Newsletter
First Quarter 2022

Punch

A BOUTIQUE INVESTMENT ADVISORY

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CELEBRATING 20 YEARS

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In this Issue

Punch: Purpose, People, and Passion… Our Story Continues

Andy Matysik
Managing Partner

Purpose

Twenty-four years ago, in the spring of 1998 during my initial interview on the 44th floor at a large, Wall Street brokerage firm, Howard Punch told me, "We work hard around here. Days start early, and sometimes work extends late into the evenings." I nodded and assured him that I was up for it. Howard is a man of well-chosen words, so his message to me carried a lot of weight, but he wasn't aware of the emotional momentum with which I was coming to the table.

I started in this industry not knowing a thing about it, but I knew why I was in it. I grew up in a home with money problems. From bad luck to outright money mismanagement, my family was put in a position where we often wondered where our next meals were going to come from. A common mantra was, "We're scraping the bottom of the barrel." I remember moments as a kid when I thought, '*This is no way to live!*' I even said to my mother at the time, "I don't want to have to 'scrape the bottom of the barrel' when I grow up. I'm going to figure out how to avoid this situation."

From an early age, I knew I wanted to be an advisor to individuals and families. I had an inner drive to dedicate my life to learning as much as I could about people and their finances so I could help others avoid the same form of agony my family felt. Since my initial interview with Howard overlooking downtown Minneapolis, I've felt "at home" helping people. Today, over two decades in, I find myself advising clients in a manner that enables them to steward resources with clarity and purpose. I view this as an immense privilege.

After my first five years in the industry (and Howard's 19th year), we had the motivation to see what a firm could look like if we built it from scratch. We wanted to shape an atmosphere and a culture that would be ideal for our clients. Punch was not created to be all things to all people. We sought to build a firm that would be exactly what we would want it to look like if we were its clients. We wanted to preserve the positive aspects of our business leading up to that moment, but we also wanted to strip out the nonessential. We sought to build an environment that was quiet, singularly focused, and undistracted from the noise and influences of Wall Street. In February 2002, shortly after the world was (once again) in disarray, we made the jump.

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In the early days, we lived a set of values without writing them down. Today, our firm's core values are etched in stone and appear in the agenda for our weekly meeting:

1

Aim Past the Target

This value came from a fascinating book recommended to me by one of our longest tenured clients called *Business Secrets of the Trappist Monks* by August Turak. Rather than doing the "minimum" or simply what is "required," a thoughtful enterprise should seek to go well beyond what is required. We aim to put ourselves in our clients' shoes with each decision, and we apply this approach to our service and communication standards, our investment research, our work ethic, and our compliance initiatives with various regulatory regimes. We liked this tenant so much, we adopted it as a core value of the firm.

2

Diligence and Persistence

I credit my business partner, John Carraux, for the value of diligence and persistence. John naturally brought this concept to the forefront, as his normal mode of operation is one of hard work and dedication. Slow and steady wins the race, and he would tell you (and I would agree) that producing great results requires consistent effort on a daily basis.

3

Humility

We work in an industry that is long on ego and short on humility. I personally treasure the fact we are a "counter-cultural" group in this regard. Ego has destroyed relationships and firms. Holding humility as a value, by contrast, helps us operate with a large degree of respect in our dealings with others and acknowledge that we rarely (if ever) have perfect information. The path to progress is to offer honesty and vulnerability when we are unsure about a decision. Paradoxically, to us, this represents courage and strength and leads to productive communication and healthy progress. We selected humility as a core value because we would not want to work in a culture that is anything but humble.

4

Permanence

Howard, whom I credit with setting the example for our firm with his character, has long talked about the idea of *permanence*. He is not often fond of things that are fleeting or temporary, but instead he values that which endures or is eternal. Permanence applies to our relationships with clients and employees, to the advice we deliver, to the specific investments we make, and the returns we create. We want our efforts to produce outcomes of lasting value.

5

Fun!!

Our workplace is a genuinely fun place to work. Humor and candor is our model, and we look to attract colleagues who have positive attitudes and engage in conflict resolution in a healthy, constructive manner. We have no shortage of challenges in our business, so we don't want to go out of our way to create new ones unnecessarily. We take our work seriously, but we try not to take *ourselves* too seriously. From the beginning, we believed that our work should be enjoyable, and our environment should support it. We seek to enjoy life with our clients and colleagues beyond our work together.

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Our Colleagues

As I reflect on our firm's 20 years of history, I am struck with how important my colleagues and our clients have been in shaping our business. I feel compelled to share some thoughts about the individuals who have come together to form our community, as the story really begins and ends with people.

One colleague recently told me that her experience of finding her career opportunity at the firm was an answer to prayer. We've had colleagues tell us that they hope this is the last place they ever work. I don't have a litany of reference points from outside our firm personally, but I suspect this type of sentiment is not the industry standard.

We've sought to hire colleagues who are inclined to communicate. We want colleagues who can clearly articulate ideas and who are adept at listening. Because listening makes up the majority of good communication, we try to find people who are curious and listen well.

Over the past 20 years, we have grown from four employees to 24. This summer, our 25th employee will join our team. We've grown from working with our first few clients to serving over 200. Our assets under management today are 20 times what they were at the end of our first year. Growth is important, but the reasons for growth are of greater importance.

To date, growth of our firm in terms of clients, headcount, and assets under management has been a byproduct of offering differentiated advice and a distinct investment philosophy consistently applied over time. Growth is important so we can retain and recruit exceptional talent, but we avoid unmanaged growth intentionally. We are unwilling to pursue growth for growth's sake, as this objective can alter what makes a firm special in the first place.

Our business plan doesn't contain artificial or arbitrary targets for increased revenue or greater assets under management like the business plans at almost every other firm. We feel these objectives—in and of themselves—are a distraction from producing a better investment experience for clients. We are committed to preserving the integrity of our investment process as well as the differentiated advice we provide. Punch exists to serve a clientele who share our philosophy—not only about the markets and investing, but about relationships too.

Our firm started with a focus on investing, and we steadfastly maintain that focus today. Our investment team has grown gradually by design to ensure our philosophy is consistent as new professionals join the team. We have structured our firm so that our investment professionals are given the luxury of focus. Led by Howard Punch (Chief Investment Officer), John Carraux (Managing Partner, Portfolio Manager), and Paul Dwyer (Portfolio Manager, Director of Research), the team is freed from the pressures that most other investment professionals face when their responsibilities become too broad. Our investment team is left uninterrupted, supported, and enabled to do their best work, and they are fantastic at their craft.

Our Clients

We do not have to look far to describe our clients because we are clients of the firm personally. Our group invests our own capital in the same manner and philosophy alongside our clients. (We eat our own cooking.)

We don't accept hundreds of new clients each year, and we tend not to lose many either. In cases where we have lost relationships, the loss has often been due to changes in life circumstances as opposed to dissatisfaction. Firms in our industry measure client retention rates, and we are blessed with an industry leading figure in this category.

We've turned down big opportunities, and we've proactively parted ways with clients who were not a good philosophical or cultural fit. We've done this intentionally to manage the inbound inquiry experience. In short, we want everyone at the firm to be excited about who is on the other end of the line when the phone rings, and we've been fortunate in this regard.

Our clients are some of the smartest people we've ever met. You don't always need an advisor who is smarter than you to guide you through certain decisions or environments—more often you need an accountability partner. When it comes to your personal situation (and when it involves a topic as important as money), emotion is sure to enter the picture. The value of an unemotional, undistracted, unbiased, and objective confidant is substantial.

Whether we're addressing the intricacies of tax, trust, estate planning, and gifting, or whether we're living through a market that is producing a level of volatility that defies logic, even the sharpest people can become disoriented, less academic, and more emotional. You need your people. You need someone you know well to help with key decisions. Someone you like to work with. Someone you trust implicitly. Someone who is going to respond to your situation with care and diligence. You need a professional opinion that is informed and aware of your full circumstances, and someone who cares sincerely about your wellbeing. Those are your people. We feel fortunate to be those people for our clients.

We need our people too. In fact, you are our people! A dear friend gave me some advice recently. He said, "Be yourself, but don't exclusively follow your own will." For me, this means I need an accountability partner to help me think about things. We value authenticity and take a client advocate posture rather than the sales posture you'll find at a typical financial firm.

We are behavioral advisors because behavior matters. It doesn't matter what you say you believe, or think you believe,

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or convince yourself you believe, or what the people you're surrounded by have led you to think you believe… In the end, it's your behavior that gives you results and creates outcomes, for better or for worse. We are highly aware of and sensitive to this reality, and we serve as a ballast in decision making for our clients and encourage the optimal behavior in every instance.

We all at times engage in behavior that is both consistent, and sometimes inconsistent, with our identity and our ideals. Temptation is all around us. The hysteria of the media and the preponderance of loud "experts" who are dying to be heard are two relevant examples. We try to listen to the quieter voices—counselors who have our best interests at heart rather than media that seeks to derail our long-range plan for the sake of their ratings. Investing is a primal exercise, and it helps to have accountability. Money has immensely powerful psychological and relational qualities to it, and it is important to stay clear headed and strive for simplicity. And… it's never too late to do the right thing.

People do business with people they know, like, and trust. We have been so fortunate to be part of a community where our events feel less like investor meetings and more like family reunions! Some of our clients have met at our events, kept in touch, and forged meaningful and lasting relationships. This, to me, is one of the most gratifying elements of our history.

Our Passion

We are not "splitting the atom" in our work as an investment and advisory team, but we aim to be some of the hardest working practitioners in the industry. This holds true today. Our passion for our work and our clients is stronger than ever.

From our clients to our employees, to our service providers, and even our competitors, we live in a wonderful ecosystem. It's not perfect, but within our little corner of the industry, we are blessed to engage in some extraordinary lifelong relationships. In my view, it's not a coincidence or an accident that our community came together, rather, it seems scripted somewhere.

We are profoundly grateful we have the opportunity to work with, for, and alongside some exceptional people. You make us better each day. And the process continues. Little did I know as a kid struggling within a family lacking resources that I would one day be part of the wealth creation and preservation effort for hundreds of families.

Thank you for paying us the highest compliment in giving us your trust. We are not cavalier about it; we work hard to preserve and build it each day. We hold tightly to the permanence that we know we can count on: our relationships. We put our hope in this lasting treasure.

Punch Income Strategy

Avoiding Predictions

The pitfalls of making investment predictions

John Carraux, CFA®, CIC®
Managing Partner & Portfolio Manager

About this time of year, my email inbox fills up with a certain type of email. The emails come from people I know and those I don't, from firms across town and across the world. Typically, the messages have one purpose: to predict markets and, subsequently, to tell me which investments will perform well as a result.

Predictions hold a certain allure in investing. They take big, complex, unknowable factors like the direction of stocks or interest rates and distill them into simple, seemingly obvious decisions. The clairvoyant emailers declare outcomes with varying degrees of certainty. Often the confidence with which these forecasters communicate their predictions conjures an aura of credibility.

The problem, of course, is that investing is not a math puzzle that can be solved with a spreadsheet. Investing involves a human element that can be unpredictable, confusing, and even irrational at times. Investors are human, and they often make decisions with the emotion and biases that we all experience from time to time.

Consider a few observations from the first quarter of 2022:

- Despite their proximity to the Ukrainian conflict, European stocks declined about the same as U.S. stocks. The MSCI Europe Index was down 5.2% compared to the S&P 500 Index down 4.6%.
- Long-term treasury bonds, which usually benefit from a "flight to safety" during periods of market stress, performed worse than the S&P 500. As interest rates climbed, the long-term treasury index was down 10.6%.
- Bitcoin, which some investors consider the "new gold," also did worse than stocks and showed no diversification benefit, declining almost 30% at its worst. Meanwhile, gold was up 6%.

Even a generic "balanced portfolio" of 60% stocks and 40% bonds did not perform well in the quarter as both stocks and bonds declined in tandem and exhibited little diversification benefit. Going back 25 years, a "balanced" portfolio has had an average annual performance of over 7%. In the first quarter, that generic portfolio would have been down over 5%.

It was a tough quarter for fixed income markets broadly with high yield bonds down 4.7%, the aggregate bond market down 5.9%, and even short-term treasury bonds were down 2.5%. As the Fed increases its efforts to fight inflation, interest rates are rising, and they may continue to rise. We are watching this risk closely.

Interestingly, commodity-related investments were one of the few true "hedges" against both geopolitical uncertainty and rising interest rates this year. The energy sector was the best performing sector in the S&P 500 in the first quarter, and the Bloomberg commodity index is up over 25% since the beginning of the year.

Meanwhile, investments that have been popular and profitable over the past few years performed poorly. FANG stocks declined 11% in the first quarter and are lagging the S&P 500 meaningfully over the past year.

> *"It's tough to make predictions, especially about the future."*
>
> \- Yogi Berra

Predicting the direction of markets or the path of world events over the near term is difficult, if not impossible, to do consistently. We prefer to approach investing with humility and a contrarian mindset that looks for value in places that other investors have overlooked or discarded.

In the Punch Income Strategy, we attempt to navigate volatility and uncertainty by looking for undervalued securities that pay above-average dividends and interest to investors, and that may provide a hedge against some of the more notable – and unpredictable – risks in the world today.

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.

Punch Large Cap Strategy

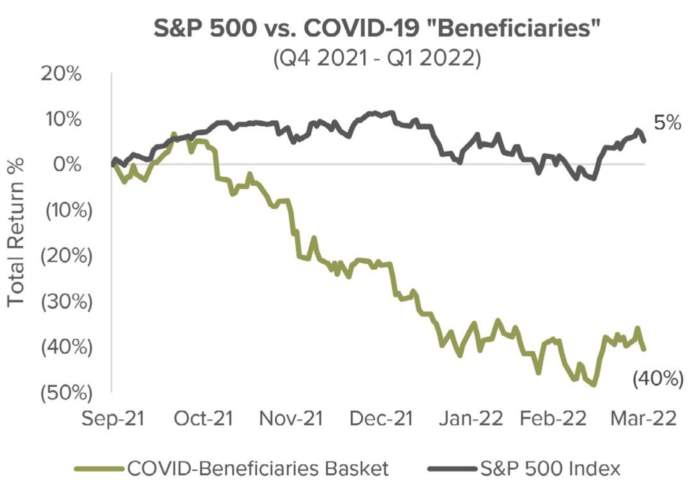
Garden Lessons

Avoiding permanent damage during temporary disruptions

Paul Dwyer, CFA®
Portfolio Manager & Director of Research

Author and environmentalist Michael Pollan dedicated his professional career to discussing the beauty of gardens, nature, and the valuable lessons humans can learn from them. Known for his harmonious relationship with the natural world, I was surprised to hear him recently on a podcast describing a battle with a woodchuck guilty of tearing up his garden. The story ended in a near-death experience for Pollan, with what sounded more like Carl Spackler (Bill Murray's character in Caddyshack) battling gophers than an environmentalist living in peace with nature.

With fewer places to go and a desire to regain some control over their lives, over 20 million people found a similar love for gardening over the past two years. Many habits and preferences changed during the pandemic. As society learns to manage COVID-19, investors continue to estimate the trajectory for companies that experienced increased demand during the pandemic. Judging by recent stock price performance, most companies that benefited from the pandemic are disappointing investors with their outlooks for a re-opening economy. Questions around the longer-term economic effects of battling COVID-19 (inflation, supply chain constraints, and labor shortages, to name a few) caused further investor concern during the quarter. Add in the atrocities from Russia invading Ukraine, and investors started to sell first and ask questions later. As a result, the S&P 500 Index dipped into correction territory (defined as declining at least 10%) during March.



Note: Beneficiaries basket is comprised of 18 equal-weighted securities including Amazon, Pinterest, Peloton, and Wayfair. For discussion purposes only.

Across the Punch strategies, we operated the same way as with past market downturns. We took comfort in owning cash-rich companies that do not require outside capital to keep the lights on. We also assessed how current events may impact our companies' long-term earnings, and we looked for investment opportunities caused by overreactions.

As an example, early in the quarter we invested in a lawn and garden products company with strong brand awareness and high insider ownership. With the increased interest in gardening, we think consumers are more likely to refill the flower box in 2022 than to buy another piece of exercise equipment or increase their spending on media subscriptions. We also think investors are ignoring the demographic trends that likely increased demand for gardening products even without the pandemic. Adding to the opportunity, the management team made several investments in businesses unrelated to traditional lawn and garden products that should create meaningful value for all shareholders, however, it adds a layer of complexity to the company's story. Management recently signaled it is looking at ways to simplify the business through a divestiture or separate public listing of the non-core assets, which would help unlock value. We used the market turmoil to increase our ownership stake as the quarter progressed.

In periods like the first quarter, it is understandable to feel like Carl Spackler when he asks the Dalai Lama, "How about a little something, you know, for the effort?!?" But like a woodchuck tearing up the garden, usually only the downfalls are immediately noticeable in an investment portfolio. A bountiful harvest takes time and is the result of barely perceptible compounding. When challenging macro events occur, a typical first thought is to do something. However, each company added to the Punch Large Cap Strategy was purchased knowing it will likely be owned during volatile, uncertain periods. It usually makes more sense to be on the lookout for overreactions by others, and not disrupt existing portfolio companies' value creation. The goal is to not let events like a woodchuck eating our lettuce result in any irrational reactions that do more harm than good.

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.

Punch Small Cap Strategy

Restraint

Maintaining an investment discipline in uncertain times

Howard Punch
President and CIO

A young boy enters a barbershop. The barber whispers to a customer, "This is the dumbest boy in the world. Watch, while I prove it to you." The barber puts a dollar bill in one hand and two quarters in the other. He then calls the boy over and asks, "Which do you want, son?" The boy takes the two quarters and leaves. "What did I tell you?" the barber says to the customer. "That kid never learns!"

Later, the customer leaves the barber shop, and he sees the boy coming out of an ice cream store licking a wafer style ice cream cone. He summons the boy and asks, "Hey, son. May I ask you a question? Why did you take the quarters instead of the dollar bill?"

The boy licks his cone and replies, "Sir, because the day I take the dollar bill, the game is over."

Like the boy, casinos understand this concept. If they didn't, their business would be finished. They allow their hopeful gamblers to have an occasional win making them eager to return. But it is the casino that understands probability better than most of their repeat customers.

High-end jewelers get this too. I am sure Tiffany could increase their sales with better distribution of their diamonds. However, if you could get Tiffany earrings at Walmart or Costco, their margins would disintegrate, as the prestige of wearing their gems would quickly evaporate. Tiffany wouldn't be Tiffany anymore.

The most successful businesses and people understand the concept of restraint.

And Lead Us Not Into Temptation

The stock market is a constant purveyor of tempting choices for investors. When pockets of the market increase rapidly (we will refrain from mentioning Meme Stocks here), many might forget practical investment principles in favor of worshiping at the altar of price momentum. We concede that some of these opportunities can sound quite alluring and might make sense to a person without access to a calculator.

Early in the pandemic, many market watchers hastily assembled their lists of COVID beneficiaries (see Paul Dwyer's article, *Garden Lessons*, on page 8) featuring companies that have been favored by virus-altered consumer behavior. Favorites on these lists might include companies that benefit from things like "consumer nesting behavior" or the "work-from-home" trend. The stocks of companies like Netflix, DocuSign, or Zoom should have killed it during this time frame, right? For a spell, they did. Examining shares in these companies now, one would think the pandemic offered no tailwind whatsoever. Certainly, business picked up for these enterprises, but the price of shares of these companies at the outset had already accounted for this success. With a small shift in investor attitudes away from the pandemic and a focus on rising interest rates, inflation, and a war, investors are examining these companies differently and price their shares accordingly.

> *"Do not wear yourself out to get rich; have the wisdom to show restraint."*
>
> \- Proverbs 23:4

Like new shiny objects, initial public offerings (IPOs) are always enticing. 2021 was a banner year for IPOs, and we see even more queuing up this year. *Inc. Magazine* highlighted "Twelve of the Most Fascinating IPOs of 2021" recently. On that list were recognizable names like Bumble, Coinbase, Warby Parker, Rivian, and Robinhood. In each case, shares of these companies were initially introduced at lofty levels, most ascended to "nosebleed territory" for a moment and then quickly dropped below the share price at which they were introduced. In the last six months, the Renaissance IPO Index declined 32%, compared to declines of 2% for the NASDAQ Composite and 6% for the Russell 2000 Index. We stubbornly avoid IPOs, and we joked in the past that the term IPO stands for "**I**t's **P**robably **O**ver-priced."

Wars, Interest Rates, and Stagflation

The stock market was already digesting a changing landscape before Russia launched a military strike in Ukraine in late February. The human tragedy of this act of aggression cannot be overstated. Our hearts go out to the Ukrainian people and other innocent victims caught up in this needless war. Certainly, our hope is for a swift and peaceful end to this conflict. Our job is, of course, to interpret the effect that it might have on your assets, communicate our thoughts, and act accordingly.

Inflation, originally stoked by supply chain bottlenecks

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during the heart of the pandemic (indeed, the Federal Reserve labeled it as "transitory"), was on the rise, and the Fed made clear they are going to combat rising prices by raising short-term interest rates. Rising rates can have a chilling effect on some consumer behavior, including major purchases like homes and autos. The war has exacerbated supply chain challenges, and given Russia's importance as a world-wide supplier of natural resources, it has roiled energy markets. Since the invasion, Brent Crude oil spiked from $98 per barrel to over $120. The price we pay at the pump followed suit.

These circumstances led some observers to mention the word "stagflation." Stagflation is characterized by rising consumer and producer prices coupled with falling economic activity. I had just entered junior high school the last time our country experienced stagflation. While I didn't know what a small cap value stock looked like back then, examining the chart below, it appears it would have been a good time to be involved with a few of them. Small cap value as an asset class, in fact, performed better than any other during that time. While we are not hoping for stagflation, our value framework should serve us well if these conditions arise again.

The Price Value Discipline

"... [S]ecurity prices reflect investors' perception of reality and not necessarily reality itself." — Seth Klarman

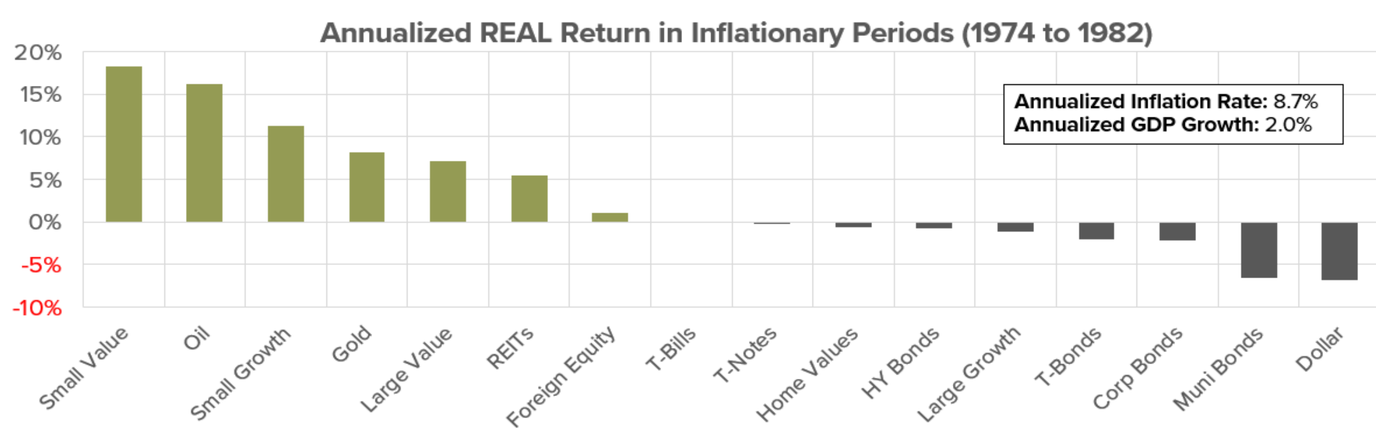
Maintaining an investment discipline means saying "no" to more opportunities than saying "yes." Not surprisingly, after strong returns in 2021, small caps struggled through the first quarter of 2022, under-performing large cap indices. New factors like inflation or geopolitical unrest tend to amplify small cap volatility. The good news is this market uncertainty is creating more interesting research and investment opportunities for our team.

With the confluence of uncertainties in the economy these days, it's difficult to figure out what the future portends for the stock prices of individual companies. What we **can** know at any given point in time is the current stock price of a company. Michael Mauboussin, in his book *Expectations Investing*, suggests "reverse engineering" the stock price. Simply put, if ABC Company is selling for $20 per share, what must investors believe to make this the right price for the shares? Or is what they believe too much a product of unsustainable "group think?" Since ABC is more expensive than XYZ Company, it must mean it is going to grow faster and become more predictable, right? How fast does the company need to grow? How much more profitable does each incremental dollar of revenue need to be? What do investors believe are the governors to profitable growth?

These questions can be a starting point for determining whether a company's shares offer good value or if they should be avoided. Charlie Munger says Berkshire has three boxes for investment ideas: In, Out, and Too Hard. We have the same boxes at Punch. A high stock price relative to the fundamentals of a company means there is a high hurdle for us to consider adding that stock to our clients' small cap portfolios. We might love the company, the management, and its products, but if the shares are priced for perfection, we know our research must also be perfect. That's a high bar and generally leads us to exercise some restraint and take a pass.

What we don't own in the Punch Small Cap Strategy is perhaps more important than what we own. We work hard to earn your trust through intentional and careful restraint, although most of our clients don't have a front seat to this counterintuitive effort. Our hope is that your confidence grows in our approach as we navigate these challenging economic times with patience and a steadfast investment philosophy.

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.



Source: FRP, FactSet; Morningstar

Wealth Planning

The Value of a Good Caddie

Mentoring young adults

Ryan Punch, CFP®
Associate Advisor, Wealth Strategies

For my first job, I worked as a caddie at a golf course. In my role, I was responsible for carrying a golfer's bag, locating golf balls, replacing divots, raking bunkers, and often providing the golfer input and advice as he or she played their round. Over the course of hundreds of rounds, the advice I provided improved over time, and I became increasingly familiar with the intricacies of the golf course. I knew the risk and reward trade off of certain shots, and I offered advice on club selection, yardage, and how the wind might affect the outcome. I especially loved caddying for guests who sought out and valued my advice.

In many ways, caddying is similar to the role that a parent plays in a young adult's life as the child begins a journey to self-discovery and independence. The role of a caddie is simply that of a supporter; the caddie observes, assists, and encourages. There were plenty of times that I wished I could step in and hit the shot myself, but I knew this was counterproductive to the golfer improving his or her game. Knowing what challenges lie ahead, when to interject and when to stay silent, and how you can best support your child is critical in preparing them for future success.

Know Your Golfer and the Course

As a young adult begins the journey toward financial independence, a guide with experience can help. Someone who has made mistakes, learned from them, knows the risks, and understands how to make sensible decisions can be a significant resource for a younger person lacking experience. Moreover, a mentor who has an intimate grasp of a child's unique strengths, weaknesses, and goals can offer important perspective and help provide clarity.

Mentors, often parents or grandparents, can provide guidance by simply initiating a conversation with them about their interests and what is important to them. Engagement can not only help them choose a field of study or a career path that best suits them, but it could also shape how they spend time outside of the classroom. A personality quiz, such as the 16 Personalities Test found at 16personalities.com, can serve as a great conversation starter. On top of revealing strengths and weaknesses, quiz results can identify innate preferences. I always knew I was interested in finance, but when my mentor suggested joining a finance club my freshmen year, my interest in personal finance flourished.

For those on the path to a college degree, clear communication regarding expenses and resources is critical. A recent study by the Education Data Initiative revealed parents and college savings plans contribute more than half of all education funding for the average student, and 83% of parents will pay for at least a portion of their child's education costs. More than 60% of all students expect their parents or relatives to help with at least a portion of these costs. Many parents have already created plans for funding their child's education costs, and even if this is not the case, it is never too late to sit down with your child and develop a strategy to pay for college.

As you guide your child into college and adulthood, consider what costs you expect your college student to cover. If the answer is "all" or "most," then we recommend filling out the Free Application for Federal Student Aid (FAFSA). Note that a parent's income and assets will factor into a child's eligibility for student aid, so for some, the FAFSA may have limited benefit. If grandparents or other relatives plan on contributing money towards education, a two-year look-back applies for the financial aid calculation. Therefore, if a student has multiple sources of funding, he or she should access any grandparent-owned 529 plan in the final two years of college to avoid inclusion in this calculation.

Filling out the FAFSA will also determine eligibility for federal student loans. While these subsidized loans offer more benefits than private loans, the government takes financial need into consideration. For those who are ineligible for government loans, private student loans are also an option to consider. Helping your child fill out these applications and begin to think about a plan for future repayment of their loans can serve as an early teaching moment for how to responsibly use debt. Even small payments toward these loans during enrollment can cut down on any interest that begins accruing after the loan is taken out.

Notably, if a parent or grandparent would like to contribute to expenses, any amount paid directly to the educational institution for tuition is not a reportable, taxable gift. In other words, direct payments to the educational institution circumvent the gift tax regime and do not count toward the annual exclusion (currently $16,000 per person per year). Of the various sources for funding education and related expenses, you may find yourself choosing from: UTMA custodial accounts, Education Savings Accounts, 529 plans, a trust, or other assets, and each of these has different rules and considerations as you access them. If you would like to have a discussion about the resources uniquely available within your family, we would be happy to assist.

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Preparedness

After having a conversation about expectations and plans for college funding, encourage your child to prepare financially. A few weeks ago, my aunt asked me to sit down for a conversation with my twin cousins who are seniors in high school. She asked me to provide financial advice and guidance as they prepare for their freshmen year of college. I reflected on my own experience at their age and realized that my high school curriculum did not do an adequate job educating me about personal finance. In fact, had it not been for my college degree in finance, I might have graduated with little exposure to financial matters other than information absorbed through the Internet and conversations with friends and family. Students are often ill equipped about personal financial matters even after graduation. In the age of social media, where teenagers on TikTok are flaunting newly purchased Lamborghinis and glamorizing investments like Bitcoin, naiveté can be problematic. Conversations with mentors are critical.

Building out a basic budget and a savings plan can help establish a strong foundation. Online budgeting apps allow you to track progress and stay informed about spending habits. Opening bank accounts ahead of time is also a good idea. It's important to remember that college students can be easy targets for credit card companies, so it is crucial your child understands the importance of paying off the balance monthly if they plan on using credit cards.

Establishing a discipline around savings can teach lessons not available in textbooks and yield important benefits.

Of course, time value of money becomes exponentially more powerful the earlier you begin to save. Two simple strategies include funding a brokerage account or a Roth IRA. Opening a brokerage account takes a few clicks and investing in equities is a good way to combat the rising inflation that we are experiencing today. If your young adult plans to earn income in college, they should consider establishing a Roth IRA. The Roth is earmarked for retirement, and the balance grows tax-free for decades. Individuals can fund a Roth IRA up to the amount of their earned income for the year (subject to a $6,000 maximum for 2022). A parent or grandparent could also divert some of their annual exclusion giving to the beneficiary to help fund the account.

In addition to saving and investing, your family should prepare for the unexpected. When your child turns 18, you no longer have the legal right to make decisions for him or her or access information about his or her finances or healthcare. A Financial Power of Attorney allows a designated individual (called an "Attorney in Fact") to make legally binding financial decisions on your child's behalf. A Health Care Directive gives a healthcare agent the authority to make medical decisions if your child is unable to do so. A HIPAA Authorization grants access to medical records and is either a stand-alone form or is embedded into the Health Care Directive, depending on the state. These documents can be inexpensive to prepare, and we are happy to help you coordinate with an attorney.

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Know Your Role

Young adults who experience the best outcomes are those who take initiative on their own but also know when to ask for advice. Like a golfer who seeks the counsel of a competent caddie, young adults should learn they are ultimately responsible for executing their own shots. Similarly, as a parent, grandparent, or mentor, you are the young adult's "caddie," in a sense. Taking care of everything for your child would be detrimental to their growth. It is important to know when and where to step in to provide advice, but it is also essential to know when to stand back and allow your mentee to make decisions on their own. Very few caddies would keep their job if they were talking and giving advice during their golfer's back-swing or hitting shots on their behalf.

We look forward to meeting with you should you have questions pertaining to the administrative—or the relational—details as they pertain to this part of your and your child's journey together!

Welcome, Laura and Austin!

Laura Hebzynski joined Punch & Associates in January. She is a member of the Punch Operation – Systems team as a Data Management Analyst. She brings over seven years of professional experience in data validation, research, and analysis. She will be using her skills to work closely with our Operations – Client Service team to effectively manage data across several platforms. Laura will maintain client and account information, facilitate internal processes to support the Operations team, and monitor reconciliation status for all accounts.

Laura graduated with a B.A. in Applied Mathematics from the University of St. Thomas in St. Paul. In her free time, she enjoys biking, swimming, and coaching.

Austin Van Bemmel joined the Operations – Client Service team at Punch & Associates in March. He was previously the Director of Operations for an independent wealth advisory firm where he assisted with trading, financial planning, and wealth and business operations. Additionally, Austin brings trust experience to the Punch team having previously worked at a trust company. He will assist with account opening, maintenance, and money movement. Austin likes to see the full picture for a client so he can best understand how to help in any situation.

Austin graduated from the University of Sioux Falls with a double major in Public Accounting and Business Administration. After a couple of years in Sioux Falls, South Dakota, Austin and his wife made the move to Minnesota and currently reside in Edina with their young daughter. Outside of the office, Austin likes spending time with his family outdoors, fully enjoying Minnesota summers fishing and boating at the cabin in northern Minnesota. You can also find Austin rooting on the Twins and Vikings throughout the season despite their continual disappointment!

Operations

Cybersecurity: Ways to Protect Yourself

Andrea Barkley
Senior Operations Analyst

Technology offers a pathway to efficiently manage our financial lives. With the stroke of a key or a few taps on an app, we can move money between accounts, update our address, change our beneficiary designations, and much more. These benefits come at a price. The convenience technology provides for each consumer can also be extended to the thieves who may be looking to gain access to your accounts. We at Punch, and throughout the financial industry in general, use the measures available to ensure your private data remains private and your accounts can only be accessed by you, the account owner. There are several steps you can take, too, as we work in partnership:

- **Use strong, unique passwords** – Use passwords that consist of a random combination of letters, numbers and symbols. Consider using a password manager to store and keep track of these passwords. Never share your passwords with others.
- **Always enable two-factor authentication when available.**
- **Protect your computer** – Use a firewall and virus/spyware protection software to keep your information secure.
- **Safeguard your social security number** – Never provide your full social security number over the phone or online, if someone asks for your full social security number, you should be wary. Never carry your social security card in your wallet.
- **Go paperless when possible** – This eliminates the possibility of someone stealing sensitive information from your mailbox.
- **Keep your software updated** – Hackers exploit security flaws to steal your data. Companies continually develop and release updates to derail hackers, so take advantage of the most up-to-date protection.

- **Don't send full account numbers or social security numbers via email** – Only include partial account numbers when emailing account information. If you need to provide full account numbers or attach statements, always use our encrypted email service. Also, never email your social security number. If you need to send private information via email, please request we send you a secure email. When you reply to that email, it will continue to be encrypted.
- **Be aware of suspicious links** – Never click on links that come from a sender you don't know, and remember to call the sender to verify the message if you think the email may be illegitimate. Do not respond to emails that ask for your personal information without verbal confirmation.
- **Secure your mobile devices** – Use biometric identity verification to unlock your phone and update your settings to auto-lock after 30 seconds of stalled screen use.

Despite your efforts, you may find yourself in a situation where your personal information has been compromised. In the event of a security breach, please reach out to Punch right away so we can take steps to mitigate losses and protect your information and accounts. Together, our vigilance and awareness can go a long way to protect you.

Save the Date

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

Location:	Lafayette Club 2800 Northview Road Minnetonka Beach, MN 55361
Date:	Thursday, July 21
Time:	5 p.m. Cocktail Hour 6 p.m. Dinner 7 p.m. Live Music

A Roaring Good Time

Employees gathered for a 20th anniversary wingding that was the cat's meow!
We donned our glad rags and ground grippers for a night at the local Speakeasy.

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Punch

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