MP McShane Partners

September 2022 Insights

Investment Overview

Insights—By Jon Michael Morgan

Welcome

I am delighted to join the McShane Partners family. The team has welcomed me wholeheartedly and I look forward to meeting and getting to know each client in time. My own clients have enthusiastically moved with me to McShane. I take very seriously my responsibility to put clients first, and I am convinced this move is beneficial for all involved.

A little history - I first worked with Daniele in the late 1990's in Nashville, Tennessee at J.C. Bradford & Co. where we both began our careers. This is our third opportunity to work together. Our working relationship is quite strong, our styles are complementary, and we balance each other well. I am excited to work together again. As CEO of McShane, Daniele has built a strong business with a capable team, intentionally positioned to provide value for clients in both investment and planning. I've seen firsthand how Daniele approaches difficult investment situations; she has a keen ability to see through challenging near-term investment environments to find and focus on the longer-term opportunities. We've made investment decisions together through the 2000-2003 bear market and the 2008 financial crisis, as well as the bull markets leading up to 2008 and bringing us out of 2009. I feel strongly that our fundamental investment philosophies align and look forward to being an added resource among the investment team as we now grow and invest together again.

Continued on next page

Wealth Advisory Overview

Inflation Reduction Act of 2022—By Becky Hoover

President Biden signed the Inflation Reduction Act on August 16, after it passed both chambers of the Democratic-led Congress along party lines. So what's in it? Below is a summary of certain tax related items.

Individual Income Taxes

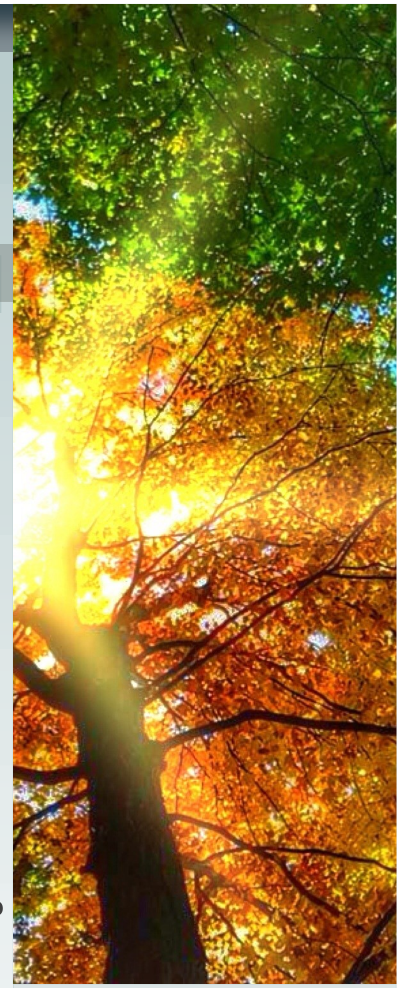
Extends the limitation on pass-through business losses enacted in the 2017 Tax Cuts and Jobs Act (TCJA) for two years through 2028.

Extends the expanded health insurance Premium Tax Credits provided in the American Rescue Plan Act (ARPA), including allowing higher-income households to qualify for the credits and boosting the subsidy for lower-income households, through the end of 2025.

Green Credits

The Energy Efficient Home Improvement Credit replaces and expands the expired Nonbusiness Energy Property Credit (which had a $500 lifetime limit). Starting in 2023, the credit will be equal to 30 percent of the costs for all eligible home improvements made during the year (qualifying doors and windows, air conditioners, electric panels, water heaters, furnaces, heat pumps and the like). The lifetime limit will be replaced by a $1,200 annual limit on the credit amount, so if you spread out qualifying home projects you could claim the maximum credit each year.

Continued on page 4



Investment Team

Daniele Donahoe, CFA
CEO | Chief Investment Officer
Elliott Van Ness, CFA
Director of Research | Portfolio Manager
Jon Michael Morgan, CFA
Senior Portfolio Manager
Abby Williams
Investment Associate

Wealth Advisory Team

Sandy Carlson CFP®, CPA, CDFA®
President | Wealth Advisor
Rebecca Hoover CFP®, CPA, CDFA®
Director of Tax | Wealth Advisor
Lorri Tomlin, FPQP™
Wealth Advisor
Ryan Vaudrin, CFP®, CDFA®
Wealth Advisor
Daniel Hudspeth, CFP®
Wealth Associate
Corey Meyer
Wealth Associate

Points of Interest

- Monthly Index Review
- Around McShane Partners

Investment Overview

Insights

Markets – One Risk to Rule Them All

Shifting to the current economic climate, inflation continues to dominate the narrative from the White House to Wall Street to Main Street.

Today we face an inflation challenge our economy has not seen in over 40 years. Our response to this, both in government and in the private sector, will ultimately be successful as all cycles roll. The key question as related to investments is timing. The ultimate result of this uncomfortable season should be a return to record corporate profitability achieved within a backdrop of resumed and perhaps newer supply chain efficiencies, preferably using lower consumption of fossil fuels, continued steady employment, and lower and steady inflation. Once inflation recedes, I predict we will look back at this challenging time as a catalyzing event which proliferated numerous long term investment opportunities. However, until we defeat or contain inflation, we must appreciate the present risks. We remain flexible and engaged in this dynamic market.

Economy

The Federal Reserve finds itself in a tight spot. An aggressive Fed is likely a near-term headwind, but a longer-term positive.

The Fed today realizes that while waiting for supply problems to ease, they can help reduce inflation and expectations by slowing the economy. As a result, extreme, persistent inflation like the 1970s should not occur. Powell realizes it is of upmost importance to keep the Federal Reserve's credibility strong, and as a result we should be mindful that he may not initially give investors the easing they want, when they want it.

It is wise to relate today's inflationary environment - and responses to it - to the late 60s and the 1970s. Presidents Johnson and Nixon each made clear their desires for the Fed Chairman not to raise rates. This allowed inflation to run hot for a decade. Today's Fed has more knowledge of the sources of inflation and the lessons learned from reactionary mistakes made in the past, such as wage and price controls of the 70s, that ultimately failed. As inflation continued rising over the next 10 years, it eventually took Paul Volcker engineering two deep recessions and double-digit interest rates to kill inflation. Contrast that to today. It appears current Fed Chairman Powell has support from the White House and Congress to fight inflation which should make the process less painful, or at least more efficient.

So, will the Fed's actions to fight inflation again lead to a recession, or at the very least, a slowdown? The answer appears to be yes. We have seen significant market discounting on this risk. Last week at the Jackson Hole Symposium, Powell was clearly setting the expectation for a 75bps hike. He used words like 'forcefully' and 'until the job is done.' Relying on the adage of 'don't fight the fed,' it's best to proceed as if rates, especially short-term rates, will be higher for longer. But be assured, we are better positioned for recovery under this scenario than from the inflation of the 1970s.

Continued on next page

Source: McShane Partners - FactSet Research Systems, Inc.

Monthly Index Review

Data as of August 31st 2022	August	2022	2021	2020
S&P 500® Index	-4.08%	-16.14%	**+28.71%**	+18.40%
Dow Jones Industrial Average	-3.72%	-12.01%	+20.95%	+9.72%
NASDAQ Composite	**-4.53%**	**-24.07%**	**+22.18%**	**+44.92%**
Russell 2000	-2.05%	-17.16%	+14.82%	**+19.96%**
MSCI Emerging Markets	**+0.45%**	-17.23%	**-2.22%**	+18.69%
MSCI EAFE	**-4.74%**	**-19.24%**	+11.78%	+8.28%
Bloomberg Barclays U.S. Aggregate Bond Index	-2.83%	-10.75%	**-1.54%**	+7.51%

Investment Overview

Insights

Positioning

The ultimate investment goal at McShane Partners is to identify and constantly re-allocate toward the best risk-adjusted returns among equities, fixed income, and alternatives. Our longer-term focus allows us to avoid taking sides in debates such as ‘recession or not’ and instead focus on the forward returns being offered in the markets, risk-adjusting those based on current and forecasted conditions and allocating capital into the best investments that meet our stringent criteria.

In our January 2022 Newsletter, we mentioned that risk, momentum, and speculation were universally expensive. To date those investment styles have led assets down, as we suggested, and as a result stocks have now become much less expensive relative to their future free cash flow expectations, but not yet so attractive that we rush into the proverbial burning building to buy them. Within this group of stocks, time is our friend. Technical damage is extreme, recent earnings estimate revisions are trending lower, and shares continue to be pressured. We remain poised to reinvest in this dynamic group of higher-growth stocks once we determine that the probability of further monetary tightening is over or near its end, or if markets resume their decline and make the valuation overwhelmingly attractive. Until then, we remain steadfast in our view that quality and earnings stability be prioritized among client portfolios across the risk tolerance spectrum.

Our decision to underweight in fixed income over the past year has been a correct call. This has aided in downside protection as rates rapidly climbed. Just recently, our view has shifted more favorably towards certain areas of the bond market. Specifically, longer-term bonds are once again giving investors a yield that seems appropriate and potentially favorable.

“And the trouble is, if you don’t risk anything, you risk even more.’”

- Erica Jong

Sifting through the data, our favorable view of bonds is predicated the following Recession Scenario:

> Here, initial jobless claims spike, and unemployment follows in traditional recession fashion. In this scenario, the market will begin to price in a more dramatic slowing of growth, which will force the Fed to pivot. Investors likely try to get in front of that pivot and send yields lower in advance. This creates a buy bonds environment.

Final Thoughts

Now is a vital time to remain open-minded and eagle-eyed to how economic data and investment opportunities will evolve over the next six- to twelve months. We are poised for opportunity - elevated cash levels allow portfolios to remain flexible and responsive to the situations unfolding across industries and economies.

While mindful of both near-term risks, real and headline, and likely associated higher market volatility, the US economy remains structurally resilient. Household net worth is excellent and company balance sheets have rarely been stronger. The labor market is quite healthy, wages are rising, and the unemployment rate is quite low. If recession is ahead, our economy appears well-positioned to deal with it and work through it.

Wealth Advisory Overview

Inflation Reduction Act of 2022

The second green credit for homeowners is the current Residential Energy Efficient Property Credit, which also gets a new name and expansion under the Inflation Reduction Act. It's now called the Residential Clean Energy Credit. Previously, the credit was worth 26% of the cost to install qualifying systems that use solar, wind, geothermal, biomass or fuel cell power to produce electricity, heat water or regulate the temperature in your home. Under the Inflation Reduction Act, the credit amount jumps to 30% for years 2022 to 2032. The scope of the credit is adjusted under the Inflation Reduction Act, too. Starting in 2023, it no longer applies to biomass furnaces and water heaters, but it will apply to battery storage technology with a capacity of at least three kilowatt hours.

The tax credit for purchasing an electric vehicle was also revamped by the Inflation Reduction Act. The act modified the $7,500 in several ways. First, it imposes a requirement that the final assembly of the vehicle must occur in North America (effective Aug. 16, 2022). New requirements related to materials and production within the U.S. begin to phase in starting 2024.The act also removes the limitation on the number of vehicles eligible for the credit, so electric vehicles purchased from manufacturers that had formerly reached their cap will now be eligible for the credit. However, there are price caps, so the credit is not allowed for cars with a manufacturer's suggested retail price over $55,000 or for vans, SUVs, or pickup trucks with a manufacturer's suggested retail price over $80,000. Also, the credit is not allowed for taxpayers whose modified adjusted gross income (MAGI) exceeds certain thresholds ($300,000 on joint returns, $225,000 for heads of household, and $150,000 for single taxpayers).

The act creates a new credit for used clean vehicles. Qualified buyers can claim a credit of up to $4,000 on a used vehicle costing $25,000 or less. Their MAGI must be under $150,000 on joint returns, $112,500 for heads of household, and $75,000 for single taxpayers.

There is also a new credit for qualified commercial clean vehicles. The credit equals 15% of the basis of the vehicle over the "incremental cost" of the vehicle. For commercial clean vehicles with no gasoline or diesel engine, the credit amount is 30%. The incremental cost is the amount the cost of the commercial clean vehicle exceeds the cost of a comparable gasoline or diesel-powered vehicle. The credit cannot exceed $7,500 for vehicles with a gross vehicle weight under 14,000 lbs. and cannot exceed $40,000 for all other vehicles. The commercial clean vehicle credit is effective for vehicles acquired after Dec. 31, 2022.

A related tax credit that may interest certain homeowners was also impacted by the legislation. The Alternative Fuel Refueling Property Credit expired at the end of 2021, but the Inflation Reduction Act gave it life again by extending its application through 2032. For homeowners, the credit is worth 30% of the costs of "qualified alternative fuel vehicle refueling property" installed in the home, up to $1,000. For most taxpayers that will be an electric vehicle charging station.

Corporate and International Taxes

Imposes a 15% minimum tax on corporate book income for corporations with profits over $1 billion, effective for tax years beginning after December 31, 2022. Note that the book deduction for stock compensation paid to employees is substantially less than the tax deduction for the same item. Frequently, a minimum tax applies to companies with significant incentive stock compensation paid to employees.

Creates a 1% excise tax on the value of stock repurchases during the taxable year, net of new issuances of stock, effective for repurchases after December 31, 2022. Excluded from the tax are stock contributed to retirement accounts, pensions, and employee-stock ownership plans (ESOPs). Historically tax holidays and reductions in corporate tax have resulted in corporate stock buybacks rather than investment in manufacturing or increased wages. The excise tax attempts to curtail those buybacks.

Increases the research & development tax credit amount that can be claimed against payroll taxes for small businesses by $250,000.

Wealth Advisory Overview

Inflation Reduction Act of 2022

Other Tax Proposals

Expands IRS enforcement funding by about $80 billion over 10 years. IRS systems are woefully outdated and the funds are intended to update systems and increase hiring. The U.S. is a self-assess system (rare in this day and age) and the estimated annual "tax gap" between taxes legally owed and taxes paid is roughly $600 billion. The Treasury department has stated that it will focus its enforcement efforts on large corporations and very high-income taxpayers. The top 1 percent of filers is estimated to account for 28% of the tax gap.

Several new provisions aimed at reducing prescription drug prices, including an excise tax penalty on drug manufacturers who refuse to negotiate prices with Medicare for certain high-cost, single source drugs, rebates for drugs whose prices increase faster than inflation, limits on Medicare Part D out of pocket costs, caps on Medicare insulin copays, and others.

As always, new tax legislation is complicated and may or may not apply to your situation. Please contact your wealth advisor with any questions related to the new provisions.

Senior Planning: Options for Taking Your RMD

Lorri Tomlin, FPQP™
Partner | Wealth Advisor

For those of you over 72 years of age, your RMD, or Required Minimum Distribution, is an anticipated annual event. The amount that you are required to withdraw from your IRA each year is determined by your age and the value of your account(s) on December 31st of the previous year. You have some options regarding how to take this distribution. While typically it is easiest to take your RMD by selling investments and withdrawing the cash, you can also fulfill this obligation by transferring stock to another account, referred to as an "in-kind" transfer or by making Qualified Charitable Distributions (QCDs).

Taking your RMD in cash allows you to withdraw the exact dollar amount required and the funds can be reinvested, used to pay expenses, or used to cover the taxes due on the RMD. Also, raising cash for the RMD allows you to trim positions in your IRA which have become overweight due to strong market returns.

With an in-kind transfer, it can be difficult to take the exact dollar amount of the RMD. You will also need to have outside cash available to pay the income tax liability on the distribution. In a depressed market, taking an in-kind transfer can be beneficial because it allows you to transfer assets to another account with the hopes that it will bounce back over time.

There is essentially no tax advantage to taking the distribution in-kind instead of in cash. You are taxed at your ordinary income level for whatever amount is distributed. However, if you take all or part of your RMD by making a Qualified Charitable Distribution directly from your IRA account, you will not be taxed on that portion of the RMD. The IRS allows you to make QCDs up to $100,000 each year.

Planning ahead and raising cash for RMDs or QCDs when appropriate offers the most flexibility but, in 2022, if cash is not available, you may want to consider an In-Kind transfer of depressed assets to satisfy all or part of your RMD. Your advisor at McShane Partners will be happy to help you in making this decision.

NextGen: Cash Flows Within a Financial Plan

Daniel Hudspeth, CFP®
Wealth Associate

In this month's article, I will breakdown a basic cash flow and how we utilize these flows within our comprehensive financial plans. The basic construction is simple enough:

Income – Salary, Social Security benefits, annuity income, pension benefits, etc.

Planned Distributions – Required Minimum Distributions from retirement accounts, 529 account distributions for tuition, expense funding from a specific account (such as a savings account used for a wedding)

Total Inflows – Sum of all income & planned distributions

Total Expenses – living expenses, medical expenses, tax expenses, vacation expenses, etc.

Total Outflows—includes expenses and planned savings; our sample client is retired in this example so total outflows will be equal to total expenses.

Net Cash Flow – the deficit or surplus between income and expenses

Year	Age	Income Flows	Planned Distributions	Total Inflows	Total Expenses	Total Outflows	Net Cash Flow
2023	67	$30,000		$30,000	$100,000	$100,000	($70,000)
2024	68	$30,600		$30,600	$102,000	$102,000	($71,400)
2025	69	$31,212		$31,212	$104,040	$104,040	($72,828)
2026	70	$31,836		$31,836	$106,121	$106,121	($74,285)
2027	71	$32,473		$32,473	$108,243	$108,243	($75,770)
2028	72	$33,122	$40,000	$73,122	$110,408	$110,408	($37,286)
2029	73	$33,785	$40,800	$74,585	$112,616	$112,616	($38,031)
2030	74	$34,461	$41,616	$76,077	$114,869	$114,869	($38,792)
2031	75	$35,150	$42,448	$77,598	$117,166	$117,166	($39,568)
2032	76	$35,853	$43,297	$79,150	$119,509	$119,509	($40,359)
2033	77	$36,570	$44,163	$80,733	$121,899	$121,899	($41,166)
2034	78	$37,301	$45,046	$82,348	$124,337	$124,337	($41,990)

Although the planning inputs are usually straight forward, retirement spending may not be. It is important to keep in mind that *total expenses* are $100,000 for 2023—not *portfolio withdrawals (net cash flow)*. If we get to the end of 2023 and our sample client has taken portfolio withdrawals in the amount of $100,000, then they actually spent $130,000 during the year: they spent their Social Security income of $30,000 *and* received $100,000 from the portfolio.

Planned distributions are also an important consideration when projecting cash flows. In the example above, our sample client will need to take Required Minimum Distributions (RMD) at age 72 (2028). This doesn't mean we are planning that they'll spend an additional $40,000 in 2028. Instead, we are projecting that their planned portfolio withdrawals will actually *decrease* by $40,000.

Cash flow projections are just one aspect of comprehensive planning and are ultimately the result of numerous inputs, scenarios, and models. Comprehensive planning can identify the required steps a client needs to take to achieve their goals such as contributing $x amount to their 401(k) until age 60, or spending a little less in the first few years of retirement so that they can take that 50 year anniversary trip they've always dreamed of. Please contact your McShane Partners advisor if you have any questions or if you would like more information regarding our comprehensive planning.

Around McShane Partners

Building Update

We are excited that the building is entering its final stages of completion. Please note our new address at 2150 Park Drive. We have parking in front of the building, as well as two parking spaces on the side, one of which is a handicap space.

McShane Partners in Paris

In August, friends gathered in Paris to see the sights, shop, and celebrate Sandy's milestone birthday. *From left to right: Jason Cox, Andrea Chomakos, Sandy Carlson, Justin Carlson, Daniele Donahoe and Erik Rosenwood.*

Dancing with the Stars of Charlotte—Dancing For a Cause

McShane Partners is thrilled to announce that Elliott Van Ness will be participating in the seventh year of *Dancing with the Stars of Charlotte - Dancing for a Cause*, a ballroom dance and fundraising competition featuring Charlotte-area "Stars" and award-winning professional dance partners, on February 10th 2023. All profits from the event go towards supporting two amazing local non-profit organizations: Carolina Breast Friends and the Go Jen Go Foundation!

We are extremely proud to be sponsoring Elliott and would invite anyone interested in learning more or contributing to Elliott's campaign to visit his personal fundraising page.

Thank you all very much in advance for your consideration, generosity, and support! We are incredibly excited about supporting such wonderful organizations and will keep everyone updated over the next several months!

McShane Partners

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

2150 Park Drive
Charlotte, NC 28204
Phone: (980) 585-3390
Fax: (980) 265-1274
Email: mcshane@mcshanepartners.com