SEIA PRIVATE CLIENT GROUP NEWSLETTER
SIGNATURE ESTATE & INVESTMENT ADVISORS, LLC®
Established 1997

SEIA Report

SEPTEMBER
2018
VOLUME 11
ISSUE 3

NAVIGATING THE CHANGES TO GICS SECTORS

FEATURE

BY | **Sam Miller**
CFA®, CAIA®, *Senior Investment Strategist*

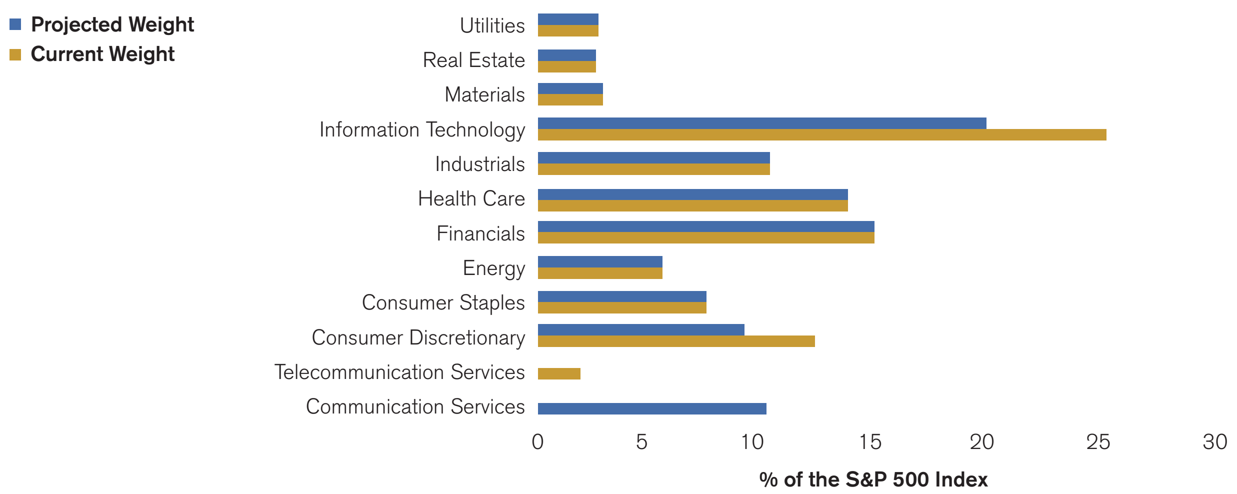
What are GICS?

Global Industry Classification Standards (GICS), launched in 1999, is a taxonomy for publicly traded companies. It assigns each company a sector, industry group, industry, and sub-industry based on its principal business activity. Initially constructed with 10 high level sectors, there were no major changes until 2016, when Real Estate was carved out of Financials to create an 11th sector.

What is changing?

Now, two years later, the sector structure is changing again. Due to the evolution of the economy via technological advancements and mergers, restructuring, and consolidation, the Telecom Services sector has dwindled in size and currently only contains three companies (AT&T, Verizon, and CenturyLink). To more accurately reflect the scope of telecommunications companies in today's economy, GICS is renaming the sector to Communication Services and welcoming familiar internet and media names like Facebook, Netflix and Google into the fold. 19 companies (5 Tech and 14 Consumer Discretionary) will be moved into this new sector after which time it will make up about 10% of the S&P 500. Correspondingly, the Tech sector will drop from roughly 25% to 20%, while Consumer Discretionary will drop from roughly 13% to 10%. This will result in more than 8% of the S&P 500 being reclassified, the biggest change to the GICS sector structure in history. The changes officially take place after the close of business on Friday, September 28, 2018, but most index funds will slowly transition in the months prior.

FIGURE 1: S&P 500 CURRENT AND PROJECTED INDEX SECTOR WEIGHTS



continued on page 3...

> 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.

PROJECTED S&P 500 INDEX SECTOR WEIGHTS AFTER UPCOMING CHANGES

Communication Services	10%
Consumer Discretionary	10%
Consumer Staples	7%
Energy	6%
Financials	14%
Health Care	15%
Industrials	10%
Information Technology	20%
Materials	2%
Real Estate	3%
Utilities	3%

Source: Bloomberg Finance LP
Characteristics are as of 8/16/2018 and should not be relied upon as current thereafter.

Thank You

SEIA would like to thank you for your partnership and support over the last 21 years. Recently SEIA and its affiliates surpassed $8 billion in assets under management – a significant growth milestone for our firm. In serving our clients, our talented advisors continue to drive SEIA's success.

We remain committed to our core values and look forward to continuing this incredible journey. It is SEIA's goal to be a pillar of consistency in your financial lives.

SEIA IN THE NEWS

FINANCIAL TIMES

2018 Top 300 RIA Firms in the Nation

FT FINANCIAL TIMES | Top Financial Advisers 2018

LOS ANGELES BUSINESS JOURNAL

2018 Largest Money Management Firms & Best Places to Work

Los Angeles Business Journal BEST Places to Work 2018

Left to right: Joseph Fusaro, Jr. & Sabina Pinsky

continued on page 5...

In the end, the classification changes result in making each of the sectors more equal by redistributing market cap and reducing concentration (see Figure 1).

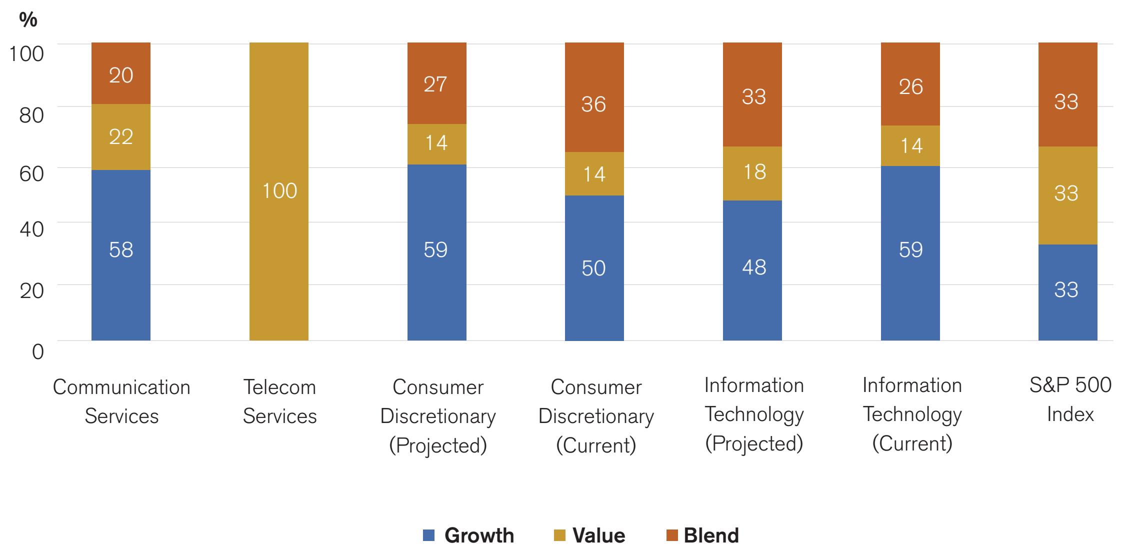
What does it mean for my portfolio?

While all of these changes will take place automatically behind the scenes, there are a few items to note:

- In recent years, investors have viewed Telecom stocks as defensive equities given their high dividend payments and relative stability. Most phone companies now operate like utilities. However, the new Communication Services sector will certainly be more cyclical in nature due to the addition of growth-oriented stocks from the Tech and Consumer Discretionary sectors. Investors who buy a new Communication Services sector ETF should expect a more growth-oriented and volatile ride (See Figure 2) and should no longer view this sector as a bond proxy. The dividend yield of the new sector is expected to be less than 2%, compared to more than 5% for the current Telecom sector.
- Similarly, many investors who use a quantitative approach to invest in sectors will need to revisit their methodology as the sectors included in their historical backtests are no longer representative going forward.
- Finally, after enjoying an incredibly strong run of performance, many tech companies are becoming more and more concerned about the potential for regulation on the horizon. The inclusion of certain tech companies into the new Communication Services sector seemingly only makes it tougher to argue that they should not be regulated by the Federal Communications Commission. Tech companies that are added to the Communication Services sector may find this to be an additional headwind.

At SEIA, we have adjusted our due diligence approach and portfolio construction processes to accommodate these major changes and will continue to look for opportunities that result for the benefit of our clients.

FIGURE 2: GICS SECTOR STYLE EXPOSURE



Source: Morningstar, FactSet as of February 28, 2018. Characteristics are as of the date given and should not be relied upon as current thereafter. There can be no assurance that developments will transpire as projected and that the estimates are accurate.

WHAT IS THE BEST WAY TO UNDERSTAND THE PROS AND CONS OF FAMILY FOUNDATIONS AND DONOR-ADVISED FUNDS?

BY **Jennifer Kim**
MS, CFP®, CMFC, ChFC, CLU,
Senior Partner

Whatever your personal reason for engaging in philanthropy, there are two undeniable facts: Giving can be an incredibly fulfilling experience that when carefully planned and structured, offers meaningful financial benefits.

A planned giving program also affords you more control over what will be given, when it will be given and how it should be used. But which structure is the best fit for your personal circumstances and objectives?

The simplicity of donor- advised funds

Donor-advised funds (DAFs) allow you and your family to make a charitable contribution and receive an immediate tax deduction for the gift; and you can take your time making recommendations for distributing the funds to qualified nonprofit organizations you select (often with the ability to remain anonymous if you so desire).

Assets like appreciated stock that you may not be able to gift directly can be easily gifted through a donor-advised fund since such assets are liquidated and converted to cash when you donate them.

DAFs provide a tax deduction of up to 50 percent of adjusted gross income (AGI) for cash contributions, and 30 percent for appreciated assets. They eliminate the administrative burden by providing you with consolidated recordkeeping and tax reporting. And their simplicity makes them terrific vehicles for introducing philanthropy to your children and involving them in the grant-making process.

More grant-making control with a private foundation

Unlike DAFs, private foundations afford you complete control over grant-making and investment management…But, because they are formal legal entities, foundations must be overseen by directors and trustees (the "board") responsible for determining how foundation assets will be invested, where and when grants will be distributed and how large those grants should be.

If creating a recognizable legacy for your family name is important to you, the lifespan of a private foundation can continue on for generations. However, the costs to maintain a foundation can be considerable, and the administrative complexity can be daunting. Foundations must also distribute a minimum of 5 percent of assets annually and are required to file separate federal and, in some instances, state income tax returns.

Which is right for you?

The decision between a DAF and a private foundation can be a difficult one, as each strategy comes with its own benefits and drawbacks… Predominantly, the decision comes down to one of control. With a DAF, you choose from a set of pre-existing investment strategies, whereas with a private foundation you're empowered to make all investment decisions.

FEATURE	DAF*	FOUNDATION
Contribution deductibility	Up to 50% of AGI for cash; and up to 30% of AGI for property	Up to 30% of AGI for cash; and up to 20% of AGI for property
Annual distribution requirements	None	5% of total assets
Set-up costs	None	Legal & filing fees
Investment Control	Limited to pre-set strategies	Total control
Grant Privacy	Anonymous (if desired)	Form 990-PF must be filed
Ability to employ family members	No	Yes, if salary is commensurate with position
Excise Taxes	None	Up to 2% of assets

If you're willing to relinquish some control over your gifting and investments, you can gain some key advantages with DAFs, including favorable tax treatment, greatly reduced administrative responsibilities, lower establishment and ongoing costs, no minimum annual distribution requirements and donor anonymity.

Giving can unite your family across years, geographic locations and life circumstances. No matter how old your children are, integrating philanthropy into your family life can be an excellent way to pass on healthy attitudes about money and helping others. Finding the optimal structure for your charitable giving, however, is an important step; and one that your advisor is well equipped to assist you with.

FINANCIAL ADVISOR MAGAZINE

2018 Annual RIA Ranking – 50 Fastest Growing RIAs

LOS ANGELES BUSINESS JOURNAL

Largest Money Management Firms 2018 (Ranked by assets managed)

EVENTS

FRITZ MILLER HOSTS

SEIA believes in long lasting relationships. Our Pasadena office recently hosted a client event at the Rose Bowl for their clients and other professional associates. The focus of the event was on the “Business of College Football” from a player’s perspective.

Fritz Miller, one of SEIA’s Partners, served as host while Dedan Brozino, Director of the Rose Bowl Legacy Foundation and former UCLA football stars entertained the guests with thoughts and stories of their playing experience and the special place that the Rose Bowl stadium holds in their hearts.

HOUSTON…WE HAVE AN OFFICE!

Jesse Brown, CFP®

Our steady growth and ever-widening reputation for service excellence has afforded SEIA the opportunity to further expand our reach with the recent opening of our Houston office. The office will be headed up by Jesse Brown, CFP® – the latest addition to our team of advisors.

Jesse has distinguished himself as a skilled financial planner, working closely with a wide range of individuals, families and businesses to develop, implement and monitor their financial plans. Jesse helped define clearer, quantifiable goals to prioritizing needs and implementing investment strategies. Joe Fusaro, SEIA’s Director of Operations, said this about him “Jesse was everything we were looking for in an advisor and we were everything he was searching for in a firm, so it made sense to launch this Houston location.”

Jesse received his Bachelor’s degree from Hofstra University and has earned the Certified Financial Planner® designation. Prior to joining the SEIA family, he worked as an advisor for Fidelity Investments and John Hancock Financial Services. A recent transplant from Boston to Houston, Jesse’s an avid runner (having completed the Boston Marathon) and an a supporter of The Boys & Girls Clubs of America. He also recently got married this past month.

We’re thrilled to welcome him to the SEIA family, and look forward to his tremendous success for our clients in Houston.

SIGNATURE FUND *for* GIVING

Left to Right: Christine Cheung, Chad Bates, Hayley Wood & Richard Parra

"The more that you read, the more things you will know, the more that you learn, the more places you'll go." – Dr. Seuss

The Signature Fund for Giving was humbled to sponsor A Place Called Home's (APCH) Back to School event held on Saturday, August 4th. Employees of SEIA joined 80 local volunteers and APCH staff to give over 1,100 backpacks supplied with highlighters, glue sticks, paper, crayons, colored pencils, and pencils to inner-city Los Angeles youth to promote a successful academic year. Serving local youth is a pinnacle to our SFFG initiative and we are reminded of why we do what we do after giving basic supplies to thousands of youth and learning of families having secured their place in line beginning at 5:00 pm the evening before the event. SFFG is so proud of APCH and our opportunity to give.

For more information on APCH, please visit **apch.org**. If you'd like to learn more about how you can be involved with SFFG, please reach out to Hayley Wood at **hwood@seia.com** – we welcome our clients engagement as part of our commitment to our communities youth.

Please visit seia.com for information on our Giving Back campaign.

WISHING YOUR RESPECTIVE FAMILIES A PRODUCTIVE AND FUN SCHOOL YEAR!

SEIA

SIGNATURE ESTATE & INVESTMENT ADVISORS, LLC®

HEADQUARTERS

Century City, CA
2121 Avenue of the Stars
Suite 1600
Los Angeles, CA 90067
T 310 712 2323
F 310 712 2345

SEIA.COM

Newport Beach, CA
610 Newport Center Dr.
Suite 300
Newport Beach, CA 92660
T 949 705 5188
F 949 705 5199

Pasadena, CA
155 N. Lake Ave Suite 780
Pasadena, CA 91101
T 626 795 2944
F 626 795 2994

Redondo Beach, CA
1848 S. Elena Ave.
Suite 100
Redondo Beach, CA 90277
T 310 712 2322
F 310 712 2377

San Mateo, CA
3 East Third Avenue
San Mateo, CA 94401
T 800 723 5115
F 310 712 2345

Tysons Corner, VA
1650 Tysons Blvd.
Suite 1575
Tysons Corner, VA 22102
T 703 940 3000
F 703 738 2259

Houston, TX
1700 Post Oak Blvd
2 Blvd Place, Suite 600
Houston, TX 77056
T 713 963 4699
F 310 300 0512