

### INVESTMENT OVERVIEW

#### BACK ON THE EQUITY BANDWAGON

After a fleeting decline in equity prices at the end of 2018, investors appear to have abandoned apprehension in favor of exuberance with consumer confidence resuming its ascension towards peak levels. Consumers and retail investors, often considered to be *less* sophisticated than institutional investors, tend to position portfolios more aggressively through increased equity allocations at precisely the time that the market peaks, while reducing equity allocations with terrifying predictability at the bottom of the market. For this reason, consumer behavior is a powerful contra indicator that actually suggests the market will contradict consumer expectations. For this reason, it is worthwhile to track not only consumer sentiment but also shifts in the aggregate. Given retail (i.e., consumer) investors are often the last group of investors to increase equity allocations, an understanding of how much retail cash remains un-invested has predicative power. When cash levels approach cycle lows it can indicate scarcity in incremental purchasing power to drive the market higher. At this point, we find the exuberance and anemic cash levels of the retail investor concerning for further market momentum.

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### WEALTH ADVISORY OVERVIEW

#### THE PROS & CONS OF REVOCABLE LIVING TRUSTS

Many attorneys and financial advisors recommend establishing a revocable living trust (“RLT”) as part of an estate plan. In an RLT, you can serve as trustee and fund it by retitling certain accounts and assets into the name of the trust. If properly written, the RLT document allows you to have full control over those assets during your lifetime. At your death, the trust becomes irrevocable and any assets retained by the trust pass free of probate to the beneficiaries according to the trust agreement.

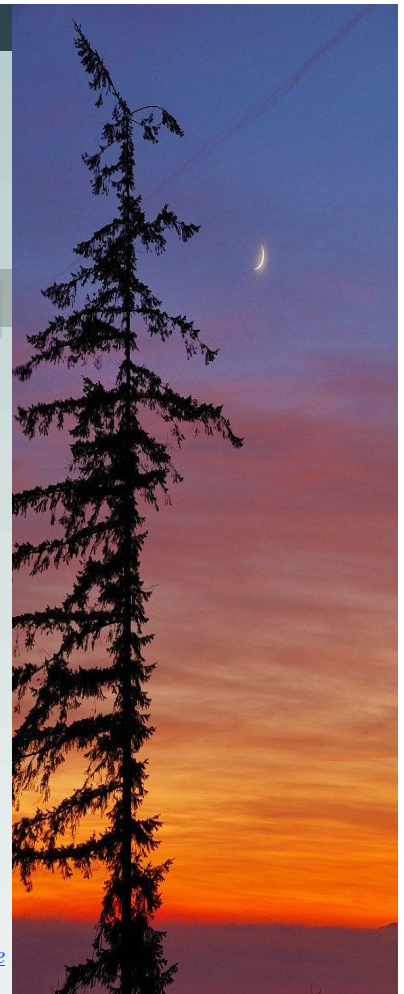
#### **PROS**

##### **AVOIDANCE OF PROBATE**

One of the most popular reasons to establish an RLT is to avoid probate. Probate is the legal process used to determine that a will is valid. It can be a lengthy process that may take 9-12 months to complete. This means, for example, that your bank account may be frozen until it can be distributed by a probate judge. In addition, the probate process can be expensive depending on the laws of each state. In North Carolina, the fees are relatively modest. The fee for estates in excess of \$10,000 is \$40.00 plus \$4.00 per each \$1,000 of personal property (i.e., not real estate) held by the estate. The fees are capped at \$6,000.

If establishing a RLT sounds like too much trouble, you can also use a transfer on death (“TOD”) arrangement to pass certain assets to your heirs free of probate. You can implement a TOD arrangement by simply designating on a

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### SPECIAL POINTS OF INTEREST

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

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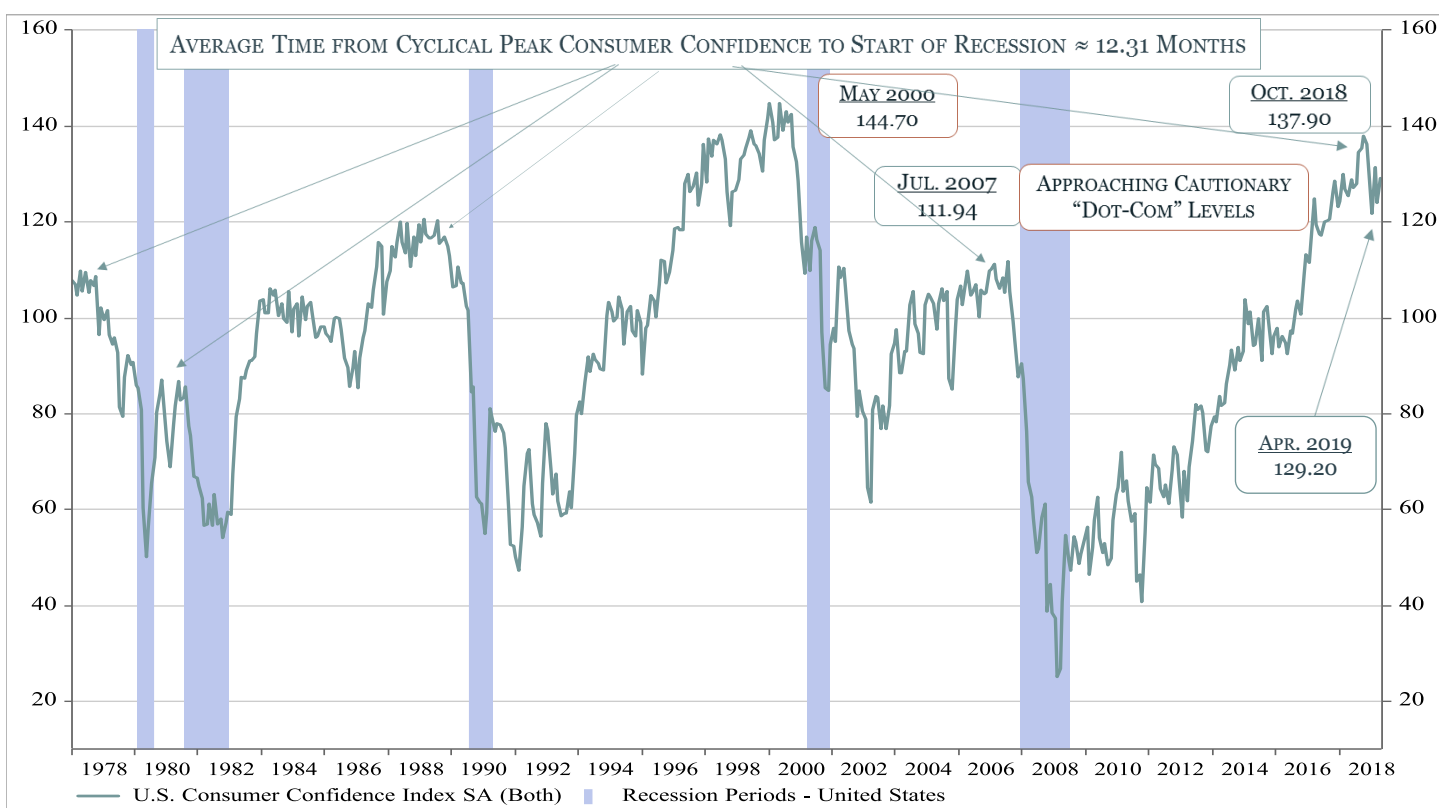
BACK ON THE EQUITY BANDWAGON

A popular and established gauge of consumer sentiment and psychology is the U.S. Consumer Confidence Index, which is tracked below over multiple recessionary periods (indicated by light blue columns). Notably, the line tracking consumer confidence tends to peak on average twelve months prior to a recession. Prior to the fourth quarter correction, consumer confidence reached the highest level since the euphoria surrounding the “dot com” bubble superseding the level recorded during the peak of the last market cycle where ebullient consumers rode a housing market bubble to the largest market crash since the Great Depression. Happiness is contagious, but speculation is addictive and eventually toxic.

Despite a turbulent end to 2018, a bounce back in the equity market combined with strikingly low

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CHART I: CONSUMER CONFIDENCE APPROACHES PEAK



Source: McShane Partners & FactSet Research Systems, Inc

MONTHLY INDEX REVIEW  
USD TOTAL RETURN

DATA AS OF MAY 31 <sup>TH</sup> 2019	MAY 2019	2019 YTD	2018	2017
S&P 500 <sup>®</sup>	-6.35%	+10.74%	-4.38%	+21.83%
Dow Jones Industrial Average	-6.32%	+7.54%	-3.48%	+28.11%
NASDAQ Composite	-7.79%	+12.85%	-2.84%	+29.64%
Russell 2000	-7.78%	+9.28%	-11.01%	+14.65%
MSCI Emerging Markets	-7.72%	+4.18%	-14.24%	+37.75%
MSCI EAFE	-4.66%	+8.05%	-13.36%	+25.62%
Bloomberg Barclays U.S. Aggregate Bond Index	+1.78%	+4.80%	+0.01%	+3.54%

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levels of unemployment took confidence levels back to 129.2 in April. The question is not if the economy is robust, but how much better it can get from current levels and what is the implication for the stock market?

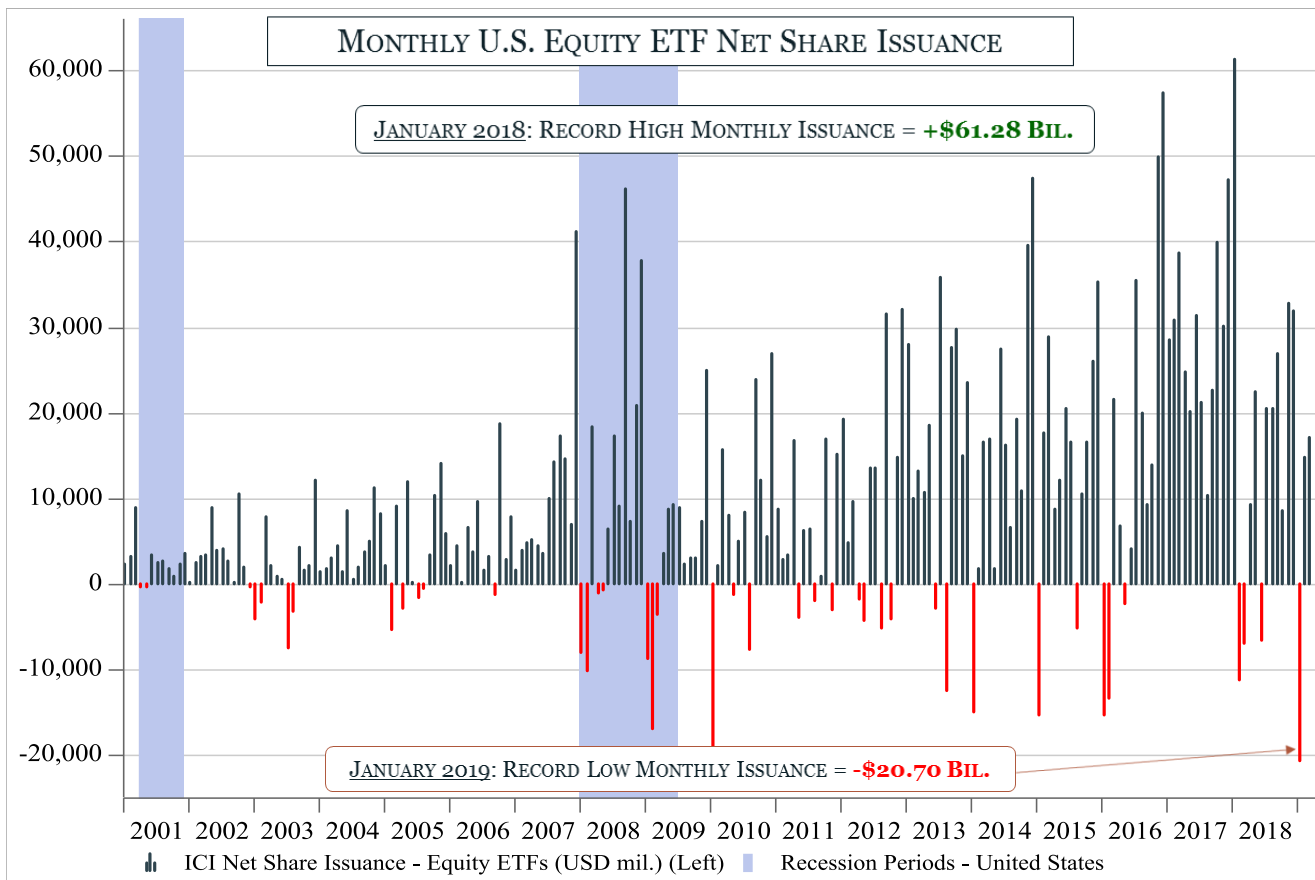
Knowing that the consumer enjoys the comfortable security found in conformity, the fickle nature of their investment fortitude is best understood by tracking the flow of money into and out of equity products assuming equity ownership or lack thereof is a suitable gauge for risk appetite and tolerance. At the beginning of January, after the massive fourth quarter market correction, ETFs saw a \$20.7 billion decline in issuance conveniently before the largest beginning of year rally in decades. Once again, the reactive response of the typical retail investor exemplifies a contrarian indicator.

Despite the reduction in equity exposure at the beginning of the year, cash levels are low with equity exposure approaching an apex. The long-term average equity exposure, defined as equity mutual funds & ETFs as a percentage of total assets is 52.1%; this metric hit 60% in late 2018 prior to the fourth quarter correction. After a brief reset, this number is moving back towards 60% approaching the peak recorded in 1999-2000 when investors were gobbling up technology stock with abandon.

Similar to the Consumer Confidence Index, equity ownership hits peak levels shortly before a recession. Simultaneously, cash levels hit cycle lows at the top of the market and reach cycle highs shortly after or towards the end of a recession. We believe there is a linkage between the low levels of cash and the market peaking as low cash levels indicate there is a lack of incremental buyers to pay increasing prices for stocks and drive the market to new highs. Once again, the question is not about the

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CHART II: EQUITY ETF EXODUS



Source: McShane Partners & FactSet Research Systems, Inc.

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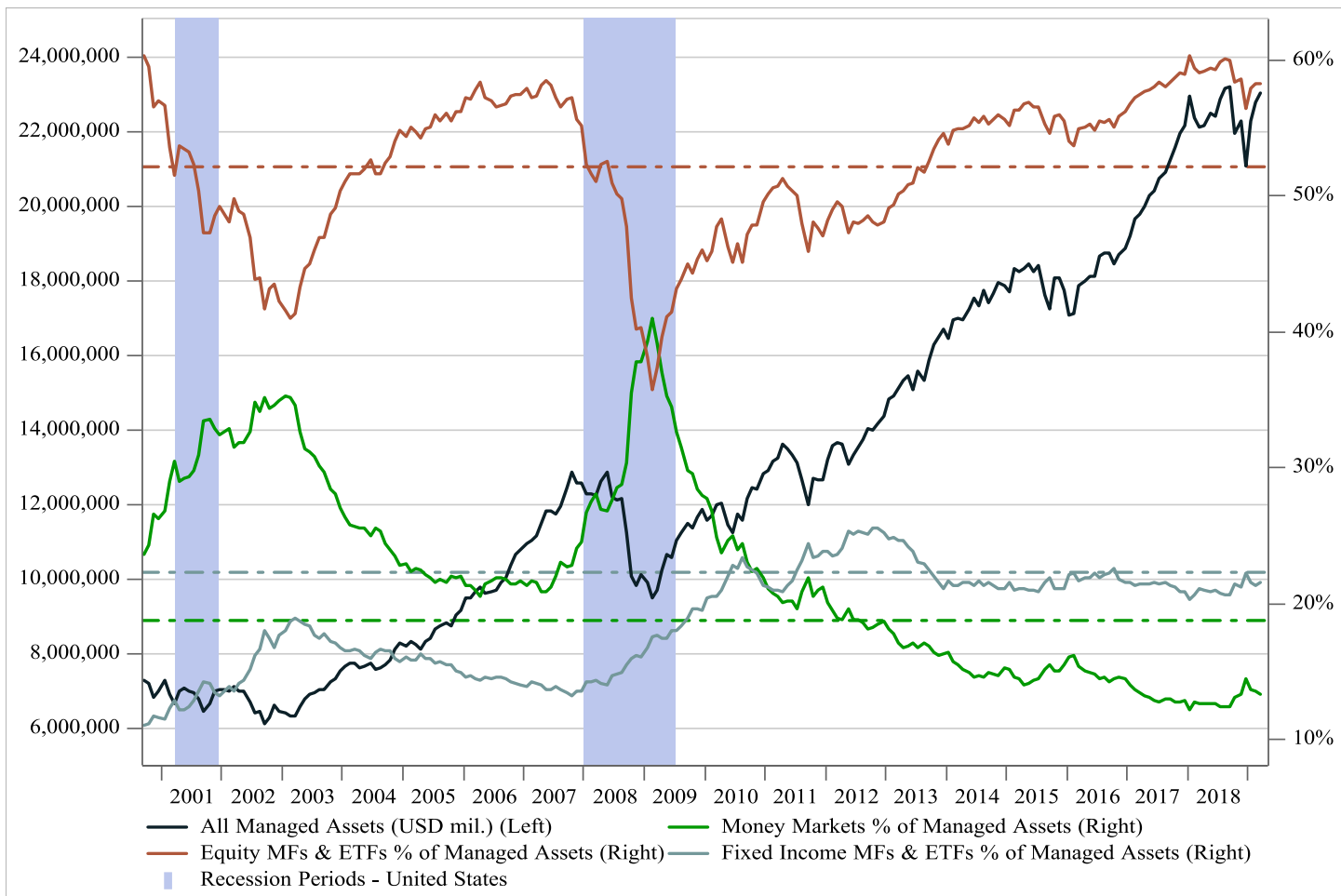
constructiveness of the market environment but about how much more it can improve as the pool of incremental buyers becomes increasingly limited.

With the technical drivers at the market equally as unfavorable as the valuations, broad equity exposure appears increasingly unattractive. However, there are opportunities to make money through asset price discrepancies and dislocations in the market. It is our belief that active management can provide positive absolute and relative returns during precarious markets characterized by spikes in volatility and deterioration in longstanding momentum trades. Timing the market is never recommended, but a necessary sensitivity to the economic cycle provides the dashboard for our asset allocation positioning and exposure to risk.

Within portfolios it is our preference to lean toward high quality equities, and we feel the market environment is signaling a propensity for low cyclical exposure and increased prudence. As such, we will continue to identify individual securities and strategies that are attractively priced with fortified balance sheets that can participate in further marginal market upside while solidifying the portfolio foundation should the market deteriorate.

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CHART III: LIMITED CASH ON THE SIDELINES



Source: McShane Partners & FactSet Research Systems, Inc.

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*“Games are won by players who focus on the playing field - not by those whose eyes are glued to the scoreboard.”*  
 - Warren Buffett

**STOCK & STRATEGY SPOTLIGHT**

NAME	TICKER	2019 YTD
Daktronics, Inc.	DAKT	<b>-6.15%</b>

**DESCRIPTION & INVESTMENT THESIS**

Daktronics, Inc. (“DAKT”) has been a steady player in the electronic information display, video display, and scoreboard market for over 40 years. DAKT released their fiscal year 2019 (“FY2019”) results at the end of May, reporting orders up +4% but sales down (7%) due to order conversion timing (backlog up +18%), and gross margin down (1 pp) due to increased commodity prices and tariff costs.

Despite some headwinds, the intrinsic value of the company is still strong with no debt, a strong cash pool of \$1.38 per share, a strong book value per share (“BVPS”) of \$4.17, and a dividend yield over ±4%. Given the stock’s current price of \$6.54, merely its liquidity and assets can keep the stock afloat and stable; not to mention its current P/BV valuation is at an 18% discount vs. its 10 year average multiple of 2x.

With approximately 30% of the worldwide LED display market share, DAKT remains a leader in the market and does not appear to be losing market share. Just this May, DAKT was chosen to supply 17 information display and electronic banners along with the centerfield “jumbotron” for the Texas Rangers’ new ballpark. Moving into fiscal year 2020 (“FY2020”), management is forecasting a slight increase in year-over-year (“YoY”) in 1Q20 sales and are particularly focused on increasing market share in international markets. In our opinion, the jump in backlog reported at the end of FY2019 supports management’s projections into FY2020, thus the Investment Team remains an incremental buyer of shares given the attractive valuation and revenue visibility provided by the reported increase in backlog and orders.

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form your desired beneficiaries upon your death. Under both a TOD arrangement and an RLT, you keep full control of the assets during lifetime and pay individual income taxes on any taxable income that it generates.

You can use a TOD and RLT in tandem and you don't have to pick one or the other to accomplish your probate avoidance goals. Which assets should be used in a TOD arrangement versus titled within a RLT? Bank accounts, savings bonds, certificates of deposit, and most investment accounts can be easily transferred to beneficiaries through a TOD arrangement. Most retirement accounts are automatically TOD and the beneficiary form legally trumps any bequest made in the will. So, you must be careful that the beneficiary form agrees with your will. Real estate, collectibles, jewelry, coin collections, and other valuables should be titled in the name of a RLT as they are not eligible for a TOD arrangement.

#### **PRIVACY**

A will must be filed with the court when the probate file is opened and is available to the public. An RLT, on the other hand, can be privately administered and is not available to the public. In fact, there are actual businesses that regularly review the probate records so that they can target the beneficiaries of a large inheritance. Also, debt collectors will reference probate records to locate debtors who are receiving an inheritance that they could use to satisfy a debt. Other examples of situations where you might want to keep your financial affairs private include having an adult child who was disinherited or young adult children who will be receiving a large sum of money.

#### **INCAPACITY MANAGEMENT**

One of the often overlooked benefits of an RLT is the protection it provides in the event that you become physically or mentally incapacitated. While this can also be accomplished through a durable power of attorney, third parties such as banks and investment advisors usually prefer a trust document over a durable power of attorney. Furthermore, if the designated attorney-in-fact is unable to serve, the durable power of attorney option is not viable. If you become disabled and have neither an RLT nor a durable power of attorney in place, you will likely have to be appointed a guardian by the court before your property can be used to benefit you or your family. This can be an expensive, lengthy, and potentially embarrassing process. After a guardian is appointed, the court will continue to supervise the management of the assets, thereby leading to more legal and accounting fees.

#### **CONTINUOUS INVESTMENT MANAGEMENT**

An RLT allows for uninterrupted investment management upon your disability or death. You can appoint anyone you choose to manage your assets as a "successor trustee." You would simply resign as trustee of the RLT and your successor trustee would then take over. If you are at a point in your life where you want to travel and need someone to manage your affairs, an RLT would be a beneficial approach.

Also, assuming the assets were previously transferred into the RLT's name, there is no need to re-register securities after death. In addition, depending on the cash needs and investment objectives of the RLT's beneficiaries, there may be no need to develop a new investment strategy.

#### **ASSET PROTECTION**

An RLT will not protect your assets from creditors and ex-spouses during your lifetime. However, it may allow for the protection of your beneficiaries' assets from creditors and ex-spouses upon your death. The assets would remain in trust for the health, education, support and maintenance of your beneficiaries. Whereas, if you have a TOD arrangement, the assets would pass directly to your heirs and would be subject to claims from adverse parties.

#### **FLEXIBILITY**

Flexibility is another benefit of funding an RLT. It is usually easier to make amendments to an

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RLT than to a will. Also, RLTs allow you to name unrelated and/or out-of-state individuals and/or trust companies as the primary administrator(s) of your property upon death .

#### CONS

##### ***NO TAX ADVANTAGES***

There are no income or estate tax advantages accomplished with a RLT. If your goal is to reduce estate and/or income taxes, then an RLT is not a good option. You need to use an irrevocable trust and forgo control of the assets to accomplish this objective.

##### ***RETITLING OF ASSETS***

You must retitle all of your assets into the name of the RLT. This involves contacting your bank, investment and insurance companies, and transfer agents as well as changing account and stock ownership and updating beneficiaries. This can be a tedious process and a major hurdle to funding an RLT. However, this is the only way for the benefits of the RLT to be realized. Should you choose to not retitle an asset, or you forget about an asset, then it will fall outside of the RLT and it will be subject to probate.

##### ***INITIAL ATTORNEY FEES***

It generally costs more in time and money to establish and fund a RLT than to prepare a will. Even after you form the RLT, you may have to create new deeds to transfer ownership of certain assets into the RLT's name. Even though the overall savings of establishing a RLT probably outweigh the initial fees to establish the trust, you should be aware of the up-front legal fees as you evaluate your decision.

#### **CONCLUSION**

While there are many compelling advantages of establishing an RLT, your individual goals and circumstances should be evaluated to determine if an RLT is the right approach. We are here to help you carefully analyze your personal situation and will work with your attorney to determine if an RLT is best for you and your estate plan.

## AROUND MCSHANE PARTNERS

### MCSHANE PARTNERS SUPPORTS ROOM TO BLOOM

Daniele Donahoe attended the sponsorship party, celebrating the Mint Auxiliary, following the 67th Room to Bloom fundraiser.

### DRESS FOR SUCCESS - SHAKE, SWAGGER & STROLL

On Saturday, May 11<sup>th</sup> Dress for Success Charlotte held its 8<sup>th</sup> Annual “Shake, Swagger & Stroll featuring The Stiletto Swagger.” The event raised funds to help women break the cycle of poverty by preparing them for the job market. Elliott Van Ness personally raised \$3,760 for this Charity and won the award for “Best Swagger.”



North Carolina children in need by providing a place for children to learn and prosper in a loving home environment. A good time for a good cause! Had one of our foursomes taking home the “Lowest Score Award.”

### WELCOME SUMMER INTERN CARA ROMANO!

We are grateful to have Cara Romano join McShane Partners as an Intern this summer! Cara attends the University of North



Carolina at Chapel Hill (Kenan-Flagler Undergraduate Business School) and will graduate Class of 2021. Currently, she plans to major in Business Administration with a concentration in Finance and minor in Spanish. Cara aspires to have a career in international finance for a large fashion/design corporation that would combine her love for business, travel, and the arts.

During her free time Cara enjoys baking, yoga, spending time with friends and family, and, last but not least, she loves to travel internationally.



### 2019 CROSSNORE CHILDREN'S GOLF CLASSIC

McShane Partners once again sponsored the Hugh Fields Crossnore Children's Golf Classic on May 16<sup>th</sup> at the Linville Golf Club. This year marked the tournament's 21<sup>st</sup> anniversary of supporting the Crossnore School's mission of serving

### MCSHANE PARTNERS

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

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