OLD MISSION

publication of the old mission investment & trust companies
fall and winter 2018/19

trust administration
wealth management
investment services
retirement plan advisory

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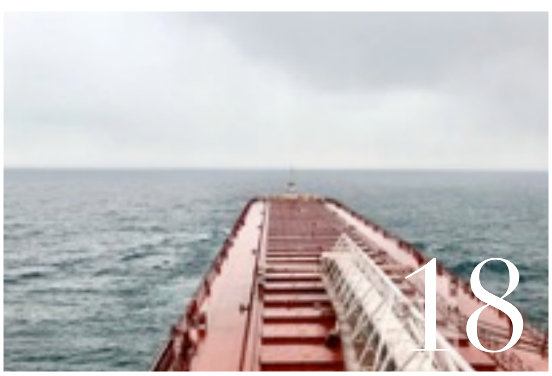
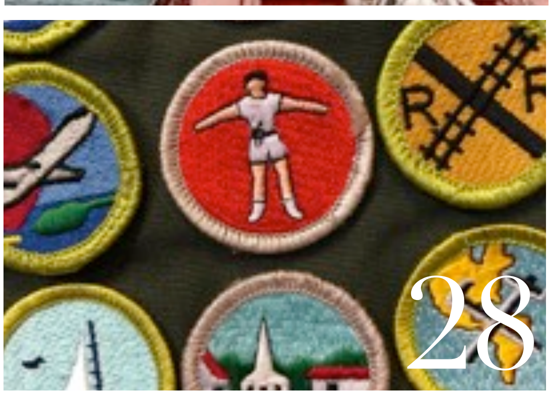
Fall and Winter 2018/19

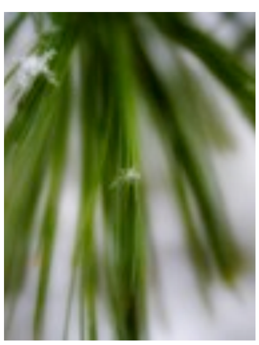
Contents





Privately owned and independent, Old Mission Investment and Trust serves families and investors through investment management and comprehensive wealth planning services to achieve peace of mind for all clients.

The Cover:



Cover Image: Winter in northern Michigan. No two snowflakes are the same.

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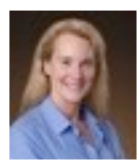

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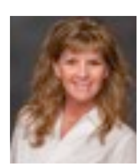

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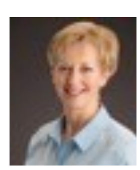

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A Little Market History.

Usually, I get to pen the first page of our publication based on tying together a personal experience with an investment theme. This time, I'll skip the fun anecdotes and go right to the business at hand. People are scared of the markets. With the gyrations we've had this year, it comes with no surprise.

When I started in the investment management world, the Dow Jones Industrials Average had just pushed above 3,000 for the first time. It was a big deal back then just like the highs made today. It's exciting to see markets achieve record levels on both sides of the relationship - by the client and the advisor.

Corrections, defined by a pullback of 10% or more in the markets, are fairly common. For those that have accumulated wealth over the past 30 years, you've experienced a correction almost every other year. In sum total, we've experienced 37 corrections since 1945, occurring once every 2 years. All corrections have happened for different reasons - geopolitical concerns, interest rates, profits, inflation, and wars. You can't predict when they are going to happen. The best lesson is that you don't have to avoid them to be a successful investor.

Education is the first line of defense for many things. Our health, our wealth, our jobs, and professions have all been based on our ability to educate ourselves on the task at hand. But, with investing it's an emotional tie that binds us, many times, to making bad decisions. As with human nature, we may believe that we are made of steel, but really it's tough to shake the biases for 'loss aversion' that are wired into our brains. Behavioral scientists even argue that we can't make logical decisions without some element of emotion coming into play.

Now that I've had 26 years in the business of providing investment, financial planning, and wealth management advice, I've earned the right to say 'back in my day' when opening client dialogue about stocks, bonds, and the markets. I'm getting older, thankfully, since the alternative isn't nearly as attractive.

As an advisor, what have I learned over the 26 years I've spent in this business? I've learned that worry, panic, and a general level of concern is OK. It's acceptable to have feelings, but *acting* on those fears and feelings is what leads to poor results. When markets fall in value, we know that it's not the end of the world. We also know that markets can and will most likely recover in the same fashion that they have for the past hundred years and that they'll most likely forge ahead to make new highs in the future. I've also learned that every market decline is different, but that they all resonate around a similar tone - fear - and that *fear* is a tremendous driver of client decisions. As a firm, we respect the fact that we manage *your* money - it's not ours - and that we have been hired to be a trusted steward for your wealth. We are beyond appreciative and don't like seeing losses in client portfolios. We know that they make you anxious, we truly do, but we also recognize that it's the reality of investing.

This market cycle is different. It's important to know that the economy is in good shape. Companies want to succeed and will do what's necessary in order to keep things moving upward and onward. Large corporations are made up of people - including management, employees, and business partnerships - that *all* like to see things constantly improve. What does this mean? It means that no matter who happens to be in office, or which party controls the house or the senate, that corporations will continue to do what's in the best interests of their shareholders and will strive to survive profitably over the long-term. By owning quality businesses as a shareholder within your portfolio - either directly, or through one of your funds - you too, are an owner. You've entrusted your capital to companies like Microsoft, Home Depot and Apple - in small ways - with your own personal wealth and they've done quite well, over time. Our feeling is that they'll *continue* to do well over the long term.

Markets don't fade away, they just change. They go up, they go down, and periodically they scare you. We understand that, and when you call our office to voice your concerns, it's not an interruption of our day, but rather a reason why we are here. The 'hang in there speech' is something that we, as advisors, are well-versed at hearing ourselves say. Have we been right over time to recommend that clients stick with owning stocks? Absolutely. We've weathered some substantial storms over the years, and the best course of action was to continue believing in the 'law of survival' within our own investment portfolios.

So, in order to address what's in the front, back and middle of our minds, *hang in there.* The lesson learned during the past 10, 20, 50 and 80 years has been that stocks will go through their gyrations and be rather unpredictable. We know that. However, the longer one participates as an investor, the odds of succeeding improve greatly.

A boxer used to say that 'Everyone has a plan until they get punched in the face,' which is so true. Don't let the markets rattle you into doing something that you shouldn't. The American economic system is resilient and so are the markets. Above all, in the context of what we've been through as a nation and as a world, we've rolled with the punches pretty well.

Christopher M. Lamb, CIMA, CTFA
Managing Partner and Principal

Our internal succession plan comes to life with the phased retirement of one of our own.

FROM A *'ME'* TO A **'WE.'**

Written by: Robert W. Stibbs, CPA, CFP®, Principal Partner

This year I marked my 68th birthday, enjoyed the birth of another grandchild, and sadly lost my mother. As with our clients and their respective careers, I've had the opportunity to mark a number of milestones in my professional life as both a CPA, as well as a wealth manager. Now, I'm looking forward to the next chapter in my life to unfold as I embrace *my* upcoming retirement and make plans to spend more time with family, golfing and seeing more of the world.

To my clients that might be worried that I won't be around to answer their questions, don't be. To my friends that have relied upon me to help them along the way much like a friend would, I'm leaving you in good hands and new relationships will emerge. And to my company partners and employees, it's been an incredibly rewarding experience that I will not forget.

Our company means a lot to me, and I have nothing but admiration for what we've created for your long-term benefit. As it's been remarked before, we created this company based on the needs of our clients, which includes you, specifically. We know that our role doesn't last forever, but we've strived to have our own internal succession plan so that the consistency of your relationship with our firm doesn't end when an advisor retires. We are people too, and we make it a habit to plan for this type of inevitability as our clients would expect us, as planners, to think ahead ultimately putting ourselves in *your* shoes. As a result, we constructed and relied upon our own succession plan to make sure that the longevity of our client relationships are preserved so clients aren't faced with a huge change in their advisory relationship. I'll continue to work over the next year to ensure a smooth transition for our clients and the company. It's important to all of us.

Old Mission will stand the test of time, and rest assured that the talents and advice that I shared with you will continue to exist for your benefit. We have built this firm from the ground-up knowing that a firm-wide approach to handling individual client relationships was absolutely the right decision. It took us time, energy, effort, trust and faith to get where we are today, and it will continue long after my retirement. As a firm I helped establish, I'm incredibly pleased to see my daughter, Carey, continue in my footsteps taking on the role of Chief Financial Officer, while also working toward becoming a principal partner at our firm.

It's been a wonderful experience, and I have all my clients to thank for being such an important part of my life. I've gone from being a 'me,' as a practicing solo advisor years ago, to enjoying my place with our clients, providing personalized services to you and your family as a 'we.'

I will be leaving you with a capable organization with a deep bench of experience and advisory capabilities. I'm hoping that you'll wish me well and that you'll continue to embrace the firm that I helped create. I know that I will.

Bob

Robert W. Stibbs, CPA, CFP
Chief Financial Officer and Principal

DEBT V$. ACCUMULATION

The age old question is whether or not to 'pay it off' or continue to build assets over time. Here are a few tips and thoughts that may guide you in this answer.

Written by: Christopher Lamb, CIMA, CTFA, Principal Partner

Debt is almost unavoidable for many people. We buy our cars with loans, finance our houses with mortgages, and enjoy the ease of using credit cards. For many Americans, the concept of *having* debt is unthinkable, but for others debt has been a useful tool in accumulating assets. The question is 'when do you pay it off... now, or later?'

Type of Debt. First, there are different types of debts out there. Credit cards generally are the most widely-held type of debt, and can be the most destructive. While access to this type of debt is easy to get, it comes at a high price, namely the amount of interest that is charged by the credit card company against the borrower.

Mortgage-related debt is the most accepted, and for the most part, difficult to obtain. Borrowers are required to go through lengthy credit checks to insure that they are worthy borrowers and have a propensity to repay the debt. Since people don't generally like to lose their home, they tend to consider mortgage related debt as an important part of their life.

As a general rule of thumb, borrowers should attack high interest debt aggressively, leaving lower interest debt to be handled over time. This is nothing new, but it's worth repeating.

Can you swing it? The concept of accelerating debt payments in order to reduce the amount of interest paid is the goal for many families. The real question is whether or not a borrower can make the large commitment to aggressively paying off debt, or whether it's best to accumulate assets to continue saving money for retirement. If an aggressive self-imposed debt repayment schedule comes at the price of sacrificing the existence of an 'emergency fund,' you might think twice.

When making accelerated debt payments causes you to skimp on life's other financial commitments, such as medications that you deem as 'optional,' or skipping the payment for your health insurance, it's not worth doing. Also, at some point you'll need to consider your age, savings, and the fact that retirement, too, will be a looming consideration. If debt repayment is coming at the expense of sacrificing retirement plan contributions, it might be worth taking a breather and considering a less aggressive payment plan.

Albert Einstein regarded compound interest as the eighth wonder of the world. Why? Because it's magical. Money can earn more money, and over time this can be a powerful accumulation tool for those looking to save money for retirement. Financial commitments should be handled as a balanced strategy considering *both* accumulation as well as debt management. It should never be one or the other.

What produces the best outcome? Most investors wrestle with the question of mortgage-related debts, since they routinely are the largest function of debt on an investor's balance sheet.

Assume that an investor maintains a mortgage with a 4% interest rate. Also assume that the investor *earns* a 4% interest rate on their savings. Over the long-term there is no difference in wealth accumulation regardless of whether or not the debt is paid off.

For long-term investors, however, the stock market has been generous. For investors with a 20-year mortgage, by

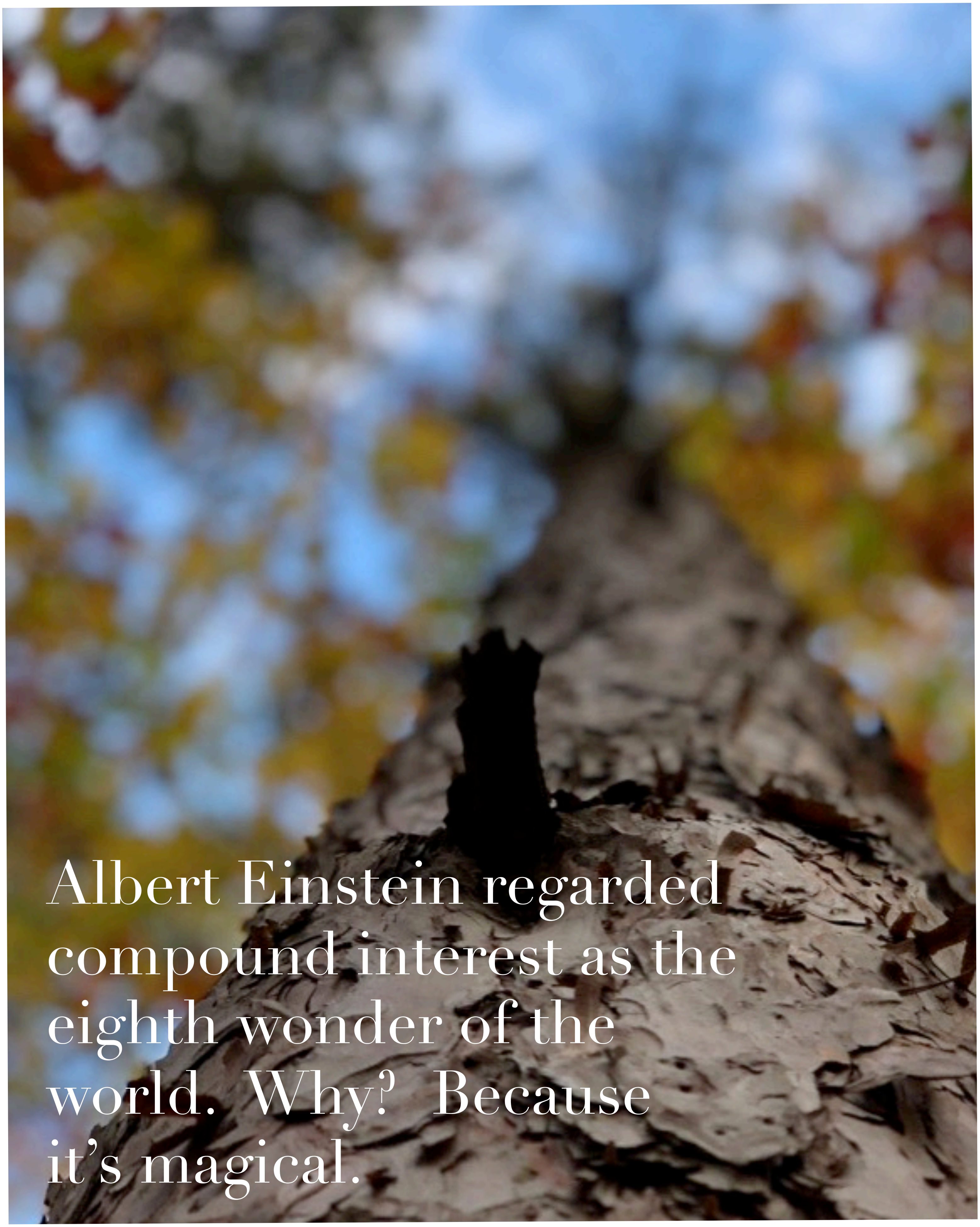


Image: White pine, Grand Traverse County, Michigan

"When do you need your money for retirement? If an aggressive debt repayment schedule adopted as a 'matter of *preference*' causes you to delay retirement due to liquidity issues, is it really **worth** it?"

making the same 20-year commitment to an investment portfolio, the rates of return have been significantly in favor of deferring aggressive repayment actions in favor of accumulating investment assets. If an investor is losing 4% through their mortgage, but earning an 8% return in their investment portfolio, it will make more sense to continue adding to the investment portfolio assuming that the debt repayment isn't too burdensome.

While this example is easy to understand, in reality life is a little more complex. Mortgage-related debt also carries other benefits that may make the decision to defer large principal payments even easier. Tax benefits also begin to creep into the mix, since mortgage debt can be a tax deductible item. Granted, the tax laws have changed recently making the line between 'payoff' or 'accumulate' a little more blurry, but either way there are many considerations that are worth discussing with your advisor before making the leap toward aggressive debt repayment.

The Emotional Toll. Advisors understand the emotional decision making process very well. Investors, as well as borrowers involve emotions in many decisions, not the least of which is the heavy-headed feeling of debt that looms on your personal balance sheet. Many feel that debt is bad and just the mere existence of having debt on a car, an RV, or a home is just 'bad business.'

The rush to pay off a debt that carries an emotional toll might *feel* like a great idea. Being 'debt free' is a wonderful concept, but it comes at a cost of flexibility in terms of what types of cash assets you'll have at your disposal after the debts have been repaid. Or, if debt repayments have reduced your ability to make an investment in your business or take advantage of a fantastic opportunity you may have painted yourself into a corner. Remember, banks don't lend money to people that desperately need it, they tend to be lurking around the corner when borrowers don't necessarily need it.

The Time Factor. When do you need your money for retirement? If an aggressive debt repayment schedule adopted as a 'matter of preference' causes you to delay retirement due to liquidity issues, is it really worth it? We recognize that not every decision people make is predicated on facts, but as noted earlier, some times emotions come into play. If, as Einstein appropriately points out, money can grow once there IS money, you need to also consider when you need your money to be safe, secure, and in abundance when the retirement clock hits midnight.

While some people have adopted things such as reverse mortgages as a way to extract a portion of the value of their homes as retirement income, it doesn't rank highly as a great idea for most people. You can't plainly sell a fraction of your home for retirement income, and the existence of necessary liquidity is a requirement.

Having Flexibility is Important. A common quote is 'cash is king.' What this means is that having liquidity when you need it is important. Once the mortgage debt is repaid, in order to remove a portion of the funds locked up in your house, you either a.) have to sell the home, or b.) assume another mortgage. Either way, both options are generally 'illiquid' options to consider. They take time, they are expensive, and quite frankly banks may not be in the 'lending mood' when you need to take action.

Those that have managed to walk a nice balance between appropriately managing debt and accumulating assets are the overall winners in the financial game of life. Much like the board game of *Life,* originally created by Milton Bradley in 1860, there are lots of choices to be made. Kids, money, debt, fun, and lifestyle all come into play. There are those things that are unpredictable, too. Having 'choice' in the way you handle your financial life is incredibly important.

By having access to a variety of different financial tools - cash, credit cards, mortgages, etc. - you can navigate through life pretty well. With good planning, you'll end up on the right side of the financial coin enjoying time on the tractor with your grandson and your wife, tending after your horses with the sun on your face.

Good choices, good life. **OM**

Image: Bicycle. Charlevoix, Michigan.

EXPENSES IN RETIREMENT

Written by: Christopher Lamb, CIMA, CTFA, Principal Partner

We all spend money. Where, exactly, we spend our money differs based on our age, where we live, and how we live. Inflation is a reality, and at times we are at the mercy of the financial winds and the financial seas.

Retirement is a choice. Where you spend money during your retirement isn't always a choice. From medical care, to transportation expenses, to food and recreational expenses, what you don't spend you save, and what you don't save you spend.

Our ages dictate where, when, and how we spend our money. College students spend money on education, and certainly less on medical care than most others. Retirees, on the other hand spend very little on education, and have a disproportionate portion of their budgets spent on housing as well as medical care.

As we age, inflationary pressures tend to influence the financial risks for each demographic segment of our population differently. How we prepare for those changes is the ultimate question.

The Baseline. The consumer price index, commonly known as the 'CPI' has been around for decades. It's a price measure of the common goods and services that our population uses regularly. It measures the quarterly and annual changes in the price of all of those items trying to gauge the level of price inflation. As noted above however, we allocate our incomes differently based on our age. But no matter what, it takes money to live, and from year to year the expense of *living* will change.

A few words on inflation and its root cause. As a hint, inflation is not arbitrary and is influenced by higher demands for goods and services. If *everyone* needs to see the 'county doctor' they can afford to charge more for their services leading to inflationary pressures on medical care in the community. In a bigger sense everything from steel, medical care, education, and transportation is influenced by supply and demand.

The Bureau of Labor Statistics, the government entity that tracks the consumer price index, has developed a CPI measure (known as the CPI-E) that tracks not only the rates of inflation, but the spending habits of those that are 62 and older. As mentioned earlier the spending habits of older Americans will differ from those Americans who are younger.

Medical Care. This is a substantial concern for the retiree and 'soon to be' retiree population. Based on the discussions that we've had with the clients at our firm, while medical care is one of the largest budgetary items, it's no surprise that it also weighs most heavily on the minds of retirees.

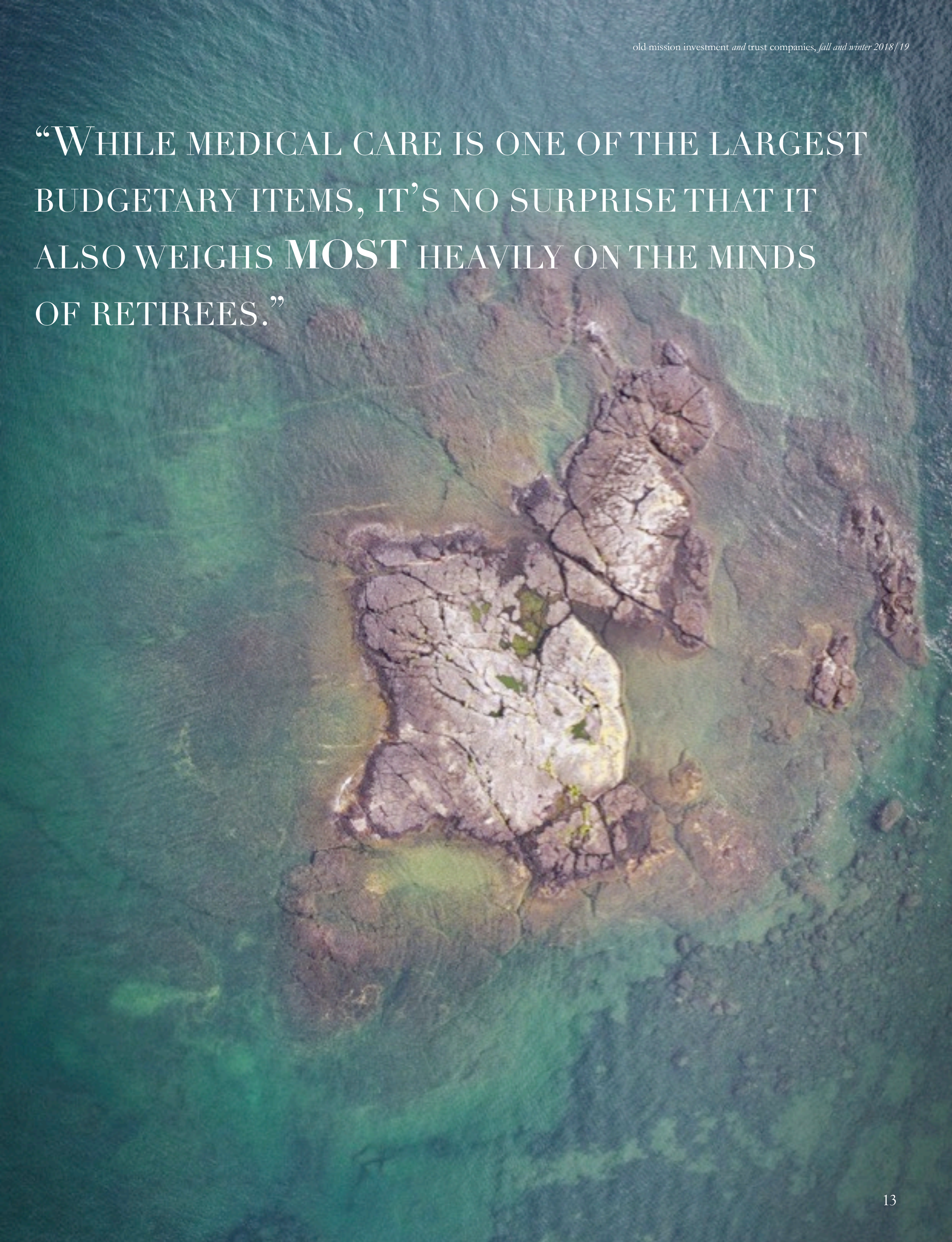
Not surprisingly medical care is a significant budgetary item, with retirees spending a little more than 12% of their incomes for medicines, doctor's visits, and insurance premiums. In a general sense, those aged 62 or older spent 50% more on medical care than those who were younger.

The 'sticker shock' concerning healthcare expenses can be surprising. According to Fidelity Investments it's estimated that a retiree will spend $275,000 in today's dollars for healthcare expenses during the tenure of their retirement. And since healthcare expenses will have their own inflation rate, it's a significant item to factor into financial plans. For those fortunate enough to have health savings accounts (HSAs), it is possible to save for those expenses on a tax deductible basis in advance. But this is only an option open to pre-retirees that meet certain requirements through employers' health plans.

Strangely, medical expenses have risen less than average for the past few years. Whether or not this was driven by the 'marketplace' for insurance or through the additional rules

Image: Drone image, Lake Superior. Marquette, Michigan.

"While medical care is one of the largest budgetary items, it's no surprise that it also weighs **MOST** heavily on the minds of retirees."



and regulations placed on insurance companies, the reason is unclear. However, the short-term inflation rate on medical expenses incurred by the retiree population has only risen a little more than 1% annually between 2014 and 2016, with a recent uptick in 2017. Long-term, however, medical expenses increased at an annual rate of 5.4% annually on average, making it one of the highest inflationary items within a retiree's budget. This isn't a surprise as demand for those services has increased steadily over the past few decades as our 'boomer' population ages.

Housing. We all need a roof over our heads. Housing comprised the largest portion of a retiree's budget, consuming almost 50% of a retiree's income. This takes into consideration the costs affiliated with managing a home, nursing home care and expenses, heating and other budget items. While this is a big number for most retirees, it might not be totally reflective of your specific situation as it is heavily dependent on a number of variables and factors.

Food. Food expenses aren't always the largest part of a retiree's budget, but it's the one area next to healthcare that seems to be the topic of conversation among retirees, and pre-retirees. They routinely comment 'we just won't eat out as much as we have,' with an eye toward saving a little more money during retirement. This makes sense.

Retirees generally prepare more food at home and spend less on dining than other segments of the population. Since retirees have more time to strategize and economize on their food options they have less of a need to eat out for reasons of convenience compared to when they were working.

Transportation. The retiree population spends less on transportation since they may not travel as much. The expense related to both auto and fuel expenses tends to be less of a consideration. Additionally, with the volatility in the oil markets and ultimately its impact on the prices at the pump, retirees will be less impacted.

Cars tend to last longer due to less travel, and the expense related to transportation costs is a far smaller item for retirees than it is for working individuals.

Overall Inflationary Pressures. The largest 'cost' to a retiree isn't gasoline for the car, or the cost of medication. But rather, it happens to be the inflationary pressures that exist over a retiree's lifetime. It's a hidden *tax* that most don't necessarily budget for within their financial plans, and as a result, traditionally conservative portfolios are unable to keep up with the inflationary reality as it exists over time.

Inflation hasn't been a problem for our economy for over 30 years, and it's doubtful that it will be an issue for the near-term. However, modest amounts of inflation can be a significant headwind for clients.

What should you budget when considering inflation in your financial plan? As evidenced through both the CPI and CPI-E numbers it really depends on your age, and the type of spending that you may have. Ordinarily, the last several decades have indicated that a 2.7% to 3% inflation rate might be fairly straightforward and prudent from a planning perspective. From 1982 through 2012 the inflation rate for older Americans was 3.1%, compared to 2.9% for the general population. This likely has to do with medical expenses existing as a larger budgetary item for retirees.

The Portfolio. Any prudent financial planner will budget for the inflationary pressures within a portfolio especially when taking spending and distributions into consideration for future cash flow purposes.

The goal, however, is to marry a portfolio that also provides an element of inflation protection into the mix. While most retirees shy away from owning stocks within their portfolios since it's believed that the older you are the less risk you would like to have. This thinking, while not uncommon, leaves a gaping hole in most financial plans. While you eliminate the risk of potential loss in your portfolio, you unknowingly assume the risk of purchasing power erosion over time. Equities play an important role in offsetting inflationary pressures for a retiree.

Consumer Price Index Major Expenditure

	% of Spending CPI-E	% of Spending CPI-U	1-Year Inflation Rate
Food and Beverage	12.10	14.35	1.09%
Housing	46.53	41.77	3.00%
Apparel	1.93	3.02	1.33%
Transportation	14.64	16.54	5.26%
Medical Care	12.10	8.67	2.44%
Recreation	5.59	5.74	0.64%
Education and Communication	4.12	6.71	0.22%
Other Goods	2.99	3.20	2.49%
Total	100.00	100.00	2.73%

Source: Bureau of Labor Statistics

Manufacturers of soup, toothpaste, and toilet paper pass along to the consumer *their higher costs* of manufacturing those goods. Owning stocks as a result can be a great hedge against inflationary pressures within your 'personal economy' regardless of whether or not you are a pre-retiree or someone who has been retired for quite some time. Stocks are important and it is possible to be 'half pregnant' knowing that you don't need to be 'all in' or 'all out.' Having an allocation of 40% stocks during your retirement - and committing to stocks no matter what - can be a key difference between having a successful retirement or a retirement in which you may outlive your own financial resources. **OM**

Image: Drone image. Rogers City boat harbor, fuel dock. Lake Huron, Michigan.

529 PLANS

They are like 'mini Roth' accounts that carry significant tax advantages for families looking to save for an education. The application of 529 plan assets just got a little more flexible.

Written by: Susan Staffan Wipperman, JD, CFP®, Trust Officer

You may recall that a "529" is a college savings plan sponsored by a state or state agency. Any U.S citizen who is 18 or older may fund a 529 in most states and there are no income limits. A 529 plan may be established for a named beneficiary who may be a child, grandchild, spouse, friend, or even yourself. Anyone can establish a 529, and there are no income limitations on the account owner. A person may fund an unlimited number of 529 accounts.

The Benefits. 529 plans were originally established to have a more 'targeted' approach to education funding. They provide for income-tax free withdrawals for educational expenses provided they are used for certain qualified expenses, such as room, board, and tuition. Funds must be distributed directly from a child's 529 plan account to the institution, however.

Contributions to 529 plans are subject to the gift tax rules with one exception: you may fund 5 years' worth of annual exemption gift amounts up front. In other words, if you open a 529 for your grandchild, you may make an initial deposit of $75,000 (or $150,000 if gifting with a spouse) tax free. This represents your annual gift tax exemption for that grandchild for the next 5 years. The investments grow tax free and again, if withdrawn for qualified education expenses, distributions are income tax free. In a way it's very similar to a Roth IRA, but for educational expenses.

Recent Changes. Among the changes enacted by Congress in the 2017 Tax Cut and Job Incentives Act is an expansion of the definition of a qualified education expense for 529 plans. Historically, only college expenses for tuition, room and board (only if at least a half-time student), required books and supplies, and technology used in school were qualified expenses. Starting in 2018, qualified expenses now include private elementary and high school tuition of up to $10,000 per year. This is a real benefit for those families who choose to educate their children in private schools.

Other characteristics of 529 plans remain unchanged. The account owner maintains control over the assets in the plan for the life of the account and decides if and when a distribution is made. However, distributions not used for a qualified educational expense will be subject to a 10% penalty in addition to an income tax on the earnings. There are a number of exceptions to this penalty. The penalty may be waived if your child gets a scholarship or is disabled. You also can avoid the taxes and penalties by transferring the 529 plan to another beneficiary who will use the funds for qualified education expenses which, in a way, keeps assets 'in the family' in the event that plans may have changed.

529 plans also provide state tax benefits in some states. In more than 30 states and the District of Columbia, contributions are tax deductible if you're a resident of the state sponsoring the 529 plan. In some of those states—Arizona, Kansas, Montana and Pennsylvania—you can claim a state tax deduction for any 529 plan, regardless of its location. The amount of the available deduction also varies by state. However, in the event that the student chooses to attend college in a state *other* than the state that provided the state tax deduction, the funds, once withdrawn, would be subject to state taxation. As an example, a Michigan-based 529 plan, to the extent of a Michigan income tax deduction taken at the time of contribution, if not used for a Michigan-based institution, the funds would carry a state tax burden at the time they were distributed for the benefit of a non-Michigan college or university.

529 plans can be a great way to start saving money for your kids' education. In past years there have been attempts by the government to provide a structure to financially benefit minors and the assets given to them. However, while accounts such as Uniform Gifts to Minors Act (UGMA) accounts were more flexible in terms of their uses, they carried tax consequences along the way that still pale by comparison to the benefits under 529 plan accounts. **OM**

Image: South Manitou lighthouse, Manitou Passage.

THE FEDERAL RESERVE

The balancing act of raising rates and keeping the economic 'ship' moving along is a delicate one.

Written by: Christopher Lamb, CIMA, CTFA, Principal Partner

The interest rate environment is changing and from the perspective of the Federal Reserve, it's for the better. Many investors will note that money market yields have appreciated significantly off their lows, now earning yields in excess of 'zero' where they had remained stationed for quite some time. As most people will remember, the low interest rate environment was a product of the 'great recession' of 2008 and 2009, with rates remaining steadfastly low for the past 10 years. Has it helped? *Absolutely.*

The 'Fed,' as the Federal Reserve is also known, remained committed to more than just low interest rates. They were committed to reinvigorating economic growth, reducing unemployment, and maintaining a low-inflation environment. By all accounts, they've done a great job with the tools they've been given. What's next for the Fed, and how can they mitigate the next recession?

Recessionary Risks. Let's be clear. There *will* be another recession. Recessions aren't gone, and they have not hibernated for the balance of eternity. The question as to 'when' the next recession will happen is largely a matter of conjecture at this point. No one really knows. But, it's a matter of fact that recessions don't happen during periods of low unemployment and periods of high economic growth, but rather during periods of change.

By definition, what is a 'recession?' It's defined as a period of time when back-to-back quarterly economic gross product *shrinks*. Meaning, we produce less in terms of goods and services as a nation for a period of 6 months or more.

The 2008 recession was severe. It's unlikely that the next recession will be nearly as bad; however, most investors have suffered massive amounts of post traumatic stress following the losses suffered in 2009 and are still looking for shades of 2009 in any upcoming recession. It's doubtful, much like the bunny figures seen in clouds, or the carbon-etched figures of Jesus we see in our burnt morning toast that something like *that* will happen again anytime soon. Recessions will however happen only with question of their timing, severity, and length. But just like all the other recessions we've experienced, we will get through them and should flourish on the other side. It's a normal cycle.

Recent Actions. Unlike aggressive tightening policies of past decades the Federal Reserve began *slowly* increasing interest rates over the past 16 months. Some have commented that it's 'different this time' and we tend to agree. To a certain degree, the actions of the Federal Reserve in the past have been to aggressively tighten the money supply trying to cure an overheating economy. This time may be different, but why?

During this cycle, the Federal Reserve has taken a more measured approach to their monetary policy along with the recent increase in interest rates. This means that the markets have had time to digest the eventual reality of the situation permitting banks, corporate and individual borrowers, and other lending institutions to adjust to a higher rate environment. Higher rates tend to cause corporations and individuals to curtail their borrowing which has also been responsible in the past for slowing down spending and investment leading to lower and slower economic growth. In this tightening cycle the Federal Reserve has moderated their stance and slowed their retreat from a low interest rate environment. This has allowed for a more tapered approach, and ultimately one that we believe is proper in light of a rather tepid, albeit lengthy, economic recovery. For reference,

Image: The Great Lakes freighter American Integrity measures 1,000 feet in overall length with a beam of 105 feet. Built in 1978, she is able to carry 78,850 tons of payload. Captain Jeff Johnson, and Chief Engineer Paul Newhouse. Crew of 21. Photo taken on Lake Huron.

we are now living amidst the second-longest period of sustained economic growth. Not bad.

Additionally, the Federal Reserve has stopped purchases of bonds within the open market. As with any item that is bought where a limited supply exists, a significant purchaser will ultimately 'drive up' the price. In the bond world purchases from the Fed had the impact of pushing up bond prices which consequently lowered bond yields. As a precursor to higher rates the Federal Reserve stopped their open market purchases, again, as a way to 'stair step' their way into shifting gears toward an eventually higher interest rate environment.

Assets *and* Liabilities. Corporate borrowers are now faced with borrowing money at higher rates than they have in the past. But, it's not always about the 'liability' side of the balance sheet for our economy. In thinking about investors, pension funds, endowments, and other asset pools, higher interest rates will eventually mean that conservative assets, such as bonds, will begin to provide additional incomes as rates move higher. Money market and passbook savings accounts will also provide higher yields to investors and bank depositors.

For pension funds higher interest rates will also mean that 'funding rates,' or the percentage of a corporation's *future* commitments to retirees that are secure, will also increase which should have an improving impact on corporate bottom lines. It's not that higher interest rates will be bad across the board, but rather that there are always 'pluses and minuses' for every action. As has been said in physics, 'for every action, there is an opposite *reaction*.'

"THE STOCK AND BOND MARKETS GENERALLY REACT TO CURRENT NEWS THAT WILL IMPACT *FUTURE* ECONOMIC ACTIVITY. WITH THE MOST RECENT INCREASE AND RATES DURING 2018, THE MARKETS WERE CLEARLY FACED WITH AN ADJUSTMENT PERIOD THAT TEMPORARILY SENT STOCKS INTO NEGATIVE TERRITORY. "

Intermediate Impacts. The stock and bond markets generally react *today* to current news that will impact *future* economic activity. With the most recent increase and rates during 2018 the markets were clearly faced with an adjustment period that temporarily sent stocks into negative territory. This happened twice during 2018 - once in February and another in October - as investors debated the impact that higher rates would have on the trajectory of future earnings and profits.

Long Term Implications. As interest rates increase, economic activity may begin to decrease. However with any economy that is experiencing above average growth it's also reasonable to expect higher rates of inflation. Most will agree that loose monetary policies of the past responsible for creating 'cheap money' for extended periods of time, may be the root cause of inflationary pressures. We don't disagree. That said, some element of restraint will be necessary, long-term, for economic growth to continue without the negative impact of above-average inflationary pressures.

Currency implications are also something that will be impacted by higher rates. With higher rates of interest paid by our nation's banks and our nation's government, global businesses, governments, and global investors may seek to buy United States bonds with higher rates of interest. As a result foreign investors will have to own US Dollars in order for this to happen causing the value of our nation's currency to rise. From the perspective of our nation's export business - which is substantial - a higher US Dollar will also cause our exports to become more expensive, and ultimately less attractive compared to another nation's goods. As a result, higher interest rates, which might seem to be a simple fix, may have longer term implications across the board.

Inflationary Risks. The primary reason the Federal Reserve is raising rates has to do with expected, but not yet realized, inflationary concerns. As with any economy that is in need of capital to grow, loans that are available at low interest costs to the borrower has given rise to higher loan demand. Companies that place borrowed capital to work efficiently will eventually 'bid up' scarce resources - steel, lumber, oil, and labor - to a point where the increased costs of doing business are passed on to the consumer. This, by all measures, is the root cause of inflationary pressure and the one challenge that the Federal Reserve is trying to avoid, long-term, by taking action now. Our nation has not had an 'inflation scare' since the 1970's, and by all accounts have done a fairly good job of managing this risk. As pointed out earlier we've staved off inflationary pressures at the cost of mild recessions along the way.

The President feels that the Federal Reserve is keeping economic growth from truly gaining steam. Others are confident that the Federal Reserve is doing a good job and are content with seeing a shift in interest rate policy. Opinions are everywhere, but with a gradual shift of policy to favor a 'soft landing' into a moderate growth economic environment, it was bound to happen at some point. Recessions aren't the end of the world and, quite frankly, the Federal Reserve has done a fair job of steering the ship. **OM**

Image: View from the stern of the M/V American Integrity after entering the Soo lock system. Traveling 'upbound' through the Poe Lock to Lake Superior, November 9, 2018, the eve of the historic loss of the Edmund Fitzgerald. The Soo locks are now slated for a major upgrade by the US Government to accommodate more efficient ship traffic patterns.

THE FAMILY MEETING

Families can be like oil and water. At times they don't mix well. Add a layer of trust documents, money and personal assets, and you have a recipe that can go in a variety of different directions. Can having a simple family meeting help the situation?

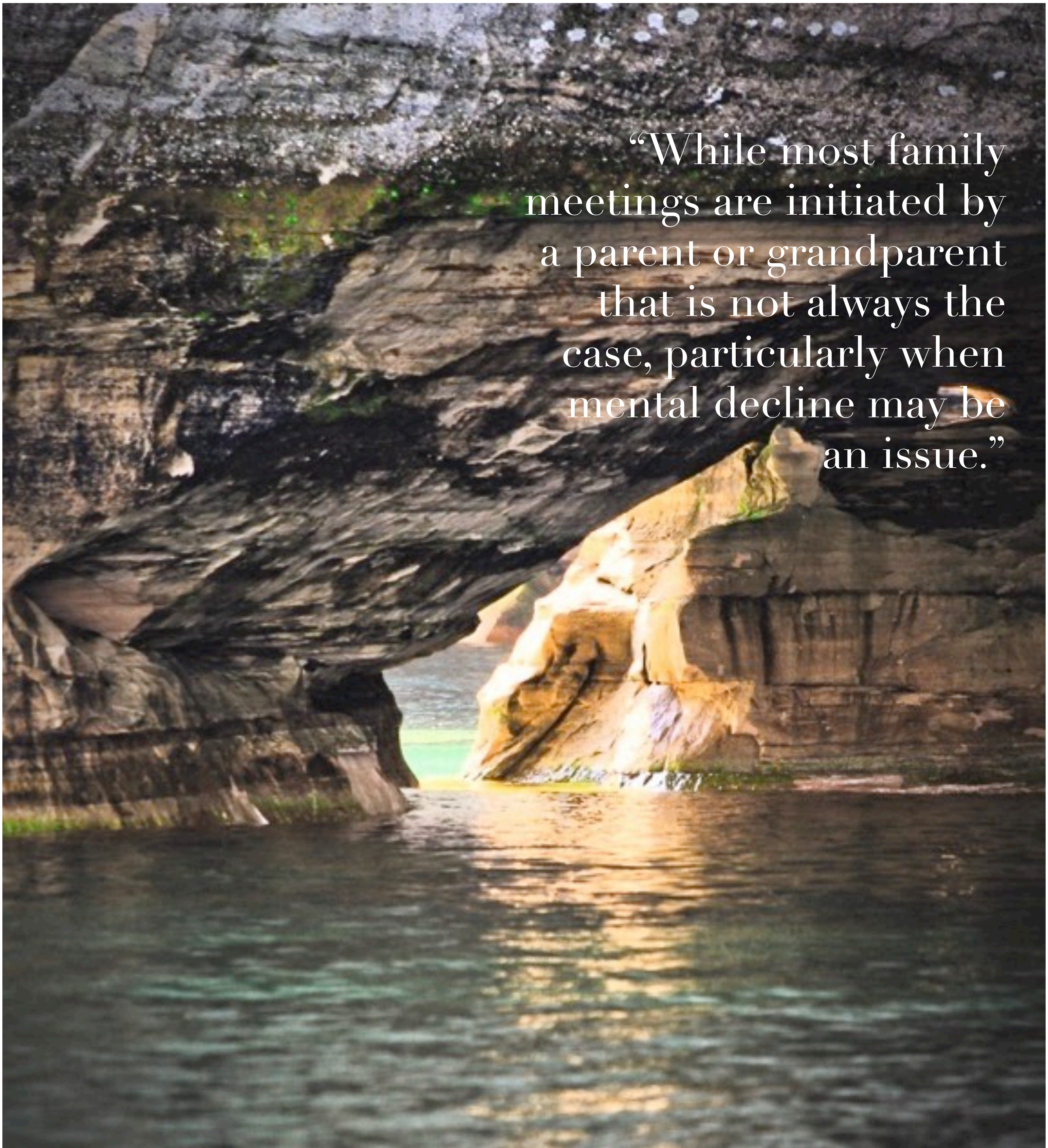
Written by: Susan Staffan Wipperman, JD, CFP®, Trust Officer

If David Letterman had a Top 10 List for "Most Uncomfortable Family Situations", the family meeting to discuss a parent's estate plan has to be right at the top. What makes this discussion so difficult for so many? First, most people do not like confronting their own mortality. Children too may be uncomfortable talking about the death of a parent especially in the context of their inheritance. Secondly, a lot of parents are uncomfortable disclosing their financial situation to their children. Some worry this knowledge might negatively impact a child's work ethic or perhaps result in a request for current financial assistance. As daunting as the family meeting might be, it is an important step to ensure your estate plan does what you intend.

The goal of the family meeting is to open up the lines of communication between parents, their children, other selected beneficiaries, fiduciaries and advisors. It provides an opportunity for the parent to educate beneficiaries and fiduciaries about their estate plan and how it should be implemented. The meeting also allows for those in attendance to ask questions about the plan in a relaxed atmosphere. They hear directly from their parents about their estate plan and the reasons why they made the decisions they did. It is an opportunity to clarify any ambiguity a beneficiary may have about their parent's intent. This type of understanding prior to the parent's death, results in better decision making and reduces intra-family conflict which may arise when the parent dies.

Who should attend? The meeting should bring together those people who will implement the plan, typically family members or corporate fiduciaries who are named as successor trustees, personal representatives or guardians and the beneficiaries of the plan. The drafting attorney may also attend but issues of confidentiality will have to be addressed prior to the meeting. Parents should include adult children and even adult grandchildren if they want. It may even be appropriate to include minor grandchildren if only for a portion of the meeting that addresses family values and philosophy around wealth. Parents will also need to decide if they want to include their children's spouses or if they want to exclude beneficiaries who may be too young to understand the nature of the meeting.

When should the meeting be held? Ideally the family meeting should take place shortly after the estate planning documents have been drafted. Though it may be tempting to delay the meeting until a "better" time, it is best to have it sooner rather than later. Life is unpredictable and no one



"While most family meetings are initiated by a parent or grandparent that is not always the case, particularly when mental decline may be an issue."

Image: Pictured Rocks National Lakeshore, Lake Superior.


LIMESTO

"*Introduce* the professional advisors and explain their roles in the administration process. Also, explain that your professional advisors are there to assist the named fiduciaries perform their duties and to keep peace in the family."

knows what the future holds. The meeting may be held in one sitting or a family may choose to spread the discussion out over several different dates.

While most family meetings are initiated by a parent or grandparent that is not always the case, particularly when mental decline may be an issue. It can be difficult to ask a parent about their estate plan but when there is concern a parent may be losing the ability to make financial decisions it is imperative. Executing a well drafted medical directive and durable power of attorney for financial matters can save a family the time and expense of establishing a guardianship and can reduce anxiety and uncertainty with regard to future medical decisions. Given some thought, most children can find a way to open up this line of communication without offending their parent. Surprisingly, more often than not, parents are relieved to have the chance to talk about their testamentary intent.

What should be discussed? Most parents find it helpful to have an agenda for the meeting so they stay on track and cover all the intended topics. It can be very helpful to circulate the agenda prior to the meeting so attendees can get idea of the scope of the meeting and list any questions they may have already. The following are items that commonly may be included:

Communicate important family values from the older generations to the younger generations including concepts of financial and ethical responsibility. It's also good to give a historical context of the source of wealth in your family, if it's not readily apparent to your children how your money came into being. Many clients owned businesses, sold real estate, or saved diligently in order to fund retirements. Many times, by sharing with your family the history behind what you've accumulated, it may give the 'family money' a little more purpose and perhaps the respect that it deserves.

Discuss legal documents and identify and explain the purpose of each document (Trust, Will, Power of Attorney, Health Care Directive). Share where legal documents are located and how they can be easily accessed at the time of death or disability.

Discuss Estate and Trust Administration. Educate the successor trustees, personal representatives, and agents about their duties and responsibilities and introduce the professional advisors who will be available to help. Explain to beneficiaries that they will have a right to information regarding the ongoing estate settlement process and that those who serve as a successor trustee, personal representative or agent will have a duty to keep other family members informed of the administration process.

Introduce the professional advisors and explain their roles in the administration process. Also, explain that your professional advisors are there to assist the named fiduciaries perform their duties and to keep peace in the family.

State the intent of the estate plan and refer to specific documents to demonstrate how this is to be effectuated. Be prepared to explain why certain family members or corporate fiduciaries where chosen to serve in a particular role. You might ask the drafting attorney or trusted advisor to explain why these choices were made.

Unique assets and aspects to your plan should be discussed specifically. Those items, when distributed to only certain family members, could result in disagreements among family members. It's important at times to address these issues up front so that beneficiaries 'hear from the pulpit' rather than from words within a trust document. This can bring 'life' to estate and trust documents especially when addressing specific assets that might have meaning beyond numbers on a statement.

Image: Captain Russell Lamb aboard the 'Limestone' a tugboat berthed at Calcite limestone quarry, Rogers City, Michigan. 87 feet long, built 1952. Responsible for assisting great lakes freighters entering and exiting shipping ports prior to the advent of bow and stern thrusters used for navigational assistance.

THE big picture is to emphasize the goals of the family meeting: **strengthening** family relationships through communication, education, and explanation. Additionally, building relationships between key advisors and the *next generation.*

If there are situations that require ongoing administration, it's important to shed light on the fact that assets may be held 'in trust' for the benefit of beneficiaries, rather than distributed outright. Some beneficiaries appreciate knowing that there will be help in the management of assets, long-term.

Ultimate Goal. The big picture is to emphasize the goals of the family meeting: strengthening family relationships through communication, education, and explanation. Additionally, building relationships between key advisors and the next generation can be incredibly important when trying to maintain the consistency of the advice provided for long-term wealth management. The family meeting serves to answer questions from children and other fiduciaries so that everyone feels comfortable about the plan when called into action. In sum total, the level of detail discussed is completely up to the parent and depends on comfort levels, maturity and interest of the audience.

Role of the Corporate Trustee. Many families choose to work with a corporate trustee, like Old Mission Trust, for various reasons. A corporate trustee can perform numerous tasks that are often unfamiliar to family members serving as fiduciaries. A corporate trustee also provides professional asset management in today's complex investing environment. They can assist in establishing an investment policy statement to ensure the estate's goals are met. A corporate fiduciary can also be invaluable when family dynamics may be contentious by facilitating communication. They are also an objective resource for co-trustees and beneficiaries, and by appointing a corporate trustee, a parent can avoid choosing one child over the other or naming all children to serve which could lead to ineffective administration. Additionally, by appointing a corporate trustee, you are also adding a level of impartiality that is often difficult to have within a family. A corporate fiduciary is duty-bound to make decisions and take actions that may be uncomfortable for families to do. We've often remarked that the word 'no' can be difficult for family members to say to one another. But, at times the word 'no' can also be a term of affection.

It is a fact that an estate plan will *never* be administered by its creator. Therefore, it is essential to take the steps necessary to ensure the plan is carried out as intended. This includes communicating and educating fiduciaries and beneficiaries. While the conversations may be difficult and awkward, the alternative can be much worse and result in ineffective and prolonged estate administration, and beneficiaries unprepared to manage their inheritances. **OM**

Image: Straits of Mackinac. Heat from the sun is absorbed in the dark color of the leaf.

SUPER/ROTH

A $62,000 Roth contribution? Yes! Hyper-funding a Roth is a huge win for the ranks of the self employed.

Written by: Keith Olshove, AIF®, Senior Vice President
Retirement Plan Investment and Consulting Group

Often times we speak with clients who would like to contribute more money to their retirement plan through work, but are held back due to contribution limits set by the tax code. In some cases, they are successful self-employed individuals whose income tax return is not a true reflection of their cash-flow, but nonetheless sets a lower contribution level than their ability and desire to save. In other cases, it may be a two income family, but one spouse does not have access to a retirement plan though work.

The solution is an often overlooked feature available to 401(k) plans; called the Voluntary Employee After-tax Contribution, commonly called the 'non-Roth after-tax contribution.' When properly implemented it has the additional benefit of boosting the amount of retirement money in your Roth account, providing tax-free withdrawals at retirement and no RMDs!

This can be achieved when a plan with a common Roth 401(k) option adds "non-Roth after-tax contributions" combined with an "in-plan Roth rollover" features to their 401(k) plans. These additional features would allow plan participants, depending on their income, to save up to $56,000, or $62,000 after age 50 (for 2019 and as reduced by matching and other employer contributions) annually with limited future tax liability.

By way of background, 401(k) plans may permit two types of after-tax contribution options – Roth contributions and non-Roth after-tax contributions. Roth contributions are advantageous because although the contributions are made on an after-tax basis, neither the contributions themselves nor any earnings accrued on the contributions are taxable when distributed, but they may be subject to early withdrawal penalties. Roth 401(k) contributions have a higher contribution limit than their Roth IRA counterpart: $19,000 for 2019 vs $6,000 for the Roth IRA. Also, your ability to make a Roth 401(k) contributions is not subject to the income limitations that prevent some people from making Roth IRA contributions in some years. Non-Roth after-tax contributions are similarly nontaxable at distribution, but any earnings accrued on the contributions are taxable at distribution. In 2010, the Small Business Jobs Act, as later amended by the American Taxpayer Relief Act of 2012, created "in-plan Roth rollovers," which allow participants to convert their non-Roth account balance (including pre-tax elective deferrals, matching contributions and after-tax contributions) such that Roth characterization applies thereafter - i.e. no tax on future earnings. Any taxable portion of the converted amount (such as pre-tax elective deferrals and matching contributions, or earnings attributable to non-Roth after-tax contributions) will be subject to income tax in the year of conversion. An in-plan Roth rollover, however, will not trigger an early distribution penalty provided the amount converted remains in the plan for at least five years.

If a plan design includes these features, participants could maximize deferrals, then go beyond that point if they are seeking to save additional money while limiting future tax exposure by following these three steps:

One. Elect to defer wages as Roth contributions up to the $19,000 (for 2019) annual deferral limitation. An additional $6,000 can be deferred by those over age 50 bringing the maximum up to $25,000.

Image: Merit badges, Liam Schuler. Liam earned the recognition of Eagle Scout in 2018, a performance-based achievement. Only 4% of all scouts attain such an achievement. Congratulations to Liam.


R

"This is an important opportunity for self-employed individuals with no employees and enough income or outside assets to hit the higher funding levels and avoid future taxes."

Two. Elect to defer wages, or make a deposit, on amounts in excess of the $19,000 or $25,000 (for 2019) annual limitation as non-Roth after-tax contributions up to the $62,000 (for 2019 and as reduced by matching and other employer contributions) annual limitation on contributions to defined contribution plans.

Three. Convert the non-Roth after-tax contributions via an in-plan Roth rollover shortly after the contributions are made.

The conversion of the non-Roth after-tax contributions may result in some immediate tax liability if earnings have accrued since the date of contribution. However, after the in-plan Roth rollover, any future earnings will not be taxable at distribution.

Here is an example for you to consider. Jack (45) is the sole employee and shareholder of Jack Inc. Jack's W2 wages for 2019 are $60,000 yet he wants to contribute a full $56,000 (the 2019 limit) to his retirement plan and prefers the benefits of Roth tax treatment. This is what he does: 1.) Contribute full $19,000 to his Roth 401(k) account, 2.) Make a deductible $15,000 profit sharing contribution, 3.) Make a $22,000 non-Roth after-tax contribution or $37,000 if profit sharing is skipped.

Once Jack has contributed the non-Roth after-tax contribution he has several choices:

First, he can leave it in the plan's after-tax employee account, but will ultimately pay taxes on the earnings. Second, he can do an in-plan Roth rollover conversion of the funds. Since the entire amount is already after tax, there would be no tax on the conversion and he would enjoy tax-free Roth treatment on the money. Also, the potential Roth-conversion 5-year recapture of premature distribution penalty tax does not apply. Third, he can roll the funds to a traditional IRA with similar tax consequences and benefits as the first option. Or fourth, he can roll the funds to a Roth IRA with similar tax consequences and benefits as noted in the second option. By following this approach, a self-employed person over 50 could contribute up to $62,000 to their Roth account.

Every great idea has its limitations. A self-employed individual with no employees is the best, most frictionless scenario for taking advantage of this planning tool. A business with employees has many other things to consider before adding these features to their plan.

Prior to adding these features to a 401(k) plan in a business with employees, they should consider the following issues:

ACP Testing. Non-Roth after-tax contributions are included for purposes of average contribution percentage (ACP) testing. Because those participants who are willing to contribute in excess of the $18,000 (for 2018), annual deferral limitations are more likely to fall within the "highly compensated employee" group, plan administrators should periodically check for ACP testing issues.

Frequency of In-Plan Roth Rollovers. Allowing in-plan Roth rollovers on a frequent basis (for example, after each contribution date) would minimize participants' future tax liability because there would no taxable earnings on the conversion. However, frequent conversions could be administratively burdensome.

Rollover Notices. IRS guidance related to in-plan Roth rollovers states that no rollover notice is required when the amount converted to Roth is not otherwise distributable (for example, pre-tax contributions or employer matching contributions). Because non-Roth after-tax contributions can be distributed at any time, it would appear that a rollover notice must be issued each time these contributions are converted in an in-plan Roth rollover.

Participant Education. It is important for plan sponsors to ensure that participants obtain adequate guidance on the impact of non-Roth after-tax contributions and in-plan Roth rollovers.

Is there enough interest to make it worth the administrative effort?

This is an important opportunity for self-employed individuals with no employees and enough income or outside assets to hit the higher funding levels and avoid future taxes. However, business owners with employees may find the opportunity to be too small for the additional effort and cost and might choose to consider other options for their retirement planning needs.

The retirement planning space for employers is loaded with options, variables, and great planning options. But, as with all plans, there are layers of complexities, rules, regulations, and nuances that may thwart small businesses from considering all the options. Employer size and the types of employees can all have a significant impact on employer-based retirement planning options. Gone are the days of simply considering an IRA as an adequate funding vehicle for a successful retirement.

If you are an employer looking at options, and need to go through the effort of vetting all your retirement options based on your specific situation, don't hesitate to contact our firm. We consider all options in our recommendation including the cost of opening and maintaining your plan, and above all, the 'human cost' of the time, energy and effort required to handle such a responsibility. We would like to help. **OM**

Image: Located on the border with Canada and operational since 1902, the Edison Sault (pronounced 'Soo') Hydroelectric Plant is one of the oldest continuously operating power plants in North America.

WITHDRAWAL RATES *WHAT'S BEST?*

Income from a portfolio is a little art and *science. The proper withdrawal amount can keep a portfolio growing over time. Higher withdrawals can have the impact of eroding portfolio values giving a 'life expectancy' to your money.*

Written by: Christopher Lamb, CIMA, CTFA, Principal Partner

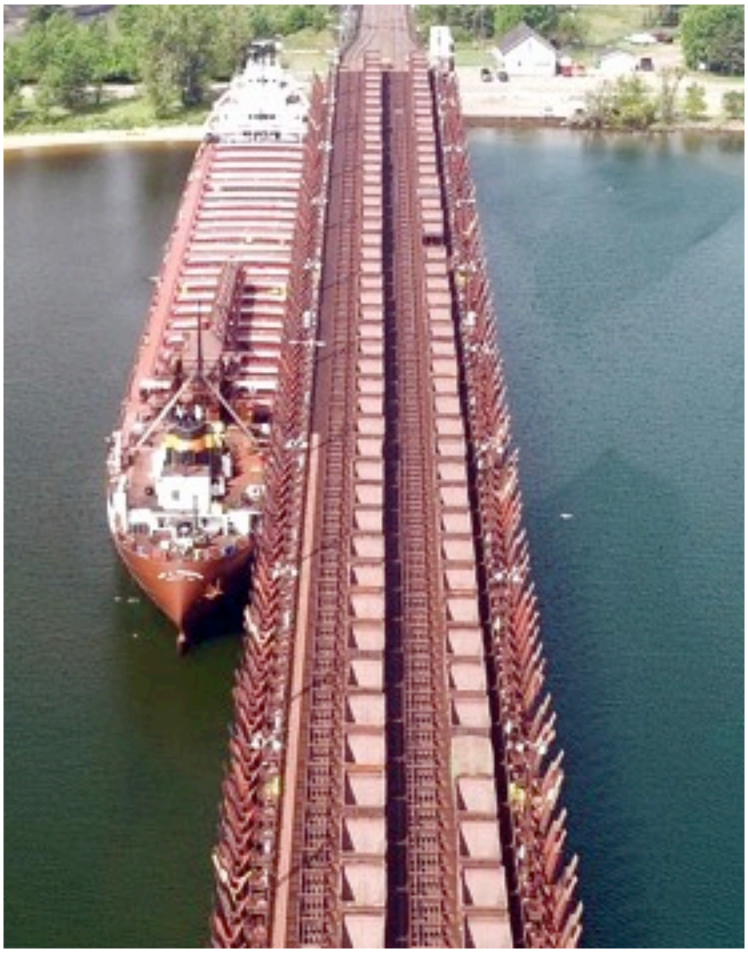
It's an important question when addressing retirement account distributions. Addressing this question looks at a number of variables such as life expectancy, risk profile, tax situation, and the amount of income you might need to have in retirement. It's a tangled web.

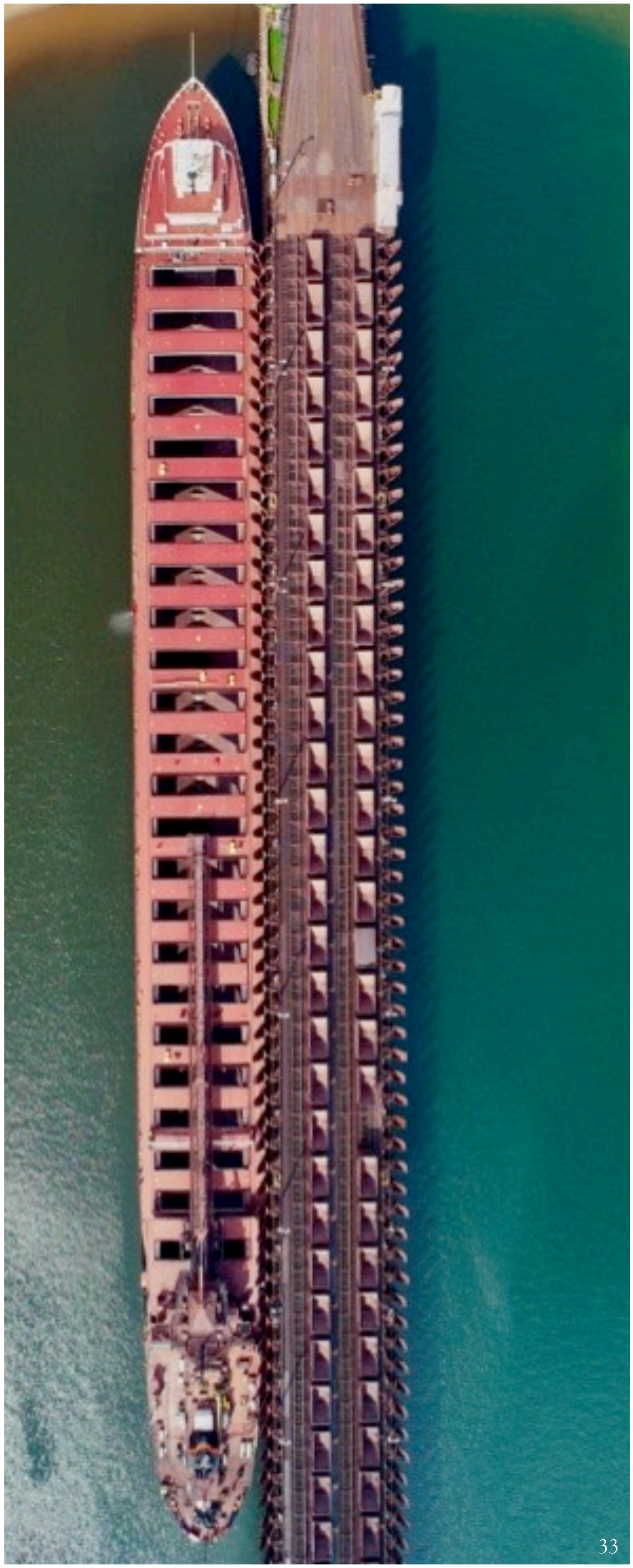
Risk and return can go hand-in-hand when looking at return targets and goals. The allocation of a portfolio among stocks, bonds, and cash assets is a significant driver of the returns that a portfolio may achieve over time. Even further, the diversification among asset classes - large company, small company, international equities and fixed income - will also have an impact on the portfolio's return profile and income expectations. Not only are asset allocation decisions a significant factor in your expected returns they can play an important role in determining the level of income you can withdraw on an annual basis from your portfolio.

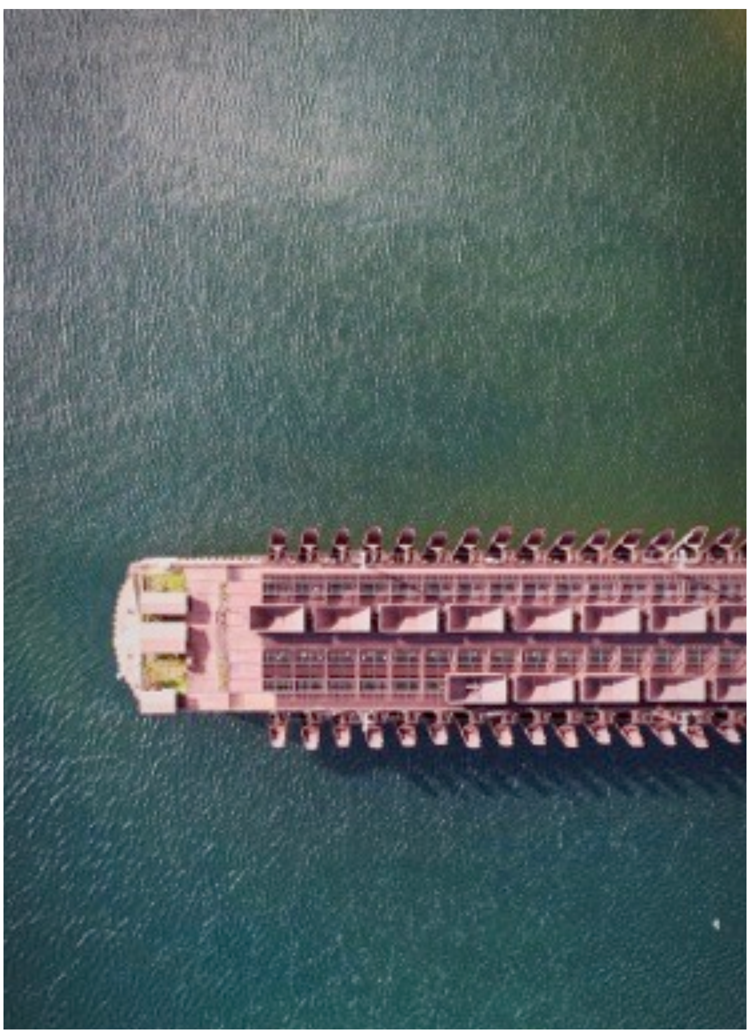
What *is* a 'Sustainable Withdrawal Rate?' When people talk about a *sustainable* withdrawal rate they are really asking about the amount of money they can withdraw from their portfolio without a substantial chance of running out of money by the time they are gone. For some, they don't want to invade their original principal and prefer to have a little growth over time. If you take nothing your money will last forever. But, for the vast majority of investors, money was saved to augment their Social Security incomes, pension incomes, and their need for other 'stuff' in life. Money has a purpose and for some it's to produce a suitable level of income.

Playing it Safe. In the early 1990's investors could leave money in the bank with a 5% interest rate and feel like they could do no wrong. A $500,000 nest egg would produce a $25,000 annual distribution that could be taken without

Image: M/V Lee A. Tregurtha has a long and distinguished history since her construction as a World War II tanker. One of the most altered vessels on the Great Lakes, she also boasts two battle stars for WWII service as the 'Chiwawa. The Chiwawa served on both the Atlantic and Pacific oceans during the war and was present in Tokyo Bay during the September 2, 1945, surrender ceremony. Drone photo, preparing to take a load of iron ore in Marquette, Michigan. Lake Superior.







“There is no doubt that investors would prefer to eliminate risk yet extract as much as possible from their portfolios, *a combination that doesn’t really exist in reality.*”

having to worry about principal invasion. This would be done however without any growth of principal as an offset to inflation with the investor ultimately losing a significant amount of purchasing power over time. In the late 1990’s and the mid-2000’s interest rates plummeted, and now that same investor was lucky to extract a 1% return, an 80% reduction in their income, or the equivalent of a $5,000 annual income flow from the same investment. In many cases, their returns were *even lower*. In this example investors may have been able to maintain their original investment but their ability to extract income had been significantly diminished. That said, the ability to take income from an investment portfolio has everything to do with investment structure - the balance between stocks, bonds, and cash assets - and ultimately the relationship of the portfolio to certain levels of risk. Playing it safe may seem like an acceptable option but in the long-term, you are ceding control to the interest rate environment.

In a nutshell very conservative investors that rely solely on bank deposits, certificates of deposit, and a bond portfolio are at the whims of the interest rate environment when determining their level of income. Their sustainable withdrawal rate will essentially equal the rate of return they achieve each and every year, which can be very low. As pointed out this will vary from year to year and in some circumstances the variances can be significant.

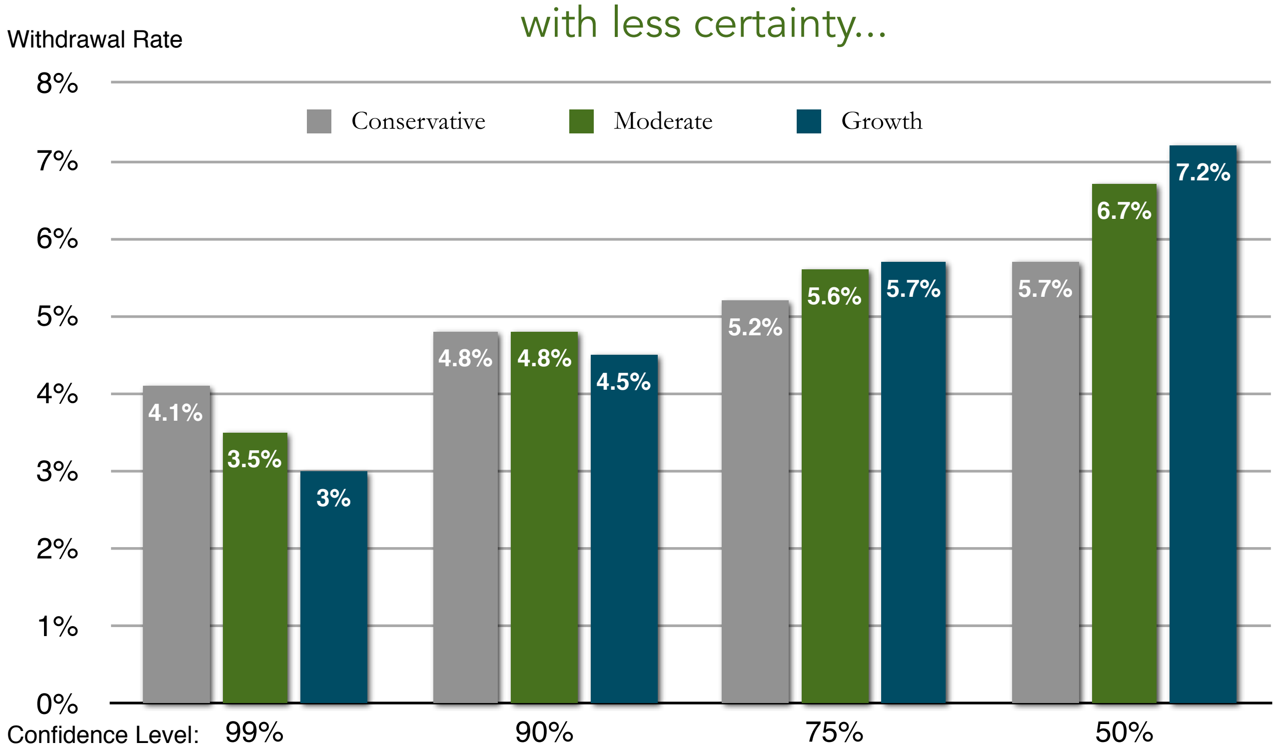
Stocks and Bonds. The former example examined how interest rates played an important role in the amount of income that could be taken. If you are a ‘normal’ investor that happened to be comfortable with taking a balanced approach between stocks and bonds, the level of income you may be able to take can remain fairly constant as a percentage of the portfolio over the long-term.

As an example, an investor with a $500,000 IRA might be able to withdraw 4% of the account value each and every year. This would provide an income of $20,000 annually. Additionally, the investor could also increase their distribution rate by the rate of inflation such that in year 2 their distribution was $20,500 in order to take inflation into account. However, it’s important to note that the ability to remove 4% annually from a portfolio can only happen to the extent that an investor assumes investment risk and actually has a portfolio that has the ability to *earn* that rate of return or more over time. This requires an allocation between stocks, bonds, and cash assets to exist.

Success Rates. First, understand that there is no assurance that the markets will continue to produce the types and sizes of returns that they have in the past. There is no perfect plan nor is there one that *guarantees* your success. But success rates are all relative and they differ based on the amount of conservative or more aggressive investments that you hold.

The more certainty that a retiree desires concerning their income flow, in reality the less money they’ll commit to stocks. The less money committed to stocks, while greater the certainty, the *less money* they’ll be able to

More stocks may mean higher withdrawal rates, but with less certainty...



Data is for illustration only. All results are hypothetical and based on simulations using historical data, from January of 1926 to July of 2018. Chart and data assumes a 25-year withdrawal and retirement period. Study based on data and results from Fidelity Investments. **Source**: Fidelity Investments. Monthly return data for stocks (domestic and foreign), bonds, cash, and inflation used various indexes as proxies. The historical range analyzed was January 1926 to July 2018. The indexes used were: stocks (domestic)—Ibbotson Associates (IA) SBBI S&P 500 Total Return (TR); stocks (foreign)—MSCI EAFE TR; bonds—IA SBBI US Intermediate-Term Government TR; cash—IA SBBI US 30-Day Treasury Bill TR. The stock component of each portfolio was selected to include 70% domestic and 30% foreign stock, from Jan. 1970 to Jul. 2013. Because MSCI EAFE data is available only from Jan. 1970, the stock component before that time was 100% domestic equity (S&P 500 TR). Historical inflation rates were derived from the IA SBBI US Inflation Index. Portfolios were rebalanced at the end of every month. No transaction costs were assumed for rebalancing, nor were any fees included. These costs would reduce portfolio returns. Neither asset allocation nor diversification ensures a profit or guarantees against a loss. All indexes are unmanaged. You cannot invest directly in an index. Performance returns for actual investments will generally be reduced by fees or expenses not reflected in these hypothetical calculations. Returns also will generally be reduced by taxes.

withdraw from their portfolio during their retirement. There is no free lunch with both certainty and the level of income on opposite sides of the spectrum. There is no doubt that investors would prefer to eliminate risk yet extract as much as possible from their portfolios, a combination that doesn't really exist in reality.

Success rates can be used hand-in-hand with the level of certainty that an investor would like to see. Many advisory firms would regard success rates of 80% or greater as 'minimally acceptable.' This would mean that investors have a 20% chance of running out of money prior to their death. For some this is a reasonable outcome since life longevity is not always assured.

Charts and graphs are worth a thousand words. The chart paints an accurate picture and demonstrates the relationship between a greater degree of certainty and less income, and less certainty and more income. **Growth** investors are defined as investors willing to place 70% of their investment assets within stocks, 25% within bonds, with a small 5% allocation to cash assets. **Moderate** investors would place 50% of their investment assets in stocks, 40% within bonds and 10% in cash, and **conservative** investors would barely dip their toe in stocks, with only a 20% allocation to equities, 50% allocated to bonds, and a significant allocation of 30% to short-term cash assets. We also assumed that the portfolio would be drawn upon at various rates for a 25-year period of time.

Different Strokes, Different Folks. People define success in a variety of different ways. We've been told by some clients that they would like the last check they write to 'bounce,' meaning that running out of money during their last day on earth would be perfectly acceptable. For others, they don't want to run out of money and would prefer to leave their investments in tact with some growth for the next generation. That said, the assumptions and success rates that we provide are based on the number of times people had died with more money in the bank than 'zero.' As an example, a 90% success rate means that 90% of the time people at this

"Essentially pairing a more *conservative* distribution strategy with a more **aggressive** investment allocation might provide the best long-term result."

confidence level died with investment assets, after spending, of greater than 'zero.'

Note: **Taking Income During Volatile Periods.** When distributions are required, consider shedding portions of the portfolio that have maintained their value, or lost less. When stock prices have taken a downturn, consider extracting funds from your bond portfolio. This has the impact of keeping your stock portfolio invested and properly positioned for any recovery that is most likely right around the corner. Bear markets, while they can be severe, don't last forever and selling stocks when things turn ugly can be a bad idea. A bond portfolio can suffer losses too; however, in relative terms they may provide a portfolio with a buffer against significant losses and are generally assets that can add value during market declines

The Takeaway. Charts and graphs tell the statistical 'story' concerning the potential income streams that a person can take based on both your preference for success as well as your appetite for risk. It's worth noting that the summary provided is based on past investment returns and our recommendation is simply to consider taking no more than 4% annually of your portfolio's value as income. With bond yields and interest rates still relatively low it's difficult to generate sufficient income from a bond portfolio as a standalone solution. That said, taking bond income in partnership with stock dividends with a small amount of expected growth can be the winning combination.

One of the best options may be to consider assuming moderate levels of risk while taking a more conservative distribution strategy. It's one thing to know that you *can* take a 4.5% distribution with a 90% level of confidence, but it's another to actually *take* that level of income. But the success rate climbs significantly when only taking a 4% distribution rate combined with a *moderate* investment allocation. Essentially pairing a more conservative distribution strategy with a more aggressive investment allocation might provide the best long-term result.

There may be times in the future when higher distributions can be taken, but for the time our recommendation is to stay on a conservative income path until interest rates are higher. Those times are coming, but it might be a little while longer. **OM**

Image: Drone photo, shoreline, Lake Huron, Michigan.

ELECTION SEASON

Mid-Term elections and stock market performance can be interesting bedfellows. A surprising look at market performance, elections, and a grid-locked political environment

Written by: Carey Stibbs-Tafelsky, Investment Advisor

The signs in the yard have come down, and the neighbors have once again started to talk to each other about other things. Politics happens to be one of those topics that while widespread are difficult to discuss with your friends and family members without, in some situations, everyone emerging as enemies. It's the Democrats versus the Republicans, and for some it's more like a football game than the governance of our nation.

The stock market has been regarded as both a voting booth, and at the same time, a scale. The former carries the shade of being at the whims of the people, going up and down within the court of personal and economic *opinions,* while the other is far more precise. The markets respond clearly to both and now that the political cards have been laid on the table where will the markets go from here?

History. Since 1946 there have been 18 mid-term elections. This one was an important one for our nation and the record voter turnout demonstrated that point clearly. Since that time we have had every possible political combination. What has the market done during the twelve months following *every* mid-term election? The market has been higher after *every one.* This type of result is not gospel, and it's clearly not a guarantee of performance. We may find ourselves in a situation where, for the 19th time, the markets might provide a losing result breaking this historic streak of positive performance.

The Numbers. As mentioned earlier, we've had 18 mid-term elections and 12 months following those elections the markets have moved higher. On the heels of the very poor performance shown by the markets this past October, the markets could once again be setting itself up for another winning 12-month period.

How much of a surge have we experienced in the past? The numbers are actually rather impressive. We've studied every mid-term election since World War II, and since 1946 stocks have jumped an average of 17% in the year after a mid-term election which is more than double the long-term returns of the overall markets. Additionally, we are embarking on the third year of a 4-year presidential term which has also been a very positive historical year for equities, going back to 1928, with average returns for year 3 within the presidential term almost touching 14%. Not strangely and as we've recently experienced, the second year in a presidential term is the odd-man out, generally earning the lowest in terms of returns across all 4 years in a presidential term. *(Source: RiskHedge)*

Why is this? Generally speaking, it has everything to do with investor psychology. As investors we do not like uncertainty. With an unclear potential result from any election it's no wonder why institutions and investors 'take a breather' only to wait until the foggy political landscape has lifted. The 2018 mid-term elections seem to be following this path, almost religiously.

The Gridlock. All investors fret about the government. As Warren Buffet says, 'If you mix politics and investing, you're making a big mistake.' This is commonly true since it rarely matters which party is in control of the house, the senate, or the oval office. As a matter of business, companies generally own their own fate and work hard at improving their profits and earnings regardless of the political landscape. (*ctd.*)

Image: Abandoned ore loading dock, downtown Marquette, Michigan.

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ELECTION SEASON (ctd.)

Mid-Term Elections and Market Results

Investors, companies, and institutions don't like change. If there is a government structure that is static, absent of large changes and 'grid-locked,' it's understandable why the markets will appreciate such a condition. When governments can't make large changes to tax policy, companies and investors can make decisions that are based on a certain set of laws, tax assumptions, and forecasts that won't be changing. Like it was described earlier, a 'foggy political landscape' isn't necessarily the best environment for anyone. Markets like certainty and with a political situation that is unstable with rampant discussion about various possible outcomes, it's no wonder why it's difficult to make firm plans and make substantial investments long-term, which can also have a positive impact on the earnings and profitability of the companies themselves.

It's surprising to many that political gridlock can be good for the markets but it does seem to hold an element of truth. As with any market observation, the discussion within this article highlights past investment returns and as readers should understand, there is no assurance that the markets of the future will behave like the markets of the past. We believe strongly that the markets are, in the short-term, like a voting booth with short-term swings caused by fear, greed, or a combination of both.

Bear in mind, the political landscape *can* most certainly alter the course of economic growth. Most recently, the tax package that was passed had the impact of lowering corporate tax rates from 39.6% to a far more reasonable 21%. Additionally, the government permitted corporations that made investments abroad to permit the 'repatriation' of those funds at a very modest tax rate, leading to companies such as Apple to incur billions in additional taxes domestically, as opposed to maintaining those assets 'off shore' and without taxation. Amidst an ever-changing and unclear tax and political landscape many of the decisions involving corporations shifting assets and resources for the benefit of their shareholders would be difficult.

No matter how you look at the markets, the performance of equity-based assets emerging out of the mid-term election cycle has been both impressive and surprisingly positive. Stay tuned. **OM**