GREENLEAF TRUST

Perspectives

A Greenleaf Trust Newsletter

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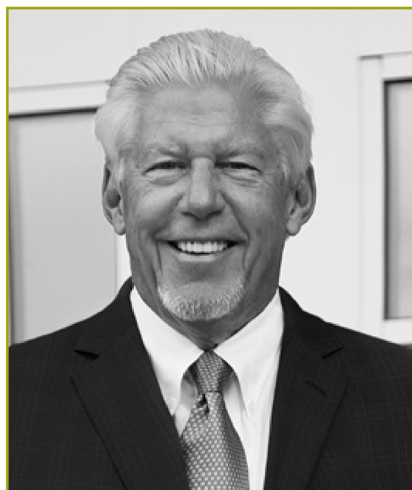

William D. Johnston
Chairman, Greenleaf Trust

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Economic Commentary

Awareness is sometimes a self-inflicted burden. Those of us that research information for a living are bombarded with data that, while informative, can lead to anxiety and increased senses of urgency. The greater experience that you have researching information, the more likely you will discover that the majority of people are living their lives in one of two camps. Either they specifically select sources of information that validate their already held beliefs, or they believe they are just fine without discovering more. In the main, I think most understand that the economy has taken a huge hit, millions of people are unemployed, millions have become infected and by the 4th of July nearly 150,000 Americans will have died from complications of the pandemic virus COVID-19. The question that most people who are aware of our current economic condition have is "where specifically are we? Where do we need to go and how will we get there?"

I have previously mentioned the data measurement tool created by the New York Federal Reserve Bank, the weekly economic index (WEI). The index is comprised of a series of real-time economic indicators reflecting data on production, labor and consumer behavior. The New York Fed chose those indicators as a real time proxy of GDP and, therefore, a tangible way of comparing our current condition to where our economy was twelve months prior to the current moment in time. They have been collecting this data set for a few years, but only recently have begun to publish it in a weekly updated fashion. I find it a very useful tool to answer the question of where we are currently. This week's published WEI was -8.2, implying that our current GDP is -8.2 and approximately 11.2 below where we were at the same time period last year. For perspective, in March of 2020 the WEI index bottomed at -11.8 and has improved weekly for eleven consecutive weeks.

Relevance is important, during the "Great Recession of 2007–2009" GDP fell -4.3% from its high in 2007 to its trough in 2009 over a 14 month cycle. Our current recession began in March of 2020 and the drop to -11.8% of GDP occurred over a matter of weeks, not months. Nick Juhle and his research team have done a wonderful job of providing weekly updates for clients of Greenleaf Trust, which are rich with data points on employment, consumer confidence, consumer activity, equity and fixed

Commentary, continued

income market conditions and global as well as domestic COVID 19 Data. The current decline, by any other comparison, has been severe and immediate. Currently 13.3% of our labor force is without a job and the U-6 unemployment rate is nearly 19%. The answer to the question of where are we is clear.

Every American wants a return to where we were. Those that complained in 2019 that three percent GDP growth was anemic would love to get back to that condition, so the really important next question is "How do we get back there?" I have previously mentioned that those hoping for a sharp and quick return will be disappointed. There are real tangible impediments to doing so, and we want to call attention to those challenges.

"During the Great Recession… the Federal Reserve and Treasury Department spent nearly $2.35 trillion in a variety of stimulus programs. [This year] McKinsey & Co. published a report identifying nearly $10.2 trillion in current stimulus packages already authorized…"

Anyone who reads this column regularly knows that I described the continuing recovery from the last recession through 2019 as being dependent upon an employed consumer who was confident, spending and saving. Twelve years of increasing employment, three years (2016-2019) of increasing wages combined with low inflation resulted in incremental but consistent GDP growth. Today, it would be accurate to say the consumer is shaken by historic levels of job loss, digging into savings, and their confidence is at a twelve-year low and thus consumer spending is minimal. What will change this condition? As with any recession, job gains are essential, so let us zero in on the challenges to that essential need.

During the Great Recession as business investment disappeared, financial markets imploded, the liquidity crisis expanded and unemployment grew, the Federal Reserve and Treasury Department spent nearly $2.35 trillion in a variety of stimulus programs. On June 10th of this year McKinsey & Co. published a report identifying nearly $10.2 trillion in current stimulus packages already authorized by legislative action with more certain to come. In both cases, government was and is taking on the role of temporarily replacing employment, consumer spending and business investment. The estimate on current stimulus programs does not account for deferred tax deadlines for both consumers and businesses. No stimulus plan is ever perfect, and both administrations will be criticized for those imperfections; however, the essential ingredients of any plan are urgency, economic stabilization, consumer activity even in the face of unemployment, housing stabilization and demand growth that will fuel near-term job growth.

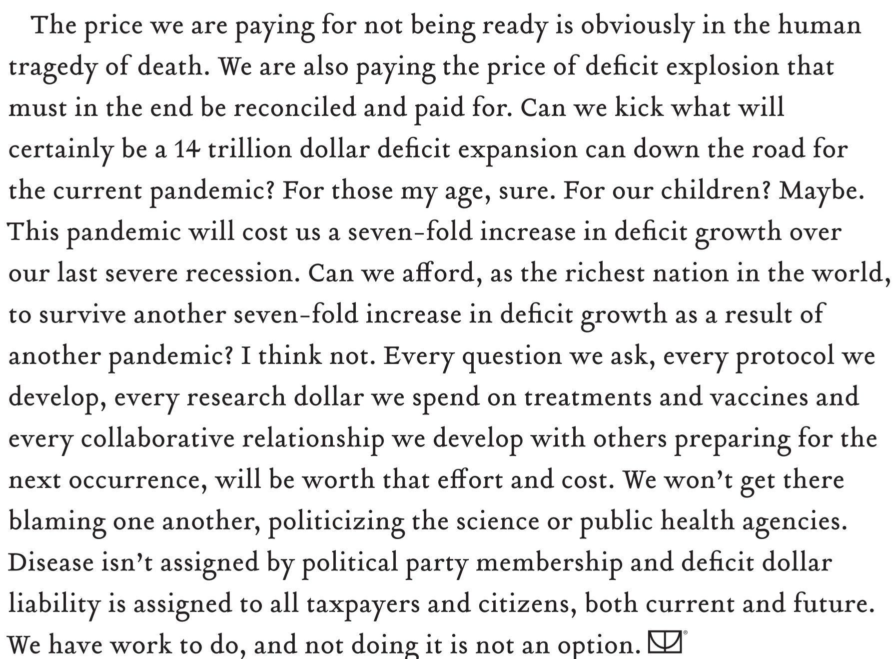
Of the nearly 155 million Americans in the workforce prior to March 1st of 2020, nearly 55 million were employed by "small businesses." The bandwidth of employees in this classification is pretty wide, and could range between 1–250 employees or 1–1500 employees depending upon

industry classification. It is important to know, however, that these classifications represent over 99% of our private enterprise workforce, and are critical to the future growth in employment and therefore growth in GDP.

While the attention has been focused on SBA stimulus packages aimed at the 55 million employed in small businesses, the yet to be talked about employment challenge is in the federal, state, municipal, K–higher education and nonprofit workforce. None of the current stimulus packages have been targeted to the huge state and municipal deficits that have been created, which have a direct impact upon public education and university budgets.

We are financing the current stimulus needs through the printing press of the Federal Reserve, and every other country during this pandemic has been doing it as well. We will continue to do this until the pandemic subsides and economic activity returns to a level of sustainability where organic growth, consumer activity and business investment can replace government intervention. Make no mistake, however, about the price being paid for the cost of changing the public health and economic condition we are in. This fifth pandemic in the last century that we are currently in will be the most costly ever and it will not be the last. While doing all that we can do to return our public health and our economy to an acceptable level of normalcy, we will miss the most important question if we don't ask how we can and must be better and more ready the next time.

"We have work to do, and not doing it is not an option."



The price we are paying for not being ready is obviously in the human tragedy of death. We are also paying the price of deficit explosion that must in the end be reconciled and paid for. Can we kick what will certainly be a 14 trillion dollar deficit expansion can down the road for the current pandemic? For those my age, sure. For our children? Maybe. This pandemic will cost us a seven-fold increase in deficit growth over our last severe recession. Can we afford, as the richest nation in the world, to survive another seven-fold increase in deficit growth as a result of another pandemic? I think not. Every question we ask, every protocol we develop, every research dollar we spend on treatments and vaccines and every collaborative relationship we develop with others preparing for the next occurrence, will be worth that effort and cost. We won't get there blaming one another, politicizing the science or public health agencies. Disease isn't assigned by political party membership and deficit dollar liability is assigned to all taxpayers and citizens, both current and future. We have work to do, and not doing it is not an option.

Michael F. Odar, CFA®
President

Diversity and Inclusion at Greenleaf Trust

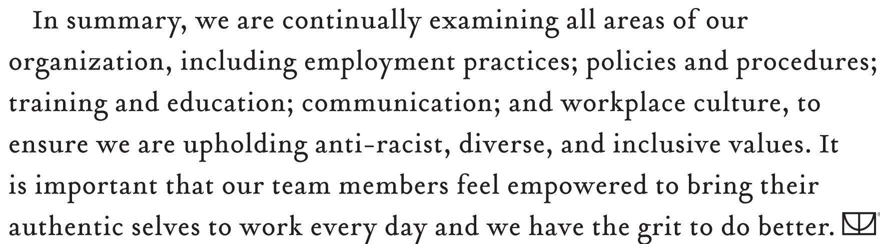
As you have heard from our founder and Chairman, William D. Johnston, making progress on elimination of institutional racism is indeed hard work and Greenleaf Trust in values, mission and deed is committed to that essential progress. There cannot be any distance between the values we express and our actions as a collective company. We acknowledge that our work is not done nor will it ever be. That said, I think it's important for you to know how we are taking action to change the situation for the better in our anti-racism journey.

We could not be prouder that the Greenleaf Trust Scholarship at the Haworth College of Business at Western Michigan University turned twenty-one years old this year. Our founder and chairman started the scholarship after becoming discouraged to find there was a lack of representation from minority students graduating from Western Michigan University with a degree in finance. We are pleased that our scholarship program has supported 79 scholars since its inception. We now have twelve students of color per year enrolled in the scholarship program resulting in three internships per year at Greenleaf Trust. With our continued growth, we are committed to annually offering employment to at least one scholar that results in employment at Greenleaf Trust.

Our Diversity and Inclusion Team formally began its work two years ago as part of our long-term strategic plan. Their vision of actively working to become an anti-racist organization that fully supports diversity and inclusivity at all levels is shared by all of Greenleaf Trust. Their mission is to cultivate a culture of diversity and inclusivity through hiring, awareness, education, and training opportunities for our team members, clients and communities. As part of our efforts, all Greenleaf team members are being offered fully funded training through Eliminating Racism & Creating/Celebrating Equity (ERACCE), a non-profit organization founded in 2000 to eliminate structural racism and create a network of equitable Antiracist institutions and communities. Greenleaf Trust started our training with ERACCE in 2018, with the highest levels of leadership at Greenleaf Trust attending in 2019. Our learning and development continues with robust introspective leadership team discussions guided by the Diversity and Inclusion Team through books including *White Fragility* by Robin DiAngelo and *How to be an Antiracist* by Ibram X. Kendi.

Our journey as a company to assure that we have a diverse workforce

is a commitment by ownership, our Board of Directors, our leadership team, and our team members. Currently our teammates of color represents 13% of our workforce. Our efforts to do better include partnering with the National Black MBA Association (NBMBAA) and other diversity focused organizations to post positions and network for candidates. Our team is also working purposely to present a diverse candidate pool for each open position and reviewing our job descriptions/postings for unintended bias.



In summary, we are continually examining all areas of our organization, including employment practices; policies and procedures; training and education; communication; and workplace culture, to ensure we are upholding anti-racist, diverse, and inclusive values. It is important that our team members feel empowered to bring their authentic selves to work every day and we have the grit to do better.

"...we are continually examining all areas of our organization, ... to ensure we are upholding anti-racist, diverse, and inclusive values."

Nicholas A. Juhle, CFA®
Senior Vice President
Director of Research

Interesting Times

When we hosted 2020 outlook seminars in early January, the now-ubiquitous coronavirus didn't even make the "other risks" section of the presentation. Instead, we discussed a late-cycle, though firmly-footed economy and a year likely to be shaped by things like the presidential election, US/China trade, and monetary and fiscal policy moves. When we delivered our final seminar in early February, the message was largely the same. We noted COVID-19 as a potential source of uncertainty, but neither we, nor our audience was particularly concerned.

My family spent the first few days of March at Disney World, making good on a promise to our five-year-old daughter Claire who had visited once before, but was too young to remember much. At the time, things were beginning to intensify, but we were still in the "wash your hands more" phase as opposed to the "six foot radius with a mask" phase. Looking back, we may have experienced one of the last "normal" trips to Disney World – sort of like experiencing airports before 9/11. I can imagine someday telling our two-year-old daughter Paige about how different it used to be.

"Looking back, it is remarkable how much has happened, how much has changed, and frankly how much has not changed over the last six months."

I was in the office on March 10. We hosted our monthly all-staff meeting (more than 100 of us) in a single large conference room without hesitation. Our executive leadership team began meeting daily to prepare in case things got worse, which they quickly did. The meetings started in person, shoulder-to-shoulder around a boardroom table before transitioning to every other chair before going completely virtual over the course of a week. On Monday, March 16, we hosted an oversubscribed conference call with more than 250 of our clients and partners to share our perspective on the coronavirus and its implications for the economy and the markets. Our January seminars were a distant memory. When the conference call concluded, I collected my things and left the office. I haven't been back since.

I realize my experience isn't particularly unique. I know I'm not the only person who isn't exactly sure where all of April and most of May went. I'm sure I'm not the only dad who, on a Saturday afternoon in late May, sat with his eight-year old son watching anxiously as a private company successfully put two Americans into space. I related to him the historical significance of this achievement for our country. One day later, I explained the depth of our nation's shortcomings to that same eight-year-old as civil unrest reached a boiling point.

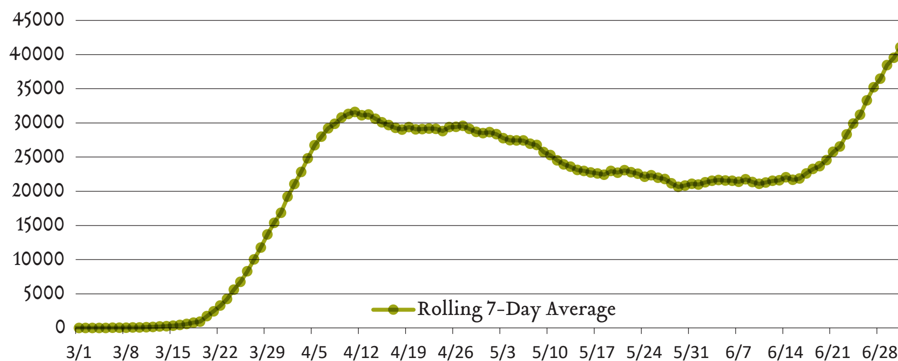
Looking back, it is remarkable how much has happened, how much has changed, and frankly how much has not changed over the last six months. This is not the 2020 we were expecting, but here we are. Below, we offer

our updated thoughts on the current state of the economy and markets and perspective on what the rest of the year may hold.

Disease in the Driver's Seat

Social distancing measures enabled the healthcare system to manage the virus caseload, but took a heavy toll on the economy. The ultimate cure for the health-turned-economic crisis will be medical in nature. While we continue to work toward a medical solution, the economy is beginning to reopen, social distancing measures are being relaxed and large civil rights demonstrations have been occurring around the country. Where we had previously observed progress evidenced by slowing new COVID case confirmations, we are now seeing a reacceleration beyond peak levels experienced in early April. Health experts say that the resurgence in cases in Southern and Western states can be traced to Memorial Day, when many officials began loosening lockdowns and reopening businesses.

US Daily Case Confirmations



Fortunately, there are a handful of promising vaccine candidates in the works. Time to market is estimated at 6-18 months (from earlier this year), which means a vaccine could be available later this year or early in 2021… *could* be available. That scenario still leaves 6-12 months of working to keep a deadly disease in check and an ailing economy open.

"Social distancing measures enabled the healthcare system to manage the virus caseload, but took a heavy toll on the economy. The ultimate cure for the health-turned-economic crisis will be medical in nature."

A Pivotal Point for the Economy

GDP growth is traditionally expressed each quarter as a "seasonally adjusted, annualized rate" (SAAR). In the first quarter, real GDP declined at a SAAR of 5.0%, which means if first quarter GDP levels persisted for an entire year, they would be 5% lower than the year prior. Economists expect second quarter GDP to decline 37% on the same basis. Clearly, this reflects the extent of shutdowns and restrictions present during April and May in particular. From these levels, a return to economic growth is virtually guaranteed in the third quarter (economists forecast 20%), but the real test will come in the quarters that follow. Economists predict mid-to-low

Interesting Times, continued

single-digit GDP growth rates throughout 2021, but achieving normalized growth next year is arguably a higher bar than achieving outsized growth in the second half of this year. Our forward experience with the virus, and to a lesser extent fiscal and monetary response from policymakers, will heavily influence the near-term path of the economy.

Jobs Returning, But Many Remain on the Sidelines

Most of the metrics we monitor suggest that the US economy began to rebound in May after bottoming in April, but there is a long way to go and significant risks lie ahead. Unemployment declined from 14.7% in April to 13.3% in May as we appear to be working through the low-hanging fruit. Job gains in May were concentrated in cyclical areas like leisure and hospitality, construction, retail trade, and manufacturing. Starting from an abysmal base amid stay-at-home orders and strict social distancing regulations, it makes sense that some of these jobs bounced back as soon as businesses reopened in any capacity. While job gains could continue in each of these sectors in the short term, each has its own structural issues that could impede recovery in the intermediate-to-longer term.

"Economists estimate that we will end the year with 9%–10% unemployment. This implies creation of 6–7 million jobs or about 1 million jobs per month."

Economists estimate that we will end the year with 9%-10% unemployment. This implies creation of 6-7 million jobs or about 1 million jobs per month. Unfortunately, what would be an unprecedented level of payroll additions only brings the labor market back to peak levels experienced during the 2008 financial crisis, leaving a gap of six percentage points in unemployment or about 10 million jobs. After the initial record-setting level of job creation, it will likely take years to restore the balance that remains.

Fiscal and Monetary Stimulus Supporting Americans and Markets

The US government has committed nearly $3 trillion in coronavirus relief spending to date. Another $3 trillion relief package (HEROS Act) recently passed in the House, but is unlikely to pass the Senate in its current form. Fiscal stimulus has temporarily plugged a large hole in the economy and enabled many Americans to keep food on the table despite depression-era levels of unemployment. The combination of lower tax receipts and higher spending is driving Federal deficit and debt projections to record highs. The Congressional Budget Office (CBO) projects a $3.7 trillion budget deficit in 2020. Fiscal deficits are bridged by debt and financed by the Federal Reserve through its unlimited quantitative easing pledge – many assume that we have financed stimulus spending by borrowing from other countries, which is not the case. Our national debt increased from $22.7 trillion in 2019 to 25.7 trillion today, however, the CBO projects net interest outlays to fall in FY 2020 compared with 2019

because of lower interest rates.

In addition to financing fiscal stimulus, the Fed has supported financial markets by ensuring liquidity across virtually all credit markets, pledging nearly $2 trillion of balance sheet capacity. Interestingly, the commitment itself appears to have done the trick by instilling confidence as the Fed has only deployed about $130B (6%) of asset purchasing programs announced, leaving a lot of dry powder to deploy if needed.

Record-setting Drawdown and Recovery in US Stocks

Over the last twelve months, the S&P 500 is up 7.5%. Year-to-date, the S&P 500 is down 3.1%. Domestic stocks peaked on February 19 before falling some 35% to a March 23 bottom, before recovering 39% to today's levels. We did not call the top or the bottom — if you know someone who did, I would love to meet them. Instead, we encouraged our clients to stay disciplined and our advisors to diligently rebalance accounts on the way down and on the way back up. Maintaining the appropriate level of risk in portfolios based on long-term goals and each client's unique financial situation ensures that they are not overexposed during a decline or underexposed when stocks move higher.

S&P 500 Price Trailing Twelve Months

Looking back, it certainly wasn't obvious that stocks would have recovered to the extent they have since March 23. Looking forward, what confidence can be placed in predictions one way or the other in the next six months? Stocks could move higher or lower in the second half of 2020. It is not hard to make the case for either. There is arguably more short-term risk at today's levels than there was in late March, but, in our view, no more than should be managed with proper long-term asset allocation and discipline.

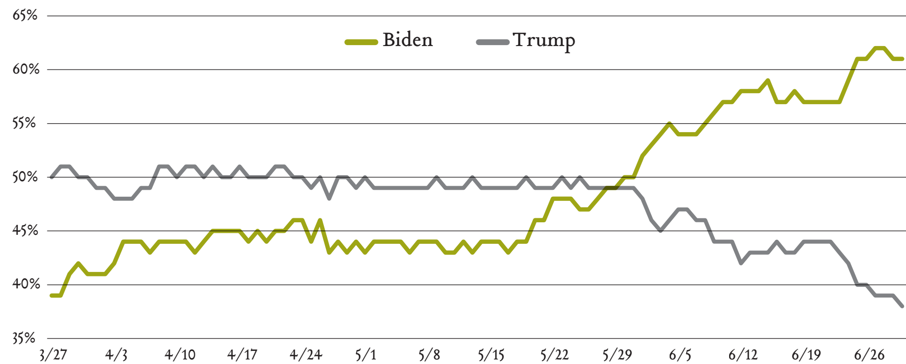
"Looking back, it certainly wasn't obvious that stocks would have recovered to the extent they have since March 23. Looking forward, what confidence can be placed in predictions one way or the other in the next six months?"

Interesting Times, continued

Don't Forget, It's Also an Election Year

With everything else going on, only recently has the presidential election come back into the spotlight. In November 2019, we wrote an article exploring stock market performance in election years and over presidential terms based on party in power. We concluded that while policy absolutely matters, neither presidential elections, nor the party affiliation of the president was a reliable predictor of stock market returns. We recommended our clients vote with their ballots instead of their portfolios.

PredictIt Market Odds — Presidential Election 2020



Data from PredictIt – an odds maker that allows people to bet on election results – shows that democratic nominee Joe Biden has recently taken the lead from President Donald Trump as the November favorite. A recent survey by CNBC indicates that Biden is currently leading the President on a number of key issues with the economy a glaring exception. This suggests that markets might temporarily reward a Trump re-election, or penalize a Biden victory, but we expect either reaction to be short-lived and acknowledge that a lot can change between now and November.

> "These are interesting times… I hope our clients and friends are staying healthy, navigating these circumstances effectively, and asking for help when needed."

Conclusion

These are interesting times. As human beings, and as Americans, we are facing a number of challenges in 2020. On a personal level, I hope our clients and friends are staying healthy, navigating these circumstances effectively, and asking for help when needed. Regarding your investments, the short term can be exceedingly unpredictable, but over the long term, we know to expect bumps along the way. Do not lose sight of the fact that your financial plan, and the investment portfolio supporting that plan, were developed with a long-term lens. This too shall pass. Please stay safe and contact any member of our team if you have questions.

Establishing a Donor Advised Fund

George F. Bearup, J.D.
Senior Trust Advisor

A donor advised fund is, in effect, a charitable savings account. A donor advised fund permits an individual donor to make a donation without choosing a specific charity at the time the gift. The transfer of cash or assets to the donor advised fund sponsor permits the donor to claim an immediate income tax charitable deduction.

Donor advised funds are increasingly popular as a form of charitable giving. The number of donor advised funds increased by 64% from 2017 to 2018. The amount of assets held in donor advised funds across the nation increased from $110 billion to $121 billion from 2017 to 2018. Gifts from donor advised funds exceeded 12% of all charitable giving in 2018.

Donor advised funds are popular for several reasons. A donor advised fund is both easy and inexpensive to open and manage. Charitable gifts from the fund can be anonymous. The fund can accept non-cash gifts like securities, partnership interests and other assets that a smaller charity might be unwilling to accept. Family values can be perpetuated with younger family members participating in the selection of charities to receive distributions from the fund, even after the individual who established the fund dies. In addition, the donor's record-keeping is greatly simplified with no need to retain receipts and letters from the charities to which grants from the fund are made.

With the doubling of a taxpayer's standard deduction with the 2017 Tax Act, a donor advised fund can receive a large transfer of assets in one year that enables the donor to itemize her tax deductions and claim a charitable income tax deduction. Practically speaking, most Americans do not gain any benefit with a charitable income tax deduction in light of the doubled standard deduction. A large gift to a donor advised fund permits an individual donor to bunch a large charitable gift to a donor advised fund in one calendar year, claim an itemized charitable income tax deduction, and then use the donor advised fund to make charitable gifts in several following tax years when claiming the standard deduction on their income tax return.

"A donor advised fund is, in effect, a charitable savings account."

A donor advised fund (the fund) is simple to open. The donor makes an irrevocable gift to the fund's sponsoring charity. The donor receives an immediate charitable income tax deduction. The charity liquidates the contribution without any taxation. All growth in the fund's post-liquidation investments is tax-free. The charity holds the gift in a segregated account on its books. The donor holds "advisory capabilities" over the fund and requests that grants be made from that fund to

Donor Advised Fund, continued

charities of the donor's choice. The sponsoring charity holds what is called a variance power, rarely exercised, that gives it the authority to reject the donor's request. The variance power is critical to ensure the fund sponsor's independence, and from that, the donor's charitable income tax deduction. Normally the variance power is exercised if the proposed recipient of a grant is not an organization that is recognized as tax exempt by the IRS or if the proposed recipient has a mission that is contrary to that of the fund sponsor.

However, because there are so few rules that govern donor advised funds each sponsor's fund is different. Consequently, choosing where to establish a donor advised fund (the fund) requires a bit of study. Unfortunately, there is no central resource that evaluates donor advised fund sponsors. Several questions need to be asked of a fund sponsor before entering into a Donor Agreement. Those questions might include the following:

1. Can grants from the fund be made anonymously?
2. Can younger family members be named as successor advisors to the fund?
3. Is there a maximum duration that the fund can be maintained?
4. If there is a maximum fund duration, what happens to the remaining investments in the fund when that maximum duration is reached?
5. Is there a minimum grant (amount or number) required from the fund each year?
6. Is there a minimum amount required to establish and maintain the fund?
7. How frequent is the reporting from the sponsor to the donor about the fund?
8. What investment options are available for the fund?
9. What annual investment and management fees are charged to the fund?
10. Are there some types of assets that the fund sponsor will refuse to take as a contribution?
11. Can the donor use her own financial advisor to manage the investments?
12. Are restrictions permitted on when fund contributions will be liquidated?
13. Does the sponsor offer a socially responsible investment option?
14. Does the sponsor have expertise regarding charities and community needs?
15. Does the sponsor provide any additional services or guidance to the donor?

"Several questions need to be asked of a fund sponsor before entering into a Donor Agreement."

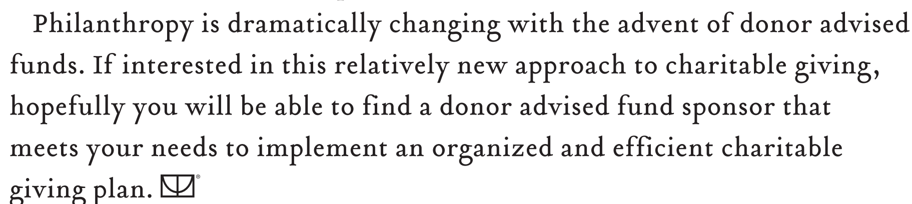
Ultimately, the choice of fund sponsor is one that the donor is comfortable with, either because of its flexibility, its fee, its locale, or its link to causes or missions close to the donor's.

While donor advised funds are rapidly gaining in popularity, they are not without their critics. Currently, there is no government regulation that requires the assets held in a fund to be distributed to a charity within a specified period. Arguably, the donor could contribute substantial assets to a fund, claim a current income tax charitable deduction, yet let the fund sit indefinitely, growing tax-free. While that is possible, most donors wish to see an impact from their gifts as soon as possible. Some in Congress now want to take a second-look at the "warehousing" of charitable dollars in donor advised funds, so there could be some regulations on the horizon that require annual grants of a certain size, e.g. 5% of the fund balance, each year.

It should also be noted that a donor advised fund is not a permissible charity if the donor wishes to make a qualified charitable distribution from her traditional IRA in satisfaction of her required minimum distribution (RMD) for a year.

Even when we experience wild market adjustments, as in March of this year, a donor advised fund acts as something of a buffer, where donors can continue to give to charities and make a difference in their communities even when their own personal investments have lost value. Anecdotally, donor advised funds have been a tremendous source of support to communities and to charities this past spring as the nation reeled from the COVID-19 pandemic.

Philanthropy is dramatically changing with the advent of donor advised funds. If interested in this relatively new approach to charitable giving, hopefully you will be able to find a donor advised fund sponsor that meets your needs to implement an organized and efficient charitable giving plan.



"... a donor advised fund acts as something of a buffer, where donors can continue to give to charities and make a difference in their communities even when their own personal investments have lost value."

Christina E. Sharp
Senior Relationship Specialist

New Department of Labor e-Disclosure Rules

Since 2002, plan sponsors have been able to electronically furnish plan information and notices in relation to qualified retirement plans; however, electronic distribution was only allowable if the employee gave consent to agree to receive electronic communications. Also, if an employer determined electronic distribution was allowable on the basis of all employees having access to e-communications or email during an integral part of their work day.

Recognizing the common use of the internet, the DOL has released new e-disclosure regulations which no longer require a participant to opt in to receiving e-delivery of retirement plan information and disclosures, nor does the employee have to interact with electronic communications as part of their job. Therefore, unless the recipient opts-out of e-delivery of retirement plan information, employers may begin to provide documents such as the annual participant fee disclosure, automatic enrollment notice and qualified default investment alternative electronically. The deadlines to provide notices or retirement plan information did not change.

"Recognizing the common use of the internet, the DOL has released new e-disclosure regulations which no longer require a participant to opt in to receiving e-delivery of retirement plan information..."

Prior to the first electronic delivery of retirement plan information, an initial paper mailing notification must be sent to participants, beneficiaries and alternate payees making them aware of the electronic distribution of retirement plan information. Recipients may opt-out of the electronic format and request a continuation of paper notices. This initial notification will state the email address(es) to be used and access instructions to where the document will be posted. Further, this initial notification will inform recipients of the one-year retention period of the document on the website, or in some cases longer, until the document is replaced. Additionally, there will be information on how the recipient may request a paper copy of the document free of charge, and how to stop e-disclosures and elect to receive all documents in paper format going forward. In the future, after implementing electronic delivery, this initial notice should be provided to all newly hired employees.

In the future, a Notice of Internet Availability will be sent alerting recipients that important information about their retirement plan is available for them to review. This Notice of Internet Availability will also contain the document name, a brief description and directions on how to access the website where the document is housed. As in the initial notice, directions will be provided on how to obtain a paper copy, stop e-delivery of plan information, how long the document will be available on the website and how to contact the plan administrator.

Over the coming months, Greenleaf Trust will be updating system programming and defining new processes prior to moving to delivering notices per the new e-disclosure rules. As with any new direction, decisions need to be made, data analyzed and processes defined prior to the rollout.

Supporting Your Community in Times of Crisis

Karen A. Bouche, CTFA
Executive Vice President
Family Office Advisor

You have your favorite charities and you know the areas of the community on which you wish to make an impact, but in times of crisis and emergency are you ready to pivot and provide support to those most affected by the crisis? Have you thought about whether or not you would want to pivot?

A well thought out philanthropic plan involves creating a process for giving during life, and after, to the areas that the grantor holds dear. However, there may be circumstances that even a well thought out plan doesn't address, namely emergency or crisis situations. When thinking about your philanthropic plans, you may want to consider addressing these times and, if you want to be responsive to emergency needs, become as prepared as possible to allow for collaboration, promptness, and flexibility.

Collaboration sounds so easy on paper. It's a way to bring those with varying skills and perspectives around the same table to tackle a common goal. Of course, this is much easier to do when not in crisis mode. The more connected you are in your community before urgency strikes the easier and more effective this will be. If you're newer to your community, or to community work, reach out to others who are not new. Look to your local community foundation, corporate and/or family foundations based in your area, local non-profit organizations, or other private philanthropists who you may know. Ask these other groups questions to find out what work has already been done in the community to create networks and, if you're fortunate, if your community has a crisis funding plan already in place. As I mentioned, creating true relationships with others doing community work is easier when not in crisis mode. It is

Supporting Your Community in Times of Crisis, continued

incredibly helpful, even when your missions and desired impacts are different, to talk openly and regularly with others about how you're each going about your work in support of non-profits in your community. Meet regularly with the partners that you have or are considering funding to hear about the realities of their work, their successes and challenges, and the needs that they have as they strive to fulfill their mission and vision. Helping to connect the dots, one at a time, over time is much preferred over needing to do so at a time of urgency. If you're involved in community work in any way start now by getting to know the other people in your community who are also involved. Collaboration and connections will help all of us improve and more importantly will be our support system as we face challenges.

Promptness is also required during times of crisis. Individuals and families with urgent needs for food, shelter, or other essential supplies in response to an emergency situation cannot wait weeks and months for proposals to be written, reviewed, evaluated, and eventually decided upon. Unfortunately, we have had many recent opportunities to provide examples of these situations. With these scenarios in mind, now may be an opportune time to convene and think about what is happening in your community and how you could rewrite your processes to allow for more promptness in funding to the non-profits in your community who are on the front-lines doing important work for our community members.

> "One additional requirement during times of crisis is flexibility. Things will not go according to plan..."

Specific questions you may want to plan for are:

1. How will the decision makers convene to discuss funding of urgent needs and how should others proceed if not all are available?;
2. What is the minimum required information that must be collected in order to make a decision?;
3. Who will take the lead on setting the meetings and collecting and sharing information?;
4. Do you have collaborative partners that you want to consult with on this type of funding?; and
5. How much money could be readily available during a time of crisis?

As you ponder these questions, and likely others, it should help you develop a plan to act quickly when your community members need you the most.

One additional requirement during times of crisis is flexibility. Things will not go according to plan, because you cannot possibly plan for all the "what-ifs" that might occur. What is important is to remain flexible and to have the general process and team decided upon so they can spring into action when needed. It may be necessary to hold weekly calls to keep all involved parties up to date. The typical processes and procedures that you may be used to will likely look different. You may not have the

same level of detail or information as you do for traditional, responsive grant-making or giving. There is a level of trust and flexibility required at these times and allowing the non-profit partners to do their important work, during a time of increased need and stress, as opposed to writing proposals and providing proof and evidence will be crucial.

No one wants to go through a time of crisis, but we know emergency situations will continue to happen. If funders can take the time to plan for how they would like to respond to the community needs more collaboratively, more prompy and with more flexibility, the individuals and families in our communities will be better served.

Disciplined Investing in Distressing Times

Steve P. Phillips, CFP®
Senior Wealth Management Advisor

What a change three months can bring. Back in April, Greenleaf Trust released a special Perspectives newsletter edition to address the rising concerns around COVID-19 and its impact on the economy and markets. At that time, domestic equity markets (as measured by the S&P 500) had experienced a 34% decline from market peaks on February 19 through the market trough on March 23. Investors, including our clients, were left shaking their heads at how their equity portfolios could lose so much value so quickly. After all, it took the 2008 financial crisis nearly twice as long to reach such a steep decline.

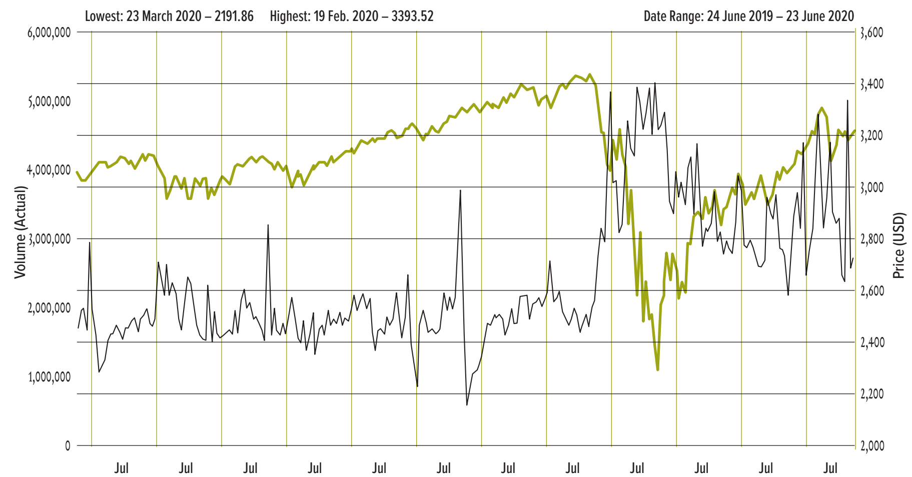
Within that edition was an article penned by Greenleaf's Chief Client Officer, Dan Rinzema, entitled "Wealth Management is Crisis Management." This article, which can be found on Greenleaf Trust's website for reference, discussed some of the strategies we were employing on our clients' behalf to add value during the recent downturn. This included items such as rebalancing, tax loss harvesting, potential Roth conversions, and the chance to refinance outstanding mortgages at record low interest rates. One of the most impactful strategies outlined happened to also be the simplest, though perhaps the most difficult to perform: staying calm and disciplined through the market volatility while focusing on long-term wealth creation and growth.

Since that time, markets have rebounded at a surprisingly fast rate. As

Disciplined Investing in Distressing Times, continued

of the writing of this article, the S&P 500 is trading around 3,131. This marks an approximate return of 40% since late-March lows. Interestingly, this also brings domestic markets close to where we began 2020 and in positive territory from one year ago. It should be noted that while the S&P 500 has had a strong recovery, medium and small size companies in the US and international markets have trailed domestic large caps substantially for the year.

S&P 500 Trailing Twelve Months



Source: FactSet

“Rather than the concern about how long it will take for markets to recover, [we are hearing] concern that markets have recovered too quickly, and when will the next crash hit?”

Ironically, it is now the exact opposite question we are receiving from clients. Rather than the concern about how long it will take for markets to recover, it is concern that markets have recovered too quickly, and when will the next crash hit? All of this leads back to the importance of disciplined investing. While there were risks to the economy in late 2019 as the US continued to get further along in the business cycle, there were very few economists, if any, who were forecasting a global pandemic caused by a novel virus which would send the globe into a recession within several months. Similarly, given how stark the situation looked at the end of March, with massive amounts of the economy shut down and no viable medical solution to the virus, few economists were predicting we would have such a quick recovery in US equity markets. And herein lies the problem: if the experts who spend their entire lives studying markets and economics can’t tell when major volatility is going to affect markets, who would be able to do so successfully?

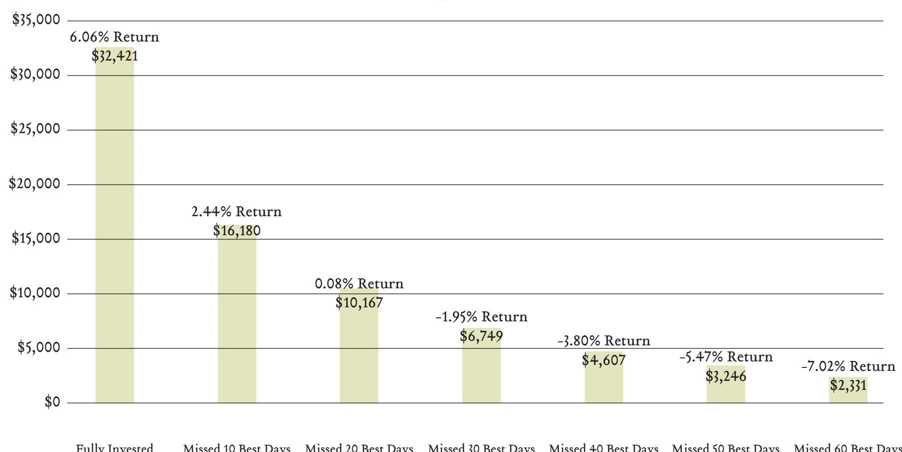
Part of our role at Greenleaf Trust is to be a financial coach to our clients. Countless times we have had conversations with clients who want to go to cash, or conversely hold on to cash, rather than be fully invested in markets. This is a normal and understandable emotional

reaction. Who wants to risk decades of hard work to potentially sacrifice retirement, philanthropic, or generational wealth transfer goals? While these are legitimate fears, it is our task to a) establish an appropriate asset allocation for each client on the front-end and adjust that allocation over time for life changes, and b) help walk our clients through the distressing times of extreme market volatility, while capitalizing on value-add opportunities during those times.

As we have mentioned in previous articles, the data strongly suggests that successfully timing markets is an almost impossible task. As the adage goes, you have to be right twice, both in terms of when to sell out of markets and when to buy back in. The below chart shows the extreme dangers to long-term wealth creation that this type of market adventurism can entail. The chart illustrates the returns on $10,000 invested in the S&P 500 over the past 20 years. As you can see, remaining fully invested earned returns in excess of 6%. The second example shows how the same portfolio would have been impacted if you missed the 10 best days in the market over that time span. The portfolio would have been more than halved in value, with a return of only 2.44%. To keep this in perspective, there have been 7,305 calendar days in the past 20 years, with markets being open for roughly 5,060 of those days. It only took missing 10 of the best days during those 5,060 trading days to decrease the ending value of the portfolio by more than 50%. This issue compounds itself even further when you factor in that a large percentage of the best trading days directly follow some of the worst trading days in markets, when investors would presumably be the most worried and the most ready to move to cash.

“...data strongly suggests that successfully timing markets is an almost impossible task.”

Impact of Being Out of the Market



Source: J.P. Morgan

It is also important to remember that while news commentators constantly talk about equity returns, the average investor has a diversified

Disciplined Investing in Distressing Times, continued

"...remaining disciplined reduces costly mistakes... and creates the greatest opportunity for long-term wealth accumulation."

portfolio consisting of non-correlated assets, such as fixed income, alternatives, or cash. At Greenleaf Trust, we spend a great deal of time at the beginning of the relationship getting to know our clients intimately. This includes learning about their goals and desires for their wealth, their income and associated spending habits, and every other detail that is important to a client's overall financial picture. It is armed with this information that an appropriate asset allocation is agreed upon at the beginning of the relationship, which ideally weds a client's ability to take on risk with their personal risk tolerance. These portfolios are established with a long time horizon in mind, knowing there will be times of great expansion and times of recession within the economy.

We know the past few months have been a tumultuous time for our country. A global pandemic, volatility in equity markets, numerous demonstrations protesting injustices against minority communities, and large portions of the economy shut down. It is normal to feel fear during these times. But it is our job to remind all our clients on a regular basis that remaining disciplined reduces costly mistakes that can cause irreparable financial harm, and creates the greatest opportunity for long-term wealth accumulation. That advice stands today as much as it did three months ago.

IRA Spouse Beneficiaries and the New Law

Carlene R. Korchak, CTFA
Vice President,
Senior Trust Relationship Officer

While IRAs are common, flexible vehicles for retirement savings and great planning tools, the beneficiary distribution rules are complicated, and became even more so with the passage of the SECURE Act in December. IRAs often represent a significant portion of a person's investment portfolio; naming the beneficiary or beneficiaries is an important decision and worthy of review now that this new law is in effect.

Working with clients over many years, I have found that the most common IRA beneficiary designation is to name the spouse when the account owner is married. Surviving spouses are given some special options under the IRS rules that provide more flexibility than what other beneficiaries receive. When it makes sense to name a spouse, this is also the most tax efficient manner to pass on assets from a Traditional IRA where distributions are required to be made at some point, and are taxed as ordinary income.

One of the major changes under the SECURE Act was to change the rule allowing most beneficiaries to "stretch" inherited IRA distributions over the life expectancy of the beneficiary. Under the new rules, if the account owner dies in 2020 or after, most beneficiaries are now required to deplete the inherited IRA within 10 years of the year in which the account owner dies. There are a few exceptions to this, including surviving spouses, where distributions can still be spread over the life expectancy of the spouse beneficiary, thereby spreading out the tax payments. For determining the surviving spouse's required minimum distribution, the survivor can still use the IRS calculation table that is based the survivor's age and someone 10 years younger, reducing the taxable amount the surviving spouse must take each year.

> "... the most common IRA beneficiary designation is to name the spouse when the account owner is married."

A surviving spouse beneficiary has the option to treat all or a portion of their deceased spouse's IRA as their own, or to take it as an inherited IRA as other beneficiaries are required to do. By taking the IRA as his or her own, the surviving spouse can name his or her own beneficiaries. If that is a concern for the account owner, there are other options to consider and weigh against implementation costs and tax considerations, as described later.

If the surviving spouse beneficiary is over the age of 72, which is the new required beginning date for Traditional IRA distributions under the SECURE Act, it often makes sense to take the deceased spouse's IRA as the surviving spouse's own IRA. This can simplify required distributions by combining the deceased spouse's IRA with the surviving spouse's own IRA

IRA Spouse Beneficiaries and the New Law, continued

in to one account, with one minimum distribution calculation each year. The penalty for failure to take at least the minimum required amount is 50% of the amount that should have been taken, so keeping things simple can help prevent costly errors. Also, by making the IRA the surviving spouse's own IRA, the IRA is treated as a new IRA owned by the survivor. Under Michigan law, the new IRA is protected from creditor claims of the surviving spouse. This is not the case with an inherited IRA, whether the surviving spouse or other individuals are named as beneficiaries.

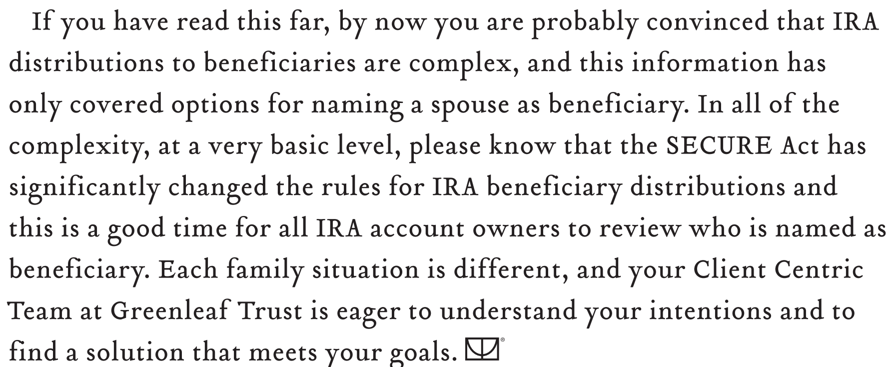
For surviving spouse beneficiaries who are younger and might need financial support from the IRA, it can make sense to take all or a portion of the deceased spouse's IRA as an inherited IRA. The surviving spouse has the flexibility to delay taking distributions until the year in which the deceased spouse would have turned age 72; this option to delay distributions is not allowed for non-spouse beneficiaries. If funds are needed for the surviving spouse's support, the normal 10% penalty for taking distributions prior to age 59½ does not apply in this situation. The surviving spouse beneficiary still has the option to spread distributions over his or her own life expectancy. The surviving spouse who elects the inherited IRA option also has the flexibility to choose to roll over the inherited IRA in to his or her own IRA at some future date, and to name his or her own beneficiaries when that is done. The timing of this decision can be important if distributions are being taken, since the 10% penalty will apply if distributions are taken from the surviving spouse's own IRA prior to age 59½.

> "Under the new rules, ...most beneficiaries are now required to deplete the inherited IRA within 10 years of the year in which the account owner dies."

For those account owners with concerns about allowing the surviving spouse to name his or her own beneficiaries, perhaps those in a second marriage with children from a first marriage, there is the option of naming a trust as beneficiary. This might involve some initial costs to assure the trust is designed as a "conduit" for the required minimum distributions to be distributed to the surviving spouse, and eventually to the remainder beneficiaries, to prevent unintended negative tax consequences. (Trusts have compressed marginal income tax brackets that often cause a trust to be taxed at a much higher rate than individuals.) If the trust named as beneficiary of the IRA is constructed properly, the surviving spouse is required to receive the required minimum distributions annually, calculated based on the surviving spouse's life expectancy, and taxed at the surviving spouse's tax rate. There will be creditor protection for the survivor, and some assets will likely remain for remainder beneficiaries (perhaps children of the first marriage) who are named by the IRA account owner who created the trust. If the trust is not constructed in this manner (called an "accumulation trust"), full depletion of the IRA will be required within 10 years of

the account owner's death, and will be taxed at the (usually) higher trust tax rates. For those account owners who have previously named a trust as beneficiary, it would be wise to review the terms of the trust to assure appropriate conduit provisions that meet the requirements of the SECURE Act are in effect.

Another option for IRA account owners who want to provide for the surviving spouse but who are also charitably inclined is to create a "charitable remainder trust" (CRT) and name it as the beneficiary of the IRA. The CRT is a split interest trust that can be designed to pay distributions for the lifetime of the surviving spouse, with the remaining balance to be distributed at the surviving spouse's death to charities named by the IRA account owner who created the CRT. The calculation of the CRT distributions to the surviving spouse is not done based on IRA minimum distribution rules, but rather is based on 10% of the initial value of the IRA balance that is earmarked for the charitable remainder interest. At the IRA account owner's death, the entire IRA balance is paid to the CRT. Since the IRS basically treats the CRT as a charity, this type of trust does not normally pay income taxes. While distributions to the surviving spouse beneficiary are taxable, those distributions are made over the beneficiary's lifetime, effectively "stretching" the distributions and spreading the tax payments over time.



If you have read this far, by now you are probably convinced that IRA distributions to beneficiaries are complex, and this information has only covered options for naming a spouse as beneficiary. In all of the complexity, at a very basic level, please know that the SECURE Act has significantly changed the rules for IRA beneficiary distributions and this is a good time for all IRA account owners to review who is named as beneficiary. Each family situation is different, and your Client Centric Team at Greenleaf Trust is eager to understand your intentions and to find a solution that meets your goals.

"at a very basic level, please know that the SECURE Act has significantly changed the rules for IRA beneficiary distributions and this is a good time for all IRA account owners to review who is named as beneficiary."

Stock Market Pulse

Index	6/30/2020	Total Return Since 12/31/2019
S&P 1500	703.52	-4.08%
Dow Jones Industrials	25,812.88	-8.43%
NASDAQ	10,058.77	12.74%
S&P 500	3,100.29	-3.09%
S&P 400	1,783.21	-12.78%
S&P 600	831.89	-17.86%
NYSE Composite	11,893.78	-13.34%
Dow Jones Utilities	767.50	-11.33%
Barclays Aggregate Bond	2,361.51	6.14%

P/E Multiples	6/30/2020
S&P 1500	21.9x
Dow Jones Industrials	19.2x
NASDAQ	41.2x
S&P 500	21.8x
S&P 400	20.4x
S&P 600	34.5x

Key Rates

Rate	
Fed Funds Rate	0.00% to 0.25%
Tbill 90 Days	0.12%
T Bond 30 Yr	1.41%
Prime Rate	3.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	703.52	21.9x	1.96%
S&P 500	3,100.29	21.8x	1.95%
Dow Jones Industrials	25,812.88	19.2x	2.54%
Dow Jones Utilities	767.50	18.8x	3.41%

Spread Between 30 Year Government Yields and Market Dividend Yields: -0.55%

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