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THE SEIA REPORT

Successful wealth management is the result of an ongoing collaboration between investor and advisor, built upon trust and maintained according to the highest standards of integrity and expertise.

THE FEDERAL RESERVE: "MEET THE NEW BOSS, SAME AS THE OLD BOSS."

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Chief Investment Officer

THE FED: *"100 Years Old"*

The Federal Reserve (the Fed) was not the original central bank of the United States. In 1791, the then fledgling U.S. government granted the First Bank of the United States a charter to operate as our central bank until 1811 when Congress refused to renew its charter. Five years later, the Second Bank of the United States was established but it again lost its charter in 1836. Ultimately a third national bank, this time known as The Federal Reserve, was created in 1913 (largely in response to a series of financial panics in 1873, 1893, and 1907) and Congress established three key objectives for the new bank: maximum employment, stable prices, and moderate long-term interest rates. The first two objectives (low unemployment, low inflation) are sometimes referred to as the Fed's dual mandate.

In trying to achieve its dual mandate, the Fed is able to set policy as an independent central bank because its monetary decisions do not have to be approved by any branch of government and member terms span multiple presidential/congressional election cycles. The Fed leadership consists primarily of the seven presidentially appointed Board of Governors (or Federal Reserve Board) and the twelve regional Federal Reserve Banks presidents. These 19 members (of which 12 have voting authority) make up the Federal Open Market Committee (FOMC)—the committee responsible for setting monetary policy.

CHAIRMAN: *"Meet the New Boss"*

The Chairman (or perhaps now Chairperson) of the Federal Reserve Board might be the most powerful job in global finance as the Fed is not only the central bank of the United States but also serves as the central bank to other foreign central banks. Global policy (and crisis leadership) can be set by the decisions within the FOMC. But although the FOMC votes at every meeting, the outcome is never in doubt as the chair dictates direction and secures enough support beforehand. Like Alan Greenspan before him, Ben Bernanke has had a disproportionate influence over monetary policy decisions. But Bernanke's term is now expiring and the new Fed Chair will continue to affect global monetary policy. Thus, it is always wise to examine the next leader of the Fed. On October 9, 2013, President Obama nominated Janet Yellen to succeed Bernanke and if confirmed, her views will weigh heavily on policy decisions for at least the next four years.

Her four-year term will begin on February 1, 2014 and can be extended every four years by the then sitting president (Greenspan was appointed/reappointed five times by four different presidents). Yellen will not only be the first democrat to chair the Fed in nearly 30 years but is also the first female in the Fed's 100-year history. Her advocates have said that they did not

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back her simply to put a woman in the seat, but because they are convinced she is absolutely the best person for the job. Consider her impeccable resume…

BACKGROUND: ***"Impeccable Resume"***

Janet Yellen was born into a middle-class Jewish family in Brooklyn, N.Y. in 1946. She graduated as valedictorian from High School, graduated summa cum laude with an economics degree from Brown University in 1967, and received a Ph.D. four years later from Yale University. In the decades following, she worked as a professor at several prestigious universities including Harvard, The London School of Economics, and the University of California Berkeley. More recently, Yellen was appointed as a member of the Federal Reserve System's Board of Governors from 1994 to 1997 and chaired President Clinton's Council of Economic Advisers from 1997 to 1999. In 2004 she became President/CEO of the Federal Reserve Bank of San Francisco where she has been credited with foreseeing the subprime mortgage crisis more accurately than her peers. And in 2010, President Obama nominated Yellen to Vice-Chairperson of The Federal Reserve.

PHILOSOPHY: ***"Dovish as opposed to Hawkish"***

Most economists expect a fairly seamless transition from Bernanke to Yellen as she shares many of the same views. She concurs with Bernanke on the outlook of the U.S. economy, has supported the Zero Interest Rate Policy (ZIRP) as well as the bond buying program known as Quantitative Easing (QE). The months after the transition should be a non-event but come spring 2014, Yellen will be in full control. Recall, her decisions and policy initiatives must be made within the context of the Fed's dual mandate—inflation and unemployment. She must prioritize one mandate over the other as the two sometimes run counter to each other. So which mandate will take center stage? And which policies will continue?

In analyzing her published research papers as well as her recent policy speeches, it is believed that her central focus will be on the labor market (job creation) rather than inflation fighting. Yellen's believes that high unemployment (and underemployment—see chart) has both large costs for today's unemployed as well as tomorrow's economic performance. She has seemed to indicate that the top three priorities of the Fed are

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Unemployment Measures: U3 & U6	Seasonally Adjusted							
	Apr. 2013	May 2013	June 2013	July 2013	Aug. 2013	Sep. 2013	Oct. 2013	Nov. 2013
U-3: Total Unemployed *Official Unemployment Rate*	7.5	7.6	7.6	7.4	7.3	7.2	7.3	7.0
U-6: Total ***Under***employed	13.9	13.8	14.3	14.0	13.7	13.6	13.8	13.2

U-6, closely watched by the Fed, is a measure of those wanting fulltime jobs. The number had not materially improved from May (Bernanke's first hint of QE-Taper) to August (released in September—the month Bernanke postponed the Taper). However, improvement in the November employment data (released on December 6th) suggests that the Taper is imminent and surely within the next three months.

Temporary Tax Provisions Set to Expire in 2014

Some May Be Renewed, Others May Not

At the end of every year, several federal tax breaks face a sunset. Some are renewed, some expire. As 2014 will soon start, here is a list of some of notable tax provisions that may go away next year – offering opportunities that you may want to take advantage of before the expiration.

Qualified tuition deduction. For 2013, an individual taxpayer has the chance to claim an above-the-line deduction for tuition and fees. This applies only to qualified higher education expenses. This deduction is set to expire at the end of this year; it may or may not be extended.[1,2]

Mortgage insurance premiums deductions. This year, you can treat qualified PMI (private mortgage insurance) premiums as home mortgage interest, but the deduction only applies if your adjusted gross income is no greater than $109,000. This tax break could go away in 2014; it is available only for mortgages entered into during 2007-13.[1,3,4]

Mortgage debt relief. In 2013, canceled mortgage debt of up to $2 million (or $1 million, in the case of married taxpayers filing separately) can be excluded from taxable income. The debt must be forgiven on a qualified principal residence (i.e., a taxpayer's primary home) due to the borrowers' financial condition or a decline in value of the residence. You can thank the Mortgage Debt Relief Act of 2007 for this. The tax break is set to expire at the end of 2013, after which any such debt forgiven will be taxable income.[2,5]

State & local general sales tax deduction. 2013 might be the last year individual taxpayers can choose to deduct state and local general sales taxes as opposed to state and local income taxes. This option is set to expire at the end of the year.[1]

Educator out-of-pocket expenses deduction. Classroom teachers/instructors, counselors, principals and aides who work in grades K-12 have enjoyed a special deduction of up to $250 in out-of-pocket costs above the line in 2013. As for 2014, this deduction is still a question mark.[1]

Qualified charitable distributions from an IRA. If you are over 70½, you have through December 31 to make a tax-free transfer of assets from an IRA directly to a qualified charity. While you can't deduct the amount as a charitable contribution, it does count toward your annual required minimum distribution (RMD). Will this option be extended into 2014, or be made permanent? No one knows just yet.[1]

Increased expensing & bonus depreciation allowances. This year, the Section 179 deduction is set at $500,000 while the qualifying property limit is $2 million. In 2014, these limits are slated to drop dramatically: a Section 179 deduction of $25,000 and a qualifying property limit of $200,000. In 2013, you can expense off-the-shelf software under Section 179; not so in 2014. This year, you can amend or irrevocably revoke a Section 179 election; next year, a Section 179 election will generally be irrevocable with IRS consent. While you can claim the Section 179 deduction on up to $250,000 of qualified real property this year, 2014 may offer you no such chance. For 2013, qualified leasehold and retail improvements and qualified restaurant property were given a 15-year straight-line recovery period; in 2014 the straight-line recovery period becomes 39 years. Congress may act to preserve all these current allowances.[1,2]

Currently, 50% special depreciation is permitted for qualified property additions placed into service in 2013, while only long production-period property and certain kinds of aircraft will be slated to qualify for special depreciation in 2014. Again, Congress may preserve the current allowance.[2]

Electric vehicle credit. If you bought (or even leased) an electric car this year, you may be eligible for a tax credit of up to $7,500 (variable based on the size of the battery pack used by the vehicle). This tax perk is set to expire in 2014. If you bought a qualifying 2-wheel or 3-wheel plug-in electric vehicle this year, you are eligible for a federal tax credit of up to $2,500.[2,3]

Personal energy property credit. Since 2006, there has been a $500 lifetime tax credit available to taxpayers who remodel their homes for energy efficiency. If you haven't remodeled enough to claim the full $500 credit yet, a heads-up: it is set to expire at year's end.[1,3]

R&D tax credit. This credit is admittedly hard to figure, but it can bring about major savings and can be carried forward or backward. Up to 20% of R&D expenses (above a base) may generally be used as a credit against tax owed. Who knows, it may not be around for 2014.[6]

Transit benefits. In 2013, the exclusion for transit passes and/or vanpooling, provided by an employer, is $245 monthly; this is the same as the exclusion for employer-provided parking. Next year, the benefit for public transportation falls to $100 per month (with adjustment for inflation) while the exclusion for employer-provided parking stays at $245 per month.[2,3]

One more thing to keep in mind. The IRS will delay the start of the tax-filing season by at least a week, a consequence of October's federal government shutdown. The date to accept tax returns

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could move from January 21 to January 28 or later, with the final determination coming in December. The April 15 deadline for filing returns or requesting extensions still applies.[7]

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Jobs, Jobs, and more Jobs. This should drive policy. In order to achieve economic growth that will reduce unemployment; Yellen is willing to allow higher inflation as a result---a signal to all investors that easy monetary policy will be the policy of choice for the foreseeable future.

Speeches delivered in 2012 indicate that although she believes QE may have provided a moderate economic boost, it also provided too large a price boost in capital assets—causing small bubbles in certain parts of the economy. In 2013, she hinted that interest rates are a more effective tool than QE. Furthermore, she has indicated in more than one speech that she feels interest rates should in fact be held at zero for the time being, even if inflation rises by more than 2% (levels greater than the Fed's inflation target). Finally, she has said that effective communication and forward guidance on future interest rates may be the best tool. So what can we conclude? Looking at 2014 through the Yellen lens, if the U-6 measure improves, the Fed may reduce (taper) QE but could counter this perceived tightening of financial conditions by maintaining extremely accommodative policy through extended forward guidance. The result? ZIRP may be policy for an even longer period of time than what many investors now perceive. In short, the end of QE may be near but short-term interest rates might be low for another three years extending though 2016.

CONCLUSION: ***"Clear Visibility"***

For fixed-income investors, the Yellen nomination should be read as favorable news. In a recovering economy, rising rates will still be a headwind for bond returns but we think the Yellen Fed will attempt to thwart rising rates by continuing to anchor short-term rates near zero for a longer period of time than commonly assumed. Yellen's policies should support "risk assets" (Equities, High Yield Bonds, etc.) in the near term with her hopeful goal of higher inflation and economic overheating (not a typo) four years out which will in turn convolute her reappointment process—but we are getting a bit ahead of ourselves.

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SEIA Team News

SEIA is pleased to announce the addition of Chad Canine, CFA, CFP® as a Relationship Manager and a member of our Investment Committee. Equipped with in-depth expertise and a commitment to client service, Chad provides advisors and their clients innovative personalized investment strategies to meet their overall financial needs and goals.

Prior to joining SEIA, Chad was a Vice President in the Private Client division of a global bank, where he delivered investment and banking solutions to affluent clients in Los Angeles. Before moving to California, he worked at a Chicago-based asset management firm where he specialized in the construction of tax-efficient portfolios for high net worth clients.

Chad earned his Bachelors of Science degree in Finance at Indiana University (Bloomington) and holds Chartered Financial Analyst® and Certified Financial Planner™ designations. He is a member of the Financial Planning Association and the CFA Society of Los Angeles. In his spare time, Chad and his wife enjoy travelling and competing in triathlons.

SEIA is also pleased to announce the promotion of Matthew Weed, CFA, CMFC®, CRPC® to Portfolio Manager. Matthew has worked in the Department of Investment Management and Economic Strategy for the last seven years and possesses over a decade of experience in the financial services industry. As Portfolio Manager, he heads our discretionary trading, manages over 2,500 client accounts, and oversees our research teams. Before joining SEIA, Matthew worked in the financial services sector for Bank of America and TDAmeritrade. Matthew, who passed the level III CFA examination and holds the Chartered Financial Analyst designation, received his Bachelor's Degree in Aerospace Engineering from the University of Florida.

Chad Canine
Relationship Manager

Matthew Weed
Portfolio Manager

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What are the best ways to diversify and spread out risk in today's market?

By Theodore E. Saadé, CFP®, AIF®, CMFC, Senior Partner

Not only is portfolio rebalancing useful in today's volatile markets, it is all but essential. Investors who intertwine strategic allocation with tactical allocation while keeping mindful of where we are in the economic cycle, will achieve a level of portfolio flexibility that maximizes the benefits of rebalancing.

With strategic allocation (SA), an investor sets target allocations for equities, fixed income and cash, and periodically rebalances his/her portfolio back to those targets based on investment returns and shortened time horizons for specific upcoming life events such as retirement as an example. In contrast, with tactical allocation (TA), the investor recognizes that microtrends exist within any business cycle and that it's prudent to take advantage of changes in investment outlooks.

Intertwining SA with a successful TA enables investors to capture additional profits by reallocating a percentage of assets toward investment styles or industry sectors with better outlooks or prospects. The chart on this page offers a visual depiction of the up-and-down business cycles of the market and what asset classes to hold during times of contraction and expansion.

With TA at the margin, an investor can take advantage of certain anomalies such as valuation-to-growth disparities within both bull and bear markets. TA allows for the ability to create extra value within a business cycle, since the goal is to return to the portfolio's original SA once desired short-term profits have been achieved.

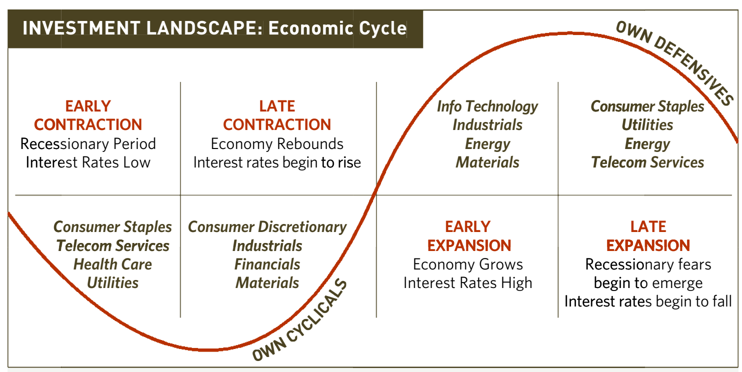
In terms of a real-life implementation, recent examples shed light on the SA- vs. -TA discussion. While we have consistently held an allocation to both value and growth (as well as large-cap and small-cap), over the last decade there have been profitable overweights during this time span.

The overweight to growth and large cap in the late 1990s created value, as have the overweight to value and small cap since the start of the 2000s. The strategic allocation to stocks remained the same, yet the tactical overweight to varying investment styles added alpha. Likewise, industry sectors can also provide profitable trades (chart) as was evident in the overweight of energy and materials in 2007 and 2009, and the subsequent rotation to and from staples in 2008.

As to rebalancing fixed income investments, given the current interest rate cycle, we would suggest reduc-ing overall maturity as measured by duration and consider adding assets less impacted by rising rates. Current candidates would include floating-rate bonds, managed futures, bank loans, equities with growing dividends and MLPs. The goal is to intertwine fixed income and equity so that both sides of the portfolio work cohesively together, to further reduce volatility and enhance overall results.

In sum, maximizing the benefits of rebalancing requires a more disciplined approach to portfolio management. It means examining a portfolio frequently and tactically, not only to weather the headwinds of an increasingly global economy, but to take advantage of them.

Any specific advice rendered should not be construed as investment advice. It is recommended that you speak with your investment professional to discuss you specific needs and objectives when deciding if any strategy is right for you. This is not a solicitation or recommendation to purchase or sell any security, or investment strategy.



Source: *Signature Estate & Investment Advisors LLC*

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Our Signature Fund for Giving was created in 2011 to support local youth in Southern California. Since inception we have raised over $120 k for both local and national nonprofits. While we continue to work with our partners, A Place Called Home, Toberman Neighborhood Center, and the Children's Hospital of Orange County we continue to strive to connect and grow with other nonprofits across the country.

Thank you all for your ongoing support and contributions. For questions on how you can support and get more involved with our Signature Fund for Giving please feel free to contact Marshall S. Smith at 310-712-2323 or at msmith@seia.com.

a place called home

Toberman
Neighborhood Center, Since 1903

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