Stock Yards Bank & Trust

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INVESTMENT & FINANCIAL INSIGHTS

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

Q2: 2016

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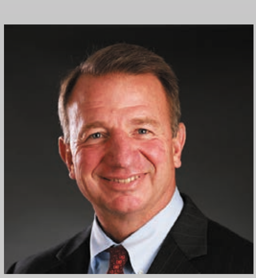

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APRIL SHOWERS BRING…

New Faces To Stock Yards Bank Wealth Management Group

By Kathy C. Thompson

March Madness is behind us and Spring is in full swing. Along with welcoming a new season, we are pleased to welcome some new faces to Stock Yards Bank Wealth Management Group.

Steve Mercer has joined us as a Wealth Advisor. Steve is responsible for the administration of personal trust accounts, most particularly those including special assets. Steve earned his Bachelor of Arts with a major in Business Administration cum laude from Bellarmine University, his Juris Doctorate cum laude from Louis D. Brandeis School of Law at the University of Louisville and his L.L.M. in Taxation cum laude from Fredric G. Levin College of Law at the University of Florida. Prior to joining Stock Yards, Steve worked for a large regional Bank trust department as a wealth advisor.

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Jimmy Ford has also joined us as a Wealth Advisor. Jimmy is responsible for the administration of personal trust accounts, IRAs and client relationship management. Jimmy earned his bachelor's and master's degrees in Business Administration from Bellarmine University. Prior to joining Stock Yards, Jimmy worked in the field of higher education at Bellarmine University and the University of Louisville, focusing on donor relations and estate, planned and charitable giving.

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Economic & Market Outlook: Q2, 2016

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The first quarter of 2016 was a volatile roller coaster ride for stock market investors. The Standard & Poor's 500 Index declined over 10% from the first of the year through the 11th of February and then rallied from that date until the end of the quarter, closing with a gain of 1.3%. After such a volatile start for the U. S. stock market, it is remarkable that every major asset class with the exception of foreign developed market stocks closed out the quarter with positive returns.

The reasons for the wild market ride in the first quarter all relate to uncertainty and have been outlined in both last quarter's Investment & Financial Insights piece and in the recent economic seminar (available on our web site). Investors dislike uncertainty and this disdain is usually reflected negatively in stock prices. Uncertainty regarding Federal Reserve policies in the upcoming year, global economic growth, the decline in commodity and energy prices, and earnings weakness all conspired to deflate stock prices in the first two months of the year. We believe stock market volatility is not over in spite of the recent rebound in stock prices. Many of the uncertainties that impacted the market are still unresolved.

Acute declines like we recently experienced are not unusual when viewed from a longer term perspective. We seldom have years when we do not experience declines of this magnitude. Sometimes, these rapid meltdowns in prices are the start of even greater future losses similar to the 2008 stock market. More often, when the market suffers a quick acute decline, it recovers fairly quickly providing above-average returns to patient investors over the next twelve months.

Emotional reactions to sell after a stock market sell-off are rarely profitable for several reasons. First, you have to beat the odds that this meltdown is another 2008 and not the statistically more likely precursor to a recovery over the next 52 weeks. Second, you have to make two correct decisions that beat the odds; getting out and then getting back into the market in a timely manner. Human nature makes it very difficult to sell when the markets are high and euphoric and to buy when prices are low and the outlook dismal. No one has a crystal ball or market trading strategy that has consistently been able to buy and sell the market profitably. Third, it is vitally important to be in the stock market for the good days that will inevitably happen. If you missed the best ten trading days over the last twenty years, your average return drops nearly in half from slightly over 8% to 4.4%. Miss the best thirty days during that time frame and your return becomes negative. Time, history, and statistics all indicate that the best course of action for investors with a greater than five year time horizon is to maintain their commitment to common stocks during these periods of uncertainty and market volatility.

What caused the snap back in stock prices? First, it is not a coincidence that the stock market bottomed on the day that oil prices hit a new low and began to recover. The recovery in commodity and oil prices helped emerging markets and energy share prices. Stabilizing oil prices were also positive for consumer sentiment and the economic outlook. Second, the Federal Reserve responded to investor concerns about increasing interest rates with a series of statements indicating that they will be very slow and deliberate with any future interest rate increases. This alleviated investor fears that the Fed would raise rates too quickly and disrupt economic growth. Third, Europe and Japan responded to signs of economic weakness by reducing short term rates to negative levels and expanded the use of quantitative easing. Both of these actions were signs of the commitment central banks have to extending and increasing global growth. This temporarily eased investor fears of a global recession. Finally, recent economic data continue to be positive. Job creation in the United States continues to expand with increases in real wages and employment. The housing market continues to recover with positive implications for economic growth and consumer sentiment. American households are in much better financial shape having paid down debt levels and increased savings rates. All of these things bode well for consumer spending which is one of the driving forces for economic growth in our economy. We continue to expect slow but steady economic growth in 2016.

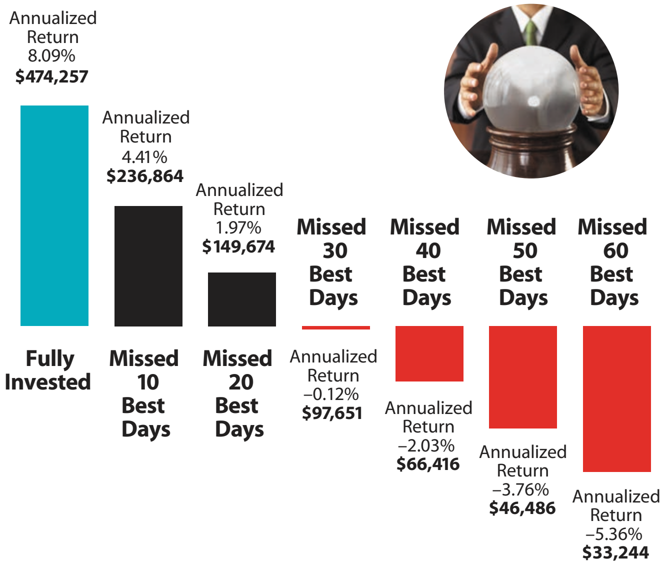
Please contact one of our wealth advisors for a more detailed discussion of our outlook for the economy and the capital markets. We very much appreciate the opportunity to work with you now and in the future. ♦

1. Source: Morningstar Direct, as of 12/31/14. For illustrative purposes only and is not intended as investment advice. The charts are hypothetical examples which are shown for illustrative purposes only and do not predict or depict the performance of any investment. Past performance does not guarantee future results.

No One Has a Crystal Ball, Yet Often People Act as Though They Do[1]

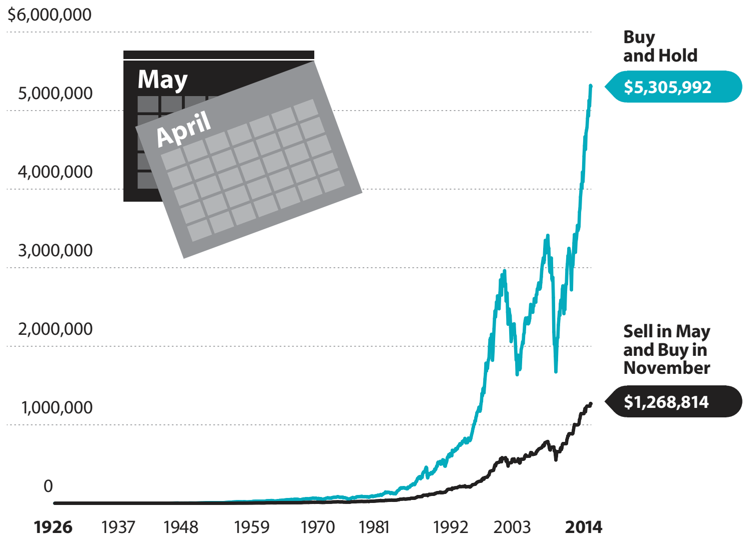
Missing Even the 10 Best Days in the Market Reduced Returns by Almost 50% in the Last 20 Years

S&P 500 Index: Annualized returns and growth of $100,000 investment (1994–2014)



The Truth About "Sell in May and Go Away"

Growth of $1,000: S&P 500 Index buy and hold vs. selling every May, going to T-bills, and buying again in November



The Long Wait Is Over: ABLE Accounts Are Now Permitted in Kentucky

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On April 5, 2016, Governor Bevin signed into law SB 179. This new law permits residents of Kentucky to open ABLE accounts without jeopardizing their eligibility for means-tested benefits. On December 19, 2014, President Obama signed into law the Achieving a Better Life Experience Act establishing ABLE accounts (the ABLE Act), which are new 529 savings accounts for disabled individuals. The ABLE Act required individual states (specifically each state's legislative body) to establish regulations for these accounts and SB 179 is Kentucky's response to this obligation. The relevant text from the new statute is as follows:

The following shall be disregarded for the purposes of determining an individual's eligibility for a means-tested public assistance program, and the amount of assistance or benefits the individual is eligible to receive under the program:

1. Any amount in an ABLE account;
2. Any contributions to an ABLE account; and
3. Any distribution from an ABLE account for qualified disability expenses.

While this new law stops short of establishing a domestic ABLE account in Kentucky for its residents to participate in, it thankfully permits disabled individuals to enroll in ABLE accounts that are administered in other states. For example, very soon disabled individuals from around the country will be able to establish an ABLE account by enrolling in Ohio's STABLE account. More information about STABLE accounts can be found here: www.stableaccount.com/.

There are several reasons why these new accounts are so valuable to the disabled community. First, money held in an ABLE account cannot be counted for purposes of determining an individual's eligibility for Supplemental Security Income (SSI) or Medicaid. Second, an ABLE account can be used for qualified disability expenses which include the following: education, housing, transportation, employment training and support, assistive technology and personal support services, health, prevention and wellness, financial management and administrative services, legal fees, expenses for oversight and monitoring, and funeral and burial expenses. Third, earnings on and distributions from an ABLE account for disability expenses cannot be considered the taxable income of the contributor to the account or the beneficiary of it.

As with all laws, however, there are a few limitations. The accounts are only available to individuals who become disabled before the age of 26. In addition, the annual amount that can be contributed to an ABLE account is limited to the annual gift tax exemption, currently $14,000, and each individual can only have one ABLE account. As a result, the total amount of money an ABLE account can currently receive from all sources is $14,000 per year. In addition, the total value of an ABLE account cannot exceed $100,000. This $100,000 limitation, however, is specific to those who receive SSI benefits because the SSA considers any amount over this threshold to be "available" to the beneficiary,

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[i] Means-tested benefits are forms of healthcare benefits and financial assistance made available to citizens of the United States where the eligibility is based upon an individual's monthly income and the value of the resources he/she owns. Examples of means-tested benefits are Medicaid, Supplemental Security Income ("SSI"), Food Stamps and Section 8 Housing Vouchers. | [ii] See 26 USC 529A | [iii] See http://www.savingforcollege.com/529_plan_details/?page=plan_details&plan_id=20

[iv] Substantial portions of this article were taken from the author's previous published article, The Able Act: Is It a Significant Development in Special Needs Planning?, The Advocate Law Journal, November/December 2015, Volume 43, Number 6

(continued from pg. 3)

which in turn can negatively affect the individual's eligibility for SSI payments. If, however, the beneficiary of the ABLE account is not concerned about remaining eligible for SSI benefits, the account may accumulate aggregate contributions up to the state's limit on qualified 529 accounts, which in Kentucky is $350,000.

In addition to the above, when the account beneficiary dies, any remaining assets in an account must first be used to reimburse Medicaid for any and all care provided to the beneficiary after the creation of the account, but shall exclude the amount paid by the beneficiary as premiums to a Medicaid buy-in program. Therefore, due to these limitations, ABLE accounts are unlikely to provide much relief for disabled individuals who receive substantial personal injury settlements or inheritances. Further, third parties, such as family members and friends, are wise to continue making gifts or planned bequests to third party special needs trusts to avoid the Medicaid-payback obligation required of ABLE accounts.

Finally, it is important to highlight that while Kentucky elected to not establish its own domestic ABLE account, SB 179 directs the State Treasurer, the Secretary of the Finance and Administration Cabinet, the Executive Director of the Commonwealth Council on Developmental Disabilities, and the Executive Director of the Kentucky Higher Education Assistance Authority to work cooperatively to seek all available sources of funding, determine the best plan of action related to ABLE accounts, and report to the Legislative Research Commission on or before December 31, 2016. Therefore, please stay tuned for more to come.

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Help us go GREEN!

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APRIL SHOWERS BRING... *(continued from pg. 1)*

Jason Hamilton has joined us in our Cincinnati Office as a Wealth Advisor. Jason is responsible for helping clients through the retirement and estate planning process. He has 10+ years of experience of working with high net worth clients providing comprehensive financial planning strategies. Jason is a graduate of the University of Cincinnati with a bachelor's of science degree and a certificate in financial planning from Xavier University. Jason is also a Certified Financial Planner.®

At Stock Yards Bank Wealth Management Group, we strive to provide our clients with the most knowledgeable staff possible. Whether you need investment management, financial planning, estate planning or insurance, our group of professionals will act as your financial quarterback to help you reach your financial goals. If you would be interested in learning how Stock Yards Wealth Management Group can work for you. ♦

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