

# MP McShane Partners

## AUGUST 2022 INSIGHTS

### INVESTMENT OVERVIEW

#### THE MCSHANE PARTNERS CORE CONTRARIAN EQUITY PORTFOLIO STRATEGY

After having delivered commendable *relative risk-adjusted returns* during a difficult first quarter of 2022 (“1Q22”), outperforming the S&P 500® Index by **+0.81%**, the McShane Partners Core Contrarian Equity Portfolio Strategy (“the Strategy”) managed to extend its margin of relative outperformance vs. S&P 500® Index throughout the second quarter of 2022 (“2Q22”), returning **-11.54%** in 2Q22 vs. a comparable return of **-16.10%** for the S&P 500® Index (“S&P 500®”). The persistence of the Strategy’s superior risk-adjusted performance vs. broader benchmarks through the first six months of 2022 is primarily attributable to the Strategy’s ability to mitigate heightened volatility and provide significant downside protection against the outsized drawdowns experienced by major equity indexes, several of which entered official bear market territory (i.e., peak-to-trough decline of *at least* **-20.0%**) during the quarter. Incremental weakness in traditional safe haven assets (e.g., investment-grade bonds) further frustrated diversified investment portfolios, as evidenced by the **-4.69%** return generated by the Bloomberg U.S. Aggregate Index in 2Q22.

While the Strategy has not been immune to the relentless onslaught of converging risk factors and macroeconomic headwinds (e.g., intensifying inflation, rising interest rates, decelerating economic growth, etc.) through the first half of 2022 (“1H22”), the Investment Team believes that portfolio-level performance year-to-date (“YTD”) has substantiated the beneficial resilience of the Strategy’s primary investment directive of producing consistent, lower-volatility returns through all phases of the market cycle.

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### WEALTH ADVISORY OVERVIEW

#### THE 1031 EXCHANGE - BY SANDY CARLSON

The 1031 Exchange name comes from Internal Revenue Code Section 1031. It enables you to defer capital gains tax and depreciation recapture by reinvesting the proceeds from the sale of investment property into replacement property, thus potentially preserving significant wealth in your estate. Your 1031 exchange deferrals can be continued through as many exchanges as you wish. However, when you sell a property without reinvesting in a new property, there will be capital gains and depreciation recapture tax liability at that time.

#### Section 1031 Requirements

It is critical to follow the requirements for 1031 exchanges in order to realize the investment benefits and avoid costly penalties. The exchange process must be facilitated by a *Qualified Intermediary (QI)*, the professional who executes the exchange. QIs hold the proceeds from the property you sell until they are reinvested in the replacement property. There must be a written “exchange agreement” between you and the QI to prevent you from having “constructive receipt” of the funds during the exchange period. The QI is required to complete a valid 1031 exchange that ensures all rules are followed and equity is preserved during the process. Using a QI as an independent third-party to facilitate a tax-deferred exchange is a safe harbor established by Treasury Regulations, and it is very important for you to select a QI before closing on the sale of your property.

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#### POINTS OF INTEREST

- [Monthly Index Review](#)
- [Around McShane Partners](#)

## INVESTMENT OVERVIEW

### THE MCSHANE PARTNERS CORE CONTRARIAN EQUITY PORTFOLIO

#### PERFORMANCE REVIEW

As can be seen in the consolidated performance review included in Table I, below, the Strategy outperformed both the S&P 500® and the S&P 500® Growth Index (“S&P 500® Growth”) by **±4.56%** and **±9.27%**, respectively, for the quarter; moreover, on a YTD-basis through 1H22, the Strategy (**-14.89%**) outperformed both the S&P 500® (**-19.96%**) and the S&P 500® Growth (**-27.62%**) by **±5.07%** and **±12.73%**, respectively, through quarter-end. In contrast to this weakness in the broader index and the relative underperformance of growth, both the S&P 500® Value Index (“S&P 500® Value”) and the S&P 500® Dividend Aristocrats Index (“S&P 500® Dividend Aristocrats”) outperformed in 2Q22, exhibiting incremental downside protection and returning **-11.27%** and **-9.51%**, respectively, for the quarter.

Index-level returns continued to be driven by sustained multiple compression, reflective of faltering investor sentiment and declining confidence in the near-/intermediate-term outlooks for risk assets. After having closed at **±21.6x** on January 3<sup>rd</sup> of this year, the forward-looking price-to-earnings (“PE NTM”) on the S&P 500® fell as much as **-28.52%** through mid-June, hitting **±15.4x** before recovering slightly and ending 2Q22 at **±15.9x**. This is primarily attributable to the significant overweight allocations to both the INFORMATION TECHNOLOGY and CONSUMER DISCRETIONARY sectors within the S&P 500®, as the sector-level indexes have experienced outsized declines of **-32.49%** and **-30.27%**, respectively, in their index-level PE NTM multiples YTD through the end of 2Q22.

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**TABLE I: MP CORE CONTRARIAN STRATEGY - PEER GROUP COMPARISON & PERFORMANCE ANALYSIS**  
USD TOTAL RETURN - DATA AS OF JUNE 30<sup>TH</sup> 2022

NAME/DESCRIPTION	SYMBOL/ TICKER	2020	2021	1Q22	2Q22	2022 YTD
<b>MP CORE CONTRARIAN EQUITY PORTFOLIO STRATEGY*</b>		<b>17.29%</b>	<b>25.83%</b>	<b>-3.79%</b>	<b>-11.54%</b>	<b>-14.89%</b>
S&P 500® Index	SP50	18.40%	28.71%	-4.60%	-16.10%	-19.96%
S&P 500® Value Index	SVXK	1.36%	24.90%	-0.16%	-11.27%	-11.41%
S&P 500® Growth Index	SGX	33.47%	32.01%	-8.59%	-20.81%	-27.62%
S&P 500® Dividend Aristocrats Index	SP50DIV	8.68%	25.99%	-3.01%	-9.51%	-12.24%
Invesco S&P 500 High Dividend Low Volatility ETF	SPHD	-10.47%	24.65%	5.21%	-5.60%	-0.63%
Invesco S&P 500 Low Volatility ETF	SPLV	-1.57%	23.89%	-1.77%	-7.09%	-8.70%
WisdomTree U.S. Quality Dividend Growth ETF	DGRW	13.48%	24.23%	-2.97%	-9.43%	-12.09%
SPDR SSGA U.S. Large Cap Low Volatility ETF	LGLV	7.11%	27.68%	-4.31%	-8.37%	-12.29%
ProShares S&P 500 Dividend Aristocrats ETF	NOBL	7.93%	25.24%	-2.97%	-9.65%	-12.30%
iShares MSCI USA Min. Vol. Factor ETF	USMV	5.35%	20.69%	-3.78%	-9.20%	-12.61%
AMG Yacktman Fund	YACKX	15.04%	19.52%	-1.35%	-11.50%	-12.69%
FlexShares U.S. Quality Low Volatility ETF	QLV	9.43%	25.94%	-3.13%	-10.08%	-12.87%
Fidelity U.S. Low Volatility Equity ETF	FULVX	3.81%	17.52%	-4.59%	-8.70%	-12.89%
iShares Core Dividend Growth ETF	DGRO	8.98%	26.40%	-3.43%	-10.36%	-13.39%
MFS Low Volatility Equity Fund Cl A	MLVAX	11.15%	25.00%	-4.07%	-10.16%	-13.80%
Vanguard Dividend Appreciation ETF	VIG	15.09%	23.55%	-5.18%	-11.10%	-15.66%
FMI Large Cap Fund	FMIHX	10.09%	18.00%	-6.16%	-13.18%	-18.52%
FlexShares U.S. Quality Large Cap Index ETF	QLC	13.29%	28.33%	-3.95%	-15.85%	-19.14%
iShares Core S&P 500 ETF	IVV	17.96%	28.59%	-4.57%	-16.15%	-19.93%
Parnassus Core Equity Fund	PRBLX	20.77%	27.38%	-5.74%	-15.34%	-20.19%
Invesco S&P 500 Quality ETF	SPHQ	16.94%	27.86%	-5.88%	-15.45%	-20.37%
iShares MSCI USA Quality Factor ETF	QUAL	16.66%	26.76%	-7.25%	-16.70%	-22.69%

\* For Additional Information, Please Refer to [Disclosures: The McShane Partners Core Contrarian Equity Portfolio Strategy](#)

Source: McShane Partners - Envestnet | Tamarac, Inc. & FactSet Research Systems, Inc.

## INVESTMENT OVERVIEW

### THE MCSHANE PARTNERS CORE CONTRARIAN EQUITY PORTFOLIO

#### PORTFOLIO OVERVIEW

The *largest contributors* to *absolute* and *relative* performance in 2Q22 came from the Strategy's principal positions in shares of COLGATE-PALMOLIVE CO. ("CL") and PFIZER, INC. ("PFE"), which returned **+6.30%** and **+2.05%**, respectively, in 2Q22. The net impact on portfolio-level performance from these top contributors, however, was more than offset by *net negative contribution* from several of the Strategy's larger holdings, including core positions in shares of DEERE & CO. ("DE") and ALPHABET, INC. CLASS A ("GOOGL"), which were the *largest detractors* to portfolio-level performance this past quarter, returning **-27.65%** and **-21.65%**, respectively, in 2Q22.\*

While the Strategy experienced net negative investment returns across sector-level portfolios, the Strategy's considerable overweight positioning in the CONSUMER STAPLES sector (**-4.62%**) provided positive relative contribution by exhibiting lower downside deviation and mitigating broader market volatility throughout the quarter. The Strategy's overweight allocation to the INFORMATION TECHNOLOGY (**-20.24%**) sector was the largest detractor to absolute portfolio-level performance in 2Q22; however, the Strategy's contrarian positioning in higher-quality, attractively valued names resulted in differentiated risk-return exposures that contributed to positive relative outperformance vs. the sector-level index in 2Q22.\*

Although disappointing, the recent underperformance of core strategic positions in high-quality, best-of-breed names (e.g., DE, GOOGL, etc.) is more reflective of temporary headwinds related to late-stage cyclicality, as well as a much-needed moderation in valuation multiples, as opposed to any deterioration in underlying fundamentals or long-term growth potential. The Investment Team routinely took advantage of tactical opportunities to manage portfolio-level risk exposures throughout the quarter by trimming or reducing

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**TABLE II: S&P 500® INDEX SECTOR HEAT MAP**  
USD TOTAL RETURN - DATA AS OF JUNE 30<sup>TH</sup> 2022

SECTOR-LEVEL INDEX	2019	2020	2021	1Q22	2Q22	2022 YTD
<b><u>DEFENSIVES</u></b>						
Utilities	+26.35%	+0.48%	+17.67%	<b>+4.77%</b>	-5.09%	-0.55%
Communication Services	<b>+32.69%</b>	<b>+23.61%</b>	+21.57%	<b>-11.92%</b>	<b>-20.71%</b>	<b>-30.16%</b>
Health Care	+20.82%	+13.45%	+26.13%	-2.58%	-5.91%	-8.33%
Consumer Staples	+27.61%	+10.75%	+18.63%	-1.01%	-4.62%	-5.58%
<b><u>NEAR CYCLICALS</u></b>						
Energy	+11.81%	<b>-33.68%</b>	<b>+54.64%</b>	<b>+39.03%</b>	-5.17%	<b>+31.84%</b>
Financials	<b>+32.13%</b>	<b>-1.69%</b>	<b>+35.04%</b>	-1.48%	-17.50%	-18.73%
Real Estate	+29.01%	<b>-2.17%</b>	<b>+46.19%</b>	-6.22%	-14.72%	-20.02%
<b><u>CYCLICALS</u></b>						
Information Technology	<b>+50.29%</b>	<b>+43.89%</b>	+34.53%	<b>-8.36%</b>	<b>-20.24%</b>	<b>-26.91%</b>
Consumer Discretionary	+27.94%	<b>+33.30%</b>	+24.43%	<b>-9.03%</b>	<b>-26.16%</b>	<b>-32.82%</b>
Industrials	+29.37%	+11.06%	+21.12%	-2.36%	-14.78%	-16.79%
Materials	+24.58%	+20.73%	+27.28%	-2.37%	-15.90%	-17.89%
<b>S&amp;P 500® INDEX</b>	<b>+31.49%</b>	<b>+18.40%</b>	<b>+28.71%</b>	<b>-4.60%</b>	<b>-16.10%</b>	<b>-19.96%</b>

Source: McShane Partners - FactSet Research Systems, Inc.

\* In accordance with Rule 206(4)-1(a)(2) of the Investment Adviser Act of 1940 (the "Advisers Act"), upon request by an individual or interested party, McShane Partners (the "Adviser") will make available a list of applicable discretionary investment recommendations made by the Adviser with respect to the McShane Partners Core Contrarian Equity Portfolio Strategy (the "Strategy") over the corresponding trailing 12-month period ended June 30<sup>th</sup> 2022.

**INVESTMENT OVERVIEW****THE MCSHANE PARTNERS CORE CONTRARIAN EQUITY PORTFOLIO**

overweight positions that had enjoyed exponential price appreciation over a relatively short period of time, while also moderately increasing or adding to positions in depressed names trading at irrational valuation discounts.

*“Investment success doesn’t come from ‘buying good things,’ but rather from ‘buying things well.’”*

*- Howard S. Marks*

**VALUATIONS | FUNDAMENTALS**

Dislocations in financial markets often create unique opportunities for patient, astute investors willing and able to see the long-term potential through the short-term volatility; as such, the Investment Team’s primary focus remains identifying individual investments with strong fundamentals, healthy balance sheets, proven track records, and durable, defensive business models trading at attractive valuations. Despite heightened near-term uncertainties and stubbornly elevated risk aversion, the recent bear market correction has increased the corresponding opportunity set of high-quality, secular growth stocks offering positively skewed upside/(downside) potential.

This has been a normal market cycle, and financial market behavior has been measured and in-line with prior cycles; however, the order of magnitude has been much greater than anything experienced over the past ±20 years, and investment decision-making should remain dynamic in response to changing and evolving financial market conditions. The Strategy’s recent performance has been extremely satisfying, and the Investment Team remains committed to delivering on the Strategy’s principal investment mandates by building and managing a high-quality, high-conviction equity portfolio capable of performing through multiple unpredictable, but probable, market and economic scenarios.

**MONTHLY INDEX REVIEW**  
 USD TOTAL RETURN

DATA AS OF JULY 30 <sup>TH</sup> 2022	JULY 2022	2022 YTD	2021	2020
S&P 500® Index	+9.22%	-12.58%	+28.71%	+18.40%
Dow Jones Industrial Average	+6.82%	-8.60%	+20.95%	+9.72%
NASDAQ Composite	+12.39%	-20.47%	+22.18%	+44.92%
Russell 2000	+10.44%	-15.43%	+14.82%	+19.96%
MSCI Emerging Markets	-0.16%	-17.61%	-2.22%	+18.69%
MSCI EAFE	+4.99%	-15.22%	+11.78%	+8.28%
Bloomberg U.S. Aggregate Bond Index	+2.44%	-8.16%	-1.54%	+7.51%

## INVESTMENT OVERVIEW

### THE MCSHANE PARTNERS CORE CONTRARIAN EQUITY PORTFOLIO

#### **DISCLOSURES: THE MCSHANE PARTNERS CORE CONTRARIAN EQUITY PORTFOLIO STRATEGY**

Performance data for the McShane Partners Core Contrarian Equity Portfolio Strategy reflect aggregated, asset-weighted returns of underlying account-level performance and is unaudited.

**STRATEGY LIMITATIONS** The Investment Strategy (the “Strategy”) performance shown reflects the asset-weighted performance of actual performance data and time-weighted returns for representative Investment Portfolios (the “Portfolios”) over the respective time frames in accordance with the objectives of the McShane Partners Core Contrarian Equity Portfolio Strategy (the “MP Core Contrarian Strategy”) managed by McShane Partners (the “Adviser”). While the performance of the Strategy is believed to have been calculated reliably and accurately, the Strategy performance data and returns have not been audited, and, as such, the results are subject to limitations inherent in the use of historical performance reporting and returns.

**FEES & EXPENSES** Strategy performance results shown are presented net of applicable management fees of and assumes the reinvestment of dividends and all other income. Because some investors may have different fee arrangements, and, depending on the timing of a specific investment, net performance for an individual investor may vary from the net performance as stated herein.

Net Strategy performance is presented gross of custodial fees but net of investment management fees and transaction costs. Net performance is calculated by using the actual fees charged to each Investment Portfolio throughout the Strategy for the performance period. Returns include the reinvestment of dividends and other earnings. Prospective investors should expect their rates of return to be reduced by investment management fees, along with other expenses incurred in the management of the account, which are fully described in the McShane Partners’ Brochure (Form ADV Part 2A). Because some investors may have different fee arrangements and, depending on the timing of a specific investment, net performance for an individual investor may vary from the net performance as stated herein.

**OTHER INFORMATION** Past performance is not necessarily indicative of future results. All investments are subject to risk, and investing in accordance with the strategy, like all investments, may lose money. The performance shown is representative of investment strategies and styles used by the Adviser and such style may not be suitable for each potential investor. The Strategy is representative of an investment strategy and style used by the Adviser and such style may not be suitable for each potential investor. All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. This is not to be considered as an offer to buy or sell any financial instruments. Additional information regarding policies for calculating and reporting returns is available upon request.

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McShane Partners is a Registered Investment Advisor.

#### **INFORMATION REGARDING BENCHMARKS & INDEXES**

Information about indexes is provided to allow for comparison of the performance of the Adviser to that of certain well-known and widely recognized indexes. There is no representation that such index is an appropriate benchmark for such comparison. You cannot invest directly in an index, which also does not take into account trading commissions and costs. The volatility of indexes may be materially different from the performance of the Adviser. In addition, the Adviser’s recommendations may differ significantly from the securities that comprise the indexes.

**BENCHMARK & INDEX DEFINITIONS** The following benchmark and index definitions used by the Adviser for the Strategy have been sourced directly from the respective index provider’s website, and the data are considered to be widely-known, publicly-available information.

**RETURN METHODOLOGY** [S&P Dow Jones Indices](#) calculates multiple return types which vary based on the treatment of regular cash dividends. The classification of regular cash dividends is determined by S&P Dow Jones Indices: Gross Total Return (“TR”) versions reinvest regular cash dividends at the close on the ex-date without consideration for withholding taxes.

#### **S&P 500® INDEX**

The S&P 500® Index (“S&P 500®”) is widely regarded as the best single gauge of large-cap U.S. equities. There is over \$11.2 trillion indexed or benchmarked to the index, with indexed assets comprising approximately \$4.6 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

#### **S&P 500® VALUE INDEX | S&P 500® GROWTH INDEX**

The S&P U.S. Style Indices measure the performance of U.S. equities fully or partially categorized as either growth or value stocks, as determined by Style Scores for each security. The Style series is weighted by float-adjusted market capitalization (“FMC”). The Style index series divides the complete market capitalization of each parent index approximately equally into growth and value indices based on three factors each used to measure growth and value.

#### **S&P 500® DIVIDEND ARISTOCRATS INDEX**

The S&P 500® Dividend Aristocrats Index measures the performance of S&P 500® companies that have increased dividends every year for the last 25 consecutive years. The Index treats each constituent as a distinct investment opportunity without regard to its size by equally weighting each company.

## WEALTH ADVISORY OVERVIEW

### THE 1031 EXCHANGE

The properties involved must be “like-kind”. This requirement is liberally interpreted, and virtually all real estate properties, whether raw land or those with substantial improvements, qualify as like-kind. However, REITs, real estate funds or other securities do not qualify for 1031 exchange.

#### **Types of like-kind properties may include:**

- Raw Land
- Multi-Family Rentals
- Single-Family Rentals
- Retail Shopping Centers
- Office Buildings
- Industrial Facilities
- Storage facilities

#### **Identification and timeline rules for a 1031 exchange:**

You must identify the exchange properties in writing within 45 calendar days of the closure for the relinquished property in accordance with one of the following rules:

Three-Property Rule: Identification of up to three properties regardless of the total value of property identified

- 200% Rule: Identification of any number of properties wherein the combined FMV (fair market value) does not exceed 200% of the relinquished properties' FMV
- 95% Rule: Identification of any number of properties regardless of the aggregate FMV, as long as at least 95% of the property is ultimately acquired.
- You must also close on the replacement property or properties within 180 calendar days of the closure for the relinquished property.

#### **Other requirements include:**

You must hold the properties for productive use in a business or for the purpose of investment.

The replacement property must be of equal or greater value than the property you sold or there will be tax consequences.

All net profit from the relinquished property must be used in the purchase of the replacement property otherwise you could have taxable consequences, sometimes known as “boot.”

#### **Reverse 1031 Exchange**

If you identify an ideal replacement property before you sell, you may need to negotiate a reverse exchange (i.e., buying before selling). The IRS has guidance on this in Revenue Procedure 2000-37, but either the replacement property or the sale property must be parked with an Exchange Accommodator Titleholder for 180 days, pending the successful completion of the exchange.

#### **Alternative 1031 Exchange Investment Options**

- Qualified Opportunity Zone Funds - Allowed under the Tax Cuts and Jobs Act of 2017, are an alternative to 1031 exchange investing that offers similar benefits, including tax deferral and elimination. A fund of this type can invest in real property or operating businesses within a designated Opportunity Zone, typically a geographic area in the U.S. that has been so designated because it may be underserved or blighted. As such, there may be a higher level of investment risk. Also, the time horizon of the fund may be as long as 10 years, which means tying up your capital for that length of time.

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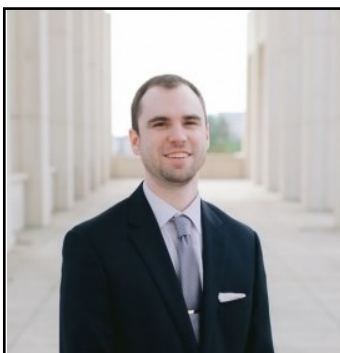
## WEALTH ADVISORY OVERVIEW

### THE 1031 EXCHANGE

- **Tenants-in-Common Cash-Out (TIC)** - In addition to using a 1031 exchange to defer taxes, some investors also want to improve liquidity so they can take advantage of other buying opportunities in the future. With a TIC investment, you own a fractional interest in a commercial, multifamily, self-storage or other type of investment property.
- **Delaware Statutory Trusts (DSTs)** - DSTs are a form of co-ownership that allows diversification and passive investing. Most types of real estate can be owned in a DST, including retail, industrial and multifamily properties. A DST can own a single property or multiple properties. In a 1031 exchange scenario, you can invest proceeds from the prior property sale into one or more DSTs to achieve diversification.

A tax-deferred 1031 exchange can be a powerful wealth-building tool. However, we highly recommend you consult a professional tax advisor to ensure that you meet every requirement of Internal Revenue Code Section 1031. Failure to meet requirements can result in immediate tax liabilities and associated penalties. In addition, you must follow the strict timeline and procedural requirements for a proper 1031 exchange. We can work with any authorized QI of your choice, or we can suggest one who is fully bonded and has a national reputation.

## NEXTGEN: COMMON REASONS BUDGETS FAIL & HOW TO AVOID THEM



Daniel Hudspeth, CFP®  
Wealth Associate

The budget spreadsheet is ready, and everything looks great. However, there's a problem: *creating* a budget and *committing* to a budget are two vastly different things. Identifying and preparing for the common problem areas listed below can help maximize the chances that a budget is successful.

### Unreasonable Expectations

Setting unreasonable expectations or spending goals can doom a budget from the start. \$100 for a month's worth of groceries isn't going to cut it and it appears that those "discretionary expenses" aren't so discretionary. Setting realistic goals and starting small can help prevent this issue. It's also important to keep in mind that a budget isn't always static and can be fine-tuned throughout the process.

### Unexpected Expenses

Whether it's an emergency room visit, vehicle expense, or home repair, unexpected expenses can wreak havoc on any budget. That's why it's essential to prepare for the unexpected and establish an emergency fund. Emergency funds not only provide liquidity when it's needed most but can also help to reduce the stress associated with unexpected expenses.

### Burnout

Tracking expenses and counting each dollar can take a toll on anyone. In addition, if all non-essential expenses (aka fun) have been removed, there's no outlet to unwind. That's why it's essential to maintain a balance and stay committed to the overall goal. Reward the small victories and don't let one bad month derail the entire process.

While there are many problem areas and no budget is "one size fits all", preventing common mistakes can help ensure that a budget stays on track. As always, please contact your McShane Partners advisor if you have any questions regarding the budgeting process or if you would like to refresh your current one.

## TAX UPDATE: CAPITAL LOSSES



Becky Hoover  
CFP®, CPA, CDFA®  
Partner & Director of Tax  
Wealth Advisor

While taxes may be inevitable, the IRS gives taxpayers a break when capital losses are realized on taxable investments. The following is a brief description of the limitation and carryover rules that apply to capital losses. Your Financial Advisor, along with your tax advisor, can help you develop a strategy that will make the most effective use of these rules in conjunction with your investment portfolio and goals.

### Characterization of Gain or Loss

Net capital gains or losses in any tax year are determined as a first step. A taxpayer must net short-term gains against short-term losses, and long-term gains against long-term losses, in determining the net short- and long-term gain or loss in any tax year.

The second step is to offset a net loss against a net gain or to combine the two numbers if they are both losses or both gains.

### Limitation of Capital Loss

An individual taxpayer (or a married couple) may deduct up to a maximum of \$3,000 of net capital losses against other ordinary income per year. Net short-term and net long-term capital losses may both be deducted in the same year, as long as the total deduction is \$3,000 or less.

If a married couple files separate tax returns, the capital loss deduction is limited to \$1,500 on each return in any tax year.

### Capital Loss Carryovers

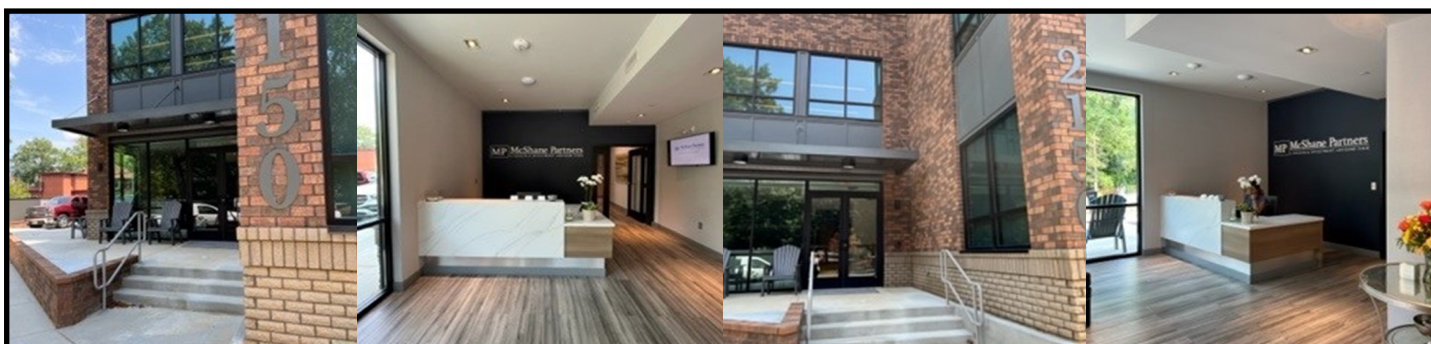
The IRS allows an individual or married taxpayer's capital losses to be carried over for an unlimited number of years until the loss is exhausted.

A capital loss that is carried over to a later tax year retains its long-term or short-term character for the year to which it is carried.

A short-term capital loss carryover first offsets short-term capital gains incurred in the carryover year. If a net short term capital loss results, this loss next offsets net long-term capital gains incurred in the carryover year, and then ordinary income, up to the \$3,000 maximum. Any additional short-term losses would be carried to the next tax year, and the comparison to short, long, and other ordinary income would begin again.

A long-term capital loss carryover first reduces net long-term capital gains in the carryover year, then net short-term capital gains, and finally ordinary income, up to the \$3,000 maximum.

## CLIENT OPEN HOUSE



We have moved into our brand new building and look forward to hosting an open house this fall! Stay tuned for more information and be on the lookout for an invitation with dates.

## SENIOR PLANNING: WHAT TO DO IF YOU FALL VICTIM TO FRAUD OR A SCAM



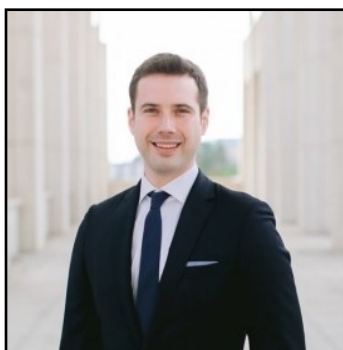
Lorri Tomlin, FPQP™  
Partner | Wealth Advisor

We have previously written articles warning clients of potential scams and fraud attempts and provided tips regarding how to protect yourself and your accounts. The best practice is to take steps to avoid falling prey in the first place. However, what if you think you are a victim? What do you do next?

### Steps to take if you think you have been hacked

- Disconnect from the internet by turning off Wi-Fi on your computer, tablet and/or phones. If you have security software installed, scan your computer for Malware or viruses.
  - You may want to contact an IT professional, such as Geek Squad, who can do this for you. They may be able to detect items that ordinary virus software cannot.
- 
- Changing your passwords often is a good way to prevent fraud but it is also a good first step to protect your accounts if you think you have been hacked. Change the password on all accounts or devices that contain sensitive information. Be sure to use a strong, unique password. Also change your password on all online accounts and social media, then remember to log out. Many of us leave accounts open or have them set to automatically log us in.
  - If you have not done so already, secure your account logins by adding a two-factor authentication or voice recognition to your accounts. Both Schwab and Fidelity offer these extra layers of log-in protection to clients along with other security features.
  - Call your advisor at McShane Partners if you think your brokerage accounts may be compromised. We will help you contact the custodian (either Fidelity or Schwab) to make them aware of a potential fraud situation and to make sure that your accounts have adequate security measures in place. You may also call the custodian directly if needed. For Schwab, call 800-515-2157. For Fidelity, call 800-343-3548. In addition, call your bank if you think your checking or savings accounts may be compromised.
  - Closely monitor your credit and financial accounts for unauthorized transactions. You may want to consider enrolling in a credit monitoring service such as Experian or Credit Karma.
  - Finally, and most importantly, your best defense is to prevent being hacked in the first place. NEVER allow anyone remote access to your computer unless you know them personally and trust them. NEVER provide log-in information, passwords, or private information to someone you do not know via email, text, or phone call. If you are contacted by anyone requesting this type of information due to an urgent situation, be suspicious and contact someone using a trusted phone number or email to confirm (or deny) the existence of an actual situation needing your attention.

## NEXTGEN: SEP IRA ACCOUNTS



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

A Simplified Employee Pension, or SEP IRA, is a personal retirement account created by an employer or self-employed individual to save for retirement. Due to contribution requirements, SEP IRAs are commonly used by small businesses and self-employed individuals since they are easy to establish, have low operating costs, and allow for flexible contributions.

### SEP IRA for a Small Business

Opening a SEP IRA for a small business can be a great because it is easy to establish and maintain. Unlike other traditional employer sponsored retirement plans, there are little to no costs for establishing and maintaining a SEP IRA. When establishing a SEP IRA plan, employers must open a plan for each eligible employee. Eligible employees are those who are 21 or older, have worked for the employer 3 of the last 5 years, and received over \$650 in compensation.

Annual employer contributions are not required for a SEP IRA. This flexibility offers an advantage for businesses that may experience fluctuating profits. Although contributions are not required, any employer contributions must be made equally to each eligible employee's SEP IRA. Any contributions made are tax deductible to the business which helps incentivize additional retirement savings. For 2022, the maximum employer contribution is 25% of the employee's total compensation up to \$61,000. All contributions are immediately vested, and any future retirement distributions are taxed as ordinary income.

### SEP IRA for Self-Employed Individuals

Opening a SEP IRA as a self-employed individual includes the same benefits as those for a small business. However, the greatest benefits for the self-employed individual are the flexibility and high contribution limits. If the self-employed individual is the only employee, they will only need to open one SEP IRA and make contributions for themselves. Self-employed individuals can utilize the higher contribution limits for their personal retirement goals while also deducting from their current income. Individuals can also decide to open and contribute to their SEP IRA up to their tax filing deadlines, including extensions, which is beneficial for those with fluctuating income.

SEP IRAs have specific guidelines which limit them to self-employed individuals and businesses with few employees. Please contact a McShane Partners advisor if you are interested in opening a SEP IRA or have questions regarding a current plan.

## 2022 OFFICE SCHEDULE—REMAINING HOLIDAYS

McShane Partners will be closed on the following dates in observance of the remaining 2022 holiday schedule:

Date	Holiday
Monday, Sep. 5	Labor Day
Thursday, Nov. 24 & Friday Nov. 25	Thanksgiving
Monday, Dec. 26	Christmas Day (Observed)

## AROUND McSHANE PARTNERS

### MEET OUR NEWEST TEAM MEMBER: JON MICHAEL MORGAN, CFA



Jon Michael Morgan, CFA  
Senior Portfolio Manager

Please join us in welcoming Jon Michael Morgan to the McShane Partners Team!

Jon Michael brings over 25 years of investment management experience to his role at McShane Partners.

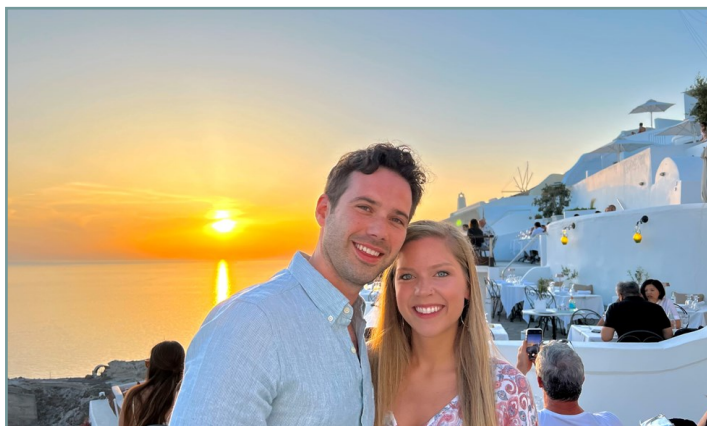
As Head of Institutional Platforms at McShane Partners, Jon Michael will also bring experience in

building out McShane's institutional investment platform. He is skilled in creating and managing foundations for non-profit organizations and finds this work very rewarding.

For 11 years Jon Michael personally managed the Simarian Opportunities Portfolio, the Simarian Blue Chip Select Portfolio, the Simarian Large-Cap Growth Portfolio, and sub-advised for several hedge funds. Before founding Simarian Research, Jon Michael spent 10 years with Bank of America's Columbia Management Group. As a Senior Portfolio Manager he co-managed the \$1 billion Columbia Small Cap Growth II fund with Daniele Donahoe.

Jon Michael recharges outdoors, especially by trail running. He and his wife, Sarah, are active members of St. John's Episcopal Church. Jon Michael enjoys traveling, Marvel movies, and Magic the Gathering with his three teenagers. Jon Michael will be fulfilling a long-held dream by playing in World Series of Poker events in 2022.

### HONEYMOON FOR THE NEWLYWEDS



Ryan Vaudrin and his wife Sonja enjoyed a Greek getaway to celebrate their honeymoon. They explored Santorini and experienced dinners by the Aegean Sea.

### EUROPEAN GETAWAY



Daniele Donahoe recently traveled to Europe. She is pictured above with her husband Erik and son Hudson as they enjoy a scenic Bosnian evening.

#### McSHANE PARTNERS

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

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