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SECOND QUARTER | 2023

Current Outlook & Portfolio Strategy

The Family Business is Selling... What's Next?

Learn About Spousal Social Security Benefits

Could Life Insurance Boost Your Financial Plan?

Current Outlook & Portfolio Strategy

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> "While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses. These are the unfortunate costs of reducing inflation. But a failure to restore price stability would mean far greater pain."
>
> \- Jerome Powell, Jackson Hole Speech on 8/26/2022

We witnessed a resurgence in market volatility during the first quarter as clouds of uncertainty hindered near-term visibility. The S&P 500 climbed almost 10% early in the quarter on expectations that inflation would continue to moderate and thus, the Federal Reserve (the Fed) would not need to raise interest rates much further. Those hopes were soon dashed as stronger than expected jobs growth and sticky core inflation (i.e., excluding food and energy prices) suggested that the Fed would have to continue raising interest rates well-beyond initial expectations. Then, the banking sector experienced a crisis of confidence as three US banks failed in quick succession, suggesting the Fed had overtightened monetary policy. Despite the market's concerns, the S&P 500 still finished the quarter in positive territory. The rapid increase in interest rates over the past year combined with poor risk-management at these banks were the main culprits for their failures. While the issue appears to be isolated amongst a few such undiversified banks, the impact was felt across the entire financial sector. The result was greater uncertainty about the direction of interest rates from here: will the Fed lower interest rates to contain the near-term financial sector woes or will they continue to focus on the longer-term issue of reducing inflation?

Understandably, the market remains concerned that the Fed will overtighten financial conditions and increase the risk that the US will enter a recession. Such an outcome will inevitably draw questions about whether the cure (higher interest rates) will be worse than the disease (higher inflation). Although the near-term effects of tighter financial conditions may be painful, they are typically much preferred to the alternative of stubbornly high inflation. One must simply recall the ultimate effects of the Fed not choosing to sufficiently tackle inflation in the 1960s and 1970s to understand that the cure today is more appealing than the more aggressive treatment that would be required years from now.

Recent economic reports suggest that the Fed can continue to raise rates to dampen inflation. Indeed, the Fed meeting in March resulted in another 0.25% increase to the Federal Funds rate. The Fed's newly updated dot plot also suggests that the Fed still sees sufficient evidence to continue raising interest rates for the next few meetings. The median expectation from the voting members of the Fed is that they are close to reaching peak interest rates, but they do not foresee cutting interest rates until 2024 at the earliest. Instead, future Fed decisions are expected to be very much data dependent.

Investors, however, believe that the Fed will have to start cutting interest rates soon. The yields on short-term US Treasuries climbed early in the quarter only to reverse course. The 2-year Treasury note yield climbed to over 5%, but ended the quarter below 4% indicating that the bond market expects the Fed to start cutting rates this year. Currently, the futures market expects the Fed to cut interest rates by 1% over the next 12 months.

In the near-term, we expect both the stock and bond markets to continue to display high levels of volatility. All eyes will be monitoring monthly economic reports, especially non-farm payrolls, unemployment, and inflation, to gauge the Fed's likely decision at their next meeting in May and the path of interest rates through year-end. Meanwhile, the first quarter earnings reports from US companies will be closely scrutinized for any signs of slowing sales growth and net profits. Such signs would be in-line with already tightening financial conditions and may weigh on stock prices. Despite the near-term uncertainty, we believe a diversified portfolio of high-quality dividend and growth companies combined with prudent amounts of short-term bonds and cash will help our clients ride out the storm and continue to meet their financial goals.

The Family Business is Selling... What's Next?

James McArthur
Family Office Services

The time has come, and you've decided to sell the business. Congratulations! Your ideas, inspiration, and many years of perspiration have paid off. But wait, what do you do now with your time, talent, and money? Planning for life after closing is as important as preparing for and navigating the sale process itself.

If you've experienced a sale process, the advisors you've hired such as investment bankers, attorneys, and CPA's have prepared you for a 3 – 18-month period of working through non-disclosure agreements, Letters of Intent, due diligence, communication with employees, retention of key team members and customers, regulatory restrictions, transaction structure, representations and warranties, earn-out provisions, employment agreements, and tax implications. Depending on the size and nature of the firm, the list may be longer. Regardless, these are matters related to the business itself.

What about you as an owner? Are you ready to navigate the post-sale journey and enjoy the rewards of your hard earned success?

Selling your business can be a significant life change. You may have mixed emotions including relief and accomplishment as well as uncertainty about the future. With proper planning and preparation, the path through the transition can be much easier. A few common occurrences sellers have experienced during and after the sale:

- **Structure of Sale Proceeds** – Depending on the terms, there may be cash at closing as well as seller notes, escrow retention, earn-out provisions, and possibly ongoing employment agreements.
- **Retirement of Debt** – If the business has outstanding debt, more than likely these obligations will be paid off by sale proceeds, therefore reducing net cash to the seller.
- **Taxes** – Deal structure dictates how much of the sale is subject to taxes, again reducing net proceeds.
- **Professional and Advisory Fees** – To the extent necessary, these fees are deducted from seller proceeds at closing.
- **Lifestyle Requirements** – Determine goals and desires early in the process as they may drive deal structure and timing.
- **Future Opportunities** – Consider planning for new investments or pursuing other interests.
- **Health and Family** – Taking care of yourself and loved ones is often a primary goal including spending time with family, planning for health and maintenance, and providing for future generations.
- **Concentration to Diversification** – Owners are accustomed to investing in themselves given their knowledge and longevity in their respective business. Once the business is sold, many sellers go through an adjustment process as they shift to investing in several companies (equity) and fixed income securities to generate income and protect assets.

Organization with respect to your personal financial and legal documents is an important first step in creating a plan for how you will manage your time and money as well as protect assets after the sale. Engaging a personal advisor, just as you've done for the business is valuable in terms of managing post-closing wealth, minimizing taxes, and developing a long-term/multigenerational financial plan.

Fiduciary partners and advisors often assist owners early in the sale process to maximize the effectiveness of planning. If the business has operated for many years, there may be sizable capital gains resulting in significant tax liabilities. In addition, the business may have attributes that lend themselves to creative estate planning options. Certain exemptions for gifting assets are due to expire in 2025. Taking advantage of the current provisions while still in effect could result in substantial estate tax savings for heirs and beneficiaries. We specialize in this at The Trust Company through experience, competency, and depth of talent. Most of all we invest the time to learn your family's history, intentions, goals, and priorities - all of which are vital to ensuring a smooth transition from ownership to enjoying life after the sale.

Learn About Spousal Social Security Benefits

Tiffany Windish, CFP®
Client Advocate

Most people know that they may be eligible to receive Social Security benefits in retirement, based on their work earnings record. Social Security is normally available as early as age 62, but the longer you delay, your benefit increases—until age 70. Did you know that you could be eligible for benefits based on your spouse's earnings record—even if they are deceased or you have divorced?

Qualifying Spouse

You may be eligible to receive up to one-half of your spouse's benefit, even if you have never worked. Generally, if your own benefit is less than half of your spouse's benefit, you may opt to apply instead for spousal benefits to get the higher amount. Note, this strategy is only available if the higher-earning spouse is already taking their Social Security benefit. For example, husband age 67 just started receiving his benefit of $2,400/month and now wife, also 67, wishes to apply. Her own benefit is $800/month. Wife can instead apply for a spousal benefit and receive about $1,200/month. Note, if either spouse begins taking benefits early or is still working, the benefit amount could be impacted.

Surviving Spouse

A widow or widower can receive benefits as early as age 60 (age 50 if they have a disability)--and has the option to apply for survivor benefits and delay their own retirement benefit until later. For example, your husband was receiving social security and recently passed away. You are 66 (born 1956) and about to apply for benefits. His benefit was $2,400, but your own benefit would be $3,000. If you don't need that much income right away, you may apply to receive a survivor benefit of $2,400 now, while allowing your own benefit to grow until age 70—the latest age for delay credits—and then switch to your own benefit which would have grown to $3,879.

If the widow/er remarries after age 60, the remarriage will not affect their eligibility for survivors' benefits (although, if the new spouse is eligible for a higher benefit amount, it may be better to eventually apply for regular spousal benefits if it is higher than the survivor benefit amount.)

If you and your spouse are both receiving benefits, when one spouse dies the surviving spouse will continue to receive just one benefit—the higher amount. This eventual loss of income should be accounted for in your overall financial planning.

A widow/er of any age who is left caring for the deceased's child under the age of 16—or has a disability—can also receive benefits. Other surviving family members may also qualify for benefits.

Unlike regular social security, survivor benefits cannot be applied for online. For regular social security, you can view your benefits by visiting www.ssa.gov and going to "My Social Security" to establish your account and set your amount.

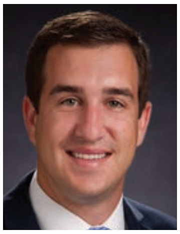
Divorced Spouse

A divorced spouse generally can qualify if they are currently unmarried, are age 62 or older and were married to the ex-spouse for at least 10 years —as long as they are divorced for at least 2 years prior to applying. The amount received would be similar to the qualifying or surviving spouse scenarios described above. Claiming the divorced spouse benefit has no effect on the ex-spouse's benefits (nor their spouse's if they have remarried.) As with all Social Security benefits you may not collect multiple benefits, only the highest amount that you are qualified to receive.

Your Social Security Claiming Strategy

Choosing your unique social security claiming strategy is an important personal decision that requires careful research and planning. In formulating your long-term investing strategy, we take into consideration other sources of income including Social Security. If you would like assistance in evaluating your retirement income options, The Trust Company can help.

Could Life Insurance Boost Your Financial Plan?



Jason Chiklakis
Trust Officer

A question we often ask our clients is "What keeps you up at night?", and for many, the answer is "Making sure my loved ones are well-cared for after I'm gone." While there are many ways to achieve this sense of security, having routine conversations with your advisors will ensure that you are safeguarding against common financial planning mistakes. While life insurance may not fit into every financial plan, it is an important tool that may be overlooked as a means of achieving your financial and estate planning goals.

Is Life Insurance Appropriate for Me?

That depends. Ask yourself – Will my passing have a negative financial impact on my loved ones? If you answered yes, it may be worth considering. While there are many individuals who have accumulated enough wealth where they no longer need life insurance to protect those they leave behind, for others, there are policy options that are available to help provide peace of mind. Generally, life insurance is offered as either a term or whole life policy. Term-life insurance policies have term lengths and may or may not offer the ability to convert to a permanent policy. A permanent, or whole-life policy, will typically provide coverage throughout your entire life as well as have cash value components.

For those who have existing life insurance policies, we always recommend reviewing your policy every two years. It is important that your policies are titled correctly, and your beneficiary designations align with your existing estate plan. You will want to review or change your beneficiaries if your family has grown or a loved one has passed away, if you have married or divorced, or if financial conditions have changed for your parents or children. You also want to check the overall "health" of the policy

It is an important tool as a means of achieving your financial and estate planning goals.

itself to see if there are premium increases on the horizon or if there are new insurance products on the market that may actually increase the death benefit without increasing the premiums.

What is Long-Term Care Insurance?

While life insurance provides financial security for your loved ones following your passing, have you considered how you would pay for your medical care while you are still living? One option may be a long-term care insurance plan. As healthcare costs continue to rise, long-term care insurance serves the ability to help offset medical costs and preserve your hard-earned savings as you age. It is important to note that the qualifications for a long-term care policy may be strict, so it is recommended that you explore your options before you develop any underlying health challenges. If you have an existing long-term care policy, consulting with your tax preparer may uncover some additional tax advantages related to the payment of premiums.

When it comes to wealth and estate planning, there is no one-size-fits-all solution, which is why it is important to routinely review your plan with your trusted advisors to ensure you are well-protected. We invite you to contact us at The Trust Company if you would like assistance in navigating your way through the insurance review process. We have helped many clients learn more about their policies, specifically in relation to their estate or financial plans, and would be happy to do the same for you.

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