

FEBRUARY 2019 INSIGHTS

INVESTMENT OVERVIEW

TRIFECTA OF FEAR

In anticipation of McShane Partner's upcoming Portfolio Manager Panel Event on February 7th, the Investment Team wanted to provide an overview of the relevant topics that will be discussed by our panelists at this year's event, as we set out to navigate the market in 2019 after narrowly skirting bear market territory in late-2018. From a peak close of **2,930.75** on September 20th, the S&P 500® Index fell **-19.78%** through December 24th before experiencing a much-appreciated year-end rally. Now more than ever, a true appreciation and understanding of exactly *where* we are in the economic cycle will be critical to successful portfolio positioning over the next few years. Understanding the drivers of the fourth quarter 2018 ("4Q18") correction will be a central line of questioning posed to our panel of experts, with the objective of uncovering/discovering our current location on the economic cycle map.

In our opinion, this correction was driven by a "Trifecta of Fear" and exacerbated by a new paradigm in trading activity that has been ushered in by the proliferation of passive investment vehicles - primarily exchange-traded funds ("ETFs") - as well as electronic trading and quantitative models. The Trifecta of Fear consists of: (1) The Federal Reserve's Rate Policy, (2) The Trump Trade Tariffs, and (3) Earnings & Economic Growth Deceleration. Of these three pillars, the

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WEALTH ADVISORY OVERVIEW

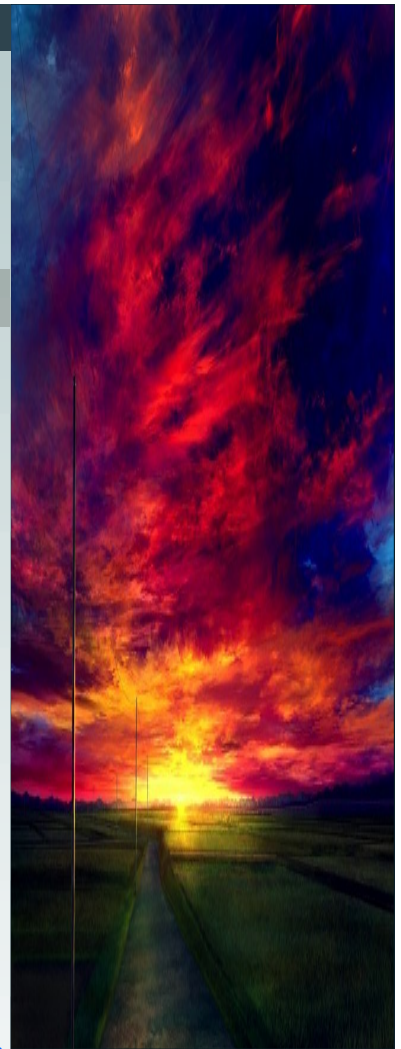
THE PAST, PRESENT, AND FUTURE OF SOCIAL SECURITY

The Bipartisan Budget Act of 2015 significantly changed the landscape of Social Security. It is beneficial to understand the Social Security changes and how they impact future financial success.

"FILE & SUSPEND" IS DEAD

In fall of 2015, Congress revamped the Social Security rules to remove the so-called loopholes that for years allowed some married couples to increase their total retirement benefits. To save money for Social Security, Congress eliminated a strategy called "file and suspend," which allowed a beneficiary upon reaching full retirement age ("FRA") to file to claim Social Security, but then immediately suspend his or her benefit payment. This process allowed the spouse to be eligible to claim a spousal benefit, which was half of the beneficiary's benefit. By suspending, the beneficiary's benefit continued growing at 8 percent per year until he or she reached age 70 or elected to begin receiving his or her benefit. The spouse's own benefit would also grow at 8 percent per year while he or she collected a spousal benefit until he or she reached age 70. Therefore, the spousal benefit was considered the "icing on the cake" as the couple could maximize their Social Security income strategy by collecting a spousal benefit without tapping into their own Social Security benefits. Now, when an individual suspends his or her own benefit, he or she will suspend

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SPECIAL POINTS OF INTEREST

- [Monthly Index Review](#)
- [Stock & Strategy Spotlight](#)
- [Around McShane Partners](#)

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Investment Team believes the main culprit in the 4Q18 correction was the deceleration in and negative revisions to corporate earnings estimates, as the other two factors (i.e., trade and interest rates) were sources of media cacophony all year with little immediate, direct impact on the market.



THE FEDERAL RESERVE'S INTEREST RATE POLICY

The Federal Reserve has increased interest rates seven times since its foray into tightening monetary policy in the winter of 2015. Investors fear that raising rates too rapidly could curtail economic growth, tighten money supply too quickly, and accelerate a descent into recession by curtailing liquidity. We will spend considerable time peppering panelists about their thoughts on the trajectory of both interest rates and inflation to gain an understanding of how to position portfolios under different interest rate scenarios. Accordingly, we will inquire about when and whether to introduce gold and store of value commodities and cyclical commodities into the portfolios as hedges to inflation. Alternatively, given relatively innocuous inflation numbers and expectations of slower growth, is the seldom mentioned condition of *stagflation* a concern? If so, how should investors position portfolios if this were to emerge?

Below, Table 1 provides an overview of the recent performance of select commodities and commodity indexes.

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TABLE I: COMMODITY PERFORMANCE REVIEW

COMMODITY PERFORMANCE REVIEW USD PRICE RETURN				
DATA AS OF JANUARY 31 ST 2019	JANUARY 2019	DECEMBER 2018	2018	2008
Gold NYMEX Near-Term	+3.46%	+5.05%	-2.14%	+5.83%
Silver London AM/PM Fixing	+3.94%	+8.64%	-8.30%	-26.90%
Corn (Central Illinois)	-0.56%	-0.55%	+4.89%	-9.17%
Brent Crude Oil Global Spot ICE	+20.43%	-12.37%	-24.22%	-58.35%
Copper Cash Official LME	+3.07%	-4.38%	-16.66%	-56.53%
Aluminum High-Grade Cash Official LME	+0.59%	-3.39%	-16.60%	-38.10%
CRB Iron Ore 62% FE CFR China Cash	+9.87%	-4.26%	-5.08%	-

Source: McShane Partners & FactSet Research Systems, Inc.

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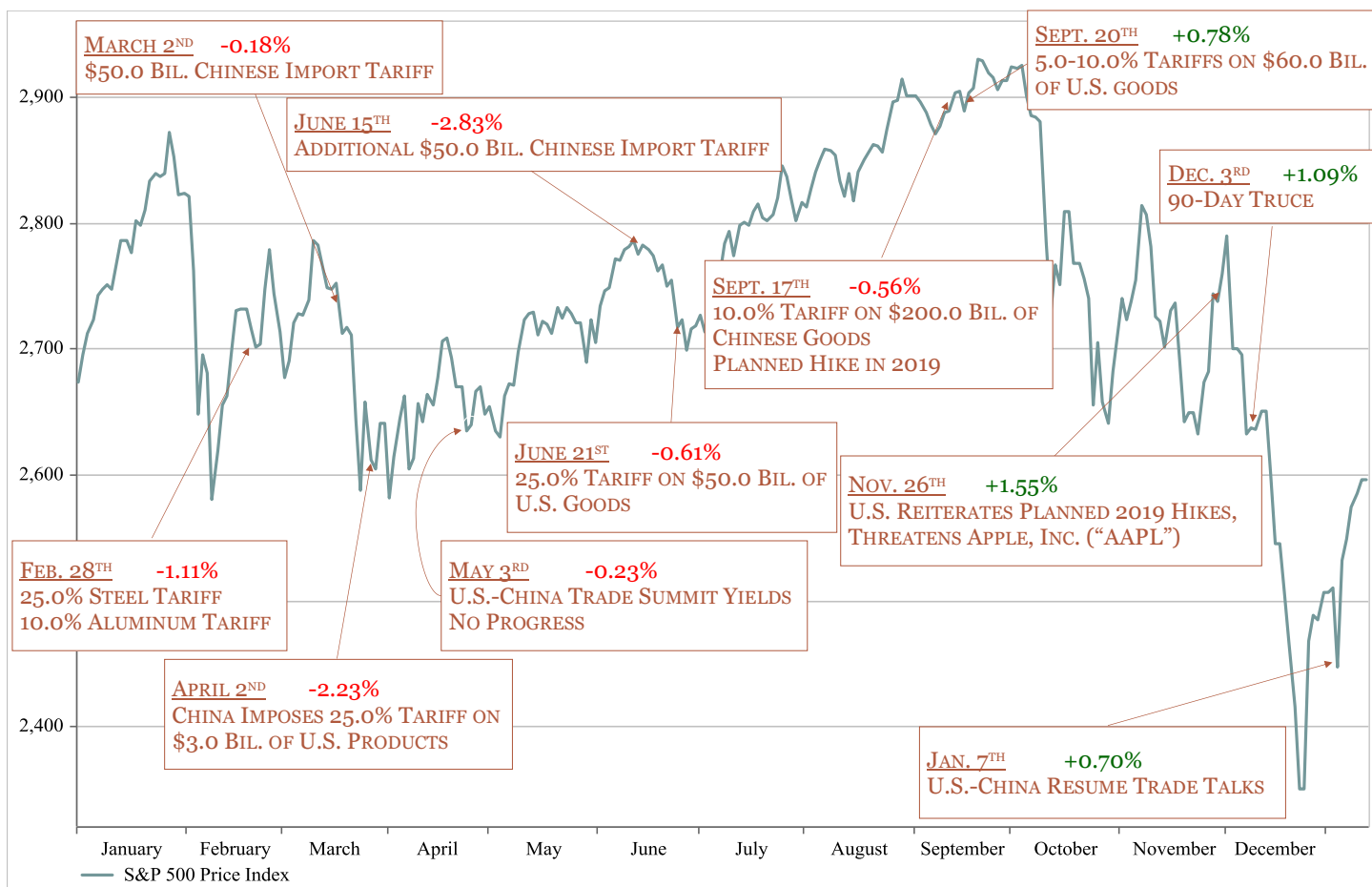
THE TRUMP TRADE TARIFFS

In Chart I, below, the Investment Team has provided a chart of the S&P 500® Index and highlighted notable announcements related to the U.S.-China trade skirmish, including the associated/corresponding market movements and reactions at the time of each announcement/development. A simple analysis of the chart shows there is a noticeable lack of trade-related data on the largest down days in the market. This basic review lends credibility to the thesis that the market has become immune to the short-term trade tension banter, despite obvious longer-term consequences.

EARNINGS & ECONOMIC GROWTH DECELERATION

The Investment Team believes the most relevant factor directly impacting the market in the fourth quarter was the deceleration in earnings and economic growth estimates, as evidenced by subsequent estimate reductions and clearly difficult year-over-year (“YoY”) comparisons driven by the effect of the tax cuts. The equity market is a *forward-looking* mechanism, therefore it reacts in advance of economic prosperity and deterioration. The market is compromised of the individual equities of corporations, reflecting prosperity and projected growth of the economy. As corporate earnings results exceeded expectations in the third quarter of 2018 (“3Q18”) and companies reported impressive YoY growth, the market declined - quizzical but amazingly consistent across historical market cycles: the

CHART I: U.S.-CHINA TRADE POLICY TIMELINE



Source: McShane Partners & FactSet Research Systems, Inc.

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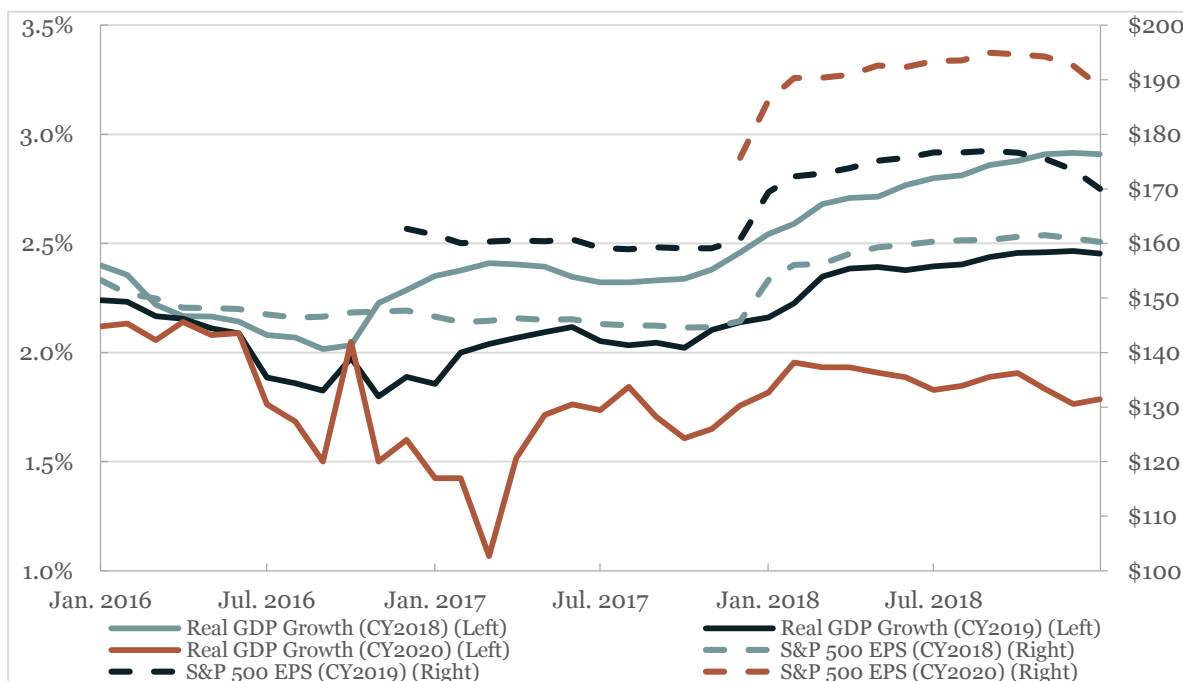
market looks forward, while investors look backward. The market expects a slowdown in earnings and economic growth, as measured by gross domestic product (“GDP”) growth, arguing that annual growth rates in both corporate earnings per share (“EPS”) and GDP peaked earlier this year.

As can be seen below in Chart II, 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 constrained 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 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 at the end of 3Q18. Moreover, consensus real GDP growth estimates for **CY2019** and **CY2020** plateaued during the last several months of 2018, 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.*). We believe the main focus of the market is determining the GDP and earnings growth trajectory over the next 5 years. Consequently, our questions and discussion will be weighted toward understanding this factor by gleaning insight from our panel participants. Positioning portfolios according to location in the economic cycle and the expected growth trajectory will be the dominant determinant of investment outcomes going forward in our opinion.

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CHART II: DECELERATION IN EARNINGS & ECONOMIC GROWTH PROJECTIONS



Source: McShane Partners & FactSet Research Systems, Inc.

ABOUT MC SHANE 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.

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We look forward to a vibrant and illuminating discussion February 7th!

STOCK & STRATEGY SPOTLIGHT

NAME	TICKER	2019
Cognizant Technologies Solutions Corp.	CTSH	+9.77%

DESCRIPTION & INVESTMENT THESIS

The Investment Team is reiterating its positive near- and intermediate-term outlook for shares of Cognizant Technologies Solutions Corp. (“CTSH”) and also initiated appropriately-sized partial positions in CTSH across McShane Partners Core Contrarian Equity Portfolio (“MP Core Contrarian”) accounts and applicable client investment portfolios. Following the broad-based sell-off in domestic information technology (“IT”) stocks during the fourth quarter of 2018 (“4Q18”), the Investment Team began screening its universe of *high-quality* IT stocks with *defensive* characteristics at the beginning of 2019 to see which companies, if any, had been irrationally, indiscriminately *oversold* by investors relative to the underlying fundamentals of the respective company and, consequently, were trading at increasingly attractive valuation levels compared to the broader market, as well as sector- and industry-level peers. CTSH was one of a handful of individual stocks that screened positively in terms of both financial strength and valuation - both on an absolute and relative basis. CTSH has a pristine balance sheet, which should be supportive of potential upside in the stock’s solid dividend yield (**±1.17%**), but the stock has underperformed over the **past 12-18 months** in response to disappointing top-line/revenue growth following strategic initiatives implemented by the management team to focus on *higher-margin* business opportunities, as well as incremental pressure from a slight year-over-year (“YoY”) *deceleration* in CTSH’s bellwether “Financial Services” business/operating segment. As a result, shares of CTSH have faced outsized selling pressure and have dramatically underperformed sector-/industry-level peers, including long-time favorite Infosys Limited Spons. ADR (“INFY”).

The Investment Team has been long-term investors in INFY since **July 2016**, when the stock was extremely out-of-favor and traded at a considerable valuation discount relative to U.S.-based peers, including CTSH. Since then, however, shares of INFY have significantly outperformed CTSH and other industry-level peers to the extent that, when looking at forward-looking price-to-earnings over the next twelve months (“PE NTM”) multiples, INFY currently trades at a **±43.5% premium** to CTSH, despite historically trading at a 15-year average *discount* of **-13.8%** vs. CTSH. Given the Investment Team’s *contrarian overlay* in its analysis of historical valuation trends/patterns/relationships, the Investment Team believes that shares of CTSH are capable of delivering attractive *risk-adjusted returns* for long-term investors, with the stock currently trading at depressed valuation levels, increasing the likelihood/probability of significant *upside potential* from residual multiple expansion, while also providing incremental *downside protection* relative to peers and the broader market.

MONTHLY INDEX REVIEW
USD TOTAL RETURN

DATA AS OF JANUARY 31 TH 2019	JANUARY 2019	2018	2017	2016
S&P 500®	+8.01%	-4.38%	+21.83%	+11.96%
Dow Jones Industrial Average	+7.29%	-3.48%	+28.11%	+16.50%
NASDAQ Composite	+9.79%	-2.84%	+29.64%	+8.87%
Russell 2000	+11.25%	-11.01%	+14.65%	+21.31%
MSCI Emerging Markets	+8.76%	-14.24%	+37.75%	+11.60%
MSCI EAFE	+6.59%	-13.36%	+25.62%	+1.51%
Bloomberg Barclays U.S. Aggregate Bond Index	+1.06%	+0.01%	+3.54%	+2.65%

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any/all benefits payable to other individuals based on his or her earnings record.

WHAT IS THE “RESTRICTED APPLICATION” STRATEGY?

Even though the “file and suspend” loophole is dead, a related strategy called “restricted application” remains possible for some. Baby boomers turning full retirement age in 2019 are the last class that can take advantage of this restricted application strategy. This method allows a beneficiary to restrict an application to spousal benefits only, giving the beneficiary some Social Security income now, while allowing his or her own retirement benefit to grow at 8 percent per year until age 70. In order to take advantage of this strategy you must have been born before January 2, 1954 and be at least full retirement age (FRA) for Social Security.

Let’s look at an example: Ed turns 66 on March 15, 2019 and qualifies for a \$2,400 monthly benefit, while Ann, Ed’s wife, turns 66 on February 15, 2019, and qualifies for a \$1,600 monthly benefit. While Ann elects to begin receiving her benefit at FRA, Ed can file a restricted application to claim an \$800 monthly spousal benefit. Together, Ed and Ann will collect \$2,400 per month from Social Security. However, when Ed reaches age 70 he will switch to his higher benefit amount of \$3,200. At that time, they will generate \$4,800 per month for the remainder of their lives, plus annual cost-of-living adjustments

“We must build dikes of courage to hold back the flood of fear.”

- Dr. Martin Luther King Jr.

NEW RULES FOR PEOPLE BORN AFTER JANUARY 1ST 1954 - “DEEMED FILING”

The “deemed filing” rules were also changed by the Bipartisan Budget Act of 2015. The former deemed filing rule worked as follows: If you were younger than full retirement age (“FRA”), and you filed for either a retirement benefit or a spousal benefit, the Social Security Administration would check to see whether you were eligible to receive either type of benefit (i.e., retirement or spousal). If you were, you would be automatically “deemed” to have filed for both benefits and you would be paid the greater of the two. If, however, you had waited until NRA to apply for benefits, you could have specified as to which specific benefit you were applying.

The effective date of the new “deemed filing” rules depends upon your date of birth. For anyone born in 1953 or earlier, the prior rules are grandfathered. For anyone born after January 1, 1954, the deemed filing rule will be applicable regardless of whether you have or have not reached FRA. Therefore, if you file for spousal benefits and you are also eligible for retirement benefits at that time, you will be deemed to have filed for both types of benefits and you will be paid the greater of the two benefit options. This in essence eliminates the restricted application strategy. Let’s look at an example: Nancy is currently 65, while her husband George is 66. They have each worked enough years to earn retirement benefits. In March 2020, Nancy will reach her FRA of 66 and be eligible for a full 50 percent spousal benefit based on George’s earnings record because he is already collecting retirement benefits. However, even though Nancy has reached her FRA, she will not be able to file solely for a spousal benefit and delay filing for her own retirement payments. If she files for benefits, she will be deemed to be filing for both benefits and she will be paid whichever is greater.

In addition, deemed filing will now immediately occur when you become eligible for either spousal or retirement benefits if you are already collecting one type of benefit. Under the prior law, deemed filing only occurred when you were actually filing for benefits. Consider this example: Julia files for

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retirement benefits at age 62, but she is not eligible for a spousal benefit because her spouse, Jack, has not yet filed for his retirement benefit. Two years later, Jack files for his retirement benefit. Under the old rules (that still apply to those born before January 1, 1954), there would be no deemed filing because Julia did not actually file for spousal benefits. Under the new rule, when Julia becomes eligible for spousal benefits at age 64, she will automatically be deemed to have filed for them.

BACK TO BASICS

Given the changes, most people will have to rely on traditional strategies that were used before “file and suspend” and “restricted application.” One could argue that the aforementioned changes do not impact the most valuable Social Security strategy, which includes increasing the size of your benefit payment by delaying its start. If you were eligible for a \$2,000 monthly benefit at age 66, you could increase your benefit to \$2,640 by waiting to age 70, since the payment increases by 8 percent per year.

Of course, there are several factors such as health, family genetics, retirement date, and whether the income is currently needed that come into play when making this decision. As there is no “once size fits all” solution, we recommend running benefit projections under various assumptions to determine the optimal social security income maximization strategy. As an enhancement to our comprehensive financial planning software, we recently purchased a Social Security income analyzer software that will allow us to assist our clients with determining the optimal strategy for their unique situation. We look forward to reviewing this with you at your annual meeting where applicable.

AROUND MCSHANE PARTNERS

CFA SOCIETY NC 2019 OUTLOOK DINNER

For the seventh year in a row, McShane Partners was proud to sponsor a table at the CFA Society of North Carolina's 19th Annual Forecast Dinner on January 8th. This is the premier networking event of the year, bringing together over 350 of North Carolina's leading investment professionals and key decision-makers.



Guest Speaker, Dr. Ed Yardeni, discussed his insights from his 40 years as an eminent Wall Street prognosticator to predictions on how Trump's bullish and bearish policies will play out.

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.

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.

COCKTAIL TIME IN CUBA

We would love for you to join us for a festive evening with cubanos, cocktails, and music from Eastcoast Entertainment's Orquestra Mayor Band.

Cocktails in Cuba is a Mint Museum Auxiliary event and will be held at the Palmer Building on Saturday, February 9th at 8:00 PM. Space is limited, Please let us know at your earliest convenience if you would like to attend.

MCSHANE PARTNERS SPONSORS ORANGE CRUSH

McShane Partners is proud to sponsor the YWCA Orange Crush swim team. The YWCA seeks to promote each swimmer's personal best in a team-oriented and fun environment.



FOURTH QUARTER 2018 ECONOMIC OVERVIEW

McShane Partners invites you to join us for our Fourth Quarter 2018 Economic Overview Webinar on Thursday February 28th at 10:00 AM. To register for the webinar, please click [here](#).

CONGRATULATIONS TO THOMAS MACK!

Thomas recently passed Level I of the Chartered Financial Analyst ("CFA") Program. The CFA charter is widely regarded as the highest professional standard in the investment management industry.



The CFA Program gives a strong understanding of advanced investment analysis and real-world portfolio management skills.

MCSHANE PARTNERS

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

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