MP McShane Partners

July 2023 Insights

Investment Overview

Sector Dispersion Offers Opportunities for Contrarians

Considering the acute, almost vertical ±15.4% ascent in the S&P 500® Index ("S&P 500®") off its mid-March lows, index-level technicals appear relatively healthy, while investors' appetites for U.S. equities seem insatiable. The massive inflow of cash that had heretofore been held on the sidelines in anticipation of a resolution of the U.S. debt ceiling deadlock has been rapidly deployed into the U.S. stock market and fueled outsized gains in the largest sectors, industries, and individual stocks of the S&P 500®. While the superficial performance of the S&P 500® has been spectacular, a deeper dive into the underlying drivers of these index-level returns reveals a disconcerting lack of breadth in the performance of its market-capitalization-weighted constituents, with only a handful of heavily weighted mega-capitalization ("mega-cap") stocks propelling the broader S&P 500® higher over the past couple of months; at the same time, however, this dispersion in sector-level performance has resulted in relatively attractive opportunities in several neglected, overlooked sectors.

There has been a noticeable discrepancy in sector-level performance year-to-date ("YTD") within the S&P 500®, with the outperformance of the Information Technology sector providing outsized positive contribution to index-level returns through the first half of 2023 ("1H23"), despite having significantly underperformed the broader index last year, returning **-28.2%** vs. **-18.1%** for the S&P 500® in 2022: a perfect example of the power of mean reversion in contrarian investing. Since the mid-March lows, the S&P 500® Information Technology sector, as defined by the Global

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Wealth Advisory Overview

Life Insurance as an Investment

Life insurance provides an infusion of cash for dealing with the adverse financial consequences of a loved one's death. One of the primary advantages of life insurance is that the payout is made to your beneficiaries tax-free. Since life insurance death benefits can be significant, there are advantages to purchasing a life insurance policy.

Reasons to Purchase life insurance

Should something happen to you, your life insurance proceeds would go to your beneficiaries named on your policy. Those funds can be used to pay for the following:

- Outstanding debt
- Household bills
- College tuition
- Maintaining the continuation of a family business
- Funding a spouse' retirement plan
- Funeral costs

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Investment Team

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Points of Interest

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Industry Classification Standard ("GICS®"), has returned **+30.0%**, and the market capitalization ("market cap") of the sector-level index is approaching **±28.6%** of the aggregate market cap of the S&P 500®: the highest levels since early-2022, late-2021, and, prior to that, the dot-com bubble of 2000. Over the past six months, the Information Technology sector has gone from **±25.2%** of the S&P 500® to over **±28.6%**: the pace and order of magnitude of such this move have been equally striking and startling.

Construction Concerns: Market-Cap Methodology

A closer look at the methodology and construction of the S&P 500® exposes the top-heavy composition of the index, with the combined weightings of the five largest constituent holdings representing **±22.2%** of the total index as of the end of the second quarter of 2023 ("2Q23") vs. **±19.8%** as of March 31st 2023. Obviously, much of the increase in the Information Technology sector and corresponding contribution to the S&P 500® can be readily attributable to the meaningful absolute and relative outperformance of a small number of mega-cap stocks.

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"Too many people spend money they earned…to buy things they don't want…to impress people they don't like."

- Will Rogers

Table I: Top-5 Holdings of SPDR S&P 500® ETF ("SPY")

Description	Ticker	Weight (%) March 31st 2023	Weight (%) June 30th 2023
Apple, Inc.	AAPL	7.12%	7.66%
Microsoft Corp.	MSFT	6.23%	6.77%
Amazon.com, Inc.	AMZN	2.67%	3.10%
Nvidia Corp.	NVDA	1.98%	2.73%
Alphabet, Inc. Class A	GOOGL	1.79%	1.93%
Total		**±19.8%**	**±22.33%**

Source: McShane Partners - FactSet Research Systems, Inc.

Monthly Index Review
USD Total Return

Data as of June 30th 2023	June 2023	2023 YTD	2022	2021
S&P 500® Index	+6.61%	**+16.89%**	-18.11%	**+28.71%**
Dow Jones Industrial Average	+4.68%	+4.94%	-6.86%	+20.95%
NASDAQ Composite	**+6.65%**	**+32.32%**	-32.54%	**+22.18%**
Russell 2000	**+8.13%**	+8.09%	-20.44%	+14.82%
MSCI Emerging Markets	+3.89%	+5.10%	-19.74%	**-2.22%**
MSCI EAFE	+4.58%	+12.13%	-14.01%	+11.78%
Bloomberg U.S. Aggregate Bond Index	**-0.36%**	+2.09%	-13.01%	**-1.54%**

Investment Overview

Sector Dispersion Offers Opportunities for Contrarians

A comparable analysis done several years ago led to the Investment Team recommending a strategic increase in sector-level exposures to Consumer Staples across client investment portfolios, and the Investment Team believes the results from a more recent iteration of this research exercise point to a similarly constructive set-up for the Consumer Staples sector for long-term investors. Below, Chart I shows the index-level market caps of various S&P 500® GICS® sector-level indexes as a percentage of the aggregate market cap of the S&P 500®: as previously indicated, the Information Technology sector (**the orange line**) currently represents [**±28.0%**] of the S&P 500® and is once again approaching the stratospheric levels seen in 2000 right before the dot-com bubble burst and the U.S. economy entered official recessionary territory.

Alternatively, the Consumer Staples sector (**the purple line**) currently stands at **±6.7%** of the S&P 500®, well below its ±22-year historical average of **±10.3%**. Historically, prior instances of a two-standard-deviation move *below* a long-term average have been tactical opportunities to initiate and/or add broad-based sector-level exposure via a suitable investment vehicle or strategy: the Vanguard Consumer Staples ETF ("VDC"). Currently, the Investment Team is reviewing individual names on applicable firm-wide buy list(s) to add and/or increase portfolio-level exposure to the Consumer Staples sector. During prior episodes of significant mispricings within the Consumer Staples sector, the sector-level representation within the S&P 500® expanded to as high as ±8.5% in March 2020 during an extremely tumultuous period for global equity markets, demonstrating the sector's ability to perform well on an absolute and relative basis through periods of rising equity market volatility, such as that of the COVID-19 pandemic-induced recession.

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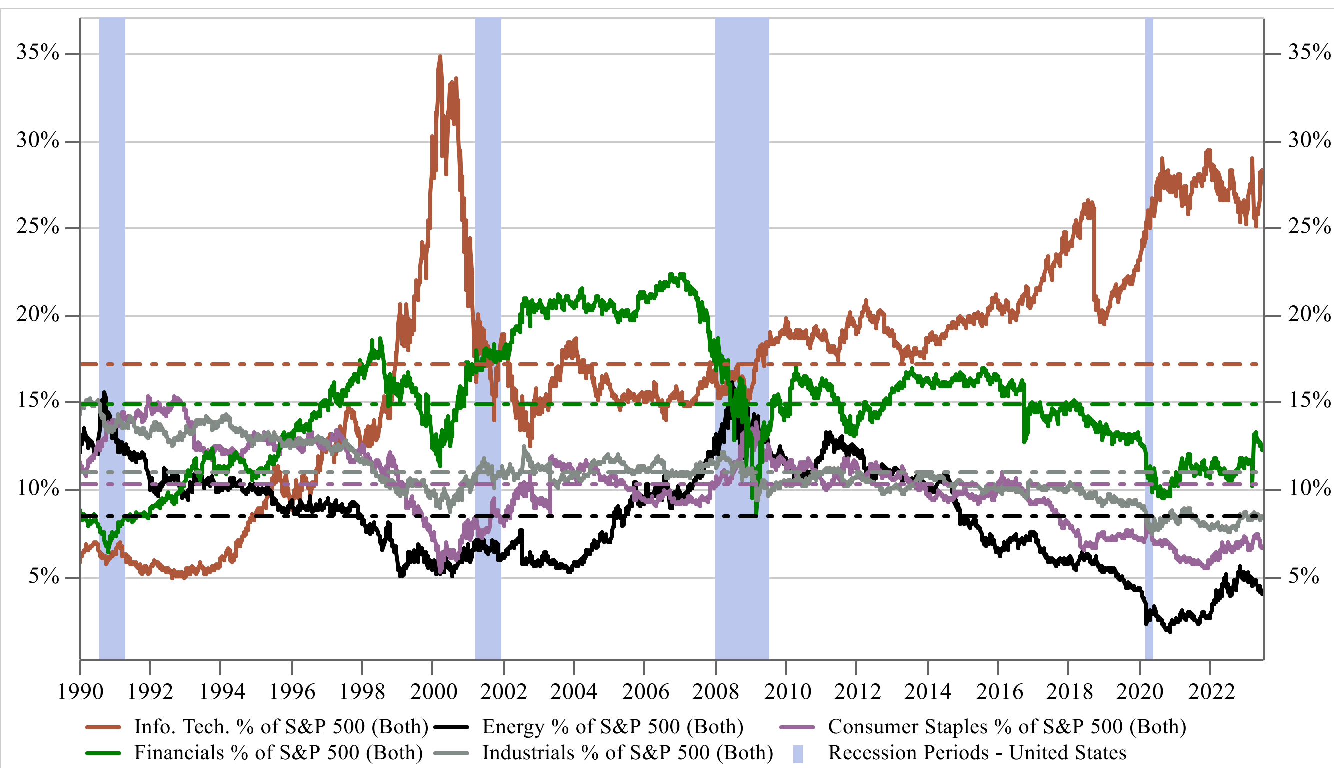
Chart I: S&P 500® Sector Market Capitalizations as a % of the S&P 500®



Source: McShane Partners - FactSet Research Systems, Inc.

Investment Overview

Sector Dispersion Offers Opportunities for Contrarians

If the Consumer Staples sector were to revert to it long-term sector average percentage of the S&P 500®, the Investment Team believes that the core positioning in Consumer Staples should contribute to noticeable relative outperformance across client investment portfolios. This positioning should also prove beneficial to portfolios in the event of a risk-off or flight-to-safety move across U.S. and international equity markets, as investors have historically sought the stability, reliability, and reduced cyclicality of the Consumer Staples sector during periods of economic uncertainty and financial market volatility. As such, the Investment Team believes that this recent analysis corroborates existing overweight positioning in the Consumer Staples sector and could warrant additional exposure.

Given this favorable backdrop for Consumer Staples, the Investment Team has highlighted shares of Kimberly-Clark Corp. ("KMB") in this month's Stock & Strategy Spotlight, which the Investment Team view as being attractively priced given the stock's long-term track record of exhibiting muted cyclicality, displaying defensive characteristics, and consistently increasing dividends per share over the past ±15 years.

Stock & Strategy Spotlight

Name	Ticker	June 2023	2023 YTD
Kimberly-Clark Corp.	KMB	+3.69%	+3.44%

Description & Investment Thesis

The Investment Team has become increasingly positive on shares of Kimberly-Clark Corporation ("KMB") after the recent stock pullback after ±12 months of solid relative outperformance. The Investment Team believes this is predominately due to a rotation into Information Technology stocks. Shares of KMB are trading at attractive absolute and relative valuation multiples, in contrast to the recent aggressive appreciation of higher risk equities. Relative to other sector-level peers within Consumer Staples, shares of KMB now trade at an attractive next-twelve-month enterprise value-to-EBITDA ("EV/EBITDA NTM") multiple of ±13.5x vs. an average of ±21.7x for the Personal Care Products industry. The Investment Team recommends adding to existing positions in shares of KMB. Since closing at a two-year high of $146.38 on April 27th, shares of KMB have fallen **-5.68%** through the end of June, following patterns of insider selling activity, underperforming both the S&P 500® (**+7.62%**) and the S&P 500® Consumer Staples sector (**-3.07%**). **The noticeable and, in our opinion unwarranted, underperformance creates a unique opportunity to benefit from two levels of mispricing.** First, as noted above and explained in the main body of the newsletter, there has been shocking performance dispersion between the Information Technology and Consumer Staples sectors, providing an obvious opportunity to increase broad-based exposure to the Consumer Staples sector. Second, KMB has irrationally underperformed the Consumer Staples sector. The Investment Team's fundamental investment thesis for KMB is predicated on the company's 52-year operating history and track record of raising dividends in a stable industry within the U.S. economy and its ability to hedge against inflation given the established nature of its product portfolio across its Personal Care, Consumer Tissue, and K-C Professional business segments that include brands such as Depend, Huggies, Kleenex, Kotex, and Scott. The brand names and direct need for their products provides a subtle level of price inelasticity.

Despite this underperformance, the company continues to experience strong earnings growth, surpassing expectations for the first quarter of 2023 ("1Q23") with reported earnings per share ("EPS") of $1.67 around the time of the stock's peak in late-April, which exceeded consensus estimates by ±$0.35 and demonstrated the company's continued profitability. Given the company's long operating history in the Personal Care Products industry and proven ability to generate sustainable earnings growth and consistently pay healthy dividends to shareholders, the Investment Team believes that shares of KMB warrant continued consideration amongst long-term investors.

Wealth Advisory Overview

Life Insurance as an Investment

Types of Insurance

There are two primary types of life insurance: temporary insurance and permanent insurance. Temporary life insurance is sold as term insurance. As the name implies, term insurance provides coverage for a specified period of time. A common policy term is 20 years, but you can get term protection for anywhere from 1 to 30 years. This type of coverage might make the most sense when you need coverage for a set period of time, perhaps until all of your outstanding debt is paid off or your kids graduate from college. Term insurance offers the greatest amount of coverage for the lowest initial premium, making it a good choice for individuals. However, it only pays a benefit if you die during the policy term. At the expiration of the term, the insurance policy is cancelled, and no insurance remains in place.

Permanent life insurance, on the other hand, stays in effect for as long as you pay the premiums. This means that you never have to worry about insurability or losing your insurance coverage as you get older. There are two types of permanent life insurance, whole life and universal life, and their policy construction is more complicated than term insurance. However, these policies have one clear distinction from term insurance, they build cash value.

Cash value is an investment-like product coupled with the insurance policy. Each month, when you pay premiums, the payments generally go to three places: first, to pay for the cost of insurance; second, to pay for policy fees and charges; and lastly, a portion will go into a tax-deferred savings account, or the cash value of the policy, allowing it to grow over time. The exact amount that goes into savings is determined by your individual policy. Money within the cash value account grows tax-free, based on the interest or investment gains it earns. One of the reasons to buy cash value life insurance is to have access to the money that builds up within the policy. Any cash accrued within the policy can be withdrawn to pay for personal expenses, or as a supplement to your retirement income. The downside to permanent insurance is that the initial premiums you pay for insurance are much higher than those for the same amount of coverage with a term policy.

What are the Tax Consequences of Life Insurance Cash Value?

You can do several things with your life insurance policy cash value, including withdraw it, taking out a loan or using it to continue to fund the policy. How you use your policy cash-value will determine the tax impact.

Withdrawal – Unless you have a Modified Endowment Contract (MEC), withdrawals up to your policy's investment in the contract are generally tax-free. Your investment is generally the total amount of money you have paid in premiums. Withdrawals beyond your investment are generally taxable unless they are in the form of a loan.

Loan – Amounts you borrow from a non-MEC policy are generally tax-free, though tax consequences can occur upon any surrender or lapse of the policy.

Surrender or Sell – When you surrender a policy for cash, any gains you have accrued are taxed as ordinary income. In addition, a loan balance may be taxable. If you choose to sell your life insurance policy to someone else, you will lose the rights to the death benefit, and you may end up owing taxes as well.

Withdrawals and loans will reduce the death benefit and the cash surrender value, and may cause the policy to lapse. Lapse or surrender of a policy with a loan may cause the recognition of taxable income. Withdrawals in excess of the cost basis, or premiums paid, will be subject to tax and certain withdrawals within the first 15 years may be subject to a recapture tax. Policies classified as a MEC may be subject to tax when a withdrawal or loan is made. Additionally, a federal tax penalty of 10% may also apply if the loan or withdrawal is taken prior to age 59 1/2.

Conclusion

Insurance companies typically sell permanent policies not only as a way to leave a financial legacy to your heirs, but also as a good investment vehicle. While everyone can consider permanent life insurance as a part of their retirement savings strategy, for the vast majority of people there will be other, more attractive options to use before choosing this alternative. For most, an employer's 401(k) should be the first choice, especially if there is an employer match. Once the 401(k) has been maximized, IRA and Roth IRA accounts should be considered.

NexGen: Bare Bones of Estate Planning Documents

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

Setting up an estate plan and getting the documents drafted can be a daunting task that can quickly fall off the priority list. Setting up a proper estate plan with legal documents can alleviate potential problems and ensure that your final wishes are adhered to. So, what are the bare bones estate documents that everyone should have in place?

Financial Power of Attorney

A financial power of attorney allows financial decision-making to be delegated to another individual on your behalf. This can include executing financial transactions or the signing of legal documents. Depending on the state, the Power of Attorney can be durable, meaning that it will stay intact even if the original principal person becomes incapacitated.

Health Care Power of Attorney

A health care power of attorney is a legal document in which you name another person, called a "health care agent," to make health care decisions for you when you are not able to make those decisions for yourself. This person could potentially make life and death decisions, so it is important to select someone who is able and willing to make those decisions. Any competent person who is at least 18 years old may be your health care agent.

Beneficiary Designations

Often beneficiary designations are either overlooked or not updated properly to reflect new life changes. New jobs may come with benefits such as a 401(k) plan and life insurance coverage. Therefore, it is important that a beneficiary be named on each account so that they can receive the assets or life insurance after an account holder passes away. In addition, a Payable on Death or Transfer on Death (POD or TOD) designation may be added to bank or investment accounts to transition the accounts to a new owner.

Wills and Trusts

Typically, for younger individuals, most estate planning can be accomplished with the Power of Attorney documents and through the use of beneficiary designations. Over time, either as wealth increases or a life event occurs (i.e. marriage, children, inheritance, etc.), it may be time to explore the option of creating a Will or a Revocable Living Trust. These documents allow a more in-depth way to ensure that assets are distributed to the proper beneficiaries. As with any plan, individual situations and laws will change over time. It is important that documents be periodically reviewed and updated. Your McShane Partners Wealth Advisor can help review your current situation and recommend the next steps to get set up!

NextGen: Maximize Flexible Spending Accounts—Medical Expenses

Daniel Hudspeth, CFP®
Wealth Associate

Flexible Spending Accounts, also known as FSAs, are tax-advantaged accounts which allow participants to fund qualifying expenses with pre-tax dollars. Qualifying expenses may include insurance deductibles, copayments, and medications including prescriptions or certain over-the-counter medicine (for a full list generally permitted expenses visit the IRS website here).

For 2023, the maximum Flexible Spending Account contribution is $3,050. This reduces a participant's taxable income for the year as qualified reimbursements are tax-free. One drawback with FSAs is that they are "use it or lose it" plans. This means that contributions are not eligible to be rolled over at the end of the year. However, the IRS does allow a small amount to carry into the next year ($610 for 2023).

When utilizing an FSA, participants pay initial costs out of pocket and are then reimbursed for qualifying medical expenses, medication expenses, and insurance copayments/ deductible expenses. Submitting a reimbursement claim can normally be completed online in a straightforward process. Participants file a claim through their FSA provider by completing a reimbursement form and uploading a receipt of the services provided along with service dates. Once completed, the account provider approves the reimbursement then transfers eligible funds into the participants linked bank account.

Senior Planning: Is It Time to Update Your Estate Plan?

Lorri Tomlin, FPQP™
Partner | Wealth Advisor

One of the many services we provide to our McShane Partners' clients is Estate Planning. While we are not legal professionals and do not prepare legal documents, we make sure that your financial accounts are set up in tandem with your estate documents.

Each year we review your Estate Planning Summary, which is prepared by us, to provide a "high-level" overview of the provisions in your documents. We will ask if any changes have been made to your documents and, more importantly, do any changes need to be made.

Often, clients have estate documents prepared, put them in a safe place and then forget about them. However, changes in life, relationships, finances, and laws make a periodic review important to ensure that your documents are current and that they reflect those changes and effectively facilitate your final wishes.

Estate documents should be reviewed every 3 to 5 years or after any major life changes. Here are some questions to ask to see if a review and potential update of your estate documents may be needed.

- Have there been any deaths or any birth(s)?
- Has there been a marriage, a divorce and/or a second marriage?
- Is there a new disability or special need that should be considered?
- Are minor children now legal adults?
- Have there been any significant health changes?
- Have there been financial changes that would require the addition or removal of assets from your plan?
- Have relationships changed that would require the removal or replacement of key individuals in your plan?
- Have you started a new business?
- Have you moved to a new state?
- Have you decided to leave assets to a charity?
- Have there been any tax law changes that affect the distribution of your assets?
- Do any situations create a need for a new trust or the dissolution of a current trust?

If it has been a while since you pulled those documents out of safekeeping, we suggest that you give them a thorough review and possibly consult with your estate attorney to see if any changes are recommended. They are familiar with recent changes to estate and tax laws that may need to be considered. If changes are recommended and any updates are made, we will ensure that your financial accounts are set up properly to reflect those changes such as retitling accounts or updating beneficiaries.

As always, your McShane Partners Wealth Advisor is here to help answer any questions you may have regarding your estate planning needs.

Around McShane Partners

Charlotte Squawks

Daniele, Becky and Lorri hosted clients and friends of the firm for an evening of laughs on June 20th. Broadway meets "Saturday Night Live" meets Charlotte in Charlotte Squawks, an annual comedy stage show poking fun at politics, pop culture, sports and all things Charlotte through satire and musical parodies. Starring WFAE's Mike Collins and written by attorney Brian Kahn, let some of Charlotte's top performers crack you up! The performance was at Booth Playhouse and pre-show cocktails were at the K Lounge inside the Ritz-Carlton.

McShane Partners Happy Hour

McShane Partners recently hosted a happy hour meet and greet with the Erin Patterson Law firm at our office on Park Drive.

Female Financial Empowerment

Wednesday, Aug. 30th:	*Estate Basics*
Wednesday, Oct. 11th:	*Personal Cybersecurity*
Wednesday, Nov. 29th:	*Virtual Currency*
Wednesday, Jan. 17th:	*Tax Basics*

McShane Partners Office is Closed on July 4th

The NYSE is closed on Tuesday, July 4th in observance of Independence Day. The McShane Partners office will also be closed. Our regular office hours are Monday—Friday from 9:00am to 4:00pm Eastern.

McShane Partners

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

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