

William D. Johnston
President, Greenleaf Trust

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Economic Commentary

April’s economic data revealed both commonly held expectations as well as fears. Growth expectations vary depending upon who is setting them. From a pure economic demand and output standpoint, growth expectations domestically are highly dependent upon consumer spending and domestic exports. Any analysis not colored by wishful thinking or political agendas would come to the conclusion that growth prospects for GDP will be a challenge and that incremental growth will test everyone’s political will. You are probably saying, “Bill, this sounds like a familiar theme of previous commentaries, tell us it isn’t so.” Sorry, incremental slow growth is not fun. It almost always feels similar to recessions. High unemployment, low consumer confidence, and spurts of both good and bad news remain consistent themes of such growth patterns. Let’s visit some specifics and see what the status of our long journey is.

EMPLOYMENT: Growth in private sector employment has slowed well below the 150,000 per month level necessary to boost consumer confidence and spur spending activity. The news in March was not all bad as wage growth, hours worked, and furloughed workers returned to full time improved. April’s data was not as kind and showed little consistency with the March report. We have cautioned previously about getting too excited or too worried about any one month’s data points and the last two months demonstrate why. Job creation is essential to growing our way to sustainable GDP growth. Thus far, we have little evidence of improvement at levels necessary to move the needle in the direction needed. The reduction in State and local government budgets acts in similar ways to European austerity on domestic imports. Both cause demand for product to weaken.

HOUSING: While this is an important sector, we often make too much of its overall GDP impact. Still at near 7% of GDP, it is worth paying some attention to. The recent Case – Shiller data suggests some improvement in sales and continued slowing of price declines. Historically, when we see the cost to own cheaper than the cost to rent we have found ourselves near or at the bottom of the market. With mortgage rates near and below 4% , there is some reason for fear of more substantial price declines to take a back seat to optimism of

Economic Commentary, continued

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future stabilization.

AUTO SALES: April’s sales results were excellent. Domestic production run rates crossed the 14.1 million level and are now on track to surpass 2008. This is really a remarkable recovery and has resulted in supply chain employment improvements and many furlough call backs. Sustainability is of course key, but the trend in place is welcome.

ORDERS: When we examine orders for both durable and non durable goods we continue to see the same consistency of incremental growth, yet when we flip to the survey side of the ledger we don’t find much confidence in the forward period of time. Sustainability continues to be on everyone’s mind. Similar to the farmer who is pleased with the current year’s crop but unwilling to forecast next year’s results, purchasing managers are less optimistic in the PMI surveys than we would like to see. Inventories have grown but we don’t see a negative here as the ratio of inventories to sales have remained constant indicating that if sales grow, production will require attention.

Sales statistics are improving at slow but steady rates. Retail, wholesale, consumer sales, new housing sales, existing housing sales, and overall personal consumption all increased month over month and year over year maintaining the trend in place.

PRODUCTION: Electric power production, mining production, petroleum capacity utilization, steel production, steel rated capacity utilization and consolidated utilities all increased both month over month and year over year. These indicators are of course rearview mirror looks at what happened. We are glad to see them but caution that they are what they are only because of previous not future demand.

GROWTH AND INVESTMENT: Q1 2012 GDP was revised down to 2.2%, dampening some forecasts that assumed we were on our way to stronger growth. We are not pessimists but were never in the camp of those that thought we were ready to leap to 3% growth yet. Q1 of 2011 results were of course much stronger than the estimates for Q1 of 2012, however they are in line with what has been happening for the past three rolling quarters. The general population has a short memory and particularly when we want things to be resolved. The Tsunami of 2011, the Arab spring uprising, spike in oil due to interrupted supply, Greek and EU debt crisis are all less than 12 months old. Slow global growth will always be subject to geopolitical interruption. Our Q1 2012 GDP is simply the descriptive truth of what we have faced for the past 40 months and what we will continue to face for the foreseeable near term.

HOW TO FRAME IT: Let’s assume you were in what you felt was the prime of your earnings life cycle. Things were good and seemed to be getting better. Your business was great, sales were robust, forecasts were strong and your

confidence was solid. Along the journey of prosperity, you listened less to the voice of caution and sang the song of optimism louder than you have ever done before. You expanded your workforce, expanded facilities and because credit was cheap and available you borrowed rather than self financed your growth. Simultaneously, you accepted the notion that maybe you deferred your own gratification too much and perhaps deserved some additional personal consumption and the debt increases in your business life were replicated on your personal balance sheet as well. There were nights when you found it difficult to justify the abdication of sound conservative financial principles but then everything seemed so robust, what could go wrong? Over time the new sales and net income would eliminate the debt and all would be well, the family was happy, the new boat was fabulous, the pool and addition to the house were enjoyed by all and wow, that vacation home at the ski resort was spectacular. What could go wrong?

You now know the rest of the story. Sales collapsed, not gradually but rather immediately with great velocity. That banker that loved you and loved to spend time with you on your boat and at your ski lodge, well turned out she didn't love you that much and demanded that you pay off your lines of credit immediately. Laying off people hurt them and you. The home, boat and ski lodge went away as did the country club membership, luxury cars and requests to speak at the local Rotary and Chamber lunches. You kept your business, barely, and month by month for 40 months you have scratched and clawed your way to survival. A few long term employees have actually been rehired, and you have been able to make some payments on the bankruptcy court order. The access to credit isn't as it was and really if you had it you wouldn't use it. You are hoarding cash and you are always fearful about the near term. You and your company must produce more with less and so you don't hire more people because you still don't have confidence. There are some excellent deals out there but you don't participate because you have been through the worst financial implosion since the depression and you find yourself having dinner table conversations similar to those you remember hearing your grandparents have about the great depression. You cut your own grass at the rental home, no more landscape or pool service, you sometimes wonder what those people are doing for employment now. The marina where you bought that dream boat is shuttered and you recall they used to employ about one hundred people. Not as many smiles around town anymore. Restaurants that you used to visit regularly closed because people like you don't eat out anymore. Most people seem to be getting by but with a lot less and fewer expectations about the future. It has been forty months since the bottom fell out and it seems a lot longer. You realize that it is really really hard to pay off what appeared to be insurmountable debt, make all of your commitments required and invest more in your company's future with

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Economic Commentary, continued

capital and human capital expansion. Your local community is desperate as is your state. Their revenues have dried up as property values and sales revenues have declined. Local and state politicians are talking about having to raise taxes and compounding those future possibilities are congressmen and senators suggesting federal taxes must increase. Things don't feel as bad as they did forty months ago, but, things don't feel great either and so you hunker down and do more of the same. Each month seems to get just a little better but there are too many things out there that could knock your slow moving train off the rails. It is better but nowhere near fun.

Multiply this individual story by all of the individual employers throughout our country that produce most of the jobs. Their story is not far from that described above. Magnify it by several fold and you get to medium and larger companies, similar in context if not scope. It is where we are and why we will be here for some time. Lots of work to do, more time required. Better, but not fun yet. ☐



*Christopher T. Haenicke, JD, CTFA
Vice President
Trust Relationship Officer*

The Taxing Issue of Identity Theft

As if we did not have enough to worry about these days, it was recently announced that nearly 12 million Americans were victims of identity theft in 2011, an increase of 13 percent over 2010, according to a report released by the research firm Javelin Strategy & Research. Just last month, an AP story about an outrageous incident of identity theft caught my attention. According to the wire report, dozens of victims of severe brain injuries had their identities stolen by a man who worked at the New York Center where they received services. The suspect filed phony income tax returns with the IRS and at least two states, directing over \$200,000 in tax refunds to checking accounts that he controlled. As Charlie Brown would say: *Good grief!*

As it turns out, such fraudulent tax filings are not rare. According to the IRS, around half a million taxpayers have been victims of wage and/or identity tax fraud since 2008, and the numbers are only increasing. Incidents of such fraud almost tripled between 2009 and 2011. There are two reasons why this type of fraud has been growing: the scam is rather simple to orchestrate, and the IRS and law enforcement have not figured out a way to stop it. How does it work? First, the thief obtains a taxpayer's name and Social Security number. Such information is readily available on the black market, the going rate being \$200 to \$300 per identity. The thief then electronically files a false income tax return using the stolen information, and directs the refund to a checking account that he controls.

In less than two weeks, the U.S. Treasury transfers the refund into the checking account, and the thief withdrawals the funds. The taxpayer victim usually finds out about the fraud weeks or months later, when her legitimate income tax return is rejected by the IRS on the grounds that an income tax return has already been filed by the taxpayer. It then takes a year or two for the IRS to complete an investigation into the alleged fraudulent filing and issue a refund to the taxpayer.

No taxpayer is safe from this scam, not even the dearly departed. In fact, filing a fraudulent income tax refund for a deceased individual is relatively easy, as the Social Security Administration publishes a list of deceased's name, date of birth and Social Security number. Earlier this year, a husband and wife criminal team from Illinois were sentenced to lengthy prison terms and ordered to pay restitution to the U.S. Treasury after having been found guilty of filing 572 fraudulent income tax returns using the personal information of deceased taxpayers. The duo filed returns claiming \$1,532,184 in refunds, and actually received \$998,614. After discovering the scam, federal authorities were able to seize \$192,513 from the wife's checking accounts. The duo likely carried out this scheme while sitting at their home computer!

What can the taxpayer do to protect themselves from being a victim of such a scam? The key is to keep your personal information out of the

hands of identity thieves in the first place. Your date of birth and Social Security number are the two most sensitive pieces of information, and the two most sought after by identity thieves. Protect yourself by not carrying your Social Security card in your purse or wallet. Give out your Social Security number only when absolutely necessary, and challenge anyone who requests the number. Identity thieves have been known to obtain Social Security numbers from medical charts in hospitals. If you are hospitalized, watch how your chart is handled, and tell your doctor or nurse to be careful with the information. Do not use your Social Security number as a password, and do not leave it displayed in the open, even in your home. Never give out your Social Security number over the phone or Internet. All of these precautions should also be taken in protecting your birth date. Lastly, never throw away paper containing your Social Security number or date of birth without first shredding such paper, preferably with a cross-cut shredder.

If you discover that someone has used your personal information to file a fraudulent income tax return, you should immediately contact the IRS. You will be asked to submit an affidavit of identity theft to initiate the IRS investigation. Unfortunately, the process is not quick or easy, and you will likely feel like you are being victimized a second time. May you never have to experience such an ordeal. ☑

“Give out your Social Security number only when absolutely necessary, and challenge anyone who requests the number.”



Michelle L. Thomas
Participant Services Coordinator

“Since experiencing highs in 2007, the RCS shows a decline in worker confidence and ability to secure a financially comfortable retirement.”

A Lack in Retirement Confidence Appears to be Our “New Normal”

I posed the following question last year at this time: Is a lack in retirement confidence our “New Normal?” Unfortunately, the results of this year’s Retirement Confidence Survey (RCS), administered by the Employee Benefit Research Institute, proves this to be the case. For the past three years, I have had the opportunity to author the May Perspectives article on behalf of the Retirement Plan Division. This year is no different, and I am able to compare the results of the 2012 Retirement Confidence Survey (released in March) to the 2011 and 2010 results that I reported on previously.

The Retirement Confidence Survey is the country’s most established and comprehensive study of the attitudes and behavior of American workers and retirees towards all aspects of saving, retirement planning and financial security.

Since experiencing highs in 2007, the RCS shows a decline in worker confidence and ability to secure a financially comfortable retirement. The 2012 survey finds confidence unchanged, as many workers have more immediate worries than saving for retirement. Workers cited the following immediate financial concerns: job uncertainty (42%), debt (62%). and financial insecurity (36%).

Perhaps in response to their reduced level of confidence about their retirement finances, many workers are adjusting some of their expectations of retirement. I have highlighted two main areas that workers are focusing on to improve their situation:

Postponing Retirement

25% of workers say the age at which they expect to retire has changed in the past year. The majority (88%, down from 89% in 2011) of these workers say that their expected retirement age has increased. This means that in 2012, 22% of all workers plan to postpone their retirement. Nevertheless, the median age at which workers expect to retire has remained stable at 65 since 1995.

While the 2012 RCS did not address the reasons for postponing retirement, below is a chart outlining reasons for postponing retirement in 2011.

REASONS FOR CHANGING EXPECTED RETIREMENT AGE	2011
Poor economy	36%
Lost confidence in Social Security/Gov’t	16%
Change in employment situation	15%
Health or disability reasons	10%
Cost of living higher than expected	10%
Want to make sure to have enough money	10%
Need to pay bills/expenses/new purchases	9%
Make up for losses in stock market	6%
Social Security may not be available	5%

There is a difference between a worker's expectation of retirement age and a retiree's actual experience with retirement age. One reason for this difference is that many Americans find themselves retiring unexpectedly. The RCS has consistently found that a large percentage of retirees leave the work force earlier than planned; 50% in 2012.

Retirees cite more negative reasons than positive for having to retire earlier than planned, such as: health problems or disability (51%), changes at their company (21%), having to care for a family member (19%) and changes in the skills required for their job (11%). Of the positive reasons noted for retiring early, being able to afford an earlier retirement (33%) and wanting to do something else (28%) topped the list. However, 8% of retiree respondents to the 2012 survey offered only positive reasons.

Working for Pay in Retirement

70% of workers, down from 74% of workers in 2011, say that their plans now include working during their retirement years. Those that worked for pay during their retirement in 2010 (reported in the 2011 RCS) say they did so to stay active (92%) or because they enjoy working (86%). However, the percentage who report working solely for nonfinancial reasons is small. 90% of retirees continue to identify at least one of the following financial reasons for having worked:

- Wanting to buy extras
- Decrease in the value of their savings/investments
- Needing money to make ends meet
- Keeping health insurance/other benefits

Many workers continue to be uneducated on how much they need to save for retirement. Only 44% of workers surveyed report that they have tried to calculate how much they need to retire comfortably. Greenleaf Trust's Participant Services Coordinators continue to meet with our retirement plan participants to educate them on the tools available for retirement planning and how to best utilize them. We are committed to helping our participants develop a strategy that is right for them individually and providing them with the confidence that they can retire comfortably. ☑

“Many workers continue to be uneducated on how much they need to save for retirement. Only 44% of workers surveyed report that they have tried to calculate how much they need to retire comfortably.”

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*Michael A. Storms, CFA
Research Analyst*

“The timing of individual equity purchases and the amount we purchase is dependent upon several factors... we consider each individual stock’s fundamentals, valuation metrics, and technical strength when making our purchase decisions.”

Maintaining a Strict Discipline – Apple, Inc. Case in Point

Greenleaf Trust has an in-depth disciplined approach to the purchase and sale of equity positions. Not only do we take into consideration company specific factors, we consider macroeconomic factors as well. Our trade history with Apple, Inc. stock highlights many different facets of our trade disciplines. A case study of how we applied these disciplines with Apple is described within this article.

The timing of individual equity purchases and the amount we purchase is dependent upon several factors including the attractiveness of the overall equity market and the economic sector of each respective stock. Additionally, we consider each individual stock’s fundamentals, valuation metrics, and technical strength when making our purchase decisions. Typically, partial positions (1-2%) of the equity portion of an account may take place before a full weighting (usually no greater than 3-4% of the equity portion of an account) in a stock is realized.

The Greenleaf Trust team also uses multiple guidelines when deciding whether or not to sell an individual equity position in client portfolios. The following is a list of these guidelines:

- Change in the Investment Thesis – If a company changes fundamentally so that it no longer meets the parameters of our Twelve Point Test, we typically liquidate the position.
- Expansion of the Valuation Metrics – If a stock’s valuation measures become excessive we may choose to reduce the position or liquidate the stock completely.
- Increased Position Weight – If a stock becomes over weighted in client portfolios (usually above 4% of the equity portion of the portfolio), we may decide to take profits by selling a portion of the position.
- Change in Macroeconomic View – If our top down view changes on the economic sector we may reduce exposure to the sector through appropriate sales in stocks within that sector.

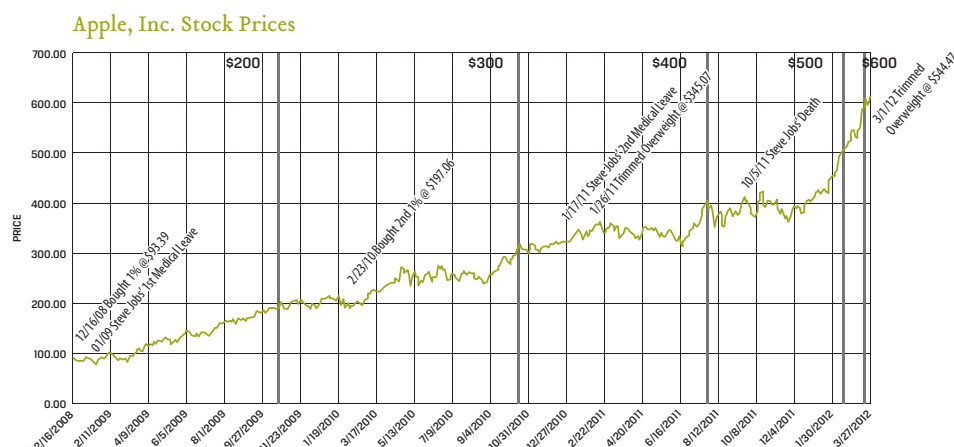
Greenleaf Trust’s historical trading decisions with Apple stock provide a great example of how we have applied our buy and sell disciplines in a real situation.

We purchased an initial 1% (of the equity portion) of Apple stock in December of 2008 near \$93 per share. At this point in time, the S&P 500 had already taken a large hit and Apple followed suit as it was well off its \$200 high near the beginning of 2008. During February of 2010, we purchased an additional 1% (of the equity portion), bringing the target weight up to a 2% level. In both cases, valuation levels were reasonable and our views on the overall technology sector

and where Apple was positioned within its sector was favorable.

As Apple's stock price appreciated, positions in Apple increased to levels greater than its target level. In some instances, it became almost twice its position size compared to the target level. During the periods where almost all clients were significantly over weighted to Apple, we initiated block sell tickets. The purpose was to bring positions in Apple back closer to target levels and to maintain diversification within individual equity portfolios. Allowing Apple to increase to a large overweight would cause the entire portfolio to be driven primarily by the movement of Apple stock. Our goal within individual equity portfolios is to maintain enough diversification that if any one individual stock were to have a significant downside event, the entire portfolio would not be compromised.

The following graph presents Apple's stock price since our initial purchase and highlights the trade movements and other events we have applied during this period.



“Greenleaf Trust’s trade history of Apple stock is a good illustration of our buy and sell disciplines put into action.”

- Greenleaf Trust’s sell discipline addresses situations in which a position becomes overweight to its target weight.
- As a position becomes greater than its target weight, the position is trimmed to a level near the target weight.
- In some cases, positions become overweight across all portfolios. In this situation, an official block trade is initiated to sell across all portfolios.

Otherwise, positions are reduced on a case by case basis.

Disclaimer: This chart is for illustration purposes only. Historical performance does not represent performance expectations going forward.

Greenleaf Trust’s trade history of Apple stock is a good illustration of our buy and sell disciplines put into action. For purchases of Apple, we considered valuation levels, company fundamentals, and the outlook for the sector. For sales of Apple, the primary considerations were position weight and valuation levels. ☑



*Faith M. Heikkila,
Ph.D., CIPP-US, CISM
Chief Information Security Officer*

“Postings on social networking sites reveal that an abnormal number of AOL, HotMail, and Yahoo free email accounts have recently been hacked.”

Email Account Compromised? Tips for Protecting Your Accounts

You cannot pick up a paper lately without seeing some sort of breach or email scam. We have all received these types of messages: asking for money, demanding that you reset your password because your account is supposedly going to be deactivated, or attempting to get you to click on a link that will place malware (viruses) on your computer. Many of these attempts are to spur you into action and cause you to click on links or visit websites that have malicious content that will put your computer at risk. These can include programs that a hacker can install on your computer wherein the hacker is sent all of your keystrokes, including when you sign in with your username and password.

Postings on social networking sites reveal that an abnormal number of AOL, HotMail, and Yahoo free email accounts have recently been hacked. As a result, a deviant person could attempt to use your email account to send out messages to everyone in your email address book.

There are an increasing number of these incidents reported wherein the compromised email account is used to request disbursements from financial institutions. The hacker's email comes into the financial institution apparently from their client and requests that a wire transfer be made on the client's behalf to a third party. To the financial institution, the email appears to be legitimate because it

is from their client's normal email address. The hacker usually stresses the urgency of sending the funds to the third party immediately and also puts in the email that they are on their way out of town or will be unavailable. This urgency appeals to the financial institution's sense of client service. The hope of the hacker is that the financial institution will send the money to their account without verifying the request.

How Is Your Email Compromised?

Cyber attackers have been working overtime attempting to compromise people's email accounts. Their methods include trying to guess or “crack” your username and password. A common method of compromising your email account is to try and circumvent social networking sites (Facebook, LinkedIn, Twitter, etc.) where you use the same exact password to access the social networking site as the one you use for your email password. So, if you use one password for all of your accounts, the opportunity for cyber-criminals to access other accounts becomes that much easier. It is common for people on the social networking sites to display an email account, which leads the attacker to what your email address is and if they have guessed your social networking account password, they now can begin to use your email account for illegal activities.

Once they gain access to someone's email accounts, they can send out emails posing as that person. If you have folders on your webmail account that contain your financial information, it makes it easy for a cyber-criminal to gather information about you in order to impersonate you and request money from your financial institution.

How do you protect yourself?

Once you have discovered that your email account has been compromised, change your password to a strong password. If you receive notification from your friends that they received a "weird" email message from you, that is a sign that your email account has been hacked—you should immediately change your password. Please see my August 2011 *Perspectives* article "Creating a Strong Password" (www.greenleaftrust.com/pdfs/PerspectivesAugust2011.pdf) for help on creating memorable and strong passwords. Some highlights from that article include:

- A strong password consists of a combination of upper and lower case letters, numbers, and/or special characters. It should be at least nine (9) characters long, should not form a word in the dictionary,

should never match the UserID, and must not be a simple keyboard sequence (e.g. asdfg, aaaaa, 123456789, etc.).

- Use a passphrase as your password rather than a single word that can be found in a dictionary in any language.
- Use your core password and then for each site or account you log into, add relevant information to the beginning or end of your password.
- Develop your own patterns and strong passwords.
- Customize the core password using what makes sense to you.
- Have different core passwords for home accounts and work accounts.
- Use a completely different core password for your bank account login.

You should also purchase some type of personal firewall that includes an anti-virus solution, anti-malware, and a spam blocker. There are a number of products available to assist you with protecting your computer. Gartner's 2012 Magic Quadrant identifies McAfee, Kaspersky Lab, Sophos, Symantec, and Trend Micro as the market leaders for security products that protect your computer.

Create a different email account for social networking sites than the email account you use to communicate with your financial institution. There are a number of free web-based email services available. A best practice would be to set up an individual email account exclusively for each of the following:

- 1) Communicating with your financial institutions,
- 2) A different one that you provide on websites when requesting information;
- 3) Since some devices (i.e., Apple products) save all passwords, it is wise to create totally separate email addresses to be used on these devices to protect you in the event that you lose them or they are stolen.

Greenleaf Trust Procedures

In response to the increasing trend of compromised e-mail accounts, we have enhanced our distribution procedures to better protect our clients. All Greenleaf Trust clients will be contacted regarding the enhanced procedures. Please call a member of your Greenleaf Trust team as soon as possible if you become aware that your email account has been compromised. ☑

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Stock Market Pulse

Index	4/30/12	% Change Since 12/31/2011
S&P 1500	322.76	11.94%
DJIA	13,213.63	9.12%
NASDAQ	3,046.36	17.28%
S&P 500	1,397.91	11.88%
S&P 400	991.31	13.24%
S&P 600	457.32	10.58%
NYSE Composite	8,119.07	8.59%
Dow Jones Utilities.....	470.53	2.39%
Barclays Aggregate Bond.....	110.60	1.04%

P/E Multiples	4/30/12
S&P 1500	14.7
DJIA	14.8
NASDAQ.....	17.2
S&P 500	14.4
S&P 400	18.3
S&P 600	17.6

Key Rates

Fed Funds Rate	0% to 0.25%
T Bill 90 Days.....	0.10%
T Bond 30 Yr	3.11%
Prime Rate	3.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	322.76	14.7x	2.04%
S&P 500	1,397.91	14.4x	2.13%
DJIA	13,213.63	14.8x	2.47%
Dow Jones Utilities.....	470.53	NA	3.85%

Spread Between 30 Year Government Yields and Market Dividend Yields: 1.07%

MAIN OFFICE:

211 South Rose Street
Kalamazoo, MI 49007
office: 269.388.9800
toll free: 800.416.4555
e-mail: trust@greenleaftrust.com

HOLLAND OFFICE:

Matthew D. Siel
Vice President
Business Development Officer
150 Central Avenue
Holland, MI 49423
office: 616.494.9020
cell: 616.540.2093

PETOSKEY OFFICE:

John F. Welch, CFP®, CTFA
Senior Vice President
406 Bay Street
Petoskey, MI 49770
office: 231.439.5016
cell: 231.642.1175

BIRMINGHAM OFFICE:

Mark W. Jannott, CTFA
Senior Vice President
Investment & Estate Planning
34977 Woodward Ave., Suite 200
Birmingham, MI 48009
office: 248.530.6200
cell: 248.417.5527

TRAVERSE CITY OFFICE:

John F. Welch, CFP®, CTFA
Senior Vice President
130 South Union Street
Traverse City, MI 49684
office: 231.922.1428
cell: 231.642.1175

GRAND RAPIDS OFFICE

John F. Welch, CFP®, CTFA
Senior Vice President
The Bank of Holland
51 Ionia Avenue SW
Grand Rapids, MI 49503
office: 616.494.9020
cell: 231.642.1175

www.greenleaftrust.com

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