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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.

FEAR OR FUNDAMENTALS?

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After a frustrating 2015, where most major asset classes either returned less than 1% or lost money outright, investors were welcomed into the new year with the worst first-week of stock market losses—EVER! Following the 6th worst opening day since 1928, the S&P 500 continued to lose ground, ending the first full week down 6%, with the tech-heavy NASDAQ down 7.3%. But losses weren't confined strictly to Large Caps—by mid-day Monday, small cap stocks (Russell 2000) were officially in bear market territory, down more than 20% from their June peak.

The widespread losses in stocks stood in stark contrast to encouraging fundamental data that was being released both here and abroad. The U.S. posted solid economic numbers (e.g., ISM-Service economy in expansion territory, continued growth in employment, and strong holiday consumer spending) as did Europe (the continent posted growth for the 30th consecutive month).

Certainly, the fundamentals of a *"flying at low altitude"* economy remain in place. Yet the fear of a Chinese slowdown has taken a stranglehold of the markets. Weakening Chinese economic reports in conjunction with another devaluation of the Chinese currency triggered steep losses in Chinese equities resulting in the suspension of trading on their local stock exchanges. When markets reopened, investors quickly sold shares, fearful of another trading halt which indeed came to fruition. And this downward spiral continued to push the Shanghai index more than 20% lower over the first five weeks of the year.

Déjà vu all over again

If fear of a slowdown in the Chinese economy sounds familiar, it should. The same fears (coupled with a similar currency devaluation) were the key impetus behind the *"summer squall"* selloff last August. The strange twist this time, however, is the fact that the economic data hasn't been particularly unsettling. According to Bespoke Investment Group, "while data wasn't good, official PMIs (a measure of economic activity) both improved sequentially, with Services rising notably. Data compiled was slightly less optimistic but basically told the same story that has been true for some time in China: slowing growth with major pain in Manufacturing but no crash...due to sustained Services activity." The slowdown in manufacturing is by no means news; it has been a major theme for several years. So, why the reaction now?

It's all about the Chinese currency; as investors are seemingly terrified of a Yuan crash and a resulting financial crisis. It's true that the Yuan has weakened against the U.S. Dollar, but after a 35% gain the previous four years, perhaps it should weaken. A weakening currency is normal, and acts as a pressure-release valve for a slowing economy to avoid a hard landing. Consider Europe and Japan. Their currencies have been weakening for several years now, but few if any investors fear a crash of the Euro or Yen. But given that China is a

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FEAR OR FUNDAMENTALS?

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newer economic power (in control of the world's second largest economy) without a long track-record of banking and financial systems oversight, investors understandably have a case of the jitters.

After taking a deep breath, investors need to consider whether the economic facts support a potential currency crash. While China is no longer experiencing the double digit growth it was a decade ago, it shouldn't need to. A smaller growth rate, derived from a significantly larger GDP base, can still be impressive growth. Let's do the math. Ten percent growth in 2005 added approximately $200 billion to GDP. A decade later, a 5% growth rate would add more than $500 billion. In short—fears may be drastically overblown.

What lies ahead?

The truth is, markets occasionally suffer tantrums, and we are clearly in the midst of one. Longer-term, investors will be wise to remember that equities not only yield more than bonds, they also offer a growing income stream as opposed to fixed-rate coupons. The extra volatility is the price investors must pay for potentially higher returns.

Shorter-term, while relative valuations favor stocks, investors need a catalyst. Historically, large gains are typically confined to periods when the Federal Reserve is easing monetary policy. But with the Fed raising rates in December, the U.S. is certainly not in an easing mode. What should investors do? Perhaps over the coming weeks, investors would be better served keeping a more watchful eye on U.S. monetary policy than on China. History suggests that a meaningful bounce might come if and when the Fed changes its tune.

The IRS Changes to 529 Plans

Provided by Jennifer Kim, MS, CFP®, CMFC, ChFc, CLU, Senior Partner

The IRS Changes to 529 Plans
Learn about the two new tax perks for these college savings vehicles.

Do you have a 529 plan account? Then you will want to know about a pair of federal tax law changes which may benefit you and your student, one involving a February 16 deadline.

As 2015 ended, Congress passed the Protecting Americans from Tax Hikes Act (PATH). Deep in its fine print were two "sweeteners" – tax changes designed to help parents with 529 plans.

You can now pay for computer hardware & software with 529 plan dollars. Under the old rules, this was rarely permitted. In fact, federal tax law only allowed it if a university or college required students to have certain computer hardware, software, or computer-related technology as a condition of enrollment.[1]

That restriction is gone now. Starting this year, you may buy computers, computer software, associated hardware, and related equipment with 529 plan funds. These technology expenses now fall under the category of Qualified Higher Education Expenses.[1]

Refunded 529 plan money may now be reinvested in the plan. Here is where the February 15 deadline matters. If you have received a refund of money that was a 529 plan withdrawal from an Eligible Educational Institution, you can now put it back into the same 529 plan within 60 days. (For tax purposes, you will want a receipt showing when that 60-day period began.)[1]

All 529 plan owners should be aware of these important changes for 2016 and years to follow.

1 - figuide.com/new-benefits-for-529-plans.html [1/13/16]

Navigating a Rising Rate Environment
How a shift in Fed policy may affect your investments

Paul Taghibagi, CFP®, AIF®
Senior Partner

During the seven year period between December 2001 and December 2008, the Federal Open Market Committee (FOMC) altered the target Fed Funds rate on 28 different occasions. Since lowering it to a range of 0 - 0.25% on December 16, 2008, however, not a single attempt to raise rates ensued for the next seven years, as the Fed carefully assessed the fragile economic recovery. Finally, this past December the long anticipated process of raising interest rates began with a small one-quarter percent increase.

Many see the recent move as the first of a gradual but steady effort to ratchet rates higher as part of a longer-term monetary tightening policy. But what exactly will that mean for your investment portfolio in general, and your fixed income holdings in particular?

A historical perspective

While conventional wisdom assumes that rising rates are generally bad for investors, past performance indicates otherwise. Historically, despite short-term periods (months or quarters) where bonds struggle during rising rate environments, over a full market cycle of rising rates, both equities and fixed income have experienced consistently positive returns. The most recent (and perhaps most analogous) example is the extended 38-month rising rate environment that occurred between June 2004 and August 2007. During this period, the Fed undertook a long, gradual tightening of the loose monetary policy it had enacted in response to 2001's dot-com related recession. From a starting Fed Funds interest rate of just 1.0%, the Fed implemented 17 successive quarter-point rate hikes, eventually reaching a peak of 5.25%.

How did fixed income and equity asset classes hold up during that period? Remarkably well, as the following table illustrates:

Asset Class Returns *(June 04 – August 07)*

+3.50% Short-Term Government Bonds[1]	**+5.99%** Long-Term Government Bonds[2]
+4.44% Corporate Bonds[3]	**+7.76%** High Yield Corporate Bonds[4]
+10.45% Equities[5]	

Source: Morningstar, Inc.

Similar results hold true over the four prior rising rate periods. Clearly, rising rates do not necessitate negative returns.

Pace of change is what matters

More so than the direction of change, it's the pace of interest rate movement that investors should pay closer attention to. While a sharp increase in rates over a short period of time will likely lead to negative returns, incremental increases over a longer period of time will have far less market impact. And based on everything we've seen and heard from the Fed recently, it appears the latter cautious approach is their intended course of action.

Keep in mind that when rates are rising, it's typically a sign that the economy is doing better. Corporate profits are on the uptick and that translates to higher stock prices, so equities generally perform well. But even on the bond side, there are a number of active portfolio management strategies which can help mitigate the negative impact if rates start rising quickly.

What makes sense? Consider keeping your bond maturities shorter. Look for higher coupon bonds with shorter durations rather than longer maturity government bonds. Talk to your advisor about possibly increasing your allocation to high yield corporate bonds and/or floating-rate bonds where interest rates adjust (often monthly or quarterly) so the impact of rate increases is lessened. Take a closer look at global bonds, especially in this current rate environment, since many foreign countries are well behind us on the interest rate cycle – still lowering rates as we begin to increase them.

Finally, you may want to explore some long-short bond strategies. There are a number of funds designed specifically to do well in a rising rate environment. Above all, however, strive to be an attentive rather than a reflexive investor as interest rates move higher. By being proactive and making adjustments along the way, you can use the environment to your advantage.

1 Barclays U.S. Government/Credit 1-3 Year
2 Barclays U.S. Long Government/Credit
3 Barclays U.S. Aggregate Bond
4 Barclays U.S. Corporate High Yield
5 S&P 500

Tackles & Technology

Why the Return of Football May Help Fuel Real Estate Values

Eric C. Pritz, CFP®, CMFC
Partner

I read with great interest a recent article in the Los Angeles Times which attempted to throw a healthy measure of cold water on the idea that any meaningful positive economic impact would be derived from the recently-approved Inglewood stadium complex, slated to be the new home of the Los Angeles Rams. To emphasize his point, the author points to the low number of new jobs associated with running a stadium, the inability to attract retail businesses with so few event dates, and emphatically states: *"one settled issue in economics is that a professional football team produces no measurable benefit to the local economy."*

On the surface, it appears to be a wholly reasonable assumption. One need look no further than the giant albatross hanging around New Jersey's neck, in the form of the Meadowlands sports complex, to be instinctively leery of any stadium proposals. But there is always an attendant danger associated with such broad and sweeping generalisms. And in this instance, the Times may be missing the forest for the trees.

It's hard to look at the successful revitalization of Baltimore's dilapidated Inner Harbor without giving a healthy amount of credit to the birth of Camden Yards. And while a football stadium, in and of itself, certainly isn't a ticket to economic growth or urban revitalization – not considering the paltry 10 home games the average NFL team plays each year. The plan set forth by Rams' owner Stan Kroenke and real estate investment firm Stockbridge Capital Group, aims to tackle that challenge head-on.

In addition to a $2 billion retractable-roof 80,000 seat stadium, the mixed-use commercial and residential Hollywood Park development project is slated to include a performing arts center, a 300-room hotel, 890,000 square feet of retail space, 780,000 square feet of office space and 2,500 residential units. The intention is to build an all-encompassing urban business, residential and entertainment hub – the antithesis of remote single-purpose stadiums like the Meadowlands.

At the time of writing this, it appears likely that the San Diego Chargers could also move to the new stadium, doubling the number of NFL events held there. Add to that the wide array of major national events (e.g., Super Bowls, NCAA Final Fours, concerts, etc.) and the economic viability increases exponentially.

A real estate "perfect storm"

Meanwhile, just 5 miles away from Inglewood, Playa Vista has rather quietly been emerging as L.A.'s newest technology epicenter – capped by last year's major $120 million purchase by Google of a 12-acre site for their new Southern California campus. Google now joins Facebook, Microsoft, YouTube and Yahoo in establishing a literal beachhead for the next tech boom.

And this infusion of young, well-compensated urban professionals is the ideal fuel to drive not only the success of the new Hollywood Park project, but the continued climb of residential and commercial real estate values in and around the South Bay. It's shaping up to be a unique confluence of tackles and technology that just may signal a perfect storm for the market.

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Mark Copeland Welcomes Chad Miller to His Team

Senior Partner, Mark Copeland, CFP®, AIF®, is excited to welcome Chad Miller. Chad joins SEIA from a research and administrative role at Merrill Lynch in Irvine. He is excited to come home to his roots in Orange County and take on portfolio management responsibilities on Mark's team.

Chad received his Bachelor of Science degree in Business Economics from the Wharton School at the University of Pennsylvania, where he played three years of Division 1 football and helped the team secure two Ivy League Championships. Chad will be sitting for the CFA exam in June of 2016 and earned the Accredited Investment Fiduciary® certification.

Chad joins Mark Copeland's outstanding team of Brian Schiazzano, Advisor, and Stephanie Perkins, Client Service Manager. Brian has worked with the team for 11 years and has worked in the investment management industry for over 20 years. He focuses on portfolio construction strategies, identifying and performing due diligence on asset managers, and monitoring investment performance. Brian is an Accredited Asset Management Specialist and garnered industry experience at UBS Financial Services, Charles Schwab and A.G. Edwards prior to his tenure at SEIA.

Stephanie has been a part of the Copeland team for 4 years, and plays an integral role in managing clients' needs and providing support for Mark's team. Stephanie is a licensed Insurance Agent and also holds Series 7 and 66 licenses.

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

Left to Right:
Chad Miller, Stephanie Perkins, Mark Copeland, Ronald Reyes (Trader, Orange County Office) and Brian Schiazzano

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SIGNATURE FUND *for* GIVING

Signature Fund for Giving 2015 Review

Guided by our vision to support Southern California's youth and to make a meaningful difference in our communities and the world, the Signature Fund for Giving has granted over $262,468 to various non-profits since 2011. To focus on our communities, SEIA established the Select Fund to connect, grow, and partner with local non-profit organizations, including the Toberman Neighborhood Center, A Place Called Home, and the Children's Hospital of Orange County (CHOC). We are pleased to present our "2015 Signature Fund for Giving: Select Fund by the Numbers" and we are grateful for your ongoing support and contributions.

SEIA is pleased to be one of the sponsors at the Jim Mora Count on Me Family Foundation Golf Tournament

On May 16th, SEIA will be one of the sponsors at the Jim Mora Count on Me Family Foundation Golf Tournament at the Riviera Country Club.

Jim Mora is the head football coach at UCLA. His foundation supports children in need primarily in three target areas: low socio-economic backgrounds, mentally and/or physically challenged children and children at risk. The Foundation empowers children through outreach programs and lends support to children's charities through monetary grants and partnerships, with the goal of improving children's' lives by using the sport of football to build and instill confidence, encourage health, wellness and safety, and foster learning.

SEIA is a proud sponsor of UCLA Athletics

SEIA has a long-standing relationship with UCLA Athletics, the most decorated athletic program in NCAA history. The UCLA Bruins have won 113 NCAA team championships and have garnered 251 Olympic medals. With several UCLA alumni advisors and employees, SEIA is proud of its connection to such a strong academic and athletic institution.