GREENLEAF TRUST

Perspectives

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Chairman, Greenleaf Trust

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Economic Commentary

Financial press headlines continue to warn of recession and a slowing of the US and global economy, and we will focus on both in this month's article. Let's start with the tool that I believe provides a real time pulse rate for our underlying economy: the New York Fed Weekly Economic Index. Although I have explained that the index provides real time data on labor, consumption and production, it might be helpful to peel away a few layers of that onion and identify specific categories that the New York Fed measures in real time. The index is composed of the following components:

- Same store sales
- Initial jobless claims
- Continuing jobless claims
- American Staffing Association Index
- Weekly raw steel production
- Electric utility output
- Federal sales tax to end users
- Federal withholding taxes collected

The current (April 23, 2022) New York Fed weekly index is 4.31, which is down slightly from the prior week at 4.41, and down from the prior month same week of 4.71. The reading in the current week suggests an annual GDP growth rate of 3.57%. Much of the decline is a reduction in purchased fuel and retail sales, offset by increased steel production, electricity output, employment and a reduction in initial, as well as continuing, unemployment claims.

Last week, the National Bureau of Economic Research (NBER) reported that U.S. GDP fell 1.4% (annualized) in the first quarter, prompting many to announce that we are in a recession. Traditionally, a recession is identified as measured economic activity declines (GDP) in two consecutive quarters. In recent years the NBER has moved slightly from that definition to one that states: significant decline in economic activity spread across the entire economy lasting more than a few months that would be normally visible in real income, employment, wholesale and retail sales and production. The definition is a bit more complete than

Economic Commentary, continued

simple GDP results, and perhaps a bit more accurate in describing contraction and expansion economic cycles. It is too much to expect that the press and media will ferret out all of the above economic activity components and will continue to focus on simple GDP results. In any case, the release of a quarter's GDP results are "old news" and a rearview mirror look at past data which is why the real time looks at components of the New York Fed weekly index seem helpful. Could we already be in a recession? Sure, but it is far more helpful to understand the trend in place and the velocity of that trend in the current period of time.

"Macro-economic analysts continue to focus on housing, looking for evidence of either a stall or initial decline in sales and price momentum... but... with little, if any, evidence of a turn in demand for or price of new or existing homes."

Knowing that consumer confidence drives consumption, and that consumers represent over 70% of GDP measured activity, our interest in surveys that measure consumer confidence is always high. There are two widely recognized surveys that measure the temperature of consumers' purchasing appetites. The Conference Board is a non-partisan member-driven nonprofit that comprises every sector of the economy. Their most recently published survey reveals that consumer confidence in March fell slightly from February, from an index rating of 107.6 in February to 107.3 in March. The short term survey, which drills down specifically to jobs and production, rose slightly to 77.2 from 76.7, while the Present Situation survey, measuring current employment and wage activity, declined slightly from 153.8 to 152.6. Mixed results for certain, but not significant in either direction. The US Consumer Confidence Index produced by the University of Michigan includes random samples of households and reported their March results at a +5.8 reading in March over February, but a decline of -26.16 from March of 2021. The main theme in the anecdotal responses to the household survey is that consumers are employed, but nervous, with the Ukraine war, high energy prices, and food inflation front and center.

Automobile production represents a rather large dichotomy. Monthly increases in US production, and a ramping up of annual sales projection, flies in the face of logistical supply issues that continues to see empty new car lots. Patrick Gelsinger, CEO of Intel Corporation, said in a recent interview that he expected the processor chip shortage to last well into 2023. This announcement wasn't new news, but seemed to attract a good deal of attention. Automotive manufactures have focused their available supplies where the consumer appetite is strong: in SUV, light truck and EV products. Sales are robust, but are heavily weighted to consumer dealer orders and not dealer inventory. Discounts are rare and, thus, manufacturer as well as dealer income will likely continue to be strong.

Macro-economic analysts continue to focus on housing, looking for evidence of either a stall or initial decline in sales and price momentum. The S&P Case-Schiller 20-City Composite Price Index for February 2022 is up 2.41% at 298.93, while the National Index is up 1.78% at 286.68. March data will not be released until late May, but National Realtor Association surveys confirm the Case-Schiller data with little, if any, evidence of a turn in demand for or price of new or existing homes.

COVID is still with us, but in a markedly more benign way. Infections have increased while hospitalizations and deaths have declined. One World Data suggests that global hospitalizations are down 53%, reflecting significant progress in global vaccinations. A well-kept secret, judging by the lack of media attention, is the significant growth in vaccination rates among children. We now have in excess of 220 million fully vaccinated in the US, with +70% vaccination rates in children 5 through 12 years of age. Those 65 years of age, and presumably the most vulnerable, are vaccinated at the 90% level and boosted at the 68.8% level. While continuing to be present, COVID is becoming less interruptive to life, and therefore consumer activity. While bungled in a variety of ways, a post one year review of our country's vaccination effort seems to be inching towards being more, rather than less, successful.

"We now have in excess of 220 million fully vaccinated in the US, with +70% vaccination rates in children 5 through 12 years of age."

Michael F. Odar, CFA®
President and
Chief Executive Officer

Greenleaf Gives

As one of our four "Cs" – Clients, Colleagues, Communities, and Culture – the communities that we live and work in are very important to us. We value giving back to them and making them stronger and more vibrant. As such, we empower our team to support their communities and causes within those communities in ways they want. That empowerment involves making it easier and convenient for our teammates to give and volunteer in their communities. Our hope in doing so is that maybe we can inspire them and others to do even more to make an even bigger impact.

That's why we were all thrilled to roll out our new giving and volunteering program, Greenleaf Gives, last month. To further enhance everyone's empowerment we partnered with the company Benevity, a leading provider of global corporate purpose software with a unique suite of community investment and employee, customer, and nonprofit engagement solutions. The company has processed nearly $8 billion in donations and 43 million hours of volunteering time to support 326,000 nonprofits worldwide. Through Benevity's Spark online platform, our teammates can now:

- Connect and learn about causes and ways to take action in their respective communities.
- Securely donate to almost 2 million vetted nonprofits. And, if a nonprofit in one of our communities is not on the platform, we can simply add it.
- Set up one-time or recurring donations to be deducted from their paycheck or credit card.
- Give charitable gift cards to teammates.
- Share their giving and volunteering activities on social media.
- Find opportunities to volunteer in their communities.
- Create their own fundraising and volunteer events and share them with their teammates.
- Use a Missions module to engage in small everyday activities that can build new habits that in turn make a big impact over time.
- Track and analyze their giving and volunteering activity.

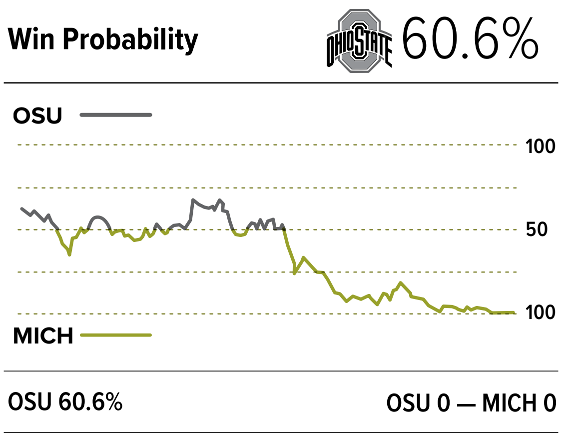
Inspiring our team to do more inspired the company to do more. So as part of Greenleaf Gives, Greenleaf Trust will match up to $1,000 per year per teammate towards eligible nonprofit donations. We are proud to be able to support our teammates in this manner and excited to see how this program impacts the nonprofit organizations in our communities.

> *"I just used the Benevity website to make a couple of donations to causes that are near and dear to my husband and me. We both want to thank Greenleaf Trust from the bottom of our hearts for the matching program. It brings tears to our eyes that the impact has now been doubled!"*
>
> – Feedback from a grateful teammate

What are the Odds?

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

If you are a sports fan like me, you may be familiar with ESPN's Win Probability graphic. It is displayed on the ESPN website as games unfold. Their model tracks and updates the odds that one team will win based on the circumstances of the game in real-time.



As an example of how it works, when Michigan played Ohio State in football in November, the model:

- Gave the Buckeyes a 60.6% chance to beat the Wolverines when the game began,
- Had the Buckeyes as a 54.6% favorite at halftime, even as the Wolverines led 14-13,
- Put the Wolverines at 90.3% odds to win at the end of the 3rd quarter, with the score 28-13.
- Stayed above 95% for the last 10 minutes of the game as Michigan held an 8-to-15 point lead.

This type of analysis, which uses real-time data to forecast the probability of a binary event (win/loss) is similar to the way we use economic and market data to forecast the probability of a recession occurring in a given timeframe, which is also binary (yes/no).

In early April, the 2-year / 10-year segments of the yield curve inverted. The financial market media treated the event more like a light switch being flipped, communicating 'the yield curve inverted, so a recession is coming.'

This article will provide a more sophisticated way of looking at the yield curve and a way to think probabilistically (0-100% odds) rather than a binarily (inversion = recession) about the business cycle signals being sent by the yield curve.

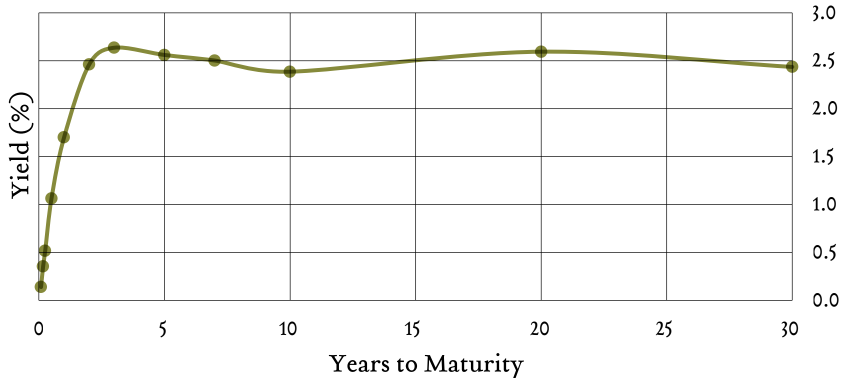
"… analysis which uses real-time data to forecast the probability a binary event (win/loss) is similar to the way we use economic and market data to forecast the probability of a recession occurring in a given timeframe…"

What are the Odds?, continued

WHERE TO FOCUS ON THE YIELD CURVE

The yield curve has historically been a significant reliable leading indicator of recession risk. The yield curve has inverted prior to each of the last eight recessions. On April 1, 2022, the 2-year/10-year portion of the yield curve inverted for the first time since 2019.

Treasury Yield Curve
4/1/22



Source: Bloomberg, LP dated 4/1/22

"The yield curve has inverted prior to each of the last eight recessions. On April 1st, 2022, the 2-year/10-year portion of the yield curve inverted for the first time since 2019."

Astute readers of our monthly materials will note that we do not typically focus on the 2s/10s. We normally present on the 3-month/10-year spread when discussing the yield curve. In this article, however, we are going to present three places to look on the yield curve when assessing recession risks.

#1 – THE NEAR-TERM YIELD CURVE SPREAD (3 MONTHS VS. 18 MONTHS FORWARD):

The near-term forward yield spread is Federal Reserve Chair Jay Powell's favorite yield curve indicator. It can be interpreted as the market's expectations for the near-term trajectory of Fed policy rates. If we were stuck on a desert island with just one yield curve indicator, we would take the near-term spread.

It is currently not inverted, not flat, but actually steeper than it has been in over 20 years. In a moment, we will show the implied recession probability of such a steep reading.

#2 – THE 3-MONTH / 10-YEAR SPREAD:

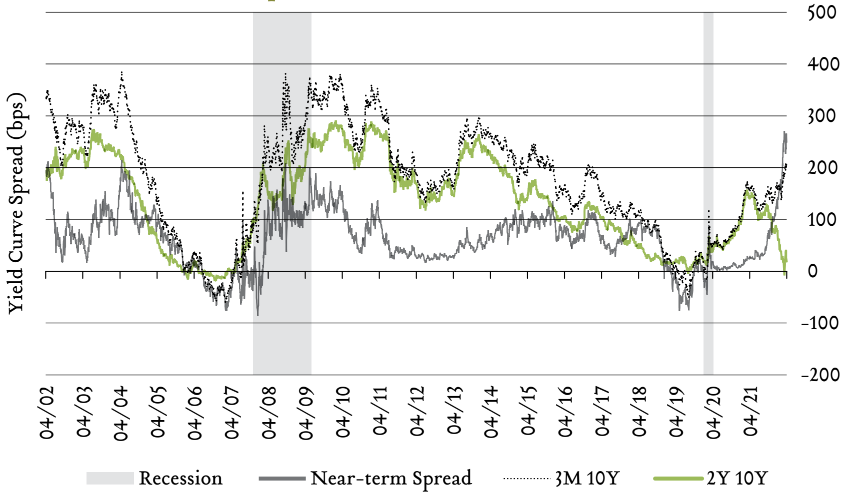
Our next favorite, and the one we show in our update materials, is the 3-month / 10-year spread. This spread is also relatively steep at the moment, over 200bps.

#3 – THE 2-YEAR / 10-YEAR SPREAD:

This is the spread that inverted in April. It remains relatively flat, but is currently back to a positive slope of roughly 20 basis points or so.

It is unusual to observe such a divergence between the three indicators, but the market is pricing in some relatively unusual Fed policy expectations.

Steep Short-End, Flat After 2 Years



Source: Bloomberg, LP dated 4/25/22

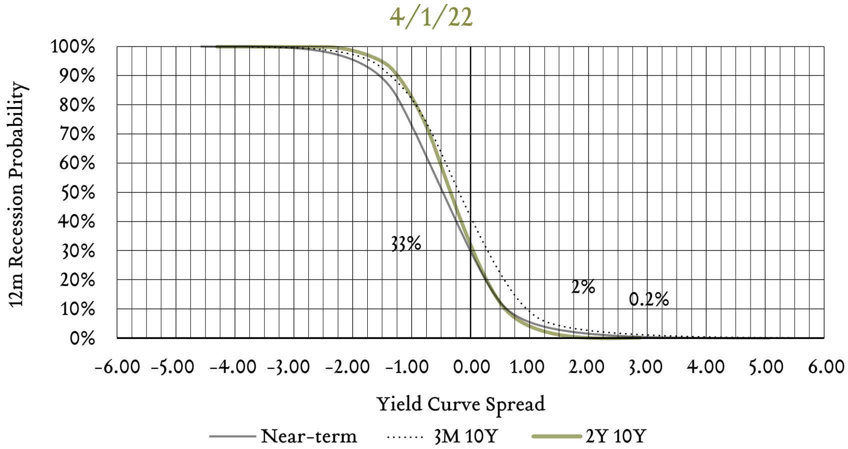
CONVERTING YIELD SPREADS INTO RECESSION PROBABILITIES

We use models for many economic and market indicators to convert observed values into 12-month recession probabilities based on historical observations.

This is akin to the Win Probability calculator. At half time, with Michigan leading 14-13, what are the odds they will win the game?

It's April, 2022. The 2s/10s inverted. What is the probability of recession in the next 12 months? Let's look at the sigmoid curves.

Implied Recession Probabilities
4/1/22



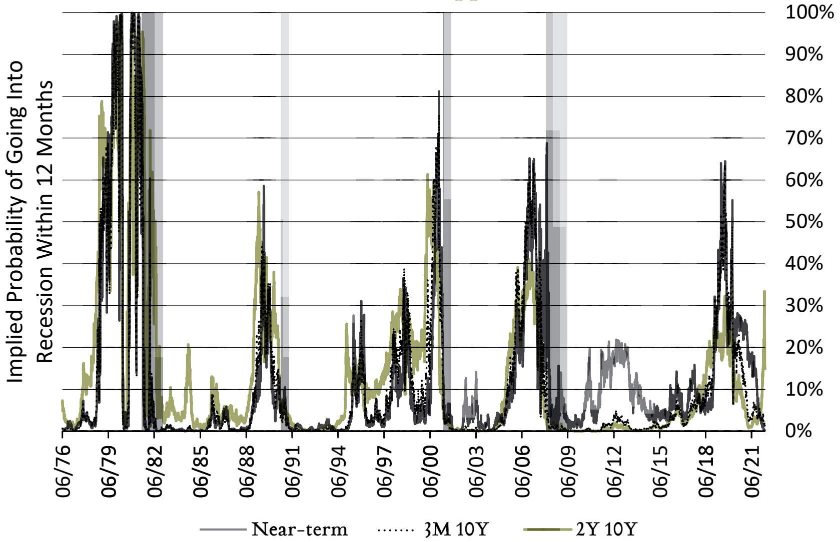
Source: FRED, dated 4/25/22, author's calculations

"We use models for many economic and market indicators to convert observed values into 12-month recession probabilities..."

What are the Odds?, continued

The 2s/10s implied a 1/3rd chance of recession in the next 12 months as of April 1. Other spreads implied almost no chance of recession at all.

Recession Odds Appear Low



Source: FRED, dated 4/25/22, author's calculations

"Overall, we believe recession risks remain quite low over the coming 12 months."

Overall, we believe recession risks remain quite low over the coming 12 months. The yield curve is no longer inverted and 2s/10s are back down to a 15% implied probability of recession.

CONCLUSION

What message is the yield curve sending? In our opinion, the steep short-end, and flat longer-end portions of the curve indicate the following:

- The market expects significant Fed policy rate hikes over the next 18 months, and
- Beyond 2024, if the Fed hikes as expected, recession risks rise significantly.

Other leading indicators of recession, including the labor market, corporate earnings, and retail sales activity, continue to indicate a low probability of recession over the coming 12 months. As a result, we are positioning portfolios for continued expansion. Ultimately, we know it is if, not when, we will experience another recession. We strive to assess the risks and construct portfolios that will help our clients achieve their financial objectives in all economic environments. Thank you for the opportunity to serve on your behalf. If you have any questions about this information, please reach out to a member of your client centric team.

Health Savings Accounts – A New Retirement Savings Strategy?

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

Health Savings Accounts (HSAs) are a great way to cover medical and long-term care costs in the owner's retirement years when those expenses increase exponentially with the owner's age. The only real tax drawback to accumulating wealth in an HSA is when the account is inherited after the account owner's death by a non-spouse beneficiary.

It has been documented that HSAs increased by 6% in 2020. The number of HSAs now exceed 30 million. 71% of HSAs have been opened since 2015. More than $24 billion is now held in HSAs nationwide. These numbers suggest that millions of HSA owners look at their accounts as long-term wealth accumulation accounts, more than just a tax-favored way to pay for their future health, medical and long-term care expenses.

"… numbers suggest that millions of HSA owners look at their accounts as long-term wealth accumulation accounts, more than just a tax-favored way to pay for their future health, medical and long-term care expenses."

ADVANTAGES

An excellent summary of the advantages of an HSA was provided by Rosalice Hall in the October 2021 *Perspectives*. The benefits of an HSA can be summarized as follows:

i) HSA contributions are income tax deductible, regardless of the owner's income level or whether the owner claims the standard income tax deduction or itemizes his or her income tax deductions.

ii) There are no adjusted gross income (AGI) phase-out limits associated with an HSA contribution, unlike IRAs or Roth IRAs.

iii) Contributions can be made to an HSA by more than just the owner; family members can also contribute to an HSA.

iv) Moreover, the owner can claim an income tax deduction for contributions not only made by the HSA owner but also for contributions made by a family member to the account.

v) Like any IRA, contributions to an HSA grow income tax deferred.

vi) Maintaining an HSA through the owner's employer will cause the contributions to the account to not be subject to Medicare or Social Security withholding taxes.

vii) Like a Roth IRA, distributions from an HSA are tax-free if the distribution is used to pay for qualified medical expenses, which are broadly defined to include long-term care insurance premiums and expenses. [See IRS Publication 502, Medical and Dental Expenses.]

viii) Unlike a flexible spending account (FSA) the funds held in the HSA are not subject to a 'use it or lose it' rule at the end of a calendar year.

ix) Under the CARES Act, even over-the-counter mediations are now eligible qualified medical expenses, which includes the cost of face

Health Savings Accounts – A New Retirement Savings Strategy?, continued

masks, hand sanitizers and sanitizing wipes.

x) If the HSA owner's spouse is designated as the beneficiary of the HSA, then the surviving spouse can continue to use the HSA for tax-free medical and long-term care expenses without any income tax consequences.

xi) A one-time transfer rule exists that permits funds held in an HSA to be transferred to the owner's IRA; however, the amount transferred is only up to the maximum amount that can be contributed to a traditional IRA for that year.

xii) Mileage expenses incurred by the HSA owner to visit a physician or medical facility and to pay for lodging if the owner receives medical care in another city that necessitates an overnight stay away from home are also considered qualified medical expenses.

DISADVANTAGES

There are some drawbacks to opening and maintaining an HSA.

i) In order to be able to make contributions to an HSA, the account's owner must meet several eligibility requirements that include that the account owner: (a) must be enrolled in a high deductible health plan in order to make a tax deductible contribution; (b) cannot have any other health insurance that is not a high deductible health plan; (c) cannot be enrolled in Medicare or Tricare; (d) cannot have received care from the Veteran's Administration within the prior 3 months; and (e) cannot be eligible to be claimed as a dependent on another person's income tax return.

> "Some ambiguity exists when it comes to whose medical care expenses can be paid income-tax-free from an HSA."

ii) No 'catch-up' contributions to an HSA are allowed after its owner has attained age 65 and qualifies for Medicare.

iii) Distributions from an HSA that are not used to pay qualified medical expenses will be subject to ordinary income taxation unless the distribution is due to the owner's death or disability.

iv) If funds are withdrawn from an HSA for non-medical purposes prior to age 65 years, the distribution will not only be taxable but it will be subject to a 20% penalty, but if the owner is over the age 65 there will be no penalty.

v) An HSA can be audited by the IRS, so the owner will have to retain receipts for all purchases for medical and health expenses when using their HSA as the source of funds.

vi) If the HSA owner does not stop contributing to their account within six months before he or she applies for Social Security benefits, taxes and penalties will apply.

vii) After the owner's retirement, while HSA funds can be used to pay for Medicare or Medicare Advantage plan premiums, they cannot be used to pay for Medigap policy premiums.

viii) Just like a traditional IRA, HSA funds can be rolled over to a new HSA only once every 365 days. In addition, the rollover is subject to the 60-day limit as the maximum amount of time in which the rollover must be completed.

ix) The biggest drawback is if a non-spouse is designated as the beneficiary of the owner's HSA when the owner dies, at which point the decedent-owner's HSA ceases to be tax-favored. On the deceased HSA owner's death, the HSA account will be immediately transferred to the designated beneficiary which then becomes taxable as ordinary income to the non-spouse beneficiary.

There is one important exception to the 'immediately taxable' rule when a non-spouse beneficiary inherits an HSA. Up to 12 months after the HSA owner's death, qualified but unpaid medical expenses of the deceased owner can be paid from the distributed account; if the funds are used to pay those expenses, the amount will not be included in the non-spouse inheritor's taxable income.

Note: If there is no spouse named as the designated beneficiary of the decedent's HSA, the account owner might consider naming a charity as the designated beneficiary of the HSA. In the absence of a designated beneficiary, the account balance will be included in the owner's estate as taxable income, on which taxes will be assessed.

DEPENDENT EXPENSE CONFUSION

Some ambiguity exists when it comes to whose medical care expenses can be paid income-tax-free from an HSA. Individuals do not have to be covered under the same health insurance policy that the HSA owner has, yet in other situations, the HSA owner cannot use his or her HSA to pay for medical care for an individual who is covered under the owner's medical insurance plan. This confusion stems from HSA eligibility rules.

To use HSA funds for a dependent's medical expenses, the dependent must specifically be claimed as a dependent on the HSA owner's income tax return. Because of this requirement, a scenario could exist where an HSA owner's adult dependents who are working and who file their own income tax returns are nonetheless covered by the owner-parent's high deductible medical plan. In that situation the owner's HSA cannot be used to pay for medical expenses for those covered dependents who file their own income tax returns.

For example, suppose the owner's 24-year older daughter is employed and files her own Form 1040 income tax return. This means that the daughter is not eligible to be claimed as an income tax dependent on her parents' Form 1040 income tax return. The daughter may be enrolled

"To use HSA funds for a dependent's medical expenses, the dependent must specifically be claimed as a dependent on the HSA owner's income tax return."

Health Savings Accounts – A New Retirement Savings Strategy?, continued

in her parents' qualified high deductible health insurance plan until she attains age 26, but her parents' HSA cannot be used to cover their daughter's medical expenses. Since the daughter's medical expenses cannot be paid from her parents' HSA, she may need to establish her own HSA for her own medical expenses. Because the daughter is covered by her parents' high deductible health insurance plan, she will be able to open her own HSA which allows her to contribute up to the maximum family contribution of $6,750 to her HSA. Accordingly, the parents could contribute up to $6,750 to their HSA, and their daughter could contribute another $6,750 to her own HSA, and the parents could be the source of funds for the contribution to their daughter's HSA with an annual exclusion gift to her.

"... the clear purpose of the HSA account, which is to pay for medical expenses tax-free when needed, should not be forgotten."

There is a growing popularity in opening and saving for retirement through HSAs. Because the HSA is such a valuable opportunity to make investments with all of these tax savings benefits, a danger exists that some HSA owners might forgo necessary medical care simply to avoid depleting their HSA to pay those current medical expenses. While some view an HSA as a supplement to their retirement savings, the clear purpose of the HSA account, which is to pay for medical expenses tax-free when needed, should not be forgotten.

If you are interested in establishing an HSA, you might want to read the Morningstar "2017 Health Savings Account Landscape" to learn what fees various providers charge to maintain an HSA. Another source of information is HealthEquity's blog post: "How much does an HSA cost?" to determine how much you might actually save in income taxes if you contribute to an HSA. There are tax-savings calculators at: www.hsacenter.com/hsa-calculators.html.

The State of Social Security and Savings

Chris A. Middleton, CTFA
Executive Vice President
Director of Retirement Plan Division

In 2021, more than 65 million Americans received Social Security benefits totaling, in aggregate, more than one trillion dollars. In April of each year, the trustees of the Social Security trust fund are supposed to report on the current and projected status of this highly relied upon program. Last year, the report was not published until August 31, but we are still hopeful these extensive reports will be released sooner this year. Regardless, most experts agree that the summary will be inline with 2021, which predicted the combined asset reserves of Social Security's Old-Age and Survivors Insurance and Disability Insurance Trust Funds would become depleted in 2034, with 78% of benefits payable at that time.

This harrowing reality is not a new epiphany. It was around the year 2000 when the tipping point was documented, showing the outflows of the Social Security system outpacing the inflows. We know the number of workers retiring each year (and becoming Social Security beneficiaries) continues to increase more rapidly than the number of workers replacing them. This phenomenon has been exacerbated thanks to the recently coined 'Great Resignation,' in which over 3.4 million American workers dropped out of the work force since early 2020. In addition, American lifespans continue to lengthen, requiring larger than expected payments per beneficiary. A deadly combination for an already wobbly actuarial system.

Unfortunately, and perhaps not surprisingly, very little political progress has been made over the last two decades to remedy this obvious math problem of the Social Security system as we know it. Difficulties for the system are on the horizon and a course correction is inevitable, but there is no way benefits will go away completely. There are simply too many elderly citizens relying on this program for a significant portion of their retirement security.

A silver lining is the United States retirement system, which has been up and running for several decades to help ensure retirees won't be completely reliant on the Social Security system. Although savings rates need to continue to increase, 401(k) account balances are growing. Over the last year, Americans' average savings levels have jumped 13%. According to Vanguard's 2021 How America Saves Survey, the average 401(k) balance for ages 45-54 is now $161,079 and moves up to $232,379 for the 55-64 age group. It is hard to determine how much the average account balance should be for such a large population set, because personal retirement savings goals differ based on the type of lifestyle one

"… most experts agree that… the combined asset reserves of Social Security's Old-Age and Survivors Insurance and Disability Insurance Trust Funds [will] become depleted in 2034…"

The State of Social Security and Savings, continued

"... it is encouraging to see average retirement plan balances continuing to climb as the Social Security projections continue to wane."

may want to pursue during retirement.

Despite increased saving levels, recent impacts of inflation have grabbed the attention of retirees. In June 2021, 41% of those surveyed indicated they were "very concerned" or "somewhat concerned" that the value of their retirement accounts might not keep pace with inflation. Perhaps John D. Rockefeller was on to something when he answered the question "How much money is enough?" by saying "just a little bit more." Regardless, it is encouraging to see average retirement plan balances continuing to climb as the Social Security projections continue to wane.

With all of the complexities revolving around our Social Security system, it can be easy to feel discouraged or disenchanted. Increasing numbers of retirees with longer life spans, decreasing numbers of contributing workers, and recent inflationary pressures create an ominous picture for the Social Security system as we know it. Fortunately, the retirement plan industry and prevailing wisdom of large portions of the US working population have led to decades of savings in order to increase their chances of retiring with dignity. In total, American retirement account balances now exceed $32 trillion dollars, and that is significant progress by any standard! The Greenleaf Trust Retirement Plan division remains proud to assist our corporate clients to ensure the more than twenty thousand participants we serve are more prepared for retirement.

How to Donate Wisely and Avoid Charity Scams

Lauree K. VanderVeen, CTFA
Vice President
Senior Trust Relationship Officer

The COVID pandemic, and now the war in Ukraine, continue to significantly impact the world and pull on the heart strings of many, leaving them searching for ways to help. In times like these, the number of organizations bidding for your donations generally increases. As urgent needs present, the decision to donate may be an emotional and quick decision. In the haste to contribute, it is easy to fall prey to scammers trying to take advantage of unsuspecting donors. If you are considering making a significant gift, it is important to research the charity to ensure your donations are reaching and helping those you desire to assist.

Individuals are regularly inundated by direct mail, emails, phone calls, crowdfunding sites, and other online giving platforms all competing for your charitable donations. Deciphering the quality of a charity is difficult and complicated, but there are a few simple ways to become more informed about the organization to which you are considering donating. When choosing a charity, consider the following before donating:

> "Deciphering the quality of a charity is difficult and complicated, but there are a few simple ways to become more informed..."

1) Research the legitimacy of the charitable organization by obtaining the Employer Identification Number (EIN): Any legitimate US charity must obtain an EIN from the Internal Revenue Service (IRS). Before donating, ask the charity for their EIN then visit the IRS website (IRS.gov) and use the Tax-Exempt Organization Search (TEOS) tool to confirm the tax-exempt status. The TEOS tool also allows you to also search by name, specific database, city, state or country. If the charity does not have an EIN, do not give without much more research.
2) Request information directly from the charity. A representative from the non-profit should be able to provide information on the charity's goals, how many have benefited, and what the accomplishments have been over the last several years. Request literature, the latest annual report and a copy of the Form 990. The IRS Form 990 Series are informational tax forms that most (but not all) nonprofits must file annually. The form provides details about the organization's finances and activities, including grants, fundraising fees, program revenue and employee salaries. Other helpful information can be found in the mission statement, the audited financial statements, and a list of the board of directors. These details are important to review, but charitable financial reporting can be difficult to analyze for donors who do not have a financial background. There are many services that take a deep dive into the non-profit's financial reports and offer

How to Donate Wisely and Avoid Charity Scams, continued

donors assistance in determining the strength of the organization. Details regarding these services are discussed later in this article.

3) Utilize IRS Publication 78 to determine the classification of charity and the allowable amount reportable on an individual tax return. Obtaining a recommendation from your tax advisor is important for this step, but if you want to investigate, utilize the Tax-Exempt Organization Search tool (referenced above) to search for the charity in Publication 78 data. The information is easy to find and will help confirm the gift will be classified as a charitable donation and determine the deductibility limitation. Charitable organizations are classified differently (e.g., a public charity, private operating foundation, supporting organization, or private foundation), and the type of organization and the use of the contribution will determine the deductibility limitation. Tax-Exempt does not always mean your donation will be tax deductible. Request the charity's tax-exempt letter which will indicate its status with the IRS. If a charity does not have this letter, you cannot confirm your donation will be tax deductible. (Note: not all eligible donees are listed in this database).

"Reviewing a charity by visiting a well-known charity watchdog rating service is helpful."

4) Research a non-profit using a charity rating service. Rating charitable organizations is not a simple task. There are many factors to consider and not all non-profits are required to report the same information, making it difficult to compare apples to apples. Reviewing a charity by visiting a well-known charity watchdog rating service is helpful. There are numerous options available to investigate non-profits. The services are not all the same, but for the most part, each organization rates a charity on several aspects such as mission statements, governance, audited financial statements, tax forms, annual reports and transparent communications. The following are a few of the more popular watchdog services:
   - ◊ GuideStar (www.guidestar.org): GuideStar lists information on every nonprofit registered with the IRS as tax-exempt, as well as data on former nonprofits. The organization states it is the world's largest source of nonprofit information, providing data on more than 900,000 public charities, over 100,000 private foundations and nearly half a million other exempt organizations in the United States. There are two versions of GuideStar. The free version provides basic information about the charity's mission, EIN number, and contact information. For a fee, more detailed information is provided on the charity financials and operations.
   - ◊ Charity Navigator (www.charitynavigator.org): This organization uses a star rating system to rate hundreds of thousands of charitable organizations. It provides insights into a nonprofit's financial stability,

adherence to best practices for accountability and transparency and results reporting. The site is easy to use and offers additional information including several Top 10 Lists for the best and worst charities and helpful tips for donors. This site is supported by public donations. The company does not accept any advertising or donations from the organizations it evaluates. Some of the information can be accessed for free. For more detailed analysis, a registration fee is required.

- ◊ Give.org (www.give.org): This organization is a part of the Better Business Bureau (BBB). Their mission is to verify the trustworthiness of publicly-soliciting charities. The company completes rigorous evaluations based on twenty BBB standards for Charity Accountability addressed in four areas: governance, results reporting, finances, and truthful transparent communications. According to the website, there is no charge to charities for the assessment, and the reports are freely accessible at Give.org.
- ◊ CharityWatch (www.charitywatch.org): This company claims to be the only truly independent charity watchdog in the United States. The goal of the organization is to complete an in-depth analysis of the charity finances to provide donors with a clear understanding of how their cash donations are being spent. The service reports an independent grade, determines the percentage amount spent on programs relative to overhead, and calculates the cost to raise $100. Ratings metrics, governance, transparency, salaries, analysts' notes, articles and alerts are also provided. This non-profit is supported from public donations. It offers two types of membership options for individuals. The free option provides access to reports for top-rated charities and allows you to save charities to your personalized list, while the paid option for a $50/month tax-deductible membership offers everything included with the free version along with unlimited access to detailed reports for over 600 charities.

With nearly two million non-profit organizations to donate to, deciding which organization to support can be a challenge. There are always scammers looking for opportunities to take advantage. Fortunately, there are no shortages of good charities providing great help to those in need. With a little time and research, donors can find an organization that successfully supports their desired impact or cause. Before making any charitable gifts, contact your tax advisor and your client centric team for assistance.

"With nearly two million non-profit organizations to donate to, deciding which organization to support can be a challenge."

Broken Windows and Diversification

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Have you ever wondered why diversification in your portfolio matters?

Before we answer the question, have you ever heard of Michel de Nostradamus?

Nostradamus was born December 14, 1503 in Saint-Remy, France during the Renaissance. He was a physician and an astrologer, and was regarded for his insight and ability to foretell what the future held. In 1547, he began making long-term predictions, which were published in his 1555 book entitled Les Prophesies. This 16th century seer gained fame when he seemingly predicted pivotal events in world history that purportedly occurred centuries later.

In the markets, there is no sage who can accurately predict individual company related factors, industry trends, world occurrences, supply and demand, investor sentiment or government actions with pure exactness. Markets change in real time based on many factors affecting stock, bond and other asset prices. Prediction is of questionable value unless its degree of accuracy and regularity is known with precision.

> "Diversification is a portfolio tool used to ward against market risk."

So, what does Nostradamus have to do with diversification? It can be explained with a broken window analogy.

What happens when a baseball is thrown at a window with a single pane of glass? The entire window shatters.

Now, what happens when a baseball is thrown at a window divided into four panes of glass? Only one quarter of the window shatters.

Lastly, what happens when a baseball is thrown at a window divided into seventy-two panes of glass? Phew! Only one of the seventy-two panes of glass shatters.

The point of the analogy is unless you are Nostradamus and can also predict with precision, you never know when the baseball will be thrown, but when it happens, what type of window would you want to own? It would be a good idea to have a multi-pane window that minimizes the damage.

Diversification is a portfolio tool used to protect against market risk. For investors, one of the most important considerations is managing portfolio risk. Diversification is the practice of building a portfolio with a variety of investments that have different expected risks and returns.

Owning a broad, diversified mix of investments is "best practice" in managing a portfolio in order to lessen the impact of the proverbial baseball being thrown. Combining stocks of differing industries, countries and risk profiles, along with other investments such as bonds, alternative assets, cash and cash alternatives can reduce an investor's overall risk. The varying asset classes work together to reduce permanent loss of capital and overall volatility. Over the long term, spreading risk across differing investments increases overall investment success.

Holding investments which react differently to the same market or economic event is why diversification matters. For example, when the economy is expanding, stocks will tend to perform better than bonds. On the other hand, when the economy is contracting, bonds tend to have better returns. When the markets move from growing to slowing, an investor can reduce their chances of losses by holding a mixture of both stocks and bonds.

Greenleaf Trust constructs diversified portfolios built on our clients' financial plans, balancing their appropriate investment objectives along with their ability and willingness to accept risk. The market landscape is ever-changing, yet Greenleaf Trust's adherence to diversification is built on a disciplined, long-term orientation to serve our clients well in reaching their financial goals.

Since there is no oracle known to predict with precision when a baseball will be thrown at your window, diversification matters.

"Over the long term, spreading risk across differing investments increases overall investment success."

Stock Market Pulse

Index	4/29/22	Total Return Since 12/31/2021
S&P 1500	942.64	-12.85%
Dow Jones Industrials	32,977.21	-8.73%
NASDAQ	12,334.64	-21.00%
S&P 500	4,131.93	-12.92%
S&P 400	2,500.26	-11.65%
S&P 600	1,214.72	-13.01%
NYSE Composite	15,615.25	-8.34%
Dow Jones Utilities	999.90	2.84%
Barclays Aggregate Bond	2,131.31	-9.50%

P/E Multiples	4/29/22
S&P 1500	20.5x
Dow Jones Industrials	17.7x
NASDAQ	43.8x
S&P 500	21.1x
S&P 400	16.0x
S&P 600	15.7x

Key Rates

Fed Funds Rate	0.25% to 0.50%
T Bill 90 Days	0.82%
T Bond 30 Yr	3.00%
Prime Rate	3.50%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	942.64	20.5x	1.52%
S&P 500	4,131.93	21.1x	1.51%
Dow Jones Industrials	32,977.21	17.7x	1.96%
Dow Jones Utilities	999.90	19.3x	3.22%

Spread Between 30 Year Government Yields and Market Dividend Yields: 1.48%

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