GREENLEAF TRUST

Perspectives

A Greenleaf Trust Newsletter

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William D. Johnston
Chairman, Greenleaf Trust

Economic Commentary

The Federal Open Market Committee (FMOC) increased the federal funds rate by another 25 basis points from 1.75% to 2.0%. Similar increases were voted on for the primary credit rate as well as the interest rate on excess reserves. In contrast to other announcements, the Fed eliminated the phrase "The federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer term." This phrase elimination is another way of hinting that although the fed funds rate has been supportive or accommodating to lending capacity, the future reality is to return to a more normal cyclicality determined by inflation, GDP growth and unemployment. There were no real surprises in Fed Chairman Powell's statements affirming the consensus of his colleagues that "the economy was doing very well." If we glance at the summary of economic projections, we note that the medium forecast for 2018 growth was revised to +2.8% while unemployment was forecasted to finish the year at 3.6% with inflation nudging 2.1%. If we ever wondered what the current fed governors thought an economy that was doing "really well" felt and looked like, we can look at the current set of numbers as a guide.

Understanding where we are in the economic cycle is important for the Fed, it is especially important in the early stages of recession recovery and the later stages of an economic growth cycle. We are now entering the tenth year of an economic recovery and growth cycle. Most economic cycles in our economy's history have been traditional expansion and contraction facilitated and controlled by the expansion and contraction of credit and liquidity. As every Fed Chairman and the respective governors that serve know, monetary policy is not easy. If the Fed is too accommodative, the potential to get behind the inflation curve is real, but contracting the availability of credit by increasing rates too fast can stall an economy at the wrong time, so getting the data right is critically important.

Economists love data and causal relationships. Economic research has always attempted to quantify the consistency of relationships and to determine if those relationships can be applied to the current condition.

William Phillips, a New Zealand born economist, became noted for

Commentary, continued

his study of England's economic cycles and in doing so he became famous for publishing his research which became known as the "Phillips Curve." The "Phillips Curve" is a single equation empirical model that tests the relationship between unemployment and the rate of change of wage rates. The study examined data from 1861-1957 in England and has been used by most economists in their models of projected future inflation. The relationships between employment and inflation is based upon assumptions that seem reasonable. If more people are employed, consumers will have more money to spend and there will be more money chasing goods and services.

There are eight components that measure the Consumers Price Index (CPI). Those components are: food & beverage; housing; apparel; transportation; medical care; recreation, education and communication; and other goods and services. Core inflation excludes food and energy. How inflation impacts each person depends significantly on how much of a consumer you are of each of the eight components. While it may frustrate you to hear or see that inflation is 2.1% while you simultaneously experience double digit growth in prescription and tuition costs, the Federal Reserve's task is to measure a much more macro level of inflation commonly referred to by the PCE Index or Personal Consumption Expenditures Index. The current reading of the PCE Index as of May 31 of this year is 2.0%.

"Economists love data and causal relationships. Economic research has always attempted to quantify the consistency of relationships…"

As our economic expansion has continued and unemployment, both reported and U-6, has fallen, economists have begun to question the validity of the "Phillips Curve" in predicting inflation. Is the "Phillips Curve" dead? Is it no longer a useful tool in determining monetary policy?

From a data-driven as well as anecdotal perspective, the Federal Reserve Governors see some conflicting information. For ten years, we have seen a transformation in workforce availability from oversupply to undersupply of available labor. Only within the last three quarters have we witnessed an increase in business capital investment and small productivity gains in the workforce.

A tightening labor pool characterized by low duration of unemployment and job openings posted in excess of those available to work should create demand for the existing supply of workers, and therefore, higher wages.

The tightrope that the Fed walks is made more precarious because the above causal relationship, as published in the "Phillips Curve" research, has not yet evidenced itself in US wage growth at a rate that significantly impacts inflation in either the CPI, Core or PCE Index measurements.

No Fed can rely only on tight application of economic research. Our regional Federal Reserve districts are critically important to the collection of real time data being generated by real economic activity occurring in every region of our economy. What the Fed knows is that the US consumer is employed at levels we have not seen for over 18 years. They also know that our labor force growth rate is less than one percent (forecasted to grow in 2018 at 0.05%) with the aging of our workforce and limitations on immigration likely to reduce available labor in 2019, forcing them to revise their unemployment forecast for 2019 to 3.5%. Should wage rates increase beyond the current rate of growth, expect the Fed to get more aggressive on rate hikes and expect those that are minimizing the "Phillips Curve" as a useful inflation guide to become more silent.

Benefits of Charitable Contributions

Hollie M. Kemner
Senior Tax Specialist

Making charitable contributions to our favorite qualified organizations has a way of making us feel good inside, happy that we are able to help make a difference, regardless of the amount. But let us take a moment and look at the additional benefits we could receive from the charitable contributions we make. If you are 70½ or older with an IRA, you are required to take a distribution each year. In most cases the distribution, called a required minimum distribution or RMD, is taxable to you on your individual tax return, but recent legislation has given taxpayers the option to contribute up to $100,000 each year to qualified charitable organizations. Though made permanent by the Tax Hikes (PATH) Act of 2015, P.L. 114-113 in 2016, this option is not new to tax planning. First introduced in 2006, the option was only temporary and often was not approved in time for beneficial tax planning. Charitable contributions from your IRA offer multiple benefits that may be difficult to see on the surface, especially under new 2018 tax laws.

Typically, charitable contributions are included as part of your itemized deductions on Schedule A and are combined with other items such as medical expenses, property taxes, mortgage interest and miscellaneous deductions. If the total amount of your itemized deductions exceeded the standard deduction, $6,350 for single individuals and $12,700 for married couples in 2017, you were able to deduct that amount from your income. But for 2018 the standard deduction has increased to $12,000 for single individuals and $24,000 for married couples. This means that a large number of taxpayers will no longer qualify to deduct charitable

"Contributions made directly from your IRA are not impacted by the standard deduction amount."

Charitable Contributions, continued

contributions because they will not exceed the exemption amount.

Contributions made directly from your IRA are not impacted by the standard deduction amount. Instead of receiving a charitable deduction, they reduce the amount taxable to you and that's included as part of your adjusted gross income. As an example, assume that your RMD for 2018 is $150,000 and you choose to make $100,000 in charitable contributions. For 2018, only $50,000 is taxable to you while the $100,000 is considered a qualifying charitable distribution or QCD.

Second, contributions from your IRA are not limited to 50% of your adjusted gross income. They are limited to $100,000, allowing you to receive the benefit in the year of your contribution instead of potentially having to keep track of your carryforward from year to year.

Third, the reduction for QCDs directly against your adjusted gross income could benefit your tax situation as many phase out calculations start with adjusted gross income, meaning deductions or credits are less likely to be limited or phased out completely.

Fourth, taxpayers at all income levels can take advantage of this opportunity whether you itemize your deductions or take the standard deduction. This is because the QCD is taken before those types of calculations come into play, so the need to exceed the standard deduction is eliminated.

Finally, and perhaps the biggest potential benefit, relates to the taxability of social security income. Currently, the amount of social security income that is taxable is based on a modified adjusted gross income calculation which includes the RMD taken by a taxpayer. If the taxpayer elects the QCD, the modified adjusted gross income is reduced, meaning less taxable social security income.

"... perhaps the biggest potential benefit, relates to the taxability of social security income."

Let's not forget that electing to make charitable contributions directly from your IRA has potential benefits for your state tax return as well, depending on your state of residence. In Michigan, for example, the tax calculation starts with federal adjusted gross income so taking advantage of the QCD allows for a lower tax overall.

To recap, it is important to consider the additional benefits and opportunities when making charitable contributions. As a taxpayer you may elect to gift directly via appreciated stock, check or cash and potentially receive an itemized deduction on your tax return or, if you are 70½ or older with an IRA, you can elect to gift directly to a qualified charitable organization from your IRA and receive a reduction to your adjusted gross income. Regardless of the method, making charitable contributions to our favorite qualified organizations has a way of making us feel good inside and truly happy that we are able to make a difference.

2018 Mid-Year Market Review

Nicholas A. Juhle, CFA
Vice President
Director of Research

In our 2017 year-end seminar, we recapped a period characterized by exceedingly low volatility, stronger-than-expected returns across major asset classes, and a compelling economic backdrop heading into 2018. We also provided our outlook for key themes we expected to influence markets in the short term, and the capital market assumptions shaping our longer term expectations. Having recently passed the halfway mark in 2018, we offer some perspective on the start to the year and our outlook.

Looking across most asset classes, one thing is certain – 2018 is shaping up much differently than 2017, as several prominent trends have reversed year-to-date.

- Global Equities: In 2017, investors experience strong gains across global equity markets. International and emerging market stocks outperformed US stocks and within the US market, large cap stocks outperformed small cap stocks. In 2018, those dynamics have reversed. US stocks have delivered the best performance, with small cap stocks outpacing large cap stocks year-to-date.

Equity Markets	2017 Total Returns	2018 YTD Returns
Domestic Stocks		
Large Cap (S&P 500)	21.82%	2.65%
Mid Cap (S&P 400)	16.23%	3.49%
Small Cap (S&P 600)	13.15%	9.37%
Developed International (MSCI EAFE)	25.03%	(2.75%)
Emerging International (MSCI EM)	37.28%	(6.66%)

Source: Bloomberg

- Fixed Income: Bonds also fared well in 2017 as key rates spent much of the year below their starting points, supporting low single digit returns across most indices. Specifically, the 10-year treasury yield opened 2017 at 2.44% and dipped as low as 2.04% before rising to close the year at 2.40%. In 2018 rates have been rising. Rates peaked at 3.11% in May and remained near 2.90% at the end of June. As a result, most bond markets have declined.

Fixed Income Markets	2017 Total Returns	2018 YTD Returns
Treasuries		
1-3 Year	0.42%	0.05%
5-7 Year	1.87%	(1.32%)
7-10 Year	2.55%	(1.97%)
Investment Grade Corporate		
1-3 Year	1.90%	0.08%
5-7 Year	5.21%	(2.21%)
7-10 Year	6.35%	(3.51%)
High Yield Corporate	7.50%	0.16%

Source: Bloomberg

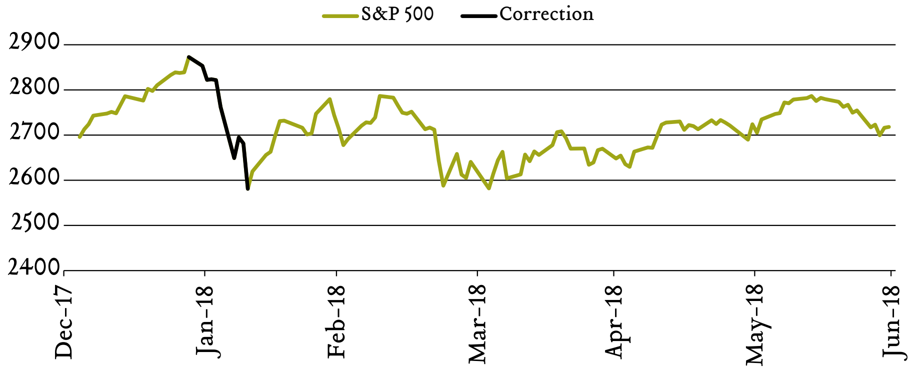
"... 2018 is shaping up much differently than 2017, as several prominent trends have reversed year-to-date."

Mid-year review, continued

In 2018, the S&P 500 experienced its first 10% drawdown, or correction, in nearly two years. The index climbed 7% in just 18 trading days, reaching a peak on January 26. Rising interest rates and concerns over less accommodative monetary policy drove stocks down 10% over the next nine trading days. The market recovered nearly 7% heading into March before falling back towards correction territory, this time in response to tariff announcements and trade war speculation. From here, markets reluctantly ground higher to close out the second quarter up 2.6% for the year and about 5% below peak levels.

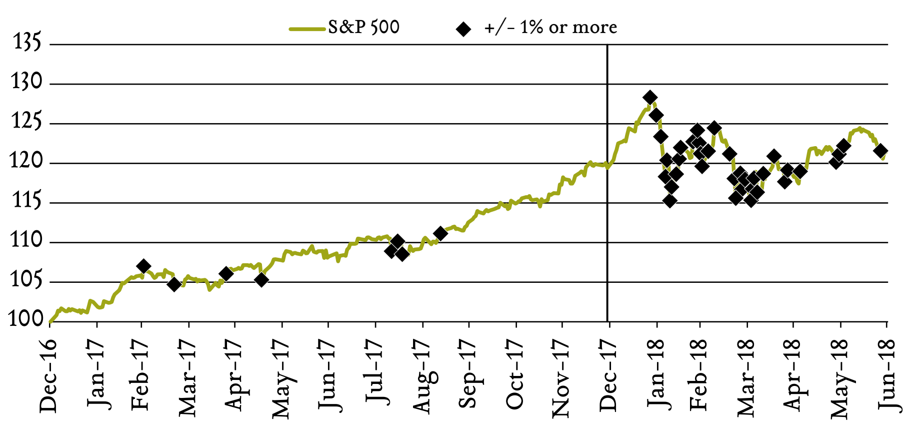
"The market recovered nearly 7% heading into March before falling back towards correction territory, this time in response to tariff announcements and trade war speculation."

S&P 500 Price 12/31/2017 – Present

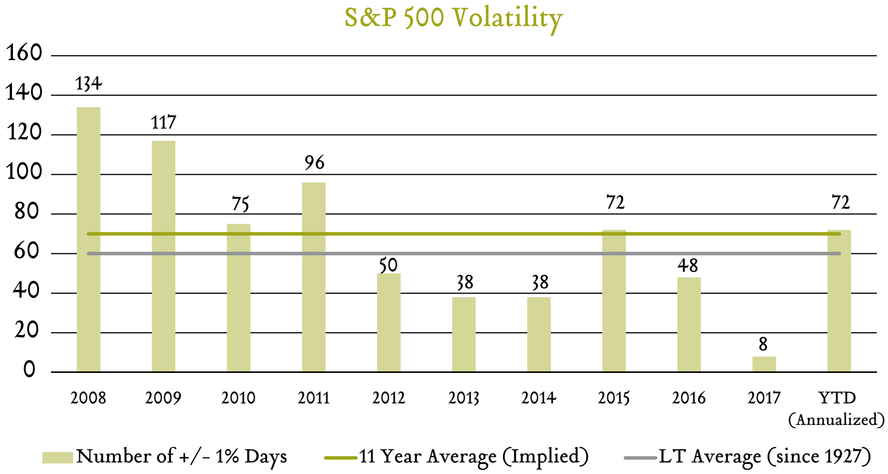


If the ride seemed more turbulent than it did last year, that's because it was. The two years leading up to 2018 left market observers accustomed to low volatility and steadily rising stock prices, but volatility has re-emerged year-to-date. Below, we highlight days when the S&P 500 moved more than 1% up or down over the last year and a half. Notably, we experienced just 8 such days in all of 2017, while we have experienced 36 such days in just the first half of 2018.

S&P 500 Volatility



Perhaps more notable is the fact that the year-to-date period is actually the more "normal" portion of the graph. On average, the S&P 500 experiences about 60 +/- 1% days per year. Over the last decade, the average has been around 70, similar to the annualized first half of 2018.



We won't claim we expected markets to diverge so sharply and so quickly from the trends observed in 2017, but the dynamics playing out in 2018 are directionally consistent with the views and key themes described at our year-end seminar. We, and others, were right to focus on tax reform, corporate profits & valuations, monetary policy and our positioning in the business cycle entering the year as each of these themes has contributed to observed outcomes.

- The impact of tax reform on household savings and consumption rates remains to be seen, though 2018 corporate earnings received an estimated 10% boost as a result of the cuts.
- Even absent tax law changes, corporate profits remain healthy as margin pressure from wage inflation and higher input costs has yet to materialize despite full employment. All else equal, higher expected earnings against a flat S&P 500 nets a more reasonable valuation level.
- Under leadership of Jerome Powell, the Fed raised interest rates twice in the first half, signaling expectations for two more before year end. While missteps present a risk, Fed actions are intended to keep the economy from overheating in order to maintain balance between reasonable inflation and full employment.
- Lastly, the third longest economic expansion in US history became the second longest economic expansion during the first half of 2018. While we are late in the cycle, cumulative GDP growth remains tempered relative to other expansionary periods.

We expect the implications of these themes to continue to shape the year and would add global trade policy and mid-term elections to the list of topics we expect to wield significant influence in coming quarters. Overall, we recommend most of our clients hold a full weight to global equities in accordance with their individualized risk profile and we are marginally more constructive on international equities. Concurrently, we are less constructive on the outlook in fixed income markets and believe a modest underweight in favor of an allocation to diversifying strategies (alternative assets) is prudent at this juncture.

"We, and others, were right to focus on tax reform, corporate profits & valuations, monetary policy and our positioning in the business cycle"

Despite an ever-changing landscape, our disciplined approach and long-term orientation serve us well in our quest to create comprehensive investment solutions that help our clients reach their financial goals. Investment decisions are made in alignment with our documented investment philosophy and always with the intention of serving our client's best interests. Should you have additional questions about our views or process, please contact any member of your client centric team.

Stacy L. Beekman
Trust Relationship Officer

Do You Have Plans to Move Out-of-State?

Every year, a large number of individuals make the decision to relocate and move out-of-state. Perhaps it's to enjoy a different lifestyle, the desire to be closer to family and friends, or maybe it's just time for a change in climate – whatever the reason is for the move, it is important to have your estate planning documents reviewed after you've settled in a new state.

One of the first things to review after you move is your will. A properly executed will that determines how your property will be distributed upon your death, is typically valid throughout the United States as long as the document is in compliance with the law of the state where it was signed. However, the interpretation of the language in the document is based on the laws of the state in which you live at the time of your death. If your new state does not support the language in your existing document, you may want to consider having it amended. This will allow you to address any issues that may differ from the state where the document was drafted and ensures your wishes are followed as intended.

"One of the first things to review after you move is your will."

As part of the review process, you should have a good understanding of how your new state treats marital property. Community property states treat marital property as being owned jointly, whereas spouses in common law states own property that is in his or her individual name. If you previously lived in a community property state and are now living in a common law state (or vice versa), your will may not be structured to handle your property as you had planned. There may be a need to create a new will to reflect your intent.

It's also important to know if your chosen personal representative, the one who must deal with your legal documents, collect assets and prepare an inventory of the property, contact beneficiaries and creditors, and distribute property per the document, is able to serve in that capacity if they reside out-of-state. Most states allow out-of-state representatives to serve, but other states have laws that require the personal representative to reside in the state where the will is being handled. It's important to talk with an attorney to determine if your new state imposes special rules for out-of-state representatives and determine if any changes to your document should be made.

If you have an existing living trust, it should be recognized as a valid document in any state, not just the state in which it was created. After you move, it's essential to make sure the trust is funded with all of the assets you want to pass directly to your beneficiaries. If you purchased a new home or other sizeable assets as part of your relocation, you may want to review your living trust with an attorney to ensure the new assets are structured appropriately in your estate plan.

Just like wills and living trusts, most states will recognize and honor an out-of-state power of attorney document as long as it has met the legal requirements of the state where it was executed. This applies to a durable power of attorney, health care power of attorney, and a financial power of attorney document where you have given someone else the authority to act on your behalf. If you are not sure if your existing document meets your new state's requirements, you should have this document reviewed as well.

When establishing health care directives, you select a person(s) of your choice to make health care decisions on your behalf should you become unable to do so for yourself. Many states' laws governing these documents are similar, while others are significantly different as it pertains to what rights patients have to control their own health care decisions. To ensure your intentions are able to be followed out in your new state, you should discuss with an attorney what you currently have in place.

In addition to the above estate planning documents, many people also have life insurance policies, retirement and pension accounts, or payable-on-death (POD) or transfer-on-death (TOD) accounts within their estate plan. Each of these provide direction to transfer benefits directly to the named beneficiary or beneficiaries. Such policies and accounts should not be affected by your move to another state, but you should periodically review the account paperwork to ensure your contact and beneficiary information are always up-to-date.

As with any major life change, a move to another state is a perfect time to make sure you have all of your estate planning documents in order. An estate planning attorney in your new state can be a big help in determining whether your documents are still in good shape. Even if you don't think laws in your new state will affect your current estate plan, it's still important to review your plan on a periodic basis to make sure it reflects your current goals and requirements. Investing a little time in this process now could save your loved ones a lot of hassle and stress later on.

"As with any major life change, a move to another state is a perfect time to make sure you have all of your estate planning documents in order."

John Graham
Guest Contributor

Brexit: Deal or No Deal?

It has been two years since the Brexit vote in the UK (June 23rd, 2016). A number of my friends and colleagues in the US have been asking me "What's going on with Brexit?" What indeed.

To tell the truth, for most people in the UK, Brexit disappeared into a fog of verbiage several months ago emerging with clarity only around key development points: setting the final exit date, the June 2017 snap election, the agreement of a "Brexit bill" for £44 billion last fall and recently when the European Union Withdrawal Bill was passed. The later being the UK legislation which repeals the 1972 European Communities Act and converts EU law to UK law once Britain leaves Europe. A transition agreement was also put in place in March in order to give businesses and governments space to adjust after March 29, 2019, the date the UK leaves the European Union. The final date for all arrangements to be in place is now December 31, 2020 provided that the two sides agree on how they will separate before the March 2019 deadline.For the most part, however, concrete information about Brexit has disappeared into to a fog of political posturing and threats from all sides of the internal debate. Ironically, the EU negotiations have been and, to some extent still are, a sideline as the REMAINERS, SOFT BREXITEERS (where the UK is not part of the EU but retains trade, services and freedom of movement agreements currently in place while accepting some European oversight in these areas), HARD BREXITEERS (where the UK exits the EU with new agreements on trade, services and freedom of movement with no European oversight and little coordination) and the NORTHERN IRISH (who hold the balance of power in Parliament) publicly push their agendas and threaten severe consequences for failure on the Government's part to secure a "Good Deal." Ironically, both of the major UK political parties are split on Brexit with the hard left of Labour joining the hard right of the Conservative Party in being pro-Brexit. Meanwhile, in the squishy middle, there are all forms of Brexit life from Remainers to Soft Brexiteers to the Scottish National Party who don't care what happens as long as they get another referendum on leaving the UK.

> "While at first there were few economic effects visible in the UK from the Brexit vote, cracks have begun to appear in the economy in 2018."

Given the above, it's been hard for Theresa May's weak government to form an outline for what it wants from the EU. Having cleared the EU's initial hurdles to talks (the status of EU nationals pre and post Brexit, a backstop for the Irish Border if no deal is agreed, the transition period and the ability of the UK to negotiate its own trade deals during the period between now and the end of the transition period) the Government must now set out what it wants from the EU.

The catch is that there is a big split in the Cabinet between the soft Brexit crowd (Phillip Hammond, the Chancellor of the Exchequer) and the hard Brexit crowd (Boris Johnson, Foreign Secretary). In the first week of July, they must sit down at Chequers, the PM's country house, to hash out what they will put forward to the EU in negotiations.

The major discussion topic in Britain right now is what happens if there is no deal at all. Ideally, the EU and the UK will have all agreed by October 18th, the next EU Summit. This would give time for all parties, including every EU country, to agree terms before March 2019. The backstop date is December 13 of this year. However, elements in the UK would like to retain "no deal" (i.e. walking away with nothing agreed) as a negotiating tool. No one knows what would happen if this did occur, but the airwaves in the UK are now filled with dire warnings from everyone from corporations to flight control authorities threatening job losses, transport chaos and all sorts of general paralysis. Clearly there are some who relish the thought further disrupting the status quo and wield "no deal" as a weapon to push the Government further in the direction of a hard Brexit, but the "no deal" alternative fills most, including the EU, with dread. Given the above, the meeting at Chequers is likely to be "lively" and infighting, both public and private, around the shape of the UK's negotiating stance has already been intense.

The key areas to be negotiated are:

- Cross Border Trade (including the Irish question)
- Converting existing trade agreements to bilateral arrangements
- Immigration
- Fisheries
- Agriculture
- Nuclear Safeguards
- Money Laundering and Sanctions

While at first there were few economic effects visible in the UK from the Brexit vote, cracks have begun to appear in the economy in 2018. Pound sterling has dropped in value bringing some inflation with it. GDP was steady in 2017, but has eased this year. Housing price increases have slowed across the country and house prices have dropped in London. Mostly worrying is the stagnation in large scale projects and the steady drain of jobs in the financial sector to Ireland, Luxembourg and other parts of EU. The brightest light currently is the early success of the England football team at the World Cup and, by contrast, the failure of the German team to qualify for the knockout stages of the tournament. Theresa May must be praying nightly for England to win the whole thing and lift the mood of the country!

In conclusion, nothing has really been decided. Even that which has been agreed would be undone by a "no deal" outcome. Here are the key points to watch in coming months:

Time line:

- July 5 and 6, 2018: Cabinet Meeting at Chequers to decide Brexit negotiating strategy
- October 18 – 19, 2018: European Union Summit in Brussels – first chance to agree on a negotiated package on Brexit
- December 13 – 14, 2018: European Union Summit in Brussels – second chance to agree on a negotiated package on Brexit
- March 29, 2019, 11 pm: Deal or No Deal, Britain leaves the European Union
- December 31, 2020: End of transition period

Mark A. Jackson, CFA
Senior Wealth Management Advisor

Strategies for our Clients' Bond Portfolios

Interest rates reached their recent lows in September 2017 and have been steadily rising. Within our portfolios focused on taxable securities, we are responding to the changing bond market dynamics by making the following adjustments:

- Liquidating our position in a bank loan mutual fund
- Reducing our allocation to corporate bonds, and
- Initiating a position in a short maturity Treasury Inflation-Protected Securities (TIPS) Index Fund

In this update, I will discuss the reasons for these strategic changes.

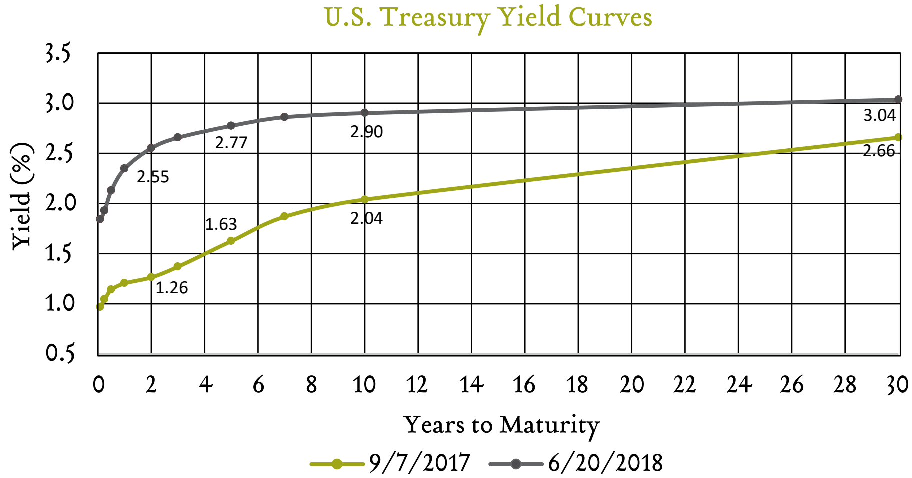
In our discussions with clients, we refer to both bonds and fixed income securities and often use these terms interchangeably. Bonds include individual securities, for example, US Treasury, municipal and corporate bonds, while fixed income refers to individual securities, as well as mutual funds, closed-end funds and exchange traded funds (ETFs) that invest in bonds.

In September 2017, the yields or interest rates on US Treasury securities reached recent lows: 2-year maturity, 1.26%; 5-year maturity, 1.63%; 10-year maturity, 2.04%; and 30-year maturity, 2.66%.

In June, the Federal Reserve continued its tightening path, raising the interest rate that it controls to 2.00%, and indicated that it is likely to continue raising rates in 2018. By June 20, the yields on US Treasury securities had risen: 2-year maturity to 2.55%; 5-year maturity, 2.77%; 10-year maturity, 2.90% and 30-year maturity, 3.04%. The yield or interest rate on money market funds, which invest in government securities has risen to over 1.5%.

"Within our portfolios focused on taxable securities, we are responding to the changing bond market dynamics..."

U.S. Treasury Yield Curves



There are a number of factors contributing to the recent rise in interest rates, including:

- The Federal Reserve's tightening
- Continued growth in the US economy and employment
- Projections for rising budget deficits in the US, and
- Headline inflation inching higher

As a review, the considerations that we use for managing our clients' fixed income portfolios include the following:

- Fixed income may provide portfolio diversification benefits by exhibiting different price movements at different times than the equity markets.
- We typically build bond portfolios with an intermediate maturity structure, which is a modestly defensive interest rate strategy. Prices still decline if interest rates rise, but to a lesser extent than portfolios which use long maturity bonds.
- We look for diversification opportunities within the fixed income markets, for example, a global bond fund and an inflation-protected securities fund.
- Rising interest rates provide an opportunity to increase income through reinvesting cash flow into bonds and fixed income funds at higher interest rates.

What does this mean for the strategies that we are currently using in our fixed income portfolios? We continue to believe that the trend is for interest rates to rise, so we are maintaining our interest rate sensitivity or average maturity target of approximately four years. We view the rise in interest rates so far as an opportunity to reinvest at higher interest rates, while maintaining this average maturity target.

Within our fixed income portfolios that were invested in the bank loan mutual fund, we are liquidating this position. This fund has performed well during the rise in interest rates. Currently, we believe that the extra yield offered by bank loan funds does not fully compensate our clients for the price risk on the underlying loans should the economy move toward slower growth or a recession. In addition, the investor protection language (covenants) on loans, in general, has been eroding, which may reduce investor protection in a weaker economic environment.

We are also modestly reducing our allocation to corporate bonds. The yield advantage of corporates over comparable maturity US Treasury securities has compressed. In addition, issuers of corporate bonds have increased their debt levels. Risk within the corporate bond market has increased, while the additional yield offered by these bonds has decreased.

We will use the proceeds from the sale of the bank loan fund and the reduction in corporate bonds to initiate a position in a Short-Term Inflation-Protected Securities (TIPS) Index Fund. This fund invests in US Treasury inflation-protected securities with maturities up to five years and tracks the performance of a TIPS index. There is a fixed, stated coupon on the underlying TIPS holdings, with the principal value of those positions adjusted for changes in the US Consumer Price Index (CPI). The interest rates on the underlying securities currently assume an inflation rate of approximately 2% and we believe that inflation could move modestly higher than this level.

Coupon payments within this TIPS fund are treated as ordinary income. Principal increases due to inflation adjustments are added to the principal of bonds in the fund and are also taxable to investors as ordinary income. For investors in individual TIPS bonds, this creates "phantom income," a tax liability without a corresponding cash flow. However, the TIPS fund that we are using distributes both coupon payments and increases in principal as income in the year they are received. This means that our clients will receive distributions from the fund to pay taxes due on the payments received. Of course, taxes on the coupon and principal returns are not an issue in a tax deferred account or for an entity where the tax rate is 0%.

The fixed income strategies we are using for clients remain focused on risk management and taking advantage of rising interest rates. Your client centric team is available to discuss how we are tailoring our strategies to your portfolio, including where tax-exempt municipal bonds are utilized.

Lorey L. Matties
Participant Services Specialist

Simple Steps to Retire Smart

The Pew Research Center estimates that 10,000 baby boomers are expected to turn age 65 each day from now until 2030. If you count yourself as part of this group — whether you plan on retiring next month or more than a decade from now — consider the following steps to help you prepare for this next stage of your life:

1) Define your budget. It's important to define and refine your spending assumptions as you get closer to retirement. Track your spending carefully and identify which of your expenses will end once you stop working and which may increase in retirement. Focus on your basic living expenses first and then look to your discretionary items. This can help you match your income sources to your spending needs and show where you may have room for adjustments down the road. Identifying your monthly needs will help determine when you can retire with confidence.
2) Review your retirement accounts. You've focused on saving money throughout your career, but now you must decide how to handle those assets — including whether to keep all existing retirement accounts separate or to consolidate them into a single account. Be informed as to your retirement account withdrawal options. You may be able to leave the money in the plan and make periodic withdrawals, or you might need to roll those funds into an individual retirement account (IRA).
3) Decide where to live. Are you staying put in retirement or considering a move? As you develop your vision, consider whether you want to stay in your home, downsize, or relocate, and keep in mind how your home equity may factor into your retirement strategy. You may want to consult with your tax preparer as certain states have no state income tax.
4) Create a Social Security strategy. Social Security benefits can start at age 62, but be aware that there would be an approximate 30% reduction in your monthly benefits. Waiting just a few years will allow you to claim your full benefits. For individuals born between 1947 and 1954, your full retirement age (FRA) is age 66. If you were born between 1955 and 1959, your FRA is between age 66 and 2 months and age 66 and 10 months, depending on your birth year. And for those born in 1960 and later, your FRA is age 67. No matter your FRA, the longer you wait — up to age 70 — the higher your lifetime benefit may be. Visit www.ssa.gov to establish an account and review your projected Social Security benefit.

"Track your spending carefully and identify which of your expenses will end once you stop working and which may increase..."

MARK THE MILESTONES

Keep these important birthdays in mind as you get closer to retirement.

50	You can start making "catch-up" contributions to your retirement accounts. For 2018, you can contribute a maximum of $24,500 to your employer sponsored 401(k)/403(b) or a maximum of $6,500 to your IRA.
55	You can begin to access money from your retirement accounts penalty-free if you will be at least age 55 in the year you stop working for that particular employer.
59½	You can start making penalty-free withdrawals from your retirement accounts, including any 401(k)s, 403(b)s and IRAs.
65	Apply for Medicare or you may be penalized.
70	Claim your Social Security benefits if you haven't already.
70½	Begin taking withdrawals known as required minimum distributions (RMDs) from most retirement accounts.

5) Establish an income plan. Decide which accounts you will draw on first in retirement, whether it's taxable accounts, tax-deferred accounts [i.e. 401(k)s or IRAs] or tax-free accounts [i.e. Roth 401(k) or Roth IRAs]. The order may vary depending on your personal situation. You will want to seek the advice of your tax advisor if your situation is complicated.

6) Get to know Medicare. Medicare is the primary health program for retirees. You become Medicare eligible at age 65 (regardless of your full retirement age, and exceptions may apply) but must enroll either three months before or up to three months after the month in which you turn age 65. Delaying enrollment may result in penalties. It's important to understand and carefully evaluate your options to determine which plans are best suited for your situation. You can get an idea of the premium costs and out-of-pocket expenses on Medicare.gov. You may need to explore alternative health care coverage options, including the purchase of coverage through your state's health care exchange, if you plan on retiring before age 65.

Preparing for and transitioning into retirement takes thoughtful preparation. You've worked hard to save for your post-career life, so take time and effort now to help ensure a comfortable financial future.

"Get to know Medicare... the primary health program for retirees."

Stock Market Pulse

Index	6/29/18	Total Return Since 12/31/2017
S&P 1500	631.07	2.90%
Dow Jones Industrials	24,271.41	-0.73%
NASDAQ	7,510.30	9.38%
S&P 500	2,718.37	2.65%
S&P 400	1,951.67	3.49%
S&P 600	1,017.38	9.37%
NYSE Composite	12,504.25	-1.07%
Dow Jones Utilities	711.64	0.13%
Barclays Aggregate Bond	106.32	-1.64%

P/E Multiples	6/29/18
S&P 1500	21.0x
Dow Jones Industrials	18.1x
NASDAQ	22.7x
S&P 500	20.7x
S&P 400	22.9x
S&P 600	27.3x

Key Rates

Fed Funds Rate	1.75%-2.00%
Tbill 90 Days	1.90%
T Bond 30 Yr	2.99%
Prime Rate	5.00%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	631.07	21.0x	1.87%
S&P 500	2,718.37	20.7x	1.92%
Dow Jones Industrials	24,271.41	18.1x	2.23%
Dow Jones Utilities	711.64	NA	3.37%

Spread Between 30 Year Government Yields and Market Dividend Yields: 1.06%

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