GREENLEAF TRUST

Perspectives

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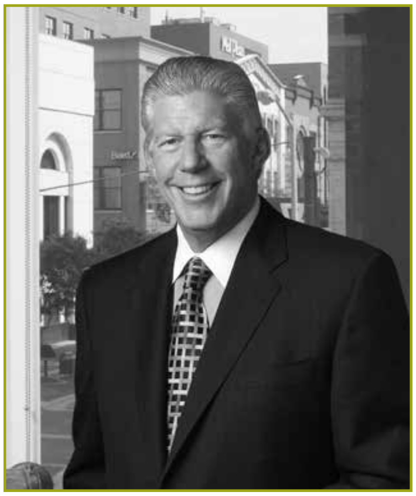

William D. Johnston
Chairman, Greenleaf Trust

Economic Commentary

Recently I have had several questions from clients about issues they are seeing more regularly in the press. The questions dovetail nicely with some of my recent reading of Thomas Friedman and so I thought it would make sense to tackle a few of them. The issues being unearthed of late with what seems like increased intensity are not likely to go away and are uncomfortable for many to consider. The longer-term implications of these issues are significant and, although focused currently in the US, will be globally evident in the future as well.

MINIMUM WAGE INCREASE

Like many issues that are largely political in origin, there is not a lot written about the topic in popular culture media that is fact-based. Most widely distributed information is based upon the political persuasion of the writer. If you are for the increase you believe it will reduce poverty, help upward mobility, create jobs, increase consumer spending and improve the economy. The opposite camp believes increasing the minimum wage will reduce initiative, eliminate jobs, increase unemployment for the most vulnerable, increase costs, add to inflation and detract from economic growth. How can each of these camps reach such polar opposite views while examining the same set of facts? As suspected their opinions result not from the facts but rather from their interpretations of those facts and some leaps of logic that follow. It might be helpful if we start with the facts.

Who earns minimum wage in our country's workforce?

Our source will be the Bureau of Labor Statistics 2012 data. They report statistics and form no opinion. 75.3 million workers were paid hourly in 2012, representing 59.0% of the workforce of all wage and salary workers. Of the 75.3 million being paid by the hour, 3.6 million were paid at or below the federal minimum wage, representing 4.3% of all hourly rate workers and 2.2% of all who were in the workforce.

As you might imagine, workers under 25 represent half of the population of minimum wage earners. Women in this age group are twice as likely to earn minimum wage as men. Above the age of 16, workers

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Economic Commentary, continued

"Facts seem to say that those advocating for the [minimum wage] increase exaggerate its positive impact and those arguing against the rate hike exaggerate the negative impact…"

without a high school diploma comprised 10% of the minimum wage population while those with a high school diploma represented 4% of the population.

Popular belief is that many full time workers earn minimum wage, however statistics demonstrate only 2% of minimum wage earners are employed full time. This number is probably understated as the statistics cannot account for those with multiple part time jobs that if combined would equal 40 or more hours. Married workers are far less likely to earn minimum wage, representing 2% of the minimum wage workforce, while never married workers represent 11% of the minimum wage population.

As you may assume food and beverage, hospitality and leisure industries dominate the occupational groups employing minimum wage earners.

Most assume that the southeast has more minimum wage employees yet the facts don't bear that assumption out. States with the highest percentage of minimum wage earners, or 8% of the respective state's workforce, are Idaho, Oklahoma, Texas and Louisiana, while those with the lowest representation at 2% are Alaska, Oregon, California and Montana.

Many believe that the population of minimum wage earners is growing largely because they have been told that by those advocating for the increase. The facts are as follows. In 1979, the proportion of those earning hourly wages that were paid the minimum wage stood at 13.4%. In 2011, 5.2% of those being paid hourly were earning minimum wage and in 2012 the population fell to 4.7%

Lastly, it makes sense to have some scope of the total wages earned by minimum wage earners versus all wage earners to help evaluate the economic argument. In 2012 minimum wages in aggregate were 0.41% of all wages earned.

Economists have opinions and they arrive at those by assembling, evaluating and interpreting data. On the issue of minimum wage they seem equally divided but generally come to a consensus of sorts that states, "raising the minimum wage will displace some workers at the bottom, benefit those that remain employed and have very little impact on GDP or inflation." Their arguments are based upon the size of the population and its aggregate size of all wages earned. Facts seem to say that those advocating for the increase exaggerate its positive impact and those arguing against the rate hike exaggerate the negative impact of doing so. Certainly the greater the rate hike the more impactful the arguments would be on both sides of the issue. Raising the minimum rate 100% to $15.00 per hour as some are advocating would increase the percentage of the aggregate wage in relationship to all wages to approximately .80%. There would be more wage earners displaced but those remaining employed would be much better off, but at .80% of all aggregate wages the impact upon inflation and GDP would be negligible.

In the end the argument for and against the issue isn't found in economic fact but rather in political positions. Democrats are generally for the issue which is why it is on the agenda of the President during his second term. He is clearly appealing to the base of his party. Republican Party officials are adamantly opposed to increasing the minimum wage and largely for the same reasons, appealing to their party's base. Polling on the issue is not in the Republicans favor as 76% of Americans polled are in favor of the President's desire to raise the rate to $10.10 per hour and then indexed to inflation after that. Important to Republicans should be the 52% of their own party in favor of the issue as well as 72% of the independents polled. My hunch is that the President knew these figures before he placed it in the State of the Union Address in January. Most pollsters would agree that if you have a 76% favorable on any issue, you should run with it. Given that the argument is not supported on either side by economic data and that the polling is hugely favorable, what should Republican law makers do? One might suggest that they remove it as a mid-term election issue. Not by blocking a vote on it but by sponsoring it themselves. Why? It doesn't matter economically, neither in cost or benefit, it removes the advantage for the Democrats on the polling and it earns Republicans independent votes that they desperately need. Will they? Most probably not. Dogma on both ends of the political spectrum seems to rule the day but the political advantage is clearly with those in favor of the issue. There is real tangible and growing sentiment about inequality and the ever-increasing gap between the richest and poorest not only in the US but globally as well. Taking a position against an effort to increase the wages of the poorest, when economic facts reveal it matters very little to the economy or inflation, seems at best silly and at worst political suicide.

"Is the increased discussion about disparity of riches simply political or is there more to it than that?"

WEALTH GAP

Is the increased discussion about disparity of riches simply political or is there more to it than that? I have written previously that the historical record of recessions and depressions is clear. Recessions are mostly caused by "normal" economic cycles of expansion and contraction. Depressions and very severe recessions are generally

Economic Commentary, continued

caused by financial market illiquidity. The recovery of each is very different. Normal recession recovery tends to be driven by temporary interest rate reductions, GDP and employment expansion, resulting in a smoother and more equal recovery. Financially driven recessions are characterized with substantially greater Federal Reserve or central bank intervention, longer durations or interest rate reductions and greater efforts to restore liquidity. This set of circumstances rewards those with assets who can invest at market lows, retain ownership, if not add to positions at market panic levels, as well as secure asset based financing at historically low asset price levels. When markets recover the leverage that those with capital have allows for meteoric asset value growth. What occurred from March of 2009 until the present for those with wealth was not surprising from a historical context, but it is very difficult for the other 99.9% of the globe to understand or appreciate.

"The very real issue is not the inequality of what people have it is rather, the increasing inequality of opportunity and the root causes of that inequality of opportunity."

How extreme is the issue? Eighty five individual people now own assets equal to the assets of half of the world's population. Is that normal? Is it dangerous? The answers are no and very much yes. Here we also need to make a distinction between income and net worth. They are two hugely different measures with much different results but for the most part are not very well understood by the majority. In either measure, income or net worth, the results are hugely skewed. The top tenth of one percent of the population owns slightly more than 50% of the world's assets and the top one percent of earners earn eighteen percent of all income earned.

Conversations about inequality aren't new and often result in creation of public policy initiatives that are largely about redistribution of wealth through higher taxes on the wealthy. The President's State of the Union Address mirrored much of what is being spoken of globally and again appeals to what many political polls reveal. When asked, 62% of voters agree that taxes on the wealthy should be increased. Unfortunately most of the debate on income inequality doesn't focus on the real issues of solutions but rather on the tired policies of the past. If the solution to inequality was simply to take more money from the wealthy and spend more through government programs then why haven't we made progress? That policy has been tried from 1930 through the present. The very real issue is not the inequality of what people have, it is rather, the increasing inequality of opportunity and the root causes of that inequality of opportunity. When we address and solve those issues we solve in a much more tangible way the inequality of what people have. Rising inequality as a domestic and global issue isn't going away, it is growing in size and velocity. Next month we will examine causes and possible solutions.

Still Engaged and Inspired

Michael F. Odar, CFA
President

In an article last year I wrote about how we annually "take the temperature" of our culture using the HUMANeX Ventures INSIGHTeX Cultural Assessment™(INSIGHTeX) and TEAMeX Assessment. INSIGHTeX is a confidential 88 question survey we send to every Greenleaf Trust employee that measures how each person feels about their role, manager/coach, team, and organization as a whole using 15 different dimensions. The TEAMeX Assessment is an analysis of 24 specific questions from INSIGHTeX that specifically focus on the dimensions of Relationship Engagement and Performance Engagement. I am writing again about the survey because of how proud I am with the 2014 results and I think you too will take pride in the knowledge that the team that goes to work on your behalf every day is highly engaged and inspired. Our 2014INSIGHTeX assessment indicated that over 82% of our team was in the "Dream Box" – highly engaged and highly satisfied. As a comparison, the HUMANeX Ventures organizational database average "Dream Box" percentage is approximately 68%.

With a 94% response rate (74 employees), our leading dimensions were, in order: Engage-Inspire, Pride, Continuous Improvement, Innovation, and Quality. The story that unfolds from our top five dimensions is that we have a highly engaged and inspired team that takes pride in their work, seeks to find a better way every day, and is committed to excellence for our clients.

More than 98% of our responding team members answered the following questions either "Agree" or "Strongly Agree":

- I am driven to contribute to the success of Greenleaf Trust.
- I am continually seeking ways to improve my overall productivity.
- I am committed to the success of my organization.
- I am aware and knowledgeable about our organization's mission.
- I feel great pride in the work I do.
- I am fully engaged in the work that I do.

I am proud because part of the original vision for Greenleaf Trust was to hire talented people and create a workplace culture where those people would thrive. With the right culture, we would have a team focused on world-class service that could develop long lasting relationships with their clients.

So again, I want our clients to know that they have a team working on their behalf that gets up every morning excited about what they do, who they do it with, and most importantly who they do it for.

"… I think you too will take pride in the knowledge that the team that goes to work on your behalf every day is highly engaged and inspired."

Wendy Z. Cox, JD, CTFA
Vice President
Trust Relationship Officer

Joint Trusts

"A review of joint trusts demonstrates that there is a wide variety of styles in the drafting of joint trusts."

As a result of the increase in the estate, gift and generation-skipping tax exemptions and the concept of portability, the use of joint trusts for married couples has increased dramatically.

A review of joint trusts demonstrates that there is a wide variety of styles in the drafting of joint trusts. In general, joint trusts fall into three categories. The first is a basic trust in which the Settlors have no need for tax planning, and no concern about segregating assets upon the first spouse's death. The second is a "wait and see" type trust for those individuals who may have need to place a portion of the assets in a credit shelter type trust, but are uncertain at the time of drafting. With portability as part of the new statute, there may be less need for this type of trust. The third is a trust which includes tax planning provisions, or a need to segregate a portion of the assets at the first spouse's death.

Additionally, although the majority of joint trusts remain revocable until the second death, many joint trusts also include provisions which make at least a portion of the trust irrevocable at the first death. Some also make the entire trust irrevocable at the first death.

When deciding whether to use a joint trust, there are a number of issues that should be considered:

Blended Families.

Joint trusts typically work best for stable first relationships where both parties have a shared distributional plan. Typically in blended families, estate planning is attempting to meet multiple objectives—care of the surviving spouse, inheritance for children from prior relationships, etc. A joint trust usually leaves the assets in the unilateral control of the survivor. A joint trust that attempts to accomplish all of these objectives may not be a proper vehicle.

Need for Separate Assets.

Many times couples also want to keep their assets separate for other reasons, such as asset protection, potential divorce, or spendthrift settlors and beneficiaries. Protection against creditors that may be present with traditional forms of joint ownership may not be available to the beneficiaries of a joint trust.

Certainty of Taxable Estate.

When couples have an estate that is currently subject to estate tax, most drafters do not use a joint trust. If administering a joint trust in a clearly taxable estate, great care will have to be taken to make certain that the trust can be administered to effectuate both tax and personal issues.

Typically, there are no complications of administration while both Settlors are alive. After the first spouse's death, when there is the potential of a tax issue or other reason to segregate assets, subtrusts may be created. These subtrusts typically take several forms—a disclaimer trust, a marital trust, or a bypass or credit shelter trust. A disclaimer trust allows the surviving spouse to disclaim a portion of the assets if it becomes necessary. A credit shelter trust allows the spouse to segregate a portion of the assets into a subtrust according to the terms of the document.

The biggest challenge to administering subtrusts created out of a joint trust is cost basis. The federal estate tax treatment of property jointly owned by spouses who reside in non-community property states is governed by IRC Section 2040(b)(2). This subsection, known as the "spousal rule," provides that one-half of the value of a "qualified joint interest" at the date of death is included in the gross estate of a deceased spousal tenant, regardless of which joint tenant provided the consideration. The term "qualified joint interest" includes any interest in real or personal property held joint with rights of survivorship by both spouses. Therefore, in most cases, after the death of the first spouse only one-half of joint property receives a step-up in cost basis. If the surviving spouse then sells the property, he or she may incur larger capital gains than if the property had been placed into separate trusts. When administering a joint trust, it will be important to reflect on which assets should receive the step-up in basis, and the income tax consequences of selling assets after the first death.

The joint trust can be very effective and operate well. However, it is not uncommon for the surviving spouse to begin to fail mentally and physically as he or she ages. It is usually at this point that a family member with improper purposes may seek to interject himself or herself into the surviving spouse's life. If the surviving spouse retains the full power to amend and revoke the trust, the entire estate plan can go awry. This was always true with separate trusts for the assets that remained revocable, but with a joint trust the problem is potentially exacerbated. The Settlors must make a realistic assessment of their family members and appoint appropriate trustees or co-trustees. Children who do not get along when the Settlors are alive, are not going to get along when the Settlors are deceased.

After the second death, the

"The Settlors must make a realistic assessment of their family members and appoint appropriate trustees or co-trustees."

Joint Trusts, continued

administration will continue similarly to administration of most separate irrevocable trusts. There will be a step-up in basis for the remaining assets, and the property will be distributed or held for the beneficiaries as set forth in the terms of the trust.

Joint trusts can be very useful tools if careful attention is paid to the potential pitfalls. To make certain that your joint planning is a success, we recommend that you consult with your estate planning counsel, your accountant, and your team at Greenleaf Trust.

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

Converting to Roth within Retirement Plans

"Converting pre-tax accounts over to Roth accounts can be a good long term planning strategy."

Converting pre-tax accounts over to Roth accounts can be a good long term planning strategy. Until recently these conversions were almost exclusively conducted within IRA's. Now, thanks the American Taxpayer Relief Act of 2012, In Plan Roth Transfers (IPRTs) are feasible for all participants within retirement plans. Simply stated, an IPRT is a transfer (i.e., conversion) of amounts in a non Roth account to a Roth account in the same plan.

As a brief refresher, one does not pay taxes on the contributions or earnings of pre tax accounts (including employer matching and profit sharing accounts) in the plan until an actual distribution is received. In other words, the taxes on the contributions and earnings in your pre tax accounts are deferred until a distribution is made. Roth accounts, however, are the opposite. With a Roth account the amounts initially contributed are subject to income taxation. When a distribution is made from the Roth account, the entire distribution, including all investment gains, is not subject to income tax. Given the volume of rules that surround Qualified Retirement Plans, it makes sense that an IPRT has more moving parts than traditional IRA conversions.

Many of the complexities to consider exist for the Employer and administrators at the Plan level. Most notably for this article, the Employer may add the IRPT provision only if the plan is an existing 401(k) plan that permits Roth deferrals. If the plan does not have Roth deferral provisions, the Employer must adopt a separate amendment to add Roth deferral provisions.

From the participant perspective, the IPRT is not considered a Plan distribution. However it does subject the participant to the income taxes due on the conversion amount. Furthermore, the Participant must be fully vested in the portion of his or her account attributable to the IPRT. Having the conversion limit based upon the pre-tax vested balances means that conversion monies are allowed for both participant and employer contributed dollars—there are no restrictions on which pre-tax sources can be converted.

Now for the elephant in the room: income tax implications. As mentioned above, if a participant elects an IPRT, then the amount transferred will be included in their income for the year. Unlike the so called recharacterization rules allowed for IRA's, once an IPRT is elected, it cannot be changed. Moreover, one cannot generally take distributions from a retirement plan account to pay the income tax due. As a result, it is important to understand the tax liability of making the election in order to ensure that adequate resources are available outside of the plan to pay the requisite income taxes due.

Interestingly the IRS has not issued official guidance on the details of the IPRT provision. Although this sounds alarming, it is fairly common for there to be delays between regulatory changes and corresponding IRS guidance. This simply means that some of the procedural practices of performing these conversions could be subject to adjustments as guidance is provided. As one might imagine there are many more details surrounding this topic than presented in this article. At Greenleaf Trust, we stand ready to help our Plan Sponsor clients walk through this exciting new change to the retirement plan landscape.

"Now, thanks the American Taxpayer Relief Act of 2012, In Plan Roth Transfers (IPRTs) are feasible for all participants within retirement plans."

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.

James R. Curry, CFP®
Senior Wealth Management Advisor

Three Cheers for Taxes?

Maximizing the after-tax return of your long term portfolio

If you have decided to continue reading this article and did not recycle it or use it for kindling after reading the title, thank you. The argument for paying taxes is based on two fundamental assumptions. First, we all are required to pay taxes to live in this great country. Second, regardless of your opinion of the current tax code or the uses of your tax dollars, we all pay taxes under the same tax code.

The goal of this article is to describe the rationale for paying taxes immediately using a few common techniques, which may or may not be appropriate for your situation, which can be used to improve the after-tax return of your overall portfolio over the long term. The techniques listed are not exhaustive, and your Greenleaf Trust client centric team in coordination with your other trusted advisors will continue to work toward maximizing the after-tax returns for your portfolio using all available resources.

John Maynard Keynes, a famous economist, was quoted as saying, "The avoidance of taxes is the only intellectual pursuit that carries any reward." While the legal avoidance of taxes may be worth pursuing, we argue that the immediate avoidance of taxes is not the most prudent or successful manner in which to maximize the after-tax return of your portfolio over the long term. We believe that decisions made to improve the after-tax return of your portfolio (or your portfolio for future generations) may involve paying taxes now when the end result is a more appropriate structure and allows you to meet your legacy goals more effectively. The strategies that we have chosen to highlight for this article are Roth IRA conversions, taxable versus municipal bonds, highly appreciated, concentrated stock alternatives, and tax alpha.

"While the legal avoidance of taxes may be worth pursuing, we argue that the immediate avoidance of taxes is not the most prudent or successful manner in which to maximize the after-tax return of your portfolio over the long term."

Roth IRA Conversion:

Prior articles and the popular press have fully described the technique of a Roth IRA conversion. For purposes of this article and oversimplifying the technique, we are assuming that a taxpayer converts an IRA to a Roth IRA, thereby creating an immediate tax liability. We chose to highlight the after-tax benefits of the Roth IRA conversion first to illustrate the importance of viewing the transaction over the long term as opposed to the immediate tax liability which is created by the transaction. The following are two examples of situations (out of many) that may be appropriate to convert to a Roth IRA and pay taxes immediately.

- Tax bracket arbitrage – A conversion at this point in time assumes that you are in a much lower tax bracket now than you (or your heirs) will be in the future. For example, you have decided to take some time off and will have minimal income over the next year; however, when you return to work and throughout your retirement you anticipate being in the highest marginal tax bracket. The difference in tax rates will provide you with an improvement in your portfolio's long term, after-tax return assuming that the investments within the two accounts would perform the same in a positive market.
- Legacy planning – This technique assumes that you have an estate that is taxable, will remain taxable, and your heirs are in the same or a lower marginal tax bracket. Again, oversimplifying, assuming that every dollar passing to your heirs from the IRA will be taxed at a 40% estate tax rate, you have an arbitrage opportunity if your cost to convert (your marginal tax bracket) is below the estate tax rate.

Taxable versus municipal bonds:

As with the Roth IRA conversion, determining whether to use taxable or municipal bonds is a matter of after-tax return, marginal tax-brackets and anticipation of future tax rates and your future tax rates. The following is the most basic example for considering using taxable bonds in your taxable account and increasing your current tax liability:

- Arbitrage opportunity – If the yield on the taxable bond is higher than the tax-equivalent yield on the municipal bond, and the impact of the additional income will not negatively impact other areas of your tax picture, we typically recommend paying additional tax on the taxable bonds in order to improve your after-tax return.

Highly appreciated, concentrated stock position:

Determining the most appropriate course of action for a highly appreciated stock may be the most common situation that we encounter. Decisions with highly appreciated, concentrated positions are less about taxes and more about your goals and the reduction of risk. However, with these positions, there are a number of decisions that should be made in

"Decisions with highly appreciated, concentrated positions are less about taxes and more about your goals and the reduction of risk."

Three Cheers for Taxes, continued

"...we should not let taxes control our decision making processes and potentially lead us down a less efficient, more costly long-term path."

conjunction with each other:

- Sell – Recognize the gain and reduce the concentration risk. This action will create a capital gains liability and reduce your after-tax return; however, the sale will also decrease your concentration risk.
- Defer and diversify – Use an exchange fund in order to diversify your risk and defer the recognition of taxes.
- Gift to charity – Avoid the recognition of taxes and possibly receive a tax benefit for your contribution.

Tax Alpha

"Tax alpha" was a term coined by Rob Arnott to represent the improvement in net returns gained from effective tax management. Tax alpha is being referenced to show the importance of tax efficiency, but to also represent that improving the tax efficiency could have a negative impact on the portfolio's overall return. A common strategy to improve the tax efficiency of a portfolio is a tax loss sale, selling a security with a loss and repurchasing at a later time while remaining cognizant of wash sale rules. While your tax alpha may improve through this transaction, your potential after-tax return may actually decrease due to an increase in the value of the sold position above the tax benefit for the period of time that you exited the position. With the statement above, we do believe that tax loss selling is appropriate in certain situations, but should not be done solely for the reasons of reducing tax liability and increasing the tax alpha.

In summary, we should not let taxes control our decision making processes and potentially lead us down a less efficient, more costly long-term path. Stated differently, "we should not let the tax tail wag the investment dog." The impact of taxes should always be considered, but in the context of your long term wealth management plan as opposed to the current year tax liability.

Running Towards the Fire

Josh D. Wheeler, CFA
Research Analyst

Successful investing often requires doing the opposite of what human nature might dictate. It often requires doing the opposite of what feels right, the opposite of what everyone else is doing. In October 2008, at roughly the darkest hour of the financial crisis, Warren Buffett penned an article in the New York Times urging people to buy US equities. He said he was moving his own money (that wasn't in Berkshire Hathaway stock) out of bonds into stocks. This at a time when most people couldn't pull their money out of stocks fast enough. Of course, Buffett was right to shift into equities then. And a quote from his article sums up the approach that has worked so well for him and other highly successful investors over the years:

"Be fearful when others are greedy, and be greedy when others are fearful."

What Buffett and other successful investors know is that the price paid for an investment is critical in driving the return, and equity prices are low when fear and uncertainty are widespread. Good investors also recognize that a stock represents ownership in an ongoing business with real products, customers and cash flows. They know that the market price of stock often moves in much greater swings than its true fundamental value. So, instead of recoiling when the stock market falls, they take advantage of the more attractive prices. They step in to buy when everyone else is selling. I like to think of it as running towards the fire.

We strive to emulate this contrarian approach of finding value in how we manage equities for clients at Greenleaf Trust. The Four Pillar Test, our internally-developed criteria for stock selection, is meant to identify high quality companies trading at attractive prices. We define high quality companies as those with 1) sustainable competitive advantages evidenced by attractive returns on capital, 2) consistent growth in free cash flow, and 3) a management team that allocates capital in a shareholder-friendly way. Of course, high quality companies like this don't often trade at attractive prices. When they do, it is typically because something has gone wrong. It is our job to determine whether what has gone wrong is a temporary problem – a hiccup in their growth – or a permanent impairment of the company's business model. Below are two examples of recent successes where we identified good companies that were momentarily out of favor in the market due to temporary issues.

Shire PLC (SHPG) is an Ireland-based large-cap biotech company that has a proven track record of successfully bringing new drugs through the R&D pipeline and maintaining a leadership position in

"Successful investing often requires... doing the opposite of what feels right, the opposite of what everyone else is doing."

Running Towards the Fire, continued

its markets. When we began looking at the company in early 2013, the stock's valuation was as cheap as it had been in years due to what we thought were temporary reasons. The company's longstanding CEO had just retired, a competitor had just gotten approval for a generic that would compete with one of Shire's products, and the company had recently taken a write-off for an acquisition gone bad. While setbacks, we viewed these as situations that were not relevant to the long-term fundamentals of the company. A new CEO had been chosen and his background was impressive. The competitive threat impacted a low percentage of Shire's revenue, and the bad acquisition was unfortunate, but part of the cost of doing business for a biotech company. We initiated a position in many individual equity client portfolios in May of 2013, the issues have receded and the stock has handily beaten the market since.

Another example is our investment in Broadridge Financial Solutions (BR). Broadridge provides back-office solutions including investor communications, proxy administration and trade processing to banks, broker-dealers and mutual funds. It allows financial companies to outsource commodity-type functions that are critical, but not core to their business model. Broadridge has built up a reputation for being reliable and trustworthy, so when clients move to Broadridge, they almost never leave. The company generates strong cash flow and management has been very shareholder friendly with the cash. When we were first looking at the company early last year, there had been some weakness in its numbers due to the bankruptcy of one of its customers, as well as a fall-off in a minor part of its revenue dependent upon mutual fund proxies, which can vary significantly year to year. Again, we did not feel that these issues were threatening to the company long term, and valuation appeared attractive as a result. Since initiating a position in May 2013, the customer-specific issue has faded, event-driven revenues have come back and the stock has been a strong outperformer.

"...this contrarian approach stacks the deck in our clients' favor, so to speak, in that we get the quality business and the attractive valuation on our side."

Admittedly, we cherry-picked two stocks that have worked well for us. We certainly don't get them all right, and there are times when we find that issues we thought were temporary turn out to be more long-term, structural problems for a company. In that case, we sell, review the analysis to learn from our mistake, and move on to the next idea. However, this contrarian approach stacks the deck in our clients' favor, so to speak, in that we get the quality business and the attractive valuation on our side. Thus, we believe that a disciplined commitment to this methodology, repeated over many incidences, will yield superior results for our clients and help them achieve their long-term financial goals.

Stock Market Pulse

Index	2/28/14	Total Return Since 12/31/2013
S&P 1500	432.27	1.08%
DJIA	16,321.71	-1.13%
NASDAQ	4,308.12	3.36%
S&P 500	1,859.45	0.96%
S&P 400	1,375.33	2.66%
S&P 600	667.33	0.43%
NYSE Composite	10,425.86	0.25%
Dow Jones Utilities	518.77	6.53%
Barclays Aggregate Bond	108.27	1.92%

P/E Multiples	2/28/14
S&P 1500	16.8x
DJIA	14.6x
NASDAQ	20.6x
S&P 500	16.4x
S&P 400	20.3x
S&P 600	21.7x

Key Rates

Fed Funds Rate	0% to 0.25%
T Bill 90 Days	0.05%
T Bond 30 Yr	3.59%
Prime Rate	3.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	432.27	16.8x	1.94%
S&P 500	1,859.45	16.4x	2.03%
DJIA	16,321.71	14.6x	2.21%
Dow Jones Utilities	518.77	NA	3.79%

Spread Between 30 Year Government Yields and Market Dividend Yields: 1.65%

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