MP McShane Partners

January 2024 Insights

Investment Overview

2024: Repeat or Revert?

Investor inclination to extrapolate current trends into the future is why the majority of forecasts for 2024 indicate a strong market, a "soft landing" for the U.S. economy, accommodating monetary policy (e.g., lower rates), and a general continuation of financial market conditions from 2023. History, however, does not unilaterally support a repeat market performance. More often than not, market performance and leadership vary from year to year, sometimes dramatically, as evidenced by the performance of the S&P 500® Index ("S&P 500®") over the past two years: declining -18.11% in 2022 and gaining +26.29% in 2023. Ironically, most of the economic forecasts called for a recession in 2023 and a weak market exemplifying the tendency to extrapolate current trends into the future utilizing misguided linear modeling.

There is a consistent, albeit, rarely properly appreciated, tendency for the market and asset classes to revert to the mean. The premise is based on the normal distribution curve in statistics suggesting that when something gets too far away from its average, it will eventually move back toward the middle. Despite numerous studies supporting that the stock market consistently exhibiting mean reversion by an excess return being followed by an at least partial offset in returns, most prognosticators use current data to predict future performance, often erroneously.

Currently the market is pricing in a series of rate cuts that have yet to happen alongside a muted economic impact from declining growth. Given the strength of 2023, the market's tendency to revert and this exuberant set of assumptions,

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Wealth Advisory Overview

The Real Cost of Healthcare in Retirement

Most Americans know medical care is expensive and heath care costs are the top spending concern of most retirees. One reason for the higher costs is inflation, health care expenses rise faster than other costs, which is why we use a six percent inflation number for health care in retirement. However, the rising cost of care also has to do with people living longer and the need for more advanced treatments. For example, so-called maintenance procedures like joint replacement and cataract surgery are increasingly common but carry significant price tags as they impact greater numbers of baby boomers. There are a few ways to pay for medical expenses in retirement other than out of pocket. This includes government programs such as Medicare, contributions you make to a Health Savings Account (HSA) before you turn 65, savings accounts, such as a Roth IRA or Roth 401k, and long-term care insurance.

The Importance of Enrolling in Medicare When Eligible

Most near-retirees know Medicare becomes available at age 65, but fewer realize there's a permanent penalty for missing the Initial Enrollment Period (IEP). Your IEP is a seven-month span, including the three months before, the month of, and the three months following your 65th birthday. If you fail to apply during your IEP for Medicare Part B, which covers most everyday (outpatient) medical expenses, your monthly Part B premiums could go up 10% for every 12-month period you go

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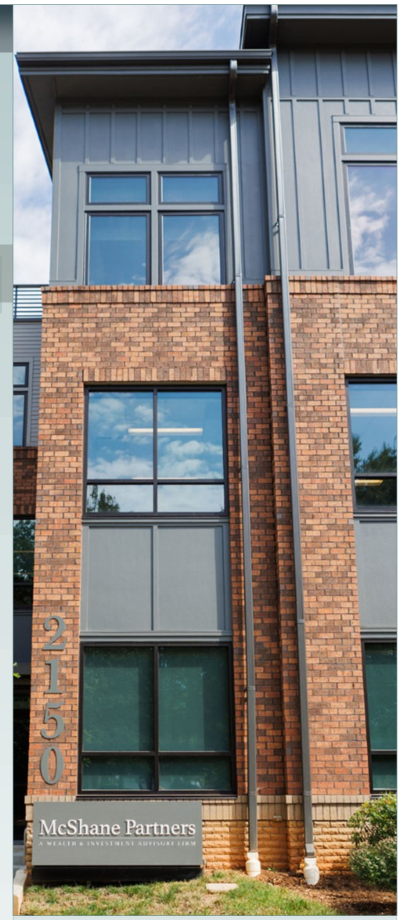

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Points of Interest

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2024: Repeat or Revert?

it is probably prudent to consider an alternate scenario given asset prices are far from inexpensive and the market feels increasingly extended.

Mean Reversion at Work

Further analysis of 2022 reveals that the market deterioration was dominated by an aversion to growth stocks, particularly technology. Growth underperformed the S&P 500® and several technology stocks, such as Amazon.com, Inc. ("AMZN"), NVIDIA Corp. ("NVDA"), Tesla, Inc. ("TSLA") and Meta Platforms, Inc. ("META"), were down ±50% or more. Contrary to the dour expectations heading into 2023, these stocks experienced a dramatic reversion to the mean, erasing most of their losses in the first half of the year. Chart I below shows the performance of these stocks in both 2022 and 2023, which exemplifies mean revision perfectly.

There was a clear opportunity in 2022 to purchase quality technology companies at low prices in anticipation of mean reversion propelling these stocks higher. The opposite condition exists currently as these companies have contributed the majority of the S&P 500® performance in 2023. Chart II on the following page highlights the S&P 500® performance this year vs. the equal-weighted S&P 500® performance. The market is dominated by a few technology stocks approaching S&P 500® contribution levels last seen entering 2022 and the "dot.com" bubble collapse.

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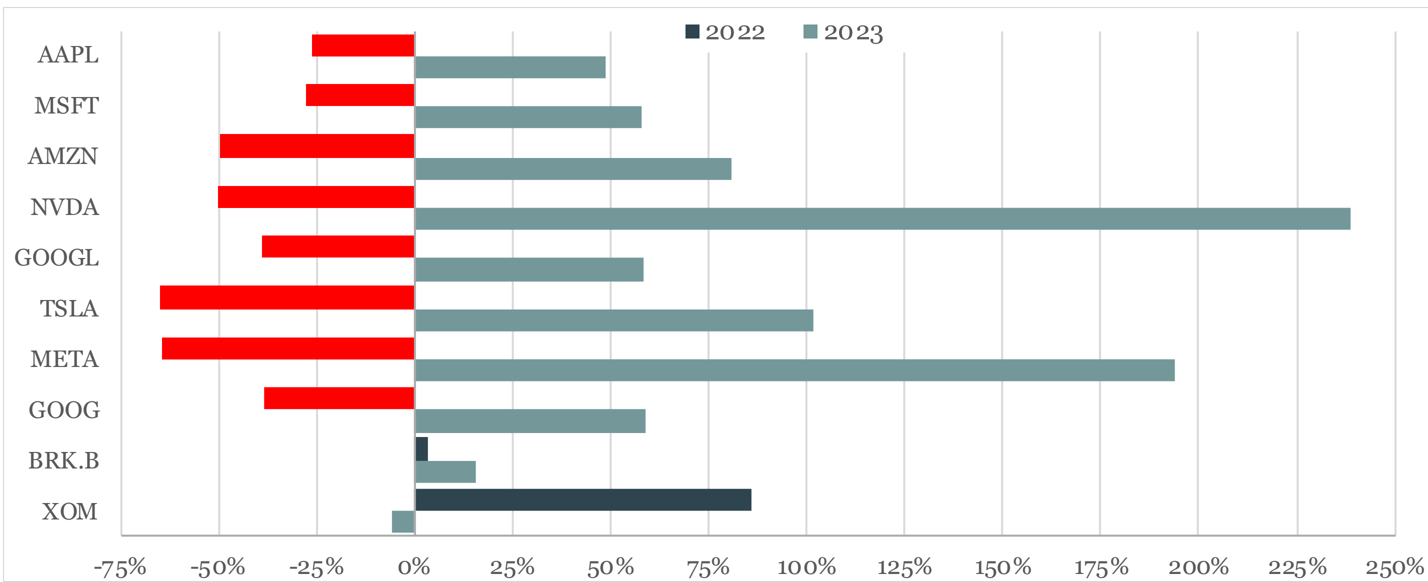
Chart I: S&P 500® Constituent Calendar Year Performance



Source: McShane Partners - FactSet Research Systems, Inc.

Monthly Index Review
USD Total Return

Data as of December 31st 2023	December 2023	2023	2022	2021
S&P 500® Index	+4.54%	**+26.29%**	-18.11%	**+28.71%**
Dow Jones Industrial Average	+4.93%	+16.18%	-6.86%	+20.95%
NASDAQ Composite	**+5.58%**	**+44.64%**	-32.54%	**+22.18%**
Russell 2000	**+12.22%**	+16.93%	-20.44%	+14.82%
MSCI Emerging Markets	+3.91%	+9.83%	-19.74%	**-2.22%**
MSCI EAFE	+5.31%	+18.24%	-14.01%	+11.78%
Bloomberg U.S. Aggregate Bond Index	+3.83%	+5.53%	-13.01%	**-1.54%**

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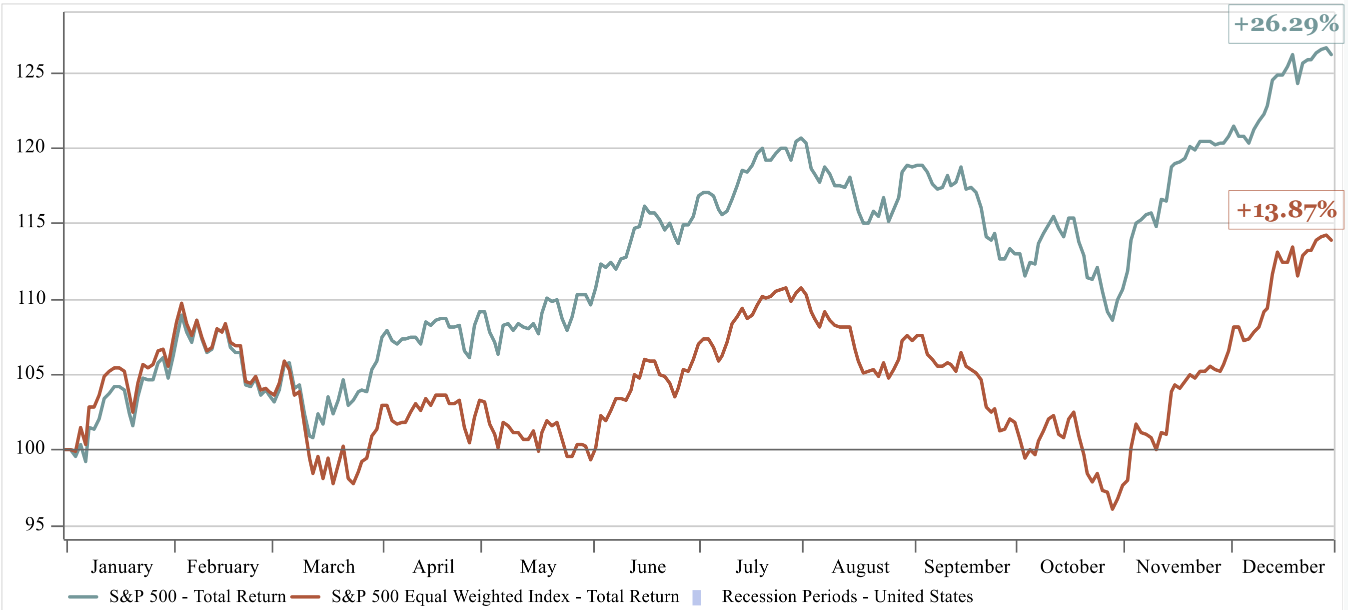
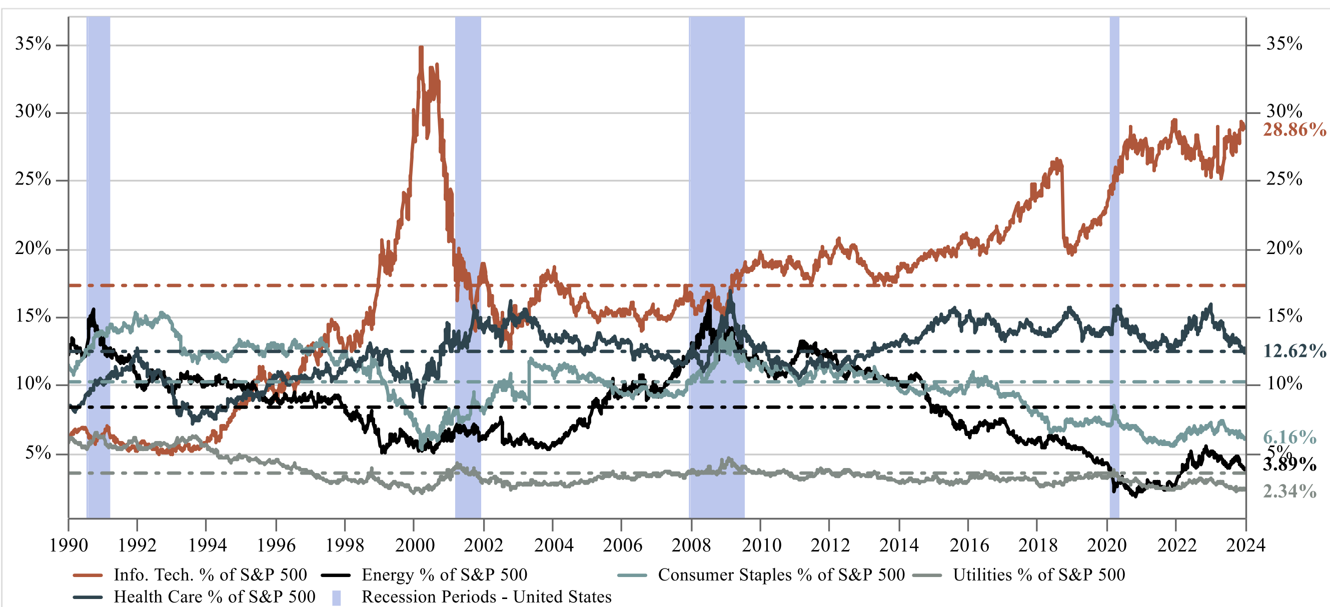
2024: Repeat or Revert?

Chart II: S&P 500® Index Performance → Market-Cap-Weighted vs. Equal-Weighted



Source: McShane Partners - FactSet Research Systems, Inc.

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



Source: McShane Partners - FactSet Research Systems, Inc.

We use trends in the sectors of the S&P 500® to identify mean-reversion opportunities. The graph above tracks movement in certain sectors around the economic cycle. The outlying orange line suggests technology is approaching overbought conditions and may experience a reversion back to the mean. Alternatively, the depressed sectors such as utilities and staples could revert positively relative to other sectors. When conservative, low-cyclicality sectors appear out-of-favor, this is one of our favorite entry points. Often the stocks in these sectors have a superior dividend profile and predictable cash flow helping to reinforce the balance sheet. When we can buy stocks in this sector at attractive prices, patiently waiting for them to revert to higher

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valuations (and prices) is an attractive strategy with two ways to win: price appreciation (i.e., share price goes up) and cash flow (i.e., dividend income).

The 2023 returns in both equities and fixed income considerably reinforced portfolio returns after the concerning deterioration in 2022. That said, humility with the market is critical and thus we trim extravagant gains and redeploy capital into safer assets in anticipation of some level of reversion in 2024.

Is It Time for Utilities to Lead Again?

Since late-2022, when inflation spiked above 8.0% and the Federal Reserve acted aggressively with rate hikes to halt the ascent, Utilities have lagged. We attribute weak performance in the sector to three key factors:

1. Utility valuations reached extremes throughout 2022 as those stocks were sought out as a safe haven while technology and other sectors declined sharply. This led to vulnerabilities entering 2023 as the sector was historically over-valued and cyclically over-owned.
2. Rising Federal Funds Rates created alternatives for yield-seeking investors, requiring a higher dividend yield from utilities to remain competitively attractive versus bonds.
3. Much of the excess growth with utilities had been driven by green energy investments such as wind and solar. A combination of wind and solar supply chain inflation and higher funding costs due to the rapid increase in interest rates led to delays, and in some cases cancellations, in green energy projects. While the third point only relates to a handful of utility stocks, the entire sector seems to have been impacted.

This combination of factors and the ensuing underperformance during 2023 has now reset valuations within Utilities and sent dividend yields to historically attractive levels, at a time when the Federal Reserve has now begun to suggest that interest rates might be high enough to sufficiently dampen inflationary forces. Were inflation to continue decelerating, or if a recession emerged, Utilities should outperform, and potentially strongly. At present, we are drawn to the companies that operate predominately regulated utilities within stable- to growing-population areas with long-term commercial and industrial growth potential, as well as healthy dividend payout ratios.

While Utilities can be considered boring and lack growth, we see companies that provide an excellent combination of regulated growth, stability and cash flow via strong and growing dividends. Despite lackluster performance from utilities during 2023, the sector has outperformed the NASDAQ over the past 2 years. The maximum downside in the sector over that time was more contained at ±20.0%, compared to the harsh ±36.0% peak-to-trough seen in the NASDAQ during the same period.

Stock & Strategy Spotlight

Name	Ticker	December 2023	2023
Black Hills Corp.	BKH	+4.57%	-19.75%

Description & Investment Thesis

The Investment Team recently added shares of Black Hills Corp. ("BKH") to applicable firm-wide buy list(s) and began initiating positions in the stock across client investment portfolios where prudent and appropriate. BKH is a diversified utility company with two primary business and operating segments: Electric Utilities and Gas Utilities. In addition to our positive intermediate-term outlook for the broader Utilities sector, the Investment Team believes that shares of BKH are uniquely well-positioned to benefit from several concurrent near-term trends, such as the company's differentiated geographic exposure and established rate base across regions that have historically proved accommodative during prior rate cases, which have contributed to improved returns on investment ("ROIs") for the company. Moreover, as a smaller publicly traded utility with a market capitalization of ±$3.67 billion, shares of BKH represent lower weightings within and are lesser-known to larger utility-specific and/or income-oriented equity investment strategies, making the current tactically buying opportunity in the stock incrementally more attractive to patient, contrarian investors with long-term time horizons.

Wealth Advisory Overview

The Real Cost of Healthcare in Retirement

without coverage. There's also a 1% penalty per month for each month you delay enrolling in Part D prescription drug coverage.

If you begin collecting Social Security before your 65th birthday, you'll automatically be enrolled in Part A (which covers hospital stays and is generally premium-free) and Part B. But if you plan on waiting to collect Social Security, be sure to apply for Medicare as soon as you're eligible.

Be aware that Medicare coverage can be affected if you or your spouse is still working and enrolled in an employer's health care plan. For example, you may be able to delay signing up for Part B without penalty until workplace coverage ends. You could enroll for Part A while being covered by an employer plan. Generally, you will have no premium costs, and Medicare will pay secondary to your group health care plan for hospitalization. However, once you enroll in Medicare, you can no longer contribute to an HSA. Therefore, if your plan is to stay with your group health insurance and to keep contributing to an HSA after age 65, you may want to postpone enrolling in Part A.

Heath Care Savings Tools

It is one thing to know that health care is expensive, and another to plan for those costs. Fortunately, there are several ways to save for this expense, with a big one being through a Health Savings Account (HSA). These are investment accounts which allow you to set aside pre-tax dollars for health care spending. HSAs are great savings vehicles because they come with a triple tax benefit: Contributions are made on a pre-tax basis; investments can grow tax free and withdrawals for qualified health care expenses are tax exempt.

You can invest those dollars in a variety of vehicles, too, just like you would in a 401(k) or another retirement savings account. Beginning in 2024, the annual contribution limits are $4,150 a year for individuals and $8,350 for families. You can also withdraw money from your HSA at any time.

Another option is to invest in a Roth 401(k). Contributions are taxed when money is initially deposited, but you can withdraw your money tax-free in retirement. If you start saving early the tax hit will be low, while your dollars will be able to compound, tax-free, for decades.

Once you or your spouse no longer has employer-sponsored health insurance, you'll have eight months to sign up for Medicare during a special enrollment period (SEP) to avoid penalties.

Plan for Long-Term Care

Purchasing long-term care insurance is another way to fill the gap left by Medicare. This type of policy can pay a monthly benefit toward long-term care for a specified amount of time, usually between two and five years. Long-term care insurance premiums may not be affordable for everyone. An alternative may be to buy a life insurance policy that has the option of adding a long-term care insurance rider.

Stay Ahead of Health Issues

Healthcare spending can easily account for a big share of a retirement budget. Scheduling annual checkups, participating in illness screenings, and maintaining a healthy lifestyle can be great ways to help you understand your health risks, make targeted improvements, and potentially fend off illnesses. In other words, if you focus on prevention and early detection, you will be more likely to stay healthy longer, thereby lowering your long-term health care costs, not to mention the impact on your quality of life.

Health care costs for retirees can be daunting. But with a combination of planning and health maintenance, you’ll be better prepared to face your golden years with confidence allowing you to focus on things like enjoying your retirement. In addition, estimating these costs and creating a strategy for spending can help preserve more of your retirement assets for other expenses.

Senior Planning: New Year's Resolutions for Seniors

Lorri Tomlin, FPQP™
Partner | Wealth Advisor

New year's resolutions aren't just for those who are younger and in the early stages of life. Seniors are generally at the stage in life where they are enjoying life and grateful for what they have. However, seniors can still set goals and make changes to improve themselves and their lives. Here are some resolution ideas to consider:

Improve Your Health:

- Eat Healthier – While seniors generally require less calories, good nutrition is still important. Try to eat more fruit and vegetables, lean meats, and healthy fats. Limit processed foods and sweets.
- Move More – Moderate exercise, stretching and walking can not only help you maintain a healthy weight, physical activity also drastically improves conditions related to various health issues such as high blood pressure and diabetes. It also helps build muscle, improves your posture and your balance.

Improve Your Sleep – Seniors need just as much sleep as younger people. If you are having trouble sleeping, try to find a solution: avoid daytime naps, establish a better nighttime routine. Talk to your doctor about any concerns you may have.

Quit Smoking and Avoid Excessive Alcohol Consumption – Both of these contribute to multiple health problems.

Get Connected:

- Be Social – Participate in activities that require social interaction. Meet new people and reconnect with old friends.
- Stay in Touch with Family Members — If they don't reach out to you, reach out to them for a chat!

Keep Your Brain Active:

- Learn a New Skill – Try a new language, sport, or hobby. Take a class in something that interests you. Reading, doing puzzles or playing games will also stimulate your brain.

Get Organized:

- Pick a "Project" for the Year – Get those estate documents organized and updated if needed. Organize those photos or videos in a scrapbook or have them saved in the cloud. Clean out those closets, drawers and cabinets or organize the garage. Try to "declutter". Your children will thank you!

Embrace Technology:

- Try to learn and keep up with the latest "gadgets" – Technology can be confusing and frustrating, but it can help you stay in touch with family and friends and stay informed of important events in their lives.

Keep a Positive Outlook:

- Don't Worry or Stress About Things You Cannot Change – Focus on things that are important to you and be grateful for all the good things you have.
- Be Good to Yourself – If you do feel down or overwhelmed, speak up! Talk to your healthcare provider or reach out to a friend or family member.

While New Year's Resolutions can help seniors improve their quality of life, they can also be stressful if expectations are too high. Make your resolutions reasonable. Don't overdo it! Even small changes can have big results.

Next Gen: New Year's Check Up 2024

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

As we embark on the New Year and establish our New Year's resolutions, consider incorporating a personal finance review into your goals. The year 2023 included increased inflation rates with a select few stocks leading market returns. As the discussions of interest rates tapering, the market has rallied higher highlighting the need to stay vigilant in 2024. To stay on a successful long-term financial path, take time to review your personal finances and make sure are capitalizing on all savings opportunities that are available.

In the last year, everyone has encountered the increased costs of everyday items. With the price hikes, it is advisable to revisit your budget and assess if any adjustments need to be made from 2023. While conducting the budget review, check if your emergency fund needs to be replenished. Depending on the situation, we recommend having 3-6 months of cash available for any unexpected expenses. With the current interest rate environment, there are now great low risk investment options for cash so these funds should be in a high yield savings account or a higher yielding money market fund.

As we saw, 2023 offered a complex market to navigate and to find new investment opportunities. With the late cycle market rally, we recommend revisiting your 401(k) options to ensure your total portfolio is properly allocated. Do you need to rebalance the portfolio? Do you have any new investment options that are available? Are you taking advantage of the company 401(k) match, or do you need to contribute more? For 2024 the contribution max has now increased to $23,000 annually with a $7,500 catch up for individuals who are above the age of 50.

In addition to reviewing contributions guidelines, are you able to make a Traditional or Roth IRA Contribution for you or a spouse? Are you able to make a Backdoor Roth IRA Contribution? Are you contributing to your Health Savings Account? These are only some of the questions that need to be asked to ensure you are taking advantage of any offered savings strategies available.

These recommendations are high-level options to get you started on a great path for the new year. For a more detailed conversation, your team at McShane partners can help create your 2024 action plan!

Next Gen: FSA—New Year, Old Funds

Daniel Hudspeth, CFP®
Wealth Associate

With the start of the new year, funds in a Flexible Spending Account (also referred to as a Flexible Spending Arrangement or *FSA)* are set to expire. However, if there is still an account balance at the beginning of the new year, there are a few options available to participants to prevent losing the funds.

Grace Period

Some plans provide a set grace period to use prior year funds. This typically depends on the employer sponsoring the plan. This allows employees an extension to spend unused FSA funds which would otherwise expire at year's end. The grace period may be two to three months following the end of the plan and will be spent before any funds contributed in the new year. This option is different than the carryover provision which allows participants to rollover unused funds into the new year.

Rollover

Prior to 2021, FSA's were use it or lose it. However, the IRS has amended this provision to provide more flexibility to plan owners. Employers can now choose to allow the grace period mentioned above or allow rollovers. The current rollover amount for 2023 funds into 2024 accounts is $610. This amount will increase to $640 for 2024 rollovers into 2025 accounts. While this is helpful, any amounts above these limits may be forfeited. One advantage to rollovers are that they typically do not count towards contribution limit of $3,200 for 2024.

As always, please feel free to reach out to your McShane Partners team if you have any questions regarding Flexible Spending Accounts.

Around McShane Partners

Good Friends Charlotte—Gather & Give Fundraiser

McShane Partners was once again a "Terrific Friend" sponsor of the 37th annual luncheon. Good Friends is a female organization that raises funds for those who need help and have exhausted all other agencies & resources. The mission is to support individuals and families with financial resources to improve lives and inspire hope. Good Friends offers empowering grants that bridge individuals and families from fragility to stability. The grants given provide security, restore stability and bring new possibilities. This year the luncheon event raised more than $650,000 that is all going back to neighbors in need.

McShane Partners Welcomes Wrathbone Marketing

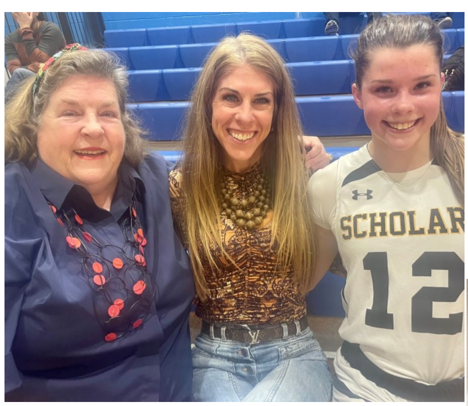
Hillary Lacouture pictured here in the center is the President of Wrathbone Marketing and now has an office at 2150 Park Drive. Wrathbone is a full-service operation offering marketing strategy, branding & identity, campaigns, digital marketing, advertising & PR, social media, events, content, web design and more.

WRATHBONE MARKETING

Just a Bit of Horsing Around

Corey Meyer had the opportunity to feed the animals on the farm during a client meeting. Corey described the camel, llamas, ponies and cows from India. Corey is always ready to pitch in.

Supporting School Sports



Client and friend of the Donahoe Family, Peaches Rankin joined Daniele to support her daughter Rowan during a basketball game for Metrolina Regional Scholars Academy. This is Rowan's first year on the team and she very much enjoys all aspects of a team sport.

Holiday Brunch

Sandy Carlson & Tracy Strickler with spouses and friends of the firm attended the annual holiday brunch at Carmel Country Club. After brunch the group watched a performance of A Christmas Carol at Theatre Charlotte. It was a wonderful day to celebrate the season.

Around McShane Partners

Annual Christmas Party

Many thanks to Gourmand Market for a fabulous firm Christmas Party. Our team and their spouses enjoyed a wonderful dinner and overall great celebration.

Female Financial Empowerment Series
Tax Basics

January 17th
5:00 - 7:00pm

5:00 - 5:30 for Networking & Socializing

5:30 - 6:30 for Presentation & Discussion

6:30 - 7:00 for Q&A

2150 Park Dr.

Charlotte, NC 28204

RSVP: TSTRICKLER@MCSHANEPARTNERS.COM

In our Tax Basics discussion we will overview the US tax structure including ordinary tax rates, capital gains tax rates, and how the estate gift tax works.

Bring any questions!

McShane Partners

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

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