MP McShane Partners

January 2019 Insights

Investment Overview

The View from the Precipice

Since emerging from the last recession in 2009, U.S. investors have rarely embarked upon a year with such uncertainty. Ten years ago, the uncertainty plaguing global financial markets was *when* and *how* the global economy would recover from the aftermath of the worst economic recession since the Great Depression: today, after reaching new record highs as recently as September 20th, this sense of uncertainty is from the top looking down onto the uncertainty of a slowing economy with negative earnings revisions and the subsequent impact to the stock market. While we do not portend to know how the massive market assent will unwind in 2019, we have portfolios prepared and a panel of experts assembled to provide guidance.

The sustained surge in year-end equity market volatility currently casting a cloud over the holiday season is notable and should not be dismissed but panic is unwarranted, as investment portfolios are positioned for a downturn in U.S. equity markets. The excess cash balances, the tactical positioning in less-cyclical, “defensive” stocks, and the increased exposure to fixed income (i.e., bonds) have been *positively* contributing to extremely competitive portfolio-level risk-adjusted returns and downside protection quarter-to-date (“QTD”): during the final three months of 2018, our McShane Partners Contrarian Core 20 Portfolio (“MP Core 20”)

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Wealth Advisory Overview

Keep Calm & Stay the Course: Preparing for Market Crashes

The recent political turmoil and turbulent stock market has investors feeling anxious as we enter 2019. There is no way to predict the next stock market crash or time the stock market, but there are things you can do ahead of time to protect your investments and preserve your net worth.

Revisit & Understand Your Risk Tolerance

The best time to respond to a potential market crash is *before* it occurs, not after. Thinking about your strategy ahead of time, which is accomplished through a thorough *risk tolerance questionnaire* and comprehensive *investment policy statement* (“IPS”), is key. During times of market volatility, it may be beneficial to review these documents so that you can remember your overall investment strategy and avoid making panicked decisions. As a point of perspective, over the past ±50 years, there have been **seven periods** where stocks fell *more than* **20.0%** from their peaks, and there have been **21 corrections** where the S&P 500® Index fell *more than* **10.0%** from its peak levels. The markets have endured world wars, terrorist attacks, disease epidemics, and presidential assassinations, among other tragedies, and global financial markets have endured and, eventually, recovered. Staying calm when stocks drop may be a matter of keeping a long-term focus, worrying less about a crash, and simply investing in a strategy that meets your needs.

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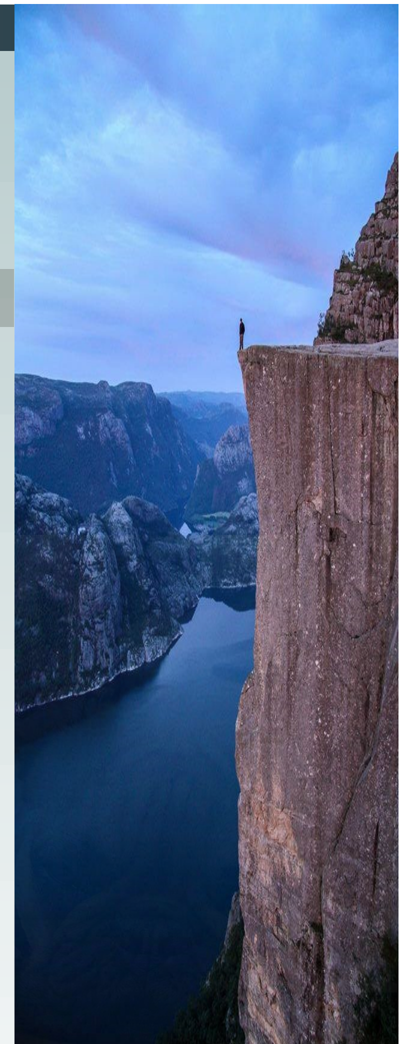

Investment Team

Daniele Donahoe, CFA
Chief Investment Officer

Elliott Van Ness, CFA
Director of Research | Portfolio Manager

Thomas Mack
Research Analyst

Wealth Advisory Team

Sandy Carlson, CFP®, CPA, CDFA™
President | Wealth Advisor

Leah Maybry, CPA
Director of Tax & Family Office Services

Lorri Tomlin, FPQP™
Wealth Advisor

Michael Means, CPA
Wealth Advisor

Ryan Vaudrin, CFP®
Wealth Associate

Lesley Burke
Client Service Associate

Special Points of Interest

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Strategy returned -4.04% vs. a comparable fourth quarter 2018 ("4Q18") return of -13.52% for the S&P 500® Index.[1] We have used the opportunity to review portfolios for tactical tax-loss opportunities, as well as identify attractively-valued equity investments in the midst of the broader equity market drawdown given the bull market enters its tenth year January 1st and earnings, economic growth, and leading economic indicators ("LEI") are peaking. Forecasting volatility seems obvious, but the million dollar question is if/when the economy will enter a recession.

The equity market is a *forward-looking* mechanism, therefore it reacts in advance of economic prosperity and deterioration. As the equity market began to recover in 2010-2011, it was met with considerable investor skepticism, as economic improvement was nowhere in obvious sight, but the market knew it was coming. Similarly, as corporate earnings results exceeded expectations in the third quarter of 2018 ("3Q18") and companies reported impressive year-over-year ("YoY") growth, the market declined - quizzical but amazingly consistent across historical market cycles: the market looks forward, while investors look backward. The market expects a slowdown in earnings and economic growth, as measured by gross domestic product ("GDP") growth, arguing that annual growth rates in both corporate earnings per share ("EPS") and GDP peaked earlier this year.

As can be seen below in Chart I, consensus estimates for calendar year 2018 ("**CY2018**") EPS and real GDP growth - as illustrated by the **green solid** and **hashed lines**, respectively - moved sharply *higher* at the beginning of the year in response to anticipated tailwinds from late-cycle fiscal stimulus (e.g., corporate tax reform) and continued to trend higher throughout 2018. Looking beyond 2018, however, consensus estimates for EPS and real GDP growth in **CY2019** and **CY2020** point to a more lackluster growth outlook for equity markets and the broader U.S. economy, as evidenced by the **dark blue lines** and **orange lines** falling *below* the **green lines**, as well as

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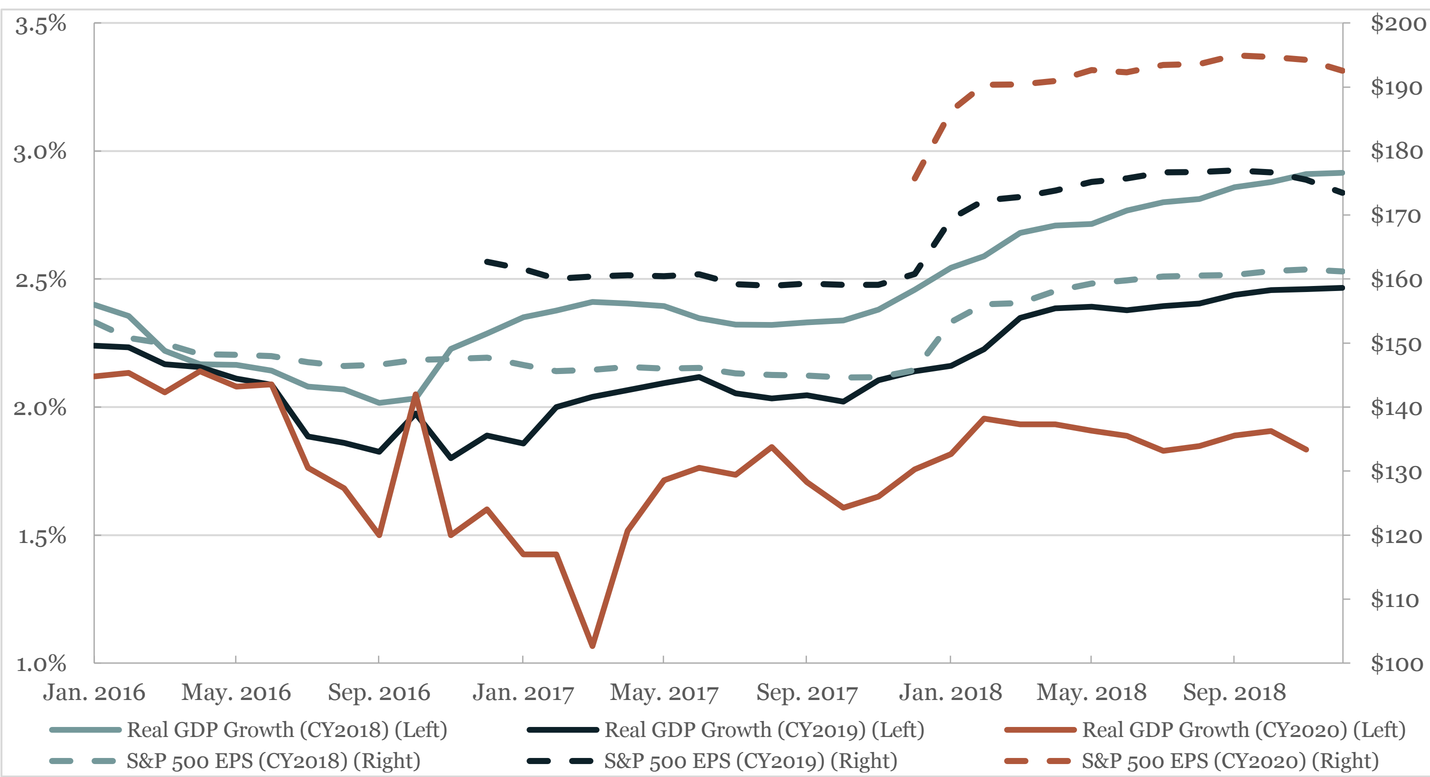
[1] *Please Refer to Page 6 for Additional Disclosures Regarding the McShane Partners Contrarian Core 20 Portfolio ("MP Core 20") Strategy*

Chart I: Economic & Market Expectations - U.S. Real GDP Growth vs. S&P 500® EPS Estimates



Source: McShane Partners & FactSet Research Systems, Inc.

Investment Overview

The View from the Precipice

the downward revisions to EPS estimates for the S&P 500® Index for **CY2019** and **CY2020** over the past several months. Specifically, according to year-end estimates as of December 31st, the S&P 500® Index is expected to generate **±$173.49** and **±$192.53** in EPS in **CY2019** and **CY2020**, respectively - declines of **-1.97%** and **-1.24%**, respectively, from prior **CY2019** and **CY2020** EPS estimates as of the end of 3Q18. Moreover, consensus real GDP growth estimates for **CY2019** and **CY2020** have plateaued over the past several months, with expected growth rates pointing to a noticeable *deceleration* in real GDP growth rates for both years from an expected **CY2018** real GDP growth rate of **+2.92%** (*Source: FactSet Research Systems, Inc.*).

Aimless Attempts at Assigning Blame

Each day, the press has proffered a different reason for the market weakness, none of which are consistently correct. In advance of most market corrections, inexplicable clusters of market volatility emerge, which the Investment Team interprets as markets warning of a foreboding correction - *not* a reaction to a current event or natural disaster. We value the predictive power of the *second derivative*: as the rate of change *slows*, markets anticipate a forthcoming future deterioration in market conditions. While investors, pundits, politicians, and media mongers may grasp frantically to explain the spike in market volatility, the market consistently reflects and reacts *only* to numbers, and those aforementioned numbers - on the margin - appear to be *decelerating*, which is an eventuality in every market cycle (Chart I). Our consistent concerns at the beginning of 2018 over archetypal contrarian indicators appearing precarious led us to wave a flag of caution and position portfolios, accordingly.

In Table I on the following page, the Investment Team has included a summary of key investment research and portfolio management insights from prior monthly newsletters that the Investment Team has published over the past 12-24 months, including the months ahead of the most recent equity market correction. Furthermore, the benefits of our positioning can be seen in the portfolio -level performance of your investment portfolios relative to the S&P 500® Index, exemplifying the efficacy of *contrarian* conviction and downside protection to drive relative outperformance. Our clients trust us to protect and grow assets, responsibly, and we do this by getting ahead of big market moves, such as the ones we have experienced on a daily basis since early-October.

In addition to providing links to our newsletters, below, we have made a notation of articles in *The Wall Street Journal* ("WSJ") published *after* our respective newsletters and recommendations to highlight how the Investment Team positioned the portfolios in advance of the market action and press.

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Monthly Index Review
USD Total Return

Data as of December 31st 2018	December 2018	2018	2017	2016
S&P 500®	-9.71%	-4.38%	+21.83%	+11.96%
Dow Jones Industrial Average	-9.33%	-3.48%	+28.11%	+16.50%
NASDAQ Composite	-10.18%	-2.84%	+29.64%	+8.87%
Russell 2000	**-13.03%**	-11.01%	+14.65%	**+21.31%**
MSCI Emerging Markets	-3.95%	**-14.25%**	**+37.75%**	+11.60%
MSCI EAFE	-6.64%	-13.36%	+25.62%	+1.51%
Bloomberg Barclays U.S. Aggregate Bond	**+1.54%**	**+0.01%**	+3.54%	+2.65%

About McShane Partners

McShane Partners is an experienced, boutique registered investment advisor dedicated to independent, comprehensive wealth management. Founded over 30 years ago, the firm, from its inception, has had a singular focus: to provide highly customized investment management and financial planning solutions to clients.

Boutique Firm:

Being a boutique wealth management firm allows us the flexibility to provide more personalized service and offer unique investment solutions to clients in a Fee-Only environment.

Team Approach:

Because each client's situation is different, the team of advisors is hand-selected to ensure areas of expertise are appropriately aligned with the client's specific needs and interests.

Proprietary Investment Research:

The differentiating factor of our portfolio management process is the proprietary investment research driving the portfolio construction. All investment research and analysis is done entirely in-house by our Investment Team.

INVESTMENT OVERVIEW

THE VIEW FROM THE PRECIPICE

TABLE I: KEY INVESTMENT RESEARCH & PORTFOLIO MANAGEMENT INSIGHTS

MONTHLY INSIGHTS	INVESTMENT OVERVIEW SECTION	HYPOTHESIS HIGHLIGHTS	ENSUING STRATEGY PERFORMANCE	SUBSEQUENT WSJ ARTICLES
JULY 2017	*Economic Indicators Revisited*	• Leading and lagging economic indicators maturing simultaneously, along with negative signs/signals from *contrarian* market metrics • Reinforced market outlook for next 12-18 months		
JUNE 2018	*The Quality Contrarian*	• Recommended overweight allocation to *quality* as an investment factor, as well as overweight positioning across Defensive Sectors (e.g., Consumer Staples) • Relative underperformance of quality exacerbated by deterioration in market breadth and investors chasing "celebrity" stocks, creating attractive opportunity for contrarian investors • Highlighted investment thesis and positive near-/intermediate-term outlook for the Vanguard Consumer Staples ETF ("VDC")	**MAY 31ST - DEC. 31ST** VDC **+3.60%** S&P 500® **-6.28%**	**SEPTEMBER 19TH** "Safety Stocks Fuel Market Rally"
JULY 2018	*Dot-Com Déjà Vu*	• Outlined concerns over information technology ("IT") sector, supporting our underweight exposure to "celebrity" IT stocks • Reiterated positive intermediate-/long-term outlook for Starbucks Corp. ("SBUX") following sharp sell-	**4Q18** IT Sector **-17.34%** S&P 500® **-13.52%** **JUN. 30TH - DEC. 31ST** SBUX **+33.31%** S&P 500® **-6.85%**	**NOVEMBER 20TH** "Tech Stocks Drop Sharply as Rout Deepens"
SEPTEMBER 2018	*Cash is (Always) King*	• Incremental excess cash mitigating rising equity market volatility • Methodically bringing portfolio-level Fixed Income allocations in-line with long-term, strategic target allocations	**AUG. 31ST - DEC. 31ST** BofAML U.S. Treasury Bill (0-3 Mo.) **+0.71%** S&P 500® **-13.03%**	**DECEMBER 4TH** "Cash is a Star in Rocky Year for Global Markets"

Source: McShane Partners, FactSet Research Systems, Inc., The Wall Street Journal

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Investment Overview

The View from the Precipice

Investing At The End of a Bull Market: Late-Cycle Investment & Portfolio Strategies

Given the extremely opaque view provided by our 2019 crystal ball and the pervasive uncertainty surrounding global financial markets, the Investment Team has assembled a panel of experts in late-cycle investment strategies for this year's exclusive portfolio manager panel event. The panel will feature five tenured portfolio managers sharing unique insights on investing in the later stages of a waning bull market, and attendees should walk away from this experience with a better understanding of how to navigate heightened market volatility, changing economic growth, and elevated recessionary risks. This carefully curated panel of institutional portfolio managers across asset classes will convene in Charlotte to discuss their views of global financial markets at an extremely controversial juncture in the market cycle following the volatile finale to 2018 and circling speculation of a pending recession. Given that decelerating economic growth transcends multiple asset classes, the Investment Team has invited portfolio managers of fixed income, hard assets, U.S. equity, international equity, and alternative investment strategies to discuss and debate how to best position investment portfolios for 2019 and beyond. McShane Partners' Chief Investment Officer, Daniele Donahoe, will moderate the panel with the intention of stimulating debate as to which portfolio manager has the best strategy for navigating increased volatility and a maturing market cycle.

"Sometimes, you make more money from things going from terrible to bad, than from good to great."

- Jason Trennert, Strategas Research Partners

Given the market uncertainty, the caliber of our portfolio manager panelists, and the popularity of prior years' events, we recommend that you contact Lesley Burke directly at either lburke@mcshanepartners.com or (980) 585-3368 to RSVP and reserve your spot as early as possible. The event is scheduled for the evening of Thursday, February 7th 2019 and will be hosted at Del Frisco's SouthPark - additional information can be found in the "Around McShane Partners" section on page 7.

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Stock & Strategy Spotlight

Name	Ticker	2018
Target Corp.	TGT	**+5.15%**

Description & Investment Thesis

The Investment Team last mentioned Target Corp. ("TGT") in the "Stock & Strategy Spotlight" section of the September 2018 INSIGHTS, suggesting that shares of TGT had performed exceptionally well since mid-2017 - when the stock was originally added to our firm-wide stock buy list, as well as applicable/appropriate client investment portfolios and MP Core 20 Portfolios - and recommended taking a "break" from TGT, moving the stock to our firm-wide hold/watch list(s). Since effectively closing out our buy recommendation for TGT on September 3rd, the stock price has fallen **-24.5%** vs. a decline of **-13.6%** for the S&P 500® Index through the end of 2018. Given that very little has changed with respect to the company's underlying fundamentals, with the balance sheet secure, the turnaround strategy in place, and the TGT consumer base benefiting from low unemployment and a robust economy, the Investment Team sees an opportunity to reassess shares of TGT and potentially (re)enter the stock at a lower price-point. The company appears to have successfully navigated through the data breach disaster of 2013 and made strides in its competitive positioning against both Walmart, Inc. ("WMT") and Amazon.com, Inc. ("AMZN"). Assuming that the only factor/variable that has changed for TGT is the share price, the stock appears to be trading at an excessive discount to historical absolute multiples and, perhaps more importantly, relative to shares of WMT.

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The View from the Precipice

McShane Partners Contrarian Core 20 Portfolio Strategy & Composite Disclosures

Strategy Limitations The McShane Partners Contrarian Core 20 Portfolio ("MP Core 20") Strategy & Composite ("the Composite") performance shown reflects the asset-weighted performance of actual performance data and time-weighted returns for a sample set of representative Client Portfolios (the "Portfolios") over the respective time frames according to investment strategies managed by McShane Partners (the "Adviser"). While the performance of the Composite is believed to have been calculated reliably and accurately, the Composite 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.

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 Composite 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.

Information provided in this presentation should not be considered or interpreted as advice for your particular financial situation. Please consult a professional advisor for advice regarding your specific financial needs.

McShane Partners maintains strict confidentiality policies and has in place procedural, electronic and physical safeguards to protect your personal, private information.

We collect certain information about you and your financial situation, including names, addresses, social security numbers, assets, income, cash flow and investment objectives. In the course of our service to you, we also track transactions, basis, use of accounts and products preferred. We share client information that is necessary to effect, administer, document or enforce a transaction as you have directed or authorized us to do so. We do not disclose any information with any person or firm for marketing purposes.

This disclosure is made pursuant to the Gramm-Leach-Bliley Act and Regulation S-P (Privacy of Consumer Financial Information), as issued by the Securities and Exchange Commission. It is important to note that the relationship you have with the custodian where your assets are held is independent of that with McShane Partners. Each custodian has its own privacy disclosures and policies, as distributed to clients.

McShane Partners is a Registered Investment Advisor.

Wealth Advisory Overview

Keep Calm & Stay the Course: Preparing for Market Crashes

Maintaining a Strategic Asset Allocation

Asset allocation is the method in which investors *weigh* (i.e., *allocate*) certain asset classes, such as cash, fixed income, stocks, real estate, etc. within an investment portfolio. Various types of investments react differently to stock market crashes and having a mix of different asset classes can help alleviate the impact of a crash. When stock markets rise, for example, fixed income investments (i.e., bonds) often fall and vice-versa. Over the last four months of 2008, the S&P 500® Index fell **-29.6%**, but long-term bonds, as measured by the iShares 20+ Year Treasury Bond ETF ("TLT") returned **+29.4%**.

You can never guarantee that you will avoid losses, but having a diversified asset allocation will help to mitigate the impact from stock market crashes on the total/overall value of your investment portfolio.

Know What You Own

It is important to understand what it means to be truly diversified. Some investors mistakenly look at their number of investments and assume that they are diversified instead of examining what they truly own. Real diversification considers industry, geography, company size, and valuation. Understanding exactly what you own in your portfolio will help enhance diversification and protection in a market crash.

Cash is King

Based on traditional valuation metrics, stocks are broadly *overvalued* today. To help preserve your net worth, it is wise to have extra cash now as it will mitigate your losses when the market drops. Having a cash cushion can also give you psychological peace of mind in a bear market in that it may eliminate your fearful urge to sell your investments at the bottom of the market in an act of panic. Moreover, cash gives investors flexibility to "buy low." For example, on March 6th 2009, the SPDR S&P 500® Trust ETF ("SPY") closed at a cyclical low price of **$68.11**. On December 28th 2018, the SPY closed at **$247.75**: over that time period, investors with sufficient excess cash to buy the SPY on March 6th 2009 would have earned a total return of **+346.3%**.

Make sure that you keep cash in FDIC-insured accounts and spread your cash among different banks, if necessary.

Build an Emergency Fund

Life happens and there are times when unexpected expenses arise. In general, McShane Partners recommends keeping *at least* **six months** of *anticipated/expected* living expenses in liquid, readily-available cash: whenever possible, we typically recommend keeping an *additional* six months of living expenses in a readily-accessible **emergency fund** for unexpected expenses. You want to avoid having to take cash out of the market when it is down: it will eventually recover, so it is best to leave your investment portfolio untouched and let it regain its value.

Reduce Your Debt

In the event that the market takes a turn for the worse, you will need as much cash as possible to pay for living expenses. Accordingly, if feasible, you should consider decreasing your debt now. Identify every debt that you have, including home mortgage, car loans, credit card debt, student loans, and personal loans, and prioritize each one based on interest rate. Generally, it is best to pay off credit card debt first as the interest rates are generally high. On the other hand, mortgage rates are still low. If you are not in a position to pay off mortgage debt and you still have a high interest rate, you should consider refinancing.

Should You Worry About a Market Crash?

Research and history have shown that if you maintain focus on your long-term investing goals and avoid trying to time the market, thereby making short-term, emotion-driven decisions, you will come out ahead of those who panic and sell when the market drops. Make sure your risk tolerance matches your asset allocation, stay calm, and keep investing.

Around McShane Partners

2019 Portfolio Manager Panel Event - Investing at the End of a Bull Market

As a reminder, we are hosting our annual exclusive McShane Partners' 2019 Portfolio Manager Panel Event – Investing at the End of a Bull Market: Late-Cycle Investment & Portfolio Strategies. This year's exclusive event promises to be, once again, a highly-informative panel and roundtable discussion featuring five tenured portfolio managers sharing unique insights on investing in the later stages of a maturing bull market. The panel will be moderated by our Managing Partner and Chief Investment Officer, Daniele Donahoe.

Capacity is limited, so please be sure to contact Lesley burke at lburke@mcshanepartners.com and RSVP at your earliest convenience if you are able to attend.

Good Friends Charlotte

Good Friends Charlotte held its 32nd annual luncheon at the Charlotte Convention Center this year.

Good Friends Charlotte is a women's organization supporting individuals and families with financial resources to improve lives and inspire hope. McShane Partners was proud to be a corporate sponsor again this year.

Charitable Giving in Review

This year, McShane Partners donated 10% of our profits to nonprofit organizations with a focus on the Arts, Education and Women. We believe corporate philanthropy is an essential business endeavor that helps support and improve the quality of life for the communities of Charlotte. Notably, a few of our largest donor recipients in the community include the following; the Charlotte Mecklenburg Library, Mint Museum Auxiliary, Dress for Success, and the Women's Impact Fund. To learn more about our community involvement and the non-profits we support please visit our website. Additionally, we are always open to learn about and support the causes that are dear to our clients.

Holiday Party Fun & Festivities!

The entire McShane Partners gathered together for a fun-filled evening of delicious food and plenty of holiday cheer at Poplar, a great tapas restaurant located in the historic Morrison House.

We would like to thank the amazing staff for a wonderful night and the incredible experience!

McShane Partners

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

521 East Morehead Street | Suite 580
Charlotte, NC 28202
Phone: (980) 585-3373
Fax: (980) 265-1274
Email: mcshane@mcshanepartners.com