GREENLEAF TRUST

Perspectives

A Greenleaf Trust Newsletter

JULY 2012 VOLUME 21, ISSUE 7

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Fiscal Cliff

You have probably been reading and hearing the term "Fiscal Cliff" more frequently lately and thus it makes sense to spend some time defining the term, framing the debate, noting the consequences involved and the probabilities of possible outcomes.

Terms gain public favor when they are repeated often. On a particular day some analyst, economist, politician or commentator used the term "Fiscal Cliff" as in, "If Congress and the administration don't find a compromise to the expiring budget and tax code, we are headed for a fiscal cliff that has disastrous economic consequences." The description of a fiscal cliff gained immediate media favor and it began to be used in all discussions in popular media to describe the stalemate between political parties, ideologues and interest groups with respect to the 2013 federal budget and the December 31, 2012 expiring tax code enacted in the first term of George W. Bush. Perhaps it is the cliff description that appeals to those that believe that a government shutdown and or tax increase would derail the economy and send us into a recession.

The debate is firmly entrenched in ideology and therefore presents little room for compromise. Beyond ideology, the debate is the framework for the 2012 Presidential election and therefore resides deep within the two political parties, assuring that vested interests of Congressional seat balance is fully in play and aligned with the debate.

Newark, New Jersey Mayor Corey Booker and former President Bill Clinton learned the immediate and intense consequences of going "off message" with respect to the debate when they suggested that "solutions rather than ideology" should be the focus of those that govern. The Republican Party immediately seized the moment to suggest that important leaders within the Democratic Party were distancing themselves from the President. Within hours both Mayor Booker and the President were carted out to every possible media outlet to redefine what they said and make certain that as many as possible heard them restate their previous comments in ways that were unequivocally aligned with the ideology of their party. Independent thinking is neither required nor rewarded on either side of the aisle.

Those that suggest that the stage has been set for a clear choice of economic

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Fiscal Cliff, continued

direction in the looming election are probably correct. It is because the difference between the parties is so large that neither is willing to compromise before the election and both are willing to stake their party's balance of power position on the outcome. Clearly there will be precious little opportunity for meaningful action on either issue before November and, thus, if financial markets are searching for definition of the future to value assets in the present, they will have to wait a bit longer. If companies with cash on the balance sheet are looking to define their capital and human investment capital landscape before taking action, they too will need to be a bit more patient.

The essence of the debate is as follows: Democratic leadership and party ideology believe and insist upon needing more revenue through higher taxes to solve both near and longer term deficit issues. Republicans on the other hand insist that spending not revenue is the issue and want less of it both in the near and longer term. Each party knows that their entrenched ideologies will by themselves not solve the structural deficit but are unwilling to loosen their grip on the linchpin of their philosophy prior to the election. Both know the results of the election will impact their need to consider other options. Sweeping balance of power changes happen infrequently in the American political scene. The most recent Greek and French election scenarios are not likely in the US because both parties are heavily involved at the state level in any and all redistricting battles due to census results. There are relatively few "independent Congressional districts" that could be won or lost and those that are identified as such receive the party's largest financial help. In essence while the elections of President are normally within a 4 percentage point bandwidth, Congressional election results are most often determined by how the district's boundaries were drawn. The results are almost always incremental change and therefore explain the retention of party polarization and stalemates on important issues.

> "Those that suggest that the stage has been set for a clear choice of economic direction in the looming election are probably correct."

Some describe the impact as detrimental to effective governance others extol the benefits of limiting sweeping change. Irrespective of one's opinion the result is more often than not last minute near term solutions and limited longer term planning on issues of importance. One could make a case either way of the impact on economic growth and financial market stability, but it certainly is in huge contrast to how the most successful companies plan and execute their strategies.

The consequences of a government shutdown due to a failure to reach agreement on a fiscal budget for 2013 are more immediate and quantifiable. Government spending is now in excess of 37% of the current year's GDP. Stopping the funding of the discretionary portion of the fiscal budget would furlough workers and impact the multiplier effect of those payrolls. It would not be permanent but it would be felt in the near term. Is it a cliff? Well, not really but it adds to the headwind and uncertainty when neither is helpful.

Allowing the identified "Bush tax cuts" to expire on December 31st is not likely to have an immediate impact on GDP growth and by itself will not significantly reduce long term structural deficits nor make significant change to the 2013 fiscal budget. The President's message on rolling back the tax cuts has evolved from a focus on fairness, sometimes referred to as the Buffet rule due to Warren Buffet's public pronouncement that he feels he pays a lower rate than his clerical assistant, to an argument of revenue for investment in education, infrastructure and science. The President seems willing to admit that tax revenue increase alone will not solve our structural deficit issue but can make a difference of returning the US to investing in ourselves to perpetuate future growth.

Entrenched against any increase in taxation before significant structural deficit reductions in entitlements and also arguing against government expansion, the opposition favors the efficiency of private capital for investment and wants to use the budget process to cultivate change in how we deliver education. One side might argue that NASA yielded fabulous results by utilizing taxpayer dollars for government agency investment. The other would counter by saying that private capital continues to invest in space exploration and does so more efficiently and at less taxpayer expense. Both arguments have some traction, the later however pays little attention to the notion that there are few private capital opportunities to invest in infrastructure like highways, bridges and airports and little private capital appetite for very high risk early stage investment in frontier science. User fees and energy taxes on fuels could provide the opportunity for the creation of infrastructure banks that would allow private capital investment for the receipt of guaranteed income streams. The same structure could be advanced to promote energy grids and shipping ports. The idea is gaining some traction and has been used in some Scandinavian countries that are increasing public-private partnerships and has been utilized successfully in North and South Dakota. Success however requires political party willingness to compromise on the extreme ends of their respective ideology arguments and seek solutions to existing and future problems. The probability of these types of solutions being developed by either political party is very slim but there are coalitions formed by major foundations that are increasing and expanding the conversation around the idea.

The idea that we are headed for a cataclysmic fiscal cliff is more drama than substance but attracts viewers, readers and political party donors. The reality that we have not taken one step toward solving our structural deficit issues is clear. We can continue to do so for a while but left unattended to for a long time will magnify the steps necessary to do so. This election, unfortunately, won't be about solutions but rather about who controls the ability to craft the future solutions. Equally unfortunate is that the debate will pander to the lowest denominator replete with silly sound bites and irrelevant factoids that don't matter to the real issues we face. Those looking for stability, solutions and confidence in the future will not find it prior to the election.

"This election, unfortunately, won't be about solutions but rather about who controls the ability to craft the future solutions."

Garry P. Kempker, CTFA
Vice President
Trust Relationship Officer

“Your digital life could... amount to a digital profile which raises interesting questions, risks and concerns...”

The Digital Beyond—Protecting Your Digital Afterlife

Chances are good that you have hundreds, maybe thousands of emails stored on remote servers or in your computer. Your digital life could include:

- Social Media Accounts – Facebook, Twitter, MySpace, LinkedIn
- Gaming Accounts – Second Life, Casinos
- Email accounts
- Auction Accounts – Ebay, Kijiji
- Employment Sites – Monster, Workopolis
- Blogs – Wordpress, and many others
- Payment Accounts –PayPal, Credit Cards, Speedpass links, Affinity Cards
- Online Banking and Bill Payment Services

And there will be a minimal paper trail someday as we move to paperless billing. All this information amounts to a digital profile which raises interesting questions, risks and concerns like the following:

Many email accounts (and the computer the deceased used) are password protected — what if accounts were only on the iPhone or Blackberry?

People use email and internet for personal and business lives. Many use their blogs and social media sites as quasi- “literary” in nature. Is there value in such content? What if the blog or social media site contained embarrassing or defamatory information or picture? What if the social media group was the group of friends that need to be advised of the death?

It’s an all too common situation where only the account holder knows the passwords or other information for those accounts. That can be a disaster if the account holder passes away, since privacy laws and user agreements make it tough for anybody else to get access, even the next of kin or a business partner.

One tip is to consider naming a digital personal representative to handle all of your digital belongings. This individual would work jointly with your estate personal representative or trustee to care for your digital assets. At this point, providing this access to a trusted individual is much better than the risk of not providing access at all, and having your digital assets potentially go away altogether. Having a short talk with someone you trust about your online legacy is highly recommended. Just say, “Listen, just so you know, I put my passwords here and this is how I store them and these are my accounts, just make sure you take care of those.” You will want to store your online information separately from your Will. A Will becomes public record and if your passwords are in the

Will and no one has changed the passwords since it was put there, your passwords are suddenly exposed to a greater audience.

You need to actively manage your online accounts. Many of us access our banking, insurance and investment accounts online; each of these comes with various passwords and security features. In order to make it easier for your personal representative to do their job after you die, you'll need to create a written list of all of your usernames and passwords and keep that list up to date. You may also want to record how you want your heirs to deal with your digital assets (close accounts, transfer ownership, memorialize, destroy, or notify contacts). You'll need to take steps to prevent this information from falling in the wrong hands either now or after you pass away.

You'll also want to find out just what your financial institutions' and online account providers' requirements are for processing your accounts after your death. Many just need a letter of authority from the probate court confirming the identity of the personal representative, as well as the original death certificate—providing that information gives the personal representative access to your accounts without having to know your passwords. Other institutions may freeze your account until all the necessary paperwork has been processed, and then require a new account be established.

Whichever the case, you'll want to provide your personal representative with a list of the financial institutions where you have accounts, as well as descriptions of those accounts including approximate balances and whether you have a password on the account and what it is. Store this list in hard copy only in your safe deposit box.

Another important list to create is one that identifies all the entities for which you've set up automatic online payments, including utilities, church gifts, and subscriptions.

It's easy to forget all the myriad websites, computer files, and passwords that you use and access in your daily life. To help you remember them all, go back to old school and keep a hand written diary for a few months. You really do not want to have them on the computer unless they are in an encrypted file, which leads back to someone needing the key to open the encrypted file. So take the time to write down all the websites and computer files you access, so you can remember which accounts to tell your personal representative about and on which devices you might have digital assets, such as music or books.

Get your digital life organized, and you'll sleep better at night, knowing your money and other important assets can be easily distributed to and enjoyed by your heirs.

The strategies, advice and technical content in the article are provided for the general guidance of our clients, based on information that we believe to be accurate, but we cannot guarantee its accuracy or completeness. This article is not intended as, nor does it constitute, legal or tax advice. Readers should consult their own attorney, accountant or other professional advisor when planning to implement a strategy. This will ensure that their personal circumstances have been considered properly and that action is taken on the latest available information.

"Get your digital life organized, and you'll sleep better at night..."

Kathleen J. Waldron, QKA
Vice President
Senior Plan Management

"This [new] regulation requires plan service providers to make disclosures about their services, compensation and fiduciary status to their clients."

Covered Service Provider Fee Disclosure

July 1, 2012 is a significant date for plan sponsors. By that date, they should have received — and will need to begin evaluating — information from their plan's service providers under the US Department of Labor's Section 408(b)(2) regulations. By the time you read this article, Greenleaf Trust will have provided this required disclosure, in the form of a service provider agreement and fee disclosure, to our clients sponsoring qualified retirement plans subject to ERISA (Employee Retirement Income Security Act of 1974).

This regulation requires plan service providers to make disclosures about their services, compensation and fiduciary status to their clients. Of course, the regulation and the disclosures are not the end of the story. As a result, plan sponsors face heightened expectations and legal responsibilities. Fiduciaries of retirement plans must evaluate the expenses paid by their plans for services and investments. Plan sponsors also have a fiduciary duty to know about the compensation of their service providers, including money received indirectly. It is important to point out that Greenleaf Trust receives no form of indirect compensation or related party compensation.

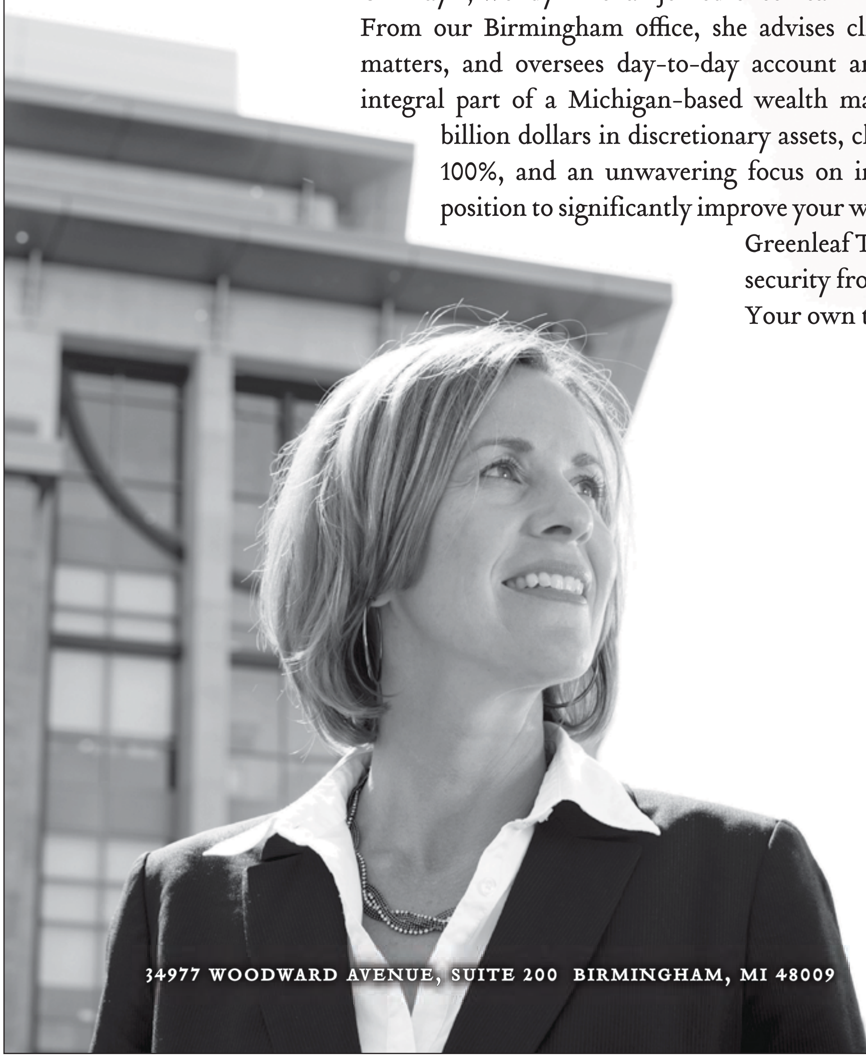
Following this significant event, the DOL has also published regulations which require plan fiduciaries to disclose certain information to participants. Under the Section 404(a)(5) regulations, the plan sponsor is required to provide the initial notice to plan participants no later than 60 days after the service provider disclosures — which is August 30, 2012. This rule is intended to ensure that workers participating in retirement plans are given, or have access to, the information they need to make informed decisions, including information about fees and expenses. Also, the delivery of investment-related information is to be in a format that enables participants to meaningfully compare the investment options under their retirement plan. The members of the Retirement Plan Division within Greenleaf Trust are prepared to assist our plan sponsors with the preparation and dissemination of this information. In addition, we are available to answer any questions that you may have regarding any of these regulations.

Wendy and mostly sunny.

Wendy Linehan could have cried. It would have been unusual to do so at such a happy moment, in the middle of her job interview. But there she was, listening to the company's top executive articulating his expectation of employees. There were no catchphrases, and no business book themes du jour. There was, instead, a clear premise spoken with conviction: "Do what's right, honest and honorable, and always put the clients' interests first."

It was exhilarating to hear. And it was a first. Over the previous 20+ years, Wendy had been VP, director of private sales for a major bank, where she'd overseen a team of wealth management advisors and insurance specialists; she'd practiced law in the areas of probate and trust litigation and administration; she was securities-licensed, holding the Series 7, 66 and 24; and she'd earned BA and JD law degrees from the University of Michigan. But now, for the first time in her professional life, she was hearing what she had long wanted to hear. Not as an aside, but purposefully from William D. Johnston, Chairman and President of Greenleaf Trust.

On May 7, Wendy Linehan joined Greenleaf Trust as a Trust Relationship Officer. From our Birmingham office, she advises clients on trust- and estate-related matters, and oversees day-to-day account and fiduciary requirements. As an integral part of a Michigan-based wealth management firm with nearly four billion dollars in discretionary assets, client satisfaction rates approaching 100%, and an unwavering focus on integrity and trust, she's also in a position to significantly improve your well being. To learn how Wendy and Greenleaf Trust can help you achieve financial security from generation to generation, call us. Your own tears of joy may flow.



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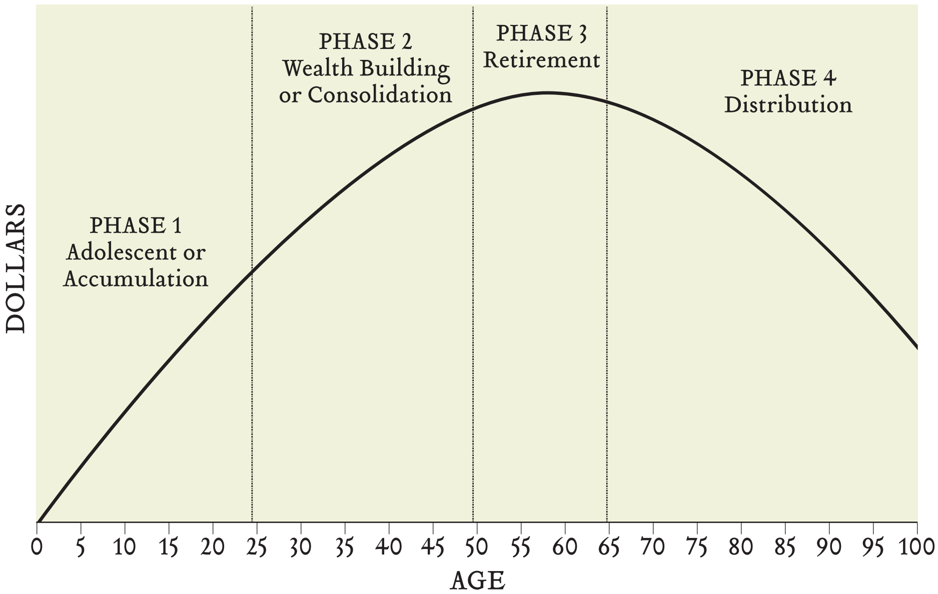
Allison L. Birmingham
Wealth Management Advisor

What Phase Are You In?

"The phase of an investor is often not emphasized enough, although it is considered in each and every investment decision."

As a full-service wealth management firm, our focus remains on aligning financial plans and investment portfolios with clients' goals and desires. Typically this process begins with an initial meeting or discussion providing us insight into the life of the investor where we learn key information that allows us to properly plan. During this process the *phase* (not age) of the investor becomes apparent. The phase of an investor is often not emphasized enough, although it is considered in each and every investment decision. The four phases, which will be discussed further in depth, include: Adolescent or Accumulation, Wealth Building or Consolidation, Retirement, and Distribution.

From birth to college graduation, an individual is primarily supported by a parent or guardian, and therefore this is considered the adolescent or accumulation phase. During this initial phase the parent or guardian should establish savings for the dependent via education savings plans and/or basic checking and savings accounts. During the latter of these years, it is likely the majority of the funds saved will be diluted and debt created. More importantly, however, the adolescent feels the desire for independence and establishing their "own plan." The transition here is crucial for educating the individual to take the right steps in way of budgeting, paying down education or credit card debt, and focusing on a budget for discretionary expenses. Using a professional team to educate them to look ahead and not act "play by play" will help to alleviate financial headaches in the future. Accumulation begins as the adolescent enters their working years — young adulthood to early middle age. The goal during this time frame is obvious: accumulate as many dollars as possible via multiple savings vehicles. Additionally, within this phase short- and long-term goals are established. Immediate needs (short-term) include satisfying non-discretionary spending, such as mortgage and car payments and other monthly bills. Common long-term goals would be saving for retirement or children's education. The investors' net worth at this particular stage is typically very small and, therefore, debt management is imperative. Although market risk cannot be eliminated during any phase, the investments chosen should be those that can weather the inevitable market cycles. The investor should maintain a long-term investment perspective and be comfortable with the alignment between their asset allocation (mix between equities, fixed income and cash equivalents) and goals and objectives. Theoretically, larger risks and an aggressive asset allocation (skewed



to equities) can be taken during this phase. Discretionary and non-discretionary spending needs are financed out of income and, therefore, the investor can sustain a temporary loss of principal, as there is no demand on the investment portfolio. The focus during this phase should remain on return in excess of inflation and maximizing contributions to various savings vehicles. Savings to qualified plans which offer a matching benefit and tax benefits should be maximized and other vehicles such as a Roth IRA should be funded.

The consolidation phase typically begins when debt management gives way to asset accumulation, income peaks, and the investors' net worth grows. Because this phase is the latter part of the accumulation phase it has many of the same goals in mind. The wealth building phase could potentially last 25 to 40 years, depending on the individuals' retirement age. The primary goal is saving for retirement. The ability to tolerate some loss of principal is still relatively high; however, scaling back equities and becoming moderately aggressive is recommended for most individuals. Additionally, there is no demand on the investment portfolio assets as employment income supports all financial needs. Also during this phase, and prior to retirement, formal reviews of estate planning documents and insurance policies should take place.

As retirement nears, it is prudent to have a professional evaluate pre-retirement income, accumulated savings, and potential for retirement spending. This analysis should help an investor gain comfort in knowing spending capability and the longevity expected given their current investment portfolio. Most individuals will spend 80% of their pre-retirement income during retirement, with few spending as much as 120%.

Following the retirement phase, the final phase begins; the distribution phase. Once again, reducing exposure to risk and volatility by way of scaling back equities toward a balanced or income-focused asset allocation may be appropriate. Rather than systematically investing as contributions are made, systematic withdrawals and sales will likely begin to take place, given the required demand on the individual's investment portfolio. It is critical for the investor to consider all sources of income and the impact on the longevity of assets given the required demand as well as their comfort with risk and return expectations. An annualized demand of 4% of an investment portfolio should sustain market fluctuations and allow a portfolio to last into perpetuity. A demand higher than this could deplete the investment portfolio over time, particularly when combined with a down market.

The time frame during which an individual experiences the said phases will be unique and independent. Creating an investment portfolio within a particular phase is not black and white nor the same for each investor. What has been discussed; however, are general themes and guidelines within the process of creating an investment portfolio suitable for the individual's investment phase.

Faith M. Heikkila,
Ph.D., CIPP-US, CISM
Chief Information Security Officer

"...the passwords of 6.5 million LinkedIn members have been breached. It is recommended that you change your LinkedIn password to a strong password..."

LinkedIn Account Compromised – How You Should Respond

As most of you have heard on the news, the passwords of 6.5 million LinkedIn members have been breached. It is recommended that you change your LinkedIn password to a strong password (See my August 2011 Perspectives article (*Creating a Strong Password* at www.greenleaftrust.com/pdfs/Perspectives August 2011.pdf) for help on creating memorable and strong passwords (a combination of upper and lower case letters, numbers, and special characters and no words found in any dictionary). Now that this breach is so well publicized, spammers will begin to use this breach to send out phishing emails. These emails will attempt to gather information about you, such as your username and password to use to compromise your account or contain a link to a virus that they hope you click on.

Change LinkedIn Password Recommendation

1) It is recommended that you type in the LinkedIn address: http://www.linkedin.com/ to sign into your account.
2) Once signed in, click on the LinkedIn Settings by hovering over your username on the LinkedIn Home page. Choose Account and under Email & Password select Change password. Enter your old password and new strong password (completely different than any other password you use) which should be at least 9 characters long rather than the 6 LinkedIn requires.
3) If you have forgotten your password, type in your email address on the sign in page and then click on the Forgot Password? link.
4) You will have to type in your email address again. You will immediately receive a password reset email from LinkedIn containing a link that you can click on (only click on links that are requested, if an unsolicited link comes from LinkedIn, it may be a scam).
5) This link will take you to the LinkedIn password reset page where you can enter your new password.
6) You will immediately receive a "LinkedIn Password Reset Notification" email message indicating you have successfully reset your password.

Helpful Tips to Protecting Your Passwords on Social Media Accounts

- Remember your social networking site (LinkedIn, Facebook, Twitter, etc.) passwords should be completely different than your work passwords and different than your home email passwords, as well as your banking passwords.
- If you used the same password you used for your LinkedIn password on other accounts, you should change the passwords on those accounts as well.
- After you change your password in the event your LinkedIn password was compromised (i.e., you cannot login to LinkedIn or receive an email from LinkedIn), you should notify your email contacts your account was one of the 6.5 million who had their passwords breached. You can easily do this by posting an update on your home page. Advise your contacts to be on the lookout for strange email messages from you; they may contain malware (viruses).

Additional information can be found on the LinkedIn blog: Silveira, V. June 6, 2012. *An update on LinkedIn member passwords compromised*. Retrieved June 27, 2012, from http://blog.linkedin.com/2012/06/06/linkedin-member-passwords-compromised/

"Now that this breach is so well publicized, spammers will begin to use this breach to send out phishing emails."

Stock Market Pulse

Index	6/29/12	% Change Since 12/31/2011
S&P 1500	313.85	9.31%
DJIA	12,880.09	6.84%
NASDAQ	2,935.05	13.28%
S&P 500	1,362.16	9.49%
S&P 400	941.64	7.90%
S&P 600	445.44	7.98%
NYSE Composite	7,801.84	4.34%
Dow Jones Utilities	481.36	5.75%
Barclays Aggregate Bond	111.30	2.11%

P/E Multiples	6/29/12
S&P 1500	13.3
DJIA	15.1
NASDAQ	14.7
S&P 500	12.9
S&P 400	16.3
S&P 600	16.6

Key Rates

Fed Funds Rate	0% to 0.25%
T Bill 90 Days	0.11%
T Bond 30 Yr	2.77%
Prime Rate	3.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	313.85	13.3x	2.12%
S&P 500	1,362.16	12.9x	2.21%
DJIA	12,880.09	15.1x	2.54%
Dow Jones Utilities	481.36	NA	3.84%

Spread Between 30 Year Government Yields and Market Dividend Yields: 0.65%

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