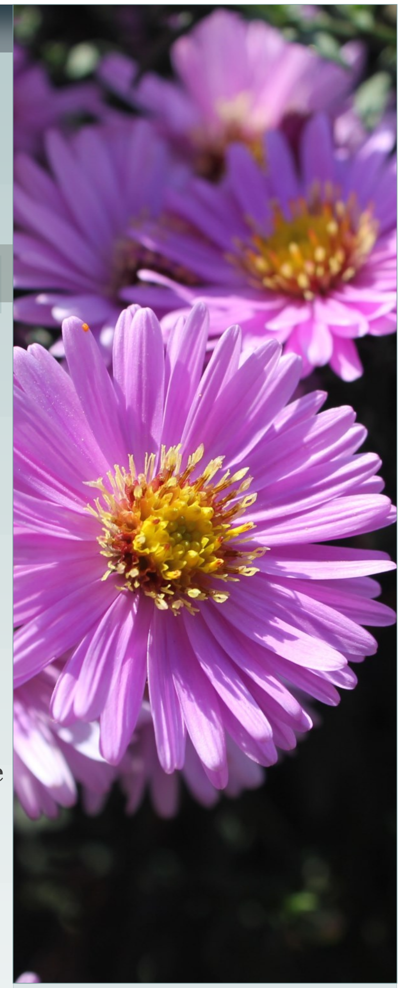
MP McShane Partners

June 2022 INSIGHTS



Investment Overview

Revisiting the Rotation: Part Two

As the Investment Team highlighted in its April 2021 INSIGHTS newsletter article last spring, early indications of what initially appeared to be an early-stage or short-term rotation out of *growth* and into *value* following the 2020 U.S. presidential election caught most institutional investors and asset managers off-guard with respect to positioning in and exposure to *value stocks* after having enjoyed **±10 years** of considerable, consistent relative outperformance in *growth stocks*; on a total return basis, the S&P 500® Growth Index outperformed the S&P 500® Value Index by a cumulative **±182.8%** (i.e., **±5.8%** annualized) for the trailing 10-year period ended Dec. 31st 2020. In the **±18 months** since Election Day (i.e., Nov. 3rd 2020), however, the S&P 500® Value Index has generated **±19.7%** in cumulative relative outperformance vs. the S&P 500® Growth Index, much of which has been generated just over the past five months, with value outperforming growth by **±17.6%** year-to-date ("YTD") in 2022.

While a portion of value's recent outperformance can be attributed to *mean reversion* vis-à-vis a correction in growth's overstretched valuations and a normalization of its persistent premium vs. value, mounting market risks - including *intensifying inflationary pressures*, *rising interest rates*, *escalating geopolitical tensions*, and *discouraging economic data* - have substantiated and reinforced this late-stage rotation out of secular growth and into cyclical value, which has proven more resilient than many previously anticipated.

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Wealth Advisory Overview

The Importance of Having a Financial Plan

As market volatility continues to increase, having a comprehensive financial plan in place as a baseline to assure clients they will be able to retire and/or live comfortably in retirement is paramount. According to the 2013 Household Financial Planning Survey conducted by the Certified Financial Planner Board of Standards, only 31% of financial decision makers say they have a comprehensive written financial plan. The Board defines a comprehensive financial plan as one that covers savings and investments; planning for retirement, education, emergencies, major purchases, and other financial goals; insurance needs, as well as having an effective estate plan in place.

Creating a financial plan helps you see the big picture and set long and short-term life goals, a crucial step in mapping out your financial future. When you have a financial plan, it is easier to make financial decisions and stay on track to meet your goals, as well as feel secure in knowing you have a plan in place no matter what is transpiring in the stock market. Listed below are some of the top reasons to have a financial plan.

- ***It Will Help You Define Your Financial Goals***

We always begin building your financial plan by asking you what your financial goals are. For some individuals this is the first time they have actually written down their financial goals, while for couples this exercise can provide a venue to get on the same page.

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Investment Team

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Points of Interest

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During periods of *rising volatility* and *heightened uncertainty*, it is important to remember that *market cyclicality* is intrinsic to the *risk-return proposition* of investing, often creating attractive opportunities for patient, long-term investors. In conjunction with strategic investment objectives, prudent portfolio construction should reflect multiple market scenarios to *avoid unilateral risk-return exposures* and *mitigate excess volatility* through each phase of the market cycle.

Factor Fundamentals | Inflows Impact Indexes

With negative returns across most major assets and financial markets YTD in 2022, value stocks and investment strategies have seen meaningful inflows from investors chasing short-term outperformance, further sustaining the rotation out of growth. For example, ten of the largest U.S. large-cap value exchange-traded funds ("ETFs") recorded an estimated **±$17.2 billion** in *net new share issuance* through the first five months of 2022 vs. comparable *net new share issuance* of just **±$4.6 billion** for U.S. large-cap growth ETFs YTD in 2022 (*Source: FactSet Research Systems, Inc.*). These increased inflows, reflective of a surge in pent-up demand for cyclical value stocks over the past **±18 months**, and the concurrent rotation out of secular growth have precipitated a significant shift in the underlying style-/factor-based composition and market capitalization ("market cap") of the S&P 500® Index.

As can be seen below in Chart I, the relative weightings of the S&P 500® Value Index and the S&P 500® Growth Index as a percentage of the S&P 500® Index have fluctuated over the past **±30 years** in response to prevailing financial and economic conditions as U.S. equity markets progressed through the various stages of *normalized market cycles*. From 2011-2021, the relative market cap of the S&P 500® Growth Index as a percentage of the S&P 500® Index - represented by **the red-orange line** in Chart I - averaged **±53.3%** and only fell *below* **50.0%** for a combined total of **15 days** over that **±10-year period**, peaking at **±61.9%** on September 1st 2020. The significance and severity of the recent reversal in momentum out of growth and rapid rotation into value can be seen in the sharp rebound in the relative market cap of the S&P 500® Value Index as a percentage of the S&P 500® Index (**the dark blue line**), which climbed as high as **±53.1%**

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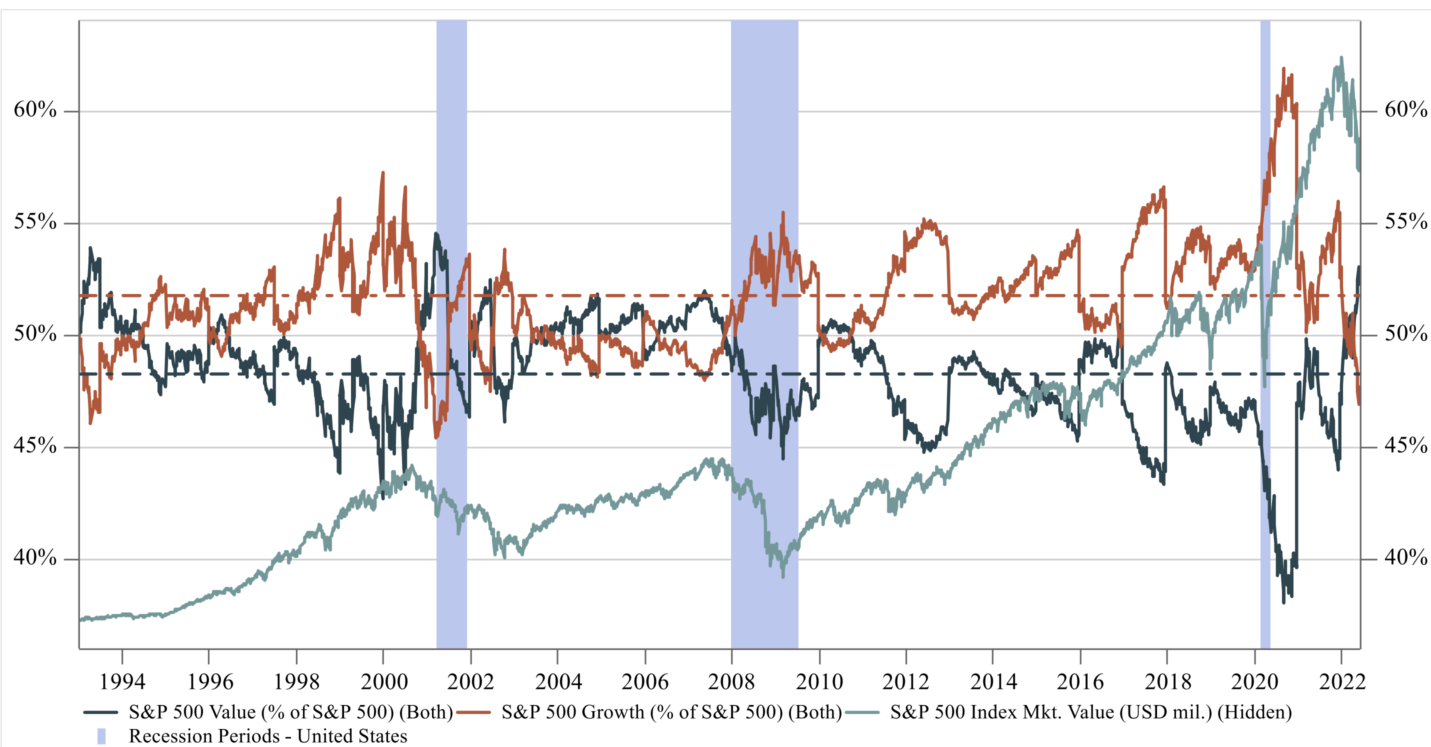
Chart I: Growth vs. Value Market Capitalization (As % of S&P 500® Index)



Source: McShane Partners - FactSet Research Systems, Inc.

Investment Overview

Revisiting the Rotation: Part Two

on May 24th 2022: its highest level in over **±20 years**.

There is potential for incremental upside and marginal relative returns in the rotation-driven value vs. growth trade, but an objective analysis of historical data from prior market cycles would imply that short-term swings and emerging trends should not be chased, and investors should conduct careful analysis prior to abandoning any long-term investment strategies. Digging into the underlying fundamentals driving performance can help in determining whether or not recent returns are likely to be sustainable over a long-term investment horizon or replicable over the course of a full market cycle.

Significative Swings in Sector-Level Composition

The identification of emerging trends or potential pivots in the sector-level components or indexes across equity markets can have a critical impact on the absolute and relative performance of equity portfolios. Chart II, below, shows the respective market cap weightings of the Information Technology, Energy, Financials, Industrials, and Consumer Staples sector-level indexes as a percentage of the broader S&P 500® Index. Even after the recent, well-publicized declines in large-cap Information Technology stocks, the sector is still the largest constituent in terms of relative market cap within S&P 500® Index, representing **±27.1%** of the S&P 500® Index through month-end. The exponential growth of Information Technology over the past ±20 years is indicative of the sector's increased influence and economic significance, but, as evidenced by the sector's **-19.4%** sell-off YTD in 2022, its importance is not immune to negative investor sentiment.

The Energy sector has enjoyed significant relative outperformance over the past **±18 months**, returning **±218.4%** since Election Day but still only represents just **±4.8%** of the S&P 500® Index. Concerns over persistently elevated inflationary pressures are likely to sustain positive momentum for the Energy sector over the next **±12-18 months**, although incremental exposure should be considered relative to where we are in the current commodity cycle given the sector's historical dependence on and positive correlation with the price of oil.

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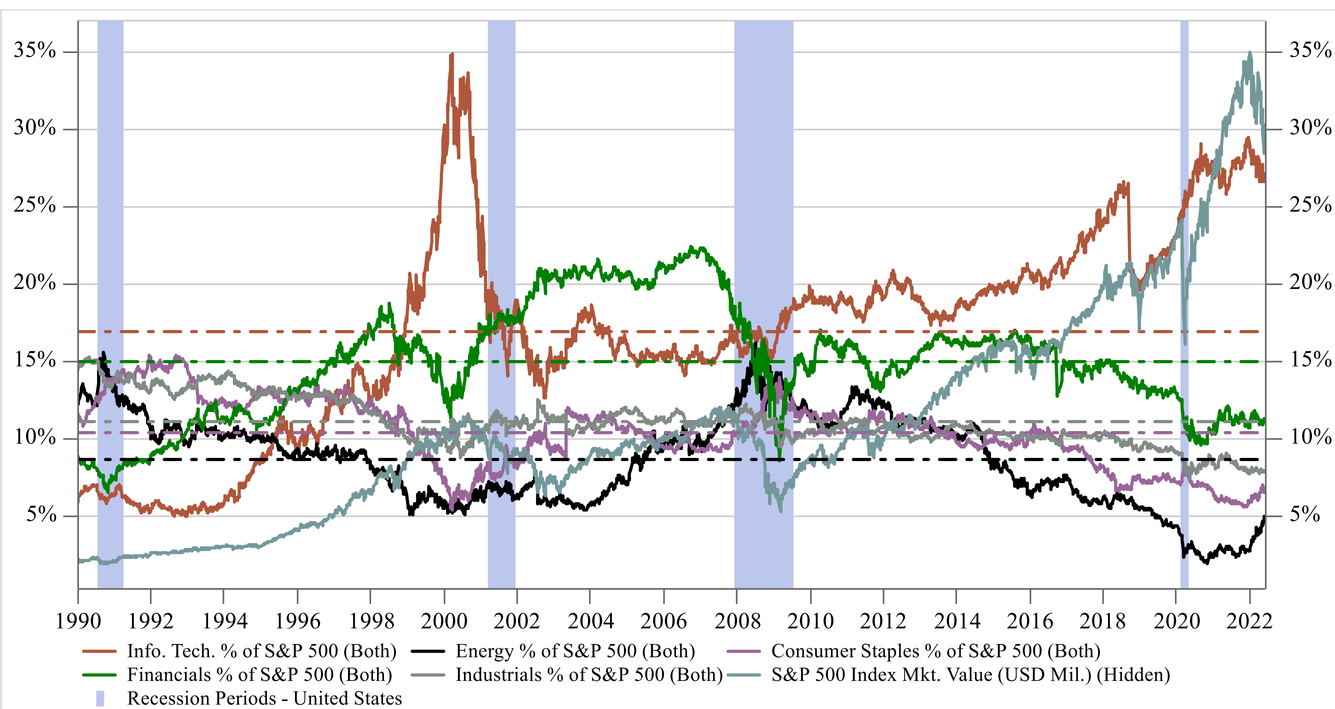
Chart II: GICS® Sector Market Capitalization (As % of S&P 500® Index)



Source: McShane Partners - FactSet Research Systems, Inc.

Investment Overview

Revisiting the Rotation: Part Two

Conclusion

As previously indicated, the Investment Team believes that a *methodical approach* to *risk management* is critical to *prudent portfolio construction* in order to protect against outsized drawdowns and preserve principle. Rejecting the impulse to capitulate to *herding behavior* when market momentum shifts in response to cyclical swings or rotations can be painful, but the long-term benefit/reward often outweighs the near-term angst. Every financial asset carries inherent risks and can become *expensive*, *overpriced*, and *overowned* at some stage throughout the market cycle, necessitating an unbiased approach to rationalizing risk-return positioning relative to long-term goals and strategic objectives.

"If you are shopping for common stocks, choose them the way you would buy groceries, not the way you would buy perfume."

- Benjamin Graham

Monthly Index Review
USD Total Return

Data as of May 31st 2022	**May 2022**	**2022 YTD**	**2021**	**2020**
S&P 500® Index	+0.18%	-12.76%	**+28.71%**	+18.40%
Dow Jones Industrial Average	+0.33%	-8.43%	+20.95%	+9.72%
NASDAQ Composite	**-1.93%**	**-22.53%**	**+22.18%**	**+44.92%**
Russell 2000	+0.15%	**-16.56%**	+14.82%	**+19.96%**
MSCI Emerging Markets	+0.47%	-11.68%	**-2.22%**	+18.69%
MSCI EAFE	**+0.89%**	-11.02%	+11.78%	+8.28%
Bloomberg Barclays U.S. Aggregate Bond Index	**+0.64%**	-8.92%	**-1.54%**	+7.51%

Stock & Strategy Spotlight

Name	**Ticker**	**May 2022**	**2022 YTD**
Vestas Wind Systems A/S ADR	VWDRY	-1.52%	-17.00%

Description & Investment Thesis

The Investment Team highlighted Vestas Wind Systems A/S ADR ("VWDRY") in a prior Stock & Strategy Spotlight (December 2021 INSIGHTS) after shares sold off sharply following disappointing third quarter 2021 ("3Q21") earnings results and negative revisions to the company's forward-looking guidance; specifically, the Investment Team noted how shares of VWDRY were trading at *more attractive* valuation levels compared to it's historical trading range and relative to sector-/industry-level peers but looked incrementally vulnerable following the negative earnings surprise and less-than-optimistic commentary. Since then, shares of VWDRY have continued to face considerable headwinds from both the broader sell-off in *long-duration*, *high-growth stocks*, as well as the meaningful deterioration in investor demand for *secular thematic investment strategies*, such as *environmental, social, and governance* ("ESG"), falling an additional **-24.1%** over the past six months.

Earlier this month, following another post-earnings drawdown in the stock, the Investment Team determined that, at prevailing valuation multiples, the *risk-adjusted upside/(downside) potential* in shares of VWDRY was *positively skewed*; as such, the Investment Team added the stock to applicable International Equity buy lists and began initiating positions in VWDRY across client investment portfolios, where prudent and appropriate. As financial market and economic conditions continue to develop, the Investment Team will look to take advantage of attractive opportunities to initiate new positions in or add to existing holdings of VWDRY for long-term investors, as the stock

Wealth Advisory Overview

The Importance of Having a Financial Plan

- ***It Will Help You See Whether Your Goals Are Realistic, Especially for Your Timeline***

After taking a look at your goals, it is important to determine if they are realistic? Are they attainable? Most of us have more goals than financial resources and usually it is not that the goal is unattainable, it is that it is not attainable in the timeline we are afforded.

- ***It Will Help You See What Action Items Are Needed to Help You Achieve Your Goals***

Once you know where you want to go and how long it will take to get you there, we can determine how much you need to save, where you should save it and what types of investments need to be made.

- ***It Will Allow You to Measure Your Progress Towards Your Goals***

Once the plan is in place, we can set up measurable goals, such as regularly contributing a specific amount toward savings or debt repayment. Annual reviews can provide measurable results to determine whether you are on track or if adjustments need to be made.

- ***It Will Help You Find New Ways to Maximize Your Money***

Having a financial plan might reveal opportunities to save money that you had not thought about such as maximizing a company 401(k) match or fully funding a Health Savings Account.

- ***It Will Help Identify Risks***

Part of a comprehensive financial plan includes looking at risk capacity. What is your risk of becoming disabled and being unable to support yourself or your family, or dying early and leaving your family with unmanageable debt? Once the risks are identified, it can help to provide alternatives for addressing these risks.

- ***It Will Help You Build Wealth and Live More Comfortably***

The CFP Board survey showed that those with a written financial plan have more money saved and are more likely to say they are living comfortably. They are more confident, more engaged with their wealth, and demonstrate more positive saving and investing behaviors than average Americans.

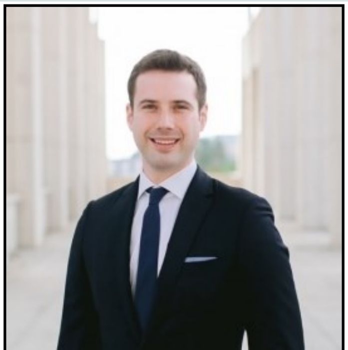
Benefits of Using a Financial Planner

Most individuals do not have the expertise, the time, or the desire to actively plan and manage certain financial aspects of their life. Some reasons for having professional financial planning guidance might include:

- Making sure your money will last during retirement
- Handling the inheritance of a large sum of money or other unexpected financial windfall
- Preparing for a marriage or divorce
- Planning for the birth or adoption of a child
- Facing a financial crisis such as a serious illness or displacement from employment
- Caring for aging parents or a disabled child
- Coping financially with the death of a spouse or close family member
- Funding education
- Buying, selling, or passing on a family business

Procrastination is the greatest enemy of financial independence and using a financial planner will keep you on track to meet your goals. Financial planning is a process, not a product. It is the long-term method of wisely managing your finances so you can achieve your goals, while at the same time assisting you with navigating the financial barriers that inevitably arise in every stage of life. At McShane Partners, we are committed to making sure that every client has a written comprehensive financial plan that is reviewed and adjusted on an annual basis to ensure that you have a roadmap to attain your life goals.

NextGen: Post-Wedding Checklist



Ryan Vaudrin, CFP®, CDFA®
Partner | Wealth Advisor

The long-awaited day has finally come and now you are married! After the thank you cards have been sent and the return trip from the honeymoon, it's time to relax…almost. There are a few important things that to complete as you start your lives together. For this month's article, I wanted to share a post-wedding checklist as I am currently going through this process myself.

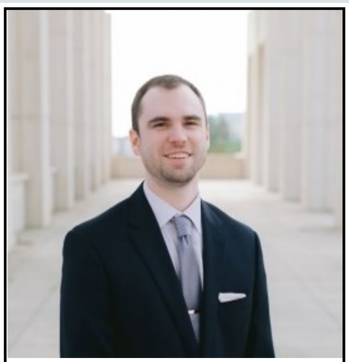
If you or your spouse are interested in changing your name, the first area to focus on is the legal aspect which begins at the local Social Security office. To start the process of updating a driver's license and passport, you will need updated Social Security information, along with a certified copy of your marriage certificate. Unfortunately, process can take a while to complete so be prepared to wait. Once the essential name documents are changed, the next step will be updating your name with banks and investment accounts.

As you wait for the name change to become official, you can use this time to review to consolidate. If both spouses work, it may be beneficial to review each health benefit plan. In some cases, adding a spouse to a work provided health insurance plan can be more cost effective and provide better insurance. After reviewing insurance, you can move on to work sponsored 401(k) plans to ensure that each spouse is taking advantage employer matches and that the account is properly allocated.

Updating for the present is essential, but you can't forget about planning for the future. As I have mentioned in previous articles, insurance serves the need to replace any income if it were lost. After marriage, especially if there are any dependents, it's time to review personal needs. It's vital to see if one or both spouses require life insurance protection. It is also important to establish or update your estate planning documents, including a Last Will and Testament, Power of Attorney, and Health Care Power of Attorney.

I understand that these items may not be the greatest priority after the big day but taking care of these items could be easier if done early versus later. Additional items will come up throughout the first year such as budgeting, buying a home, or starting a family but after everything has been reviewed or discussed, it's time to relax!

NextGen: IRAs With Trust Beneficiaries



Daniel Hudspeth, CFP®
Wealth Associate

Prior to the passage of the *Setting Every Community Up for Retirement Enhancement Act of 2019*, commonly known as the *SECURE Act*, leaving IRA accounts to a trust was a valuable option available to most people. By naming a trust as the beneficiary, the account owner could maintain a level of control after death to preserve wealth for current and future beneficiaries, protect assets, or direct funds as they see fit. However, this arrangement has now become a little more complicated.

In the past, IRA funds held in a trust which qualified as "see through" enabled trust beneficiaries to stretch distributions over the oldest beneficiary's life expectancy. Under the SECURE Act, this option is now only available to beneficiaries who qualify as Eligible Designated Beneficiaries, or EDBs. These EDBs include surviving spouses, minor children, persons with disabilities, chronically ill, and those not more than 10 years younger than the deceased IRA owner. This means that if one of the beneficiaries does not fall into this category, the funds must be distributed within the trust from the IRA within 10 years of the account owner's death.

While funds for non-EDBS can still be held within the trust's control, they will be subject to trust tax rates which are much greater than those for individuals. For example, an individual would not encounter a 37% tax rate until their income was $539,901 and greater – trusts hit 37% at $13,450. In the end, the trust retains control but at a significant cost. As always, if you would like more information about trusts and their relationship with IRAs, please contact your McShane Partners advisor.

Senior Planning: The Benefits of Working in Retirement

Lorri Tomlin, FPQP™
Partner | Wealth Advisor

Retirement today looks very different from past generations. Gone are the days when reaching 65 meant retiring, getting that gold watch for many years of service, receiving a pension, and having your days free to relax. It's a growing trend for seniors to continue to work, either full-time or part-time, for a variety of reasons. Some may need to work to supplement their retirement income, but for those who have enough income, continuing to work can help seniors stay healthy, both mentally and physically.

Some seniors may want to stay involved in a current or prior career. Consulting, writing, or teaching to share your knowledge can be very fulfilling and can provide valuable insight to help future generations who enter your field. Others may want to explore a new career or start a business they've been thinking about. Trying and learning new things can be rewarding for those who are willing to take on the challenge.

Others may want to become more involved in their community and helping people. Becoming a tutor, teaching assistant or a home health aide are good ways to provide help where it is needed. Doing administrative work for a local government agency can help you stay involved and active in community affairs

Do you have a skill, hobby, or talent you can share with others? Teaching at a local school or teaching to other retirees is a good option. Perhaps you could turn your skill or talent into a business and sell your artwork, crafts, or decorating expertise.

Maybe you just want to stay active. Become a dog walker, offer handyman services, or coach a little league team. These are good options for seniors who are in good physical shape and want to maintain a higher level of activity.

Continuing to work after retirement can be beneficial for the retiree, but there is also a bonus for employers who hire seniors. Experienced, more mature workers often have strengths like loyalty, a strong work ethic and a positive attitude and prove to be very valuable employees.

Perhaps you do want to "slow down" in retirement and don't want to make the commitment to working a full or part time job. You may be looking forward to traveling, improving your backhand and spending more quality time with family. Volunteering may be another good way to stay active and involved but with more flexibility. Either way, the social interaction provided by both is a crucial component of staying healthy and happy as you age.

Around McShane Partners

Wedding Celebration

Congratulations to the Meyer's! We recently celebrated Corey and Kelly's big day.

Building Update

The day has come! We have completed our move and are now working from our new building located at 2150 Park Drive.

Black Belt Achievement

Congratulations to Daniele's son, Hudson, who recently received his black belt.

McShane Partners

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

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