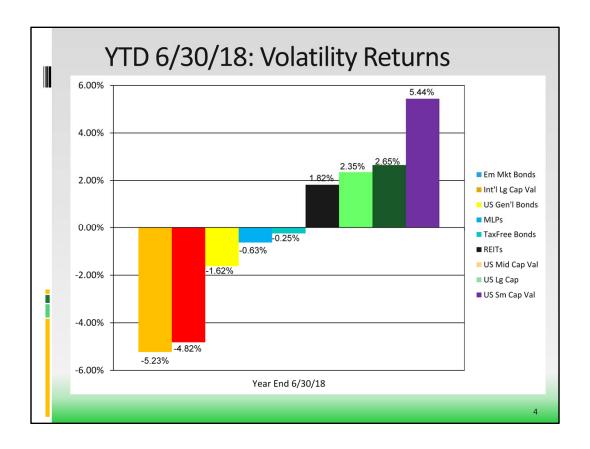


• Just a reminder of what calendar year 2017 was like, e.g. very robust for virtually all stock asset classes—and considering the low levels of interest rates, even bonds' returns exceeded expectations.



- Well, we knew volatility would return, just not when!
- Seems like markets are increasingly nervous over the U.S.' antagonistic behaviors toward both friends and foes—especially the looming trade wars. Markets hate uncertainty, and hate any barriers to trade even more.
- REITs holding up well, despite traditional fears about investor exits during periods of interest rate increases.
- Not surprising to see US small cap doing well, as the perception is that they're largely US businesses and don't have much international exposure. Rising costs of inputs, however, will eventually crimp profit margins.

Bond Outlook

• US Bonds:

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- Expect 1-2 more rate increases from the Fed before year end
- Continue to expect flat to modestly negative returns for the year
- Tax-free bonds look attractive—but only for those who would benefit under the new tax brackets

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• We may need to circle back with some of you to get more recent tax returns, as tax-free bonds make sense for a smaller group of people with the reductions in tax rates.

Stock Outlook

• US Stocks:

- More individual stocks look attractive
- Remain concerned about increasing deficit after recent tax cuts an looming trade wars
- International Stocks:
 - Developed international markets look reasonably valued and dividend yields attractive, especially given weak YTD performance
 - Note we use funds both unhedged and hedged to the US dollar

Our stock universe is turning up a few more undervalued stocks after the recent sell-off.
 Some stocks languished last year despite growing their earnings, and are poised for a bounce once investors pay attention.

• Every line item in your portfolio generates income

- Use low-cost index funds and Exchange-Traded Funds (ETFs), except in cases where an actively-managed fund protects downside risk better in adverse market conditions
- Use only funds and ETFs for international stock allocation;
 no individual stocks as accounting standards are different
- Maintain universe of approved holdings for each asset class; updated every 6 months

- Maintain models of every stock in our universe, updating as new information becomes available
- Individual stocks must:

- Show sufficient after-tax profit margins
- Generate sufficient cashflow to cover their capital expenditures plus pay the dividend on a consistent basis
- Maintain low to moderate proportions of debt financing on their balance sheet

• Individual stocks must (continued):

- Provide a decent shareholder yield through any combination of:
 - Dividend payment
 - Stock buyback (net)
 - ❖ Debt reduction (net)
- Trade at levels on the lower end of our projected 52-week trading range, using at least 2 valuation estimates

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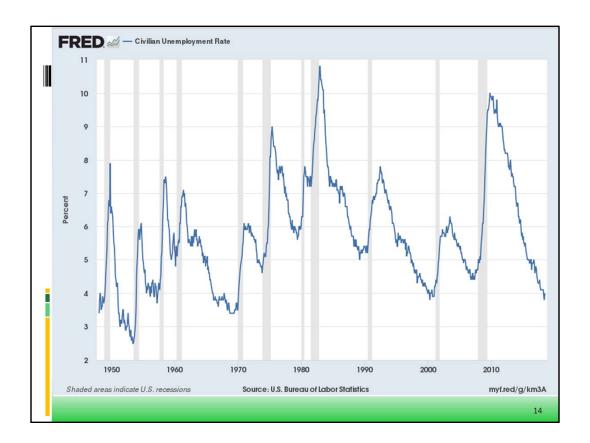
• Bonds:

- Use only ETFs and funds; implied trading costs with individual bonds are egregiously high
- o Stay in short to intermediate maturities

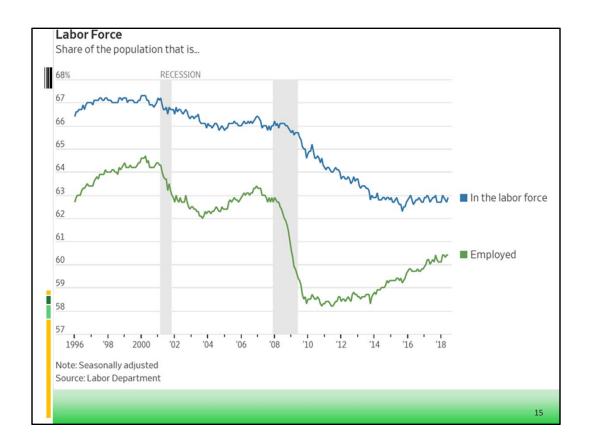


Interesting Economics Agenda Health of the U.S. Economy The Short-Term Effect of 2017 Tax Cuts

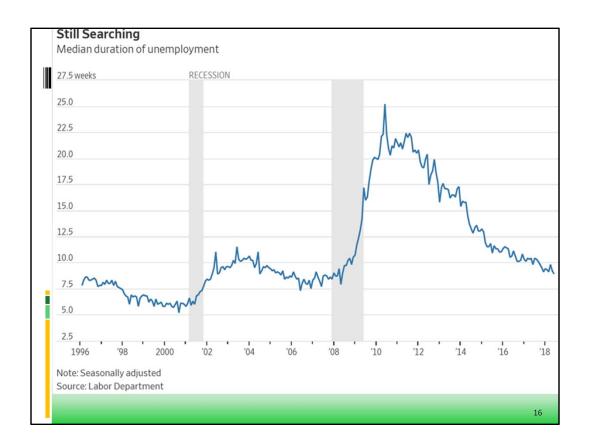




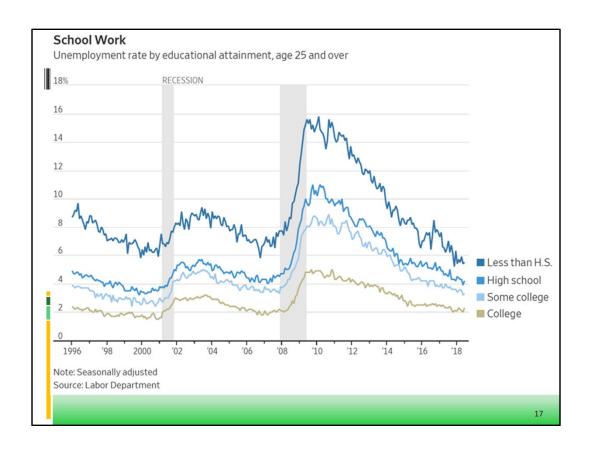
Unemployment is near historical lows.



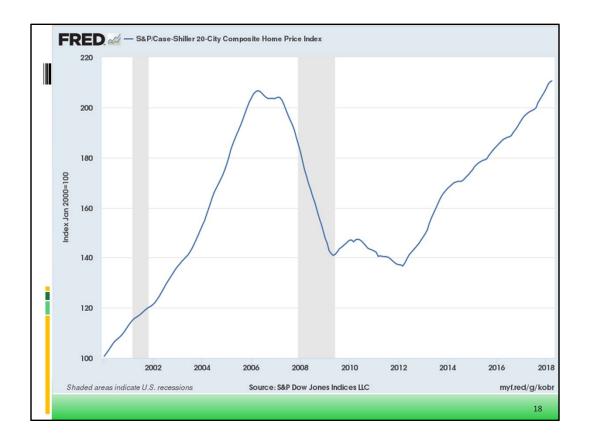
Unemployment recently increased from 3.8% to 4% due to a slight increase in workers re-entering the workforce. It's an indicator that employers are competing enough for workers to entice the long-term unemployed to apply for jobs.



In addition to more workers being employed, the duration or length of time of being unemployed is diminishing. It's still not as short as the lows between the past two recessions but it's close.

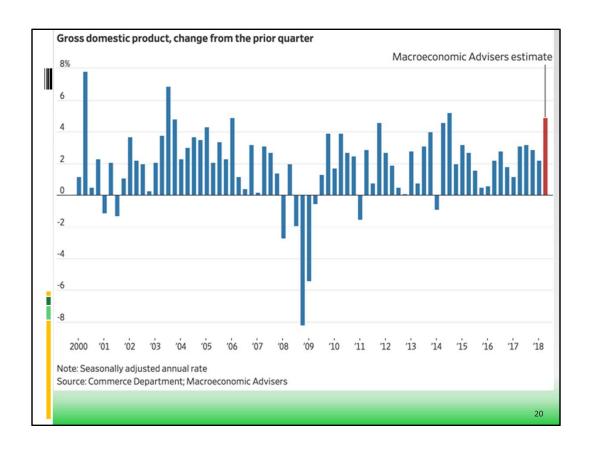


Every middle and high school should show this slide to the students. Yes, college or technical training can be expensive but it helps reduce the likelihood of being unemployed. This also suggests that, if laid-off or fired, those with better educations have more options.

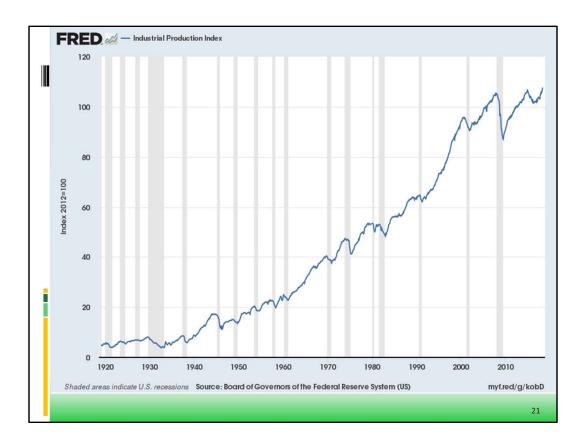


The aggregate of the housing prices in the 20 largest metro areas in the country have finally surpassed the level hit in 2006.

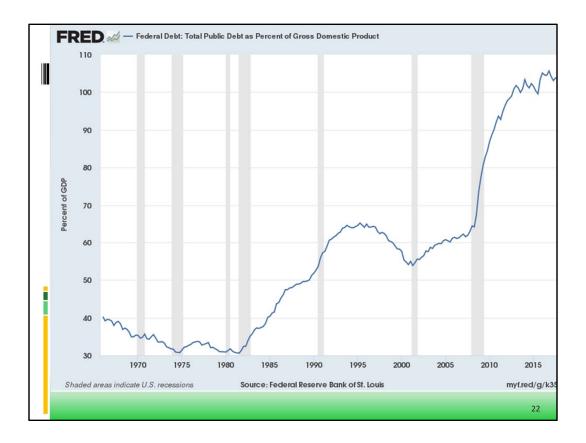




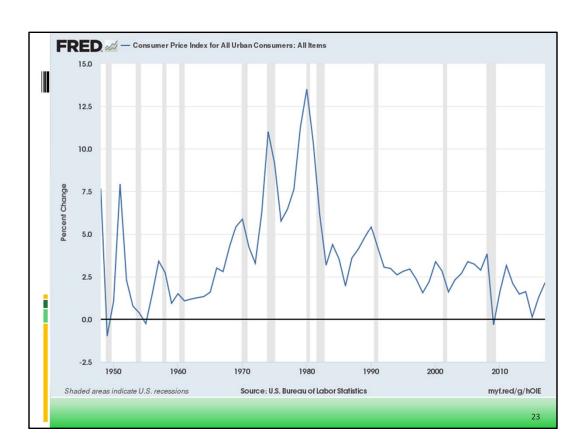
Due to seasonal factors, quarterly production gains are usually erratic. The second quarter of 2018 is expected to increase by over 4%. The 2018 annual gain is expected to be a bit over 3% but 2019 is projected to be around 2.6%.



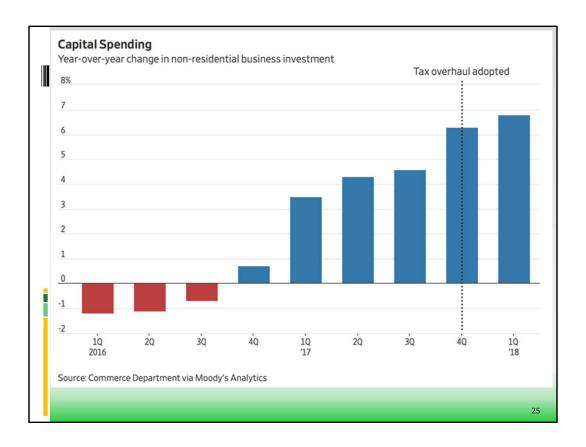
Industrial production has rebounded smartly in 2018.



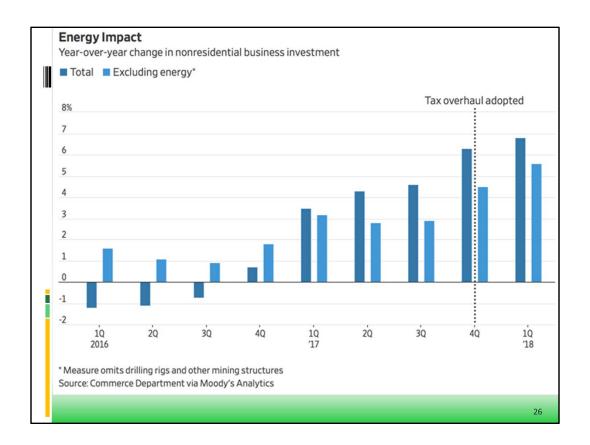
The tax cuts in the 2017 tax bill are beginning to add to the federal debt.



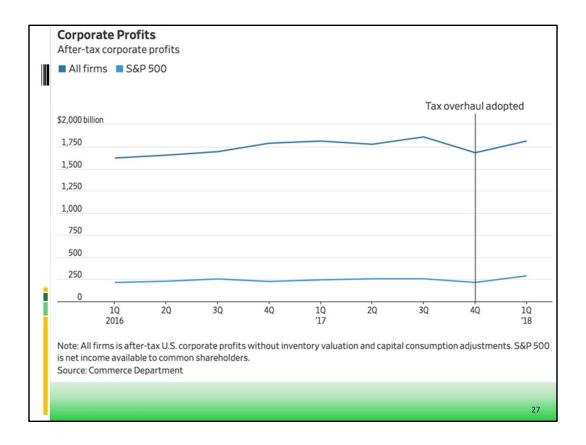




When companies spend more on factories, vehicles, equipment, computers and software, it shows up as a rise in capital spending, which has picked up in recent quarters. That improvement could reflect new tax-law provisions intended to encourage business investment, including quicker deductions for some purchases, as well as lower tax rates and other changes that make lower-margin investments more attractive. Still, many economists think taxes are only one of several forces at work.

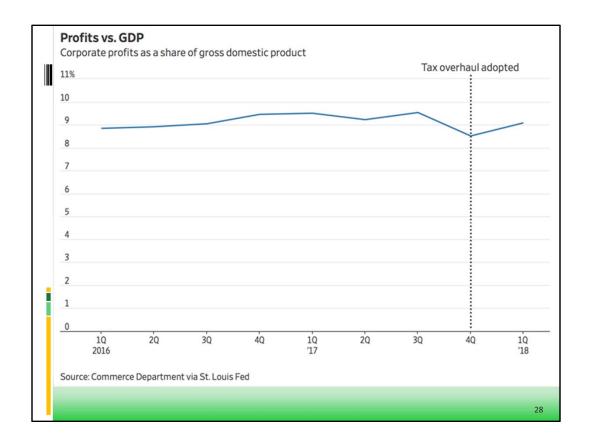


A rebound in global oil prices may have had a bigger impact on capital spending, driving a recovery in drilling and other energy-related investment that started before President Donald Trump took office. The coming months and years will show whether other sectors ramp up their capital expenditures in response to the tax cuts.

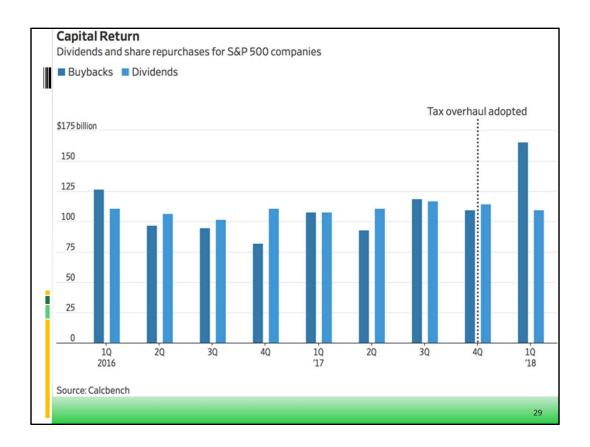


Taxes are an expense for business, so tax cuts lift the bottom line mechanically. They can also spur spending by consumers and businesses, increasing sales and profits. A measure of after-tax corporate profits jumped in the first quarter after dipping in the fourth quarter.

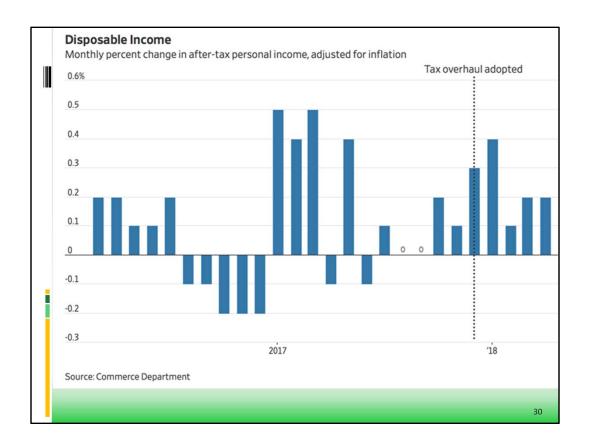
Various one-time effects of the tax law, including accounting adjustments for publicly traded companies, make it difficult to draw conclusions about the underlying trend for now.



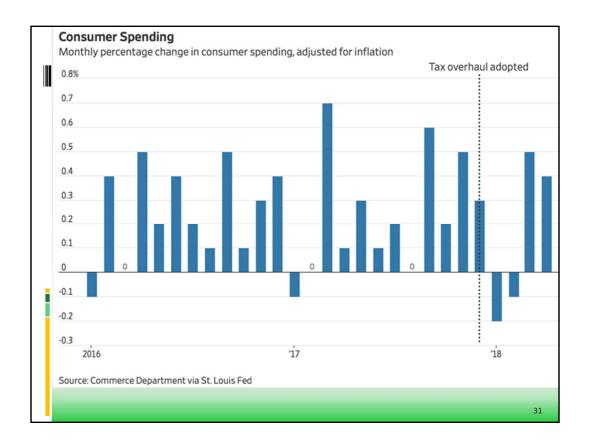
Overall, however, profits have largely been growing along with the rest of the economy. Profits as a proportion of overall economic output—the nation's gross domestic product—haven't changed much so far.



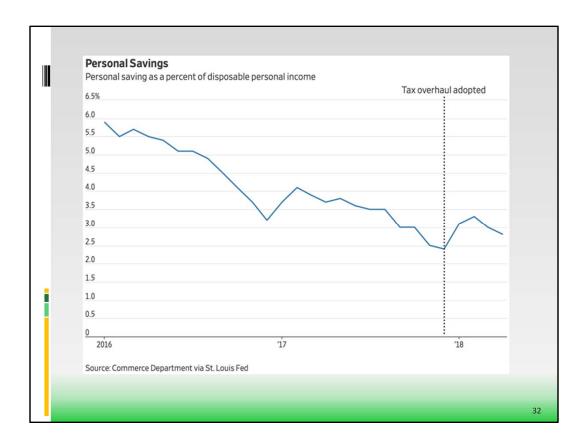
Large publicly traded companies have funneled much of their tax savings into increased share repurchases. Analysts and economists caution that increased investment and hiring from expansion take more time to implement. Tax cut advocates also argue that buybacks allow investors to reallocate capital to companies with potentially profitable investments and away from those with more limited opportunities.



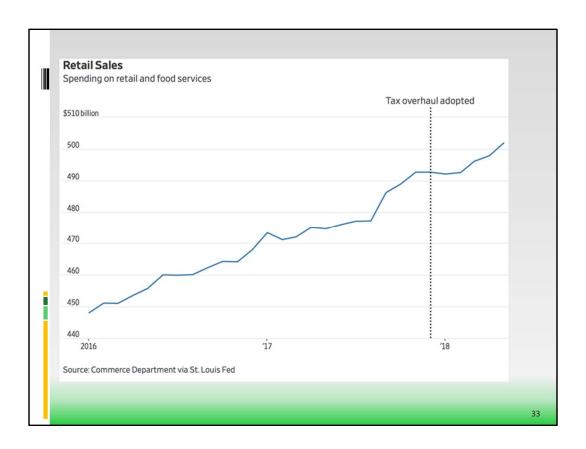
American workers' disposable income—after taxes, adjusted for inflation—jumped in the first quarter as the government withheld less from their paychecks and some employers paid out one-time bonuses. Since then, income has risen at rates similar to before the tax overhaul, leaving open the question of whether the legislation will continue to drive wages higher.



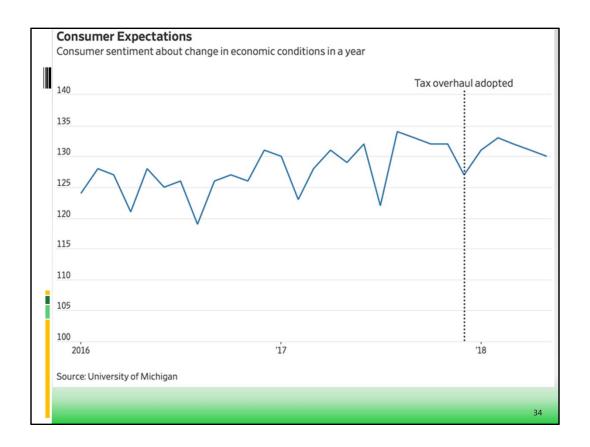
It isn't yet clear what households have done with their extra income, since inflationadjusted consumer spending actually fell in the first couple of months of the year, before jumping in March and April.



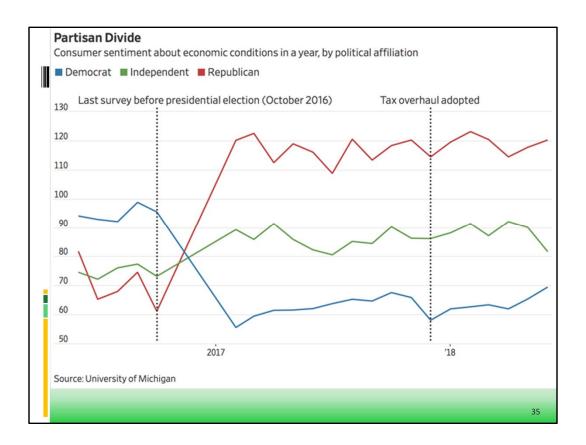
The share of disposable income saved or used to pay down debt rose in the first two months of the year, before dipping in March and April. Still, future revisions to income, spending and saving data based on more complete and accurate information could change our understanding of these developments.



One possible reaction to bigger paychecks: Americans heading out to spend more on restaurant meals and physical goods. Retail and food-services sales jumped in May, continuing a strong spring trend.



They also remain upbeat about the future—though that optimism has remained in check.

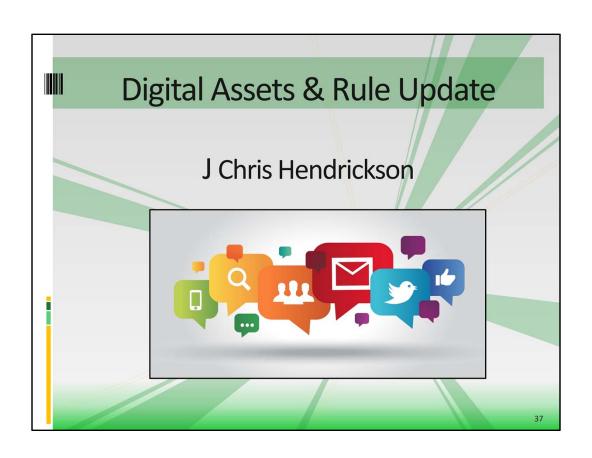


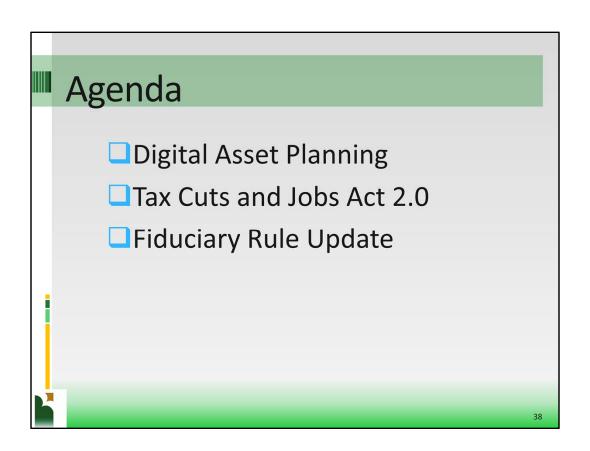
As so often happens these days, politics clouds the picture. How consumers feel about the current state of the economy, and the future, differs starkly by political affiliation—a split that took shape with President Trump's election and hasn't changed much since the tax overhaul.

Conclusions

Tight labor markets = increased wages

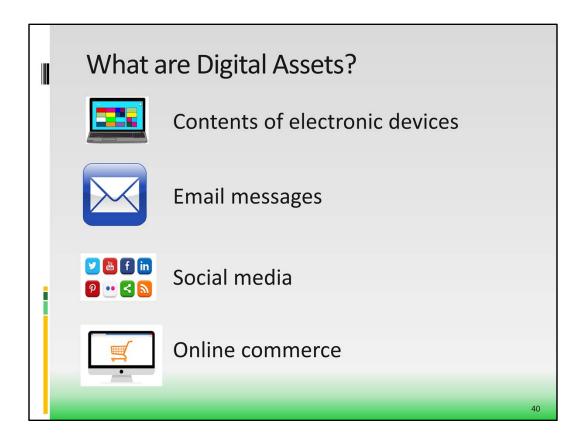
- Increased wages = higher prices = minimal effect on demand
- Trade War = higher prices = lower demand = increased likelihood of recession
- Tax overhaul = minimal long-term effect
- U.S. economy strongest in the world
- Recession not anticipated until 2020







We often talk with you about making sure your estate planning documents are complete and up to date and when we do we generally are talking about your will, living will, advance directives, powers of attorney, trusts, etc and we think about those documents providing direction on what you want done with your <u>assets</u>, among other things. And when we think about <u>assets</u> we think about our investments, bank accounts, real estate and precious personal belongings but we don't often think about those assets we posses that are electronic in nature. Often these "digital" assets are every bit as valuable as our more traditional assets we often think of. So we wanted to take some time to talk about what digital assets are, how they come into play in your estate planning, and what you can do to insure they're handled the way you want upon your passing or incapacity.



Collectively, a person's digital property and electronic communications are referred to as "digital assets," and the companies that store those assets on their servers are called "custodians." Access to digital assets is usually governed by a restrictive terms-of-service agreement (TOSA) provided by the custodian. This creates problems when account holders die or otherwise lose the ability to manage their own digital assets and a successor needs to step in to resolve issues related to the assets.

Electronic Devices- computers, external hard drives or flash drives, tablets, smartphones, digital music players, e-readers, digital cameras, and other digital devices

Email- all messages received and sent.

Social Media- content of the accounts (not the accounts themselves) Online commerce- ebay, Amazon, iTunes, Paypal, Bitcoin

Why are they important? Digital assets have value Monetary Sentimental Practical Hacking/Fraud

If you fail to account for digital assets in your estate plan, you risk burying your family or friends in red tape as they try to get access to and deal with your online accounts that may have monetary, sentimental, or practical value, which could result in the loss of some of your assets. It could also put an estate at risk of hacking or fraud if no one is aware of what activity is taking place in those digital accounts, and your estate would pay for those losses.

Issues Presented by Digital Assets

- Awareness Do heirs know about the digital asset or account?
- Access Do heirs have the appropriate credentials or means to access an account?
- Rights Do heirs have the right to take control of or access an account?

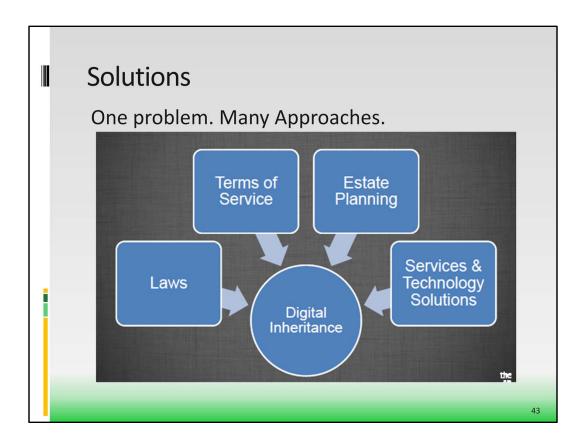
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Awareness- since digital assets leave no paper trail, it's hard for heirs to be aware of them.

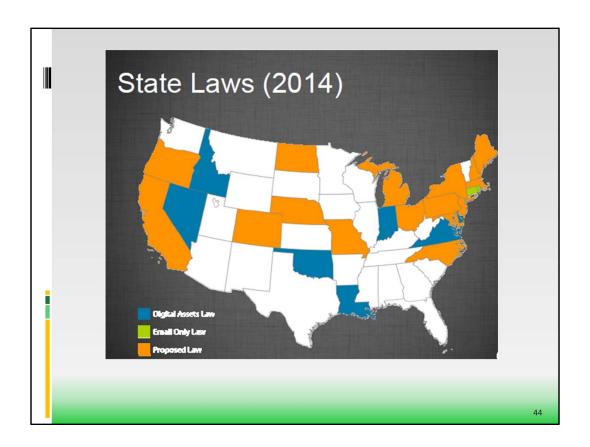
Access- even if your digital assets are known, do your heirs know how to access them? (username, password, secret questions, etc)

Rights- and even if they can access them, do they have a legal right to?

Create an inventory of your electronic accounts with log-on IDs and your passwords; keep it current and keep it secure. Make reference to it in your estate planning documents.



The earliest attempt to solve the problem was through custodians creating Terms of Service Agreements (TOSA). Technology companies quickly saw a way to create value by creating products and services to address the issue. Financial and estate planners realized this was an issue and have figured out ways to address it an estate plan. Finally, law makers also jumped on board to put some legal framework and rules around the issue... lets start there...



Up to the point of early 2014 laws had been created to deal with digital assets in estates but they only existed in some form in 8 states, and 2 states had email only laws. There wasn't much being done at the time-- things have come a long way since. The issue was those early laws weren't sufficient for all impacted parties. E.g. they missed making a distinction between accounts and content, access to email account vs copies of past emails. In general the rules often blocked fiduciaries from accessing the digital records they needed.

Uniform Fiduciary Access to Digital Assets Act - UFADAA (mid-2014)

- Allows legally appointed fiduciaries to access MOST digital property, subject to fed privacy laws and confidentiality
- Gives account holders control over disposition of assets by using will or trust or naming beneficiary
- Invalidates any term in terms-of-service agreement that prevents fiduciary access

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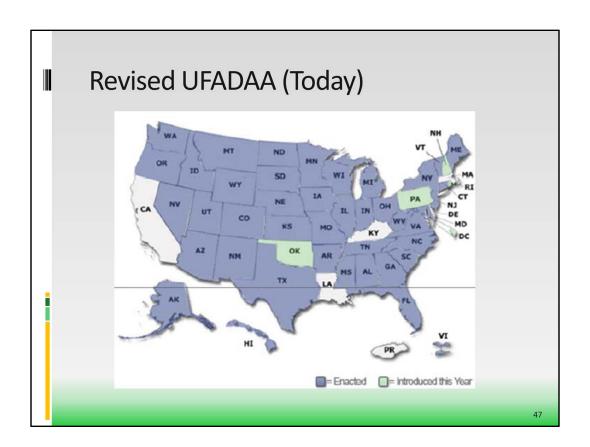
Then in mid-2014 states came together to create laws that will protect people's digital assets and give a person's family the right to access and manage those accounts after the owner has died. The Uniform Fiduciary Access to Digital Assets Act was originally approved by the Uniform Law Commission on July 16, 2014. It better defined what digital assets are and sought to allow executors, trustees, or the person appointed by court ("conservator" or "fiduciary") *complete* access to a decedent's digital assets.. However not many states adopted UFADAA because industry groups (tech companies) couldn't accept it due to the third bullet point- it invalidated their terms-of-service agreements. It essentially forced them to violate one law to comply with another. Also privacy advocacy groups, like the ACLU objected. They argued that providing executors the authority to access all of a deceased person's digital assets would improperly invade a decedent's privacy rights, raise liability concerns for custodian companies and possibly violate federal law. This version granted fiduciaries too much control.

Revised UFADAA (2015)

- Extends traditional power of fiduciary to manage tangible property to include digital assets
- Allows fiduciary to manage digital property like computer files, web domain, and virtual currency
- Restricts fiduciary access to e-communications like email, texts, & social medial unless original user consented

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So UFADAA was modified in 2015 to what is now known as "RUFADAA." The Revised Act lays out specific rules under which an executor can manage a decedent's digital accounts. The revised law reduces an executor's authority to access digital assets compared to the prior version—the result is something halfway between no and complete fiduciary access. It carves out a specific exclusion for electronic communications (email, text, social media accts). Unless the original user (decedent) provided specific consent for access to those communications, the fiduciary is restricted from accessing them. It makes gaining access to email messages much more difficult.



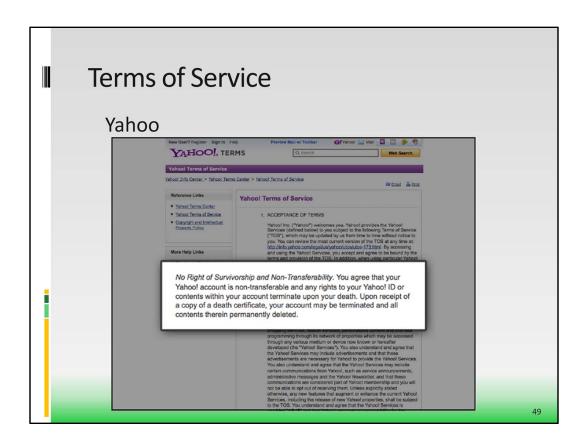
Revised UFADAA is basically law of the land now, having been adopted in most all US states. **Idaho**- revised UFADAA effective July 1, 2016

CA- adopted act AB 691 on Jan 1, 2017. "AB 691 is narrower in scope from the uniform act. The bill does not cover powers of attorney, trusts, and conservatorships where the principal, trustor, or conservatee is still alive. It applies only where electronic information is being requested from a custodian by a decedent's representative for the purpose of ascertaining the decedent's assets and liabilities in managing an estate."

Revised UFADAA Order of Precedence: 1. Custodian's Online Tool 2. Will, Trust, POA, or other Instrument 3. Terms of Service

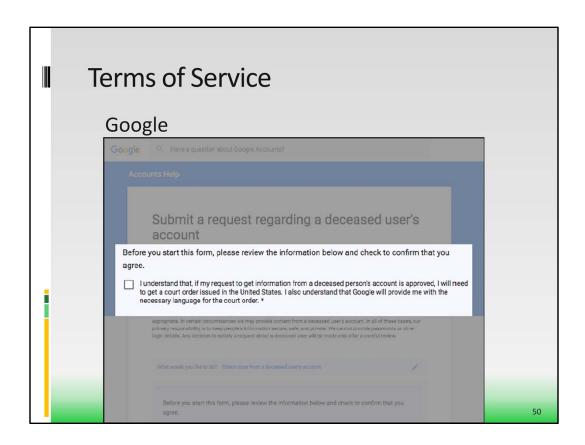
The revised law adopts a three-tiered approach to determine how access to online accounts is handled after death or incapacitation. The good news is those three tiers offer guidance for people trying to deal with digital assets in their estate plan — whether or not they live in a state that has adopted this law.

The law's **first tier** says that if a service provider offers an online mechanism for the user to dictate his or her post-death wishes then the account owner's use of that tool determines what happens to the account. **Second tier:** if the service provider doesn't offer any kind of online tool that dictates what happens to digital assets after the account owner's death, or if the account owner doesn't use the tool, then the account owner's directions in a will or other legal document prevails. **Third tier**: absent either of the first two situations, then the terms of service agreement determines how your digital assets are dealt with after you die. Generally, those agreements curtail access to anyone who isn't an account owner.



Yahoo- No Right of Survivorship and Non-Transferability. Most other online custodians are the similar.

These online accounts are governed by the terms-of-service agreement to which you agreed (or, more likely, clicked that box without reading) upon opening the account. Those agreements, plus state and federal privacy laws and laws that criminalize unauthorized access to computers, all tend to limit access to online accounts.



Google's Terms of Service agreement doesn't have a ban that prevents fiduciary access but they have a specific policy that tells you to use their Inactive Account Manager tool . But it also alerts there is a legal means to request fiduciary access but it requires completing a lengthy form and likely will require obtaining a court order. These Terms of Service don't make the process easy. Why do they make it so difficult? It's an online privacy issue. Don't let your digital asset settlement be dictated by these!

Estate Planning

Example language for wills-

- "<u>Digital Assets.</u> My executor shall have the power to access, handle, distribute and dispose of my digital assets."
- "I have prepared a memorandum with instructions concerning my digital assets and their access, handling, distribution and disposition. I direct my executor to follow my instructions concerning my digital assets."

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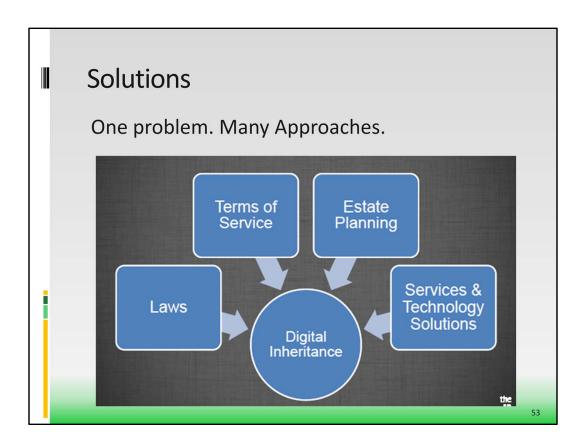
Since not all custodians have online tools for providing direction, we advise working with an estate planning attorney to include language in your estate documents. Fiduciaries need the best information on how such digital assets are to be managed and distributed; the estate plan is the road map to assure such intentions are met. Be clear, don't just rely on the generic powers of an executor or a general definition of assets to assume that includes your digital assets. Add language making it clear that your executor should have the same access you had during your lifetime for all digital accounts, including access to content, if desired. Here are some examples of what that might look like. Do NOT put confidential information like usernames and passwords in your will document because they must be publicly filed in a court or with a registrar and aren't always immediately available. Put it in a memorandum, mention that in the will, and make sure your executor knows where it's kept.

Reminder- post your estate planning documents to your Sharefile folder we provide you access to. That way if your executor comes to us to settle your estate we can assist if we have access to your estate planning documents, insurance documents, tax returns, etc. It could make your executors job a lot easier.

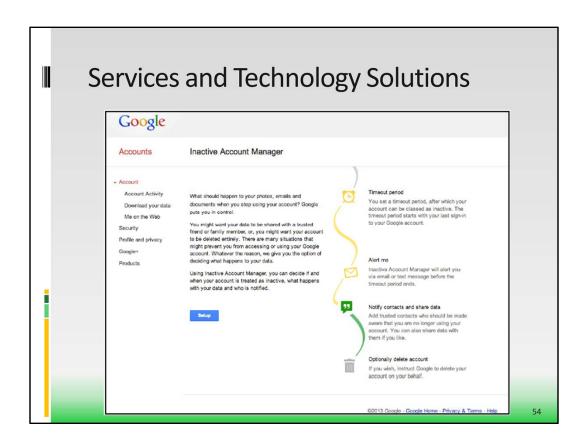
Estate Planning: Digital Executors "I authorize my executor to engage ______ to assist in accessing, handling, distributing and disposing of my digital assets" Grants powers to a "digital executor" who better understands technology than primary executor

Pick your executor carefully and be as specific as possible about what you want your executor to have access to. For example, can he/she read all of your email messages? If not, be clear about that by specifically stating that your executor's access is limited and does not allow an extensive and invasive search through all your online records. If you do provide your executor full access to all your digital accounts and documents be clear in your instructions about which should be kept confidential and which you wish to be terminated or destroyed at estate settlement.

Consider appointing a Digital Executor if they could better resolve technology issues than your primary executor.



All of these have been covered but **Services & Technology Solutions** so will touch on that quickly.



Some custodians of digital assets provide an on-line planning option by which account holders can choose to delete or preserve their digital assets after some period of inactivity.

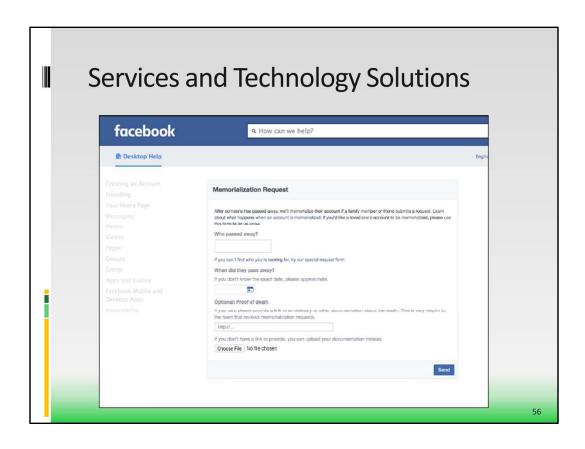
Google example

Google's Inactive Account Manager

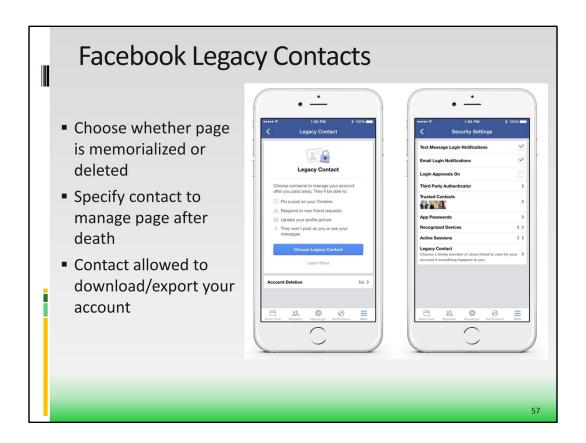
- Allows access to Google data following period of inactivity
- Warning issued 1 mo. before end of wait period
- User can specify contacts to receive access to info
- User can request deletion of account

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In 2013, Google introduced an option called "Inactive Account Manager" to allow users to determine, within preset options, what will happen to their Google accounts after a predetermined period of inactivity (30, 60 or 90 days). Users can set the time period of inactivity that triggers a Google response, and Google also will alert the user one month before deleting the account. Users may have Google notify up to 10 "beneficiaries" that the account will be closed, before Google deletes it. After the recipients receive that notice, those designated "beneficiaries" can download the user's Google content (such as gmail, photos, or YouTube videos and blogs). Or, the user can simply instruct Google to delete all account content.



Facebook has something similar- Memorialization Request. Any person can request this & then Facebook will request proof of passing documents.



They allow for memorialization and the creation of Legacy Contacts to manage your account if you're not able to... or you can request to have your page frozen (memorialized) or deleted.

It's up to whether you want to use these tools . They can provide clear direction specific to each app or custodian but keep in mind what you say here will trump anything that's in your legal estate planning documents.



There are some additional great technology solutions that make managing your digital affairs easier to understand for an executor. Password managers are a great example. They allow you to keep track of all your password while alive as well as a method for a trusted heir to gain access to your account if you're unable to due to incapacity or death. These services also provide for the use of more secure passwords.

WE ALL DIE. THE GOAL ISN'T TO LIVE FOREVER, THE GOAL IS TO CREATE SOMETHING THAT WILL. - Chuck Palahniuk, Diary

End this topic with this quote. Rings true for memories we hope others have when we're gone and think it rings true for our financial legacy we all hope to leave our children/grandkids... so proper management of digital assets is another way of insuring your legacy lasts.

Tax Cuts and Jobs Act – Phase 2 House Republicans release budget resolution called "Budget for a Brighter American Future" Focused on making expiring provisions permanent A BRIGHTER AMERICAN FUTURE ABalanced Budget for FY 2019

Tax reform is not over, and Congress is proposing to save enough money (combination of spending restraints & pro-growth reforms) to begin phase two. House Republicans recently released a 2019 budget resolution called "Budget for a Brighter American Future," which included provisions that propose saving enough money to make some of the nonpermanent aspects of the Tax Cuts and Jobs Act (TCJA) permanent. Republicans may be gearing up to fast track legislation with only Republican votes through reconciliation, similar to the passage of the TCJA.

Trump's take:

"We're doing a phase two, we'll be doing it probably in October, maybe a little sooner than that. And it will be more of a middle class — we did a lot for the middle class — but this will be more aimed at the middle class."

- President Trump in July 1st interview with Maria Bartiromo on Fox News

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Trump weighed in on the coming changes but didn't give specifics about the second phase but he did specifically express his willingness to approve an additional tax rate reduction on the corporate tax rate from 21% to 20%. Back in December, Republicans lowered the corporate tax rate from 35% to 21%. Besides the drop in the corporate tax rate, Trump failed to detail exactly what a middle class focused tax cut would look like.

TCJA – Phase 2 Possible upcoming provisions for middle class: Make 2025 sunset of tax breaks permanent Another payroll tax holiday Expand deductibility of student loan interest Child tax credit fully refundable

A draft of a second phase tax bill could be available for House Republicans to begin reviewing in July. A full legislative outline is expected by the beginning of August with voting possible as early as fall. Here are some possible changes that would positively impact middle class Americans:

Make permanent the tax breaks on families and individuals – The most recent tax reform package filled with sunsets and expirations on key tax cuts aimed at the middle class. By 2025, working class Americans will be hit with massive tax increase unless congress extends these benefits. Areas under consideration are lower individual income tax rates and increased standard deduction.

Another payroll tax holiday – In 2011 Congress introduced payroll tax (FICA) holiday which reduced the employee share of the Social Security payroll tax. Since most working class families pay social security payroll tax, another temporary tax holiday would give families a pay raise.

Expand deductibility of student loan interest – The deductibility of student loan interest phases out between \$65,000 and \$80,000 and is eliminated for individuals making anything above \$80,000 a year. Increasing these limits could give graduates a tax break they could use to start their own middle class families.

Make the child tax credit fully refundable – The enhanced child tax credit gives a boost to working class families in the form of a tax credit. However, for families whose tax liability falls to 0 the child tax credit is only partially refundable. Making the child tax credit fully refundable would be a big benefit for lower/middle class families.

Fiduciary Rule Update

- Dept of Labor's rule vacated on June 21, 2018
- SEC's investment-advice rules
 - May extend beyond retirement accounts
 - "Best interest" standard aimed at broker conduct
 - Presently in a 90 day public comment period

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In last year's summer presentation I discussed how the fiduciary rule being enacted by the Department of Labor would impact you (or rather *NOT* impact you) and clients of broker-dealers. It was originally scheduled to be phased in from April 10, 2017 to Jan. 1, 2018. However it was bogged down by delays and reviews and on June 21st, 2018 the U.S. 5th Circuit Court of Appeal officially vacated the rule, effectively killing it.

The SEC has now taken up creating rules of their own. Rather than calling it the "Fiduciary Rule," theirs is called a "best interest" standard. However similar to the DOL's Fiduciary Rule, it would have little to know impact to clients of Berkeley, Inc since we are already considered a fiduciary and have always been required to act in our client's best interest. I mention it because you likely will hear more about it in the news and wonder if it impacts your relationship with us.

References

- "Estate Planning for Digital Assets", Evan Carroll, The Digital Beyond, June 2018 webinar
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