directly if you have questions about your financial situation or if Pat Miles' book and related content spurs conversation in your family.



Photos courtesy of CCM Tax Specialist Carter Justice.

FROM THE BOOK: *Before All Is Said and Done*

The notion of planning for one's death is intrinsically at odds with our human instinct to avoid considering our own mortality. Although we may contemplate the grief that our life's impermanence would cause to our loved ones, we seldom consider the myriad of emotional and legal issues that can arise afterward.

Before All Is Said and Done begins with the experience of author Pat Miles Zimmerman and her husband, Charles "Bucky" Zimmerman. Pat and Bucky were fully set for life, but regrettably, not set for death. After Bucky's death from an abrupt and short illness, Pat found herself with a plate full of unanticipated emotions, decisions, and legal problems.

But as she spoke with other widows, she learned she was not alone in finding herself adrift after losing a spouse. The shock and grief that erupt from such a loss do not create a state of mind fit for navigating the numerous challenges that follow an unexpected death.

Pat Miles Zimmerman prepares us for the oft-ignored problems that run in tandem with somber situations: The shock of loss and what to expect; facing a potential cogitative decline; finding support and healthy grieving; family disputes and blended family issues; caring for yourself after the loss.

Although we may initially shirk away from the notion of our life's transience, it is powerfully beneficial to ready ourselves and our loved ones for every stage of life—and death. *Before All Is Said and Done* weaves the definitive path on how to be set for both.

To request a copy of Pat's book, please contact your CCM advisor or email us at ***info@carlsoncap.com***.

Just Do Something

CODY WARREN, CFP®, CPA
SENIOR INTEGRATED WEALTH ADVISOR,
DIRECTOR OF FINANCIAL PLANNING

In *Before All Is Said and Done*, Pat Miles encourages us to "just do something!" It is often difficult for us to focus the time and energy on seemingly difficult, not time-sensitive, or emotionally intensive subjects. The reality is that a little effort today will go a long way to ensuring your goals, legacy, and final desires are accomplished.

So, what's the best way to get started? Connect your task to a goal and then start small to build momentum. For example, "I want to tell my kids where the safe deposit box and key are so that they know where grandma's jewelry is." There really is not anything else to it. Most of all, Pat Miles encourages us to not avoid these tasks and conversations because they might be uncomfortable for you or someone else. As she and many of our clients experience, it is much harder in the end to not have these conversations. Your family might be left to unravel a mess or interpret your wishes.

CCM CAN HELP

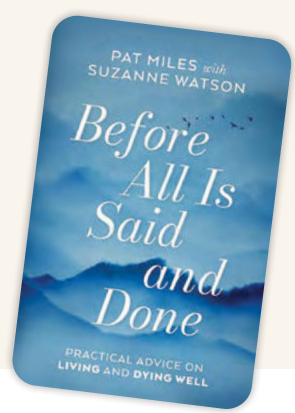
CCM can also play an important role here. Having a trusted advisor like CCM and introducing us to your family can add another layer of comfort and knowledge. Recently, a client graciously shared that they knew everything was financially in order after the passing of a loved one—they were grateful that their team at CCM was working behind the scenes so they did not have to worry. While they were able to grieve and honor the life of their loved one, CCM strived to remove the financial worry for them.

In the spirit of starting small to create momentum, here is a list of tasks you could potentially start with:

- ☑ Share your cell phone password with a loved one. Our phones are often the home for our digital footprint, providing access to critical accounts, such as email.
- ☑ If you utilize a password saving application, authorize a trusted contact to access your account in the event you are unable to.
- ☑ Locate your key estate plan documents and tell your personal representative where they are located. By the way, does your personal representative know they are your personal representative?
- ☑ Do you have a safe deposit box? What is in it, and where is it and the key located?
- ☑ Does your family know who your trusted advisors are? Consider making a list and include with your estate plan documents.
- ☑ Have you shared how to access your home if you are not able to?

Once you tackle some of the of the items above, hopefully you will find some momentum. You might even find the time to start organizing your personal property (jewelry, photos, collectibles, etc.) and creating a list of who you would like to receive those items upon your passing. Believe it or not, mom's casserole dish creates more family drama than you might imagine.

Before all is said and done, just do something!



The Season for Gifting

KEVIN KOSKI, CPA, PRINCIPAL TAX ADVISOR

As we approach the end of the year, many people begin to think about making gifts to family members. Each year, we receive numerous inquiries regarding the tax implications of making gifts. Below is a summary of some of the most important items to be aware of around gifting.

GIFTS ARE NOT TAXABLE INCOME TO THE RECIPIENT

The receipt of a gift is not a taxable event for the recipient. Future income or gains generated from the gifted asset will result in taxable income for the recipient. It is important to note the cost basis of the gifted asset to determine future capital gains the recipient of the gift will incur.

ANNUAL AND LIFETIME GIFT EXCLUSIONS

Individuals can make gifts to any other individual in a calendar year, up to the annual exclusion amount set by the Internal Revenue Code. In 2023, the annual exclusion amount is $17,000. A married couple can effectively make gifts each year of up to $34,000 to a specific person. A married couple can elect to split gifts, whereby a gift from one spouse can be treated as though one-half of the total gift was made by each spouse. For example, if you are married and have two children, you could each make gifts to each child in the amount of $17,000, for a grand total of $68,000.

If a gift to an individual in a calendar year exceeds the annual exclusion amount, you will then begin to utilize your lifetime exclusion and will be required to file a Form 709 Gift Tax Return. The lifetime exclusion for each person in 2023 is currently $12.92 million ($25.84 million for married couple). Form 709 Gift Tax Return is filed to report and track the utilization of the lifetime exclusion. Gift tax would not be payable unless the total of all gifts exceeds the lifetime exclusion amount. Upon death, any remaining lifetime exclusion can then be used to pass assets to heirs free of estate tax.

It is important to note that the lifetime annual exclusion amount is currently scheduled to revert back to pre-2018 amounts ($5.49 million adjusted for inflation) on January 1, 2026, unless action is taken by Congress to extend the higher amount.

PAYMENTS DIRECTLY TO EDUCATIONAL OR MEDICAL INSTITUTIONS

Payments made directly to an educational or medical institution for the benefit of another individual do not count toward the annual or lifetime gift exclusion. This provision allows for gifts to pay for education or medical expenses without gift or estate tax implication.

FIVE-YEAR GIFT ELECTION FOR CONTRIBUTIONS TO 529 PLAN ACCOUNTS

A special election allows a larger upfront contribution to a 529 plan of up to five years of the annual exclusion amount. For example, a contribution of $85,000 can be made to a 529 plan account today. Under the special election made on Form 709 Gift Tax Return, the gift can utilize the next five years of annual exclusion amount and will not utilize any of the lifetime exemption. The annual exclusion will then not be available for the next five years for gifts to that specific individual.

Please reach out to your CCM advisor if you have any questions about the content outlined here or would like to discuss a year-end gifting strategy.

’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 73 years of age or older with IRAs and retirement plan accounts. (Age 73 as of January 1, 2023—the age requirement was age 72 prior to this date.) Note, RMDs do not apply to defined benefit plans, and Roth IRAs are not subject to RMDs until after the death of the owner.

You are required to take distributions from inherited IRAs within a 10-year period. We recommend working with your tax advisor for specifics on the timing of those distributions.

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 73, 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 2023 calendar year. The grant request deadline for Schwab Charitable is November 28. The American Center for Philanthropy (ACP) grant request deadline is 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.

COMPANY NEWS & COMMUNICATIONS

CCM RECEIVES CEFEX CERTIFICATION for the Sixteenth Year

CEFEX, the Centre for Fiduciary Excellence, has renewed the certification of Carlson Capital Management, affirming that the firm adheres to the highest fiduciary standard—acting in clients' best interests. For the past 16 years, CCM has been awarded CEFEX certification, making it part of a select group of global investment advisory firms. Its issuance reflects CCM's dedication to adhering to industry best practices and commitment to continual improvement—key elements of Carlson Capital Management's client experience.

To view CCM's CEFEX certificate and read more about how we view our fiduciary responsibility in Founder and CEO Greg Carlson's article *What the Fiduciary Rule and Telling the Truth Have In Common—And Why Both Are So Freeing*, visit ***carlsoncap.com/fiduciary***.

CCM CLIENT PORTAL UPGRADES

CLIENT PORTAL

Coming soon, your CCM Client Portal will have a new, enhanced look! To support a seamless transition, your login information and access point—***carlsoncap.com/portal***—will remain the same.

We believe you'll appreciate the more intuitive navigation and stand ready to help you get acquainted with the refreshed look. For questions about the new portal, call 952.230.6700 and a CCM team member will be glad to help you.

COLLEAGUE ACCOLADES

We're delighted to celebrate the newly minted credentials of Paraplanner **Matthew Jaeger**, CFP®, and Client Servicing Coordinator **Hallie Olson**, FPQP®.

Matthew earned 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.

Hallie completed coursework to earn her Financial Paraplanner Qualified Professional™ (FPQP®) designation from the College for Financial Planning® to deepen her knowledge of the financial services field. 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, Matthew and Hallie!

CCM WELCOMES NEW COLLEAGUES

We're excited to introduce you to five new CCM colleagues.

BOB BERNARD
Associate Integrated Wealth Advisor

NICK MARENTIC
Director of Technology

DAVID WEBB, CFA, MBA
Integrated Wealth Advisor

LISA CARLSON*
Client Servicing Representative

JESSICA MCWILLIAMS*
Tax Administrator

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

**Photos coming soon!*

CCM ADVISORS EXPAND THEIR Volunteer Service

Senior Integrated Wealth Advisor and Director of Financial Planning **Cody Warren**, CFP®, CPA, joined the Board of Directors of the Minnesota Children's Museum. Throughout Cody's career, he has devoted significant time to serving nonprofits that align with his interests. In addition to his role with the Minnesota Children's Museum, Cody serves as a BestPrep classroom volunteer.

Jason Kley, CFP®, AIF®, MBA, Senior Integrated Wealth Advisor and Director of Operational Excellence, has a passion for building the financial literacy skills of youth and was a key advocate for the Minnesota legislation that requires high school students to take a personal finance course. In addition to his advocacy work, Jason now serves on the Minnesota Council on Economic Education board and as President of the Minnesota Jump$tart Coalition, an organization focused on advancing financial literacy for youth. Jason is also a longtime volunteer with BestPrep and the Financial Planning Association of Minnesota.

CCM COLLEAGUES GATHER

In August, CCM colleagues gathered in Hastings for a summer BBQ hosted by Founder Jeff Carlson, CFP®, and his wife, Stacy. On what was surely one of the hottest days of the summer, the team enjoyed slow-roasted meats prepared by Associate Integrated Wealth Advisor Steve Tecker, CFP®, and his brother, Alex. The duo built a commercial-grade smoker and perfected their pitmaster skills during COVID.

CCM Associate Integrated Wealth Advisor Steve Tecker, CFP®, and his brother, Alex, share their pitmaster skills with colleagues at CCM's summer BBQ.

Members of the CCM Tax Team, Carter Justice and Kyle DeGross, attend a career fair to recruit interns for the upcoming tax season. More information about CCM's tax internships can be found on Handshake, an app that connects college students with internship and career opportunities.

CCM colleagues and family members enjoy time together, including Senior Integrated Wealth Advisor Callie Geist, CFP®, J.D., MBA (third from left), Chief Marketing and Communications Officer Kelly Irvine (fifth from left), and Senior Integrated Wealth Advisor and Director of Carlson Portfolios Andy Hauskins, CFP® (end on the right).

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Integrated Wealth Management Since 1987

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