MP McShane Partners

March 2022 Insights

Investment Overview

A Review of *Grit: The Power of Passion and Perseverance*

This quarter's McShane Partners book club selection, *Grit: The Power of Passion and Perseverance* by Angela Duckworth, resulted from the desire to give members a "density-reprieve" after *Thinking, Fast and Slow* and highlight one strategic framework for thinking about child development and the characteristics of happy, successful people. Point being: identifying, embodying, and exemplifying these qualities can be extremely helpful in achieving long-term success in investing by improving consistency and resilience in the face of adversity. Inevitably in the stock market all investors are wrong at some point, and good investors know that you just need to be right more than you are wrong, but you will be wrong. How you respond when you are wrong is a critical differentiator, and people with *grit* persist versus capitulate.

Relentless: Oppressively Constant | Incessant

GRIT is not about near-term, instantly gratifying wins but about the "long-game, the one you play your entire life. The grittier an individual the fewer career changes they're likely to make, not because it is wise to endure misery, but because they have identified a passion and to truly become an expert there is an ever deepening of the interest in the career or activity. By our nature we are all neophiles, but people with grit become experts accumulating knowledge and skill to see things that a novice cannot. The stimulation comes from the constant expansion and nuanced learning to improve the craft not from abandoning it and finding something else more exciting.

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Wealth Advisory Overview

The Custodial Accounts (UTMA/UGMA) Versus 529 Plans

Creating savings for your children or grandchildren can help pay education costs and set aside assets to help them achieve their goals in the future.

Your options for college savings accounts include 529 plans and custodial accounts available through the Uniform Gifts to Minors Act (UGMA) or the Uniform Transfers to Minors Act (UTMA). Both types of accounts have pros and cons, but for most families, 529 plans are the better choice for college savings. That is because they offer more tax benefits and often have a smaller impact on your child's ability to get financial aid.

UGMA vs. UTMA vs. 529 Plans

The UGMA and UTMA accounts are custodial accounts, which means they allow adults to transfer cash, investments and—in the case of UTMAs—real estate to a child. The adult acts as the owner, or custodian, of the account until the child reaches the age of majority in their state. At that point, the child can access the funds and use them without restriction.

In contrast, 529 plans were developed specifically to give families a tax advantaged way to save for college. State agencies manage these plans (or hire a custodian to manage them) and allow parents, grandparents, or other adults to contribute to a child's college costs and potentially receive a tax break for doing so. If the beneficiary of the account doesn't spend the money on education, penalties will apply.

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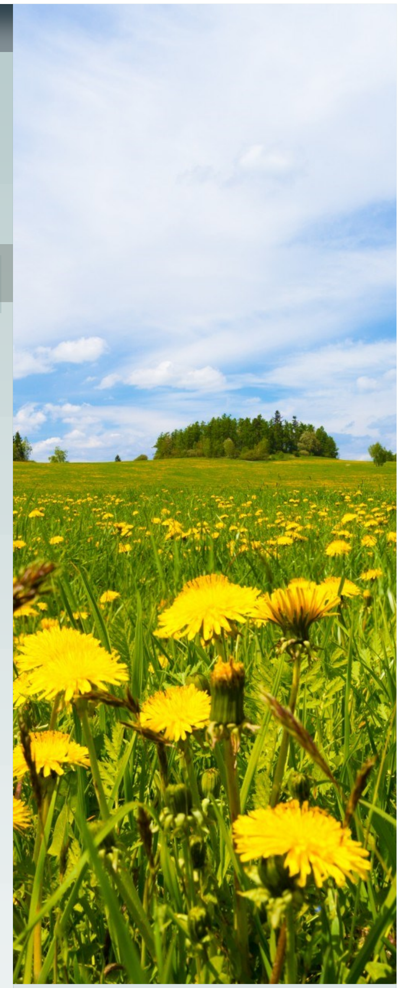

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Points of Interest

Investment Overview

A Review of *Grit: The Power of Passion and Perseverance*

Investing with Grit

There is a reason Warren Buffet is 91 and still considered the world's most successful investor: GRIT.

"You could supply me with the world's best instruction, and I could endlessly strive to improve my skills."-Warren Buffet

Applying the principles of the book to investing, people expect a learning curve but often underestimate just how long it takes to develop an appropriate skill level to prudently invest money in a technically proficient way. To develop a complex skill, on average it takes 10,000 hours of practice which at times can be very boring and unpleasant. It is this ability to relentlessly trudge through these hours to reach the level of expert, and that requires grit. For this reason, every Portfolio Manager on the Investment Team is a Chartered Financial Analyst ("CFA®") charterholder, and anyone responsible for managing client investment portfolios at the firm will need to have their CFA® designation. The hours of individual, self-motivated study required by the CFA® Program are unparalleled in their rigor and intensity, and the CFA® Program itself is honed to create an understanding of ethically, effectively, and successfully managing money.

Below is an example, of the time and effort required to achieve certain levels of proficiency. As you can see, it is not the time, but the effective, deliberate daily practice that differentiates the expert from the mediocre. The most common behavior is working all day at an acceptable level of effort, but not the effort and intensity required to achieve excellence as that requires not only time, but efficiency in the way each unit of time is utilized.

Daily deliberate practice is one of the prominent commonalities in *experts*. When stated, it sounds simplistic, but most people don't do one hour of deliberate practice a day because it is often boring and laborious at the same time.

Every month for the last twelve years, our firm has put out a newsletter and never once skipped this ritualistic publication. The reason I am adamant about the newsletter is that it serves as deliberate practice for all of McShane Partners' professionals. In a fast-paced world with a full workday, it is easy to neglect the time necessary to maintain and advance your skill. The most important reason for this newsletter is deliberate practice as I want our firm to provide expert advice and in order to do that, we need to be experts.

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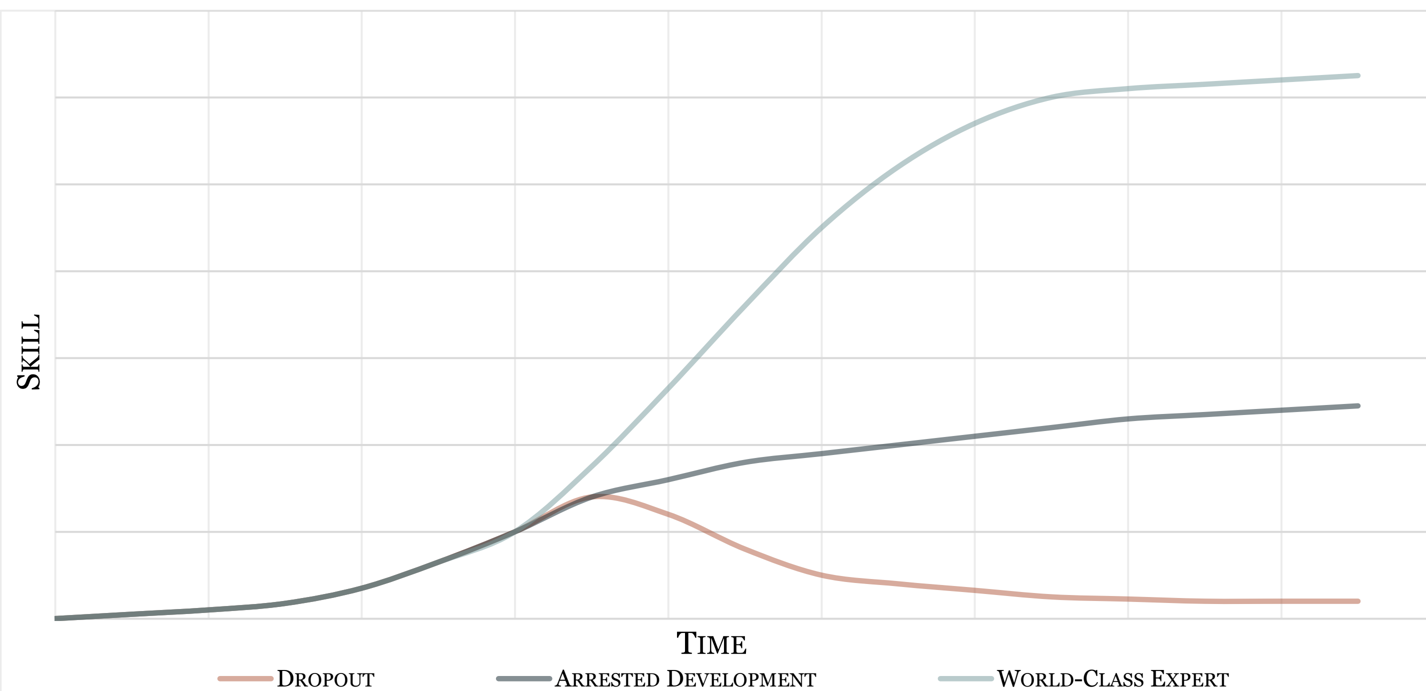
Chart I: Skill vs. Time



Source: Grit: The Power of Passion and Perseverance, Angela Duckworth

Investment Overview

A Review of *Grit: The Power of Passion and Perseverance*

The individual components of daily deliberate practice are simplistic but often neglected. Below is a table providing an example of how our monthly newsletter insures our deliberate practice.

Component of Deliberate Practice	McShane Partners
A clearly defined stretch goal	Consistently producing an impressive publication
Full concentration and effort	Researching, analyzing, and articulating a relevant idea
Immediate and informative feedback	Editing, revising, and correcting the publication/article
Repetition with reflection and refinement	Over the years the format, content and collaboration have evolved and improved

Gifting Grit

After establishing that grit is a desirable trait that can help individuals not only achieve, but achieve true happiness through self-esteem and self-worth, the logical next step is to help the reader understand how to cultivate this quality in others. Grit is the building block of our firm's culture and my children's development. Individuals who are happy and have a purpose perform better, and by giving people a purpose and the autonomy to achieve that purpose, they flourish along with everything and everyone around them. We wanted you to have this gift of grit and understand how we employ its teachings thus we highly encourage you to request a copy and hope you enjoy this quick and effective read.

Monthly Index Review
USD Total Return

Data as of February 28th 2022	February 2022	2022 YTD	2021	2020
S&P 500® Index	-2.99%	-8.01%	**+28.71%**	+18.40%
Dow Jones Industrial Average	-3.29%	-6.43%	+20.95%	+9.72%
NASDAQ Composite	**-3.35%**	**-12.01%**	**+22.18%**	**+44.92%**
Russell 2000	**+1.07%**	**-8.66%**	+14.82%	**+19.96%**
MSCI Emerging Markets	-2.98%	-4.81%	**-2.22%**	+18.69%
MSCI EAFE	-1.76%	-6.50%	+11.78%	+8.28%
Bloomberg U.S. Aggregate Index	-1.12%	-3.25%	**-1.54%**	+7.51%

Stock & Strategy Spotlight

Name	Ticker	February 2022	2022 YTD
Exxon Mobil Corp.	XOM	**+4.40%**	**+29.60%**

Description & Investment Thesis

Earlier this month, the Investment Team revisited portfolio-level positioning and corresponding sector-level exposure to the Energy Sector across client investment portfolios given the considerable absolute and relative outperformance of the sector year-to-date ("YTD") and over the past twelve months. As part of a tactical reduction in sector-level exposure, precipitated by valuation concerns, the Investment Team recommended the sale of existing holdings/ positions in shares of Exxon Mobil Corp. ("XOM") and removed the stock from firm-wide buy lists. While the Investment Team still considers XOM to be a best-of-breed industry-leader, valuations are less compelling at current levels, and the Investment Team believes that long-term secular tailwinds will provide another opportunity to take advantage at more attractive absolute and relative valuation levels.

Wealth Advisory Overview

Custodial Accounts (UTMA/UGMA) Versus 529 Plans

Overview of UGMA and UTMA Plans

The UGMA was originally passed in the 1950s to provide an alternative to trust funds for families with limited assets. At that time, most states instituted their own UGMA plans.

New legislation, renamed the UTMA, was introduced in the 1980s, and all states except for South Carolina have since transitioned to adopting the updated UTMA. The biggest change was that the UTMA expanded the definition of the type of property that a custodian can transfer to a child.

Families can best use a UGMA or UTMA account to give a financial gift to a child, which the child will only have access to when they've reached adulthood. The age of majority for UGMA or UTMA accounts can range from 18 to 25, depending on the state. The account owner cannot change the UGMA/UTMA beneficiary.

The adult who opens the account can transfer unlimited amounts to the account and can invest within the account through the account provider. The money can be used for any purpose benefitting the child and may be spent at the discretion of the child once they are old enough to take ownership.

Contributions of more than $16,000 per year (per person or $32,000 per couple) will trigger federal estate or gift tax consequences. Annual unearned income in the account below $1,100 is tax free, between $1,100 and $2,200 will be taxed at the child's tax rate, and unearned income above $2,200 will be taxed at the parent's tax rate.

A major drawback of using UGMA or UTMA accounts for college savings is that the funds in the account are considered the child's property, even if the child hasn't reached the age of majority. That means when a family fills out the Free Application for Federal Student Aid (FAFSA), they must list UGMA and UTMA funds as the student's asset which may increase the Expected Family Contribution, or the portion a family must pay in college costs.

Overview of 529 Plans

Unlike UGMA or UTMA accounts, 529 plans let families allocate funds specifically to college savings. Contributions grow tax-free and you also won't pay taxes when you withdraw money to pay for eligible education expenses. There are no annual contribution limits, though plans typically institute lifetime contribution limits.

Qualified education expenses include college tuition; fees; on- and off-campus room and board; equipment, books and supplies required for coursework; and up to $10,000 annually for K-12 tuition, depending on the plan. If you use 529 funds for expenses outside these categories, you'll pay a 10% penalty and income tax on the withdrawal.

For 529 accounts, the owner who opens the account keeps control regardless of the beneficiary's age and can switch to another beneficiary if the first child doesn't need all the money. The plan owner can update the beneficiary to a member of the original beneficiary's family.

Generally, the contribution limits are the same for 529 plans and a contribution of more than $16,000 per year (per person or $32,000 per couple) will trigger federal estate or gift tax consequences. However, 529 plans offer an option to fund five years of annual gifts in one year and attribute the contribution to the gift limitation for the next five years.

You can opt for almost any 529 plan, not just your state's, but you may receive an extra tax break if you choose the plan in your state of residency. On the FAFSA, a 529 plan owned by a parent will be listed as a parent's asset. That substantially lowers its impact on financial aid. The EFC will likely increase by about 5% of the account's balance, rather than 20% for a UGMA/UTMA account.

Either choice for savings will allow you to create a way to fund the future pursuits of the children in your life. Both options will typically provide some level of tax benefits, and neither is a bad choice. Talk to your wealth advisor to discuss which type of account best fits your objectives.

Senior Planning: Protect Yourself From Scams

Lorri Tomlin, FPQP™
Partner | Wealth Advisor

Cybersecurity and scams are in the news daily. Scams generally involve an attempt to get money directly or get access to financial or personal information. Seniors are often targeted and particularly vulnerable. Here are some steps you can take to avoid falling prey to these malicious attacks.

Phone Scams

Don't answer the phone if you don't recognize the number.

- Some Seniors, especially during the pandemic, have spent a lot of time home and alone. Therefore, a phone call is often welcomed even if not expected. Experts say that the best defense is to not answer the call at all. If you answer the call, even if you think it is a scam and want to "call out" the scammer, you verify that the scammer has a viable phone number. If no one ever answers the calls, your number may eventually be dropped from the call list. If the caller is legitimate, they will leave a voicemail with information so you can call them back.
- If the caller does leave a voicemail, and is not someone you are familiar with, be cautious. Phone scams often involve someone pretending to be from the IRS, Microsoft, your bank, or financial institution. These entities will never call and request information or access to your computer or accounts. Don't be fooled into providing information they ask for. If you are unsure, hang up and call a known number for that entity such as one provided on a website or the back of your credit or debit card.

If you do answer the phone and it is someone with frightening news, try to stay calm and think logically.

- Scammers often use scare tactics: Your accounts are being tracked or have been hacked, you owe the IRS back taxes and need to pay before they put you in jail, your grandson is in trouble and needs money. These tactics call for urgent action or may contain threats. Again, try to call a known number to verify this information. Call the bank to check on your accounts, call your tax preparer, call your grandson to see if he is okay.
- Never agree to pay money, give out personal information or allow access to your computer or accounts.

Email and Text scams

Be suspicious of unexpected emails or texts from people or vendors.

- These emails and texts can be very official looking and even contain logos from vendors that you use. Some things to look for to spot a fraudulent email or text would be bad grammar or misspelled words, unusual or incorrect names (Robert instead of Bob), suspicious attachments and an incorrect email address (Mary@verizin.com instead of Mary@verizon.com)
- Do not click on links provided in these emails or texts and especially do not provide any information if you do click on a link.

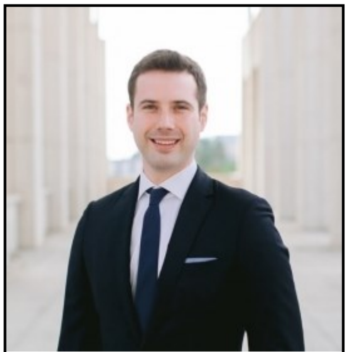
Online security

Today, more than ever, transactions and communications are done online. Often this is the most secure procedure, but it is important to make sure you are doing everything you can to protect your online security.

- Review accounts often to check for unauthorized transactions
- Change passwords frequently and use strong passwords. Do not use personal information such as birthdate, name, address, or birthplace in your passwords
- Enroll in 2 Factor Authentication or voice recognition whenever available
- Limit the personal information you share on social media
- Invest in an antivirus software
- Use free Wi-Fi with caution

If you think you have been the victim of a scam, tell someone you trust. Your advisor at McShane Partners can help if you think your accounts have been compromised. If you have lost money, report the incident to the local authorities. The Federal Trade Commission (FTC) collects scam reports. Report your scam online with the FTC complaint assistant or call 1-877-382-4357.

NextGen: Asset Classes



Ryan Vaudrin, CFP®, CDFA®
Wealth Advisor

As we currently experience market volatility, proper investment planning is increasingly important. Asset allocation is one of the most vital factors when setting up a properly positioned investment portfolio, but what assets does this include? The McShane Partners Asset Classes are listed below from least risk and potential return to greatest risk and potential return.

Cash – Cash is the most conservative investment option and therefore exhibits the lowest investment return rate. Cash is utilized for clients who need liquidity in the short term or to hold a position while waiting for tactical investment opportunities. A large risk associated with holding cash long-term is that returns may not keep up with inflation.

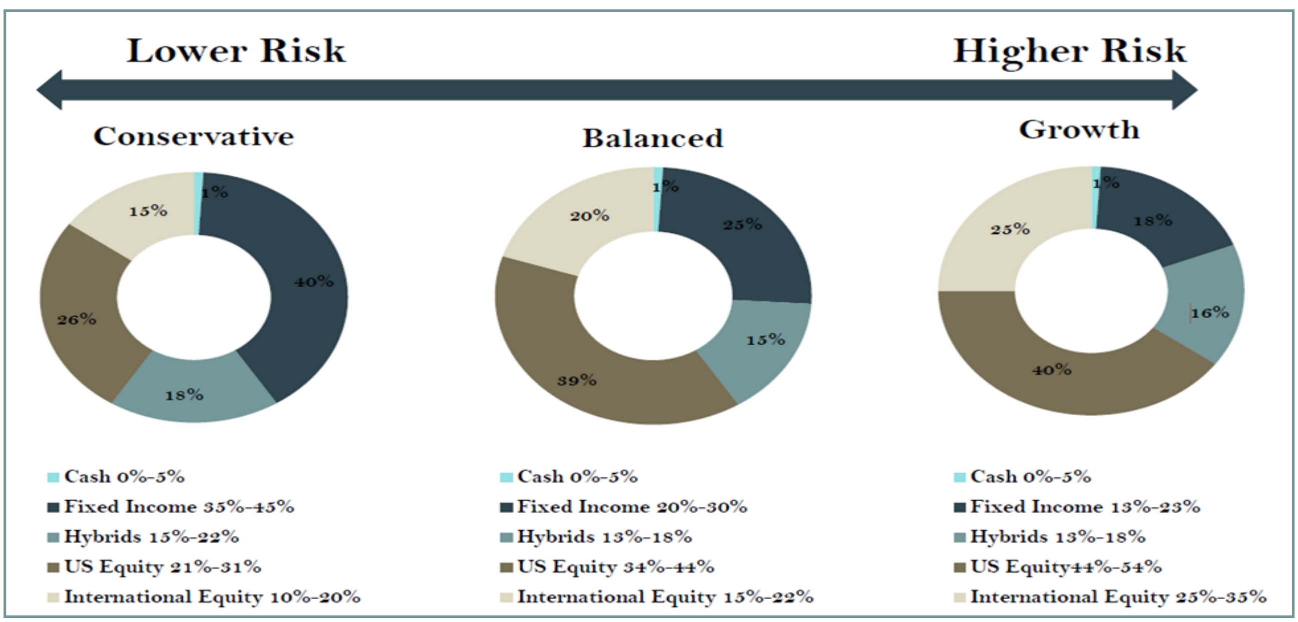
Fixed Income – Fixed income or bonds are typically considered to be the next less risky investment category. Bonds are loans that a company or government entity issues for investors to buy. A bonds price is influenced by the duration/length of the bond and the interest rate changes. Short term bonds normally yield less return because the initial investment will be repaid sooner than with long-term bonds. Along with duration, interest rates also have a large impact on bond pricing. As interest rates change, bond pricing will fluctuate inversely to the given interest rate change. These risks can be managed by purchasing several bonds with differing durations as well as holding them to maturity.

Hybrids – the Hybrid asset class is an alternative investment asset class that focuses on high-quality positions in uncorrelated assets. Hybrids may be beneficial as they add diversification since they don't behave like a typical stock or bond within the market. Some examples of Hybrids include, Hedge Fund Strategies, High-Yield & Alternative Fixed Income, Utilities, REIT's, etc.

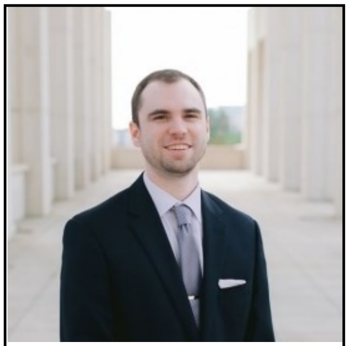
Equities – Equities or stock investments represent ownership in a company. Investors can purchase stock shares on various stock exchanges to participate in the potential growth (or loss) of that company. Stocks typically provide the most opportunity for growth but also carry the most risk.

International Equities – Similar to domestic equities, international stocks represent ownership in foreign companies. With international equities, investors must also deal with foreign policy risk, currency volatility, and potential liquidity risk in addition to the risks associated with "normal" stocks.

Each asset class contains pros and cons on their own but combining them can help provide a more positive long-term outcome. As seen below, asset allocations that contain more Cash, Fixed Income, and Hybrids are more conservative but will have lower risk and asset allocations that contain more equities and international equities offer more growth but will have higher risk. By ensuring the appropriate mix of asset classes, investors can remain comfortable and meet long-term personal and investment goals.



NextGen: Student Loan Repayment Options



Daniel Hudspeth, CFP®
Wealth Associate

College graduation is often the starting point for new life experiences – the first "real" job, financial independence, and new beginnings. While graduates may choose vastly different paths after they walk across the stage, one thing remains constant for all who borrowed money: repaying those wonderful student loans.

Student loans, as with most things over the past two years, have experienced extraordinary circumstances. Loan repayment has been deferred since March of 2020 and are set to resume May 2022 as of this writing. In this month's edition, we will cover four of the eight most common repayment options for those with outstanding student debt. These options include the following:

Standard Repayment Plan

This plan is the most common option. Loans are repaid over 10 years (up to 30 years for loan consolidation) with a level payment. This repayment plan typically results in the lowest interest paid over the life of the loan compared to the other options. The standard repayment plan covers Direct subsidized & unsubsidized loans, subsidized & unsubsidized Federal Stafford loans, all Plus loans, and all Consolidation loans (Direct or Federal Family Education loans).

Graduated Repayment Plan

This plan is similar to the Standard Repayment plan and covers the same type of loans. The most notable difference is the payment schedule. Using this option results in lower payments at the beginning of the 10-year loan term. Payments will typically increase every two years throughout the loan term.

Extended Repayment Plan

This option is available for the same loan types as the Standard Repayment and Graduated Repayment plans. The key difference with the Extended Repayment plan is that Direct Loan borrowers must have an outstanding Direct balance of at least $30,000. Under this option, borrowers may have fixed or graduated payments over 25 years.

Income Sensitive Repayment Plan

This plan is different from the above options since it is only available to those who have Federal Family Education Loans (FFEL). These loans include subsidized & unsubsidized Federal Stafford loans, FFEL Plus loans, and FFEL consolidation loans. Monthly payments are based on annual income and have a maximum loan term of 15 years.

Stay tuned for next month's article as we review four additional repayment options. As always, please contact a McShane Partners team member for more information or any questions you may have.

Around McShane Partners

Building Update

We are pleased to report that construction is beginning to wrap up at our new office building located on Park Drive. Be sure to stayed tuned for additional updates and upcoming events as we expect to be in the new building by early Spring!

Ryan Vaudrin—Partner

Please join us in congratulating our newest partner—Wealth Advisor Ryan Vaudrin. Ryan has been an invaluable asset to the McShane Partners team since joining us in December 2016. We look forward to many more great years to come!

Opera Carolina

What better way to spend your birthday than at the Opera with friends and clients? McShane Partners sponsored a pre-curtain dinner for Don Giovani and sat with Joe and Virginia Dulaney. Please let us know if you are interested in any of the Opera events as we have tickets.

McShane Partners

Wealth management is our only business; therefore, our attention is undivided, and our intentions are transparent.

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