Brown ADVISORY
Thoughtful Investing.

# The Advisory

INVESTMENT OUTLOOK FOR PRIVATE CLIENTS

JUNE 2016

## COURAGE AMID DISRUPTION

Blistering changes in fields such as technology call for bold responses—a theme we recently explored with clients at our NOW 2016 forum.

NOW 2016
NAVIGATING OUR WORLD™

# Moral Courage Amid Disruption

Brown Advisory colleagues recently gathered with clients to explore how disruption in technology and other fields calls for bold, even-handed decision-making and what we call moral courage.

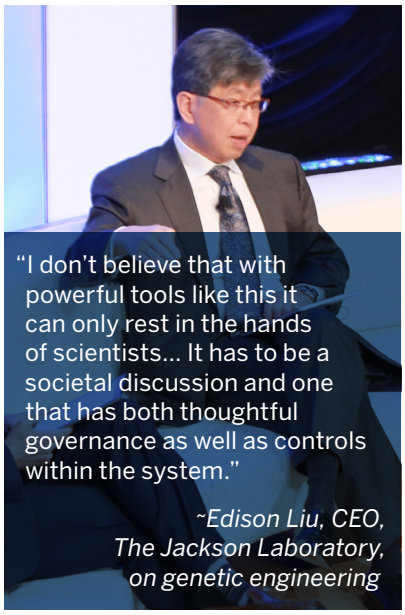


The idea that great power demands great responsibility seems especially valid today. Consider the implications of these advances:

- **Bioengineers** can pinpoint genetic abnormalities to curb disease, but such capabilities, when misused, could alter genetic traits of future generations and put individual autonomy at risk.
- **The military** currently deploys drone aircraft and is developing robots to aid in combat, but questions remain unanswered that are essential to ensuring public trust, including who would be accountable if these systems goes awry.
- **Digital technology** has made launching a business increasingly "frictionless," but in some cases such unprecedented efficiency will disrupt companies that are no longer needed in an industry's supply chain.
- **Advances in communications**, trade, finance and transport have made the world's regions more interdependent, but cultural misperceptions persist in public attitudes toward vital global actors, including China and many Arab nations.

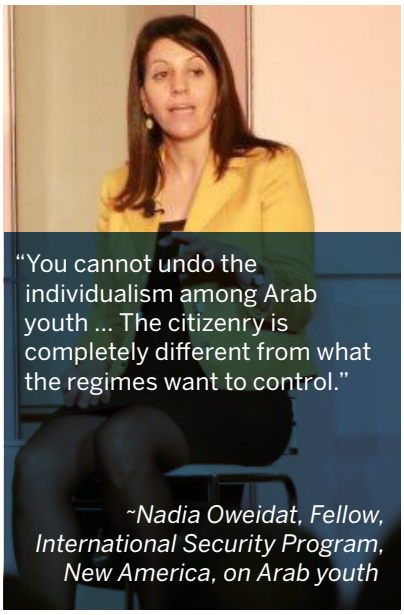
We invited our clients to explore these compelling contradictions with us in Washington at Navigating Our World (NOW) 2016, our fifth biennial forum in the U.S. The conference, subtitled "Moral Courage in a Time of Disruption," focused on emerging trends in technology, resources and geopolitics that pose global challenges and therefore influence our investment thinking. We brought our clients together with bright, provocative thought leaders to learn in depth about tough political, social and national security issues, aiming to understand the implications from various possible outcomes so we can be better prepared both as citizens and as investors.

The advances that our NOW speakers described are enthralling. Neurologists, for example, are making strides in aiding recovery from stroke by outfitting patients with a device conceived with the help of animators and computer gamers. Using an exoskeletal



"I don't believe that with powerful tools like this it can only rest in the hands of scientists... It has to be a societal discussion and one that has both thoughtful governance as well as controls within the system."

*~Edison Liu, CEO, The Jackson Laboratory, on genetic engineering*



"You cannot undo the individualism among Arab youth ... The citizenry is completely different from what the regimes want to control."

*~Nadia Oweidat, Fellow, International Security Program, New America, on Arab youth*

"We are in an era of strategic anxiety with China... It's not at all clear what the intentions of each side is with respect to the other" and "there will almost certainly be much more friction to come in the next few years."

*~Evan Osnos, a China specialist and correspondent with* The New Yorker

**BY BRIEN WHITE**
*Head of Washington Office*
*Portfolio Manager*

robotic arm, patients simulate the movements of a dolphin, thereby strengthening the brain through exercise.

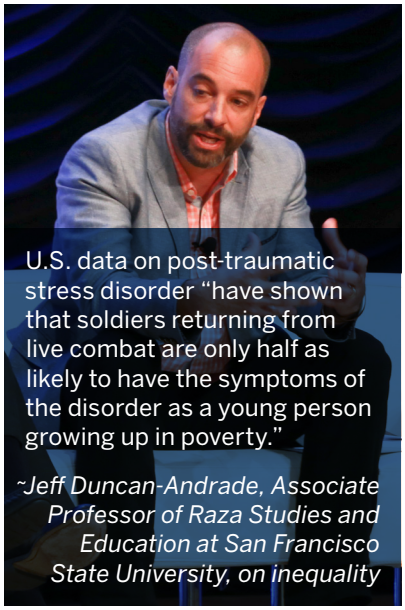
Another example is driverless cars, which, linked to the Internet, could reduce costs to the consumer and prove 10 times more energy efficient than vehicles on the road today. Such "autonomous vehicles" may be rolled out on a large scale as early as 2018.

In public policy, U.S. schools in impoverished areas—while not always successful in adopting the best teaching methods of wealthier school systems—have made gains by ensuring that instruction takes into account the trauma suffered by students and by conveying a constant message of hope.

Some NOW speakers balanced their descriptions of progress by cautioning that institutions created to safeguard equality and societal well-being need to keep up with the pace and extent of change. Indeed, we believe that the capacity to adapt decisively and equitably to change requires moral courage. We think that trait is essential for people in a position to influence policy, public opinion and the direction of capital investment.

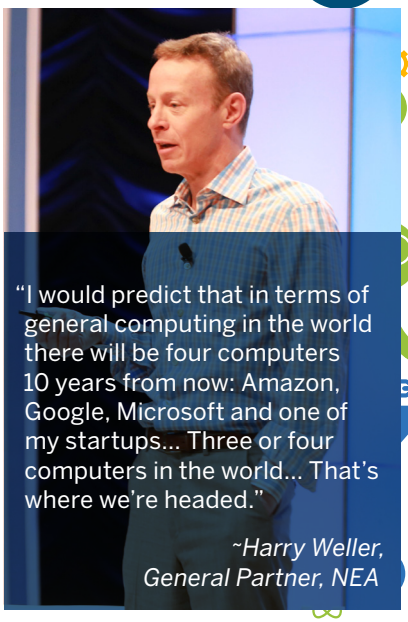
The idea that advancement brings risks and requires greater responsibility is nearly as old as our written history—Icarus of Greek mythology perished when he ignored his father's warnings and flew too close to the sun. Yet we believe that never before has technological advancement burst forth at such a rapid pace across so many disciplines while touching so many lives. In short, the extent and stakes of this progress are unprecedented.

Our NOW forums are intended to expose our clients to stimulating speakers on topics that expand our thinking and point the way to new opportunities. Please see the enclosed special report with summaries on the speakers at NOW 2016 and share your thoughts with us.



U.S. data on post-traumatic stress disorder "have shown that soldiers returning from live combat are only half as likely to have the symptoms of the disorder as a young person growing up in poverty."

*~Jeff Duncan-Andrade, Associate Professor of Raza Studies and Education at San Francisco State University, on inequality*



"I would predict that in terms of general computing in the world there will be four computers 10 years from now: Amazon, Google, Microsoft and one of my startups... Three or four computers in the world... That's where we're headed."

*~Harry Weller, General Partner, NEA*

# PROFITS, NOT VAPOR:

## TITANS EMERGE IN CLOUD COMPUTING

Three companies have brought down to earth the long-elusive goal of selling corporate customers computing power through the Internet.

For years, cloud computing's promise of unmatched efficiency, unprecedented scale and rising revenues proved out of reach for business. Not anymore—three companies are pinning down the cloud in enterprise computing.

Amazon.com, Microsoft and Google have each staked out a competitive advantage in the booming, $70-billion business of selling computing power and data storage via the Internet.

These companies are leading a "violent" shift to cloud computing that, by the end of this year, will probably account for one-third of the world's $300 billion annual spending on software, according to Harry Weller, a general partner at NEA, a leading venture capital firm. Amazon, Microsoft and Google so dominate the market that, if current trends hold, they may handle nearly all of worldwide computing in 10 years, Weller predicted at Brown Advisory's Navigating Our World (NOW) conference in April. "Three or four computers in the world," he said, allowing for the emergence of a fourth cloud giant. "That's where we're headed."

The companies have gained a first-mover advantage by hiring legions of top software and engineering talent, committing billions of dollars to servers and other Internet-focused capital investment, and demonstrating that cloud computing can be reliable and secure. For the foreseeable future, they have clinched the position as the main engines for computing and managing the world's rising flood of data.

To many firms, the savings and efficiency from cloud computing are irresistible. Companies can immediately ramp up or reduce computing power based on their needs while shutting down costly in-house data centers. They can also be confident of always using the newest version of software. Amazon's cloud division, Amazon Web Services (AWS), says that it can slash many customers' information technology expenses during a three-year period by about 60%.

General Electric Co. said in October it plans to close most of its data centers and shift all but its most sensitive data to AWS and other cloud providers. Netflix in January announced that it had completed the move of all of its streaming to AWS. Promising similar savings, Microsoft has announced it is providing cloud services to 3M and Boeing, while Google has said it is working with Coca-Cola and Best Buy.

AWS, Microsoft and Google (whose parent company is Alphabet) have benefited as virtually every firm seeks to meet consumer expectations for a digital experience. Even traditional businesses, in industries such as insurance and banking, have, in a sense, become software companies. Growth in the "Internet of Things" is also fueling demand for more efficient computing and data storage. Businesses and consumers are connecting myriad objects on the Internet for real-time monitoring and measuring—from light bulbs, heating systems, baby monitors, factory machinery and dishwashers to office equipment, bulldozers, vending machines and jet engines.

By 2020, the number of connected things will increase to 21 billion from 4.9 billion in 2015, according to Gartner.* Advances in artificial intelligence and machine learning software will further boost the volume and complexity of digital information. Companies will need help in processing and storing the surge of Big Data and, by

* Gartner, Gartner Says 6.4 Billion Connected "Things" Will Be in Use in 2016, Up 30 Percent From 2015, November 10, 2015, http://www.gartner.com/newsroom/id/3165317

**BY MANEESH BAJAJ, CFA**
*Portfolio Manager*

**EMMY MATHEWS, CFA**
*Equity Research Analyst*

2019, their worldwide spending on cloud computing will more than double to $141 billion, according to International Data Corp.*

For decades, the concept of cloud computing dazzled info-tech executives, sometimes at huge cost. Following the burst of the dot-com bubble in 2000, Sun Microsystems faltered after making a premature bet on data processing and storage via the Internet. Oracle bought Sun in 2010.

Since then, technological gains have dramatically cut costs and boosted both connectivity and computing power. Storing and crunching data via the Internet is much easier, cheaper and faster than just five years ago.

To be sure, regulation and concern about privacy have slowed adoption of cloud computing. Many companies have held back from the cloud because of worries about cybersecurity, loss of control over data or the risk of dependence on a single cloud provider. AWS, Microsoft and Google seek to overcome such hesitation and gain market share by leveraging their core strengths:

**Amazon Web Services** jumped to the lead in cloud computing thanks to its early start—in 2006—and the lessons from a decade of building the world's largest e-commerce platform. Its sales are about six times larger than its closest competitor, Microsoft Azure. AWS can blunt concerns about security by noting that the CIA is using a system designed by AWS to run the internal cloud for U.S. intelligence agencies. AWS sales ballooned 64% during the first quarter of 2016 to nearly $2.6 billion, generating about 56% of Amazon's operating profit.

> "STORING AND CRUNCHING DATA VIA THE INTERNET IS MUCH EASIER, CHEAPER AND FASTER THAN JUST FIVE YEARS AGO."

**Microsoft Azure** is building on credibility from decades of Microsoft sales to the information technology departments of large businesses. It is

## Thunderhead

Amazon Web Services has taken the lead in cloud computing by leveraging the lessons from building the largest e-commerce website. During the first quarter of 2016 its sales swelled 64% to nearly $2.6 billion.

**QUARTERLY REVENUES FOR AMAZON WEB SERVICES**
(3/31/2010-3/31/2016)


SOURCE: DATA FROM AMAZON'S COMPANY FILINGS

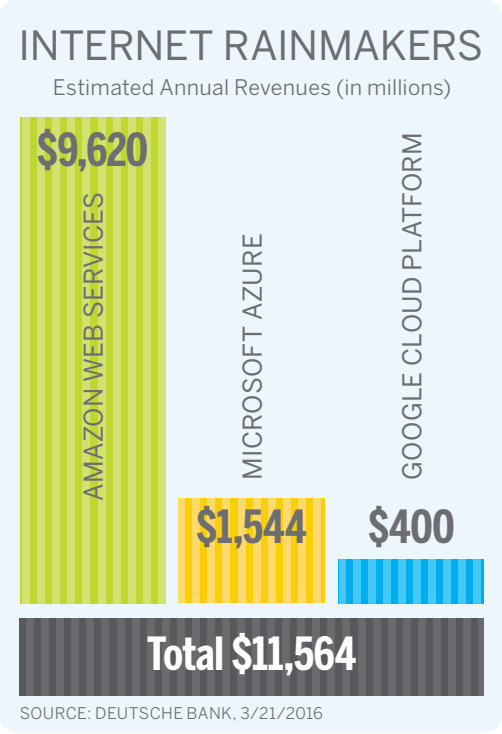
*IDC, Worldwide Semiannual Public Cloud Services Spending Guide, January 2016

especially attractive among customers seeking a hybrid of on-site data centers and external cloud computing. Microsoft CEO Satya Nadella led Azure before rising to the company's top slot in 2014. Since then he has redoubled the company's focus on the cloud. Azure's sales during the first quarter grew 120% in constant currency terms, which eliminate exchange rate fluctuations.

**Google Cloud Platform** is leveraging Google's dominance of the Internet, specifically the engineering know-how and vast computing network required to handle oceans of data from its search engine, maps and other services. Its reputation for innovation and emphasis on offering developers free open-source software makes it especially appealing to startups and smaller companies. By 2020, Google may generate more revenue from the cloud than from any other source, including advertising, Urs Hölzle, the company's senior vice president for technical infrastructure, said in November.

All three companies have benefited as software developers—seeking greater speed and efficiency—"rent" the companies' cloud computing power while adopting their open-source code, according to Weller. Often, developers act without explicit approval from their chief information officer. Consequently, when it comes to the decision over whether to embrace the cloud, traditional corporate gatekeepers for deployment of new technology are losing clout, he said.

"There's nothing more powerful than when you have a combination of technology change and decision-maker change at the same time," Weller said. "Because there is no gatekeeper—the gatekeeper is gone."




## Looming Larger

Although Google arguably dominates the Internet through its search engine and other features, its Google Cloud Platform (GCP) is a distant third to Amazon Web Services and Microsoft Azure in estimated revenues. Still, GCP is making inroads among high-profile companies:

**AUDI:** Uses GCP to support its development of digitally connected cars.

**BEST BUY:** Rewrote Giftag, a social app, as the first of several applications that now run on GCP.

**COSTCO:** Hosts its e-commerce website for Mexico on GCP.

**DOMINO'S PIZZA:** Deploys GCP digital analytics to gain insights into customer behavior.

**OFFICE DEPOT:** Uses GCP to operate its online and in-store printing services at more than 2,000 locations.

**U.S. CELLULAR:** Calculates and forecasts sales through GCP analytics.

**SPOTIFY**: Adopting GCP for data storage and management.

SOURCE: DEUTSCHE BANK, 3/21/2016

# In Too Deep? The Risks From Sub-Zero Rates

Six central banks try to spur growth by introducing negative rates despite potential hazards from the unprecedented policy.

**BY TOM GRAFF, CFA**
*Head of Fixed Income*

**QUINTIN INGS-CHAMBERS**
*Portfolio Manager*



Central bankers in Europe and Japan are embarking on the monetary policy equivalent of the first-ever dive by a submarine. While pushing interest rates below zero for the first time, they are unsure whether their plunge into uncharted depths will bring progress or adversity.

The Bank of Japan, European Central Bank (ECB) and four of Europe's other central banks are charging a fee, rather than paying interest, on money held in their reserves. They want banks to shift money away from central banks and into longer-term assets, thereby reducing rates on a broad range of securities including mortgage bonds and corporate debt. In theory, the move could spur borrowing and stimulate economic growth.

But there is a risk of backfire. If rates are cut too far, businesses and citizens may hoard physical cash to avoid losses from negative interest rates, disrupting the banking system and hobbling growth. Especially at risk are banks, insurers and other companies whose profits shrink when long-term interest rates fall more than short-term rates. Lower profits could prompt banks to curtail lending.

## FOGGY OUTLOOK

The unclear impact from negative interest rates underscores the importance for investors of holding adequate liquidity—including cash—to meet day-to-day operating expenses, buffer against market volatility and have ready capital for any future investment opportunities. Over time, subzero rates will probably boost demand for U.K gilts, U.S. Treasuries and other bonds with positive yields that are issued by governments with comparatively steady inflation and economic growth.

So far, negative rates do not show clear signs of spurring growth or speeding inflation. The International Monetary Fund (IMF) forecast in April that the eurozone and Japan will grow this year by 1.5% and 0.5%, respectively, or 0.2 percentage points and 0.5 percentage points less than its forecasts in January.

The ECB's introduction of a negative rate in June 2014 has had no obvious impact on banks' excess reserve accumulation. Nevertheless, the IMF supports such a policy "given the significant risks we see to the outlook for growth and inflation," José Viñals, director of the IMF's monetary and capital markets department, said in a blog in April. While saying the policy has provided some stimulus, Viñals conceded that rates too low may trigger cash hoarding, with the possible "tipping point" ranging from -0.75% to -2%.

Even without an outbreak of hoarding, negative rates may hurt retirees and other savers who will need to set aside more money to generate the same amount of income. Indeed, a slump in retail sales in Europe suggests that negative rates are crimping spending. Moreover, investors reaching for yield may take on more risk with less-liquid assets, fueling the emergence of asset price bubbles. For example, negative rates could prompt excessive real estate investment by pushing mortgage rates to record lows.

Negative interest rates may persist for some time as policymakers try to cure severe economic ills in Europe and Japan. In response, investors will probably turn to income-producing assets like real estate and high-yield debt, along with high-quality U.K. and U.S. bonds. They should exercise caution when reaching for yield—valuations of some high-dividend, low-growth stocks already look excessive in our view. *(Please see the story on page 8.)*

We cannot predict with certainty the ultimate impact of negative rates on the economy or financial markets. But identifying assets with an attractive balance of downside risk and upside potential should yield good long-term results, regardless of how long central bankers hold rates underwater.

# Market Chill: Holding Fast To Fundmentals

Volatility in equity markets has persisted as investors run from risk and search for yield. In times like these, we stay true to a bottom-up, value orientation.



"April is the cruelest month"—the sentiment of poet T.S. Eliot—rang especially true for managers of large-cap mutual funds this spring when they learned that during the first quarter, only one out of five of them beat the Standard & Poor's 500 Index.

Bottom-up stock pickers are underperforming this year as yield-hungry investors snap up high-dividend stocks. Meanwhile, many large, leveraged hedge funds, focused on near-term performance, quickly jettison any underperforming shares, magnifying volatility.

Investors remain on edge while coping with numerous challenges, including near-zero interest rates and reduced market liquidity.

Prolonging a two-year trend, investors seeking both limited risk and high yields pushed up the S&P 500 Utilities Index this year by 10% through May 23, compared with a 0.5% gain in the S&P 500 Index. During the same period, consumer staples, also deemed a defensive sector, rose 3%, based on the S&P 500 Consumer Staples Index. Investors are also speeding a multiyear shift into passive management, including exchange-traded funds (ETFs). During the first quarter, passive management gained $90 billion while active managers saw an outflow of $40 billion, according to Morningstar.

Some active managers with a long-term focus have lagged in performance in recent years after investing in sectors that they expect will recover from a slump. For example, they have invested in energy companies, anticipating a rebound in the oil price, which has yet to occur. Others have invested in financial stocks, expecting interest rates will rise from near-record lows.

In the near term, managers who take a long view may lag passive investments, which are often tied to an index and do not overweight a particular sector. A passive approach may outperform the average active manager simply because of lower management fees, underscoring the importance of our focus on finding managers with the strongest stock selection process. The popularity of passive investing is self-reinforcing, as capital shifted from stocks excluded from an index pushes up stocks included in the index. We expect the pendulum to eventually swing back in favor of talented active managers as stocks listed in indexes decline to their intrinsic value.

Overall, we believe the market's unusual short-term preoccupation with the perceived safety of high-yield stocks and passive investing offers opportunities for meaningful long-term gains as long as we focus on value and disregard the fads of the moment. We are staying off the market's well-beaten path and are instead taking an approach with these characteristics:

**Continue to favor equity managers who are devoted to bottom-up research and take a long-term view.** In equities, we look for managers with a disciplined process who aim to buy businesses at a discount to their intrinsic value. These managers would also look for companies that hold a sustainable competitive advantage and show promise for long-term growth and profitability. Our managers do so through their own primary research, speaking to the company, its competitors, customers, suppliers and experts in the industry.

**Take advantage of opportunistic investments and avoid overvalued areas.** We seek opportunities to take advantage of swings in asset prices, such as our allocation to high-yield bonds after their swoon last summer. When equities with high dividend yields fell during a market panic in 2011, we "overweighted" equity income strategies, recognizing the bargain in solid companies with high yields. As the discount shifted to a premium, we transitioned back to our core equity position in 2013. The premium has now risen to such an extent that, in order to secure an above-market 3% yield, investors are buying companies that have stopped growing and that sell at higher multiples than both the broader market and some of the most rapidly growing companies you can find. *(Please see the chart on the next page.)*

**BY SID AHL, CFA**
*Chief Investment Officer of ISG*

**STEPHANIE MCCORMICK**
*Porfolio Manager*

During the first quarter, our managers seized on the opportunity to buy Google, Priceline and Avis at prices well below their estimates of intrinsic value. Priceline in February plunged 23% from the start of 2016 and has since rebounded by 27%. Google (whose parent is Alphabet) fell 10% intraquarter and has risen 4% from that low. Avis in February nosedived 39% from its price at the beginning of the year. The decline was an overreaction as analysts trimmed earnings expectations by 15%. (Estimates for the broader market have decreased as well.) Concerns about U.S. economic growth and competition from Uber and driverless cars also pushed down Avis. Since hitting an intraquarter low, Avis stock has surged 24%.

**Shift a portion of capital to smaller hedge funds.** Hedge funds oriented toward bottom-up stock picking have suffered even more than mutual fund managers because they have lost on both long and short positions. Much like their mutual fund counterparts, many of the top funds have avoided overheated areas, such as utilities and consumer staples, focusing instead on the long-term value in quality technology, health care and consumer discretionary businesses. Many funds have been short these high-yield stocks. A number of funds have also been hurt by the rally in energy and basic materials shares that was prompted by China's stimulus measures during the first quarter. Many fund managers believe medium- and long-term supply and demand dynamics are still unfavorable. The market, though, is reacting to the short-term news and speculating on a rebound.

Many large, fundamental hedge funds have lagged the broader industry because of "crowding" by other investors into their top holdings. Managers with exceptional track records, such as Viking, Lone Pine and ValueAct, often see their holdings purchased by copycat investors with much shorter time horizons. When the going gets tough, many of these copycats run for the exits at the same time, and the stocks underperform the market. For example, stocks that are widely-held by hedge funds fell more than 4% this year through May 16, while securities with low hedge fund concentration have surged more than 9%.

The wide performance gap underscores how many hedge funds this year have not served one of their purposes of limiting downside losses and reducing volatility. During the first quarter, our U.S. equity hedge funds proved unusually vulnerable to the downdraft in the broader market largely because of the impact from crowding. We have been reducing the average size of our hedge fund allocations for a number of years, but we, and others, wish we had done more of this before the first quarter. In our recent allocations, we have targeted hedge funds with about $1 billion in assets, compared with our current average of about $5 billion.

Broadly speaking, we believe that by pursuing a long-term strategy with the above characteristics we will generate attractive returns regardless of any seasonal shifts in the market's mood.

## Paying a Premium for Yield

Investors are paying a premium to buy companies that, while not growing, offer an above-market 3% yield. Meanwhile, some fast-growing companies sell at lower valuations.

| COMPANY | FIVE-YEAR AVG. EPS GROWTH | DIVIDEND YIELD | FORWARD P/E |
|---|---|---|---|
| Wal-Mart | -2% | 3% | 16x |
| Coca-Cola | -4% | 3% | 23x |
| Unilever | 2% | 3% | 21x |
| Google | 19% | 0 | 21x |
| Priceline | 30% | 0 | 19x |
| Avis | 46% | 0 | 9x |

SOURCE: BLOOMBERG AS OF 5/23/2016.

# Dire Call: Helping When It Is Most Needed

After years of serving clients, we have found that the depth of our relationships is especially valuable when helping them adapt to the most difficult news.

Terms like "estate planning" and "wealth transfer" provide little shelter from a painful reality—a large portion of what we do as advisors focuses on the issues associated with our clients' mortality.

We have worked with clients on these issues for more than 25 years. You might think that after all that time, it gets easier to receive a call from a client with news of a grave medical condition. It has not—it is a gut punch every time. Our relationships with our clients are generally quite close, and calls from clients we have known for years can have an impact as if they were coming from a member of our own family.

It is a privilege to be placed in a position of trust at a moment when a client is facing many difficult decisions. We know that we are not the only people outside a client's family who help shoulder such heavy news. But we are honored to be on a short list of people—doctors, spiritual advisors and lawyers—who can provide tangible assistance in these situations.

Earlier this year, we received one of these calls from a client. After we discussed her diagnosis and her health care options, she asked that we move forward with whatever plans would be most beneficial to her family given her short time remaining.

By sharing some of the steps we take in these situations, we hope to highlight that when one's circumstances change drastically, thoughtful action can often bring meaningful benefits. Here is what can be done in such situations:

## LIFETIME GIFTS

When someone's life expectancy is suddenly shortened, their financial objectives usually change. They no longer need a plan that supports their lifestyle and long-term health care expenses. In these situations, giving away assets to loved ones or charities may become more practical and advantageous.

For various reasons, making lifetime gifts may be more efficient from an estate and gift tax standpoint than transferring assets through a last will and testament. When clients have sufficient assets to warrant estate tax planning, we often recommend transferring a considerable amount of their estate to trusts that benefit family members. This may generate an immediate federal gift tax liability. But it may also reduce the eventual estate taxes levied by a state by hundreds of thousands of dollars, or as much as 9% of an estate's total value. The savings often exceed the immediate federal gift tax.

**BY JOHN POULTON**
*Strategic Advisor*

**DOUG BORG**
*Strategic Advisory Analyst*

## INCOME TAX AND BASIS CONSIDERATIONS

We also want to ensure that clients think about minimizing their income taxes, which sometimes competes with estate and gift tax techniques. In these kinds of situations, we always look for ways to optimize the two considerations.

Some readers may be familiar with the "step up" in cost basis that occurs upon the death of an asset's owner. If someone purchased an asset at $100 and it is currently worth $200, there is an embedded tax liability in that asset—you would pay taxes on the $100 gain were you to sell that asset. But when an asset owner dies, the cost basis of assets held at death is stepped up (or down) to fair market value, eliminating any embedded income tax consequences.

To take full advantage of this rule, we seek to have clients retain the highest concentration of appreciated assets possible within their estates. When it comes to transferring assets as gifts, we select securities with a high basis relative to their market value. When the transfer of assets with a loss is contemplated, we often recommend selling such assets to recognize the loss followed by a gift of the proceeds. Additionally, many sophisticated trust plans allow the creator to exchange assets with the trust. When possible, it is advantageous to swap assets into an existing trust with minimal embedded tax liability, in exchange for highly appreciated assets or property held by the trust. Each of these strategies aims to eliminate considerable capital gains taxes on the appreciated assets.

Further, we often advise clients to borrow cash to make gifts and to retain highly appreciated assets. Doing so can minimize estate taxes while also eliminating the built-in income tax liability of the retained assets.

## ROTH IRA CONVERSION

If clients have sizable regular IRA accounts, we may recommend converting to a Roth IRA. The amount converted is subject to income tax at ordinary rates, but this income-tax liability reduces the size of a taxable estate. Beneficiaries—often children or grandchildren—will be required to take distributions, but by converting to the Roth, the distributions are not likely to be taxable. This step helps reduce estate tax liability, provides beneficiaries with assets that will continue to grow tax-free and avoids the creation of a new tax liability for those beneficiaries.

## CHARITABLE TRUSTS AND DONOR-ADVISED FUNDS

Creating trusts that benefit family members as well as valued charities can help provide for a family's long-term well-being while mitigating taxes and encouraging charitable pursuits. In the March edition of *The Advisory,* we wrote about charitable lead trusts, which provide income to a charity during one's lifetime and eventually pass the assets of the trust to designated heirs. Another option is a charitable remainder trust, which essentially does the opposite—it provides income to one's family while the trust's assets eventually pass to a charity in an income tax-deductible manner. Beneficiaries of these trusts can be donor-advised funds. This vehicle provides designated family members greater flexibility and control over the future disposition of the funds to various organizations.

When people are handling the most difficult kind of news, they are understandably reluctant to spend their remaining time discussing complex estate and tax planning. Nonetheless, taking some of the steps described above can make a real difference—a great deal can be accomplished when one no longer needs the financial cushion required for an indefinite retirement.

Ultimately, the most meaningful lesson we take from this recent experience is the value of building relationships over time. Because we have known each other for years, the client trusted that her needs were understood, and that we could adapt to her circumstances and plan in a relatively short period. Although the depth of our relationships make certain phone calls painful to receive, that depth also gives us the ability to step in and help when it may count the most.

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The Standard & Poor's 500 Index represents the large-cap segment of the U.S. equity markets and consists of approximately 500 leading companies in leading industries of the U.S. economy. Criteria evaluated include: market capitalization, financial viability, liquidity, public float, sector representation, and corporate structure. An index constituent must also be considered a U.S. company.

The S&P 500 Utilities Index comprises those companies included in the S&P 500 that are classified as members of the Global Industry Classification Standard (GICS) utilities sector.

The S&P 500 Consumer Staples Index comprises those companies included in the S&P 500 that are classified as members of the Global Industry Classification Standard (GICS) consumer staples sector.



Terms and definitions: **Price-Earnings Ratio (P/E Ratio)** is the ratio of the price per share of a company's stock compared to its per-share earings. The **Dividend Yield** is the amount a company annually pays out in dividends per share of common stock divided by its share price. **Earnings Per Share (EPS) Growth** measures the annualized rate of growth in a company's net income per share of common stock.

Alternative investments, such as hedge funds, may only be available to qualified purchasers and accredited investors.


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