

Wealth  
Enhancement  
Group®

## **7 MARKET MOVERS**

April 2019

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## Presenter



### **Jim Cahn**

**Executive Vice President, Chief Investment Officer**

- MBA, University of Chicago Booth School of Business
- BS, Northwestern University

**Forbes**



**Bloomberg**  
TELEVISION

## About Wealth Enhancement Group



Serving clients in more than **40** states



**21** office locations across the U.S.



Nearly **\$9.6 billion** in assets\*



**97%** client retention rate\*\*

\*As of 12/31/18.

\*\*Average annual retention rate—January 1, 2010, through December 31, 2017—based on client households with assets greater than \$100K in our existing offices.

## Our View of the World

- ✓ Data indicates slowing global economy slowing, recession risk rising, but not likely imminent even with flattening interest rates
- ✓ U.S. Federal Reserve halting rate hikes and balance sheet reduction, which is supporting markets but risks inflation
- ✓ Globally, corporate, government, individual, etc. debt levels continue to elevate – increase risk of defaults
- ✓ Market rally is opportune time to reassess your risk tolerance

# 7 Market Movers

## PREVIOUS 12 MONTHS

### GLOBAL ECONOMIC GROWTH

Global growth moderating, per leading indicators, but far from negative as developed markets are growing at about 2% and emerging markets 4-5%. A resolution to the trade rhetoric would be welcome news, albeit temporary and one shouldn't count on massive uplift in global growth. Growth in the U.S. this cycle may have peaked mid-2018.

### INTEREST RATES

Rate hikes led to yield curve flattening and inversion recently, recession fears and low interest rates globally muted returns in fixed income over the past year.

### STYLE/FACTOR EXPECTATIONS

Value lagged relative to Growth; as Growth/Value relationship approached the late-90s Tech boom levels. Momentum and Low Volatility in line with expectations. Size (small caps) has been volatile, giving up the most in Q4 18 and rallying back during Q1 19.

### GEOGRAPHIC EXPECTATIONS

International & Emerging Markets underperformed the U.S., as the strong dollar was a significant headwind, along with the trade negotiations fallout. U.S. tech sector drove most of the outperformance.

### INFLATION

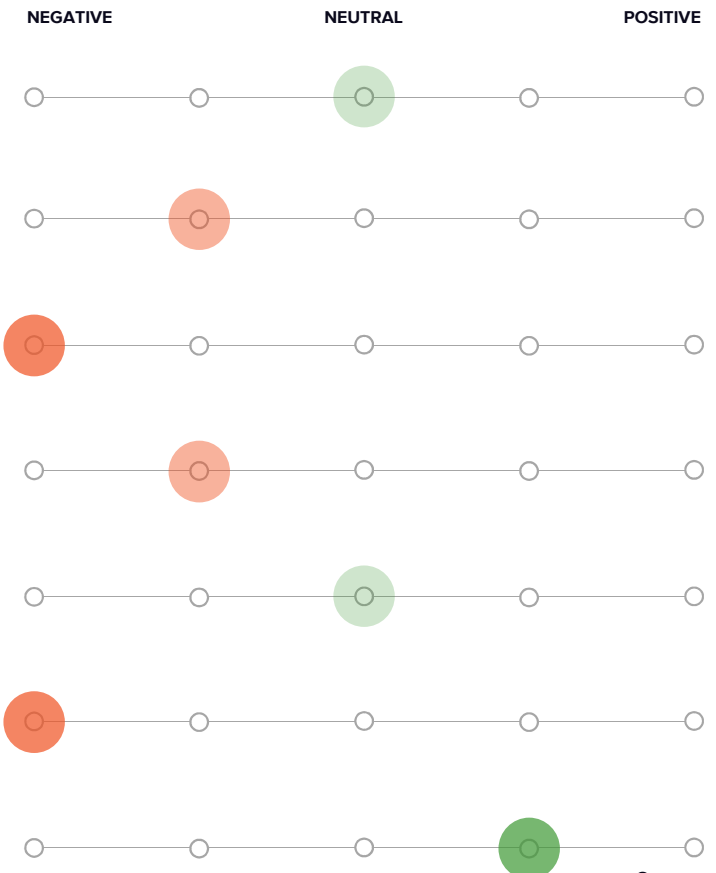
Rising inflation expectations countered by central banks' low interest rate policies long-term has kept inflation in check. Energy price volatility connected to geopolitical issues has created bumpy ride for inflation hedges.

### ALTERNATIVES

The risk on and risk off mindset connected to Central Bank's support for economic growth and indirectly markets has led to poor performance of risk premiums generally.

### TAXES

Taxes have rarely been lower for investors. Tax reform was benefit to corporate earnings and consumer spending.



# 7 Market Movers

## LOOKING AHEAD

### GLOBAL ECONOMIC GROWTH

Periodic growth scares, but recession not imminent. Developed markets are growing at about 2% and emerging markets 4-5%. A resolution to the trade rhetoric would be welcome news, albeit temporary, and one shouldn't count on massive uplift in global growth due to this.

### INTEREST RATES

Fed rate tightening expectations slowed considerably and the market shifted from expecting as many as four interest rate hikes this year to as few as none at all.

### STYLE/FACTOR EXPECTATIONS

Premiums have been mixed recently; however, long-term tilting to Value, Momentum, Size and Low Volatility is additive to results.

### GEOGRAPHIC EXPECTATIONS

Valuation suggests International Developed and Emerging Markets to provide solid relative results. Demographics point to long runways of economic growth in many non-U.S. markets.

### INFLATION

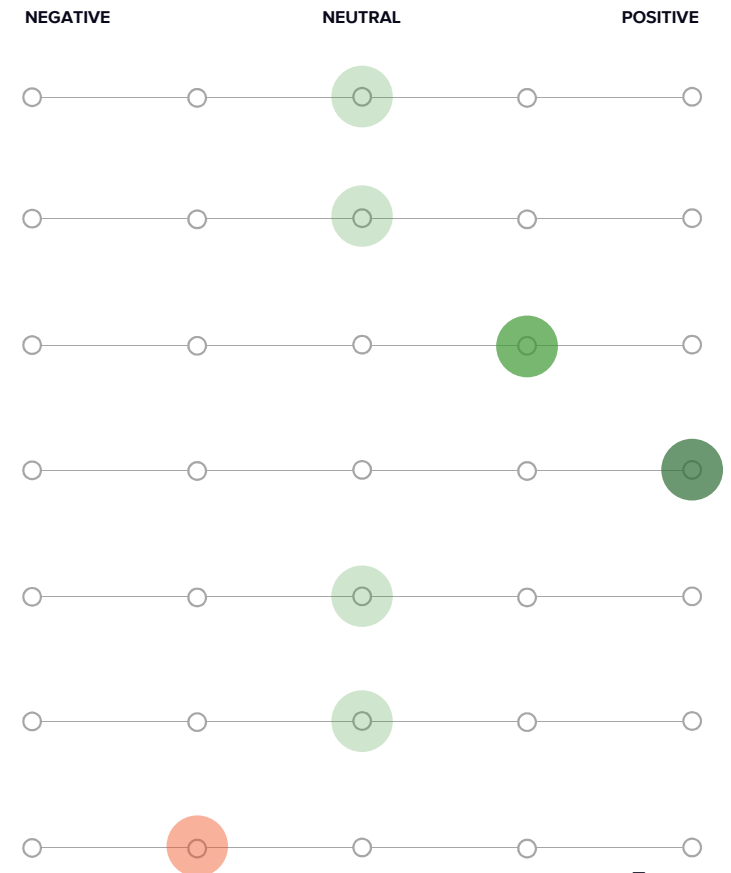
Likely to be neutral, though message has been central bankers are comfortable with higher inflation. It's clear that central bankers globally will continue to fear the ramifications of deflation more than inflation.

### ALTERNATIVES

The risk-on and risk-off move in markets in connection to central bank policy has challenged strategies, but likely to create more volatility, which should increase the value of owning alternatives.

### TAXES

Additional tax cuts unlikely; concerns about deficit, infrastructure needs and reform connected to State and Local Taxes (SALT) diminish odds of tax reform 2.0.



- 1 Global Economic Growth
- 2 Interest Rates
- 3 Style/ Factor Performance
- 4 Geographic Performance

- 5 Inflation
- 6 Alternatives
- 7 Tax & Cost Efficiency



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Global  
Economic Growth

## Total Markets Summary

- Markets rallied broadly, as earnings remained healthy and Central Bank communication and policy adjusted to slowing economic data

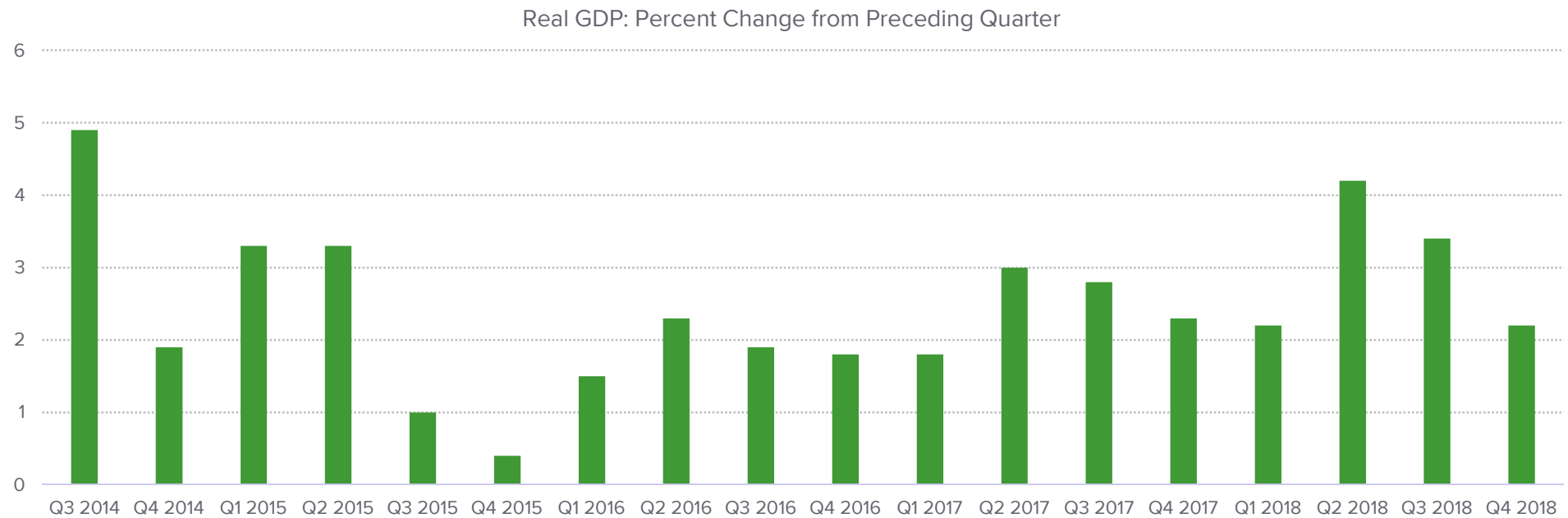
Index	Q1 2019	1 Year	3 Years	5 Years	10 Years	20 Years
<b>MSCI ACWI</b>	12.29%	1.89%	6.39%	6.33%	12.27%	5.44%

Source: Bloomberg. Results are for the period ending 13/31/19.

All performance referenced is historical and is no guarantee of future results. The MSCI All Country World Index (MSCI) includes 23 developed and 24 emerging market countries. It is an unmanaged and may not be invested into directly. Unmanaged index returns do not reflect fees, expenses or sales charges. Index performance is not indicative of the performance of any investment.

## GDP Growth (U.S.)

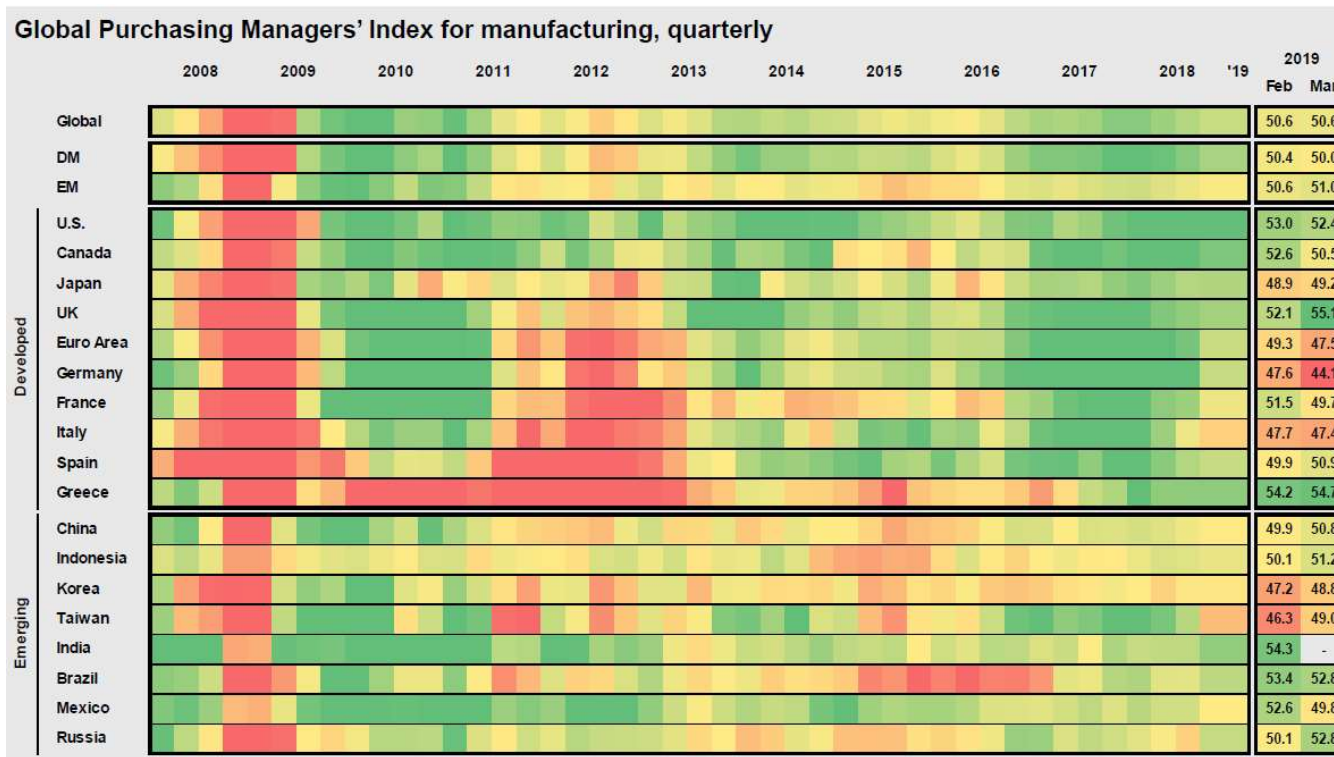
- Growth slowing, as peak growth this cycle likely occurred in mid-2018



Source: U.S. Bureau of Economic Analysis; Seasonally adjusted at annual rates

Disclaimer: The main difference between nominal and real values is that real values are adjusted for inflation, while nominal values are not. As a result, nominal GDP will often appear higher than real GDP. *These figures are seasonally adjusted.*

# Global Outlook: Purchasing Managers' Index



Strength in most geographies; monitoring emerging weakness in China and Europe



PMI is an indicator that measures economic health

A reading over 50 signals expansion

Source: 1Q 2019 JPMorgan's *Guide to the Markets*. Heat map colors are based on PMI relative to the 50 level, which indicates acceleration or deceleration of the sector, for the time period show. Heat map is based on quarterly averages, with the exception of the two most recent figures, which are single month readings. Data for Canada, Indonesia and Mexico are back-tested and filled in from 12/2007 to 11/2010 for Canada and 5/2011 for Indonesia and Mexico due to lack of existing PMI figures for these countries. DM and EM represent developed markets and emerging markets, respectively.

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Interest Rates

## Fixed Income Returns

- Perceived change in central bank policy that may eventually include rate cuts drove bond rally in Q1 2019
- Risky debt, which was hit hardest in late 2018, benefitted the most from reversal in Q1 2019

Index	Current Quarter	1 Year	3 Years	5 Years	10 Years	20 Years
Barclays U.S. Aggregate	2.94%	4.48%	1.04%	2.74%	3.77%	4.73%
Barclays U.S. Corp High Yield	7.26%	5.93%	6.06%	4.69%	11.21%	6.90%
Barclays Global Aggregate	2.20%	-0.38%	0.76%	1.04%	3.05%	4.13%

Source: Bloomberg. Results are for the period ending 3/31/19. All performance referenced is historical and is no guarantee of future results. These indexes are unmanaged and may not be invested into directly. Unmanaged index returns do not reflect fees, expenses or sales charges. Index performance is not indicative of the performance of any investment. Barclays U.S. Aggregate index is a broad-based benchmark that measures investment grade, U.S. dollar-denominated fixed-rate taxable bond market. The Barclays U.S. Corp High Yield index measures the U.S. dollar denominated, high yield, fixed-rate corporate bond market. The Barclays Global-Aggregate index measures investment grade debt from twenty-four local currency markets.

# U.S. Interest Rates Rising After Years of Anticipation



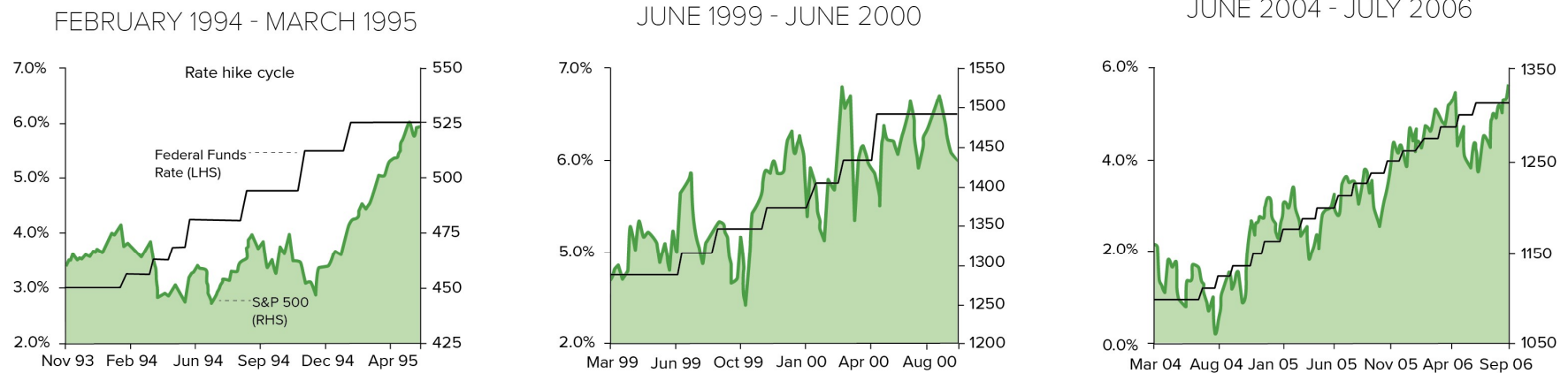
The 1-Year, 2-Year points on the yield curve ended the quarter “inverted,” meaning the 1-Year was higher than the 2-Year.

Contrary to much press, yield curve inversions are a poor indicator of recessions.

# Equity Performance During Rate Hiking Cycles

- Rising interest rates are generally a sign of a healthy economy, and equities appreciated during the last three rate hike cycles

## S&P PRICE INDEX OVER THE LAST THREE RATE HIKING CYCLES



The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Please remember that past performance does not guarantee future results. An investment cannot be made directly into an index. Unmanaged index returns do not reflect fees, expenses or sales charges. Index performance is not indicative of the performance of any investment.

Source: Standard & Poor's, J.P. Morgan Asset Management, Guide to the Markets – U.S. Data are as of September 20, 2015



# 3 Factor Performance

## Factor Performance

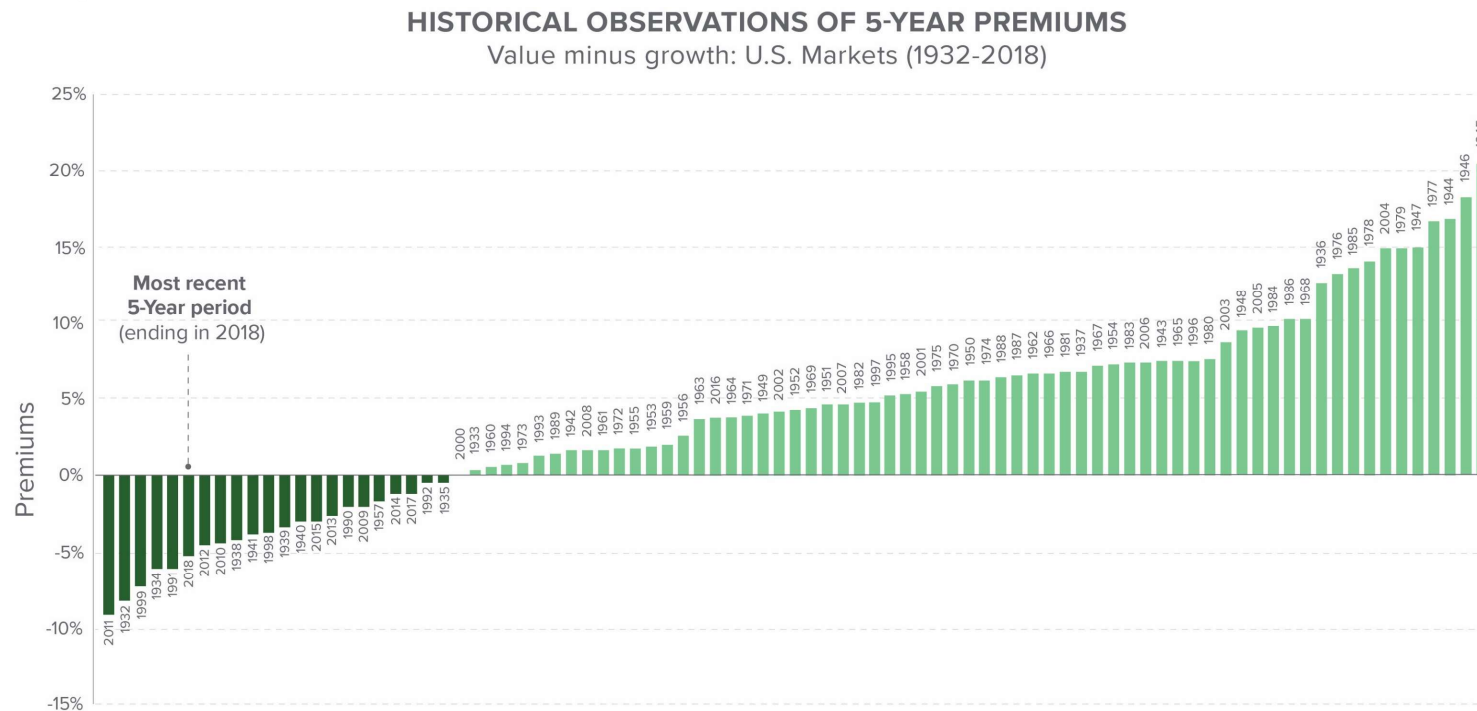
- Momentum, Low Volatility and Quality adroit results offsetting less robust returns in Value and Size in recent periods

Index	Q1 2019	1 Year	3 Years	5 Years	10 Years	20 Years
<b>Value</b>	11.93%	5.66%	6.36%	7.71%	14.51%	6.69%
<b>Momentum</b>	12.89%	8.04%	12.52%	14.90%	18.15%	8.79%
<b>Size</b>	14.57%	2.01%	7.90%	7.04%	15.35%	8.42%
<b>Low Volatility</b>	13.62%	14.92%	7.29%	11.87%	15.45%	9.79%
<b>Quality</b>	16.05%	9.17%	7.36%	11.09%	15.77%	6.83%

Value securities are those priced at a discount compared to their fundamental value (represented by Russell 1000 Value Index). Momentum is the tendency for securities with prices moving upward to continue upward (represented by MSCI USA Momentum GROSS TOTAL RETURN INDEX). Securities are organized by size into small and large companies by capitalization (represented by Russell 2000 Index). Low volatility securities are those whose prices tend to move less relative to the general market (represented by S&P 500 Low Volatility Total Return Index). Quality includes financially healthy companies as they tend to outperform less-efficient peers (represented by MSCI USA SECTOR NEUTRAL QUALITY USD GROSS TOTAL RETURN INDEX). Source Bloomberg.

# Value v. Growth

- Value has delivered a premium the majority of longer-periods, growth advantage recently almost exclusively technology driven

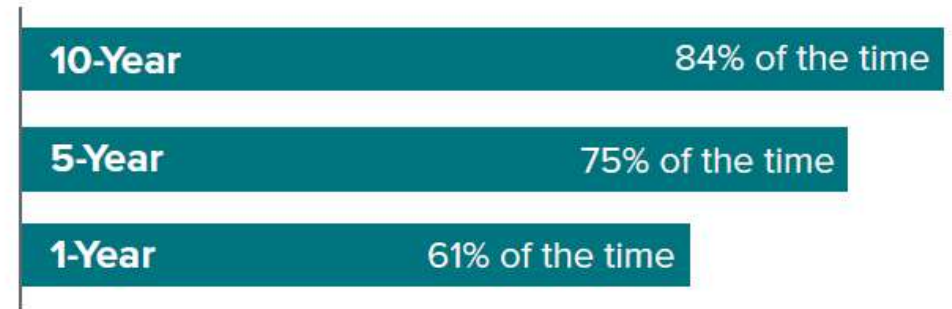


## Value v. Growth

- Growth's sustained outperformance has stretched valuations
- History points to a small probability of this continuing

### Value beat Growth

Overlapping Periods: July 1926-December 2017



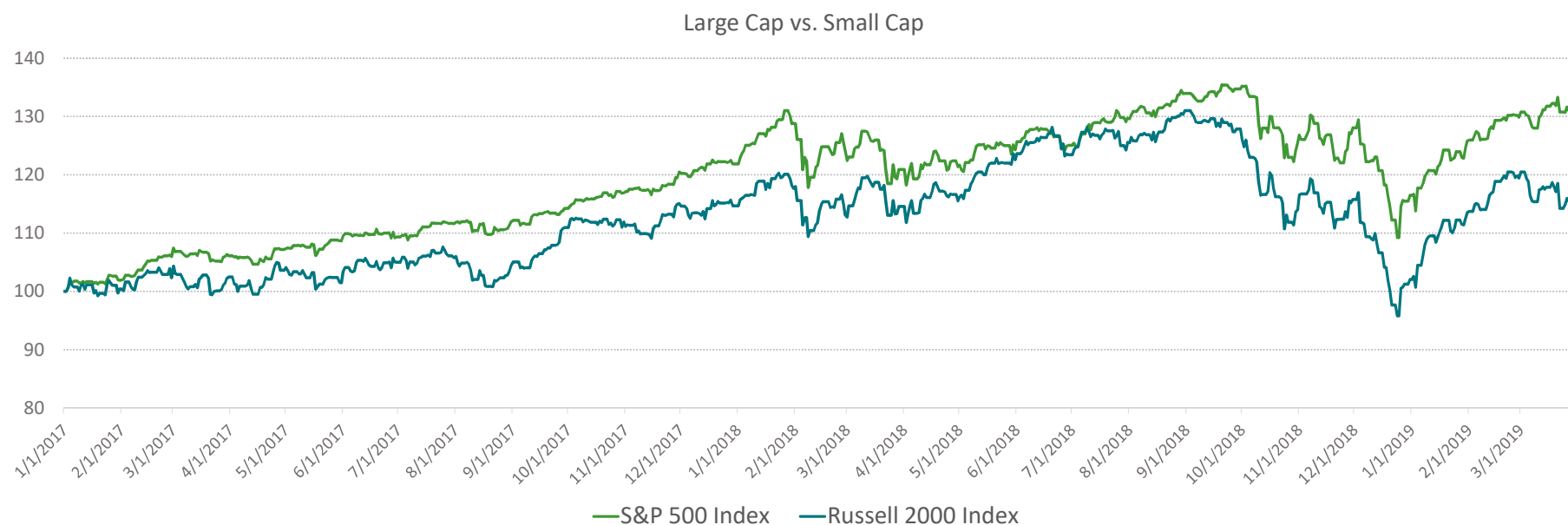
Value is Fama/French US Value Research Index.

Growth is Fama/French US Growth Research Index.

There are 979 overlapping 10-year periods, 1,039 overlapping 5-year periods, and 1,087 overlapping 1-year periods.

## Large Caps v. Small Caps

- Large cap stocks have been the bigger beneficiary of low rates, as share buybacks, rising dividends and a lower allocation to Financials drove results
- U.S. small cap stocks have been at the low-end of our strategic allocation range in WEAS portfolios



Source: WEAS\Bloomberg. Past performance does not guarantee future results. An investment cannot be made directly into an index. Unmanaged index returns do not reflect fees, expenses or sales charges. Index performance is not indicative of the performance of any investment.

4

Geographic  
Performance

## Performance by Geographic Region

- U.S. results largely driven by Technology sector's adroit returns
- Emerging Markets exhibit favorable demographics, growth and valuations

Index	Q1 2019	1 Year	3 Years	5 Years	10 Years	20 Years
United States	13.65%	9.48%	8.76%	10.90%	15.91%	6.04%
International Developed	10.15%	-3.20%	4.45%	2.90%	9.57%	4.51%
Emerging Markets	9.90%	-7.11%	7.69%	4.07%	9.32%	8.70%

United States is represented by the S&P 500 Index, International Developed is represented by MSCI EAFE Index and Emerging Markets is represented by MSCI Emerging Markets all data is as of 12/31/18. Source Bloomberg. All performance referenced is historical and is no guarantee of future results. These indexes are unmanaged and may not be invested into directly.

# U.S. Outperformance v. International Markets

- While past performance is no guarantee of the future, the recent prolonged period of U.S. outperformance may indicate that International equity markets are poised for better performance in the next 3 to 5 years



Source: Wealth Enhancement Advisory Services™. Data derived from Bloomberg, and uses the rolling 3-year return of the MSCI EAFE NR USD Index minus the 3-year return of the S&P 500 TR USD index. Each data point is the difference in return over the previous 3 years. The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. As of Dec. 17, 2015 the MSCI EAFE Index consisted of the following 21 developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK. The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Please remember that past performance does not guarantee future results.



# Relative Equity Valuations: Price-to-Sales

- U.S. equities look expensive relative to International and Emerging Markets



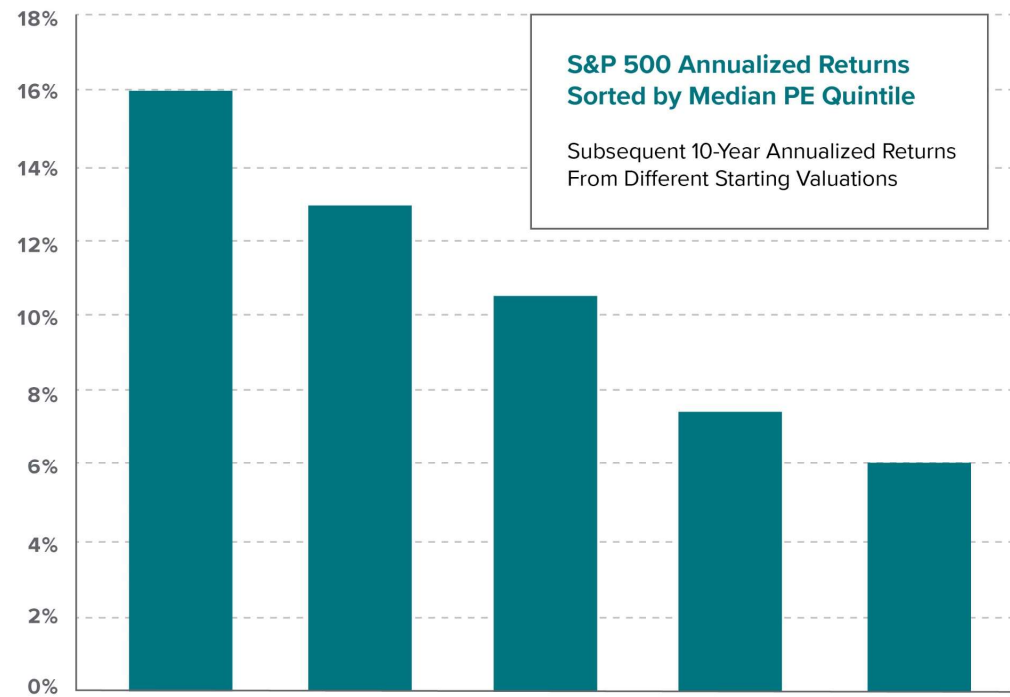
The price-to-sales ratio compares a company's stock price to its revenues and allows you to compare the relative value of different equities.



Source: WEAS\Bloomberg

# Valuation Implies Moderate Return Outlook

- Median P/E for the S&P 500 Index is currently in the top quintile (21.6x)
- Historically, P/E in the top quintile points to lower forward return



Source: Chart courtesy of Ned Davis, data from 1981-2015. P/E S&P 500 data is from Bloomberg as of 4/8/2019, Past performance does not guarantee future results. An investment cannot be made directly into an index. Unmanaged index returns do not reflect fees, expenses or sales charges. Index performance is not indicative of the performance of any investment.

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Inflation

## Inflation-Focused Assets

- Inflation remains subdued, extended low interest rates will be monitored closely
- U.S wage inflation trending higher

Index	Q1 2019	1 Year	3 Years	5 Years	10 Years	20 Years
<b>Bloomberg Commodity</b>	6.32%	-5.25%	0.16%	-8.92%	-2.56%	1.80%
<b>S&amp;P Global REIT</b>	14.39%	15.29%	1.04%	7.81%	16.14%	10.21%
<b>Barclays TIP Index</b>	3.19%	2.70%	0.64%	1.94%	3.41%	5.35%
<b>CPI Index (Annualized rate)</b>	0.15%	1.45%	2.07%	1.41%	1.76%	2.17%

CPI is as of 12/31/18, annual inflation rate. Other indices are cumulative return through 3/31/19. Source: Bloomberg. The Bloomberg Commodity Index includes broad-based exposure to commodities. The S&P Global REIT is a comprehensive benchmark of publicly traded equity REITs from both developed and Emerging Markets. Barclays TIP Index includes all publicly issued U.S. Treasury inflation-protected securities (TIPs) that have at least one year remaining until maturity. The Consumer Price Index (CPI) measures changes in the prices paid by urban consumers for a basket of goods and services. All performance referenced is historical and is no guarantee of future results. These indexes are unmanaged and may not be invested into directly. Unmanaged index returns do not reflect fees, expenses or sales charges. Index performance is not indicative of the performance of any investment. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

# Inflation Expectations

- We expect inflation to remain relatively the same throughout 2019
- Low levels of unemployment will put pressure on wages



The inflation expectation measures the market's expectation of future inflation and is implied by market behavior.

Inflation Expectations - 10 Year History



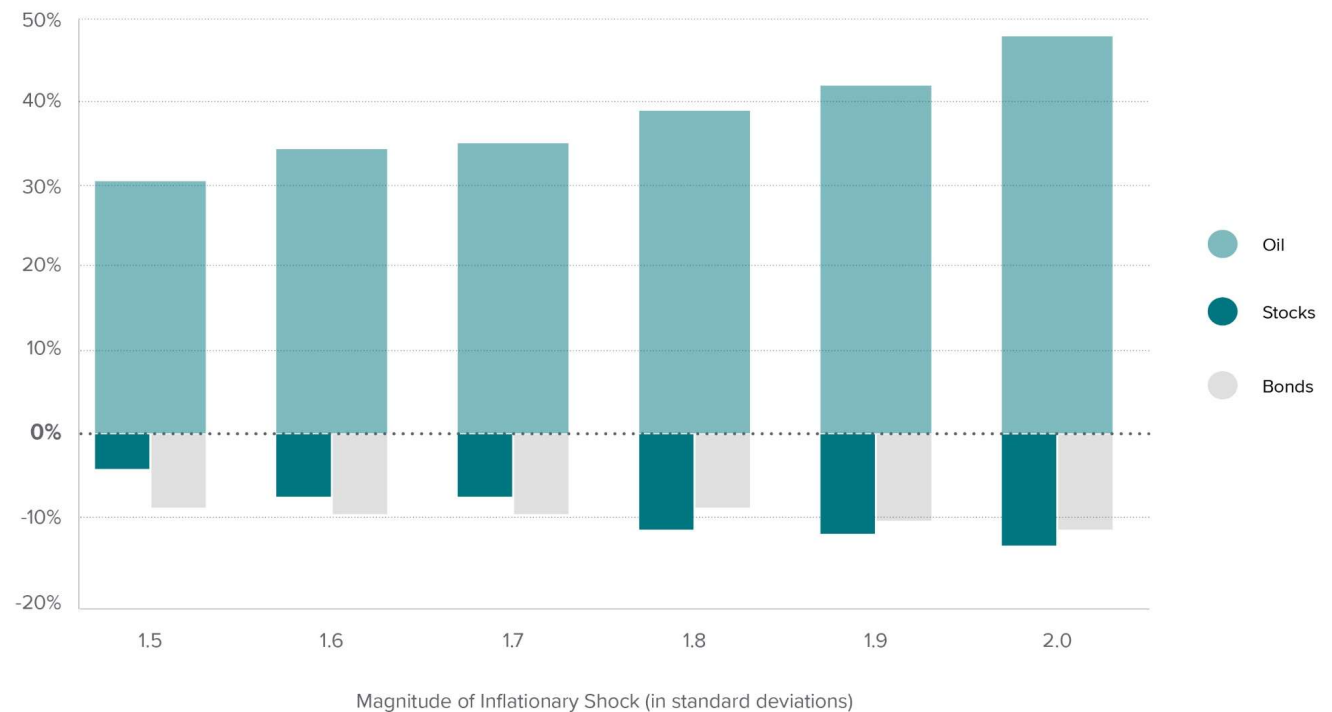
Source: Bloomberg

# Commodities Hedge Against Unexpected Inflation



Commodities have historically performed increasingly well the larger the inflationary shock, while the performance of stocks and bonds deteriorate accordingly.

Asset Performance During Inflationary Shocks Through History



Source: Bureau of Labor Statistics, Ibbotson, U.S. Geological Survey, Neuberger Berman. Based on data 1860 to 2016. Standard deviation is the measure of dispersion of a set of data from its mean. Commodities are illustrated by crude oil on this chart. The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

# 6 Alternatives

## Alternatives

- The last 3 to 5 years have been generally challenging for alternative strategies, given lack of stable trends and low interest rate environment

Index	Q1 2019	1 Year	3 Years	5 Years	10 Years	20 Years
<b>HFRI</b>	3.70%	-0.76%	3.62%	2.02%	3.45%	4.23%
<b>NAREIT</b>	17.17%	20.46%	7.84%	10.00%	18.80%	11.09%
<b>Credit Suisse Managed Futures Index</b>	-3.01%	-2.29%	-3.42%	3.58%	1.29%	6.39%

Hedge Fund Research Index (HFRI) represents a diversified group of investments. The HFRI FOF –Composite Index contains funds with generally consistent performance regardless of market conditions. HFRI data is as of Dec 2018. The FTSE NAREIT All Equity REITs (FNER) is a market capitalization-weighted index of U.S. equity REITs. FNER data is through 3/31/19. The Credit Suisse Managed Futures Liquid Index uses a pre-defined quantitative methodology to invest in a range of asset classes to gain broad exposure to the Managed Futures strategy. Managed Futures data is through 3/31/19. Source: Bloomberg. All performance referenced is historical and is no guarantee of future results. These indexes are unmanaged and may not be invested into directly. Alternatives may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.



7

Tax & Cost  
Efficiency

# 2019 Income & Capital Gains Tax Rates

## Ordinary Income:

(Wages, Business Income, Interest, Social Security, Pension, RMDs, IRA Distributions, rents, non-qualified dividends, Short Term Capital Gains)

	Married Filing Joint Bracket Ceiling	Single Bracket Ceiling
<b>10%</b>	\$19,400	\$9,700
<b>12%</b>	\$78,950	\$39,475
<b>22%</b>	\$168,400	\$84,200
<b>24%</b>	\$321,450	\$160,725
<b>32%</b>	\$408,200	\$204,100
<b>35%</b>	\$612,350	\$510,300
<b>37%</b>	\$612,351+	\$510,301+

## Qualified Income:

Qualified Dividends, Long Term Capital Gains

	Married Bracket Cutoffs	Single Bracket Cutoffs
0%	\$78,750	\$39,375
15%	\$488,850	\$434,550
20%	\$488,850+	\$434,550+

## Net Investment Income Tax:

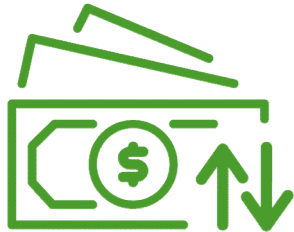
Interest, Dividends, Capital Gains, Rents

	Married Filing Joint	Single
3.8%	\$250,000 AGI	\$200,000 AGI

Source: IRS; Tax Cuts & Jobs Act (TCJA)

Sunset 12/31/2025

# Evaluate Your Portfolio Structure



## Equity Investors

- Reevaluate the types of securities in your portfolios
- Implement strategies to minimize capital gains each year
- Optimize payment of investment management fees



## Fixed Income Investors

- Recalculate after-tax return
- Reevaluate ownership of taxable vs. tax-exempt bonds
- Recalculate private activity bonds

Bonds are subject to market an interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. Stock investing involves risk, including the risk of loss.

# Maximize Charitable Giving



## Group Charitable Deductions

- You may not get a tax benefit from donated cash or household goods if you take the Standard Deduction
- Alternate taking the standard deduction one year then itemize and make all your donations in the next year



## Consider Qualified Charitable Distributions

- A QCD allows you to send payments directly from your IRA to a charitable organization and have it apply towards your RMD and lowering your AGI
- Only works when contributions come from an IRA and are sent directly to charity—limitations apply



## Establish a Donor Advised Fund

- A DAF allows you to establish an account and give up legal control of the donated assets in exchange for an income tax deduction
- Money is invested either in an investment pool or with an advisor
- Recommend grants to qualified U.S. public charities of your choice at any time

## Transferring Wealth to Heirs is Less Taxing

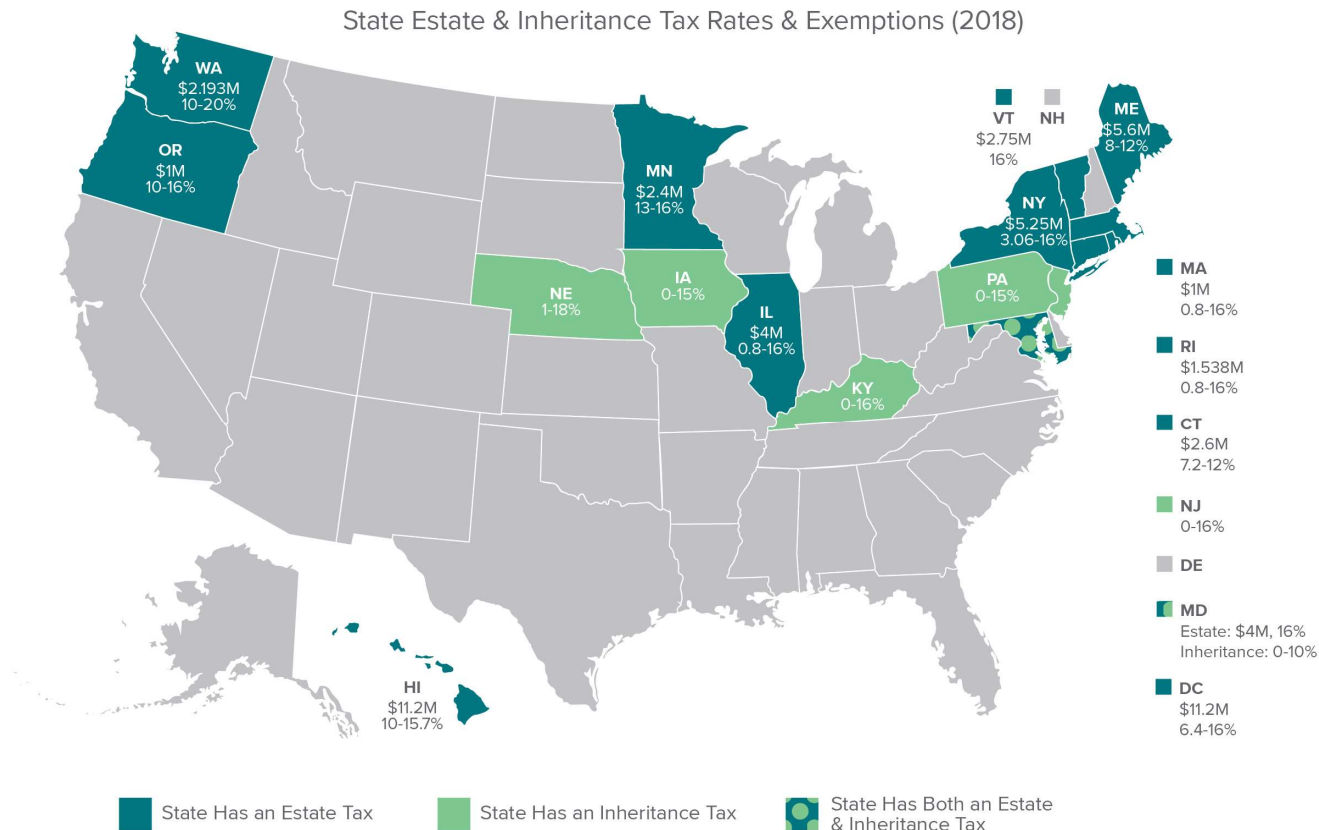
- The lifetime gift exemption and the per person exemption for estate tax both doubled—for now

<b>GIFT TAX</b>	<b>2019-2025</b>	<b>2026</b>
Annual Exclusion	<b>\$15,000</b>	<b>\$15,000</b>
Lifetime Gift Exemption	<b>\$11,400,000</b>	<b>\$5,600,000</b>

<b>ESTATE TAX</b>	<b>2019-2025</b>	<b>2026</b>
Exemption per person*	<b>\$11,400,000</b>	<b>\$5,600,000</b>
Maximum Tax Rate	40%	40%
Cost Basis Treatment	Step-up	Step-up

\* Adjusts for inflation

# Beware State Estate Taxes



## Is California Next?

CA legislature has proposed (SB 378) adding a CA estate, gift, and GST tax that would be effective 1/1/21.

It is similar to the federal estate, gift, GST tax except for the following key items:

- \$3,500,000 exemption that does not adjust for inflation
- 40% tax rate
- \$1 for \$1 credit for federal estate, gift, GST tax
- No portability

Source: Family Business Coalition; state statutes.

Note: Exemption amounts are shown for state estate taxes only. Inheritance taxes are levied on the posthumous transfer of assets based on the relationship to the decedent; different rates and exemptions apply depending on the relationship.

# The Roundtable™: All the specialists you need, all in one place

## Retirement Income Planning

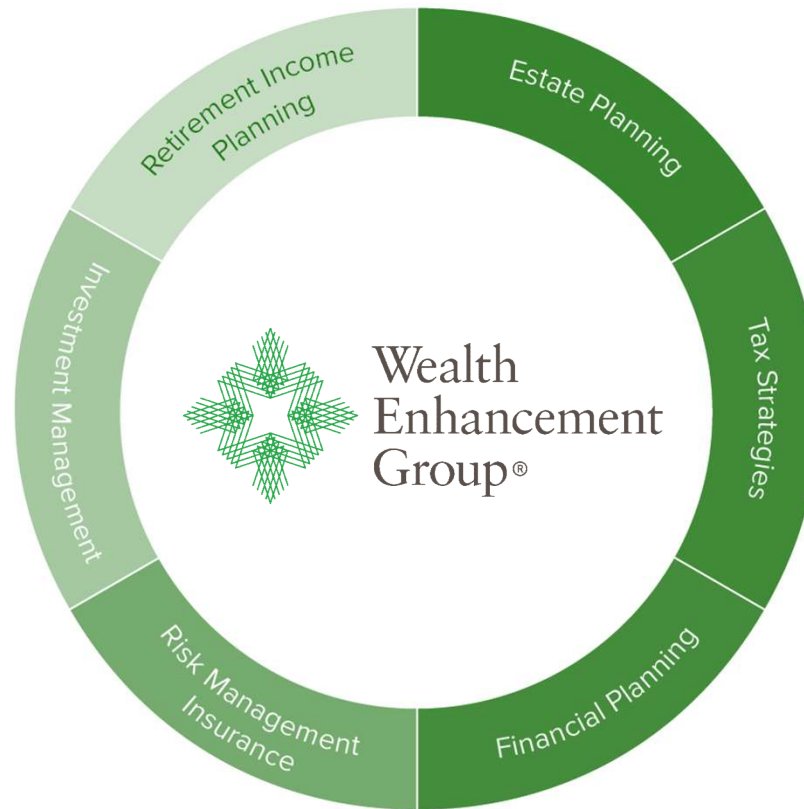
- Defined contribution plans
- Required minimum distributions
- Annuities
- Traditional/Roth IRAs
- Defined benefit plans

## Investment Management

- Effective diversification
- Active management
- Cost efficiency
- Tax efficiency
- Foundation & endowment guidance

## Risk Management/Insurance

- Long-term care insurance
- Life insurance
- Medical insurance
- Long-term disability insurance



## Estate Planning

- Wills and trusts
- Wealth transfers
- Charitable giving
- Beneficiary reviews and strategies
- Liquid asset transfer programs

## Tax Strategies

- Tax reduction strategies
- Tax sensitive distribution strategies
- Asset sale tax planning
- Tax implications for estate planning
- Estate, gift and trust tax planning

## Financial Planning

- Education funding
- Budgeting/Cash flow
- Benefit analysis
- Business valuation & succession planning



A 3-step process designed to simplify your financial life

### **Organize.**

We collect your financial information and consolidate it into your UniFi Inventory™.

### **Collaborate.**

Our Roundtable™ team approach helps ensure your financial plan is covered from every angle.

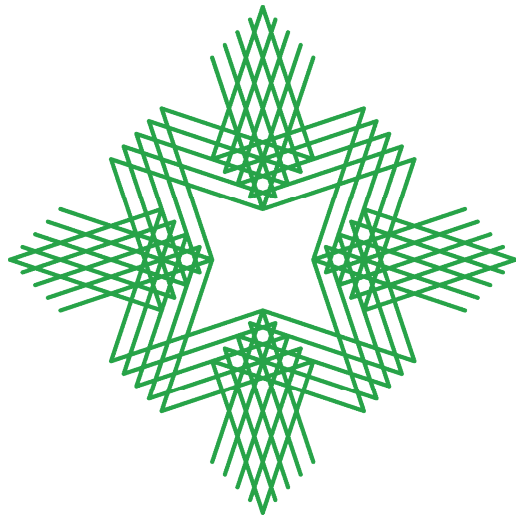
- Financial planning
- Retirement income planning
- Tax strategies
- Investment management
- Estate planning
- Insurance

### **Guide.**

We clarify your options and put your plan into action, supporting you every step of the way.



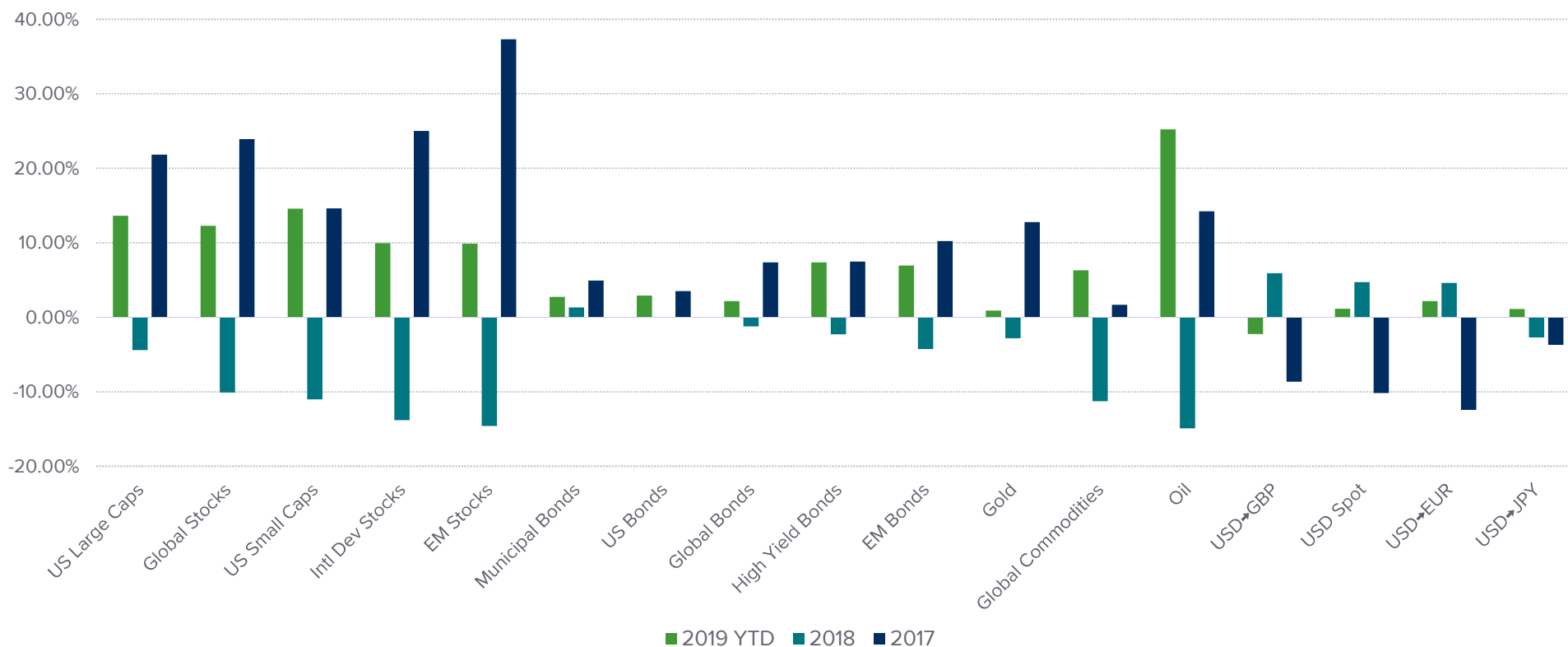
# Q&A



Wealth  
Enhancement  
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# Appendix

## 2017, 2018, Q1 2019 Index Performance



Source: WEAS, Morningstar. All performance referenced is historical and is no guarantee of future results. These indexes are unmanaged and may not be invested into directly. Unmanaged index returns do not reflect fees, expenses or sales charges. Index performance is not indicative of the performance of any investment.