GREENLEAF TRUST

Perspectives

A Greenleaf Trust Newsletter

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William D. Johnston
Chairman, Greenleaf Trust

Economic Commentary

Happy New Year! It is my hope that you had a wonderful 2018 and that 2019 will once again present many fabulous opportunities for you and your families. December proved to be a challenging month for investors, as all of the gains made earlier in 2018 were stripped during the 14% reduction in nearly all of the popular equity averages. What seemed to be on the minds of investors as volatility grew and sellers ruled the day for most of December? The most recent meeting minutes of the Federal Open Market Committee (FOMC) left those most concerned about a recession in the near term with two conclusions. First, the new rate hike was unwarranted and would have an impact on consumption large enough to turn GDP negative. Secondly, the meeting minutes as well as the comments of Fed Chair Powell suggested the economy was slowing and that the Fed was revising their September estimate of 2019 GDP growth to 2.3% from the original 2.5%. By themselves neither of these perceptions should have created a 14% repricing of equities, but piling on to the Fed's comments was the release of China's manufacturing activity, which declined at a rate much greater than expected. Finally, there began to be whisper numbers surrounding a revision downward for Apple's revenue forecast for 2019, which many have come to see as a proxy of the US economy.

For many years, you may have read that the equity markets are a leading indicator of the future economic cycle, and therefore, those that subscribe to this theory are more prone to sell into market declines — especially in the face of what they believe to be deteriorating economic news. The relationship between market declines and GDP reversals is not perfect, though significantly higher than that of economists' forecasts. At Greenleaf Trust, we prefer to focus on the most relevant ten leading indicators, of which market performance is only one. As previously mentioned in several columns by myself, Nick Juhle our Director of Research, and Chris Burns our Investment Strategist and Senior Fixed Income Analyst: 1) the inversion of the yield curve, 2) retail sales and 3) employment are fairly reliable in forecasting economic downturns — though no one indicator is sufficient to call the trend or direction. Should all three deteriorate in symmetry, our concern would indeed be heightened.

Currently, the inversion of the yield curve has received the most attention

Commentary, continued

by institutional investors as it tends to be a reflection on the perception of the future as seen through the eyes and minds of the bond market. Normally, in times of GDP growth, the yield curve is neither flat nor inverted. Flat would be a condition that exists when the short end of the market (Fed Funds Rate) is not significantly lower than the five, ten and thirty-year Treasury. Currently, the ten-year Treasury rate is near par with the Fed Funds rate. In a normal fixed income market, investors should be paid more to take on rate and maturity risk. This condition only exists if the supply and demand side of the market allows it to exist. Traditionally, bond buyers keep their investments short in duration when they don't trust the future of economic growth and believe that the Fed will reverse course to once again increase money supply to stimulate a stalled economy.

China's economy is important to our GDP, but by no stretch is it important enough for the market volatility that was created by the release of the Chinese manufacturing activity data. China has been in a long term reduction phase in its GDP rate of growth. The peak of GDP growth was reached in China nine years ago at 11%. The current expectation of GDP growth for China in 2019 is 6.3% which will be down from the estimated 6.6% in 2018. While it isn't possible to precisely measure the GDP impact on net exports for the US, given a small decrease in the Chinese GDP forecasts for 2018, most analysts see this number as a 1/10th of one present increase in net exports, which translates to far less than that in actual US GDP.

"China's economy is important to our GDP, but by no stretch is it important enough for the market volatility that was created by the release of the Chinese manufacturing activity data."

On January 7, our Greenleaf Trust research team will present a series of seminars for clients and friends of Greenleaf Trust. This seminar series is conducted annually to review what occurred in 2018 and also present our forecast on what we expect to happen in 2019. We will offer summaries of that seminar in our printed materials, newsletters and website postings. During that seminar, we will revisit the context of our GDP make up and I think it is relevant for this discussion as well. We estimate that the 2018 US total economy will be $20.7 trillion when all is said and done. For many years, while the aggregate has changed, the percentage of each major component has remained consistent: consumer spending, 70%, business investment, 18%, government, 17%, and net exports -5%. GDP calculation has always been calculated as Consumption + Investment + Government + Net Exports (Imports-exports).

The movement required in any of these categories to change the aggregate growth rate substantially in either direction must be significant. Clearly, the category that has the largest potential of impact is consumption. As we have stated many times before, the consumer is employed, has received real wage increases for the first time in a decade, has not decreased savings as a consequence of spending and in all measures on major consumer confidence surveys remains optimistic about their economic circumstances.

Unless and until this condition changes, the $14.5 trillion that was spent on consumption in 2018 and the $14.9 trillion forecasted to be spent on consumption in 2019 will drive whatever GDP growth we experience.

A small increase in net exports (more imports than exports) will not change our condition nor will any increase or decrease in business fixed investment. One could, and I certainly have for some time, argue that government spending should decline or government revenue should increase to make progress on closing the budget deficit increases occurring annually.

Attorneys like to argue around a common set of facts. The deficit common set of facts are quite simple. Our government will spend, as a portion of GDP, $3.8 trillion. Our government will receive $3.2 trillion in revenue. The difference will be added to our national debt, for which we will pay interest. The economic impact of government spending reductions and/or increased revenue (tax) is that both are, in the short term, negative inputs for the economy — and therefore, take significant political courage and will. Republicans have traditionally been deficit hawks, but since their party now controls the executive and senate branches of government they have lost all appetite for spending reductions or fiscal control. Democrats who have sought more revenue through increased taxation will know that they have earned the control of the House, seek legislation for tax increases that will pay for what they believe is a renewed healthcare mandate. The legislative vote total numbers work for neither party as both must seek allies across the aisle to achieve their desired legislative goals. With that reality in mind, it seems certain that 2019 GDP is not likely to be impacted by either government spending or tax increases.

"Republicans have traditionally been deficit hawks, but since their party now controls the executive and senate branches of government they have lost all appetite for spending reductions or fiscal control."

Trade policy is important, but in reality changes gross GDP impact only around the margins. We are a mature economy and so are the majority of our trading partners. Trade policy must be fair and equally benefit all partners, as we are a mature economy needing them as they need us.

Tariffs are a fool's folly when not a structural part of agreed and negotiated fairness. A tariff-free world benefits size and scope economies, but will always be lobbied against by many special interests in every country, and thus, we are likely never to be without them. One only needs to look at the net export component of our aggregate GDP to realize that even significant tariffs on industry specific product will not move the GDP needle. The discussion is clearly about the nationalistic movement increasingly present in the US and industrialized Europe, but serves no comprehensive economic benefit in either the near or far term, and thus, while tariffs may appeal to a political base, they have a very small input to GDP.

Michael F. Odar, CFA
President

2019 Strategic Initiatives

In October, our Executive Leadership Team (ELT) emerged from our 2018 Advance in Birmingham, Michigan with a unified and comprehensive strategic plan for 2019. Our Advance is held off-site each year at a location that removes the team from distractions and focuses everyone's attention on candor and the best way forward. Our long-term goal continues to be top of mind to those we serve with sophisticated needs. Our plan contains annual strategic initiatives that serve to focus our efforts and guide our decision making. In 2019, our Strategic Initiatives again reflect our unwavering desire to provide top of mind holistic wealth management and fiduciary services for our clients into perpetuity through scalability, sustainability, and sophistication. For 2019, our Strategic Initiatives are Workplace Culture, Strengthen the Core, Purposeful Growth, and Set the Stage.

Culture

In our annual corporate Strategic Planning Questionnaire, our clients and our culture are consistently what our teammates rank as most important to them. We consider our culture to be the behaviors and beliefs that are alive within our workplace environment. We work hard to develop and strengthen our culture every day for good reason. With a vibrant culture focused on talent development, inter-office connectivity, the client experience, communities and diversity, we have a high performance work environment that engages and inspires our team to do great work for our clients.

"Our long-term goal continues to be top of mind to those we serve with sophisticated needs."

Strengthen the Core

We recognize that what got us to this point in our 20-year history will not necessarily get us to where we want to go in the next 20 years. Our processes and procedures need to continue to evolve and be scalable. We continue to look for ways to work more efficiently and effectively to improve the client experience. Workflow software, digital marketing, data warehouse improvements, mywealth, and enhanced trading capabilities will help us do this. Additional investments in technology, systems, and people will enhance capabilities and help us do more for clients at a higher level.

Purposeful Growth

Growth for the sake of growth is a fool's game. Our growth strategy involves growing deeper and broader in our capabilities in order to serve existing and prospective clients better. If we do that successfully, we will be able to serve more clients. In 2019, we are again purposely taking actions to continue to grow our presence and talent in all the markets we serve. We have also engaged a public relations firm to help us increase awareness across the state of Michigan of all that makes Greenleaf Trust unique.

Setting the Stage

In addition to strengthening our existing service model, we continue to look for ways to serve more and better. And, sometimes differently. The opening of Greenleaf Trust of Delaware and the growth of our Family Office division are great examples. In 2019, we are exploring growth of services related to directed trusts, emerging wealth clients, Family Office clients, and Institutional clients. Potential acquisition due diligence and geographic expansion research will also be a part of setting the stage for the future.

2018 Review and Outlook

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.

Despite an auspicious start, the 2018 experience unfolded to include:

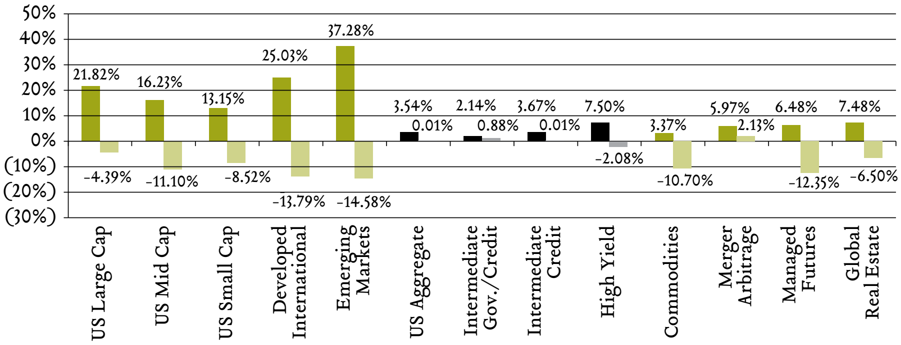
- ◊ Higher Volatility,
- ◊ Lower-Than Expected Asset Class Returns, And
- ◊ Questions about the economic backdrop heading into 2019.

In 2018, every major asset class posted disappointing returns. Whether it was stocks around the globe, government debt, corporate bonds or commodities, negative investment returns were the norm this year. We have been communicating our expectation that future returns might be lower, as the combination of high stock valuations and low interest rates dampen the prospects for future growth. Still, 2018 was uncommon in the lack of bright spots on the investment landscape.

"In 2018, every major asset class posted disappointing returns."

Asset Class Performance

(2017-Dark; 2018-Light)

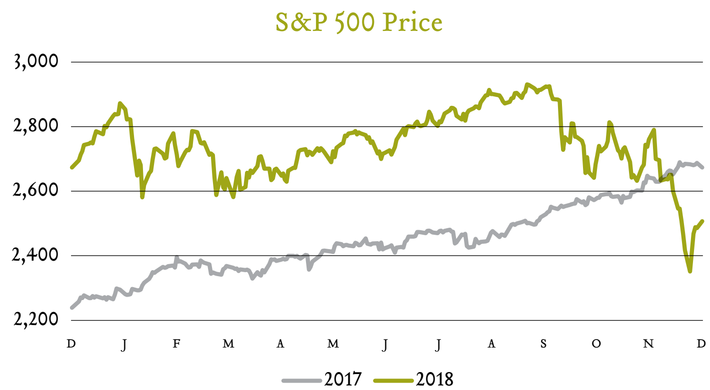


Source: Bloomberg

2018 Review and Outlook, continued

> "Throughout the year, but particularly in the 4th quarter, investors became increasingly anxious about the prospect of a recession..."

In 2017 the S&P 500 gained more than 20% and had its first ever perfect record, advancing every month on a total return basis. 2018 was very different, with more volatility, four down months, and a near 20% drawdown from the late September high. When all was said and done, domestic stocks were 6% lower to close the year, netting -4% total return after accounting for dividends. These returns belie the 20% growth in earnings for S&P 500 companies, an estimated 7% of which came from cuts to the corporate income tax rate in the United States. This is the fastest growth rate for earnings in eight years.



Source: Bloomberg

Bonds fared well in 2017 as key rates spent much of the year below their starting points, supporting low single digit returns across most indices. In 2018 rates were largely on the rise. From a starting yield of 2.40% on the US 10-year treasury, rates peaked at 3.24% in November and closed the year at 2.68%. As a result, bond returns were either flat or negative in 2018.

Source: Bloomberg

Throughout the year, but particularly in the 4th quarter, investors became increasingly anxious about the prospect of a recession, reacting sharply to any data point or headline that could signal a slowdown. Key sources of angst included Federal Reserve Policy and US/China trade negotiations among others.

Federal Reserve

The Federal Reserve accelerated the pace of rate increases to once per quarter in 2018 following three hikes in 2017 and one hike in 2016. Generally speaking, rate increases, or other approaches to tightening monetary policy, can be an indication of economic health for a Fed tasked with maintaining a balance between full employment and target inflation of approximately 2%. However, investors are concerned that continued rate hikes will cause economic growth to stall.

At the December meeting, the Federal Reserve raised benchmark interest rates 0.25% (bringing the range to 2.25%-2.50%) and lowered the median projection for 2019 rate hikes from three to two. In addition, Fed Chairman Jerome Powell indicated that the Fed would stand firm on plans to allow bonds to roll off of its balance sheet (considered tightening), and noted that the Fed will react to financial conditions (market volatility) only if/when they were to impact the actual economy.

We make two key observations. First, despite an acceleration in rate increases, real interest rates remain near zero (after inflation) and would remain historically low even at the Fed's projected long-term rate of 2.75%-3.00%. It seems unlikely that real interest rates of 0%-1% would trigger a recession. Second, while we acknowledge that potential missteps by the Fed present a risk, we believe the Fed is operating with a disciplined focus on the dual mandate, despite criticism received from some observers.

"...we believe the Fed is operating with a disciplined focus on the dual mandate despite criticism received from some observers."

Trade Policy

Evolving U.S. trade policy and its reception by trading partners introduced uncertainty and fears of an all-out trade war between the U.S. and China in 2018. Early in the year, the Trump administration announced tariffs on steel and aluminum as well as plans for a 25% tariff on up to $50B of goods imported from China specifically. In response, China's commerce ministry proposed reciprocal tariffs on $3B of imports from the U.S. By late September, the US announced that a 10% tariff on $200 billion worth of Chinese goods would go into effect by the end of the month, increasing to 25% by the end of the year. Further, the Trump administration threatened tariffs on an additional $267B worth of imports if China were to retaliate, which it promptly did. So far, China has either proposed or implemented tariffs on $110 billion of U.S. goods, representing most of its imports of American products.

On December 1, Trump and China's Xi Jinping agreed to a truce, prompting the White House to delay for 90 days the tariff increase from 10% to 25% on $200B in annual imports from China. The agreement called for talks to get underway in earnest in January and postponed the increase until at least March 1. A U.S. delegation is expected to meet with Chinese officials in January to hold talks, but what comes after that is unclear. The moratorium could be extended if the two sides are making progress in negotiations, though to date the dialogue has proven more unpredictable than not.

2018 Review and Outlook, continued

Recession Monitor – Data Suggest Not in 2019

We expect the implications of Fed policy and global trade negotiations to continue to carry significant influence as we head into 2019. From our perspective, both have the potential to compromise what is an otherwise healthy economic backdrop today. Indeed, as we evaluate the economic data, it is hard to argue with 3.9% unemployment, 2.0% real retail sales growth, and strong corporate profits benefitting from muted wage inflation and favorable pricing of commodities.

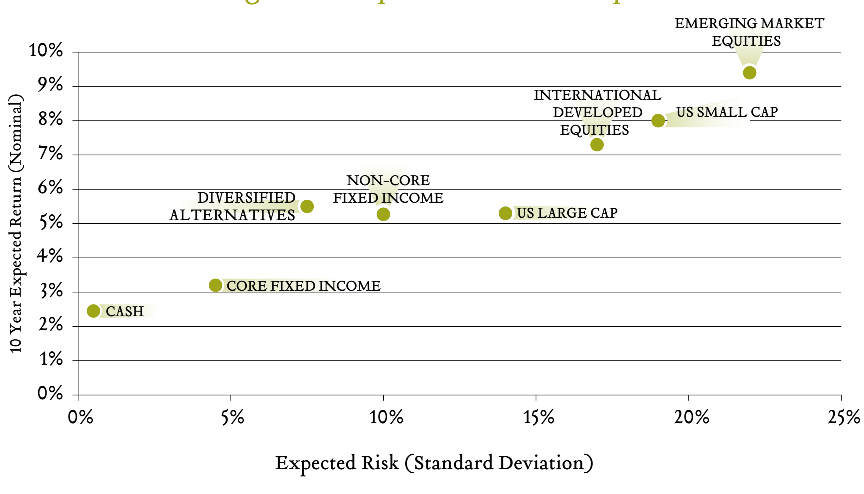
All in, real US GDP will likely have grown 2.9% in 2018, up from 2.2% in 2017 and 1.6% in 2016. It would be unrealistic to expect the economy to sustain 3.0% growth in 2019, which by definition, means that we expect growth to slow this year. Specifically, we believe real US GDP growth will decelerate to something on the order of 2.0%-2.5% - slower than 2018, but not unhealthy and far from a recession. Looking to 2020 and beyond, the risk of an economic recession begins to rise as we are late in the business cycle.

> "Said another way, we encourage our clients to stay disciplined in a year like 2018 so as not to miss out on a year like 2017."

Capital Market Assumptions

As for the market experience going forward, we share our updated capital market assumptions below. Our forecasts represent our expectations for average annualized returns for each asset class over the next ten years. Over the next decade, there will be years where returns exceed our expectations and years where returns trail our expectations. We believe any attempt to pick and choose which years to participate is a fool's errand. Said another way, we encourage our clients to stay disciplined in a year like 2018 so as not to miss out on a year like 2017.

Long-Term Capital Market Assumptions



Source: Greenleaf Trust

Asset Class	10 Year Expected Return (Nominal)	10 Year Expected Risk (Std Dev)
US Large Cap	5.3%	14.0%
US Small Cap	8.0%	19.0%
Developed International Equities	7.3%	17.0%
Emerging International Equities	9.4%	22.0%
Core Fixed Income	3.2%	4.5%
Non-Core Fixed Income	5.3%	10.0%
Diversified Alternatives	5.5%	7.5%
Cash	2.5%	0.5%

Source: Greenleaf Trust

Overall, we recommend most of our clients hold a full weight to global equities in accordance with their individualized risk profile, and we remain marginally more constructive on international equities. Concurrently, we are less enthused by 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.

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 clients' best interests. On behalf of the Research Division, I wish you all a safe and prosperous 2019.

"Overall, we recommend most of our clients hold a full weight to global equities in accordance with their individualized risk profile..."

Dan J. Rinzema, CFA, CFP®
Chief Client Officer

Survey Says…

Continuous improvement is one of Greenleaf Trust's core values - it is a pillar of our culture and has become part of our DNA. Every tangible improvement we have made on behalf of our clients stems from a disciplined review of our practices. As we look for opportunities to serve our clients better, we begin by listening to those that matter most - our clients.

Our annual personal trust and wealth management client satisfaction survey is designed to gauge Greenleaf Trust's collective efforts from our clients' perspective. We not only want to know if we are delivering on our promises, but we also crave candid feedback on ways in which we can better serve our clients. Analyzing the results helps us more closely align the voice of our client with our daily impact and better understand how our clients feel about Greenleaf Trust's personalized service and customized solutions. The aim is to listen to client comments and suggestions so that we can enhance the services provided on their behalf. Simply put: when our clients speak, we listen.

"… [our] aim is to listen to client comments and suggestions so that we can enhance the services provided on their behalf. Simply put: when our clients speak, we listen."

As an example, looking back at recent years' survey results, it was revealed that the format of our investment performance reporting could be improved to better meet the individual needs of our clients as only 84% of respondents found the report meaningful in our 2013 year-end survey. Given this feedback, we made it our goal to provide more customized, relevant and meaningful performance reporting. We heard what our clients wanted and responded with updated performance reports tailored to their specific needs. As a result, satisfaction with our quarterly investment performance report format jumped to 97% the following year and sits at 100% as of 2018's survey. Similarly, the 2014 survey revealed that many clients wanted consolidation of monthly statement packaging. We listened and responded quickly by consolidating statement packaging starting the following January and the corresponding statement satisfaction score registered at 98%. Similarly, themes from write-in comments from 2015 and 2016 centered around our investment platform and online client portal. We took those comments to heart and not only enhanced our investment offering with 97% of clients now reporting that we are successful in meeting their investment needs, but we also rolled out our revolutionary online portal called mywealth by Greenleaf Trust, which allows our clients to view their holistic wealth through a safe and secure personal financial website, bringing their entire financial picture together in one place like never before. Last year's survey revealed a desire for improved tax reporting. We recognized this as a shortcoming and put a plan in place to improve. This included seeking input from many of our clients' CPAs to better understand expectations and formatting preferences, re-engineering many of our processes for more timely delivery, initiating additional quality assurance checks throughout the year to continuously scrub the data, and adding new talent to the team with specialized tax expertise and a deep knowledge of our systems' inner workings. As a result of these efforts, satisfaction jumped to 98% in the 2018 survey results.

When sending the 2018 survey, we again asked for candid responses. Our clients answered in kind with survey participation not only hitting record levels, but also registering at more than triple the industry average. Thank you to those that took the time to respond – we truly value your feedback. The following is a summary of what we heard you, our clients, say:

2018 Client Satisfaction Survey Results:
Personal Trust & Wealth Management

- **100% find their cleint centric team members to be easily accessible**
- **99% feel their questions and concerns are answered in a prompt and satisfactory manner**
- **98% are satisfied with the frequency of contact**
- **99% feel as though they are treated as a very important client**
- **100% believe we listen to and understand their unique goals and objectives**
- **99% believe their accounts are tailored to meet their unique financial goals and objectives**
- **97% believe we are successful in meeting their investment needs**
- **Satisfaction scores with our account statements, performance reports, newsletters and seminars uniformly exceeded 99%.**

"While we are pleased with the generally high marks received, we recognize there is always room for improvement... [and] we will intently focus on the specific suggestions and comments received."

While we are pleased with the generally high marks received, we recognize there is always room for improvement. So in order to enhance the value of our relationship with our clients, and to achieve our standing goal of 100% client satisfaction on all fronts, we will intently focus on the specific suggestions and comments received. Two initiatives already under way as a result of the recent survey include adding additional functionality to our relatively new online client portal, mywealth by Greenleaf Trust, as well as increasing the frequency of economic and financial market updates from our in-house research team.

Again, thank you to all of our clients that took the time to respond to our recent client satisfaction survey. The overall response rate was gratifyingly high and the comments overwhelmingly positive. My colleagues and I are always receptive to your suggestions, and we hope you will never hesitate to share your candid opinions with us – when you speak, we listen. Thank you for allowing Greenleaf Trust the continued privilege of serving on your behalf.

Leslie L. Coyle, CTFA, CFP®
Managing Director, Birmingham

Reflect, Resolve, Relax

At the beginning of every year, we take time to reflect on the year past and make commitments to the fresh, new, and as yet unsullied, year. Typically, we limit our reflection to the 365 days just ended; often our resolutions are equally short term and quickly abandoned for the habits we have not figured out how to break. And once those resolutions are broken, stress, guilt, and chocolate consumption take over!

What to do? A little reflection may be a good place to start.

As 2018 wound down, our country shared a moment to remember and pay tribute to the 41st President of the United States, President George Herbert Walker Bush. There are few times when we pause as a nation and share a moment. Even fewer shared moments provide reflection and long-term perspective. The days leading up to the memorial services and the services themselves gave us all a history lesson not only of President Bush's 94 years of life, but also of the times and historical context within which he lived, loved and worked. The remembrances and eulogies were poignant, funny at times, and all shared common themes of family, friends, faith, and service to country. The recurrence of the themes in nearly every memory shows how deeply these pillars of President Bush's life were ingrained in all that he did and said during his life, and now continue as tenants of his legacy.

"What would change, how would we see the past, and what transformation could we really make for the future?"

What was also remarkable about this moment and reflection was the span of generations — not only of President Bush's life, but also of those who gathered to remember, pay tribute, and honor him. Reflections and resolutions with a long time horizon help create and define a personal, familial, corporate, even governance, legacy. President Bush reportedly hated the word legacy – in fact, he called it "the L-word." The word certainly can signify something massive and great – and yet the reality is, it is also very local and personal. We all leave a legacy but rarely think about our life in those terms.

So, as we begin 2019, what if our reflection of the past and our future resolutions carried long time frames – generations – and not 365 days? What would change, how would we see the past, and what transformation could we really make for the future?

These are not questions or perspectives that Greenleaf Trust ponders only at year end. We view the world this way consistently. Long generational time horizons are a critical part of how we work with clients.

The lens through which we work attempts to clearly view the past, while having a purposeful vision for the future. Client relationships with Greenleaf Trust usually start with a comprehensive plan that we create together. We seek to understand a client's core pillars – those things that rarely change and that drive decisions and actions. The needs, goals and dreams for each pillar

– family, friends, faith, business, community or others – are established. In this way, very early in our client relationships, we have insight into the client's core tenants as well as their goals and aspirations. Our objective with a comprehensive plan is to create a vision of the future using financial assets, risk management strategies and trust and estate planning opportunities as a means to support the client's desired outcomes.

As we implement wealth plans, working with Greenleaf Trust in the continuum of client care carries the trust advantage. The ability to change our service and legal capacity from advisor to trustee as client needs shift from growing wealth, to the phases of preserving and distributing wealth, allows for consistency of care and service. It allows us to continually execute a client's well-crafted vision that forms the foundation on which their financial legacy is built.

As we enter 2019 together and share the opportunity to continue to grow, learn, and serve, know that Greenleaf Trust takes a long term, generational, legacy worthy view. In choosing a partner and advisor with such a vision, your personal reflections and resolutions have already been established for the long term – so relax (and eat chocolate)!

"Our objective with a comprehensive plan is to create a vision of the future… as a means to support the client's desired outcomes."

Your Children and Their Financial Inheritance

Lauree K. VanderVeen, CTFA
Vice President
Senior Trust Relationship Officer

When was the last time someone handed you a $1,000,000 check? How do you think your children will manage if they are handed this amount of money? These are questions we ask our clients to ponder as they think about passing wealth to the next generation. Perhaps $1,000,000 is not your family's number, but the point is to think about how prepared your children and grandchildren are to receive a significant sum of money on your death. Will their inheritance be a blessing or a burden? Are there ways to prepare them to increase the odds of your financial success being a blessing to them?

I have the honor to serve many different families, and over the years, I have had the benefit of learning several ways in which parents teach their children to handle finances. I will share a few unique strategies others have used to prepare their children for financial independence and to eventually act as a steward of their own inheritance.

- Competitive Investing: For many years, we have worked with a family who successfully taught their two sons to invest using Roth IRA's. When we began our relationship, the two boys were still in high school. Both had summer jobs and thus were eligible to contribute to this type of account. Every year, the parents contributed a portion of their annual gift tax exclusion to the

Your Children and Their Financial Inheritance, continued

Roth IRA. The boys were allowed to use a portion of the contributed amount to buy stocks of their choice. Annually, we prepared a portfolio review for each son and compared their investment returns. This was always a friendly competition between the two. They are now grown and they successfully manage their own finances. By having a real life opportunity to invest a small sum of money year-after-year, they learned both how different assets perform over various market cycles and how to compare their returns against similar benchmarks. There are complex IRS rules to investing in a Roth IRA, so this strategy may not work in all situations. Other types of accounts that can be utilized if necessary. The idea is to use annual exclusion gifts to fund an investment account for the child and have the child actively participate in the management of that account.

- Spending Matters Most: One retired couple focused on teaching their two daughters and three grandchildren the importance of living within a budget and below their means. The father made it his practice throughout life to invest half of any pay increases the family received into the stock market. For years he consistently purchased solid U.S. large company stocks and reinvested the dividends. It was his philosophy that if they were successfully surviving financially before the pay increase, they could incorporate half the pay raise into their spending budget, but the other half was to be invested into other companies. He taught his daughters this strategy and the importance of living within a budget and paying attention to their spending. This family is an example of it is not what you make that is important, but rather what you spend that will determine your financial success.
- Another family implemented a similar strategy with annual dividends payments. The father of this family started a small business and employed his three sons. Over many years the company grew to be very successful. Each year, rather than giving the sons 100% of their dividends, he held a portion back and invested the money into equities for each son. He encouraged his sons to focus on the family business and not pay attention to the investment accounts he was managing for them. When the father died, the sons were surprised by how successful their father had been investing their dividends. In this situation, he not only taught them to live with less than they earned, but he also taught them the importance of diversification. The family owned business made up a large portion of their net worth. By using a portion of the annual dividends to buy stocks outside of the family business, they were able to diversity a large portion of their assets.
- Run Your Life as a Business: One father taught his children to manage their household finances like a business. He instructed them to be the President and CEO of their own life. The responsibilities of this position included fully understanding the income and expense reports (a budget) and the balance sheet (a personal financial statement) of the company. These

"... over the years I have had the benefit of learning several ways in which parents teach their children to handle finances."

financial reports taught them the importance of knowing their numbers and reviewing them regularly to ensure the company was staying on track. As with any successful business, the President and CEO reports to a Board of Directors. He encouraged his children to employ their own Board of Directors. He suggested they consider having an investment advisor, an accountant, an attorney, a banker and an insurance specialist on their Board. He taught them to regularly meet with the Board members to share the results of their efforts and to present their future goals for the company. It is a creative way to teach accountability and monetary responsibility with the expert advice from others helping to keep the company successful.

- Contingency Plan: One family focused on mitigating risk. They encourage their children to obtain a higher education and pursue careers of their desires, but to also learn a trade or a service that would be needed no matter what the economic conditions. They also encouraged their children to learn basic skills to care for their home and automobile. Their belief was by knowing how to change a tire or the oil in their car or being able to fix basic home repair needs, they could save money over time. They believed having diversified skills and continuing to build on these skills would benefit their children no matter what life presented to them. For this family, planning for when the unthinkable happens is often overlooked, but is critically important. We all have risks in our lives – risk of an accident leaving us disabled, risk of losing a job or a loved one who supports the family. Having many skills will benefit these children in the event life doesn't unfold as planned.
- Making a Difference to Others: Philanthropy provides an opportunity to teach not only financial lessons, but also incorporate passing along family values. Greenleaf Trust often hosts annual family meetings. For one family, the topic of charitable giving is a part of each meeting. Annually, the children and grandchildren are required to research a charity of their choice and to present their suggestions to the family. Throughout the year, they are encouraged to visit the charity, and learn how their potential gifts may be utilized. Upon request, we provide and review the non-profit's 990 tax return with the presenters. The tax return offers an opportunity to teach and review how charity operates. These conversations also lend themselves to teaching family values. It offers time to reflect on how the family's nest egg was built and will be beneficial to the children and the grandchildren as they continue the family's legacy when the parents are no longer alive.

There is not one easy way to teach financial independence. Consistency and time are important variables that will help contribute to the success of preparing your children to manage their future responsibility of caring for their potential inheritance. As always, your Greenleaf Trust client centric team stands ready to assist your family in teaching the next generation so their inheritance will be a blessing and not a burden.

"Consistency and time are important variables that will help contribute to the success of preparing your children to manage their future responsibility..."

Kathleen J. Waldron, QKA
Vice President
Assistant Director,
Retirement Plan Division

Required Testing in Qualified Retirement Plans and Solutions to Consider

This time of year retirement plan providers are gearing up to complete the annual Actual Deferral Percentage (ADP) tests for qualified retirement plans. This test in particular can be very impactful to certain plan participants. This is a non-discrimination test for 401(k) plans mandated by the IRS to ensure that a plan does not unduly benefit highly compensated employees (HCE) at the expense of other employees. It is one of many tests in the suite of compliance testing that Greenleaf Trust prepares on behalf of many of our clients. Under the ADP testing rules, the average employee contributions (both pre-tax salary deferrals and Roth 401(k) contributions) of the highly compensated employees and non-highly compensated (NHCE) employees are calculated and compared on an annual basis based on the plan year. To pass the test, the ADP of the HCE group may not exceed the ADP for the NHCE group by 1.25 percent or 2 percentage points. If the plan fails the ADP test, corrective action must be taken to protect the qualified status of the plan arrangement. The law and related regulations provide various methods for correcting failures during a "correction period." This statutory correction period is the 12-month period following the close of the plan year in which the failure occurs. If corrective distributions are made after the first 2 ½ months of the correction period, the employer (not the HCE) is liable for excise tax. If correction is not made within the correction period, the plan is considered disqualified. In essence, however, it is important to note that there is no inherent problem with failing the test as long as corrective action is taken within the proper time frames.

> "This is a non-discrimination test for 401(k) plans… to ensure that a plan does not unduly benefit highly compensated employees (HCE) at the expense of other employees."

Failing this test can inhibit employee contributions to a 401(k) plan by individuals who meet the criteria and are considered highly compensated. Receiving a distribution of previously deferred compensation dollars including any gains or losses is not well received by most individuals who may be impacted following an ADP test failure. There are steps that a plan sponsor can take to avoid this requirement or improve the outcome.

One solution to this problem is to incorporate a safe harbor provision to the plan. This option, while adding costs, would alleviate the requirement for completing the annual ADP test, thus allowing all HCE's to defer the maximum amount allowed by law and no returns of contributions would be required. There are two basic options for a safe harbor contribution provision.

1) 3% Safe Harbor Non-Elective Contribution
2) Basic or Enhanced Safe Harbor Matching Contribution

The first option requires a 3% mandatory employer contribution to all eligible participants based on compensation. Some things to consider regarding this option include:

a) All participants who have met the plan's definition of eligibility share in this contribution regardless of whether they terminate within the plan year or work less than 1,000 hours.
b) The Safe Harbor Non-Elective Contribution source is immediately vested in the participant's account (cannot attach a vesting schedule).
c) Generally, the 3% Safe Harbor Non-Elective Contribution may satisfy a top heavy mandatory contribution requirement.
d) This contribution can be easier to budget as it is a straight percentage of compensation.

The second option requires a matching contribution which is composed of different tiers based on the Basic or Enhanced design. A few things to consider with this option are:

a) The Safe Harbor Matching Contribution is only made for those participants who are contributing pre-tax salary deferrals or Roth 401(k) dollars into the plan.
b) Participants who contribute would share in the Safe Harbor Matching Contribution regardless of whether they terminate within the plan year or work less than 1,000 hours.
c) The Safe Harbor Matching source is also immediately vested in the participant's account (cannot attach a vesting schedule).
d) This contribution may not satisfy any top heavy mandatory contribution.
e) This contribution is more difficult to budget as costs could potentially be high if everyone participates in the plan to the fullest extent.

The typical safe harbor match is 100% of salary deferrals up to 3% of compensation deferred plus 50% of salary deferrals up to the next 2% of compensation deferred.

Both of these safe harbor contribution options require a plan amendment and an annual notice which must be provided to all employees no later than 30 days prior to the event. Ongoing, on an annual basis, a plan sponsor must declare that the plan will be a safe harbor design.

Another solution to the problem of failing the annual non-discrimination test is adding an auto enrollment feature to the plan. With proper documentation and notification to plan participants, this feature allows a plan sponsor to automatically deduct an allowable percentage from a participant's compensation into the plan. Auto escalation is also permitted which allows an automatic increase annually of generally one percent.

"Both… safe harbor contribution options require a plan amendment and an annual notice which must be provided to all employees…"

Required Testing, continued

This option is beneficial in multiple ways. It helps an employee to start saving in a qualified retirement plan and to secure a retirement benefit in retirement. Last, by automatically enrolling plan participants into the plan, the deferral rate for those not previously participating will increase and, over time, likely lessen the effects of the failure or remove the failure component entirely.

Our Retirement Plan Division within Greenleaf Trust would be happy to discuss these options with you at any time. Please contact us for more information.

Nicole E. Asher, CFP®, CPWA®, ChFC®
Vice President
Senior Wealth Management Advisor

Happily Ever Asher

I'm expecting a daughter! As I write this, I anxiously await the newest member of our family. No, this was not a nine-month wait, but an almost 12 year wait. My oldest son and his girlfriend of almost 12 years will have tied the knot on New Year's Eve. Like many newlywed couples, they have an exciting road ahead of them. While I will try not to meddle in their financial affairs (much), I will definitely share with them some words of wisdom.

Like many couples, one person typically gravitates towards the financial responsibilities. Luckily, for my son Nick, his fiancée is extremely well organized and will happily take charge of these obligations. Nick, unfortunately, could not care less about money. He doesn't like to write checks or pay bills. In fact, he has no clue how much is in his account. As long as he has funds for coffee and food, he is a happy camper. I imagine this has something to do with the fact that he has no money! As a third-year medical student, who has had no earned income in years, he has a negative net worth. I don't blame him for wanting to turn a blind eye on the fact that he is worse than broke. Fortunately, his fiancée is not naïve to the fact that she is marrying Nick's medical school debt too. For newlywed couples, this is a conversation that should be had long before they walk down the aisle.

"My oldest son and his girlfriend of almost 12 years will have tied the knot on New Year's Eve."

With finances being a top cause of marital spats, it is important for anyone preparing to make a lifetime commitment to set clear expectations and be honest about all financial "baggage" they may be bringing into the marriage. While this doesn't sound very romantic, it is critical to address finances early on in order to have a long and happy life together. Below is a checklist of important things to discuss from a financial perspective prior to tying the knot (assuming a prenuptial agreement has not already addressed):

- Current debt - how much and what is the plan to pay it off?
- Do you have a budget and who will manage it?
- Employment and lifestyle expectations

- Will you combine your finances or keep them separate?
- How will things be owned?
- Who will pay the bills?
- How will you file taxes and who will prepare them
- What insurance is needed and how will it be obtained?
  - ◊ Health
  - ◊ Property/casualty/umbrella
  - ◊ Life
  - ◊ Disability
- Who will manage the investments?
- What level of cash reserve should be established and/or maintained>
- What are our respective financial goals – short, mid and long term?
  - ◊ Saving for large purchases:
    - ○ Vehicles
    - ○ Vacations
    - ○ New homes
  - ◊ Saving for education
    - ○ For the happy couple
    - ○ For future children
  - ◊ Saving for retirement
    - ○ Timing and standard of living expectations
    - ○ Setting up a 401k or other retirement savings plan
  - ◊ Charitable Giving
    - ○ Tithing expectations
    - ○ Charitable giving expectations
- Estate planning
  - ◊ Will
  - ◊ Living will
  - ◊ Health care power of attorney
  - ◊ Updating beneficiaries

Managing your own financial lives can be taxing (no pun intended). Integrating them with a new spouse can be an even greater challenge. My biggest advice to newly engaged couples is to have these conversations early in the relationship and to truly listen to each other's perspective. There is no perfect approach that works for all couples. What matters is that you keep the lines of communication open and don't avoid what can be sensitive topics.

"There is no perfect approach that works for all couples. What matters is that you keep the lines of communication open and don't avoid what can be sensitive topics."

As the ball drops at the stroke of midnight, the happy couple will start their new lives together. With it being a new year, this would be a perfect time for them to make resolutions as a couple to start, not only the new year, but also their new financial lives together. Cheers to the newlyweds. May they live Happily Ever Asher!

Stock Market Pulse

Index	12/31/18	Total Return Since 12/31/2017
S&P 1500	577.11	-4.97%
Dow Jones Industrials	23,327.46	-3.48%
NASDAQ	6,635.28	-2.81%
S&P 500	2,506.85	-4.39%
S&P 400	1,663.04	-11.10%
S&P 600	844.94	-8.52%
NYSE Composite	11,374.39	-8.80%
Dow Jones Utilities	712.93	1.99%
Barclays Aggregate Bond	106.49	0.10%

P/E Multiples	12/31/18
S&P 1500	17.2x
Dow Jones Industrials	15.5x
NASDAQ	19.8x
S&P 500	17.1x
S&P 400	16.9x
S&P 600	20.2x

Key Rates

Fed Funds Rate	2.25% to 2.50%
Tbill 90 Days	2.37%
T Bond 30 Yr	3.01%
Prime Rate	5.50%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	577.11	17.2x	2.15%
S&P 500	2,506.85	17.1x	2.17%
Dow Jones Industrials	23,327.46	15.5x	2.45%
Dow Jones Utilities	712.93	17.1x	3.41%

Spread Between 30 Year Government Yields and Market Dividend Yields: 0.86%

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