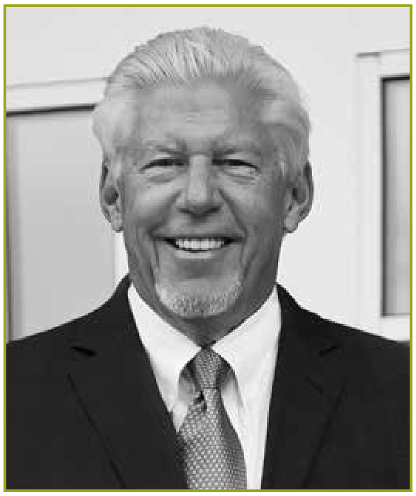
GREENLEAF TRUST

Perspectives

A Greenleaf Trust Newsletter

AUGUST 2020

VOLUME 29, ISSUE 8



William D. Johnston
Chairman, Greenleaf Trust

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Economic Commentary

We now have endured five months of battling the COVID-19 virus and our experience has revealed much about our country and our collective as well as divided political wills. What is our present condition as we approach the sixth month of our battle to defeat the virus? Our economic condition is perhaps the easiest to define at this point. The New York Federal Reserve's weekly economic index bottomed in April at -11.89, revealing that our economy was functioning nearly 12 percentage points lower than zero percent GDP growth, and nearly 14% below the GDP growth rate in April 2019. The reduction in growth rate was far in excess of the average recession, and similar to that experienced in the depression of 1929 – 1935. The index measures real time data surrounding production, labor and consumer activity. The July 28 WEI was posted at -7.35, which is a -9.35% growth rate decline year over year and a 35% decline quarter over quarter. The decline from the posting in June is due to an increase in initial and continuing unemployment claims, as well as a decline in retail sales. In essence, the trend is continuing to reflect a deep recessionary economic cycle.

Republicans and Democrats in the legislative bodies are, at the time of this writing, negotiating the next round of stimulus to add to the over ten trillion dollars of stimulus already authorized in prior bills. Points of contention are based in ideology as well as the political self-interests of both parties. During the recovery from the 2008 recession, Republican's criticized Democrats for using stimulus bills to favor their political and economic agendas, such as wind and solar energy. The shoe is on the other foot and Democrats are now pushing back at Republican efforts to tie stimulus to required school openings and unemployment limits capped at 70% of previously earned wages. While both parties are far apart in both dollar amount and allocation restrictions, it is an election year and both have a need to be seen as responsive to the need, which is substantial. The best opportunity for economic recovery is an employed and confident consumer. Currently 11.1%, or nearly twelve million people, of our workforce are unemployed and facing a substantial reduction in unemployment benefits. We should expect that the reduction in benefits, *Commentary, continued*

if enacted, would impact retail sales, rent and mortgage payments negatively. The Republican side of the aisle has consistently represented that jobs are available and would be sought after if the unemployment benefit was lower. Democrats point to small business surveys by the national Chamber of Commerce that indicate 45% of all small businesses feel the probability of reopening their business is very low; the implication is that for many, their return to work is hampered by permanent — not temporary — business closure. For this population, it will be new job creation driven by organic economic growth that will provide future employment opportunities.

Prior to the COVID-19 created economic crisis, the American workforce numbered approximately 156 million. Of that number, 27.5%, or about 42.5 million people, earned less than $15 per hour or $600 per week. The Administration, Treasury Department and Congress knew the importance of providing liquidity and stimulus to employers, employees and consumers to keep the economy functioning. They settled on an average wage of Americans of approximately $30,000 per year. The benefits would be administered by the individual states and the Treasury Department would fund the states' burden as long as the program was in place. The advantages were simplicity and speed while simultaneously not placing strain on individual state budgets. The payroll protection plan (PPP) was designed to help small businesses keep employees on the payroll even in the face of no revenue. The plan assumed the need would be short term and that most businesses would return to a semblance of normal commerce within weeks, not several months. Reality has demonstrated a much longer duration of business interruption, and in many cases the PPP program caused many companies to get to failure quickly, thereby laying off sooner rather than later.

"All economic indicators suggest we are still in decline and decreasing programs to provide stabilization and stimulus only adds to the problem."

The challenge going forward is to create organic economic growth by fueling the capacity of consumers to buy goods and services, make their rent or mortgage payments as well as pay consumer debt, i.e. credit card debt. This task has always been a challenge for those making under $15 per hour and will be virtually impossible if the benefit is scaled to 70% of their former wage. For most of the 42.5 million workers earning less than $15 per hour, their new benefit will be closer to $9 per hour or $360 per week. Adding to the challenge of scaling the benefit to prior wage is that state workforce departments will be tasked with the administration of the benefit. All states have furloughed workers and will be challenged to add complexity and income verification screens to the administration of the benefit, further delaying getting the benefit into the hands of the consumer.

All economic indicators suggest we are still in decline and decreasing programs to provide stabilization and stimulus only adds to the problem. As the economy begins to recover through organic growth, reducing artificial stimulus funded by the Treasury will make sense. We aren't there yet.

As this newsletter arrives in your inbox, the Presidential Election will be only 90 days away. For some, that will seem an eternity and for others it will arrive too quickly. History suggests that most Presidents have won second terms. Of the 44 Presidents having served prior to Donald Trump, only eleven did not win a second term. Popular culture assumes that people vote with their pocketbook and if the economy is in good shape, unemployment is low and consumers feel good about the future, sitting Presidents generally earn a second term. History doesn't really validate that popular culture assumption, and only two former Presidents, Hoover and Carter, lost substantially due to economic reasons. The remaining nine lost due to scandal, inter party political discord or domestic and geopolitical discontent.

Most political pundits who guide and counsel candidates for the highest office in our country settle the narrative with an important question: "Are you better off today than you were four years ago?" The obvious implication of the question is that voters will return the sitting President to office if they can answer the question in the affirmative. Clearly there is more to the equation than one question, yet in the main voters' decisions are more binary than not. Which candidate has your confidence given the issues that most concern you? Sitting Presidents have an advantage when the issues voters have are few and particularly void of passion. Geopolitical strife, war, economic decline or domestic unrest can either be a burden or advantage to a sitting President. Rather than the difficulty of the issues being the determining factor of voter preference, it is almost always determined by how confident the voter is in their candidate of choice to lead the country to a solution that is in line with their desires.

The election before us will not be void of hard issues or passion. Leadership and confidence will be essential determinants in voter turnout and therefore voter preference. More will be revealed in the coming days and weeks. By next month, former Vice President Biden will select his running mate and party conventions and nominating formalities will have taken place. I often refer to the election year as the silly season where truth is the victim. I am going to refrain from that this time. While truth will be the victim in political ads, this election is far from silly and no matter what side of the electorate you find yourself in, it will be important.

"While truth will be the victim in political ads, this election is far from silly and no matter what side of the electorate you find yourself in, it will be important."

Michael F. Odar, CFA®
President

Working From Home Culture

I recently read an interesting article titled *Microsoft Analyzed Data On Its Newly Remote Workforce* in Harvard Business Review. The article described what Microsoft learned over the last four months when they studied how flexible and adaptable their work might or might not be, how collaboration and networks morph in remote settings, what agility looks like in different spaces and how to nurture and improve teammate well-being during times of crisis. All questions we were asking too at Greenleaf Trust.

What they found fit into the following four main themes. When driven by teammates, entrenched norms can change quickly; Leaders get soaked, but they also carry the life preservers; It doesn't take much for workplace culture to start to shift, and human connection matters a lot and people find a way to get it. For example, while weekly meeting time increased, individual meetings actually shrank in duration. Leaders' work hours increased but their one-on-one meetings with teammates helped mitigate the increase in teammate work hours. Teammates also flexed their working hours based on personal responsibilities at home, and were resilient in finding new ways to connect through things such as virtual social meetings.

"When we conducted our own examination of how our teammates are feeling during these unique times… we were also reminded about the importance of simple communication."

When we conducted our own examination of how our teammates are feeling during these unique times through surveys during May and June of this year, we identified themes similar to Microsoft – teammates were spending more time in meetings, work hours flexed and connection with other teammates was important. We were also reminded about the importance of simple communication.

Understandably, our teammates' level of anxiety heightened starting in March. They also found their workload increased as they transitioned to working from home. Our level of support for them had to go beyond just making sure they had the right tools to effectively work remotely. Communication, and lots of it, was going to be the key.

For instance, virtual calls at Greenleaf Trust increased from an average of five per day prior to the pandemic to more than 500 per day — with a majority being teammate-to-teammate. We developed a plan that was devoted to our teammates well-being, shared the plan with them and implemented it immediately in March. Leadership, and most importantly our founder and Chairman, provided everyone with reassurance and reinforcement of our core values. Our leaders, like those at Microsoft, stepped up their connectivity efforts with more one-on-one meetings about work related matters — but more often than not had meetings to just touch base on a personal level.

The results of our communication efforts have been impactful based on the feedback. In their own words, our teammates feel supported, informed, connected and engaged. This is extremely important to me because I know if our teammates feel taken care of, our clients will be taken care of.

What work looks like in the months ahead is fluid and uncertain. "Business as unusual" has been our reference point. That said, our commitment remains steadfast to our clients, colleagues and community during these interesting times and beyond.

(Ir)rational Exuberance Redux?

Ali Fahs, CFA®
Vice President
Senior Equity Portfolio Manager

In 1996, Fed Chairman Alan Greenspan famously coined the phrase "irrational exuberance" during his speech at the American Enterprise Institute. Chairman Greenspan attempted to warn of highly elevated market valuations, particularly across much of the technology sector. Investors not only ignored his warning, but also drove the NASDAQ up another 300% before peaking on March 10th, 2000. While irrational exuberance was most pronounced in technology, media and telecommunications industries, even multinational blue-chip companies traded at excessive valuations. Coca-Cola, for example, traded at nearly 60 times trailing earnings at the peak. Perhaps investors viewed Coke's inflated valuation as a bargain relative to the NASDAQ's nonsensical trailing PE of 175x.

Much has been written about the folly during the tech bubble – and rightfully so. Many of the dot.com darlings quickly perished. After declining by nearly 80%, it took no less than 15 years for the NASDAQ to return back to its March 2000 highs. It's clear that markets vastly miscalculated valuations across most stocks, however, the euphoria during the tech bubble could be viewed as prescient. One could argue that markets accurately anticipated the profound implications technology would have on all industries and most businesses. Over the past 20 years, we have witnessed industries from print media to physical content retailers (e.g. physical book, video, and music retailers) relentlessly disrupted by technology companies. And many industries from linear television distribution to automotive manufacturing face increasingly dismal futures. On the other hand, some of the strongest global brands have leveraged technology to deepen their competitive advantages. Nike,

"… technology enabled many parts of the global economy to function in a world that was virtually closed."

(Ir)rational Exuberance Redux, continued

for instance, has heavily and persistently invested in mobile initiatives (e.g. Nike, SNKRS, and Nike Training Club apps), distribution centers, Nike+ memberships, and omnichannel capabilities. During its 2020 fiscal year, Nike generated digital commerce revenue of $5.5 billion, an increase of 45% over the prior year. Its SNKRS app alone generated nearly $1 billion of revenue last year, up from around $70 million of revenue in 2016. For perspective, across its over 800 locations and 2 million square feet, Finish Line generates revenue of around $2 billion. Nike's digital capabilities have resulted in greater control over its distribution, allowing for improved inventory management, merchandising, pricing and overall brand experience.

Over the past 20 years, technology has truly permeated all aspects of business. Its pervasiveness has been on display lately, as technology enabled many parts of the global economy to function in a world that was virtually closed. E-commerce, digital payments, cloud computing, digital advertising and other technology industries have been increasingly viewed as beneficiaries of the unfortunate and challenging implications of COVID-19. Correspondingly, many stocks within these industries have rallied sharply. Technology stocks performed relatively well into the depths of this year's decline and led the market throughout the recovery, as the market has revalued free cash flow that will likely be pulled forward by a couple of years. However, the strength of technology stocks has resulted in an emerging narrative that technology is in the midst of a bubble. In some ways, today's equity markets share some resemblance to the tech bubble of the 90s. For example, "growth" has outperformed "value" by 200% over the past decade, with the spread between the Russell 1000 Growth Index and the Russell 1000 Value Index actually wider than the time of the tech bubble. Today, Facebook, Apple, Amazon, Microsoft, and Google (FAAMG, an abbreviation created by Goldman Sachs) account for 23% of the S&P 500, which is also a greater percentage than the five largest companies held back in 1999. However, unlike in 1999, today's top five companies are actually all technology businesses. So, are technology stocks again in bubble territory? Has irrational exuberance returned?

"… the strength of technology stocks has resulted in an emerging narrative that technology is in the midst of a bubble. In some ways, today's equity markets share some resemblance to the tech bubble of the 90s."

Starting with the growth vs. value debate, unfortunately, we don't have much to add. As intrinsic value investors, we do not believe that growth and value are mutually exclusive. In our view, profitable growth is a key driver of value creation. Therefore, we are elated and not dissuaded by the identification of profitable growth, particularly when it's mispriced. These beliefs are core to the investment philosophy of our Intrinsic Value Strategy. On the other hand, it is unquestionable that the S&P 500 is highly concentrated in the top five technology companies, with Microsoft, Apple, and Amazon each sporting ≈$1.5 trillion market capitalizations. However, it is often less reported that FAAMG is expected to account for nearly 18% of the S&P 500's earnings in 2020. Moreover, the business models of FAAMG are immensely superior to the cohort from 1999, particularly relative to GE, Walmart, and Exxon Mobil. Interestingly, Microsoft is the only company out of FAAMG to have also occupied the top spot in 1999 (Amazon had a market value of a mere $25 billion in 1999, Apple was left for dead, Google was founded in 1998 and was private at the time, and Facebook hadn't been conceived). And even Microsoft is arguably a superior business today. Microsoft historically sold its software under perpetual license agreements, however, the company is in the midst of transitioning to a subscription model. While both models are terrific for Microsoft, the subscription model removes the lumpiness from product cycles and results in improved profitability over the lifetime of a subscriber. Said differently, Microsoft's subscription model is highly recurring and generates predictable revenue at superior economics. With Azure, Microsoft is exceptionally well positioned to gain market share in the public cloud infrastructure industry. Cloud computing was basically nonexistent in 1999. Currently, cloud computing's addressable market is over $1 trillion, with Amazon, Microsoft, and Alphabet collectively accounting for less than 10% of the market. Today, Microsoft's market capitalization is nearly 3 times larger than in 1999, notwithstanding its trailing earnings multiple of 80x at the end of 1999. Microsoft now trades at a much lower earnings multiple of ≈30x; and while it isn't optically cheap, we believe the company's valuation is justified by the quality and durability of its business model.

Like Microsoft, Amazon, Alphabet, Facebook and Apple are all outstanding businesses. They all are truly dominant within their industries, with wide economic moats and large addressable markets. All five have capital-light business models with fortress-like balance sheets. Importantly, the group can leverage the power of technology to magnify the benefits of scale. For instance, Facebook typically adds the equivalent of Snapchat's entire user base in a single quarter. Not only does Facebook's scale attract more users and advertisers, but it also allows for far superior monetization. During the first quarter, Facebook reported average revenue per user (ARPU) of $34.18 in the US & Canada, which was nearly 10 times greater than Snapchat's North American ARPU. Scale also translates into durable revenue growth. Alphabet's Google Search business is now over 20 years old. And yet, Google Search reported revenue growth of over 15% in 2019, on a revenue base that is nearly $100 billion with gross margins of approximately 90%.

"Like Microsoft, Amazon, Alphabet, Facebook and Apple are all... truly dominant within their industries, with wide economic moats and large addressable markets."

(Ir)rational Exuberance Redux, continued

FAAMG have achieved enormous scale quickly with extraordinary capital efficiency. Collectively, the balance sheets' of FAAMG have a tangible invested capital base of approximately $155 billion (excluding cash, cash equivalents, marketable securities, and intangible assets). For 60 years, Exxon Mobil has consistently ranked as one of the 10 largest companies – and it has actually ranked as the largest in the past. Exxon's balance sheet has tangible invested capital of approximately $227 billion. Exxon earned an average annual operating profit of $35 billion over the past 15 years (Exxon's operating profit was $7 billion in 2019), yielding a respectable 15% normalized return on tangible capital. Alphabet alone earned $34 billion of operating profit in 2019 (+24% year over year) on a tangible capital base of $63 billion - or a pre-tax return on tangible capital of 54%.

While certainly impressive, returns on tangible capital for FAAMG are actually understated, as the group is significantly investing against large addressable markets, thereby depressing near-term profits. Notwithstanding the value creation that often accrues from investment spending, forgone near-term profitability is often conflated with bubble-type valuation. And Amazon is the poster child for this argument. For most of its existence as a public company, Amazon produced very little of GAAP earnings in relation to its market capitalization. Amazon's recent decision to forego and reinvest the entirety of its second quarter operating profit (or nearly $4 billion) is a good illustration of its capacity for reinvestment. Therefore, Amazon's true earning power is masked by such investment. We estimate that Amazon could diametrically improve its reported profitability by moderately reducing the pace of its investment. However, AWS, Amazon Prime, Fulfilled by Amazon, Third-Party Sellers, Amazon Echo/Alexa, Kindle, and many other outstanding and valuable business unit/services are the direct result of Amazon's insatiable capacity to reinvest.

> "Notwithstanding the value creation that often accrues from investment spending, forgone near-term profitability is often conflated with bubble-type valuation."

Since FAAMG are deeply entrenched within their industries with advantaged business models, some have argued that these companies aren't an indication of irrational exuberance, but are instead monopolies that have abused their market power. While technology companies will likely continue to disrupt the incumbents, we believe the group's behavior has been significantly more pro-competitive than anti-competitive. Countless businesses have been created on the back of these platforms. Prior to Facebook and Alphabet, only the largest companies could afford to advertise on traditional mediums with large audiences. Today, a majority of Facebook's 8 million advertisers are small to mid-size businesses. Companies of all sizes are able to purchase highly relevant and measurable ads targeted at large audiences. Also, most of the services offered by Alphabet and Facebook are free to consumers, who are not compelled to use their services. And yet, consumers return in droves under their own volition, offering strong evidence that consumers derive significant value from the many services offered by Alphabet and Facebook. In the physical world, Walmart's finite shelf space was mostly reserved for the largest consumer packaged goods companies. Today, small businesses not only have access to Amazon's infinite shelf space and its 150 million prime members, but Amazon will also store, pick, pack, and ship products on the behalf of its third-party sellers. Consumers all around the world benefit from Amazon's wide assortment and rapid delivery, all of which is offered at exceptionally low prices. During the tech bubble, most of the capital raised by startups was used to fund the procurement and deployment of IT infrastructure. With a credit card today, any size business can provision IT infrastructure powered by the full might of Azure and/or AWS. Amazon and Microsoft have also significantly reduced the cost of operating information technology for companies of all sizes.

In conclusion, while excesses certainly exist in today's public and private markets, FAAMG are unlikely the source of such excess. As investors in FAAMG, we believe the group is reasonably valued at the very least. Unlike the tech bubble, the price performance across much of technology is supported by exceedingly strong fundamentals, and not by blind faith and exorbitant valuations. In many ways, today's technology companies are arguably the best businesses the world has ever witnessed – and are infinitely superior to most of the technology stocks of the 90s.

"... while excesses certainly exist in today's public and private markets [technology companies] are unlikely the source of such excess."

Brian C. Farrell
Senior Wealth Management Associate

Life Insurance Needs Analysis

As we continue to navigate through these uncertain times, filled with new challenges and concerns, having a dynamic wealth management relationship with a professional advisor has never been more important. A good financial plan should cover every facet of financial planning including life insurance, which can be an important and foundational element to financial wellbeing. Life insurance should typically be thought of as a financial safety net that can protect your family and loved ones against the financial burden of a premature passing. Greenleaf Trust does not sell insurance products, but we offer considerations to our clients regarding appropriate coverage and acceptable terms. We frequently work with third party insurance agents to analyze and select appropriate funding vehicles for coverage.

When determining the appropriate amount of life insurance for those who are in their accumulation years, we typically focus on four key areas: outstanding liabilities, replacement of income, final expenses and funding of higher education. While there are certainly other reasons to invest in life insurance, these four considerations are explored below.

"When determining the appropriate amount of life insurance for those who are in their accumulation years, we typically focus on four key areas..."

Outstanding Liabilities

Leaving behind debts could be a significant burden for those who are left to settle your estate. In some cases, paying those debts can result in additional taxes or hardships if adequate insurance is not in place. When looking at this area of consideration, we typically recommend having enough life insurance coverage to pay off existing debts.

Replacement of Income

Life insurance proceeds often need to replace income for surviving spouses and/or dependents. It is important to have an understanding of your existing cash flow needs before completing this analysis. By taking your estimated annual spending and performing a present value calculation on the annual need over a period of years and an expected effective investment return on the proceeds, you can determine an approximate lump sum needed to fund future living expenses. As the future return of the market is unknown, it is important to analyze a variety of growth rates for the reinvestment of life insurance proceeds.

Final Expenses

Final expenses for funerals can range anywhere from a few hundred dollars to tens of thousands of dollars depending on your wishes. It is important to communicate your final wishes with your loved ones and plan appropriately with your insurance coverage to pay for a portion or all of your final expenses.

Education Expenses

For many, funding higher education for dependents or future generations is an important goal, and one that can be funded through life insurance proceeds. By performing a similar calculation to the replacement of income consideration, you can determine the appropriate amount to fund. There are a variety of funding vehicles that could be used to meet this goal, and it is important to take those into consideration as you are performing this analysis.

There may be other reasons to purchase life insurance, including providing liquidity for estate tax situations or for additional financial security. There are also variety of products that could be used to meet your goals, including term life, permanent policies, or even riders attached to long-term care policies — to name a few.

What is the Appropriate Amount of Life Insurance to Have?

The appropriate amount of life insurance comes down to making sure your goals can still be met if you were to pass away prematurely. While this subject may be difficult to think about, it is critically important to consider and plan for. If you have questions about life insurance planning, please reach out to a member of your client centric team and we will help you refine your goals and analyze the options to meet them.

"The appropriate amount of life insurance comes down to making sure your goals can still be met if you were to pass away prematurely."

Kristen M. Tidd, CTFA
Trust Relationship Officer

Modern, Proactive Estate Planning For Today's Families

The notion of a "traditional" family has certainly changed over time. The days of "Leave it to Beaver" are becoming less and less common. In fact, today, only about 35% of American families are comprised of a traditional heterosexual married couple with children. Apart from 35% that are labeled "traditional," 31% are childless families and 34% are considered "modern" families. The modern family category can include many characteristics such as: blended families, divorced families, cohabiting couples, same sex couples, intentionally single parents, single persons, polyamorous relationships, or "family" groups with non-marital children. Those of us who advise grantors and settlors of trusts need to ask some pointed questions to make sure that the trust will actually accommodate the needs and lifestyles of its current and future beneficiaries. Today's trust documents need to have greater flexibility and thoughtful definitions to guide a trustee who must deal with the needs and desires of the modern family.

"Today's trust documents need to have greater flexibility and thoughtful definitions to guide a trustee who must deal with the needs and desires of the modern family."

Longevity Increases

It should come as no surprise that we are living longer. Improved public health measures introduced in the mid-nineteenth century, such as cleaner drinking water, better sanitation and widespread use of vaccines, began to decrease the number of deaths in early and middle life, leading to an increase in overall life expectancy through to the mid-twentieth century. This trend continues today. The average female life expectancy is 81.1 years, and for males it is age 76.1. For those individuals who have access to, and enjoy, more wealth (and therefore more likely to adopt a trust to distribute their wealth) at age 50, a female's life expectancy is age 91.1 years, and for a male 88.8 years. Add to that increase in life expectancies the current planning strategy to avoid the generation skipping transfer tax by creating a dynasty trust that is designed to last for several generations of beneficiaries, and you have new challenges. The remainder beneficiaries of the trust may have to wait a long time, and they will be much older, before they can expect to receive a distribution from the trust. If a dynasty trust is created, the trustee will have to be even more vigilant in making prudent investments that must provide for these much longer life expectancies. Additionally, as the generations pass, the group of potential beneficiaries of a dynasty trust will probably grow exponentially in size.

Marriage Declines

In the 1950's, married couples comprised close to 80% of American households. Today, that number has decreased significantly, and is less than 50%. The fastest growing segment of the American household population is unmarried, heterosexual couples. This is true for both younger and older adults. In 1960, 59% of young adults were married before age 29. Whereas today, only 18% in that age demographic are married. The number of older Americans who cohabit without marriage increased 75% in just the last 10 years. Twenty-six percent of American children are now raised in a single parent household.

Same-Sex Marriages Increase

While heterosexual marriage may be on the decline, we now have legal same-sex marriages, with all of the rights that extend to a surviving spouse. On June 26, 2015, the US Supreme Court issued a landmark ruling that granted same-sex couples a constitutional right to marry. Today, there are over 1,138 provisions in federal laws that treat the relationship between two married individuals differently from any other relationship. Surveys conducted by Gallup in 2017 found that about one-in-ten LGBT Americans (10.2%) are married to a same-sex partner, up from the months before the high court decision (7.9%). As a result, a majority (61%) of same-sex cohabiting couples were married as of 2017, up from 38% before the ruling.

> “The fastest growing segment of the American household population is unmarried, heterosexual couples.”

Fertility Declines

In recent years, the US fertility rate has modestly dropped. Back in the 1950’s the typical American household had three children. The most common household today is that of a single individual, followed by a married couple, next a married couple with one child, and only then a married couple with two children.

Assisted Reproductive Rights

With the advent of assisted reproductive technologies, more children will be born outside of traditional family structures; consider an elective single-parent family. A relatively new term related to this topic, a concept calling dibling families. In dibling (donor-sibling) families, children of the same male genetic donor, but different mothers, are raised in settings where they know and interact with each other and their genetic father.

Divorce Increases

Contrary to previous generations, many Baby Boomers find little social stigma associated with a divorce. Forty-two million American adults have been married more than once. A surprising study of divorced individuals notes that they have the highest rates of intestacy, when a person dies

Estate Planning For Today's Families, continued

without a will, in the US. The Health and Retirement Study at the University of Michigan (2017) determined that while the general intestacy rate among older (age 50 and up) Americans is 42%, among divorced adults the intestacy rate is at 62%.

Blended Families Increase

Due to more divorces, there are a greater number of remarriages than in prior generations, which results in an increase in blended families. One out of six American children now grow up in a blended family with 40% of Americans having at least one step-relative. Forty-two million Americans have been married more than once. The increase in divorce and blended families has also led to new household phenomena like "three parent families," and the liberalization of custody laws where a second spouse may be granted parental rights. Some states even recognize a third parent as a de facto parent. The same goes with more expansive adoptive rights. For example, Section 613 of the Revised Uniform Parentage Act authorizes the third parent to adopt a child without the former spouse/biological parent being required to relinquish their parental rights.

> "The way contemporary beneficiaries lead their lives and the manner in which they form relationships and establish families may not reflect the patterns contemplated by the settlor when the trust was drafted."

Sexual Identity

States are starting to legally recognize sexual identity as a civil right. As a result, we see more individuals who publicly identify with a different gender, or in some cases, no gender at all.

The most recent US Census data (US Census Bureau, "American Families and Living Arrangements," 2013) indicate that 31% of American households are without any children. 35% are "traditional" families (heterosexual, married and with children) and 34% are "modern" families (blended, multi-generational, same-sex, and single parent.) These statistics indicate that a trustee's fiduciary duty of impartiality will be severely tested with a disparate set of beneficiaries of the same trust.

The way contemporary beneficiaries lead their lives and the manner in which they form relationships and establish families may not reflect the patterns contemplated by the settlor when the trust was drafted. Thus, complicating the balancing act of a trustee to carry out the settlor's intent, balanced against the obligation to administer the trust for the benefit of the beneficiaries. Adding some expansive definitions will help guide the trustee in this task. Modern families may benefit from a broader "non-traditional" approach to estate planning, newer and more flexible documents, and different tactics to the entire process including meetings and communications. Call your client centric team to assist in reviewing your current estate plan to see if any changes or amendments are warranted to better accommodate your family situation.

The Importance of Cybersecurity in Today's Digital Age

Natasha L. Tamminga
Participant Services Administrator

The internet is an amazing tool. It has provided us near instant access to a wealth of information at our fingertips. Not to mention, helping us to stay connected remotely during these unusual times. However, as more and more individuals do their banking, bill paying, shopping, etc., online, it also opens us up to greater risk.

As an individual, one of the best things a person can do to safeguard their information is to utilize a strong and unique username and password combination for each of their online accounts. Greenleaf Trust has taken this safeguard one step further by implementing multi-factor authentication for all of our online participant retirement accounts.

Multi-factor authentication is a form of authenticating in which a user is granted access to their online account only after successfully presenting two or more pieces of evidence (or factors). For example, login to a participant's Greenleaf Trust online account still requires entry of a custom username and password, but now also requires entry of a one-time PIN code that is sent via text or email to the user's preferred method of communication on file upon an attempted login. Only after both the correct username/password and the authentication code have been successfully entered will the user be able to access their online account.

This year we launched our first mobile Retirement App, providing our plan participants with another way to have quick and easy access to their online account. Our App utilizes multi-factor authentication, and also offers biometric recognition during the login process on supported devices for extra security during the login process. Your privacy and information security is of utmost importance to us at Greenleaf Trust. The use of multi-factor authentication as an added security measure is one more tool we use to ensure the security of our clients and participants.

"… one of the best things a person can do to safeguard their information is to utilize a strong and unique username and password combination for each of their online accounts."

Stock Market Pulse

Index	7/31/20	Total Return Since 12/31/2019
S&P 1500	741.66	1.24%
Dow Jones Industrials	26,428.32	-6.14%
NASDAQ	10,745.27	20.46%
S&P 500	3,271.12	2.38%
S&P 400	1,863.91	-8.75%
S&P 600	865.38	-14.49%
NYSE Composite	12,465.05	-9.01%
Dow Jones Utilities	830.77	-3.93%
Barclays Aggregate Bond	2,396.78	7.72%

P/E Multiples	7/31/20
S&P 1500	25.2x
Dow Jones Industrials	21.7x
NASDAQ	58.1x
S&P 500	25.0x
S&P 400	24.6x
S&P 600	44.8x

Key Rates

Fed Funds Rate	0.00% to 0.25%
Tbill 90 Days	0.08%
T Bond 30 Yr	1.19%
Prime Rate	3.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	741.66	25.2x	1.86%
S&P 500	3,271.12	25.0x	1.85%
Dow Jones Industrials	26,428.32	21.7x	2.46%
Dow Jones Utilities	830.77	20.3x	3.15%

Spread Between 30 Year Government Yields and Market Dividend Yields: -0.67%

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