Perspectives

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Economic Commentary

The past two weeks gave everyone who watched the Republican and Democratic conventions the opportunity to hear two very different descriptions of the current and future economic landscape. Polling data suggests that neither party moved the needle of public opinion and that the Presidential race remains very close; absent the hoped for "cliff dive" by either candidate, it will remain so until election night. Dissecting the polling data by registered, likely voters or swing states doesn't at this point provide any substantially different take, it is by almost all measures, too close to predict.

The Republicans are, as expected, focusing on a very fragile recovery and high unemployment. Those without a job and those frustrated with meager recovery results will listen to their message. If the President wins re-election, he will be the first to do so with +8% unemployment and his opposition knows that this is his soft underbelly.

The Democrats' mission is to demonstrate improvement, promise that it will get better and blame the Republicans for being obstructionists. In 2008, the Democrats outspent the Republican party, outmaneuvered them on the social media front and rallied their strongest base to get out the vote. Democratic and independent voter turnout was very high, led by strong union efforts, and the result was a popular and electoral college thrashing.

Like all sitting Presidents, Mr. Obama must own the economy. Inherited or not, only a few will give him a pass on the current state four years into his term. More importantly, even they must have hope that the next four years will be better under his leadership. It is not likely that the Republicans will be outspent this cycle, and they will be better on the social media side, all of which promises to keep their base in the game, so to speak. The victor, then, will be the candidate and party that gets more of their base to the polls than the other party, as independents are more evenly split in current polling data than they were in 2008. Interest, enthusiasm for a candidate and fear cause election turnouts, and both parties know that. The next eight weeks will be filled with attempts by

Commentary, continued

each party to fill the interest, enthusiasm and fear buckets. As said many times before, truth will be the victim during that time period.

Economic activity remains in a mixed state with continued incremental improvement. Clearly the Democratic party wishes the data was stronger and the Republican party is in the not-so-flattering position of wanting the data to remain anemic through the election. Let's examine the facts of our current state and avoid the spin that both parties will have plenty of.

One year ago we had a temporary spike in inflation to 3.6%; today, that annual unadjusted rate is 1.4%, down from the previously reported 1.7%. For those inflation hawks the current data gives them very little to hang their Fed-tightening rhetoric on. In fact, there has been more inference by Fed Chairman Bernanke about deflation worries than concerns about price containment. Both the workforce and unemployment rate remained stable over the last two reporting periods with some slight improvement in hours worked, overtime paid, average wage paid and duration of unemployment. We were edging dangerously close to 41 weeks duration of average unemployment a year ago and at the last reporting period the duration shrank to 38.8 weeks and registered one full week less than last month. We know that weak expansion will not quickly cure the employment landscape and we should be prepared for some uglier results ahead as overall government workforce levels continue to decline.

> "Economic activity remains in a mixed state with continued incremental improvement."

During the post World War Two era of the 50s, 60s and 70s, those employed by government — i.e. federal, state or municipalities — were approximately 18% of the total workforce. During the next three decades, and partly due to a more professionally-staffed military, the level of those employed by government rose to approximately 48% of the workforce. Forty six of the fifty states in our country are now facing a financial crisis that has seriously negative employment and therefore GDP implications. Most states in the United States operate with similar budget constraints which essentially prohibit deficit spending. Little known to the average citizen however is the fact that state and local municipalities routinely spend reserves in anticipation of future income. The housing crisis created massive devaluation of real estate upon which most state and municipal governments earn tax revenue. Five years into the real estate depression, state and local governments are hard against the depletion of reserves and the reality that revenue will not increase quickly enough to lessen the burden of expenses exceeding revenue. Inclusive of benefits, human capital costs

average around 86% of all state and local expenditures which means that there is yet another shoe to drop with respect to those employed by government. Hiring rates among government agencies during the past three years has been the lowest in three decades, and now we will see an outright reduction in employment, salaries and benefits. Like many entitlement programs, this problem is both structural and very painful in the near term. Private sector employment growth must accelerate to absorb the anticipated flow of layoffs from the state and local levels for the unemployment rate to simply stay at current levels. Much of the angst between Governors and government service workers over the past two budget cycles has been precisely about this issue and we can now expect to see it at the local municipal township and village levels as well. Some have forecast a needed reduction in government workforce of nearly four million employees, representing about 6% of the government workforce. This is approximately the same number of jobs lost when the economy collapsed in 2008/2009. High unemployment and, therefore, reduced consumer confidence will be with us for a while longer.

Real estate brings a bit more joy to the equation. The Case-Schiller data is trending a bit more positive in price stabilization, days on market, gap between asked and offered contracted price and value increase. Low mortgage rates and a bit easier access to credit has kept the cost to own competitive with the cost to rent, which has resulted in increased permits, housing starts and residential investment. Housing is a total of 6% of our economy, yet it is an important segment that has a strong multiplier effect. We have often said it will be difficult for our economic growth rate to pick up much if housing stays weak. Though not necessarily a confirmed trend, the housing data is none the less welcomed.

Consumer confidence took a dip month over month but is stronger than a year ago and is not reflected in consumption, inventories, orders and trade. An examination of orders shows a consistent increase in durable goods, factory orders, backlog, non-durable goods and purchasing managers index; this is good news and we will monitor the future reports closely. Consumption, of course, is the determining force for future production demand and August's numbers across most consumption indicators were not as strong as June's and July's data. This marks the second month of softer consumer data and is not the type of developing trend we want to see. It is, as we have said repeatedly before, a mixed bag with respect to indicators and only slightly incrementally better than last

"Real estate brings a bit more joy to the equation."

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Commentary, continued

month. Overall, our GDP grew at 1.7% for the second quarter and is progressing at barely 2% growth on an annualized basis. If you were expecting a stronger growth picture in 2012, the data does not support your expectation.

Europe has been out of the news for a few weeks which has allowed the two parties in the United States to have the media stage. It appears that the silence will be short-lived. Mario Draghi, the newly elected President of the European Central Bank, is having the understandable difficulty of keeping fellow central bankers unified and in line with his previous strongly worded commitment to support the Euro. Unification and Eurozone should not be used in the same sentence and Mr. Draghi's critics are to be expected, which is perhaps why they are not receiving the attention they were seeking. Still, they represent the fundamental issues yet plaguing the Euro — disparate interests, cultures, governments and entitlements which, combined with slow growth, mature economies and the remembered historical fears of hundreds of years of European conflicts, make a unified approach to Euro support difficult at best. The only positive is that the passage of time has continued the capitalization of weak European banks, and deleveraging out of Greek and Spanish debt, making for a more orderly recapitalization of both countries. The good news here is modest and is reflected in the current equity and bond markets.

The Most Important Thing is to Keep the Most Important Thing the Most Important Thing.

Steven J. Christensen, CTFA
Wealth Management Advisor

It has been said that the value of money lies in its usefulness. Intuitively investors understand this concept well and typically define portfolio risk as "impairment of capital" resulting in a decreased likelihood of achieving financial goals. Wealth Managers equipped with endless amounts of market and portfolio data have a tendency to quantify risk differently, using esoteric mathematical measures like standard deviation, Sharpe ratio, beta to a stated benchmark (always engineered and sometimes blended) and downside capture, just to name a few. These opposing views of portfolio risk often create a disconnect between investors and their advisors on how true financial success is measured.

Fiduciaries committed to goals-based investing must first gain a genuine understanding of their client's financial goals so appropriate recommendations can be prescribed. What are your dreams? What keeps you up at night? What goal would cause the most pain if it were not achieved? These are just a few examples of the types of questions that are typically asked to gain a sincere understanding of an investor's goals. In our experience, the answers to those questions are typically qualitative and never involve the use of risk return metric jargon.

Once an investor has expressed his or her goals in non-technical terms it is the advisor's job to translate them into the language of wealth management and investments. The recommendation or plan subsequently presented often integrates a multitude of wealth planning techniques with various investment strategies. The plan should be designed to provide the highest probability of financial success over the long term as measured by the achievement of goals. Shortly after the point of plan implementation, the massive amount of statistical data generated by the portfolio's investment vehicles begins to activate its' own gravitation pull and so starts the diversion from the goals based conversation.

> "The plan should be designed to provide the highest probability of financial success over the long term as measured by the achievement of goals."

Take for example an investor with a $10,000,000 portfolio committed to limiting annual spending to a constant 4.5% of the portfolio's principal value as measured at the end of each previous year. In this example the investor is likely to view success as dollars received annually and the viability of receiving the same amount, if not more, in the years following. A well-intentioned advisor immersed in the piles of statistical

Most Important Thing, continued

market and portfolio data may be inclined to focus on how the portfolio performed mathematically compared to the universe of alternatives available in the market.

Year 1	
Beginning Value	$ 10,000,000.00
Total Portfolio Return Of 8%	$ 800,000.00
Annual Spending	$ (450,000.00)
Year End Value	$ 10,350,000.00
Benchmark Return Of 10%	

Year 2	
Beginning Value	$ 10,350,000.00
Total Portfolio Return Of -10%	$ (1,035,000.00)
Annual Spending	$ (465,750.00)
Year End Value	$ 8,849,250.00
Benchmark Return Of -20%	

Year 3	
Beginning Value	$ 8,849,250.00
Total Portfolio Return Of 5%	$ 442,462.50
Annual Spending	$ (398,216.25)
Year End Value	$ 8,893,496.25
Benchmark Return Of 5%	

"Risk metrics can be useful... but portfolio evaluation should always remain a goals-based conversation."

At the end of year one, the investor is happy to have received $450,000 and delighted to know that income for year two has grown by 3.5% despite an apparent 2% underperformance of the portfolio compared to the benchmark. Year 2 is a completely different story, with the account out-performing its benchmark by a massive 10%. However, the investor will be subjected to a 14.5% decrease in projected year three income when compared to the previous year. A simple example, but it demonstrates my point.

Risk metrics can be useful to gauge progress as it relates to achieving financial goals, but portfolio evaluation should always remain a goals-based conversation. Are we accomplishing what we have set out to do? Are we on track to achieve the stated goals? Portfolios are not an ends in themselves, but a means to an end. Measuring the success of an investment portfolio as it relates to accomplishing goals, not by statistical measures, allows investors and their advisors to maintain focus on the most important thing.

Research in Focus: Markets and Methods.

Greenleaf Trust invites you to a timely and informative seminar on the importance of research-based investing, and why news headlines can be distractions from generating long-term returns.

Led by our research analysts, topics of discussion will include:

- Recent market activity and looming fiscal concerns
- The extent to which media headlines impact our investment positioning
- Revisiting Greenleaf Trust's strenuous equity test
- Q&A with attendees

HOLLAND
Wednesday, October 3, 2012 | 8–9:30 am
Breakfast will be served.
Holland Area Arts Council
150 East 8th Street, Holland

GRAND RAPIDS
Wednesday, October 3, 2012 | 11:30 am–1 pm
Lunch will be served.
Cascade Hills Country Club
3725 Cascade Road SE, Grand Rapids

PETOSKEY
Wednesday, October 10, 2012 | 11:30 am–1 pm
Lunch will be served.
Bay Harbor Yacht Club – Lange Center
4300 Vista Drive, Bay Harbor

TRAVERSE CITY
Wednesday, October 10, 2012 | 6–8 pm
Cocktails and hors d'oeuvres will be served.
The Hagerty Conference Center
NMC Great Lakes Campus
715 E. Front Street, Traverse City

BIRMINGHAM
Wednesday, October 24, 2012 | 6–9 pm
Cocktails, hors d'oeuvres and dinner will be served.
Zazios
34977 Woodward Avenue, Birmingham

KALAMAZOO YEAR-END REVIEW
Tuesday, December 4, 2012 | 6–8 pm
Cocktails and hors d'oeuvres will be served.
The Radisson Plaza
100 West Michigan Avenue, Kalamazoo

GREENLEAF® TRUST

Wendy Z. Linehan, JD
Trust Relationship Officer

Estate Planning Readiness

The death of a loved one and the process of grief are always difficult. Having to deal with legal and financial issues while grieving is not optimal. Understanding the process of grief, and taking a hard look at the different personalities of our heirs while we are living, can make the process easier. When I practiced law, we did a great deal of lifetime planning for a family in which the children were going to receive unequal shares because some were involved in a family business and some were not. We spent hours discussing with the patriarch and the children what would happen and why. When the time came and the children had to face their father's death, they thanked us for the time spent discussing what would happen, so that they could now be together as a family and focus solely on grieving their father. The ultimate planning success!

More often, however, I received calls that sound like this: "My sister-in-law went in the house and took everything," "My sibling isn't taking care of everything like he's supposed to," "I don't know what's happening with the estate," "This isn't what my father wanted!" Most of these issues are caused by two things—failure to talk to each other about the realities of death and disability, and failure to respect that we all grieve differently.

"Having to deal with legal and financial issues while grieving is not optimal."

Anytime children are being treated unequally or there is a significant bequest that is not going to the children, it is important that they be prepared ahead of time. Right or wrong most children have the expectation that they will be inheriting the money and that it will be split equally; thus, if at the time of death the facts are different people are unprepared to deal with it. As with many things, preparation is the key.

The other mistake that people make is failing to recognize that their heirs have different personalities and that death will not fix whatever the family issues are. Most families have some level of dysfunction and whatever issues exist in a family before death are often magnified after death. This is because people are trying to reconcile their relationships as part of the grief process. Sometimes tension is caused by things as simple as different grieving styles. Most people fall into two categories that I call "fast grievers" and "slow grievers." The fast grievers deal with their grief by wanting to take care of everything right away—clean out the house, pay the bills, divide the assets. The slow grievers want to leave everything just as it was at the time of death, and they will deal with the other issues when they are ready, usually several months

post-death. When these two types of people are grieving the same loss, tension arises. Other common mistakes people make include:

1) Appointing children who don't get along as co-trustees. If your children don't get along while you are alive, they won't get along after you are gone. Appoint a corporate fiduciary or independent third party.
2) Appointing the child who is the oldest or closest physically. Appoint the child who is best suited to make the necessary decisions without regard to birth order or proximity, or appoint a corporate fiduciary or independent third party.
3) Putting children on assets jointly "for convenience." 99 times out of 100 the child made joint will say "Mom wanted me to have it." Work with your attorney and financial advisors to make certain that assets are properly titled and consistent with your estate plan.

Personal property is the single biggest source of dissension. This is because unlike money, the personal property can have a sentimental attachment. It is a remembrance of a loved one. I have watched people spend thousands of dollars and never speak to each other again over who got the china. I once received a telephone call from the police because my client and her sister were on opposite sides of their mother's purse and neither would let go. If the court and attorneys are forced to divide the personal property, the choices are to sell it all, or have the parties draw straws and then have the parties take turns picking. Of course, then the parties argue over what constitutes an item (i.e. is the dining room table and four chairs one item or five items?). This is no fun for anyone involved.

There are a number of ways to avoid this issue. You can gift personal property of special importance during your lifetime, you can have family members put different colored stickers on items (although I once saw the in-law change the stickers), or the law in most states permits you to make a list that is signed and dated stating who should get what piece of property.

Most of us don't enjoy talking about these issues, but it is better to discuss and plan ahead of time than risk a permanent family rift. To make certain that your family is a planning success, we recommend that you consult with your estate planning counsel and your Greenleaf Trust Relationship Officer.

"Most of us don't enjoy talking about these issues, but it is better to discuss and plan ahead of time than risk a permanent family rift."

Lorey L. Matties
Participant Services Coordinator

Investment Advice Regulations for Retirement Plan Participants

The U.S. Department of Labor's (DOL's) Employee Benefits Security Administration (EBSA) recently issued a final regulation to enhance retirement security by improving retirement plan participants' access to quality fiduciary investment advice. The regulation clarifies the rules permitting service providers to directly advise plan participants. The new regulation strongly underscores the DOL's recognition of the benefits of participant advice programs and is the latest development in the evolution of participant investment advice.

"The new regulation strongly underscores the DOL's recognition of the benefits of participant advice programs..."

Evolution of participant advice

When the Employee Retirement Income Security Act (ERISA) was enacted in 1974, defined benefit (DB) plans were dominant. In DB plans, sponsors generally were the decision-makers, determining a plan's investments for the ultimate benefit of participants. The shift to defined contribution plans, such as 401(k) plans, has led to growing recognition that participants need education and access to professional investment advice to make sound investment decisions.

The Pension Protection Act of 2006 (PPA) amended ERISA to create a new statutory exemption from the prohibited transaction rules to expand the availability of fiduciary investment advice to participants in 401(k)-type plans and individual retirement accounts (IRAs), subject to certain safeguards and conditions.

The new rule is the end of a nearly three-year regulatory process to implement the PPA's prohibited transaction exemption. In the regulation, the DOL continues its advocacy of qualified advice programs. Robust advice, the DOL believes, can result in fewer investment errors and, therefore, potentially greater retirement readiness for participants and their beneficiaries.

Overview of the final regulation

Under the final regulation, investment advice may be given in one of two ways for a plan to qualify:

1) Through the use of a computer model that is certified as unbiased by an independent expert, or
2) By an adviser who is

compensated on a "level-fee" basis, meaning that the fees do not vary based on any investments selected by the participant.

Either type of investment advice arrangement must satisfy several other conditions and safeguards, including the disclosure of the adviser's fees and an annual audit of the arrangement to ensure compliance. The final regulation also states that all prior DOL investment advice regulations, exemptions, interpretive, or other guidance is to remain effective.

Key benefits for plan sponsors and participants

The key benefit for participants will be the accessibility of quality, expert investment advice under the platform of their 401(k) plan, therefore assisting with better investment allocation decisions and diversification.

For the plan sponsor, there's the peace of mind of knowing that the DOL supports investment advice, and now there is finalized guidance confirming what sponsors' fiduciary responsibilities are with respect to advice. Under the final regulation, fiduciaries are not liable for the outcome of the advice, as long as they follow the right procedures for selecting and monitoring advice programs.

As part of our commitment to our core value of continuous improvement, the Greenleaf Trust Retirement Plan Division has been diligently researching investment advice programs. We anticipate further guidance to our plan sponsors by year end 2012.

"The key benefit for participants will be the accessibility of quality, expert investment advice under the platform of their 401(k) plan…"

Stock Market Pulse

Index	8/31/12	% Change Since 12/31/2011
S&P 1500	324.01	13.27%
DJIA	13,090.84	9.13%
NASDAQ	3,066.96	18.64%
S&P 500	1,406.58	13.51%
S&P 400	971.55	11.61%
S&P 600	457.91	11.21%
NYSE Composite	8,014.93	7.19%
Dow Jones Utilities	468.21	3.72%
Barclays Aggregate Bond	112.37	3.50%

P/E Multiples	8/31/12
S&P 1500	13.7
DJIA	16.9
NASDAQ	15.6
S&P 500	13.4
S&P 400	16.3
S&P 600	17.7

Key Rates

Fed Funds Rate	0% to 0.25%
T Bill 90 Days	0.10%
T Bond 30 Yr	2.68%
Prime Rate	3.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	324.01	13.7x	2.16%
S&P 500	1,406.58	13.4x	2.26%
DJIA	13,090.84	16.9x	2.56%
Dow Jones Utilities	468.21	NA	3.97%

Spread Between 30 Year Government Yields and Market Dividend Yields: 0.52%

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