

THE SEIA REPORT

AN UPDATE ON TAX REFORM

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Late last year, President Trump signed into law the Tax Cuts and Jobs Act – a bill that was quickly pushed through Congress without the benefit of public hearings or a thorough impact analysis. Since that time, accountants, attorneys and financial experts have parsed through the entire 500+ pages to identify many of the new opportunities and obstacles contained in the legislation. While this information continues to be interpreted by the experts and digested by the markets, we can identify a number of winners and losers as a result of various provisions of the new tax law.

Before discussing the implications of this most recent tax reform, let's review how tax reform has historically impacted the economy. There have been six major instances of tax reform since the corporate tax was created in 1909. While the economy has often experienced subsequent growth post-reform, it has been consistently modest. Thus, expectations for explosive economic growth as a direct result of tax reform should be tempered.

Each time tax reform has been signed into law historically, winners and losers have been created as a result. For example, in 1986 sweeping changes to the tax code did away with the tax shelter afforded to real estate investors, wiping out the

savings and loan industry in the process. More recently, varying corporate tax rates around the world have created incentives for domestic companies to offshore significant sections of their financial statements. Similarly, as the details were revealed for this most recent tax reform, winners and losers have emerged.

Broad market implications

The reduction of the corporate tax rate from 35% to 21% and the repeal of the alternative minimum tax (AMT) for corporations could boost corporate earnings per share by about \$10 on average by our estimates. While this should help to elongate the business cycle and sustain stock prices, it's important to note that much (if not all) of this windfall has already been priced into equity markets.

A \$10 EPS increase at current P/E ratios roughly translates into a 180 point gain in the S&P 500®. Since this latest rally began with the S&P at around 2,500, we've already well exceeded the 2,680 mark where tax-related gains would lift us. The benefits of tax reform may already be fully baked into current market prices.

And while the debate heats up over how much of the 2018 anticipated \$100 billion in individual tax cuts will actually

translate into increased consumer spending, there's no question that it will provide at least some fuel to this year's GDP growth.

This boost in economic growth, however, may also drive unemployment lower and lift wages, making it easier for the Federal Reserve to continue raising rates. Consensus estimates are that we'll see three 25 basis point increases this year, lifting the fed funds rate to 2.25% and the 10-year treasury yield to somewhere around 3.5%.

Without spending cuts aligned to offset the tax rate reductions, we view the new law is essentially a debt-financed stimulus that will increase the budget deficit by at least a trillion dollars if not considerably more. In order to fund obligations (e.g. Social Security and Medicare), the Treasury will likely need to markedly increase the money supply which in turn may exert substantial inflationary pressures.

Beyond the near-term effect of tax cuts, we should consider the long-term impact on debt levels. The Congressional Budget Office (CBO) projects that at some point in the next five years, the US will cross

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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.

- BRIAN D. HOLMES, MS, CFP®, CMFC, AIF®
PRESIDENT & CEO

ABOUT SEIA

Signature Estate & Investment Advisors, LLC® (SEIA) is a Registered Investment Advisor firm offering Investment Supervision and Financial Planning Services tailored to meet the unique needs of affluent individuals and corporations. Fundamental experience and professionalism enable the financial advisors, with SEIA's research and support staff, to design a financial plan or investment portfolio to meet the client's goals.

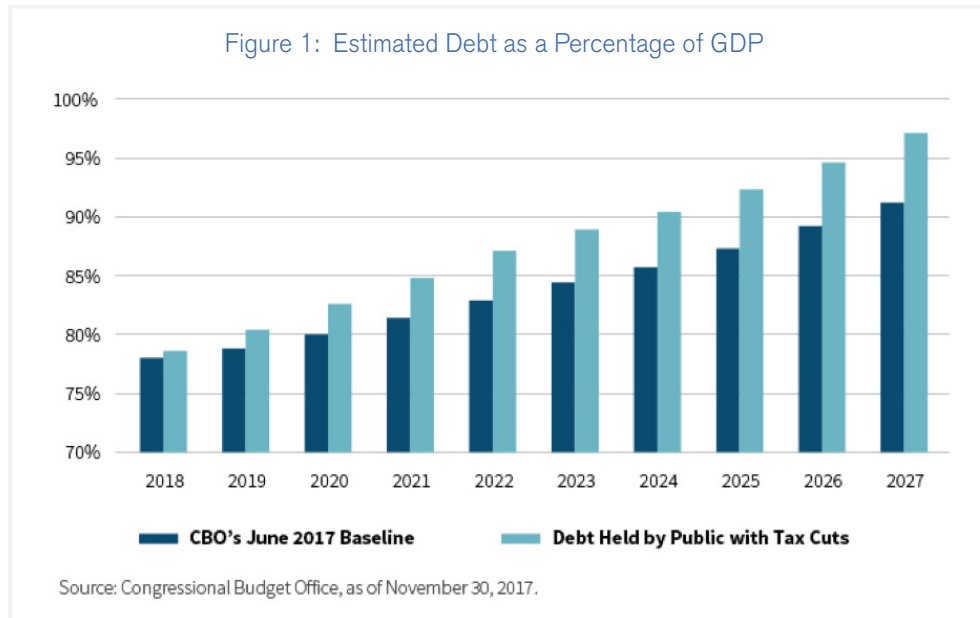
THE TEN FEMALE CEO'S FROM HIGHEST RANKED COMPANIES WITHIN THE FORTUNE 500
(SOURCE: WIKIPEDIA).

1. **Mary Barra**
General Motors, 8
2. **Ginni Rometty**
IBM, 32
3. **Indra Nooyi**
PepsiCo, 44
4. **Marillyn Hewson**
Lockheed Martin, 56
5. **Meg Whitman**
Hewlett Packard Enterprise, 59
6. **Safra A. Catz**
Oracle Corporation, 81
7. **Phebe Novakovic**
General Dynamics, 90
8. **Irene Rosenfeld**
Mondelez International, 109
9. **Tricia Griffith**
Progressive Corporation, 120
10. **Lynn Good**
Duke Energy, 121

2017 Fortune 500 ranking

An Update on Tax Reform

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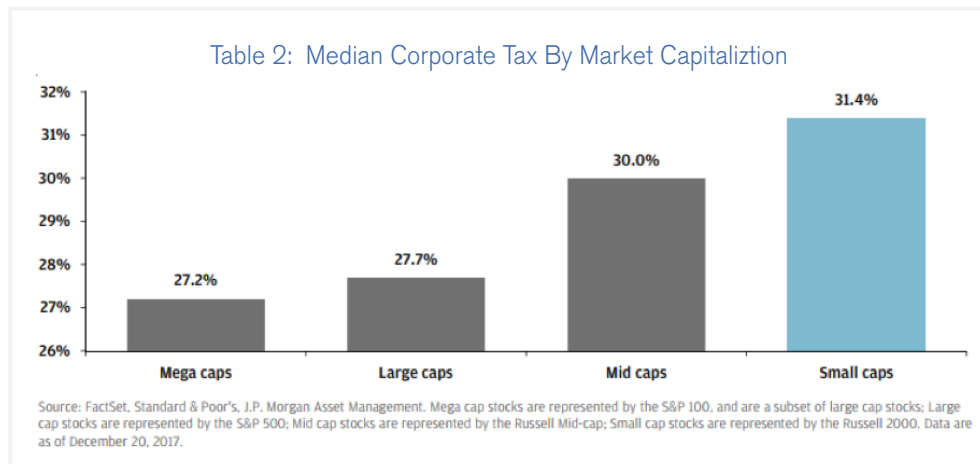
the 85% ratio of debt to gross domestic product (Figure 1). The 85% ratio is a significant threshold because empirical studies suggest that at this level, we may begin to observe a meaningful slowdown in economic activity.

and earnings that are primarily derived from domestic operations.

Conversely, higher interest rates and inflation are likely to have an adverse impact on utilities, high-quality corporate bonds and REITs which are some of the most interest-sensitive investments. New limitations on state and local tax (SALT) deductibility along with restrictions on mortgage interest deductions may also act as a drag on the real estate sector (particularly home builders) as well as adversely impacting individuals residing in more expensive blue states. And a new cap on interest deductibility may serve as a headwind for small cap stocks, highly leveraged companies and high yield bonds.

Sector implications.

Our analysis shows the likelihood is strong that by putting more cash into the system these new tax cuts will drive both higher interest rates and increased inflation in 2018. That should bode well for the financial sector in particular, which also stands to gain (along with consumer discretionary) from the tax reforms being skewed in favor



of companies with high effective tax rates

Potential Winners

High Tax Large Cap Companies: Companies with lots of domestic income and low debt should disproportionately benefit from the new tax law.

Small Cap Stocks: Smaller corporations with primarily domestic operations currently face higher effective corporate tax rates. These companies may benefit more from local economic growth. (Table 2)

Financials: Banks, with profits that tend to be more US-based, benefit from higher yields, lower taxes, and more financial deregulation.

Industrials: Industrials benefit from lower tax rates and capital goods companies benefit from increased demand due to 100% expensing.

Telecom: Telecoms benefit from lower tax rates and from some significant tax deferred liabilities.

Consumer Sectors: The consumer sector, with profits that tend to be more US-based, benefits from the twin benefits of lower corporate tax rates and the potential for higher consumer spending. (Table 3)

Potential Losers

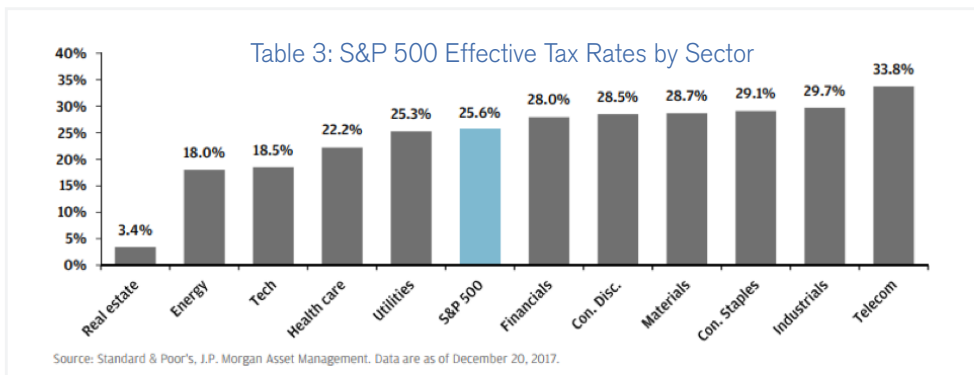
Highly Leveraged Companies: This legislation enacts the first real limit on corporate debt by eliminating the corporate deductibility for interest costs above 30% of EBITDA. This should weigh on more leveraged companies.

U.S. Companies with High Intangible Overseas Income: For decades, US companies sent their intangible income overseas to take advantage of lower tax rates. In order to avoid erosion of the corporate tax base, the new law places a tax on intangible income overseas.

Non-U.S. Multinationals / Inverted Companies: Provisions were added to limit the process of earnings stripping (non-U.S. companies sending their U.S. profits back home for lower tax rates while retaining their U.S. deductions) by imposing a minimum effective tax rate.

What does tax reform mean for you? While the tax reform package will impact everyone uniquely relative to their personal financial situation, most of us will benefit immediately through tax cuts on assets and income. Though most cuts are temporary, income tax rates for individuals are lowered across all income groups. However, since the deficit is expected to grow by \$1 trillion over the next 10 years, it's quite possible that interest rates and tax rates may increase in the future more than they would have without tax reform, potentially costing us more over the long-term.

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INTRODUCING SEIA'S NEW REDONDO BEACH OFFICE

1848 S. Elena Ave.
Suite 100
Redondo Beach, CA 90277

Save the Date for the Sommelier Led Wine Tasting & the Unveiling of the New SEIA Redondo Beach office.

Thursday, April 26th 6:00 - 9:00 pm

An Update on Tax Reform

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We will continue to keep a close eye on developments that arise with regard to this most recent tax reform and economic conditions in general. Regardless of the winners and losers that result from tax reform, you can work with your

SEIA advisor to develop a personalized investment plan and a thoughtfully constructed investment portfolio that takes your personal tax situation into account. From tax qualified investment structures like IRAs to tax sheltered

investment vehicles like municipal bonds to proactive tax loss harvesting techniques, your SEIA advisor has a wide variety of planning and investment tools that may be able to meaningfully reduce your tax bill.

CELEBRATING INTERNATIONAL WOMEN'S DAY



On Thursday, March 8th SEIA enthusiastically joined in celebrating International Women's Day. Despite a heightened global awareness of the economic disparity between genders, the latest World Economic Forum Global Gender Gap Report found that instead of narrowing, the gap is actually getting larger. In fact, it could take decades before workforce gender parity is finally achieved.

While we can't change the world, we can continue working to change our small corner of it. SEIA is proud of the many women who have assumed leadership and key roles within our organization, including:

Jennifer Kim

Having been with SEIA from the start, Jennifer has built one of the firm's

most successful practices and is the recipient of numerous financial industry awards. She's accomplished all this while remaining heavily involved in her four children's activities as well as serving her community in a variety of capacities. Jennifer inspires us all to maximize both our work AND personal lives.

Kathleen Adams

For over 15 years, Kathleen has been helping clients manage their retirements and the transfer of their assets. We are thrilled that she chose to bring her expertise in financial planning to SEIA more than five years ago. Kathleen continues to break new ground with her trademarked process "The Owner's Plan®" as well as her proprietary process: the Lifestyle Preservation Solution. In addition, she serves her community through a variety of charities and associations.

Joyce Mizuhata

Joyce has also been with SEIA since the firm's inception. Whenever we hire new client service members, we point to Joyce as the one individual they should most strive to emulate. She is our go to person for any unique and complex service needs; as she has literally seen and done it all. "Ask Joyce" is a very common phrase in our office.

Sabina Pinsky

Sabina came to SEIA as a client service representative over a decade ago. Following her success as a manager of our Redondo Beach Office, Sabina came back to Century City to establish the corporate marketing department. As the Department Head, Sabina oversees all PR and marketing programs, plans and executes client/company events, and administers all client appreciation efforts.

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Celebrating International Women's Day

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Stephanie Mills

For nearly 20 years, Stephanie has been managing our Pasadena office. And in 2016 she played an integral role in moving that office to a larger, more upscale location. When SEIA is upgrading or enhancing software, Stephanie is always happy to be an early adopter so as to provide us with much needed feedback. Her continuous smiling and enjoyment of life is motivating to us each and every day.

Stephanie Perkins

It's been nearly a decade since Stephanie joined our Orange County office as an assistant and office manager. She quickly made herself an invaluable team member and was soon promoted to Client Service Manager. Stephanie has assisted every Advisor in our Newport Beach office, continues to manage the day-to-day aspects of the office, and serves as Practice Manager for Founding Partner, Mark Copeland. And she just welcomed her second child a few weeks ago!

"While we can't change the world, we can continue working to change our small corner of it."

Jennifer Emblar

Jennifer will be celebrating her 10-year anniversary with SEIA this year. Starting out as an Executive Assistant to our President, within a few years she rose to become an Associate Advisor where she assists clients in her Southbay community. Jennifer will be sitting for her Certified Financial Planner (CFP) exam this month; another example of a woman to admire.

Alina Barrass

Alina started as an intern at SEIA when she was 18 years old. Working with us all through college, it was an easy

decision to hire her as soon as she graduated. Now, more than five years later, she is a Client Service Manager with a team reporting to her. Every time we bring a new intern on board, we make sure to highlight Alina's inspiring career path.

Hayley Wood and Christine Cheung

Hayley and Christine run our Signature Fund for Giving. Both women have sat on the boards and councils of various charities we engage with. And they continue to be hands on with promoting our children's charities through volunteering, raising money and inspiring all of us to take part in different events (including our annual SEIA charity day).

We're inspired by all of these incredible contributors, and look forward to cultivating future generations of empowered women. To learn more about what you can do each and every day to help foster equality, please visit www.internationalwomensday.com.

SEIA IN THE NEWS

InvestmentNews (published February 9th, 2018): Advisers expect candor and clarity from new Fed chairman

"Jerome Powell is an attorney and a former private-equity executive, and it will be interesting to see him leading this committee of academics," said **Sam Miller**, senior investment strategist at SEIA, which has \$7.8 billion under management as of December 31st, 2017.

RECENT ACCOLADES

President and CEO, **Brian D. Holmes** named to *Barron's* 2018 "Top 1200 Advisors" ranking list.

Senior Partner, **Vince A. DiLeva** named to Southern California, Forbes 2018 list of Best-in-State Wealth Advisors.

SEIA is named to the 2018 InvestmentNews Best Places to Work for Financial Advisors list.

SIGNATURE FUND for GIVING

At SEIA, giving back to the communities we serve is a shared value that permeates our entire organization. Philanthropy – especially in support of meaningful and impactful children’s causes – isn’t just an essential part of our corporate mission; it helps strengthen our ability to collaborate through a common purpose and passion.

In 2017, through a combination of fundraising efforts and employee contributions we were able to raise over \$120,000 for our donor-advised fund (Signature Fund for Giving) to help nurture and empower our nation’s next generation of leaders. Since January of this year, we’ve been able to give more than \$48,000 to 50 different nonprofit organizations across the country.

But philanthropy isn’t solely about financial giving. It’s also about creating once-in-a-lifetime experiences that can inspire and enrich the lives of our local youth. To date, SEIA has been fortunate to share our Staples Center Suite experience by

donating approximately 300 tickets to local sporting events and concerts. Most recently, we were able to provide a memorable night for the participants and volunteers of Beat the Streets – Los Angeles at the WWE SmackDown.



Beat the Streets is a nonprofit organization that cultivates youth development in underserved communities. They primarily serve 750 kids in elementary and middle school. Through the instruction of quality wrestling programs, Beat the Streets seeks to encourage a desire for excellence, respect, teamwork, leadership, integrity, and perseverance. SEIA cannot be more honored to support this exemplary organization. Take pride in how far you’ve come and have faith in how far you’ll go wrestlers!

This group of 9-12th graders have been volunteering for Beat the Streets and participating in the organization’s Downtown Academy on the Belmont HS Campus.

SEIA

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