GREENLEAF® TRUST

Perspectives

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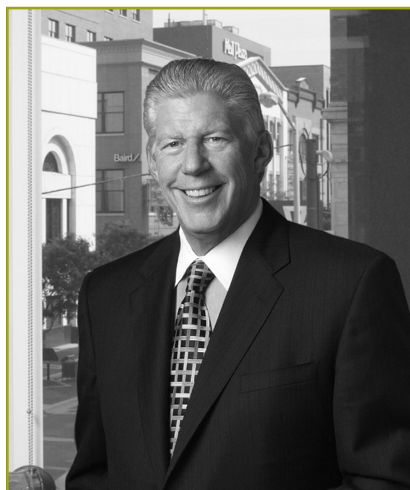

William D. Johnston
Chairman, Greenleaf Trust

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Economic Commentary

Slow growth economies rarely provide us with huge differences in monthly economic data and this past month was no exception. Total non-farm payroll rose 217,000 in May with gains coming primarily in professional and business, health care and social services. Gains were also recorded in transportation, warehousing and food services. Hours worked were up slightly over the previous report while wages remained constant. There has been a good deal of chatter about growth of jobs being centered around lower paying service sectors, yet May's employment data demonstrated two months in a row of job gains in professional and business services. These broad categories include degree-required employment such as engineers and science related positions. Some sectors are beginning to show signs of greater demand than supply in the work force as employment costs rose 0.3% and 1.8% year over year. Wages and salaries grew 1.6% while cost of benefits increased 2.1% for the same reporting period. We generally assume full employment occurs at around a 4.5% unemployment rate, yet individual sector pressure certainly begins to build below a 6.5% rate. While individual sector wage increase pressure is not likely to cause noticeable inflation pressures Federal Reserve meeting notes have included discussion about it by a few Fed Governors and it is included in their overall interest rate modeling.

On the subject of inflation it is worth noting that the Consumer Price Index rose 0.4% in May after rising 0.3% in April. Subtracting food and energy from the index resulted in a 0.1% increase for the month, well within the Fed's target rate of 2% inflation. Producer prices as indicated by the PPI decreased 0.2% for May following two consecutive increases in March and April. Productivity increased during the month by 3.2% while industrial unit labor costs fell by 0.4%

Durable goods orders fell by 1.0% to $238 billion yet remain ahead of year over year figures by 7%. Housing took a step forward in some categories. Residential sales grew by 18.6% however new residential construction declined by 6.5%. After a very strong March and April, retail trade declined by $11.1 billion. On balance, the data continues to be reflective of a slow growth (below 3%) economy that is only incrementally improving. The doomsayers and interest rate hawks each slice the data in ways that warn of impending doom. Those certain we will fall into recession warn that we are out of stimulative tools and that asset deflation is before us. Interest rate hawks contend that real inflation has been increasing yet

Economic Commentary, continued

under reported by the Fed and therefore we are headed for hyperinflation without the means to combat it. One can find data points to make arguments in both cases, yet not enough to support with substance either case, which is typical of a slow growth economy in the later years of a recovery cycle.

Equity market watchers continue to focus on earnings quality. Once again, the bears and bulls are miles apart in their analysis. The bears insist that the economy is slowing, not gaining strength, and that the current P/E multiple (17.7) is not deserved given a sub-3% GDP economy. The bulls insist that the P/E has remained constant even with the increase in the S&P 500 and that the current dividend remains very strong competition for the current interest rate market. Once again both camps have points that could be substantive but both also require changes to occur from the present that aren't currently knowable. On balance, we think that the data points continue to support the evidence of a slow growth economy supported by a low interest rate environment with ample credit supply and liquidity. The economy continues to be challenged and vulnerable to external and internal events. This environment is not likely to change in the near future. For investors to exit the equity market two events must occur and both involve some elements of fear created by event caused change. Either interest rates must rise with a velocity that indicates significant change for some duration or economic indicators must show confirmation that a new directional trend is in place involving a combination of key indicators that could not be explained away. The S&P 500 is up 6.7% year to date and yields 1.89% in an environment where the ten year treasury is yielding 2.5%; absent of the changes described above, we think the equity market will continue to focus on earnings quality and be supported at this level unless changes warrant the alternative.

"Equity market watchers continue to focus on earnings quality. Once again, the bears and bulls are miles apart in their analysis."

We will have a brief reprieve from the silly (political) season as Congress is in recess for the June and July period, but the President seems focused on pressing his agenda to attempt to cement elements of his campaign platform into his legacy. All Presidents have used administrative powers to get people appointed and policies advanced even without the approval of Congress. They do so knowing that policies, but rarely appointments, can be revoked or amended by Congressional action. The President has a dilemma. Mid-year elections are less than four months away. He lacks bipartisan support for most of his agenda yet requires it to pass legislation. Meaningful reform in any area of tax or immigration will not be touched by either party legislatively until the election is concluded. The odds currently are that legislative control will not be won by either party, yet there remains a chance that the Republicans can gain enough seats to control either chamber but probably not both. It is natural for the President to attempt through administrative action to improve his legacy in the eyes of his supporters, and he seems intent on doing so. The risks are minimal. If his party maintains its current seats in Congress it will be difficult to legislatively alter his administrative orders; if the Democrats lose in November then he could not have passed his agenda anyway and the Republicans

will have to do the heavy lifting on reversing his administrative orders. While the silly electoral season is not yet upon us we won't be entirely free from the acrimonious atmosphere inside the beltway.

We continue to observe the domestic and geopolitical debates on economic equality and I continue to be fascinated by the different approaches that countries take on the issues of equality. Whenever I travel I specifically look for both public policy as well as local citizenry commentary and perspectives. Recently, I had the opportunity to visit Ecuador and I was anxious to see how this South American country dealt with the issues of economic equality and minimum wage. I am of course tempted to describe a travelogue complete with wonderful stories of the people, culture and environment which were all fabulous and way beyond my wildest expectations. Think about every National Geographic photo that you have ever seen about the Galapagos Islands and then multiply it by a large factor. The reality is that National Geographic will describe the natural beauty and culture of Ecuador much better than I, so let's leave that to them and I will stick to the economic discussion. In my conversation with some middle-aged lifelong Ecuadorians they described the concept of minimum wage as a part of a "basket" of support that includes free health care, free education and the ability to survive as well as fulfill family responsibilities. Each year the Ecuadorian government convenes a labor council to determine adjustments to the minimum wage. For 2014 the wage level was set at $340 per month and the adjustment was $13.00, or a 3.9% increase. In a move to stabilize their economy in the mid 1980s, Ecuador decided to use the US dollar as their currency. The current President, Rafael Correa, created new taxes on the country's oil exports and dedicated those revenue dollars to education and the country's infrastructure like highways and airports. Today, unemployment is 4.8% and the economy is growing at at 5.0%, while per capita income has increased from $3,310 in 2000 to $5,170 in 2012. It is interesting to note that the $340 per month of minimum wage is 86% of the average wage level of Ecuadorians. The current minimum wage in the United States is 37% of the average per capita income in our country. Like most other countries in the region, the cost of living in Ecuador is relatively low and the residents I spoke with indicated that the minimum wage allowed the workers at the lowest wage rates the opportunity to find housing and enjoy sufficient food and clothing for their family as well as remain off of existing government support programs. Data reveals that the disparity of wealth in Ecuador is decreasing, and the poverty rate in the country has fallen from 38% in 2000 to 26% in 2012. None of the above should be interpreted as suggesting that Ecuador is in a state of nirvana and that all is well. The investment in education and infrastructure is less than a decade old and will require time to generate more jobs and increase economic development as well as improve the standard of living. Though not universally popular, the current Ecuadorian President's public policies seem respected by enough of the population to allow the patience to see if tangible results will be delivered. It will be interesting to observe the future data of Ecuador and see if investments in infrastructure and education move the needle on GDP and per capita income.

"We continue to observe the domestic and geo-political debates on economic equality and I continue to be fascinated by the different approaches that countries take on the issues of equality."

Michael F. Odar, CFA
President

Decision Trap Avoidance

Ever since the beginning of my career in investment services, I have been interested in the behavioral aspects of decision making. When I was working more directly with clients, the interest was primarily focused on how they made decisions. A year and a half ago as I moved into my role as President of Greenleaf Trust, I knew that focus had to change to how I make decisions. First, I sought to understand. Then, I had to find a way to avoid the traps.

Conventional wisdom in behavioral science is that the brain has two sides that are at work at all times — emotional and rational. Because both sides are at work at all times, both find their way into our decision making process. And, depending on the person and situation, one side may overpower the other. For instance, the threat of a confrontation may cause your emotional side to signal its 'flee or fight' instinct before your rational side has the chance to ask 'why?'

In addition to potential conflicting sides of the brain, heuristics and biases impact our decision making process. Both are basically mental shortcuts or unconscious routines we use to shorten the decision making time, and both can lead to decision traps like anchoring, justification, overconfidence, or framing. Probably the most common and well known of these is anchoring, which involves fixating on previously provided information or data in the decision making process. For example, consider your answers to the following questions:

> “In addition to potential conflicting sides of the brain, heuristics and biases impact our decision making process.”

Is the population of New York City greater than 10 million?

What is the population of Beijing?

Did your answer to first question impact your answer to the second question? When using information to make a decision, the brain gives a disproportionate weighting to the first information it receives. In a business or household, anchoring can pose big problems during the budgeting process when people use what they spent last year to forecast what they will spend next year.

The first step in avoiding these traps involves simple awareness that these traps exist. The second step that I have found beneficial involves building a network around yourself that allows for candor, different viewpoints, and input from others.

That's one of the reasons why, at the beginning of this year, I formalized the creation of Greenleaf Trust's Executive Council. Its members are Jim Gray, Chief Investment Officer; Dan Rinzema, Chief Client Officer; Tom Drews, Chief Operating Officer; Michael Ruchti, Chief Financial Officer; and me. The Council's most important responsibilities include organizational leadership, strategy development, and tactical thought. The diversity of the members' backgrounds, work experiences, approaches to problem solving, and unique talent profiles help us view problems from different perspectives and avoid potential decision traps like those mentioned above.

Keeping Real Estate in the Family...New Law May Provide a Solution (Part II)

Christopher J. Tarkowski
Trust Relationship Officer

In our June 2013 issue of *Perspectives*, Lauree VanderVeen (Kosobucki), Trust Relationship Officer at Greenleaf Trust, published part I of this article. The original article covered the foreseen implications of Michigan house bill 4753 which went into effect December 31, 2013 and amended the General Property Tax Act (GPTA), allowing real estate owners to transfer property between family members without uncapping property taxes. The article explained the origin of "capping" along with the significance an "uncapping" event can have on the amount of taxes paid on a particular piece of real estate. At the time the article was published it was clear that in order for property taxes to remain "capped" upon the transfer of a property two things must be true. First, the heirs of the property must be "first degree relatives by blood or affinity" and second, the use of the property must remain "unchanged." What wasn't clear was the legal definitions of these two qualifiers.

The law has been in effect for over six months and the vagueness of the above mentioned qualifiers has proven to be a real challenge for families and their advisors. Could they leave their cottage titled in their trust as long as the beneficiaries were their children ("first degree relatives by blood or affinity")? What about grandchildren? If my house on Lake Michigan is my primary residence can I leave it to my children as a vacation home? Or would this be considered a "change in use?" Currently, the answer is still unclear. The only sure safe way to transfer property without causing "uncapping" at this time seems to be to transfer it from one living breathing person to another, who is undisputedly a first degree relative by blood or affinity and who will use the property in a way that is undisputedly the same as the current owner. While the Michigan Department of Treasury has said that a "spouse, father or mother, father or mother of the spouse, son or daughter, including adopted children and son or daughter of the spouse" all qualify as first degree relatives, this still leaves some uncertainty. What about an individual whose parents are deceased and who has no children? Can he or she leave a vacation home to a sibling without uncapping the property taxes? What about a parent trying to leave real estate to a minor child? Can the parent leave it to the minor child's guardian for the benefit of the child even though the guardian may not be a first degree relative by blood or affinity?

> "The law has been in effect for over six months and the vagueness... has proven to be a real challenge for families and their advisors."

So many unanswered questions have prompted the Michigan legislature to action. A bill is currently pending that, if passed in November by the State

Keeping Real Estate in the Family, continued

"We are hopeful the new bill will provide more certainty and allow for our clients to take more definitive and precise action with their real estate succession planning."

Senate, would take effect December 31, 2014 and would clear up many of these issues. The new bill would provide a specific, expanded list of relatives replacing the "blood or affinity" verbiage, include language that allowed transfers to and from trusts that have qualifying beneficiaries and would exempt distributions under a will to those same qualifying relatives.

Knowing that these pending changes are a very real possibility within the next six months leaves each individual in an uncertain situation. While the uncapping of taxes is a major issue to consider when dealing with real estate in an estate plan, it is certainly not the only one. As stated in Part I of this article "succession planning for [real estate] will be different for each family and will require a plan that takes into consideration the family goals and unique relationships."

We are hopeful the new bill will provide more certainty and allow for our clients to take more definitive and precise action with their real estate succession planning. With only a few months remaining until we have more clarity on the situation we recommend that you consult with your legal advisor before making any decisions regarding changes to your property. As this situation develops throughout the remainder of this year and into 2015, we plan to keep you informed in future issues of *Perspectives*.

If you would like a copy of Part I of this article it can be found at www.GreenleafTrust.com under the "OUTREACH" tab and clicking on "PERSPECTIVES" or you can contact any member of the Greenleaf Trust team.

Bethany L. Cwalina
Participant Services Coordinator

The $20,000 Lunch

Saving for retirement can be daunting. According to the Employee Benefit Research Institute about 36% of workers have less than $1,000 in savings and investments that could be used for retirement and 60% of workers have less than $25,000. When speaking with participants, we note that they should save somewhere between 15 to 20 times their pre-retirement income.

If you only look at the end numbers it can be very overwhelming and often seem out of reach. But have you ever stopped to think about how saving just a little money over time can really add up? Consider this: Everyday items may cost only a few dollars, but when those same dollars are put toward retirement savings and invested, they can really add up!

Like many working adults, eating out frequently for lunch or dinner is an issue that hits close to home for me. Between my husband and me we can easily spend $50 to $100 per week on food expenses (in addition to paying for groceries). When you pay $5 to $10 to go out to lunch, you often don't

think twice about it. But when you calculate that into a weekly/monthly/ yearly expense and factor in compounding had that money been invested, the numbers are staggering!

By saving just a few extra dollars every week, you could significantly increase your retirement savings over time. Saving just $5 a week, or the cost of a fairly inexpensive lunch, over the course of 25 years can boost your retirement savings by over $20,000. Saving just $25 a week can add up to over $100,000! Your challenge: How can you save small amounts of money per week to ensure you are on track for retirement?

ITEM	SAVINGS	INCREASE SAVINGS BY:
Buying lunch, once a week	$5 week / $260 a year	$20,762
Buying lunch, twice a week	$10 week / $520 a year	$41,515
Buying lunch, three times a week	$15 week / $780 a year	$62,277
Buying lunch, four times a week	$20 week / $1040 a year	$83,030
Buying lunch, five times a week	$25 week / $1300 a year	$103,792

The table above assumes an 8% annual rate of return over a 25-year period

“By saving just a few extra dollars every week, you could significantly increase your retirement savings over time.”

It’s never too early to start. No matter what your age, now is the time to begin saving for retirement. That’s because the sooner you begin saving, the more time your money has to grow. Each year’s gains can generate their own gains the next year through the power of compounding. Even modest returns can generate real wealth given enough time.

We are often asked “How much should I be contributing?” Well, each person is different and that number will fluctuate based on one’s age, current savings, annual salary and many other factors. The best thing you can do is to figure out that number by running a retirement calculator and calculating your individual needs. The second best thing to do is to contribute whatever you can and consider increasing contributions annually or with any increase in salary. As you see from the example above, every little bit counts.

That $20,000 lunch now sounds a little too expensive for my taste!

If you’d like to join us in our efforts to conserve natural resources and create a greener environment, you may choose to save paper by receiving email notifications to view your statement online.
Simply give us a call at 269.388.9800 and ask to speak with a member of your client centric team.

Michael A. Storms, CFA
Research Analyst

IPO Market — What You Need to Know

The IPO market has been hot as of late. The volume of IPOs globally increased 47% in Q1 of 2014 year-over-year. The total dollars of capital raised in the global IPO market increased 82% in the same period. The number of high profile IPOs has also been increasing, which is likely to continue as GoPro and Alibaba (potentially the largest IPO of all time) are anticipated to go public yet in 2014. This has left investors wondering if they should attempt to invest in new issues. To answer this, an investor must consider a number of factors, in addition to the fundamentals of the company in question, including: (i) the investment characteristics of the IPO market, (ii) how the market fits into the investor's portfolio, and (iii) how the investor gets access to this market.

The IPO market is unique to any other market. One of the biggest differences is with respect to the lock-up period that applies to all shareholders that hold the stock prior to trading openly on the public exchange. If you follow the stock price of IPOs, you'll notice that after a few months the stock typically goes down. This is often because of the expiration of the lock-up period. Lock-up agreements are contracts between the underwriters and insiders of the company, prohibiting insiders from selling any shares of the stock for a specific period of time (typically 3 to 24 months). When the lock-up period expires, all the insiders are permitted to sell their stock. The result is typically downward pressure on the stock as these shareholders look to realize their profit.

Another common trait of IPO stocks is that they are more volatile than the average stock. IPO stocks tend to behave like small-cap growth stocks, because IPOs usually fall into this category. From a performance standpoint, IPO stocks tend to outperform for a short period. IPO stocks have averaged a 19% gain on the first day of trading, going back to the 1960s. This is primarily due to the significant amount of speculative activity that occurs during this period. This speculative activity can drive the valuations of these stocks well above a rational level.

> "Another common trait of IPO stocks is that they are more volatile than the average stock."

Conversely, during longer periods of time (six months to a year), the median performance of IPO stocks is worse than the market. A University of Florida study states that the average three-year return of IPO stocks lagged the average three-year returns of similar non-IPO stocks by 7.2%.

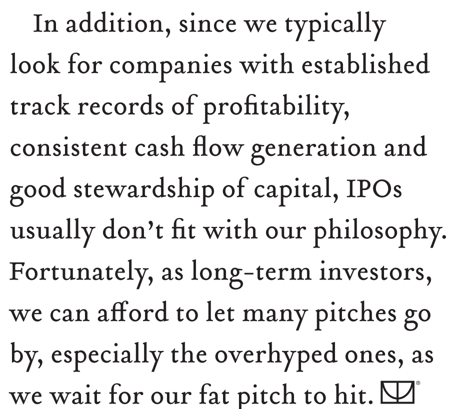
This does not necessarily mean

that all IPOs are bad investments. Some IPO stocks may work out well over the long term. In addition, there can be correlation benefits to investing in IPO stocks. The IPO market as a whole tends to be uncorrelated to the domestic equity market. Consequently, despite the high level of volatility, an investor's portfolio may not have materially changed its volatility profile as a result of including IPO stocks into the portfolio. However, to achieve favorable correlation benefits, one would need access to the broad spectrum of the IPO market (to invest in all IPOs).

It can be difficult to get access to pre-IPO shares, especially when there is an over-subscription to the offering. To get access to all IPOs would be extremely difficult, even for the largest investors. Consequently, most investors take a position in an IPO after the stock has started trading, typically at an inflated, post-offering price. This can put the investor at a disadvantage, especially when the lock-up period expires and the insiders sell.

At Greenleaf Trust, we typically avoid IPO stocks for the greater of at least six months or following the expiration of any lock-up period. There are a few reasons for this; (i) the information that is available to research these companies can be limited, (ii) volatility associated with these stocks is usually higher as speculators attempt to achieve short-term profits, and (iii) it can be difficult to purchase an amount of shares that would have a material impact on our client base.

In addition, since we typically look for companies with established track records of profitability, consistent cash flow generation and good stewardship of capital, IPOs usually don't fit with our philosophy. Fortunately, as long-term investors, we can afford to let many pitches go by, especially the overhyped ones, as we wait for our fat pitch to hit.



"… we typically avoid IPO stocks for the greater of at least six months or following the expiration of any lock-up period."

Brandon D. Bauer
Wealth Management Associate

The Millennial Mind

If you recently attended one of our summer seminars, you heard Senior Vice President Bruce Kridler discuss Kim Kardashian's feelings towards NBA superstar Kris Humphries. Bruce also discussed, in much more detail, philanthropy as a family value and passing the torch from generation to generation. He was referring to the transfer of wealth from Baby Boomers to Millennials (Gen Y), individuals born between 1980 and 2000. According to a recent study by Grand Valley State University, this group is estimated to inherit an unprecedented $40 trillion and is poised to be the most significant philanthropic generation in history.

"According to a recent study by Grand Valley State University, this group [Millennials] is estimated to inherit an unprecedented $40 trillion..."

Passing the Torch

Since joining Greenleaf Trust, I have noticed that we frequently discuss and highly encourage charitable giving with those that feel so inclined. To some, this seems counterintuitive, as Greenleaf Trust earns management fees on assets under management. Why would we encourage individuals to move their dollars to other organizations from our organization? Simply stated, it's not about us; it's about our clients and their desire to achieve various goals and objectives first and foremost.

As these conversations occur, we see two common themes that arise with many clients — a desire to pass on wealth for future generations and charities within their community or that have significant meaning to them. Many Baby Boomers plan on passing the torch to their children and grandchildren monetarily while also bestowing upon them family values and charitable inclinations that they hope to last for generations. As Millennials see these values being put into place by the generation before them, a relatively under-researched question arises: how do Millennials view charitable giving?

Next Gen Donors

While The Greatest Generation and Baby Boomers were busily growing their wealth and planting their philanthropic seeds, something happened: their children and grandchildren grew up. These children and grandchildren were raised observing and learning that you help others because that is the right thing to do. However, their mindset on why and to whom they give appears to be different. There is a balance in their mindset between respecting the past while also improving the future through innovation and even "non-traditional" strategies in order to maximize giving. Millennials want to feel a personal connection to the organizations they decide to support, learning through hands-on volunteering and experiences. Typically, it is not enough for this generation to simply write a check

or gift an appreciated asset, it's also about donating their time, talents, and innovative ideas.

Millennials are more "connected" now than ever before, with the world at their fingertips through smart technology. In a recent survey by NextGenDonors, the number one most important component of Millennial philanthropic strategy is to first conduct due diligence and research prior to donating their wealth, time, talents, and innovative ideas. With websites such as kiva.com, non-profit micro giving has taken off as individuals can research organizations and decide who they would like to support. Millennials tend to be less trusting, causing them to perform their own research and not simply donate because their parents gave to a particular organization. This isn't because their parents gave to organizations they don't believe in, but because Millennials desire to make their own independent choices. Millennials want information about organizations' proven effectiveness and measurable impact, and seek organizations that address root causes and attempt systematic solutions. Believing in the mission of an organization for this generation does not pass the litmus test. They want to know that their donations, in whichever form they are given, are diligently being used to make a lasting impact and change lives. Millennials also desire transparency and accountability from an organization to ensure their money is being spent how they desire.

Built to Last

Baby Boomers' values will guide Millennials and leave a lasting impression; however, Millennials want to branch out and create their own identity independent from their parents. Millennials are eager to seek out new experiences as they proactively develop their own philanthropic personality. Although there is limited research at this time, one thing stands true, Millennials have the opportunity to revolutionize philanthropy as we know it and change the world, one dollar or talent at a time.

"... Millennials have the opportunity to revolutionize philanthropy as we know it and change the world, one dollar or talent at a time."

Stock Market Pulse

Index	6/30/2014	Total Return Since 12/31/2013
S&P 1500	454.78	7.03%
DJIA	16,826.60	2.68%
NASDAQ	4,408.18	6.18%
S&P 500	1,960.23	7.14%
S&P 400	1,432.94	7.50%
S&P 600	682.87	3.22%
NYSE Composite	10,979.43	5.57%
Dow Jones Utilities	575.98	19.62%
Barclays Aggregate Bond	109.40	3.76%

P/E Multiples	6/30/2014
S&P 1500	17.5x
DJIA	15.3x
NASDAQ	21.3x
S&P 500	17.1x
S&P 400	20.6x
S&P 600	21.5x

Key Rates

Fed Funds Rate	0% to 0.25%
T Bill 90 Days	0.03%
T Bond 30 Yr	3.34%
Prime Rate	3.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	454.78	17.5x	1.92%
S&P 500	1,960.23	17.1x	2.00%
DJIA	16,826.60	15.3x	2.17%
Dow Jones Utilities	575.98	NA	3.40%

Spread Between 30 Year Government Yields and Market Dividend Yields: 1.42%

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