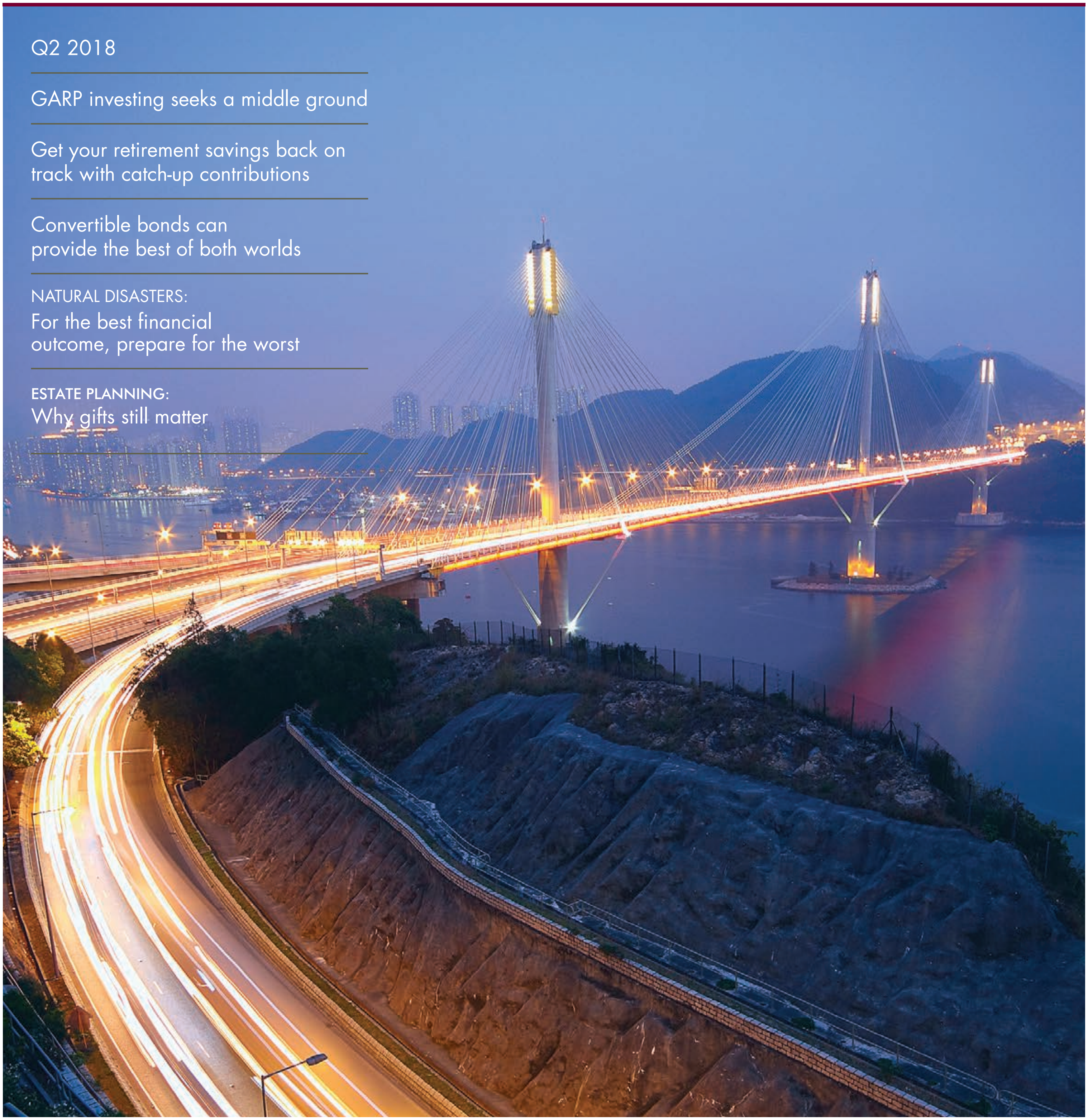
LENOX ADVISORS, INC

WEALTH MANAGEMENT ADVISOR



Q2 2018

GARP investing seeks a middle ground

For some people, the world is an either/or. They exclusively drink either Coke or Pepsi. They're a fan of either the Cubs or the White Sox. But what if you prefer to mix and match qualities of each option to approximate the best of both worlds?

That's essentially the idea behind an investment philosophy known as growth at a reasonable price (GARP). By combining aspects of growth and value investing — two common but often seemingly opposing investment styles — GARP can be a worthwhile strategy for investors who prefer to occupy a middle ground.

ATTRACTIVE VALUATION VS. GROWTH PROSPECTS

To better understand how a GARP approach works, let's review value and growth investing principles.

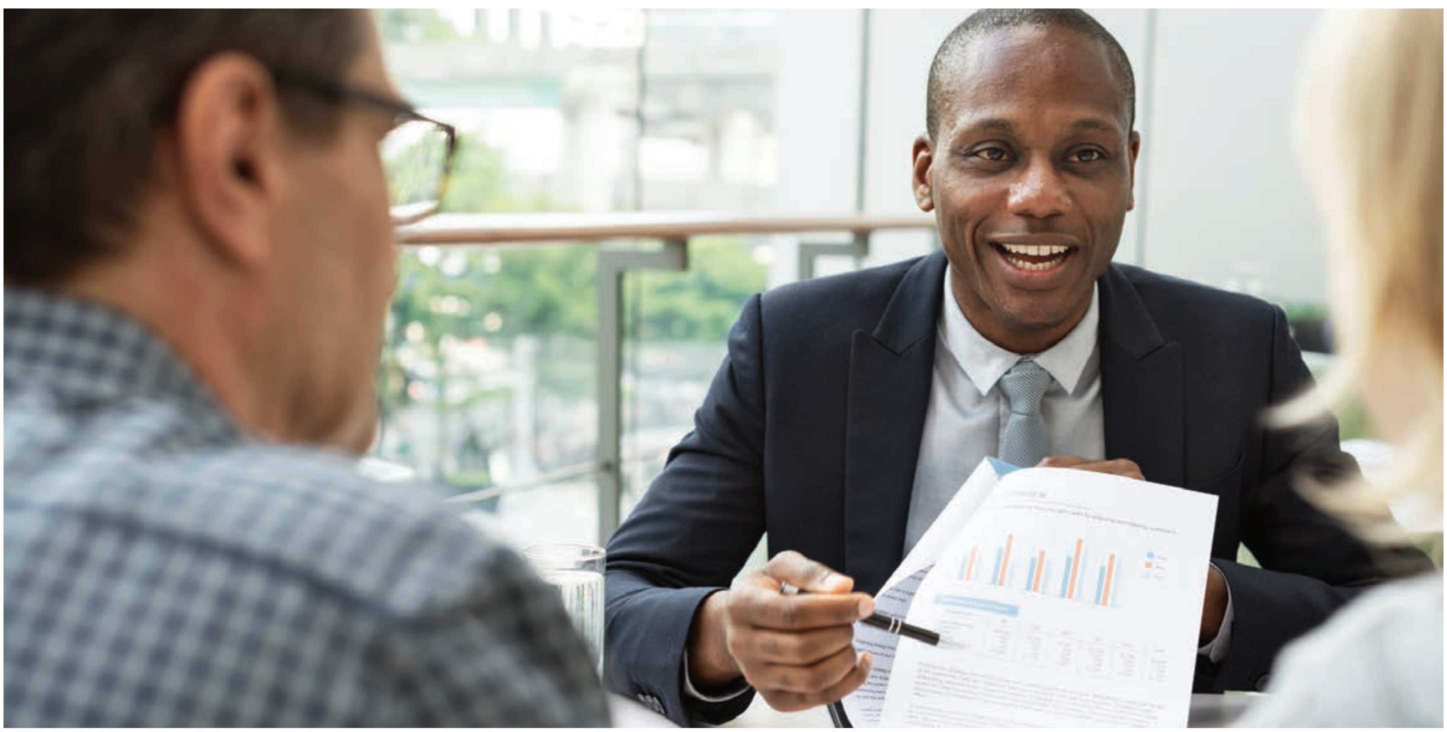
The idea behind the value style is that you're essentially looking for securities "on sale." Value investors favor stocks whose intrinsic (or what they consider intrinsic) value is significantly higher than their current "low" market price. Value stocks may be companies that belong to an out-of-favor industry, such as homebuilders in the wake of the real estate market's collapse last decade, or companies facing pessimism about their short-term business prospects, such as energy companies when oil prices are low.

Meanwhile, growth investors tend to be less focused on valuation and more interested in a company's ability to grow at a faster rate than the market expects. Many technology stocks fit this profile. Growth investors are willing to pay a premium today if they think the company will continue to grow at a rapid pace.

MERGING STYLES

In the right hands, both value and growth investment styles can be effective ways to make money over the long term. But investors who are looking to balance the strengths of both approaches may find themselves attracted to the middle ground of a GARP strategy.

For GARP investors, earnings growth is critical, and they'll be drawn to companies with a track record of positive earnings growth and the prospect for that trajectory to continue. However, some of the fastest-growing companies are also the priciest. Hence, a successful GARP investor must be willing to consider companies that may be out of favor with some investors and thus come with lower price tags. This philosophy is neatly summed up by famed investor Warren Buffett: "It's far better to buy a wonderful company at a



fair price than a fair company at a wonderful price."

ANALYTICAL MEASURES

One of the challenges associated with GARP investing is that, because the strategy uses elements of both growth and value styles, it can be hard to determine which aspects to prioritize. To find companies with undervalued growth prospects, a GARP investor may rely on a variety of analytical measures. For example, price-to-earnings (P/E) or price-to-book-value ratios provide a window into how attractively priced a company is, based on factors such as its business performance and the strength of its balance sheet.

Another common metric employed by GARP investors is price to earnings growth (PEG), which is the ratio between a company's P/E and its expected future earnings growth. Unlike P/E, which is a snapshot of how a company is performing now, PEG helps investors assess whether a company's current valuation is in line with its expected earnings growth — thus potentially providing insight into whether a company is appropriately valued in light of its growth prospects.

In partnership with investment specialists, Lenox Advisors can help you interpret these metrics for individual securities you might be considering. Whether they're suitable for you depends on such personal factors as your investing goals and risk tolerance.

STRIKING THE RIGHT BALANCE

Finding a strategy that combines the best elements of both growth and value investing can be worthwhile. However, remember that it's possible to lose money in any type of investment. Your Lenox Advisor leverages investment expertise to help you navigate such risks and use investment strategies in the most effective way for your specific situation.

Get your retirement savings back on track with catch-up contributions

How far are you from your ideal retirement age? 20 years? 10? Perhaps only five? However close you are, you should be regularly reviewing your retirement savings account balances to confirm that you're on track to meet your goals.

Unfortunately, only 18% of Americans are "very confident" that they'll in fact have what they need to enjoy retirement, according to the Employee Benefit Research Institute. On the flipside, one-third of Americans *aren't* confident they'll have enough. If you're in this latter group, making "catch-up" contributions can help your situation. Here's what they are and how you can make the most of them.

ABOVE AND BEYOND

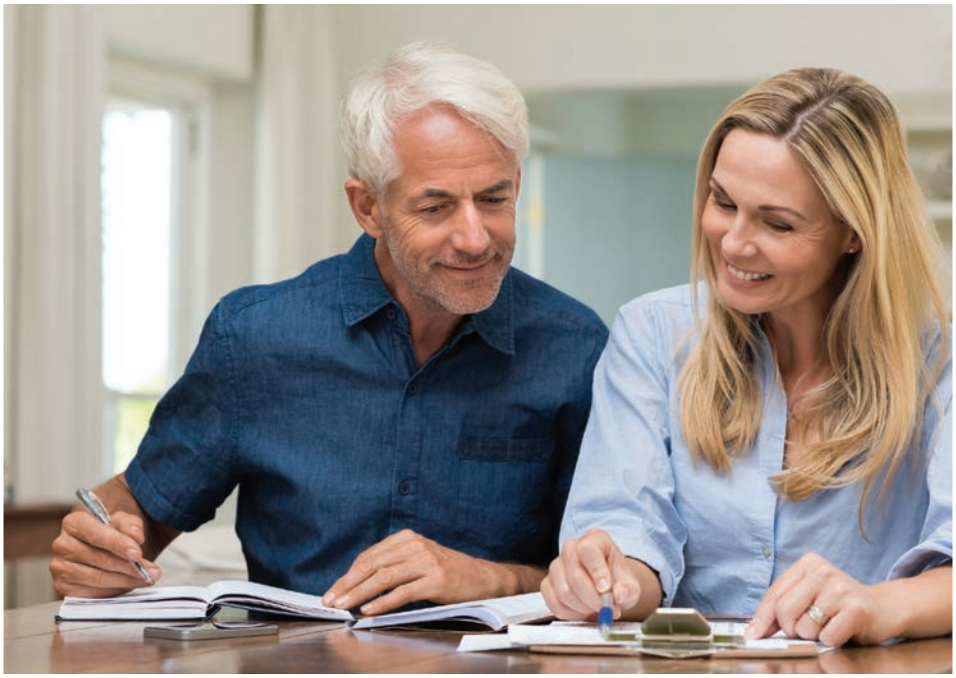
Catch-up contributions are additional amounts beyond the regular annual limits that workers can contribute to certain tax-advantaged retirement accounts, such as 401(k) plans and IRAs. The higher limits are designed to help people who haven't saved enough to meet their goals — and are closer to retirement age. So only those 50 and older are eligible to make catch-up contributions.

Say that you've contributed the standard 2018 limit of $18,500 to your 401(k) account. If you're 50 or older, you can put aside an extra $6,000, for a total of $24,500. If your employer offers a Savings Incentive Match Plan for Employees (SIMPLE) instead, the regular contribution maxes out at $12,500 in 2018. But if you're 50 or older, you're allowed to contribute an additional $3,000 — or $15,500 in total this year.

Be sure to check with your employer before making catch-up contributions. Although most 401(k) plans and SIMPLEs offer catch-up contributions, not all do.

IRA RULES

Another way to save more after age 50 is through a traditional IRA or a Roth IRA. With either plan, those 50 or older generally can contribute another $1,000 above the $5,500 limit for 2018. However, the ability to contribute to a Roth IRA is phased out based on income, and this option may not be available to higher-income individuals.



The benefits of making catch-up contributions differ depending on which account you're considering. With a traditional IRA, contributions may be tax deductible, providing you with immediate tax savings. (The deductibility phases out at higher income levels if you or your spouse is covered by an employer retirement plan.)

Roth contributions are made with after-tax dollars, but qualified withdrawals are tax-free. By contributing to a Roth IRA and taking the tax hit up front, you won't lose any of the income to taxes at withdrawal, provided you take them when you're at least 59½ and have held the account at least five years. Another option if you'd like to enjoy tax-free withdrawals is to convert some or all of your traditional IRA to a Roth IRA — although you'll also take an up-front tax hit.

SOLO OPTIONS

If you're self-employed, retirement plans such as an individual 401(k) — or solo 401(k)s — also allow catch-up contributions. A solo 401(k) is a plan for those with no other employees. To catch up, you can add $6,000 to the regular yearly limit of $18,500 in 2018. But that's just the employee salary deferral portion of the contribution.

You can also make an "employer" contribution. The total combined employee-employer contribution is limited to 25% of compensation, up to $55,000, *plus* the $6,000 catch-up contribution, for a total of $61,000 in 2018.

UNDERSTAND THE IMPACT

On first glance, catch-up contributions may seem like too little, too late. But don't underestimate the impact these additional savings dollars can have when compounded over time — even if you have only 10 years to invest before you retire. To help ensure catch-up contributions are enough to enable you to reach your retirement goals, talk to your Lenox Advisor. He or she can assess your savings needs based on your income, your retirement plans, when you hope to leave work and other financial goals.

TAX CONSIDERATIONS OF RETIRING ABROAD

Perhaps you've always dreamed of retiring to a foreign tropical paradise. Depending on your destination — for example, Central America — such a move can lower retirement living expenses. But keep in mind that, as long as you remain a U.S. citizen, you'll have to fulfill U.S. tax obligations, no matter where you live.

Even if you move assets to a foreign country and don't owe any U.S. income tax, you'll still have to file a return annually with the IRS *and* you may also need to file in your country of residence. Withdrawals from 401(k)s, IRAs and similar plans are typically taxable and you might owe U.S. tax on income from other investment accounts and on Social Security payments.

If you work at all — for example, as a consultant for your former employer — you'll owe U.S. tax on that income. However, the IRS allows some qualifying individuals who work overseas to exclude all, or part, of their incomes using the Foreign Earned Income Exclusion. You may also be able to claim the Foreign Tax credit.

The bottom line: Talk to your Lenox Advisor and tax professional before deciding to move out of the country.

Convertible bonds can provide the best of both worlds

Bonds generally attract investors who are looking for a regular income stream and relative stability. And stocks typically appeal to investors who seek potential upside via share-price gains — though often with more investment risk.

But what if you're looking for the reduced volatility of bonds with the capital-gains potential of stocks? The answer may be convertible bonds. These hybrid securities combine aspects of both asset classes.

A DISTINCTIVE OPTION

Convertible bonds, often called convertibles, are issued by a corporate borrower and can be converted into shares of the company's common stock once that stock reaches a certain price. Convertibles are unique because they have a foot in both the fixed-income and equity worlds. They resemble bonds in that they provide regular coupon income for a specified duration — as long as the security's issuer remains solvent.

However, unlike traditional bonds, convertibles give investors the option to convert the debt into stock once that stock reaches or exceeds a particular price, known as the conversion price. Because of this feature, convertibles usually offer a lower interest rate than a traditional bond of comparable duration.

APPROPRIATE PRICE

The hybrid nature of convertibles makes determining an appropriate price for them complex. But the issuer's stock performance is a key factor. When a stock is trading much below the conversion price, the price of the convertible bond tends to resemble that of a conventional bond by the same issuer. If the stock price comes close to or tops the conversion price, however, a convertible's price typically moves in line with the underlying stock, giving investors the opportunity to participate in the convertible's upside.

The odds of being able to convert the bonds into stock are relatively low when the stock is trading well below the conversion price. But as the stock price closes in on the conversion price and the likelihood of an equity conversion increases, the convertible's price creeps closer to the stock price.

POTENTIAL RISKS AND CHALLENGES

As with all investments, convertibles can cause investors to lose money. They also pose risks that prospective investors need to consider, including:

Capital structure. Convertibles are senior to stocks in a company's capital structure but junior to traditional bonds. This means that, if an issuer defaults on its debt, owners of convertible bonds are in line to be paid back before stockholders, but after bond owners.

Trading characteristics. The convertibles market is much smaller than the market for either traditional bonds or equities, with relatively few participants. So convertibles can be less liquid and usually have higher trading costs than stocks or bonds.

Limited diversification. Currently, most convertibles issuers are health care and technology companies. Lack of sector diversification can increase investment portfolio risk, so investors should ensure that convertibles occupy only a limited portion of their portfolio.

Call risk. Most convertibles can be called (or redeemed) by the issuer if the equity price reaches a certain point — a factor that can limit the security's upside and possibly force investors to reinvest in a less-favorable environment.

PROFESSIONAL ADVANTAGE

Interested investors can buy convertible securities directly from their issuer. But because these instruments are complex and trading costs can be high, most investors gain access to convertibles via professionally managed portfolios. Portfolio managers generally are supported by a convertibles research team and may be in a better position to navigate the relatively illiquid convertibles market.

In partnership with investment specialists, Lenox Advisors can help you determine about whether convertibles might be appropriate given your situation, risk tolerance and investment goals.

NATURAL DISASTERS:
For the best financial outcome, prepare for the worst

Natural disasters took a massive toll on North America in 2017. In addition to loss of life, hurricanes Harvey, Irma and Maria, various California wildfires, and earthquakes in Mexico resulted in total economic losses of $330 billion, according to Munich Re. This represents the second most financially catastrophic year attributed to natural disasters around the globe. From damage to your home's structure to destroyed personal belongings, events like tornadoes, hurricanes, wildfires, floods, and more are serious financial concerns for many homeowners across the country.

That said, it's important to know which natural disasters your homeowners insurance policy may or may not cover. Having the proper coverage to financially protect your investments not only provides you with peace of mind — it also can really save the day if catastrophe strikes.

WORKING WITH INSURANCE PROVIDERS

In general, you should do business only with insurers with high credit ratings and have proven financial stability. These companies are more likely to survive short-term financial difficulties caused, for example, by a surge in claims following a major disaster.

Check with your Lenox Advisor, who can help you figure out how much coverage you truly need given current property values or recent major purchases. Policy riders can provide extra protection for high-value items such as jewelry, art and antique furniture.

TAKING PROACTIVE MEASURES

Following a disaster, it can be challenging to answer all of your insurers' questions about what you owned and want to replace. Save yourself this anxiety by making a list now of your important possessions, including key information such as purchase dates and serial numbers. Take photos or video footage of every room in your house, making sure that particularly costly possessions are recorded. And don't forget to store a copy of your inventory and images in a remote location — perhaps with a cloud computing provider or on a memory stick you've entrusted to a friend or relative.

If you live in an especially disaster-prone area, you should have liquid assets safe but readily available. Most experts recommend a cash fund of at least three months' worth of emergency expenses.

RECOGNIZING THE POSSIBILITY

No one likes to imagine the worst. But when it comes to protecting your property — and your life and the lives of family members — you need to think about the possibility of a natural disaster. With a loss-reduction plan in place, you're more likely to weather even the worst storm.

ESTATE PLANNING:
Why gifts still matter

With the federal gift and estate tax exemptions so high, making lifetime gifts to your loved ones may seem less critical than it might have in the past. But even if your wealth is well within the exemption amount, a lifetime gifting program offers significant estate planning and personal benefits.

TAX-FREE GIFTS

A program of regular tax-free gifts reduces the size of your estate and shields your wealth against potential future estate tax liability. Tax-free gifts include those within the annual gift tax exclusion — $15,000 per recipient ($30,000 for married couples) in 2018 — as well as an unlimited amount of direct payments of tuition or medical expenses on another person's behalf.

Given recent changes to tax law, the estate tax may not seem that important now. After all, the 2018 exemption amount of $11.2 million is high enough to place the vast majority of families beyond its reach. But there are no guarantees that a future Congress won't reduce that exemption amount. Lifetime gifts remove assets from your estate, including all future appreciation in value, providing some "insurance" against changes in the law down the road.

TAXABLE GIFTS

Taxable gifts — that is, gifts over the annual exclusion amount — can also provide advantages. Although these gifts are subject to tax (or applied against your exemption amount), they can reduce your tax liability by removing future appreciation from your estate.

When contemplating lifetime gifts, be sure to consider income tax implications. Currently, assets transferred at death receive a "stepped-up basis," meaning that their tax basis increases or decreases to their fair market value amount on the date of death. This would allow your heirs to sell the assets without triggering capital gains taxes.

Assets transferred during life, on the other hand, retain *your* tax basis, so the recipients could end up with a large tax bill should they sell them. Note that some proposals to repeal the estate tax would eliminate the stepped-up basis rule for some or all assets. This would reduce or eliminate the advantages of holding assets for life.

BEYOND TAXES

Even if gift-giving offered no tax advantages, there are many nontax benefits to making lifetime gifts. For example, it allows you to:

- Witness your children or grandchildren enjoying the fruits of your labor,
- Help loved ones pay for education or medical expenses, and
- Transfer business interests to the next generation.

By spreading out distributions over time from a controlled vehicle, trusts can help prevent your children or other heirs from squandering the assets. Also, they can provide incentives for desired behaviors — for example, a beneficiary may be required to graduate from college or remain gainfully employed. Trusts can also serve as a safety net by making assets available to your loved ones in times of true financial need.

GET WITH THE PROGRAM

Regardless of your level of wealth and whether you're likely to be subject to estate tax, giving continues to offer substantial tax and nontax benefits. To potentially take advantage of these benefits, talk to your Lenox Advisor and estate planning professional.