

# INDEPENDENT THINKING

THE NEW STANDARD IN WEALTH MANAGEMENT

EVERCORE  
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Charting a Path Through Market Downturns



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# A Message from the CEO



As we approach the holiday season, we have much to be thankful for at Evercore Wealth Management. Yes, market conditions have been volatile, to say the least, but our clients are prepared for change.

We are mindful that rising volatility may mean more challenging times ahead. You'll see a number of articles about planning and investing in this issue of *Independent Thinking*, as you might expect, and you'll notice that our focus is always on building and managing sustainable, tax-efficient portfolios, never on trying to time the markets or taking on too much (or too little) risk. Asset allocation is key, and we are actively rebalancing our equity exposures where appropriate to our clients established allocations.

Our portfolios continue to perform well. We knew that the United States could not remain immune from the massive shift in economic policy underway in China or the developing trade disputes between our countries. But we also knew that this country is better positioned to withstand trade tensions than most other industrialized countries, as our exports as a proportion of our economy are relatively low. We have been overweight domestically for some time and remain so.

Still, volatile markets are always unsettling, particularly for investors who have left or are preparing to

leave the workforce. That's why we address, in an article by our new Minneapolis colleague Dan Stolfa, the importance of comprehensive pre- and post-transaction planning in exiting a business and, in my own regular Baby Boomer column, planning and spending in retirement. We also revisit how important it is for couples to address these topics, and wealth planning generally, as a team. These articles are part of our continuing focus in these pages on managing the financial aspects of life's big transitions.

We continue to grow our business and are excited about the opening of our Palm Beach office, our second in Florida, as we welcome our two new Florida colleagues, Aldo Palles and Ross Saia, both of whom joined our firm from U.S. Trust. The office is up and running and welcoming clients who, like me, spend part of the year in the region, as well as local residents.

We are always thankful for referrals from our clients and our Evercore colleagues. We could not have asked for better relationships, on either count. We are proud of Evercore's continued success, including recognition of Evercore ISI as the top ranked

independent firm in *Institutional Investor's* All-America Equity Research survey for the fifth year, and of Ed Hyman, Evercore ISI's founder and Chairman, as the top economist for an astonishing 38th time.

As always, please don't hesitate to contact us about any of the topics addressed in this issue or with any questions you may have. As I've observed throughout my career, good advisors stay close to their clients, particularly in challenging market conditions, and help guard against both excessive pessimism as well as excessive optimism. We remain focused on helping you achieve your financial goals, for yourself, your family, and the companies and charities that you care about.

I wish you and your family a wonderful Thanksgiving and a joyful holiday season.

A handwritten signature in black ink that reads "Jeff". The signature is written in a cursive, flowing style.


**Jeff Maurer**  
Chief Executive Officer



# Wading into Troubled Waters: China and the United States

*By John Apruzzese*

China's exceptionally fast economic growth over the last 30 years has created the world's second-largest economy, and it is on track to surpass the size of the U.S. economy in the next decade. But the pace of growth in China is slowing markedly, and that has broad implications across the financial markets.



*Exceptionally fast economic growth has created the world's second-largest economy*

There are three main reasons for the slowdown, which, as illustrated below, has taken gross domestic product growth from persistent double-digit annual rates to less than seven percent, and is likely to cause further deceleration of China's economic growth rate.

First, China's government realizes that the economy needs to become less dependent on investment, including export-oriented manufacturing capacity financed by extraordinary amounts of debt. Despite considerable progress in shifting the economic base toward domestic consumption, each economic slowdown creates panic that compels Beijing to permit substantial increases in borrowing. As the total amount of outstanding debt rises, the boost to GDP from each new amount of borrowing diminishes.

Second, the one-child policy, aimed at stemming overpopulation, has worked too well. China's working-age population, once growing rapidly, is shrinking, and taking growth in economic output down with it. The one-child policy has been modified – it

is now a two-child policy for many families – but demographics are likely to remain unfavorable for many years.

Third, the Trump administration is determined to eliminate the advantages that China has enjoyed from being treated as an emerging economy and a member of the World Trade Organization. The administration is also calling China out far more forcefully than past administrations have on the various ways it attempts to illicitly acquire technology and intellectual property. All warfare, said the Chinese general Sun Tzu about 2,500 years ago, is based on deception; a view that appears to be shared by the administration in this rapidly developing trade war.

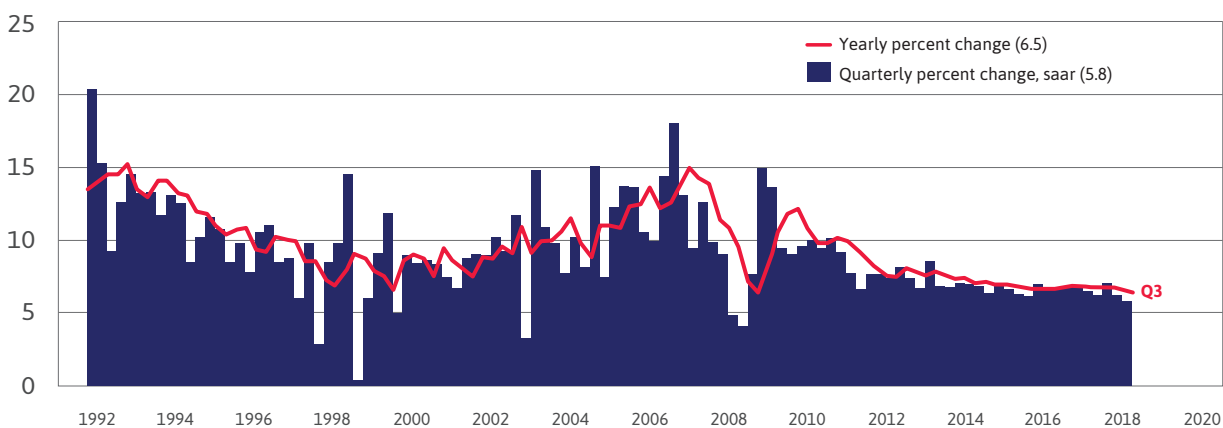
President Trump's rhetoric is focused on the U.S. trade deficit with China and what he sees as the resulting loss of manufacturing jobs, but there is more to the strategy. A recent, remarkably aggressive speech by Vice President Pence; the writings and comments of Peter Navarro, an economic adviser to

the president who takes a particularly hawkish line on trade issues; and new Treasury Department regulations regarding foreign involvement in U.S. technology suggest that the administration is going to do everything it can to slow China's economic development. It considers the Middle Kingdom as the only serious long-term economic and military rival to the United States and a threat to its view of the global order.

*The trade war with China is likely to intensify*

After the recent successful renegotiation of North American Free Trade Agreement with Mexico and Canada, the United States is likely to conclude trade deals with our other major trading partners, but not with China. Instead, the trade war with China is likely to intensify, curtailing China's economic growth and putting a drag on U.S. and global growth, too, at least in the

## China: Real GDP



Source: China National Bureau of Statistics and Haver Analytics.

short-term. Foreign direct investment that would have gone to China may eventually be redirected to India, Vietnam and other emerging manufacturing hubs. Some manufacturing might even come back to the United States, but the real point of the administration's policies is to retard foreign investment in China, and growth could slow substantially in the interim.

The global markets are rapidly adjusting to this new realpolitik. The U.S. economy has strong momentum and relatively low exposure to exports, as illustrated below, so the ongoing trade conflict should have a much smaller impact here than it does in China. But American corporations with large foreign operations have greatly benefited from subsidiaries in China that sell products and services to the Chinese. As tensions increase, it is uncertain whether China's government will make life difficult for those subsidiaries because doing so would hurt Chinese employees and consumers.

A tactic the government could employ would be to devalue the Yuan and tighten capital controls, making it difficult or impossible for U.S. corporations to extract profits. We will monitor the situation closely.

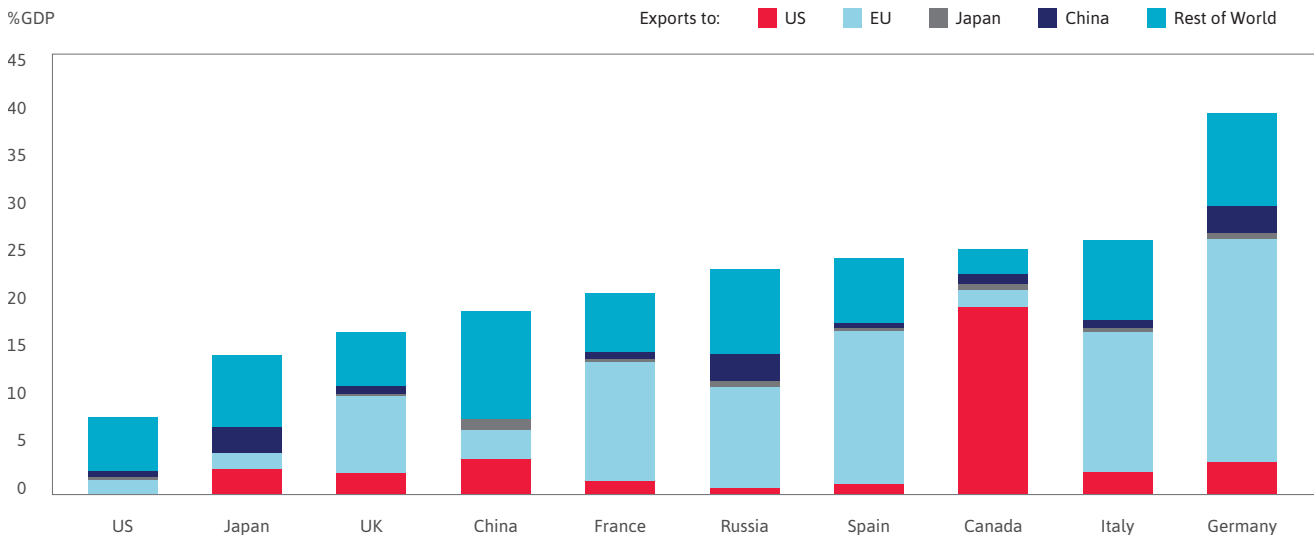
A related issue is China's foreign reserves and the status of the dollar as the premier global reserve currency. China has \$3 trillion of foreign reserves, of which about \$1 trillion is invested in U.S. Treasuries, which helps to fund the federal deficit. In fact, half of the total Treasury debt held by the public is in the form of foreign reserves held by foreign central banks. These reserves roughly represent the cumulative trade deficit the United States has been running with China and the rest of the world. These dollar assets continue to be held because the alternatives are not that attractive. The Euro is only 20 years old and still an experiment. The Yen cannot replace the dollar because the Japanese economy is too small, and the Yuan does not trade freely on international markets.

The lack of acceptable alternatives has allowed the dollar to maintain its global reserve currency status. But it has also allowed the United States to run up massive trade and fiscal deficits, as we discuss on page 5. Although there has yet to be any noticeable impact, the expansion of these deficits leaves the dollar vulnerable to a diminution of its status as the world's indispensable currency, in turn exposing the U.S. economy and financial system to various risks, including slower growth and higher interest rates.

Adjustments to our investment portfolios will be made, if necessary, as the significant changes to the U.S.-China relationship come into focus and in expectation of further developments in the continuing economic slowdown in China.

**John Apruzzese** is the Chief Investment Officer at Evercore Wealth Management. He can be contacted at [apruzzese@evercore.com](mailto:apruzzese@evercore.com).

## Exports as a Share of GDP



Note: The bars represent exports as a % of national GDP; the shades within each bar represent the export markets.  
Source: Deutsche Bank – July 2018

# The Fiscal Deficit and Federal Debt: How Did They Get So Big?

By Brian Pollak

In 1789, Thomas Jefferson and Alexander Hamilton had a great battle over how to treat the enormous debt that had been run up by the individual states during the Revolutionary War.

Hamilton wanted the federal government to assume the debts of each state government by creating a national debt, while Jefferson argued for each state to carry its debt independently, and for rigid limits on the amount the federal government could borrow and for how long. As theatergoers know, Hamilton's argument won the day, and the newly established United States Treasury issued a bond totaling about \$75 million.

All of the founding fathers, including Hamilton, had concerns about excessive debt and viewed borrowing primarily as a mechanism to fund wars and extraordinary items. (Jefferson later authorized debt to finance the Louisiana Purchase.) George Washington summed up the founders' perspective on debt by advising the new country to "cherish public credit." He added: "One method of preserving it is to use it as sparingly as possible."

From 1789 until the early 1980s, the national debt held by the public generally stayed below 25% of GDP, apart from times of war or economic calamity. After World War II, which left the United States the only undamaged major economy, the U.S. dollar became the pre-eminent global reserve currency, the one in which other governments hold dominant portions of their financial reserves, as well as the preferred medium of exchange for international commercial transactions and the unit in which commodities are typically priced.

The dollar's rise to global reserve currency status set the table for a shift in economic policy around the fiscal deficit and national debt. Starting in the 1980s under President Reagan, the United States experienced its first persistent and significant peacetime deficits. Apart from a few years during President Clinton's tenure, these deficits have continued. Today, for the first time,

we have a rising deficit as a percentage of GDP during a period of both relative peace and economic prosperity.

# 60%

Mandatory spending accounts for 60% of federal outlays

Some economists argue that's not as alarming as it sounds. After all, Japan, which doesn't have the benefit of a global reserve currency, has been able to sustain a high deficit and debt load for decades, and is currently saddled with a debt of over 200% of GDP. Yields on 10-year Japanese government bonds remain close to 0% and, while growth is slow, there has yet to be an economic reckoning. Japan's experience offers no guarantee for the future of the United States, but it does at least raise the possibility that significant problems related to the debt may still be some way off.

Most economists and long-term investors would prefer to see the U.S. debt addressed. That's easier said

than done. While it is possible to reduce the annual deficit somewhat through a reduction of discretionary spending (the part of the budget not devoted to entitlements, defense or debt payments), or an increase in tax receipts, a deeper analysis of the deficit suggests that tackling entitlement spending is the only way to get the deficit under control over the long-term. Mandatory spending on Social Security, Medicare, Medicaid and similar programs currently accounts for over 60% of federal outlays, and the proportion is rising,

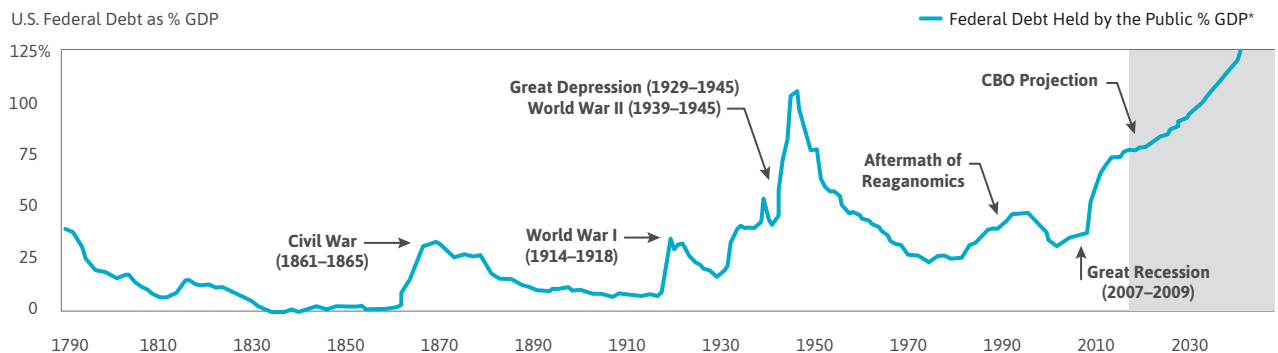
due to an increase in benefits and an aging population. Together with these mandatory spending commitments, defense spending, which takes up another 15% of total outlays, and interest expenses at about 7% of GDP and rising, nearly 100% of government receipts are used up, as shown in the charts on page 7. This essentially leaves all the remaining government programs to be funded by deficit spending, which ranges from paying for the Justice Department and White House staff to federally funded infrastructure investments.

Higher tax rates and more careful discretionary spending, when combined, could have some impact on reducing the deficit from its projected trillion-dollar level, but would be unlikely to reduce it materially. As illustrated since the 1960s and by the graph on page 7, individual and corporate tax rates matter, but only marginally. Regardless of the prevailing tax regime, total tax receipts come in within a fairly small percentage range relative to GDP, and rises and falls in tax receipts are more correlated to the economic cycle.

## A Troubled Relationship

The federal debt and the fiscal deficit are related. The deficit is the difference between the amount of revenue the government collects in a given year, primarily from taxes, and the amount it spends on entitlement programs, defense spending, debt servicing, and other outlays. When government spending outstrips revenues in a given year, there is a fiscal deficit that must be funded with new debt, mainly U.S. Treasuries. The net new issues add to the federal debt, which is typically measured in aggregate, relative to the gross domestic product or GDP. That ratio has been rising, and that rise, as illustrated here, is projected to continue.

### The Cost of Spending



As of April 27, 2018  
GDP = Gross Domestic Product is the amount of goods and services produced within a given country.  
CBO = Congressional Budget Office. You cannot invest directly in an index.  
Source: BofA Merrill Lynch Global Investment Strategy, Reinhart & Rogoff (2010), Haver



An increase in economic growth and/or inflation is more likely to bring debt under control. If nominal GDP growth outstrips the growth in the debt over a prolonged period of time, the percentage of debt to GDP will shrink to more normal levels. However, many economists believe that significant and prolonged nominal economic growth is unlikely due to the U.S. demographic profile.

This leaves entitlement spending reform as the only realistic long-term solution to reduce the deficit. But

cutting entitlements would require political will that is not currently in evidence. This administration appears to view entitlements as sacrosanct, while the opposition, especially the more liberal wing of the Democratic Party, is interested in further entitlement expansion.

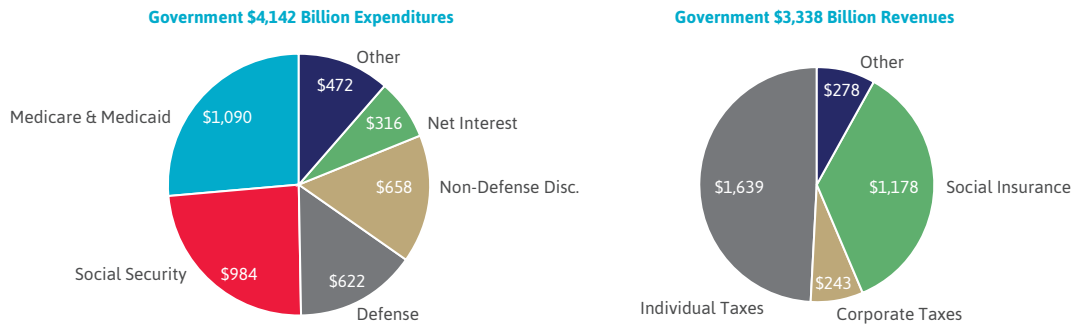
It is difficult to know what either Jefferson or Hamilton would make of our current circumstances. The longer our fiscal deficit persists, the more Treasuries the federal government will be forced to issue, and the greater

our reliance will be on our status as the dominant global reserve currency. We are mindful that it is difficult to invest around the potential timing of a government debt-related crisis, but are confident that a well-constructed portfolio of diversified investments will remain important in mitigating economic risk.

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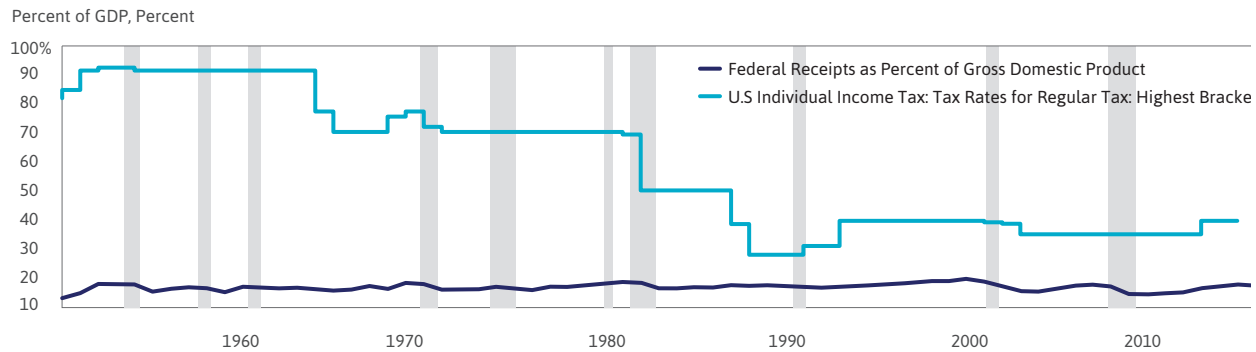
**Brian Pollak** is a Partner and Portfolio Manager at Evercore Wealth Management. He can be contacted at [brian.pollak@evercore.com](mailto:brian.pollak@evercore.com).

## Varied Demands, Limited Supply



\*Taken from JPM Guide to the markets  
 Note: CBO Baseline is based on the Congressional Budget Office (CBO) August 2018 Update to Economic Outlook. Other spending includes, but is not limited to, health insurance subsidies, income security and federal civilian and military retirement. 2018 government expenditures forecasted to exceed revenues by \$804 Bn.  
 Source: CBO

## Economic Cycles Matter More to Revenue Collection Than Tax Rates



Shaded areas indicate U.S. recessions.  
 Source: IRS, St. Louis Fed

# Q&A

with Blackstone



Joan Solotar

*Editor's note:* Evercore Wealth Management supplements its core investment capabilities with carefully selected outside funds across the range of the firm's asset classes. Here we interview **Joan Solotar**, Head of Private Wealth Solutions and Chair of the Blackstone Total Alternatives Solution's Investment Committee, on the role of illiquid investments in private client portfolios. Please note that this represents the views of Blackstone and not necessarily the views of Evercore Wealth Management.

**Q:** Blackstone describes allocations to illiquid investments as "patient capital." Please explain.

**A:** A private market fund typically has a three- to six-year investment period. This provides the investment team with the flexibility to wait for the best investment opportunities, in contrast to most liquid funds, which can allocate capital immediately but must be 100% invested at all times. Similarly, the timing of sales can be better optimized in private market investing. In short, it requires patience to identify and source the right deals, improve the underlying investment and successfully liquidate through either the public markets or a direct sale. Long-term investors may be rewarded in the form of outperformance for their willingness to invest in less liquid holdings.

**Q:** Are there advantages in illiquidity itself? How about in inefficient markets?

**A:** For nontraditional assets beyond long-only equities, estimates of the illiquidity premium can range from 300 basis points per annum and higher, depending on the asset. Generally speaking, funds with longer lockups, which enable managers to invest in less liquid holdings, tend to earn higher returns than those without.

While greater illiquidity may increase the inefficiency of a particular market, it does not by itself guarantee higher returns. Instead, it shifts the primary source of the return from the beta, or movements of the market itself, to the individual manager's skill in managing the investment to a more successful outcome.

**Q:** Private investors tend to be under-allocated to illiquid assets relative to institutions such as pensions or endowments. Why is that?

**A:** Many institutions with long investment horizons and known funding requirements have increased their allocations to illiquid alternatives to well over 20% on average today.<sup>1</sup> These institutional allocations to private market alternatives far exceed most individual investor allocations, which typically represent about 5% of their portfolios.<sup>2</sup>

The structural realities of illiquid investments create a number of challenges that may constrain the appetite of individual investors for these assets. Several challenges include gaining exposure, achieving a diversified allocation, and maintaining an allocation.

**Gaining Exposure:** Unlike the public markets, private market investors cannot gain instantaneous exposure to their underlying investments: Time is required to identify private market opportunities and to conduct due diligence negotiations.

**Achieving a Diversified Allocation:** Fund offerings are calendar-dependent, may not be accessible to all investors, and often require higher investment minimums. Individual investors seeking broad diversification in the space – across assets, strategies, managers, and "vintage years" – may have difficulty achieving that kind of exposure.

**Maintaining the Allocation:** Capital is deployed as investments are identified over time and is returned back

to investors as the investments are realized. This means only a portion of an investor's commitment is at work at any point in time.

**Q:** How should private investors deploy their own patient capital across the private market space? How should they think about "private" asset allocation?

**A:** Private equity, real estate and distressed debt may be best understood not as new asset classes but as less liquid versions of existing strategies.

Private equity sits alongside other more liquid equity-like exposures, such as long/short equity, active long-only, and passive equity structures. They are all equity-oriented assets; the longer-term nature of private market vehicles being just one distinguishing characteristic. The same can be said for allocations to fixed income, which would extend from the most liquid Treasury or bond ETF portfolio, into less liquid high-yield or senior loans, and then direct lending, mezzanine and distressed debt as the least liquid.

In other words, private market allocations may be best understood as a natural extension of the public or liquid portfolio, with related risk and return characteristics all derived from the overarching asset class to which each belongs.

**Q:** Where does Blackstone see opportunities today?

**A:** By leveraging our scale and brand, we are able to find investments throughout market cycles across asset classes. Our investment platforms seek to be more than just a source of capital and seek to create value through operational intervention and proactive asset management.

Currently, we see particularly interesting opportunities in the following trends and investment themes:

Within private equity, we are focused on large-scale, primary buyouts across key sectors such as business services, fintech/financial services, healthcare, midstream energy and industrials, with a discipline around underwriting for attractive unleveraged returns. In the current environment characterized by historically low cost of capital, Blackstone is focused on transactions where execution complexity narrows down the partner of choice to Blackstone, and where Blackstone can bring operating intervention. Due to faster economic growth

and favorable deployment trends in Asia relative to the rest of the world, we see Asia as an attractive region of focus to source investments.

Within real estate, we seek to capitalize on investment opportunities driven by several secular trends. We see increasing demand for logistics due to the shift to e-commerce and the need to be closer to customers, and we focus on growth areas such as innovation cities and IT hubs. We focus on sectors with growth potential and seek assets where we can buy at good values and create value through proactive asset management.

Within credit, we continue to find opportunities, particularly in Europe where the risk/reward is favorable. Some prominent investment themes include cyclical industries (i.e., energy), fallen angels from investment grade, event-driven opportunities in larger capital structures, and industries under transformation such as retail, healthcare and telecom. In all of its transactions, Blackstone remains focused on the senior part of the capital structure, and is patient and cautious in the deployment of capital.

Last, the tactical opportunities team continues to leverage its unconstrained mandate to find opportunities across asset classes, sectors and regions. Currently, we see significant opportunities in structured transactions that are designed to provide downside protection with potential upside participation. The team is investing in key sectors, including telecom infrastructure, Cloud computing and cybersecurity.

Given Blackstone's expertise, investment discipline and global platform, we believe the firm is positioned to capitalize on market disruptions and successfully navigate the evolving environment going forward.

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For further information about Blackstone and about other funds on the Evercore Wealth Management investment platform, please contact **Stephanie Hackett** at [stephanie.hackett@evercore.com](mailto:stephanie.hackett@evercore.com).

<sup>1</sup> Source: Global Pension Asset Study 2018, Willis Towers Watson; National Association of College and University Business Officers 2017 Study (Dollar-weighted Average).

<sup>2</sup> Money Management Institute, "Retail Distribution of Alternative Investments", 2018.



# Public versus Private Companies: Weighing a Changing Dynamic

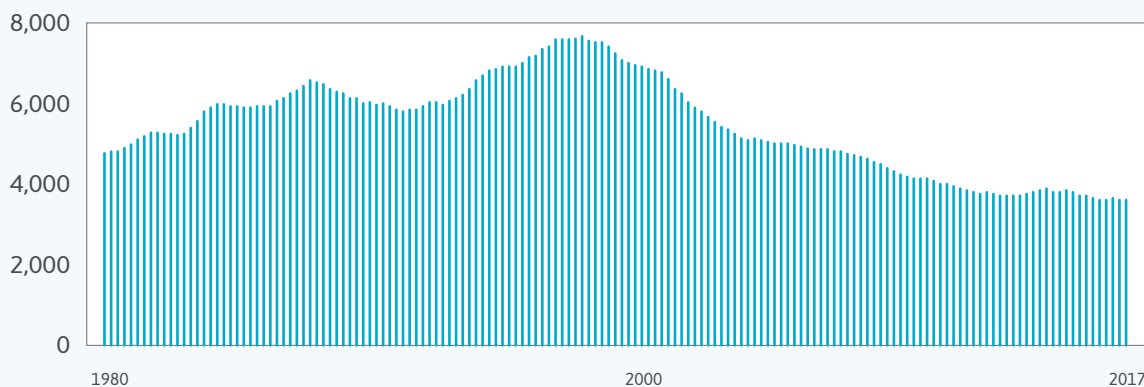
By Stephanie Hackett

Equity markets have evolved dramatically over the past few decades, with a 46% decline in the number of U.S. companies listed on exchanges since the peak in 1996. What is driving this trend? One reason is that public companies are getting bigger and more stable. Another reason is that companies are staying private longer.

U.S. companies have accessed public market capital through initial public offerings, or IPOs, since the Dutch East India Company launched in 1602. Between 1976 and 1996, the number of listed companies rose 50%, thanks in part to the dot.com bubble of the 1990s. Their ranks halved over the next 10 years, through mergers, acquisitions and, as is presently the case with Sears, bankruptcies. Investors can also take a company private, as Elon Musk famously

## Where Have the Public Companies Gone?

Listed companies in the United States



Source: Jay R. Ritter, Warrington College of Business Administration, University of Florida; University of Chicago Center for Research in Security Prices.

suggested in August that he would do with Tesla before settling with the U.S. Securities and Exchange Commission.

Today there are far fewer public companies, but they are generally larger and more mature global competitors. Approximately 4,000 U.S. public companies are listed today, with an average market capitalization of \$7.3 billion.<sup>1</sup> In 1996, the average market cap was \$1.8 billion (in today's dollars).<sup>2</sup> Public companies have grown substantially over the past 20 years by consolidating with industry peers or by acquiring smaller companies to access new technology or products. As a result, average market capitalization is now skewed significantly by the largest companies, with 140 companies exceeding \$50 billion in market value. Fewer than 40 companies – the top 1% – represent 29% of total U.S. market cap.<sup>3</sup>

U.S. public companies also hold a lot more cash than they used to – about 22% of total assets at latest count, up from a little over 9% 40 years ago.<sup>4</sup> That cash can be used to fund research and development, to expand into new markets, or to acquire smaller companies or competitors. It is also used to return capital to shareholders. Today, the total payout ratio, or the ratio of dividends plus share repurchases divided by net income, is 2.3 times what it was in 1996.<sup>5</sup>

With fewer companies in the U.S. public markets, some investors argue that we are approaching an unhealthy degree of industry concentration. Others see this concentration as the natural outcome of technological innovation and globalization, which have allowed the most productive and profitable companies to dominate the public markets. Certainly, there has been tremendous growth in the private equity industry. Only 24 private equity firms existed in 1980, and their combined deal volume totaled just slightly more than \$1 billion. Today there are over 3,000 private equity firms with more than

## Four Reasons Companies Are Staying Private Longer

### 1. Greater funding and exit options

Private companies can now obtain ample late-stage funding from private equity firms, sovereign wealth funds and mutual funds, all of which have been willing to fund billion-dollar investments into private companies. Aside from facilitating company growth, founders, employees and early investors can tap late-stage funding rounds to achieve some liquidity. Private companies can also access debt financing, which has been attractive while interest rates are at or near all-time lows. Debt financing allows companies to raise capital without diluting shares or adding new investors.

As an alternative to an IPO, a significant number of private companies are agreeing to acquisitions by strategic buyers (usually public companies). In 2017, just 15% of venture capital exits were IPOs; the remainder were the result of M&A deals. Public companies tend to have a lot of cash on their balance sheets, which can be used to acquire technologies or products.

### 2. Less capital required to build a company

Companies today need less capital to build and expand. For example, innovations in technology allow companies to use low-cost Cloud-based services rather than building their own networks and other infrastructure.

### 3. Regulatory changes

Regulatory changes enable private companies to stay private longer, while upping the costs of public listings. The JOBS Act of 2012 increased the total number of shareholders a company can have before being required to register with the SEC to 2,000, allowing private companies to take on more late-stage investors. The Sarbanes-Oxley Act of 2002, designed to prevent the accounting frauds of the 1990s, imposed reporting and liability burdens on public company managers. Public companies have since had to pay fees for listing on an exchange and additional expenses associated with mandatory disclosures and regulatory requirements. They are also required to have dedicated resources for communicating with current and prospective shareholders.

### 4. Intangible benefits of private entities

Staying private longer allows founders to take a long-term view and to prioritize control and flexibility, allowing them to take risks, away from the spotlight. Public companies are more heavily scrutinized by investors, analysts and the media, as well as by competitors and activist investors.

\$1 billion in assets under management.<sup>6</sup> Two of the largest private equity firms, The Carlyle Group and KKR & Co., have more than 650,000 employees within their portfolio companies, making both of them larger employers than any listed company apart from Wal-Mart.<sup>7</sup>

*Investors may wish to participate in both the public and private markets*

Private companies are also staying private for longer. In the past, emerging companies looked forward to an IPO so they could access public market capital, use shares for compensation or for mergers and acquisitions, and provide liquidity for founders and early investors. As described on page 11, greater funding and exit options, decreasing capital investment requirements, regulatory changes, and

the intangible benefits associated with remaining private are more than offsetting the attractions of a public listing. The availability of late-stage capital in particular has allowed some companies to grow and expand while staying private. Unicorns, or private companies with valuations over \$1 billion, include Airbnb, SpaceX, Palantir Technologies, WeWork, Pinterest and, perhaps the most well-known, Uber.

Investors who can tolerate some illiquidity in their asset allocation may wish to participate in both the public and private markets. At Evercore Wealth Management, we recommend investors select private equity funds that have potential to earn a premium that compensates for illiquidity, and build an investment program that is diversified across strategies, vintage years, industry sectors and geographies. While investors who participate only in public equities can also benefit from

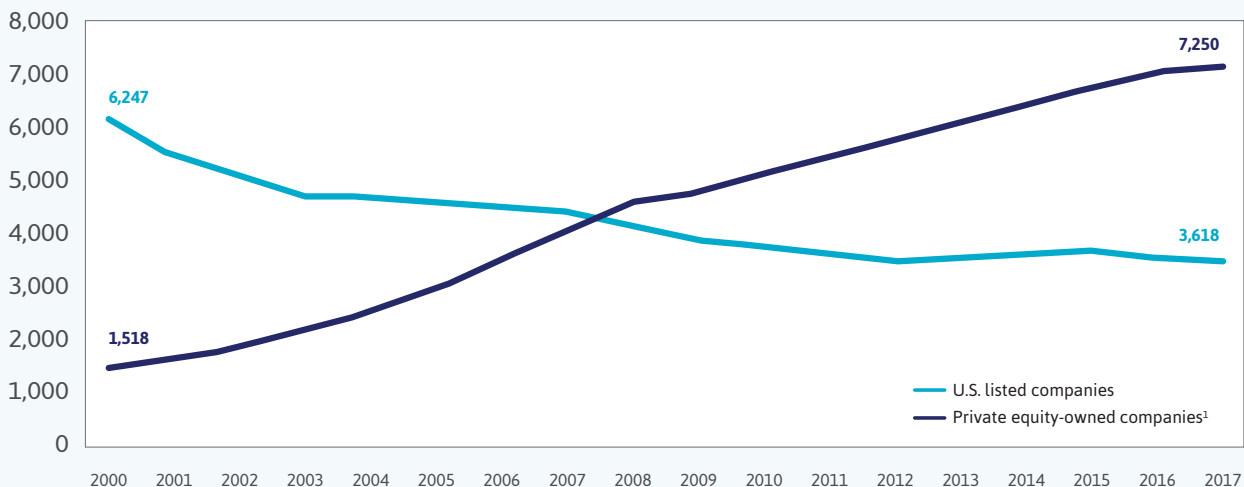
the innovations of private companies, a significant amount of the valuation growth on those new technologies or products occurs prior to an IPO or acquisition.

**Stephanie Hackett** is a Managing Director and Portfolio Manager at Evercore Wealth Management. She can be contacted at [stephanie.hackett@evercore.com](mailto:stephanie.hackett@evercore.com).

<sup>1</sup> "Looking Behind the Declining Number of Public Companies", EY, May 2017.  
<sup>2</sup> "Looking Behind the Declining Number of Public Companies", EY, May 2017.  
<sup>3</sup> "Looking Behind the Declining Number of Public Companies", EY, May 2017.  
<sup>4</sup> T.W. Bates, K. M. Kahle, and R. M. Stulz, 2009, "Why Do U.S. Firms Hold So Much More Cash Than They Used To?" and Journal of Finance, 64(5), October 2009, pp. 1985-2021  
<sup>5</sup> "The Incredible Shrinking Universe of Stocks," Credit Suisse, March 22, 2017.  
<sup>6</sup> "The Incredible Shrinking Universe of Stocks," Credit Suisse, March 22, 2017.  
<sup>7</sup> The Carlyle Group, KKR, <http://fortune.com/fortune500/list/filtered?sortBy=employees&first500>.

## Public vs. Private: Steady Decline in Number of Public Companies

U.S. listed companies<sup>1</sup> vs. private equity-owned companies<sup>2</sup>



Source: <sup>1</sup>Jay R. Ritter, Warrington College of Business Administration, University of Florida; University of Chicago Center for Research in Security Prices. As of December 31, 2017. <sup>2</sup>PitchBook: "2017 Annual U.S. PE Breakdown."



# CYBERSECURITY FOR TRAVELERS AND PARENTS

*Editor's note:* Evercore produces a monthly cybersecurity newsletter for the firm's employees. This is an extract from two recent articles; on staying safe while traveling and on protecting children from cybercrime.

## Staying Safe While Traveling

It's best to not use open Wi-Fi networks to conduct any personal business, shop online or bank. These open Wi-Fi networks offer attackers the opportunity to intercept sensitive information.

Turn off Bluetooth when it's not in use. Bluetooth is a useful tool when it comes to wireless headphones, but make sure to turn off the setting when the device is not being used. Attackers can easily pair with the phone's Bluetooth and steal personal information.

Don't fall for phishing scams. Do not follow a link if the information, such as a shopping deal, seems too good to be true or appears to be suspicious in any way. To check the link, just scroll your cursor over it to see where it is actually going to direct you.

## Protecting Children From Cybercrime

A survey by National Cyber Security Alliance, or NCSA, found that 34% of Internet users between 13 and 17 years old have experienced mean or cruel behavior online. The majority of those teens have never discussed their encounter, with anyone, much less with parents. The survey also showed that 57% of teens have one or more online accounts of which their parents are unaware.

Here are some tips from the alliance and the FBI.

- *Be involved:* Sit with your children and look at the YouTube videos, funny memes or any other content that they enjoy. This will give you a sense of what your child is doing and an opportunity to teach healthy online behaviors in a fun, meaningful way.
- *Monitor activity:* Keep computers and other electronic devices in open areas. If children know that you or others may walk by at any moment, it can help them resist the urge to explore the web in potentially harmful ways. Setting parental controls is also key.
- *Set rules:* Rules need to be clearly established but also attainable. Parents should have access to their children's devices at any time, including passwords.

# Sustaining Your (Financial) Relationship

By Kate Mulvany

Successful couples naturally divide responsibilities. She cooks, he cleans – or they take turns choosing restaurants. But they tend to manage their finances together, as a team.

That's because the division of financial responsibilities, no matter how well intended, can produce unintended consequences. One partner may have built or inherited the family's wealth; the other may feel as if it isn't his or her right to become involved. One partner may be much more financially sophisticated; the other disengages out of timidity or disinterest. Often, one partner may feel just too busy, with a business or children, to fully participate in shaping their financial future.

These stumbling blocks, real or perceived, make it difficult to achieve the level of conversation necessary to ensure that each person's values are appropriately reflected in their combined financial plan. Indeed, if one person takes full charge and the other assumes

*Are the needs of the whole family properly accounted for?*

a need-to-know approach, the family as a whole can suffer. For instance, how much can they comfortably afford to spend? How accurate, really, is the more sophisticated investor's assessment of their appropriate exposure to risk? Are the needs of the whole family, including the children and any other dependents, properly accounted for?

Spending and many other financial issues can become magnified in blended families. Consider the California man who had observed his partner spending in support of a child from a previous marriage and was anxious that the outlays came at a cost to their own retirement. In this case, the spending was well within reason and had little effect on their long-term goals as a couple.

But the less sophisticated partner's lack of knowledge about their affairs and a failure in communication created needless anxiety.

Fear, resentment and even mistrust can set in when couples don't fully engage and communicate; emotions that are only compounded at times of crisis, such as an illness, the loss of a job or, as Jeff Maurer writes on page 22, a market downturn.

The emotional fallout from divorce and death is even greater. In an extreme case in point, a widower was just recently made aware of the estate plan put into place by his wife, a successful publisher, and her former financial advisors. He has a life estate in the couple's residence but will have access to liquid cash for his ongoing support only through a trust for which a longtime friend of the couple is trustee. Although the trust provides for his full support and his relationship had been good with the man who now has

*Editor's note:* The examples here were drawn from client experiences and the details were changed.



oversight of his assets, their friendship was destroyed. Worse, he still feels angry at the lack of transparency provided by his late wife.

*Couples do best when both partners are engaged in planning*

Successful partnerships are built on shared goals and values. If it's been a while since the last money conversation, meet together with your advisors to confirm that you are informed, educated – and on the same page – across all the aspects of your shared financial life. Here are a few suggestions to get started; please contact your advisor to address your specific circumstances.

**Level set.** An annual review by both partners with their advisor is the most practical way to establish a foundation

for ongoing conversations. Details to review include the balance sheet (along with the location of assets and ownership), an account of all sources of income and spending, asset allocation, and a review of important estate planning documents like wills, trusts, and powers of attorney.

**Speak up.** A good advisor will want to know what is on both partners' minds. He or she can speak with them together and/or one-on-one, to help fill in any gaps in financial knowledge, provide a current and future lifestyle analysis, and facilitate discussions around goals such as providing an education for grandchildren, establishing a philanthropic vehicle, or determining when and how to leave assets for future generations.

**Address the hard questions.** Will both of you have enough to live on? What if one spouse substantially outlives the other? Are you taking on too much – or too little – market risk? Are there gaps

in your current wealth plan? Say you've helped one child during their life, or their children. Should you provide for equalization at your death? Do you share lifestyle, family and legacy goals? Are your assets allocated accordingly? Are the right documents and investment vehicles in place?

**Invest some time in education.** Evercore Wealth Management provides private wealth education for clients and their families, ranging from the basics of planning and investing to sophisticated seminars with our senior professionals and external managers. Everyone has something to learn, and it is our experience that couples do best when both partners are engaged in planning for their and their family's future.

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# Moving On: Preparing to Exit Your Business

By Daniel Stolfa

About two-thirds of the six million small businesses with employees in the United States are owned by Baby Boomers, according to U.S. Census data.

However, if history serves as any guide, no more than 30% of these businesses will be successfully transferred. All owners will exit their business at some point. So why do so few plan for it? In Minneapolis, a study of local business owners found that 90% agreed or strongly agreed that having a transition strategy in place is important, but 79% said that they have no written business transition plan, 48% confessed that they have done no planning at all, and an overwhelming 94% said that they have no written personal plan.<sup>1</sup> Far too often, transfer planning is left until one (or more) common triggers occur: death, divorce, disability, disaster, and disagreement. At that point, owners find themselves scrambling and are often forced to sell or liquidate their business at unfavorable terms.

Preparing for a successful business transition at any age means addressing some tough questions. The answers to these should shape both pre- and post-transaction wealth planning, as illustrated on page 17.

First, what is the actual value of the business? Is the business positioned to maximize transferable value? If a business does not have a strong management team and cannot operate without the

participation of the owner, it does not have much transferable value beyond its hard assets. Owners may wish to consider hiring a strong organizational consultant and building a management team and business processes well ahead of a transfer.

Second, can the owner afford to sell the business? The answer can be complex. Business owners need to consider the full implications on their family finances and plan and invest accordingly. (See Jeff Maurer's article on page 22 on spending in retirement and adjusting for market downturns.) Consider too that a business may have been covering significant expenses, as well as generating income from salary and distributions. If these expenses continue, they will have to be paid for.

Third, what comes next? This is quite possibly the most difficult and important challenge to tackle, especially for people who have shaped much of their lives – and their identity – around building their business. “What will I do when I’m not running my company?” “Where will I go when I don’t have my office to go to anymore?” “Who am I when I’m not

<sup>1</sup> Exit Planning Institute: The State of Owner Readiness 2017.



## Pre- and Post-Transaction Wealth Planning Considerations

Transactions are complex. Thoughtful personal wealth planning and investing with Evercore Wealth Management can minimize estate, income and capital gains taxes – and generate substantial savings.

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### Minimize transaction-related income & capital gains taxes

- Implement concentrated stock hedging strategies – risk management, diversification, and tax deferral
- Consider domicile and jurisdiction options
- Utilize charitable giving strategies

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### Minimize estate taxes & structure an optimal estate plan

- Maximize favorable valuation discounts available prior to a liquidity event
- Create structural planning vehicles to retain control and ensure proper governance
- Implement tax-efficient wealth transfer strategies

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### Create a tax-efficient plan, manage concentration risk

- Meet current and future liquidity needs
  - Create a tax-efficient investment plan
  - Invest to meet specific lifestyle, business and legacy goals
  - Manage and diversify concentrated positions
- 



the CEO anymore?” These are just some of the questions that can prevent owners from tackling their eventual exit.

The good news is that all of those questions can be resolved, given enough lead time and the right advisors. Many business owners procrastinate because they think their choices are confined to an outright sale to a competitor or a transition to a family member or key employee. As described at right, partial sales, employee stock ownership plans, dividend recapitalizations, mergers and acquisitions, venture capital, or private equity are also ways to transition ownership. A good exit plan need not utilize only one strategy.

Business owners are often surprised to discover the wide range of options available to keep them engaged in the business for the rest of their lives, if they wish, or to structure a smooth departure. After all, as the playwright Tom Stoppard put it, every exit is an entry somewhere else.

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## Exit ramps

- **Acquisition** – Acquiring a business to build on the strengths, fill in the weaknesses, or add additional capabilities to better position the company for succession or sale
- **Employee stock ownership plan** – Using a qualified retirement plan to transfer company stock to the ownership of the employees
- **Leveraged dividend recapitalization** – Incurring debt to pay stockholders a special dividend as a partial exit strategy
- **Merger** – Similar to an acquisition, a merger can add to the position of the company as well as add new potential leadership
- **Private equity/venture capital** – Adding private equity investors to liquidate existing ownership
- **Sale** – Disposing of all or part of the company assets and stock
- **Transfer to family** – Transferring to a family successor through gifting or installment sale
- **Transfer to key employee** – Transferring ownership to one or more identified key employees through stock ownership plans, long-term installment sales, leveraged management buyout and modified buyouts through phases

# Wealth Planning Strategies Ahead of 2019

By Jennifer Tse

*Editor's note:* This is an extract from a briefing sent in early October to Evercore Wealth Management clients. Planning is tailored to the unique circumstances of each individual and family. Please contact your wealth and fiduciary advisor or **Jennifer Tse** at [tse@evercore.com](mailto:tse@evercore.com) to discuss these topics.

## INCOME TAX PLANNING

As of January 1, 2018, the top income tax rate was lowered from 39.6% to 37% for income over \$500,000 for individuals, and over \$600,000 for married couples filing jointly. The personal and dependent exemptions were eliminated, but the standard deduction was doubled to \$12,000 for single taxpayers and \$24,000 for married couples.

Although the overall limit on itemized deductions, which reduced deductions by 3% of adjusted gross income over a certain threshold, has been repealed, there is now a \$10,000 cap on deductions for state and local taxes, or SALT, and personal property tax.

If you are considering a change in domicile to a lower or no income tax state, it is

important to examine the personal and financial impact and discuss the topic with your advisors.

The Tax Cuts and Jobs Act, or TCJA, significantly increased the Alternative Minimum Tax, or AMT, exemption to \$70,300 for individuals and \$109,400 for married joint filers. In addition, the exemption amount phaseout starts at significantly higher amounts of \$500,000 for single filers and \$1,000,000 for joint filers, up from \$120,700 and \$160,900 respectively. The combination of these two increases and the cap on SALT taxes will result in fewer taxpayers being subject to the AMT.

The new tax legislation introduced the Qualified Business Income Deduction. This deduction allows pass-through entities, such as S-Corporations, partnerships, LLCs and sole proprietorships, to potentially deduct up to 20% of qualified business income, effectively lowering the top income tax rate for corporations of 37% to 29.6%.

## CAPITAL GAINS/LOSSES

Capital gains and losses during the tax year should be netted against one another to minimize capital gains taxes. Capital

losses can be used to offset gains taken earlier in 2018 or carried forward to future years. Net capital loss amounts in excess of \$3,000 may be carried forward indefinitely. However, capital losses expire at death and cannot be transferred to the individual's estate or to a beneficiary. We recommend reviewing capital gains and losses across all investment portfolios including business assets, LLC or partnership interests, as well as gains on the sale of any real estate.

## CHARITABLE GIVING

The increase in the standard deduction and the \$10,000 cap on state, local and property taxes for 2018 may make traditional charitable gifts less attractive from a purely income tax point of view. It may be more beneficial to combine several years of charitable donations into a single year by utilizing a donor-advised fund or private foundation.

## RETIREMENT PLANNING

IRA owners who turn age 70½ during 2018 have until April 1, 2019 to take their first required minimum distribution and must take the second by December 31, 2019. IRA account owners already in distribution mode must take their annual RMD by December 31, 2018.

IRA account owners over age 70½ can make tax-free direct transfers (up to \$100,000 in the calendar year) from IRA accounts to a charity and satisfy their RMD requirement. For those who have RMDs but are not itemizing charitable deductions, this can be an interesting alternative.

Please speak with your wealth and fiduciary advisor and tax advisor to determine whether the Charitable IRA Rollover strategy is appropriate or if you should instead consider gifts of appreciated stock.

### IRA and Retirement Plan Contributions

The maximum combined contribution amount for both traditional IRAs and Roth IRAs is \$5,500 per person for 2018. Roth IRA contributions are subject to eligibility requirements. Contributions may be made until April 15, 2019 and still be counted for the 2018 tax year. Individuals age 50 and over are eligible to make an additional \$1,000 catch-up contribution. Contributions may be deductible, but phaseouts do apply based upon modified adjusted gross income thresholds.

The maximum salary deferral limit for 401(k), 403(b), and 457 plans in 2018 is \$18,500. Individuals age 50 and over may contribute an additional \$6,000 per year.

Those with self-employment income may also want to consider establishing a SEP IRA, Defined Benefit Pension Plan or other qualified retirement plan that may permit a higher tax-deferred contribution level.

For 2018, the contribution limit is up to \$55,000 or 25% of self-employment income (whichever is lower) to a Defined Contribution Plan, and up to \$220,000 subject to other requirements into a Defined Benefit Pension Plan.

### Roth IRA Conversions

A Roth IRA conversion can no longer be undone through recharacterization, and there is no expiration for this provision.

## 2018 Federal Income Tax Rate Schedule for Individuals and Married Filing Jointly

Tax rate	Individuals	Married Filing Jointly
10%	Up to \$9,525	Up to \$19,050
12%	\$9,526 to \$38,700	\$19,051 to \$77,400
22%	\$38,701 to \$82,500	\$77,401 to \$165,000
24%	\$82,501 to \$157,500	\$165,001 to \$315,000
32%	\$157,501 to \$200,000	\$315,001 to \$400,000
35%	\$200,001 to \$500,000	\$400,001 to \$600,000
37%	over \$500,000	over \$600,000

### WEALTH TRANSFER AND ANNUAL EXCLUSION GIFTS

The TCJA nearly doubled the lifetime federal gift, estate and generation-skipping tax exemption. Adjusted for inflation, the 2018 exemption per individual is now \$11.18 million, and the maximum federal estate and gift tax rate remains at 40 percent. This allows individuals who had utilized all of their exemption in 2017 (\$5.49 million) to make an additional gift of \$5.69 million that is exempt from federal estate, gift and generation-skipping tax. The increased exemption amount is scheduled to expire at the end of 2025. Personal lifestyle considerations, what assets to gift, and the use of trusts should be discussed when planning with the increased exemption.

Connecticut residents considering lifetime gifts should be aware that there is a separate state gift tax with an exemption of \$2,600,000 in 2018. New York residents should be aware that through January 1, 2019, gifts made within three years of death will be added back into the estate for state estate tax purposes.

Those interested in transferring the future appreciation on assets, and not the principal, should find that still low interest

rates (by historical standards, despite recent rises) make this an opportune time to implement certain wealth planning strategies. Intra-family loans, Grantor Retained Annuity Trusts and Charitable Lead Annuity Trusts should be considered in the context of an individual's overall wealth planning objectives.

Annual exclusion gifts allow individuals to give up to \$15,000 per year to anyone without paying gift tax (married couples may give up to \$30,000).

### TRUST AND ESTATE PLANNING

The TCJA increased the federal estate tax exemption amount to \$11.18 million per person, adjusted for inflation.

Part of having a good financial and estate plan is having the right trustees in place. Who will serve as a trustee for children's and grandchildren's trusts? Should it be a friend, relative, advisor and/or an institution? If the trustee has already been selected, it is important to evaluate if they, whether individual or corporate, are still appropriate.

An individual co-trustee can serve along with a corporate co-trustee, such as Evercore Trust Company, N.A.



# Opportunity Knocks: Qualified Opportunity Funds

By Julio Castro

The nearly decade-long bull market has fueled about \$2.3 trillion in unrealized capital gains. New legislation means that investors can qualify for a tax deferral and even tax-free appreciation by reinvesting these gains. The question is, will the investments be worth the long-term commitment?

First, some background. Congress passed legislation in the 2017 Tax Cut and Jobs Act, or TCJA; one provision is designed to spur economic development by providing favorable tax treatment on the sale of appreciated assets reinvested in designated

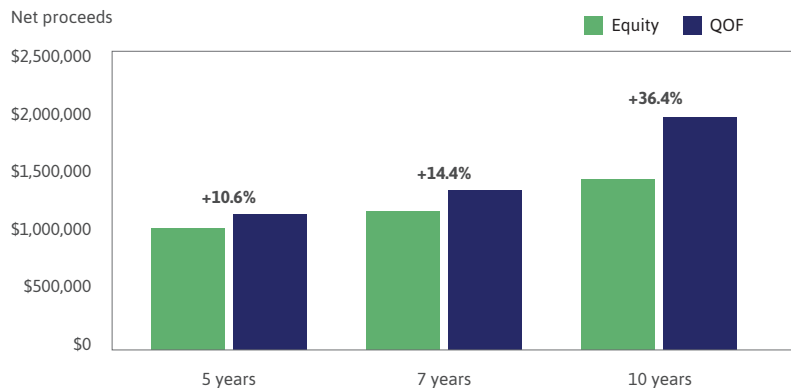
economically distressed communities. The TCJA allows unlimited realized short- or long-term capital gains, including gains from sales of 1256 contracts and art, to qualify for a tax deferral. If the reinvestment is held for at least 10 years, the appreciation

earned during the reinvestment period in the Qualified Opportunity Fund, or QOF, will be excluded from tax.

Reinvestment must be made within 180 days of the original investment sale date, and in a properly structured QOF, many of which are in development now. The QOF holding period determines the amount and timing of the federal income tax benefit:

- A temporary deferral for reinvested gains occurs at the date the investor sells the investment in the QOF or December 31, 2026, whichever comes first;
- A partial forgiveness of the deferred gain results if the investor holds the property for at least five or seven years. The investor receives a permanent step-up in basis of either 10% or 15% of the original gain and, for investments held at least 10 years, the investor receives a permanent exclusion of capital gain from appreciation realized in the QOF. As noted above, the investor will

## Return Spreads Over Time



Note: Assumes the investor is evaluating reinvesting the proceeds into the equity markets or selecting an investment in a QOF. For illustration purposes, assumes both investments earn 8% over the relevant time periods. In each case, the economics of federal income tax deferral for any period exceeds the baseline investment value in the non-QOF.  
Source: Evercore Wealth Management

recognize gain on the original deferral on December 31, 2026. Any further investment appreciation from the QOF will be excluded from tax if held for the 10-year period.

So, does the tax deferral and subsequent exclusion of gains within the QOF provide a sufficient incentive to justify reinvestment? It appears so, if the qualified investment vehicle makes sense in its own right and the investor has a sufficiently long-term horizon.

We have analyzed the opportunity of reinvesting in a QOF compared with paying the tax on the original amount on day one. Assuming a growth rate of 8% for all investments, the spread of returns varies from 10.6% for a five-year holding period to 36.4% for a 10-year holding period. These returns can be even more robust after considering the impact of state and local taxes. Although we have used the same rate of return in this analysis, the risk and return profile of investing in a QOF is significantly different from equities listed on the exchange and, at this point, hard to quantify.

At Evercore Wealth Management, we are evaluating managers who are creating QOFs that may offer investors attractive risk adjusted returns. For clients with long-term investment horizons, as well as for Dynasty Trusts and certain other trusts in which Evercore serves as trustee or investment advisor, we believe that QOFs may provide diversification and long-term return opportunities.

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<sup>1</sup> 1256 Contract is a term used by the Internal Revenue Service to denote any regulated futures contracts, foreign currency contracts, and a range of options.

<sup>2</sup> Investment must be made before December 31, 2019 to take advantage of 5% basis increase in year seven.

Let's consider the experience of an investor who sold \$1 million in zero tax basis stock in Alphabet (the parent company of Google) on August 1, 2018. Our investor's federal effective tax rate is 23.8%, so the capital gains tax on the sale is \$238,000, netting the investor \$762,000 that can be reinvested without qualifications. If he or she reinvests the \$1 million in capital gains within 180 days from the sale into a QOF, the reinvestment will qualify for deferral and/or elimination (for QOF appreciation) under the following scenarios:

A. QOF sold for \$1.6 million on August 2, 2023 (after 5 years);	
Sales Price	\$1,600,000
Less Basis	100,000 (basis increased 10% of original deferred gain if property held at least 5 years)
Capital Gain	1,500,000
Tax	357,000
Net Proceeds	\$1,243,700
B. QOF sold for \$1.9 million on August 2, 2025 (after 7 years);	
Sales Price	\$1,900,000
Less Basis	150,000 (basis increased 15% of original deferred gain if property held at least 7 years)
Capital Gain	1,750,000
Tax	416,500
Net Proceeds	\$1,483,500
C. QOF not sold as of December 31, 2026, tax recognized on original amount	
Deferred Gain	\$1,000,000
Basis	150,000
Tax	\$202,300
D. QOF sold for \$2 million as of August 2, 2028, (property held for at least 10 years)	
Sales Price	\$2,000,000
Basis	2,000,000
Tax Paid in 2026	202,300
Tax Due 2028	0
Total Tax Paid	202,300
Net Proceeds After Tax	\$ 1,797,700

# Charting a Path Through Market Downturns

By Jeff Maurer

Falling market values didn't bother me much when I was younger. I figured everything would get better, sooner or later. Now that I no longer have the luxury of a long-term personal investment horizon, I more fully understand why so many people feel deeply unsettled during market downturns. It's the way we act when we experience panic – our own and in the markets – that often determines the outcome.

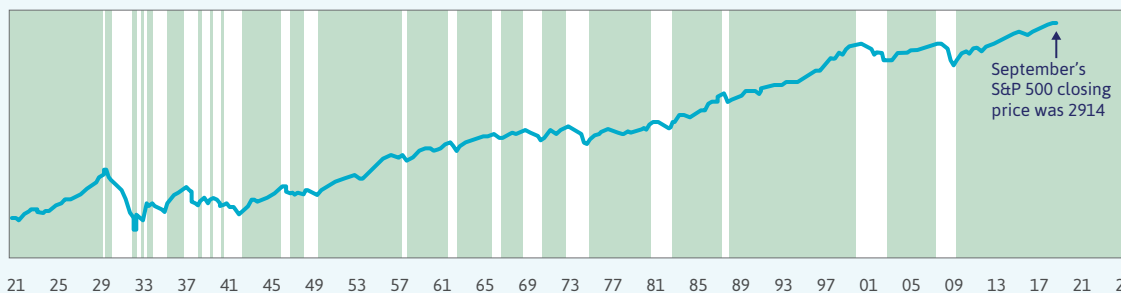


In the almost 10 years since the start of this bull market, there have been 62 market panics, or sizable downturns. These include five outright corrections with the S&P 500 down by 10% or more, but not a drop of 20% or more that would have taken us into bear market territory.<sup>1</sup> Most were almost immediately followed by relief rallies; investors who had sold and relegated themselves to the sidelines had reason for regret as the market continued its climb. But someday – and no one knows exactly when – the start of what looks like another panic will instead herald a turn in the cycle. Prior to our current bull market, the longest period without a 20% drawdown was the 113 months ending in March 2000. We are now at 115 months and counting.

Bear markets are inevitable and painful. There have been 20 bear markets since 1929, as illustrated on page 23, with an average drawdown peak-to-trough of 37%

## Bull, Bear and the Business Cycle

There have been 20 bear markets since 1929



Note: Shaded green areas denote S&P 500 bull markets, while white areas are bear market declines of 20% or more. S&P 500 price is monthly on logarithmic scale. Source: Yardeni Research. Dr. Edward Yardeni. October 2018.

and the average 3.3-year recovery time. Investors, particularly older investors, should have portfolios positioned to ride out hard times, to avoid forced sales at depressed prices.

That's why we evaluate each asset class based on their likely returns over the next 10 years (their return characteristics), on their riskiness (volatility), on how they fit together with other assets (correlation), on how easily can they be sold (liquidity), and how they are taxed. As I've noted before, if allocations are kept intact, investors generally should be ahead of the game again within 40 months of a drawdown.

For most people, spending really is key, particularly for those in or approaching retirement. The old rule of thumb, that you only need 70% or so of your pre-retirement income to live on, is being rethought as life spans lengthen and we enjoy far more active – and expensive – leisure years than those of our parents or grandparents. Travel, hobbies, philanthropy, and the sky-high costs associated with aging mean that we may

actually need more, even significantly more, of our pre-retirement income to spend in retirement.

Indeed, a recent *Wall Street Journal* article found that retirees are likely to spend 130% of their pre-retirement income.<sup>2</sup> Those of us who are accustomed to living well may find that proportion on the conservative side, as inflation for many luxury goods and services continues to rise at about twofold the general rate.<sup>3</sup>

With a well thought-out budget in hand, we can judge whether we have sufficient assets to fund our spending. For those of us who wish to leave a legacy to children and charities, as well as support our own lifestyles, we can confidently spend approximately 3% of the value of the assets every year after taxes and inflation. If the intent is to spend the assets down, that proportion could be higher, of course, although anxiety levels may rise accordingly.

Many of our balanced portfolios have a current allocation of between 20% and 25% of cash or defensive assets, which should cover at least three to five years of spending. If that's not going to be enough, we should consider changing the asset allocation mix

to increase cash and defensive assets – and take a hard look at spending.

Personally, I always want to have sufficient cash or defensive assets available to cover three to five years of my current spending. On that basis, I can afford to be more aggressive with my other assets, depending on circumstances, investing in illiquid private equity and real estate where I expect higher returns. When the drawdown does occur, I can tap my reserves for spending and to fund capital calls for my other investments as I wait for the market to recover.

That doesn't mean I won't feel at least some sense of panic. Heck, I feel a little anxious even writing about it. But I'll be ready to ride it out and to take advantage of the opportunities it might afford, as I hope all of our clients will as well. With proper planning, carefully constructed portfolios and controlled spending, we should be able to take downturns in stride.

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<sup>1</sup> Yardeni Research.

<sup>2</sup> Wall Street Journal September 23, 2018.

<sup>3</sup> Coutts Luxury Price Index Inflation.



# Talking About Tech

A number of recent client events at Evercore Wealth Management focused on changing technology and the potential implications – for ourselves, our families and our communities or our investment portfolios.

In San Francisco, Matt Cohler, the fifth employee at Facebook and current general partner at Benchmark, led a discussion on the intersection of privacy and technology, a hot-button issue in the region and around the world. The event was moderated by Calvin Chin, a partner at E14, a venture capital fund that focuses on investing in early-stage technologies created by the Media Lab at MIT. He is a speaker at an upcoming Evercore Wealth Management event, as listed below.

In New York and Minneapolis, urban design professor Tom Fisher addressed clients ahead of the release of his next book, *On-Demand Cities*. He observed that widespread access to information through cellphones and the Internet heralds a cultural evolution that will be bigger than the invention of the printing press or the advent of the Industrial Revolution. Tom encouraged us to embrace the possibilities and to prepare ourselves for the ever-quickenning pace of change.

Also in New York, Evercore Wealth Management Chief Investment Officer John Apruzzese presented a review of Blockchain, Bitcoin and other cybercurrencies. As noted below, he will soon be addressing the same topics in Minneapolis.

## Independent Thinking Panel Series:

- The 9th Annual CLE Event: Oops-a-Daisy  
Speaker: Anthony Davis, Esq.
- You, Us, and Great Italian Wines  
Speaker: Jeff Maurer
- Bitcoin, Blockchain and Cryptocurrencies  
Speaker: John Apruzzese
- Inventing the Future: What's Next from MIT's Media Lab?  
Speakers: Calvin Chin and Habib Haddad
- 2019 Market Outlook  
Speaker: John Apruzzese
- Artificial Intelligence and the Future of Work  
Speaker: Michael Chui
- Matt Cohler on Privacy & Technology  
Moderator: Jane Gladstone

## Wise Women Seminars:

- High Stakes: Victoria Medvec on Raising Your Worth
- Toasting the Holidays: A Mother/Daughter and Daughter-in-law Champagne Tasting  
Speaker: Sasha Iglehart
- Wise Women Afternoon: Charting Self-Reliance  
Speakers: Lynda Applegate, Maureen Chiquet, Holly Gordon, Linda Lorimer, Consuelo Mack, Pat Mitchell, Martha Pomerantz, Stacie Price, Catherine Sanderson

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Please contact your Wealth & Fiduciary Advisor or **Jewelle Bickford** at [jewelle.bickford@evercore.com](mailto:jewelle.bickford@evercore.com) for further details on upcoming Evercore Wealth Management events in your region.

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