SEIA

Quarterly Newsletter Bringing you Financial Insights from the Leaders | VOL 10 | ISSUE 2

THE SEIA REPORT

REFLATION? OR JUST A SCARE…

SEIA's Investment Committee (IC)

The textbooks say that fiscal policy tools are best utilized early in the business cycle, as the boost to stimulus can serve to offset early cycle weakness. But when used later in the business cycle, the boost may accomplish little more than the addition of inflationary pressures as there is little slack in the economy to absorb new stimulus. Now eight years after the recession, given the current economic environment (with unemployment already below the Fed's long-term target) and the current agenda (focused on tax reform, deregulation and infrastructure spending), many pundits are calling for ever-rising inflation in the years ahead.

The domestic agenda, however, isn't the sole inflationary driver. China strengthened in 2016, posting Q1 GDP of 6.9% annualized. Other global economic indicators point to the first globally synchronized expansion in nearly a decade. Add in rebounding energy prices and it's no wonder that recent inflation numbers have trended up.

Yet despite the outlook for higher inflation, there are several factors that could dampen investor concerns:

1. Remember that inflation is a year-over-year metric measuring the annual rate of change. And while oil has had a massive rebound from the February 2016 lows, the year-over-year comparisons get much harder as we push past June 2017 (Crude Oil was $27/barrel in February 2016 but quickly rebounded to $51/barrel by June of last year, thus the current $47/barrel price is now deflationary).

2. While this can certainly be outdated by press time, we feel it's fairly safe to say that the White House's fiscal policy agenda has hit a significant road bump. The initial inability of congress to quickly coalesce around a repeal and replacement of the Affordable Care Act (ACA) has been further exacerbated with the recent FBI situation. The inability of the administration to address their agenda pushes pro-growth policies

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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.

DON'T FORGET THAT SEIA HAS PLEDGED TO DONATE $25 TO CHARITY FOR EVERY CLIENT PORTAL THAT IS OPENED DURING 2017!

Reflation? Or just a scare...
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further into 2017 and possibly into 2018, and in doing so, significantly curtails the reflation argument.

While inflation is likely to track above 2% due to solid global growth and wage pressures, we don't expect to see 4% inflation in the near-term considering the combined dampening effect of the aforementioned factors.

Expected market impact

If inflation is to be held in check while global growth continues to rebound, what asset classes do we expect to be effected?

If inflation truly is constrained, then *intermediate-term* interest rate yields may have seen a near-term peak. Stable interest rates coupled with the first global synchronous expansion argues for a weaker U.S. Dollar (with more investment opportunities around the world, there will be less demand for U.S. assets and thus less demand for our currency). Assets (stocks) priced in an appreciating foreign currency would stand to be key beneficiaries. For further details please refer to our May 2017 tailwinds *"Spanning the Globe: Look abroad for market opportunities"* by Deron McCoy.

Closer to home, in an environment with low inflation, stable interest rates and an improving economy, bonds tied to credit risk have historically performed well with two particular subsectors looking poised to outperform. As millennials finally move out of the basement and into their first home, bonds tied to housing credit should provide attractive risk-adjusted returns in the quarters ahead. In addition, with the Fed still trying to normalize short-term interest rates, bonds tied to corporate credit (but providing floating-rate coupons) should provide an increasing income stream, as Fed Chair Yellen raises *short-term rates* in the quarters ahead.

Inevitably, inflation wreaks havoc on bond investors. Fortunately, the threat at this point in time doesn't appear imminent.

ELECTRONIC DELIVERY: A BETTER WAY TO STAY ORGANIZED

Joseph Fusaro, Jr.
Director of Operations

If you're like most people, somewhere in your house you probably have stashed away piles of folders and manila envelopes stuffed with paid bills, years of bank and investment statements and a litany of assorted receipts. Not only is it clutter – for the most part it's unnecessary clutter. In fact, research shows that on average 80% of those saved papers will never be referenced again.[1]

Along with the environmental and convenience benefits, signing up for e-Delivery of your bills and statements is a tremendous way to get your finances better organized. At SEIA, we can quickly and easily set you up to

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WHAT EFFECT ARE THE POLITICS OF TODAY LIKELY TO HAVE ON MY PORTFOLIO?

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

No matter which side of the political spectrum you're on—whether you're buoyed by hope or paralyzed by fear regarding the new administration—you'll be well served to remember this immutable investment truth: *The party in power historically has very little impact on the overall performance of financial markets.*

In fact, since 1945, a traditional 60/40 stock-and-bond portfolio has returned an average 6.0 percent annually under Democratic presidents, and 6.1 percent during Republican administrations.[1]

Yet all too often, investors allow their partisan politics to distract them from their long-term goals and strategy—taking on too much portfolio risk when "their" candidate is in office, or too little risk when they're on the outside looking in.

Perhaps we would all benefit from heeding the advice of the Oracle of Omaha who vowed that Berkshire Hathaway would "continue to ignore political and economic forecasts, which are an expensive distraction for many businessmen and investors."

Rather than allow our attention to be drawn in by a seemingly endless array of political firestorms and diversions, let's instead look at the economic realities as we enter the eighth year of what has now become the longest sustained bull market in history.

Sector implications

Politics and economics do intersect to some degree in the realm of sector rotation—where political policy can offer insights into which sectors are likely to outperform. So, which market sectors stand to benefit most during the Trump administration?

Certainly, the president's proposed $54 billion increase in defense spending bodes well for the aerospace, defense, cyber and homeland security industries. The infrastructure sector (particularly building materials and construction firms) as well as the traditional energy sector will also likely see strong administration support, as witnessed by the rapid issue of executive orders to clear hurdles relating to both the Dakota Access and Keystone XL pipeline projects. And both the financial and technology sectors should benefit if proposed deregulation efforts and corporate tax reform come to fruition. The financial sector, should also benefit from higher rates.

The healthcare sector, however, looks to be a mixed bag, with pharmaceutical and biotech firms benefiting from a weakened push to rein in drug prices. (Insurers and hospitals probably face fewer obstacles than they would have now that the repeal and replacement of Obamacare seems to be on hold.)

Most in jeopardy, though, are interest rate-sensitive sectors such as consumer staples, REITs and utilities, along with large multi-nationals and exporters, where executive action could lead to excessively high tariffs, financial sanctions and certain countries being classified as "currency manipulators."

There is no substitute, however, for a well-thought-out and carefully crafted long-term financial plan (along with a correspondingly diversified portfolio). So, don't let political uncertainty cloud your judgment in a manner that may adversely impact your financial life. Markets *will* react to headlines, and volatility *will* happen periodically.

That's the cost investors must bear in exchange for enhanced investment gains over the long term. Yes, certain companies and industries are sure to be affected by the change in administrations, but macro-investment decisions aren't likely to be materially different than they were during any of the previous 56 presidential elections.

1 *"Annual Returns on Stock, T. Bonds and T. Bills: 1928 – Current,"* Stern New York University.

"We will continue to ignore political and economic forecasts, which are an expensive distraction." –Warren Buffett

LET YOUR MORAL COMPASS GUIDE YOUR RETURNS

John Rasic
Junior Research Analyst

A wave of socially responsible investing (SRI) strategies has been sweeping across the globe at a tremendous pace. According to the Forum of Sustainable and Responsible Investment and the 2014 Global Sustainable Investment Review, "at the beginning of 2014, total US SRI assets were $6.57 trillion—a 76-percent increase over the $3.74 trillion identified in sustainable investing strategies at the outset of 2012." In addition, close to 18 percent of all investable assets under professional management in the US in 2014 were held by investors that took ESG into consideration in selecting assets.[1]

Much of this phenomenal growth can be attributed to a burgeoning desire of investors to more closely align their portfolios with their moral values. This is particularly the case among women and millennial investors who have both been at the forefront of the movement. SRI strategies typically employ one of two fundamental approaches:

Negative Screens – used to exclude investments in certain companies or sectors based on moral and/or ethical concerns.

Positive Screens – identify companies that are actively committed to responsible business practices, producing positive products/services, or addressing environmental or social needs.

Another contributing factor to the rise of SRI is the mounting body of evidence that socially responsible strategies may deliver superior risk-adjusted returns. A recent study conducted by Deutsche Bank Climate Change Advisors found that companies ranked high on SRI and ESG (Environmental, Social and Governance) factors have a lower cost of capital in terms of equity and tend to exhibit market-based and accounting-based outperformance.[2]

Clearly, it's hard to argue against investing responsibly for the benefit of humanity while at the same time enjoying the potential for enhanced risk-adjusted returns.

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WHAT ARE ENVIRONMENTAL, SOCIAL, AND GOVERNANCE FACTORS?

While SRI investment decisions are driven by your own personal ethics, ESG factors are measures that can help gauge any investment's long-term economic sustainability. ESG factors include:

THE INDIE ALL-STARS

EXCERPTED FROM BARRON'S MARCH 20, 2017 ISSUE (BY KEVIN BURKE)

Congratulations to **Brian Holmes,** President and CEO of SEIA, on being ranked among the best independent advisors for ten straight years (2007-2016). Barron's annually ranks the top 100 independent advisors in America based on assets under management, quality of the practice and revenue generated for the firm. The outlet gives special distinction to those who have earned the accolade (Independent Advisory All-Stars) for at least a decade. Brian Holmes is one of only twelve advisors who merit this honor.

Brian Holmes, a UCLA grad, is a fan and follower of legendary basketball coach John Wooden's Pyramid of Success. Industriousness and teamwork are two of the most important components of Wooden's philosophy, and Holmes' career exemplifies both of them. Before joining John Hancock Financial in 1984, he drew up a career game plan in his UCLA dorm room, ran an investment club, and interned at E.F. Hutton. Once he decided on his profession, he set about educating himself—first as a certified financial planner, then by getting a master's degree in financial planning, plus a chartered mutual fund counselor designation. So, in 1996, Holmes and his three partners—Paul Taghibagi, Gary Liska, and Mark Copeland—teamed up to start Signature Estate & Investment Advisors. Today, it has 5,000 clients with a combined $6.3 billion in assets.*

**Updated as of March 31, 2017*

Electronic Delivery: A Better Way to Stay Organized
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electronically receive your quarterly investment reports, trust documents, your signed Investment Policy Statements and Engagement Agreement, as well as this quarterly newsletter. And both of our custodial partners (Charles Schwab and Fidelity Institutional) offer simple sign-up for e-Delivery of trade confirmations, monthly statements and year-end tax documents.

Have you opened your Secure Client Portal?

Designed as a direct electronic link between you and your advisor, your Client Portal can deliver vital documents to you quickly, conveniently and securely; allow you to exchange documents back and forth for review and collaboration; and serve as a digital lockbox for safekeeping of important documents such as Wills and trust agreements.

We've continued to enhance our portal technology to make it more user-friendly as well as to expand the types of account information you can now access including:

- Portfolio performance (Year-to-date, last quarter and previous year)
- Gross income from dividends and interest (Year-to-date, last quarter and previous year)
- Projected income for the next four quarters
- Portfolio holdings, transactions and asset allocation

With electronic delivery of your various financial documents, no matter where you are – at home, at work or on vacation – the information you need will always be just a few taps or clicks away on your phone, tablet or laptop. For more information or help in setting up e-Delivery or your portal, call your advisor today.

1 U.S. Small Business Administration

For more information on setting up your secure client portal, please contact your SEIA advisor or email operations@seia.com.

Let Your Moral Compass Guide Your Returns
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Incorporating SRI and ESG into your portfolio

Although SRI and ESG strategies are garnering increased interest among a widening circle of investors, they can prove a slippery slope to navigate. At first, deciding to avoid investing in fossil fuels seems fairly straightforward. But how rigorous do you want to be? Do you simply eliminate or avoid investing in oil companies, coal producers, etc. or do you want to go further and also avoid investing in companies that are excessive fossil fuel users? It's important to also understand that the narrower your SRI and ESG mandates, the more they may negatively impact your returns.

At SEIA, we offer a vast selection of investable securities to compliment any individual's standard of responsible investing. Whether you want to invest in companies that foster equality in the workplace or companies that pollute less, our Department of Investment Management and Economic Strategy (DIMES) can craft a portfolio designed to meet your criteria of responsible investing in addition to potentially bolstering your risk-adjusted returns.

1 Forum for Sustainable and Responsible Investment www.gsi-alliance.org/wp-content/uploads/2015/02/GSIA_Review_download.pdf
2 www.institutional.deutscheam.com/content/_media/Sustainable_Investing_2012.pdf

SIGNATURE FUND *for* GIVING

Through our partnership with **A Place Called Home,** SFFG provides both financial and in-kind donations. Part of our commitment is giving unique experiences to Los Angeles youth who might otherwise not have access to them. On March 29th, SEIA/SFFG donated 12 Suite tickets to the LA Clippers vs Washington Wizards game to the organization. We are proud to share with you the below note of gratitude.

Dear SEIA,

Thank you for your generous contribution to A Place Called Home. We had an amazing time at the game, and the seats were incredible. Truly an amazing experience! And to top it all off, the Clippers took home a 'W'! Poor Wizards fans ;) We look forward to sharing our experience with others.

All the best,
Stanford & Uriel

SEIA

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