FALL 2015

FIDUCIARY PERSPECTIVE

INSIGHTS ON PRIVATE WEALTH MANAGEMENT

MEMORY LOSS: REMEMBER . . . TO PLAN

"What should we do now?" This is often a question that is asked when a loved one is diagnosed with Alzheimer's disease or some other form of dementia. While a diagnosis can evoke a sense of helplessness, proactive planning can help ease potential future difficulties.

PREVALENCE

Although it is not unusual for a person to have moments when he or she does not remember every detail, normal aging does not include serious mental decline. Dementia includes a decline in memory along with a decrease in general thinking capabilities that impacts a person's independence and ability to function in everyday situations. Although Alzheimer's is the most common type of dementia, it is only one of many types. Alzheimer's affects 5.3 million Americans, of which 5.1 million are over age 65. An estimated 11 percent of those over age 65 are affected by Alzheimer's, with almost one-third of those over age 85 having the disease. As our country's population ages, the number of people over 65 with Alzheimer's is projected to increase over 170% by 2050 to 13.8 million. The average patient lives four to eight years after an Alzheimer's diagnosis, although the timeline can be much shorter or has been known to last as long as 20 years.[1]

When dealing with dementia, it is important to take four key steps:

1. RECOGNIZE THE CONDITION

Dementia progression can be divided into three general stages: mild, moderate and advanced cognitive impairment. Initial symptoms often include a decreasing ability to remember new information. During this mild stage, the individual may struggle with handling finances and remembering names. He or she may become repetitive in conversation and may even get lost in familiar places. This stage is the most important for future planning since the individual still has legal capacity and is able to articulate wishes for future care.

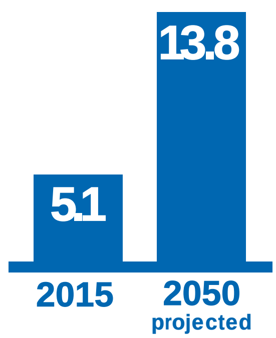
During the moderate stage, the person may rely on a caregiver for assistance and become more withdrawn. At some point, the capacity to make legal decisions may be lost. Often during the moderate or more advanced stages, personality changes become more pronounced and the individual needs assistance with the most basic daily functions.

Eventually the individual may become wheelchair- or bed-bound and struggle with speech. During the journey, glimpses of the former individual may present themselves and it is advisable to treat them with respect even if they begin to live in their own reality.

(continued on page 6)

Americans over 65 with Alzheimer's
(Millions)

+170%



Source: Alzheimer's Association

IN THIS ISSUE

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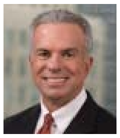
MARKET COMMENTARY



By Michael A. Mullaney
Chief Investment Officer

The China Syndrome II

October 15, 2015

THIRD QUARTER 2015 MARKET EVENTS

The plot of the 1979 film *The China Syndrome* (starring Jane Fonda, Jack Lemmon and Michael Douglas) centered around the near meltdown of a nuclear power plant that if left unchecked would have theoretically caused the plant's nuclear core to bore its way through the Earth's center and emerge in China, unleashing a catastrophic wave of deadly radiation.

During the third quarter, most investors probably felt like they were reliving the movie's plot, only in reverse:

1. **China devalued the Yuan.** On August 11th, the Chinese government announced a devaluation of the yuan, sending shock waves to investors and the capital markets alike. The Chinese officials attempted to placate investors by insisting that the action was merely a move to migrate the currency towards a "free float/open market" exchange mechanism. They indicated it was an effort to fulfill a requirement of the International Monetary Fund for the yuan's inclusion as a "reserve currency," joining the dollar, the yen, the euro and the pound as a viable currency to be used in the IMF's "special drawing rights" lending programs.

   Investors reacted negatively, viewing the move as a Chinese act of desperation to stimulate their sagging economy. History has shown that moves to stimulate growth in China have often sapped growth elsewhere, especially on a near-term basis. Up until that point, the markets had generally been meandering in a sideways pattern that typically coincided with the thin trading environment often referred to as the "summer doldrums." The devaluation unleased a wave of volatility, falling asset prices and lower bond yields.

2. **The Federal Reserve Board's Open Market Committee decided NOT to raise the Federal Funds target rate** in its September 17th meeting. While normally this would have been viewed as a sign of ongoing monetary accommodation by the Fed and positive for stocks, this time the inaction was seen as a warning that the macro economic environment was not as robust as previously thought. The language contained within the official press release didn't help either, highlighting weakness on the international front.

3. **Hillary Clinton criticized drug companies and their pricing policies** on September 21st and 22nd in a "Tweet" and subsequent press conference. This triggered a mini melt-down in pharmaceutical stock prices, in particular shares of biotech companies.

4. **John Boehner announced his retirement as Speaker of the House.** This reinforced the notion of a dysfunctional Washington political scene and stoked fear of an increased likelihood of a budget impasse and government shutdown.

These series of events led investors to again adopt a "risk-off" trading mentality with prices of many investment categories suffering the consequences.

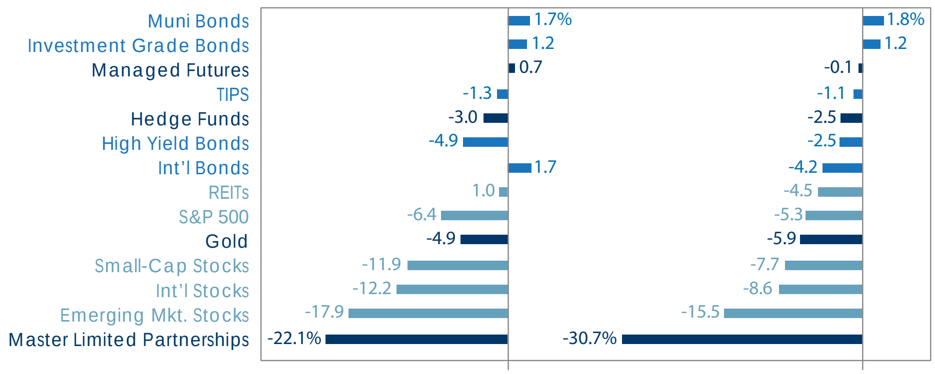
THIRD QUARTER 2015 MARKET RETURNS

During the quarter, returns for popular stock indices fell at a rate not seen since the third quarter of 2011, a time in which investors were grappling with a shutdown of the U.S. government, a near default on U.S. debt obligations and a recessionary relapse in Europe.

Chart 1 shows the quarterly and year-to-date return profiles of several asset classes. Gains in any asset class were hard to come by, leaving bonds as the only somewhat consistent source of positive returns.

Q3 2015 the worst quarter for returns since 2011; Weak Q3 pulled many YTD returns into negative territory

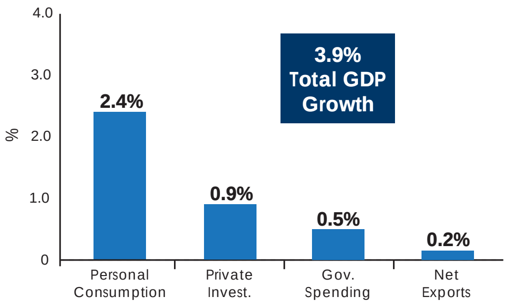
Chart 1 - $1,000 Invested During 2015 in Stocks, Bonds & Alternatives



Source: Bloomberg

GDP growth rebounded in Q2

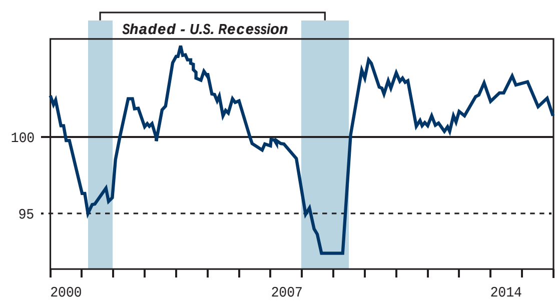
Chart 2 - Q2 2015 U.S. GDP Growth Rate



Source: Bloomberg

Leading economic indicators signal modest growth ahead

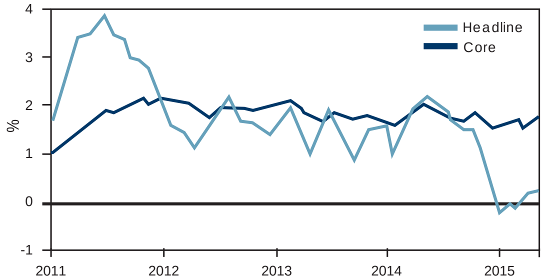
Chart 3 - U.S. Leading Economic Indicator



Source: MRB Partners

Inflation remains below Fed target of 2%

Chart 4 - Consumer Price Index Inflation Rate

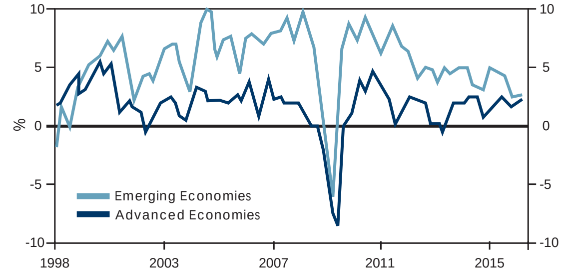


Source: Capital Economics

Note: Core excludes energy and food.

Advanced and emerging economies are converging

Chart 5 - Quarterly GDP Growth (Annualized)



Source: Capital Economics

THE CHINA SYNDROME II *continued*

ECONOMIC CONDITIONS

Paradoxically, the economic backdrop for the quarter was actually quite strong:

1. **Second quarter GDP advanced by 3.9%** (Chart 2) led by strength in consumer spending. Consumption itself was supported by robust employment trends with the unemployment rate falling to 5.1%.
2. **Leading economic indicators of U.S. activity continue to point to solid, albeit unspectacular growth** (Chart 3), while the average of six recession probability models that we follow indicate there is less than a 5% chance of a recession occurring in the next 6 to 12 months.
3. **Inflation remains subdued and below the Fed's target of 2.0%**. (Chart 4)
4. **From an international standpoint, economic conditions are more bifurcated**, with developed economies advancing at a modest pace from low activity levels and emerging economies decelerating. (Chart 5)
5. **China is a significant wild-card** as the threat of a hard landing (<5% GDP growth) for the Chinese economy still exists.
6. **Global monetary conditions remain quite stimulative** and should temper any global contraction. (Chart 6)
7. **The Saudis and the Russians are still pumping oil at a feverish pace**, although the U.S. has been the largest marginal producer during the glut period. The most recent statistics from Baker Hughes indicate a 62% drop in the U.S. oil rig count from the 2014 peak, down to 614 working wells. This is a five year low and should help alleviate the supply/demand imbalance that has been in place for over two years.

At this juncture, our thesis of "lower and slower for longer" remains intact for both U.S. and global growth, though downside risk remains somewhat elevated.

MARKET OUTLOOK

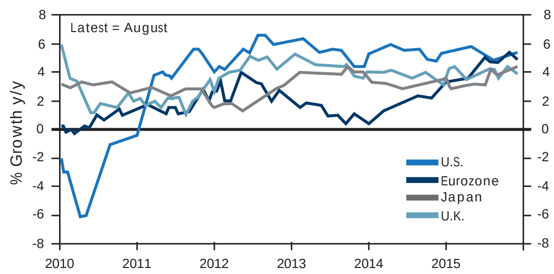
Given that 914 days had elapsed since the last stock market correction (the third longest stretch since 1930), the market was due for a pullback. As of September 30th, the pullback had lasted 44 days, historically about the length of time before a recovery in stock prices has ensued. (Chart 7)

1. **Stock market sentiment remains moribund** and there are now more advisors who are market bears versus market bulls, a contrarian signal that has often led to a rebound in stock prices. (Chart 8) While bear markets (price drops >20%) have occurred without recessions, they are a rare breed occurring only four times over the last sixty years.
2. **The current consensus expectation for global GDP growth of 3.5% should translate to global earnings growth** of approximately 9% if this historical relationship remains intact. Historically, GDP growth has led to earnings growth, and earnings growth has led to rising stock prices. Ample liquidity should also be a catalyst for stocks to advance.
3. **Companies in the S&P 500 have abundant levels of cash** on their balance sheets which should continue to support dividends, share repurchases and merger and acquisition activity, all of which are supportive of stock prices.
4. **U.S. Price/Earnings multiples are somewhat supportive**, being either at or slightly below longer term historical averages. The earnings yield of the S&P 500 is quite elevated relative to the yield of the 10 year Treasury bond. The gap between these two series is wide by historical standards (Chart 9), and gives us comfort in overweighting stocks versus bonds as there appears to be ample compensation for the additional risk that comes with investing in stocks.
5. **International stocks look attractive as well**, with reasonable P/E ratios (Chart 10) and an expected acceleration in earnings growth to ensue.
6. **We still anticipate a Fed Funds rate hike by the Federal Reserve,** but expect the number and magnitude of the Fed moves to be far more muted than in previous cycles. However, uncertainty surrounding the Fed's actions will lead to a continuation of elevated market volatility. Historically, Fed tightening episodes have not been detrimental to stock prices. (Chart 11)

In conclusion, we believe the recent market malaise will pass and stock prices will move higher by year-end. Interest rates should also migrate higher, but be tempered in their advance by investors' uninterrupted appetite for yield. Like the final outcome of *The China Syndrome*, all's well that ends well!

Significant global monetary stimulus

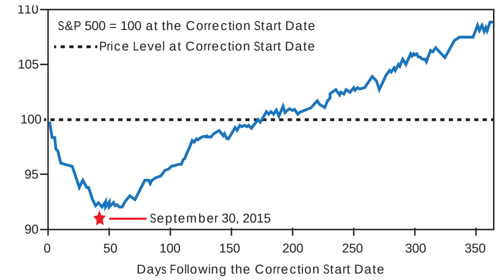
Chart 6 - Broad Money Growth Rate



Source: Capital Economics

Recoveries typically begin relatively soon after corrections

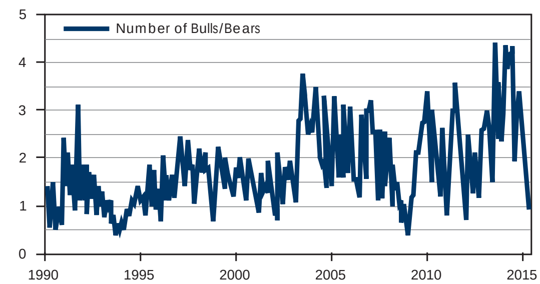
Chart 7 - S&P 500 Avg. Normalized Price Based on Performance Following all Bull Market Corrections Beginning 1970



Source: Capital Economics

Contrarian signal: more bearish advisors than bull

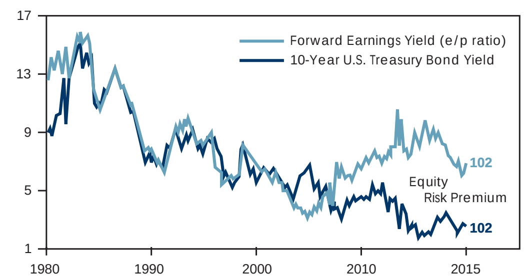
Chart 8 - Ratio of Bull to Bear Advisors



Source: Investors Intelligence

Stocks are very attractive compared to bonds

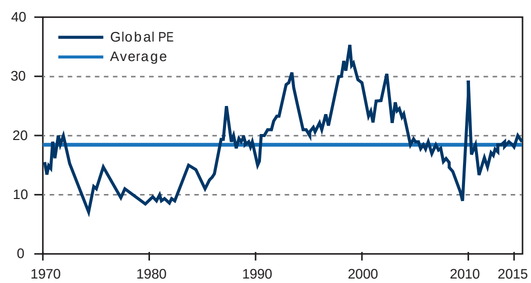
Chart 9 - S&P 500 Forward Earnings Yield & Nominal Bond Yield



Source: Yardeni Associates

Global price/earnings multiples are reasonable

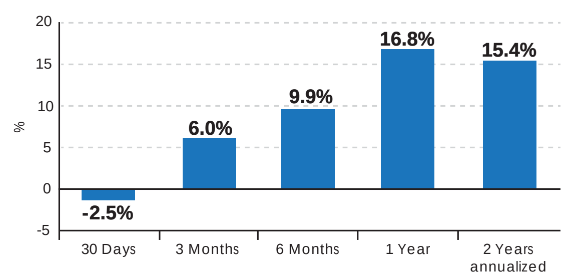
Chart 10 - Global Price/Earnings Ratio



Source: MSCI

S&P 500 typically increases within three months of rate hike

Chart 11 - S&P 500 Performance Following Initial Fed Rate Hikes Since 1980



Source: Bloomberg

MEMORY LOSS: REMEMBER . . . TO PLAN

(continued from page 1)

KEY STEPS:

1. ***Recognize the condition***
2. ***Develop a care plan***
3. ***Organize the information***
4. ***Review legal documents & fiduciaries***

2. DEVELOP A CARE PLAN

Ideally, a family should try to openly work together to develop a plan while their sick family member can be included in decisions about future care. Among the topics to discuss are who the caregivers will be and where the patient will receive care. It may not be necessary to significantly increase the amount of care or supervision immediately, but a plan should be in place for when more care is needed. Will a family member serve as caregiver? Will the caregiver need financial support? At what point, if any, will care responsibilities shift from a family member to a professional caregiver?

The decision making should include a realistic assessment of the temperament of any potential caregiver as well as his or her other commitments. All families should be aware of the physical and emotional toll of being the primary caregiver, with a nearly 40% incidence of depression in caregivers.[2] Even if the affected loved one moves to a care facility, a family member may still play a significant role in monitoring care and providing for some needs.

Alternative locations for receiving care should also be part of this conversation. Ideally, where will mom live? At home? With a family member? In an assisted living or similar facility? Is a day care program available? Will a memory care unit eventually be included in the plan? Even if the initial plan is to receive care at home, visits to local facilities are prudent in case the plan has to change. With home care, the home environment should be reviewed to determine if any remodeling is required.

Care for someone with dementia can be very expensive. Even after a qualifying hospitalization, Medicare generally does not pay for care beyond the first 100 days in a nursing home.

3. GATHER AND ORGANIZE INFORMATION

To facilitate planning and future financial management, it is important to compile a comprehensive inventory of financial information including:

- **Assets:** Checking and investment accounts (including IRAs and 401(k)s), annuities, real estate, vehicles, collectibles, private business interests and other assets
- **Liabilities:** Details on liabilities including mortgages and credit cards, along with recurring bills and other obligations
- **Insurance Policies:** Life, long-term care, disability, property and any others
- **Income:** Social Security, pensions, alimony, and trusts as well as from assets included above
- **Key Contacts:** At a minimum, the name, address, phone and email information for trust officers, accountants, lawyers, insurance agents, bankers, investment officers, financial planners, health care professionals and other key contacts
- **Digital Assets:** Details on account login IDs and passwords

Once information is organized, financial projections can be prepared that incorporate the costs of the desired care plan as well as possible alternate plans.

4. REVIEW LEGAL DOCUMENTS AND NAMED FIDUCIARIES

Estate planning documents should be reviewed in light of the impending loss of legal capacity. If documents do not exist, they should be created, and if documents are not current they should be updated. At a minimum, the following documents should be in place:

- **Health Care Proxy:** A Health Care Proxy (HCP) names an agent to make health care decisions if an individual is unable to. In the case of a dementia diagnosis, the HCP should name at least two and preferably three individuals, in order of preference, to make decisions. Ideally, the HCP should acknowledge the patient's dementia and identify the stage at which the designated agent will assume decision-making responsibility. Either in this document or in another document that provides advance directives, the individual should indicate in writing the types of care desired. For example, many individuals indicate that after the disease advances they would prefer no extraordinary medical measures be taken to prolong life beyond those that make the patient comfortable.

- **HIPAA Authorization:** This is often included in the HCP, but can be a separate document. This document authorizes medical professionals to provide named individuals with information about the patient's health so informed decisions regarding medical care can be made. This authorization should also include language allowing trustees of trusts the patient may have established to obtain health information that may be relevant to the administration of such trusts.

- **Durable Power of Attorney:** A Durable Power of Attorney (DPA) authorizes one or more individuals or entities (their "Attorney in Fact") to take financial action for the patient. Typical actions include opening or closing bank accounts, signing tax returns, paying bills and/or making gifts to family members. This document is "durable" in the sense that it continues in full force and effect even if the patient loses legal capacity. The DPA, as well as the will and revocable trust, should include language relating to the access of digital assets, including online accounts. In addition, the patient might use a DPA to nominate a court-appointed conservator and/or guardian, if such assistance were to become necessary.

- **Will:** Since a will is effective upon death, it will not contain provisions directly relating to an individual's dementia. The will of a person diagnosed with dementia, however, should be reviewed to ensure that the personal representative (sometimes referred to as "executor") named to administer the individual's estate is still appropriate. In addition, provisions for the disposition of any assets that are owned in the individual's name should be checked. Depending on how the will is drafted, it may also be desirable to prepare a list detailing the disposition of tangible personal property.

- **Revocable Trust:** It is also recommended that a revocable trust document be reviewed, or if one does not exist be drafted. The trust will name a trustee to administer assets for the benefit of the individual, and any other named beneficiaries, as well as establish a mechanism to appoint future trustees. The trustee's ability to administer assets for the grantor's benefit continues even if the grantor becomes legally incompetent. With a properly drafted trust instrument, the trustee can invest the assets in the trust and also make distributions for the benefit of the grantor and appropriate family members. If it is anticipated that a family member will serve as a caregiver, the trust might authorize payments to the family member. In order to maximize the benefit of the revocable trust, it should be funded by retitling bank, investment accounts and other assets into the name of the trust.

- **Irrevocable Trusts:** If the individual is a current or future beneficiary of any type of irrevocable trust, the terms of the trust should be reviewed to determine if the individual has any form of a power of appointment or other rights flowing from the trust. The exercise of any powers of appointment should be considered

"...ensure that the correct individuals or fiduciaries are named in the appropriate roles"

NEWS AND NOTES

News

Randy Kinard promoted to VP, Head of Client Development

Jody King promoted to VP, Director of Client Services

Todd Eckler joined as VP, Chief Marketing Officer

Bud Abbott joined as VP, Investment Officer, growing our New Hampshire presence locally and benefitting clients nationwide through access to the advantageous NH trust environment

Joel Mittelman joined as VP, Investment Officer

Fiduciary Trust recognized as a Top Charitable Contributor by the *Boston Business Journal*

Michael Mullaney, Chief Investment Officer, was interviewed on Bloomberg TV, published in *Forbes* and quoted extensively in the media

Coming Up

New quarterly market update client conference calls with Mike Mullaney to begin in January

Videos and greater online availability of our market and other insights to begin soon. To sign-up, email us at perspective@fiduciary-trust.com

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and discussed with an estate planning attorney. If the individual is currently serving as a trustee for an irrevocable trust, he or she should consider resigning.

- **Special Needs Trust:** Although beyond the scope of this article, if it is anticipated that the individual may qualify for public assistance at some point, the establishment of a Special Needs Trust (SNT) may be desirable. An SNT would allow the assets in the trust to be used for the benefit of the individual without jeopardizing other government benefits that might be available.

Named Fiduciaries: It is important that care be taken to ensure that the correct individuals or fiduciaries are named in the appropriate roles. Often naming a corporate fiduciary, either to act alone or with a family member, provides a sense of security knowing that the corporate fiduciary is experienced and knowledgeable regarding its fiduciary duty to act in the best interests of the beneficiaries at all times. In addition, the ability of the corporate fiduciary to provide consistent financial advice and wealth management across generations is attractive.

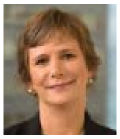
The estate planning process should also include the review of beneficiary designations and how assets are owned.

- **Beneficiary Designations:** A beneficiary designation is a form of contract that determines how assets will be transferred at death. Typical arrangements with beneficiary designations include IRAs, qualified retirement accounts (such as 401(k) and 403(b) accounts), life insurance policies and annuity contracts. All of these should be reviewed, including the beneficiary designations of other family members that may name the person experiencing dementia.

- **Real Estate:** How real estate is titled should be reviewed and updated as appropriate. It may be desirable to transfer real estate to the individual's revocable trust or a nominee trust, or a spouse's name may be added to the title. Care should be taken to not make any gifts of real estate or other assets that would potentially delay access to public benefits if it is anticipated that public benefits may be necessary.

- **Other accounts:** Authority and access to other accounts, such as the cell phone or cable television bills, should also be reviewed so that appropriate parties can assist once the individual is not be able to manage any necessary changes to these accounts. Access to safe deposit boxes should also be reviewed.

A person diagnosed with Alzheimer's disease or suffering from another form of dementia needs the compassion and empathy from loved ones, as well as from their professional advisors. Officers at Fiduciary Trust are fortunate to have longstanding relationships with our clients and their families. A natural result of these relationships is that we can provide quality assistance to families confronting the challenges of dementia, serving as both a fiduciary and a resource during difficult times. *- by Jody King*



Jody King is a Vice President and Director of Client Services at Fiduciary Trust Company. She has over 20 years of experience advising high net worth individuals and families and has been at Fiduciary Trust for over a decade. Ms. King is a member of the Massachusetts Bar, Certified Public Accountant, Registered Life Planner® and Certified Divorce Financial Analyst®.

[1, 2] Alzheimer's Association, 2015 Alzheimer's Disease Facts and Figures, *Alzheimer's & Dementia*, Volume 11(2).