

### INVESTMENT OVERVIEW

#### EYE ON UNEMPLOMENT

Unemployment data is the quintessential economic metric maniacally monitored by politicians, pedestrians and pundits, given its broad applicability and relatability. Ironically, positive trends in unemployment (more people working) can actually be a contrarian indicator for the market as extremely low unemployment rates, currently 3.8% (the trough of 3.7% in October of 2018 was the lowest since 1969), suggests a tight labor market indicating higher wage costs for corporations and percolating inflation forcing an interest rate increase. Both of which portend a deceleration in growth as the economy becomes resource constrained forcing a peak in corporate margins and a trough in interest rates.

Over the past five years, we have closely tracked the labor market supply and demand dynamic as a leading indicator for inflation and deceleration in GDP growth. Alongside the economy and the bull market this metric is entering the last act after maturing nicely since 2014 when we first noted the transition to a supply constrained labor market. Given the volatility in the market defined by a powerful New Year's rally off of the Christmas Eve bottom characterized by quizzical asset class performance (bonds and equities moving in tandem) and poor technical support (low volume, lack of cyclical participation and constrained breadth), a review of

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### WEALTH ADVISORY OVERVIEW

#### SPRING CLEANING WITH MCSHANE PARTNERS

Spring has sprung! As you begin to tackle your spring cleaning, an important area that you may want to consider is the "file cabinet" full of your tax and financial documents. This can be a confusing and daunting exercise as individuals often do not understand what can be purged, as well as when those items can be purged. Here are a few pointers to assist with understanding the required timeframe in which tax and financial information should be retained, as well as best practices to be employed as you proceed with your spring cleaning.

#### METHOD TO THE MADNESS

It is no longer necessary to retain paper copies of all financial documentation. However, it is important that you do not purge important files. For this reason, we feel that a best practice includes sorting your paperwork into several categories as follows:

- Tax returns
- Tax return supporting documentation
- Account statements
- Medical receipts/statements
- Miscellaneous receipts and forms

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### INVESTMENT TEAM

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### SPECIAL POINTS OF INTEREST

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

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unemployment as the underpinning of economic health and inflation seems timely to analyze the remaining economic capacity, trends in inflation and historic patterns surrounding prior recessions.

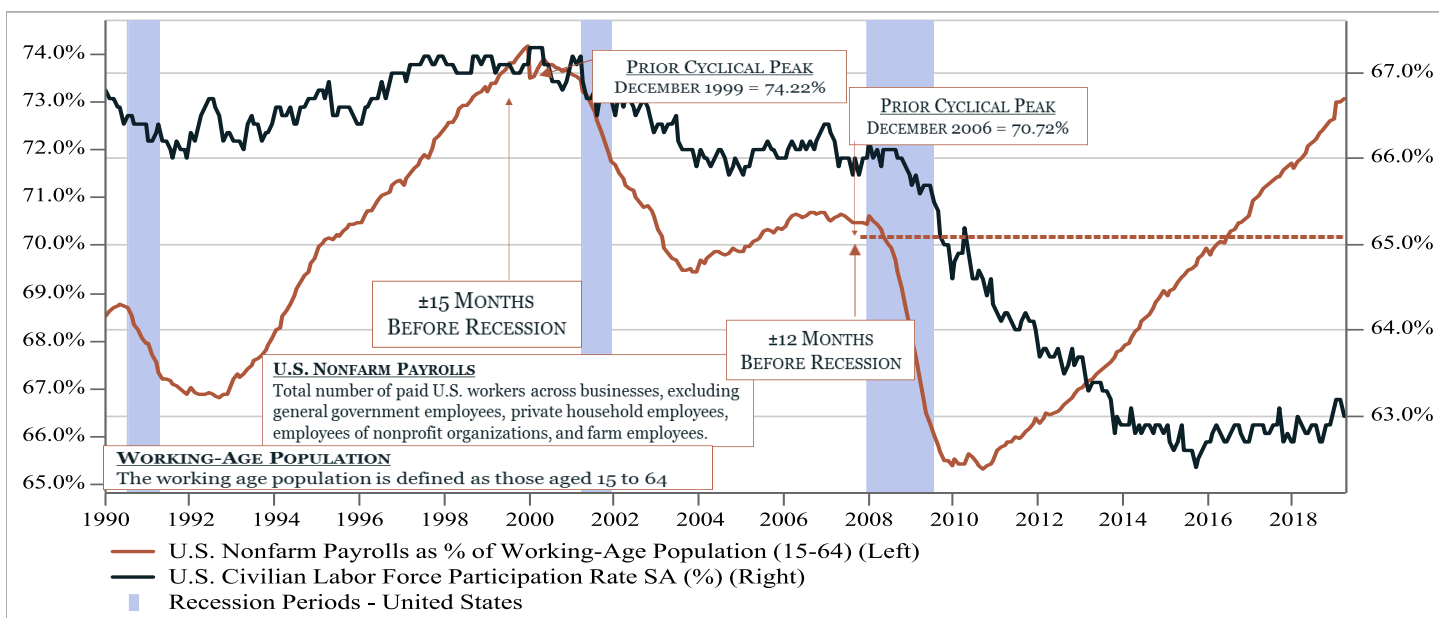
WHEN DEMAND OUTPACES SUPPLY

The first step in understanding the labor market is to define the size and composition of the market. Given the entire population is not actively employable, the working age population, defined as individuals 15-64, represents the supply of potential employees. To determine the idle or available employees looking for employment, one must look at the total working age population minus the non-farm payrolls as non-farm payrolls serve as a proxy for the number of people employed. With non-farm payrolls creeping up the supply of available, employable people is shrinking.

Below is a chart obviously indicating a robust payrolls scenario where US nonfarm payrolls as a percentage of the working age population (red line) has surpassed the prior cyclical peak and is approaching the level seen during one of the most competitive labor markets of all time (the Internet Bubble). This metric is used to gauge the number of people that CAN work that ARE working; so it suggests that most of the population that is capable and

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CHART I: LABOR MARKET SUPPLY/DEMAND DYNAMICS



Source: McShane Partners - FactSet Research Systems, Inc.

MONTHLY INDEX REVIEW  
USD TOTAL RETURN

DATA AS OF APRIL 30 <sup>TH</sup> 2018	APRIL 2019	2019 YTD	2018	2017
S&P 500®	+4.05%	+18.25%	-4.05%	+21.83%
Dow Jones Industrial Average	+2.66%	+14.79%	-3.48%	+28.11%
NASDAQ Composite	+4.77%	+22.38%	-2.84%	+29.64
Russell 2000	+3.40%	+18.48%	-11.01%	+14.65%
MSCI Emerging Markets	+2.12%	+12.91%	-14.24%	+37.75%
MSCI EAFE	+2.91%	+13.33%	-13.36%	+25.26%
Bloomberg Barclays U.S. Aggregate Bond Index	+0.03%	+2.97%	+0.01%	+3.54%

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inclined to work is working, consequently leaving very few idle labors to hire. Ironically, we have made performance comparisons of this economic cycle to the Internet Bubble and unemployment seems yet another analogous condition.

**UNDERSTANDING DEMAND FOR LABOR EMPLOYEE**

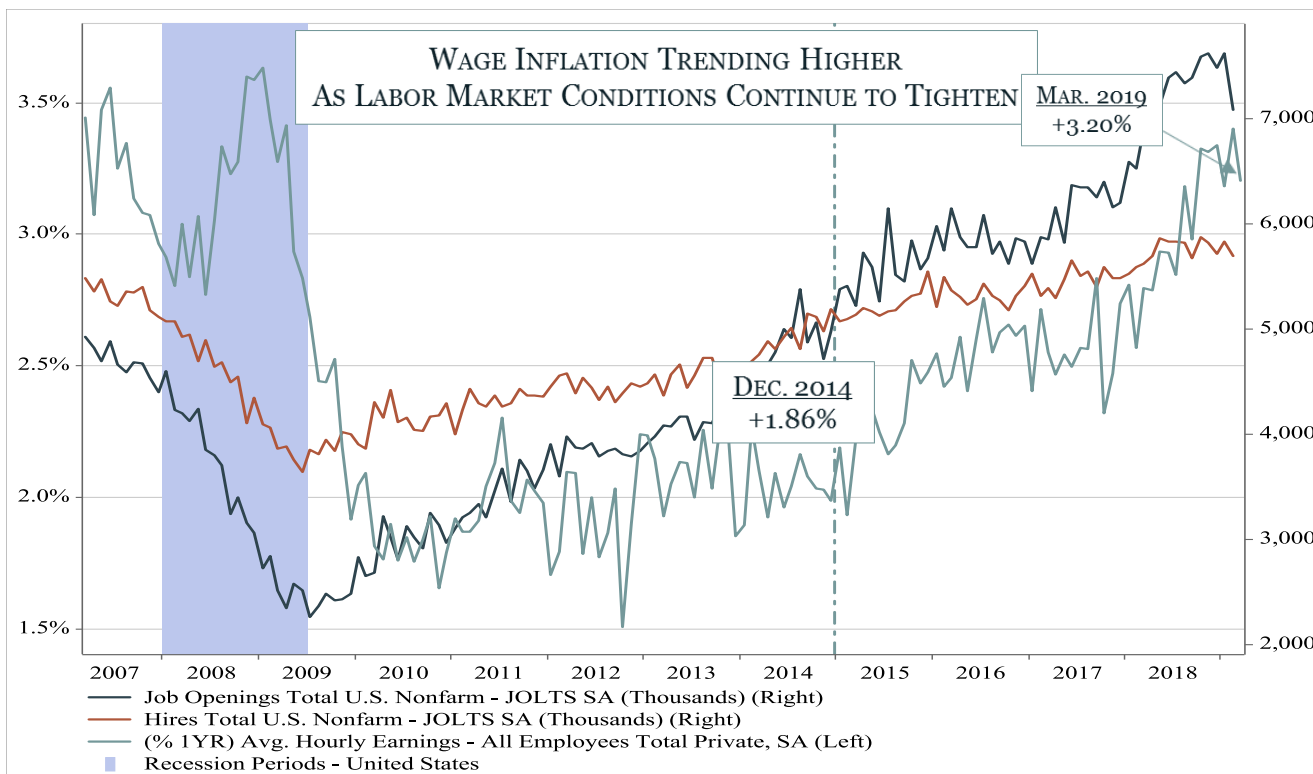
A good methodology for determining demand is to review total job openings reported by the Job Opening and Labor Turnover Survey (JOLTS). Given the non-farm payrolls data suggest an increasingly tight supply of labor combined with sustained healthy demand, a competitive hiring environment where employers are forced to incur heightened costs in the form of rising wages in order to attract talent is forming.

In 2014, we highlighted a percolating supply/demand imbalance in the labor market as defined by a mismatch in the job openings versus hires. As can be seen in Chart II (below) the number of openings (dark green line) began to consistently exceed the number of hires (orange line) indicating that employers are hiring fewer employees than the job postings would suggest they need. As soon as a notable lag in hiring manifested, wage inflation began to accelerate with growth reaching almost 3.5% versus 1.9% for the CPI (Consumer Price Index). We view wage inflation as a leading indicator for overall inflation which has heightened our concern over the potential for an unanticipated creep in inflation while the Federal Reserve has halted tightening interest rates.

Given the import of employment dynamics in the economic cycle, looking at trends over multiple cycles can illuminate patterns. The temporary staffing market is often a powerful leading indicator (data point that has predictive power) for the economy and consistently coincides with inflection points in the market.

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**CHART II: WAGE INFLATION**



Source: McShane Partners - FactSet Research Systems, Inc.

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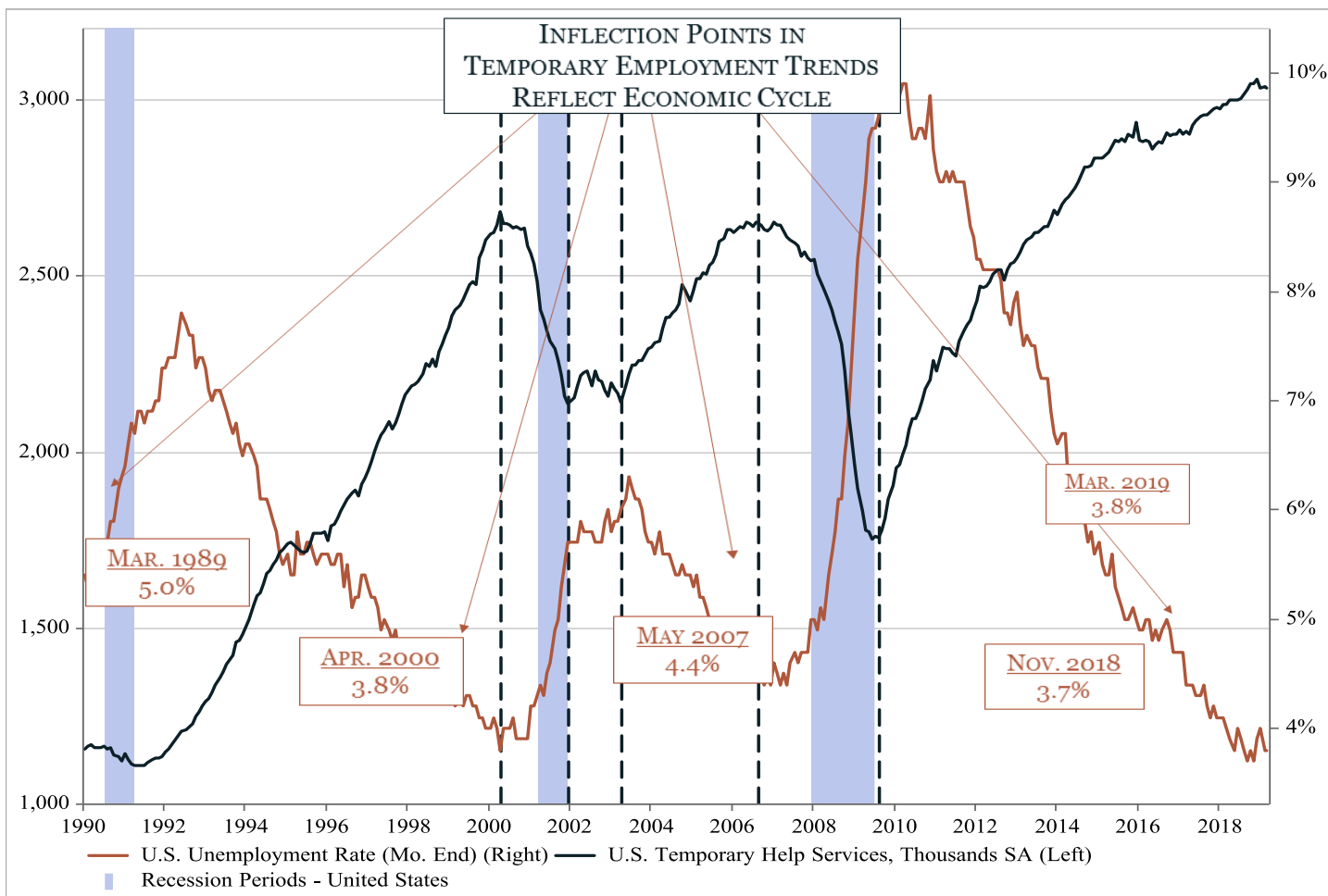
Chart III (below) tracks the temporary market (notated as US Temporary Services with a corresponding dark line). As employees tend to lean on temporary employs as demand picks up but prior to feeling confident enough to make permanent hires, the temporary market often leads out of a recession as you can see by the aforementioned dark line putting in a solid bottom at the end of each recessionary period. The prior three recessions are denoted by vertical light blue columns on the chart.

Another repeating pattern is the inverse relationship between the unemployment rate (orange line) and the temporary staffing data. As temporary labor peaks the unemployment rate troughs. The unemployment rate is a lagging indicator which means that when it appears the most robust, in this case, at a low, the economy is normally peaking and on the verge of a downturn driven by capacity constraints inducing inflation and corresponding interest rate tightening to manage euphoric valuations and expected inflation.

Although reported economic data remains tolerable and inflation, according to popular metrics (CPI, etc.), appears constrained, our delve into more obscure data and a contrarian interpretation of common data leads us to consider the unpopular potential for unexpected inflation and a peaking economy based on a tight and mature labor market. We will explore this topic and many others in greater detail on our regularly scheduled Economic Overview call.

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CHART III: WHAT SPARKS NEXT RECESSION - UNEMPLOYMENT IN PRIOR RECESSIONS



Source: McShane Partners & FactSet Research Systems, Inc.

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**FIRST QUARTER 2019 ECONOMIC OVERVIEW WEBINAR**

McShane Partners invites you to join us for our First Quarter 2019 Economic Overview Webinar on **Tuesday, May 21<sup>st</sup> at 10:00 AM EST.**

To register for the webinar, please click [here](#).

If you are unable to attend the live webinar, you may view a recording on our website by visiting [www.mcshanepartners.com](http://www.mcshanepartners.com).

The webinar will be posted to the website by May 23<sup>rd</sup> under the “Featured News” section.

*“An investment in knowledge pays the best interest.”*

*- Benjamin Franklin*

**STOCK & STRATEGY SPOTLIGHT**

NAME	TICKER	2019 YTD
Alphabet, Inc.	GOOGL	<b>12.28%</b>

**DESCRIPTION & INVESTMENT THESIS**

After the closing bell on April 29th, Alphabet, Inc. (“Alphabet”) – parent company of search engine giant Google – delivered a “mixed” earnings report for the first quarter of 2019 (“1Q19”), with certain key financial metrics coming in below consensus estimates and overshadowing relatively healthy margins and strong bottom-line results. In particular, total year-over-year (“YoY”) revenue growth slowed to +16.7% in 1Q19 vs. +25.9% in the first quarter of 2018 (“1Q18”), primarily attributable to a meaningful deceleration in segment-level revenue growth in Advertising, which slowed to +15.3% YoY in 1Q19 vs. +24.4% YoY in 1Q18. While the company still generated mid-double-digit revenue growth, analysts/investors were quick to highlight that this marked the first quarter of sub-20.0% YoY revenue growth at Alphabet since the first quarter of 2015 (“1Q15”). Moreover, a lack of insight and/or clarification regarding the underlying issues and headwinds weighing on revenue growth in 1Q19 failed to reassure analysts and investors that these one-time, transitory headwinds were not indicative of higher competition and/or structural challenges in Alphabet’s primary businesses.

On a more positive note, Alphabet did generate better-than-expected adjusted earnings per share (“EPS”) of ±\$11.90 in 1Q19 vs. FactSet estimates of ±\$10.60, which include/reflect adjustments made for the ±\$1.7 billion fine imposed on Alphabet by the European Commission (“EC”) in late-March 2019. The bottom-line beat was the result of improved company-level cost controls, including an incremental decline in total traffic acquisition costs (“TAC”) as a percentage of Advertising revenues, which is a key metric of segment-level profitability. For analysts/investors, the negatives outweighed the positives, and shares of Alphabet suffered their worst single-day sell-off since October 2012, with the company’s class A shares (“GOOGL”) and class C shares (“GOOG”) falling -7.5% and -7.7%, respectively, during the final trading day of April.

As long-term investors in GOOGL, the Investment Team took advantage of the reactionary, sentiment-driven sell-off in the stock to deploy incremental excess cash by initiating positions for applicable client portfolios. Given the company’s high-quality balance sheet and impressive operational track record, the Investment Team believes that shares of GOOGL are increasingly attractive at current valuation levels vs. its large-cap U.S. information technology peer group and would look to reevaluate portfolio-level positioning as shares stabilize and approach oversold conditions.

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**SPRING CLEANING WITH MCSHANE PARTNERS CONTINUED**

**METHOD TO THE MADNESS**

Once the paperwork is separated into the above categories, it may be easier to determine how each group should be handled. In addition, organizing your financial records by year can assist you in finding documentation when needed, as well as simplify your ability to cull the outdated files each year.

**WHAT TO KEEP**

Tax returns and the supporting documentation used to prepare the returns are most often the items that are questioned by the IRS. In general, we recommend that you retain tax returns together with all supporting documentation, such as Form W-2s, Form 1099s, Schedule K-1s, rental income details, records related to itemized deductions, and any other documentation that may apply to the preparation of the tax return for a period of seven years.

The IRS has a three year “statute of limitations” to audit income tax returns. This statute extends to the latter of three years from the date a tax return is filed, or its due date. For example, a 2018 individual income tax return filed on March 15, 2019 can be selected for audit as late as April 15, 2022. The statute of limitations does not apply if more than 25% of your income was not reported, if you did not file a tax return, or if a fraudulent return was filed.

There are also a few tax records that should be retained indefinitely. These include any records that provide support for your purchase price and/or basis of an asset such as an investment security, home, or rental property purchase, etc. This information should be retained until the limitation expires for the year in which the property was disposed. For assets that were purchased and held in your accounts while a client of McShane Partners, we will track this information for you. Additionally, gift tax returns are another item that should be retained indefinitely.

For non-tax related records, no holding period is required unless that information will need to be accessed for other purposes, such as an insurance policy that is currently in-force. Account statements can often monopolize a significant portion of our financial files and appear more overwhelming than they should be. Where feasible, we

recommend electronic delivery of statements. Electronic delivery allows statements to be viewed easily from your account’s online access for multiple years. In addition, electronic statements are better for the environment and will make next year’s spring cleaning a little easier. If you have elected to receive the delivery of your statements in hard copy, a best practice would include retaining copies for one year and then shredding thereafter if no issues are discovered.

**SCANNING TIPS**

If you would prefer to retain your records for longer than the recommended timeframe, scanning services might be an ideal option. Scanning services are available at various different business locations including FedEx, Office Depot, etc. These providers will scan in all paper copies to electronic storage devices and the cost is usually pretty reasonable. The electronic storage device can then be easily stored in a bank safe deposit box or a fireproof safe. Saving documents to an electronic storage device may reduce the stress of worrying about tossing important documents just in case they are needed for some future purpose.

**SHREDDING TIPS**

To minimize the risk of identity theft, we do not recommend that you toss personal files in the trash. It is important that all documents be disposed of using a shredder. You are also welcome to drop them off at our office and we will dispose of them in a secure and environmentally conscious way using our contracted commercial shredding company.

As you begin your spring cleaning, remember that we are here to help. How long you want to retain a document ultimately depends on your personal preferences and your situation. Please let us know if you have questions or concerns and we will be happy to address those on an individual basis. Happy Cleaning!

## AROUND MCSHANE PARTNERS

### MCSHANE PARTNERS SUPPORTS ROOM TO BLOOM

McShane Partners and guests attended the Mint Museum Auxiliary Spring Symposium featuring Nina Campbell. Nina is one of the foremost interior designers of today, her fifty-year career exemplifies the best of English interior design. The Spring Symposium was held at the Charlotte Country Club on Wednesday, April 3<sup>rd</sup>.



### MCSHANE PARTNERS SPONSORS SEED20

McShane Partners was honored to sponsor SEED20 on March 25th at the Knight Theater. SEED20 is a program for nonprofit entrepreneurs, it was created by [Social Venture Partners \(“SVP”\)](#). The annual SEED20 program identifies, highlights, and connects the community to our region’s most innovative ideas for tackling pressing social challenges.



These innovations can be developed by the following: An individual or start up with a well-formed idea; An emerging nonprofit; A well-established nonprofit with a new program.

Each year, over the course of two months, a class of twenty nonprofit participants receive training, coaching, feedback, and mentoring on how to succinctly and powerfully tell their story – who they are and why they matter. These efforts culminate in SEED20 OnStage: a high-energy event where ten members of the class compete to win cash for their non-profit.

### FREEDOM SCHOOL PARTNERS’ 16<sup>th</sup> ANNUAL SPRING INTO SUMMER EVENT

On April 25th we sponsored the Freedom School Partners’ annual event “Spring into Summer” at the Booth Playhouse at the Blumenthal Performing Arts Center. Freedom School Partners promotes the long-term success of children by preventing summer learning loss through igniting a passion for reading and inspiring a love of learning. The McShane Partners Team attended to show our support for the organization, which has been a long-term focus of our philanthropic efforts over the years.



### CHARLOTTE KNIGHTS

McShane Partners and guests enjoyed a beautiful Spring night out at the ballpark!

### WELCOME COREY MEYER & DANIEL HUDSPETH

We are thrilled to welcome two new employees to our Wealth Advisory team. Corey Meyer is originally from Savannah, Georgia. Corey graduated from Hampden-Sydney College with a major in Business & Economics and a minor in Military Leadership & National Security Studies. In his spare time, Corey enjoys spending time outdoors with his family, friends and dog Ranger.

Daniel is a South Carolina native and currently lives in Rock Hill. Daniel graduated from Winthrop University from the College of Business Administration with a concentration in Financial Planning & Accounting. In his spare time, Daniel enjoys spending time with friends and the outdoors.

### MCSHANE PARTNERS

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

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