My Two Cents
By Kimberly Dwan Bernatz, CFP®, AEP®

Planning for Marriage can Save a lot of Heartache—and Money

Getting married is one of the most exciting and important decisions you will make in life. It’s also a step that can have a tremendous impact on your financial future. Often, more time is spent planning the details of the wedding and honeymoon than discussing finances before tying the knot. That can mean trouble down the road.

If you are contemplating marriage, or have children or grandchildren who may soon take a walk down the aisle, there are a few things to consider.

Market Watch
By Jerry Braakman, Chief Investment Officer

Though 2015 was a challenging year for stocks, domestic equity markets managed to close in positive territory after including dividends. However, returns were lower than expected from the start of the year. Equity markets continue to struggle as we enter the New Year: the stock market experienced the worst opening week on record.

Across the globe major equity markets did not fare as well as domestic equities. Global growth concerns superseded stimulative central bank policies overseas strengthening the U.S. dollar. This led to developed international equity markets unwinding their outperformance over the last several months. Emerging markets including China were even more challenged.

China’s slowing growth has had a significant effect on global markets including the domestic market. Slowing Chinese demand impacted commodities (especially oil) thus influencing the domestic energy sector and is spilling over into manufacturing and export weakness. Lower energy costs normally stimulate U.S. consumption but that effect remained muted as consumers increased their savings rate. Yet, an improving U.S. consumer contributed to overall GDP growth and the consumer discretionary sector returns led the S&P 500 in 2015.

Defensive assets including bonds delivered muted returns. The U.S. Treasury 10-year yield closed 2015 at 2.27 percent versus 2.17 percent at the end of 2014. The U.S. bond market continues to grapple with the pace of Fed Funds rate hikes while U.S. economic data has rebounded from the softness in the first quarter offset by general global growth concerns.

Overall, the economy continues to improve at a modest pace; however, results have been underachieving more optimistic expectations while inflation remains well below target. That said, the U.S. economy continues to outperform its global counterparts and the Federal Reserve has signaled that further interest rate hikes remain on the table this year, though such a move will be data dependent. The Fed Funds market is less convinced than Fed policymakers on the outlook for interest rates, underpinned by lower inflation and slower economic growth expectations.

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<thead>
<tr>
<th>Index</th>
<th>2015</th>
<th>Total Return</th>
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<tbody>
<tr>
<td>Dow Industrials</td>
<td>0.21%</td>
<td></td>
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<tr>
<td>S&amp;P 500</td>
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<tr>
<td>Russell 3000</td>
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<tr>
<td>All Country World x US</td>
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<td>Barclays Int. Gov’t/ Credit</td>
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<td>Merrill Lynch 3-7 Muni</td>
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<tr>
<td>Gold (SPDR Gold Trust)</td>
<td>-12.67%</td>
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Source: Bloomberg as of 12/31/2015

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Investment Outlook

While 2015 marked the seventh straight year of the current bull U.S. equity market, on the long end from an historical perspective, our outlook for 2016 is more bearish than it has been since 2008/09. As we focus on decelerating earnings growth and market breadth deterioration (a smaller number of companies setting new highs), we believe the probabilities are heightened for a more pronounced correction in U.S. markets. Simultaneously, we do not think the severity will be like the market crash of 2008/09. The U.S. economy’s slower growth path has not created the same leverage-inspired bubble we saw precede the last recession; thus, the sell-off will be more muted. As earnings expectations adjust lower through 2016, we may see a rebound after a sell-off in the 15 to 20 percent range compared to year-end levels.

Economic issues outside the U.S. economy continue to impact our outlook on markets around the world. Specifically, lower Chinese growth caused by fundamental issues, such as an over-extended real property market, wage increases, aging demographics, and the attempt to shift the Chinese economy from export driven growth in favor of consumption. The largest example is the impact on the price of oil, which had suffered a severe decline partly caused by lower worldwide oil demand in large part to lower expected demand from China. This extended to other commodities like copper as raw materials needed to support the Chinese manufacturing sector and infrastructure projects are reduced. This has a large impact on the U.S. energy companies as their product fetches lower prices causing lower revenues. In turn, these companies have slashed or are slashing their capital budgets and reducing their workforce to manage expenses and cash flow. We do not anticipate a quick bounce back to higher oil prices as supply has not adjusted for lower world-wide oil demand. The marginal cost producer Saudi Arabia, unlike prior slowdowns in oil demand, has not pared its oil production. We do not anticipate Saudi to significantly shift its production until after re-introduction of Iranian oil to world markets, if and when that happens. Hence, within the energy space, we favor high quality balance sheet operators such as Chevron and ExxonMobil, which are best positioned to survive an extended low oil price period.

Further, we believe the behavior of the dollar will be one of the most important determinants of a successful investment strategy in 2016. In 2015, dollar strength created deflationary pressures in an already slowly growing levered world resulting in outperformance of growth strategies over value, pretty much consistent across the board domestically to internationally regardless of capitalization size. As we enter 2016, while we believe there are significant opportunities being created from a longer term perspective on the value side mostly in international markets. However, the timing of those opportunities is not yet ideal as we believe dollar weakness is now a requirement for such opportunities to work.

Our portfolios have been overweight growth securities versus value securities throughout 2015 and we enter 2016 in a similar stance. In an underwhelming world economic environment stable growth companies with strong balance sheets should continue to outperform more cyclically exposed value plays. That said, we will be keeping a very close eye on the dollar. We suspect that sometime toward the end of the first half of 2016 the Federal Reserve will clearly signal to the market that their rate path will error on the side of lower rates for longer. The dollar at that point should be close to, and more likely will have already peaked, and this event should tilt the scales in favor of value sectors, at least for an intermediate term relative performance bounce. So, as we move through 2016, we are looking for opportunities to take portfolios from their current growth bias, likely starting with select value opportunities in early 2016, and potentially driving the overall portfolio to an overall value bias later in the year if dollar behavior supports it.

Challenging markets also create long term opportunities for investors. Considering First American Trust’s track record and propensity to build durable portfolios, our focus on risk managed positions will continue to add benefit to our clients in more difficult markets. Our style focus of high quality, investment grade large capitalization companies for equity and fixed income investments tends to outperform in down markets. We also recommend reviewing your long-term asset allocation to make sure it continues to match your personal risk tolerances (a best practice regardless of market outlook). As always, we appreciate the trust you place in us and stand by to assist you in attaining your financial and lifestyle goals. On a high note, our individual large cap stock picks outperformed the S&P 500 by more than 2.5 percent last year. Here’s hoping for a repeat in 2016.

—Jerry Braakman, Chief Investment Officer, jbraakman@firstam.com

Source: Bloomberg
Encourage a conversation about:
- Any debt you may have and how you plan to pay down that debt.
- Planning to improve any credit rating issues to position you well for future purchases.
- Creating a financial plan to address important milestones such as a home purchase, college education and retirement.
- Spending goals for fun things including entertainment and vacations.
- Who will take the lead when it comes to financial responsibilities like paying the bills and selecting the proper investments or financial advisor to help grow your nest egg.
- A pre-nuptial agreement if there is a large disparity of assets between you.

There are some financial advantages to being married. A few of those benefits are:
- Estate tax transfers: Under federal tax laws, with proper estate planning, when you die you can leave any amount of money to your surviving spouse without generating estate tax. Additionally, married couples can combine their estate tax exemptions. The estate tax exemption for 2016 is $5,450,000 for individuals and $10,900,000 for married couples.

Saving for retirement: As a single person, if you qualify under IRS guidelines, you can only make a tax-deductible contribution to your own Individual Retirement Account (IRA). But, if you’re married and meet certain conditions, you can contribute to your spouse’s IRA taking a deduction on your joint tax return.

Buying a home: You have a leg up when buying a home if you’re married and use both spouses’ combined income to qualify for a mortgage.

Selling a home: Subject to certain conditions, a married couple can exclude $500,000 in long-term capital gains tax when selling a home whereas an individual can exclude only $250,000.

Ideally, marriage is supposed to be the union that lasts a lifetime. Unfortunately, that’s not always the case. According to an article in The New York Times, the divorce rate, while on the decline, still indicates that about one-third of all American marriages will fail.

Conflicts about money are a primary reason that couples divorce. Enlisting the help of a financial planner can ease some of these conflicts as they can help facilitate conversations between a couple to create a mutually agreed upon plan. As an additional benefit, studies have shown that people with a financial plan tend to save more and are better prepared to live more comfortably than those who make decisions in the moment.

Many people who divorce do find love again. While you might be wiser the second time around, with a second marriage additional complexities could include alimony payments, child support and other issues related to estate planning, for instance, how and to whom to leave assets upon your death.

As people move through life, their financial landscape becomes more complex and the need for a professional financial advisor becomes even more important. First American Trust is here to help you stay on track financially so you can focus on keeping the honeymoon alive.

–Kimberly Dwon Bernatz, CFP®, Sr. Vice President kbernatz@firstam.com

News from Nevada
A Trust Oasis in the Desert

First American Trust recently stretched its boundaries into Nevada with the addition of a new office in Las Vegas operated by its subsidiary, First American Trust of Nevada, LLC, extending its full-service investment management, wealth planning and trust solutions. The Las Vegas office is located at 3753 Howard Hughes Parkway. Our expansion into Nevada, a state that offers unique estate planning opportunities that do not exist in many other states, marks the first full-service office outside of California. We welcome our newest members of the Nevada team. Neil Schoenblum, JD, LLM Senior Vice President, Wealth Management and Relationship Manager, is responsible for the efficient administration of trust accounts for our high-net-worth clients and can be reached at 702-784-7611 or via email nschoenblum@firstam.com. Jonathan Talbot, Vice President and Wealth Management Advisor, specializes in advising high-net-worth families to craft customized plans in investment management. Mr. Talbot can be reached at 702-784-7610 or via jtalbot@firstam.com.

Nevada has traditionally been known for its entertainment, stark landscape and, of course, its unparalleled dining options. However, another significant reason why many people are coming to the Silver State is due to its cutting-edge, progressive trust laws. By opening a new Las Vegas office, First American Trust will be able to provide Nevada trust advantages.

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2015 Events & Happenings - Recap

Last year was jam-packed with new endeavors, annual philanthropic events and informational mixers.

Why Markets Go Crazy!
This fall we hosted our clients and friends for a presentation and luncheon at The Pacific Club in Newport Beach. Keynote Ren Cheng, Senior Research Consultant in the Asset Allocation Division of Fidelity Management Research Company, talked about the history and trends of market volatility.

Keynote Ren Cheng

Lifetime Achievement Award
In October, First American’s Libby Markworth got to ride in a parade in a 1913 Model T followed by a reception where she was presented with the 2015 Honorary Alumna Award from Eastern Oregon University in La Grande, Oregon.

Team Screaming Eagles
In November, First American Trust of Orange County raised funds for Alzheimer’s research by participating in the annual Walk to End Alzheimer’s. Jody Hudson, relationship manager from our Orange County office, served as team captain.

Jody Hudson, third from right

First American “In the News”
Be sure to visit our website for all the latest industry news with quotes from our Chief Investment Officer Jerry Braakman and others.

San Diego Digest
A Day at the Races!
Some 40 guests partook in First American’s annual event from Del Mar Thoroughbred Club’s Pat O’Brien Suite. A light lunch was served as attendees bet on which horse and jockey would score a win.

View from Del Mar Thoroughbred Pat O’Brien Suite. Left to right: Lori Yocum and Lisa Dunham from Anderson, Yocum, APC, with Kimberly Bernatz and Pat Hodgkin.

Harry’s Mixer
We partnered with Home Care Assistance for an event where over 30 CPAs and other guests gathered to relax, meet and mingle. Pat Hodgkin spoke about our services and Jerry Braakman gave a market update.

Networking in November
We joined the San Diego Bar Association at their annual event, Updates & Insights from the Probate Court, and greeted attorneys at our exhibitor’s table and distributed information about First American Trust services.

Pictured: Jay Robinson-Duff, Pat Hodgkin and Ronald Greenwald