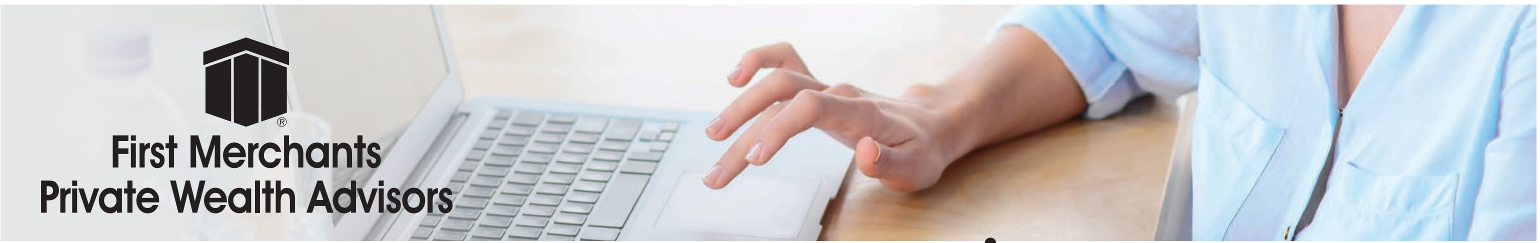


PRIVATE WEALTH *perspectives*

VERSION 17.4

We are excited to present you with our most recent ***Perspectives***. The last quarter has been busy for our teams and our clients as we prepare to welcome new colleagues in the Fort Wayne market to our First Merchants Private Wealth Advisors team. In this issue you will read about the importance of *Private Banking at Your Service* as it relates to your personal finances, consider a primer on *Charitable Giving* as an estate planning tool, be prompted to think about *Choosing a Retirement Plan That Fits*, and read why we have been right all along to say thank you to *Mr. Roboto*.

Our team is committed to partnering with clients to provide comprehensive solutions and personal service in pursuit of a secure financial future. We are glad you have chosen us to share in your journey.

INVESTMENT MANAGEMENT

Mr. Roboto

The rise of Artificial Intelligence (AI) in our society has been predicted for decades. Rewind 40 or 50 years and look at some forecasts about what the future would hold and you will find numerous references to AI. Many of these ideas found their way into film and television. From the lighthearted personal robot assistants like Rosie from The Jetsons or the droids in Star Wars to the more sinister characters like 2001: A Space Odyssey's HAL, Isaac Asimov's I, Robot and of course, The Terminator, the clash of Artificial Intelligence with human intelligence has long been seen as inevitable. Fast forward to 2017 and we have Tesla founder Elon Musk saying that the race for AI superiority will be the cause of World War III. Just this month Musk suggested that an AI system could choose to start a war "if it decides that a pre-emptive strike is the most probable path to victory."[6] If it sounds like science fiction, it's not. We have Amazon's Alexa and Apple's Siri doing our shopping, making our dinner reservations and solving complex calculations for us, all by simple voice command. Perhaps then it is no coincidence that the five largest companies by market capitalization in the S&P 500 today are all technology related: Amazon, Apple, Microsoft, Google and Facebook. That's a far cry from 30 years ago when the names were General Electric, Exxon, AT&T, IBM and Philip Morris.

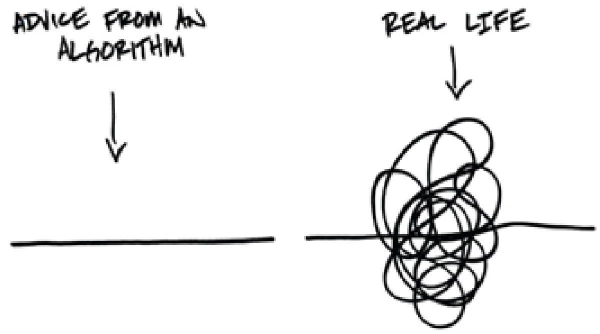
In an age when driverless cars are a reality, it should be no surprise that AI found its way into the financial industry. Some financial institutions now have messenger bots that can answer your questions with pre-programmed responses, and virtual tellers are becoming abundant in banking. Even the old greenback is under pressure as crypto-currencies like Bitcoin attempt to disrupt the way we pay and get paid. And now a relatively new financial service is shaking up the investment management industry….enter robo advisors.

Robo advisors provide financial advice or portfolio management services online or via a mobile application. Rather than using human managers to build portfolios, they use algorithms to determine where to invest. If the early signs are an indicator, robo advice is here to stay. **Global robo advice assets under management totaled $100 billion as of December, 2016, a number that a group of equity analysts at Morgan Stanley estimate could reach $6.5 trillion by 2025**, a 60% implied annual growth rate from current levels.[2] Seven years ago, a startup called Betterment pioneered automated investing services that use a mix of exchange traded funds (ETFs) to manage money. The concept was copied across the industry, spawning firms like Wealthfront, FutureAdvisors, Robinhood, Personal Capital, and Hedgeable.[1] Once the big industry players saw the success of these robo platforms, most either purchased a startup or began their own. Fidelity, E-Trade, Charles Schwab, Blackrock, and Vanguard all have their own robo advice offerings.

While most robo advisors were built on the premise of passive, low-cost investing through index ETFs and mutual funds, some are now allowing clients to pick between a passive all-ETF portfolio or a hybrid that includes managed mutual funds and ETFs. Customers should be aware that some firms (like Vanguard) use only their own funds in client portfolios. Others (like Schwab) recommend portfolios that include cash allocations from 6% to 30%. That cash is swept over to deposit accounts at Schwab Bank, generating income for Schwab.[4] With most robo advisors, users sign up by answering a few questions related to their goals, risk tolerance, and financial situation. Algorithms assign portfolios based on those answers, but some firms use more human intervention than others. For example, Fidelity Go allows algorithms to match users to one of their seven portfolios, but those portfolios are created and monitored by a team of human managers. Vanguard Personal Advisor takes the human element up a notch higher, partnering clients with financial advisors to help create a customized plan, track their progress, and manage their portfolios.[7] The client even gets one in-person meeting with an advisor at initial sign up! Industry pioneer Betterment has announced two new levels of advice, both of which include human input. The Plus level offers one annual discussion with a human, while the Premium level offers "unlimited human interaction." When asked about the human assist, Betterment founder and CEO Jon Stein said: "We realized a lot of people wanted our service, plus some comfort and some hand-holding to help them with their plan."[1] Therein lies one problem with robo advisors, they have yet to be tested in a true market downturn. Nearly all robo advice platforms have come online since the financial crisis of 2008. On August 24, 2015, the Dow dropped 1,000 points in intraday trading as part of the biggest stock market correction since 2008. That day, investment management giant Vanguard – which offers both automated robo advisors and live advisors – had a 9% increase in calls for consultation.[3] Seems people still want to throw out a lifeline and talk to a professional. When it comes to hand-holding, humans maintain the competitive advantage. For now.

Studies show that millennials, forged in the fire of the Great Recession, share some key feelings when it comes to their finances. They are risk-averse. They distrust large institutions. They want transparency about fees. A Fidelity study showed that 25% of millennials "trust no one" on money matters.[3] Robo advice, a low cost service steeped in technology, came along at exactly the right time to appeal to Millennials. Robo platforms are unemotional, subservient, and agenda-less – the polar opposite of many traditional human advisors, especially those with commission based models.[3] And make no mistake about it; a generational divide does exist in the investment advisory industry. A certain subset of the population has an inherent distrust of technology and would much rather deal with live human beings. A different subset of the population is much more comfortable dealing with computers and technology and has an inherent distrust in people. It's a group that can't be ignored. Over the next several decades, Baby Boomers, the biggest and wealthiest generation in U.S. history, will transfer roughly $30 trillion in assets to their Gen X and millennial children.[9]

Bob Dylan didn't know how right he was when he wrote The Times They Are A-Changin' in 1963. . After the financial crisis, online searches in America for "how to code" began to outnumber searches for "stock market." Searches for "create app" exceed those for "buy a stock" by nearly three to one. Searches for "startups" have outpaced those for "small cap stock, "large cap stock" and "high yield bond" since 2004. Interest in "Betterment" surpassed "Citigroup" last year. "Bitcoin" receives more attention than "gold coin" and searches for peer-to-peer lender "Lending Club" have outpaced those for "bank loan" over the last three years.[8] Changes will continue to play out as we move further into the digital age. Like every industry, investment management will have to change and adapt. But there is hope for us humans. A recent survey of 12,000 consumers conducted by HSBC across 11 different countries found that only seven percent said they would trust a robot to manage their money. If it's any consolation, that's half the number who said they would trust a robot to perform life-saving heart surgery![9] As trusted human advisors, we can be your single source for financial planning, investment advice, insurance, mortgages, banking, lending, estate planning, education planning, accounting, taxes, and even health care planning.[5] I believe people still play an important role in financial services, and I'm not ready to turn over control to the robots just yet. That is, until we are all travelling around in flying cars like The Jetsons. At that point I'm all in with technology…..as long as I get to drive.



Source: www.behaviorgap.com

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[2]Chaparro, Frank. "Morgan Stanley: Only A 'Handful' of Robo-Advice startups Will Survive." Business Insider. 19 May, 2017.

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[6]Molina, Brett. "Elon Musk: Artificial intelligence battle 'most likely' cause of WWIII." USA Today. 5 September, 2017.

[7]Rabe, Jessica. "Robo Advisors: Friend and Foe." Convergex Morning Markets Briefing. 3 October, 2016.

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TRUST ADVISORS

Charitable Giving

As we approach the end of the year, people start thinking about charitable gifts. For small donations, simply writing a check is the easiest way to go, but if you are thinking about making a more substantial gift, there are other options.

Gifts of Appreciated Assets

With a rising stock market this year, many people have investments that have appreciated in value. A gift of stock that you bought for $500 that is now worth $1,000 gives you a $1,000 charitable gift, and avoids paying capital gains tax on your $500 profit. A benefit for both the charity you support and yourself.

Charitable Gift Plans

For even larger gifts, there are ways to make a large donation while still retaining some of the benefits during your life. Often referred to as planned gifts, these methods allow you to make your donation during life but retain an income stream from the gifted property until death or for a certain period of time. When properly structured, a planned gift can offer significant tax advantages. Two common planned giving options are:

Charitable Remainder Trusts

A Charitable Remainder Trust can pay income to you (and your spouse or other family members) for life or a term of up to 20 years. Then, at the end of the term, the charitable beneficiary you have named receives the assets remaining in the trust.

A Charitable Remainder Annuity Trusts pays a fixed dollar amount annually. A Charitable Remainder Unitrust pays a variable amount annually based upon a fixed percentage of the value of the trust's assets as of each year. With both, you receive a current tax deduction for the value of the charity's remainder interest (subject to limits).

Charitable Gift Annuities

In a Charitable Gift Annuity, you and the charity essentially enter into a contract under which you give cash or other property in exchange for fixed annuity payments. The transaction is, in essence, part gift and part annuity purchase. You are allowed a charitable income-tax deduction for the difference between the value of the contribution and the value of the annuity.

While more complex than outright gifts, planned gifts can offer the opportunity to provide significant support a worthwhile cause and also receive a substantial tax benefit. If you are interested in exploring any of these planned giving options in greater detail, please feel free to contact First Merchants Private Wealth Advisors for assistance.

David Forbes

PRIVATE BANKING

Private Banking at Your Service

The season of fall has finally arrived. Although the calendar tells us fall last for three months, the time we have to take in all that the season offers seems to come up short. In the midst of so much activity – the boys of fall high school and college football, baseball playoffs, Halloween, Veteran's Day, Thanksgiving, stealing some moments to enjoy nature's beauty and the changing leaves – we are also constantly reminded of what closely follows. Christmas. Budgets for 2018. Unfair to fall, it all overlaps. If any two words can be used to describe the current season, those would be Change and Preparation.

Your personal banking should also garner the same thought and consideration of change and preparation. Change is always a factor in your life, regardless of what stage of life you see yourself in. Unlike the seasons, however, change is not predicable and does not necessarily follow what is on your calendar. That is where preparation steps in. Working in conjunction with your First Merchants Private Wealth Advisor team, private banking is the perfect complement and solution to prepare for change. The first recommendation is a full review your depository accounts to ensure you are receiving the maximum account benefits you and your family receive as a FMPWA client. Working with and knowing your Private Banker provides you that single point of contact that is essential, especially in times of need. The next step is a review of your existing credit obligations. Understanding the terms of your current loans, including mortgage, home equity lines, and other personal loans can prepare you for potential interest rate changes, upcoming maturities, or balloon payments on the horizon. Finally, your FMPWA team can advise you on preparing for those planned (think taxes) and, yes, the inevitable unexpected credit needs. Being proactive to establish a personal line of credit now is an ideal solution to solve for both, all without liquidating your personal investments in an untimely manner.

Thank you for your business and loyalty as a client of First Merchants Private Wealth Advisors.

As your families come together over the coming months, I sincerely wish you and your families much happiness and joy.

Nancy Lenig

Choosing a Retirement Plan That Fits

Many Americans aren't saving enough for retirement. And small business owners and their employees often fall into that category. If your business doesn't have a retirement plan, you may want to think about starting one.

You can choose from several types of tax-advantaged plans. They have different features and vary in administrative complexity. Before you get into the specifics about particular plans, you can narrow the options by considering what you want to accomplish with the plan.

Goals:

Establish and prioritize your goals so you don't get locked into a plan that doesn't fit your needs. Do you want to save as much as you can for your own retirement? Maximize tax benefits for your business? Allow employees to contribute to the plan? Keep costs and administrative time to a minimum?

Funding:

Some plans require the employer to make contributions each year for all eligible employees. Other plans allow business owners to decide whether to make a contribution for the year, which may be a better fit for companies that don't make a profit year in and year out. Contribution limits vary from plan to plan. If your main goal is to maximize the amount you can tuck away for your own retirement, plan limits may be a deciding factor.

Administration:

Plans that are more complex tend to be more costly to administer. And while the bottom line is important, also consider bang for the buck. Plans that are attractive to current employees and prospective hires can help reduce turnover and the associated costs.

Taxes:

Limiting your tax burden may be a high priority — and contributing to a retirement plan can help you do it because contributions are tax deductible (within limits) and plan earnings are tax deferred. When you look at plan options, review the deduction limits that apply.

Take a few minutes to re-evaluate your retirement plan needs. We can help you walk through these topics and more. Call us 765-747-1304 to discuss what works best for you.