GREENLEAF TRUST

Perspectives

A Greenleaf Trust Newsletter

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William D. Johnston
Chairman, Greenleaf Trust

Economic Commentary

Sometimes it is good to remind ourselves how economic data is distributed and analyzed, and why the cycle of data releases contributes to confusion. Some recent releases are dated due to the delays caused by the government shutdown. The data in those releases doesn't necessarily reflect the current state of the economy; however, they do fill in some gaps that allow us to perhaps confirm the trend that is in place. Keep in mind the angst that is currently in play in financial markets is not so much about how our economy is currently doing, but rather the probability that economic expansion continues in the forward cycle. As the cycle of growth continues to age, the extreme focus on data increases as does the attempt at forecasting signals of impending recession. So what does the data reveal to us about the current trends in place?

GDP data is released in three phases. The first is labeled "advance," followed by the "initial estimate," and finally the "second estimate." Last week the initial estimate was released for 2018 Q4 GDP at +2.6% and 3.1% for the 2018 year over 2017 year period. Typically, there are more revisions between the advance release and the first estimate than occur between the first and second estimates and, thus, we can pretty much assume that the economy was growing at a pace of +2.6% through December 31. As we look at the releases of data points in February and March, we should be able to determine if the components of GDP are trending up, flat or down.

Prior to looking at those component releases of GDP, it is helpful to remind ourselves what they are. GDP is derived from personal spending, sometimes referred to as private consumption (70%), business investment (18%), government spending (17%), and net exports (exports - imports) which was -5% in 2018. The percentage attributable to each component has been very stable for many years. During recessionary times government spending may grow a bit and, not surprisingly, during strong growth years business investment may increase; however, those changes in percentage contributions are minor.

The consumer drives 70% of economic growth, so consumer confidence is critical to future spending. The Conference Board's February release

Commentary, continued

showed an improvement (131.4) over January's reading (121.7). Recall that the record high of this index survey was in October 2018 at 137.9. The University of Michigan's Consumer Sentiment Index rose to 93.8 from January's reading of 91.2. Both surveys, though conducted differently, are attempting to gauge consumers' current conditions and thoughts regarding optimism about business conditions, current employment, future employment, interest rates and household income. If we trust the surveys, we should see some improvement in retail sales in the March 12 data release, which declined -1.2% in the February release. Most of the decline reported for January was due to weak auto sales. Recent information published from auto dealers reflects what might be a growing challenge. The average automobile purchaser in 2018 had a monthly payment of $580, but perhaps even more alarming was that the terms of those consumer loans increased in age to 67 months! The overall age of the automobile fleet in the United States has not decreased much; however, the duration of debt term has increased substantially. This week's employment number on Friday, March 8 will be a confirming component of future consumer confidence. Last month workforce participation grew, as did hourly wages and hours worked. Jobless claims declined to 233,000, continuing a very low trend for those applying for initial benefits. The conditions that fuel consumer confidence seem stable.

"Last month work force participation grew, as did hourly wages and hours worked. Jobless claims declined... The conditions that fuel consumer confidence seem stable."

Business investment increased 6.2% for the previous quarter, and 7.2% for the year over year period. The increases were mixed and uneven across many sectors. For the current period, the ISM Manufacturing Index declined to 54.2% in February from January's strong posting of 56.6%. Recall that it is generally believed by economists that readings above 50% are positive growth cycle readings, and those below 50% illustrate recessionary declines.

The data on government spending will be a bit choppy due to the 35-day shutdown. In the end, full-time government employees will have been paid; however, independent contractors working for various agencies and suppliers will likely not catch up. All estimates of GDP impact due to the shutdown are small, at less than four tenths of a percentage point. Far more impactful on current (not future) GDP is the federal deficit spending currently in place, which helps to fuel consumer spending.

We are a country that sells product throughout the globe. We furnish goods to and feed billions of people in many countries. Our citizens buy many goods produced by other countries. We are and will always be huge exporters and importers of goods and services. The impact of net exports on GDP has been about -5% for many years. There has been a great deal of talk about trade policy and tariffs to change the balance of trade, but very little has actually occurred to alter the export/import ratio. I am not in the camp of those that think we need to or should do so, as I think it would decrease our GDP, increase unemployment and increase the cost of goods and services to our citizens. I am all in favor of examining trade components that harm American producers and consumers; however, careless punitive tariffs can quickly change industries, and therefore, people's lives. Dairy farmers in Wisconsin, and soybean growers throughout the Midwest, can provide chapter and verse of what can go wrong when public policy changes overnight. Provided we don't shoot ourselves in the foot by going down the rabbit hole of retaliatory trade wars, we shouldn't expect to see much of a change in our net export contributions to GDP. We are the strongest consumer economy in the world; it makes sense that we would have the strongest appetite for global goods and services, and therefore, be importers of those goods and services.

The current condition of each of the largest components of GDP is in stable condition and reflect an economy growing at a moderate pace of 2.6% to 3.0%. Global conditions, as well as self-inflicted domestic political missteps, could impact the future health of the consumer, employment, business spending and interest rates. Though the expansion cycle is long in the tooth, there aren't any current conditions existing to sound any alarm bells. Fed Chairman Powell has signaled a slight shift in policy from one that was viewed as tightening (raising short term rates) to one that is more neutral and more patient in unwinding the Fed's position in bonds. Financial markets were growing very skittish on the impact of future rate hikes, and thus, they have reacted positively to the perceived Fed position change.

"Provided we don't shoot ourselves in the foot by going down the rabbit hole of retaliatory trade wars, we shouldn't expect to see much of a change in our net export contributions to GDP."

Christopher D. Burns, CFA®, CPA®
Investment Strategist
Senior Fixed Income Analyst

Look Who's Working Now

Something peculiar has been happening in the United States labor market. Let me lay out some facts.

- Since March 2018, the unemployment rate has been stuck. It was 4.0% then; it is 4.0% today.
- Over that same time, the US has added an average of 230,000 jobs per month, much stronger than economists' estimates of around 140,000 needed to keep the unemployment rate steady.
- There are currently 7.2 million people counted as unemployed by the government.
- There are currently 7.3 million job openings in the US, an all-time record.
- Yet, despite this strong outlook, real wages grew only 1.9% this past year.

Why hasn't the unemployment rate been falling? Why aren't wages increasing more rapidly? This article will examine these puzzles by looking at how we count who is employed and unemployed in the US.

"Why hasn't the unemployment rate been falling? Why aren't wages increasing more rapidly?"

Who Is Counted in the 4.0% Unemployment Rate?

The Census Bureau's Population Clock currently measures the US resident population at 328,504,020. Not all of those folks are counted in the unemployment rate. To be counted, an individual must be considered to be in the labor force. To start, let's note who is excluded from the labor force, which includes individuals either working or seeking work.

To begin, people serving in the armed forces and people who are institutionalized (currently about 5.1 million people) are not counted.

Resident Population	328,500,000
(-) Resident Armed Forces	1,200,000
Civilian Population	327,300,000
(-) Institutionalized Population	3,900,000
Civilian Noninstitutionalized Population	323,400,000

Next, children under the age of 16 and those who are not in the labor force are subtracted to get to the current labor force. The table below lists reasons why individuals are not in the labor force.

Civilian Noninstitutionalized Population	323,400,000
(-) Children under age 16	65,200,000
(-) Not in labor force: Retired	47,500,000
(-) Not in labor force: Disabled	13,500,000
(-) Not in labor force: In school	12,500,000
(-) Not in labor force: Don't want a job, not retired, not disabled, not student	17,800,000
(-) Not in labor force: Want a job	4,800,000
Total Labor Force (rounded)	162,100,000

Later, we will examine trends in the nonparticipation rate. But, just note that while retirees make up a large cohort of people not participating in the labor force, there is still a large pool of potential workers here, including 4.8 million who want a job but are not included in the labor force, mainly because they have not sought work in the past year.

Finally, among those participating in the labor force, people are counted as either employed or unemployed. Workers can either be full-time or part-time, with part-time further broken down into those working part-time involuntarily (for economic reasons) and those who choose to work part-time. Likewise, unemployed persons are broken down into full-time job seekers and part-time job seekers. The number of unemployed persons as a percentage of the total labor force is how economists calculate the unemployment rate.

"...there is still a large pool of potential workers... who want a job but are not included in the labor force, mainly because they have not sought work in the past year."

(+) Employed full time	128,200,000
(+) Employed part time: economic reasons	3,800,000
(+) Employed part time: noneconomic reasons	22,900,000
Total Employed	154,900,000
(+) Unemployed: looking for full-time work	5,900,000
(+) Unemployed: looking for part-time work	1,300,000
Total Unemployed	7,200,000
Total Labor Force	162,100,000

Note, we use nonseasonally-adjusted numbers in the tables, while the 4.0% unemployment rate is based on seasonal adjustments.

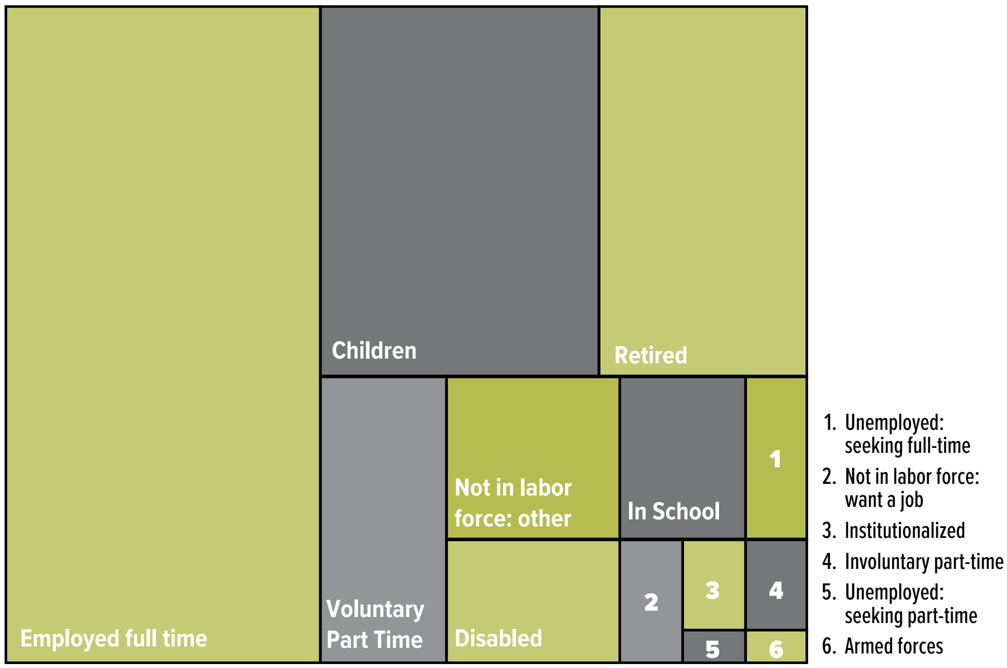
So, all of a sudden, in an economy with a 4.0% unemployment rate, we see

Who's Working Now, continued

that out of a population of 328,500,000, there are only 128,200,000 full-time, civilian workers, or 39% of the population.

That means if you are reading this article at your desk, at your full-time job, you are not in the majority in the US.

Total U.S. Population by Category

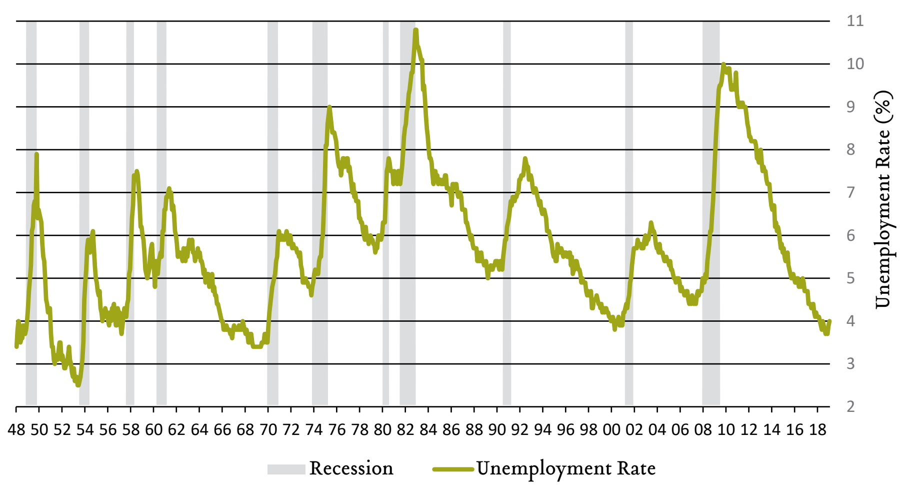


"While the unemployment rate has fallen… the labor force participation rate has not recovered in a similar fashion."

Broader Measures of Employment

While the current unemployment rate, 4.0%, registers near 50-year lows, broader measures of employment paint a slightly different picture of the labor market.

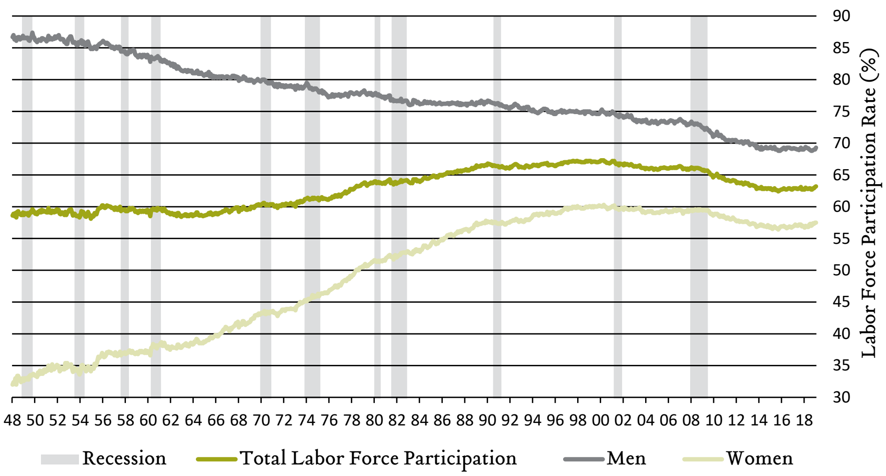
Unemployment Rates Have Recovered



One broader measure of employment is the Labor Force Participation Rate.

This is defined as the number of people in the labor force divided by the total working-age population (people 16 years and older). While the unemployment rate has fallen from 10% following the financial crisis down to 4% today, the labor force participation rate has not recovered in a similar fashion.

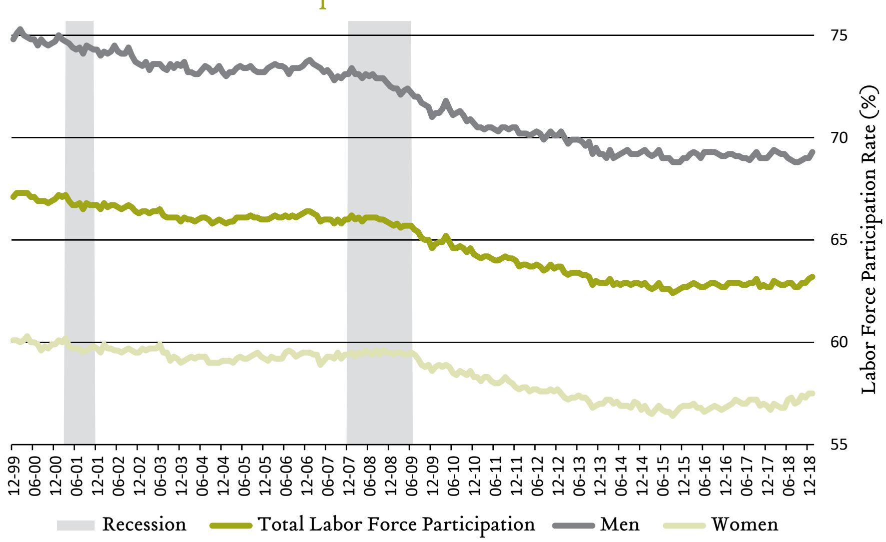
Participation Rates Have Fallen



The reason the unemployment rate hasn't fallen recently, despite the strong job growth, is that the Labor Force Participation Rate (LFPR) has been increasing. People who previously were not seeking work at all are now re-entering the labor force and being counted as employed or unemployed.

That said, the current increase is small in comparison to the downward trend in labor force participation that began in the first quarter of 2000. The LFPR peaked at 67.3% and has fallen today to 63.2%. A more recent chart shows the dynamic.

Participation Peaked in 2000



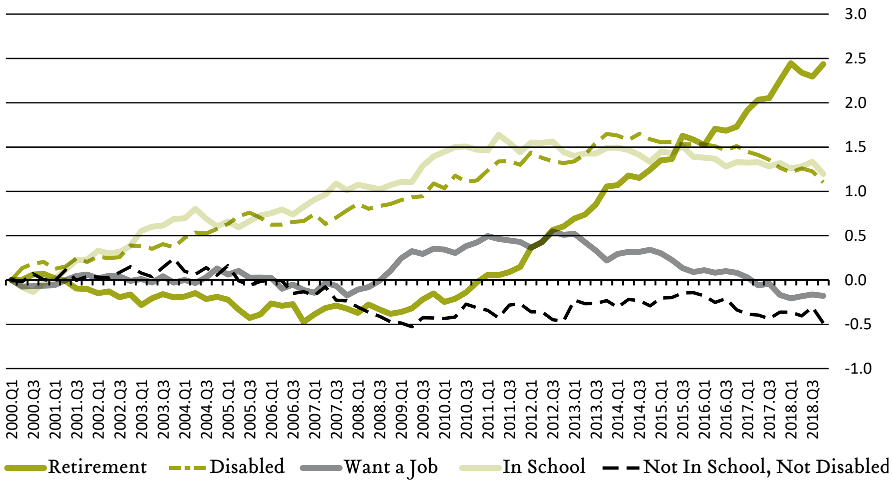
"…the current increase [in labor force participation] is small in comparison to the downward trend… that began in the first quarter of 2000."

Who's Working Now, continued

"Additionally, Baby Boomer retirements are only beginning to impact the broader economy and will be an important economic force in the coming decades."

Analyzing this decline by reason for nonparticipation shows that a large portion of the change is due to Baby Boomers entering retirement.

Change since 2000 in Nonparticipation Rates



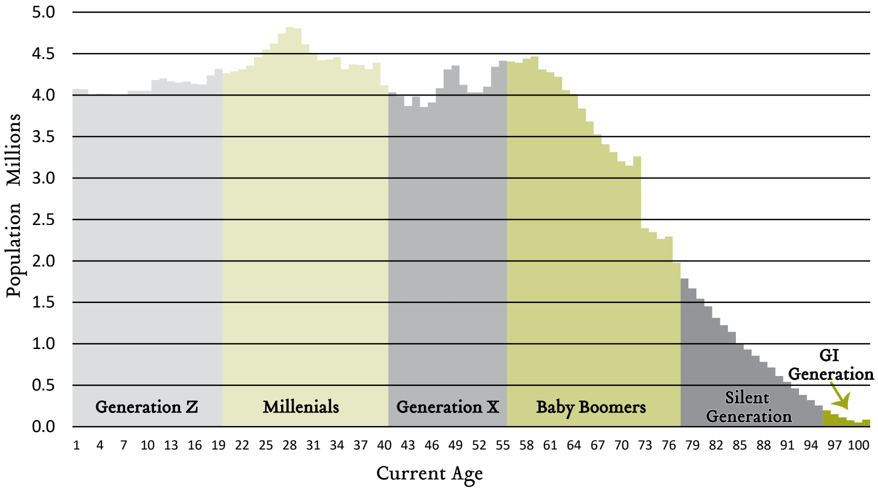
- The Labor Force Participation Rate fell 4.1% from Q1, 2000 to Q4, 2018
  - ◊ 2.4% is attributable to increased retirement,
  - ◊ 1.1% is due to increases in persons identifying as disabled,
  - ◊ 1.2% is due to increases in persons in school,
  - ◊ The rates of persons not in school and those who want a job have actually fallen 0.6%.

Looking Forward

We believe broader measures of employment like the Labor Force Participation Rate or the Employment-to-Population ratio offer clues to explain the puzzling dynamics recently observed in the labor markets. There may be more slack in the labor market than what's implied by the 4.0% unemployment rate. This additional slack may be impacting wages and lengthening this economic cycle.

Additionally, Baby Boomer retirements are only beginning to impact the broader economy and will be an important economic force in the coming decades. Investors and economists that do not consider these broader demographic trends may continue to be surprised by a slower pace of economic growth, wages, and inflation than the US has experienced historically.

U.S. Population by Generation



If you would like to discuss these ideas and their impacts on your investment portfolio further, please contact a member of your dedicated client centric team. Thank you for the opportunity to serve on your behalf.

Sources: Bureau of Labor Statistics Current Population Survey
Census Bureau Population Data
NBER
Shigeru Fujita, Federal Reserve Bank of Philadelphia,
www.phil.frb.org/-/media/research-and-data/publications/research-rap/2017/reasons-for-nonparticipation.xlsx?la=en
www.npr.org/2014/10/06/349316543/don-t-label-me-origins-of-generational-names-and-why-we-use-them

Sharon A. Conran, J.D.
Vice President
Senior Trust Relationship Officer

Preventing Financial Elder Abuse

Individuals of all incomes and walks of life are subject to undue influence that can steal them of their self-worth, net worth, and even their lives. Undue influence involves one person taking advantage of a position of power over another person. While undue influence does not necessarily limit itself to the elderly, it can certainly be a form of elder abuse. This article will focus on defining and spotting this type of elder abuse in the financial context to ultimately help prevent it.

> "While undue influence does not necessarily limit itself to the elderly, it can certainly be a form of elder abuse."

What Is Financial Elder Abuse?

Most cases of elder abuse in the financial realm stem from undue influence containing four key criteria:

1. Vulnerability of the victim, which includes medical and psychological conditions. Vulnerability can take various forms, often a result of a major life event; such as a health event, loss of a spouse, recovering from a medical procedure, or moving into a new living situation;
2. A relationship with the influencer (a caregiver, child who moves in with victim, professional advisor, etc.);
3. Tactics employed to persuade or dominate the victim. These may range from isolating the victim from others, reinforcing dependency, initiating or actively procuring legal documents. There may also be an element of secrecy or inappropriate timing (signing documents the same day as a hospitalization or shortly after a loss) that favors the influencer; and
4. It results in monetary loss to the victim.

Examples of circumstances of undue influence include:

- A new romantic relationship where the influencer begins to accompany the victim to financial appointments and inserts themselves in the financial planning in a manner that is inconsistent with prior preferences or that is not in the victim's best interest.
- A caregiver assisting the victim at first, but then takes over the management of the victim's financial matters.
- The influencer "chips away" at an established financial or estate plan. Small changes add up to big inequities over time that favor the influencer.

How to Spot Financial Elder Abuse

When you're not able to be involved with a family member on a basis which would allow you to monitor the risk of undue influence, there are certain signs that may alert you to a potential case of undue influence or exposure to an undue influencer. Basically, it comes down to a change in habits by the family member. Items to question include, but are not limited to the following:

- Has the family member gone to an attorney that is not historically the attorney the family member would select? Is the attorney only known to the potential influencer?
- Does the family member have sufficient mental capacity to properly instruct an attorney of his or her directives?
- Has the family member had a significant decline in physical or mental capacity?
- Is the family member reluctant to disclose information to close family members when in the past he/she provided such information?
- Is the family member being isolated or made unavailable to take other family member's telephone calls or other communications?
- Are there signs of inappropriate clothing, cleanliness, bruising, or injuries?
- Does the family member have short-term memory loss, disorientation, confusion and difficulties with finances?
- Does the family member seem extremely dependent on one person?
- Are there signs of depression, agitation, frustration, mood swings, difficulty making decisions, and other significant changes in the family member's emotional state?
- Has there been significant gifting or donations that are out of character for the family member?
- Is the potential influencer speaking for or on behalf of the family member who shows a tendency to withdraw from such conversations?
- When watching interactions with the potential influencer and family member, does the family member's body language reflect anxiety, insecurity, or embarrassment?
- Does the family member have an unwillingness to talk about financial or care matters?
- Is the family member socially isolated? Socially isolated adults are at a particular risk.

> "Often, the key to preventing undue influence is to have an open and honest relationship with the family member."

Preventing Financial Elder Abuse

Often, the key to preventing financial elder abuse from undue influence is to have an open and honest relationship with the family member. Be present and aware of the needs of the family member. If a caregiver is required, monitor the situation and continually evaluate the relationship. Reliance on one individual and the fear that the one caregiver will no longer assist the family member creates a position of power over the family member and that situation requires monitoring or, at the very least, reassurance to the family member that others are around to assist. If you suspect undue influence, contact local authorities and the family member's financial institutions to alert them of the potential undue influence. You may also want to reach out to the family member's tax and legal advisors. For additional information and resources go to www.elderlawofmi.org or your local senior services agency.

Thomas R. Christy
Participant Services Coordinator

Is it Time to Move My 401(k) Balance to a Money Market Fund?

Short narrative: Jada was talking to her neighbor Ted at his Super Bowl party and he kept telling her about how the economy is doomed to another recession, and that if she had half a brain she would move all of her retirement savings into the most conservative options available. Come Monday morning, she logged onto her account, and transferred her entire balance to a money market fund.

Frequently, I run into this scenario in my retirement plan participant education meetings. Bad advice is one of the greatest hazards to one's retirement success, and it seems to be everywhere. It's easy to fall victim to bad advice when we are surrounded by news reports that say the market is down and a recession is on the horizon. But this is only one side of the coin. Too often we panic over things we are well prepared for, and acting on bad advice could result in captured losses, missed gains, and a distorted time horizon to retirement.

"It's easy to fall victim to bad advice when we are surrounded by news reports that say the market is down and a recession is on the horizon."

Moving your retirement savings to ultra-conservative funds in fear of bear markets is rarely a good idea. Fund types like a money market fund or a stable value fund provide minimal returns, and in most cases, inflation is greater than any return a fund of that caliber will be able to produce. This could ultimately result in a real return that is negative (i.e. after accounting for the eroding effects of inflation).

We need to remember that our retirement date is not the finish line to our retirement investing. 'There is still a lot of baseball left to play' once you retire. The average retirement in America currently lasts between 20-30 years, and savings need to last that long. Ultra conservative investment vehicles are best suited for use for larger purchases that are expected months from today, or for the later years of retirement (generally speaking).

Paradoxically, while an ultra-conservative portfolio may lower the risk of daily volatility, it may actually increase the risk of not meeting an investor's long-term retirement goals. The best thing some retirement plan account holders can do for their investment portfolio is to diversify, diversify, and diversify. Which is an easy thing to accomplish through the professionally designed and managed target date funds by T. Rowe Price or our professionally managed investment models designed by the Greenleaf Trust Research Team.

Back to our opening narrative — The thing about neighbors like Ted is that they are not legally or financially bound to you like your 401(k) provider. My role as a participant services coordinator is to educate retirement plan participants to help keep them on the path to retirement success. As a fiduciary, we are bound to act in the best interest of our retirement plan participants. Not only that, Greenleaf Trust structures its fees to tie our business success to the success of our clients. In layman's terms, when clients win, we win; when clients lose, we lose. With that as our pretense, we are obligated to provide an honest viewpoint of your 401(k)'s health.

As we go into 2019, unsure about what financial markets may have in store, remember there are people who can help keep your retirement on track. Should you be concerned about your Greenleaf Trust retirement plan portfolio and the investments you have chosen, contact our Retirement Plan Division. Between our team of experienced educators, we can accomplish a lot of good for your retirement savings in just one phone call.

"Spreading out risk has proven to be a superior strategy to removing risk altogether"

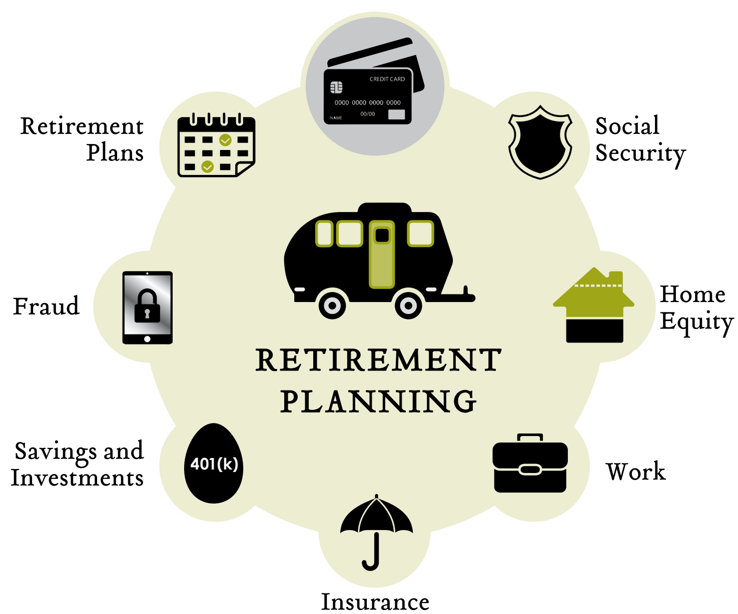
Allison L. Birmingham, CWS®, CCFS™
Senior Wealth Management Advisor

Balancing Debt into Retirement

Saving for retirement, eliminating or reducing debts, or funding your next vacation is a debate that can navigate your financial picture toward its final destination early on in one's lifetime. The idea of weighing the accrual of debt for major purchases while simultaneously preserving retirement assets, to the aversion of debt or otherwise expending retirement dollars, is a notion that is dealt with on a more personal level. The analysis and conversation that follows takes a careful approach to a logic that balances financial impact with personal comfort. How you manage debt pre-retirement will largely impact the success rate of meeting retirement goals.

For many millennials, retirement may feel like an unreachable goal, and the level of impact that saving now could truly have then is often overlooked — especially when considering one's resources and obligations when just stepping into the "real world." It is common for even those young adults making logical financial decisions to value the immediate, near-term goals above saving for retirement. An example might be obtaining a mortgage on a first home. There is a careful balance. Saving just a little now, has a big impact later - even incremental amounts as to balance a student loan repayment plan.

> "... assets invested when we're younger can benefit a retirement account in ways that become much harder to duplicate later."



Of course, many Baby Boomers know differently. They recognize (often with regret over having failed to take full advantage) just how significant and powerful long-term compounding can be. It's for this reason that assets invested when we're younger can benefit a retirement account in ways that become much harder to duplicate later. They also realize that assuming debt late in their career is harmful to their retirement goals.

There is no suggestion that millennials are spendthrifts, spending foolishly on experiences and technology. Research supports they simply tend to prioritize nearer-term goals such as buying a home, paying down debt, building an emergency fund, or saving for vacations...before longer-term goals such as retirement.

The fact is, the Gen X's and younger have become less driven to reduce debt strategically and efficiently. The best solution may be to create a balance between saving and paying off debt.

No matter the situation, take whatever steps are available pre-retirement to consolidate, reduce, and eliminate debt; ultimately, making it more affordable in the fixed income years of retirement. Oftentimes, credit card companies will grant lower rates, personal loans are accommodating, and often enough a refinance or home equity line may be the premier route. If it seems as though revolving debt payments will continue into retirement, they should be considered into monthly living costs.

We often find that retirees are happy in retirement and have ultimately secured resources to keep up their standard of living. It is the burden, however, of those outstanding debts — in combination with other red flags, such as reliance on Social Security as a main source of income — which could ultimately create a depletion of investment assets prematurely. It is common for one to feel uneasy with any strategy that causes their savings to fall below a certain level. For them, saving and paying down debt at the same time is likely the best strategy.

Simple math suggests if you're paying more interest than you're earning on your investments, you're losing money. By adjusting your budget to accommodate deferring incremental amounts for the long term, the less money you'll need to allocate to those accounts to hit the same target, because time and the idea of compounding will help you grow your balance. Diverting some income toward a retirement nest egg may seem like a less appealing choice than taking a trip, but ultimately you can choose both — by creating a balance.

"... the Gen X's and younger have become less driven to reduce debt strategically and efficiently. The best solution is creating a balance between saving and paying off debt."

Stock Market Pulse

Index	2/28/2019	Total Return Since 12/31/2018
S&P 1500	643.12	11.83%
Dow Jones Industrials	25,916.00	11.62%
NASDAQ	7,532.53	13.74%
S&P 500	2,784.49	11.48%
S&P 400	1,910.34	15.15%
S&P 600	973.71	15.43%
NYSE Composite	12,644.81	11.65%
Dow Jones Utilities	756.34	6.79%
Barclays Aggregate Bond	107.07	0.80%

P/E Multiples	2/28/2019
S&P 1500	18.5x
Dow Jones Industrials	16.5x
NASDAQ	21.6x
S&P 500	18.3x
S&P 400	19.0x
S&P 600	22.2x

Key Rates

Fed Funds Rate	2.25% to 2.50%
Tbill 90 Days	2.39%
T Bond 30 Yr	3.08%
Prime Rate	5.50%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	643.12	18.5x	1.94%
S&P 500	2,784.49	18.3x	1.97%
Dow Jones Industrials	25,916.00	16.5x	2.23%
Dow Jones Utilities	756.34	20.0x	3.22%

Spread Between 30 Year Government Yields and Market Dividend Yields: 1.14%

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