Your FP/CM

Q1 2017

Legacy through Philanthropy

ROBERTO VAINRUB, Ph.D.
Managing Director, Portfolio Manager

Solidarity may be embedded in your genes, expressed in different ways at different stages of your life, and eventually become a part or your legacy. Early in life you may have participated in community-services through your church, or in the boy- or girl scouts. Looking forward, if you wish to build a more meaningful legacy, you might consider going through the following self-analysis:

Awareness: Reflect upon how and when you may want to become a donor. What is your motivation? Making a difference in your city/town? Supporting your religious community and beliefs? Increasing your involvement with your neighbors? Expressing your family values and traditions? Achieving estate and tax planning goals? Be honest with yourself. This initial step is not about being politically correct, but about understanding your genuine motivations.

Focus: There are scores of causes that are important .to society. Focusing your efforts is important to having a real impact. Be strategic in your decision-making so that you are efficient in your giving and avoid too much resource dispersion.

Goals and Metrics: Document your specific giving intentions. What do you want to give, when, where, and to whom? How can you track your progress?

One approach is to commit to your intentions in writing:

- Describe your current giving of time, expertise and money. Evaluate its impact and how you feel about it.
- Identify what inspires and excites you, what upsets or angers you, the issues that matter most. Describe the top 5 values you want to express in your giving and legacy.
- Examine whether your current giving is well aligned with

(Continued on page 2)

(Continued from page 1)

these priorities and values.

- Write a mission statement about what you want to accomplish. Consider your role, who you want to help, and how. Will you donate money, time, both? Do you want to be an innovator, an organizer, a liaison? Will you join an existing group or create a new organization?

Here is an example: "I wish to support two areas with my philanthropy, education and Jewish causes. My emphasis will be on helping the Venezuelan-Jewish community with regard to non-religious initiatives. I want to join or build a self-sustaining organization that will outlive me, and continue my legacy far in to the future. I believe education is the great equalizer, and because of my teaching background, in addition to donating money, I will give of my time as a teacher/mentor."

There are many vehicles available for charitable giving, and it is important to identify the ones that will be most **cost- and tax-efficient** for you, whether a foundation, grants, legacy trusts, charitable trusts, direct-giving or something else. The most appropriate choices for your situation should be decided in consultation with your lawyer, CPA and financial planner.

We at FPCM are ready to help!

Key Investment Takeaways

- *We are still in the midst of a "cyclical bull" market (start date: February 2016), within a "secular bull" market in equities (start date: Mar 2009).*
- *The probability of a recession over the next year is relatively low.*
- *Political and geo-political risks are high and could have a meaningful impact on markets.*
- *The new U.S. government agenda is an ambitious one, that includes complex and politically charged problems, tax reform, deregulation, infrastructure spending & Obamacare reform. Investors might be overestimating the impact and likelihood of some of these policy changes.*
- *Investors' optimism after the U.S. elections, regarding deregulation, tax reform, fiscal stimulus and stronger economic growth, has resulted in significant "rotation" within the market, higher long-term rates and a stronger U.S. Dollar. In this environment , we favor economic-sensitive sectors vs. low-volatility and high-yielding groups, "Value" vs. "Growth", smaller companies vs. larger ones, and businesses less sensitive to U.S. Dollar appreciation and potential trade disruptions. However, we would wait for better entry points to invest in some of these sectors & industries. Moreover, we believe these rotations are temporary, and favor a less-cyclical, less-risky positioning over the longer-term.*
- *We believe "Value" can only be properly assessed in relative terms. History is an important guide, but in practical terms, investors can only make investment decisions based on the relative risk-return tradeoff of the available investment and asset class alternatives. In this context, we believe equities are attractive relative to bonds and other investment opportunities, but expensive when compared to historical data. Stay invested, but with the proper cash-cushion to protect against "tail-risk".*
- *The U.S. market trades at a premium to other markets thanks to better fundamentals; however, in some cases this premium seems excessive to us, and we will be looking outside the U.S. for investment opportunities.*
- *Even though we are positive on equities in the short- and medium-term, we have serious concerns about the economy over the longer-term. Political "populism", low productivity, extreme expansionary global monetary policies, and fiscal irresponsibility are dangerous headwinds for global economies and equity markets.*
- *Higher short-term and long-term interest rates are likely to open new investment opportunities in fixed-income; however, after a 30-year secular bull market in bonds, a negative market reaction could be swift and meaningful.*
- *Credit risk has increased and spreads have widened over the past year, but credit conditions remain favorable for the economy. We favor selective opportunities within the better-quality tier of high-yield bonds and the lower-quality segment of investment grade bonds.*
- *We continue to be opportunistic and patient, and as always, are keeping an eye on your long-term objectives.*

FP/CM Close-Up

Realogy Holdings (ticker: RLGY)

CHRISTOPHER CONWAY
Portfolio Manager

We recently initiated a new position in Realogy Holdings (ticker: RLGY), the leading residential real estate services company in the U.S. We believe this company represents an attractive investment opportunity.

What does the Company do?

The company has two main segments: a real estate brokerage segment called NRT, and a franchise services group called RFG,.

NRT is an owner and operator of approximately 800 real estate brokerages in the U.S, and through its ~45,000 real estate agents, the segment generates revenue from commission fees charged to the sellers of homes. RFG is a franchisor and licensor of brands such as Century 21, Coldwell Banker and Sotheby's, amongst others, and provides services including marketing, technology, websites, and agent training to both NRT and third-party real estate brokerages. RFG enters into multi-year agreements with brokerages and generates revenue primarily from franchise fees for each home-sale transaction (~4-5% of the commission).

Why did we purchase RLGY?

We purchased RLGY because the company has a strong competitive position, generates high levels of free cash flow (12.5% free cash flow yield to our purchase price), and will benefit from improvements in the U.S. housing industry, especially improvements in existing home sales, homeownership rates and new housing starts – all of which are at low levels relative to historical norms.

The stock price has declined significantly over the past year due to worse-than-expected-results and a number of concerns regarding the impact of the internet on the business, higher expenses for commission payouts to agents, and the stability of the U.S. housing industry. While we believe some of these concerns need to be monitored, we viewed the decline in the stock price as a good opportunity to purchase the stock. The company's competitive position remains strong despite these concerns, and this competitive position will help the company continue to maintain its market share and to generate high levels of free cash flow.

Why does RLGY have a strong competitive position?

The combined market share for both NRT and RFG has been approximately 15% of U.S. housing sales for at least the past 15 years. The company has a strong competitive position and stable market share for a number of reasons.

First, the RFG segment enters into 10-year franchise contracts with real estate brokerages, making it difficult for these relationships to change dramatically in a short period of time, and helping RFG maintain its market position.

Second, there are significant switching costs associated with the company's brands, helping both the RFG and NRT segments maintain their market share. The brands licensed by RFG to brokerages not only serve as the name of the brokerages (a very important service), but also serve as the marketing and key identifier for the independent real estate agents employed by the brokerage. As a result, changing the name and brand of the brokerage would not only disrupt the brokerage, but would also disrupt the revenue opportunities for the real estate agents - the independent salespeople that the brokerage wants to retain. This switching cost associated with the brands helps RFG retain its brokerages (98% retention rate and 20-year average relationship), and helps NRT, which has the right to use the brands, retain its agents (retains 90%+ of its top-2 quartile agents).

Third, there are network effects associated with the brands that help RFG and NRT maintain their market share. As more and more agents generate commissions under a brand, the large number of agents and their associated productivity serve as an incentive for both new agents and new brokerages to join that brand, helping increase the size of the overall network and the productivity associated with that specific brand. This network effect is important for RFG because the segment can use its brands and the associated productivity to convince new or independent brokerages to become franchisees. Similarly, NRT can use the productivity of the brands to recruit new agents, which is a major competitive focus for brokerages given the high turnover and part-time nature of the real estate agency career.

What are the largest risks with the investment?

While we believe the stock represents an attractive opportunity, we recognize that there are a number of risks that need to be monitored.

First, the company has a significant level of debt, and if the company does not generate high levels of free cash flow as expected, the debt would be difficult to service.

Second, while the company's market share has been stable,

(Continued on page 4)

(Continued from page 3)

a few large competitors such as Keller Williams and ReMax are preforming better and taking market share, and these trends will likely continue.

Third, NRT's largest expense, commission payouts to agents, has been increasing due to more intense competition for hiring agents and due to the fact that agents can increasingly use the internet (and advertisements on Zillow) to directly connect with potential customers - effectively bypassing or reducing the importance of brokerages such as NRT. These higher payouts are expected to continue to trend up.

Fourth, and perhaps most importantly, the success of the company will be dependent on the U.S. housing industry. While there are a number of factors that will positively impact the industry going forward, including the rise in rental rates (which makes purchasing a home more attractive), potential easing of mortgage regulations, demographic impacts surrounding the "millennial" generation that is entering the typical period to buy a home, and interest rates that are still very low, there are also a number of factors that may negatively impact the industry going forward. These include higher interest rates going forward, large levels of student debt outstanding, declining home ownership rates, changes in preferences regarding the first time of marriage and number of children, and government policy regarding financing and interest rate deductibility.

We believe some of these risks are mitigated, at least partially, by the fact that the company has the potential to generate $15+ per share in free cash flow cumulatively over the next 5 years (including $3-$4/share from a Deferred Tax Asset), representing over 50% of the equity market capitalization of the company, and suggesting that a number of these risks are already being priced into the stock. Nevertheless, if any of these risks become significant, we will reevaluate our position.

FP/CM Close-Up

Viacom (Class B: VIAB)

CRAIG GIVENTER, CFA
Partner, Managing Director, Portfolio Manager.

Viacom is a leading media and entertainment company that produces and distributes movies, television shows, and other media under corporate brands such as Paramount, Nickelodeon, MTV, Comedy Central, BET, and VH-1. Nickelodeon's franchises, such as "Dora the Explorer"; "SpongeBob Square Pants"; and "Paw Patrol", are so powerful that they can stop a young child's cry; yet also cause a parent to cry from having to watch the same show over and over! And while the distribution of content has moved from people sitting in front of a television to tablets, smart phones, and computers (sometimes simultaneously), the power of branded content has also followed the devices to wherever that content is viewed.

If one could categorize Viacom's corporate history, it would clearly fall into the "drama" category. Sumner Redstone and his family own a controlling interest in Viacom and have exerted their control at both the Board and the management level, creating both personal and professional turbulence that has impacted Viacom over the past year. Spun-out of CBS in 2005, Viacom's early history was marked by sizable successes, as shows such as "Dora the Explorer" propelled Viacom's revenue growth and market penetration. But like any good entertaining story, management missteps, corporate governance issues, and a changing industry landscape, have all reversed the early days of success. This past year's boardroom eruption resulted in a CEO being dismissed, a failed attempt to monetize Paramount through an initial public offering, and a failed attempt to recombine Viacom with CBS. Fortunately, most of the drama has passed, and now the company, under new senior management, is refocusing on rebuilding its core businesses.

What has been occurring at Viacom?

Viacom appointed Bob Bakish, the prior head of the company's international division, to become CEO in late 2016. Mr. Bakish has moved quickly to restructure both the company's operations and its senior management team, with the objective of focusing the company on several specific divisions, including Nickelodeon, Nick Jr., BET, Comedy Central and MTV; while de-emphasizing investment in cable channels such as VH1, CMT, and Spike. Additionally, after several highly disappointing movie flops in the Paramount division in 2016, Viacom has also replaced management at the studio level, and the expectation is that the movie pipeline will perform stronger over the next few years.

Bakish is also freeing up capital to invest more behind the core

(Continued on page 5)

(Continued from page 4)

businesses, as Viacom looks to monetize a portion of its film pipeline to investors, and the company has embarked on a cost-cutting program to redeploy expense savings and investments into the core segments. Viacom's approach is to make its properties more valuable and differentiated by investing behind franchises and leveraging both its film production and content development. Regardless of how a person views a Viacom produced show, management's objective is to ensure that the "value" of its content transcends across devices and distribution.

Opportunity & Risks

Viacom trades at a sizable discount to its peers. If Viacom can demonstrate improved financial performance, both Viacom's multiple and its cash flow and earnings should improve significantly, and its valuation will benefit from both multiple expansion and earnings growth. Based upon our internal research and analysis, we view Viacom's fair value in the upper $50s with greater upside if Viacom can turn the script back to the company's early days.

While Viacom's valuation is very attractive, the risks to the thesis are important to understand. First, the new CEO is embarking on a major corporate transformation, and internal transitions are often-times marked by both detours and unanticipated bumps. Second, the industry is also transitioning as consumers' consumption of media content fragments from cable and television to venues such as Netflix, video on demand, internet distribution and other ways to view media. Each transition on its own poses risks, and when combined, the transitions pose an even greater threat. Third, traditional sources of revenue such as cable subscribers and advertising face both cyclical economic risks and secular shifts as technology disrupts the media and entertainment industry. Although a low valuation on arguably depressed earnings should provide a greater cushion to our estimate of valuation, we are mindful that Viacom operates in a very competitive industry that is transforming at a fast pace.

FP/CM Knowledge Corner

Annuities

AARON COHEN, Ph.D.
Partner, President, Portfolio Manager

What are Annuities?

You have probably heard & read a lot about Annuities. But what are they exactly? And is there room for them in your portfolio?

What is an ANNUITY?

Basically, an annuity is a contract that pays out a stream of cash flow for a fixed period or for life, in exchange for an initial investment (or "premiums"). The income can start immediately (Immediate-Annuity), or in the future (Deferred-Annuity). Thus, a Deferred-Annuity contract includes two distinct phases: (1) a savings or "Accumulation" phase, during which you pay premiums into the contract, and the earnings accumulate on a tax-deferred basis; and (2) an income or "Annuitization" phase, when you begin to receive regular payments. annuities are usually funded through a lump-sum payment, but a Deferred-Annuity can be also funded during an extended accumulation period.

What is the difference between a FIXED ANNUITY and a VARIABLE ANNUITY?

Fixed Annuities provide a guaranteed minimum interest income. The guarantee is not a government or bank obligation, but a senior liability of the insurance company, thus subject to the insurer's credit risk. By contrast, a Variable Annuity works more like a mutual fund. Your premiums are invested through different sub-accounts based on your desired allocation between bonds & stocks, and as an investor, you retain the market risk in addition to the credit risk. In other words, contrary to the Fixed Annuity where, barring a credit event at the insurer, you'll receive your "promised" income stream, with a Variable Annuity the income stream is uncertain and contingent upon market fluctuations.

(Continued from page 5)

Why are ANNUITIES so popular?

Increasing life-expectancy and the disappearance of many defined-benefit plans, have increased the public awareness and demand for alternative annuity investments. Annuities offer several attractions: (1) as with life-insurance, annuities offer tax-deferred earnings (you don't pay taxes on yearly gains, just on the eventual distributions) which could be advantageous to people who expect to be in a lower tax bracket when annuitizing; (2) they usually offer death-benefit and living-benefit protection options; and (3) they offer protection, at least partially, from outliving your savings (lifetime income options).

Are ANNUITIES good investments?

Annuities, and especially Variable Annuities, are complex financial products that, unfortunately, are sold to individuals who usually struggle to fully understand their terms and implications.

An annuity can be regarded as the mirror image of life insurance. Life insurance allows you to create an "immediate estate" by committing to pay premiums over time. Thus, a life insurance policy would protect a young family from the loss of income due to the unforeseen death of one of the family's bread winners. The "deal" for the life insurer is that the buyer would not die before his/her life expectancy, and would ideally live even longer. On the other hand, an annuity helps protect the individual from the risk of out-living his/her net worth. Hence, the "deal" for the annuity-insurer is that the buyer would not live beyond his/her expected life span. Social Security and defined-benefit pension plans are examples of annuity products.

Annuities can have a place in an investment portfolio, but before committing to them you should consider the following:

⇒ Insurance contracts are risk management tools, and should be used as such. They are "hedging" vehicles that certainly have a place in investors' portfolios, but are not a replacement for a sound, long-term horizon, investment portfolio. Remember that insurance companies cannot "manufacture" returns. They face the same set of choices and challenges that you do as an investor, so any insurance contract is just a combination of an investment return plus added guarantees (or hedges), all of which cost money. There is no "free lunch".

⇒ Because of their tax-deferred character, annuity earnings are taxed as ordinary income when they are distributed. You should consider that the gains from the tax deferral might not compensate for the rate difference between your income-tax rate and your long-term capital-gains tax rate. Also, you should take into account that a low-turnover portfolio already takes advantage of tax deferral by holding good investments for a long period of time. Finally, holding an annuity within a qualified retirement plan is largely redundant, since the qualified account already gives you a tax-deferred benefit.

⇒ Annuities invested in equities are a poor inheritance-transfer vehicle because, upon death, your beneficiaries do not get the benefit of a step-up in the basis of the annuity holdings.

⇒ The biggest drawback of an annuity is its high fee structure, which typically amount to an annual charge of 3-5% of the investment amount. In a lower return scenario like the current one, this is a significant hurdle to overcome.

Estimated Annuity Expenses

	Description	Typical Fees
Sales Commission	Usually waived if the annuity remains in force for 7 years	0.00-7.00%
Riders	See "Typical Riders" chart below	1.00-5.00%
Investment Management Fees	Direct and indirect fees related to underlying investments	0.50-1.25%
Maintenance Fee	Allows you to withdraw a minimum amount throughout your lifetime regardless of performance or annuitization.	0.10-0.20%
TOTAL		**1.60 - 5.00%***

*Minimum and maximum total expenses assume amortization of sales commission, if any, and an average combination of riders.

Should I pay for ANNUITY riders or guarantees?

While a Variable Annuity carries some market risk and the potential loss of principal, riders and special features can be added to the contracts at some extra cost. Selecting the appropriate riders is a difficult exercise that ideally requires modeling the different scenarios. A percentage point here and there might not sound like much in the short-term, but can cause a significant difference in outcomes over time.

Typical Riders Available in an Annuity Contract

Rider	Description	Typical Fees
Guaranteed Death Benefit (GDB)	Guarantees a death benefit payment (usually the larger of the amount invested or the contract value) if the owner dies before annuitization begins.	0.50-1.50%
Guaranteed Minimum Income Benefit	Guarantees a minimum payment once the annuity is annu-	0.50-0.85%
Guaranteed Minimum Withdrawal Benefit (GMWB)	Permits withdrawal of a maximum percentage of your total investment each year (usually 5-7%) for a set number of years, regardless of market performance, until you have recovered	0.50-0.75%
Guaranteed Lifetime Withdrawal	Allows you to withdraw a minimum amount throughout your	0.50-0.60%
Guaranteed Minimum Accumulation Benefit (GMAB)	Allows you to protect Principal by accepting the annuity's guaranteed return or locking in the appreciation in your account value. At the end of the term, the account value will be either the contract value or the GMAB value, whichever is greater.	0.30-0.60%

Should I consider buying a FIXED ANNUITY?

Frequently, Variable-Annuity investors load up on riders and fees, to the point where they end up with the worst of both worlds: a Variable Annuity with little upside, and a lower return than a Fixed Annuity.

For hedging purposes, a Fixed Annuity may be suitable for you. However, you should weight its benefits versus a fixed-income portfolio of similar risk. Additionally, at the current low level of interest rates, buying a Fixed Annuity would be comparable to buying a long-dated asset, which incurs a substantial unexpected-inflation risk.

Would I be better off investing directly rather than buying an ANNUITY?

This is probably the key question, for which the answer is, as usual, "it depends". In general, we try to avoid high-expense products, especially those with a long-life. However, as you have heard us mention many times, questions involving long-term horizons with multiple variables can only be answered by modeling distinct scenarios. The following example is based on a real case. It illustrates the nature of the problem, and the situations where it would be beneficial to own the annuity (versus direct-investment) and vice versa.

Example: Mr. Smith, age 60, invested $150K in a variable annuity back in 2007. Its current account value was $168K., and he estimated his annuity expenses at 4%. He asked FPCM to help him decide if he should annuitize, or cancel the annuity and invest the funds with FPCM at the 1% average fee.

FPCM currently assumes that the expected annualized return for equities will be 5%. We calculated the value in today's dollars (Net Present Value - NPV) of the annuity's distributions for different life-spans and discount rates, along with the values for the alternative of investing directly. The tables below show the results of the modeling, and the net difference between the two strategies.

Net Present Value for different discount rates and life horizons

NET PRESENT VALUE OF THE ANNUITY				
Life Span	Discount Rate			
	3.0%	4.0%	5.0%	6.0%
10	$146,242	$134,286	$123,629	$114,110
15	$140,480	$127,604	$116,392	$106,594
25	$149,247	$133,885	$120,821	$109,650
35	$149,247	$133,885	$120,821	$109,650

NET PRESENT VALUE OF DIRECT INVESTMENT				
Life Span	Discount Rate			
	3.0%	4.0%	5.0%	6.0%
10	$200,519	$182,154	$165,814	$151,252
15	$210,974	$185,851	$164,379	$145,978
25	$217,771	$183,175	$155,610	$133,504
35	$127,325	$113,498	$101,797	$91,842

* Assumes only 1% Mgmt Fee vs. 4.4%

Difference in Net Present Value: DIRECT minus ANNUITY

DIRECT outperforms the ANNUITY Except in a long lifespan scenario

DIRECT LESS ANNUITY				
Life Span	Discount Rate			
	3.0%	4.0%	5.0%	6.0%
10	$54,277	$47,869	$42,185	$37,142
15	$70,494	$58,248	$47,987	$39,385
25	$68,524	$49,291	$34,788	$23,853
35	($21,922)	($20,387)	($19,024)	($17,808)

* GREEN CELLS: Direct is preferred. RED CELLS: Annuity is preferred.

As you can see in the above example, for Mr. Smith's situation, the "direct" investing option was superior to the annuity, unless he expected to live to 95 years old or beyond.

This example is not meant to generalize that investing directly is always superior to purchasing an annuity. Each investor's situation is unique, as are the characteristics of each annuity. Instead, this case is meant to highlight the complexity of such an investment decision, and the importance of modeling the potential results.

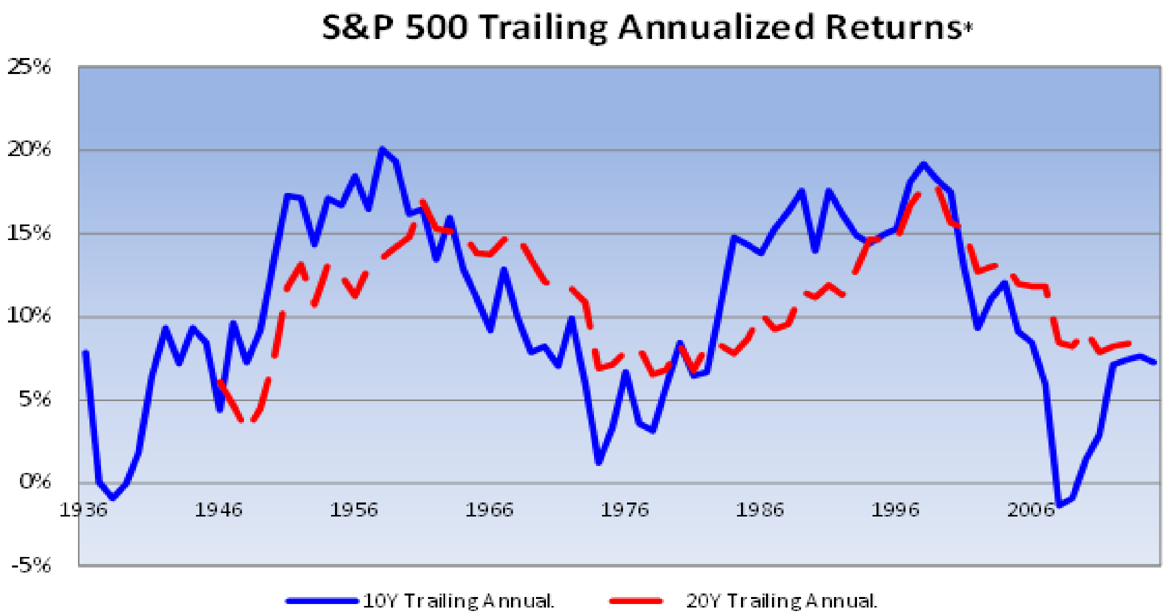
Please remember that FPCM can help with your important financial planning decisions.

The Long & Short View

AARON COHEN, Ph.D.
Partner, President, Portfolio Manager

The LONG VIEW...

Long-term equity returns have improved, but are not extreme...



* S&P 500 or precursors; Dividends are reinvested back into the index.

Source FPCM

Equities are attractive vs. bonds under reasonable scenarios

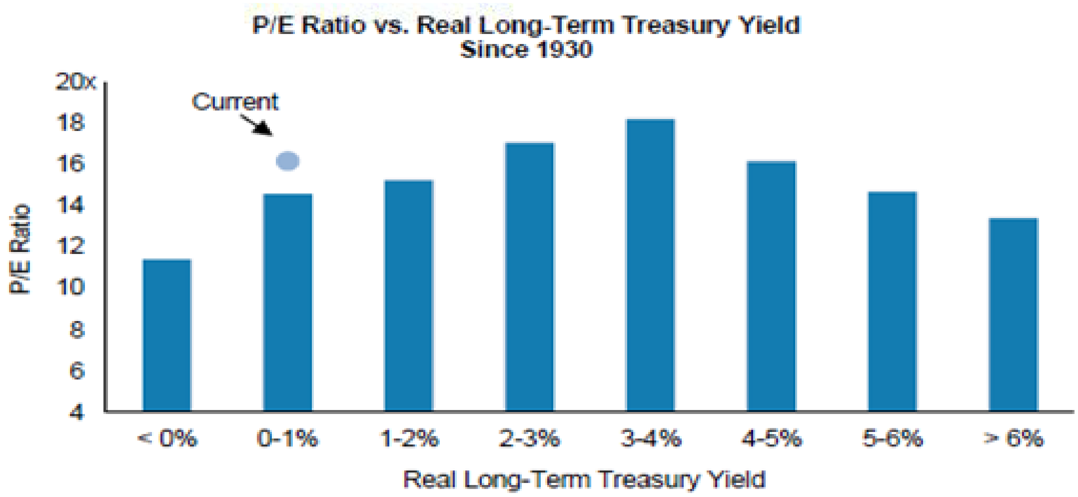
EPS Growth	Market Multiple in Year 10: 8	12	15	17
0%	-3.1%	0.8%	3.0%	4.2%
2%	-1.2%	2.7%	4.9%	6.2%
4%	0.6%	4.7%	6.9%	8.2%
6%	2.5%	6.6%	8.9%	10.3%

Source FPCM: Assumes 10Y yield=2.45%; S&P EPS $130; Shareholders yield=3.5%; retention rate=40%

(Continued from page 9)

And the SHORT VIEW…

Equities are expensive relative to real long-term rates…



Source: Morgan Stanley

At this stage in the cycle and current valuation, the outlook for equity returns is mediocre…

	1Y SCENARIOS											
	RECESSION		STAGNATION		LACKLUSTER GROWTH		SWEET SPOT		FASTER GROWTH		EXPECTED VALUE	
	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max
PROBABILITY	15%		15%		25%		30%		15%		100%	
GDP GROWTH	-2.0%	-1.0%	0.5%	1.0%	1.0%	2.0%	2.0%	3.0%	3.0%	4.0%	1.1%	2.0%
EQUITIES TRA	-35%	-20%	-18%	-10%	-10%	10%	10%	20%	8%	20%	-6.3%	7.0%
10Y-GOV BD	1.00%	1.30%	1.30%	1.60%	1.50%	2.25%	2.25%	3.00%	2.75%	3.50%	1.8%	2.4%
10Y-GOV BD TRA	14%	11%	11%	8%	9%	2%	2%	-5%	-3%	-9%	6.1%	0.5%

Source FPCM

Financial Crimes & Real Estate

CARLOS J. BIANCHI, ESQ.

During 2015, a series of articles was published in the New York Times about purchases of New York real estate by persons of dubious backgrounds and reputation, through entities that appeared to be intended to mask the identity of the ultimate purchasers. Concern was expressed that the New York real estate market, and other real estate markets in the USA, were being used, in effect, for money laundering illicit funds. Further, an activist organization conducted a "sting" operation on lawyers who appeared to be offering their services to politically exposed clients who wished to find a means to "park" their assets.

Not long after that, in January 2016, the U.S. Treasury Department's Financial Crimes Enforcement Network (FinCen) announced reporting requirements for certain real estate transactions in Manhattan and in Miami-Dade County, Florida.

Technically, these requirements took the form of Geographic Targeting Orders (GTOs) requiring title insurance companies to identify the natural persons behind legal entities that pay cash for residential real estate in those locations. Since virtually all real estate purchases are performed with title insurance, this means, in practice, that it is difficult or impossible to evade these requirements. The burden of compliance is placed on the title insurers, who, therefore, will not close without ensuring that the requirements are complied with.

The requirements consist of the filing of a form 8300 with the U.S. Treasury within 30 days of the closing, identifying, among other matters: the individual primarily responsible for representing the purchaser; the purchaser; and any individual beneficial owner(s) of the purchaser holding a 25% or more interest in the same. A copy of the passport or driver's license of such individual beneficial owner(s) must be included.

Note that this does not apply only to foreign individuals. A beneficial owner from Texas is covered as much as a non-US beneficial owner.

For the purpose of the GTOs, a legal entity includes a corporation, an LLC, a partnership, or any other business entity, whether US or foreign. The GTOs issued in January 2016 applied to residential real estate transactions for over $3 million in Manhattan, and over $1 million in Miami/Dade County.

The U.S. Treasury will compare the identity of the beneficial owners on the form 8300 with its "black lists" of persons. If a beneficial owner has nothing to hide, then, in theory, he or she should not be concerned about this. In practice, no-one wants to have his or her name on a form held by the Treasury Department for the purpose of checking it against the names of known criminals.

The GTOs do not apply where financing from a financial institution is used for the purchase. In addition, it is especially important to note that the GTOs do not apply where the proceeds for the purchase are sent by wire transfer. This is because wire transfers are already subject to review by the financial institutions through which they pass. For this exception to apply, the attorney representing the purchaser must provide the title company with a certification to this effect.

These GTOs were initially in force only until August 27, 2016. However, they have since been extended and expanded. In August 2016, they were expanded to the remainder of the City of New York; Broward and Palm Beach Counties in Florida; San Diego, Los Angeles, San Francisco, San Mateo and Santa Clara Counties in California; and Bexar County in Texas. For New York City outside of Manhattan, the purchase price must be in excess of $1,5 million for the transaction to be reportable. For the California counties, the figure is $2 million; for Bexar County, Texas, it is $500,000; and for all the Florida counties, it is $1 million.

The GTOs have now been further extended, for another 180 days starting from February 24, 2017.

Our Investment "Balance Sheet"

POSITIVES	CONCERNS
+ Except for the risk of serious external shocks, it is difficult to foresee another deep recession at this time because the typical down-levers (capital expenditure, auto production, housing, credit) are not over-extended.	– The Federal Reserve has reversed policy, and further interest rate increases are expected over the next couple of years, albeit at a moderate pace.
+ Central banks are unlikely to tighten monetary policy aggressively over the next 2 years.	– Expectations for higher economic growth after the U.S. election, have resulted in higher long-term rates and a stronger U.S. Dollar, which could negatively impact earnings in the short-term.
+ Global earnings are starting to grow after almost 2 years of an "earnings-recession".	– Fiscal stimulus would be a tailwind for the U.S. economy in the medium-term, but the debt level is high and too much stimulus could end up being counter-productive in the long-term.
+ Fiscal stimulus would be a tailwind for the U.S. & global economies over the next several years.	– An aggressive trade policy by the new U.S. administration could be highly detrimental to global economic growth.
+ Corporate tax reform & lower regulatory pressure in the U.S. could be important catalysts for faster economic growth.	– The Chinese economy has stabilized over the past year, but only after significant fiscal stimulus that has resulted in a higher debt level and capital outflows. Global growth, commodity prices, and emerging economies would be seriously affected by negative developments in China.
+ U.S. consumer spending should continue to grow, helped by increasing employment & wages, a recovery in household wealth, and the end of consumer de-leveraging.	– Lower productivity, the aging of the population in the developed economies and low labor participation are important long-term headwinds for global economic growth.
+ Economic growth in Europe and Japan, while still lackluster, has improved. Growth is also likely to re-accelerate in emerging economies ex-China.	– Inflationary expectations are extremely low. Even a random increase in headline inflation figures could scare the markets and put significant pressure on monetary authorities.
+ The rate of inflation is expected to remain reasonably low in the short- and medium-term.	– Geo-political risks continue to increase across the globe.
+ Valuation: Equity valuations are reasonable relative to free cash flows and interest rates.	– Political "Populism" is on the rise around the world, and could have major long-term economic consequences.
	– Valuation: Equity valuations are high in absolute terms versus historical standards.
	– Other Risks: (1) China slowdown; (2) Political crises in the U.S.; (3) Elections in France, Germany & Italy.

We hope you have enjoyed this publication. Please contact us with your questions, and with your thoughts and ideas at **contact@fpcm.net.** We look forward to hearing from you!

Thank you for your continued confidence and support.

Your FP/CM Team

Financial Partners Capital Management

150 East 52nd Street, New York, NY 10022

20900 N.E. 30th Avenue, Suite 517Aventura, FL 33180

t 646-277-7310 | t 305-921-4740 | f 646-277-7315 | fpcm.net | LinkedIn