GREENLEAF® TRUST

Perspectives

A Greenleaf Trust Newsletter

NOVEMBER 2013 VOLUME 22, ISSUE 11

William D. Johnston
Chairman, Greenleaf Trust

Team Birmingham Growth 5

Are IRAs as Protected from Creditors as Qualified Retirement Plan Accounts? 7

Utilizing Debt to Increase Wealth 8

The Generation Skipping Transfer Tax 11

Does Portfolio Equity Capitalization Weighting Matter? 13

Economic and Market Commentary

Last month as my article was going to print all that we could say was that we hoped neither party grabbed the third rail of default and that, at worst, we could hope that the proverbial can was kicked enough distance down the road to allow for some sense of direction with respect to current budget as well as legitimate structural deficit reduction action. In the end, what we got was a well kicked can launched at best three months down the road, and default avoided at least as long.

There is a great deal of speculation about winners and losers in the latest round of "last to blink" politics, and most of that analysis falls along philosophical lines. Markets, as we know, like a strong sense of direction and generally react poorly to the unknown. What the markets learned was that current fiscal budgets will be managed very short-term, legitimate deficit reduction will continue to be stalemated, and default as a concept was tested. The lack of appetite for structured default signaled to the market that the concept will be placed far on the upper shelf and not likely to be carted out again.

Reports of damage done to the economy from the government shutdown are within a tight range and currently supported by near-term data releases. If anyone doubted the impact of sequester and a government shutdown on a fragile economy, this month's data releases should settle the argument. Earlier this year we offered that our GDP growth was functioning in the high 2% range, and that absent of the sequester we would be observing growth above 3%. In combination with the sequester, the government shutdown has now slowed the economy to the low end of the 2% range and quite possibly slightly below it.

A review of the data table we have been providing on a quarterly basis since the depth of our recession in 2009 shows a clear interruption in our incremental but sequential growth quarter over quarter (see page 3). Critically important areas of job creation, housing, manufacturing, auto sales, durable goods orders and consumer confidence all took a downturn in the last reporting period. None of this is surprising. One would have to live under a rock to avoid hearing and reading daily of the impending

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Commentary, continued

doom both parties were about to deliver to the citizens who elected them. In essence, public sector payrolls (now 51 % of all employed), took a hit that the private sector could not replace and, once again, we saw below 200,000 jobs created in the month of September. October's results will be released this Friday and it is unlikely that we will see 150,000 jobs for the month. As the focus on shutdown and default permeated the mass media, consumers held cash dear and consumer confidence plunged by ten points. As we know, consumers drive over 70% of our GDP growth and when the consumer stops so does our GDP growth.

Those expecting to sell real estate that they held on to during the recession found that the strong housing sales market of 2013 disappeared and days-on-market for existing as well as new homes sky rocketed. Peeling back the layers of the onion in employment statistics reveals 22,000 lost jobs in housing construction during September. Some of this is seasonal in the upper Midwest and Northeast; however, the numbers were reflective of a halt, not a slowdown. Mortgage rates ticked down for the month and now rest at a level (4%), which should provide fuel to the housing engine. Unfortunately, unemployment and low consumer confidence are trumping low cost-to-borrow.

"One would have to live under a rock to avoid hearing and reading daily of the impending doom both parties were about to deliver to the citizens who elected them."

Consumer spending and the Purchasing Manager Index are reflective of stagnation, which is an apt description of where we are at. Slow growth economies are vulnerable to geopolitical as well as self-imposed damage. It is clear from the data shown at right that we have just experienced the self-imposed damage.

What is likely to change by the congressional deadlines of the last continuing resolution to fund the government? The path could take a few directions but we suspect it will be driven by the same redundant ideology on both far ends of the political spectrum. Fiscal conservatives will require current year budgets to be smaller (even if smaller is actually more money but lower growth relative to inflation). They will also propose current and future reductions in entitlements such as Social Security and Medicare. Net reduction in corporate income tax is also likely to be a large part of their equation to growing our way out of the current doldrums. Left-of-center progressives will see entitlements as untouchable and tax reform as an opportunity to add more revenue to the federal coffers. We can see that the divide between the two is both wide and deep. Irrespective of how reasonable the conference committee appointees are, if they are not empowered to strike a deal that angers most, yet receives enough votes to pass, we will find ourselves to be driving on a roundabout that leads us to the same intersection we just experienced.

DATA POINTS	Q1 2010	JUNE 2010	SEPT 2010	APRIL 2011	JULY 2011	JULY 2012	SEPT 2012	FEB 2013	OCT 2013
LABOR FORCE	153.2 million	154.4 million	154.1 million	153.4 million	153.4 million	153.5 million	154.6 million	155.6 million	155,015 million
EMPLOYED	138.9 million	139.4 million	139.2 million	139.8 million	139.3 million	139.6 million	142.01 million	143.5 million	143,333 million
INITIAL JOBLESS CLAIMS	452,000	457,000	453,000	388,000	422,000	408,000	359,006	357,000	367,000
UNEMPLOYMENT RATE PERCENTAGE	9.7%	9.7%	9.6%	8.8%	9.2%	9.2%	8.1%	7.7%	7.6 %
AVERAGE UNEMPLOYMENT DURATION	31 weeks	34.4 weeks	33.6 weeks	39 weeks	39.9 weeks	40.3 weeks	39.2 weeks	36.9 weeks	39.6 weeks
CONSUMER CONFIDENCE	52.3%	63.3%	48.5%	63.4%	58.5%	60.1%	70.3%	59.7%	73.1%
PURCHASING MANAGERS INDEX	60.4%	59.7%	54.4%	61.2%	55.3%	51.6%	49.6%	51.7%	51.7%
NON-DURABLE GOODS ORDERS	$206 billion	$226.0 billion	$216.7 billion	$245 billion	$248.9 billion	$251.0 billion	$248.0 billion	$255.0 billion	$249.12 billion
DURABLE GOODS	$179 billion	$192.0 billion	$191.2 billion	$200 billion	$195.6 billion	$201.0 billion	$198.0 billion	$232.0 billion	$198.6 billion
DOMESTIC AUTOS SOLD	165,656	189,000	146,000	195,288	198,000	199,000	199,899	203,000	177,564
CONSUMER SPENDING	$10.3 billion	$10.4 billion	$10.37 billion	$10.7 billion	$10.7 billion	$10.8 billion	$11.2 billion	$11.4 billion	$11.162 billion
NEW HOME SALES	308,000	300,000	288,000	301,000	319,000	460,000	373,000	411,000	374,000
NEW HOUSING PERMITS	650,000	574,000	569,000	517,000	612,000	620,000	803,000	946,000	827,000
NEW HOUSING STARTS	605,000	593,000	598,000	479,000	560,000	571,000	294,000	917,000	749,000
CREDIT MARKETS									
MUNI BOND BUYER INDEX YIELD	5.2%	5.17%	4.87%	5.7%	5.25%	4.23%	4.19%	4.15%	3.67 %
DOW JONES CORP. BOND INDEX	4.30%	4.14%	3.45%	3.93%	3.70%	2.79%	2.72%	2.58%	2.61%
YIELD GAP ON DJIA TO BOND INDEX	-3.1%	-2.84%	-2.31%	-2.85%	-2.65%	-1.25%	-1.17%	-1.24%	- 1.07 %
TEN YEAR TREASURY	3.85%	2.97%	2.54%	3.47%	2.99%	2.00%	1.56%	1.83%	2.61 %

"Slow growth economies are vulnerable to geopolitical as well as self-imposed damage. It is clear from the data shown … that we have just experienced the self-imposed damage."

Congressional and administration leaders have taken time off after the passage of the last continuing resolution to stump for gubernatorial candidates of their respective party as well as a handful of special elections in congressional and senatorial districts. Their job, of course, is to measure the tone of the electorate. We are not hopeful that the process will reveal much to them. Last month's article on gerrymandering effectively renders the normal political heartbeat check mute. Once the scheduled elections of November are over we can expect the rhetoric that precedes the conference committee's

Commentary, continued

> "The Fed signaled… that they will be data-driven in their tapering decision… the data strongly suggests that we will not see tapering until well into 2014."

report to increase. If it follows the normal cling to the extremes we will know the direction is headed towards the same shutdown precipice. If, on the other hand, we hear that leaks of the conference committee include actual suggestions of the inclusion of longer-term entitlement restructuring as well as near-term stimulative reforms, we could hold out some limited hope of an actual budget for an entire fiscal year.

The Fed signaled at its last two FOMC meetings that they will be data-driven in their tapering decision and clearly the data strongly suggests that we will not see tapering until well into 2014. The markets have reacted positively to the Continuing Resolution as well as the Fed's signal regarding tapering. The real test going forward for the market will be how to reconcile modest P/E levels but gradually slowing earnings and top line growth created by the challenges of a stagnant economy.

Team Birmingham Growth

Michael F. Odar, CFA
President

Back in January of this year, I wrote an article about our client-centric team in Birmingham—Wendy Cox, Trust Relationship Officer; Steve Christensen, Wealth Management Advisor; and Julie Weston, Team Service Coordinator. All are continuing to do well, growing, and most importantly making an impact for clients. As our organization has grown over the years, we typically operated by a philosophy of 'add talent when talent is needed.' Well, we have come to realize that we are always in need of great talent, and when opportunities knock we should open the door. Recently, we opened the door and welcomed two new talented members to our team in Birmingham and are excited to introduce them to you.

In his role as Business Development Officer, Bruce Kridler leads our new business development efforts in southeast Michigan. Bruce joins us from Huntington National Bank in Birmingham, Michigan, where he spent the last 16 years of his career working in various positions throughout the bank. Most recently he was in the Wealth Advisors Group as the Senior Vice President–Manager/Director of Business Development. Prior to that, he was in the Private Financial Group in Private Banking as the Senior Vice President–Manager and also held the Vice President–Sales Leader role in the Private Financial Group for Huntington. Previously, Bruce spent many years in education in such roles as Director of Alumni Development and Director of Admissions at Cranbrook Schools. He serves on several boards including the Birmingham/Bloomfield Chamber of Commerce, Variety the Children's Charity, the Holocaust Memorial Center, the Michigan Parade Foundation, Tanahill Society of the Detroit Institute of Arts, the Reception Committee of the Detroit Economic Club, and the Planned Giving Committee of the Beaumont Hospital Foundation. He earned a bachelor's degree in sociology from Denison University and did doctoral work in industrial and organizational psychology at George Washington University in Washington, DC.

In her role as Trust Relationship Officer, Sharon Conran manages Personal Trust client relationships and provides services relative to Greenleaf Trust's role as trustee, agent and/or custodian. Sharon comes to us from Comerica Bank, Inc. where she spent the last 16 years of her career as a Trust and Estate Administrator.

"... we have come to realize that we are always in need of great talent, and when opportunities knock we should open the door."

Birmingham, continued

Sharon was responsible for administering estates and trusts through the estate administration process, providing legal review of documents, asset collection, funding, distributions of assets, discretionary distributions and estate tax filings. Her emphasis was on compliance of fiduciary duties, state, federal and banking rules and regulations. Sharon is the Secretary and Board Member for Elder Law of Michigan and has been active in this role since 2010. Prior to Comerica, Sharon was an attorney for Berry, Francis, Seifman, Salamey & Harris, where she practiced law in the areas of estate planning, probate, contract law, municipal law and personal injury. Sharon has her Associate in Science, with a focus in Accounting/Computer Programming, from Davenport University; her Bachelor of Business Administration, focus in Finance, from Western Michigan University; and her Juris Doctorate from Michigan State University of Law. Sharon is also a member of the State Bar of Michigan and Elder Law of Michigan.

If you'd like to join us in our efforts to conserve natural resources and create a greener environment, you may choose to save paper by receiving email notifications to view your statement online.
Simply give us a call at 269.388.9800 and ask to speak with a member of your client centric team.

Are IRAs as Protected from Creditors as Qualified Retirement Plan Accounts?

Chris A. Middleton, CTFA
Vice President
Asst. Director, Retirement Plan Div.

Most of you know that Qualified Retirement Plan (QRP) accounts, such as 401(k)s and pension plans enjoy the full federal account protections offered under the Employee Retirement Income Security Act (ERISA). It is well documented that these QRPs are the most insulated and legislatively protected investment accounts one can have. Legally speaking, the only parties that can pierce a QRP are spouses, or more technically, ex-spouses and significant others through court orders concerning child support, judgment of divorce, or judgment of separate maintenance. Of course, there are some different rules concerning treatment of QRPs in bankruptcy, just ask pensioners from the City of Detroit (but that is a whole different newsletter article).

It is often assumed that IRAs should be just as protected as QRPs, but State law, as opposed to ERISA, largely determines the protections offered under IRAs. Many states, including Michigan, have attempted to draft legislation that closely mirrors ERISA type protection for IRAs. As you would imagine, the language is not exactly the same. Regardless, the overarching ideal for these State laws are to allow IRAs to be similarly protected from judgment debtors.

Legal insight is best gained through adjudication and case rulings. Unfortunately, there are not enough cases to provide great clarity as to how courts will actually rule in varying circumstances. For instance, the Michigan statute provides exemption for "an IRA," causing legalists to question whether multiple IRAs would share the same protections as a single IRA. This may seem like a silly argument but courts have heard attorneys debate much more trivial items than this.

A more common inquiry might revolve around a physician looking to ensure that a medical malpractice claim could not attach itself to a personal IRA. Although additional case law would help provide further clarity, it appears Michigan State law is attempting to insulate the IRA from such a claim. Of course, complicating the fact pattern could affect a court ruling. For example, there was a similar case noted where a doctor used his IRA to collateralize a bank loan. The courts ruled that this action provided a conduit into the IRA for creditors to access this account. The moral

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Are IRAs Protected? continued

of the story is to avoid exotic arrangements within IRAs if you want fundamental protections.

We would all like answers to financial questions to be simple, quick, easy, objective, and always consistent. Unfortunately, that only exists in theory, and IRA protections are no exception. Although recent Michigan law goes a long way to provide additional IRA protections, only forthcoming court rulings will determine the precedent we will all rely on in the future. In the meantime, we at Greenleaf Trust are prepared to assist those with QRP and IRA questions.

Allison L. Birmingham
Wealth Management Advisor

Utilizing Debt to Increase Wealth

Seemingly contradictory to the wealth management process, many affluent or high net worth individuals are challenged when it comes to effectively managing their current cash flows, liquidity and overall debt. Liability management is as simple as managing utility bills, college bills, travel, planning for children, grandchildren, etc. Individuals feel more satisfaction and empowerment when they are in control of the "simple" liabilities which results in saving more and spending less, as opposed to solely relying on portfolio performance to achieve long-term goals.

Debt and leverage are often used interchangeably; however, the terms are very different. For purposes of this article, *debt* is used by individuals to make large purchases they otherwise could not afford; *leverage* is a financial instrument, or margin, that increases the return on an investment. For example, a mortgage on a principal residence is long-term debt; alternatively, a long-term note on an income-producing piece of real estate is leverage.

Most individuals make financial decisions sparked by emotions – fear of taking action or not taking action, and grief. The same emotions that weigh on investment decisions also weigh on debt decisions. Individuals with very similar backgrounds and financial positions could have opposing perspectives on the use of debt, mostly based on life experiences. As financial advisors, just as with every other piece of a client's financial plan, it is our role to be a council, not pitching products but creating and outlining an appropriate use of vehicles to

achieve the end goal. In order to ensure we understand an individual's perspective from a rational basis, but also emotional, past experiences and any negatives they have associated with debt or leverage must be considered. As advisors, we must understand the decision-making process our clients go through and their emotional comfort level with debt. Once this is clear for both parties and leverage is pursued, coordination between the use of debt and the client's overall wealth management and strategic plan should be utmost important.

Oftentimes it makes better sense to utilize leverage to make large acquisitions (purchasing a business, etc.) rather than liquidating marketable securities. Corporate America has a history of utilizing leverage by matching longer term assets with longer term liabilities, as a way of enhancing returns that they generate for their shareholders. The same is true with personal wealth. Personal wealth can be enhanced if sensible uses of leveraging debt are utilized. Individuals tend to get into trouble when they have massive exposure of liability, especially when they take on debt for lifestyle purposes, as opposed to wealth accumulation purposes.

Another consideration is coordinating tax efficiency with the use of debt. The federal government has taken steps back and forth with regards to allowing taxpayers to deduct interest from debts owned. Though we are not tax advisors, we can assist in a manner of which we advise and help our clients understand the countless number of rules they may face when restructuring debt and the tax benefits or consequences that may be associated.

When debt or leverage becomes part of a wealth management strategy, it is likely a result of one of the following:

1. using a residence as collateral for debt
2. utilizing a home equity line of credit
3. borrowing for investment purposes
4. borrowing against the cash value of life insurance

Using a Residence as Collateral for Debt.

This remains the primary use of debt in the United States. Interest paid on mortgage debt is tax deductible, with certain limitations. Individuals may deduct tax on mortgage debt on a primary and secondary residence; however, the total cumulative amount of debt cannot exceed $1 million.

Home Equity Line of credit.

A home equity line of credit allows an individual to utilize the equity that is built up in their home as the basis for securing financing, primarily for home improvements. It is used as a way to enhance an individual's spending ability for personal lifestyle choices. Home equity lines of credit

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Debt to Increase Wealth, continued

"Even with the highest net-worth individuals, there will come a time that cash flow crunches create a requirement for… funds that do not cause the rest of their financial plan to be disrupted."

are tax deductible for interest purposes on the home equity line, up to $100,000 of debt. In combination with primary and secondary mortgages, you may deduct interest up to $1.1 million of debt secured by a primary and secondary home.

Borrowing for Investment Purposes.

When an individual borrows money for the purpose of making investments, the interest on the loan is tax deductible to the extent of investment income. Investment income can be offset up to the amount of interest paid on the initial loan amount.

Borrowing Against the Cash Value of Life Insurance.

For an individual needing access to liquid funds, they may consider borrowing against the cash value of a life insurance policy as a viable option. When this route is pursued, they are not actually compelled to repay funds because the death proceeds will be reduced at the insured's death by the amount borrowed.

Balancing the needs, goals, and objectives of the client, with the reality of cash flow, often necessitates and dictates the use of debt. Even with the highest net-worth individuals, there will come a time that cash flow crunches create a requirement for the individual to have available a source and means of funds that do not cause the rest of their financial plan to be disrupted. This is where we, as trusted advisors, can help our clients rationalize, understand, and grasp the use of debt and leverage to enhance their overall wealth management experience.

The Generation Skipping Transfer Tax

Wendy Z. Cox, JD, CTFA
Trust Relationship Officer

There are three forms of transfer tax, that is, a tax on transferring property from one person to another. Most people are familiar with the general provisions regarding estate and gift tax. Each person has an exemption, or amount that can be shielded from tax, of $5 million indexed for inflation. The 2013 indexed exemption is $5,250,000. This means a single individual can either gift during lifetime or exempt from tax at death $5,250,000 in assets. Anything above that amount will be taxed at 40%. There is also an annual gift tax exclusion which for 2013 is $14,000. The transfer tax that receives the least attention, but which is substantial if not properly dealt with, is the Generation Skipping Transfer tax (GST).

The GST tax was enacted to make certain that estate tax was collected at each generational level. Prior to GST, it was possible to place money into trust for children, grandchildren and great-grandchildren and only pay estate tax at the parent's death. The end result in some cases was that individuals with larger wealth were paying less estate tax than individuals with smaller wealth. To resolve this inequity, the GST tax was enacted. Trusts that were irrevocable prior to September 25, 1985 are considered "grandfathered" for GST purposes and extreme caution should be used before making any changes to those trusts.

GST uses special terminology so we begin with some general explanations. A generation skipping transfer is a transfer of property by gift or death to a person who is two or more generations below that of the transferor. The most common transfers would be to grandchildren or great nieces and nephews. The person receiving the property is called the skip person. (There is an exception if the child predeceases the parent. In that case, the grandchild stands in the shoes of the child and is no longer a skip person.) There is a lifetime GST exemption which is also $5 million indexed for inflation, and an annual GST exclusion which matches the gift tax annual exclusion (i.e. $14,000 for 2013). Anything not covered by the exemption is taxed at 40%.

There are two types of transfers—direct skips and indirect skips. A lifetime gift, an outright bequest or an irrevocable trust directly to or for a grandchild are examples of direct skips. A direct skip in excess of the annual exclusion amount must be reported on the Form 709 Gift

"The GST tax was enacted to make certain that estate tax was collected at each generational level."

Generation Skipping Tax, continued

Tax Return. With a direct skip, the transferor is responsible for paying the tax so the skip person receives the full amount of the transfer.

Indirect skips typically occur in trusts created for the benefit of both non-skip and skip persons. These transfers can take place two ways—taxable distributions and taxable terminations. A taxable distribution occurs in a trust that provides the trustee has discretion to pay income or principal to a child or a grandchild. If the trustee distributes to the grandchild, that distribution will be subject to GST. A taxable termination occurs when a trust is held for a child for the child's life and then passes to a grandchild. The death of the child creates a taxable termination and GST tax. For both taxable distributions and taxable terminations, the transferee is required to pay the tax so the skip person receives less than the full amount of the transfer.

Since it has taken three paragraphs to explain the basics of GST, you may be saying to yourself "no wonder no one likes to talk about GST," and "why would I ever want to talk about GST?" There are many situations where GST planning is useful for both tax planning and family planning purposes. The IRS gives you the power to determine how to allocate your GST exemption. (If you do not allocate GST, the IRS has "deemed allocation" rules which will allocate GST for you.) This allocation is made on either the Form 709 Gift Tax Return or the Form 706 Estate Tax Return, or both. For optimal results, a GST exempt trust will be funded with assets with the greatest growth potential to allow the assets to pass to future generations transfer tax free. Once the exemption is allocated to the trust, the growth is also exempt.

"... GST planning can be a powerful tool for passing wealth to successive generations."

There are a variety of scenarios in which GST planning is useful. In a situation where a child stands to inherit a sizable estate and already has substantial wealth herself, a GST trust can be set up for the child's lifetime and provide protection against creditors and divorce, and estate and GST tax can be avoided at the child's death or by the grandchildren. GST trusts are also useful where a parent feels it is in the child's best interests to be protected from excessive spending, divorce or other issues. GST trusts are also appropriate where a grandparent wants to make sure the grandchildren are appropriately cared for and that estate tax is not incurred at the child level.

In spite of its complexities and terminology, GST planning can be a powerful tool for passing wealth to successive generations. To make certain that your GST planning is a success, we recommend that you consult with your estate planning counsel, your accountant, and your team at Greenleaf Trust.

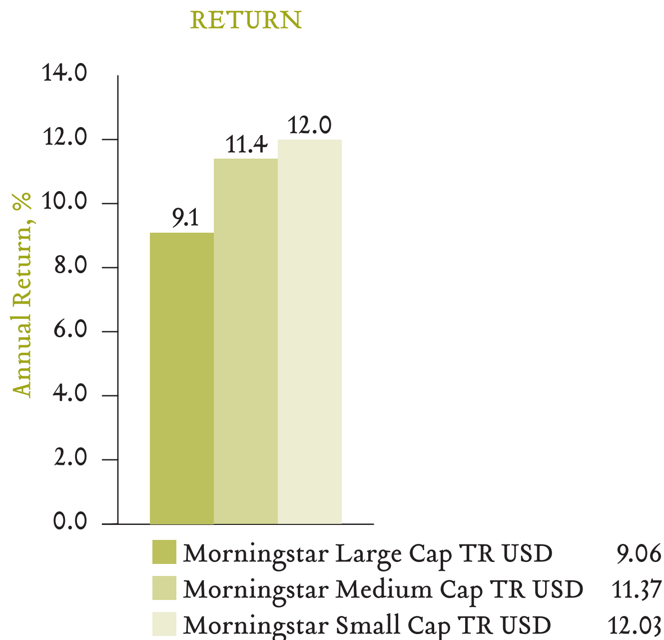
Does Portfolio Equity Capitalization Weighting Matter?

Michael A. Storms, CFA
Research Analyst

The question of equity capitalization weighting has become more popular in the last couple of years due to the divergence of returns amongst small-, mid-, and large-cap equities. Small- and mid-cap equities (as measured by Morningstar) have a trailing one-year return (through September 30, 2013) of 29.8% and 29.1%, respectively. This compares to 18.2% for large-cap equities. This dynamic can change from year to year. The first question is "What are the long-term return characteristics of each capitalization weight?" The second question is "What is the volatility associated with each of these groupings?"

Most long-term indices indicate that the performance of small-caps is greater than that of large-cap stocks by an annual rate of 1%-2%, depending on the source and timeframe. Small-caps also outperformed mid-cap stocks, but to a much lesser extent (less than 1% annually). Below is a chart that presents the long-term (approximately 22 years) returns of the three capitalization weights as indicated by Morningstar:

RETURN

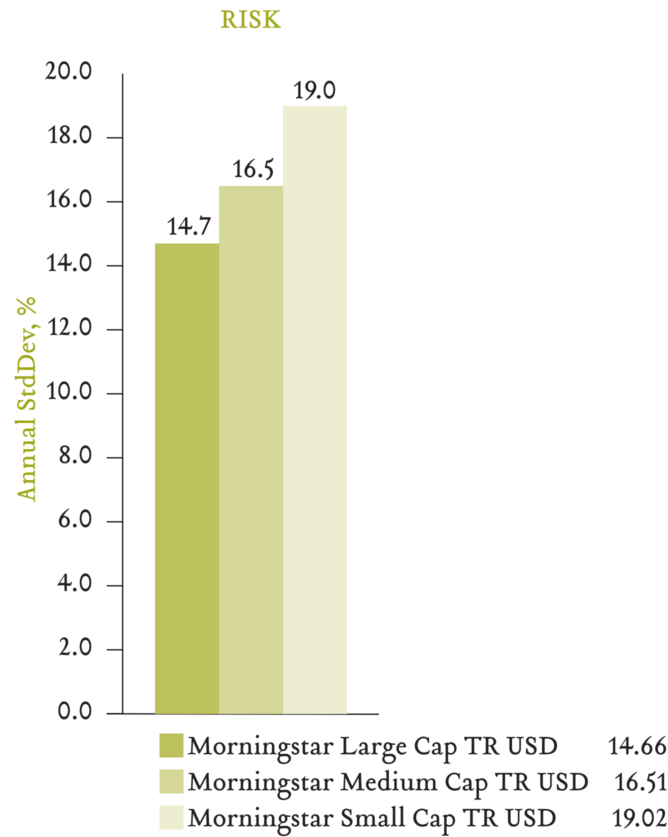


"Most long-term indices indicate that the performance of small-caps is greater than that of large-cap stocks ..."

The incremental return associated with small and mid-cap stocks in comparison to large-cap stocks does not come without increased volatility (a component of risk). Otherwise, everyone would invest their entire equity portfolio in small-cap stocks. Consequently, the greater the return, the greater the risk associated with the return. Below are the

Capitalization Weighting, continued

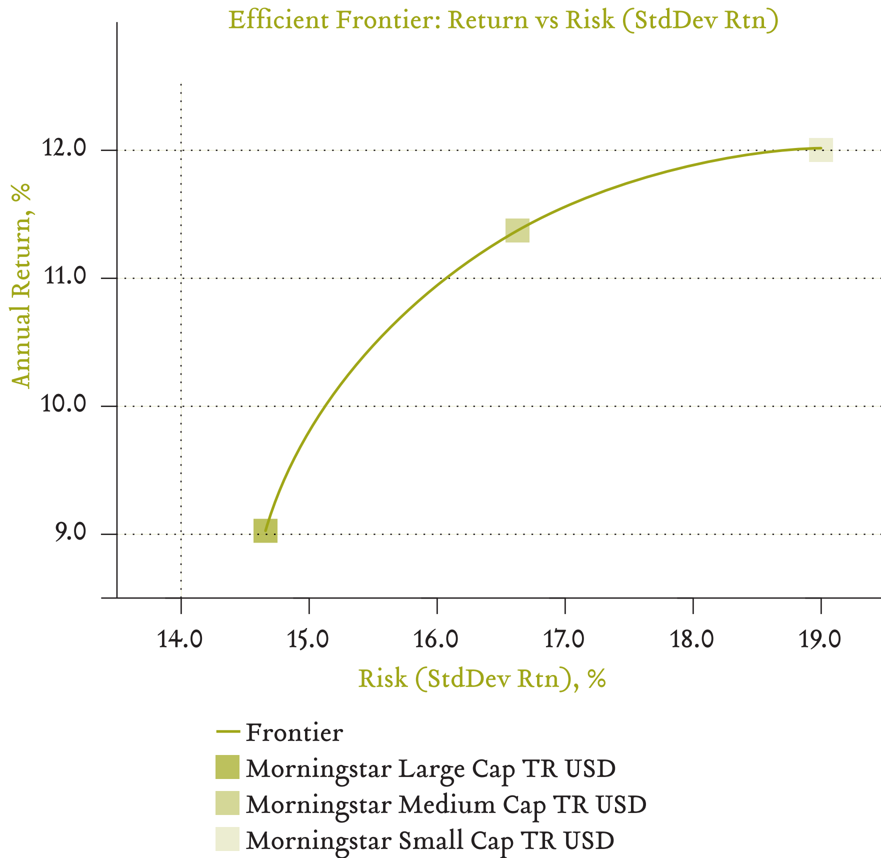
risk characteristics (measured by standard deviation) of the three cap weight indices as indicated by Morningstar.



"… there is a significant difference in the volatility levels amongst the different cap weights."

As you can see from the chart above, there is a significant difference in the volatility levels amongst the different cap weights. Given the return/risk characteristics, it is necessary to understand these metrics in combination with each other. The best way to do this is by running an efficient frontier analysis. An efficient frontier incorporates the standard deviation and return characteristics, along with the correlation between the various indices.

The graph at right presents the efficient frontier on the three Morningstar Cap indices. This efficient frontier indicates that if the investor can withstand high levels of volatility for long periods of time, the investor should invest 100% in small-cap stocks. However, most investors fall into the category at some risk level below the level indicated by investing 100% into small-cap stocks. Consequently, an investor's allocation amongst various cap weightings can have a material impact on the long-term risk and return characteristics of an equity portfolio. As many investors say, "there is no free lunch" when it comes to investing in the equity markets.



"As many investors say, "there is no free lunch" when it comes to investing in the equity markets."

The other primary factor that can impact the volatility and returns of an equity portfolio is the number of individual holdings (stocks) held in the portfolio. If an investor has a large number of holdings (such as index funds) across multiple indices, cap weight allocation can be the primary reason for out/under performance relative to the market. Conversely, if an investor holds a limited number of stocks (30-50 stocks), cap weight allocation will not be the primary factor for out/under performance relative to the market. Stock selection will be the primary factor that will impact the performance of the equity portfolio. In other words, the performance of a handful of small-cap stocks in a 50-stock portfolio will depend largely on the fundamentals specific to those companies and may diverge materially from a small-cap index fund with 400 small-cap stocks. Consequently, cap weight allocation matters much more for mutual fund equity portfolios than for individual equity portfolios, though we pay close attention to our clients' allocations in both strategies.

Stock Market Pulse

Index	10/31/13	Total Return Since 12/31/2012
S&P 1500	408.06	25.79%
DJIA	15,545.75	21.09%
NASDAQ	3,919.71	31.14%
S&P 500	1,756.54	25.30%
S&P 400	1,289.18	27.81%
S&P 600	629.27	33.30%
NYSE Composite	10,009.65	18.55%
Dow Jones Utilities	499.87	13.83%
Barclays Aggregate Bond	107.90	-1.18%

P/E Multiples	10/31/13
S&P 1500	16.2x
DJIA	14.2x
NASDAQ	19.2x
S&P 500	15.7x
S&P 400	20.1x
S&P 600	21.3x

Key Rates

Fed Funds Rate	0% to 0.25%
T Bill 90 Days	0.18%
T Bond 30 Yr	3.63%
Prime Rate	3.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	408.06	16.2x	1.97%
S&P 500	1,756.54	15.7x	2.05%
DJIA	15,545.75	14.2x	2.32%
Dow Jones Utilities	499.87	NA	3.93%

Spread Between 30 Year Government Yields and Market Dividend Yields: 1.67%

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