SEIA PRIVATE CLIENT GROUP NEWSLETTER

Report

SEIA

Signature Estate & Investment Advisors, LLC®
| *Established 1997*

MARCH
2018
VOLUME 11
ISSUE 1

THE NEW TAX LAW: WINNERS AND LOSERS

FEATURE

Deron T. McCoy, CFA, CFP®, CAIA, AIF® | CHIEF INVESTMENT OFFICER
Sam Miller, CFA, CAIA | SENIOR INVESTMENT STRATEGIST

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 estimate. 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

continued on page 3...

THE NEW TAX LAW AND YOUR ESTATE PLAN

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

Much has been written about the new "Tax Cuts and Jobs Act" and the expected economic impact of its reduced corporate and personal tax rates. Some hold that the new personal tax brackets and thresholds will translate into a $100 billion tax cut which along with the major reduction in corporate taxes from 35% to 21% should drive increased GDP growth. Others maintain that without comparable spending cuts, deficits and inflation will soar.

What often gets overlooked, however, is the significant increase in the estate and gift tax exemption amount – a change that for some families could have tremendous estate planning implications. The new law raises the federal estate and lifetime gift tax exemption from $5.49 million to $11.2 million per person ($22.4 million for a married couple).

For those of you with considerable wealth, you now have a unique opportunity to transfer substantially more assets to the next generation free from federal estate taxes. Now is the time to sit down and talk with your financial and estate advisors about various strategies that can accelerate your gifting. Such strategies could include establishing a new or adding to an existing grantor retained annuity trust (GRAT), generation-skipping trust (GST), or insurance trust (ILIT); gifting additional family limited partnership (FLP) interests to children and grandchildren; or simply making outright gifts.

How do GRATs Work?

GRATs are irrevocable trusts into which you transfer at a discounted present value one or more assets in exchange for a fixed payment for a specific number of years (or life), after which the remaining trust assets are passed to the named beneficiaries.

You'll also want to review the terms of your Will and any trust documents to ensure they still accurately reflect your wishes and intentions. Some trusts use formula clauses that are tied to the maximum exemption amount to determine how much is funded in the trust at your death. As a result, they could now be funded with much more than you ever intended when they were first established.

Also, keep in mind that time is of the essence when it comes to accelerating your gifting. The new tax law has a sunset provision scheduled to take effect on January 1, 2026. Barring any additional Congressional action, at that point the gift and estate tax exemptions will revert back to levels prior to the implementation of The Tax Cuts & Jobs Act ($5 million/person indexed for inflation).

Below the threshold Do I need to worry?

If you're married and your estate falls below the $22.4 million threshold, don't make the mistake of assuming you are therefore exempt from any and all estate taxes. Currently, there are 17 states that still impose significant estate and/or inheritance taxes. For example, with an exemption of just $1 million and a top estate tax rate of 16%, you really don't want to die as a wealthy resident of Massachusetts or Oregon.

In addition, the "portability" feature that allows a surviving spouse to pick up their deceased spouse's unused federal estate tax exemption and add it to their own is NOT automatic – it must be actively selected by filing IRS Form 706, the United States Estate (and Generation-Skipping Transfer) Tax Return, and electing portability in Section 6. If this form isn't filed within nine months of your spouse's death, you may forfeit all of their unused exemption.

Lastly, take time to revisit your insurance estate planning strategy. You may have one or more life insurance policies that were established to help generate a tax-free inheritance for the next generation. In light of today's vastly higher exemption amounts, however, you may not need the same degree of coverage. But be careful to explore all your options; don't just cash out a policy as that action could potentially trigger a significant tax impact. Since many of the costs associated with permanent policies are paid up front, it may prove more cost-effective to keep it, reduce it or 1035 exchange it into a paid up policy.

Given that tax code changes can be implemented at any time, investors should be exceedingly cautious when it comes to making any major adjustments to a well-diversified estate. This is an optimal time, though, to sit down with your advisor for an in-depth financial and estate plan check-up.

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.

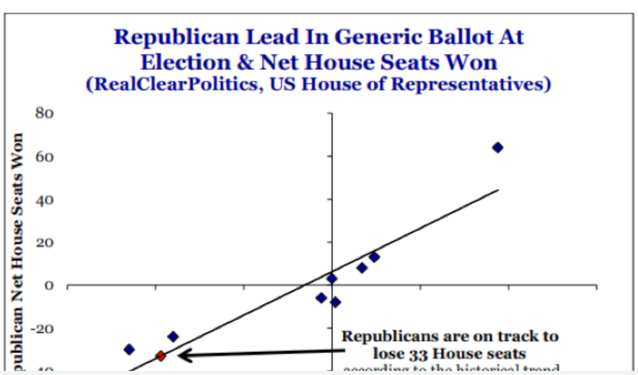
And while the debate heats up over how much of the 2018 anticipated $100 billion in individual tax cuts will actually translate into increased consumer spending, there's no question that it will provide at least some fuel to this year's GDP growth.

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 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.

Figure 1: Estimated Debt as a Percentage of GDP



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 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 levered companies and high yield bonds.

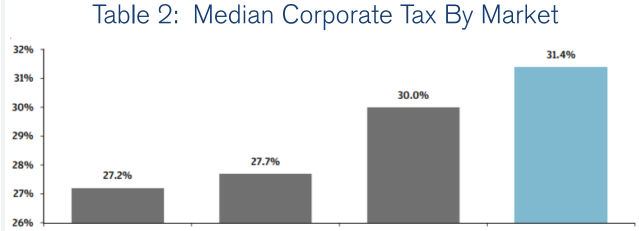
TAX REFORM WINNERS AND LOSERS AT-A-GLANCE

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)

Table 2: Median Corporate Tax By Market



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Mega cap stocks are represented by the S&P 100, and are a subset of large cap stocks; Large cap stocks are represented by the S&P 500; Mid cap stocks are represented by the Russell Mid-cap; Small cap stocks are represented by the Russell 2000. Data are as of December 20, 2017.

continued on page 4...

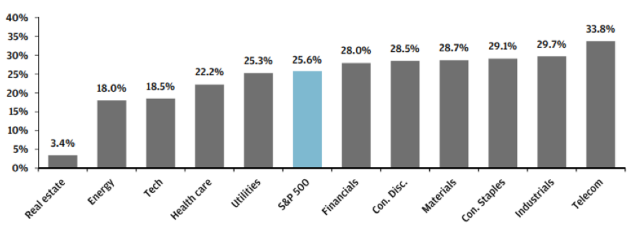
Financials: Banks, with profits that tend to be more US-based, benefit from higher yields, lower taxes, and more financial deregulation.

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)

Table 3: S&P 500 Effective Tax Rates by Sector



Source: Standard & Poor's, J.P. Morgan Asset Management. Data are as of December 20, 2017.

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 $1T+ 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.

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.

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.

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.

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 continous 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!

Jennifer Embler

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.**

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

SIGNATURE FUND *for* GIVING

Giving Back 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.

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.

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!

THE SEIA TEAM AT THE PGA TOUR'S 2018 GENESIS OPEN HOSTED BY THE TIGER WOODS FOUNDATION

Left to right: Chad Bates, Christian Hutchins, Sabina Pinsky, Vince DiLeva and Theodore Saade

SEIA

SIGNATURE ESTATE & INVESTMENT ADVISORS, LLC®
www.SEIA.com

CENTURY CITY
2121 Avenue of the Stars
Suite 1600
Los Angeles, CA 90067
T 310.712.2323
F 310.712.2345

NEWPORT BEACH
610 Newport Center Dr.
Suite 300
Newport Beach, CA 92660
T 949.705.5188
F 949.705.5199

PASADENA
155 N. Lake Ave
Suite 780
Pasadena, CA 91101
T 626.795.2944
F 626.795.2994

REDONDO BEACH
1848 S. Elena Ave
Suite 100
Redondo Beach, CA 90277
T 310.712.2322
F 310.712.2377

TYSONS CORNER
1650 Tysons Blvd.
Suite 1575
Tysons Corner, VA 22102
T 703.940.3000
F 703.738.2259

The information contained herein is the opinion of SEIA and is subject to change at any time. It is not intended as tax, legal or financial advice, and it may not be relied on for the purpose of avoiding any federal tax penalties. You are encouraged to seek such advice from your professional tax, legal or financial advisor. The content is derived from sources believed to be accurate but not guaranteed to be. For a complete listing of sources please contact SEIA. Neither the information presented nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. There is no guarantee that any forecasts made will come to pass.

Registered Representative/Securities offered through Signator Investors, Inc. Member FINRA, SIPC, 2121 Avenue of the Stars, Suite 1600, Los Angeles, CA 90067 (310) 712-2323. SEIA,LLC and its investment advisory services are offered independent of Signator Investors, Inc. and any subsidiaries or affiliates. Third-party rankings and recognition from rating services or publications are no guarantee of future investment success. These ratings should not be construed as an endorsement of the Advisor by any client nor are they representative of any one client's evaluation or experience. Additional important information can be found at seia.com/legal-disclaimer/.