Stock Yards Bank & Trust

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INVESTMENT & FINANCIAL INSIGHTS

A NEWSLETTER FROM THE WEALTH MANAGEMENT GROUP OF STOCK YARDS BANK & TRUST

Q4: 2015

KATHY C. THOMPSON
Senior Executive Vice President

GORDON MAYNARD
Managing Director of Trust

Our Stock Yards Bank Wealth Management Group Family

By Kathy C. Thompson

When you think of family, what comes to mind? Perhaps your parents, children, or siblings? At Stock Yards Wealth Management Group, we think of our clients as "family." No, our Wealth Advisors may not actually be family in the usual sense of the word, but, as their trusted advisor, our clients feel we are part of their family as we help them make decisions regarding their financial well-being. We are here to support our clients during difficult times such as a divorce or the death of a loved one and also to celebrate joyous events such as retirement or the birth of a grandchild. We can provide the unbiased advice our clients need when they are faced with decisions regarding how to provide financial security for themselves and the next generation.

Our Wealth Advisors enjoy meeting and working with their clients and their client's family to help develop a strategy to meet their goals and objectives now and to ensure their wishes are carried out for future generations. Whatever the need, the members of the Stock Yards Wealth Management Group team are here to assist you. Please contact any of our advisors to learn more about all the services we have to offer. ♦

Economic & Market Outlook: Q4, 2015

MARK HOLLOWAY
Chief Investment Officer

The domestic stock market penalized investors with a return in the third quarter of -6.44% for the Standard & Poor's 500. Through September 30 the year-to-date return for the market was -5.29%. Volatility increased during the quarter with wide swings in the index and individual stock prices becoming the norm. Investors responded to the increased volatility and negative returns by shifting money into safer fixed income investments. High quality bonds had positive returns of 0.95% for the quarter and are now up 1.77% for the first nine months of 2015.

Second quarter economic growth was revised upward to 3.9%. Market participants appeared to be more preoccupied with slowing Chinese economic growth and weaker than expected economic data here at home. A slowdown in manufacturing, weaker than expected employment numbers, and concerns over corporate sales and profits caused many economists and strategists to reduce growth expectations for the third quarter and second half GDP. Corporate earnings reports are becoming less positive with many companies missing sales expectations. Uncertainty regarding future Federal Reserve short-term rate increases also played a role in the increased price volatility and the negative stock market returns for the quarter.

We are maintaining our 2015 and 2016 forecast for slow but positive economic growth. We do not see a recession in our economic future for a number of reasons. First, interest rates are low and will probably stay low for the foreseeable future. Low interest rates are highly correlated with positive economic activity. They encourage both housing and consumer spending. Secondly, U. S. households have reduced debt levels and increased savings. Consumers have also been helped by lower energy prices. These factors will help to increase consumer spending and aid economic growth. Third, 2016 is a presidential election year. Politicians have traditionally favored legislation and policies that support economic growth and the capital markets in election years in order to increase the odds of re-election. Finally, we believe that when the Federal Reserve does eventually increase short- term interest rates they will do so in a slow and deliberate manner so as not to disrupt the capital markets or the economic recovery. The more weak economic news we experience, the longer the Fed will delay an interest rate increase.

The Importance of Talking Money with your Family

TODD K. MEADOR, CFP®, CTFA
Wealth Planning Manager
and Wealth Advisor

In the financial world, so much of the conversations involve technical financial topics, including asset allocation, market fluctuations, investment time horizon, and investment policy statements. While these topics are important, there is often an even more important conversation that is critical for clients to have and that is the discussion of their finances with their family.

START THE DISCUSSION

Once you start thinking about the future and how you want your wealth to continue on, it's tempting to dive right in and start putting financial strategies into action immediately. However, without a comprehensive family discussion, problems can arise when it comes time to put these strategies into place. Although discussing your financial situation with your family can be uncomfortable, it provides a multitude of benefits.

First, it helps create a more open and trusting relationship within your family, allowing you to pass down more than just monetary wealth. By establishing open communication from the beginning, children and grandchildren are given the opportunity to express their opinions and money values, which helps develop mutual respect between you and your heirs.

Second, your chances of following through with your multigenerational wealth plan are greatly improved by involving your future heirs. Your motivation to secure their future (and having them take an active interest in such) is greatly enhanced and provides the drive you need to finish the task.

Next, it provides a way to educate children and grandchildren and teaches them financial management skills pertaining to long-term investment structure and family philanthropy.

Another benefit is the securing of non-financial assets. When you hear the term "wealth transfer" it's easy to focus solely on financial

What should investors do during periods of higher capital market volatility and increased economic uncertainty? One of the most important steps in preparing for volatility is to review your overall asset allocation to insure that it matches your tolerance for risk and time horizon. Many investors have used common stocks as bond substitutes as a way to deal with the very low interest rates on fixed income investments. This practice has been widespread and has resulted in skewed asset allocations toward higher risk securities. Investors should review asset allocation to insure that it meshes with their overall estate, tax, and insurance plans and make adjustments where necessary. Stock Yards Wealth Management group offers full service financial planning to clients to help facilitate this process.

Diversification becomes particularly important during volatile market periods. Investors should have exposure to all equity areas and markets including international and domestic small-cap, mid-cap, and large-cap as well as both value and growth securities. Exposure to all industry groups is recommended and industry group concentrations and legacy holdings should be reviewed to reduce portfolio risk. Fixed income diversification is equally important. Fixed income holdings should be diversified as to type of bonds and maturities. Mutual fund holdings and lower rated bonds should be reviewed for appropriateness. Many investors have extended maturities and lowered quality in search of higher yields and do not realize the amount of interest rate and default risk they have added to supposedly stable bond portfolios. Municipal bond holders should consider diversifying away from a one state approach into bonds of other higher quality states with conservative finances and budget surpluses. The underlying services and usage supporting the bonds should also be scrutinized with essential services preferred over unnecessary community projects.

The investment team at Stock Yards has always been biased toward high quality securities in our security selection process. Companies with conservative financials, clean balance sheets, and well known products or services are better able to weather uncertain economic times. We have also concentrated on companies that not only pay dividends but also have a history of increasing dividends. The security of a stable source of return from cash dividends provides downside protection during volatile market periods. Our core equity portfolio and mutual fund selections generally have lower overall valuation ratios than the market in general, providing further price protection. The investment team also monitors the earnings reports of our holdings to insure the quality of the reported numbers. Companies that use suspect accounting practices or derive earnings growth from tax deferrals or non-operating sources are penalized during volatile times.

Please contact your wealth advisor for a formal review of your portfolio and a more complete explanation of our current economic and capital market outlook. We appreciate and thank you for your business.♦

assets such as money, investments, businesses, real estate, etc. However, a successful wealth transfer should consider what else predecessors pass down besides financial wealth, which may include family stories, traditions, values, or principles. All of this information reinforces your goals and strategies for subsequent generations.

Finally, it can help avoid later arguments over who is given what. If the reasons behind financial decisions are made clear before your death, heirs are more likely to stick to the plan after your death.

SETTING COMMON GOALS

Before you begin laying out your plan with your trusted advisor, it is good to get an idea of where family members stand on money values. This communication is about more than just dollars and cents.

The purpose is to get a clear idea of what the wealth will mean to the members of your family. A simple interview process with future generations can help highlight common and differing areas of financial management. Without a sense of family cohesiveness and shared values, money can be lost due to arguments between beneficiaries and/or careless spending by your descendants. Making sure your financial principles are in-line with those of your future heirs, beneficiaries, and trustees can help establish the direction of your wealth transfer and prevent future conflicts.

CHANGE YOUR THINKING

One of the most challenging aspects of transferring wealth can be forcing yourself to think of your money in a different way. Instead of thinking of your money as your own, you should now think of it in terms of us, and how to make our family wealth live on through future generations.

Be advised, this can be especially frustrating since you don't know and can't control how future generations will take care of this wealth. "The denominator problem" of the fact that your wealth will be split into smaller and smaller portions as new branches of your family tree appear, is an important factor to consider when thinking about the future. The next generation will almost certainly look to you for financial guidance, whether consciously or subconsciously.

The key is for you to remember that, when talking to and setting an example for the next generation in terms of spending, their amount of family wealth may be considerably less than yours if they rely solely on an inheritance. This realization allows you to be more realistic when helping the future generations get the tools they need to build their own wealth, such as education or skills training.

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WE ARE ALL IN THIS TOGETHER

Upon talking with family and working with your trusted advisors to put the appropriate wealth transfer strategies into place, many people consider themselves "done" with multigenerational planning. However, changes in financial standing, health issues, and gaining new family members are all natural parts of life. Each of these changes will affect how you want to plan for the future, so checking in with your financial team to adjust your wealth transfer plan when life events occur, or to just refresh your memory as to your plan is very important in ensuring it is up-to-date and in-line with your goals and desires.

After all, ensuring that all members of your team (you, your family, and your financial advisors) are working together, in unison maximizes your probability for ultimate financial success! ♦

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Stock Yards Bank & Trust
SINCE 1904

100 N. First Trust Centre
200 South 5th Street
Louisville, KY 40202

Stock Yards® Bank & Trust
THE WEALTH MANAGEMENT GROUP

P.O. Box 34290, Louisville, KY 40232-4290

4800 Brownsboro Road - Louisville, KY 40207
200 South 5th Street - Louisville, KY 40202
2860 Charlestown Road - New Albany, IN 47150

KATHY THOMPSON, JD - Senior Executive Vice President, (502) 625-2291
E. GORDON MAYNARD, JD - Managing Director of Trust, (502) 625-0814
MARK HOLLOWAY, CFA - Chief Investment Officer, (502) 625-9124
TODD F. BARRON, CFP® - Investment Advisor / Client Development, (502) 625-9120
JACQUELINE HAMM, CFP® - IRA Consultant, (502) 625-9132
LYNN LAND, Retirement Plan Advisor, (502) 625-9913
TODD MEADOR, CTFA, CFP® - Wealth Advisor / Wealth Planning, (502) 625-2546
ALEXANDER M. SAY, JD - Wealth Advisor / Estate Planning, (502) 625-9190
ROSE WATHEN, CTFA - Wealth Advisor / Southern Indiana, (502) 625-2512

Help us go GREEN!

IF YOU WOULD LIKE TO RECEIVE "INVESTMENT INSIGHTS" VIA EMAIL, PLEASE SEND YOUR EMAIL ADDRESS TO:

judith.schmuckie@syb.com