HILLIARD LYONS TRUST COMPANY
NEWSLETTER | July 2016
How We Invest In An Uncertain World • Estate Planning for Digital Assets

How We Invest In An Uncertain World

Andrew Means, CFA®
Senior Vice President
Director of Investments

Life is filled with uncertainty. No matter how much we try to plan it all out, there are many surprises along the way. The late great actress and comedienne Gilda Radner said it well: "I've learned, the hard way, that some poems don't rhyme, and some stories don't have a clear beginning, middle, and end. Life is about not knowing, having to change, taking a moment and making the best of it, without knowing what's going to happen next. Delicious ambiguity." The world of investing is also filled with uncertainty. No matter how much effort investors put into predicting the future, it simply can't be done consistently over time. While uncertainties always exist, there are particular periods that seem more uncertain than others. Today is one of those times.

The summer of our discontent

Discontent prevails in the world today. This restlessness thrust itself into the world's consciousness forcefully when the citizens of the United Kingdom unexpectedly voted to leave the European Union (EU). This stunning event, known as the "Brexit," is likely the beginning of a long, unpredictable series of events that will determine the future structure and stability of the EU. The feelings of discontent that led to this result are also evident in the United States, as many voters in this year's presidential primary elections have favored remarkably unconventional candidates. It is safe to say that political uncertainties are more evident today than at any time in recent history.

Trying to get economies in gear

Much of the displeasure being voiced by citizens on both sides of the Atlantic is the result of a world economy that has been stuck in neutral for the past several years. With the economies of the EU growing at less than 1%, the US economy growing at under 2%, and the rapid growth in emerging markets now a thing of the past, there has been a massive slowing in the rate of growth of incomes across the economic spectrum. This sustained period of economic stagnation has resulted in anxiety, anger, and flirtation with unorthodox – even radical – political experiments.

Central banks across the globe have tried for seven years to restore some semblance of economic strength with unconventional monetary operations like ZIRP (zero-interest-rate policy), QE (quantitative easing), and, more recently, NIRP (negative-interest-rate policy). Despite this alphabet soup of strategies, the economies of the world continue to sputter.

Uncertainty need not cause panic

With so much economic and political confusion in the world today, many investors are feeling uneasy about their investment portfolios. Conventional wisdom has it that markets hate uncertainty. That received wisdom was recently validated as the stock markets of the world declined in market value by a record $2.1 trillion on the day after the surprising Brexit vote. While many markets have since recovered from that decline, investors are wondering how to invest in such an uncertain environment.

Discipline can trump uncertainty

At Hilliard Lyons Trust Company, we think there are certain investment disciplines that can help you navigate the choppy waters that exist in the investment markets. These are principles we have been putting into practice for decades as we work to protect and grow your wealth:

1. We can't control the markets, but we can control how we react to market changes. Our reactions should always be guided by reason, not emotion.

2. Portfolios should always be concentrated in high-quality investments that can endure whatever unpredictable macro environment may lie ahead. Since we can't predict the future, we try to find investments that are sturdy enough to ride out even the most stressed environment.

3. Equity investors should adopt long-term investment time horizons of 5, 10, or 20 years. Time horizons measured in days, weeks, or months can lead to poor investment decisions.

4. For the buyer of high-quality investments, lower prices are better. Unfortunately, those lower prices predictably occur at times of greatest uncertainty and discomfort. That is why it is important for all decisions to be driven by rationality and never by emotion. We should make investments the same way we like to purchase most items that we buy, when they are on sale.

"Life is about not knowing, having to change, taking a moment and making the best of it, without knowing what's going to happen next."

One year ago the title of our investment commentary was "Lower Returns Likely in the Years Ahead." In that piece, we discussed why we expect returns for the next five years to be lower than returns for the previous five years. We stated that in a world of slow economic growth and very low levels of inflation and interest rates, lower rates of return from all investments should be expected. It was not a dire warning of any kind. Rather, it was an attempt to set your expectations at reasonable levels. At times like this, some frustrated investors will reach for higher returns than are safely available in this environment. You can rest assured that we will not do that because the risks involved are simply too great. Understanding risk at a time of lower returns is vital in achieving long-term investment success.

Of course, the world and the investment markets can and will change over time into something different from today. We don't know how or when, but change is inevitable. That is why we adhere to the investment disciplines mentioned above. Wealth protection is a key part of growing your wealth in the years to come. We will never forget that as we invest your assets in an uncertain world.

Past performance is not a predictor of future success. All investing involves the risk of loss.

Estate Planning *for Digital Assets*

Facts about Digital Assets

- Worldwide, over 10,000 Facebook users die every day. An estimated 972,000 U.S. Facebook users will die in 2016.
- In 2010, the domain name "insurance.com" (just the name, not a site) was purchased for $35.6 million – a record price not exceeded since.
- In 2014, American consumers valued their digital assets at an average of $35,000.
- Over 70% of Americans want their private online communications and photos to remain private after death unless they gave consent to release their data.
- A commercial air pilot received about $10,000 a month in 2014 from his personal Pinterest account, which became popular after he posted pictures from his work travel.

Traditional estate planning ensures that your property and wealth pass to the heirs you choose, and most standard wills and trusts are effective in transferring tangible property. But digital assets (examples below), present issues unlike other assets that can complicate matters after your death or even result in your family losing access to important financial information, photos, music, books, or your original content. Most websites require acceptance of their "terms of service" agreement, which controls access to your information after your death. Often, access by others is strictly forbidden under these agreements. To rectify this issue, many states, including Tennessee, Florida, Indiana, and Michigan, have enacted laws designed to address your property rights to these digital assets and your heirs' ability to access these assets according to your wishes.

Electronic Access to Information

- Logins for bank/brokerage accounts
- Logins for credit cards and other online bill-paying accounts
- Logins for home, health, auto, disability, or life insurance
- TurboTax or other tax preparation software
- Quicken or other personal finance software
- Logins for physical assets needed to access digital information, such as computers, hard drives, flash drives, memory cards, tablets, smartphones, digital cameras, and digital music players

Electronic Communications

- Email
- Social Networking (Facebook, Twitter, LinkedIn, Instagram, Pinterest)
- Online communication tools (Skype, FaceTime, IM, iChat, WhatsApp, Facebook Messenger)
- Online gaming accounts (including game history and any in-game/in-app purchases)

Electronic Files & Resources

- Family photos, videos, or other sentimental items
- Medical Information
- Organizational information
- Websites or blogs (including written content, history of interaction with the site's readers, and income generated from the site)
- Cloud-based or online storage accounts (Google Docs, Dropbox, iTunes, eBooks, pictures)

Purely Digital Assets with Monetary Value

- Website domain names or web addresses
- Online accounts that hold cash value (PayPal, eBay, an Online Poker account)
- Bitcoins
- Online accounts for loyalty programs (credit card, airline, car rental, hotel, Starbucks rewards)

Digital estate plans and why you should create one

- Preserve sentimental value. Do not underestimate the value digital assets, such as family photos stored on hard drives or iClouds, could have for your friends and family.
- Preserve economic value. Digital assets can have actual monetary value. Even if you are unsure whether an asset has monetary value now, a digital executor (discussed below) can determine whether certain assets have any economic value at death.
- Prevent identity theft.
- Protect your privacy.
- Protect your "story."
- Make things easier for personal representatives or attorneys-in-fact by authorizing their access to digital assets, especially email accounts. This saves time and may prevent unnecessary costs and expenses. Authorizing access to digital assets can be as simple as adding a digital estate power to current estate planning documents or executing a "Digital Asset Authorization and Consent" form.
- Protect your content or business. Digital estate planning is essential for sole proprietors, writers, artists, and content producers. Business owners should also consider digital estate planning because having access to business-owned accounts is crucial for business continuity after death to prevent financial loss to the business.

What can you do now to start planning your digital estate?

1. Monitor your use of digital devices and digital assets to get an idea of which assets you use and how you use them.

2. Organize your digital estate by deleting unused accounts or consolidating multiple email accounts into one or two accounts. Back up important documents, pictures, or other digital assets. No, really, do that today.

3. Consider creating a "Digital Inventory" to identify your digital assets. Please be mindful if you choose to record sensitive passwords and related information to also store the document in a secure place.

4. Use your digital inventory as a guide to consider how you want to dispose of each asset. Consult an experienced attorney if you are interested in incorporating a digital estate plan into your current estate plan to ensure the plan is both legal and effective, because there could be state, federal, or contract law impacts.

5. Check to see whether websites in your inventory allow users to dictate what happens to their accounts after death. For example, Google's "Inactive Account Manager" and Facebook's "Legacy Contact" let you designate an individual to access and manage the account after your death – or you can opt to have the account deleted. The option selected and any designations will supersede any terms in a will or other estate planning document, much like an IRA beneficiary designation.

6. If you think the executor named in your estate plan wouldn't be comfortable dealing with your digital assets, consider naming a digital executor. You could direct your digital executor to save certain files, pictures, videos; delete specific files on any digital devices; wipe a hard drive; maintain online accounts that you want to remain active after death; delete online accounts; transfer online accounts (if transferrable) to heirs; collect and distribute any money or usable credits to heirs; and inform any online communities or online friends of your death (a "final away message").

7. Store the inventory and digital estate plan someplace safe and private, such as with your other planning documents. Be sure to revisit the inventory periodically (at least annually) to make sure everything is current. Include new accounts and delete old accounts.

HILLIARD LYONS TRUST COMPANY LLC

Hilliard Lyons Trust Company, LLC

500 West Jefferson Street | Louisville, KY 40202 — 502-588-8400 | 888-878-7845
312 Walnut Street | Suite 3120 | Cincinnati, OH 45202 — 513-421-1750 | 800-884-1750
TrustInfo@Hilliard.com | www.HilliardTrust.com