

Punch

A BOUTIQUE INVESTMENT ADVISORY

CELEBRATING 20 YEARS





In this Issue

Page 3

The Punch Story
Howard Punch

Page 8

Twenty Years of
Investing for Income
John Carraux, CFA®, CIC®

Page 9

Bias Towards Survivorship
Paul Dwyer, CFA®

Page 10

Small Cap Strength
John Carraux, CFA®, CIC®

Page 12

Mountaintop Perspective
Andy Matysik and Angie Pierce, CFP®

The Punch Story

Howard Punch
President and CIO



Twenty years ago, I left the comfortable confines of a well-known global investment firm to start something new. The objective, for me, was never to gain a better lifestyle. I knew it would be a lot of hard work. The objective was to create a firm that was different than what had existed anywhere else. What I had in mind could only be created by a smaller, more nimble, undistracted, and independent-thinking group of people with shared values. My ideal setting was a craftsman's workshop rather than a factory floor.

I wanted to create something of lasting value for people who are important to me: our clients. I wanted our clients to know we built the firm specifically for them, and I hoped we would be able to deliver a better investment experience for them daily. Oh yes... and I wanted to have fun.

I hope we are succeeding for you, our trusting clients. Rest assured, we are not done.

The Warehouse District

Getting a new firm off the ground is like putting together a thousand-piece jigsaw puzzle, a painstaking process often requiring large doses of patience and humility.

Prior to launch, my indispensable partner, Andy Matysik, and I walked around downtown Minneapolis looking for office space. I had come to terms with the fact that I wasn't likely to have the view of the Minneapolis skyline that I had enjoyed for so many years. I also knew that we wanted to create a unique firm and were willing to look at space that was unique, not adjacent to every other cubicle-filled financial firm.

After looking at several dumps, we walked into a one hundred year old brick and timber building in the warehouse district, and we knew we had found our new digs. The space was unpretentious and authentic. Our neighbors were mostly artists and advertising firms. Since I have always regarded investment management to be a creative, right-brained activity, I felt we were in the right neighborhood.

We went to work procuring discount office furniture, a few bulky computers, and a coffee machine, and in no time, we had the semblance of an office. Despite slow elevators and drafty conference rooms, it was our own place with our own name on the door. This was our home for our first five years.

Bridgewater

Some clients may remember that Punch was not the original name of the firm. We were originally Bridgewater Capital Advisors. About six months into our existence, a lawyer from one of the largest hedge funds on the planet bearing the same name sent us a strongly worded letter, and rather than spend precious capital for our own counsel to attempt to preserve the name, we decided to change it. Punch it was. (Nobody could take that away from us!)

The Beginning

February of 2002 was an interesting time to start an investment management firm, to say the least.

We started the firm less than six months after the shock of the terrorist attacks of 9/11. This event led to several large airline bankruptcies. Speaking of air, it was still coming out of the equity valuations caught up in the dot-com bubble, which had popped about a year earlier.

Corporate America was experiencing something of a crisis of confidence at the time. While WorldCom filed for bankruptcy after improper accounting was discovered, Martha Stewart

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The Butler North building in Minneapolis.

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was jailed for illegal stock trading. A federal jury convicted one of the largest accounting firms in the country, Arthur Anderson LLP, for destroying documents related to Enron, the largest-ever corporate bankruptcy at the time.

In short, a whole lot of stuff was hitting the fan while we were signing leases, buying furniture, and installing phone lines that winter. The Dow Jones Industrial Average started the year at the 10,000 level, but finished it closer to 8,000. The tech-heavy NASDAQ did significantly worse.

We were fortunate that nearly every valued client relationship that we had at the time decided to become a client of our fledgling firm, saving us from becoming unemployed entrepreneurs. We couldn't have done it without you.

The Early Years: Doing More with Less

"Are we having fun yet?" This was the question I asked myself continuously in those early years.

When starting an investment firm with just four people, the title on your business card means very little. If the phone is ringing, you pick it up; if the mail needs to get out the door, you take

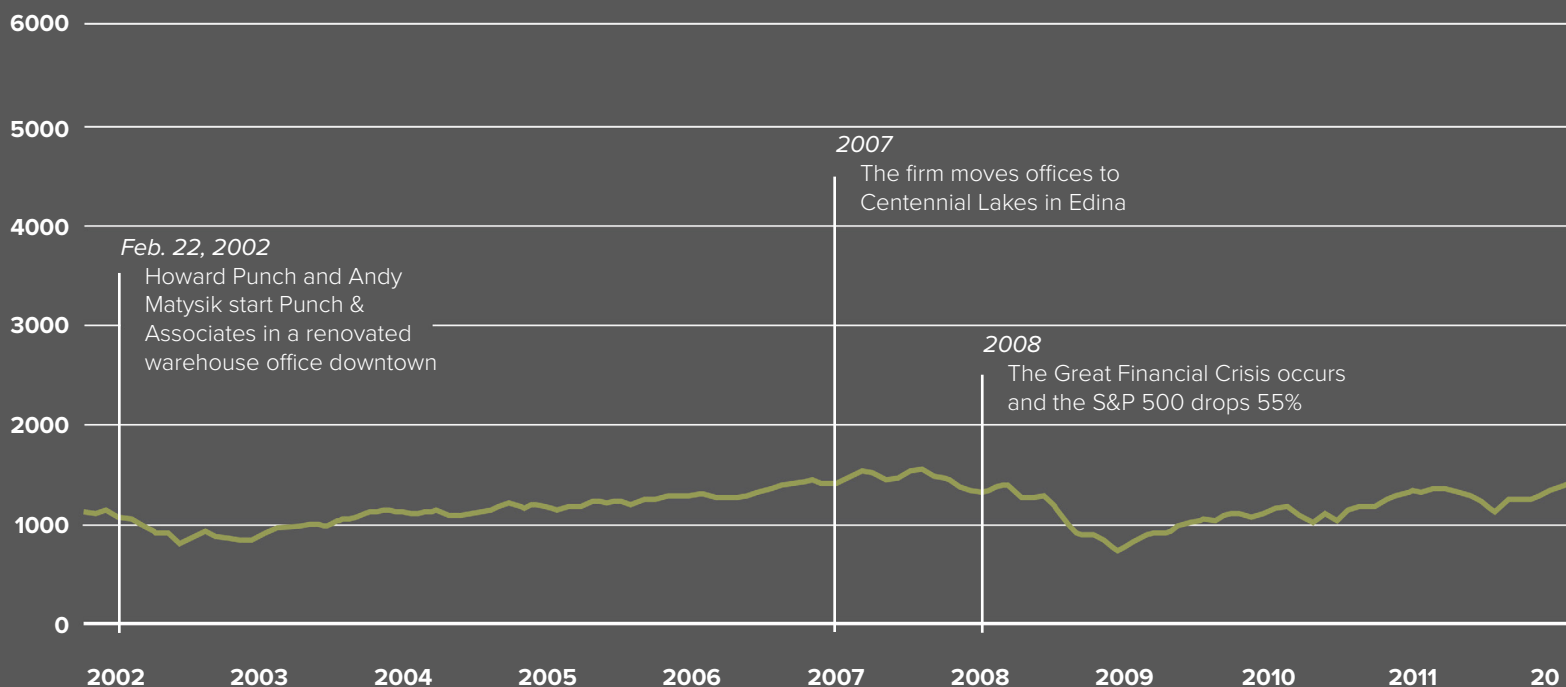
care of it; if the coffee isn't made, you make it. Fortunately, we started with a small group that wasn't above any task. We had outside vendors that were also critical; some still work with us to this day.

As we added people to our team, we looked for the same humble, take-nothing-for-granted qualities that we saw in each other in the beginning. Every time we interview for new positions at Punch, Andy likes to ask, "Is this person smart, hungry, and humble?" I am very proud of keeping these three words at the forefront while building the Punch culture.

Creating and maintaining an investment management firm is complex work. We have many tasks to complete. Given my limited capabilities, most clients would not want me permanently in charge of some of these jobs that needed to get done. So, after we on-boarded the bulk of our clients and stopped worrying about making payroll, we focused on the mission of getting the right people in the right seats. As I was interested in spending my time on research and investing, assembling a team with diverse skills became of paramount importance.

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Investing Over 20 Years



**The green line illustrates the S&P 500 Index since 2002.*

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Building an Investment Team

I think the average client would be surprised to learn how little time is dedicated toward real research and making intelligent investment decisions at the average investment firm. Big firm or small, there are many warring interests for your time. What I really wanted when I left my previous employer was an undistracted environment.

I desperately wanted to see how good we could be for our clients if we eliminated distractions and hired quality people who were deeply interested in unique research. If we could do this while simultaneously cultivating a clientele that was philosophically aligned and similarly patient... well, we might have something.

During the summer of 2002, we were lucky to have found a mature and ambitious college student who decided to forgo a minimum-wage summer job at a restaurant and accept an unpaid internship as a research assistant at our start-up. Despite John Carraux staunchly supporting the Green Bay Packers, we welcomed him. (It's not in my business plan, but about half the firm cheers for the Green and Gold on Sundays).

John stayed with us, and so we had a research team numbering two. It was a start.

Fast forward to today, our research team numbers nine, and everybody researches individual companies. John is now a Managing Partner and Portfolio Manager. Paul Dwyer is our Director of Research as well as recently having been named a Portfolio Manager. We have a seasoned head trader (Bob) and a solid team of research analysts (Sam, James, and Anthony). I heard more than a couple of them say that this is their dream job. Managing people like this is not managing at all. I am grateful to be working alongside each one of them.

One Philosophy... Evolving Strategies

After nearly 39 years in the investment business, my convictions in two areas have grown. The first conviction is that to have a successful, long-term client/advisor relationship we need expert financial planning, active ongoing investment management, and behavioral counseling. The three are linked, and each is required by clients in differing amounts at different times. The modern advisory firm needs to be able to deliver all three to maximize the value to the client, and we have been working toward this end.

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The second conviction is that one investment philosophy is better than many. Many investors may opt to go with an advisor who diversifies their investments across multiple outside managers with different investment philosophies. The rationale here is that when one philosophy is out of favor, the other one is in favor, thus allowing the client to participate in any market environment. In theory this should produce market-beating returns with lower volatility than the relevant indices. Sounds good... in theory.



Howard in 2003.

In 39 years, I have never seen an advisor or a firm put this theory effectively into practice over an extended period of time. In reality, whatever philosophy ends up doing worse is usually discarded, sometimes at the worst possible time—right before it succeeds.

We have built a “factory direct” model in which we research and select individual investments based on one investment philosophy. A client can call and ask about a specific security, and we don’t have to call somebody else for the answer. We know the thesis for each company’s inclusion in the portfolio. We also understand when our value-oriented investment

philosophy will be in favor or out of favor and why.

When our philosophy is in favor, we assume it’s not going to last forever, and we view being out of favor as an opportunity. Belief in a philosophy is what keeps us and our clients from throwing in the towel when Mr. Market isn’t smiling on our group of companies. In our opinion, we have done very well over 20 years without being world-beaters each and every year.

Twenty years ago, we were in a far different market environment than the one we face today. Back then, the 10-year treasury was yielding over 5%. Today it yields about 1.5%. To get \$5,000 of yearly income back then, you could invest \$100,000 into a treasury bond. Today you would need \$300,000 to get the same amount of income. Twenty years ago, we held some plain vanilla treasury bonds in the Punch Income Strategy. Today? None. Our investment approach needed to evolve to accommodate a changing interest rate environment, and John Carraux continues to navigate this environment adeptly and diligently. We needed to become familiar with unique vehicles that could generate a competitive return. Our other strategies have had to evolve as well. Even the greatest investors have had to evolve.

The Client Team: Behavioral Counselors

*“The declines are temporary and the advances permanent.”
—Nick Murray, Author*

We started our business during a bear market, and we have experienced a couple more over the last 20 years (2008 was a doozy). This is about average for what happens in markets over a couple decades. If you own small cap stocks, you understand that the variability can be greater than in large companies. This past November, we were going through another correction in small caps when Sam Sheldon, a young research analyst on the team with a good head for stats, pointed out that in my 39-year career, I’ve experienced 51 such corrections (maybe 52 by the time you finish reading this newsletter).

Clients ask me if I worry. The answer is “yes.” But I don’t worry about our companies recovering lost ground suffered during a correction or even a bear market. I worry about clients giving up at the wrong time and not benefitting from the inevitable recovery we get from a portfolio of growing, profitable companies that face temporary setbacks. We’ve had very few clients sell at the bottom of a correction because of the counsel of Andy Matysik and the wealth planning team he has helped build at Punch.

Twenty years ago, it was Andy Matysik who single-handedly quarterbacked the client relationships, providing solid planning advice for families and handholding when necessary. While painful to watch, the early market malaise that we experienced that first year set us up for some solid years of returns.

Then came the Great Financial Crisis. From October of 2007 to March of 2009, the S&P 500 declined more than 50%. I remember in October of 2008, after the fateful Lehman Brothers’ bankruptcy, the market was down 45% from highs reached just one year earlier. There was blood in the streets, and quality companies were on sale. I thought that we had experienced about as much pain as anybody could stand. Surely stocks should bounce from here, right? They did, but only briefly. The market resumed its collapse until March of 2009, when stocks finally bottomed for good and staged a multi-year advance. For both clients and advisors, sometimes “staying the course” doesn’t always feel like the right course. Getting the right advice from people you know and who know you can be the difference between success and failure of an investment plan.

Our advisory team counseled many of our clients through dark days for the markets during the global financial crisis. Andy has served as the head of our client-facing team since the beginning, and, despite my name being on the door, can certainly be called the face of the firm. He is responsible for growing our company in more ways than one. He has helped recruit the high-quality people you meet on both our wealth advisory team (Angie, Jessica, Ruth, and Ryan) and our

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operations and administrative teams (Nancy, Andrea, Danielle, Miraya, Steve, Julie, Candice, Luke, Leah, and Laura).

Andy met Jessica Johnson several years ago through a mutual client, saw the differentiated work she performed and her easy communication style, and suggested they meet again to talk about a new role for her at Punch. Jessica left a secure future as a partner at an established, Minneapolis-based estate planning practice and joined as a Managing Partner in our wealth advisory group in 2017. Together, our entire wealth advisory team began building a client experience that would include comprehensive financial planning, estate and trust planning, and multigenerational engagement for our client families.

Putting the Pieces in Place for the Next 20 Years

"There are decades when nothing happens, and then there are weeks where decades happen." —Lenin

When the global pandemic hit, we, like many other firms, were tasked with the challenges of going virtual. Fortunately, we had people that are not as "technologically challenged" as I am, so we were ready. If COVID had surfaced 20 years ago, I'm not sure that we would have adapted to the "new normal" of virtual meetings and remote work quite as well.

Our team numbers 23 people today across multiple areas of the firm. While everyone still embodies that "do anything necessary" humility and work ethic, we have the luxury of hiring individuals with expertise in specific areas. Since the pandemic hit, we have added nine employees to our staff. Over one-third of our firm has not worked full-time in the office or experienced a Punch client event in-person, but we hope that changes soon.

As we continue to grow methodically over the years to come, we constantly re-articulate who we are and why we do what we do. We tell the Punch story often. We are committed to being an independent, undistracted group who shares the values of hard work, humility, and fun to create lasting value for our clients. We come into the office every day with that singular goal, and we don't expect that to change in the next 20 years.

Personal Reflections on 20 Years at Punch

We all have important people in our lives who make the successes we have possible. I would be remiss if I did not honor the love and sacrifices of my wife, Julie, who became accustomed to serving late dinners in those early years. I'd like to thank my kids, who thought I sold pens and coffee cups for the longest time because I would bring some of that promo stuff home with our last name on it. And I'd like to thank my Mom and Dad. Without their love and enduring support I never would have taken the risk to start Punch 20 years ago.

To my dedicated partners and fellow staff members, you have my gratitude for bringing your unique gifts to the office everyday for the benefit of our clients. You are my "upside surprises" every day.

Our most sincere thanks, of course, goes to our trusting clients, some of whom have been with our group for all 39 years. The confidence you place in us is something that we will never take for granted. We look forward with excitement and determination to building on our relationships in the years to come.

Delivery Preferences for Annual Regulatory Notices

Every year, we are required to provide our clients with SEC regulatory filings, including our Privacy Notice, Form ADV 2A, and Form CRS. These filings contain any material changes to our business practices and can be found on our website.

In an effort to conserve resources, we are requesting permission from all clients to send these and all future regulatory notifications electronically. Please note that they do not contain personal or account information.

Soon you will receive an email requesting confirmation of your electronic delivery preferences. **Please respond to this email by accepting electronic delivery at your earliest convenience.**

Thank you!

Twenty Years of Investing for Income

Balancing the need for growth and income

John Carraux, CFA®, CIC®
Managing Partner



It's a perennial question for investors: "How much should I spend today, and how much should I invest for tomorrow?" The tug-of-war between income and growth is unique to every situation but can usually be resolved with a balanced approach.

The Punch Income Strategy is meant to address the first part of that equation, and our firm's equity strategies (Small Cap and Large Cap) are intended to solve the second. Working together, they can give clients the freedom to grow investments for tomorrow while reaping income today.

When our firm first turned on the lights in 2002 at a renovated warehouse office in downtown Minneapolis, investing for income was a different ballgame. Treasury bonds offered yields of 5%, and corporate bonds offered 6%. Inflation was a reasonable 2-3%. A carefully curated portfolio of bonds and dividend-paying stocks could produce a reasonable after-inflation return.

In the intervening 20 years, interest rates across the board plummeted toward zero. Currently, Treasury bond yields are 1.5%, corporate bond yields are 2.5%, and inflation is over 6% and may be heading higher. Income investors have had to adapt in response to the drastic shift in interest rates and yields.

With the Punch Income Strategy, our dual goals are to produce an above-average yield for investors while protecting against rising inflation and interest rates. Some of our top holdings today are representative of this approach:

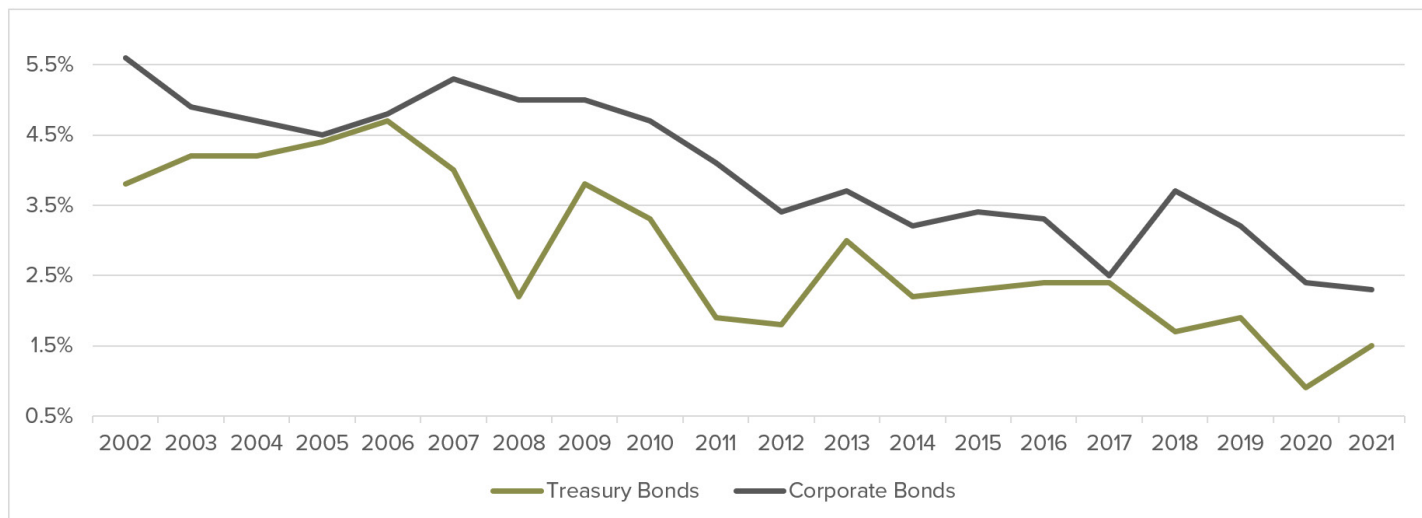
- The equity of an equipment leasing company that is the largest in its industry, with contracts going out decades. The stock currently yields 3.5%.
- A closed-end fund that invests in both the debt and equity of energy-related companies that is currently trading at a 16% discount to its net asset value and has a dividend yield of 5.2%.
- A business development company (BDC) that makes loans to private businesses with a strong track record that is currently trading at an almost 20% discount to book value and pays a dividend over 8%.

With investments in such varied securities as closed-end funds, preferred stocks, and dividend-paying equities, annual returns can be lumpier from year to year than in a traditional bond portfolio. While most of the return from portfolios will come from dividend and interest income, we also aim for some capital appreciation over a multi-year period.

Looking ahead, it is anybody's guess when and how much interest rates will finally begin to rise. There are strong arguments that factors including demographics, an accommodative Federal Reserve, and easing inflationary pressures will keep rates from rising too quickly. Whatever the next 20 years looks like, we believe that clients will be well-served by having this strategy as an allocation option.

The Punch Income Strategy is a total return strategy that emphasizes current income over capital appreciation. The strategy invests in a variety of securities and asset classes that generally share the common characteristic of producing cash flow income that has the potential to rise over time.

Indicated Yields from 2002 to 2022

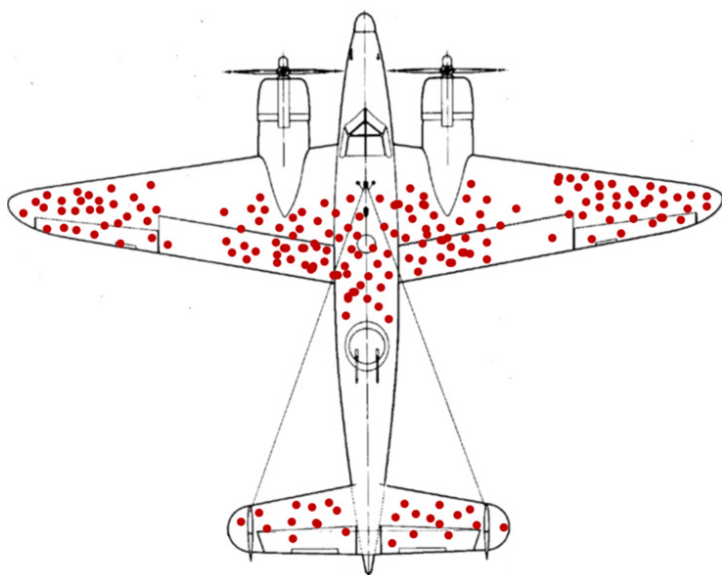


Punch Large Cap Strategy

Bias Towards Survivorship

Stock picking for the next 20 years

During World War II, the United States military turned to Abraham Wald, a Jewish math professor, to help design planes with optimal armor. The military studied the condition of planes returning from battle and based on those observations could add reinforcements where they observed bullet holes (see hypothetical picture below). Wald was hired to help the military analyze the planes that did not return from battle and could not be observed. Studying only the returning planes would lead to the wrong understanding about the best way to fortify aircraft for combat. Wald suspected that the planes that returned from battle must have been shot in different locations than the planes that did not survive. The military did not want to fall to survivorship bias—that is, if they only concentrated efforts on the returning planes, they would be led to the wrong conclusions.



Survivorship bias tempts investors into incorrect conclusions as well. Not since the year 2000 has the aggregate value of companies trading at greater than 20x sales been as high as it is today. The rationale for owners of these companies is that almost no price is too high today if you own tomorrow's winners. Many of these investors are extrapolating the results of the "survivors" of the last 20 years (companies like Facebook, Apple, Amazon, Microsoft, Google) and assuming that success is going to be easily replicated. Forgotten are

Paul Dwyer, CFA®
Portfolio Manager & Director of Research



the failed stocks of Myspace, Blackberry, Yahoo, America Online, and Pets.com. Ignored is the fact that investors who purchased Amazon and Microsoft, for example, at 20x sales had to sit through declines of 90% and 65%, respectively, before those stocks turned into great investments.

Awareness of survivorship bias adds to our appreciation for the rare company capable of delivering sustained, above-average returns. When we find winners, we employ patience. Our current portfolio embodies this principle: nine of the 10 largest contributors to the Punch Large Cap Strategy's returns over the past two decades are still in the portfolio today.

To gain exposure to proven secular trends, our approach is to invest in established leaders and their suppliers during periods of uncertainty. We typically do not end up owning a lot of exciting "first movers," but our philosophy is to protect the downside first, and history suggests you don't need to be an early investor in a company to produce attractive returns.

As we reflect on Punch's 20-year history, we highlight both enduring and evolving aspects of our Large Cap Strategy. Since the firm's inception, we've believed the best way to deliver above-average returns is to take an approach that differs from the index. The Punch Large Cap Strategy owns 30 positions, and we've found that this relatively concentrated approach provides an adequate degree of diversification to help us manage risk. At the same time, this number of holdings allows each individual investment to have a meaningful impact on the portfolio. We plan to continue this approach. An evolution to our portfolio structure is also under way: we no longer expect to own closed-end funds (CEFs, a type of investment vehicle that holds a finite pool of capital and has a market value that can trade at either a premium or a discount to its holdings). In the current market of above-average valuations for large cap companies, including less meaningful valuation discounts for CEFs, we are focusing our investments on individual companies.

We are as excited as we ever have been about the prospects for the next 20 years. Our goal remains the same as it was when we created this strategy: to handle a wide variety of market conditions while targeting strong risk-adjusted returns. We are focused on replicating our successes and not repeating our mistakes, and we will remember Abraham Wald's contrarian insights as we work on continually improving our strategy. Here's to the next 20!

The Punch Large Cap Strategy invests in large publicly traded companies. The strategy takes a long-term, concentrated approach to owning companies with durable competitive advantages, cash flow generation, and growth potential.



The investment desk in 2017.

Punch Small Cap Strategy

Small Cap Strength

Assessing small cap investing in three charts

John Carraux, CFA®, CIC®
Managing Partner



The stock market provided no shortage of entertaining, if not head-scratching, headlines in 2021. Defunct retail companies like Gamestop and AMC became “meme stock” homeruns. Cryptocurrencies that were created as jokes soared to billion-dollar valuations. And special purpose acquisition companies (SPACs) became a legitimate asset class despite being shell companies with no operations. No one could have predicted this speculative fervor as a side effect of the pandemic.

After returning nearly 20% in 2020, small cap stocks as a group returned a respectable 15% in 2021. Nearly all of that return came in the first two months of the year, with the index mostly flat for the remaining 10 months.

Now that small cap stocks are up 130% from the lows of March 2020, a natural question is, “Has the market gotten ahead of itself?” This is a particularly relevant question given the echoes of 1999 in some headlines lately.

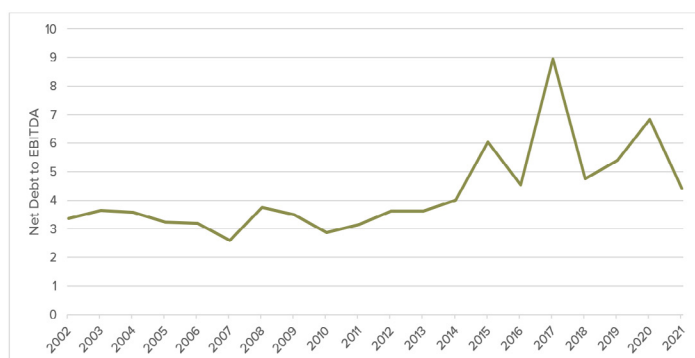
Corporate Earnings
for the Russell 2000 Index



Valuations
for the Russell 2000 Index



Balance Sheet Leverage
for the Russell 2000 Index



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The average Russell 2000 correction since 1979 has reflected an 18% decline and lasted for 73 days. While a market correction is certainly possible, we think that small cap stocks look reasonably attractive today. Here's why:

Corporate earnings are at all-time highs. Small cap stocks hit all-time highs in November, but so did small cap earnings. Many companies cut costs and became more efficient in response to a collapse in customer demand during the pandemic. As that lost demand returned more quickly than expected, companies experienced growth and profitability. The stock market usually follows the direction of corporate earnings, and that continues to be the case today.

Balance sheet strength is the best since 2014. Many companies took advantage of increased profitability and government support over the past two years to pay down debt and hold more cash on their balance sheets. As a result, they are in the best financial health since 2014.

Higher quality stocks are not expensive. The estimated price-to-earnings ratio for profitable small cap companies is below its long-term historical average today. While there are pockets of expensive, unprofitable stocks in the market, our focus is on higher-quality companies, and many of these appear reasonably priced.

Over the past 20 years, earnings per share for small cap companies as a whole are up almost four-fold, and the Russell 2000 has returned 9.3% annually. By investing in small cap companies that are financially healthy, profitable, and growing while their shares are attractively priced, we believe that we can position clients to benefit from the next 20 years of small cap stock returns.

The Punch Small Cap Strategy is a growth oriented equity strategy that invests in smaller publicly-traded companies, primarily located in the U.S. The strategy looks for higher-quality companies that are trading at discounted prices because they are under-the-radar, out-of-favor, or simply misunderstood.



John, Howard, and Andy in 2015.



Welcome, Cody!

Cody Chapman, CFA®, CAIA® joined Punch & Associates in November as Director of Institutional Client and Consultant Relations to lead the firm's institutional business development efforts. He is responsible for institutional client service and cultivating partnerships with plan sponsors and consultants. Prior to joining Punch, Cody spent more than 11 years at an investment consultant firm, most recently as a Senior Vice President and Partner of the firm. He worked with institutional plan sponsors of all types to aid them in designing and implementing investment programs tailored to each sponsor's objectives.

Cody graduated from the University of Georgia with a BA in Finance and is a CFA® and CAIA charterholder. Cody and his wife reside in Atlanta, Georgia, and are lifelong Braves, Bulldogs, and Hawks fans. He is an avid traveler and always has a handful of travel plans sketched out in some fashion. He loves finding hidden gem hiking trails and new craft breweries and getting out on the golf course.

Mountaintop Perspective

Given all that we've been through in this pandemic, many of us have started thinking about travel and adventure. Around the office, we've been dreaming about ski trips out west and the awesome experience of starting in the foothills and climbing in elevation to a destination. Traveling into the mountains involves a shift in perspective and behavior. When we start out, the terrain is flat and easily navigable. As we get further along in our journey, we might have a sense of awe as we reflect on the amazing heights we achieve and the vistas that surround us. The foothills now seem like speed bumps compared to the majestic peaks in our view, but the expedition also becomes more difficult. As we ascend, we might intentionally adjust our behavior and choices along the way.



Andy and Angie in 2015.

Similarly, when the stock market has reached an all-time high, we are confronted with a new set of opportunities and challenges. Just as some were asking in the spring of 2020 when the world was melting, "So, what do we do now?" others, today, are asking the same question in light of surprising investment performance and—in some cases—sudden new wealth. Just like an ascent into the mountains, our perspectives shift, our inclinations may change, and we are left asking a similar question: "What's next?"

We offer behavioral counseling designed to help you identify and understand the sometimes illusive notions of *clarity* and *purpose* as they pertain to your wealth. Our view is that we should begin to identify planning strategies and techniques only after we have a clear understanding of the purpose of your wealth and what you are trying to accomplish.

Andy Matysik
Managing Partner



Angie Pierce, CFP®
Director,
Wealth Strategies



Over the past two decades, we likely have coached you to behave in a way that was different from your initial inclinations. In April of 2020, we wrote about "*Powerful Planning Opportunities in a Time of Crisis*" to encourage you to consider strategic planning options that could benefit you in a time of extreme market volatility. The tagline of the article is, "*Action steps to take in this moment of uncertainty.*" The funny thing is... our world is equally as uncertain today even though market conditions have improved dramatically.

While the instinct to react today might be less acute for some, others may still have the compulsion to do something. We're hearing questions about whether it's time to liquidate and "go to cash for a while." This thinking is short sighted in our view and could be counterproductive in your long-term wealth creation effort. Markets at this elevation may offer a rarefied air for proactive planning, including some opportunities you may not have considered before. We encourage you to stay curious, examine your situation, ask questions, and learn about opportunities available to you in this moment.

Charitable Giving

Whether you are a newer client or you have worked with us for 20 years, we have probably discussed your charitable goals. Giving is one of the areas that provides us the most joy as we advise clients and get to see resources deployed for worthwhile causes. Below are a few strategies that are particularly effective in times of abundance:

- **Qualified Charitable Distributions (QCDs)** – Once you reach age 70.5, you are allowed to give up to \$100,000 each year from your IRA directly to charity. The benefit of the QCD is the avoidance of income tax on the charitable IRA distribution, because the amount distributed to charity is not included in your taxable income. This is different from a traditional IRA distribution which is taxed as ordinary income when you receive it. (Note that, to qualify as a charitable distribution, the gift needs to go directly to a charity and cannot pass into a donor advised fund or come to you first).
- **Charitable Gifts of Low Basis Stock** – Since qualified charities do not pay capital gains taxes, gifting low-basis securities is a powerful way to benefit charity in a tax-wise manner. You receive a fair market value deduction for the gifted stock while also avoiding a capital gains tax. We help our clients determine the most advantageous holdings to gift (long-term, lowest basis shares). Punch can assist with donating securities from a portfolio directly to your charities of choice, including a donor advised fund.

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- **Charitable Remainder Trust (CRT)** – A CRT is an irrevocable trust that makes payments to individuals for a period of time and then distributes the remaining assets to charity. Generally, the donor can retain the right to change the trust's remainder beneficiary. A donor can fund a trust with almost any type of property (e.g., cash, securities, real estate, artwork, farmland, and even cattle or a violin!), however, a CRT owning illiquid assets could impact the trust's ability to make annual payments. Once the property goes into the trust, the trustee often sells it and reinvests the proceeds. The CRT's primary tax advantage is deferral of the capital gains tax over the term of the trust. A donor's transfer to a CRT generally permits the donor to deduct the value of the charitable remainder interest for income, estate, and gift tax purposes.

Family Giving

- **Annual Exclusion Gifting** – Each individual may gift \$16,000 per year in 2022 to anyone he or she wants without having to file a federal gift tax return. This is referred to as "annual exclusion giving" and is a wonderful way to begin the wealth transfer process during your lifetime. While outright gifts are an option, some donors choose to make annual exclusion gifts into custodial accounts, 529 college savings accounts, or irrevocable trusts for the benefit of family members.
- **Lifetime Exclusion Gifting** – Each person can also gift up to \$12.06 million during his or her lifetime in 2022 without incurring a gift tax. This number increases each year with inflation but is set to roll back in 2026 to approximately \$6.2 million per person. It is important to note that, as you use up your lifetime gift tax exclusion, your estate tax exclusion is used up proportionately.
- **Gifting Cash or Stock?** When gifting to non-charitable beneficiaries from your investment portfolio, you can either transfer securities or cash. When gifting securities, the cost basis follows the gift. This means that, if the

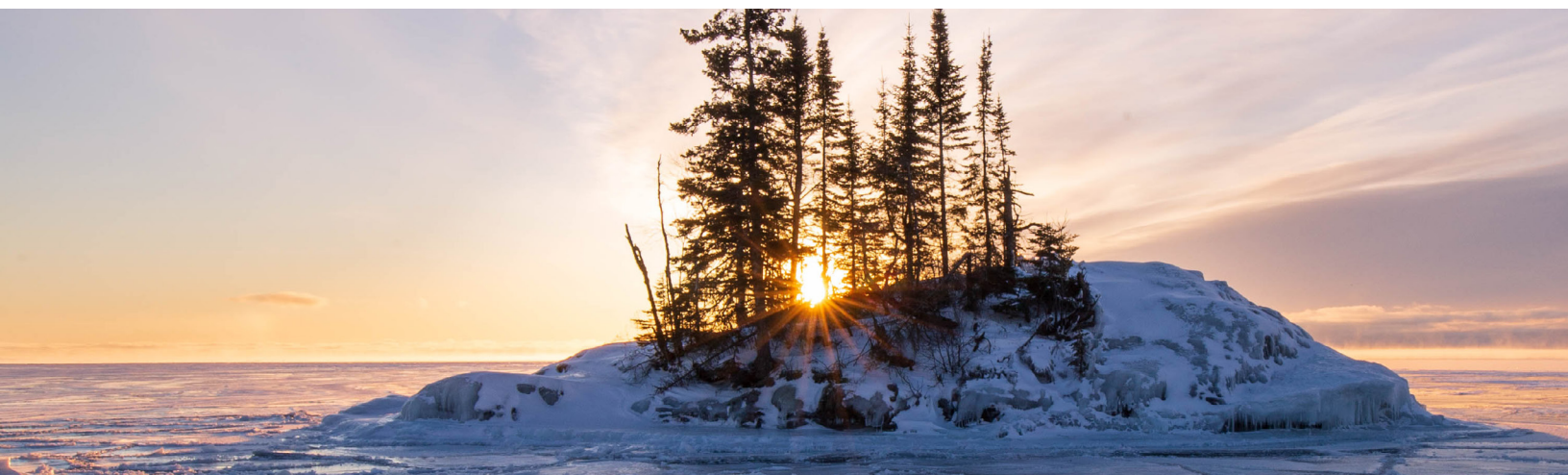
recipient sells the securities, they may incur capital gains tax on the sale (to the extent the gifted securities have an unrealized gain). The other option is for the giver to sell securities and gift cash, making the gift more beneficial to the recipient. The giver realizes the capital gain and is responsible for the tax, but the recipient receives the full value of the gift without a tax liability from selling the securities.

- **Gifting Outright or In Trust?** Depending on your financial goals and gifting amounts, we can discuss the mechanics of transferring wealth during lifetime. You may choose to gift outright, in trust, or into a custodial account, depending on your family situation. Gifting assets into a trust for one or more beneficiaries is one way to accomplish broader wealth transfer objectives while using gift tax exclusions and, potentially, your generation skipping transfer tax (GST) exemption. We often collaborate with attorneys and accountants to ensure that a gifting program is designed in the most beneficial and tax efficient way for you and your family.

Rebalance Your Portfolio

Your asset allocation refers to how your money is invested. We want to ensure that your asset allocation is tailored to your goals (purpose) and reviewed regularly. One of the best ways to manage risk is through asset allocation (not through market timing, defined as trying to be in the market at only the most opportune times). In years of strong market returns, it may make sense to rebalance some of your portfolio by trimming gains in a strategy that has outperformed to get the portfolio back in line with the desired mix of investments. We can sell appreciated securities, lock in gains, and strategically redeploy the cash proceeds. We recommend working with your accountant to utilize loss carryforwards, if any, in strong market years like 2021 to offset realized gains.

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Pay Off Debt

Believe it or not, there is still some high(er) interest debt out there. We recommend a careful review of any liabilities on your balance sheet and to consider paying off debt, especially loans with higher interest rates. Now could be a decent time to trim gains from a portfolio and retire debt if it is in line with your financial goals. Our ability to stress-test your plan through numerous scenarios using our planning model allows us to assess whether elimination of debt could make financial sense given current market conditions.

Intra Family Loans

Intra-family loans can be an effective and strategic method of helping a family member. We have structured a number of family loans which enable individuals with access to cash to provide liquidity for others in the form of a loan for various purposes. The Applicable Federal Rate (AFR) is historically low, so this low-interest rate arrangement can be a significant benefit to both parties. We caution clients to consider the personal relationship dynamics that an intra-family loan could create before moving forward with this opportunity.

Staying Curious

We hope the above suggestions are useful to you as we move into a new year together. The past 20 years have proved that uncertainty is a constant. Since we opened our doors in 2002, we have not seen a single moment where there has been an absence of uncertainty... it will always be with us! We used to think of uncertainty as an enemy, but over time, we've come to view it as more of an ally. It checks in on us periodically to see if we have our intellectual and behavioral houses in order. We cannot predict the future, of course, but we can learn to take advantage of opportunities that uncertainty presents to us. We have noticed that investors tend to get far more curious about their investments and financial affairs when things look terrible. A noteworthy corollary to this is that people can become less intellectually curious about their finances when things seem rosy. Our parting advice to you is this: Don't become passive as you climb to new financial heights. Risks change as you ascend, so stay curious and attentive!

THANK YOU for 20 years of collaboration and trust. We look forward to many more years of engagement.

Punch & Associates does not provide legal, accounting, or tax advice, and accordingly encourages clients and potential clients to consult professional advisers with respect to these matters.

Tax Update: Inflation Adjustments for 2022

Often with the New Year comes new tax inflation adjustments. Here are a few updates for 2022.

	2021	2022
Lifetime Gift Exclusion	\$11.7 million	\$12.06 million
Annual Gift Exclusion	\$15,000	\$16,000
Annual 401(k) Contribution Limit	\$19,500	\$20,500
Roth IRA Contribution Income Phaseouts (Single)	\$125,000 - \$140,000	\$129,000 - \$144,000
Roth IRA Contribution Income Phaseouts (Married Filing Jointly)	\$198,000 - \$208,000	\$204,000 - \$214,000

Note: IRA and Roth IRA contribution limits remain unchanged. Roth conversions also remain available in 2022. Please consult with your tax advisor on the impact these changes may have on your personal situation. You can also contact your advisor if you would like to update your financial plan considering these inflation adjustments.

Join us to celebrate our
20th Anniversary

You're invited to a casual gathering celebrating 20 years of partnership. The evening will start with a cocktail hour and served buffet dinner, followed by a live music performance. We look forward to seeing you!

Details to come for a Minnesota celebration this summer.



Location: El Chorro
5550 East Lincoln Drive
Paradise Valley, AZ 85253

Date: Thursday, Jan. 27

Time: 5 p.m. Cocktail Hour
6 p.m. Dinner
7 p.m. Live Music

RSVP: Email
info@punchinvest.com

Location: La Playa Beach & Golf Resort
9891 Gulf Shore Drive
Naples, FL 34108

Date: Friday, Feb. 11

Time: 5 p.m. Cocktail Hour
6 p.m. Dinner
7 p.m. Live Music

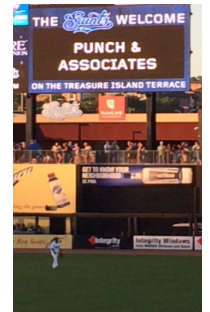
RSVP: Email
info@punchinvest.com



Twenty Years at Punch

Join us for a walk down memory lane and enjoy these pictures from the past two decades.







Contact Us

WEALTH STRATEGIES GROUP



OPERATIONS GROUP



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