TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

July 2018

Quarterly Insights

EXECUTIVE SUMMARY

US Stocks Lead All Major Regions In Q2 And Year-To-Date

In the Second Quarter, the domestic S&P 500 Index was up 3.43% and is up 2.65% year-to-date. Europe (-2.72%) and Japan (-2.84%) were down in Q2. Emerging Markets was hit hard in Q2 (-7.96%), although China fared better (-3.50%). Halfway through 2018, the US is the lone positive major region for stocks. The Bloomberg Barclay's US Aggregate Bond Index fell 0.16% in Q2. We continue to rotate the portfolio to higher quality (defensive) stocks and medium duration bonds.

What's The Right Portfolio Withdrawal Rate In Retirement?

Retirement is "successful" if you do not run out of money. We advocate a minimum 90% "probability of success" for our clients. What's the right portfolio withdrawal rate (required annual withdrawal divided by portfolio asset value) in retirement to achieve a 90% probability of success? The industry consensus view for a safe retirement is a 4% withdrawal rate that is annually adjusted for inflation. We disagree with the consensus because this strategy has historically resulted in a tremendous level of excess terminal wealth. Retirees can afford to spend more! We advocate a sliding-scale framework for sustainable withdrawal rates where the rates increase with age.

John Barber, CFA

Dan Laimon, MBA

Michael Harris, CFA, CFP®

Second Quarter 2018

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www.trivant.com

1-866-4-TRIVANT

Retirement Is "Successful" If You Do Not Run Out Of Money

A successful retirement might be defined as not outliving one's assets. Today, the most important question we hear is not "How much will I earn on my portfolio?" but rather, "Am I going to have sufficient funds to take care of myself in my retirement?". Investors have other concerns, of course - leaving a legacy to children, charitable giving - but for most, the fundamental concern is being able to take care of themselves in their retirement.

A Sustainable Portfolio Withdrawal Rate Is The Key Factor For Retirement Success

TriVant devotes tremendous time and technology towards the retirement safety of our clients. We advocate a minimum standard of 90% probability of success. Our detailed financial planning approach starts with pinpointing the needed withdrawal from a portfolio to meet income needs - this is inevitably a moving target. Once we know the required withdrawal in terms of dollars, we can calculate the percentage withdrawal rate (required annual withdrawal divided by portfolio asset value). We assess whether the withdrawal rate, in the context of the investment time horizon (expected lifespan) of the investor, is sustainable.

Most American Investors Cannot Identify A Safe Retirement Withdrawal Rate

A recent New York Life survey concluded that 77% of Americans older than 40 do not know how much of their retirement savings they can safely spend each year without running the risk of outliving their assets. It also noted that 31% of those surveyed believe they can spend 10% or more of their savings each year. Clearly this assumption is unrealistic. At that rate of spending, they will most likely run out of money during their lifetime. It is critical to ascertain a safe withdrawal rate for retirement.

The Consensus View For A Safe Retirement Is A 4% Withdrawal Rate

In 1994, William Bengen looked at 30-year rolling investment periods back to 1926 and concluded that a retiree can withdraw $40,000 from a $1 million portfolio, increase that $40,000 every year by inflation, and never run out of money over any 30 year period. The 1998 Trinity Study (conducted by five professors at Trinity University) further tested Mr. Bengen's "4% safe withdrawal" and concluded the following:

Trinity Study - Summary Of Conclusions For A Conservative Portfolio* (tested back to 1926)

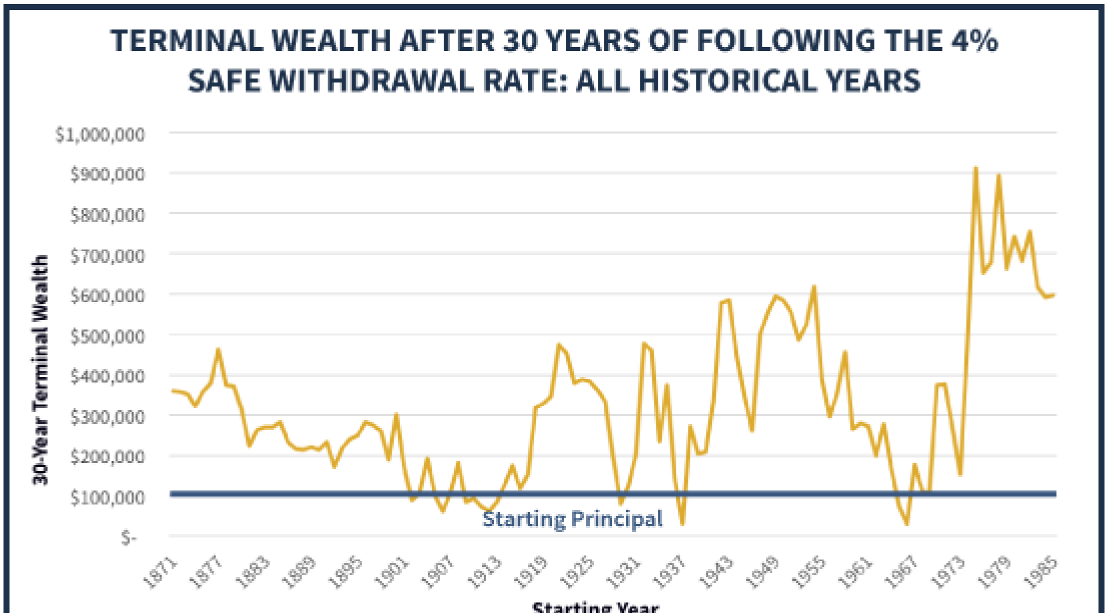
Investment Time Horizon (Years)	Success Rate (Investor Does Not Run Out Of Money)
40	86%
35	96%
30	100%
25	100%
20	100%
15	100%

* A conservative portfolio was comprised of 50% stocks and 50% bonds. A 4% withdrawal was taken at the start and was adjusted upward for inflation in each subsequent year over the investment time horizon.

Since these two landmark studies, most advisors in the industry advocate a 4% inflation-adjusted portfolio withdrawal regarding retirement safety. It is certainly advantageous for the advisors to do so from a non-liability standpoint, but is it the best advice for their clients from a fiduciary standpoint? We don't think so.

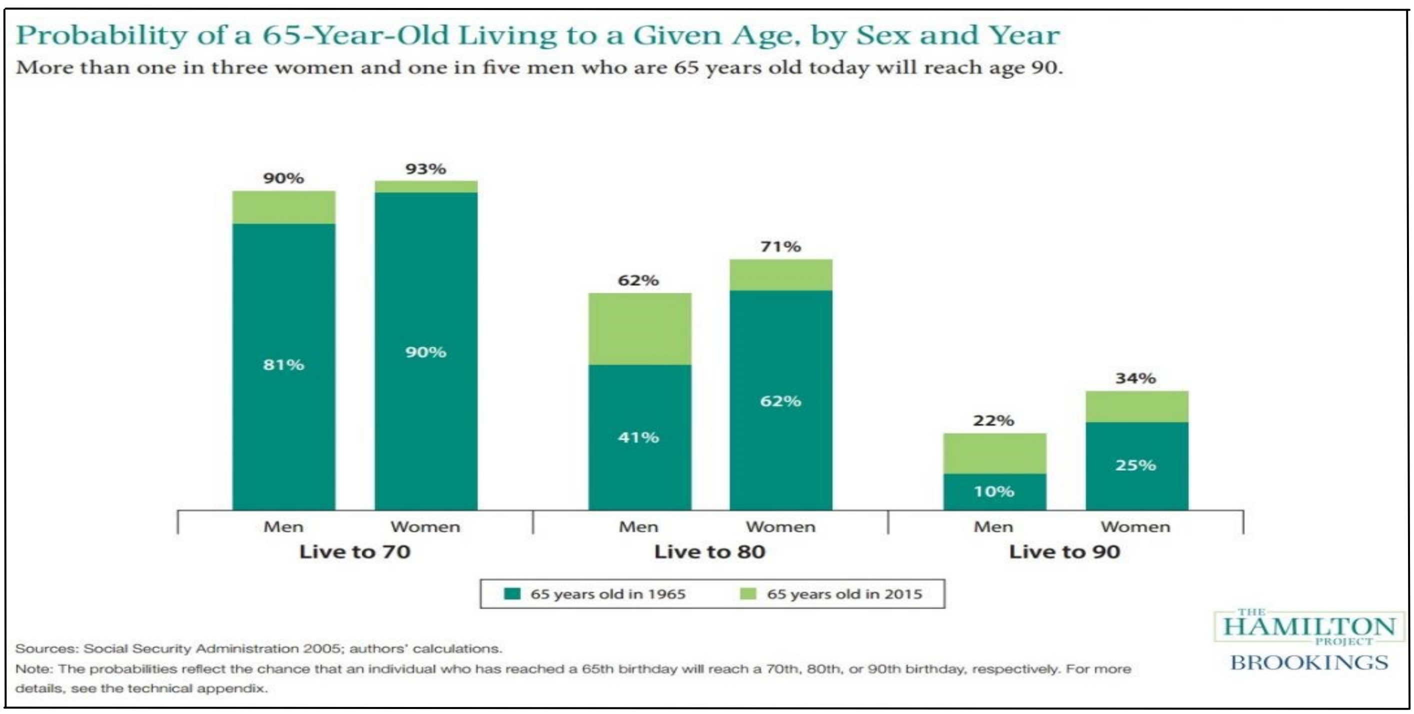
We Disagree With The Consensus View Of A 4% Withdrawal Rate For Safe Retirement

Michael Kitces recently published some interesting statistics regarding taking out inflation-adjusted withdrawals starting at "the 4% safe withdrawal rate". In only 12 of the 115 rolling 30-year time periods did the retiree finish with anything less than the original principal (and not much less). Put another way, 90%+ of retirees finished with more than their starting point. Over two-thirds of the time, the retiree finished with more than double their initial wealth. Half the time, wealth nearly tripled by the end of retirement.



Source: Michael Kitces

From our standpoint, the consensus view of a 4% safe withdrawal rate for retirement produces a very high probability of excess terminal wealth. Retirees can afford to spend more! The questions are: How much to take? And, when to start (or increase) withdrawals? An important variable to consider is investment time horizon (expected lifespan). Longer investment time horizons necessitate lower withdrawal rates. People are living longer than before. Starting at 65 years old, women have a one-third chance of reaching 90 years old and men have a one-in-five chance.



We Advocate A Sliding-Scale Framework For A Sustainable Portfolio Withdrawal Rate

As age increases, the median age at death also increases. In other words, the probability of survival is conditional, not constant. This uncertainty should be a vital component of retirement planning. The Internal Revenue Service (IRS) uses conditional life expectancies to derive Required Minimum Distributions (RMDs) from tax-deferred accounts. As age increases, the distribution period (life expectancy, also known as the factor) decreases, but the median age of expected survival increases. The IRS is effectively trying to "force" sustainable withdrawals - they need you to take withdrawals that are taxed, but they do not want you to run out of money in your lifetime. In fact, the IRS is being ultra-conservative in their life expectancy assumptions (over-estimating life expectancies to ensure a 100% safe withdrawal rate). Note what the IRS deems as "safe withdrawal rates": 3.6% at age 70, 5.3% at age 80, 8.8% at age 90, 15.9% at age 100, and 32.3% at age 110.

Selected Data From Uniform Lifetime Table (Source: Internal Revenue Service)

Age	Distribution Period ("Factor")	Implied Life Expectancy (Years)*	Withdrawal Rate For RMD **
70	27.4	97.4	3.6%
80	18.7	98.7	5.3%
90	11.4	101.4	8.8%
100	6.3	106.3	15.9%
110	3.1	113.1	32.3%

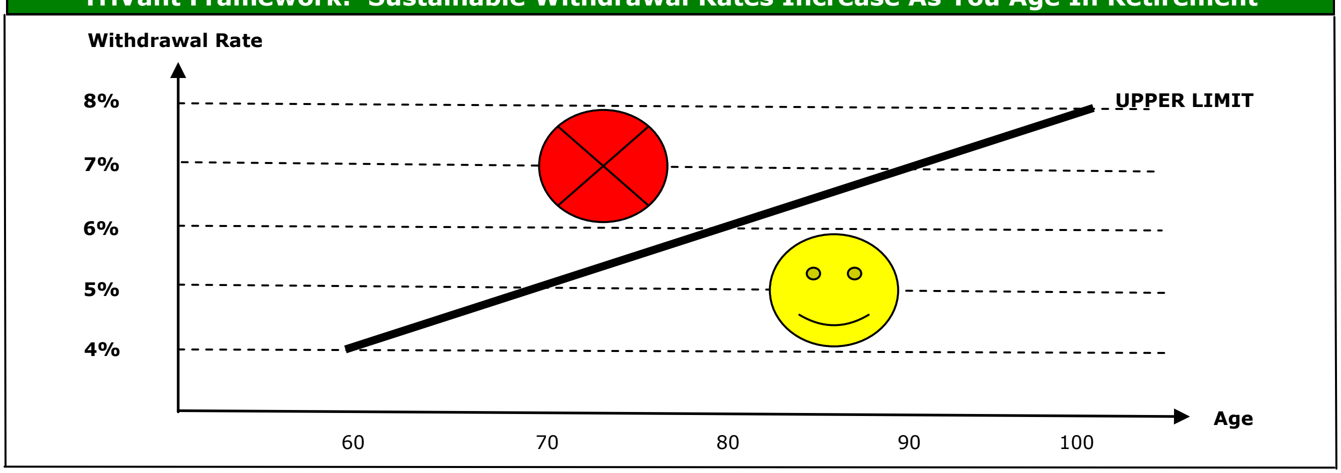
* Implied Life Expectancy = Age + Distribution Period ("Factor") ** Withdrawal Rate For RMD = 1 / Factor

It is reasonable to assume your portfolio will have some degree of positive returns over longer-term investment time frames. We assessed stock market returns since 1926 and the average annual return is 10.16%. The worst 10-year rolling return was only –1.40%. All 20 and 30-year rolling returns were positive.

Market Returns Since 1926	1-Year Return	10-Year Rolling Return	20-Year Rolling Return	30-Year Rolling Return
	92 Observations Average = 10.16%	83 Observations (4 negative periods)	73 Observations (no negative periods)	63 Observations (no negative periods)
Worst Return	-43.3% (1931)	-1.40% (2008)	3.11% (1948)	8.48% (1957)

A "safe withdrawal rate" (90%+ probability of success) should somewhat resemble the rates used by the IRS. We suggest the following "sliding scale framework" for sustainable portfolio withdrawal rates in retirement:

TriVant Framework: Sustainable Withdrawal Rates Increase As You Age In Retirement



Our framework is simple. Sustainable withdrawal rates increase with age and represent an "upper limit" of what is safe to do to have a 90%+ probability of retirement success. Withdrawal rates should be monitored and lowered if over the limit. If the rate of withdrawal is below the limit, this is fine - legacy will be enhanced.

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Equity Index Performance

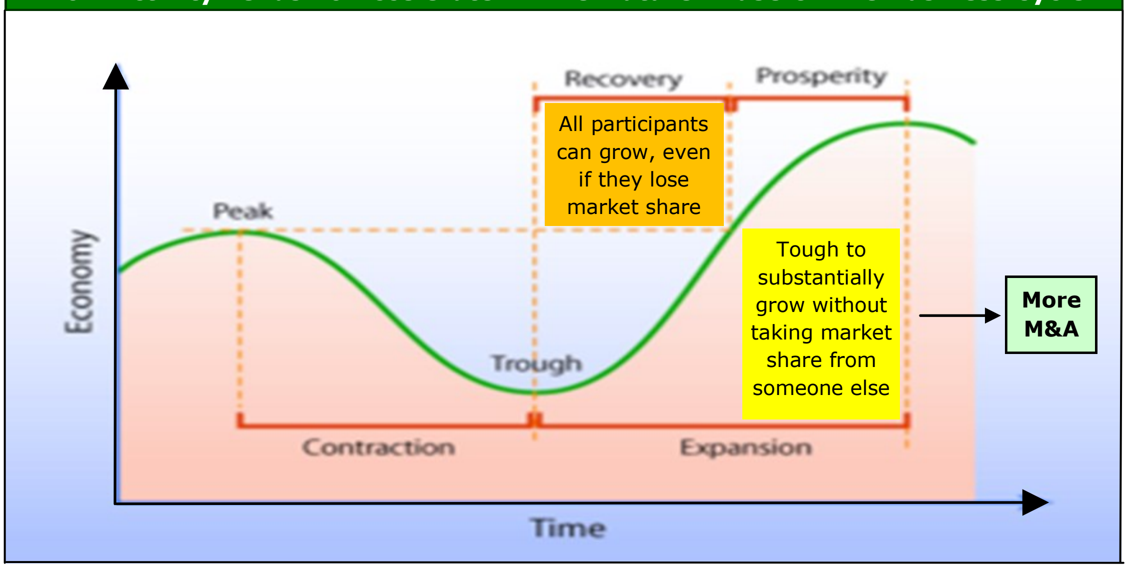
Index	Q2 2018	Year-To-Date
S&P 500 (Domestic)	**3.43%**	**2.65%**
MSCI EAFE (Foreign) *	**(1.24%)**	**(2.75%)**
MSCI Emerging Markets	**(7.96%)**	**(6.66%)**
MSCI EMU (European Monetary Union)	**(2.72%)**	**(3.17%)**
MSCI Japan	**(2.84%)**	**(2.03%)**

* Europe, Australia and the Far East

Mergers And Acquisitions Activity Is Up In 2018

We often see mergers and acquisitions (M&A) activity accelerate in the mature phase of the business cycle (where we are right now). During this phase, many companies struggle to grow substantially on their own - the only way for companies to extend their growth phase is to take market share from a competitor.

M&A Activity Tends To Accelerate In The Mature Phase Of The Business Cycle



The increased M&A activity in 2018 was predicted by a Deloitte September 2017 survey of top US executives ("The State Of The Deal: M&A Trends 2018"). The study noted "corporations and private equity firms foresee an acceleration of M&A activity in 2018 - both in the number of deals and the size of transactions". 65% of respondents said their cash reserves have increased and the primary intended use of that cash is for M&A deals. Additional firepower lies in stocks (at high levels) and bonds (still fairly low interest rates).

During the Second Quarter, high profile M&A transactions included the following:

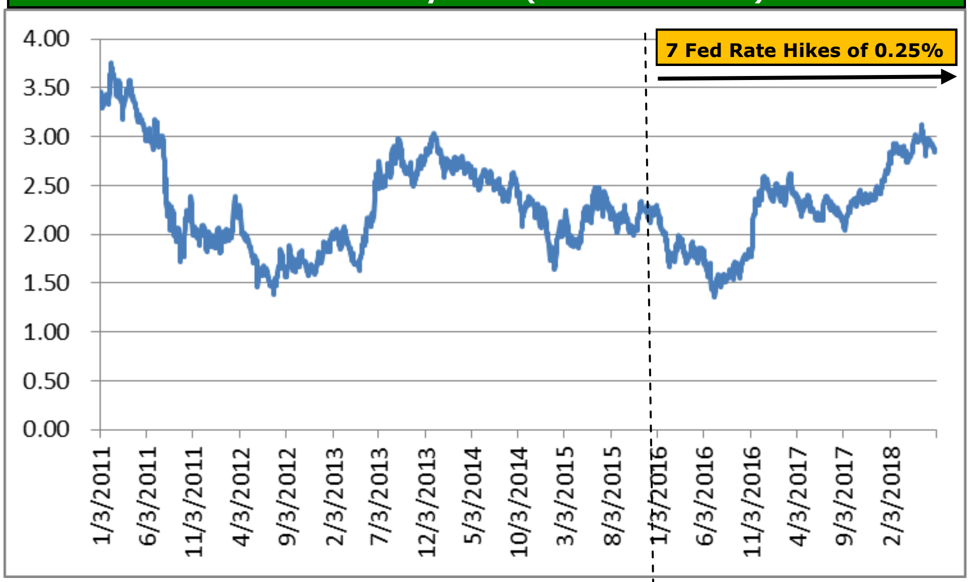
1. AT&T merged with Time Warner ($85 billion transaction)
2. Disney outbid Comcast to acquire the entertainment assets of 21st Century Fox ($71 billion transaction)
3. CVS acquired the health-insurer Aetna ($69 billion transaction)

Interest Rates Are Rising - Are Your Cash Holdings Earning Adequate Returns?

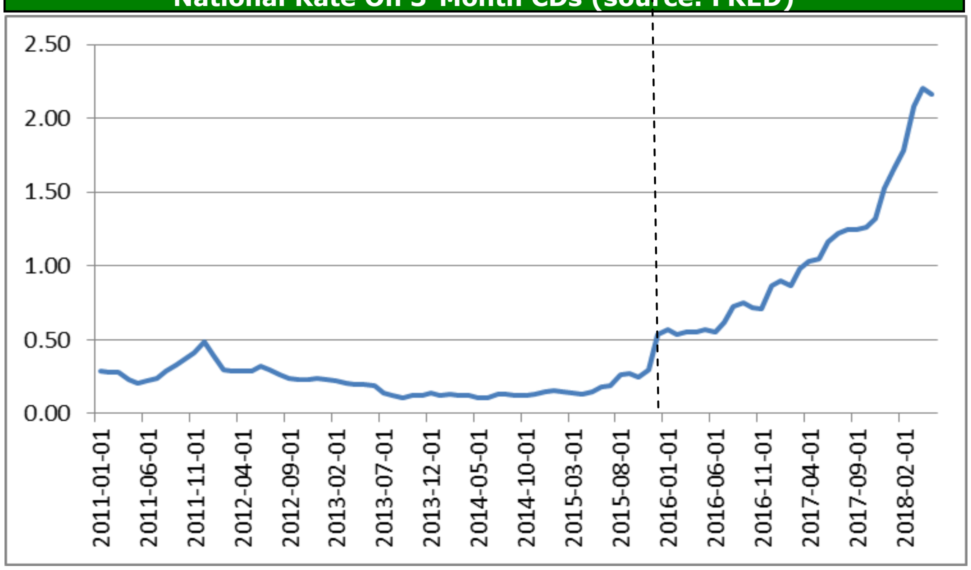
On June 14, the Federal Reserve raised its benchmark interest rate by 0.25% to a range of 1.75% to 2.00%. This was the second 0.25% rate hike this year (the last one was on March 22) and one or two more hikes are expected before year-end. As interest rates rise, bond prices fall. The Bloomberg Barclay's US Aggregate Bond Index fell 0.16% in the Second Quarter, and is down 1.62% year-to-date.

The Fed Funds Rate was zero from December 16, 2008 through December 15, 2015. For a long time, no one paid attention to the negligible rate of return for cash. With seven successive 0.25% rate hikes, yields on 10-Year Treasurys have doubled and 3-month certificates of deposit (CDs) have quadrupled. It is time to pay attention. If you have not yet done so, check to see if your cash holdings are earning adequate returns.

10-Year Treasury Yield (source: Telemet)



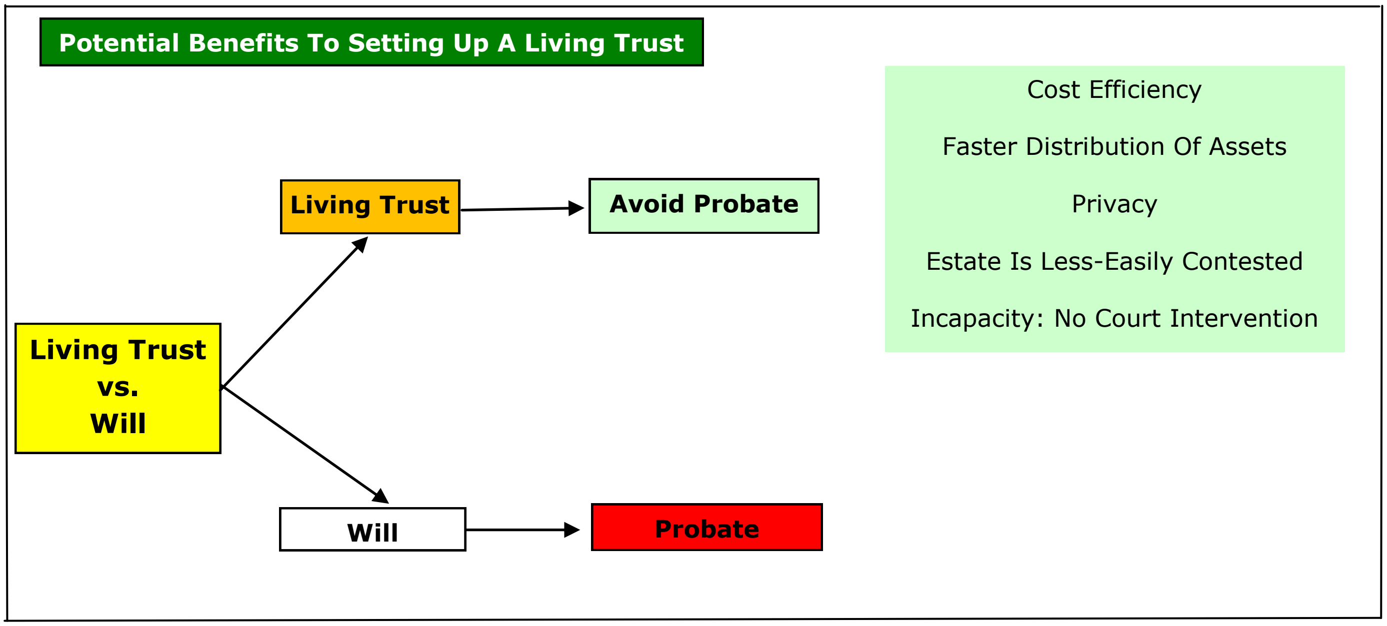
National Rate On 3-Month CDs (source: FRED)



Charles Schwab offers a large secondary market for CDs as well as attractive money market rates. You do not have to hold cash at your bank. Rather, you can integrate cash holdings within your Schwab accounts. Perhaps the rate of return is more advantageous through Schwab than your bank - contact us to find out.

Potential Benefits To Setting Up A Living Trust

A living trust ("revocable trust") is a written legal document through which your assets are placed into a trust that is designated for your benefit during your lifetime, and then transferred to your designated beneficiaries when you pass away by a "successor trustee" (your chosen representative). In contrast, a will is a written legal document that specifies a plan of distribution for your assets upon your death - your executor (noted in the will) oversees this process and nothing happens until you die. There are several potential benefits to setting up a living trust.



Cost Efficiency	Probate costs (court, legal) are expensive and are avoided with a trust
Faster Distribution Of Assets	Weeks (a trust avoids probate) versus several months (probate)
Privacy	A living trust is private; a will (probate is in court) is a public record
Estate Is Less-Easily Contested	It is much tougher for someone to challenge a trust versus a will
Incapacity: No Court Intervention	If you become incapacitated, your trustee can jump in right away; A will can only go into effect when you die (face a court guardianship)

Action Plan

We suggest the following steps to ensure your living trust is properly executed:

1. The trust must be "properly prepared" - hire an estate planning attorney so that the legal document is correctly written according to the law and your desires.

2. The trust must be "properly funded" - all of your assets must be properly titled in the name of your living trust and proper beneficiary designation forms must be completed naming the trust as the beneficiary of the assets. Bear in mind that your trust only controls the assets that have been transferred to it. Any assets not transferred to the trust will be subject to probate.

We are happy to assist you in assessing the potential merits of setting up a living trust, and when warranted, referring you to a legal professional. Please contact us.

We made a few portfolio adjustments in Q2. The rationale for these moves included a desire to continue our shift to larger companies with predictable revenue streams (hold higher quality defensive stocks in the event of a downturn), as well as increase Consumer Staples and Emerging Markets.

We bought Anheuser-Busch InBev SA/NV ADR (symbol: BUD), a large-cap ($170 billion market cap) beer company. Headquartered in Belgium, BUD is the leading global brewer with 18 of its brands each generating more than $1 billion per year in sales. BUD has a material cost advantage over its peers and consequently has what is called a "wide moat" - it is difficult for new entrants to compete. Through its 62% interest in its subsidiary, BUD has dominant market share in Brazil (64%), Argentina (77%), and Canada (41%). In addition, BUD has a leading market share in the United States (48%), Belgium (57%), the Ukraine (36%). and near-monopoly dominance in African markets. We believe BUD will benefit from rising middle class populations.

We pared back Booking Holdings Inc. (symbol: BKNG, formerly known as Priceline) and Western Alliance Bancorp (symbol: WAL) because the stocks have appreciated considerably. BKNG, a large cap ($104 billion market cap) global leader in online travel bookings by revenue, has more than doubled since we initially purchased the stock in 2013. WAL, a small cap ($6 billion market cap) regional bank with offices in Nevada, Arizona, and California, has more than tripled since we initially purchased the stock in 2013. When an individual stock rises considerably in relation to the rest of the portfolio, its relative weighting exceeds our portfolio target. Being cognizant of individual stock risk control, we pare back exposure when this happens.

We will continue to closely monitor the market and adjust your portfolio as needed. Please feel free to contact us anytime to discuss questions or comments you may have. We will keep you informed of portfolio progress.

Respectfully submitted,

TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

John Barber, CFA   Dan Laimon, MBA   Michael C. Harris, CFA, CFP®