A Quarterly Newsletter Bringing you Financial Insights from the Leaders

September 2015
Volume 8, Issue 3

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.

JAPAN: PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RETURNS

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

A Risk-Averse Generation

Global investors and even Japanese citizens are woefully although understandably under allocated to Japanese stocks. Why? For most of our "investment" lifetimes, the island nation has been a place to avoid, with equities (Nikkei 225) still unable to fully recover from the Japanese bubble that popped 25-years ago. From the 1989 top to the 2009 bottom, Japanese stocks lost 83% of their value. Even despite recent gains, a $1 million Japanese equity investment made in 1989 would be worth $500,000 today compared to $6 million if invested in U.S. stocks (S&P 500).

And that pain wasn't merely limited to a bad investment made during a narrow window in late 1989. The same investment into Japanese stocks made 6 years later (the typical length of a normal business cycle) would still be down 1% compared to a 350% gain here stateside. Is there any wonder why investors love U.S. stocks and seemingly despise the third largest economy on earth?

For more than a generation now, risk-averse Japanese investors have hoarded cash, more than happy to earn a safe, positive real return. But this is finally starting to change.

The Impetus for Change: Abenomics

In late 2012, after two "lost decades," Shinzo Abe was elected prime minister on a platform of aggressive economic policies. Now known as Abenomics, these policies focus on "three arrows" (fiscal stimulus, long-term structural reforms, and aggressive monetary policy) in an attempt to stimulate economic growth by ending the secular period of deflation. Sound familiar? It should. Since 2008, both Europe and the United States have embarked on similarly aggressive Quantitative Easing (QE) monetary policies.

Although QE cannot directly stimulate growth, it has a profound ability to affect interest rates, currencies, and inflation expectations – three levers that can indirectly stimulate the economy. Under QE, real interest rates remain lower for longer thereby allowing market participants to borrow cheaply, repair balance sheets, and promote

continued on page 4

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.

Jeffrey Zuanich, of the Vince DiLeva Team, Receives Chartered Financial Analyst® designation

SEIA and Senior Partner, Vince DiLeva, are pleased to announce that Jeffrey M. Zuanich, CFP®, CFA, received his Chartered Financial Analyst® (CFA) designation. Jeff has been an Advisor with Vince's team for over 6 years and works out of the Redondo Beach office. His primary focus is on investment management strategies for affluent individuals and businesses. Jeff also works with clients to develop retirement and estate planning directives as part of a holistic management approach. He believes in using a forward looking approach to economic conditions, diligent analysis of investments, and maintaining objectivity. This allows both Jeff and the firm to best serve clientele with integrity and respect.

Jeff Zuanich, CFP®, CFA®
Advisor

Jeff's dedication to continuing his financial education represents SEIA's commitment to a higher level of client service and investment knowledge. The Chartered Financial Analyst Program is a professional credential offered by the CFA Institute to investment and financial professionals. Financial advisors may only receive their CFA after passing a rigorous set of three distinct exams.

SEIA is proud to have three Certified Financial Analysts® in the SEIA organization.

Taghibagi Team Continues to Grow: Michael Macauley Joins as an Advisor

SEIA and Paul Taghibagi are pleased to announce the addition of Michael Macauley to the Taghibagi team in Century City. Michael, CFA®, CFP® and MBA, is an Advisor whose practice areas include wealth management, retirement and estate planning. He also has extensive experience with life insurance and long term care planning. Michael has been in the investment management business for over 14 years, working with both institutional pension plan sponsors, family office investors and with individual clients and their families. Most recently before joining SEIA, Michael ran a financial planning practice at the Northwestern Mutual Company.

Michael and Paul were introduced via their work on The Mulligan Project, a non-profit dedicated to improving the lives of children with disabilities in Central Vietnam through special education, physical therapy, speech therapy and dignity. They realized that along with a commitment to philanthropy, they shared a dedication to providing personalized service to their financial services clients. Michael joined the Taghibagi team in March 2015.

Michael was born in Czechoslovakia and spent the first part of his childhood there. He later moved with his family to Nigeria, and then completed his undergraduate education in Czechoslovakia before moving to the United States to pursue and complete his graduate education. Michael, his wife, and two sons live in the El Segundo area of Southern California.

Michael Macauley, CFP®, CFA®
Advisor

The Taghibagi team now consists of Paul Taghibagi, John Williams, Michael Macauley and Linsey Schwartz. The team focuses on providing outstanding client service and building lasting client relationships.

Will interest rate hikes wake the bear?

Andrew Lin
Strategic Development

As of May 6th 2015, the bull market rally that began in March of 2009 became the third longest in U.S. history. Characterized by an amazing lack of volatility, this recent rally has seen few significant corrections in its steady march higher. Now six years into this historic rally, however, investors have begun eyeing the exits, wondering when the party will end. Instinctively, we begin looking around every corner fearful of the triggering event that will signal the beginning of a bear market for stocks. For many who follow the headlines, the most likely culprit will be rising interest rates.

The last time the Federal Reserve (the Fed) raised interest rates, there was no such thing as an iPhone! For nine years, their aim has remained consistent – reinvigorate the growth of the U.S. economy and reduce unemployment through a zero-interest rate policy backed by asset purchased programs. Collectively, these measures have come to be known as Quantitative Easing. Now, however, with the U.S. economy growing at its fastest rate in more than a decade, the Fed has intimated that interest rates will likely be raised before the year is out.

Time Period	S&P 500 Total Return
December 2003 - July 2007	46.9%
June 1999 - July 2000	11.5%
December 1993 - April 1995	15.8%
March 1988 - March 1989	14.5%
October 1986 - September 1987	43.4%
June 1985 - December 1985	14.1%
February 1983 - August 1984	23.0%
July 1980 - June 1981	20.7%
January 1977 - May 1980	12.2%
February 1972 - July 1974	-17.4%
March 1971 - August 1971	-5.2%
July 1967 - August 1969	12.7%
July 1961 - November 1966	47.5%
May 1958 - November 1959	41.4%

While it may be conventional wisdom that rising rates spell doom for a bull market, a historical analysis conducted by Ben Carlson (using Ibbotson data) tells a very different story. Since the S&P 500® was launched in 1957, only two of the fourteen periods in which interest rates were rising saw cumulative negative returns. Moreover, the average annual return including dividends during rising rate cycles was 9.6%.

Looking more closely at the last three rate hike cycles below, we see that although initial reactions tend to be negative, the markets nevertheless have continued their ascent. So, if rising rates have traditionally had minimal negative impact on stock market rallies, why is there so much fear that they will derail this rally?

Reviewing the "dual mandate" of the Fed, keep in mind that their actions in terms of setting the Federal funds rate are driven by two factors. The first is to control inflation with the objective of price stability and long-term growth. The second is to achieve a maximum level of employment.

Essentially, the Fed's role is to make sure that the economy is in the Goldilocks zone of "not too hot and not too cold." When the economy is cold and in contraction, the Fed steps in and lowers interest rates to provide stability and curtail any possibility of depression. On the other hand, when economic growth starts overcooking to the point where rampant inflation becomes a concern, the Fed will aggressively step in to release pressure with higher interest rates.

The recent signal that they are getting ready to depart from a Zero Interest Rate Policy (ZIRP) is, in fact, a good sign. It's a strong indication that the Fed believes the U.S. economy can finally sustain its current growth rates without the remedy of ZIRP.

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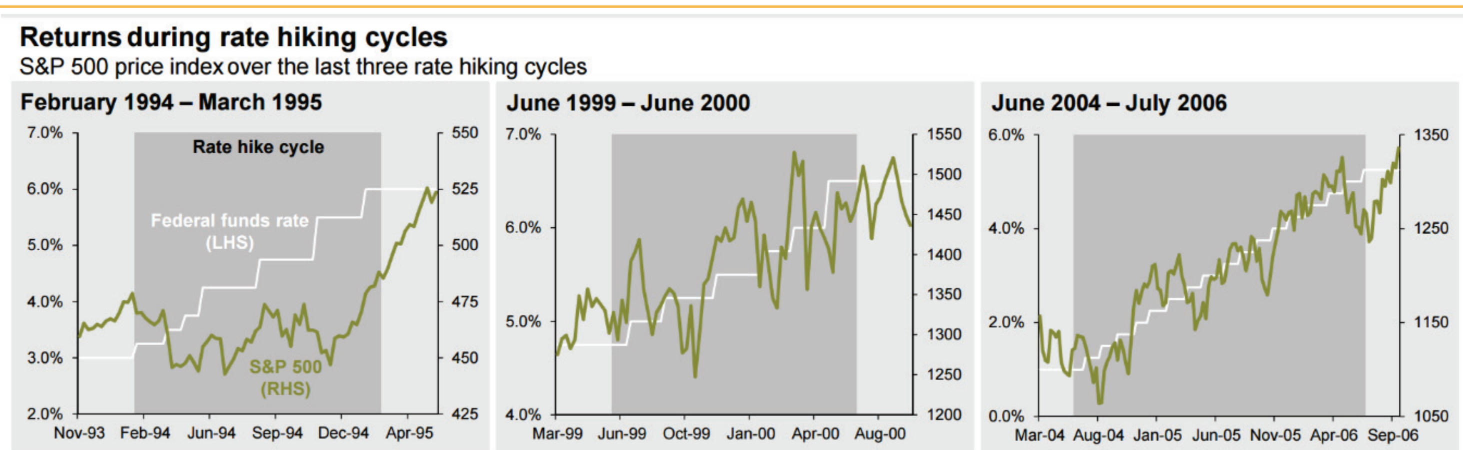

Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of July 31, 2015.

JAPAN: PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RETURNS

continued from page 1

investment to help generate growth. After Abe's 2012 election, Japan's already low 0.75% interest rate moved even lower to 0.40%.

QE typically weakens a country's currency both by increasing the "supply" and also by altering the market's "demand" characteristics. Abenomics has helped push the Yen down 38% which in turn helps Japanese exporters, their employees, and ultimately the economy. And QE can help break the vicious downward spiral of deflation (i.e., economic weakness creating deflationary expectations that delay consumer consumption which in turn leads to further economic weakness). Recent inflation data (running near 2%) suggests that the decades-long deflationary mindset may have finally started to recede.

A Remarkable and Sustainable Resurgence

Abenomics has been widely embraced by investors, driving the Japanese stock market up over 120% since the election. But with such large gains in the rear-view mirror, investors need to now ask themselves whether the Japanese investment premise remains a good one—and for good reason. With U.S. stocks trading at valuation levels not seen outside the Tech/Dotcom bubble, now may be a good time to look overseas in search of markets that still offer value.

Our conclusions will sound familiar to long-time readers since we're employing the same tools that led us to overweight U.S. equities in 2011 as well as Europe in 2014—both of which were profitable. Looking ahead, we believe Japanese stocks will continue to reward investors and that the nation's 25-year past performance is by no means indicative of its future for the following three critical reasons:

- Cash is no longer an attractive option for Japanese investors – as any investor will attest, losing money is a great motivator. Japan's low interest rates were acceptable in a deflationary period, but with inflation now at 2%, hoarding cash no longer generates positive real returns.

- Japanese stock prices remain more attractive than other global markets – with current Price/Earnings multiples on Japanese stocks (the market cap-weighted Topix Index is preferred over the price-weighted Nikkei 225 Index) at around 15.8x, the Topix trades at a steep discount to other global benchmarks including both the U.S. and Europe.

- Rapid earnings growth is actually lowering P/E ratios – despite the strong rally, Japan's equity market has actually become cheaper due to a remarkable earnings growth trend that looks to continue. With a weaker yen driving foreign sales and boosting corporate profits for export-oriented companies, Goldman Sachs forecasts 22% earnings per share (EPS) growth in 2015 and a total of 46% through 2018.

Catalysts Abound

Despite recent strong returns, Japanese stocks have yet to surpass their 2007 highs—in fact, it will take another 17% gain for them to catch up to other Developed Markets in reaching a new post-crisis high. And with both Japanese citizens and corporate pension funds the least allocated to their equity markets of any region in the world, the impetus for continued growth is strong.

When combined with additional tailwinds such as an under-allocated global community and the backing of the most stimulative and coordinated government effort that exists in the world today, Japanese stocks look poised to continue growing. In short, the sun may be rising on a new era.

For a more detailed analysis, please visit our website at www.seia.com. Past performance does not guarantee future results. Investing involves risk and possible loss of principal capital. Indices are unmanaged and cannot be invested indirectly.

SEIA

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www.SEIA.com

SEIA Continues Its Rapid Growth

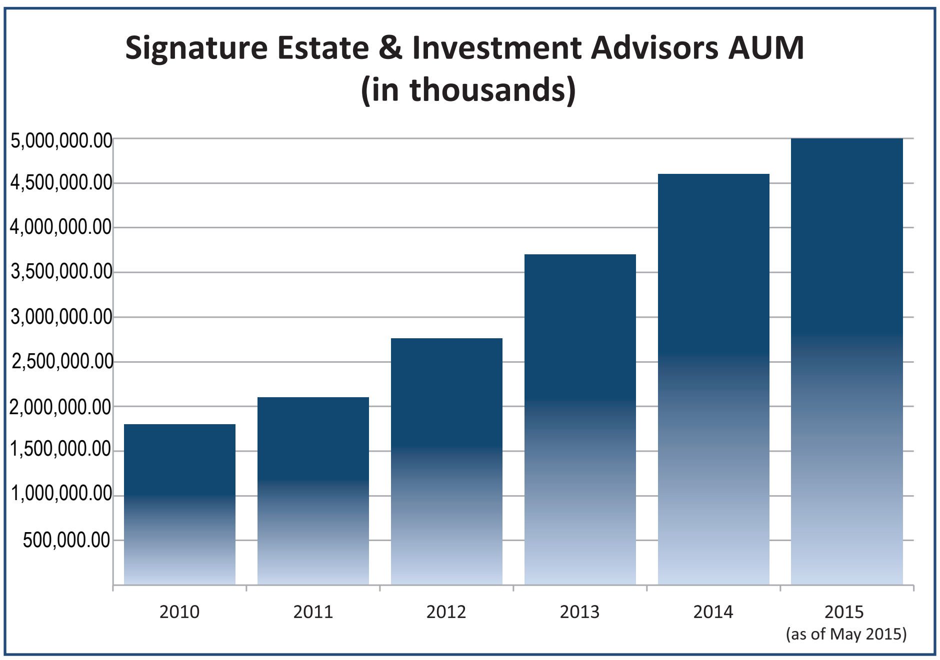
Brian D. Holmes, MS, CFP®, CMFC, AIF®
President & CEO

SEIA's spectacular growth in recent years is reflective of an overall industry trend of independent Registered Investment Advisors (RIAs) taking market share from the traditional wire houses, like Bank of America/ Merrill Lynch, Morgan Stanley and UBS. While the wire houses have been recently experiencing negative growth rates, RIAs now manage over three trillion in client assets, growing over 12% annually in assets under management (AUM) over the past 5 years[1,2]. SEIA's AUM growth rate the past 5 years has been in the top 20% of its peer group RIAs, growing from 1.8 billion in 2010 to upwards of 5.0 billion today [1].

One major factor of this growth rate is that RIAs are required to act in a fiduciary manner in the best interest of their clients. Simply put, the traditional wire houses are not held to this higher fiduciary standard and therefore are continuing to lose clients along with market share. RIAs are better able to tailor solutions, unique to client goals and objectives with a greater sense of personal accountability. Consequently, today there are more than 16,000 RIAs nationwide that enjoy an extremely high 97.3% retention rate of satisfied clients. Together with dually registered investment advisors, RIAs are expected to reach a 28% market share of all retail investors' assets by 2018, growing an astounding 400% over the past decade [3,4].

We have our clients to thank for SEIA's continued growth and success in becoming one of the largest and most respected independent RIAs in the country. The most rewarding and complimentary part of this growth is that our primary source of new assets comes from referrals of existing clients and financial professionals. Our 17 advisors and 58 research and client support staff will continue to strive to exceed our clients' expectations with the unparalleled comprehensive wealth management services they deserve.

1. Schwab Benchmark Study 6/2015
2. Forbes 4/2014
3. Times Advisor 12/2014
4. Cerulli Associates 3/2014



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Would you prefer to receive our quarterly newsletter electronically? Do you have friends or family that you would like to add to our quarterly distribution list? E-mail us at: contactus@seia.com.

Signature Fund *for* Giving

In partnership with UCLA Athletics, SEIA will be a presenting sponsor of the Samaritan's Feet Shoe Drive. Held December 12th at 7:00pm at the UCLA Women's Basketball game, the Samaritan's Feet Shoe Drive will put new shoes and socks on the feet of underprivileged children. Samaritan's Feet is a community of more than 70,000 volunteers who have joined together to make a difference in the lives of children in need in every corner of the world. Over four million impoverished children and adults in more than 60 nations have been touched by this organization by having their feet washed, receiving a new pair of shoes, and hearing a message of hope.

As an organization, SEIA is committed to supporting local youth through our Signature Fund for Giving. We are thrilled to bring together our long standing support of UCLA Athletics with our ongoing dedication to children's focused charities with the Samaritan's Feet Shoe Drive. By joining together, we are further able to deliver on our commitment to serving the community through outreach and good works.

Will interest rate hikes wake the bear?

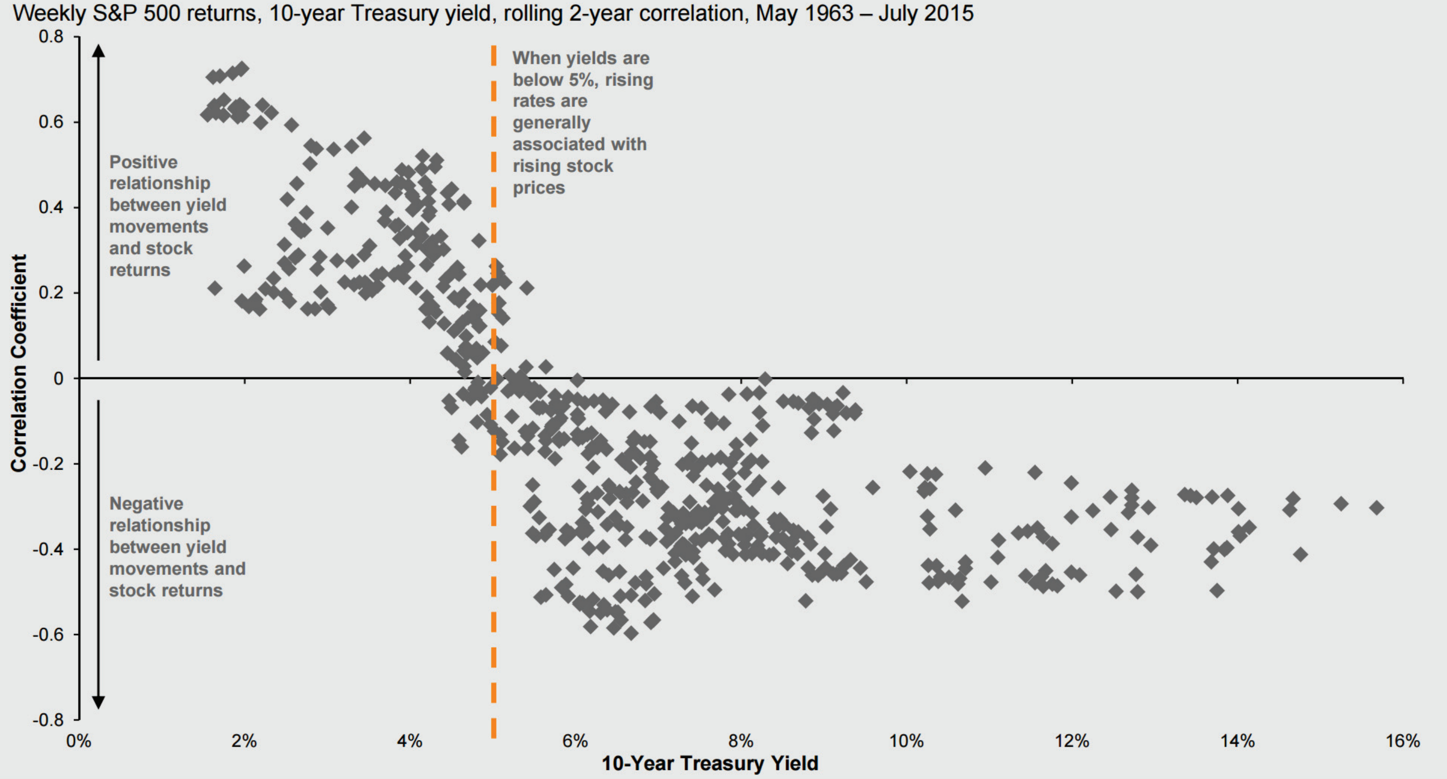
continued from page 3

Even when the Fed begins a new rate hike cycle, we potentially still have a long way to go in this most recent rally. Historically, rising stock prices are associated with rising 10-year Treasury yields, as long as those yields remain below 5%. With current 10-year yields hovering at just over 2%, and rate increases typically in the .25% to .50% range, there's plenty of room for the Fed to maneuver without waking the bear.

Past performance does not guarantee future results. Investing involves risk and possible loss of principal capital. Indices are unmanaged and cannot be invested in directly.

Correlations between weekly stock returns and interest rate movements

Weekly S&P 500 returns, 10-year Treasury yield, rolling 2-year correlation, May 1963 – July 2015



Source: FactSet, Standard & Poor's, U.S. Treasury, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Markers represent monthly 2-year correlations only.
Guide to the Markets – U.S. Data are as of July 31, 2015.