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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.

GLOBAL EQUITY HORSERACE: AN UPDATE ON EUROPE

Deron T. McCoy, CFA, CFP®, CAIA, AIF®
Chief Investment Officer

Six years into an economic cycle is bound to bring on some changes. In every bull market, as it matures, consumer sentiment improves. It's only natural that we should collectively feel better as our stocks gain wealth. However, "happier" investors tend to fuel exuberant over sustained rallies, and eventually greed begins to take hold. As the herd mentality sets in, prices move ever higher—until ultimately valuations become too stretched and the inevitable downslope of the business cycle begins and equity prices correct.

While leading economic indicators have yet to point to a recession, valuations clearly are stretched. So much so, that current valuation measures are now higher than at any point in post-WWII history (with the exception of the possibly once-in-a-lifetime technology/dotcom bubble). With a strong dollar, the Federal Reserve tightening monetary policy by ending QE and likely raising rates later this year, rising wages, and marginal growth in earnings combined with near record valuations, there's little remaining catalyst to drive up stock prices.

It all leads us to the inevitable conclusion that the biggest gains from U.S. stocks may be behind us. Fortunately, there are other business cycles around the globe where lower valuations, higher earnings growth, and easier monetary policies afford greater investment opportunity. Savvy investors should take note.

Poised for growth

A while back we highlighted European stocks as an area that was becoming attractive – offering higher dividend yields, higher earnings growth and lower valuations. Europe's dividend yield near 3.3% at the end of 2014 outpaced its own 20-year average and was 69% higher than the dividend yield on US equities. According to consensus estimates, European earnings are projected to grow 20% over the next two years, outpacing both the U.S. and the rest of the world. Compared to both their own historical averages and U.S. equities, European stocks are relatively cheap, trading at an 8% discount to U.S. stocks based on P/E ratios, a 38% discount based on price-to-book ratios, a 28% discount in terms of price-to-cash flow, and a 47% discount based on their CAPE

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What opportunities at home might come from quantitative easing in Europe?

Mark E. Copeland, CFP®, AIF®
Senior Partner

There's little doubt that globalization has been a prevalent theme of the last two decades—not just the globalization of economies, but of information and communication as well. We live in a much smaller, interdependent and transparent world than previous generations could have ever imagined. Yet whenever conversations with clients turn to international investing, many continue to be reluctant to venture abroad with their portfolio assets.

It's an understandable concern, as Europe's seemingly fragile recovery continues to lag the rest of the world and appears in desperate need of a jump-start. Taking a page from what worked to help keep recessions in the United States, Japan and the U.K. from tumbling into depressions, the European Central Bank (ECB) president Mario Draghi recently unveiled a major stimulus plan for the European Union. The ECB plans to increase the cash supply and buy government bonds over the next eighteen months as part of an asset-purchase program worth about €1.1 trillion ($1.3 trillion).

The fundamental goal of these new stimulus measures is to help inflate Europe's economies by pumping cash and liquidity into the markets to keep interest rates extremely low. Both the U.S. Federal Reserve and the ECB have inflation targets of 2 percent—just enough to afford slow and steady GDP growth without the economy running too hot or cold, while keeping the very real specter of deflation at bay.

Don't fight the Fed… or the ECB: As an investor, you quickly learn that it is rarely, if ever, a good thing to be on the opposite side of the Fed. The same holds true for the ECB. Given its unequivocal commitment to a stimulus program that will generate extremely low interest rates and a weak euro, several residual outcomes are likely. Clearly, the move bodes well for European equity markets. European equities were already a good value, with PE ratios markedly lower than those of U.S. equities. Assuming that the ECB can turn the economy around, those equities' valuations are appealing. As a result, both institutional and retail investors have begun to increase their exposure to more developed European markets.

Until the European markets are healthy, investing in the U.S. remains attractive, with stronger fundamentals and continued earnings growth.

With low interest rates being artificially maintained overseas, the likelihood of the Fed beginning to raise rates over the coming months becomes significantly lower. This has proven beneficial to U.S. equities. Until we begin to see signs of economic recovery in the developed European markets, expect the Fed to cooperate by keeping rates low to prevent money from flooding out of low-interest European markets into a U.S. economy offering higher yields.

U.S. equities may also benefit from the ECB's quantitative easing program from a simple standpoint of "where else can the money go?" With interest rates so low, investors can't really park money in cash instruments. Bond yields are low and getting lower. One of the few places offering potential for solid returns is the U.S. equity market. Until the European markets are healthy, investing in the U.S. remains attractive, with stronger fundamentals and continued earnings growth. Keep in mind, however, that because of the stronger dollar relative to other currencies, large multinational companies with extensive dollar-denominated assets have struggled and will likely continue to struggle for the foreseeable future.

Finally, if this plan works (which is by no means a certainty), keep a close eye on inflation-sensitive assets that have been beaten up over the past few years. Categories like precious metals and interest-rate sensitive financials will likely get a strong lift if the ECB and the Fed hit their target of 2 percent inflation.

The Social Security Booster- How the File & Suspend strategy can increase your income

Vince DiLeva MS®, CFP®, AIF®
Senior Partner

Most people take Social Security benefits for granted as a monthly income benefit they receive when they retire. There is not a lot of planning around how and when to receive these benefits, but we think differently: When you think about how much and how significant this cumulated cash-flow stream will be over your lifetime, more planning is warranted for your retirement strategy.

The decision made by a lot of folks is to take Social Security benefits at age 62. Some advisors suggest the earlier the better, but that is not always the case, specifically for married couples. In many married scenarios, I urge that one of the spouses consider the strategy of File and Suspend. This feature was passed under President Bill Clinton and approved by Congress as part of the Senior Citizens' Freedom to Work Act of 2000. It has been around a long time, but not many people take advantage of the option.

Here's how it works: The spouse with the higher primary insurance amount (PIA), let's assume it's the husband for this illustration, files for benefits at full retirement age. He then files a notice to suspend payment of his benefits. Now here's a nice twist: His wife may now file for spousal benefits, which is half of his PIA.

It doesn't matter that the primary filer has suspended his benefit; his spouse may still collect spousal benefits over that time. The household starts collecting some Social Security benefits, and this period allows the "benefits filer" to accrue higher benefits until he elects to actually start getting those benefits at an older age. His benefits will accrue by about 7 percent per year for another three years. At that time, he can restart his benefits, and his spouse will also have used the time to allow her own benefits to accrue a few more years. When the husband passes away, his wife will convert to the survivor benefit, which is 100 percent of her husband's benefits, which had been increased earlier on due to this strategy.

Here is an example of how the numbers would look: At age 66, Bob files and suspends his benefit while his wife, Lori, elects the spousal benefit. Lori will get 50 percent of Bob's PIA, which is $2,400 per month. Lori is now getting $1,200 per month as a spousal benefit, and Bob's PIA account will continue to accrue until he takes his full benefit at age 70.

In many married scenarios, I urge that one of the spouses consider the strategy of File and Suspend.

At age 70, Bob will start collecting his full PIA of about $3,000 per month (a 25 percent boost in benefits). At her full retirement age, Lori will collect her PIA of $1,600 per month. When Bob passes away, Lori will receive the survivor benefit of $3,000 per month.

This File and Suspend strategy works particularly well when the spouses have age differences, and/or if their PIAs have a larger disparity between them.

One thing to note: This strategy should be used by married couples that have other sources of income to supplement them in those early retirement years. By using their investment portfolio for income they allow their PIA to grow by 7 percent a year. In short, Social Security strategies should be considered an important component of your overall retirement plan.

GLOBAL EQUITY HORSERACE: AN UPDATE ON EUROPE

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ratio (the largest discount level seen in 30 years, during which the average discount was 18%).

Relative to bonds, European stocks appear even more attractive with a their 6.2% average earnings yield and 3.3% dividend yield comparing quite favorably to a 0.30% yield on the 10-year German Bund. And while the European equity opportunity is hardly news, we now have a new set of drivers that can further fuel gains in overseas stocks.

Adding fuel to the fire

As discussed in detail in Mark Copeland's "What opportunities at home might come from quantitative easing in Europe" article elsewhere in this newsletter, in mid-2014 the European Central Bank (ECB) responded to the weak economy by lowering short-term interest rates on banks deposits held with the Central Bank along with a quantitative easing (QE) program of their own. The program, which began in March, will run until the end of September 2016 with the ECB purchasing at least €1.14 trillion of securities.

The moves closely mirror those undertaken by The Federal Reserve in late 2008 when it moved short-term interest rates to zero to help stimulate and promote economic activity in the midst of the Great Recession and implemented QE efforts in 2008, 2010 and 2012, ultimately leading to an over 200% rise in equity prices six years later. While QE cannot directly stimulate growth, it directly pushes three primary levers (inflation expectations, interest rates, and currencies) that can indirectly buoy the economy.

Low interest rates tend to improve consumer sentiment, which has already seen recent signs of improvement. "Happier" consumers spend and invest more (low interest rates spur demand) which translates into "happier" corporations. Recent signs across the European economy show businesses wanting more credit in preparation for increased future borrowing. This translates into both increased loan activity for banks as well as increased production for the borrowing company—an unambiguous positive for Eurozone growth.

And what serves as a headwind for U.S. corporations (a strong dollar) acts as a tailwind for Eurozone companies on the other side of the relationship. European exporters now have a huge advantage when they compete against foreign companies as they can either cut prices and maintain profit margins, or hold prices steady and watch profit margins and earnings mushroom.

Looking ahead

This all bodes well for a rebound in corporate profits in Europe, which recently stood about 14% below their 10-year inflation adjusted average. For investors to be rewarded, Europe doesn't need to post eye-popping numbers…it merely needs to "catch-up" with the United States. Although investors rarely have a six-year window of opportunity, one can argue that Europe is now in a similar position to where the U.S. was in 2009.

For more information, please read the complete version of Deron McCoy's Tailwinds titled, "The Global Equity Horserace: An Update on Europe." All SEIA Tailwinds can be found on our website at SEIA.com/investments/research

SEIA Virginia Office Expands

SEIA is pleased to announce that the office serving Virginia, Maryland, and Washington DC has expanded due to recent growth. In an effort to constantly enhance our client service experience, we are excited to have a new dedicated office space in TysonsCorner.

Please update your records with the new address and telephone number:

1650 Tysons Boulevard, Suite 1575, Tysons Corner, VA 22102
Tel (703) 940-3000
Fax (703) 738-2259

I am excited about the success of our East Coast office and I am delighted to announce that we have expanded with new office space to meet the needs of our clients. ~Brian Holmes

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SEIA in the News

Press Release: Signature Estate and Investment Advisors, LLC Crosses $5 Billion* in Managed Assets

- **Named a Forbes Top 100 Wealth Manager for 2015**
- **Firm recently profiled in Financial Advisor IQ (a division of the Financial Times)**

Los Angeles, CA – May 27, 2015 – Signature Estate and Investment Advisors, LLC (SEIA), a full service wealth management firm headquartered in Southern California, has reached $5 Billion AUM, maintaining an industry leading pace of growing by $1 billion in client assets annually.

"Our approach is very fundamental" says Brian Holmes, CEO. "We take care of the entirety of our clients' financial lives – offering a personalized level of service and oversight for every aspect. Our relationships may begin on a professional level, but they evolve into something much greater. We celebrate successes in our client's personal lives as well as their financial ones, creating continuity that lasts generations– you might say this is our 'secret,' but it's pretty obvious."

SEIA continues to be recognized by the nation's top financial publications, in addition to having its advisors sought out as experts to comment within them. Forbes magazine just ranked SEIA as a Top 100 Wealth Manager for 2015, marking the second year in a row that the firm has been listed in the top 50 firms by assets under management. SEIA's advisors have also been featured in the Los Angeles Business Journal, CNN Money, Money Magazine, Investment News and The Wall Street Journal.

In addition to investing in their clients' future, SEIA invests in its own and has created a mentoring system to groom the next generation of advisors. The firm is fully integrated with the Schwab Advisor Network and Fidelity's Wealth Advisor Solutions.

The company is also heavily involved in the Southern California and MidAtlantic communities, participating in events and donating to charitable youth causes throughout these communities.

**AUM is based on total client assets managed by SEIA and its subsidiary Signature Investment Advisors, LLC. As of 5/15/2015.*

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SIGNATURE FUND *for* GIVING

SEIA Signature Fund for Giving Acknowledged at Toberman Neighborhood Center 8th Annual Gala

The SEIA Signature Fund for Giving recently donated $15,000 to the Toberman Neighborhood Center and received recognition as a Gold Sponsor at Toberman's 8th Annual Gala held on Saturday, April 4th.

This year, Toberman welcomed 750 esteemed guests to celebrate and support Toberman's life-changing work, and honored Kobe and Vanessa Bryant with the Bill Sharman Humanitarian Award. This award recognizes the Bryant family for their tremendous devotion of time, financial resources and philanthropic passion to causes that benefit youth and young adults in need, both at home and around the world through sports, education and cultural enrichment.

With support from SEIA and other distinguished guests, the gala raised nearly $600,000 to provide after-school services, summer camp, parent support services, and much, much more. Through the SEIA Signature Fund for Giving we are proud to offer continued contributions in support of the critical services that Toberman provides to local youth.

Congratulations to One of Our Own

The SEIA family is pleased to announce that Terence E. Da Cunha, CFP®, AIF®, has been named as a Partner at the firm. Terence joined SEIA in 2006 and has been an integral part of our growth. Working in the Orange County office, Terence has demonstrated a unique ability to combine superior client service with advanced investment management acumen.

Terence E. Da Cunha, CFP®, AIF®
Partner

"In addition to providing the utmost care to the clients he serves, Terence is a natural leader and coach," says, Mark Copeland, Founding Partner. "We all benefit by working side by side with him and are proud to congratulate him on the well deserved honor of becoming Partner."

Terence has been in the securities business since 1990 performing functions in portfolio management, investment banking, and now comprehensive wealth management. He is very active in the San Clemente community, where he lives with his wife and two sons, and enjoys giving his time to the Rotary Club of San Clemente and his church.

Congratulations to Terence and thank you for your tremendous work.