Lassus Wherley
Building Better Futures
...a View from the Top

Issue 68, July 24, 2018

News and More!

We start with our exciting news and follow with our thoughts on recent happenings in the financial markets and an answer to a timely question from a client.

Lassus Wherley Joins Peapack-Gladstone Bank

In March, 1985, we founded Lassus Wherley with a passionate focus on being available to our clients, to not just provide services but to address needs and goals over the long term. In the last 33-plus years we have listened to our clients and responded where we could. We took the time to get to know them, to learn what was important to them and to understand their wants and needs. We have added different services and have continued to search for ways to add expertise to deliver an even broader range of solutions.

As part of that search, we have spoken with many firms to discuss partnership possibilities that would not only extend the services we are able to offer but would also help us make sure we are here for the very long term to continue to do what we do for our clients. Our focus has been to make sure we are here when clients need us. And we have always felt very strongly about the need to support both our clients and our employees as we work to achieve important goals. We have had discussions with many of our clients concerning our plans to make sure the company is around to take care of future generations as we take care of current generations.

We have been approached by many firms over the last 5 years and conducted extensive discussions concerning the cultures and

focus of these firms. One firm stood out as a potential partner. This company stood out for many reasons, but most importantly, they have a reputation and culture of integrity and enormous concern for clients and employees. This company also stands out for the forward thinking they exhibit in terms of building services for

clients, including wealth management.

We are thrilled to announce that we are joining the private wealth management division of Peapack-Gladstone Bank (PGB), a highly respected community bank founded in 1921 in Gladstone, NJ. This partnership will allow us to continue to focus on expanding available services to clients while continuing to do what we do well. As a subsidiary and an important part of the wealth management team, we will be a member of "a first-class financial institution with *client obsession* built into its DNA." (*PGB Client Testimonial*)

We are thrilled to announce that we are joining the private wealth management division of Peapack-Gladstone Bank (PGB), a highly respected community bank founded in 1921 in Gladstone, NJ.

The answer to the first question on everyone's mind is "No, we are not retiring!" Clare and Diahann will continue to manage Lassus Wherley for years to come.

Here are answers to other questions you may have:

- We will continue to function as we currently do, always putting our clients' interests first.
- We will continue to serve our clients through our current New Providence, NJ, and Bonita Springs, FL, offices.
- Our professional staff remains fully intact and will continue to focus on client needs in their same roles.
- The terms of current advisory agreements, including services provided and fees paid, will stay the same.
- Accounts will remain with our clients' current custodian.
- Our investment philosophy and approach will not change.
- We will continue to offer the same services as we do now, including tax preparation.
- Over time our clients will have access to additional services through PGB, including mortgage, banking and deposit services, trust and executor services.

All of us at Lassus Wherley are looking forward to our new alliance. We thank our clients for the confidence they have placed in us as their advisor, and look forward to working with them and their families for many years to come.

Trade Wars, Financial Market Action and More

There are certainly many moving parts in the financial markets these days. Concerns about potential trade wars, rising interest rates and political issues are driving volatility and will continue to drive the financial markets over the next 6 to 12 months. Although the economy continues to grow, the political risks are also increasing. Much of the upward or downward movement of the financial markets is

driven by the daily headlines on tariffs, immigration, indictments concerning the Mueller investigation and all the other factors that make life challenging these days.

The first volley was fired on the trade war by the US beginning in April with a 25% tariff on $50 billion of Chinese goods. To this threat China responded in an equal fashion with a proposed tariff on $50 billion of US goods, particularly soybeans and aircraft parts, our two largest exports with the country (ustr.gov). In response to the Chinese countermeasure, President Trump stated that he would add an additional $100 billion of goods to be taxed if China issued tariffs of its own in retaliation. For scale, in the past year, the US ran a $375 billion trade deficit with China.

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Moving forward, there have been several new proposals from the president and responses from China. What does this mean for American companies? In many cases, it really depends on each specific industry as well as the region revenue is coming from for each company. The Wall Street Journal reported that on Tuesday, June 18, "all but one of the S&P 500 members that make more than a quarter of their revenue from China fell by more than the index." As it stands, the biggest industries to be impacted are agriculture (particularly soybeans), semiconductors, automotive, and aviation.

The financial markets have begun to price in some of the impact of imposed tariffs. Boeing and Caterpillar, both industrial giants that have significant trade ties with China, could be impacted quite heavily if the trade war escalates. Many economists believe that some sort of negotiated settlement is still more likely than an all-out trade war. Hopefully, this will be an end result.

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The reason given for increasing tariffs is the trade deficit of $375 billion with China. But an important thing to remember is that the US economy has moved from a major manufacturing economy to more of a service economy. The US exported $242 billion worth of services in 2017 in areas like travel, tourism and banking. So the open question is will tariffs actually help or will they hurt the economy. Right now there are arguments on both sides, but most economists are against increasing tariffs and more likely to support free-trade policies. Given that the Republican

leadership in the House and the Senate don't support tariffs, the expectation is that there will be some level of negotiation that will reduce the impact.

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The Federal Reserve

While equities have remained relatively flat with small increases in volatility throughout the year so far, fixed income has struggled. This has been mainly due to the Federal Reserve's rate hikes in March and June. Many economists have estimated that the Fed will have 4 rate hikes in 2018, provided that the economy continues its current trend. As a result of these rate hikes, previously held bonds with lower interest rates have fallen in value.

While there will probably be 2 more rate hikes in 2018, fixed income has begun to pay out a more reasonable cash flow given its potential risks. This certainly is not true across all types of fixed income investments however. The spreads between high-yield and investment-grade bonds have stayed at historically low levels for the duration of the year and tend to fluctuate between 3.2% and 4.0%. This spread will tend to increase if economic uncertainty increases.

Additionally, the yield curve has continued to flatten. The same bonds with different maturities usually have different yields caused by differing amounts of interest rate risk (or sensitivity to changes in the Federal Reserve's rate). For example, a 3-year treasury might be paying 1.5% while a 10-year treasury is paying 2%. Historically the yield curve is upward sloping, meaning that the longer the duration of the bond, the higher the yield. However, since 2013, this difference has begun to shrink and is currently at its lowest level since 2007. Some economists believe that the flattening of the yield curve can be used to predict the market's fear of a downturn. This is because investors buy longer term bonds to lock in returns. Depressed bond yields over the past few years may have pushed many investors away from bonds. Risk-adverse investors realizing that bonds are beginning to pay out more are moving back to fixed income to reduce the risk they are taking in their investment portfolio.

The Federal Reserve has also continued to unwind its balance sheet, meaning that it is beginning to sell

off some of the assets that it purchased through the process of quantitative easing after the 2007-2008 recession. This process was meant to insert capital into the US economy and was done by purchasing trillions of dollars of financial assets from banks. While the success of the process is still debated by economists, the general consensus is that the Federal Reserve will have to sell off some of those assets over time to reduce the size of the balance sheet to a level closer to that maintained prior to the crisis in 2008. This will help return long-term interest rates to a historically more normal level. The bottom line is that Fed policymakers need to have room to take action should we enter another recession in the near future.

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The Fed has decided that the best way to do this without shocking the economy is to slowly release the assets on a week-by-week basis. Although $87.3 billion in assets have been sold since October of last year, there is still a very long way to go to get back to historically average levels.

Financial Markets Performance

The S&P 500 rebounded after the first quarter, primarily due to strong earnings growth and stock buybacks. Profits year over year have continued to increase. Strength has been shown in the energy, financials, industrials, technology, and telecom industries. More recently, the index has been more volatile due to concerns about a possible trade war with China and other trade allies.

While US large stocks have recovered a bit since last quarter's flat performance, they are still not near the levels they were at the end of 2017. At year-end 2017, the S&P 500 was selling at a Price Earnings Ratio (P/E Ratio) of 18.2 times 2018 estimated earnings. For Q1 the S&P had an estimated forward P/E of 16.4. While the market has recovered and currently has an estimated P/E for the next 12 months of 17.36, it is about halfway between the end of last quarter and the end of 2017. Given the geopolitical and economic risks posed by tariffs and trade wars faced by the US, we would not be surprised if the S&P was unable to reach previous highs any time soon. It will require significant growth in earnings or a reduction in recent proposed trade barriers for the market to move higher. This P/E remains higher than the 25-year average of 16.1 times forward earnings.

US small caps have continued to perform well with a YTD return as of 6/30/2018 of 7.66% and a 12-month return as of 6/30/2018 of 17.57%. US large caps have lagged US small caps, coming in at 2.65% YTD as of 6/30/2018 and 14.37% for the 12 months ending

6/30/2018.

As for international equity, both international developed and emerging markets (EM) have lagged US financial market performance both YTD and 12 months ending 6/30/2018. EM has returned –6.78% YTD while returning 8.05% for the 12 months ending 6/30/2018. International large caps returned -2.75% YTD and 6.84% for the 12 months ending 6/30/2018. Even thought these markets have lagged in performance, we see international markets as continuing to be an important piece of the overall diversified portfolio.

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Bonds continue with slightly negative returns based upon rising interest rates with tax-exempt bonds slightly outperforming taxable bonds.

The difference in returns for various asset classes is the primary argument for building and maintaining a diversified portfolio. Diversified portfolios are the most important way to continue to manage risk in very unpredictable markets.

Question: I read an article recently that talked about digital estate planning. Should I be worried about this?

Answer: Generally when we think of estate planning, we think wills, and health and financial powers of attorney. When most people prepare their wills, they often only consider their physical property and give little thought to intangible property. In an increasingly complex digital world, many of our important personal and financial assets are stored online. So what happens to this important information when we are gone and who will be responsible for taking care of closing accounts and/or protecting the information contained in the accounts? Consider where you may have a digital presence:

- Multiple computers, iPads, iPhones, flash drives, iPods, and even cameras with thumb drives
- Blogs, Facebook accounts, Twitter accounts, Instagram, and so many other types of messaging applications. And, of course, multiple e-mail accounts
- Photos on Flickr or other online storage sites or even on your computer can be very challenging. Also documents in Google Docs and videos on YouTube are important to keep track of
- Online bank and investment accounts, online medical information and subscriptions of all kinds
- Multiple online shopping accounts that might hold credit card information, subscriptions

and memberships

And don't forget about accounts where you earn something like airline miles or hotel points. If you make sure your heirs have the account names and log-in information, they may be able to use those miles.

Our heirs will not only be overwhelmed but could also be unaware of additional assets and dollars they could receive. And what about all those amazing family photos that are stored online. That is why planning for digital assets is becoming such an important piece of good estate planning.

Inventory and identify your digital assets. These can include computers, CDs, DVDs, USB drives, digital cameras, and iPods or other devices.

To assist you with getting your digital estate plan together, here are some ideas to consider.

- Inventory and identify your digital assets. These can include computers, CDs, DVDs, USB drives, digital cameras, and iPods or other devices. This inventory should include your software programs and all of the various websites, blogs, Facebook and social media and any other sites for which you have established an account with log-in credentials.
- Next you want to think about who should take care of these areas when you are gone. It is important to have someone who is tech savvy and can deal with these things.
- Utilize a software system for storing your passwords such as Roboform.com or 1Password (www.agilebits.com). These services will encrypt your username and password information and keep them stored on your own computer. This means you will only need to have one password to identify for your family, and you can keep that with your other estate documents.
- Provide instructions for your family. If you have a blog or website, make sure you leave information for your family on how you want them handled.
- Also, make sure you leave updated information on digital photos, software or in-the-cloud storage so the photos aren't lost. This could be devastating to the family if you are the keeper of the family history.
- Give appropriate authority. Consider signing a statement, which can be drafted by an estate attorney, authorizing the companies that hold your online information to disclose that information to your executor or other representative.

Most state laws don't offer specific support to executors in taking control of digital assets. Even where such laws exist, they are often well behind the reality of today's tech-

nology. The Uniform Law Commission, a nonprofit association that drafts model legislation for states to adopt, passed the Uniform Fiduciary Access to Digital Assets Act (UFADAA) on July 16, 2014. It has been revised and updated (RUFADAA) as of 2017 and forty states have made it law. It is pending in five more as well as the District of Columbia.

Having a plan for your family to deal with your digital assets will become increasingly more important as technology continues to become such an integrated part of our lives.

The purpose of the RUFADAA is to vest fiduciaries with the authority to access, control or copy digital assets while respecting the privacy and intent of the account holder. As our lifetime digital presence has grown exponentially, the issues involved have become increasingly more complex. Take the time to think about your digital presence today. Having a plan for your family to deal with your digital assets will become increasingly more important as technology continues to become such an integrated part of our lives.

So make sure your will includes instructions concerning your digital accounts, including whether you want your executor to have access to your Twitter account or your Facebook account.

A statement of instructions that lists accounts and what action should be taken is also important where there is an accumulation of points or miles.

The whole subject of digital assets and information has become such a huge cumbersome part of estate planning that help was bound to come to the rescue. We, at Lassus Wherley, have identified a cloud service called **Everplans** which is a secure, digital archive of all the information your loved ones will need if something happens to you. You may store actual estate documents, lists of accounts and passwords, information about your home such as bills or vendors, health or medical information and so on. You may name deputies who can access only certain data or all of it. Let us know if you are interested and we will provide additional information on how to sign up.

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Lassus Wherley News

Betty S. Thomas, ChFC® and Financial Planner at Lassus Wherley has earned the Chartered Financial Consultant (ChFC®) professional designation from The American College of Financial Services, Bryn Mawr, Pa.

Candidates for the ChFC® designation must complete a minimum of nine college-level courses and 18 hours of supervised examinations. They must also fulfill stringent experience and ethics requirements and participate in continuing

education to maintain professional recertification. Since its inception in 1982, the credential has been widely regarded as a premier standard of knowledge and trust for financial planning professionals.

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Keep in touch and remember that you are a long-term investor regardless of what happens in the financial markets in the short term.

There remains much uncertainty in our world today, and we know that the world is changing very quickly. Please let us know if you have any questions. And remember to practice that deep breathing when the world starts to get to you.

Stay cool and try to enjoy this crazy summer!

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Compliance Disclosure

If you are a Lassus Wherley (LWA) client, please remember to contact us if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services. Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by LWA, or any non-investment-related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from LWA. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. LWA is not a law firm and no portion of the newsletter content should be construed as legal advice. A copy of LWA's current written disclosure statement discussing our advisory services and fees is available upon request.