GREENLEAF TRUST

Perspectives

A Greenleaf Trust Newsletter

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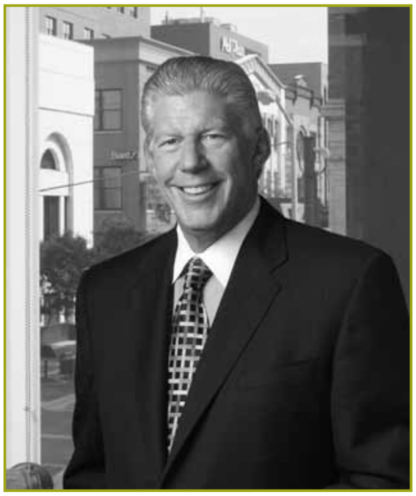

William D. Johnston
President, Greenleaf Trust

Economic Commentary

I love my monthly opportunity to share thoughts, ideas, data and updates on the economy. Perhaps it's the perfect combination of my education background and passion for economics that creates my enthusiasm for the task. As I reflect upon the past few years of articles it seems appropriate to change the title of this monthly space to commentary rather than update. I will continue to update readers on economic data, trends and the implications of those trends on financial markets. The majority of my writing, however, has been and will continue to be on economic issues, particularly those that are critical to the longer term and, thus, commentary seems more honest than update. I continue to enjoy the interaction I receive from readers and encourage your participation. If there is something you enjoy, dislike, question or simply want amplification on, please write to bill@greenleaftrust.com and I will respond as soon as possible. You never know, your comment or question could be the source of the next commentary.

The March 2012 issue of the Harvard Business Review is a really fascinating look at the concept of reinventing America. It is comprehensive, data and study driven, and paints a picture of both alarm and a way forward. For a Presidential candidate not driven by, nor placating to ideological extremes, it is a recipe for laying out a national agenda on economic policy, education, immigration, regulation, tax policy, research investment and infrastructure.

It is uncomfortable, yet necessary, to first describe what isn't working so that meaningful solutions to those problems can be crafted. At Greenleaf Trust we refer to this as "throwing the skunk on the table." What we mean is important. As we study great companies, we begin to understand that those organizations that beat back institutional hubris win more than those that don't. We want to know what we are doing wrong. Equally important to knowing what we aren't doing right is to understand at our core that past success entitles us to nothing. If we don't improve, innovate, create and produce, our history of success will be just that, history. Each of us can recall companies that had dominant market share of a product and are now a faded memory or a notation in some historical journal. Why did the designer and engineer of the world's most fabulous sixteen cylinder engine, Cadillac, nearly perish with GM in 2009? Why did the

Economic Commentary, continued

legacy of Walter Chrysler fade into oblivion? Why did IBM or GE require heroic efforts to salvage huge corporate legacies? These questions could be repeated and played over and over again about giants of American corporate history. The answer, when all the layers of the respective onions are peeled away, is that all succumbed or nearly succumbed because of institutional hubris.

Conversely, those companies and institutions that intentionally ask, what do we do poorly, how can we do what we do better, eat their competition for lunch. In the early 1970s, as our country was dealing with the yoke of Vietnam, Toyota was studying intently what we didn't like about their brand. The next three decades saw Toyota capture increasing percentages of market share to eventually claim dominance in auto sales in the US market. Ford and GM floundered until Alan Mulally, newly appointed Ford President, declared that Ford would understand its customers as well as its competitors, and once again return to dominate its market. Alan Mulally didn't return Ford to dominance by thinking they were great but rather by shedding institutional hubris, examining what was wrong and then setting a course of excellence. His leadership in crafting a plan to return to exceptional is clear. The lessons shouldn't be lost upon us, the very questions that small entrepreneurs to large Fortune 100 companies ask, should also be asked by our elected officials.

> "Equally important to knowing what we aren't doing right is to understand at our core that past success entitles us to nothing. If we don't improve, innovate, create and produce, our history of success will be just that, history."

If we were to ask these same questions, we would get really good answers. On the national level we would know that there are areas that we are bad and are deteriorating at alarming rates. We would also know that on a global basis there are areas that we are good at but are deteriorating and there are also some where we are really good and are improving. From a business perspective, we would view this as solid information with an obvious strategy and tactical solution. Stop the deteriorating condition, become better at the bad categories and accelerate the really good areas. Why do we avoid this at the national and state political levels?

The Harvard Business Review relates our challenge categories as follows:

Bad and Deteriorating

Effectiveness of Political System	Macroeconomic Policy
K-12 Education	Regulation
Complexity of Tax Code	Efficiency of Legal Framework

Good but Deteriorating

Infrastructure	Labor Law
Skilled Labor	Quality of Capital Markets

Good and Improving

Intellectual Property Protection	Entrepreneurship
Innovation Infrastructure	Sophistication of Firm Management
Top 50 Global Universities	

The above positions were evaluated in comparisons with other advanced economies.

In 1973, 28% of all jobs in the US required a college education. Today, 45% do. In a country where we are host to 37 of the world's top 50 universities, 74% of our high school students score below the 50th percentile in global achievement in math and science competencies and 62% below reading competencies. While most Americans have become accustomed to China and Japan scoring well above US high school students in math and science tests, what is our understanding level that Canada, Belgium, Germany, Norway, New Zealand, Australia, United Kingdom, Sweden, Hungary and France do also?

As our competition continues to ask, "what can we do better?", we wallow in mediocrity and ignore the tough questions of national policy and improvement in essential areas required for economic growth. Multinational corporations are a direct result of globalization and were largely created in the US. Those that were not created here, made certain to have a US presence. Unfortunately, the number of multinational corporations has been shrinking in the US since the late 1990s. This is particularly important since the contribution of multinational corporations to the US economy has been at an economic impact per employee level 126% of its domestic equivalent. Most of the multinational corporations' job losses in the US were in the assembly division of manufacturing, yet their job creation gains have been in advanced manufacturing, design and engineering. We, however, continue to maintain public policy as though science, math, engineering, higher education and skilled work force were not important or required.

> "We have enough data and evidence... policies must be crafted to halt decline, improve marginal efforts and accelerate excellence."

What to Do?

We have enough data and evidence. We need to prescribe the future and act upon that prescription. National policies must be crafted to halt decline, improve marginal efforts and accelerate excellence. This is no different than business strategies executed everyday by local entrepreneurs, emerging companies, small publicly traded new listings and mature Fortune 500 companies. Pick the most successful company you like. Reflect upon what its board of directors, executive and leadership discussions are about. It is almost always about customers, talent, mission, core values, product, innovation, efficiency, productivity, competitive set, etc.; it is almost never about ideology, religion or history. Last month, I suggested that we can't get to the right answer if we don't ask the right questions. The questions that those we elect should be asking are, what isn't working, what requires improvement and how can we amplify what is working? Next month, we will spend time talking about the solid work that Tom Friedman and Michael Mandelbaum produced in their new book: "That Used to Be Us."

Michael F. Odar, CFA
Senior Executive Vice President and Director of Strategic Initiatives

Managing the Future

In many ways farmers have taught us a lot about investing. Beyond the obvious investment in the seed and effort required to make it grow, they have also shown investors how to hedge risk in a portfolio. Farmers have been hedging their crop portfolios with futures contracts as far back as the 1800s.

Futures are standardized contracts between buyers and sellers, whereby each party agrees to deliver (seller) or accept delivery of (buyer) a specified amount of a commodity or financial instrument at a predetermined time and place in the future. For example, let's say a farmer expects to harvest 10,000 bushels of corn in the fall and the current price per bushel of corn is $5.75. To protect himself from falling prices between June and September, when he sells his harvest at market, he could hedge his crop using the futures market. If the September corn futures contract is $6.00 per bushel, he could sell two 5,000 bushel contracts and ensure that he would get $6.00 per bushel for his harvest. In effect, he sold his crop early for the agreed upon price of $6.00 per bushel.

Today, there are futures contracts that participate in a vast array of markets in addition to commodities, including currencies, stock indexes, and interest rates. Like the instruments they represent, futures contracts can be traded and therefore have a market value that can fluctuate. Managed futures are a segment of the investment industry in which commodity trading advisors (CTAs) actively manage assets using global futures contracts and other derivative securities. The managed futures market has been around for over 30 years and currently has in excess of $300 billion in assets under management.

Through their ability to invest in derivatives across 150 markets worldwide, and to take both long and short positions, CTAs offer investors an effective way to gain exposure to markets, instruments, and strategy-driven investment characteristics otherwise not easily accessed. Because of their lack of correlation with other traditional assets, managed futures have also proven to be an impactful diversifier in investment portfolios by reducing volatility without impairing returns. And, managed futures have exhibited returns with very little correlation to economic cycles and equity market downturns. In 2008, when the S&P 500 was down over 39% the Barclay's CTA Index gained 14%.

So, properly used, managed futures can be a functioning hedging tool for appropriate portfolios. However, investing in managed futures can be risky and futures contracts can be used to speculate in addition to hedge. The more significant risks typically relate the CTA and their use of leverage, potential liquidity limitations, and the risk inherent in their trading model.

Intra-Family Loans: Opportunity Provided by Near-Record Low Rates

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For those among us with substantial fixed income holdings, interest rates at or near record lows may be a source of frustration. For those seeking loans, this same low rate environment provides an attractive opportunity to lock in favorable repayment terms for an extended period. An intra-family loan, usually made from a parent or grandparent to a child or grandchild, may create a win-win situation for both lender and borrower.

The IRS has established special rates for loans between family members. These rates, known as "Applicable Federal Rates" or "AFRs," are set monthly and are currently at near-record lows. As long as the interest rate on a loan to a family member is equal to or greater than the AFR, the loan is not considered a taxable gift. The AFRs for March 2012, for loans which amortize monthly, are 0.19% for loan terms of three (3) years or less, 1.08% for loans with maturities of more than three (3) years but not more than nine (9) years, and 2.65% for loan terms of greater than nine (9) years. As an illustration of just how far rates have fallen, just a year ago, AFRs for these same loans were 0.64%, 2.42% and 4.26%.

With the current rate on a no-point 30-year home loan hovering around 4.0%, an intra-family loan for the same term at 2.65% may be enticing in the right situation. For the borrower, the interest savings over thirty years between a 4.0% rate and a 2.65% rate on a $250,000 loan is $66,960. An added benefit of the intra-family loan is that interest payments stay within the family and borrowers can avoid fees traditionally charged by banks such as points and closing costs. For parents or grandparents with large cash reserves earning interest at current money market rates (near zero), it is easy to see the win-win opportunity afforded those who might be inclined to help a deserving and responsible family member. There is also an opportunity to forgive part of the loan each year through the annual gift tax exclusion ($13,000 for 2012) which lowers the principal balance and shortens the time to pay off the loan.

This is just one example of a simple wealth transfer strategy taking advantage of low AFRs. Even greater transfers of wealth might be achieved if the borrowed money is invested in appreciating assets. Intra-family loans usually result in a transfer of earnings

"The IRS has established special rates for loans between family members. These rates… are currently at near-record lows."

Intra-Family Loans, continued

and perhaps a transfer of appreciation. They do not achieve estate reduction as the principal of the loan remains in the lender's estate. However, the loans are effective in freezing the value of the lender's estate since the loan's value will not appreciate. Assets purchased with the loaned funds can then appreciate in the hands of the borrower, typically the younger generation.

Intra-family loans are not without potential drawbacks. As with all loans, there is the risk of default. Gift taxes may arise if payments fall behind. Parents, children, or both, may be uncomfortable in a lender-borrower relationship. Loans outside of the traditional banking system will not help the borrower establish credit, although for children whose credit worthiness precludes them from obtaining a traditional loan, the intra-family loan may be an attractive option.

Steps should be taken to ensure the IRS will not treat the loan as a gift. It is advisable to include all formalities of a traditional bank loan. For example, the borrower should sign a promissory note and all payments should be made on time. Payment records should be maintained and interest received by the lender should be reported for income tax purposes.

Treasury rates are not likely to stay this low for an extended period. When treasury rates rise, so will the Applicable Federal Rates. The opportunity to utilize this relatively simple wealth transfer technique can't get much better. If you think an intra-family loan might work in your family situation, we encourage you to explore it with your Greenleaf Trust client-centric team, estate planning attorney and tax advisor.

Contacting Missing Plan Participants or Beneficiaries

Lorey L. Matties
Participant Services Coordinator

Many employers discover that finding missing participants or beneficiaries can be next to impossible. However, plan sponsors are required to take all reasonable steps to locate all current and former participants and beneficiaries to whom benefits are due. One option available to a sponsor is the IRS's Letter Forwarding Program.

The IRS's Disclosure Office can forward letters from plan administrators to missing individuals if the administrator provides the following information:

1. A brief explanation why they want to use the program (for example, to locate a missing plan participant is sufficient);
2. The name(s) of the missing individual(s);
3. The social security numbers of the missing individuals; and
4. The letter(s) being forwarded. A separate letter should be addressed to each participant involved and it should include a general statement asking the participant to contact the plan administrator directly.

Note: The IRS will not forward any information containing a participant's account balance.

Mandatory information: The social security number is the key element used to access the right tax account and to get a mailing address.

If an address is located, the letter will be forwarded in an IRS envelope. The recipient (missing participant) will be advised that:

1. The IRS is forwarding the letter in accordance with current policy;
2. We have not divulged the recipient's address nor any other tax information or the fact that the letter has even been forwarded;
3. We have no involvement in the matter aside from forwarding the letter; and
4. The decision of whether to respond is entirely up to the recipient.

Due to disclosure laws, the IRS cannot provide the plan administrator with the results of the request. The IRS will send you a notice stating that they will forward the letter if an address for the individual is located. All letters returned undeliverable will be destroyed.

"... plan sponsors are required to take all reasonable steps to locate all current and former participants and beneficiaries to whom benefits are due."

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Missing Participants or Beneficiaries, continued

Requests Involving 49 or Fewer Missing Participants

For requests involving 49 or fewer missing participants there is no charge. Each request should be sent to the following address:

Internal Revenue Service
Disclosure Office-Letter Forwarding Unit
P.O. Box 47421, Stop 93
Doraville, GA 30362

Requests Involving 50 or More Missing Participants

Requests involving 50 or more missing participants or beneficiaries are processed separately from the free program. There is a charge for this service. Customers who want to use this program should use the following address:

Internal Revenue Service
Disclosure Office-Letter Forwarding Unit (Over 50)
P.O. Box 47421, Stop 93
Doraville, GA 30362

How quickly the IRS will respond to your request is based on overall workload of the Disclosure Office.

For more detailed information visit the IRS website directly at www.irs.gov. Select *Retirement Plans Community* (from the top menu bar) and then *Site Map*. *Contacting Missing Participants or Beneficiaries* can be found under *Contact Us*.

For any questions, please contact the Retirement Plan Division of Greenleaf Trust.

TRUE STORY

We managed the family trust. They managed the family values. Talk about a happy reunion.

In the fullness of three generations of marriages, births, deaths and naturally diverging interests, the heirs to a family fortune were concerned. Their once simple, single pot of money had grown so complex, so time consuming and so expensive to manage, that it was becoming a source of anguish rather than comfort for the family. The large bank that had long-served as trustee had churned through so many employees over the years, it knew little about the family, and cared even less. A trusted friend offered advice: call Greenleaf Trust.

Meeting with the family, we listened carefully to their wishes that any new trusts should be structured in a manner that provided for current needs, while limiting withdrawals to ensure long-term capital. We took on their administrative headaches, and oversaw the intricate account transfers from numerous banks and holding firms. We reapportioned inappropriate investments so as to align risk and safety. And, over time, by creating educational trusts, generation-skipping trusts and related sub-trusts, we simplified and clarified "the rules of the road" so that the family's intrinsic values would be upheld for generations to come. Family trust—in every good sense—was restored.

We're the first to say not every family portrait is all smiles. But with client satisfaction rates approaching 100%, and our unwavering focus on integrity and trust, it is safe to say that our clients appear to live happily, and harmoniously, ever after. To learn how Greenleaf Trust might help you to achieve financial security from generation to generation, call us. Good things are possible.

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Roth IRA Conversion
Is 2012 the right time?

James R. Curry, CFP®
Senior Wealth Management Advisor

In 2010 all taxpayers were presented an opportunity to convert their traditional IRAs to Roth IRAs without any limitations based on income. Prior to 2010, income limitations prevented a number of individuals from converting their traditional IRAs. The benefits of Roth IRAs are:

- The account grows tax free.
- Qualified distributions are tax free.
- Required minimum distributions after age 70-1/2 do not apply during the lifetime of the owner.
- Non-spousal heirs receive the same tax benefits as the owners except required minimum distributions are mandatory.
- Contributions are permitted throughout your lifetime.

"2012 is a year of relative certainty in terms of tax law."

Why 2012 for the Roth IRA conversion?

2012 is a year of relative certainty in terms of tax law. Beginning January 1, 2013 there is significant uncertainty regarding whether planned tax rate increases will take place, or if there will be an alternative structure implemented. Depending on your particular situation, you may save significant taxes, both individual and estate, for yourself and your heirs by considering at least a partial conversion in 2012.

Tax increases are scheduled for 2013 for investors and high income earners. A sampling of the anticipated tax increases include:

- Capital gains taxes increasing from 15% in 2012 to 20% in 2013.
- Tax on qualified dividends for the highest tax bracket increasing to 39.6% in 2013 from 15% in 2012.
- Estate and gift tax rates rising to a maximum of 55% in 2013 from 35% in 2012.
- Individual exemptions decreasing from $5 million in 2012 to $1 million in 2013.

How do you know if a Roth IRA conversion is appropriate for you?

A review of your goals and financial situation will assist us in helping you to determine whether a Roth IRA conversion is appropriate. A few specific situations where the Roth Conversion may make sense are:

- 2012 will be a year in which your tax rate is lower than it has been historically.
- You are in a low tax bracket prior to your required minimum distribution, and you would like to plan to reduce your overall tax burden in the future.
- You do not anticipate the need for these IRA funds in the foreseeable future, and your goal is to pass on wealth to your heirs. There is an additional benefit if your heirs are in a higher tax bracket than you are at the time of the Roth conversion.

We recommend that you work with your financial advisors to assist in determining if a Roth IRA conversion is appropriate for you. After determining that you would like to convert all or a portion of your IRA to a Roth IRA, it is imperative to seek the guidance of your accountant to determine the specific consequences of the decision, and to assist you with planning appropriately for the specific amount of the conversion.

"How do you know if a Roth IRA conversion is appropriate for you?"

Stock Market Pulse

Index	2/29/12	% Change Since 12/31/2011
S&P 1500	315.67	9.19%
DJIA	12,952.07	6.53%
NASDAQ	2,966.89	14.84%
S&P 500	1,365.68	9.00%
S&P 400	977.36	11.40%
S&P 600	451.02	8.83%
NYSE Composite	8,113.25	8.51%
Dow Jones Utilities	451.54	-2.05%
Barclays Aggregate Bond	110.76	0.71%

P/E Multiples	2/29/12
S&P 1500	14.5
DJIA	13.7
NASDAQ	16.8
S&P 500	14.1
S&P 400	18.0
S&P 600	17.8

Key Rates

Fed Funds Rate	0% to 0.25%
T Bill 90 Days	0.10%
T Bond 30 Yr	3.09%
Prime Rate	3.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	315.67	14.5	2.00%
S&P 500	1,365.68	14.1	2.09%
DJIA	12,952.07	13.7	2.45%
Dow Jones Utilities	451.54	NA	4.02%

Spread Between 30 Year Government Yields and Market Dividend Yields: 1.09%

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