MP McShane Partners

May 2020 Insights

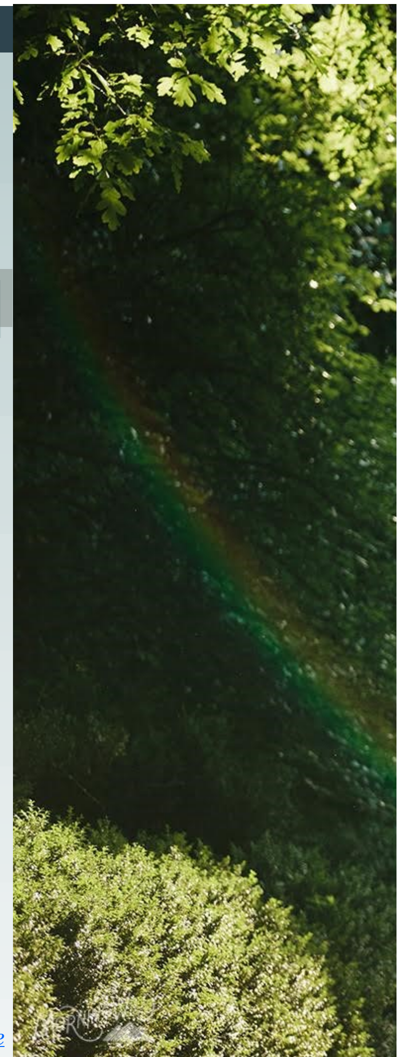
Investment Overview

Agility in a Time of Ambiguity

Our increasingly impatient world expedites everything, even in quarantine. Expectations of immediacy are at play everywhere, dampening humanity's ability to *think* versus *react*. The market hastened us into recession and, just as quickly, moved that risk to the rearview. From its peak on February 19th, the S&P 500® Index declined **-33.92%** to **2,237.40** on March 23rd, only to rebound **+26.79%** to **2,836.74** through April 24th. In other words, equities have performed a bull-to-bear-to-bull cycle in less than **±30 days**, while humanity continues to navigate and endure one of the most significant and widespread global pandemics in modern history, creating dual distresses on financial and physical security.

Only a few weeks ago, investors were contemplating socioeconomic scenarios similar to those of The Great Depression; now, they are lamenting lost opportunities to capitalize on the ephemeral market correction that was nearly impossible to exploit prudently and judiciously as fiduciaries. The juxtaposition of the *fear of loss* vs. the *fear of missing out* ("FOMO") represents the difficulty in managing assets where directions and outcomes are not only ambiguous but dramatically different and dichotomous.

As we assess the landscape following the whirlwind of the first quarter, we are left with two conclusions. First, all of the problems we highlighted prior to *Continued on next page*



Wealth Advisory Overview

The Roth Conversion — An Important 2020 Consideration

If you have a traditional Individual Retirement Account ("IRA"), at some point you may have considered converting to a Roth IRA. The conversion process allows individuals to move assets out of a traditional IRA, pay taxes on these funds at ordinary income tax rates, and move them to a Roth account where they will grow tax-free. For various reasons, 2020 may be an optimal year to consider a Roth conversion.

Reasons to consider a Roth conversion in 2020

- *CARES Act Defers Required Minimum Distribution (RMD) Requirement for 2020*

  The $2 trillion dollar Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") temporarily suspends the RMD requirement from Traditional IRAs and retirement plans. If you were required to take minimum distributions from your IRA in prior years and you meet certain requirements, you have the option of foregoing that distribution in 2020. Therefore, by not taking a distribution from your Traditional IRA in 2020 it is possible that you will be in a lower tax bracket, making a Roth IRA conversion particularly attractive.

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Points of Interest

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Agility in a Time of Ambiguity

the COVID-19 pandemic are still relevant; second, the risk-reward proposition of aggressively adding to equities at this time is not attractive given the negative fundamental outlook of our first conclusion regarding the prevailing problems, combined with less-than-favorable valuations.

"Bubbles are endemic to capitalism and human nature [...] People's animal spirits exceed their rational powers and they overcommit themselves, sometimes horribly so." - Alan Greenspan

Upside vs. Downside

The coronavirus landscape adjusts on a daily basis and reacting to fluid information is never wise; thus, Table I attempts to summarize data-dependent drivers that could dictate the trajectory of near-term market movements lower or higher over the coming months. Once assembled, categorized, and manifested, the ambiguity and potential potholes appear ominous. The detritus of the pandemic remains ambiguous and, in our opinion, currently underappreciated by market multiples.

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Table I: Upside/(Downside) Scenario Analysis

Market Retests Lows S&P 500® Index Falls to ±2,200 Implied Downside = **-21.3%**	Market Tests Highs S&P 500® Index Rallies to ±3,008 Implied Upside = **+7.6%**
• 1Q20 Earnings Data Revitalizes Coronavirus Uncertainty • Financial Stress from Egregious Debt Levels Boils Over • Small Business Working Capital Malaise Triggers Bankruptcies & Defaults • Delinquency Domino Effect Explodes due to Excess Leverage • Unknown Permanent Alterations to Consumer Behavior • Addition of ±$3.0 Trillion to Federal Debt/Deficit Hampers Future Stimulus	• Stimulus Proves Successful in Facilitating "Soft Landing" for U.S. Economy • Credit Market Stabilization Sustainable • No Relapse in Coronavirus Cases, Capping Collateral Damage

Source: McShane Partners - FactSet Research Systems, Inc.

Monthly Index Review
USD Total Return

Data as of April 30th 2020	April 2020	2020 YTD	2019	2018
S&P 500® Index	+12.82%	-9.29%	**+31.49%**	-4.38%
Dow Jones Industrial Average	+11.22%	-14.07%	+25.34%	-3.48%
NASDAQ Composite	**+15.49%**	-0.63%	**+36.69%**	-2.84%
Russell 2000	**+13.74%**	**-21.08%**	+25.52%	-11.01%
MSCI Emerging Markets	+9.18%	-16.55%	+18.88%	**-14.24%**
MSCI EAFE	+6.54%	-17.66%	+22.66%	-13.36%
Bloomberg Barclays U.S. Aggregate Bond Index	+1.78%	**+4.98%**	+8.72%	**+0.01%**

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More Expensive Than Before the Correction

In general, stocks appear more expensive *now* than *before* the market correction, during which time they were only attractively priced and trading below their long-term average multiples for a handful of trading days at the end of March. Chart I, below, tracks the forward-looking price-to-earnings ("PE NTM") multiple of the S&P 500® Index, and shows that the multiple is not only above the upper-end of its historic valuation range (i.e., the top dashed horizontal line of ±18.8x) but also above the ±19.1x multiple it was trading at *prior to* the correction. Logically, this would suggest that the current **±5.2%** valuation premium to the index-level multiple achieved at/during the market peak is pricing in a *better* economic situation/outlook over the next twelve months than it had been *prior to* the pandemic. Also, Chart I shows the relatively brief moment when valuations were reasonably attractive as the PE NTM multiple approached the lower-end of its historic valuation range (i.e., the bottom dashed horizontal line of ±12.9x). This was a matter of ±2-3 days where we furiously combed through individual companies looking for opportunities to upgrade portfolio-level positioning.

Debt, Debt, and More Debt

Given the level of uncertainty around the timing and appearance of resumed economic activity, we would argue that it does not make sense to aggressively add to equities because they appear expensive and are pricing in a sharp rebound in near-term economic activity (i.e., a "V-shaped" recovery). The counterpoint to this position is that the unprecedent amount of fiscal stimulus provided by the federal government will not only ensure the resumption of economic growth but accelerate it above the prior growth rate, which is a perfect segue to a review of the extravagant increase in government debt levels that were already disconcertingly lofty.

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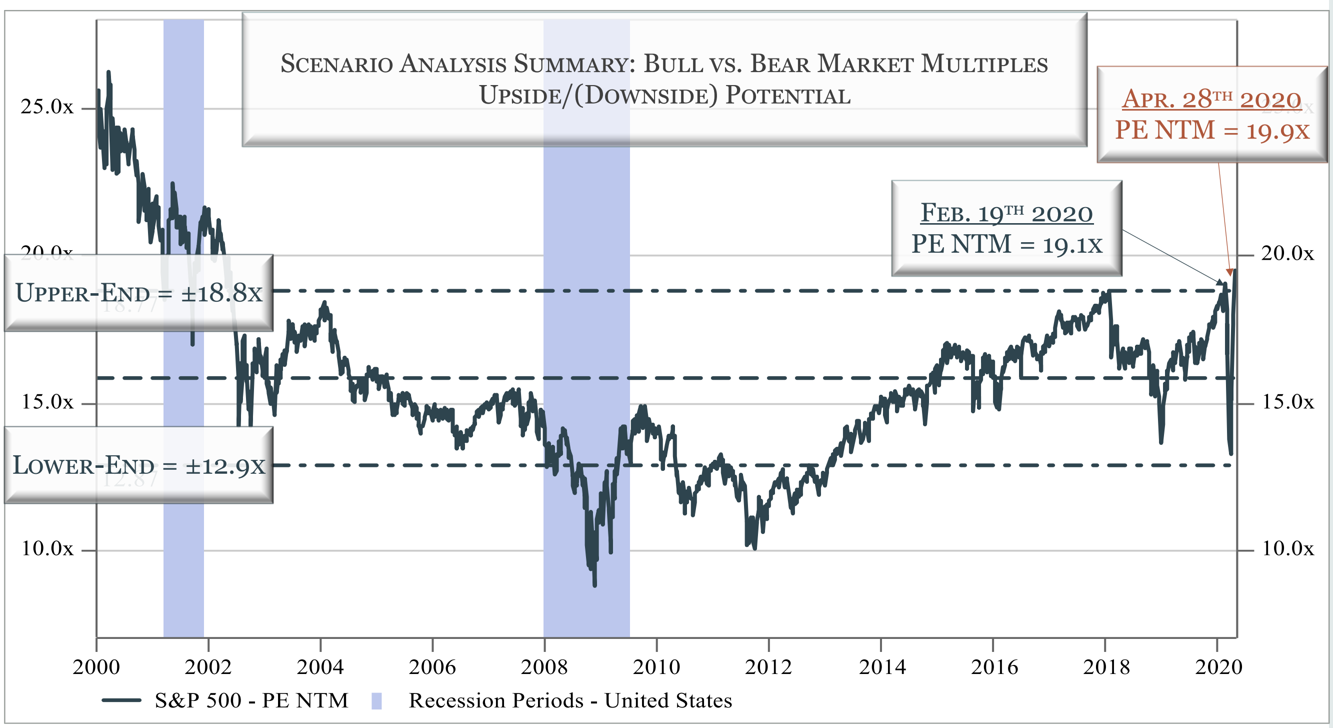
Chart I: Valuation Analysis - S&P 500® Index PE NTM



Source: McShane Partners - FactSet Research Systems, Inc.

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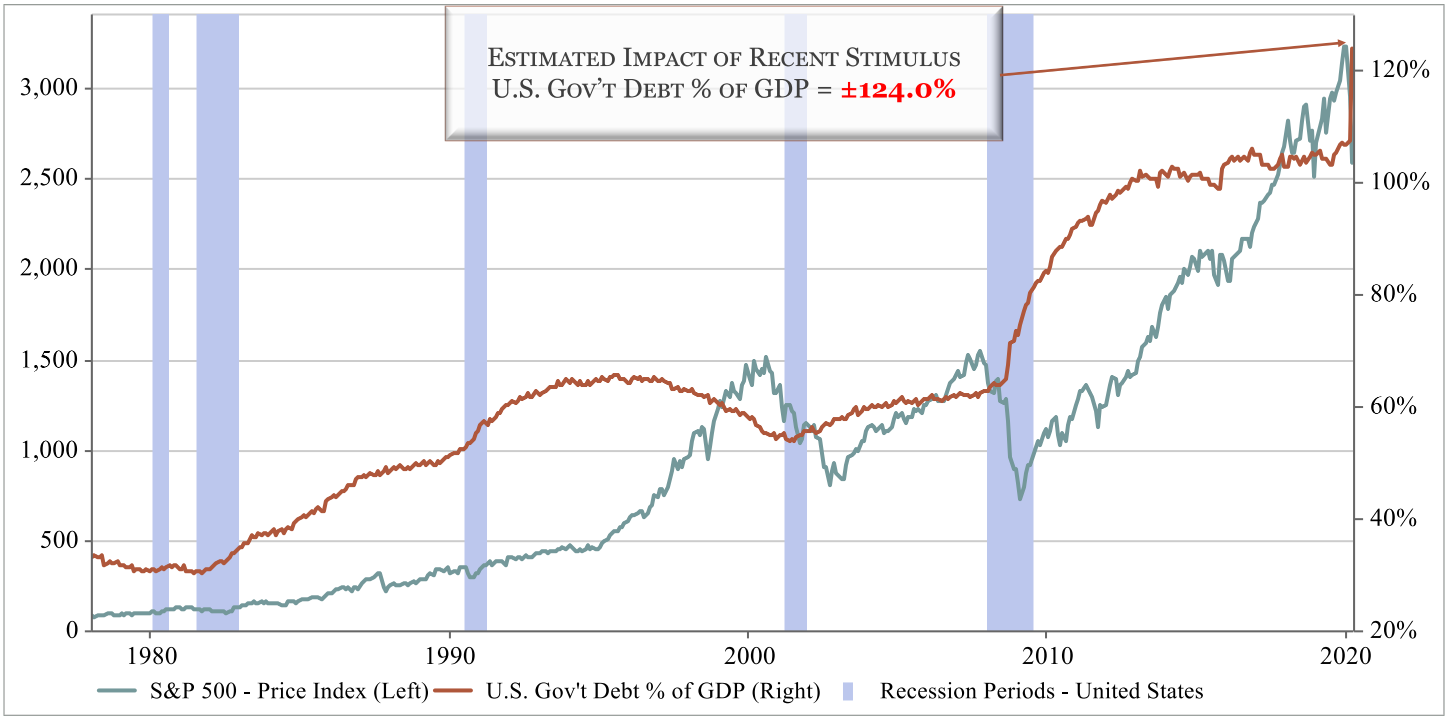
Chart II: U.S. Government Debt as % of GDP



Source: McShane Partners - FactSet Research Systems, Inc.

Above, Chart II adjusts U.S. government debt as a percentage of GDP for the ±**$3.0 trillion** in additional stimulus outlays over the past two months, resulting in a concomitant/corresponding increase in government debt to **±124% of GDP**. This would be the equivalent of a company with debt on its balance sheet that is **±22%** *greater than* the cash flow it generates during an assumed fiscal year. Given our focus on high-quality companies with pristine balance sheets, this is not an entity we would reasonably entertain investing in or adding to client investment portfolios. Essentially, stocks are *more expensive* than before and debt levels have *increased sharply* during a relatively short period of time characterized by heightened uncertainty surrounding the global pandemic weighing on economic activity around the world, and the momentum trade is taking the S&P 500® Index unconvincingly higher.

Positioning Portfolios Post-Pandemic

The rapidity of the bull-to-bear-to-bull cycle makes altering portfolio positioning irrelevant/extraneous at this point. Our long-term market outlook and valuation parameters remain exactly the same, if not slightly more cautious, than prior to the coronavirus correction. Essentially, we are closing in on what we view as the upper-bound of this market and are dangerously distant from the potential downside. The decision tree included in Chart III on the next page outlines the thought process pushing us to this conclusion. As indicated in the chart, we estimate potential downside of **-21.3%** vs. residual/incremental upside potential of **+7.6%** from current levels. Obviously, the risk-reward proposition is *not* attractive at this time, thus we do not anticipate adjusting cash levels downward or equity levels upward until risk is appropriately discounted. Asset selection remains important, but our first directive is to understand the amount of risk being priced into the market, and, right now, it appears high and, consequently, unattractive for long-term, diversified investment portfolios at this point.

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Chart III: Decision Tree

Source: McShane Partners - FactSet Research Systems, Inc.

Stock & Strategy Spotlight

Name	Ticker	2020 YTD
RMB Mendon Financial Long/Short Fund	RMBIX	**-61.67%**

Description & Investment Thesis

Earlier this month, the Investment Team had the opportunity to speak with Anton Schutz, President of Mendon Capital Advisors Corp. ("Mendon") and head portfolio manager of the RMB Mendon Financial Long/Short Fund ("the Fund"), regarding the recent underperformance of the Fund and, more broadly, to hear his thoughts, comments, and insights on how the recent equity market correction and dramatic developments across capital markets had affected or influenced any changes to his near-/intermediate-term investment outlook. Given the Fund's dedicated, sector-specific focus on Financials and its fundamental, valuation-driven overweight positioning in smaller-capitalization companies within Financials, the Fund's underperformance can be largely attributed to combined negative contribution from underlying sector- and size-related investment factors: for the first quarter of 2020 ("1Q20"), Financials returned **-31.92%**, while the Russell 2000 (e.g., small-cap equities) returned **-30.61%**. At the same time, the Fund's relatively modest short portfolio did little in the way of offsetting the negative impact from the sharp spike in volatility experienced throughout late-February and early-March, as the price/cost of adding or increasing short positions jumped in response to the dramatic sell-off across equity markets. When asked about his thoughts on attractive opportunities and positioning the Fund going forward given the surge in realized market volatility, Mr. Schutz responded that, based on current valuations and underlying fundamentals, the relative value of shorting even the lowest-quality names in the Fund's investable universe was unappealing from a risk-reward perspective. In that regard, Mr. Schutz brought to our attention the recent decision made by RMB Capital Management, LLC ("RMB") to reorganize the Fund into the existing long-only strategy that Mr. Schutz and his team at Mendon also manage: the RMB Mendon Financial Services Fund ("the Financial Services Fund"). As a result of this reorganization, current shareholders of the Fund will receive the same class of shares of the Financial Services Fund, which will carry a lower operating/management expense ratio but will be reclassified by the Investment Team from Hybrids to U.S. Equity given the long-only approach/strategy of the Financial Services Fund. Additional information regarding the reorganization can be found here: RMB Funds Supplement (March 26th 2020).

Wealth Advisory Overview

The Roth Conversion — An Important 2020 Consideration

- *Current Low Tax Rates are Likely to Go up in the Future*

  Most Roth IRA conversion analysis assumes that the federal income tax rates are going to remain at current levels for future years. However, given the current deficit and the new debt that has been added in the form of stimulus, it is highly probable that tax rates will go up in the future. In addition, the low tax rates of the Tax Cuts and Jobs Act are set to expire December 31, 2025.

- *Market Volatility May Present Unique Conversion Opportunities*

  Depressed asset values may provide a unique opportunity to transfer assets in-kind from a Traditional IRA to a Roth IRA. Taxes will be assessed on the lower values with the expectation that as values increase in the future, a portion of this appreciation will escape income taxation.

Advantages of a Conversion

- *Tax-Free Withdrawals*

  Future withdrawals from a Roth IRA are tax-free provided certain qualifications are met. These qualifications require distributions to be made after five years of the Roth IRA being established and funded, and that they occur on or after attaining age 59 ½. In the case of a conversion, five years must pass since the conversion.

- *No RMD's Required*

  There are no required minimum distributions for Roth IRAs during the account owner's lifetime. Therefore, individuals age 72 and older are not required to take any money from their Roth IRAs allowing the balance to grow tax-free.

- *Control of Tax Bracket*

  Roth withdrawals are tax free when withdrawn and therefore, they can supplement taxable income without bumping clients into a higher tax bracket. This lower income can be beneficial as it can minimize certain itemized deduction thresholds, as well as the amount of social security payments that are subject to taxation.

Additional Considerations

- *Will You Be in a Lower Tax Bracket in the Future?*

  If you think that you will be in a lower income tax bracket in retirement than you are while you are working, it may make sense to wait to convert. A conversion prior to retirement might cause you to pay higher taxes than you would if you were to withdraw assets from your traditional IRA during retirement. A more tax efficient strategy might include conversion opportunities in the years between retirement and prior to the time that RMDs will be required.

- *Paying Taxes on the Conversion*

  To make the most of a Roth conversion, the taxes should be paid outside of the IRA which will leave more assets in the Roth account to potentially grow tax-free. The federal tax on a Roth IRA conversion will be collected by the IRS with the rest of your income taxes due when you file your return for the year of the conversion. The ordinary income generated by a Roth IRA conversion generally can be offset by losses and deductions on your return during the same tax year.

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The Roth Conversion — An Important 2020 Consideration

- *Inherited IRA's*

  The SECURE Act, which took effect in 2020, eased some regulations but tightened rules considerably when it comes to inherited IRAs. Under the old rules, a child who inherited an IRA from a parent could take small distributions over their lifetime. The new law requires that all distributions be taken within a ten-year period which could potentially put beneficiaries in a higher tax bracket.

Converting an existing Traditional IRA or another retirement account to a Roth IRA can make sense in many different situations, but it is not for everyone. The value of this strategy depends on your unique situation, income, tax bracket, as well as the financial goals you are trying to accomplish. At McShane Partners, we are here to help you continue to evaluate your options and make the best decision for your situation.

Catching Up with: Daniel Hudspeth — Wealth Associate

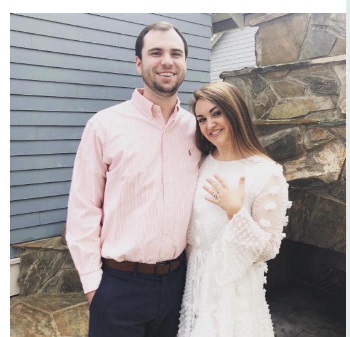
We have added several new team members over the course of the last year. Therefore, this is the first spotlight in a new series where we will feature a member of our team so that you can get to know them a little better – both personally and professionally. If you have been in the office within the last year, chances are you have had the opportunity to meet Daniel Hudspeth. Daniel joined the McShane Partners team in April 2019. In his role as a Wealth Associate, he assists the Wealth Advisory Team with all aspects of the financial planning process, as well as managing ongoing client activities. In addition to these responsibilities, Daniel is charged with implementing and maintaining new financial planning technology for the firm.

Daniel is a graduate of Winthrop University, where he earned a Bachelor of Science degree in Business Administration with concentrations in Financial Planning and Accounting. He is a Registered Investment Advisor Representative, an active member of the Financial Planning Association of Charlotte and is currently pursuing his CFP® designation.

Daniel is a native of Fort Mill, South Carolina. Before joining McShane Partners, Daniel worked with State Farm as an Account Manager. He has a passion for anything with wheels and enjoys restoring cars and motorcycles in his spare time, as well as spending time with his family, friends, and dog Millie.

Outside of work, Daniel recently celebrated a major life event—Marriage! He and his Fiancé Kara had originally planned their wedding for April 19th. However, with the issues surrounding the Coronavirus pandemic, the original wedding plans had to be placed on hold and they were married on April 5th in a ceremony that involved only their immediate family members. While a reception with family and friends has been postponed until further notice, the ceremony was a breath of fresh air as we all face this time of uncertainty.

Daniel and Kara recently purchased a home in the Riverwalk community located in Rock Hill, where they will continue to reside. Kara works as a School Counselor at a local middle school and enjoys trips to the beach, biking, and being outdoors.



"I find a lot of happiness in helping friends and family with financial advice, and I am excited to be in an industry where I'm challenged to reliably provide the most up-to-date information to help clients."

Tax Update: Tax Treatment of Stimulus Payments

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

As Congress continues to pass legislation at a breakneck pace, the Internal Revenue Service is under extreme pressure to address the tax implications of the various provisions. Addressing the tax treatment of legislative directives is generally challenging at best, with frequent disagreements about what was intended and how to translate it across the U.S. population of taxpayers. Doing that work while under quarantine, and during tax filing season, is a monumental task.

In this month's newsletter we will briefly address the taxation of stimulus payments. U.S. taxpayers are taxed on income "from whatever source derived". Generally, that would include loans that are forgiven, as well as amounts received that are not considered the reduction of a tax liability. The good news for recipients of the stimulus money is that these amounts are being treated as an advance payment of a new credit. The new federal tax credit will not reduce your ability to claim deductions on your 2020 return and it will not be included in your federal taxable income. Since most states begin with your federal taxable income, it is likely that the stimulus payments will not be subject to state income taxes.

Correspondingly, the Tax legislation that created the Paycheck Protection Program, which establishes "loans" for business applicants and includes a forgiveness provision, is also intended to be tax free. The loans are only forgiven if the funds are used for specified expenditures, and unfortunately the rules around the loan forgiveness were not fully addressed in the legislation. One question that has not been settled is whether expenses paid with the funds will be deductible for tax purposes. Typically, expenses paid with tax exempt income are disallowed from reducing taxable income. PPP recipients should stay tuned and keep up with the changing tax landscape as more guidance becomes available.

Updated Federal & State Tax Deadlines Summary

Form	New Due Date	Will Interest Apply?	Will Penalties apply?	Action Needed
2019 Federal Income Tax Return	July 15, 2020	No	No	None
2019 IRA/HSA Contribution	July 15, 2020	No	No	None
2020 Federal First Quarter Estimated Tax Payment	July 15, 2020	No	No	None
2020 Federal Second Quarter estimated tax payment	July 15, 2020	No	No	None
2019 North Carolina Income Tax Return	July 15, 2020	Yes*	No	None
2020 NC First Quarter Estimated Tax Payment	April 15, 2020	Yes*	No	The only penalty for late payment is an interest charge.
2020 NC Second Quarter Estimated Tax Payment	June 15, 2020	Yes*	No	The only penalty for late payment is an interest charge.
2019 South Carolina Income Tax Return	July 15, 2020**	No	No	None
2020 SC First Quarter Estimated Tax Payment	July 15, 2020**	No	No	None
2020 SC Second Quarter Estimated Tax Payment	July 15, 2020**	No	No	None

** Interest will apply to amounts due from the original due date until the time of payment.*
*** South Carolina originally extended due dates until June 1. They subsequently aligned with the federal deadline for income tax deadlines.*

NextGen: Why Do You Need an Emergency Fund?

Ryan Vaudrin, CFP®
Wealth Advisor

As we are now experiencing, it can be difficult to predict future events that may affect our everyday lives. An emergency fund is money that is set aside to cover large unexpected expenses that can result from unemployment, a major repair to your home or car, or any other necessary unplanned expense. Creating an emergency fund is a critical first step in building a strong foundation for a healthy financial future because it can reduce the potential for unwanted debt, as well as serve as a great stress reliever knowing that funds are easily accessible as needed.

How much you have in your emergency fund will depend on your personal circumstances, however in general it should contain enough money to cover between three and six months' worth of expenses. To start building an emergency fund, it is important that you start with a budget and stick to it. Having a budget will highlight how much can be saved, along with how much you should ultimately have in your emergency fund. Within your budget, add a monthly savings goal and direct those funds to a separate account that is easily accessible.

Individuals should consider building an emergency fund before investing in more-volatile investment vehicles such as stocks. Whereas stocks offer greater long-term growth potential, their value can suddenly decrease in the event of an economic downturn. While storing cash in an FDIC-insured bank account may be the safest approach, there are other relatively secure ways to save that offer greater interest-earning potential. These include money market accounts or no-penalty certificates of deposit (CDs), which do not charge a fee if you need to pull your money out before the maturity date. The main objective is to have quick accessibility of these funds. After your emergency fund goal has been met, future savings can be allocated to investment strategies for longer term goals.

Senior Planning: Caring For Seniors in the Midst of COVID-19

Lorri Tomlin, FPQP™
Wealth Advisor

These are very worrisome times for everyone but concern for our senior population is particularly heightened due to their increased susceptibility to the Covid-19 virus and its potentially fatal consequences. In addition, seniors in retirement communities and nursing facilities are particularly vulnerable as the death toll tops 10,000 at these facilities according to a recent Wall Street Journal article. Because of the increased risk, they have also become more isolated due to restrictive visiting policies. While these restrictions help protect their physical health, it makes it more difficult for those of us who care for them to stay in touch, which is vitally important for their mental and emotional health.

At McShane Partners, our clients are like family. We like to stay in touch with them, especially those who may not have a lot of family close by or no family at all. Recently, I personally had to reach out to a facility because I had been unable to contact a client. They were able to notify her that I was trying to reach her, and it turns out that she had fallen and broken a hip. After a successful surgery, she was temporarily relocated to the rehabilitation section of the retirement community. She was so grateful for the call and assured me that she was in good hands and promised to let me know if she needed anything. I hope it helped for her to know that someone was thinking about her!

In this time of "social distancing" I think we all have become more creative regarding our methods of communication. Technology has been a tremendous factor in helping us all stay connected. However, many seniors struggle with technology and may be left out of our new virtual communication methods. Remember that sometimes an old-fashioned phone call or handwritten note can brighten the day for a friend or relative who may be lonely or even a little frightened during these difficult times.

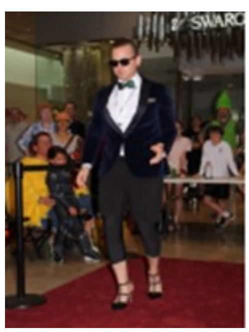
Around McShane Partners

Dress For Success Stiletto Swagger

Why would Elliott and Corey strap on a pair of high-heeled shoes and swagger around home then let someone record it? Have they gone "stay-at-home" stir-crazy? Maybe a little, but the real answer is simple: They are volunteering to "Raise the Heel" for women for [Dress for Success Charlotte] by participating in this year's "virtual" **Stiletto Swagger.**

Corey & Elliott with Miss USA Cheslie Kryst

Dress for Success Charlotte provides job preparedness, job acquisition, employment retention, financial education, and career advancement services to nearly 800 women annually. These are challenging times for all of us, and that is especially true for the women that Dress for Success Charlotte serves, many of whom are among the most economically vulnerable. Right now, the most crucial need is financial resources so that the organization can continue delivering workforce development programming digitally, and to prepare for the surge in demand for services when its doors re-open.



Elliott Van Ness

If you would like to make a donation to their campaign, you can do so for Elliott here: https://charity.gofundme.com/o/en/campaign/elliott-van-ness1 and for Corey here https://charity.gofundme.com/o/en/campaign/corey-meyer1

Corey Meyer

A $25 donation gives one woman unlimited access to the Career Center for an entire month, while $500 gives one women access to job preparation, job acquisition, financial education and employment retention programs for an entire year.

The virtual competition will be held on **Saturday, June 6th.** Awards will be given for Top Fundraiser, Best Swagger (Elliott took this top prize in 2019), Best in Show, and the infamous Bless His Heart award. If you are interested in watching the competition, visit https://charlotte.dressforsuccess.org/get-involved/events/stiletto-swagger/. We thank you in advance for your consideration and generosity!

Virtual Happy Hour

McShane Partners recently hosted a "virtual wine tasting" for some of our business colleagues at Sodoma Law. Meredith Mullins and her team at Mere's Wine and Cheese Shop in Dilworth led us through a virtual wine tasting over the web and we all learned something about Rosé! While we all struggle to maintain a sense of community and connection, it was a great break to get together and see familiar faces. We plan to continue to support Mere's and our friends and clients with upcoming events!

Happy Birthday!

The McShane Partners team would like to wish our very own Becky Hoover Happy Birthday! Becky will celebrate her birthday May 1st and we hope that it's a great one!

McShane Partners

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

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