ANCORA™ | FAMILY WEALTH
ASSET MANAGEMENT
RETIREMENT PLANS

Second Quarter 2018

# The Ancora Advisory

An Investment Publication for Clients and Friends

*Ancora Holdings Inc. consists of three business units; Family Wealth, Asset Management and Retirement Plans. With top-tier portfolio managers, unique investment strategies and an entrepreneurial spirit, Ancora delivers tailored solutions so you can achieve more ... on your terms.*

## What Can We as Investors Learn from Warren Buffett, Jeff Bezos and Jamie Dimon?

John Micklitsch, CFA CAIA
Chief Investment Officer

Warren Buffett, Jeff Bezos and Jamie Dimon are considered to be some of the most influential and sought-after business leaders in the world today. Fortunately for us, all three write widely anticipated (and free!) annual shareholder letters that emphasize some of their best thoughts on high performing organizations, business culture and personal success. With the current year's crop of annual shareholder letters well underway, we decided to highlight some of the most salient points from each of their 2017 editions, with a particular eye towards applying their everyday wisdom to being a better investor. We hope you enjoy the takeaways.

### Warren Buffett - Berkshire Hathaway 2017 Annual Shareholder Letter

Warren Buffett has described Berkshire Hathaway's annual shareholder letter as written in a manner, and containing the facts, he and his partner Charlie Munger would prefer to read if they were sitting in the shareholder's shoes - 2017 certainly delivers on this promise. For starters, Buffett stresses that investors stay within their comfort zone when it comes to their investments. At Ancora, we call this the sleep-at-night factor and we believe understanding what you own and why you own it is an important part of establishing a long-term investment plan you can stick to, in good times and in bad.

For years, Buffett only reported the change in the book value of Berkshire's stock, understanding that if the business is doing well, the stock price will eventually take care of itself. Said another way to investors, focus on what you can control (diversification, quality and time) and tune out the rest that is beyond your control. The other lasting piece of advice Buffett gives investors in the current letter is to avoid buying on margin. Buffett sums up this recommendation with a particularly timeless observation, "Our [Berkshire's] aversion to leverage has dampened our returns over the years. But Charlie and I sleep well. Both of us believe it is insane to risk what you have and need in order to obtain what you don't need." Bottom line, use margin very sparingly, if at all, in your personal investments in order to avoid the potential for

permanent loss of capital due to poor timing or poor selection. A well-diversified, high quality investment portfolio that is fully paid for should provide enough return over time to satisfy most investor's needs.

### Jeff Bezos - Amazon 2017 Annual Shareholder Letter

If Warren Buffett's Berkshire Hathaway annual letters are famous for their homespun wisdom and charm, Jeff Bezos' Amazon letters are written like somebody who has little time or use for indirectness or innuendo. Even the format of the letter is to the point. In this year's edition, Bezos gets right into the topic of organizational culture and whether or not high standards, and skills like leadership, are teachable. The answer, according to Bezos, is a resounding yes! However, the key is to know what high standards look like and to be able to define the scope of what it will take to get there. This is where the investing analogy applies. To construct a high standards portfolio, you have to know what one looks like. Typically, this means a combination of stocks and bonds and, increasingly, alternatives in order to maximize the benefits of diversification and to potentially enhance risk adjusted returns.

The other key, says Bezos, to establishing high standards is to fully understand the scope of time and effort it will take to achieve them. Becoming wealthy from investments alone takes time. Any shortcuts taken to get there faster often will have the adverse impact of weakening the very foundation you are trying to build in the first place. If you know going in that the process to high standards will take time, then you will most likely be less tempted to diverge or give up at the first signs of difficulty or challenge. Bezos also ends each letter with a link back to his original Amazon shareholder letter. The point in doing so is to re-establish that "Day 1" mentality and to review the hustle and determination it takes to get on top and stay on top. The same holds true with your investments and the financial discipline to continue to save and stay on top of your expenses.

### Jamie Dimon - JP Morgan Chase 2017 Annual Shareholder Letter

Jamie Dimon has been a legend on Wall Street for multiple decades. As the CEO of a truly global financial services company, his letter reflects the breadth of perspective on business and public policy that his seat affords him. In addition, his steady hand during the 2008-2009 financial crisis and his famous 500,000 share open market purchase of JP Morgan stock in March of 2016, near the bottom of the market correction that year, have earned him universal respect. So when Jamie talks, people listen. In his 2017 letter, Dimon starts off with the same 'take care of the business and the share price will take care of itself' mindset as Buffett. Dimon also talks about the importance of sound capital allocation decisions, as those decisions represent the foundation for future growth.

How you as an individual choose to allocate your annual income has an equally important impact on the growth of your net worth and personal growth down the road. Do you seek good uses of your capital by investing in quality assets and investment strategies, and do you invest in yourself for continued professional and personal development? Do you invest in the good and bad times in the market? Dimon summarizes this philosophy in the following quote, "Our stock price is a measure of the progress we have made over the years. This progress is a function of continually making important investments, in good times and not-so-good times, to build our capabilities — people, systems and products. These investments drive the future prospects of our company and position it to grow and prosper for decades." Dimon also goes on to talk about the destructive nature of bureaucracy and complacency in large companies.

Households and small businesses have to fight the same battle to prevent unnecessary bloat from creeping into their financial picture and decision-making processes. As the saying goes, a penny saved is a penny earned, but we would add that a penny saved is really like four pennies earned, if given enough time to compound at attractive rates of return. Dimon goes on to say that the risks that banks take are not the same risks as going to the racetrack or a casino. He vigorously opposes the gambling analogy. The same is true for investments. There is a higher probability of permanent loss of capital at a casino the longer you sit at the table, whereas in investing, if you invest in a diversified fashion in

quality assets and strategies, the chances of any loss of capital, let alone permanent loss of capital, are actually quite low given enough time. Dimon has an entire section dedicated to the question, “What keeps us [at JP Morgan] up at night?” But the real point is, he has a list. Because once you start to identify the worrisome things in your financial life, you can begin to solve them. Identifying the problem is often the majority of the solution.

Lastly, Dimon makes the case that in order to create comprehensive and thoughtful public policy you have to know what the concerns are of the other party and take the best of their point of view into consideration. Only then can you begin to see where you may be missing an important perspective. The analogy for investing is that in order to be an effective investor you must know both the bull and bear case. If you are a bull, you cannot become so blindsided that you miss some of the valid points the bears are making, and vice versa. It’s about finding a balance in the markets that makes for solid, long-term investment related decisions.

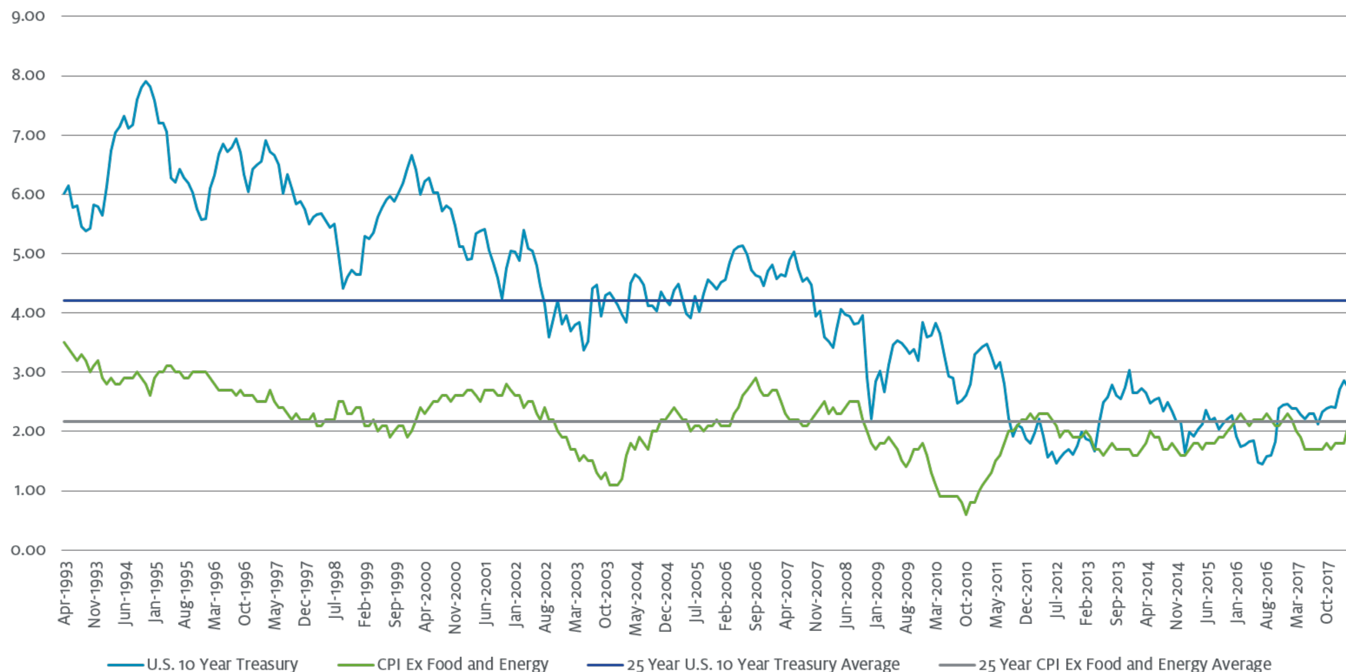
In closing, there are many important lessons in annual shareholder letters. Buffett, Bezos and Dimon’s letters are among the best. What the three have in common is that good culture wins, it is important to surround ourselves with high standards, continue to invest in good times and bad and take a long-term view. If that collective advice is good enough for those three respected organizations, it’s probably good enough for investors to follow as well. ◊

## Our Thoughts on Interest Rates

Jim Bernard, CFA
Managing Director, Fixed Income

As interest rates start to increase after many years at historically low levels, the pressing questions are how high will rates go this cycle and when exactly will these higher levels occur? While predicting when rates will get to some higher or lower level is difficult at best, expecting rates to increase to at least a historically “real rate” is a more realistic approach. Typically, investors look at the current 10-year Treasury note as the benchmark of intermediate maturity taxable interest rates. Determining the “real rate” on bond yields is computed by using the Core CPI number, which is the consumer price index less the more volatile food and energy prices as determined by the Bureau of Labor Statistics.

10-Year U.S. Treasury Yield vs CPI Ex Food & Energy




Source: Bloomberg

As the chart indicates, over the last 25 years the average rate on the 10-year benchmark Treasury note was 4.20%. Over the same period of time, Core CPI (defined above) averaged 2.16%. The difference, on average, was just over 200 basis points, specifically 2.04%. As of this writing, the 10-year Treasury note yields 2.95% compared with current Core CPI, which stands at 2.10%. This gives us a "real rate" (gross yield less Core CPI) of 0.85%, well below the 25 year average of 2.08%. We believe it is unlikely that we will return to the historical average "real rate" anytime soon, even though higher rates are likely in the coming months and years.

If "real rates" stay close to current levels, the likely 100+ basis points of FED rate increases are likely to increase longer rates by at least 50-75 basis points. A flatter yield curve (short-term rates at similar levels to longer-term rates) is likely unless inflation were to increase significantly. We believe the likelihood of significantly higher inflation in the next few years is rather low given anticipated further productivity enhancements.

We therefore conclude that a normalized "real rate" occurring in the next few years is unlikely unless inflation were to increase significantly. Barring that development, we expect a relatively flat yield curve (even flatter than today) to be the norm over the next few years. When and if we have meaningful economic weakness will determine when short-term rates fall again and the yield curve should then return to a more traditional shape (short rates yielding less than intermediate or longer-term rates). ◊

## Charitable Giving under the 2017 Tax Cut and Jobs Act

Howard Essner, JD
General Counsel, Family Wealth & Retirement Plan Advisor

The tax changes passed by Congress at the end of 2017 involve major changes to the way most people itemize deductions. The combination of the increase of the standard deduction to $24,000 or more, the limitation to $10,000 on the amount of state and local taxes that can be deducted and a few other changes, means that only an estimated 10% of taxpayers will itemize in 2018, compared to the 30% of taxpayers who itemized before the tax law went into effect.[1]

These changes may have a significant impact on charitable giving because a donor who does not itemize deductions receives no tax benefit for his or her charitable contributions. Major donors, those who give around $15,000 or more per year, will largely be unaffected by these changes since these donors likely will continue to itemize. However, many smaller givers will lose significant tax breaks for their charitable giving.

Most donors give without consideration to the tax benefit, but if you are going to give, you should look for ways to find some tax benefits even if you no longer itemize. Here are some ideas to consider, from simple solutions to more complex strategies.

### Use Your IRA

If you are older than 70 ½ and have a traditional IRA, you should consider using the IRA to make direct contributions to your charity. We have written about this strategy in the past. If the IRA custodian pays the charity directly, the distribution does not appear on your federal tax return as income, putting you in the same (or better) position than if you took the distribution, paid tax on it, made the contribution, and then deducted the contribution. There also can be state income tax (especially in Ohio) and other federal tax benefits to this approach, and it is still a great idea even if you do itemize deductions.

### Bunch Your Contributions

You should consider bunching multiple years' worth of contributions into a single year. For example, if you normally give $5,000 to a charity, you could donate $15,000, $25,000 or even $50,000 in a single year, maximizing the deduction in that year, and then use the standard deduction in the other years. Of course, you should let the charity know what you

are doing and to not expect contributions in later years. If you can, consider this approach in a year when you have other deductible expenses, such as large medical expenses.

### Use Appreciated Securities

The tried and true approach of using appreciated long-term securities to fund your gifts remains valid even if you do not itemize. By using appreciated stock, you avoid the capital gain tax on the sale, even if you do not get a deduction. This idea can also save state income taxes in states that use the federal taxable income as the starting point for state income tax (like Ohio).

### Use a Donor Advised Fund

The rationale behind this idea is the same as the one for bunching contributions, but now you "pre-fund" your donations through a Donor Advised Fund (DAF). When you fund a DAF, you give money to a public charity, which agrees to hold the money to fund future donations to other charities as directed (technically, as "advised") by you. The charitable donation deduction is triggered in the year you fund the DAF, not when the funds are distributed to the ultimate charitable beneficiary. As a result, you can get a large itemized deduction in the year that you fund the DAF, and then use the standard deduction after that. You can use appreciated securities to fund the DAF (with some restrictions), thereby increasing the tax value. Many charities sponsor DAF programs, including the charitable arms of Fidelity and Schwab, two of the custodians we use here at Ancora. There are some administrative fees associated with DAFs, and you should consider these when determining whether to fund a DAF and how much you should give.

### Use a Trust

This last idea is the most complex and carries the concept behind bunching contributions and funding a DAF one step further. You could use what is called a "non-grantor" or "complex" trust to fund your future charitable giving. A non-grantor trust is a trust that pays the income tax on its income at trust tax rates. Normally, these trusts are avoided in planning since they pay the maximum tax rate at relatively low levels of income. However, if the trust distributes all its income to a beneficiary, then the trust gets a deduction for the distribution, and the income tax is paid by the beneficiary. If the beneficiary is a charity that pays no tax, no income tax is due on the trust's income.

Here's an example. Let's say you normally give $4,000 to $10,000 a year to charities. You set up a non-grantor trust and fund it with $200,000. (This is a taxable gift requiring the filing of a gift tax return and the use of some of your lifetime gift and estate tax exemption.) The trust gives you the power to distribute income to charities and names your children as the ultimate and discretionary beneficiaries. The trust assets are invested in high dividend producing stocks, as an example, and in the first year produces $6,000 in taxable income. All the taxable income is distributed to various charities. You pay no income tax because the trust income is not included on your return, the trust pays no income tax because it distributes all its income, and the charity receives the money just like it would normally. The tax impact to you is identical (if not better) than making a tax-deductible charitable gift. You do have to give up the use of the money you give to the trust during your lifetime, just like funding a DAF, but, unlike a DAF, the trust assets ultimately stay in the family. There are some state tax issues that must be considered, so this is a strategy that must be carefully vetted by your trust attorney and tax advisor.

As is always the case with taxes, each situation is different, and you should consult with your attorney and/or tax advisor before adopting any strategy discussed in this article. ◊

[1] Source: Tax Policy Center Report T18-0009, Impact on the Tax Benefit of Charitable Deduction of H.R.1, The Tax Cuts and Jobs Act, By Expanded Cash Income Level, January 18, 2018.

## Q&A on Long-Term Care and Other Insurance Topics

Rick Heffern
Director, Insurance Services

### Q: Rick, please tell us a little bit about yourself including your professional background in the insurance field and your role at Ancora?

A: I am Cleveland born and raised, married with 6 children. I have roughly 30 years of experience in the life insurance industry. Over my career, I have been involved in starting organizations, working with and transitioning privately held second-generation family businesses and large public corporations. I joined Ancora in June 2017 to help develop a state of the art advanced planning life insurance business that integrates with the holistic wealth and financial planning approach that we take for families and businesses.

### Q: In terms of the insurance landscape, what are some of the most pressing issue facing individuals and organizations today that you see or are asked about frequently?

A: I am frequently asked, "Do I have the correct allocation of life insurance and disability insurance with regard to my family or business risk management and planning objectives? Are the products I have still best suited for my specific situation? Has the market evolved to provide additional product choices that may not have been available when I initially purchased my policies? Are there other techniques that I need to be aware of that may be appropriate for my situation?" My answer is very simply yes, we can help organize and advise in most every situation.

One of the most pressing issues faced by individuals and families continues to be that of long-term healthcare costs and how to manage that potential exposure. The cost of healthcare, specifically long-term care, continues to escalate. On average, the monthly cost of long-term care is $9,000-$10,000 per month and the rate of increase is 2-3% per year. It does not take long for this exposure to be $500,000 or more. For cognitive disorders (Alzheimer, Dementia, Parkinson's etc.) this could easily double or triple this exposure. The good news is that, with a little planning, the opportunity exists to help offset much, if not all, of this exposure.

### Q: Specifically, what is the current status of the long-term care market for individuals and families?

A: The market had a bit of a rough patch several years ago as many of the early adopters that ventured into the market did not build the proper pricing models in order to account for an extended low interest rate environment, coupled with the actual costs of care provided. As a consequence, many companies raised prices to consumers or exited the market entirely. We are still witnessing some of those ramifications in today's news reports.

Within the past few years the market and pricing has stabilized as insurance companies re-price appropriately while scaling back a lot of bells and whistles from their product offerings. Due to changing demographics and consumer desire for flexibility, many new and innovative products have been introduced that combine the potential need for long-term care coverage with life insurance or annuities. There are now what we refer to as Hybrid products that offer a long-term care benefit if needed, cash value if long-term care is not needed and a life insurance death benefit for family. These products provide a multifaceted solution for families now that want to protect the longevity of their assets.

### Q: How do consumers know if long-term care insurance is right for them or their family?

A: As time goes by, more and more people are witnessing the devastation that a chronic long-term care experience can bring on. I would suggest that anyone that is entering their late 40's or older should have a conversation about this topic and explore whether it is right for their family. It used to be that anyone with more than $5 million of liquid wealth may not be a good candidate to consider purchasing long-term care coverage as they could sufficiently self-fund most any risk. With the advent of Hybrid products, we think the story has changed and should be a risk to consider off-loading as an asset or legacy protection device. Many times we can reposition a relatively small portion of assets into one of these

products to provide a significant benefit in order to protect against future expenses, thus providing for a better risk adjusted return. We can also use "sleepy assets" such as old life insurance cash value or qualified money (IRA's) that may never be needed or used in order to fund one of these product designs.

### Q: Ancora offers comprehensive insurance review services. Can you briefly describe your process and the potential benefits of conducting a review of your existing policies?

A: Our approach is really very basic. We consult, then we design and then we implement. This is very situational as everyone has their own story and dynamic. We take a great deal of time understanding each situation, which allows us to come up with strategies that meet with each objective that is uncovered. The landscape is broad and we have the ability to help anyone evaluate the simplest to the most complex personal, family or business situation. More often than not, we find an opportunity to add value in one way or another from a basic review, which could simply be a validation that the current product and design is perfect for the given situation. ◊

## Growth at Ancora

JoAnna Gyetko
Vice President, Accounting & Human Resources

So far in 2018, Ancora has seen unprecedented growth in terms of new hires both at our headquarters in Cleveland and satellite office outside Detroit. With all these new names and faces, we would like to take the time to introduce you to the newest members of the Ancora team that will be supporting our clients and the firm in a variety of manners.

### January 2018

Mr. Kim L. Oeder
*Chief Compliance Officer & President, Inverness Securities Inc. - Cleveland Office*
Kim oversees the daily operations and all compliance measures for Ancora's broker dealer, including regulatory reporting requirements, internal continuing education and investment due diligence. Kim has compliance oversight of Ancora's Family Wealth division.

### February 2018

Ms. Lauren Turkisher
*Vice President, Alternative Investment Operations - Cleveland Office*
Lauren is responsible for providing treasury management and operations support for the firm's Alternative Investment products. Specific duties include providing proxy voting and corporate actions monitoring, attribution, risk and performance analytics.

### March 2018

Ms. Connie Wicks-Reiter
*Vice President, Client Operations - Detroit Office*
Connie provides operational and administrative support to Ancora's satellite office in Michigan. Her role includes the account opening and documentation process, along with general operational functions and client support.

## April 2018

Mr. Christopher Farnham
*Assistant Vice President, Alternatives Analyst - Cleveland Office*
Chris provides analytical support to the Alternatives group. He assists with all stages of the research process and works as an analyst for both investment verticals and the portfolio managers of the Alternatives group.

Mr. Conor Sweeney
*Assistant Vice President, Alternatives Analyst - Cleveland Office*
Conor supports the Alternatives group as an analyst. He provides research for sourcing, due diligence, modeling and investment monitoring for the portfolio managers of Ancora's Alternatives strategies.

Mr. Christian Watson
*Assistant Vice President, Client Service & Support - Cleveland Office*
Chris provides overall operational support to Ancora's Retirement Plans division. He is responsible for providing high levels of service to Ancora's retirement plan clients and their plan participants with their service needs.

## May 2018

Ms. Nina Muniza
*Assistant Vice President, Accounting - Cleveland Office*
Nina supports the accounting department and their internal operations. She is also responsible for coordinating building management and maintenance for Ancora's Cleveland office. ◊

As always, don't hesitate to contact your Ancora advisor or relationship team if you have any questions or would like to learn more about these topics. Visit our website at www.ancora.net to read past newsletters and find other news and insights from the investment professionals at Ancora.

**Copyright 2018 by Ancora Holdings LLC**

**Disclosures:** The mention of specific securities, the securities of foreign exchanges and investment strategies in this presentation should NOT be considered an offer to sell or a solicitation of an offer to purchase any specific securities or securities listed on a particular foreign exchange. All data contained in this document is based on information and estimates from sources believed to be reliable. Please consult an Ancora Investment Professional on how the purchase or sale of specific securities can be implemented to meet your particular investment objectives, goals and risk tolerances. Past performance of investment strategies discussed is no guarantee of future results or returns. Investment return and principal value will fluctuate so that an investment when redeemed or sold may be worth more or less than the original cost. Statistics, tables, graphs and other information included in this document have been compiled from various sources. Ancora believes the facts and information to be accurate and credible but makes no guarantee to the complete accuracy of this information. An investment is deemed to be speculative in nature.

Ancora Holdings Inc. is the parent company of three registered investment advisers with the United States Securities and Exchange Commission; Ancora Advisors, LLC, Ancora Family Wealth Advisors, LLC and Ancora Retirement Plan Advisors, Inc. In addition it owns Inverness Securities LLC, a FINRA & SIPC member broker dealer. A more detailed description of Ancora, its RIAs, management team and practices are contained in the firm brochure, Form ADV Part 2a. Qualified prospective investors may obtain the ADV Part 2a by contacting the company at: 6060 Parkland Boulevard, Suite 200, Cleveland, Ohio 44124, Phone: 216-825-4000, or by going to www.ancora.net.