GREENLEAF TRUST

Perspectives

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William D. Johnston
Chairman, Greenleaf Trust

Economic Commentary

Last week's news that first quarter revisions of GDP went from +0.10% to -1.0% was met without much fanfare, as most people in the financial sector believed the original estimate of up one-tenth of a percent was implying precision that didn't exist. This is an example where the Fed is better off suggesting a fairly tight range on estimates so that they remain out of the political theatre when revisions substantially different from the estimates are revealed. The revision to a negative number marks the first backward step in the economy in eleven quarters. As we have cautioned all along, a slow growth economy will produce uneven results, and for the past few years the first quarter of each calendar year has produced weak results. As we peel away the revision data we see no surprises. The GDP estimate was revised downward after accounting for inventory shrinkage, particularly in the automotive sector. The old auto industry produced vehicles to keep production humming whereas the new industry models its production to dealer activity in real time. Consumers couldn't get to car dealers in the first quarter due to weather, and it slowed the flow of inventory replacement as well as production. Housing numbers were lousy in the first quarter as well in almost every category where statistics are maintained. The "Polar Vortex" can be blamed for some of those results but two quarters in a row of declines could send a different message.

If there was any bright spot in the revisions it was the continued theme of the consumer and consumer spending. Absent of this consistent behavior, the results of GDP growth would be far different. Forward surveys suggest a return to business investment spending which makes a good deal of sense given the duration of time in which business investment has lagged. Earnings on revenue have indeed slowed and the benefits companies have harvested on leaner payrolls, consolidations within sectors and historically low interest rates are becoming less likely to earn growing profits from this point on. If indeed the lifecycle of business investment is on the upswing it will be solid news for forward quarters.

Labor data continues to be mixed. Hours worked were up slightly as were wages, though well below inflation. As we know, data revealing increasing hours and overtime generally precedes an uptick in hiring. Much has been

Economic Commentary, continued

said by pundits about labor force contraction and those leaving the workforce. Until we get better data on those who leave the workforce this number will be subject to political fodder. Has unemployment shrunk due to new jobs or has it shrunk because the labor force has shrunk? And if the labor force has contracted is it because, as some have suggested, people who are long-term unemployed have given up on employment, or is the contraction due to retirements? Household surveys don't give the results to these questions, and currently we don't have a data source that answers the question. What we do know is that there are over two million more people working than there were a year ago, and the number of help wanted ads has consistently increased and now stands at over 4.5 million. In some sectors we have seen the elimination of slack in the workforce and greater competition for labor. Some economists view the 6.5% unemployment level as the rate where slack begins to fade across the entire bandwidth of labor and a twenty-year historical regression analysis where we deduct a quarter and add a quarter of labor statistics validates somewhat the hypothesis. While wage pressure is benign, and increases have been under 1% on an annualized basis, the forward cycles will be interesting if more slack continues to be wrung out of the available labor supply.

"What we do know is that there are over two million more people working than there were a year ago, and the number of help wanted ads has consistently increased and now stands at over 4.5 million."

Nineteen states have now passed minimum wage increases. It is interesting to note that more than half of those states have legislative bodies that are controlled by Republicans and also have Republican Governors. We have a federalist form of government and often individual states end up taking actions that, for whatever reason, legislators at the national level can't get done. As we have laid out previously, both parties get the argument wrong on minimum wage. Democrats have cried out that it will raise people out of poverty while Republicans have warned that it arbitrarily forces businesses to lay off people and cause inflation. The reality is that it does neither. The population earning minimum wage compared to all hourly paid workers is less than 4%, and of those earning minimum wage half are either students working to go to school or retired workers supplementing their retirement incomes. Don't misinterpret my comments — any wage increase for those employed is welcomed by them — but it is neither inflationary on a national level nor will it do anything, on any order of magnitude, to lift people out of poverty. It is too early to tell but it seems that many states where Republicans have control are simply acting to take the issue off the table so that it is not a catalyst for voter turnout in mid-term elections. That was certainly the case in Michigan where Democrats were advancing a state referendum on increasing the minimum wage to the level that President Obama had laid out in his January State of the Union address. Republican legislators in the House and Senate knew where the polling was, and also knew the petition effort to get the referendum on the ballot would likely be successful. The issue, if on the ballot, could have been a catalyst for increased labor and Democratic base turnout — what better way to limit the catalytic event than by championing the issue and passing the legislation themselves? Even if the amount of the increase falls short of the Democrats desired number, the Republicans have successfully muted the issue.

Last month I introduced a book, *The Great Degeneration: How Institutions Decay and Economies Die,* that I suggested was an uncomfortable read as it raised provocative thoughts about the decay of institutions, most notably institutions of government and the resulting decay of societies. It is not to suggest that government decays first and thus follows a society but rather the mutual decay and how it is created. The book is authored by Niall Ferguson, the Laurence Tisch professor of History at Harvard, and serves as a catalyst for thought about our future. When we entered the Great Recession of 2008 we suggested that our recovery would be long and that the choices that developed economies globally would have to make certain to be very tough and impact not only the current but future generations. Politicians don't naturally warm to tough decisions and for the most part people in general don't warm up to sacrifice either in the short or longer term.

Professor Ferguson has a view of the partnership between generations. At some point, hopefully sooner rather than later or certainly before too late, we must have a national discussion on the partnership between generations. We have all heard some politician suggest that we are burdening the next generation with unimaginable debt. It is a big statement and really hard in that vernacular to get our arms and heads around what is meant by the warning. Ferguson suggests the following. The most obvious symptom of the malaise of poor government globally, is the huge debt that we have managed to accumulate in the last four decades. The statistics are staggering, and to save some time you can read them for yourself on pages 40 and 41 of his book. What is different is Ferguson's analysis of the cause of the debt. Most of the rhetoric of the public argument about long term debt obligations is focused on stimulus or austerity. This focus misses the root cause and, therefore, doesn't arrive at a permanent solution of, as Ferguson suggests, a more accountable approach to slowing the decay of society. It is not whether we raise taxes or reduce spending that matters but rather embracing the real phenomena that allows the current generation of voters/citizens to live at the expense of those not born and/or too

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young to vote. Additionally, what we think we know of government debt only accounts for sums owed to service and retire government bonds. The rapidly rising numbers of these bonds, argues Ferguson, places a greater and greater obligation on those employed, both now and in the future, to honor the obligations to pay both the principal and interest owed. The fact unknown, or perhaps ignored, by most of the current generation of employed is that the debt that we quantify does not include the unfunded liabilities of Medicare, Medicaid and Social Security. The net present value of all current as well as future unfunded liabilities is $200 trillion. Not included in this number is approximately $38 trillion of unfunded state and local government obligations to present and future retirees. What would it take to right the ship? If we speak only in terms of taxation and austerity, then an increase in Federal and State taxes of 64% or a reduction in benefits of 40%, or some combination of both, would create a current but not permanent fix. Why not permanent? Ferguson suggests that the Social Contract described by Edmund Burke in 1790 when reflecting on the revolution in France, requires a contract between the living, dead and those not yet born and that, further, the contract must include not only an obligation not to leave a ruin but rather a habitation and also the duty to educate those that come after to do the same. Burke, far more eloquent than I, makes a strong case for the contract as an important element of democracies and successful societies, and Ferguson makes a strong case that this fundamental contract has been broken and needs desperate repair and restoration, while also recognizing the solutions to doing so are daunting. Those too young to vote are too far removed from the issue, the young voters too far removed from their future consequences, and the mature citizen too selfish to fix the issue only they can fix. I warned it was an uncomfortable read but worth doing so. We will continue to explore more of Professor Ferguson's work in future issues.

A Community is What You Make of It

Michael F. Odar, CFA
President

As I get older, looking back and remembering becomes more of a common occurrence. I think age also provides the right lens because when I do look back I find myself stumbling on more than a few lessons learned. As I sat down to write this article with my title already in mind, I couldn't help but jump back to my college days and fraternity initiation week. Many lessons learned that week do not bear remembering or repeating, however there is one that seemed very appropriate as I thought about my topic.

We called the "ritual" Death of a Fraternity. It involved having our pledge class being dropped off to wander around an old home that had been converted into an insurance agency at the corner of Grand River and Hagadorn in East Lansing. At the time it did not make much sense why we were there. Afterwards we were told that the now commercial building had actually once been the home of a prominent fraternity on campus. Without work, care, and effort the apathetic members had let their home and fraternity fall into disrepair and eventually both were lost. The lesson may have been lost on six overconfident nineteen-year-olds at the time, however it made perfect sense years later when we learned that our own fraternity was no longer in existence at Michigan State University.

The same thing can happen in a community and history has more than a few examples. Without work, care, and effort, communities can also cease to exist. We believe this type of philanthropy creates vibrant communities, helps them grow, and is necessary for sustainability. Good corporate citizenship can mean different things to different people. To the Greenleaf team members, it means being an active participant and leader in the communities we live and work in. That's why over 40% of our team serves as a volunteer or as a board member for over 80 different non-profit organizations.

Our commitment to our communities is also aligned with our clients. And, our line of work provides us with a unique opportunity when it comes to investing in our communities. The philanthropic efforts of Greenleaf Trust team members help to amplify the philanthropic efforts of our clients. With a growing number of clients relying on Greenleaf's experience in the administration and management of endowment funds, foundation assets, and charitable trusts, that can really make a difference in a community. In addition to our professional experiences, our teams' diverse personal experiences in philanthropy can help provide clients with strategy development, best practice knowledge, networking, advocacy, and thought leadership.

Making a positive impact in your community can happen one person at a time. However, when coordinated as part of a team effort, the result is almost always more impactful.

"To the Greenleaf team members, [good corporate citizenship] means being an active participant and leader in the communities we live and work in."

Thomas I. Meyers, Esq., CTFA
Trust Relationship Officer

The Benefits of the Grantor Trust Rules – An Introduction

"The grantor trust rules are among the most favorable provisions in the Internal Revenue Code."

This article addresses the consequences and benefits of the grantor trust rules particularly as they relate to irrevocable trusts. At Greenleaf Trust, we review each trust document with the grantor trust rules in mind to ensure that we correctly identify whether a trust is a grantor trust for income tax purposes.

The grantor trust rules are among the most favorable provisions in the Internal Revenue Code. The term "grantor" for purposes of this article refers to any person who creates a trust and directly or indirectly makes a gift or gratuitous transfer to a trust. (Reg § 1.671-2T(e)). For example, most people have as part of their estate planning a revocable or living trust. These are considered grantor trusts.

Many people also have irrevocable trusts which are created to remove assets from their estates for estate tax purposes. Usually, an irrevocable trust is treated as a separate entity for federal income tax purposes. However, when certain criteria are met as specified in sections 671 to 677 of the Internal Revenue Code, the trust is disregarded as a separate taxable entity. (It is interesting to note that these provisions were not added to the Code to benefit taxpayers – they were intended to prevent individuals from shifting income to multiple taxpayers in lower tax brackets by gifting income producing property to separate trusts.)

These rules allow irrevocable trusts, such as Irrevocable Life Insurance Trusts, to be treated as grantor trusts. Thus, allowing the grantor the best of both worlds. The grantor can interact with the trust completely free of income tax consequences while still keeping the trust property out of the grantor's estate for estate tax purposes. The grantor may transact with the trust by buying and selling property, or borrowing and paying interest, all with no income tax consequences.

Internal Revenue Code § 678(a) provides that a person other than the grantor will be treated as the owner of a trust for income tax purposes if she has a power exercisable solely by herself to vest the income or principal of the trust to herself. It is the same result if the beneficiary has ever had and partially released such a power. This would seem to indicate that a beneficiary of an irrevocable trust who has the power to withdraw contributions to the trust, sometimes called Crummey powers, could be deemed to be the grantor of the trust for income tax purposes. However, Code § 678(b) provides that Code § 678(a) shall not apply with respect to a power over income if the grantor (or other donor) of the trust is otherwise treated as the owner under the other grantor trust provisions.

Many drafting attorneys and

trustees have struggled in the past as to the meaning and effect of these Code provisions as they relate to irrevocable trusts that contain withdrawal rights. In January 2006 the Internal Revenue Service issued Private Letter Ruling (PLR) 200603040 addressing several issues concerning grantor trusts. In part, the Service ruled that the trust was a grantor trust in its entirety with respect to the grantor regardless of the Crummey withdrawal powers held by a beneficiary. While this is only a PLR and does not have precedential value, it is important because it provides the Service's first interpretation regarding § 678(b). The conclusion is that, under §678(b), the grantor trust provisions of the Code take precedence over any other provision that would cause any other person to be treated as the owner of a trust. Thus, the only time a beneficiary would be treated as the owner of a trust is after the death of the grantor.

The primary consequence of an irrevocable trust being a grantor trust is that the grantor is treated as the owner for income tax purposes and the income, deductions and credits of the trust are reported on the grantor's personal tax return. Many people use these rules to allow the assets placed in irrevocable trusts to grow free from income tax consequences.

These transfers also raise a gift tax question. On one hand, the grantor pays the tax out of her own personal assets, which would be includible in her taxable estate at her death. On the other hand, the payment of the tax is not voluntary – the Code requires the grantor to report the income and pay the resulting tax. Payment of the tax is not gratuitous, but it is beneficial to the trust and depletes the grantor's taxable estate. The answer is found in Revenue Ruling 2004-64, in which the Internal Revenue Service ruled that the payment of taxes by the grantor of an irrevocable trust on income generated and retained by the trust will not be treated as a taxable gift.

The grantor trust rules provide valuable estate and tax planning opportunities for gift-tax-free wealth transfers, if properly structured. To make certain that your grantor trust planning is a success, we recommend that you consult with your estate planning counsel, your accountant and your team at Greenleaf Trust.

"The grantor trust rules provide valuable estate and tax planning opportunities for gift-tax-free wealth transfers..."

Christina E. Sharp
Retirement Plan
Client Services Specialist

Retirement Plan Q&A

What should I know about investments in my retirement plan?

Your retirement plan offers you an effective way to build retirement savings for your future. As you select your investments, you may wonder what determines the mutual funds offered in your plan. At times, why are the mutual funds in my Plan removed and replaced? What determines the number and type of investment offerings? To give you a greater understanding and awareness, let's address these questions.

What determines the mutual funds offered in my plan?

Greenleaf Trust adheres to a very disciplined due diligence process with regard to the selection and ongoing analysis of mutual funds recommended for your plan. For initial selection, our research analysts have established a three stage process which begins with a structural review of managers based on criteria not directly related to performance such as investment style, manager tenure and expense levels. Mutual funds which meet this defined structural criteria are candidates to go through the second step, which is a quantitative evaluation identifying managers that have demonstrated a compelling track record. In the third stage, remaining mutual fund managers undergo a qualitative review to assess credibility of historical performance (skill vs. luck) and confidence in the manager's ability to perform in the future.

How are mutual funds offered in my plan continually evaluated?

Once funds have been selected, our team of Research Analysts employs a highly-disciplined process of continually analyzing mutual funds. They have established primary criteria and metrics used for ongoing due diligence evaluation of mutual funds. For example, Greenleaf will not recommend funds to be added to your plan that pay commissions or any form of revenue sharing agreement, which means the funds recommended for your plan are based upon objective reasons. Another criterion is the expense ratio for the fund. In consideration of the impact of fees on your retirement savings, we favor mutual funds with expense ratios that are at or below the category average.

> "As you select your investments, you may wonder what determines the mutual funds offered in your plan."

Mutual funds are also continually measured to a metric called style. Style characteristics of the underlying portfolio should align with the desired investment category (e.g., small-cap growth). We look for consistency over time and alignment with prospectus. Another example of a metric measurement is fund manager tenure, which is the length of time a manager has been at the helm of a mutual fund. Manager tenure should be at least three years and preferably longer as we only consider the strategy's historical performance while the current manager was present. Further, investment options are measured by category rank for 12 month, 3 year and 5 year timeframes. The manager's historical performance relative to the appropriate peer group or category is evaluated, and then our database ranks all managers, scaled from 1-100 (best-worst) in the peer group based on the performance timeframe being measured.

Annually, Greenleaf provides a detailed report summarizing the evaluation of mutual funds and meets with your employer to review the monitoring of investment options offered within your retirement plan.

At times, why are the mutual funds in my plan removed and replaced?

There are several circumstances under which we would remove and replace a fund on your menu. Approved mutual funds are monitored continually by the research team with formal reviews conducted semiannually at a minimum. Certain circumstances such as a structural change to the fund's investment process, impairment of long-term performance, or even a more compelling fund in the marketplace would trigger an additional review by the research team to determine if the fund should be removed from the plan menu.

We provide you with a notice at least 30 days prior to the removal and replacement of a mutual fund, an explanation of why the mutual fund is being replaced, and an investment profile with information on the new mutual fund offering. Additionally, if you are presently investing in the fund being replaced, we will apply your contribution election percentage to the replacement fund.

What determines the number and type of investment offerings?

It is important that the menu of mutual funds offered in your plan is diversified to provide investment options within multiple asset classes. At a minimum your plan will offer:

- Three large company funds (growth, value and index funds)
- Three medium company funds (growth, value and index funds)
- Three small company funds (growth, value and index funds)
- One or more international funds
- Fixed income (bond) funds (short-term, intermediate term and index)
- Money market fund
- Target date funds and/or asset allocation funds

Spreading your assets across various types of funds can help you achieve a favorable return, while minimizing your overall risk of losing money. Studies have shown that too many investment offerings in a plan may lead to confusion, participant inertia and improper allocation across asset classes.

As you can see, Greenleaf Trust follows a disciplined approach to monitor mutual funds within your plan, recommends investment offering when specific criteria is not met, and offers a fund menu for your plan that provides diversification. If you have any questions or need assistance with your investment strategy, please contact the Greenleaf Trust Participant Call Center at 269-553-8400.

"...Greenleaf Trust follows a disciplined approach to monitor mutual funds within your plan, recommends investment offering when specific criteria is not met, and offers a fund menu for your plan that provides diversification."

Dave P. Mange, CFA
Vice President
Senior Research Analyst

Everyone Knows Oil Prices Will Fall (So Why are They Rising?)

It is hornet's nest season once again at my house — in the sense of the flying, stinging insects building nests under my eaves, not the metaphorical stirring of contentious issues. Today's topic of energy consumption and production might be considered stirring a hornets nest of political issues, but I will approach the topic from as unbiased a perspective as I can. I have used information provided by the U.S. Energy Administration. It is always wise to question the sources of information, and I believe that I am appropriately skeptical of government data, from any country. Yet the U.S. EIA does a very good job of providing historical data and the projections provided here are at least in theory the official U.S. government position. You can peruse hundreds of pages of data and charts for yourself at www.eia.gov if you are so inclined.

As the Greenleaf Trust research team evaluates holdings in the energy sector, we find that a common valuation tool for oil and gas producing companies is the so called PV-10 evaluation of proven, probable and potential reserves. This is also frequently called 3-P analysis. You can find this analysis in the 10-K statement of these companies, as filed with the SEC. While no single tool is perfect, even a cursory analysis of these PV-10 calculations shows that the future value of oil and gas reserves is highly variable depending on future price assumptions.

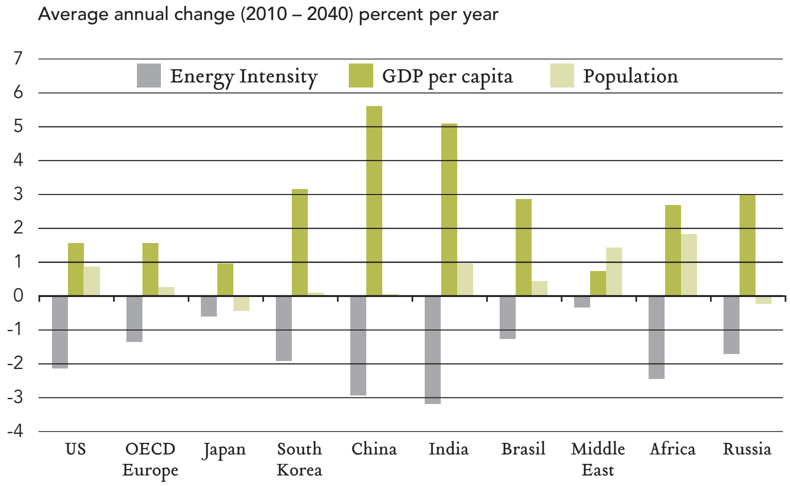
"Today's topic of energy consumption and production might be considered stirring a hornets nest of political issues, but I will approach the topic from as unbiased a perspective as I can."

Using West Texas Intermediate Crude (WTI) as a proxy for global oil prices, we find that the futures curve suggests a long term (5–8 years) oil price decline. The same pattern holds for North Sea or Brent futures. Yet most observers, and the same futures market curve, predicted lower oil prices by now, and the average WTI price has spent as many days over $100 per barrel as it has under that mark so far this year.

Calling future price movements in any commodity, let alone one with the proven volatility of oil prices, can be a humbling experience. Our approach to investing in the energy sector involves seeking relative advantage between companies more than it does taking a view on commodity price movements. But the U.S. Energy Administration has done a good job in highlighting the interplay of two contradictory forces in shaping global energy demand.

Gains in energy efficiency mean that most individuals in the developed world can use less energy to accomplish the same tasks. A simple example that likely resonates with most of us is the improvement in automotive fuel efficiency. In 2013, the Christian Science Monitor, citing the University of Michigan's Transportation Research Institute, noted that U.S. sales-weighted fleet efficiency reached an all-time high of 24.6 miles per gallon, up 4.5 miles per gallon from the 2007 sales year. From automotive efficiency to better light bulbs in our kitchens and living rooms, this is the "energy intensity" component of the chart which follows. The forecast for increased energy consumption is driven by an increase in the standard of living in the so-called "BRIC" nations (Brazil, Russia, India and China), plus some population growth.

Economic activity and population drive increases in energy use; energy intensity improvements moderate this trend.

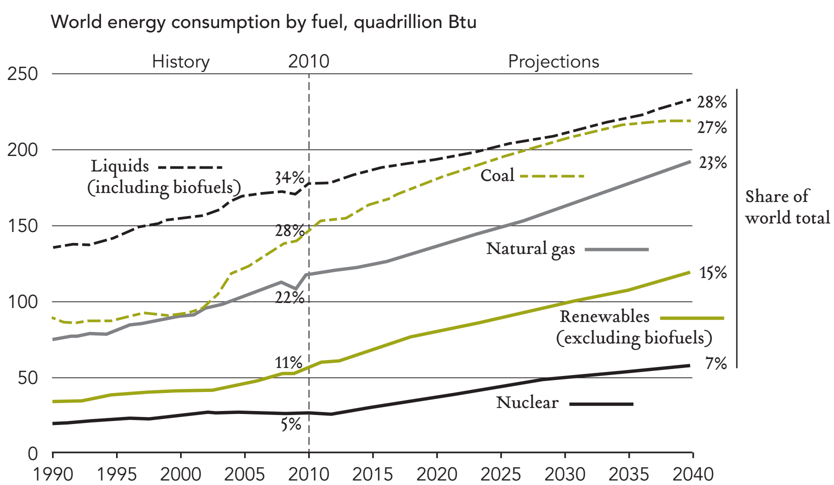


Source: EIA, International Energy Outlook 2013

Total energy consumption is likely to rise over the next twenty-five years despite efficiency improvements. Perhaps more interesting and more (disconcerting/shocking/surprising?) is that even with renewable energy supply growing rapidly, consumption of all fossil fuels, including coal, will be increasing. The next chart shows that although coal will comprise a slightly lower percentage of global energy consumption, the absolute consumption level will increase by approximately 46% over the next 25-30 years according to the EIA projections.

"Total energy consumption is likely to rise over the next twenty-five years despite efficiency improvements."

Renewable energy and nuclear power are the fastest growing source of energy consumption.



Source: EIA, International Energy Outlook 2013

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Oil Prices, continued

From 2009-2014, the global consumption of oil, natural gas and natural gas liquids has increased at a slow rate, approximately 1.2% annually compounded. The U.S. EIA projects this rate of consumption to increase over the next two years, reaching 90.4 million barrels (equivalent) per day for the first time in human history. Five years ago, 85 million barrels a day sufficed to supply every person on the planet.

For the moment, and it is a moment that may last another 10-30 years depending on how shale based depletion tables develop, North America is in a favorable supply position for oil and especially for natural gas. Using this newly found time to transition to cleaner more renewable energy will be more important but the price signals to accelerate that trend may be delayed.

Here are some final takeaways from the EIA 2013 report:

- World energy use will grow by 56% to the year 2040, with renewables and nuclear power growing fastest, but with fossil fuels still supplying 80% of total energy consumption.
- Natural gas will be the fastest growing fossil fuel, supported by increased supply in the United States.
- Despite a slight tilt toward cleaner energy, energy-related carbon dioxide emissions are projected to increase through 2040.

Welcome to the New Version of TrustReporter.com!

We are excited to introduce a new version of TrustReporter.com, Greenleaf Trust's online account access service that allows clients to retrieve, review and print investment account information. This new version will have an updated look and feel with additional graphic reporting. It will also allow you to reset your own password.

The current functionality of TrustReporter.com will still be available such as Portfolio Overview, Portfolio Holdings, and Transactions. If you are currently set up for online statements, you will still be able to view and retrieve them.

If you have questions, or would like enroll in TrustReporter.com, please contact a member of your Greenleaf Trust client centric team at (800) 416-4555.

TRUE STORY

From tool and die to retool and thrive.

Enough is enough, concluded the CFO of the tool and die company; the fees being charged by its bank had increased one too many times. The account was moved to a smaller bank that provided relief in all but one important area: it had no trust department to manage the company's 401(k) retirement fund. Wisely, the CFO appointed an internal team to assess six retirement plan service providers in terms of customer service, fees, methodology, transition planning, employee education, technology, portfolio composition, investment management, independence, references, conflicts of interest, likability, etc. With over 200 employees and a nearly $20,000,000 plan, the company had good reason (not to mention its legal, fiduciary obligation) to carefully weigh its options.

As in all competitions, a winner emerged. Greenleaf Trust's winning edge may have been the clear and thorough detail about how we invest and manage a plan's assets, identifying the specific mutual funds we select and why. Or perhaps it was our continuous assessment of each fund's performance and suitability, and our transparency about fees. Or maybe it was how we minimize the inconvenience and duration of a plan's transition, and take on responsibility for modifications and mandated filings. Or that we meet regularly with employees (and spouses) to educate them on the necessity and benefit of setting aside money for retirement. Chances are, it was all of those things and more.

Every company has its own story to tell, of course, but with Greenleaf Trust as the plan provider some things never change: employee participation improves, contributions go up, asset values increase and smiles reappear. Everyone, it seems, likes a happy ending. Call Matt Siel at 800.416.4555 and let's get started on yours.

Paul R. Jude
Wealth Management Advisor

Young Money

Every couple of months or so another author finds it necessary to portray the "Millennial/ Generation Y" investor in a negative light. Now, if you have not been paying attention, this group of individuals is categorized by having been born between 1980-2000 (although those boundaries are fluid) and represents about 25% of the United States' population.

In these articles the authors have gone so far as to describe this generation as being the "lost generation of investors" and "financial Neanderthals" – both claims are pretty bold. As a member of this demographic cohort, I felt that it was my job; nay, my responsibility, to educate the masses and ignite a discussion that highlights a few of the positive, investment-related accomplishments of this very special group.

"…the 'Millennial/ Generation Y' investor… represents about 25% of the United States' population."

Starting Early

As with any learned skill it's best to start young — investing is no different. Despite higher student debt, shrinking job opportunities, and increasing housing costs, Millennials have started to invest for the future at a younger age than the previous generation, according to a recent study by TD Bank.

The survey acknowledged that the average Gen Y investor reported that they made their first investment at age 20 compared to the average Baby Boomer who postponed their initial investment for another seven years. The younger generation cited family encouragement (often by Boomer parents) as the reason for starting earlier, while the older generation was waiting for an increase in income.

While we are often criticized for our demand for immediacy and lack of patience, the results of the poll proved otherwise. A long-term focus was thematic as 50% of these early adopters had retirement as the number one priority followed by home purchase, travel, and achieving financial independence.

Investing Appropriately

One of the largest accusations of this group is that we are leery of stocks and prefer safe, low-yielding investments. In fact, one Bloomberg article implied that Gen Y investors were so conservative that they had already "doomed their retirements" by being invested in primarily bonds and cash.

While we are cognizant of the risk in the stock market, that does not mean we are avoiding it. Keep in mind that our formative years were bookended with economic bubbles (dot-com & real estate); when you throw in 9/11, mix it with Enron, combine with a couple of wars, a couple of hurricanes, a dash of Bernie Madoff, you get the recipe for one of the worst ten-year periods for investing in history and cause for a little concern.

That being said, data from Fidelity Investments, America's largest 401(k) provider, indicates that Millennial retirement accounts are 84% equities. Given their longer time horizons, the group, as a whole, appears to be choosing a suitable asset allocation.

Heeding Advice

Millennials are an educated group that is very eager to learn. In fact, 19% of us have a college degree and 40% are currently pursuing one, according to a recent Pew Research Center Study.

For many Gen Y investors, the propensity to garner new information must have continued from our collegiate years because we are receptive to financial guidance and learning about the markets as well. We don't go at it alone; we seek advice from a variety of sources including: our own online research, family, friends, and especially trusted advisors.

In fact, the aforementioned study revealed that when it comes to financial decisions, 59% of Millennials reported receiving advice in the last twelve months and of those who took action, 89% (more than any other group) reported that their advisor played a key role.

We have seen this at Greenleaf Trust as we continue to open and contribute to Roth IRAs on behalf of our Gen Y clients. These young investors understand the benefits of forgoing a tax deduction now in order to receive tax-free money in retirement.

As you can see, Gen Y is more than just Facebook and iPhones; we are also interested in the market and we are taking the right steps to invest in our financial futures. It's not often that I can say this, but the older generations should stop and take a cue from the younger one.

"...59% of Millennials reported receiving advice in the last twelve months and of those who took action, 89% (more than any other group) reported that their advisor played a key role."

Stock Market Pulse

Index	5/31/2014	Total Return Since 12/31/2013
S&P 1500	445.14	4.59%
DJIA	16,717.17	1.83%
NASDAQ	4,242.62	2.11%
S&P 500	1,923.57	4.97%
S&P 400	1,377.98	3.23%
S&P 600	653.01	-1.43%
NYSE Composite	10,756.32	3.42%
Dow Jones Utilities	544.96	12.94%
Barclays Aggregate Bond	109.67	3.82%

P/E Multiples	5/31/2014
S&P 1500	17.1x
DJIA	15.1x
NASDAQ	20.6x
S&P 500	16.8x
S&P 400	20.0x
S&P 600	20.9x

Key Rates

Fed Funds Rate	0% to 0.25%
T Bill 90 Days	0.04%
T Bond 30 Yr	3.31%
Prime Rate	3.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	445.14	17.1x	1.96%
S&P 500	1,923.57	16.8x	2.03%
DJIA	16,717.17	15.1x	2.19%
Dow Jones Utilities	544.96	NA	3.60%

Spread Between 30 Year Government Yields and Market Dividend Yields: 1.36%

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