GREENLEAF TRUST

Perspectives

A Greenleaf Trust Newsletter

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William D. Johnston
Chairman, Greenleaf Trust

Economic Commentary

It is my pleasure to announce that Michael Odar has been promoted to President of Greenleaf Trust. For the past thirteen years Mike has served as research analyst, senior research analyst, Director of Research, Director of Wealth Management, Senior Executive Vice President and Director of Strategic Initiatives, Vice Chair of the Executive Leadership Team and now President of Greenleaf Trust. He has earned each of these promotions and has been an important reason why our company has achieved our growth rate. It has been a real joy to witness the multiplication of his talents over time. Mike continues to be a learner and recently completed the Advanced Management program at the Booth Graduate School of Business at the University of Chicago. He is passionate about things that matter, such as family, community, people, Greenleaf Trust, our clients and quality of services. Michael chairs a very strong and talented Executive Leadership Team and collectively they will do great work for our present and future clients. Within the community Mike serves on the board of Bronson Health Care Foundation and the Western Michigan University Foundation Investment Committee. Additionally, he serves on the Gull Lake Community Schools Foundation as well as the Red Cross. Michael and his wife Jennifer reside in Hickory Corners with their sons Evan and Joe. Our Board of Directors provided their unanimous and enthusiastic approval of this promotion.

Where am I going? Nowhere. I am not retiring, I am, as Mike likes to say, advancing... not retreating, to focus on high level strategies, culture, vision and mission. The things I like to do and that I am good at. I am not going away, simply getting out of the way, so that Mike and his team can execute the critically important plans and objectives that must be achieved for our clients' benefit and our company's great future. I will remain in my same office, have my same phone number and be here about as often as I have always been. For the past thirty years as I have been building my businesses, and been married to Ronda—we have taken only one two week vacation, the rest have been in three to five day increments. I am not complaining and certainly we are very blessed people, but I owe her more

211 SOUTH ROSE STREET, KALAMAZOO, MI 49007 269.388.9800

Commentary, continued

than that. If you see any difference at all it may be that I will be away a few times for longer durations as we travel to locations and destinations that are on her list.

Really great business cultures don't happen by accident. I love great business cultures and it is my role to make certain that, as we continue to grow and our team gets larger, we remain committed to the pillars of our core business culture, all of which focus on our clients. I have been, am now, and will be for quite some time "The Keeper of The Culture." I will be unrelenting in my focus to that mission. Great companies grow their leaders from within. They do it by design and not by chance. Our clients depend upon and trust us to select great talent and to develop that talent so that the teams that serve them now and in the future are simply the best. I am so very pleased that we are able to deliver on that expectation. Congratulations to Mike Odar, I am certain he will do great things as the leader of Greenleaf Trust.

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Let's spend the rest of this column on the "Fiscal Cliff," the economy and some interesting data on our future. Elections matter. They impact public policy and provide political capital to those who win. Understandably, those who win want to spend that political capital and know very well that it has a very short lifecycle. The loyal opposition also understands the process and knows that if they can obstruct just enough to allow time to be the eroder of that political capital the election will not impact public policy in ways that conflict with their party's platforms and philosophies. The President won, as did his party. Their political will is being tested in our country's "Fiscal Cliff" negotiations. The President must defend his election strategy and, at the same time, deliver on the expectation of compromise. President Obama's consistent campaign message was that those whose income exceeded $250,000 annually were going to pay more in taxes. He also assured his base that he would focus spending cuts in entitlement areas where benefits would only be reduced for the wealthy and not the middle class or below in income. He won re-election on that message, and it is not likely that Speaker Boehner will find much wiggle room in those constructs. Republicans will give on revenue but want the revenue to come from deduction elimination and not rate increases. Democrats feel philosophically and in practicality that wealth redistribution takes place more certainly with rate increases and, therefore, the gap in negotiations is where it was from the beginning. Both the President and the Speaker need movement but neither has to move yet—although both have to move before December 31. Any negotiation, to be successful, has to have its own sense of urgency, and there are some days left yet for posturing and drama, but ultimately a deal will get done. My hunch is that it will be much closer to the

President's talking points than not.

Should either party send us hurdling over the proverbial cliff, will we be catapulted into recession? Maybe, but it is more likely that growth of GDP would fall to a range of 0.8 % – 1.3%, or near recessionary levels, rather than meet our projection of 1.8 % – 2.3 %, not strong in either case. Unemployment, which has been registering incremental improvement, would rise again to over 9%. Stocks would be repriced as P/E multiples contracted, and a correction of 10 – 15 % would not be unlikely.

Should we have a deal as expected that includes revenue increases with spending cuts that will kick in future years, our forecast for 2013 is that we will continue to see incremental improvement in economic indicators, inclusive of employment and housing.

Recessions in Europe, very slow growth in Japan, and a slowdown of GDP growth in China and India all challenge revenue and earnings growth for domestic companies that export goods to those regions. The result is that we are likely to see some P/E contraction and an equity market that is slightly more challenged than 2012. The details of our forecast were shared in last week's year-in-review seminar, and we will include those details in the January edition of our newsletter.

Demographic statistics give us great opportunities to evaluate our society and therefore our future. In a world that values "Younger, Smarter, Healthier" how do we stack up? Unfortunately, the data doesn't bring much favor to us. For several years we have discussed challenges we face as a nation that are not geopolitical in nature but rather self-inflicted. Our population growth as a mature economy is less than 1% annually and the demographic data demonstrates that we are, as a society, getting older. From a public policy standpoint we are not likely to impact this trend. Unfortunately, we are also getting "dumber" and "fatter," with an eroding middle class and an accelerating gap between those with and without wealth. None of these trends are good news, yet can be impacted over time by public policy that recognizes the problems and offers solutions.

Chrystia Freeland has authored a new book titled "Plutocrats—The Rise of the New Global Super-Rich and the Fall of Everyone Else." I didn't like the title when I saw it and I didn't care for her in the interview I heard on NPR, which is probably why I decided to read the book. It is not an easy read but it will cause you to think, and think deeply, about our future. I have ordered copies for my children and highly recommend the book. Ms. Freeland is a well respected journalist and author who does a marvelous job of examining the creation of wealth globally along historical continuums of time and drawing comparisons and trends which are mostly disturbing and relatively important for us when we

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dare to catch glimpses of our future and particularly so if we chose to ignore these trends.

"Popular myth is that the majority of wealth is not created by those with it but rather by those who gave it to them."

Popular myth is that the majority of wealth is not created by those with it, but rather by those who gave it to them. Ms. Freeland examines those she defines as the super rich, those that are in the top 1/10th of the world's wealthiest, and discovered some consistent commonalities. They tended to be entrepreneurs who earned their wealth, highly mobile, connected to those with similar histories, fluently bilingual, highly educated at the world's best universities, strong science engineering and technology competencies, many with dual citizenships and most with residences in multiple countries. What they had or owned wasn't a result of their wealth, their wealth was a result of how these similarities created who they were and what they did as a result of who they were. She also discovered in her research that these very wealthy and successful people were very tightly networked. They were participants and attendees at idea based conferences such as the TED and Aspen Innovation conference. Many others were speakers and attendees at invitation-only events such as the Bill Clinton Global Initiative conference. Not only were they highly educated, they were globally engaged and considered themselves citizens of the world and tended not to have nationalistic views but rather much wider global perspectives. They were, in totality, a snapshot of the phrase "those with knowledge have power." Part of Ms. Freeland's study and analysis is to say that at the very top of the income and wealth scale is a demonstration that we are in the Information Age, and those with knowledge about information and those that can turn that knowledge into action, have significant advantage over those that don't. While the global elite in every country of the world is becoming more educated and in possession of more information, the rest of the globe, the other 99.99%, are not. These hugely successful entrepreneurs were also philanthropical and capitalized causes and charities that they were connected to. They were not created by public policy; however, the gap between those with and those without knowledge, science and math literacy, engineering and technology training can be impacted by effective public policy. Information-based companies and institutions need people with education and knowledge. Those with it will be in demand, those without will lose all leverage. We are getting, as a country, older. What are the implications of us also getting fatter and dumber?

Team Improve Processes for Clients

Michael F. Odar, CFA
President

Over the years, I have found that I enjoy sharing great news about others more so than I do about myself. That said, I appreciate all of the kind words and votes of confidence I have received since the announcement of my new role as President of Greenleaf Trust. I am ready and extremely excited about the opportunities we have before us to grow the breadth and depth of our services to clients.

As many of you know, we end each year with a survey of every member of the Greenleaf team to identify specifically what they think we did well, what our clients were pleased with, what we did not do so well, what our clients were not pleased with, and how can we get better. We have done this for the last twelve years and every improvement we have made at Greenleaf over that time frame can trace its roots to this process. What's interesting is that there are usually themes that run through the survey. This year that theme stood out loud and clear. Of the fifteen open-ended questions, the four most commonly used words used in answers were team, improve, processes, and clients. As a result, a mantra for a goal of ours in 2013 is Team Improve Processes for Clients. It is part of our overall strategy of being the best we can be by focusing on what we do best for clients.

And in true Greenleaf fashion, we are not waiting until next year to implement our strategy. Two years ago we began the arduous task of documenting all of our processes. We are still not done; however, we are at the point where patterns have been easily identified and improvement plans are being implemented. The result will be the streamlining of remaining inefficient manual processes, which will allow the talented members of our team even more time to proactively plan for clients, anticipate needs, and drive service improvements.

For example, we are close to finalizing a solution to our ever growing statement printing needs. The solution will save hundreds of in-house human capital hours, reduce waste, eliminate inconsistencies, and speed up the timely delivery of client statements and reports. All of which meet our goal of Team Improve Processes for Clients. More to follow—and suffice it to say I look forward to writing monthly articles again that will keep everyone informed and showcase what our world-class team is accomplishing for our clients.

Happy Holidays!

> "I look forward to writing monthly articles again that will keep everyone informed and showcase what our world-class team is accomplishing for our clients."

Dan J. Rinzema CFA, CFP®
Vice President
Assistant Director, Wealth Management

Goals-Based Wealth Management: Aligning Life and Wealth

"...truly successful investors, whose lives are aligned with their wealth, never lose sight of the fact that money is a wonderful servant, but a poor master—a means, not an end."

To paraphrase the philosopher Socrates, "Man pursues a great variety of goals, but the one he seeks as his ultimate end is a life worth living—everything else is a means not an end." Traditional money management, however, would have us believe that its end is simply growing one's assets. Instead, we find that truly successful investors, whose lives are aligned with their wealth, never lose sight of the fact that money is a wonderful servant, but a poor master—a means, not an end. They appreciate that spending money, and not just growing it, may be appropriate. They realize that giving it away to charity or heirs may be what provides them with happiness and fulfillment. And they recognize that growth for the sake of growth is what causes many investors to lose sleep over daily market fluctuations. It's at this intersection of life and wealth where goals-based wealth management shines, by reorienting the focus from the portfolio to the person, allowing investors to be confident that their wealth is helping them achieve what they want most out of life.

Goals-based wealth management is the essential process of taking a step back to look at the big picture. Digging deeper and assessing financial hopes, fears, expectations, and resources to realistically align investment portfolios with actual life goals such as sustainably supporting a desired lifestyle, funding retirement, paying for grandchildren's education, or leaving a legacy. By pursuing what matters most, whether it be personal, dynastic, philanthropic, or a combination thereof, this approach helps investors reduce financial anxiety and find financial peace of mind. Goals-based wealth management encourages an open dialogue resulting in a comprehensive plan customized to the investor's situation in which success is defined as meeting the investor's personal and unique goals.

This definition of success intuitively makes sense. Yet in traditional money management, a successful portfolio is defined as an efficient portfolio—one that yields the greatest possible return given the level of risk an investor is willing to assume. Efficiency is commonly measured by comparing a portfolio's returns to those of a standard benchmark and by gauging the level of risk using statistics like standard deviation, alpha, and the Sharpe ratio. While these measures are certainly valuable to portfolio managers, the average investor doesn't find them particularly helpful without proper context. More common are real life concerns that investors face like, "Am I going to be able to retire on my own terms?" Will I run out of money?" "Will my legacy be one worth leaving?" Or more generally, "Am I going to meet my short, mid, and long term goals?" In other words, they are more concerned with the reasons they're investing in the first place.

The lens of goals-based wealth management helps investors from falling into the trap of making a purely financial decision when a quality of life decision is more appropriate. After all, not all financial decisions are just financial. When clients ask if it would be prudent to pay off their low rate mortgage, we ask them to ponder what would make them feel more comfortable or secure—being free from debt with less money in their portfolio or maintaining the additional debt and the additional money. In many cases, they are merely looking for approval to do something they feel is right and which someone who is considered "money savvy" may have told them was not financially optimal. To paraphrase Oscar Wilde, some people know the cost of everything, but the value of nothing.

Goals-based wealth management reinforces the fact that difficulty is not proportional to importance. In the practice of medicine, it's said that simply washing one's hands has proven second only to Penicillin in saving lives. Fortunately, one of the most valuable services that investment professionals provide can also be the least difficult: uncovering and prioritizing client goals by listening, guiding, educating, and serving in a way that is meaningful on a personal level. Galileo wrote, "All truths are easy to understand once they are discovered; the point is to discover them." We believe asking the right questions is a good place to start. Taking the time to understand who investors are and what they value allows for the development of a customized goals-based wealth management plan. Advisors can facilitate this process as a translator – listening to the investor express goals in his or her own words then translating them into financial and investment language. Building on this dialogue allows for the construction of corresponding portfolios tailored to the investor's unique goals.

A military adage holds that amateurs talk strategy while professionals talk logistics. In the context of this article, the equivalent saying might be, "amateurs talk the next hot stock while professionals talk long term planning." After all, equal economic value exists from a dollar earned or a dollar not lost. The concept of "not losing a dollar" holds little allure to most traditional money management professionals and investors alike. Whereas, goals-based wealth management that focuses on the big picture understands that proper planning has the potential to preserve more

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Goals-Based Management, continued

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wealth than some investments can create. A dollar that outperforms the market has the same economic consequence as (1) a dollar saved from taxes through asset location, loss harvesting, or proper estate planning, (2) a dollar invested that would have otherwise been spent, and (3) losses minimized through insurance protection against an unexpected outflow or a mitigated concentrated position.

By reorienting the entire process around discovering and satisfying an investor's multiple life goals, this approach combines behavioral finance with traditional investment practices. When success is defined as meeting goals, and not just beating markets, a tremendous sense of clarity about objectives, priorities, and resources can result. This helps maintain perspective and discipline especially during market volatility, thereby combating the emotions that all too often distract investors from the best laid financial plans. Goals-based wealth management certainly requires solid portfolio performance, but it first considers an investor's complete financial picture in a well-integrated fashion that incorporates the dynamic nature of assets and liabilities, the complexity of a tax and estate profile, and the nuances of behavioral biases.

As Harvard Business School professor Theodore Levit said, "People don't want to buy a quarter-inch drill. They want a quarter-inch hole." Too many traditional money managers are selling the drill (products and hot investments without context) and not the hole (prudent planning resulting in financial peace of mind). So, if money is a means, what is an end? At Greenleaf Trust, it is serving our clients in a way that aligns their wealth with their lives to reach goals and reduce anxiety about money. Our holistic approach to goals-based wealth management provides comprehensive and customized solutions tailored to each client's unique financial objectives. Our client-centric teams value personal relationships and take a highly consultative approach to provide our clients with more clarity and a sense of purpose to their financial and investment decisions, empowering them to achieve the life they envision.

The Holidays— Time to Have "The Talk" With Your Children

Daniel L. Baker, JD, CFTA
Vice President
Director of Business Development
Assistant Director, Personal Trust Div.

We hope that you will have the opportunity to spend time with your children this holiday season. If you do, it might be an opportune time to have "the talk" with them. No, not that talk—the tougher one. The one about family wealth. If that makes you slightly uncomfortable, you're not alone. Studies show that virtually all wealthy parents believe it is important that their children receive a solid financial education, but less than one in four of these parents feel their children are adequately prepared for wealth. So, why the disconnect and what can we do about it?

The clear answer to both questions is communication. When educating children (at any age) about family wealth, open and honest communication is essential. So why is it so important and why is it so difficult?

Its importance can be seen in the fact that despite families' best intentions, most fail to sustain wealth across generations. "Shirtsleeves to shirtsleeves across three generations," is the old saying describing the trajectory of most family fortunes. Perhaps surprisingly, this failure to sustain wealth is rarely due to improper estate planning, but rather to lack of communication and trust and improper preparation of heirs.

With baby boomers expected to receive nearly $12 trillion from their parents, and in turn to leave $30 trillion to their children over the next 30 to 40 years, it would seem that a well-thought-out conversation is in order.

The lack of communication is often driven by fear. Some parents fear that informed heirs will feel "entitled" to the wealth and be "disincentivized" from leading productive lives. Others fear that disclosure will trigger sibling rivalry or that disclosure today will limit their flexibility to make changes in the future. While these fears are not entirely unfounded, they are outweighed by the consequences of failing to have open and honest discussions about family wealth and the values surrounding it.

Often a good place to start the conversation is around what you want to accomplish with the money. Framed as a discussion about values, and not simply about money, the conversation takes on a broader, more holistic perspective. In doing so, parents often gain a better understanding of their own underlying attitudes about wealth and how their intentions may affect the broader family. If done well, the communication can strengthen family relationships and help the

"No, not that talk—the tougher one. The one about family wealth."

"The Talk" continued

"It is important for children of all ages to understand the family's values around money and to develop a comfort level with talking about and managing money."

perpetuation of parents' values into future generations.

There is no "how to guide" for having this conversation and it is certainly not in the "one size fits all" category. In fact, it is best viewed as a process, not a one-time event, and it needs time to unfold. The issues and ideas introduced will depend on family dynamics, and the age of the audience. Wealthy families will likely have a different conversation than ultra-wealthy families. With young children, basic financial concepts can be introduced with more complex topics being discussed with older children.

It is important for children of all ages to understand the family's values around money and to develop a comfort level with talking about and managing money. Philanthropic activity is good way to involve younger children in discussions about wealth and the family's goals in connection with it. With early teens, a discussion of how a college education will be financed is a good opportunity to teach lessons about investing for the future and shared responsibility. As children enter their late teens, informing them that if something unexpected happens they will be provided for allows them to begin preparing to manage their own money.

If parents plan to set aside substantial wealth for the benefit of their children in an irrevocable trust, it is usually wise to share the terms of the trust with them by their early 20s, especially if the access to the funds is on a staggered basis, e.g. portions available at ages 25, 30, and 35. This will help them have appropriate expectations and in making long-term financial plans. Many wealthy parents are surprised by the extent to which uninformed children overestimate the amount of family wealth. Ongoing, open and honest communication provides a reality check for children who might otherwise be waiting on an inheritance that never materializes.

Your children should also understand your advisors' roles in connection with the family's wealth. Our clients often ask us to explain our role to their children and to help further their financial education and we are pleased to do so. We often assist clients in framing and facilitating conversations about family wealth and the transfer of it and we welcome the opportunity to be of service in this area also.

With any journey, the first step is often the most difficult. If you have not begun the journey of "financially educating" your children, we encourage you to look for an opportunity this holiday season to take that first step. You may well find that it is your best investment strategy yet.

Could the Fiscal Cliff Impact Retirement Plan Savings?

Michelle M. Sanderson
Participant Services Coordinator

The "fiscal cliff" is a term used to describe a bundle of momentous US federal tax increases and spending cuts that are due to take effect at the end of 2012 and early 2013. The question is, could the fiscal cliff impact your retirement savings?

According to the Congressional Budget Office (CBO), a $513 billion budget contraction in 2013—the result of complete inaction on the fiscal cliff—would likely send the United States into another recession in 2013. An October 2012 International Money Fund (IMF) report notes that massive fiscal tightening in the United States in early 2013 is a primary risk to global economic stability. Protracted gridlock in Washington would stall the US recovery "with deleterious spillovers to the rest of the world," the report says. In addition, "delays in raising the federal debt ceiling could increase risks of financial market disruptions and a loss in consumer and business confidence." Failure to resolve issues related the fiscal cliff now, and continuing to grow the debt at unsustainable levels, threatens to trigger a sharp increase in US borrowing costs and further downgrades to the nation's credit rating.

Overall, the US economy and markets have been hard to read. The market jumped 421 points the week of November 19th, one of the best weeks of the year, after being down for four straight weeks beforehand. Some experts believe that the post-election sell-off may gather steam in the coming weeks as investors become more concerned with the looming fiscal cliff. Although most experts agree there is no reason to panic, many believe it's reasonable to expect the market to move lower over the next couple of months. Further, the prospect of higher tax rates in 2013 is driving some investors to sell shares as they seek to decrease the tax impact from their positions this year and next.

What does this mean to your retirement account? Potentially, the need to prepare for increased short-term market volatility and lower Treasury yields. As always, it's important to keep a long-term investment perspective and a diversified portfolio that can weather short-term market swings. A rigorous investment plan will transcend current events.

The Greenleaf Trust team is always available to assist retirement plan participants in navigating their options. If you feel that an educational group meeting or individual consultations for your participants would be beneficial during these uncertain economic times, please contact your Participant Services Coordinator, or call the Participant Call Center at (866) 553-8400, and we would be happy to schedule a time to meet with your participants!

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Stock Market Pulse

Index	11/30/12	% Change Since 12/31/2011
S&P 1500	326.84	14.91%
DJIA	13,025.58	9.27%
NASDAQ	3,010.24	16.92%
S&P 500	1,416.18	14.96%
S&P 400	1,000.15	15.36%
S&P 600	462.15	12.61%
NYSE Composite	8,260.43	10.48%
Dow Jones Utilities	454.12	1.62%
Barclays Aggregate Bond	112.25	4.01%

P/E Multiples	11/30/12
S&P 1500	13.8
DJIA	12.7
NASDAQ	15.9
S&P 500	13.4
S&P 400	16.8
S&P 600	17.4

Key Rates

Fed Funds Rate	0% to 0.25%
T Bill 90 Days	0.10%
T Bond 30 Yr	2.80%
Prime Rate	3.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	326.84	13.8x	2.18%
S&P 500	1,416.18	13.4x	2.28%
DJIA	13,025.58	12.7x	2.63%
Dow Jones Utilities	454.12	NA	4.16%

Spread Between 30 Year Government Yields and Market Dividend Yields: 0.61%

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

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

HOLLAND OFFICE:
150 Central Avenue
Holland, MI 49423
office: 616.494.9020

TRAVERSE CITY OFFICE:
130 South Union Street
Traverse City, MI 49684
office: 231.922.1428

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

GRAND RAPIDS OFFICE:
51 Ionia Avenue SW
Grand Rapids, MI 49503
office: 616.494.9020

GREENLEAF® TRUST

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

Southeast Michigan
Mark W. Jannott, CTFA
Senior Vice President
Investment & Estate Planning
cell: 248.417.5527

Northern & West Michigan
John F. Welch, CFP®, CTFA
Senior Vice President
Business Development Officer
cell: 231.642.1175

Kalamazoo
Albert Little
Vice President
Business Development Officer
cell: 269.760.0979

Retirement Plan Services
Matthew D. Siel
Vice President
Business Development Officer
cell: 616.540.2093