GREENLEAF TRUST

Perspectives

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William D. Johnston
President, Greenleaf Trust

Economic Update and Commentary

We are one-twelfth of the way through 2012, and the data suggests that incremental progress of slow growth in our economy continues. We like to pay close attention to the drivers of our economy and the consistency of results that those drivers produce.

Consumption is responsible for 71.1% of our GDP and, thus, it makes sense to take the temperature of consumers and understand what they feel about the forward period of time, because how they feel about their security will determine how they act. We see conflicting results in the data. While consumer confidence has increased for two months in a row, and auto sales rose to a fourteen million unit annual sales run rate level, actual consumer spending continues flat, as do retail and wholesale sales. Within the confidence surveys there is a great deal of consumer angst which appears to be driven by housing values. The latest Case Schiller housing data showed another 3.5% reduction in home values, and some have suggested that we have yet another 10% decline to experience before we see some price stability. Personal wealth almost always includes an assumption of equity value in homes. Home ownership among adult consumers has diminished substantially over the past three years; however, it still represents over 50% of all adult consumers. Surveys of adults by the Gallup Organization reveal that personal financial security ranks number one in priority as well as vulnerability by those surveyed. We will not get any significant help from housing values in the near future, thereby assuring that consumer angst regarding the value of their homes will continue.

Adding to the reluctance of consumers to spend more is a stubbornly high unemployment rate, currently measured at 8.5%. In this area we see some evidence of incremental improvement. Unemployment duration is creeping lower and has done so for the past three reporting periods. The help wanted index rose for the fourth month in a row, and is now measured at 3.9 million jobs offered. The national, regional and local employment agencies that we survey all reported increased new and renewed contracts for services quarter over quarter and year over year.

Update and Commentary, continued

This landscape is the most encouraging for the overall workforce that we have seen in 36 months; however, it is not without some measure of bad news. Demand for employees is clearly registering as a barbell formation, with jobs being offered in highly qualified sectors with respect to certification and education as well as jobs offered in the minimum wage and temporary classifications. This mirrors the general population perception that opportunity is focused on those with higher education attainment. Engineers, scientists, medical professionals, accountants, computer science professionals, machinists, tool and die craftsmen all remain in high demand and, conversely, those without education and specific training are finding their income opportunities in low wage jobs. The economy will be a major part of this presidential election and we should also expect a good deal of the rhetoric to focus on this barbell structure of employment opportunity. As I have studied labor statistics, it is clear to me that we have created far more new job classifications over the past two decades than we have lost. What is also true is that the educational barriers to entry of these new job classifications are increasingly higher than in the past. Our dilemma is clear, difficult to solve and impossible to do in the near term. We shouldn't expect that the election rhetoric will offer solutions. In fact, it is likely to cause additional angst and divisiveness. The solution to this issue is not unlike the solutions required to solve our structural deficit issues. They require honest rather than pandering dialogue from those running for and serving in elected office, and commitment of the national political will to sacrifice where necessary and invest where required. Not doing so will assure the continuance of the trend in place. Government spending drives 20.2% of GDP growth. Both ends of the political spectrum produce constant argument to spend either more or less. It is the wrong argument and so the answer can never be right. The question should be about what we spend taxpayer money on and how it is done. While our middle class erodes, access to higher education becomes more difficult for more people. State and national spending on higher education has been declining for the past decade and now for most state universities represents only 30% of their funding, placing the remaining 70% on the shoulders of students and their families.

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Our country's investment in highway infrastructure catapulted to new levels when President Eisenhower led the charge to build a national highway system to cross our country. The effort not only increased our GDP but created inventions, products, companies to produce them, jobs, educational curricula, and expertise that was demanded by other countries. John Kennedy's call to put an American on the moon created the same energy and results with NASA. Our National Institute of

Health has replicated these two efforts in ways that would be far too risky for private capital to take and in doing so have generated research dollars essential to eliminating diseases of the world. What is disquieting is the actual reduction in federal investment spending on infrastructure, science and health research. Combined with our reduced commitment to higher education we are only assuring that middle class opportunities will continue to dissipate. For those that might be of the mind that this type of investment spending must come from the private sector, keep in mind that capital spending exclusive of housing represents 10.4% of GDP.

The European debt crisis is lingering along and seems headed for another crisis deadline. Those who can, are gradually unwinding positions in euro denominated debt. Germany understandably remains reluctant to invest more without the actual social compact construction necessary to assure its own citizens that it is not investing money in countries' debt restructuring that are doomed to future failures. Those that studied the origination of the European Union remember the three major fears surrounding its construction. The first was that it would create the largest economy in the world and was even spoken of by some as "The United States of Europe." Secondly, there were those who feared the Union would produce an economic propulsion for Germany that would generate a resurgence of German influence and power and, lastly, there were those who felt a common currency without a common social compact relative to benefits structure and common defense would, at some time in the future, result in currency devaluation and inflation. Great Britain's and Ireland's refusal to join squelched the largest economy concern, but the other two fears have come home to roost. The social compacts cannot be dictated and Germany is indeed the power broker and funder of last resort. It is unclear as of yet how this unfolds. Currently, we would have to side with those who suggest a reformation of the Union with fewer remaining countries and a rather large but not total default by Greece and maybe Spain.

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Market volatility will continue in 2012, though we think at a lower level, but not yet a return to historical norms. It is good to remind ourselves that we are just 37 months into an economic recovery from a global financial collapse. We charted this recovery to take nearly 60 months and thus, we are just 60% through the recovery stage. During the second half of 2011, after the Japanese tsunami, Arab Spring and Eurozone debt implosion, the S&P 500 experienced volatility approximately twice that of the historical norm. To put this in perspective, the average daily movement in the S&P 500 from 1928 through 2010 was 0.75%. During the second half of 2011 the movement rose to 1.44%; the number of days that the market was up or down 2% was 68 compared to 43 in 2010. The

Update and Commentary, continued

numbers for 2008 and 2009 were 133 and 104 respectively. If investors felt that market volatility has been difficult to bear over the past three years, it is understandable. As the recovery proceeds and as incremental growth continues globally, the crisis driven producers of volatility should subside. While the volatility can be unsettling, it is good to remind ourselves that the temptation to be either all in or all out of the market should not be given in to. Temporary volatility is not risk. It is not pleasant but it is not by itself risk. It becomes risk when downward volatility causes us to give way to emotional investing actions and sell. Our research and wealth management teams use downside volatility to evaluate buying opportunities and upside volatility to evaluate risk mitigation by reducing positions whose valuations grow excessively in the upward volatility. Our best advice is to make certain your asset allocation matches your risk tolerance and is driven by your personal financial policy statement created from your financial plan. Most things return to their statistical norm; as the recovery matures, volatility should also.

Michael F. Odar, CFA
Senior Executive Vice President and Director of Strategic Initiatives

The Georgia Peach and 2011 Mutual Fund Portfolio Managers

In 1919, at the age of 32, a future hall of fame outfielder from the Detroit Tigers had one of his best statistical seasons ever. He had just finished leading the league in batting average (.384) for the eighth time in the last nine years and led the league in hits (191) for the third time in the last five years. Interestingly, he only hit one home run that year. The next year proved to be one of the worst of his 24-year career. In just 12 fewer games, he had nearly 50 fewer hits (143) and his batting average declined to .334. Impressive, yet both well below his statistical career average number of hits in a season (224) and career batting average (.366).

What happened besides playing just 12 fewer games? Was he hurt? Did he change his batting stance? Was his vision deteriorating? Was he all washed up? Numbers and the quantitative analysis of them can tell us a lot; however, they may not always provide us with the whole picture, and we need to be careful labeling long-term value with only a limited amount of data.

According to data put together by Lipper, the average diversified US stock mutual fund lost nearly 3% in 2011. The market, as measured by the S&P 500, increased slightly over 2% inclusive of dividends. What do these numbers tell us? Are they proof that mutual fund portfolio managers don't add value? Not exactly. They do, however, shed some light on how difficult it was for all mutual fund managers in 2011. The main reason it was so difficult was because of volatility. On May 2nd, the market's value was at its peak for the year, having appreciated 8.43%. Just five months later, the market's value was at its trough after having declined over 264 points or 19.39%. And, of course, the market's movement was not all in a straight line. Between August and September, 27 of the 44 trading days (60%) included movement up or down in excess of 1%. As the market gyrated, redemptions from stock mutual funds accelerated to significantly high levels, forcing portfolio managers to sell at very inopportune times. Our concern wouldn't necessarily be that a fund underperformed the market in 2011, but whether it did so because of a deviance from its longer-term proven investment disciplines.

Using the same data set put together by Lipper, and looking at a longer time horizon, we find the average diversified US stock mutual fund performed roughly in line with the market. Over the last five years, the average diversified US stock mutual fund experienced an annualized return of -0.4% and the market, again represented by the S&P 500, experienced an annualized return of -0.3%.

In 1920, Ty Cobb was becoming increasingly frustrated with his Detroit Tiger teammates and with a new rising star in the league, Babe Ruth. Whereas Cobb was a self-disciplined baseball purist focused on singles and doubles, Ruth was a flamboyant beer swilling home run hitter. This drove Cobb crazy, and could have easily played a large part in his subpar performance that year. Once some context is provided, we potentially get a clearer picture. And, careful not to make value judgments with a small sampling of data, we notice that Cobb had 197 hits and a batting average of .389 in 1921. He also had 12 home runs that year (the most in one year during his career) and managed the Tigers. In the eight years he continued to play after 1920, he averaged 166 hits per season with a batting average of .358.

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N. Dean MacVicar, CTFA
Executive Vice President
Director of Retirement Plan Division

Retirement Plan Fees and Benchmarking

Several articles have been published in past issues of *Perspectives*, as well as various newspapers and business publications, relating to the Department of Labor's new service provider and participant fee disclosure requirements. Many articles have also been written about "benchmarking" fees, and the important responsibility that plan sponsors have for determining that services provided for their plans are appropriate and necessary, and the fees paid for such services are reasonable. We have always been of the opinion that fees should be disclosed and fees and expenses should be fully transparent.

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Although fee disclosures and fee benchmarking are in the forefront, the notion of benchmarking in the retirement plan industry extends beyond just fees. Retirement plans are a core component of employee benefit programs and, as with other core benefits, are viewed as tools to attract and retain good employees. As employers compete for good employees, their benefit packages must be competitive. Considering the industry, geographic location, employee demographics, budget, and various other factors, what should a retirement plan look like? So, the concept of benchmarking comes into play when considering a retirement plan that will meet the goals and needs the employer and of employees.

Now, consider the fact that you have an appropriate plan in place. Is it meeting your objectives? If the plan is a 401(k) or 403(b) plan, what is the percentage of participation by eligible employees? What are the average deferral rates? Do you have a sense that employees are making good investment decisions? In this regard, are the employee education and communication initiatives relating to the plan impactful? All of these issues and questions, as well as many others, can also be benchmark-oriented. Whatever the current methods of assessment, whether formal or informal, and realizing that every employer may have its own unique set of circumstances and constraints, we believe there is value in devoting time to assessing not only the effectiveness of plan design but also effective utilization of a plan.

As for plan costs, the primary "cost" of maintaining a plan relates to the funding of the employer contributions. Then, there are the various legal, administrative, investment, and auditing fees and expenses associated with designing, maintaining and operating a plan. Are the necessary services in place and operating effectively? Are the costs of services and the investment-related fees and expenses reasonable? Are the investment funds and/or strategies appropriate and do they measure up well against their peers? These matters are also ripe for benchmarking.

Although numerous databases of various retirement plan statistics (and some benchmarks) have been developed by various organizations, some of which are service providers and some of which are organizations in the business of gathering and benchmarking data, many plan sponsors struggle with benchmarking anything beyond investments, and many also struggle with benchmarking investments.

The DOL fee disclosure regulations require that fees and internal operating expenses be provided for each investment offering (referred to in the regulations as "designated investment alternatives") under a participant-directed retirement plan. The regulations also require that investment performance information be provided for each option and (here we go again with the benchmark theme) returns of an appropriate performance benchmark for each and every investment alternative that doesn't have a fixed return.

So, as I begin my closing, I'll reiterate the fact that benchmarking is an important concept to embrace in the retirement plan arena, and this extends well beyond just fees. We can expect more to follow, with the next possible area of focus being on target-date retirement funds, which are used extensively in 401(k) plans.

In the preamble to the Department of Labor regulations on service-provider fee disclosure regulations, the DOL notes that "in recent years, there have been a number of changes in the way services are provided to employee benefit plans and in the way service providers are compensated." And, in the preamble to the DOL's participant fee disclosure regulations, it is noted that "there are an estimated 483,000 participant-directed individual account plans, covering an estimated 72 million participants, and holding almost $3 trillion in assets." Given the magnitude of the issue, and the Department of Labor's ongoing efforts to promote disclosure, transparency, and the overall protection of plan participants and beneficiaries, we can all expect further emphasis on disclosure, fiduciary responsibility and various forms of related benchmarking.

The business model for Greenleaf Trust's retirement plan division (and Greenleaf Trust's total enterprise) has always put client needs first, with full transparency of fees and no conflicts of interest. We will continue to tailor and evolve our services to meet the current and evolving needs of our clients, and do so under a fee arrangement that is reasonable, competitive and fully transparent.

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Carlene R. Korchak, CTFA
Vice President
Trust Relationship Officer

Important Tax Law Change for Michigan Residents

A new state tax law which applies to distributions from IRAs, annuities, pension plans, and defined contribution plans (such as 401k plans, profit sharing plans, etc.) went into effect January 1, 2012. If you are a resident of Michigan and will be receiving retirement benefit distributions in 2012, this overview is intended to help you understand the implications of Michigan Public Act 38 for your particular situation.

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Retirement benefit administrators and financial institutions that make distributions are required to obtain a Form MI W-4P for each recipient in 2012. This form is used to notify administrators of the correct amount of withholding that applies for your particular situation, or authorizes that no withholding is to be taken. If no form is received, the default requirement is to withhold 4.35% Michigan income tax on taxable retirement benefit distributions.

The state legislature designed the new law with different provisions based on the age of a recipient of retirement benefits. The actual tax impact differs depending on an individual's year of birth. For married individuals, the year of birth of the oldest spouse, as well as whether or not your tax return is filed separately or jointly, are the controlling factors for determining the tax impact. Different rules exist for recipients born before 1946, for those born between 1946 and 1952, and for those born after 1952. Details of each of these categories are described below.

Rules for Recipients Born Before 1946

Tax implications remain the same as the previous law. All qualifying private pension and retirement benefits are exempt from Michigan income tax up to $45,842 for those who are single or married filing separate returns, or $91,684 if married filing a joint return. For those who receive qualifying pension and retirement benefits from public sources (e.g. county pension benefits), the pension benefits remain exempt from Michigan income tax, regardless of the amount.

Rules for Recipients Born 1946–1952

A portion of your pension and retirement benefits may be subject to Michigan income tax unless you are filing jointly with a spouse born before 1946. If you are filing single or are married but filing separately, the first $20,000 of your retirement benefits are exempt from Michigan income tax. If you file jointly with your spouse, the first $40,000 of your retirement benefits are exempt from Michigan income tax.

Rules for Recipients Born After 1952

Your pension and retirement benefits will be subject to Michigan income tax unless you file jointly with a spouse who was born prior to 1953. For recipients born after 1952 not filing jointly with a spouse born prior to 1953, all private and public pension and retirement benefits are fully taxable and may not be deducted from Michigan taxable income.

What You Need to Do

We strongly recommend that you contact your tax advisor for assistance relating to your particular situation under the new law. If you make appropriate tax estimate payments to the State of Michigan, you may be able to opt out of withholding, regardless of your age.

Retirement benefit administrators and financial institutions are in the process of implementing new procedures to meet the requirements of the new law, and you should be receiving information from them.

For each resource from which you receive retirement benefits, you should complete a Form MI W-4P that indicates which option should be followed for withholding in your particular situation.

Although we cannot provide tax advice, we are available to answer questions for our clients who receive retirement benefits from Greenleaf Trust, or if you have general questions about the new law.

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Dan J. Rinzema CFA, CFP
Vice President and Assistant Director of the Wealth Management Division

The Certainty of Uncertainty

"… uncertainty and the crippling fear over an uncertain world has fooled many investors into losing sight of their long-term financial goals."

The ever quotable Yogi Berra, who brought us such philosophical gems as "when you come to a fork in the road, take it," and "you can observe a lot just by watching," is also credited with the insightful idiom that "predictions are difficult, especially when they're about the future." This difficulty in predicting the future is what economists refer to as uncertainty. While nothing new, uncertainty and the crippling fear over an uncertain world has fooled many investors into losing sight of their long-term financial goals. Behavioral finance tells us that we are ill-equipped to deal with uncertainty, and panicked, short-term decision-making can ruin even the best laid financial plans. Unfortunately, like death and taxes, uncertainty is an unavoidable part of life. The acceptance of the certainty of uncertainty defines successful investors by removing emotion from the equation and allowing prudent, goal-based financial planning to take center stage.

If peace of mind is the foundation of prosperity, I would wager that fear of uncertainty is the precursor to panic. With many investors currently unsettled by global debt imbalances, the aftershocks of the financial meltdown, and the potential for geopolitical events, it often seems that a new crisis is only as far away as the next headline. 2012 has started out no differently. The media continues to hoist bricks on top of an already high wall of worry. However, it is important to remember that economic uncertainty—and its accompanying effects on our emotional sense of security and well-being—are nothing new.

The certainty of uncertainty has been present throughout history, and it is readily apparent by a look back through the decades. A decade ago in 2002, the dot-com bubble had burst, $5 trillion in market value had vanished, and the NASDAQ had suffered a 78% peak-to-trough drop. A decade before that, in 1992, the savings and loan crisis witnessed the failure of close to one fourth of our savings and loan institutions. In 1982, inflation soared to all-time highs, mortgage rates approached 20%, investors faced crushing 70% tax brackets, and the price of gold leapfrogged daily. Ten years earlier, in 1972, economic security seemed an elusive, if not impossible dream as the prime rate hit 10%, we were saddled with Watergate, and an oil crisis would soon cause rationing lines at gas stations. 1962 made a nuclear holocaust seem at least possible, if not imminent, as

Khrushchev's vow to "bury" the US turned into the horror of the Cuban missile crisis (not to mention Vietnam lay just around the corner). In 1952, the spread of communism and the Korean War helped bomb shelters become a best-selling item in the US. In 1942, the shadow of Pearl Harbor ushered us into World War II and in 1932 we awoke to the nightmare of the Great Depression. And on and on…

The point is that uncertainty is always present. However, proper planning and preparation can help provide peace of mind and financial security to weather the economic storms of today as well as those in the far-off financial future. If an investor had let fear and uncertainty impede them from pursuing their financial goals, they may have failed to participate in the close to 300,000% market gain that accompanied the above eight decades of uncertainty. What this means in dollar terms is that an investment of $10,000 in the stock market made prior to the Great Depression would have grown to almost $30 million today.

As Yogi Berra said, "the future isn't what it used to be." The wall of worry perpetuated by our 24 hour news cycle seems to be growing, but when filtered through a historical lens, a high wall (meaning the market is focused on uncertainty) tends to lead to attractive valuations. Purposeful financial planning can guard against ill advised, fear-based decision making—regardless if it's fear of the unknown or fear of missing an opportunity.

Greenleaf Trust prides itself in helping to provide financial security from generation to generation for people who want assistance in taking pro-active and prudent control of their wealth. This means listening, guiding, educating, and serving our clients in a manner that is meaningful on a personal level. We take the time to understand each investor's unique situation, define financial goals, develop a customized wealth management plan as an initial road map, and continually sit down with individuals to monitor progress. The certainty of uncertainty isn't going away. By developing a personalized financial plan built upon a firm foundation of diversification, risk management, and an appropriate asset allocation, you can mitigate the fear and emotional turmoil that often accompany uncertainty in order to achieve financial security and peace of mind.

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Stock Market Pulse

Index	1/31/12	% Change Since 12/31/2011
S&P 1500	303.50	4.73%
DJIA	12,632.91	3.68%
NASDAQ	2,813.84	8.06%
S&P 500	1,312.41	4.48%
S&P 400	936.51	6.61%
S&P 600	442.12	6.58%
NYSE Composite	7,838.48	4.83%
Dow Jones Utilities	448.84	-3.41%
Barclays Aggregate Bond	111.05	0.73%

P/E Multiples	1/31/12
S&P 1500	14.3
DJIA	13.2
NASDAQ	16.3
S&P 500	14.0
S&P 400	17.7
S&P 600	17.6

Key Rates

Fed Funds Rate	0% to 0.25%
T Bill 90 Days	0.05%
T Bond 30 Yr	2.94%
Prime Rate	3.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	303.50	14.3	2.04%
S&P 500	1,312.41	14.0	2.14%
DJIA	12,632.91	13.2	2.52%
Dow Jones Utilities	448.84	NA	4.04%

Spread Between 30 Year Government Yields and Market Dividend Yields: 0.89%

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