GREENLEAF® TRUST

Perspectives

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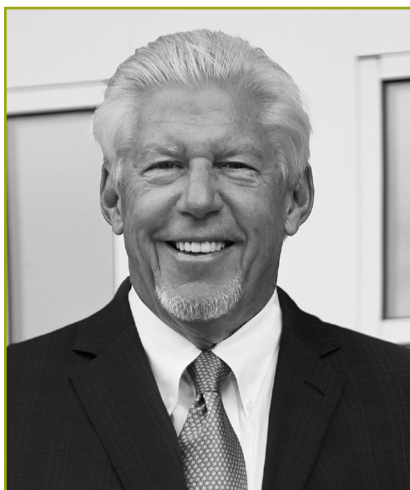

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Chairman, Greenleaf Trust

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Economic Commentary

As we enter our seventh month of the COVID-19 pandemic in the United States, our current condition appears to be more of the same with conditions changing marginally in some areas. Cases spiked in July and early August and have been trending downward in some regions while remaining stubbornly unchanged in others. As we put this newsletter together, our case total is nearing six million in the US with 182,000 deaths. Per day case identification is approximately 46,000 which has fallen from the 56,000 per day case rate average in early August.

Colleges and Universities have had a rough start to on-campus classes and residence occupancy as the off-campus life remains difficult if not impossible for academia to control. Youth, a large dose of immortality combined with immaturity and alcohol (sounds and feels familiar when I reflect upon my undergrad years) doesn't mix well with social distancing, wearing a mask and avoiding large crowds. As a University Trustee, I know very well the huge and complex Rubik's Cube logistical nightmare of trying to assure student, faculty and staff safety while simultaneously offering the full opportunity of a meaningful educational experience. Impossible is the term that comes to mind.

Similar challenges face the world of K–12 education. No one individual wants to be the spreader of a disease that has the potential for fatal outcomes to those with comorbidities. The concept of asking students, faculty, bus drivers, custodians and support staff to come together in potentially compromised settings that allow for increased spreading capacity must and I think is being taken seriously by all involved. Most parents and educators know that virtual learning is neither optimal nor equitable, and the thought of one more semester of remote/virtual learning pleases almost no one. Perfect solutions are not obvious nor attainable and we are left to compromises and individual solutions based upon individual circumstances. If there were ever a choice where "one size doesn't fit all," this is it.

Much of our country's workforce is impacted by the choices families are faced with this fall. Working families have always had to balance work, school, child care, after-school activities, nutrition, academic

Commentary, continued

support and family life. Under current conditions, all of the above remain on the list, yet the typical "school" setting is now at home and much of the supplemental child care support has been fractured if not totally unavailable. The multigenerational family structure that I, and a good portion of my generation grew up with, where grandparents and relatives lived, if not in the same home then certainly within the same neighborhood, doesn't exist today.

Over the past fifty years we have become more mobile and more dispersed, and with that dispersion our traditional support systems have become eroded. Certainly, technology allows for greater mobility, but the human interaction of caring for one another cannot be replaced by software and technology. Organizations of all types will be tasked with the requirements of partnering with their employees to manage the duplicity of work and family life responsibilities in this pandemic. Daycare and pre-K education is very individualistic within our country. As with most responsibilities that are left to the individual, those with the greatest resources have better opportunities to manage the outcomes. Access to data, internet and technology has never been more valuable. The ability to deliver those resources to children within a home where virtual classrooms are the expected norm is a huge advantage to that child's continuing educational growth. The disparity between those with the resources to be at their child's side in every sense of the word and those without the resources to do so only magnifies the inequity of the outcome.

"The disparity between those with the resources to be at their child's side in every sense of the word and those without the resources to do so only magnifies the inequity of the outcome."

Chaos brings opportunity. The infrastructure system in our country does not just include airports, seaports, highways, energy and communication networks. Access to wireless internet with sufficient bandwidth to participate fully in society in today's world is an essential part of that infrastructure system. More than ever, in both rural and urban communities, the evidence of lack of access will become transparent and with that transparency laid bare, hopefully the resolve to solve that access will surface.

The New York Federal Reserve's Weekly Economic Index (WEI) released this week registered -4.91. As we mentioned when we first introduced this index, the New York Federal Reserve combined several real time economic indicators focused on production, labor and consumer activity as a proxy for understanding where we are currently with respect to GDP. This index allows us to understand the difference between current conditions and measure that condition in relationship to the previous week, year or relevant point in history. The current reading of -4.91 is an improvement over last week and continues the trend in improvement since the bottom reading of -11.45 recorded on 5-20-20. The bottom WEI reading in the recession of 2008/2009 was released on 2-28-09 at -3.93.

What the index reveals is that activity relative to production, employment and consumption is still very much in deep recession territory but is improving. As with any post-recessionary period of recovery, we would expect the improvement to be inconsistent and variable from week to week and month to month, yet it is a barometer worth watching.

Continuing claims for unemployment was released as 14.5 million individuals and unemployment at 10.2%. Consumer confidence improved ever so slightly to 74.1% from the previous month's reading of 72.8%. The needle hasn't moved much in unemployment to increase consumer confidence, and those receiving unemployment benefits recently received a significant reduction in benefits when combined with state as well as federal benefits. As we know, GDP is driven by consumer activity. Demand for goods and services will increase when consumers become more confident. What is the magic sauce for that confidence? COVID-19 crushed the demand and unemployment crushed the confidence. Progress on COVID-19 significant enough to alter the condition we are in will be required to increase both demand and confidence.

Both political parties completed their virtual conventions in August. We are sixty days from the 2020 Presidential Election. Nick Juhle and his great research team have put together a webinar on the impact that presidential elections have on financial markets and I hope you will sign up and attend the webinar, I know it to be first rate. Voter turnout will be the key to the election result. Both candidates have made their case and as usual there are few undecided voters. A review of post World War two voting statistics reveals that participation among voting age US citizens has ranged between 50% on the low to 65% on the high end. In 2016 52% of the voting age population participated while 54% of the voting eligible population cast votes. This was a significant reduction from the 2008 and 2012 election when nearly 61% of the voting eligible population participated. As we saw in the Bush/Gore as well as Trump/Clinton election, popular vote doesn't always win the election, rather it is voter turnout and popular vote in the right combination of states that provides the winner with 270 electoral college votes that truly matters. Both parties understand the task before them and will marshall their resources to turn out the vote in those relevant swing states. If you live in one of those states, be prepared to be bombarded by robocalls, postal box leaflets, media ads and knocks on your door, and if you look to the heavens for relief you just might see a plane carrying a banner. The reality is that all of those efforts and monies spent will have little impact on who the individual voter wants to be the next president, that decision has been made. What does matter is the number of voters who, with their already made decision in hand, actually exercise their exclusive right to vote.

"Voter turnout will be the key to the election result. Both candidates have made their case and as usual there are few undecided voters."

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

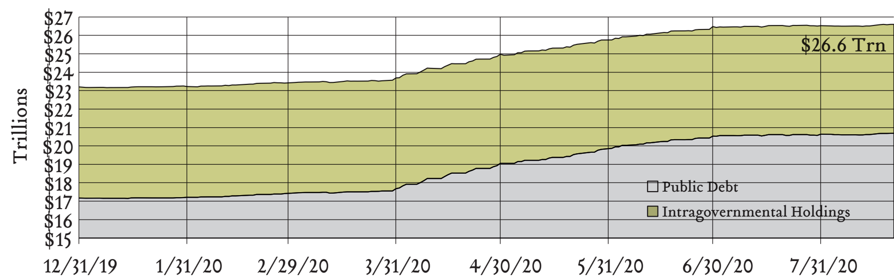
Explaining $3.4 Trillion in About 1,000 Words

Where are we getting all this money?

That's the question I've heard over and over since COVID-19 caused the deepest recession since the 1930s. So far this year, Federal stimulus programs and lower tax receipts have increased the outstanding Federal debt by $3.4 trillion, from $23.2 to $26.6 trillion.

In this article, I will try to answer the question. I will also briefly comment on economic and investment implications of 2020's monetary and fiscal stimulus programs.

United States Federal Debt



"So far this year, Federal stimulus programs and lower tax receipts have increased the outstanding Federal debt by $3.4 trillion…"

Programs Enacted

Fiscal Policy Response (Congress)	Monetary Policy Response (Federal Reserve)
$2.4 trillion in stimulus programs	Fed Funds at 0-0.25%, unlimited QE, lending programs
3/6: $8 bn for state & local response	3/15: 150 basis point rate cut & $700bn Quant Easing
3/18: $192 bn paid sick leave & food assistance	Mar-Apr: $2.3 trillion in available lending programs
3/27: $1.72 trn CARES Act	3/23: Expand QE program to be unlimited
4/24: $483 bn additional small business & healthcare	

Federal Reserve Chair Jay Powell puts it well when he says the Federal Reserve "has lending powers, not spending powers… our elected representatives… wield powers of taxation and spending." The accompanying table details what Congress, through Fiscal Policy, and the Federal Reserve, through Monetary Policy, have done with those powers so far in 2020.

Coordinated Monetary & Fiscal Policy

So, Congress decided to spend $2.4 trillion thus far to combat COVID and the recession.

The Federal Reserve, in pursuing its goals of full employment and stable prices, is implementing unlimited quantitative easing.

How do these programs work together? Let's walk through the mechanics. For simplicity, I am going to ignore some of the sticky legal issues involved with these transactions.

To begin, let's take a look at both sides of the Federal Reserve's balance sheet.

Federal Reserve Balance Sheet			
12/31/19			
Assets		Liabilities	
QE US Treasuries	$2.4 trn	Reserve Balances w/Federal Reserve Banks	$1.6 trn
Agency MBS	$1.5 trn	US Treasury, General Account	$0.4 trn
Repo Agreements	$0.2 trn	Currency in Circulation	$1.8 trn
Other Assets	$0.1 trn	Reverse Repos	$0.2 trn
	$4.2 trn	Other Deposits, Liabilities & Capital	$0.2 trn
		$4.2 trn	

8/21/20			
Assets		Liabilities	
QE US Treasuries	$4.6 trn	Reserve Balances w/Federal Reserve Banks	$2.8 trn
Agency MBS	$2.0 trn	US Treasury, General Account	$1.6 trn
Repo Agreements	$0.0 trn	Currency in Circulation	$2.0 trn
Other Assets	$0.4 trn	Reverse Repos	$0.2 trn
	$7.0 trn	Other Deposits, Liabilities & Capital	$0.4 trn
		$7.0 trn	

Change			
Assets		Liabilities	
QE US Treasuries	$2.2 trn	Reserve Balances w/Federal Reserve Banks	$1.2 trn
Agency MBS	$0.5 trn	US Treasury, General Account	$1.2 trn
Repo Agreements	-$0.2 trn	Currency in Circulation	$0.2 trn
Other Assets	$0.3 trn	Reverse Repos	$0.0 trn
	$2.8 trn	Other Deposits, Liabilities & Capital	$0.2 trn
		$7.0 trn	

A lot of attention is paid to the 'asset' side of the Fed's balance sheet. But, the 'liability' side is just as important. Indeed, the Federal Reserve acts as a 'bank for banks' as well as being the bank for the US Treasury.

So far this year, quantitative easing and emergency lending programs have increased the Fed's assets by $2.8 trillion, primarily through holdings of US Treasuries & Agency Mortgage-Backed Securities. On the liability side, bank reserves are up $1.2 trillion, the US Treasury General account is up $1.2 trillion, and currency in circulation is up $0.2 trillion.

"Federal Reserve Chair Jay Powell puts it well when he says the Federal Reserve 'has lending powers, not spending powers... our elected representatives... wield powers of taxation and spending.'"

Following the Money – 3 Transactions with 4 Participants

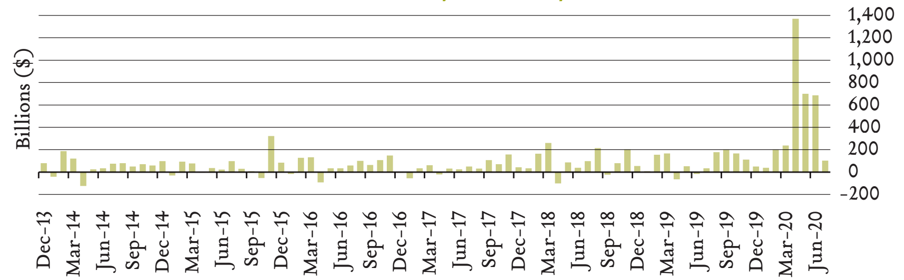
There are four players involved in the flow of funds when the Federal government borrows & spends.

- The US Treasury
- The Federal Reserve
- The US Banking System
- The Non-Banking Private System

How does 2020 deficit spending & quantitative easing impact these entities? Let's follow the money.

Explaining $3.4 Trillion, continued

Net Cash Raised by Treasury Issuance



In April, the US Treasury raised a record amount of money, $1.4 trillion, through the issuance of Treasury Bills, Notes & Bonds. Let's examine the impact of that transaction on our four players.

Transaction #1 – US Treasury raises funds by issuing US Treasury Bonds

US Treasury		Nonbanking Sector		Banking Sector		Federal Reserve	
Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
+ Deposit Account at Fed Reserve $1.4 trn	+ Treasury Bond Payable $1.4 trn	Deposits w/ Banking Sector $1.4 trn + Treasury Bond Receivable $1.4 trn		- Reserve Accounts at Federal Reserve $1.4 trn	- Deposits w/ Nonbanking Sector $1.4 trn		- Deposits w/ Banking Sector $1.4 trn + Deposits w/ US Treasury $1.4 trn

- Here, banking system reserves are drained as the private sector trades their bank deposits for US Treasuries.

"In April, the US Treasury raised a record amount of money, $1.4 trillion, through the issuance of Treasury Bills, Notes & Bonds."

Also in April, the Federal Reserve increased its holdings of US Treasury Securities by roughly $1 trillion.

Transaction #2 – Federal Reserve purchases $1 trillion of US Treasury Securities via Quantitative Easing

Federal Reserve		Nonbanking Sector		Banking Sector		Federal Reserve	
Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
+ Treasury Bond Receivable $1.0 trn	+ Deposits w/ Banking Sector $1.0 trn	+ Deposits w/ Banking Sector $1.0 trn - Treasury Bond Receivable $1.0 trn		+ Reserve Accounts at Federal Reserve $1.0 trn	+ Deposits w/ Nonbanking Sector $1.0 trn		

- Here, banking system reserves are partially replenished as the Federal Reserve injects deposits into the banking system in exchange for US treasuries sold by the nonbanking sector.

Finally, in April, the federal government ran a $740 billion deficit.

Transaction #3 – Federal government runs a $740 billion deficit

US Treasury		Nonbanking Sector		Banking Sector		Federal Reserve	
Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
- Deposit Account at Federal Reserve $740 bn		+ Deposits w/ Banking Sector $740 bn		+ Reserve Accounts at Federal Reserve $740 bn	+ Deposits w/ Non-banking Sector $740 bn		+ Deposits w/ Banking Sector $740 bn - Deposits w/ US Treasury $740 bn

Net it all together, and what do you get?

Net Result of Transactions 1-3:

US Treasury		Nonbanking Sector		Banking Sector		Federal Reserve	
Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
+ Deposit Account at Federal Reserve $660 bn	+ Treasury Bond Payable $1.4 trn	+ Deposits w/ Banking Sector $340 bn + Treasury Bond Receivable $400 bn		+ Reserve Accounts at Federal Reserve $340 bn	+ Deposits w/ Non-banking Sector $340 bn	+ Treasury Bond Receivable $1.0 trn	+ Deposits w/ Banking Sector $340 bn + Deposits w/ the US Treasury $660 bn

Voila! You have what's commonly known as "money printing." $340 billion in new cash deposits of the private sector, held through the US banking system as banking reserves at the Federal Reserve.

Also, take note, these sets of transactions did not necessarily require either (1) raising taxes, or (2) borrowing from a foreign government. The Federal government, unlike the rest of us, is able to create more US dollars when it needs them.

When that $1.4 trillion Treasury Bond becomes due in the future, the government can repeat this same set of transactions without ever necessarily needing to raise taxes. The tradeoff is that they may spur inflation or may impact the value of the US Dollar vs. other currencies.

"Voila! You have what's commonly known as 'money printing.'"

Looking Forward – the Trillion-Dollar Question

Here is the trillion-dollar question. What will happen with the increased banking system reserves? They are likely to go even higher in the short term.

The US Treasury currently holds a record $1.6 trillion in deposits at the Federal Reserve. As Congress implements more deficit spending, those reserves will be converted to banking sector reserves, likely taking banking system reserve balances held at the Fed somewhere near $4 trillion.

Many people believe that inflation will be a natural, inevitable, consequence of this confluence of accommodative fiscal and monetary

Explaining $3.4 Trillion, continued

policy. While we believe consumer price inflation may happen, it depends heavily on whether the funds are spent or saved.

	If Reserves Are Saved	If Reserves Are Spent
Impact	Asset Prices	Goods & Services Prices
Indicators	Interest Rates Stock Market Valuation Real Estate Valuation	Rents Healthcare Transportation

Remember, a similar set of policy tools was enacted after the financial crisis. From 2009-2020, the US experienced its longest expansion in recorded history, 10 years and 8 months. The unemployment rate fell all the way to 3.5%. Outstanding federal debt grew from $11.9 trillion to $23.2 trillion.

In that entire time, inflation only averaged 1.77% per year, below the Fed's 2% target. Money supply, measured by M2, grew at about 6% per year. So, money growth, and greater federal debt levels, do not necessarily lead to inflation.

"From 2009-2020, the US experienced its longest expansion in recorded history... In that entire time, inflation only averaged 1.77% per year..."

What has happened recently, however, is that the price of financial assets has increased. Interest rates have fallen to record lows. Stock market valuations are elevated relative to history. Home prices are at record highs. We refer to this phenomenon as 'asset price inflation'. To us, it indicates that, so far, money has primarily remained in the form of savings.

Could we experience consumer goods inflation? Undoubtedly. Inflation has indeed picked up slightly in certain categories where supply has been constrained by the coronavirus. However, we agree with the Federal Reserve in their assessment that the COVID shock more likely to be disinflationary, as slack in the labor market and goods-producing sectors of the economy is likely to remain elevated in the coming years and the Federal government is already balking at additional fiscal stimulus.

We will continue to monitor these developments closely and will take action to align client portfolios with our outlooks for the economy and inflation. Thank you for your patronage during these interesting times. Please contact a member of your client centric team if you would like to discuss these ideas further.

Sources: Bloomberg, L.P., The Federal Reserve, The Congressional Budget Office, NBER, SIFMA, Department of Treasury

Thumbs up on working for a cool company.

For the fifth time in as many years, Greenleaf Trust has been named a "Cool Place to Work" by *Crain's Detroit Business*. The #2 "cool" firm, as a matter of fact. Is it because of our superb benefits package, collegial teamwork, and offices in Michigan's most dynamic cities? Or is it, instead, because of our emphasis on continuous personal and professional growth, and a corporate culture that puts our clients' interests ahead of our own? The all encompassing answer is, 'Yes!' To see if a cool career is in your future, visit greenleaftrust.com/careers.

GREENLEAF **TRUST**®

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

Attaching a List of Tangible Personal Property to a Will

Many estate plans make use of a list that identifies items of tangible personal property that are to be allocated among designated beneficiaries on the owner's death. The list is usually incorporated by reference into a Will or a Trust, such as: *I may leave a list that is attached to this Will, and if I do so, I direct that such list be treated as a part of this Will and that that the tangible personal property identified on that list be distributed to the designated individuals.*

Unlike the Will, the list is usually prepared by the owner of the items and not the owner's estate planning attorney. Accordingly, the use of an attached list to a Will results in some "do-it-yourself" estate planning, which can lead to problems. This practice of distributing items pursuant to an attached list has evolved over time for several reasons. Often the person who creates their list changes their mind as to who is to receive what item, so over time, multiple lists might be created. Or, the list may need to be periodically updated if a described item is lost, destroyed, or replaced by another item. Perhaps the most practical reason for the prevalence of attached lists is that rather than incur the delay and expense of having an attorney update a Will to make changes in order to specifically bequeath an item to an individual beneficiary, it is easier for the owner to create and update their own list without their attorney's involvement.

"...the use of an attached list to a Will results in some 'do-it-yourself' estate planning, which can lead to problems."

Michigan's law is clear that if a *writing*, or a list, is in existence when a Will is executed, or if the writing or list is prepared even after the Will was signed, the list may be incorporated by reference into the Will, but only if the language of the Will manifests this intent and the Will describes the writing sufficiently to permit its identification.

This practice of incorporating a list of tangible personal property can also be used with a revocable Trust and is usually carried out by the trustee and enforced. However, problems can arise with regard to the validity of the list attached to a Trust if the list is intended as a formal amendment to the Trust, when the Trust instrument directs a precise procedure for when and how a trust amendment will be made and enforced.

A list that is incorporated by reference in a Will takes precedence over a general bequest of tangible personal property in the Will. However, the list must either be in the individual's handwriting or signed by the individual *at the end of the list*, and it must describe the items and the recipients with reasonable certainty. A list that directs the distribution

of tangible personal property among several designated beneficiaries need not have any significance apart from its effect on the disposition of tangible personal property under the individual's Will.

But as a note of caution, *only tangible personal property* may be referenced in a separate list. Therefore, money, evidences of indebtedness, i.e. promissory notes, documents of title, and securities will not be validly disposed by such a list that is incorporated by reference in a Will, since they are items of intangible personal property.

If an individual intends to prepare their own list and attach it to their Will, then consider the following practical drafting pointers to minimize confusion interpreting the list or to avoid conflict among the recipients named in the list.

1. *Multiple lists-supplement or replace?* If one of the reasons that a separate list is used is to periodically enable the list to be easily updated without having to visit an estate planning attorney, then there is a risk is that multiple lists might be discovered after the owner's death. Are the multiple lists to be interpreted as one larger list, or is a later list intended to replace an earlier list? It is difficult to discern what the most recent list is if multiple lists are not dated. Consequently, it is important to both sign the list at the end and also identify in the most recent list if it is intended to supplement or replace an earlier list.
2. *Address When an Item No Longer Exists:* The list should formally address what happens if an item no longer exists at the time of the owner's death. Was the missing item given away during lifetime? Was the item lost or destroyed? Was the item sold or traded for a replacement item? Does the replacement item take the place of the non-existent item? Unfulfilled expectations can lead to pretty wild claims, e.g. "I was supposed to get Mom's diamond ring, which we can't find; I am sure that the ring was worth $10,000, so I will be okay with taking $10,000 cash from Mom's estate as its replacement."
3. *Provide a remedy for missing items:* The list also needs to address what happens if an identified item on the list earmarked for a recipient cannot be found or no longer exists. Does the disappointed recipient get to choose another item that has not otherwise been bequeathed? If an alternate choice is to be provided, is there a dollar limit on the selected replacement item or a limited pool of other items of tangible personal property from which a replacement selection can be made? It is important for an attach list to address this "What if..?"
4. *Use caution when using the word "equal:"* Caution is required when using the word equal to describe who is to receive what under the attached list. A list that says "I leave my jewelry to my grandchildren equally" can be interpreted different ways. Does the use of the word equal mean

"The list also needs to address what happens if an identified item on the list... cannot be found or no longer exists."

Attaching a List of Tangible Personal Property to a Will, continued

each grandchild receives jewelry equal in value, or does equal mean that each grandchild receives the same number of pieces of jewelry in the decedent's jewelry collection? If the word equal is used in the list, the intent behind that word needs to be fully described.

5. *Determining value:* If items or collections of items are to be distributed among a group of recipients, e.g., "I leave my coin collection to my grandchildren in shares of equal value" then the list needs to also contain directions on how values are to be determined so that equality can be achieved among each of the recipients.
6. *Retain records to identify values:* Some items are relatively easy to value, like a Blue Book value for a vehicle. Other items of tangible personal property have their value dependent upon their provenance, like stamps or artwork. If there are no records of an item's provenance it is possible that mistakes might be made in assuming values, or an intrinsically valuable item is overlooked and simply treated as part of a generic collection, e.g. "I give my artwork collection to my grandchildren in shares of equal value." If an item within the collection has a unique provenance, e.g. a numbered Picasso print, then that should be flagged as part of the list with reference to any supporting documentation that may be available (along with where to find that documentation.)
7. *Be alert to items of grossly disparate value:* What happens when one item within a collection, e.g. artwork, coins, stamps, guns, is determined to be of extraordinary value in contrast to the other items within the collection? That one item could cause an estate tax problem for the decedent's estate. If all estate taxes are to be borne by the residue of the decedent's estate, indirectly those beneficiaries who did not receive the item of extraordinary value will end up sharing in the estate tax liability caused by that one valuable item. If there is the possibility of one or a few items in a collection having extremely high values, then the decedent's estate should direct the apportionment of estate taxes to those individuals who receive the most valuable items that cause the estate tax liability. In the absence of this express allocation of estate tax liability, resentment can build if one beneficiary receives an item of immense value yet all beneficiaries are indirectly burdened with the estate tax caused by that one item the others did not receive.
8. *Address estate administration expenses:* Some items of tangible personal property need to be stored, insured and shipped. Leaving a baby grand piano to a grandchild who lives in California can become problematic and cause resentment among beneficiaries if the expense of storing, insuring, and shipping the baby grand piano to California is treated as an estate administration expense, (indirectly borne by all estate

"Leaving an asset to a named individual should also invite the follow up question: 'What if [the named individual] is not living at the time of your death?'"

beneficiaries). It would be wise to condition the bequest of such a large item to the recipient on his/her agreement to pay for storage, insurance and shipping. The same with expensive artwork that must be carefully stored, insured, and shipped to preserve its intrinsic value.

9. *Anticipate ineligibility:* Some beneficiaries may be ineligible to own an item that might be bequeathed to them under a list attached to a Will. A grandchild who is convicted of a felony cannot own a firearm under federal law. What happens to the specific bequest of that gun if that grandchild cannot own the gun that is left to him? Should the grandchild be able to select a replacement item of equivalent value? Can the grandchild direct the personal representative of the decedent's estate to sell the gun and turn over the sales proceeds?
10. *Address survivorship:* Leaving an asset to a named individual should also invite the follow up question: "What if she is not living at the time of your death? Is the specific bequest to her contingent on surviving you? Is the bequest forfeited if she is not then living?" What happens to the identified item?
11. *Add alternate dispute mechanisms:* Death sometimes brings out the best in survivors. Sometimes it can also bring out the worst in survivors due to rampant emotions that surface after losing a loved one. How family heirlooms and items of sentimental value are identified, selected, and distributed fairly can often add to those emotions, particularly if there is not much guidance on questions of selection of item priorities, determining actual values, following a "fair" selection process, and the costs and expenses associated with delivering a specific "big ticket" item to a specific recipients. Rather than thrash out their grievances in probate courtroom under the guise of interpreting an ambiguous list, it would be advisable to require some alternate form of conflict resolution, e.g. mediation, to address disagreements among recipients under a list attached to the owner's Will.

If an individual plans to use a list to earmark specific assets for specific individuals and prepare their own list to carry out those wishes, he or she needs to anticipate and address on some of these potential problems that could exacerbate disharmony or dysfunction among grieving family members. The use of a separate list that is incorporated by reference in a Will is appealing, and in concept simple. However, without some advance reflection, it can also lead to a lot of headaches for the estate's personal representative and acrimony among the owner's survivors.

"Death sometimes brings… out the worst in survivors due to rampant emotions that surface after losing a loved one. How family heirlooms and items of sentimental value are identified, selected, and distributed fairly can often add to those emotions…"

Kathryn Gadbois Schafer, J.D.
Trust Relationship Associate

Adding Childrens' Names to Assets – Don't Do This Yourself

Parents will often add an adult child's name to their bank accounts, home, and other assets, believing it will make it easier for the child to help them manage their finances and their property as they grow older. While this "do-it-yourself" approach is fairly common among aging parents, the truth is that adding your child's name as an owner is often not the best choice for you or your child.

There are two main reasons why you should not include the name of a child (or anyone other than your spouse) on your assets:

- It exposes you to unanticipated liability and risk.
- It will likely deprive your child of an important tax break after your death.

When you add a child's name to your deed, bank accounts, investment accounts, and other assets, you are effectively giving the child partial ownership of your property. In turn, if your child has financial troubles down the road (for example, owing money to the Internal Revenue Service, filing for bankruptcy, or becoming subject to a judgment), a creditor can place a lien on your property and potentially take it to settle the debt.

The same is true when children marry. If your child's name is on your property and they later divorce, the ex-spouse could be entitled to a share of the property – your property.

Also, keep in mind that if you add your child's name on your home or other real property, you cannot sell or refinance without your child's permission, and your child may sell their share without you even knowing about it.

Rather than subjecting yourself to unnecessary risk, there are several other options to achieve your wealth transfer and asset protection goals other than simply adding your child's name to your assets.

> "... the truth is that adding your child's name as an owner is often not the best choice for you or your child."

Tax Implications

If you add your child's name on your property before you die, you also deprive your child of the "step-up basis" at the time of your death – an important tax advantage for your heirs.

The step-up in basis allows your heirs (which can include your children) to only be taxed on capital gains – the difference between the purchase price and the sale price – realized from the time of your death to the time the asset is sold. Here's how the step-up basis works:

Say a father bought a home for $100,000 in 1995. The home is worth $300,000 in 2005, at which time the father adds his son's name to the deed. At the time the son is included on the deed, he received one-half of the property's value ($150,000). The son also received one-half of the cost basis,

or $50,000 (one-half of $100,000). Upon the father's death in 2005, the son sells the house for $300,000. The son then must pay capital gains tax on the $100,000 profit. Depending on the capital gains rate, the son could be faced with a rather hefty tax bill.

But if the father does not add his son's name to the home in 2005, and instead, the son acquires the home after the father dies, the son will receive a step-up in tax basis for purposes of selling the home. This means the son will likely pay minimal, if any, capital gains tax on the profit.

It's also important to note, adding your child's name to an asset, for instance, to your bank account, could result in a reportable tax gift, if it is in access of the annual exclusion amount, triggering the need to file a gift tax return.

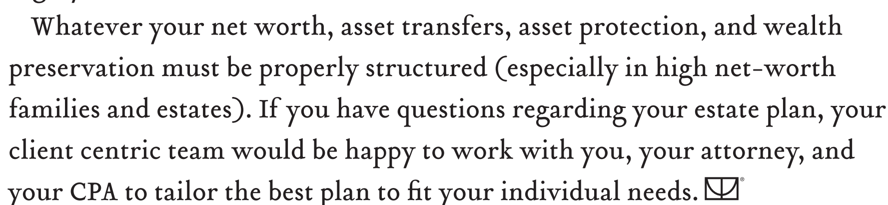
"If you add your child's name on your property before you die, you also deprive your child of the 'step-up basis' at the time of your death – an important tax advantage for your heirs."

A Few Options

One alternative is to create a power of attorney. A power of attorney is a legal document that gives another person (e.g., your child) the authority to manage your bills, investments, real property transfers, taxes, and so forth. Most importantly, a power of attorney does not give your child any ownership interest in your assets. Therefore, if the child files for bankruptcy or gets divorced, creditors and former spouses cannot touch your property. Also, the document can be drafted using language that limits the scope of your child's responsibilities and authority over your assets.

A trust is another worthwhile estate planning tool. With a trust, a fiduciary (the trustee, which can be you during your lifetime) holds title to property (the trust estate or trust property) for your benefit during your lifetime and for the benefit of another (for example, your child) after your death.

A trust survives the death of the person who created it (the settlor) and allows the transfer of assets from one generation to the next. If you want additional protection and long-term oversight of your assets, then a trust is highly recommended.



Whatever your net worth, asset transfers, asset protection, and wealth preservation must be properly structured (especially in high net-worth families and estates). If you have questions regarding your estate plan, your client centric team would be happy to work with you, your attorney, and your CPA to tailor the best plan to fit your individual needs.

Nicole E. Asher, CFP®, CPWA®, ChFC®
Vice President
Senior Wealth Management Advisor

Please Remain Seated

It was the summer of 1985, and I had just graduated from high school. My Dad and I were headed to Cedar Point. We hadn't been in years and this would be our last father daughter outing before I headed off to college. I couldn't wait! I bragged to my friends that the first thing that were going to do is ride the roller coaster, Gemini.

Upon arriving, we made a mad dash for the park map and plotted our course. We walked swiftly and dodged a few Berenstain Bears, sidestepped the Happy Hobo Band and evaded the Keystone Kops. We could see the peak of her steel and wood structure and we moved swiftly. As we approached, we could see the line and from where we stood it said that our wait would be approximately 45 minutes. We waited anxiously and after almost exactly 45 minutes, we were boarding. The ride began with a slow click-click-click as it approached the BIG drop. If you have ever ridden on a roller coaster, you know what I mean. It's the type of drop where you can't see the track in front of you and you feel like you are going to come out of your seat. For me, the anticipation is the worst. Feeling panicked, I turned to my Dad and said, "I don't want to do this anymore, why did you make me do this?" and a few more choice words that I had never said in front my Dad before. My stomach was churning and I wanted to cry. We slowly climbed to the top and I swear the ride stopped and was torturing me. My Dad turned to me and said "I didn't even want to do this, this was your idea." And then before I could say anything, we were plummeting, twisting, turning, rising and falling.

"The ride began with a slow click-click-click as it approached the BIG drop. If you have ever ridden on a roller coaster, you know what I mean."

We exited the ride and my Dad turned to me with a look on his face that, unfortunately, I had seen a few times before. He wasn't happy. But I was ecstatic and ready to get back in line and do it all over again! How quickly I forgot how much I hate that slow climb to the top and agonizing drop.

Investors in 2020 have certainly felt like they were on a "grip the handle bars" type of amusement park ride. The S&P 500 has experienced a roller coaster of returns with two of its top 10 daily market gains of over 9% in March, and in between those two gains, we saw the third ever worst daily drop of almost 12%. In fact, 18 of the top 20 largest intraday point swings since 1967 were also experienced this year. It was only natural that emotions ran high as we experienced the many peaks and valleys, twists and turns, that led up to March 23rd and the subsequent recovery.

We talk a great deal about behavioral finance and recent events have brought light to the fact that investors are not always rational and are often influenced by their biases. Behavioral finance tells us that most individual investors without a written plan routinely make decisions based on emotion and often fall prey to their own inherent biases. The

field of behavioral finance has become popular and well researched with six Nobel prizes having been awarded for behavioral research and economics. Not even three short years ago, I spoke about this same topic. But times were much different back in 2017. In fact, I quote myself as having said "many investors have been lulled into complacency about stock market volatility." Goodness, how times have changed!

One of the ways that behavioral finance affects investors is through a tendency referred to as loss aversion. Loss aversion studies have shown that the pain of losing money in the market is twice as agonizing as the joy of making money. The investor who falls prey to loss aversion will go to such extremes as to sell out of equities to avoid a potential loss. Imagine if you had sold all your equities and gone to cash on March 23rd and missed out on a 50% recovery! Investors that are unaware of their loss aversion bias tend to gauge gains and losses on different scales. Studies reveal that unless we think critically about our financial choices, we will try twice as hard to dodge a loss than we will to achieve a comparable gain.

Fortunately, most of our clients remained invested in equities through the volatility that we experienced earlier this year. Although we know that it is a bad idea, our brain screams at us to "get out!" before we plunge to the bottom. You can think of it as jumping out of the car as the roller coaster is making its quick descent down. Nothing good can come of this. When investors let biases take the wheel, they tend to sell out of the market at inopportune times and buy back into the markets at the wrong time. By staying invested and disciplined, rebalancing back to target equity weights, you participated fully in this amazing market recovery and made it safely back to the gate. Missing the first month of a recovery can often be as devastating from a long-term wealth perspective as enduring the first month of the bear market decline. Helping our clients avoid making costly emotional decisions adds significant long-term value to their portfolios.

"Investors in 2020 have certainly felt like they were on a 'grip the handle bars' type of amusement park ride."

So how does one avoid the traps of behavioral biases? We believe that the best strategy is to design a portfolio that meets your long-term goals that is suitable for your risk tolerance. Whether you are high risk, 100% equity, roller coaster fanatic and can stomach the volatility with your hands in the air. Or maybe you prefer a more balanced portfolio and the giant Ferris wheel, you go up and you go down, but its steadier and certainly less volatile, but still provides growth and enjoyment. Regardless of the type of investor you are, having a written plan and sticking to that plan will be key to achieving your goals.

While our day at Cedar Point did not involve a second ride on the Gemini, we certainly had a wonderful time. We traveled the Frontier

Trail, got our pictures taken in pioneer garb, and enjoyed the views of Lake Erie on the giant Ferris wheel. The moral of the story is that if you do venture on to a roller coaster, be sure and find one that suits your needs and be prepared for twists and turns, highs and lows. But once you have made sure that you are on the right ride for you, sit back and try to enjoy the experience. And above all else, please remain seated!

Kathleen J. Waldron, QKA
Vice President
Assistant Director of
Retirement Plan Division

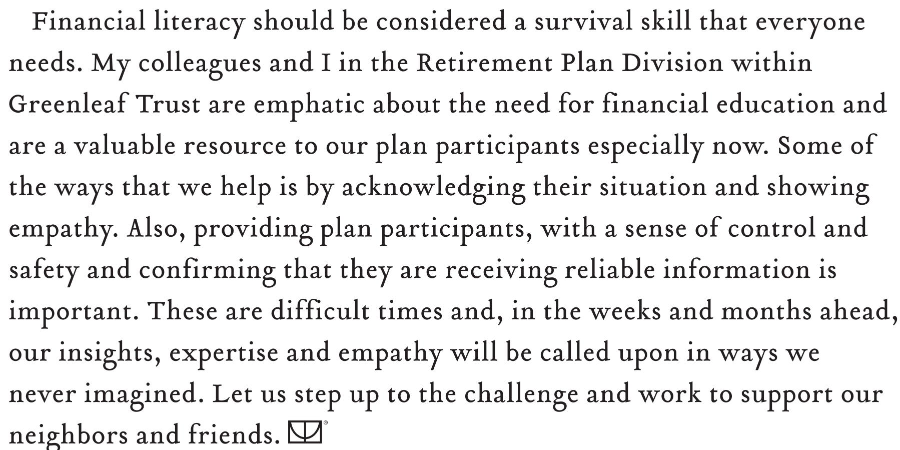
COVID-19 Highlights Need for Financial Literacy

COVID-19 has taken a lot from us; travel, impromptu in-person visits with family and friends and freedom to go to a concert, movie theatre or ball game with nary a thought. It has also made many of us anxious and fearful about today and our future and that of our families. While we are getting accustomed to our "new normal," this pandemic has extended beyond a health crisis into an economic crisis for many. According to recent surveys, half of all Americans say they would experience a serious financial hardship if they were faced with an emergency expense of $1,000 or less in the next 30 days. This is sobering news and spotlights the impact of financial illiteracy among our neighbors and friends. In addition, COVID-19 has laid bare economic and societal problems in the US while increasing awareness of the racial and financial inequality underlying the daily lives of many citizens and, due to this pandemic, these existing problems have been made worse.

These problems are daunting and serious. Historically, every time our country faces a crisis such as COVID-19 or 9/11, the need for greater financial literacy becomes clear. During these uncertain times Americans are faced with difficult financial decisions that will have immediate and long-term impact on their lives. An antidote to financial illiteracy is financial education. While the idea of financial education may seem overly simplistic or "not enough," it is a start (and a good one). A shift in thinking, well thought-out strategy and action are steps to take to avoid and mitigate this "pandemic" of financial illiteracy.

A few steps will help individuals and families work on their finances during this time of uncertainty:

1. Start an emergency fund of $1,000-$2,000 or enough to cover six months of living expenses.
2. Create a budget to review and prioritize financial goals. Cut out any unessential expenses and pay off as much debt as possible.
3. Focus on what is in your control. We cannot predict or control the market or the daily statistics of the virus but we can control our savings rate and how we react to events.



Financial literacy should be considered a survival skill that everyone needs. My colleagues and I in the Retirement Plan Division within Greenleaf Trust are emphatic about the need for financial education and are a valuable resource to our plan participants especially now. Some of the ways that we help is by acknowledging their situation and showing empathy. Also, providing plan participants, with a sense of control and safety and confirming that they are receiving reliable information is important. These are difficult times and, in the weeks and months ahead, our insights, expertise and empathy will be called upon in ways we never imagined. Let us step up to the challenge and work to support our neighbors and friends.

"Historically, every time our country faces a crisis such as COVID-19 or 9/11, the need for greater financial literacy becomes clear."

Stock Market Pulse

Index	8/31/20	Total Return Since 12/31/2019
S&P 1500	791.57	8.23%
Dow Jones Industrials	28,430.05	1.30%
NASDAQ	11,775.46	32.15%
S&P 500	3,500.31	9.74%
S&P 400	1,926.54	-5.55%
S&P 600	898.79	-11.08%
NYSE Composite	13,045.60	-4.56%
Dow Jones Utilities	803.22	-6.64%
Barclays Aggregate Bond	2,377.43	6.85%

P/E Multiples	8/31/20
S&P 1500	27.5x
Dow Jones Industrials	24.5x
NASDAQ	35.9x
S&P 500	27.3x
S&P 400	25.9x
S&P 600	57.0x

Key Rates

Rate	
Fed Funds Rate	0.00% to 0.25%
Tbill 90 Days	0.08%
T Bond 30 Yr	1.47%
Prime Rate	3.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	791.57	27.5x	1.73%
S&P 500	3,500.31	27.3x	1.72%
Dow Jones Industrials	28,430.05	24.5x	2.20%
Dow Jones Utilities	803.22	21.9x	3.28%

Spread Between 30 Year Government Yields and Market Dividend Yields: -0.26%

GREENLEAF TRUST® e-mail: trust@greenleaftrust.com greenleaftrust.com

MAIN OFFICE:
211 South Rose Street
Kalamazoo, MI 49007
office: 269.388.9800
toll free: 800.416.4555

TRAVERSE CITY OFFICE:
125 Park Street, Suite 495
Traverse City, MI 49684
office: 231.922.1428

GRAND RAPIDS OFFICE:
25 Ottawa Avenue SW, Suite 110
Grand Rapids, MI 49503
office: 616.888.3210

BIRMINGHAM OFFICE:
34977 Woodward Ave., Suite 200
Birmingham, MI 48009
office: 248.530.6202

BAY HARBOR OFFICE:
4000 Main Street, Suite 150
Bay Harbor, MI 49770
office: 231.439.5016

GREENLEAF TRUST DELAWARE:
4001 Kennett Pike, Suite 226
Greenville, DE 19807
office: 302.317.2163

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