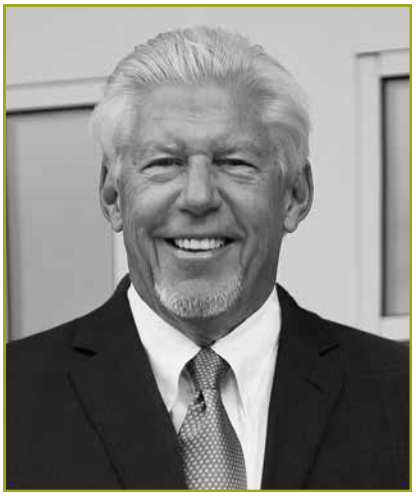
GREENLEAF TRUST

Perspectives

A Greenleaf Trust Newsletter

MAY 2017 VOLUME 26, ISSUE 5



William D. Johnston
Chairman, Greenleaf Trust

Economic Commentary

Well, we all survived the onslaught of media coverage of the "First 100 Days" of the Trump administration. Opinions on accomplishments depended heavily on your political party perspective. As expected, Republicans gave the President an A while Democrats gave him an F. It is not likely that either of those perspectives will change much in the next 1360 days of his first term or the next 2820 days should he earn a second term.

As the 100-day anniversary neared its arrival, the administration rolled out an outline of their tax plan that would be sent to Congress for approval. This is the first economic policy that provides some framework from the administration, and it has gotten the attention of individuals and economists. I have fielded several inquiries about the tax plan, and the basics of those questions center around the impact of the plan as described on the economy. Specifically, do lower tax rates lead to higher GDP growth or higher deficits? And, secondarily, what are the political odds that the administration can get the proposed plan through Congress? Both of these questions depend upon the details of the plan, which at this point include only broad brush strokes or principles. The fundamental components or targets are as follows:

- Business tax rate of 15% for all businesses both large and small
- Territorial tax system for exporters and global manufacturers
- One time repatriation of cash held overseas by U.S. companies
- Elimination of tax breaks that reduce corporate income tax
- Reduction of the seven individual tax brackets to three (10%, 25% and 35%)
- Double the standard deduction for married and single filers
- Increase deductions for child and dependent care families
- Repeal the Affordable Care Act 3.8% tax on capital gains, effectively reducing the capital gains and dividend tax rate to 20%
- Eliminate all deductions except for mortgage interest and charitable contributions
- Repeal the Alternative Minimum Tax
- Repeal the Estate Tax

The administration is touting the plan as the largest and most dramatic tax reduction and simplification reform in modern history and, if it passes through the legislative process as described, they may be correct. To get a sense of the

211 SOUTH ROSE STREET, KALAMAZOO, MI 49007 269.388.9800

Commentary, continued

impact and political probability of the proposal it will help to understand the fundamental components of our current tax structure and what revenue it produces.

For fiscal 2017, federal budget expenditures are forecasted to be $3.875 trillion and federal revenues estimated to be $3.395 trillion, resulting in a fiscal deficit of $480 billion — which is approaching 2.8% of the total annual economy of the United States. Federal revenues are derived from the following sources:

Individual income taxes	46.2%
Social Insurance (payroll) taxes	33.9%
Corporate Income Taxes	10.6%
Other revenues (fees)	5.6%
Excise Tax (fuel/highway)	3.1%
Estate and Gift Tax	0.6%

From 1947 to the present, individual income taxes have remained about the same with respect to the percentage of all federal tax revenue, while corporate taxes have fallen and payroll taxes have increased. Clearly, any change that is made to individual or payroll taxes has a much larger impact on federal revenues than does a change in the Corporate, Fee, Excise and Estate Tax components of the revenue budget. The largest driver of change for individual tax revenue contribution is employment. When GDP expands, employment grows, individual income grows and both individual tax revenue as well as payroll tax revenue increases at the federal level.

“While it may matter to individuals, the elimination of the estate tax… matters only symbolically to the federal budget.”

While it may matter to individuals, the elimination of the estate tax (death tax as some refer to it) matters only symbolically to the federal budget. Keeping it or eliminating it solves nothing with respect to either deficits or growth of GDP. The political probability of eliminating it is perhaps the highest it has been in the last three decades with the Republican Party in control of the White House and legislative branches. Because it means so little to the entire revenue side of the budget it could become a large bargaining chip to get the rest of the tax package through Congress. Democrats will rail against its repeal and the Republicans may offer it as a sacrificial lamb to get other measures passed. In the end, from a budget standpoint, it is irrelevant.

While the corporate tax rate is currently 35%, the effective rate (after deductions for allowable expenses) is 21.5%, which makes our current effective rate somewhat competitive in the global ranking or corporate tax structures. Eliminating deductions and lowering the corporate rate to 15% for all businesses will impact only about 11% of the federal revenue budget. What most that are somewhat hysterical in their opposition to the proposal are missing is that the reduction, if structured in the right detail, could increase corporate tax revenue, especially for the small business sector which drives most of the growth in employment.

Currently most small businesses are structured as a LLC (limited liability corporations) and elect to be Sub-S or pass-through corporations for tax purposes, which means that the net income of the company flows through to the owner's tax return. Larger corporations and publicly traded companies are C Corporations for tax purposes, and the tax on net income is paid at the corporate level. The concept of the tax proposal is to reduce the rate but widen the base, thereby not reducing but possibly increasing gross tax receipts. The details of the legislation are being worked on now but it could well be that pass-through or Sub-S elected businesses will end up paying a 15% tax on net income before it passes to the owner. More evidence will be defined in the detail but the concept of reducing the rate and broadening the base has been evident in the elimination of corporate as well as individual tax liability calculations. The devil is in the details but small businesses should be mindful of those details. Once again there will be a huge focus on what most will refer to as corporate tax reductions. Once again this component only impacts 10.6% of federal tax revenues. I am not suggesting it is unimportant but it is certainly not a solution to deficit reduction or stimulus for GDP growth.

Nothing in the proposed tax plan involves payroll tax and, thus, that large (34%) component of the revenue budget remains intact. The compression of tax rates from seven to three, doubling of the standard deduction and elimination of all but two itemized deductions (charitable and mortgage interest) do have significant implications on how individual tax revenue is collected and therefore the aggregate amount collected of what represents 46.2% of the federal income budget. Once again, we are served well to look through the lens of "lowering the rate and widening the base."

"The concept of the tax proposal is to reduce the rate but widen the base, thereby not reducing but possibly increasing gross tax receipts."

Those in the lowest tax bracket are likely to see a rather significant tax reduction. Those in the 28% and 35% tax brackets will want to pay special attention to the details of the legislation and how the eliminations of individual itemized deductions and preference items will change their effective tax rate. To be certain, the reduction from 38% to 35% for the highest tax bracket, as well as the elimination of the 3.8% excise tax on dividend and capital gains for the highest tax bracket to fund the Affordable Care Act, seems attractive; however, the loss of individualized deductions such as real estate tax, city and state tax, personal property tax, etc. may subject more revenue to tax albeit at a somewhat lower rate. Not to be redundant, but do you see a theme of "lowering the rate and broadening the base" continuing within the plan?

There are different audiences within Congress, because they represent different constituents. Some will focus on rate reduction. Others will focus on deficit impact, while others focus on progressive taxation (poor pay less, wealthy pay more). The details will play to various audiences, but in the end the audience that is most demanding is the federal budget. Details may prove me wrong, but what appears likely is that whatever changes get legislative approval will prove the plan to be more incremental and less dramatic than advertised, largely because the most significant changes are focused upon components of the revenue budget that are smaller rather than larger in impact.

Michael F. Odar, CFA
President

How Do We Add Value?

Shortly after becoming president of Greenleaf Trust, I wrote down on a piece of paper torn from the bottom of a notepad what I hoped we could accomplish. Very simply I wrote – help people concentrate on life. By creating value through our work on their behalf, I knew we could accomplish what I wrote down.

Value creation is the primary goal of any business. Greenleaf Trust is no different. In a traditional business model, work creates value for customers and the amount of value is measured by revenue back to the business. At Greenleaf Trust, the value we create for clients is measured by their success and satisfaction. How we add value is through holistic wealth management.

Just like holistic medicine involves healing the whole person, holistic wealth management involves a family's whole set of financial needs. And, just like holistic medicine involves more than just healing the body, holistic wealth management involves more than just portfolio management. We believe impactful holistic wealth management should be proactive and involve:

- Portfolio Management
- Estate Structuring
- Fiduciary Administration
- Financial Planning
- Education
- Asset Protection Strategies
- Philanthropic Services
- Risk Management
- Strategic Tax Consulting
- Legacy Planning

Holistic wealth management should also be evolutionary considering different phases of life as well as different generations. For example, my family's financial needs today are very different from what they were twenty years ago. And for those multi-generational families, second and third generation needs are often very different from first generation needs.

"...the value we create for clients is measured by their success and satisfaction."

Holistic wealth management is a big part of our value proposition to clients. In order to deliver, we need to be knowledgeable, thoughtful, collaborative, creative, and good listeners. Our service model also needs breadth and depth to be effective. That is why the model is team-based, which brings multiple disciplines to the table, and each service team ("Client Centric Team") is backed by our staff of over 100 professionals with a diversity of backgrounds, educations, certifications, and experiences.

I still have the piece of paper. It serves as a reminder to me of what it is that we truly strive to do every day for our clients.

Key Estate Planning Documents to Protect Your Loved Ones

Melinda P. Shull
Trust Relationship Officer

Over the past year, I have had the privilege to work with families through various life events and challenges. We reviewed financial and estate plans related to a death of a spouse, planning for retirement, and education for children and grandchildren.

I am often asked to help review and explain several basic estate planning documents. Here are some key documents you should have to protect your assets and your family in the event of your disability or death:

1) DURABLE POWER OF ATTORNEY. This important document designates a person to make health care or financial decisions for you if you become incapacitated or unable to make them for yourself.
2) LIVING WILL. Also called an Advance Health Care Directive, this document details the way in which you want your doctors to treat you should you become unable to communicate those wishes. A living will is sometimes combined with a valid Durable Power of Attorney for Health Care to help the Patient Advocate understand the patient's treatment choices.
3) WILL. A will is a legal document that directs the probate court how you want your assets distributed following your death. This document names the Personal Representative charged to administer your estate. The will outlines how you want your probate assets divided, as well as who should become guardian of any minor children. The will does become a public record.
4) A LIVING TRUST. This document, like a will, directs how you want your property and funds distributed. It also appoints a trustee to carry out specific wishes for your assets. Unlike a will, assets held in a trust don't have to go through probate. A trust can be used to help manage your assets and property while you're still alive.
5) BENEFICIARY FORMS. This document identifies who is to receive the assets in your 401(k)s, IRAs, life insurance policies, pensions, and other financial accounts upon your death. These designations avoid probate and take priority over the directives in your will or trust. So review them annually and keep them up to date to reflect your wishes.
6) POD AND TOD DESIGNATION. A Payable On Death (POD) form typically says who should receive the money in your checking or savings accounts when you die. Payable-on-death bank accounts offer an easy way to keep money, even large sums of it, out of probate. All you need to do is properly notify your bank who you

"Here are some key documents you should have to protect your assets and your family..."

Key Documents, continued

want to inherit the money in the account or certificate of deposit on your death. The bank and the beneficiary you name will do the rest, bypassing probate court entirely. A Transfer-On-Death (TOD) form is similar but typically for investment accounts. A POD or TOD can be added to a joint tenant account as well.

7) LADY BIRD DEED. This Deed is a fairly simple way to avoid probate and transfer real estate to heirs when drafted properly by an attorney; it is equivalent to holding a life estate in real estate. A Lady Bird deed gives you the power to retain control of the property during your life, including the right to use the property for profit or to sell the property.

"Put everything together in one place and then tell your spouse or closest family members where the documents can be found."

Don't forget to "fund" your trust.

An empty trust does not avoid probate, so it is important to build a 'paper trail' to transfer title to valuable assets, e.g. title to the home, in the name of the trust to avoid probate and the probate court's inventory fee which is based on the value of assets that pass through probate.

Organize your paperwork.

Do you know where your tax returns, insurance policies, brokerage and 401(k) statements, and mortgage paperwork are? If you're not sure, you can bet your loved ones won't be able to find them when they need to. Put everything together in one place and then tell your spouse or closest family members where the documents can be found. Aside from the documents mentioned above, also include: your Social Security and health insurance/ Medicare cards, plus contact information for your doctors, lawyer, and accountant and computer passwords to your various accounts. Label keys too!

Keep it in the right place.

Never keep your original will in your safe-deposit box. You can keep a copy of your will in the safe-deposit box, but the original belongs with your lawyer or in a fireproof box at home or in your office where it is more readily accessible, especially if you have the will to direct your funeral and burial wishes.

Greenleaf Trust is available to you, your heirs and your estate planning attorney to assist with planning, reviewing and carrying out your desires.

The Importance of Knowing

Lorey L. Matties
Participant Services Specialist

How much money do you need to retire? Are you on track? These are questions that we don't always want to ask, but it is important to know where you stand and how much you will need for retirement. Sadly, most of us will spend more time planning our spring break trip to Disney World than planning and preparing for the ultimate vacation… retirement.

According to the Employee Benefit Research Institute (EBRI), less than half of US workers (48%) report that they and/or their spouse have never calculated how much money they will need to live comfortably in retirement.

A retirement calculator is a great tool to help calculate how much you will need to retire and the steps you can take to get there. Key considerations in planning for retirement include: your contribution amount, your employer's contribution (if any), your investment strategy, the age at which you would like to retire, anticipated Social Security benefits, your withdrawal strategy and life expectancy. If you are not on track, you will need to assess each key consideration and adjust if possible.

One of the most important considerations that you have control over is your personal savings to your retirement plan, specifically:

- Are you maximizing your contributions? The 2017 IRS contribution limit is $18,000 with an additional catch up contribution of $6,000 ($24,000 total) for those over 50.
- If available, take advantage of an employer match. This is an immediate return on your investment. Don't leave money on the table.
- Increase your contributions when possible or at least annually. Even a 1% increase in your contributions can add up significantly over time.

Even if you are on track, you shouldn't simply save and forget. It is important to keep tabs on your progress. At least once a year, you should find out where you stand. That way you can make the necessary changes to keep you on track. It is never too early and it is never too late to prepare for your future.

"When you know better, you do better" – Maya Angelou

" Sadly, most of us will spend more time planning our spring break trip… than planning and preparing for the ultimate vacation… retirement."

Samuel J. Riethman
Trading Specialist

Minimizing Implementation Shortfall with ETF Investments

Over the last few years, we have utilized more exchange-traded funds (ETFs) in the portfolios we build for our clients. ETFs can be a great tool to use in portfolios due to their low cost, broad diversification and tax-efficiency. However, a recent article in the Wall Street Journal, "The Expensive Ingredient of Cheap ETFs," highlighted the often forgotten costs of trading ETFs. This article will discuss how fund selection and trade execution are crucial to successfully investing through ETFs.

"ETFs… can provide broad exposure to an asset class or specific market sector, but often with lower fees and commission structures."

ETFs offer many benefits similar to mutual funds. They can provide broad exposure to an asset class or specific market sector, but often with lower fees and commission structures. Unlike mutual funds, ETFs trade throughout the day like a stock. Mutual fund NAVs (Net Asset Value) are priced at the end of the trading session based on the value of their underlying securities, while ETF values fluctuate throughout the day, potentially trading at a premium or discount to the NAV of the underlying holdings depending on demand and liquidity. Lastly, ETFs are typically more tax efficient than mutual funds due to limited or zero capital gains distributions.

There are two issues that impact the effective trading of ETFs – the premium or discount to the NAV and the bid-ask spread. In volatile market conditions and periods of low liquidity, (especially in certain small cap equity, foreign equity and fixed income ETFs) underlying assets that are not heavily traded can amplify these implicit costs, especially if the need arises for an urgent purchase or sale under these conditions. Unplanned trading costs have the potential to significantly diminish investment returns — by some industry estimates, the costs can amount to 1-2% a year (Zweig, 2017). We aim to mitigate these costs through thoughtful ETF selection and prudent trade planning and execution. Our evaluation of ETF suitability reaches well beyond comparing the expense ratio of two similar strategies. Analyzing the premium or discount to NAV, average trading spreads (the markup or markdown taken by the broker when traded), and average volume all help to indicate if the cost of trading is too great to recommend an ETF for our clients. For example, in the domestic equity markets we have utilized Blackrock iShares. The iShares funds we invest in do have very low expense ratios, but also high liquidity, tight bid-ask spreads, and low average premium to NAV.

Our trading desk is also instrumental in mitigating costs by employing strategies and tactics intended to improve execution. These include blocking similar client trades into larger orders, using limit orders, tracking bid-ask spreads and monitoring intraday market momentum to execute orders at optimal times. A specific example of eliminating trade costs is entering a limit order a few cents away from the market price in a calm market. The near certainty of executing just a few cents from current quote is a very successful way to eliminate the cost of commission per share.

In summary, we believe ETFs are a compelling portfolio construction tool based on unique characteristics including low expenses, diversified market exposure and tax efficiency. However, these benefits can be partially offset by lack of attention to important details, including selection and trade execution. Our Research team and trading desk work diligently to ensure our clients' goals are not compromised by the potential hidden costs associated with ETF investments. If you would like more information on investing with ETFs or if you have any questions about your portfolio, please contact any member of your Client Centric Team.

"... ETFs are typically more tax efficient than mutual funds due to limited or zero capital gains distributions."

Allison L. Birmingham, CWS® CCPS®
Wealth Management Advisor

Defining You

Our work is much deeper than the surface. As advisors within a Goals-Based Wealth Management practice we must consistently and effectively be tailoring our approach and service model to fit the uniqueness of each client. While education can provide us the depth of knowledge in the field so that we can be successful in the work we do on behalf of the families, individuals and companies we serve, oftentimes it is the conversations and the comfort we provide through verbal and non-verbal cues within the four walls of a conference room or living room that allow us to listen, guide and ultimately achieve the goals stated by our dearest clients.

The art of Greenleaf Trust client service goes well beyond the generation and particular phase of a client's financial lifetime; however, not to be misconstrued, we must understand and relate with this first. Whether the client is a new business owner with debt to settle, income to earn and young children to raise, or a couple entering the retirement phase with a new grandchild on the way and big travel plans, each has a particular set of short and long term goals for their wealth. If we cannot identify with and understand the priorities they have set forth, it's simple: we cannot be successful as advisors. For many reasons, this being one, the first item on our agenda for every client meeting is "What is on your mind?"

"The art of Greenleaf Trust client service goes well beyond the generation and particular phase of a client's financial lifetime"

GENERATION	MATURISTS (PRE-1945)	BABY BOOMERS (1945-1960)
Formative experiences	Second World War Rationing Nuclear families Defined gender roles — particularly for women	Cold War "Swinging Sixties" Apollo moon landings Youth culture Woodstock Family-oriented Rise of the teenager
Aspiration	Home ownership	Job security
Attitude toward IT	Largely disengaged	Early adopters
Attitude toward career	Jobs are for life	Careers are defined by employers
Signature product	Automobile	Television
Communication media	Formal letter	Telephone
Communication preference	Face-to-face	Face-to-face ideally, but telephone or e-mail if required
Preference when making financial decisions	Face-to-face meetings	Face-to-face ideally, but increasingly will go online

The age of the individuals we serve is most often not the top priority when compared with understanding the personality type of the client or individual(s) sitting around the table. Many of our clients and their fellow advisors are considered analytical. The analytical type is detail-oriented, focused on the facts and data, valuing quality and accuracy. Alternatively, there are the social types who enjoy developing relationships and are seemingly more passive in nature. Lastly, we must consider those that are drivers. These individuals are results-oriented, enjoy being in control and oftentimes value speed versus accuracy. Ultimately, it is our responsibility as advisors to tailor our approach to meet the needs and personality type of those whom we serve. Discussions have the opportunity to be most successful when we, as the advisors, speak the least.

Managing and sustaining our clients' wealth from generation to generation is not a sideline, it's our sole purpose. Generation Maturist to Generation Z and all generations between allow us the opportunity to serve uniquely, ultimately increasing the probability of managing family wealth with goals in mind.

It is incredible to have been educated enough and afforded the opportunity to impact lives in such a manner that satisfies one's comfort with their hard-earned dollars and family's future. There is not a day that is taken for granted in our beautiful building on South Rose in Kalamazoo, as each day we discuss, advise and relate to clients we serve, seeking a shared objective.

"… it is our responsibility as advisors to tailor our approach to meet the needs and personality type of those whom we serve."

GENERATION X (1961-1980)	GENERATION Y (1981-1995)	GENERATION Z (BORN AFTER 1995)
End of Cold War Fall of Berlin Wall Reagan / Gorbachev Introduction of first PC Early mobile technology Latch-key kids; rising levels of divorce	9/11 terrorist attacks PlayStation Social media Invasion of Iraq Reality TV Google Earth	Economic downturn Global warming Global focus Energy crisis Produce own media Mobile devices – Cloud computing Wiki-leaks
Work-life balance	Freedom and flexibility	Security and stability
Digital immigrants	Digital natives	"Technoholics" – entirely dependent on IT; limited grasp of alternatives
"Portfolio" careers — loyal to profession, not necessarily to employer	Digital entrepreneurs — Work "with" organisations not "for"	Career multitaskers — move seamlessly between organisations and "pop-up" businesses
Personal Computer	Tablet/Smart Phone	Google glass, graphene, nano-computing, 3-D printing, driverless cars
E-mail and text message	Text or social media	Hand-held (or integrated into clothing) communication devices
Text messaging or e-mail	Online and mobile (text messaging)	Facetime
Online — would prefer face-to-face if time permitting	Face-to-face	Solutions will be digitally crowd-sourced

Stock Market Pulse

Index	4/30/17	Total Return Since 12/31/2016
S&P 1500	553.18	6.80%
Dow Jones Industrials	20,940.51	6.71%
NASDAQ	6,047.61	12.72%
S&P 500	2,384.20	7.16%
S&P 400	1,732.76	4.81%
S&P 600	851.36	1.96%
NYSE Composite	11,536.08	5.13%
Dow Jones Utilities	704.35	7.76%
Barclays Aggregate Bond	109.25	1.59%

P/E Multiples	4/30/17
S&P 1500	21.8x
Dow Jones Industrials	18.5x
NASDAQ	23.0x
S&P 500	21.4x
S&P 400	24.4x
S&P 600	26.7x

Key Rates

Fed Funds Rate	0.5% to 0.75%
T Bill 90 Days	0.73%
T Bond 30 Yr	3.00%
Prime Rate	4.00%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	553.18	21.8x	1.97%
S&P 500	2,384.20	21.4x	2.03%
Dow Jones Industrials	20,940.51	18.5x	2.45%
Dow Jones Utilities	704.35	NA	3.45%

Spread Between 30 Year Government Yields and Market Dividend Yields: 1.03%

MAIN OFFICE:
211 South Rose Street
Kalamazoo, MI 49007
office: 269.388.9800
toll free: 800.416.4555

TRAVERSE CITY OFFICE:
125 Park Street, Suite 495
Traverse City, MI 49684
office: 231.922.1428

GRAND RAPIDS OFFICE:
25 Ottawa Avenue SW, Suite 110
Grand Rapids, MI 49503
office: 616.888.3218

BIRMINGHAM OFFICE:
34977 Woodward Ave., Suite 200
Birmingham, MI 48009
office: 248.530.6202

PETOSKEY OFFICE:
331 Bay Street
Petoskey, MI 49770
office: 231.439.5016

GREENLEAF® TRUST

e-mail: trust@greenleaftrust.com
www.greenleaftrust.com