INVESTMENT MANAGEMENT • FINANCIAL AND ESTATE PLANNING • PRIVATE BANKING • FIDUCIARY ADMINISTRATION • RETIREMENT PLAN SERVICES

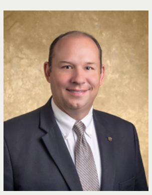
Friends

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair."

So begins the classic Dickens' novel "A Tale of Two Cities". The subject of the French Revolution came up at the Joyce family dinner table recently as my high school freshman is preparing for finals and the end of the school year. It is amazing how the Dickens' quote above could easily represent the world we live in today, particularly if all you read are the headlines. We greatly appreciate the trust you have placed in our team to help you navigate these thought-provoking times. Our team works hard every day to ensure you feel more of the best of times, wisdom, belief, light and hope.

In this edition of Private Wealth Perspectives you will be cautioned on the risks of cyber fraud while being reminded of the convenience of technology. Travis McEowen will also enlighten you that despite the growth in the US economy, if growth rates continue to slow, historical assumptions may be challenged. Thought-provoking times indeed.

INVESTMENT MANAGEMENT



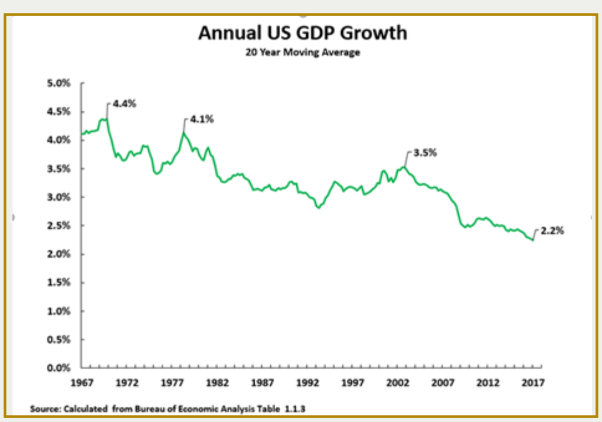
Stuck in 2nd Gear

What happens when one variable that countless textbooks hold to be true, turns out to be wrong? It can render entire theories obsolete. In economics and finance there is a variable that is always assumed a constant, and it effects everything from corporate mergers & acquisitions to your retirement account. That variable is growth. GDP growth, dividend growth, revenue growth, organic growth, subscriber growth, productivity growth, sustainable growth, growth, growth, growth. It might be the most used word in business. Well, what if growth didn't really….grow….anymore? It's a topic we've been discussing within the walls of FMPWA and it's a very real possibility in the future. Not that there won't be any growth in the future, but the possibility that growth rates as we know them will cease to exist. It could change how companies implement forecasts, how central banks set policy, and how we look at investing.

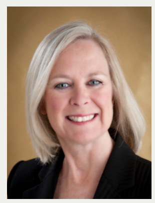
The accompanying chart shows annual economic growth in the United States over the past 50 years displayed as a 20 year moving average. What we can see is a descending line as the growth rate decelerates toward 2% annually, less than half of where it stood in 1969. A chart of China's GDP would look similar, though perhaps even more dramatic as Chinese GDP has slowed to 6.5% annually after hovering in the 12% - 14% range just over a decade ago. One of the main drivers of this trend is population growth, or lack thereof. If you were to graph the global GDP growth rate overlaid by the global population growth rate, the descending lines would be strikingly similar. The concept of peak population or peak population growth might be a topic deserving of its own article, but I will touch on it here. The world population growth rate peaked in 1963 at 2.2% and has been declining ever since. The world's absolute population is still climbing because of momentum from large birth rate increases that occurred in developing countries in the 1950's and 1960's, but fertility rates are falling all over the world. The birthrate needed to maintain the current population in the U.S. is 2.1 children per woman during her lifetime. The birthrate is now at 1.9 in the U.S. and falling. As developing countries transition toward developed nations, many factors, including increased education, lower infant mortality rates, urbanization, expanding rights, increasing job opportunities for women, environmental awareness, and increased access to family planning services all contribute to falling birth rates. Projections show the population growth rate heading toward zero by 2050 and perhaps negative after that. That implies that we will reach a point in the next century where the world's population will peak and then begin to decline. The economic implications of this are many, not the least of which is how we will view growth in the future.

Given the current economic and demographic backdrop, it's hard not to wonder about the possibility of an extended period of deflation. Deflation occurs when the inflation rate falls below 0%, increasing the value of currency over time. It allows one to buy more goods and services than before with the same amount of currency. This creates several problems. First, when people expect that prices will be lower in the future, they spend less today. If you're thinking of buying a new car and expect the price will be a lot lower six months from now, why not wait? This creates high supply and low demand situations (oversupply). Second, deflation raises the inflation-adjusted interest rate, which increases the cost of borrowing and can depress business investment and consumer spending on big ticket items like cars, appliances and houses that are purchased with credit. As consumption and investment spending fall, aggregate demand declines, and that causes prices to fall even further. The result is even more deflation, less consumption and spending, further decreases in prices, and eventually the economy descends into what is known as a debt-deflation spiral. The third problem with deflation is that wages and prices are generally inelastic. That is, they don't adjust as quickly as needed to keep supply and demand balanced. Wages tend to be particularly inelastic in the downward direction. So when prices are falling but wages aren't, it increases the inflation-adjusted cost of labor, and that leads to unemployment. The rise in unemployment leads to less spending, and that causes prices to fall further. Once again, the economy can enter a deflationary spiral. Finally, it's important to note that outright deflation isn't required for these problems to occur. Disinflation -- when inflation rates are above zero but declining -- can also be problematic. Central bankers have an aversion to inflation, but what they really should fear is deflation. Evidence from the Great Recession, when prices fell by around 25 percent, and from the "lost decade quarter century" in Japan suggests it can lead to big problems for an economy.

What does all of this mean for investors? Several years ago I wrote a piece titled "(Not So) Great Expectations" arguing that investor expectations for returns going forward should be adjusted downward from the historical rates we so often see used in projections. It is imperative to realize that the returns from the decade just ended are unlikely to be repeated. Over the 10 years from April 1, 2009 to March 31, 2019, the S&P 500 cumulative return with dividends reinvested was +350%, good for an annualized return of 16.3% over that time. Those are video game numbers folks. Each year Northern Trust publishes their Capital Market Assumptions which detail their expectations for investment returns over the next five years. Northern's most recent report forecasts a return of 6.2% for global equities and a 2.7% return for global bonds over the next five years. That results in a forecasted return for a global balanced portfolio (60% equity/40% bond) of 4.8%. Estimates from MFS Investment Services expect a return of 4.3% for a similar portfolio, and Vanguard's estimates come in at 4.3% as well. Research Affiliates has a nifty tool on their website called Asset Allocation Interactive. It allows you to create a portfolio made up of foreign and domestic stocks, corporate and government bonds, TIPS, commodities, real estate, private equity, hedge funds and cash. You can manipulate the allocation of these asset classes in 1,000 different ways and it's next to impossible to come up with a diversified portfolio that has an expected 10 year return that is greater than 5%. If all of the elements converge to create a deflationary spiral, the economy and, yes, the markets may indeed become stuck in 2nd gear for some time. Rest assured we at FMPWA are discussing this possibility and working to provide solutions that will allow you to meet your financial goals in any economic landscape.



RETIREMENT PLAN



Fraud in a 401(k) Plan?

Some people think that 401(k) plans have little exposure to fraudulent activity. The truth is, whenever there is an incentive, the opportunity, and the rationalization to commit fraud, then fraud is a real possibility and should definitely be considered by your company when protecting plan assets.

As a Retirement Plan Sponsor, you have certain fiduciary duties, one of the most important is to protect the assets of your plan participants. First Merchants Private Wealth Advisors has access to the First Merchants Corporation's army of cyber security experts to help you with this task.

Not only are our 'Phishermen' constantly on guard to monitor every aspect of electronic interaction that affects your retirement plan, we expand our watchdog approach by developing and maintaining personal relationships with our plan sponsors.

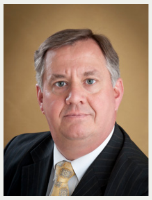
In this day of eliminating the human element from conducting business, we see the importance of keeping the personal touch. Our personal interactions watch for unauthorized individuals attempting to direct activity on your account. Our team ensures proper authorization is provided for all withdrawal and loan requests. We also provide extra security when speaking with plan participants by requiring our security questions be answered flawlessly.

Don't get me wrong, technology is wonderful! But we also realize it is not the singular solution to maintaining a safe, successful and productive retirement plan for you and your employees.

So in the drudgery of providing authorized signatures or documentation to confirm the need for a withdrawal of any kind, know that our request is two-fold. First, we are your partner in maintaining your company's plan. Second, we are diligently protecting the assets your participants have worked hard to save and will depend on for their successful retirement.

To speak with one of our Retirement Plan Advisors to increase the success of your company's plan, please contact us at 866-238-0082.

PERSONAL TRUST



How Financially Savvy are you?

April was National Financial Literacy Month, recognized in the United States as an effort to help Americans make sound financial decisions and to manage their money wisely.

What steps can you take to make sure your finances are on solid ground? The following is a simple checklist of things you should do.

- **Where Are You Now?**

If you don't know where you are, it's hard to know where you are going. A basic personal financial statement listing your assets and liabilities in order to determine your net worth is a great starting place. Whether you are still building wealth or focused on preserving and maintaining it in retirement, knowing your net worth and tracking it year over year is essential.

- **What are your Needs and Wants?**

Needs are by definition things that you must have to live like food, shelter, transportation, healthcare and should also include savings for both short term emergencies as well as long term retirement. Wants are things that you would like to have but are not necessary. For example you need a car but you don't need a $100,000 Maserati. Spending on wants and neglecting your needs, especially saving for short and long term goals is often the biggest financial mistake you can make.

- **Where is the Money Going?**

Cash flow is a financial concept that measures how much money comes in and how much money goes out. The ratio between how much one of these numbers exceeds the other is the key to your positive (or negative) cash flow and ultimately your net worth. Take your various account statements for the last few months and write down what comes in and what goes out. Do you have investments that could be better deployed or expenses that you could live without? A basic budget forces you to think about what you are spending and can sometimes be a real eye opener.

- **What Do I Do Next?**

You have figured out your net worth, assessed your needs and wants, and created a budget that produces a positive cash flow. Now what? After making sure you have sufficient funds saved for short term emergencies the traditional wisdom is to pay down debt and save for the future. If the future is already here, the goal becomes spending your wealth wisely and making sure it will last. You also need to consider what type of legacy, if any, you want to leave for your family. First Merchants Private Wealth Advisors can work with you to create investment strategies and financial plans that can provide comprehensive solutions in your pursuit of a secure financial future. We would be happy to help you assess your current situation and assist you in creating a plan for the future. Please feel free to contact your Wealth Manager or one of our Wealth Advisors for a consultation.

David Forbes