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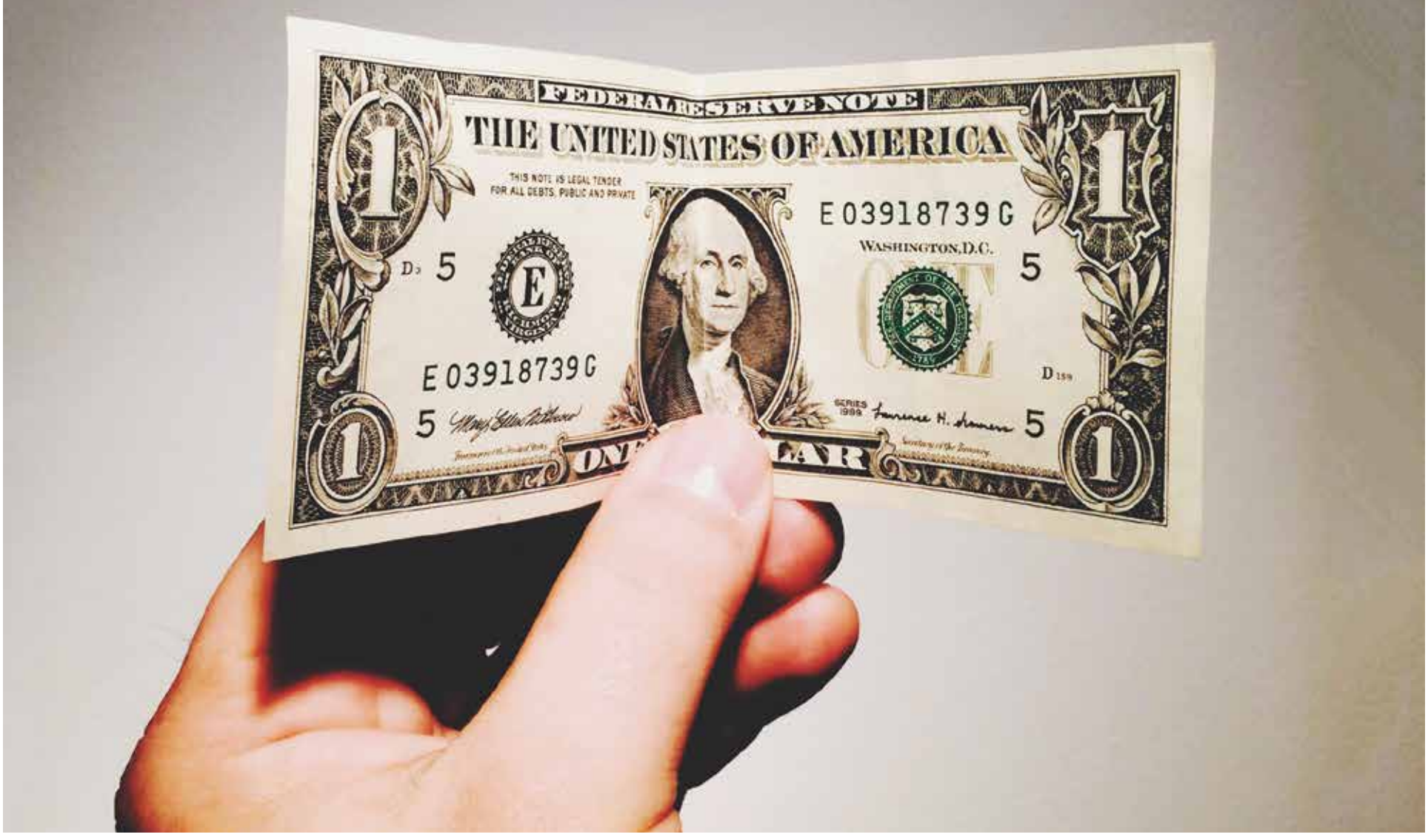
wealth management table of experts

A panel of industry leaders discuss the current trends, topics and issues regarding wealth management.



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message from the publisher

GARY TYLER

With all the new changes to the tax code and swings in the stock market, managing your money and investments to achieve your financial goals is as challenging as ever. Uncertainty in global markets, potential tariffs, changing regulations and technology all pose issues for an investor. In a 60-minute discussion, moderated by former Publisher Tom Monahan, at our Business First office on March 21, representatives from five firms involved in the wealth management industry talked about the challenges and opportunities facing today's investors.

The sponsoring companies paid for the advertising in this section and for a seat on the panel. The discussion in this section has been edited for space purposes. I want to thank the sponsoring firms for their support and for the panelists who participated.

Best regards,
Gary Tyler, *Market President & Publisher*

the panelists

JOE REEVES, CFP®

Chief Executive Officer - ARGI Financial Group

Joe has been a licensed CERTIFIED FINANCIAL PLANNER™ since 1996. He is a member of the Bluegrass Chapter of YPO (Young Presidents' Organization), and serves on the board for Louisville TKO, a nonprofit whose mission is to empower youth to build successful futures through boxing. Joe resides in Anchorage with his wife, Charla and their three daughters Ally, Maggie and Lainey.

ARGI PERSONAL & BUSINESS FINANCIAL CLARITY

MARK K. NICKEL, CFP®

Senior Vice President / Chief Investment Officer – Hilliard Lyons

As Chief Investment Officer, Mark is in charge of Hilliard Lyons' investment strategy, portfolio management, and investment support. Mark is a CERTIFIED FINANCIAL PLANNER™ with 19 years of experience in the investment industry. He chairs both Hilliard Lyons' Investment Strategy Group and Hilliard Lyons Trust Company's Investment Committee. Mark earned a BS in finance from UofL and an MBA from the University College of Dublin (Ireland).

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MATTHEW W. CARPER, CFA

Senior Vice President/Member - Parthenon LLC

Matthew Carper is Senior Vice President of Parthenon LLC, an independent, employee-owned investment advisory firm providing investment management services for high net worth families, trusts, individuals and institutions. He graduated from Lipscomb University with a B.S., Summa Cum Laude, in Finance/Economics and Computer Information Systems. Matt holds the Chartered Financial Analyst designation and has investment experience since 1997.

PARTHENON

JOHN P. VINSEL, CFA

Sr. Investment Advisor - PNC Wealth Management

John graduated from the University of Louisville with a Bachelor of Science degree in Mathematics. He has his Chartered Financial Analyst designation, is an active volunteer with CFA Institute and is a past president of the CFA Society of Louisville. John has extensive experience in investments including management of assets for high net worth individuals and families.

PNC

MARK HOLLOWAY, CFA

Chief Investment Officer - Stock Yards Bank & Trust

Mark Holloway is responsible for equity and fixed income selection, quantitative analysis and overall portfolio strategy. He has over 40 years of industry experience, holds the Chartered Financial Analyst designation and is a member of the CFA Institute, the CFA Society of Louisville, and the Southern Indiana Planning Council. He is also a past president and board member of the Louisville Society of Financial Analysts.

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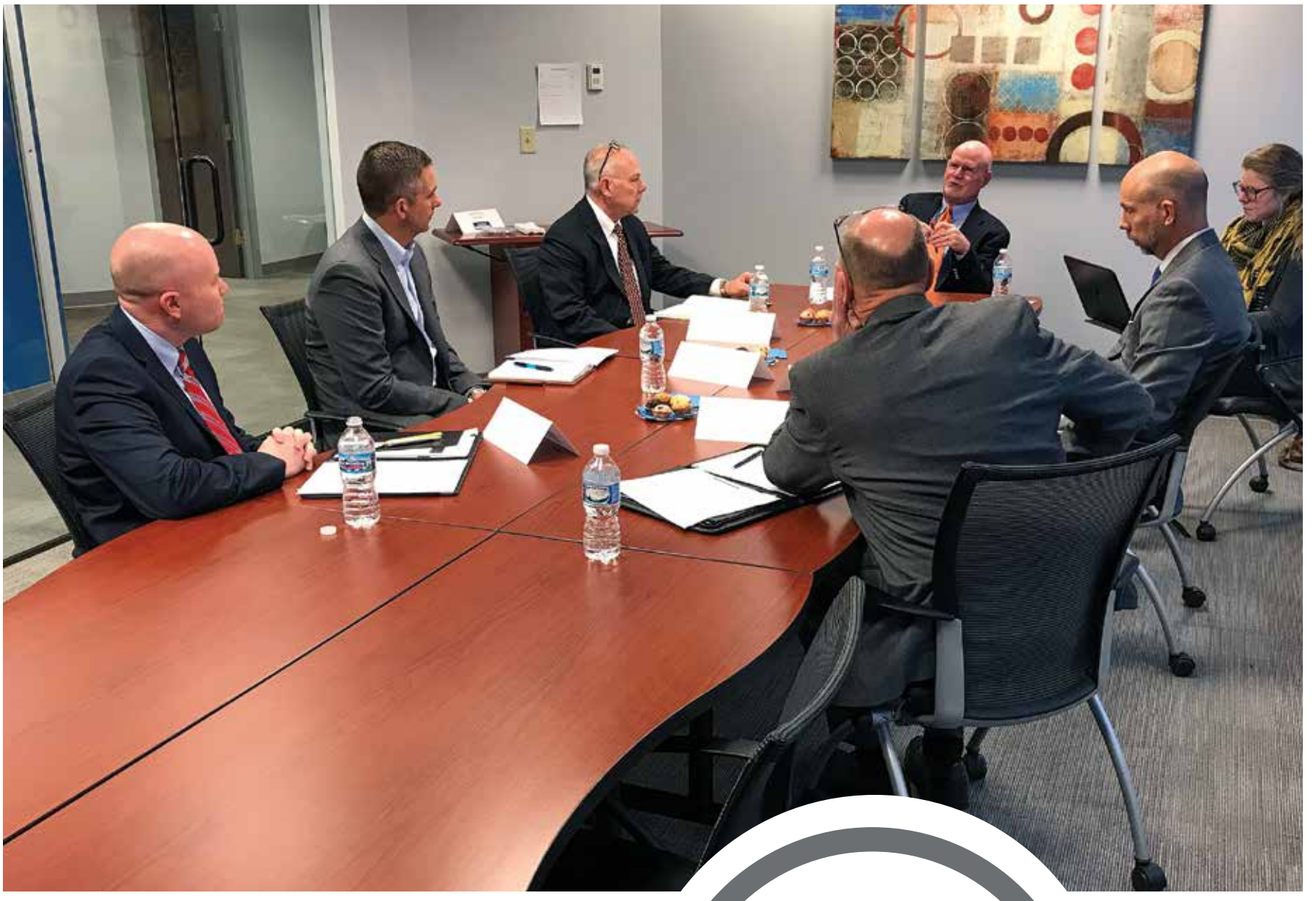
the discussion



MODERATOR: What is your firm's approach to wealth management? What is your philosophy? What's your culture?

VINSEL: I can start that. At PNC Wealth Management, we think of the advisor-client relationship as involving several advisors. So I'm part of that, but I'm not the whole thing. We try to understand our clients' desires and needs regarding how money is going to flow from the parents' generation down to the children, down to the grandchildren, so that there's thoughtful consideration as to how that will happen with regard to taxes and maybe issues of control on the part of the parents. It's a team approach with full consideration of investments, legal issues, accounting and family dynamics along with coordination with a client's attorney, accountant and any other advisors.

CARPER: Parthenon is an independent, employee-owned, registered investment advisory firm. We focus on in-house research and really utilize individual securities instead of funds for our approach. We limit the number of client relationships that we have and create customized portfolios for every client. We partner with a team of experts – CPAs, attorneys – for the best outcomes for our clients. We also manage Fort Nelson Partners, a limited partnership focusing on small/microcap stocks.

REEVES: At ARGI, we also take a holistic approach. We've built each team of specialists internally, focusing on each aspect of the needs of the clients and their families. We place a high level of importance on education and many of our advisors have obtained industry-recognized certifications. We have an in-house CPA division that handle tax and business services, an attorney as our estate planning specialist, multiple Certified Financial Planners in our Personal Planning division, CFAs in our Investment Department, and CPFAs on our 401K team. The advantage to having all of this in-house is it allows for seamless integration and collaboration when serving our clients.

MAIN POINT

"Most of our relationships are all about building a holistic plan."

HOLLOWAY: At Stock Yards, we use a holistic approach as well. We have in-house and outside people that specialize in the estate planning and settlement, the accounting area, the tax side, financial planning coupled with a disciplined investment process. The relationship is the important thing – getting to know the client and their needs and their fears. Understanding what's important to them in their financial life.

NICKEL: Hilliard Lyons similarly follows a holistic approach. Very clearly, advice is our value proposition. We're not trying to only maximize returns – it's about achieving the goals and objectives for the client. I think the other thing that I would add is: It is collaborative. Wealth management is at the core of what we offer.

MODERATOR: After a long bull market, we've had our share of volatility in 2018. What have been the causes of this instability and how do you think it will play out the rest of this year?

NICKEL: It's impossible to know exactly what the cause was, but we would put at the foundation of some of the recent volatility actually good news. On the back of the tax cut and on the back of a pretty good 2017 economic year, there is actually stronger growth projected, stronger corporate earnings projected going into 2018. With that has come slightly warmer inflationary pressures, which then led to shorter-term interest rates moving up and longer-term interest rates moving up and the market repriced. It's not bad; it's not concerning.

VINSEL: An immediate catalyst for the 10 percent correction was the employment report for January, which was released February 2. That report surprisingly showed about 2.9 percent growth in average hourly wages for the twelve months ending in January. As it happens, and as often is the case, the numbers were revised a month later. And now, the year over year number is 2.6 percent. The fact that we had such a good market experience in 2017 may have set us up for a bad reaction to what actually was very good news.

the discussion

CARPER: I would agree with what has been said. I think one of the most fascinating stories of 2017 was the calm that the market experienced from early November of 2016 until February of this year. The market didn't see a 3 percent drop, which, for that length of time, is really unprecedented. Volatility in the market is more the norm than the exception. You know, we've had roughly five, 10 percent-plus corrections since 2008-2009 in the stock market. I think these periods of correction really give investors the opportunity to assess if they do have the right asset allocation for their goals and objectives.

REEVES: I think that's well said. We looked at this as actually "back to normal", per se. The last eight years have been, in our mind, correcting for the potential overcorrection in '08 and '09. It went down so much that the reality of it is it had a lot of upside potential. In my experience, usually a correction is 10 percent from top to bottom in most one- or two-year periods of time, so to not have any of those in the last several years, I think makes us feel more normal. I think it's a perfect opportunity to reassess portfolios, to make sure that your equity-to-fixed allocation is not over what your risk tolerance can really handle.

HOLLOWAY: We believe that we're in a secular bull market for common stocks. In a secular bull market, the trend is more up, but it doesn't mean that you're not going to have corrections. Five to even 20 percent corrections are the norm during a secular bull market. We have gone a very long time without having a correction of even 5 percent. 2017 was an amazing year. I think there were several things that contributed to the recent volatility. There were inflation fears after the most recent employment reports were released. I think there's a real fear that the Fed is going to overdo things. At the first of the year, they were talking about two interest rate increases, and then it was three, and now, it's possibly four. When you get four interest rate increases, that provides some competition for stocks, increases the business cost of borrowing, and can also slow economic growth. The other thing that I think is going on is a lot of political drama. The new administration seems to be a lot more volatile, and that may be affecting the market. One other thing is the threat of tariffs. I think that spooked the market and particularly professional market participants. If you remember your history, that was one of the things that caused the severity and the length of the Great Depression. Countries seldom stand by and idly watch as you put taxes on their exported goods; they retaliate. That was the fear when Trump began talking about tariffs. It may be just the art of the deal, trying to bring people back to the table to renegotiate some of the trade agreements.

MODERATOR: We will get back to the tariffs in a minute. What do you tell nervous clients who call you when the market drops suddenly like it did in February?

NICKEL: Well, I think just knowing history, knowing that every 11 months, we've averaged a 10-percent correction. We were over two years since the last 10-percent correction. We tell clients that, since 1950, the average year has a draw-down from the peak of the market to the trough of about 13.4 percent. Giving them that context allows them to realize well, 2017 was the aberration. This is more the norm. So you have to put volatility into context. But then secondly, we've been spending a lot of time looking at the underlying economic fundamentals of the economy. History would tell us you can have a bear market, which would be 20 percent or more correction, but if there is not a corresponding recession with that bear market, the duration of that bear market is very brief. In the '60s, it was, I think, six months, and in '87, when we had that correction, it was three months. So, if the fundamentals of the economy are strong, which we would argue they are, there might be volatility, but those protractive, prolonged, bear markets like '07 to '09 aren't likely to take place. So, reminding them what are the fundamentals like, and if they're strong, we should be okay.

VINSEL: I remind clients that it takes a certain amount of fortitude to own stocks. Their prices are not particularly stable, and every 11 months we can expect to see a drop from top to bottom of about 10 percent or more. So the question becomes: If what happened earlier this year is troubling enough that we're tempted to sell as prices fall, we have to ask ourselves is this the right level of stock exposure? If you, as a client, have 80 percent of your money in stocks and you're really nervous because that represents so much value to you, maybe we should talk about reducing that, but let's not have a fire sale in the midst of a correction.

CARPER: And I would say many of us here, in our conversations with clients, are preparing them for the bad times during the good times. In fact, when the market is having an unprecedented period of calm, we spend much of that time talking about the volatility that is likely to happen and the potential effects on portfolios. Those are important conversations. Here's a great quote from the famous boxer, Joe Louis: "Everyone has a plan until they've been hit." So preparing for the hits when times are good is essential. Staying disciplined in bull markets prepares you for when times are bad. For instance, one of the hardest things to do in a portfolio that has a certain asset allocation is to re-balance your stocks down. Stocks are having a great run; the default is to let them go. But if you stay disciplined, if you keep re-balancing back to your asset allocation, it really pays dividends during the times of correction or bear markets.

REEVES: I think another thing that we try to help our clients focus on is the bigger picture of where they are in relation to where they want to be. And just like we didn't get real excited in January when the market went up and then gave it all back in February, their goals weren't changed. What's important for us is really helping them concentrate on the bigger picture. Obviously, if you're getting a call about something that happened in February, there's probably something more going on, with regards to how they're feeling. Maybe their goals have changed. Maybe something has changed in their life to put them on heightened alert where they may not have normally been. So we make sure that we're having that longer term goal-related conversation with them to make sure their portfolio is where it needs to be for them.

HOLLOWAY: I agree with what everybody said. We try to build relationships with clients. If you've got a client who couldn't sleep after what happened in February, then they probably do need to look at their allocation to stocks. But I will tell you that we've had about seventy-seven 5-10 percent corrections since World War II. They generally last about a month and you recoup your money in about a month. So to try and time the market is a fool's errand. You can't do that, mainly because too many consecutive good decisions have to be made. We tell our clients not to try and time the market but to hang in there through these corrections. The reason is because many times the best performance happens after one of these big declines, similar to the 1,032 point drop that occurred on February 5. Those big bounce-backs that happen immediately after these declines make all the difference in your performance. Being in there for those is what's important.

VINSEL: I had a conversation with a client. She happens to be a widow and a very dear woman. She was in a panic because she keeps all of her stock tickers on her phone and called because they were all red (down on that day). After a bit of research, I was able to call her back and tell her that just since year end, ten of her stocks had already announced a dividend increase, which is what she's living on. Absolutely none had cut their dividends. And we expect more of the same, more dividend increases, over the rest of the year. And so what she's living on is as stable or higher than it's ever been, and the money that's going to go to her children and grandchildren is going through a price correction. But the prices are still much, much higher than they were when her husband died and much, much higher than they were when he bought those stocks many years ago.

CARPER: Right. And I think all of this highlights the fact that during times of volatility, it's imperative to actually have a wealth manager. A big part of our role is to be the voice of rationality and reason when emotion can tend to take over. That's a very important part of our function as part of the relationship.

HOLLOWAY: Decisions made emotionally are seldom correct.

MODERATOR: One of the complaints that investors have had in recent years is that there's really no place to put their money other than stocks in order to get any kind of return on their money. Are there other opportunities out there besides stocks that are becoming more attractive as alternatives?

VINSEL: Interest rates have, in fact, risen over the last six months. Interest rates are still well below historical norm, so it's not as if there's tremendous opportunity. We can't earn 5 percent on safe investment grade tax-free bonds as we once could, but the trend is better. We had an economy that was so weak that bond investors were willing to take a very low yield, in the low two percent range and even below that

sometimes, on 10-year treasury notes. We would say the economy really looks solid right now. Given that, the bond market is responding by wanting a little extra, and I think it would be a really good thing if that continued, and interest rates rose moderately from where we are now.

NICKEL: For the entirety of this recovery since March of '09, the dividend yield on the S&P 500 has been greater than 10-year yields and certainly the shorter-term yields. Well, with what the Fed is doing and the move up in rates, you can actually invest in a two-year treasury around 2.3 percent today. Now, that doesn't make you a lot of money, but that actually is a better yield than the 1.90 or so that the S&P is yielding on the dividend yield. So, there is a little more competition for yield, but I think we all would agree there's no place to get significant returns or yields without really ratcheting up the risk.

HOLLOWAY: As bond yields go up, bonds will begin to compete with stocks for new investment dollars. The tax bill that was recently passed, the outlook for the economy, and the corporate profit picture all look really good. Many of the dollars that are being repatriated from overseas are going to be given to shareholders in the form of increased dividends. I think that the combination of the new tax law and increased economic activity will result in a large increase in corporate profits this year and in future years. It's very easy to match the yield on, let's say, the five-year treasury in a stock that grows its dividends significantly over time. Given a choice of racing in the performance derby with a five-year treasury at its current yield or a stock that's going to be increasing its dividend, I'll take the stock.

REEVES: The unfortunate piece to the recovery in the last eight years has been it was done on the backs of the fixed-income investors, and I don't even think it's necessarily just investors in bonds. It was the unsophisticated CD holders, money market holders, and that's unfortunate because it has taken a group of that demographic that really has no stomach and no experience in the market and have forced them to look elsewhere or just say I'm only going to get .5 percent on my CD, and I'm just going to have to live with that. That has always bothered me. Even our lowest portfolio has had stock exposure in it just to keep yield return up to a level that could get that client to that 3 or 4 percent that they may need to sustain themselves. So I agree that having some yield come back in the bond market, I think, is going to be healthy and get things back to a more normal balance. It will probably come a little at the expense of the stock market, but I think that's okay. That's the way it's supposed to work.

CARPER: I would echo many of these thoughts. Certainly, we think stocks are a very attractive, long-term investment vehicle, and, historically, the returns on stocks have outpaced bonds by a wide margin. But when you're talking about individual investors, when you're talking about suitability of investments for a portfolio, fixed income investments have their place. A portfolio of individual bonds that is laddered with an appropriate duration based on the interest rate environment is important. As many of us have just said, we have had a bull market in bonds for 30-plus years, so you certainly have to be careful navigating the fixed-income markets today. However, it's an important part of portfolios.

MODERATOR: How will the federal Tax Reform affect the stock market?

CARPER: I think it'll take a while for all the long-term ramifications to play out for Tax Reform. We've already seen some impact in earnings reports from the tax legislation. I think, in general, it's going to provide a tailwind to earnings. Right now, consensus S&P estimates for this year are coming in at around $160. That number could go up. Real GDP growth last year was around 2.6 percent. Tax Reform could cause that number to be higher in 2018. And I think it really gives companies the flexibility to do things like reduce debt, increase dividends, and buy back stock. All of these things are positives for investors on paper.

VINSEL: We'd like to also see companies who are in the right businesses and are executing well invest in new plants, new employees, and to some extent, we think we've seen a little of that. But to an investor, almost everything about the Tax Act with regards to how it affects corporations is positive. Following passage of the Tax Reform Act in December, U.S. stocks reacted extremely favorably. The way companies use that "found money" will determine how good they are as investments. There are companies that are going to buy back stock and others will increase their dividends. As a portfolio manager, I'm eager to invest in companies that are using tax savings to improve their operations and take business from the competition.

NICKEL: I think in the short term, absolutely, corporate earnings are great-

ly going to benefit. Our numbers that we're using, there's about an 18-percent earnings growth for the S&P projected for this year over last. Even about two months ago, that was coming in around 11 percent, so as companies have reported in giving guidance for 2018, it has become clearer what the impact of the bottom line will be, and that's certainly a short-term stimulative impact of the economy. The repatriation of dollars that can be brought back to the US – $500 to $700 billion is what is being estimated that will come back to the US. That's roughly 2 to 3 percent of GDP. That will have an impact. Now, the question is, I think, long term. So, short-term, corporate earnings, economically, it's going to be good. Long term, what happens with these extra earnings, and, ultimately, is there going to be more productivity that comes out of it? Only time will tell.

HOLLOWAY: We believe the media really downplayed the impact of the tax changes. I think it's a very big deal. It's going to, first of all, make US corporations much more competitive on a world stage. It is the main reason that we've seen so much business and consumer optimism. People forget that, on February 1, the withholding tables changed for almost all Americans, too; they got more money in their pockets. I think the entire package was designed to encourage spending on the business side and on the consumer side, and that's a big positive for the economy. The other thing that happened with those tax changes is, as a result of the anticipated increase in corporate profits, it changed the valuation level on the stock market. We went from a P-E ratio that was 22, 23 times on estimated earnings this year to something closer to 17 or 18 in pretty short order. One of the things that we were worried about before the Tax Act passed was the valuation of the market, and that has now self-corrected as a result of the anticipated increase in corporate profits.

REEVES: I agree with most everything that has been said. When the Tax Act was finally passed, we believe that it solidified the gains that had happened over the last two years. I think there were other factors that were building up to that, kind of an expectation, so some of that was baked into the market. I think if that hadn't passed, for whatever reason, we would have seen a lot more volatility and valuations pull back. So, we believe that any time that we can lower taxes, it's a good thing, especially on the business front. It's where the jobs are created. I also think the tax benefits to pass-through entities gave small business owners another opportunity to invest where they couldn't before. That's where a lot of expansions and jobs were created in that part of the small business market. And I agree that the media did not play up the benefits of either the large corporate or for the small business owner nearly like it should have been.

NICKEL: I will say on maybe the not-so-good side, one of the reasons why we have seen interest rates move slightly higher is that the deficit is expected to go from about $500 billion to close to maybe $900 billion, closer to $1 trillion. So that means more Treasury supply is going to hit the market. More supply pushes yields higher. So that is something that I think that will have to be dealt with. Now, maybe higher growth offsets that.

MODERATOR: Let's get back to the steel and aluminum tariffs that President Trump has been talking about. If they are enacted, what impact will they have on the markets?

REEVES: I don't believe it's going to go through the way that it is being threatened to go through. I think we are a global economy. Everybody is reliant on each other. Things are different. Foreign companies need the US just like the US needs the foreign companies. I think that a lot of it is posturing. I do think that there is going to be some changes, but I believe it is more to the point of renegotiating existing deals, trying to get those more fair and more balanced. Now, that being said, if it were to go through just like it is stated, then that would create a lot of volatility because it would create a lot of uncertainty in the global markets, and I think we would have a bumpy ride. But they've already talked about exemptions for Canada, for Mexico, so they're already coming back from what the initial kind of threat or terms were going to be.

CARPER: And to piggyback on that, I think for investment purposes, a tariff discussion is a reflection of political tensions and the rise of populism that we've seen take root in the world. Really, the market hates uncertainty, and this particular announcement seemed to take the market by surprise. I think some thoughtful analysis we've seen has described it as no trade war, but also no trade peace, so the jury is still out a little bit. And I think the results in the market will depend a lot on the retaliatory measures of our trading

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partners around the world and if tensions escalate or not.

VINSEL: There's no doubt the stock market hates uncertainty. And generally, the market also doesn't like tariffs. Anything that gets in the way of free trade is probably going to be seen as a negative by stock market investors. That's why the market's initial reaction was negative when President Trump on the spur of the moment made the tariff comments about steel and aluminum. If you take the worst case scenario and there are retaliatory tariffs, maybe from Europe, maybe from China, then you would imagine global GDP and, particularly, US GDP, would be negatively affected by that. With our economy growing at a nice pace, a little slowdown won't matter much, unless tariffs bring about inflation. Also, the arbitrariness of which industries, which countries, which companies and which groups of workers are affected, that's a negative. The tariffs, at this point, don't appear to be particularly well thought out. They're not very strategic except as a negotiating point.

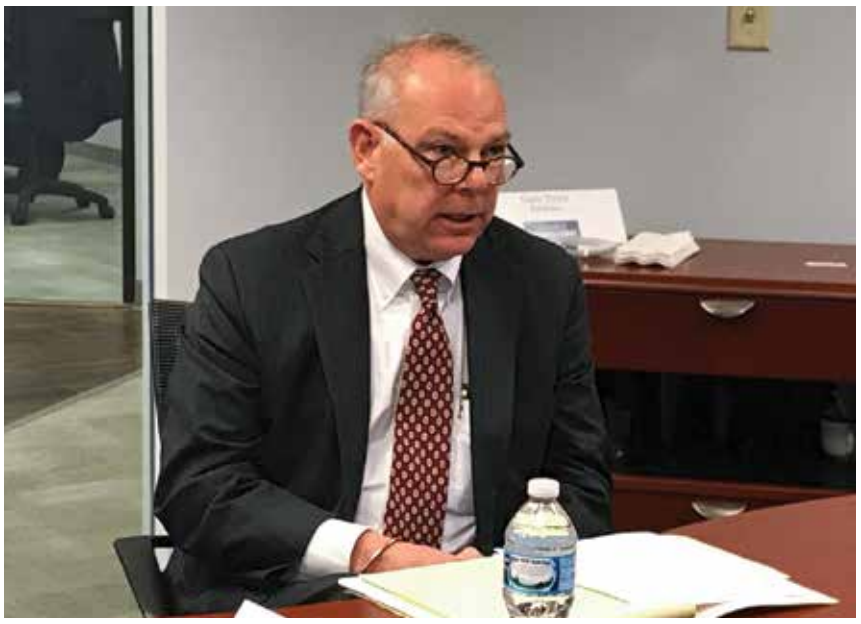
NICKEL: I've seen some initial estimates on the steel and aluminum tariffs as proposed and putting a dollar on it, roughly like a $9 billion impact to the US economy. On a $20 trillion economy, that doesn't move the needle all that much. There's some estimates then that if Europe was to retaliate, maybe that's another $4 billion. So those numbers aren't really all that alarming. I think the alarming thing is the uncertainty and then how this might spiral. So then are we going to go after China and intellectual property and then start a cascading battle with them? And that's the thing that's concerning. Hopefully, a lot of this is just posturing. But can we trust that? Only time will tell.

HOLLOWAY: I agree with what everybody else said. The impact of steel and aluminum tariffs is not going to be a big deal for the US economy. I hope this is posturing on the part of the Trump administration; the art of the deal, intended to bring people back to the trade table to renegotiate some of the trade agreements that we've made that weren't beneficial to the United States. What worries me is that this could spiral a bit and we could start experiencing retaliation, because when you start implementing these things, countries seldom just sit by and passively accept them. They tend to want to retaliate against exported goods from our country. That's the same concern that the stock market has. The impact to the economy of what's been announced so far is negligible, but what could happen is this could start snowballing.

MODERATOR: How important are international stocks as part of the portfolios that you manage?

HOLLOWAY: We generally have about 20 to 25 percent of the equity weighting in international. There are three reasons for that: one, valuations look much better overseas than they do domestically; two, economic growth, particularly in some of the developing areas, is much faster than what you're seeing in the developed world; and three, an expanding middle class is going to develop in these emerging markets. The emerging middle class typically starts demanding more and more consumer goods, and that's generally positive for the markets in those areas.

REEVES: I can add to that. Our portfolios are between 20 and 30 percent international, and we believe that it's a necessity to keep the right allocation. In the past, international and US would move differently. It's not nearly that anymore. But to the point the valuations are a whole lot better, in most cases, internationally, so the value proposition is there, and we believe the diversification is necessary to keep a balanced portfolio. We do also like emerging markets. We probably have a larger percentage of that in our international than 10 years ago. As these population bases emerge into modern societies, then the discretionary dollars will be spent there, and I think you will see a lot more growth in those areas than you would in the more mature European countries.



CARPER: International investing is kind of a broad umbrella, so I think it is important to remember that every client has different objectives and needs. There's a suitability conversation. You may be talking about emerging market stocks, developed market stocks, and even fixed-income internationally. But, in broad terms, international diversification is important just as diversification among asset types and market capitalizations is important. All of those things come together to make a healthy portfolio. And to echo what was said, the global markets have become more correlated, but that doesn't mean they're totally correlated. There can be some benefit to adding international exposure to portfolios for diversification reasons.

VINSEL: We would be looking at Europe as an opportunity. We would note that Europe, similarly to the United States, has made great strides since the financial crisis. The European Central Bank is more accommodative today than ours. We've actually been in a tightening cycle since 2016, whereas the European Central Bank, through its version of quantitative easing, is still supporting low interest rates. There's talk about that being wound down, but they're behind us in terms of switching to a restrictive central bank. We would also look at the emerging markets as attractive opportunities. Emerging markets such as Brazil, India, China, South Korea – they're all very different. Some of those like India, Brazil, and Malaysia are not powerful enough to control their currency, so that's a problem. I would caution anyone from investing too much of their portfolio there because it's possible to get whipsawed. As Japan, China, the Eurozone, and the US vie to gain advantages (sometimes through currency), the emerging markets sometimes are left behind.

NICKEL: We would say for appropriate clients, international makes sense, both developed international and emerging markets. About a year ago, we really started to look to increase allocations to developed international and emerging markets due to better relative valuation. We also saw better earnings growth coming out of those countries. And then we knew that we'd had a period, almost really since the crisis of considerable under-performance, and things do tend to revert to the mean, but then we also, about a year ago, really started to see the dollar begin to weaken. And, historically, when the dollar weakens, that is a real tailwind for international and emerging market investments. We saw that from 2000 to 2007. International markets outperformed the US, and it was a weak-dollar period. The dollar basically strengthened from the crisis to 2016, right around the election, interestingly enough. And so we began to see the dollar weaken. Last year was the first year since the crisis that international outperformed the US, and we would think that this is more of probably a two- to three- to four-year cycle. So if you don't have the exposure there, maybe it still makes sense to look to add.

MODERATOR: There has been a lot of talk about active versus passive management. What's involved in that and what can investors get out of this debate?

CARPER: I think the media really misses the point in this debate. The argument of whether to use active managers or to invest in index vehicles or a combination of the two has been around for a while. But I think it somewhat clouds the debate of having a wealth manager. It's not the same question. Our role as a wealth manager is to create wealth for our clients, but also do it in the broader context of their goals and objectives. Our role is to be the voice of rationality when markets start being irrational, and to work with clients on their goals and objectives. And it is our job to create personalized portfolios using individual securities, and when appropriate, exchange-traded funds as a part of that equation. To

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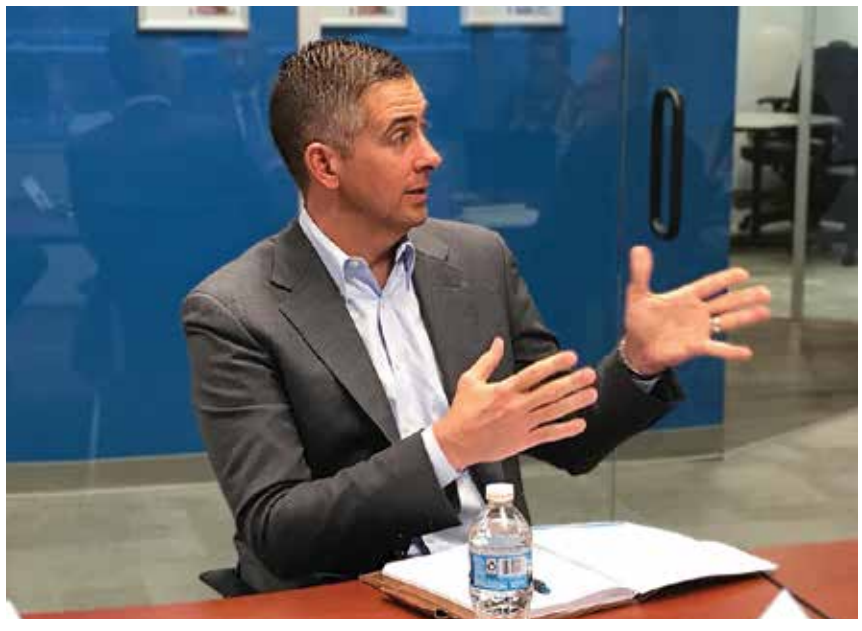
address the first question, I think it's important to remember in the active versus passive debate, that these things usually run in cycles. There will be periods where active management will outperform passive investing and some periods where it won't. And I think the mistake is to extrapolate a trend ad infinitum.

REEVES: I agree that the active versus passive in our company is governed a lot by the client's situation and the client's needs, whether it's a taxable account versus a nontaxable account. The data has shown that it's very, very difficult to outperform the markets over a long period of time. That doesn't mean it doesn't happen, and it doesn't mean that that's not what you should strive for, but in certain cases, a passive portfolio is the best thing for the client, especially when taxation is important. And, to us, net returns after taxes are more important than gross returns, because that's what the client can keep. So we have both active and passive strategies and most of ours are blended based on what the client needs. But we don't believe necessarily that one is better than the other. They're used in different situations, depending on what the client needs.

HOLLOWAY: I would point out that if you are going to passively invest and put money in an index, you're taking on all of the risk of that index as well. If instead, you are actively managing the way we do, looking at quality situations, stocks that have clean balance sheets, stocks that pay a dividend, stocks that have high return on equity from positive sources, those companies tend to hold up better in the inevitable down markets. It's important to realize that if you buy an S&P 500 index either through an exchange-traded fund or a mutual fund, you're taking on all of the risk of that index, which may be higher now since many of these indexes are dominated by a handful of names that have huge market capitalizations. Most of the indices are market-cap weighted. Higher valuation names like an Amazon or a Google dominate the indices. The other thing to consider is that many markets are less efficient than the US large-cap market. The small-cap area and the international area are both sectors where active managers can really add value to portfolios because of that inefficiency.



VINSEL: I'd say S&P Global, the overseers of the S&P 500 Index, probably don't have my client's needs in mind when they add or take away companies from the Index. And I would say they certainly didn't in 2007 and '08 when the S&P 500, really the broad U.S. market, was heavily weighted in financial stocks. And if you were investing in the Index because you believed that the Index was less volatile and less bad than buying individual companies, then you gave up the opportunity to pick and choose which industries and companies to invest in and you would have gone right over the cliff when that all fell apart.

NICKEL: I think investors like getting all the up side of an index, so when they're in an exchange-traded fund, that's great. I wonder how they're going to like getting all the down side of an index the next time we have a protracted bear market. So we'll see how that plays out. We would use a combination of active and passive. A lot of times tax efficiency makes a lot of sense. So you might use a passive investment

in taxable accounts. If you're going to use active management, active strategies, your strategy needs to look different from the index that you're trying to beat. There's a lot of managers out there that end up looking like a shadow of the index, and it's going to be very hard for them to outperform. So having a more concentrated portfolio, being sector-agnostic, you're going to look different than the bench, you're going to act different than the bench in order to outperform. I think people need to really be aware of that.

REEVES: I'd like to add one thing to that. Whether you use passive or active, we believe that correct diversification is the key. So you can have a passive portfolio that is well-diversified across all the broad asset classes and accomplish the reduction in risk. It's not just investing in the S&P as a passive strategy; it is using exchange-traded funds across all asset classes to create a diverse portfolio.

MODERATOR: What, specifically, should a person be asking a potential advisor? How can they determine whether one advisor is a better fit than another?

REEVES: We always start with what relationship is the client looking for, what are they needing this relationship to do. Most of our relationships are all about building a holistic plan. If a client is just interested in buying and selling stocks, we would not be the right firm for them. We would have a discussion about how we are being compensated. We are an RIA firm, which is a Registered Investment Advisor, and we carry the fiduciary responsibility. That is a differentiator in the industry. Not everyone is the same. It doesn't make it right or wrong; it just makes it different. Figuring out what relationship you want with a firm is important. I think trust is important. Clients want to know: How are you going to handle my needs? How often are we going to meet? What should my expectations as a client be of you? I think all the good firms encourage that conversation. I think everybody sitting at this table has developed a service model that takes their clients best interests at heart, and that's what I have been most happy about in our industry over the past 10 years – the evolution of that. There are more and more consultative advisory firms and less and less transactional advisory firms, which I think serves the client the best. Clients need to determine what they are looking for and what they need, and at least most clients that we deal with, aren't needing a stock picker. They're needing someone to help them build a comprehensive plan and help them accomplish life goals, whether they're 20, 30, 60, or 80 years of age.

VINSEL: I think some Business First readers have relationships with advisors who don't take the time or don't have the time to reach out and talk to that person other than to sell a product. And so if the client sets expectations about how often he or she expects to be called or met with, that has to be geared around understanding the client's needs, objectives, and what's going on with the money rather than a series of sales pitches.

NICKEL: I would encourage people who are looking for an advisor to ask a potential advisor what is your process, tell me about whether it's financial planning process or wealth management process, but also tell me about your investment process. I want people to hear what those expectations are and make sure that there is a solid foundation there. I'd also want them to explore tailored solutions versus a one-size-fits-all, you just fit into a box. And then also I think it's fair to have people ask about compensation. How are you compensated? And have that be very up front and be transparent.

HOLLOWAY: I agree with what everybody has said. I think you also need to look for some place that has the expertise, either in-house or available to them through a third party for other financial services like tax accounting, for estate planning and settlement, and for financial planning. The holistic aspect that we've all been talking about. A disciplined investment process is very important. But even more than that, it needs to be explainable, and it needs to make intuitive sense to people, something that people can respond to and say, "Yeah, that makes sense to me." The other thing to consider is the fee level. It's important to be very transparent and open with the fees. If someone has any hidden cost structure associated with their accounts, you will probably want to look someplace else.

CARPER: Let me echo everything that has been said here and distill it down to three main points: First, as we've discussed, trust is most important. Our business is a very personal business. Clients entrust us with information that they would not entrust to anyone else, and that is a great privilege and responsibility. It's one of the reasons

that I'm in this business, because I love that aspect of it. Two, just make sure the philosophy of the firm meshes with your personality and your risk tolerance. As you've heard, wealth management firms are not one-size-fits-all. Interviewing firms and advisors to make sure you understand what the process is and how they go about investing is important. And then three, very basic, just be sure to pick a firm and advisor that can dedicate time and attention to your personal needs and will be with you for the long term, because it is a very important relationship to your future.

MODERATOR: Business people often talk about how millennials are not doing things the way their parents did. Are you finding that you must attract and interact with millennial clients differently than you did with past generations?

REEVES: Our firm is fortunate enough that we have roughly 65 millennials out of our 145+ employees. One of the things that we've done as a firm is allow that group to build the service model for their colleagues, their age demographic. And what I have learned is that there's some misconceptions regarding millennials. What we have found is that millennials, if they are saving at that level, are engaged; they care. They're not quite as trusting, meaning they want everything to be proven. We have found that the best way is to match that person up with someone who is similar in age and understands their perspective. They're going to be serviced differently. There's more technology involved. They're not necessarily coming in for three meetings a year and driving across town like some of our retirees may do, so you have to modify your service model to be able to give them what they need.

VINSEL: I am not a millennial, but I work with many millennials as clients and as colleagues. The key is to respect millennials, respect the fact that their goals and objectives are very much going to be different from a 50-year-old business owner or a 70-year-old retiree or an 85-year-old widow. And every client, including every millennial, deserves the same level of attention and care.

NICKEL: I feel millennials have goals and objectives just like everyone else. They may have some different interests than a boomer, and that's okay. A lot of it, I think, tends to be delivery. How do you deliver the information, whether it's through smart phones and mobile apps and what have you. But, ultimately, they need the guidance, how do they get from point A to point B. And a lot of those principles are long-lasting, if not eternal. The delivery, though, is going to continue to shift.

HOLLOWAY: Millennials are a lot more tech-savvy than baby boomers and older generations. The delivery of services that everybody's mentioned is going to be important to that generation. You see it in banking. The head counts coming through the bank branches to go to the teller line keep dropping and dropping. Bank offices are going to look very different in the future as a result of this huge group of people and their delivery expectations. The other thing you have to consider with millennials is that they have a much longer time horizon. Because of that, they can take more risk. Many of them are very willing to take a lot of risk. They want to be in the start-ups. They want to be in private equity. They want to be in investment vehicles that ordinarily a baby boomer or someone closer to retirement or in retirement would probably shun. These products have to be made available to millennials because they have a long time horizon.

CARPER: I think one thing that will not change about our business is the relationship aspect of it. As many of us have mentioned, the delivery model of that relationship will depend on the generation. But I'll say we love to talk to younger generations because of the opportunities that they have, especially in tax advantaged vehicles like 401Ks, IRAs, and for some, 529s for future educational purposes. Those are really opportunities for impact that are maximized the younger that you are.

MODERATOR: How do you reach out to people in their 20s and convince them that, although they are

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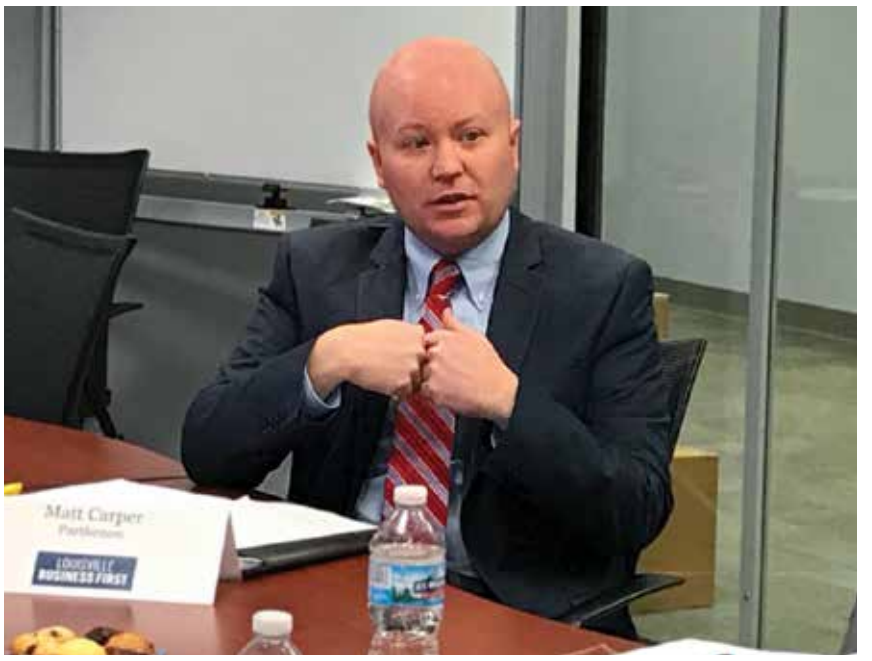
years away from retirement, the time to start saving is now?

VINSEL: Sometimes, they are the children of older clients. Sometimes, they came in through referrals from children of older clients. One way or another, I end up in front of millennials, and I tell them the key is saving. When I was younger, I found it convenient to save through the company's 401K plan because that would leave me a net paycheck that felt like that was all I had. And so saving and then spending in line with saving is the key. As mentioned, there are some marvelous tax-favored opportunities to save due to our tax code. Roth 401K, something that wasn't around a few years ago, it is now. For a company whose 401K plan offers a Roth option, that might be a really ideal place for a young person to save money. And something I might say to such a client is: When you get to be 50, 60, 70 or whatever, somewhere along the line you are going to retire and you're not going to have a pension the way your grandfather did. You are going to basically live on whatever is left of Social Security at that time and then whatever you save today. And everything you save today, every dollar you save today is going to be worth many more dollars 10, 20, 30 years from now. So you're probably not making as much in salary as you're going to make when you're closer to retirement, but savings have so much more power because of the time you have.

REEVES: And I would add that I believe the Great Recession of 2008 and 2009 did the millennial generation a favor. They saw their parents lose 30 percent, and I think it really affected them. Also, more and more companies are going to defined contribution plans, obviously. They know that. The pensions aren't going to be there, so they have to save. I think I saw a statistic the other day that one in six millennials already has $100,000 in savings. They know that they have to put money away because they are going to be the ones responsible for themselves. And the vehicles are easier now. The ability to invest and save has become easier and easier. Most of our interaction with millennials comes in the form of 401K participants at businesses. And we show them that starting to save now is so much more powerful than waiting until you're 40 or 50 to do it. From what I'm seeing, they are taking advantage of that. I think that generation will be better off for it, because it will be really the first full generation that probably doesn't count on Social Security, doesn't count on a pension, but because they've started earlier in their defined contribution plans, they have the potential to have significantly more assets than their parents.

CARPER: We have the privilege in our business to work with generational wealth, and the most successful relationships we have include working with grandparents, parents, and children. We are able to sit down with younger generations and do a financial analysis that shows the power of compound growth, what dollars can look like in 50 years instead of 20 years. The numbers are really eye-opening. Also, I think it brings up another question. There has been a debate in the investment industry about robo-advisors, basically an app on your phone that will do your investing and is accomplished with algorithms. Over the past several years, I think we've seen what computer algorithmic trading has done to the market as far as increased volatility. And as mentioned earlier, the robo-advising apps have never been tested by a bear market. I think that will start to open some eyes about how the human element, about how rational investment advice is really important.



NICKEL: Just dovetailing on everybody else's comments, the generational aspect to millennials is where I think we're brought in front of them the most, so whether it's the grandparent, the parent. And I feel like oftentimes, I'm expected to educate and inform, and that's what you've heard from these folks. A client will bring us in as a trusted advisor and say, tell my grandson or tell my son how this works.

HOLLOWAY: We're meeting millennials through their parents and grandparents. There's going to be a huge passage of wealth down to the next generations. One way to get involved with millennials is to involve them, when appropriate, in some of the decision-making when meeting with the parents or grandparents.

MODERATOR: Okay. Let me wrap this up by asking what has changed the most dramatically over your time in the business? How are you working today differently than you did maybe when you started in the business?

NICKEL: When I started 20 years ago or so, you never heard the word "fiduciary." I wasn't taught what that really means. It was still transaction and get a sale. Now, whether we're full-time wearing the fiduciary hat or on a fairly regular basis putting clients' interests first, being that trusted advisor, being a fiduciary, is really the way going forward, and it will be interesting, from a regulatory perspective, whether that becomes how our entire industry operates. So we'll see what the SEC does with that going forward. I would also say that 20 years or so ago, there were roughly 100 exchange-traded funds. There's 1,800 or so ETFs today. So what wasn't even there really to now it's potentially all that's in a client portfolio. That has been a significant shift, certainly. And then the impact of that both on performance and people's awareness of fees.

VINSEL: The speed of information is dramatically faster. Any company's financials that I want, I can pull them up on my computer screen and find whatever I'm looking for. When the Bureau for Labor Statistics releases its monthly employment report, I can read the headlines and then go to their website and immediately as its released at 8:30, first Friday of every month. Because company and government information is more or less instantaneously available in a way that it wasn't 15 or 20 years ago, clients have more information.

CARPER: One of the things that's changed most dramatically since I started in the business is the method by which information is disseminated. Social media has certainly transformed that. Technology, in general, is changing the investment landscape. We're seeing that right now in the retail space, which is undergoing a major transformation. And, really, the amount of data being generated, transmitted, downloaded, and stored is staggering. I saw a statistic that said the time it took for the telephone to reach 100 million users worldwide was 75 years. The time it took gaming app, Candy Crush Saga to reach that designation was one year and three months. And that really transforms the way you do business.

REEVES: In the last 20 years, the biggest change I think I have seen in our business is when I first started, it was one client, one advisor, and that was the relationship. And that one advisor was the person that did everything for the client. Then the advisor may have gotten more successful and was able to hire an assistant. That freed up you, as the advisor, to take care of your clients. Today, that service model looks completely different. If you're a client of ours, you have several people on your team. You have a CPA, you have an investment advisor, you have a financial planner, you have a support person. And now, the client is being better served, in my opinion, because they're getting specialists versus one "jack-of-all-trades" who would have meetings all day and then go figure out what the portfolio should look like and then try to make the trades. It just wasn't efficient. The industry has evolved. I'm happy because I believe the clients are better served and I think we're better at our jobs than we were 20 years ago. Technology, obviously, has also made that possible, just how efficient you can be when you have the proper technology. Those are two pieces.

HOLLOWAY: I started in the investment business in 1976, so I have over 40 years in the industry. The three things that have really changed the most, particularly in the last 10 years are what some people have already talked about: speed and transmission of information and data. Smart phones and computers have really been the big equalizer. Technology has made markets more efficient. The number of new investment vehicles, and not just exchange-traded funds or ways of Indexing, but hedge funds and private equity being made available to more and more investors that may or may not have the risk tolerance to utilize them. Some of the more sophisticated hedging types of strategies, are all very complex, very complicated. And then the final thing that hasn't been mentioned is the compliance aspect. Compliance has become a big deal for all of us. We spend more and more time on compliance. That's one of the bigger areas of growth at Stock Yards. On the banking side as well as the compliance side, there's more and more regulation of our industry, and I think that's a trend that's been good to some extent and something that's probably going to continue.

MODERATOR: Thank you for taking time out of your busy schedules to take part in this discussion.

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