MP McShane Partners

January 2021 Insights

Investment Overview

That's a Wrap! A Happy Ending to the Best Worst Year Ever!

In a surprising sequence of events, equity markets enjoyed another strong, record-setting year in 2020, despite the widespread effects of a global pandemic, unprecedented levels of wealth and income inequality, and an extremely divisive U.S. presidential election. This resilience of equities in the face of deteriorating economic data and a polarized political climate epitomizes the market's function as a *forward-looking mechanism*, whose reliability and predictive powers are too often overlooked in the moment. A common *behavioral bias* amongst investors is *overemphasizing* current conditions when developing market expectations or portfolio predictions; this reactive approach never works and typically results in unilateral, and often ill-advised, decisions based on emotional reactions to current circumstances. It is important to remember that today's market reflects expectations for the *future*, *not* reactions to the *present*.

With markets having mystified so many in 2020, consensus expectations indicate an ongoing financial and economic recovery throughout 2021, with a median year-end price target of **±4,033** for the S&P 500® Index: an implied increase of **+7.4%** year-over-year ("YoY"). While the Investment Team avoids making annual predictions for financial markets, its *contrarian approach* typically presupposes that whatever is expected to happen will *not* happen. Equity markets are consistently inconsistent, and a primary tenet of our investment philosophy is providing consistency in our approach to portfolio-level positioning, focusing on long-term risk-adjusted performance as the most important measure of our success as stewards of client capital.

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Wealth Advisory Overview

A New Year, a New List of Resolutions

Over 90 million Americans make New Year's resolutions each year. Determining your goals is a great starting point to improving your finances, therefore it is not surprising that financial resolutions tend to top the list each year. Some of the top financial resolutions for 2021 include:

Making a Budget

Only about 50% of adults have a budget, according to the National Foundation for Credit Counseling. The purpose of a budget is to compare your income against expenses over a specific period of time. This analysis will help you determine how much you spend, where it is being spent, and what is left over. Understanding where your money goes will help you make more informed decisions so that you can better direct where you want your money to go. It will also allow you to feel more confident and in control of your finances.

Pay Down Debt

Most Americans have too much debt. Mortgages are the most common form of debt that is carried, followed by credit card balances, car loans, and student loans. No matter what form of debt that is owed, it is safe to say that these expenses are keeping many of us from living the lives we want.

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Investment Team

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Points of Interest

- Monthly Index Review
- Stock & Strategy Spotlight
- Around McShane Partners

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That being said, we remain cognizant of ongoing developments in significant trends and pertinent themes at the onset of the new calendar year that are relevant to our positioning and underlying exposures across client investment portfolios. In particular, short-term cyclical swings should be carefully considered relative to long-term secular trends as part of a rational, objective, and constructive decision-making framework.

Short-Term Shortage in Incremental Buyers

In the immediate future, there is concern that *incremental buyers* have become increasingly scarce across equity markets, which is significant given their role as an important driver of continued upward momentum in equity prices. A shortage of incremental buyers could slow or stall short-term returns in equity markets. For financial markets to sustain positive momentum, there needs to be an incremental buyer willing and able to purchase the underlying asset. This is the hypothetical market participant who, on the margin, will buy those equities or fixed income securities (e.g., bonds) currently held in your investment portfolio at *higher prices* at some point in the foreseeable future. An accurate assessment or understanding of the risks involved in a particular investment requires an expectation for the

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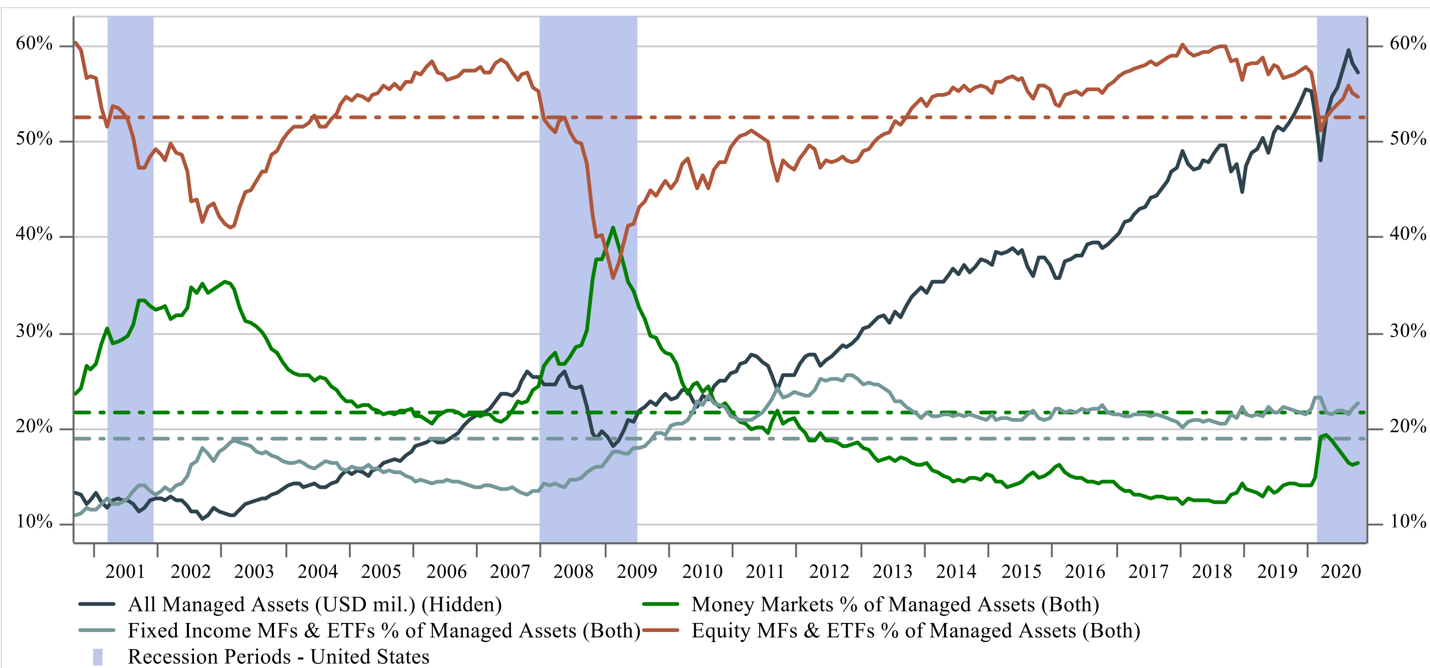
Chart I: U.S. Mutual Funds & ETFs - Managed Assets as % of Total AUM



Source: McShane Partners - FactSet Research Systems, Inc.

Monthly Index Review USD Total Return				
Data as of December 31st 2020	**December 2020**	**2020 YTD**	**2019**	**2018**
S&P 500® Index	+3.84%	+18.40%	**+31.49%**	-4.38%
Dow Jones Industrial Average	+3.41%	+9.72%	+25.34%	-3.48%
NASDAQ Composite	+5.71%	**+44.92%**	**+36.69%**	-2.84%
Russell 2000	**+8.65%**	**+19.96%**	+25.52%	-11.01%
MSCI Emerging Markets	**+7.40%**	+18.69%	+18.88%	**-14.24%**
MSCI EAFE	+4.67%	+8.28%	+22.66%	-13.36%
Bloomberg Barclays U.S. Aggregate Bond Index	+0.14%	+7.51%	+8.72%	**+0.01%**

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corresponding exit plan or strategy (i.e., timeframe, terminal value, etc.). Investors need to ask themselves: "How am I going to sell what I own, at what price, and at what time in the future?"

Idle, uninvested cash is the incremental buyer of choice, so determining how much cash is still lingering on the sidelines, especially given prevailing market dynamics, is critical to assessing the probability of incremental upside to financial markets in 2021. Currently, most institutional asset managers have approximately **±4.0%** in liquid cash and cash equivalent securities, which is extremely low *(Source: Barron's)*.

Furthermore, as can be seen in Chart I on the previous page, portfolio-level allocations to equity mutual funds and exchange-traded funds ("ETFs") as a percentage of total assets under management ("AUM") across managed investment vehicles remain slightly elevated at **±54.6%** relative to the long-term historical average allocation of **±52.4%**, having only briefly dipped below that level earlier this year in March and April. Portfolio-level allocations to equities remained depressed (i.e., below-average) for an average of **±4.7 years** through the two most recent recessionary periods in the U.S., with allocations falling as low as **±35.7%** in February 2009.

Concurrent with the marginal decline in equity allocations through the peak-to-trough phase of the pandemic panic-induced sell-off earlier this year, the spike in demand for relative safety and liquidity saw portfolio-level cash allocations, as represented by money market funds ("MMFs") illustrated by the **green line** in Chart I on the previous page, move sharply higher to **±19.4%**: levels not seen since March 2012. Since then, however, there has been an equally aggressive rotation back into equities, driving positive pricing momentum across equity markets, with portfolio-level equity allocations returning to pre-correction levels and depressing relative cash allocations, suggesting a rapid redeployment of idle cash by incremental buyers that was quickly reabsorbed by positive market momentum.

U.S. Dollar Dictating Long-Term Directionality

The Investment Team has ongoing concerns regarding the potential *signal effect* or longer-term implications of the recent dramatic drop in the U.S. dollar ("USD") alongside continued increases in government expenditures as a percentage of real *gross domestic product* ("GDP") and a consistent increase in the percentage of pre-tax income allocated to the top ±1.0% of the population. Monetary and fiscal stimulus has miraculously mitigated the negative aftermath of the coronavirus on the economy but has also strained the federal balance sheet, while disproportionately benefiting a subset of the population. The concern is that the spending efforts become less efficacious going forward, while socioeconomic disparities continue to grow. Table I shows the parallel paths of government spending and sustained increases in the percentage of pre-tax income attributable to the top ±1.0%. Although 2020 numbers have not yet been finalized, indications from the early data suggest these trends benefiting the top ±1.0% are likely to continue.

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Table I: U.S. Government Spending & Economic Data

Year	Government Spending % of Real GDP	Top 1.0% % Share of Pre-Tax Income
1950	4.51%	-
1980	14.70%	10.9%
1989	19.95%	14.9%
1999	17.41%	17.5%
2007	25.27%	19.6%
2020	28.07%	-

Source: McShane Partners - FactSet Research Systems
Wall Street Journal - Foundation for Economic Education

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While other major asset class have enjoyed steady gains through year-end, the USD has steadily fallen, as *persistently low interest rates* and lingering concerns over *stubbornly high U.S. government debt levels* have supported a global short-sale of USD, precipitating a broad-based rally in those assets that have historically benefitted from *lower* or *falling USD price levels*. As shown below in Chart II, the USD index - the **green line** - hit a near-term peak of **$102.82** on March 20th 2020 in the midst of the volatile market sell-off , just as demand for liquidity and safety was peaking; just three days later (i.e., Monday, March 23rd), the S&P 500® Index closed at what would prove to be the cyclical trough of **2,237.40**: a peak-to-trough correction of **-33.92%** from its February 19th record high of **3,386.15**.

Over the past nine months, the USD has fallen **-12.5%**, as incentivization from fiscal and monetary policy stimulus initiatives, including the indefinite extension of quantitative easing (i.e., QE-Infinity), fueled an accelerated recovery in risk assets across global financial markets. One of the most significant outperforming assets during this time has been **bitcoin**, as represented by the **NYSE Bitcoin Index** - the **reddish-orange line** in Chart II, below - which has returned **+335.4%** since March 20th, benefiting from a convergence in demand from both long-term alternative currency investors, as well as investors reacting to negligible yield on traditional, USD-based cash and cash equivalents investments.

Emerging market ("EM") equities have also benefitted significantly from the precipitous plunge in the USD , with the **MSCI EM Index** - as represented by the **teal line** in Chart II - generating a net return of **+64.3%** since March 20th: marginally underperforming the S&P 500® Index (**+65.2%**) but meaningfully outperforming its developed market ("DM") counterpart, the MSCI EAGE Index (**+57.4%**). As indicated in Chart II on the previous page, there is a pronounced *inverse relationship* between EM equity performance and the USD due in part to the historical dependence of EM economies and private companies on the availability of *lower-cost*, *USD-denominated debt* to access global capital markets and stimulate higher economic growth. In addition to the prospect of improved geopolitical relations with the U.S. (e.g., trade policy), *lower* USD prices should serve as a short-term, cyclical tailwind for EM equities given the *lower relative cost* of servicing any/all USD-denominated debt: for additional information, please refer to MP August 2018 INSIGHTS.

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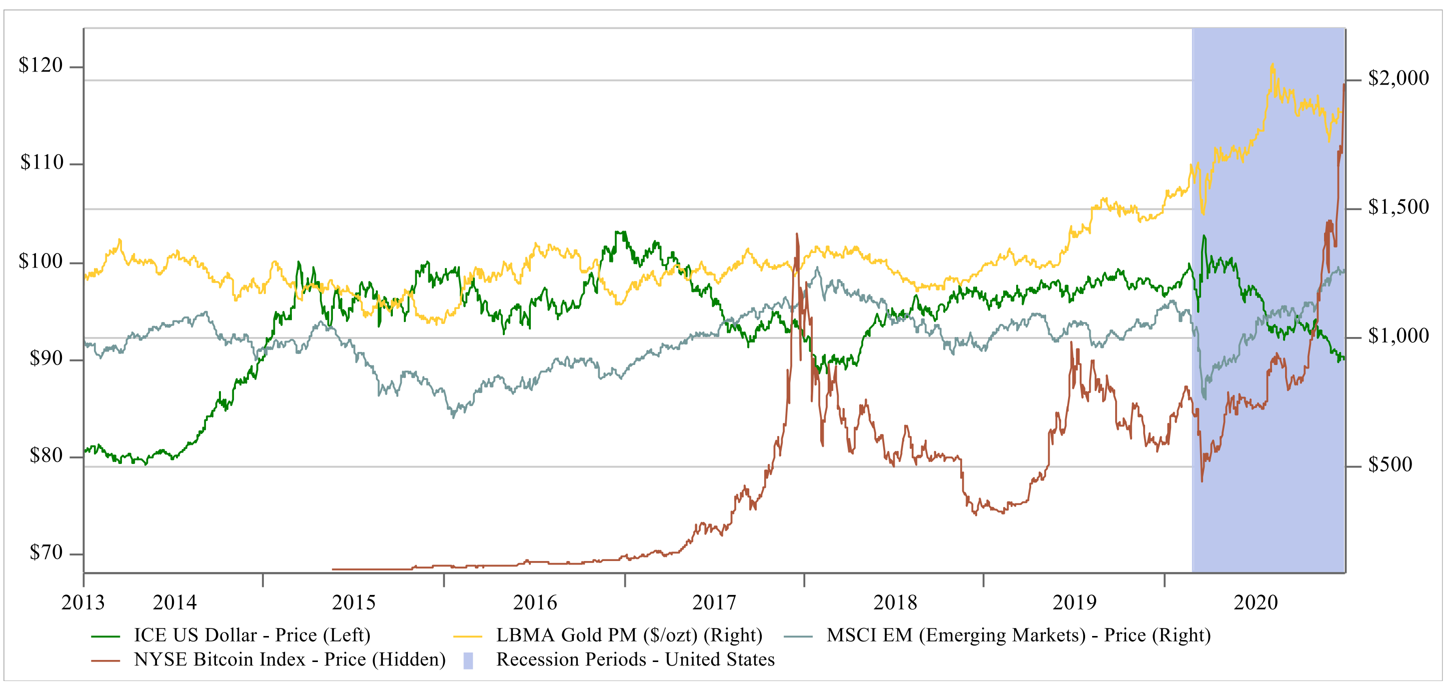
Chart II: U.S. Dollar Index vs. MSCI EM Index vs. NYSE Bitcoin Index vs. Gold (USD Price)



Source: McShane Partners - FactSet Research Systems, Inc.

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Lastly, it is worth highlighting the performance of **gold**, as illustrated by the **yellow-gold line** in Chart II, which not only provided *positive relative contribution* to equity portfolios through the correction/sell-off during the first quarter of 2020 ("1Q20") but also mitigated the relative portfolio-level impact of the subsequent decline in the USD that ensued through year-end. When used correctly in traditional investment portfolios, gold and other precious metals can provide considerable *diversification benefits*; as *safe-haven assets* and *relative stores-of-value commodities* - as opposed to *input commodities* (e.g., copper, aluminum, crude oil, etc.) - when the USD *declines* in response to *lower* or *falling* short-term interest rates, gold prices typically *increase* in USD-terms, as the *store-of-value proposition* for gold *increases* relative to *yield-bearing, low(er)-risk* financial assets (e.g., Treasury bills).

When rates are near zero, the *opportunity cost* of owning gold is *insignificant*, as investors do not lose incremental income with Treasury bonds yielding next to nothing, so the fact that investors are not forced into forgoing or giving up an income stream to own gold makes the allocation to gold more attractive.

Hope smiles from the threshold of the year to come, whispering, 'It will be happier.'

- Alfred Lord Tennyson

Government Debt: Reaching Record Levels

The main systemic concern is that U.S. government debt levels might be approaching levels that suffocate long-term economic growth going forward. As can be seen in Chart III below, U.S. debt and expenditures as a percentage of real GDP have hit record highs, calling into question the strength of the U.S. government's balance sheet and, consequently, the sustainability and continued viability of the USD as the global reserve currency.

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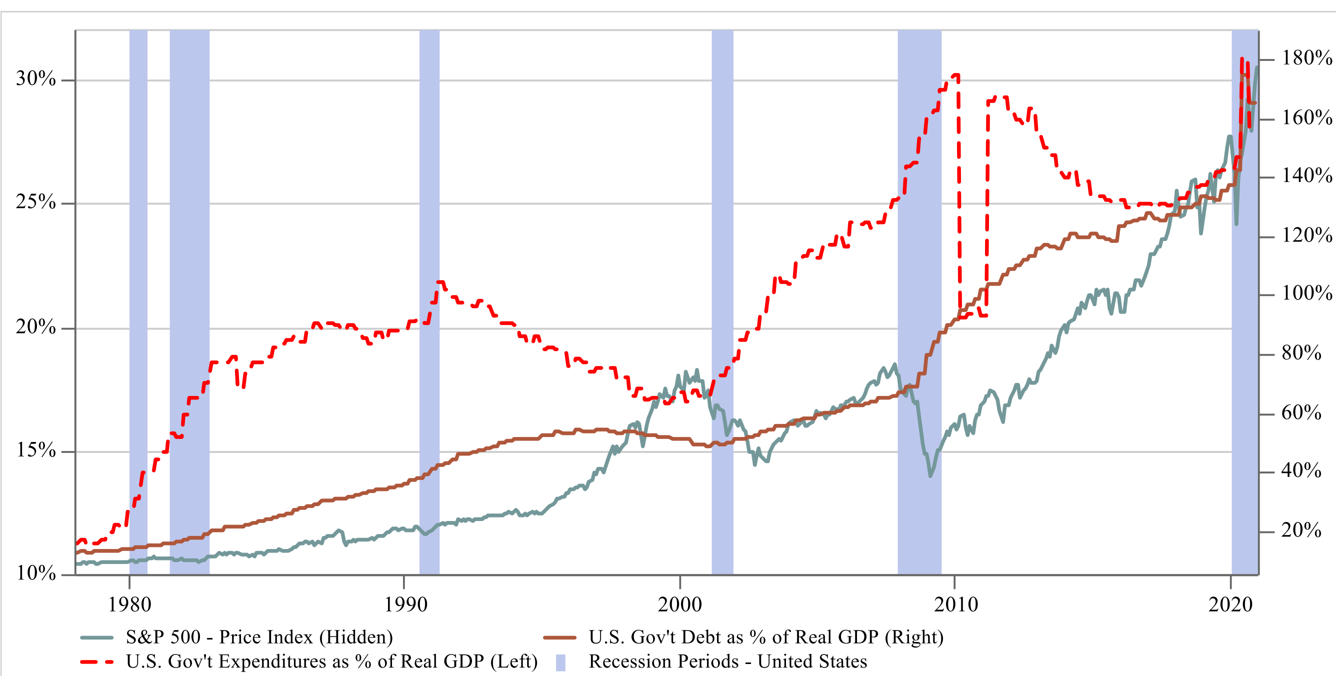
Chart III: U.S. Government Debt & Expenditures as % of Real GDP



Source: McShane Partners - FactSet Research Systems, Inc.

Investment Overview

Stock & Strategy Spotlight

Name	Ticker	December 2020	2020 YTD
Equinix, Inc.	EQIX	+2.35%	+24.18%

Description & Investment Thesis

The Investment Team is reiterating its positive recommendation for shares of Equinix, Inc. ("EQIX"), the largest real estate investment trust ("REIT") specializing in the provision of global data center services in over 25 countries, following near-term absolute and relative underperformance that has left the stock trading at incrementally attractive valuation multiples. Since having closed at new all-time highs of on October 12th, shares of EQIX have fallen **-14.2%** through the end of the year, underperforming both the S&P 500® Real Estate Sector Index (**-0.9%**) and the S&P 500® Index (**+6.3%**). Shares of EQIX now trade at a much more reasonable next-twelve month price-to-funds from operations ("P/FFO NTM") multiple of **±26.5x**: a relative discount of approximately **-17.2%** vs. the stock's cyclical peak P/FFO NTM multiple of **±32.0x**, indicative of *multiple compression* in excess of the short-term sell-off/ correction in share price.

Given persistent secular growth opportunities and considerable long-term demand for the company's core data center businesses, as well as its proven ability to capitalize on accretive ventures with existing and potential customers through value-add service offerings, the Investment Team believes that current valuations for shares of EQIX are extremely reasonable and reflective of prevailing "base case" assumptions. To that end, given the company's proven track record of best-of-breed execution, shares of EQIX should warrant additional consideration amongst long-term investors looking for high-quality, *growth-at-a-reasonable-price* ("GARP") stocks that can be owned for several years.

2021 Office Holiday Schedule

McShane Partners will be closed on the following dates in observance of the 2021 holiday schedule:

Friday, Jan. 1	New Year's Day
Monday, Jan. 18	Martin Luther King, Jr. Day
Monday, Feb. 15	President's Day
Friday, April 2	Good Friday
Monday, May 31	Memorial Day
Monday, July 5	Independence Day (Observed)
Monday, Sep. 6	Labor Day
Thursday, Nov. 25 & Friday Nov. 26	Thanksgiving
Friday, Dec. 24	Christmas Eve (Christmas Day Observed)

Wealth Advisory Overview

A New Year, a New List of Resolutions

So, what are the best ways to pay off debt and which strategies should be avoided? The best ways to reduce debt include eliminating the use of debt for future purchases, living on a budget, and having a systematic method to eliminate any outstanding debt. If you are currently in debt, committing to no future use of debt will ensure that you do not compound the amount of debt that is already owed. Additionally, living on a budget will allow you to concentrate on where you want your money to go and allow you to be more methodical in creating a systematic method to eliminate your debt. This includes making the minimum payments on all of your debts and using any excess cash to pay off the smallest balances first, working your way to the larger balances until all of your debt has been paid in full.

Debt reduction strategies that do not work include: debt consolidation, 401(k) loans and home equity lines of credit (HELOC). Debt consolidation is a loan that combines all of your debts into a single payment. This type of loan stretches out the term so that you stay in debt longer and are often associated with an interest rate that will increase over time. Likewise, using a 401(k) or HELOC to consolidate your debt puts your retirement and your home ownership at risk. These methods of debt reduction are treating the symptom, not the problem and are best to be avoided.

Increase Emergency Fund

Almost half of Americans do not have an emergency fund, according to the Financial Industry Regulatory Authority. Individuals who lack an emergency fund are putting themselves at risk of financial catastrophe in the event of unexpected unemployment or major medical expenses. Unfortunately, a lot of people found that out the hard way in 2020. Therefore, it is important to build up your cash reserves. We recommend having enough cash to fund approximately 12 to 18 months' worth of living expenses.

Credit Monitoring

Thanks to the increased availability of free credit scores, most people have a good sense of their credit standing these days. However, too few of us are familiar with the actual contents of our credit reports. As many as one in four people have an error on their report that could affect their credit score, according to research by the Federal Trade Commission. It is recommended that you review at least one of your major credit reports on a regular basis. This will allow you to spot signs of fraud before they become too serious. Additionally, there are free credit monitoring services that will enable you to receive an instant notification anytime there is an important change to your credit report.

Focusing on Health

There is a clear connection between our physical, emotional and financial health. This was particularly apparent in 2020. Money and the economy are typically our biggest sources of stress, according to the American Psychological Association. This underscores the importance of getting your financial house in order, which will in turn help to improve your physical and emotional health.

New Year's resolutions can serve multiple purposes. The idea is to spend time thinking about what we want to accomplish and create new habits that will allow us to fulfill our goals. Any failure we experience brings us one step closer to achieving those goals as we learn lessons from our mistakes and make adjustments to improve. It is a marathon, not a sprint, so here's to achieving our New Year's resolutions in 2021!

Estate Planning: Can an Irrevocable Trust be Terminated?

Sandy Carlson
CFP®, CPA, CDFA®
President & Partner | Wealth Advisor

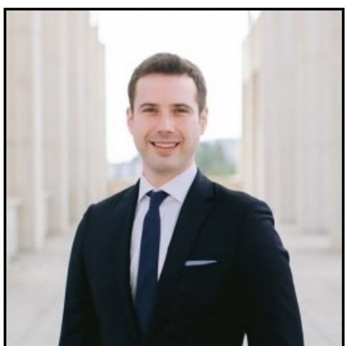
The law generally assumes a trust to be revocable unless it specifically states that it is irrevocable. To the extent that a trust is revocable, the trustor can modify or terminate the trust at any time. If a trust is irrevocable, there are still circumstances under which the trust can be terminated. Those circumstances are governed by two things: (1) the intent of the trustor as expressed in the language of the trust itself; and (2) state law, which governs the creation, operation, and termination of trusts.

Ideally, every trust should contain the conditions under which it is to be terminated. This is helpful for the trustee whose job it is to carry out the wishes of the trustor. It is also helpful when a court is asked to enforce the provisions of a trust in the event of a conflict. In some circumstances, a trust will be self-terminating, such as when all the assets have been distributed to its beneficiaries. In other cases, the trustor may want to impose more artificial conditions that act to terminate the trust, such as when the beneficiaries reached a certain age or achieve a certain milestone.

There are numerous ways that a valid trust can be terminated. In general, they can be grouped into the following two categories: (1) Termination by operation of the express terms of the trust; (2) Termination by agreement of the beneficiaries.

If a trustor creates a trust for a particular purpose, rather than to provide a general means of support, the trust will generally end when that purpose has been achieved. Under some circumstances, and in compliance with state law, the beneficiaries can elect to terminate the trust. The laws of each state vary. In some cases, the trend is that a trust can be terminated if each of the beneficiaries elects to do so unless continuance of the trust is necessary to carry out a material purpose of the trust. Given the potential for judicial interpretation, individuals should make their wishes as clear as possible when executing a trust or provisions of a will that establish a trust.

NextGen: The Importance of Asset Allocation



Ryan Vaudrin, CFP®
Wealth Advisor

As we head into 2021, it is time to start thinking about New Year's resolutions! In previous months, we have discussed how to start saving, the time value of money, and the importance of saving early. For our next topic, we will discuss how to establish a proper asset allocation to reduce unwanted volatility and allow personal investment goals to be met.

Asset Allocation is one of the most important factors when setting up a proper investment portfolio. To set an asset allocation, investors choose a percentage of Stocks, Bonds, and Cash Investments that the portfolio is to be invested in. A stock or equity investment is the ownership in a company. Investors can purchase stock to participate in the potential growth or loss of that company. Stocks typically provide the most growth opportunity, however they also carry the most risk. Bonds or fixed income are loans that a company or government issues for investors to purchase. Bonds are typically less risky compared to stocks therefore, they have a lower return. The last investment selection to complete a basic asset allocation, is cash. Cash investments are one of the most conservative options and typically have a very low return. The different percentage of each asset group will determine the overall volatility of the portfolio.

A higher percentage of stock in a portfolio may offer the potential for a larger return, but at the cost of greater volatility. To minimize the volatility, bond and cash investments should be included. The higher the percentage of bond and cash investments, the more conservative and stable the portfolio. However, the potential growth and return may be reduced.

Asset allocations do not frequently change, but it may be necessary to adjust the allocation to reduce portfolio risk for when invested funds may be needed. Maintaining the appropriate balance of investments is an important task to maintain. By selecting and maintaining a proper asset allocation, investors will remain comfortable within their risk tolerance while ensuring funds will be available when needed.

Tax Update: Why You Might Want to File Your Taxes Early This Year

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

Taxpayers generally wait until the last possible minute to file their tax returns. This might result from procrastination in pulling together required information, or because they simply forget about it until deadlines loom. However, this year you may want to file earlier rather than later. The reason why is that you may be due a refund, and the IRS generally does not pay interest on refunds unless special circumstances apply.

Many taxpayers may have lower income tax liabilities this year resulting from lower earned income and bonuses, the lack of a Required Minimum Distribution from an IRA, and the increased availability of charitable contribution deductions in 2020. In 2020, taxpayers who claim the standard deduction may reduce taxable income by qualifying cash donations up to $300. For taxpayers who itemize, the deductible limit for cash contributions has been temporarily raised to 100% of Adjusted Gross Income which applies for 2020 only. Keep in mind that donations to a Donor Advised Fund and noncash contributions do not qualify for these expanded deductions in 2020.

The deadline for organizations to file a W-2 or Forms 1099 for 2020 has been moved to February 1, 2021. In theory, all items should be final by that time unless you are waiting for a K-1 from a partnership or S corporation. Additionally, it is important to keep in mind that custodians may revise their reporting after that date.

Therefore, this might be the year to get organized and file early!

Senior Planning: Should You Move to a Retirement Community? If So, When?

Lorri Tomlin, FPQP™
Wealth Advisor

Many people want to age in place but is that right for you? There are several factors to consider when trying to decide where to live out your “Golden” years. This is one of life’s most difficult decisions, requiring a realistic look into the future. Future mental and physical abilities must be considered, along with financial resources, increasingly limited options for social interaction and a potential health crisis.

Physical abilities diminish as we age. Everyday tasks become more challenging and even impossible without outside help. Raking leaves, cleaning gutters, vacuuming, shopping and even changing a light bulb become more difficult and potentially more dangerous. Outside help can be procured for these tasks, but at an additional expense.

Expenses will also increase if outside help is needed to assist with basic daily living activities such as bathing, cooking, and dressing. If mental capacity declines significantly, help could eventually be needed around-the-clock to ensure that you are well cared for, eating properly and that you are safe. There are many agencies that can provide this assistance, but as the need increases so too does the cost.

Socializing and enjoying free time are things to look forward to in retirement. However, isolation and loneliness may result as driving becomes more difficult and your circle of friends gradually diminishes. Isolation could also result in a dangerous health situation. What if you have an accident or require emergency care and there is no one nearby to help?

There may come a time in life when moving to a retirement community would be beneficial. Continuing Care Retirement Communities (CCRCs) can provide support and security as we age. Many people want to wait until they are “ready”, but many communities require that you “walk in” in order to gain admittance. It is better to move in too early than to be one minute too late when an unfortunate fall drastically reduces your options. Most seniors who have made the move express lament at not having made the move sooner. CCRCs are meant to be enjoyed before you are “ready”. They support active, social, healthy, thriving lifestyles, while also providing peace of mind knowing that help and higher levels of care are available when needed so do not wait until it is too late.

Around McShane Partners

Holiday Party & End of Year Festivities

The McShane Partners gathered for a fun and food filled evening at the Duke Mansion. We are looking forward to another great year together!

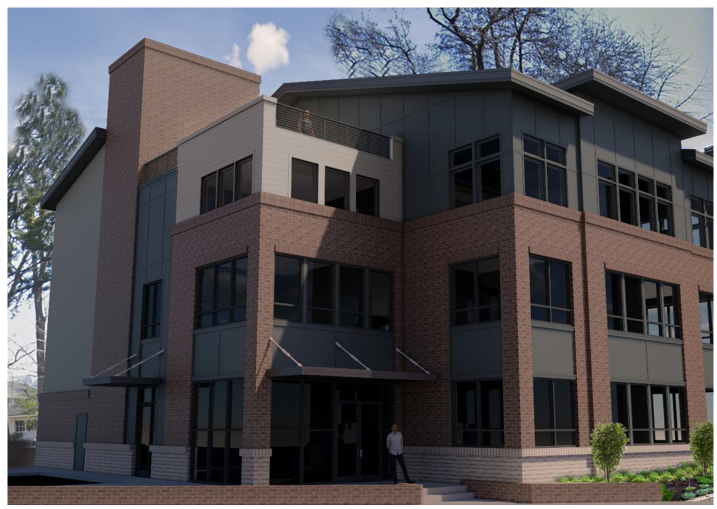
Happy Holidays

Happy Holidays from our McShane Partners family to yours! We hope everyone had a Merry Christmas and a Happy New Year as we look forward to 2021.

Tosco Music Party

McShane Partners is proud to be a sponsor for Tosco Music, a nonprofit organization that presents a wide variety of music through performances and outreach programs. They collaborated with us to put together a collection of holiday music which can be viewed here.

McShane Partners Building Update



As 2021 begins, so too does our construction on the new building. On Monday, January 11th, we are headed through the final permitting process where upon approval, we will begin demolition and construction of our new future home. We look forward to providing you with future updates as the year progresses.

McShane Partners

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

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