

*William D. Johnston
Chairman, Greenleaf Trust*

Sweet 16	5
Celebrity Estates — A Year in Review	6
Retirement Resolution	8
State of the Tax Increase	9
Should Your Municipal Bond Portfolio be Pure Michigan®?	10
IRS “E-Audit” — Its a Scam!	15

Economic Commentary

Recently I have had numerous questions raised from clients and friends about deflation, currency, oil prices, and their impact upon our economy and financial markets. The questions are often asked in this context. “I always thought the Federal Reserve was fighting inflation so why is deflation bad?” The next question is often phrased as “I always felt it was silly for the pound to be worth more than the dollar, why isn’t a strong US dollar in relationship to foreign currency a good thing?” Lastly, “If lower gas prices are better for consumer spending, why is the equity market in such a funk about lower oil prices?” These are all great questions and wonderful observations, each of which has an economic impact and ultimately a financial market impact. Let’s examine each and see if we can make some sense out of the dichotomies described.

DEFLATION

In its simplest definition the word deflation means lower prices for goods and services, which is exactly the opposite of inflation or higher prices for goods and services. Unfortunately, this is where the simple ends and the complex begins. Central banks throughout the globe fight inflation to protect asset values, purchasing power and capital investment incentives. This is where the important nuance comes into play. It is not the rearview mirror report of inflation data that discourages investment capital or erodes purchasing power and real value of assets, but rather the expectation that prices will continue to rise that creates the self-fulfilling cycle of inflation. If producers of goods and consumers believe that purchases of goods will cost more in the future, they will continue to raise prices and pay more for goods in an attempt to maximize their current investment and purchasing power in the present term. In periods of consistent inflation, demand for goods and services are built upon this expectation and sustains itself until consumption is choked by prices and demand diminishes.

Deflation cycles are similar in concept but different in results. Our Thailand friends understand very well the saying “Same Same... But Different.” The expectation that prices will be lower in the future

Commentary, continued

“... the majority of central banks... have targeted a 2% inflation goal for the past five years, [and] have failed to meet that goal.”

discourages current consumption, lowers demand and further diminishes prices. From a producer standpoint the diminished demand reduces the need for labor, creates layoffs and lowers GDP growth, not to mention tax revenue and government budgets. The sweet spot for all central banks is modest inflation that is slightly below the GDP growth rate and sustainable, with stable employment and modest wage growth that preserves purchasing power. Adjacent to this inflation target is the knowledge that growth of GDP results in growth in tax revenue necessary to sustain government expenditures that contribute to GDP and make orderly payments on the retirement of national debt. So how are the developed mature economies of the world that comprise 78% of the global economy doing, relative to this “sweet spot?”

Unfortunately, not very well. As mentioned in previous articles, the majority of central banks such as the Federal Reserve, European Central Bank, Bank of Japan, as well as central banks of China, Sweden, Switzerland, Italy, Greece and Spain, all of whom have targeted a 2% inflation goal for the past five years, have failed to meet that goal. In large part the failure has been due to a decline in global demand and inconsistent fiscal and monetary policies. The global recession of 2008 was certainly a catalyst for breaking inflation cycles in most countries, almost all of whom fell into immediate recession. The problem was not the immediate recession, but rather the individual circumstances that each economy found itself in. Though the circumstances might have been different within each economy, there were also noticeable similarities. At the time of the global recession of 2008, interest rates were relatively low and government debt among the developed countries was high and, over the long term, unsustainable. The tools of government to grow out of a recession are largely lowering interest rates, increasing money supply, stimulating the economy with government spending, and increasing sovereign debt. Each country chose their own mix in their use of tools, and did so with varying degrees of success. What is dramatically obvious, though, is that while some countries were more successful than others, the collective result is not robust by any standard and the majority of those mature economies are struggling to grow at a rate half of the inflation rate target of the central banks. What happens when interest rates cannot be lowered and government revenues are insufficient, due to low GDP growth, to meet interest and principal payments on sovereign debt obligations? While this issue is more pronounced in some countries (Greece) it is present to some degree in all of the developed global economies. The larger and troubling question is “What is the way out of this condition?”

Most countries are in a tight spot. Little to low wage growth, higher

unemployment among the population of 20–40 year olds, lower government revenue, unsustainable government budgets—largely due to entitlements—and decreasing demand for goods and services in what appears to be a growing deflationary cycle. The previous description is daunting and must be addressed, as globalization leaves all in its path and no country can protect itself through isolation. If we are to return to a cycle of growth, the expectation of growth, like the expectation of increasing prices, has to be created—in essence, the expectation of lower prices has to be reversed.

OIL

Certainly the fall of oil from \$110 per barrel to \$50 per barrel is equivalent to a huge tax cut. Globally, the amount of at-the-pump savings for consumers is huge, as is the loss of revenue for oil companies and governments worldwide. Lower demand, and increasing supplies and consumption efficiencies, have created the perfect storm for crude-based energy industries—although it is important to observe that non-crude energy sectors, such as alternative source providers, have also experienced significant reduction in demand. If the transfer of consumer dollars between fuel and non-fuel consumption was 100% elastic, we would expect the reduced demand in energy consumption to be offset by an increase in demand for non-energy goods and services. The reality is that not only is the transfer not 100% correlated, it also has a lag effect on total demand, and therefore output, employment and GDP growth. The impact of the dramatic decline in oil prices has, in the short run, been additive to deflation and the expectation of lower future prices. If the two components of energy prices are demand and supply, demand is not likely to be the catalyst for price growth in the near and medium forward cycle. We have seen evidence recently that energy companies are starting to reduce, in the short term, both investment in new sources as well as curtailing production. The supply of product currently is large and there haven't been unified approaches to the excess demand. To do so would require cross cutting some really tough political boundaries. If demand remains at the current level or shrinks from here, current enemies might have to tolerate one another again.

CURRENCY

To really get your arms around currency, it is helpful to assume that you are a manufacturer of goods or a provider of services. Further, let us assume you sell those goods and services into other countries or that the goods and services you sell in this country compete with imports. For the

“If demand [for oil] remains at the current level or shrinks from here, current enemies might have to tolerate one another again.”

Commentary, continued

“... assumptions that we make about lower prices (deflation), lower energy prices and a stronger dollar may not be as we thought. The reality is that we don’t want the polar opposite of them either.”

sake of the example, let us also assume that your products and services are of equal quality to those that you sell against. We do not have a global currency and therefore each country’s currency competes for value. If the price of your goods and services is changed due to the valuation of the sovereign currency in the country that you are selling into, your product could have either a pricing advantage or disadvantage. If the value of the dollar increases vs. the sovereign currency that you are selling into, your product and or service becomes more expensive to that local economy and therefore less competitive. Within our own country, if an importer of goods and services sees a drop in the value of their currency vs. the dollar, they have the opportunity to enjoy a pricing advantage against the domestic supplier of goods and services. Currency valuation often becomes a tool that countries use to increase economic activity, and governments take an active role in both stabilization and change in the value of their currency. You need look no further than the fourth quarter earnings reports of most S&P 500 companies to see the impact of a stronger dollar on both demand as well as revenue per unit sold to understand the impact on company’s profits. Ultimately, profit impacts investment as well as employment and, therefore, our economy.

So, on the surface, assumptions that we make about lower prices (deflation), lower energy prices and a stronger dollar may not be as we thought. The reality is that we don’t want the polar opposite of them either. The key is the sweet spot which the world is struggling to find right now. I am not suggesting a global meltdown but rather suggesting we are in a collective tough spot. Next month we will take a look at some possible scenarios for altering our current course. The President’s budget labeled “Dead on Arrival” by Congress contains some themes that might very well be common in the global arena. We will take a look at those elements and possible courses of action that countries might try to move the global expectation from deflation to the sweet spot of modest inflation. ☑

Sweet 16

This month I am celebrating my 16th year at Greenleaf Trust. When I started as a Junior Research Analyst, I was in my 20s working alongside 10 other teammates. Today, I am in my 40s and lead nearly 100 people who work together to manage over \$7 billion of assets for our clients. While much has changed, our core values have not.

We are still a client-aligned, talent-driven wealth management firm. We distance ourselves from competition by delivering highly personalized, proactive service that always meets and more often exceeds client expectations. Our goal is to help our clients achieve financial security from one generation to the next by providing sound, timely recommendations and service that is proactive, supportive and entirely accessible.

The “Why” of Greenleaf Trust:

- Greenleaf Trust is independently-owned and financially structured to remain so in perpetuity.
- Our independence ensures no conflicts of interest. We offer an alternative to large, publicly traded institutions. Our clients come first always.
- We are aligned with our clients’ wants, needs and desires.
- Our corporate values and core culture ensure that our clients’ interests come first.
- Our goals-based wealth management approach ensures a clear-minded focus on managing client wealth to allow for the client’s pursuit of what matters most to them by a highly skilled team that is loyal, works tirelessly and upholds the client’s best interest in every decision.
- Fiduciary excellence—we uphold the highest standards of integrity and trust.
- In-house research process and dynamic investment policy.
- Trust is in our name for a good reason: We earn it. People become our clients because they trust us.
- Trust is a fundamental component in a relationship which is what we build with new clients and nurture with existing.

Our target markets include:

- Individuals, corporations and foundations with investible assets in excess of \$2 million.
- Ultra high net worth individuals/families and foundations with assets greater than \$25 million who will benefit from our Family & Foundation Services Division.
- Growth oriented businesses that will benefit from our areas of pension and retirement planning specialization.



*Michael F. Odar, CFA
President*

“Our goal is to help our clients achieve financial security from one generation to the next...”

Looking ahead, I envision dynamic, ongoing growth and expansion into new markets. Some things will necessarily and wisely change and our commitment to continuous improvement will help us stay ahead of the curve. One thing that will never change, however, is our tireless focus on doing what is in the best interest of our clients. Thank you for giving us the privilege of serving you. ☑



*Wendy Z. Cox, J.D., CTFA
Vice President
Assistant Director of Personal Trust*

**“In spite of their fame,
many celebrities are
no better at getting
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than the rest of us.”**

Celebrity Estates — A Year in Review

2014 marked the passing of a number of celebrities—Casey Kasem, Phillip Seymour Hoffman, James Gandolfini and Joan Rivers, to name a few. In spite of their fame, many celebrities are no better at getting their affairs in order than the rest of us. A review of their estates reveals many of the same themes all of us should consider.

Failure to Update Planning as Circumstances Change

Phillip Seymour Hoffman originally prepared a Last Will and Testament when he was just beginning in the business and prior to having children. At the time of his death, he had two children with his long-time partner, had won an Oscar, been to rehabilitation, and was worth approximately \$35 million dollars. His failure to update his estate plan meant that his Will became public knowledge, he failed to take advantage of any tax planning techniques which exposed approximately \$30 million to a 40% estate tax, and he did not include provisions which specifically addressed the needs of his minor children. All major life changes—marriage, divorce, children, and increased wealth—should be reminders that estate planning should be revisited.

Careful Consideration of Who is Named to Act

Casey Kasem’s last days are a testament to this point. Mr. Kasem prepared a 2007 advanced health care directive naming his daughter from his first marriage. Mr. Kasem had been married to his second wife, Jean Kasem, for thirty years. When Mr. Kasem became incapable of making decisions, tension between the children and Jean increased until Jean cut off the children’s access to their father. This resulted in the daughter filing a probate court petition to enforce her rights under the document and to remove her father from life sustaining measures. The court ruled in favor of the daughter and Mr. Kasem died a few days later. Even with long second marriages, there can be a great deal of tension between family members. It is important to think carefully about who should act. Although there is usually a bias in favor of family members, sometimes a third party is a better choice.

Care should also be given to whether the named person has the appropriate skills. Maurice Sendak, author of *Where the Wild Things Are*, had no spouse or children and named his long-time assistant as trustee. Although she was well versed in what Mr. Sendak’s wishes were, she was in need of assistance to manage the assets and the tax issues. Naming a professional co-trustee along with a trusted friend or family member can be a good solution.

In an ironic example of the planning working perfectly, Donald Sterling’s wife followed his trust’s directive to have two physicians determine Mr. Sterling’s incapacity. She then assumed her role as successor trustee and

entered into a deal to sell the Los Angeles Clippers. The court upheld her actions over Mr. Sterling's objections indicating that the planning had been followed as exactly as intended.

Blended Families—Who Will Pay the Tax?

Both James Gandolfini and Tom Clancy had blended families and detailed estate planning. In Tom Clancy's trust, the document did not address whether the trust for the surviving spouse or the trust for the children should bear the estate tax burden. This resulted in a lawsuit by the spouse arguing that the children should pay the entire tax burden. In James Gandolfini's estate, he gave his children their shares outright and included foreign assets. This resulted in the loss of the marital deduction for a portion of the assets and made the assets immediately taxable. It is possible to provide for the children of the first marriage and still use the marital deduction. [However, it may also be a legitimate choice to incur the tax at the first death depending upon the circumstances.] Foreign assets will be included in the gross estate for estate tax purposes. It is imperative when planning for blended families (and foreign assets) to carefully think through the tax implications and the family implications to make the best decisions.

Proper Valuation of Hard to Value Assets

Michael Jackson died in 2009; however, his estate and the Internal Revenue Service ("Service") continue to battle over the value of the estate. On his estate tax return, the valuation of his likeness was listed at \$2,105.00. The Service has valued his likeness at \$434 million. While most of us don't have this particular issue, many people have hard to value assets such as closely-held businesses, partnerships, and real estate interests. It is important to establish "reasonable" values through appropriate methods, such as appraisals, prior to death so that valuation on an estate tax return can be planned for and defended.

The Ridiculously Lavish Funeral.

Joan Rivers famously stated that she wanted to have "a ridiculously lavish funeral." Reasonable funeral expenses are deductible on an estate tax return and there is very little guidance from the Service of what constitutes reasonable. The lesson—if you want to have a great party and save a few dollars of estate tax—have at it.

To make certain that your estate plan doesn't make headlines, we recommend that you consult with your estate planning counsel, your accountant, and your team at Greenleaf Trust. ☑

“...failure to update his estate plan meant that his Will became public knowledge, he failed to take advantage of any tax planning techniques which exposed approximately \$30 million to a 40% estate tax...”



Bethany L. Cwalina
Participant Services Coordinator

“Take time to review your retirement plan and savings needs in order to ensure you are on track to reaching your financial goals.”

Retirement Resolution

As you ring in the New Year and consider your resolutions for 2015, it's important to also make financial health a part of that list. Take time to review your retirement plan and savings needs in order to ensure you are on track to reaching your financial goals. Here are some important questions you should ask yourself.

- *Am I contributing enough to receive the full company match?* If your company offers a match on your retirement plan, make sure you are contributing at least the minimum amount needed to maximize their contribution. A match is FREE MONEY, provides you with a return on your investment before it even goes to the market and adds up significantly over a career of saving. Never leave free money on the table!
- *Am I saving enough?* Don't stop at the minimum, pay yourself first and increase your contributions whenever possible. Experts say you should save between 15 and 20 times your pre-retirement income. So, consider increasing 1% yearly or after every pay increase. Online calculators are a great tool to both help you make sure you are saving enough and also to see what your savings will look like in retirement. Contribution changes can be made online or by contacting Greenleaf Trust.
- *How is my investment strategy?* It is important to review your investments and verify that your investment strategy is still working for you. Are you a “hands on” or a “hands off” investor? Are you a conservative or an aggressive investor? We recommend logging into your Greenleaf Trust account and clicking on SmartPlan, an interactive video tutorial which will help guide you through the process of investing. Changes can be made online at any time or by contacting Greenleaf Trust.
- *Should my contributions be “pre-tax” or “after-tax”?* Would you like to pay your taxes now and benefit from tax-free growth (Roth) or would you like to pay your taxes later and benefit from a tax savings now (Traditional)? Review your plan options to see if Roth contributions are available to you. It is always recommended to speak with a tax professional.
- *Do I have money I can rollover into my Greenleaf Trust retirement plan?* If you have money from a former employer's retirement plan, chances are you can roll that over with zero tax implications. This allows you to combine your assets for easier tracking and management.
- *Is my beneficiary form up to date?* Make sure your money and your loved ones are taken care of by keeping your beneficiary designation form up to date.
- *Could I use some additional help?* Retirement planning can be overwhelming. You are not alone. Contact Greenleaf Trust with any questions. We are here to help! ☑

State of the Tax Increase

Tax increase proposals from the State of the Union address

On January 20th, President Obama delivered his State of the Union address and included in the speech a number of proposed tax increases on investment income and high-income earners to help offset the cost of new incentives for lower-income taxpayers. With the Republican Party currently controlling Congress, there appears to be little likelihood that the president's proposed tax increases will find enough support. Lack of support was evident following the speech with a number of Republicans dismissing the proposed tax changes. However, possibly as a preview to campaign issues and positioning for 2016, the following is a recap of the tax increase proposals from President Obama that would have a major impact on our clients and their families, if passed:

- *Maximum tax rate on dividends and long-term capital gains.* The proposal would raise the maximum rate on dividends and long-term capital gains from 20% to 28% for taxpayers in the highest tax bracket. For taxpayers in the highest tax bracket, this proposed increase represents an 87% increase from the 15% tax rate enjoyed a few years ago.
- *Inherited asset basis.* Under current legislation, inherited assets generally receive a step-up (or step-down) in cost basis to the fair market value at the time of the owner's death. This rule allows heirs to sell assets that were highly appreciated prior to the owners' death with little or no tax consequences, and is a very valuable rule for those inheriting property that was highly appreciated.

The president is proposing to eliminate the step-up in basis, and requiring the heirs inheriting the assets to recognize the built-in gain immediately. This means that an individual inheriting highly appreciated property would be required to pay capital gain tax on the inherited property whether or not the individual sold the property. The president did include a few exemptions to the proposed tax changes including interests in small, family-owned businesses which would not be required to realize the gain until the business was sold. However, for those that would be impacted by this change, the tax obligation could be significant. This rule change would also create a nightmare for individuals inheriting assets from an owner that did not have a record of the asset's cost basis.

- *Retirement account balances.* As was discussed previously by President Obama in 2013, he again proposed placing a cap on contributions to retirement accounts once an individual had accumulated greater than approximately \$3.4 million in cumulative retirement account balances.
- *College Savings Plans.* Partially as a result of Michigan's victory in the Sixth Circuit Court of Appeals which resulted in the Michigan Education Trust Prepaid Tuition Plan being declared tax-exempt in 1994,



James R. Curry, CFP®, CPWA®

Vice President

Senior Wealth Management Advisor

“On January 20th, President Obama delivered his State of the Union address and included in the speech a number of proposed tax increases on investment income and high-income earners to help offset the cost of new incentives for lower-income taxpayers.”

Tax Increase, continued

“...the probability of any of the [President’s] proposals passing in a Republican-controlled Congress is remote.”

Section 529 of the Internal Revenue Code was created in 1996 to provide tax advantages to promote college savings (deferred tax treatment of earnings when used for qualified higher education expenses). In 2001, the Economic Growth and Tax Relief Reconciliation Act exempted earnings of 529 plans from federal taxation if used for qualified higher education expenses. This rule change essentially moved the Section 529 plan from having features similar to an IRA to having features similar to a Roth IRA, and encouraged significant savings into Section 529 plans — currently estimated to be approximately \$245 billion.

During the State of the Union speech, President Obama proposed repealing the recent enhancement to Section 529 plans. He has recently backtracked on this proposal and indicated that it will not remain a part of his tax reform package.

As stated previously, most political analysts believe that the probability of any of the above proposals passing in a Republican-controlled Congress is remote. However, we will continue to monitor the president’s proposals for tax increases and incentives and Congress’ actions, to determine if any changes in tax strategy or estate planning design may be appropriate for our clients. ☑



*Christopher D. Burns, CPA
Fixed Income Associate*

Should Your Municipal Bond Portfolio be Pure Michigan®?

The enormously successful Pure Michigan ads have reminded tourists and natives alike about Michigan’s beautiful scenery, its growing industries, and its unique character. They have also inspired spoof ads about winter driving, road construction, and the bankruptcy of Michigan’s largest city, Detroit.

With Governor Snyder’s 2015 State of the State address recently behind us, and with Detroit’s Chapter 9 case resolved, now is an opportune time to revisit the state of Michigan’s economy and remind Greenleaf Trust’s investors how we incorporate Michigan municipal (muni) bonds into our fixed income portfolios.

So, what is the truth? Is it sandy beaches and fall colors, or potholes, black ice, and hapless professional football?

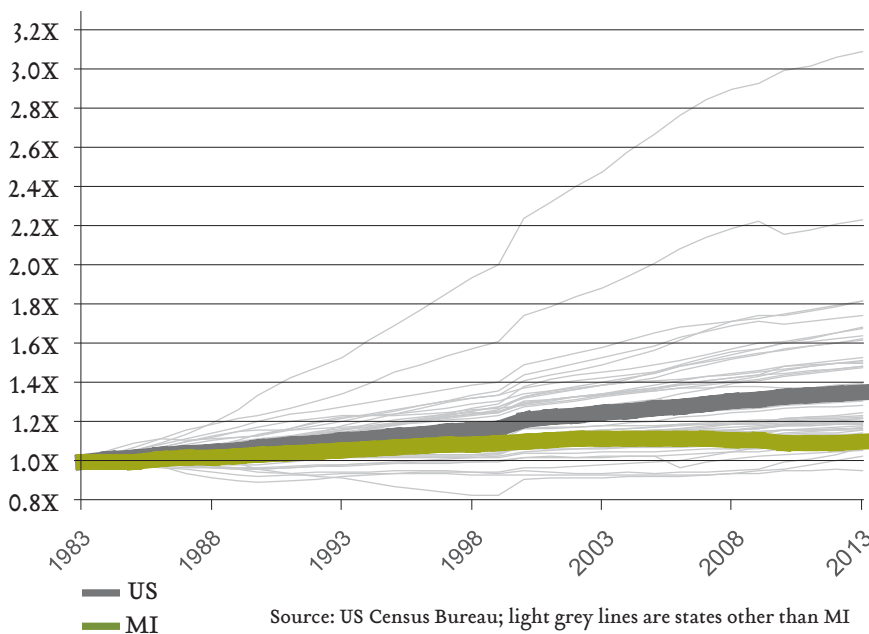
First, let’s quickly cover the tax benefits of investing in home-state bonds. Many of Greenleaf Trust’s clients are Michigan residents and taxpayers. For those residents, interest on muni bonds issued by a Michigan obligor will generally be exempt not only from Federal taxes, but from Michigan state taxes as well. Muni bonds issued by obligors of other states will generally be

subject to Michigan income taxes. The Michigan income tax rate is 4.25%, so avoiding these taxes can make owning Michigan municipal bonds marginally more attractive. Is it enough of a benefit to concentrate 100% of your municipal bonds in Pure Michigan?

To answer this question, let’s look at the attractiveness of Michigan muni bonds. Consistent with our Fixed Income Four Points Test, let’s start with creditworthiness by looking at demographic, economic, fiscal, and structural trends in the state of Michigan. We will then conclude by looking at valuation and the current investment opportunity.

CREDITWORTHINESS — ECONOMIC TRENDS

State and National Population Trends



“...now is an opportune time to revisit the state of Michigan’s economy and remind Greenleaf Trust’s investors how we incorporate Michigan municipal (muni) bonds into our fixed income portfolios.”

Although Michigan is the 9th largest state in terms of population, its population growth over the past 30 years ranks 44th out of 51 territories (including Washington D.C.)¹. Michigan’s populace has grown just 9% total in 30 years, compared with 35% growth for the US overall. Population growth, or lack thereof, can have important implications for the financial flexibility of a municipality. As an example, the number of congressional delegates apportioned to Michigan has fallen from 19 to 14 over this time period, potentially impacting influence over Federal funding of state programs. Overall, we view Michigan’s demographic changes as below-average.

¹ In case you get it as a trivia question, the territories which fall behind Michigan in terms of population growth are Pennsylvania, Ohio, Iowa, North Dakota, Louisiana, Washington D.C., and West Virginia.

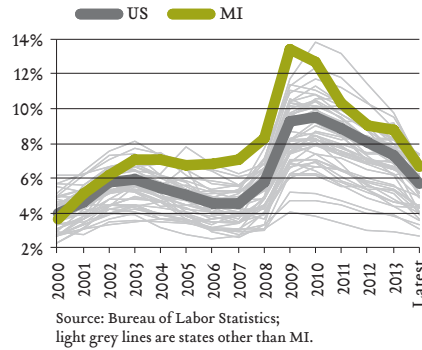
Pure Michigan, continued

CREDITWORTHINESS - ECONOMIC TRENDS

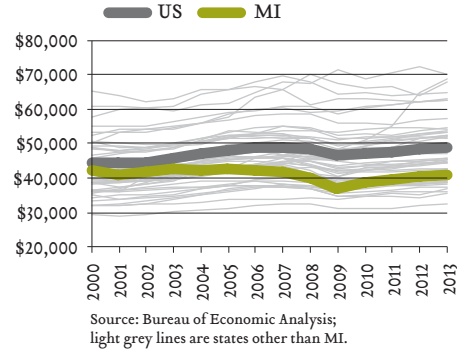
Michigan was one of the states hit hardest in the most recent recession. Although Michigan’s economy is recovering, with falling unemployment and rising output, income, and home prices, it still ranks below-average in these important economic categories.

“Although Michigan’s economy is recovering, with falling unemployment and rising output, income, and home prices, it still ranks below-average in these important economic categories.”

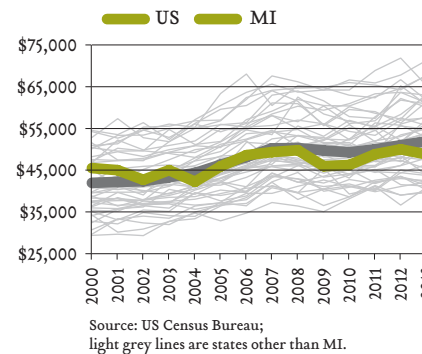
State and National Unemployment Trends



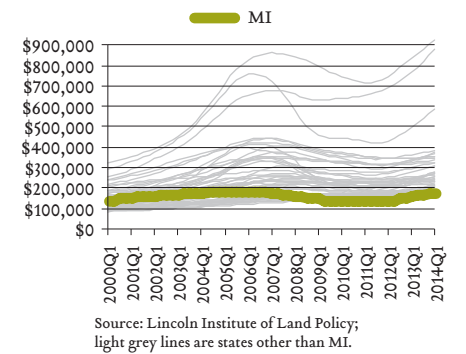
State and National Real GDP per Capita Trends



State and National Median Household Income Trends



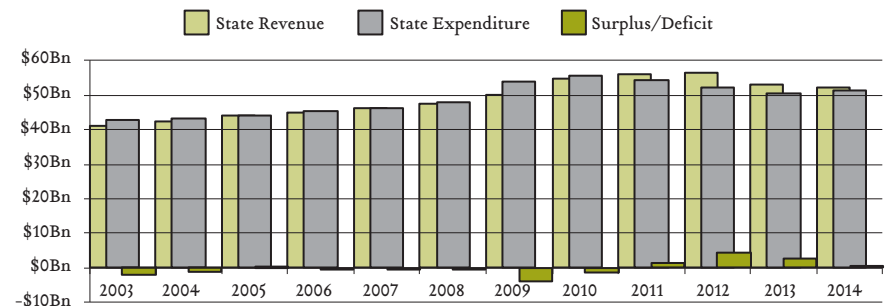
State Home Value Trends



CREDITWORTHINESS - FISCAL TRENDS

We’ve covered some demographic and economic trends. How have these trends impacted Michigan’s fiscal position?

Michigan State Fiscal Trends



Michigan's liquidity position has improved markedly over the past few years. Its 'rainy day' fund has seen inflows and the governor committed to funding it to \$500 million by the end of FY 2015. The state as a whole has run surpluses in each of the past four fiscal years. However, significant challenges lie ahead, particularly with the Michigan Public School Employees' Retirement System Pension and OBEP Plans. The Pension Plan had a funded ratio of 61.3% as of fiscal year end 2013, resulting in an unfunded actuarial accrued liability (UAAL) of \$24.3 billion. Similarly, the OPEB Plan (which pays for healthcare needs in retirement) had a UAAL of \$8.6 billion and a funded ratio of just 9.1%. Though Michigan is improving, we believe its fiscal condition is below-average relative to other states.

CREDITWORTHINESS — STRUCTURAL TRENDS

While Michigan offers improving but mixed demographic, economic, and fiscal conditions, we believe recent structural trends have been very positive for Michigan's creditworthiness. A few developments we've found encouraging are:

- The governor's commitment to focus on the liquidity profile of the state through funding the 'rainy day' fund and increasing fund cash balances.
- The State of Michigan's participation in the 'grand bargain' in Detroit which was bondholder-friendly for Detroit's creditors.
- The steps taken to address underfunded pensions, through the Pension Reform of 2010 and Pension Reform of 2012.
- Continued use of emergency managers in situations of local fiscal distress, which is a proactive approach considered creditor-friendly.

Overall, we believe that Michigan is an improving credit with significant challenges to overcome. There are certainly localities within Michigan which are tremendously creditworthy. However, as is true with all of our investments, whether to hold bonds in Pure Michigan comes down to valuation.

VALUATION

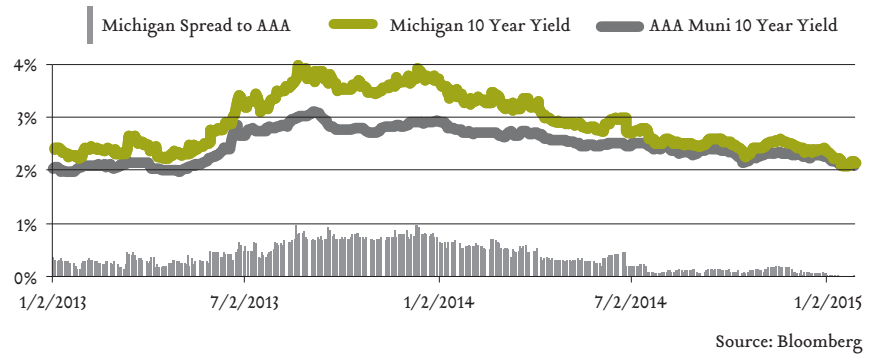
When considering valuation of fixed income investments, it is helpful to look at the yield and spread available. If Michigan bonds offered large spreads and higher yields than, say, AAA-rated bonds, then the investments may adequately compensate the holder for the risks we mentioned in the 'creditworthiness' section. The following chart looks at yields.

“While Michigan offers improving but mixed demographic, economic, and fiscal conditions, we believe recent structural trends have been very positive for Michigan's creditworthiness.”

Pure Michigan, continued

“... we do not advocate concentrating fixed income holdings in any particular state. A key tenet of our portfolio construction process is diversification, including geographic diversification.”

Michigan Muni Valuation



Near the end of 2013, Michigan muni bonds yielded about 1% more than AAA-rated muni bonds. This spread compensated investors for the perception of additional credit risk from holding Michigan muni bonds. Today, investors have recognized the improving creditworthiness of the state and there is no significant premium paid on Michigan state bonds.

Conclusion

At Greenleaf Trust, we build diversified, flexible, cross-market fixed income portfolios that focus on generating income, preserving capital, and dampening volatility in a portfolio. We believe that, for Michigan residents, Michigan muni bonds can play an important role in a fixed income allocation. Many of us are proud Michigan natives and practically all of us love the Pure Michigan radio and TV ads.

However, we do not advocate concentrating fixed income holdings in any particular state. A key tenet of our portfolio construction process is diversification, including geographic diversification. Layer on some of the risk factors in the state of Michigan and we believe it makes concentrations even less appealing. Despite our love of The Mitten, we would not advise a Pure Michigan muni bond portfolio.

Please contact your Wealth Management Advisor if you would like to discuss your current fixed income holdings or if you would like additional information. ☒

IRS “E-Audit” — It’s a Scam!

You receive an official-looking email, supposedly from the IRS. The email states that the IRS is auditing you and that you must complete and return the attached questionnaire. If you do not respond within 48 hours, the message says, you will face penalties and interest.

This year, scammers are also using the phone to call and launch the scam. Your caller ID might show that it’s the IRS calling. They will claim “you owe money, you better pay NOW or you will be arrested.”

The questionnaire asks for personal and financial information, such as your Social Security number and bank account numbers. Honest

folks are nervous about complying with IRS directives and respond, wanting to do the right thing. There may be a link in the message that will take you to a fake web page that appears very official. In fact it has been pirated from the official IRS web page. The IRS doesn’t start contact with a taxpayer by sending an email, text or social media message. If you get an email that claims to be from the IRS, do not reply or click on any links.

The IRS uses only the US Mail to provide notice of an audit or to request additional information. The IRS will NOT first contact you by phone, email or text message. ☑



Dan Weston
Executive Vice President
Director, Corporate Security



If you’d like to join us in our efforts to conserve natural resources and create a greener environment, you may choose to save paper by receiving email notifications to view your statement online. Simply give us a call at 269.388.9800 and ask to speak with a member of your client centric team.

Stock Market Pulse

Index	Total Return Since		P/E Multiples	1/31/2015
	1/31/2015	12/31/2014		
S&P 1500	461.68	-2.87%	S&P 1500	16.8x
DJIA	17,164.95	-3.46%	DJIA	14.2x
NASDAQ.....	4,635.24	-2.08%	NASDAQ.....	21.9x
S&P 500.....	1,994.99	-3.00%	S&P 500.....	16.5x
S&P 400	1,435.10	-1.12%	S&P 400	19.1x
S&P 600	670.38	-3.49%	S&P 600	20.3x
NYSE Composite	10,537.22	-2.79%		
Dow Jones Utilities.....	637.20	3.11%		
Barclays Aggregate Bond.....	112.38	2.05%		

Key Rates

Fed Funds Rate	0% to 0.25%
T Bill 90 Days.....	0.01%
T Bond 30 Yr.....	2.26%
Prime Rate	3.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	461.68	16.8x	2.00%
S&P 500.....	1,994.99	16.5x	2.07%
DJIA	17,164.95	14.2x	2.27%
Dow Jones Utilities.....	637.20	NA	3.13%

Spread Between 30 Year Government Yields and Market Dividend Yields: 0.26%

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