Estate Planning Cause Célèbre

Several high-profile celebrities, who recently made headlines, died without a will or trust and some had outdated documents. They join the millions of Americans without a proper estate plan. It’s tough to think about our own mortality, but it’s important to make plans to determine who will be in charge of your estate and where the assets will go when you pass away.

There are a few milestones in life during which you should pay attention to estate planning. While this is by no means an exhaustive list, I’ve highlighted four key events below that should trigger you or your loved ones to take action to make sure they are protected and that your assets are distributed as you intend.

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Market Watch

By Jerry Braakman, Chief Investment Officer

Fear and greed are human emotional states that influence our decision making. In investment terms, we refer to these characteristics as risk versus reward. We all face these emotions, especially with complex decisions when large amounts of wealth are at stake. How do we combat our natural bias to run away and panic when the situation is most dire? Why do we leverage into a hot real estate market as if nobody loses money investing in property?

How we make decisions is very much based on our individual experiences. I recall my grandmother’s stories of enduring World War II, and she would never dispose of any leftovers in fear of famine. She loved Tupperware. Those scars, or maybe more aptly named experiences, shape our appetite for risk. Each of us is unique in this regard as we all have led different lives.

In strong markets, such as the more than 9 year bull market we are currently enjoying, greed often trumps fear. Tops of markets often coincide with mostly good news, that’s why they top. We see it in excessive risk taking where money flows into ideas that are not much more than that (for example, Bitcoin or name your dot-com in Y2K). Markets also become complacent as measured by low volatility.

The point I’m trying to make is not to scare you away from investing or making decisions. Currently, there are great things happening in our economy and markets. Stock indices are at or near all-time highs, earnings growth for companies is more robust than it’s been in years (thank you, corporate tax relief), GDP growth is accelerating, inflation and wage growth are finally starting to pick up, and industrial orders and consumer confidence are at or near decade plus highs. It’s great!

We do not know when these good times will end exactly, certainly such a plethora of goodness takes time to change course. But how much better can it get again? Again, we don’t profess to have the answer either.

The market has been resilient in the face of political discord, rising trade tensions (or wars), rising interest rates, flattening yield curves and global economic struggles. We hope it continues to be resilient.

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Total Return

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<thead>
<tr>
<th>Index</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>6.47%</td>
</tr>
<tr>
<td>DJ Industrial Avg</td>
<td>4.07%</td>
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<tr>
<td>Russell 3000</td>
<td>6.64%</td>
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<tr>
<td>MSCI ACWI ex US</td>
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<tr>
<td>BarCap Int Gov/Cr</td>
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<tr>
<td>Merrill Lynch 3-7 Muni</td>
<td>0.98%</td>
</tr>
<tr>
<td>Gold (SPDR Gold Trust)</td>
<td>-4.57%</td>
</tr>
</tbody>
</table>

Source: Bloomberg as of 7/31/2018
A Conversation with Jason Nerio  
Director Investment Research and Strategy  

Jason is responsible for formulating investment strategy and serves as a leading member of the investment committee that monitors and manages the firm’s allocation strategies. He has been with The First American Family of Companies since 1996 and is a lead manager of First American Trust’s Global Tactical Asset Allocation (GTAA) strategy.

What is Global Tactical Asset Allocation (GTAA)?
In increasingly turbulent markets, investors seeking to reach their financial goals are searching for non-traditional investment strategies that are designed to reduce volatility while producing positive returns. GTAA is First American Trust’s alternative product offering that addresses this need. It’s a tactical strategy, which means it can shift its asset allocation (stock/bond/commodity/currency/cash split) based on fundamental/valuation/technical factors that our investment team monitors on a continual basis.

What is a tactical strategy compared to a traditional asset allocation model?
Traditional asset allocation models maintain a strict stock/bond/cash split that stays the same throughout a market cycle, for example a 60/35/5 mix of stocks/bonds/cash. When asset allocations get out of balance due to market moves, a rebalance takes place to reset the portfolio’s asset allocation back to its desired mix, which was determined based on the financial goals and risk tolerance of the client.

A tactical strategy, on the other hand, is not constrained by predetermined allocation targets and has the flexibility to shift its asset allocation based on the portfolio managers’ analysis of the market and the global economy.

When did GTAA start and why?
After the devastating equity bear markets of 2000 and 2008, our clients wanted a strategy with lower volatility when compared to the S&P 500. We began actively trading this strategy in 2013, maintaining GTAA’s standard deviation, or risk, to approximately 6-7%, while the S&P 500 is close to 12-13% during a similar time period. This essentially means less upside and downside capture of equity market returns. In other words, portfolio returns experience less volatility throughout a market cycle. In sum, GTAA is an investment option for our more risk adverse clients, allowing them to experience a smoother ride through the extremes of investment cycles, and therefore making it more likely that they stay invested during the difficult times rather than pull out of markets at precisely the wrong time.

How do you reduce this volatility risk?
It is reduced by using a broad array of global assets with low correlations, including US and international equities, fixed income, REITs, commodities, gold, currencies and cash. This allows us to participate in a good market but offers downside protection in a bad one. We can further reduce this risk by shorting the market if our analysis finds value in downside protection.

How much can it shift?
In GTAA, we can actually go up to 80% cash. On the other end of the spectrum, we have the ability to be up to 80% invested in equities.

What drives the tactical allocations?
Our three factor assessment, fundamental, valuation, and technical, drive the tactical allocation changes. Our fundamental review incorporates a macro evaluation of global economies, stage of the business cycle, relative health of various sectors in the economy, and global fiscal and monetary policies. The valuation framework is determined on both an absolute and relative assessment. Lastly, technicals are utilized to gauge the relative strength of various markets and also risk manage portfolio positions.

What type of securities does GTAA invest in?
GTAA utilizes exchange traded funds (ETFs) to provide transparent, liquid and cost effective access to global asset classes. ETFs allow for instant access to all major asset classes providing efficient diversification and the flexibility of intra-day trading. There are no mandates on the number of ETFs in the portfolio, but generally you can expect the portfolio to be invested in 10-20 ETFs at any one time.

Is your investment process audited?
GTAA’s performance is independently audited and we claim compliance with GIPS (Global Investment Performance Standards). As a regulated bank, all our processes are regularly examined.

How transparent is GTAA?
The assets are traded in your account so you can see the actual individual investments by looking on your statement or logging in to your account online.

What is the GTAA benchmark?
Our goal is to beat inflation (CPI) by 3% over an entire investment cycle.

What type of investors would consider GTAA?
Our GTAA strategy helps investors stay disciplined and invested. It provides the potential to create wealth in a changing market environment by having the flexibility to change with it. GTAA is for clients who are searching for a strategy that emphasizes risk management as a primary objective but would like to generate attractive returns while reducing volatility and downside risk over a full market cycle.
**Turning 18**

The day each of my children turned 18, I had a health care power of attorney and durable power of attorney ready for them to sign. The former allows me to make medical decisions and the latter appoints me to act in a variety of financial and legal matters. Why? When a child reaches the age of 18, parents no longer have the legal right to make decisions for that child. I didn’t want a day to go by where my child may have a critical health need, unable to speak for himself or herself, and not have me or someone in place to make the necessary decisions for care.

**Getting Married**

Whether you’re young and it’s your first marriage, or if you’re getting married again, you’ll want to put into place a new will and trust or revisit your current estate planning documents. This is the time to incorporate your new spouse into your plan, or not, depending upon your circumstances (think second marriage). Consider not only your own will and trust but also assets that pass outside of these documents such as retirement assets, life insurance and other property held in joint name.

**Having Children**

What a happy, joyous event and a busy time for a young family! Often the last thing we want to think about as we are decorating the nursery and buying diapers is what will happen to our precious package if we are no longer around. However, it’s critical to plan for the well-being of this new life. Creating a will allows you to name a guardian for your children and setting up a trust for their benefit ensures an efficient transfer of wealth. Give careful consideration to who you select as guardian and be sure to name a trustee who is savvy enough to manage the assets and who is also free from conflicts of interest.

**At Retirement**

You’ve accumulated your wealth and now is the time to think again about your estate plan in the context of your retirement years and your tax situation. Is your estate subject to estate taxes? Are your qualified retirement plans properly integrated with your estate plan? Are there tax saving strategies that you should consider such as charitable giving, or “freezing” the value of an asset and transferring it at a discounted value?

“**As your financial advisor, First American Trust will keep you on the right path to be sure that your estate plan is current...**”

There are many other events during life that should trigger a review of your estate plan and who you have named as Executor or Successor Trustee. Other life challenges such as divorce, death of a family member, a beneficiary with a drug or alcohol dependency, or a child or grandchild with special needs are examples of what should prompt a review of your plan.

While it may be exciting to dream of being famous, you probably don’t want to join the ranks of celebrities like Prince, Robin Williams, Jimi Hendrix or Howard Hughes, all of whom died without a will or with outdated documents. As your financial advisor, First American Trust will keep you on the right path to be sure that your estate plan is current and in good order, allowing those you care about to be free to enjoy your legacy.

— John Metzger
VP, Wealth Management Advisor
jmetzger@firstam.com

**Market Watch - continued from page 1**

Our scars have been built through the experiences of the Great Recession, dot-com bust and Black Monday. What we have learned and taken away has shaped our process in investing. We must question most when times are ideal and embrace fear and take risk when times are worst. One of the most important tenets is we must rely on each other in dire situations and trust our process. Pursuing it alone is difficult as each of us can easily rationalize our own decisions; we’ve all spent a lifetime perfecting that skill. As a result, our investment process is team-based.

As professional investment advisors, we add more value for our clients by mitigating their instinctive reaction to pick the best stock or bond (although, we do quite a good job at that). Selling low due to fear and buying high at the top of markets is not our goal or that of any client I’ve ever met. Because each of us has unique risk appetites, as well as different needs and goals to attain, plans must be made together. We can help with the math and explain the worst case and expected returns. More importantly, as we work together, we will earn our clients’ trust allowing them to confidently stick with the plan and process when it’s most appealing to throw it into the wind. Warren Buffet hasn’t changed his process; you should have one that endures as well.

— Jerry Braakman
Chief Investment Officer
Q2 Events & Happenings

Follow us on social media.

Attorney & CPA Mixer (San Diego)
It was our pleasure to co-host over 20 Estate Planners at our San Diego County Attorney and CPA Mixer. (Pat Hodgkin pictured above)

OC Client Appreciation Reception
First American Trust’s annual event took place on May 10th and featured a photo exhibit of our historical archive of OC photographs, tours by Bob Blankman and Jessica Gonzalez (above) as well as a presentation by Jerry Braikman (pictured).

Is Your Portfolio missing something?
Our Global Tactical Asset Allocation strategy invests in a broad array of global asset classes including U.S. and international equities, fixed income, REITs, commodities, gold and currencies.

Call today to learn more about GTAA or any of our other financial services. 877-908-7878 www.firstamtrust.com

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