SUMMER 2017

A View From The Hill

A QUARTERLY PUBLICATION FROM CEDAR HILL WEALTH MANAGEMENT

120 N LaSalle, 33rd Flr.
Chicago IL 60602
312.445.2900

An affiliate of MB Financial Bank, N.A.

CEDAR HILL
WEALTH
MANAGEMENT

Feature Article

We would like to share our recent interview with Audrey Skiera, Cedar Hill's newest employee. Audrey joins us as a Senior Wealth Strategist, helping clients develop tax planning, wealth transfer and other strategies to preserve and grow their wealth. We are pleased to have Audrey share her insights on her role as a Wealth Strategist for Cedar Hill.

What is a Wealth Strategist?

A Wealth Strategist is a professional who engages clients in conversations centered on best practices in planning for wealth transfer, estate taxes, income taxes, insurance, philanthropy, and succession planning for closely held businesses. As a former practicing estate planning attorney and CPA, I am pleased to be able to share with Cedar Hill clients my experience and knowledge of planning for these areas.

There are so many topics under the wealth strategy umbrella. Where does the conversation begin?

We begin the conversation by first understanding a client's goals. Together, we identify what the client is trying to accomplish and what is truly most important to them. We work alongside the client to assemble a current balance sheet and discuss how assets are titled. We may then review and discuss the client's current legal documents, including their wills, revocable trusts, irrevocable trusts, powers of attorney, and business agreements. Spending time on this first phase is a critical step before moving forward with designing or updating a client's plan.

We hear this from client's all the time: "Estate plans are for people who want to avoid the death tax. I don't need to worry about that."

While minimizing estate taxes is a great motivator for many taxpayers establishing estate plans, the current federal estate tax law allows a married couple to shelter almost $11M in assets from estate taxes; it's a mistake to think that only individuals with taxable wealth need estate plan documents. Estate plans address many issues beyond avoiding estate taxes, including, among other things, care for a loved one who can no longer make decisions for themselves and the efficient transition of wealth at death. With a few simple documents, an individual can save their family significant cost and stress, and also preserve wealth for future generations.

With a few simple documents, an individual can save their family significant cost and stress, and also preserve wealth for future generations.

Feature Article

Continued

Isn't there a strong possibility that there won't be an estate tax and so estate planning won't be necessary?

Yes, a repeal of the federal estate tax is a possibility. It has been repealed four times since its enactment, in 1797, in the form of a stamp tax on probated wills, with the last repeal occurring in 2010. However, even if repealed, there is a strong likelihood we would see the tax return at some point as political tides ebb and flow. In addition, often a repeal of the estate tax brings a corresponding change in income tax laws related to the death of a taxpayer that will similarly require thoughtful planning. It should also be noted that when we hear news stories about a possible repeal of the estate tax, this only refers to the federal estate tax and not the gift tax. The gift tax very likely will not be affected by a repeal of the estate tax. In addition, there has been no discussion of repealing the Illinois estate tax which allows a $4,000,000 exemption and tax rate of up to 16%.

Many clients already have plans in place. So they can sleep well at night, right?

Kudos to those clients who have gone through the planning process. Unfortunately, or fortunately, life typically brings changes in personal or financial circumstances from year to year. Those changes may impact planning that is already in place. It's important for clients to review their plan from time to time; to read it, as well as sit down with their professional advisors to make sure they are still on track. This simple task can help avoid what could otherwise be a derailed estate plan.

I already have an attorney so I don't need to meet with another attorney, right?

Our goal is to share best practices around planning for wealth with Cedar Hill clients. We do this by sharing knowledge of different strategies and designs that may be appropriate for each situation. As we have specific knowledge of a client's financial picture, we partner with clients and their personal attorney to regularly review the plan and make proactive updates, though we rely on the client's personal attorney to draft and update the documents.

Final Thoughts

For clients who are ready to begin but don't know where to start, what would you tell them?

The best place to begin is with your Cedar Hill advisor. Reach out to your advisor to discuss your goals and get a clear picture of where you are: net worth, titling, and cash flow. From there you'll be ready to have more focused conversations around proactive planning.

Our goal is to share best practices around planning for wealth with Cedar Hill clients.

Market Outlook / **Equities**

Equities

Global stock markets continued to rally during the second quarter and collectively had their best opening six months in years. The S&P 500, MSCI EAFE, and MSCI Emerging Markets indices posted 9.3%, 13.8%, and 18.4% year-to-date returns, respectively. In the past 20 years, only four first-half rallies have been as widespread, or better than, the current global surge. Large cap technology names, including Facebook, Apple, Amazon, Microsoft and Google, led the way with the technology sector posting a 17.2% return during the quarter. Nearly every sector posted positive performance, with only telecommunications and energy sectors losing value year to date.

Equity markets have been buoyed by multiple factors this year including:

• Strong Corporate Earnings Growth

According to FactSet, first quarter profits by S&P 500 companies, reported during the second quarter, were cumulatively 14% higher than a year ago. With earnings growth outpacing equity market returns, positive investor sentiment continues to prevail.

• Steady Economic Growth

Nearly every major economy in the world has posted positive year-to-date economic growth. Europe, in particular, has been the beneficiary of surprisingly stronger-than-expected economic conditions, and sentiment among euro zone businesses and consumers is as high as it has been since before the financial crisis.

• Low Interest Rates

While the U.S. Federal Reserve raised rates again in June, which marks the fourth hike since beginning the tightening cycle in December 2015, interest rates in the U.S. and around the globe continue to hover at low levels by historical standards. This low rate environment continues to push investors to equity investments.

All of this positive economic sentiment continues to occur in the face of limited help from potential pro-growth legislative policies that the Trump administration has promoted. Though much remains uncertain in Washington, passing just a portion of the proposed legislation could sustain growth in 2018.

High stock valuations and tranquil trading this year have prompted concerns regarding investor complacency. With the S&P 500 trading at about 18 times projected earnings over the next 12 months, around its highest level in 13 years, even Federal Reserve Chairwoman Janet Yellen warned that asset valuations were “somewhat rich.” By historical context, however, the forward multiple was above 26 times at the dot-com bubble’s peak in 2000, according to FactSet.

In the past 20 years, only four first-half rallies have been as widespread, or better than, the current global surge.

Market Outlook / **Equities**

Continued

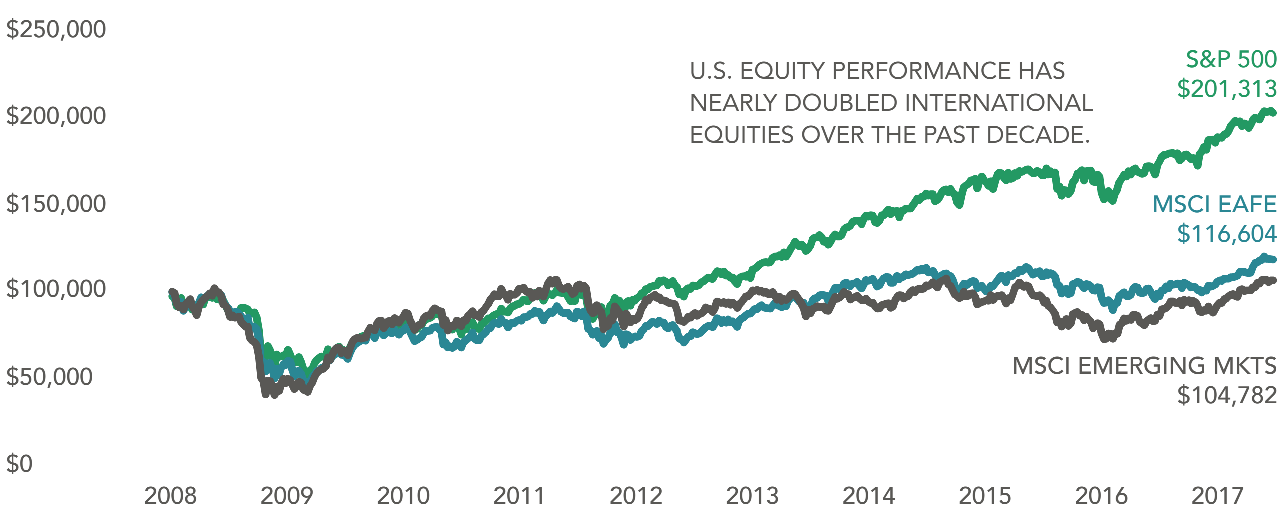
While equity valuations remain elevated, and certain investments remind us of past bubble environments (i.e., cryptocurrencies including Bitcoin and Ethereum), we do not believe U.S. equities in aggregate are trading at unreasonable levels given the economic and interest rate backdrop. We do, however, expect that U.S. equity returns will be more muted over the next decade versus recent experience.

We are slightly more optimistic about the prospects for international equities as valuations remain more modest outside the U.S. The MSCI EAFE and MSCI Emerging Markets indices are trading at 15 times and 13 times projected earnings, respectively, over the next 12 months. With U.S. markets outperforming international equities by nearly 100% since the beginning of the financial crisis, international developed and emerging markets appear well positioned to benefit from an uptick in economic growth.

Despite all of this good news, we are keenly aware that risks will continue to prevail during the second half of the year. Market sentiment could change quickly as healthcare and tax reform debate drags on in Washington. International worries could flare up quickly given concern over possible Russian influence during the U.S. presidential election and the potential threat posed by North Korea. Finally, and most importantly, a monetary policy mistake by a global central bank could wipe out a lot of the good that has been accomplished in the post-financial crisis environment.

Despite these risks, we remain constructive in our market outlook for the remainder of the year. The economic expansion we have experienced over the past nine years appears to be aging gracefully. This being said, we are not Pollyannaish in our outlook and are positioning portfolios accordingly. We are avoiding U.S. stocks that carry high growth expectations and extreme multiples. Additionally, we are increasing diversification into international equities that offer better value, and looking for pockets of opportunity where we believe the market may be misjudging risk (see discussion of Master Limited Partnerships later in this letter).

U.S. EQUITY VS. INTERNATIONAL EQUITY PERFORMANCE
FROM 1/1/08 THROUGH 6/30/17



Source: Bloomberg

Market Outlook / **Fixed Income**

Fixed Income

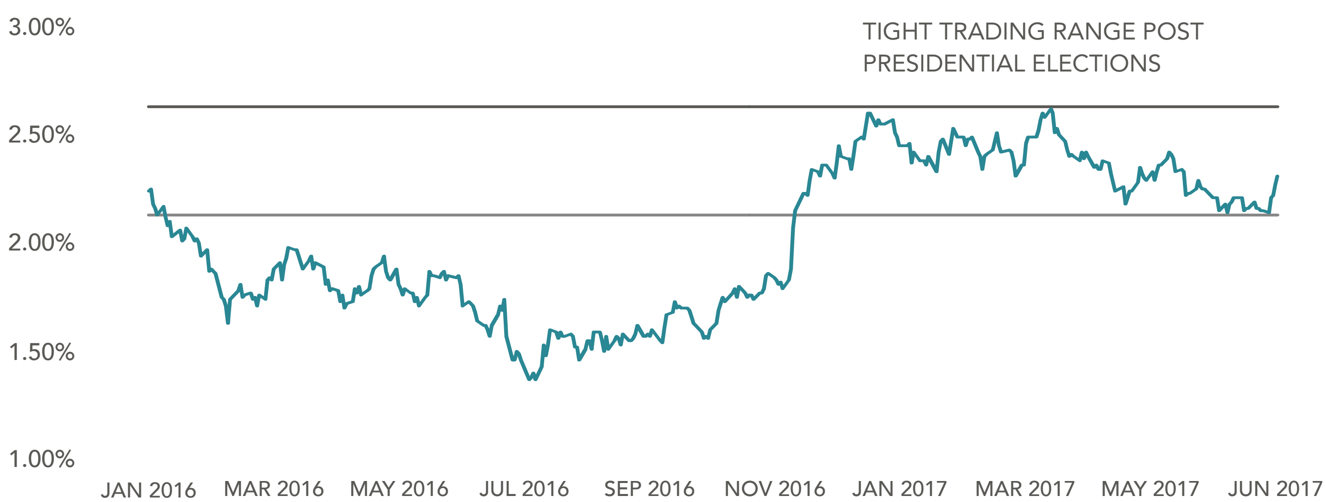
Fixed income markets spent the second quarter of 2017 within a well-defined trading range established after the 2016 presidential election. During the quarter, the 10-year U.S. Treasury mainly traded at the lower end of its 2.1% to 2.6% year-to-date range, though it rallied to 2.3% at quarter end due to heightened concerns that global central banks may reduce some of the easy monetary policies put in place since the financial crisis.

While Treasury yields typically reflect U.S. economic growth and inflation expectations, other technical factors also affected yields during the second quarter. This includes a weakening U.S. dollar which has reduced the need for foreign central banks to sell Treasury reserves to defend foreign currency levels and helped anchor yields.

Looking forward, we expect the current trading range to remain intact and plan to buy bonds when yields reside in the top half of the range. Though some investors continue to fear inflationary pressure will push rates higher, we view a low-rate environment as the most likely scenario for the short/medium term. Rates rising too far and/or too fast would likely cause economic activity to slow down and payments on U.S. debt to spike.

Municipal bonds continue to be relatively attractive as yields remain elevated off 2016 lows with no credible tax reform actions in sight. Corporate credit spreads and yields remain near historically tight levels as default rates are expected to be quite low. Importantly, we continue to stick to our high quality fixed income discipline as limited yield can be gained by taking additional credit risk.

10-YEAR TREASURY YIELD
FROM 1/1/16 THROUGH 6/30/17



Source: Bloomberg

Other Topics / **The Goldilocks Global Economy**

The Goldilocks Global Economy — Is it time to sell?

Global economic conditions appear near perfect for equity markets – inflation is quite low, deflation risk has abated, economic growth continues to trend upward and monetary policy remains quite accommodative. Add to this that fears about an EU currency crisis, Brexit or Trump have so far proved to be unfounded; it is easy to explain why the S&P 500 has risen nearly 18% over the past year.

So why is everyone so worried that everything is just too perfect?

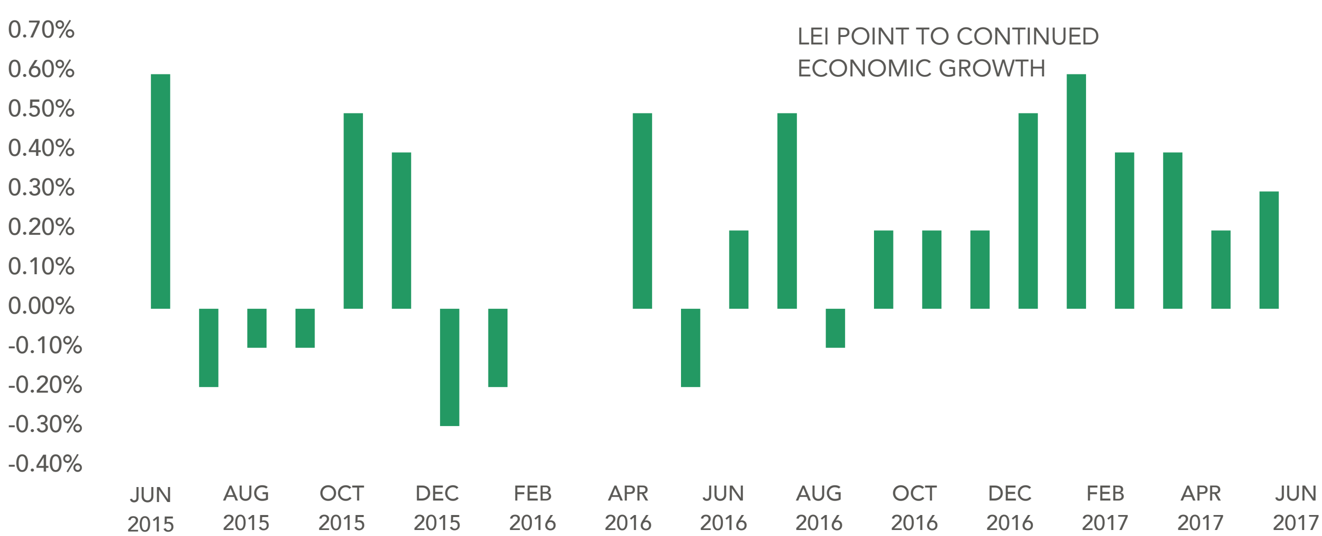
Putting aside our natural tendency to worry, it is true that equity valuations remain elevated, second quarter 2017 economic figures came in lower than most expected and the bar is high for additional corporate earnings growth. All of these are typical characteristics of late cycle markets.

So where does this leave us?

We still believe a near-term 20% bear market correction is a low probability event as the economy does not appear to be entering a recession, nor are equity valuations back at the extreme levels they were during the dot-com crash or other times of peak complacency. While a modest pullback may occur, as long-term investors, our job is to properly diversify portfolios so that our clients can withstand paper losses associated with short-term corrections.

Rather than making a market timing call, we continue to position portfolios to play both offense and defense. This positioning should allow portfolios to capture market upside associated with additional economic and corporate earnings growth. By sticking to our fundamental value discipline and diversifying portfolios appropriately, we should also be able to help protect capital for when market sentiment changes.

LEADING ECONOMIC INDICATORS (LEI)
FROM 5/31/15 THROUGH 6/30/17



Source: Bloomberg

Other Topics / **Master Limited Partnerships**

Master Limited Partnerships — Not a repeat of 2014

While Master Limited Partnerships (MLPs) are off to a difficult start in 2017, the Alerian MLP index was down 2.7% through the first six months of the year, the current environment is very much different than what caused MLPs to lose nearly 50% of their value between late 2014 and early 2016. In fact, MLP fundamentals have only improved since the beginning of the year and our outlook for the strategy remains quite positive.

As a reminder, midstream MLPs own pipelines that move oil and natural gas from the wellhead to the refinery and eventually to the consumer. MLPs mainly make their money by charging exploration and production (E&P) companies a toll based on the amount of energy volume moved through their pipelines.

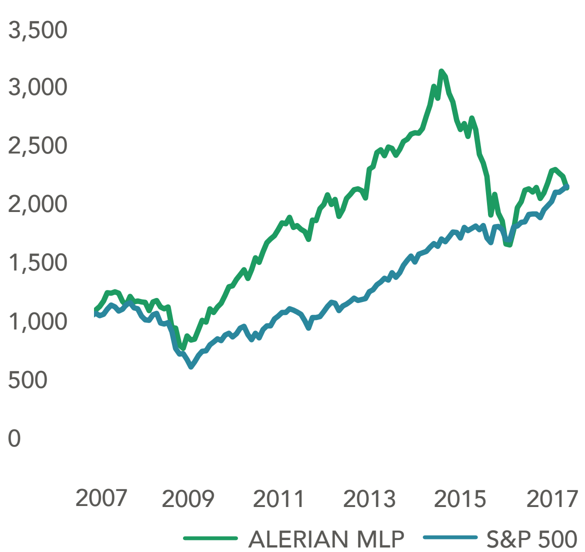
Despite midstream oriented MLP companies taking very limited commodity price risk, MLP equity prices have declined in 2017 due to negative investor sentiment towards all energy-related investments as the price of oil (WTI) has fallen over 14% year to date.

Unlike 2015 when U.S oil and gas production fell alongside energy prices, energy production is actually increasing in 2017, and MLP revenues and profitability are improving accordingly. Thus, even as the U.S. continues to experience an energy renaissance which should only be helpful for MLPs, we have a disconnect between MLP equity prices and their underlying fundamentals

Additionally, fears about mass defaults by E&P or MLP companies are quite limited now versus 2015, as MLP and E&P companies have reduced the amount of leverage on their balance sheet. Hence, the possibility that MLPs will need to cut their dividends has been dramatically reduced.

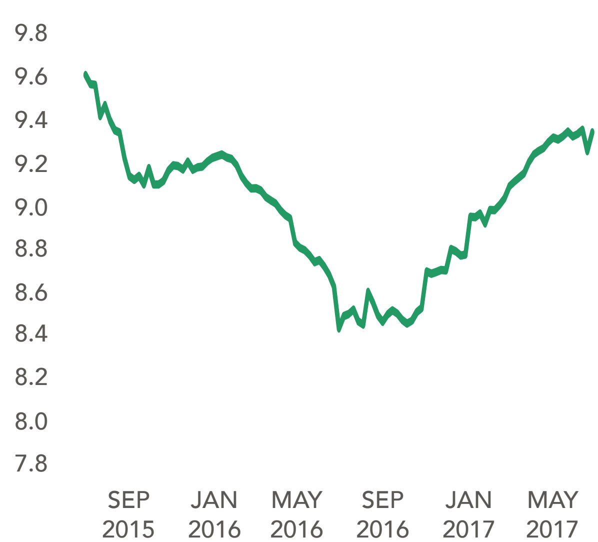
While we do not know when oil prices will stabilize and/or rise, with the 7%+ dividend yields paid by MLPs appearing to be quite safe, investors are not only getting paid a very nice yield to wait, but should also benefit from 4% to 6% distribution growth expected over the next few years. Though investment results can never be guaranteed, based on these fundamentals, we believe the strategy is well set-up to produce double-digit returns for investors over the medium term.

S&P AND ALERIAN MLP GROWTH OF $1,000
FROM 1/1/07 THROUGH 6/30/17



Source: Bloomberg

U.S. OIL PRODUCTION, MILLIONS OF BARRELS/DAY
FROM 7/1/15 THROUGH 6/30/17



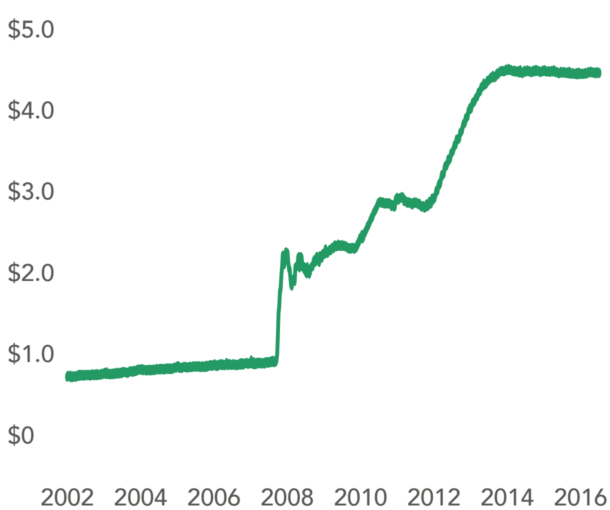
Source: Bloomberg

Other Topics / **Fed Balance Sheet**

Federal Reserve Continues Interest Rate Normalization In Second Quarter

After hiking the Federal Funds Target Rate (FDTR) in December 2016 and March 2017, the Federal Reserve (Fed) continued its interest rate normalization program and raised the Target Rate an additional 0.25% in June to bring the FDTR to 1.25%. Going into 2017, the market had priced in four to five hikes of 0.25% each for the year, and June's move stayed largely on script. The June move was not a foregone conclusion as modest first quarter GDP and tepid second quarter inflation data had some traders betting on a September hike over a move in June. The Federal Open Market Committee's comments indicate that the members believe the soft economic data is transitory and feel continued monetary normalization is appropriate. Market expectations currently call for another interest rate hike at the December Fed meeting.

FEDERAL RESERVE TOTAL ASSETS
IN TRILLIONS, FROM 12/18/02 THROUGH 7/12/17



Source: Bloomberg

While investors bicker over the Fed's interest rate policy, we are paying particular attention to the Fed's desire to start reducing the size of its balance sheet, likely starting in the second half of 2017. The purchase of Treasury and mortgage bonds since the 2008 recession has ballooned the Fed's assets from under $1 trillion in 2008 to over $4.4 trillion today. While the Fed will not sell bonds to reduce their balance sheet size, the proceeds from maturing bonds will not be reinvested which thereby removes a large buyer from the market. This reduction in demand, with supply remaining stable, has the potential to move rates higher.

Market expectations currently call for another interest rate hike at the December Fed meeting.

While we are willing to give the Fed the benefit of the doubt that any balance sheet reduction will be methodical and well telegraphed to the market, we remain cognizant that this is the first time the Fed has pursued this policy and a mistake could occur.

In The News

Other Cedar Hill News

We have been very busy over the last quarter. We are pleased to be up and running in our Chicago office which is located at 120 N. LaSalle Street. In addition to our downtown location, Cedar Hill continues to maintain an office in Rosemont. Most members of our team will work from the Chicago office.

As you can see, we have updated the look and feel of our quarterly newsletter. We are excited to share our new branding and logo design with you. Further updates to our materials are underway, and in the coming weeks, we will launch our newly updated website. While our layout and design are new, the key elements of the design serve to maintain and celebrate the history and heritage of our firm.

While you may notice some cosmetic changes, most importantly, our deep commitment to providing the highest level of wealth management and client service, and working with you toward achieving your financial goals, continues as strong as ever.

Emergency Contact

As a reminder, our website (www.cedhill.com) has an “Emergency” link under the Contact Us tab. In the event of an interruption to normal business operations at our office, this link will redirect users to a web page that will provide updates and alternative phone numbers for communications with clients and interested parties. In such an event, updates will be provided continually until operations are fully restored to normal.

Disclosure

This newsletter is intended to provide general information only and should not be construed as an offer of specifically tailored individualized advice or results. Clients or prospective clients should not assume that their performance will equal or exceed historical market results and/or averages.

Specific securities identified do not represent all of the securities purchased, sold, or recommended for advisory clients, and the reader should not assume that investments in the securities identified and discussed were or will be profitable. Past performance is not indicative of any specific investment or future results.

Views regarding the economy, securities markets or other specialized areas, like all predictors of future events, cannot be guaranteed to be accurate and may result in economic loss to the investor. All statements other than statements of historical fact are forward-looking statements (including words such as “believe,” “estimate,” “anticipate,” “may,” “will,” “should,” and “expect”). Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Various factors could cause actual results or performance to differ materially from those discussed in such forward-looking statements.