A Quarterly Newsletter Bringing you Financial Insights from the Leaders

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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.

OPPOSITES ATTRACT

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

They say opposites attract. In capital markets, perhaps there are no two more opposite asset types than high-quality U.S. Treasuries and energy-related Master Limited Partnerships. One is deemed perhaps the safest asset in the world, while the other lately seems perpetually mired in losses. We focus on them a bit more closely this quarter, as we may be at an inflection point—for both assets.

Treasuries: More Risk, Less Reward?

Will they or won't they? For well over a year the primary question, especially for income investors, has been whether or not the Federal Reserve will begin raising interest rates anytime soon? As of early November, we may finally have received our answer.

On November 6th, a much stronger than anticipated jobs report surprised many. Payroll employment surged 271,000 (along with upward revisions to prior month's data), lowering the unemployment rate to 5.0%. Average hourly earnings also posted a solid monthly rise, lifting the year-over-year growth rate to 2.5%. With unemployment down and wage growth re-accelerating, the table is now set for the Fed to raise rates at their December meeting, or at the latest during the first quarter of 2016.

Whether the Fed opts to raise rates in December or March, the near-term economic landscape for high-quality Treasury bonds doesn't bode well. Not only does the *price return* of Treasury bonds face headwinds, as prices move south while yields head north, their *total return* (yielding 2.25% in early November) isn't attractive either. After accounting for inflation and taxes, their low current income provides little in the way of a real return.

Sell What's High, Buy What's Low

In general, bonds have been riding the crest of a 30-year bull market and are still near all-time highs. While we aren't predicting any sort of catastrophic losses in fixed income, we are anticipating that future returns won't measure up to past returns. The possibility of losses in bonds may be near as we move into the next leg of the business cycle and a rising interest rate environment.

Meanwhile, losses may be nearing an end in other areas of the capital market. Take energy for example. Crude Oil hit a post-crisis peak around $110 in the summer of 2013 and was still maintaining price levels near $107 a year later. However, from June 2014 to August 2015, prices fell nearly $70 per barrel (a 64% loss of value) and now seem to have stabilized in the mid-$40 range. With global supply and demand potentially coming back into balance in 2016, the bulk of energy sector losses may now be behind us.

In contrast to Treasury bonds, the risk of loss in energy assets appears far closer to the end than the beginning. Therefore, barring a recession (which is not currently forecasted by our Investment Committee) that

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SEIA

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Reflections on the 2016 US Election Season and Market Outlook

Thomas West, CLU, ChFC, AIF®
Senior Associate

As we enter the final weeks of 2015, SEIA is keeping a close eye on the steady stream of 2016 projections emanating from a wide array of political, economic, and market pundits. Despite election predictions being a rather inexact science (e.g., the GOP primaries in both 2012 and 2014), evaluating the implications of various electoral outcomes is nevertheless vital to our effective stewardship of your wealth.

All eyes invariably turn to the 2016 presidential race, where whomever secures the White House will likely be paired with a GOP-controlled Congress; at least through the next mid-term election. Whichever party leads the Executive branch, there will be a host of significant issues that need to be addressed such as healthcare, ongoing terrorism threats, education and entitlement program reform. But the next President may also have a unique opportunity to dramatically shape the future of the Supreme Court.

By the time the 2016 election rolls around, our three oldest justices will be 83, 80, and 79 years old. And by the end of the next presidential term, the mean age of the current nine justices will be 75. It's highly likely, therefore, that one or more Supreme Court nominations await the next resident of 1600 Pennsylvania Avenue.

While a multitude of issues will find their way onto the court's docket, one we are paying particular attention to is the possibility of legislative revisions to (or repeal of) the Dodd Frank Regulatory Reform Bill, and the potential implications of subsequent judicial involvement. Democrats adamantly maintain that existing regulations on 'too big to fail' financial institutions and the consequent extra bureaucracy of the Consumer Financial Protection Bureau (CFPB) are critical consumer protections. Republicans counter that the bill represents bloated regulatory overreach that amounts to homogenized ineffective solutions that come with markedly higher consumer costs.

In all probability, our next president will be either facilitating reform/repeal of the Dodd Frank bill or poised with a veto stamp against the same efforts. Ultimately, the ideological leaning of the Court may tip the scales one way or the other.

Writing this from our Virginia office, I'm always reluctant to over-emphasize the long-term effects of partisan politics on the stock market. Consider the following common assumptions:

Myth – *The stock market typically performs better during a Republican administration than a Democratic one.*

Reality – *Historically, annualized stock market returns for the S&P 500® have been 5.65% higher under Democratic presidents than Republican presidents.*[1]

Myth – *Because markets hate uncertainty, markets tend to underperform during major election years.*

Reality – *Since 1900, stock market growth has averaged 9.5% in an election year compared to 3.4% growth in post-election years, 4.0% growth during midterm years, and 11.3% growth in pre-election years.*[2]

Of course, the past is by no means indicative of the future. Look no further back than the market tumult of the 2008 election year for validation of that point. Yet we would be remiss and negligent to not carefully consider the political winds of 2016 in the broad context of the global economy and the potential impact the upcoming elections may have on the markets.

We can only invest in the markets we have, not the ones we want. So above all, stay focused on what your portfolio needs to accomplish, and talk regularly with your advisor about how best to achieve those objectives within the changing market environment.

1. *http://www.princeton.edu/~mwatson/papers/Presidents_Blinder_Watson_July2014.pdf*
2. *http://abcnews.go.com/Business/story?id=6185252&page=1*

Year-End Planning Strategies 2015

By John Hancock Advanced Markets

Planning Strategies for the End of 2015

Whether you desire to minimize estate taxes, income taxes or transfer more wealth to heirs, it is not too late to take advantage of many planning opportunities before the end of the year. Plan for the new year by:

- Setting up a gifting program
- Leaving a legacy
- Exploring your charitable gifting options, OR
- Maximizing 401(k) and IRA contributions

The Power of Gifting

The ability to make gifts is an important opportunity for any family's estate plan. For some families, making gifts to children or grandchildren is motivated by the pure desire to benefit loved ones, regardless of the donor's financial circumstances. For families that have more significant wealth, making gifts to loved ones not only benefits the recipient(s) but can also have an important role in helping to reduce a donor's gross estate and protect his/her wealth from various transfer taxes.

As the end of the year draws near, consider the following available gifting opportunities:

- In 2015, individuals may gift up to $14,000 per person without incurring any gift tax. This is known as an annual exclusion gift. The gift can be made to your children, grandchildren, parents, nieces, nephews, or to whomever you want to make a gift, with no limit to how many gifts can be made. Additionally, married couples may gift up to $28,000 per individual by using each of their exclusion gifts or agreeing to split gifts between the two of them.

- Individuals interested in creating or contributing to 529 accounts for their children or grandchildren must make the contribution before year-end for the gifts to be considered a 2015 gift (treated as an annual exclusion gift). Gifts to 529 accounts can also be front-loaded with five years' worth of annual exclusion gifts, allowing a donor to make a significant gift without tapping into his/her lifetime exemption.

- Individuals can also consider paying for an individual's qualified medical and/or education expenses, which are not considered taxable gifts and do not count toward the donor's annual or lifetime gift limits. To qualify for this favorable tax treatment, gifts must be made directly to the institution, and not the individual directly.

- For individuals who are married to someone who is not a U.S. citizen, gifts or transfers of property up to $147,000 can be made in 2015 without tapping into the donor's lifetime exemption amount.

- In addition to annual exclusion gifts, individuals also have the ability to gift cash and other assets to whomever they like tax-free using the applicable exemption for lifetime gifts. The lifetime exemption amount is indexed for inflation and is currently set at $5,430,000 for 2015 (and is expected to be around $5,450,000 for 2016). Lifetime gifting can be an effective strategy for the tax-efficient transfer of wealth because gifts remove future appreciation of assets from an individual's estate.

- For individuals who may have made substantial gifts in previous years, the indexing of the lifetime exemption amount provides additional gifting resources that were previously unavailable under prior law. For example, if you made a large gift in 2013 when the lifetime exemption was $5,250,000, the inflation adjustment of the exemption amount in 2014 and 2015 would give you an additional $180,000 of gifting available ($90,000 in 2014 and 2015). Since the enactment of the current law, the lifetime exemption amounts for each year have increased as follows:

YEAR	EXEMPTION	INCREASE FROM PRIOR YEAR
2011	$5,000,000	---
2012	$5,120,000	$120,000
2013	$5,250,000	$130,000
2014	$5,340,000	$90,000
2015	$5,430,000	$90,000
2016	$5,450,000	$20,000

For the complete John Hancock Advanced Markets report, please call your SEIA advisor.

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OPPOSITES ATTRACT

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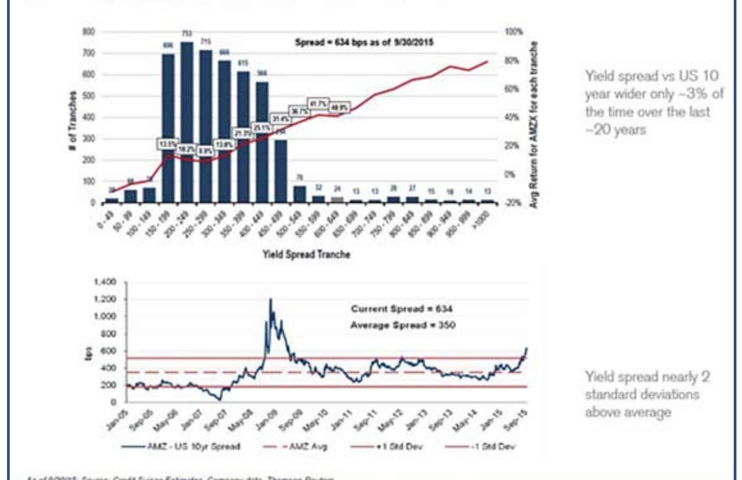
could lead to deflation and lower (or even negative!) yields, reallocating from lower yielding assets with interest-rate risk (duration) to higher yielding energy assets (albeit with risks of their own) seems to be a prudent move here in the fourth quarter of 2015.

MLPs: Less Risk, More Reward?

High income energy assets include both High Yield Bonds as well as Master Limited Partnerships (MLPs). But whereas the current low-price crude oil environment may force some smaller firms into bankruptcy (adversely impacting their high yield bonds), we believe most mid-stream MLPs will not only survive but prosper. In fact, there are many tailwinds for the sector, and a strong case can be made that MLPs may be the best performing asset class over the ensuing 12-18 months.

MLPs peaked just over a year ago (on 9/3/14). And although the ensuing bear market in pipelines has pushed prices down considerably, it's also resulted in historically cheap valuations that may very well serve as the catalyst for an extraordinary long-term buying opportunity. According to many analysts, the disconnect between strong fundamentals and current valuations has never been so extreme. Consider the following:

1. ***Will U.S. energy assets disappear?*** In contrast to expensive deep-water drilling off the coast of Brazil, the North Sea, and western Africa, the U.S. has become one of the lowest cost suppliers of oil, natural gas, ethane, and propane in the world. Our nation has mammoth incremental quantities both able and likely to be produced at prices below those of other major oil-producing countries in the world (outside the Middle East). It's a cost advantage that's likely to be sustained or even improved as U.S.-made technology again revolutionizes a sector of the economy. As a result, our production might actually increase, as energy intensive manufacturers and an ever-growing populace demand cheaper energy products from the U.S. shale sector.
2. ***Will MLPs disappear?*** Midstream MLPs are one of the main beneficiaries of the shale oil revolution: the primary gatherers, storers and transporters of these highly-prized energy products. In fact, the U.S. needs more pipelines to transport the increasing supply of American oil.
3. ***Valuations are cheap—on multiple measures.*** According to Credit Suisse, ex-financial crisis MLP valuations (Enterprise Value/ Earnings before Interest, Tax, Depreciation, and Amortization, or EV/EBITDA) are 3 standard deviations below their long-term average. In analyzing MLP yields, the current yield spread to the U.S. Treasury Bond (600+ bps) is near all-time highs and has historically provided a near 40% total return over the ensuing twelve month period (in fact, over the last 20 years, the yield spread has been wider only ~3% of the time).
4. ***Are distributions (dividends) safe?*** Recent losses have pushed yields up, suggesting to some that MLPs might be forced to cut their distributions. But analyzing recent operational cash flow suggests otherwise. Distributable cash flow has actually grown over the balance of 2015, and looks poised to continue that upward trend into 2016. Investors should remember that even in the tumultuous 2008-2009 crisis, only a handful of distribution cuts were ever made. Balance sheets today are much stronger, and access to debt capital remains excellent.



5. ***Could distributions actually grow?*** Assuming cash-flow is growing, then certainly distributions can continue to grow in the near term, and will almost certainly increase over the intermediate term. Even in the face of a brutal preceding 12-month period, the weighted average distribution for Q3 was 6.7% higher than a year ago. At some point, this "un-fixed" nature of MLP distributions will be highly desired by income investors as they begin to see the contrast between this growing income stream and the fixed-rate coupons of Treasury bonds.

Low-cost energy demand tailwind? √
Low valuations? √
Historically high yields vs. bonds? √
Tax-advantaged yields? √
Un-fixed and growing income streams? √

From our research, it appears that multiple tailwinds are aligning for a strong 2016 for MLPs. Now, all investors need is a catalyst. As we approach the end of the tax-year (October 31st for Mutual Funds and December 31st for individuals), we anticipate that major sellers of MLPs will dissipate with tax-loss harvesting strategies coming to a close. Furthermore, a rise in bond yields may compel fixed income investors to reconsider their allocations and serve as the impetus for new investor demand into the sector. As these two events converge, MLP performance will likely turn positive and should provide significantly stronger returns than a 2% coupon from a (depreciating) bond.

For investors with a high allocation to "safe" U.S. Treasuries, we recommend that you consider adding a small MLP allocation to either generate more income or at a minimum to provide an interest-rate risk hedge for your bonds as we prepare to enter a period of rising rates. Either way, if we are correct, adding this opposite asset may make your portfolio measurably more "attractive" come 2017.

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Gary Liska Welcomes Len Hirsh to His Team

Gary K. Liska, MS, CFP®, AIF®, CMFC, AAMS®, Senior Partner at SEIA recently welcomed a new Associate Advisor to his growing team, Len Hirsh. Len joins SEIA from another Los Angeles-based investment advisory firm, where he led all client communication and marketing efforts.

Len received his MBA (Master of Business Administration) in finance and marketing from UCLA's Anderson School of Management, and his BA (Bachelor of Arts) in International Relations and Spanish from Colgate University, where he played four years of Division 1 lacrosse. Len also recently passed the CFP® (Certified Financial Planner®) exam after completing with distinction the PFP (Personal Financial Planning) certificate program at UCLA.

Len Hirsh, MBA
Associate Advisor

In addition to Len Hirsh, the Liska team is proud to have Julia Mac serve as the team's Registered Associate, and welcomes a new assistant, Jessica Cherness. Gary Liska and his team work diligently to provide an exceptional client experience.

On behalf of SEIA, we extend our warm welcome to the newest members of Gary's team and offer our congratulations on the team's continued growth.

SEIA in the News

SEIA continues to be recognized for its successes nationally, and maintains an industry leading pace of growth of $1 billion* in client assets annually. 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. WealthManagement.com just ranked SEIA as a top 100 RIA of 2015. SEIA's advisors have also been featured as expert commentators in the Los Angeles Business Journal, CNN Money, Money Magazine, Investment News and The Wall Street Journal.

In addition, Barron's has named SEIA CEO, Brian Holmes, as a Top 100 Independent Financial Advisor for the 9th consecutive year. Since its inception in 2007, Brian has been listed among Barron's annual Top 100 independent advisors.

"We are extremely proud to be included in the Top 100 List's of Barron's, Forbes and WealthManagement.com" said Brian Holmes. "I credit this success to our strong team at SEIA. These accolades are indicative of the efficacy of SEIA's independent and objective approach to wealth management, making our clients and their families our first priority."

**AUM is based on total client assets managed by SEIA and its subsidiary Signature Investment Advisors, LLC.*

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SIGNATURE FUND *for* GIVING

At SEIA, as we're celebrating the holiday season with family and friends, we also celebrate non-profit organizations that provide much needed services to underprivileged children in our local communities. Through the SEIA Signature Fund for Giving, we have proudly raised over $242,000 for both local and national nonprofits, with $82,912 directly benefiting A Place Called Home, Toberman Neighborhood Center, and the Children's Hospital of Orange County. This holiday season, we celebrate these tremendous organizations for their tireless efforts to make a difference in the lives of the children they serve.

Toberman Neighborhood Center

Recently, the Toberman Neighborhood Center celebrated over 8 decades of giving to our community. Notable events, including a Thanksgiving Food Drive, Harvest Festival, and First Annual Reunion, support important programs such as the Toberman Academy, Leaders in Training and Youth Mentoring programs. In 2015, SEIA was proud to be the primary sponsor of a new van that transports children to and from Toberman's afterschool program. The van gives students in grades K-5 free transportation to a positive, safe environment where they can learn and grow. With an emphasis on support with homework, developing the building blocks for success, and student-selected enrichment activities and recreation, children learn and play together. Children have access to the computer lab and an on-site library to support their learning, and the Center provides a free, warm evening meal.

A Place Called Home

At A Place Called Home, caring staff, supporters and volunteers come together to provide South Central children and teens, ages 8 to 21, with love, safety, enrichment, training, and access to educational programs, counseling, and mentorship. 2015 provided countless milestones for APCH members, including the acceptance of a teen member at Harvard University on a full scholarship, the selection of another member as a Gates Millennium Scholar, and a member receiving a full scholarship to attend Berklee College of Music in Boston. Additionally, the APCH Shaheen Scholarship Program graduated 9 scholars in 2015 and is sending 74 to college this academic year. APCH serves more than 5,000 fresh meals and distributes 300 bags of groceries to families each month, and so much more. With APCH membership retention rates reaching 93% in 2015, 590 children remain on a waiting list to become members. With the support of SEIA, the most exciting development of 2015 was the ground breaking for the new Bridge to the Future Teen Center, which will eventually allow the organization to double membership capacity.

Children's Hospital of Orange County

At SEIA, we are proud that our donations are an investment in children's health. From the little things that help kids be kids to major grants for life saving research, CHOC ensures that each dollar received is used to its fullest potential–to help children reach theirs. Donations support life saving research that brings the hospital closer to cures for CHOC patients, state of the art technology, innovation and equipment, and toys, games and art supplies designed to help kids forget they're in the hospital.

Thank you for celebrating these remarkable non-profits with SEIA this holiday season. If you have any questions regarding our Signature Fund for Giving or about how you can get more involved, please feel free to contact Hayley Wood at 310-712-2323 or at hwood@seia.com.

Wishing you and yours a happy holiday season and a wonderful new year!