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In today's 24-hour news cycle, our senses are bombarded with "hot takes" and "breaking news", causing even the most information hungry consumer a bit of indigestion. Deciphering the onslaught is a challenge as we attempt to determine what is meaningful and what is superfluous. In his 2012 metaphorically titled bestseller "The Signal and the Noise: Why Most Predictions Fail – but Some Don't", Nate Silver attempts to de-construct the fallibility of human predictions caused by too much focus on noise (superfluous information) instead of signals (meaningful information). At First Merchants Private Wealth Advisors, we pride ourselves on helping clients navigate the noise, as so eloquently articulated in the included article from our Investment Management team, in pursuit of the signals and a secure financial future. I hope you enjoy our most recent edition of Private Wealth Perspectives and find value in our view.

On behalf of our team, we value our relationship and your trust. Thank you and enjoy our perspective!

Michael Joyce

President, Private Wealth Advisors

INVESTMENT MANAGEMENT



Tuning out the Market Noise

The level of headline noise surrounding financial markets is nearing deafening levels. On top of the flood of economic data and corporate earnings reports that market participants sift through daily, the Federal

Reserve has ramped up its communication efforts on monetary policy this year to guide investors through this period of economic uncertainty. White House communications are elevated as well, as President Trump tweeted 172 times in reference to trade, the markets, and the economy, in the first three quarters of 2019, according to Bloomberg.

In general, financial markets, particularly in the U.S., are highly adept at evaluating new information and pricing stocks according to changes in future earnings growth potential. Every data point, whether a tweet on trade or a new jobs report from the Bureau of Labor Statistics, is immediately digested by a broad swath of market participants—including individuals, institutions, and automated algorithms—and incorporated into the supply and demand for securities, thus informing changes in market prices.

However, the markets are not always as adept at distinguishing between quality information and distracting noise. Right now, we're seeing investors make decisions based on daily headlines that describe trade talks as either "constructive" or "entrenched" – but don't actually discuss the progress on the fundamental issues at the heart of the negotiations. Investor sentiment has become so sensitive to this issue that even a mere hint of optimism or pessimism will send the market whipsawing.

Distracting noise can also come from companies themselves. Although more public disclosure is generally positive, it can have some negative side effects. Information overload can cause market participants to react impulsively, thus narrowing their investment perspectives to only thinking about the next few days, weeks, or quarters instead of the next several years or decades as a business owner would. And the trend toward lower trading commissions and transaction costs can prove to be a double-edged sword as trading on gut-reactions and short-term outlooks has never been easier.

In fact, according to analysis by Ned Davis Research on stocks trading on the New York Stock Exchange, the average stock holding period has fallen from over 5 years in the pre-1960s era to just over 8 months today. And this is mainly thanks to falling barriers to trading and rising access to information. Eight months is certainly not enough time to enjoy the benefits from compounding equity ownership in a strong and stable business, and it risks higher tax and transaction costs in addition to exposing investors to the negative impacts of short-term noise and behavioral baggage.

Benjamin Graham, widely viewed as the father of value investing and a teacher to renowned investors like Warren Buffett, once wrote that "in the short run, the market is a voting machine, but in the long run, it is a weighing machine." In other words, in the short run, security prices may be carried away from their true values, to the upside or the downside, by the effects of noise and investor herding behaviors and inertia; but in the long run, noise and investor behavioral impacts are filtered out and security market prices converge to fundamental value. The market price of a stock may swing second-by-second, but the true value of a business does not.

It is this understanding that allows patient, fundamentally focused investors to use periods of market dislocations – like the sell-off at the end of 2018 – as opportunities to purchase the stocks and bonds of high-quality companies selling at a discount to their true values.

But where does that leave us today now that equity markets are surpassing all-time highs, interest rates are dropping fast, and corporate earnings growth seems to have plateaued? Furthermore, the U.S. manufacturing sector is in contraction territory right now, according to the most recent survey from the Institute for Supply Management (ISM),

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with a reading of 48.3 in October (below 50 indicates contraction and above indicates expansion). That is only slightly better than September when the index dropped to its lowest level since 2009 with a reading of 47.8. Does this change the fundamental outlook and call for a change in portfolio risk exposure?

To answer that question, we must put that data into context. Although the ISM manufacturing survey has been an important leading indicator of economic strength, it also has fallen into contraction territory several times during this expansion, in 2013 and again in 2016. Thus, making investment decisions on this data point in isolation could have been detrimental. In terms of impact on the overall U.S. economy, the manufacturing sector only directly makes up a little over 11% of U.S. GDP and just 8.5% of total employment today, as the U.S. has become increasingly service-oriented. The much larger service sector remains in expansion territory according to the ISM non-manufacturing index with a 54.7 reading in October, although that is off index highs of over 60 a year prior. Additionally, the impact of the current General Motors strike, which was recently resolved, likely weighed notably on the manufacturing index over the last few months.

That is not to say that this indicator should be ignored. It does show that slowing international economies are reducing demand for U.S. exports. It also demonstrates that the tight job market is putting pressure on labor costs and that the ongoing trade conflicts are damaging business sentiment, which hurts capital investment and job growth. And the manufacturing sector has a much larger impact when you consider the services involved in getting those goods to market, including transportation and retailing. With these other components, the final output of goods as a percentage of GDP is more significant at about 30%. This means that viewing one data point in isolation, even a valid indicator, creates its own noise that can cause harmful investor actions without sufficient knowledge of context.

The ISM manufacturing index in combination with other economic and market factors, confirms that economic growth is slowing, which we have written and discussed with clients for some time now. However, we still don't foresee slowing economic growth turning into recession in the near-term, as long as the U.S. consumer, who drives almost 70% of U.S. GDP growth, remains on stable footing. This outlook still holds true, supported by an unemployment rate of 3.6% that is just off its 50-year low, rising wages above the rate of inflation, and high consumer confidence. Items that may shift our outlook include continuing downside in manufacturing and any knock on effects that it may have for the service sector and employment, thus impacting the U.S. consumer.

In many cases, investors who make reactionary investment decisions based on a short-term outlook are turning their greatest advantage of

constant liquidity and daily market pricing into their greatest disadvantage. At First Merchants Private Wealth Advisors, we strive to help clients avoid this pitfall by tuning out the short-term noise and remaining focused on the long-term, fundamental picture. As always, we will continue to monitor the economic and market outlook and keep you apprised of our thoughts and actions. Please don't hesitate to contact us with questions.

David Pfeiffer, CFA



PERSONAL TRUST

Capital Gains 101



With the slow but steady upward progress of the stock market over the last decade many investors have significant capital gains in their portfolios. We frequently discuss with our clients the best strategies to manage the taxes that these gains can produce. While each person's situation is different, the following are some basic capital gain planning concepts that you may find

helpful.

One of the good things about capital gains and losses is that you can generally control when they occur. Buying and holding good quality stocks is not only a sound investment strategy but also a good way to defer paying capital gains taxes. As long as your investments are performing properly and your asset allocation is reasonable, deferring taxes is a good thing. You definitely want to avoid short term capital gains whenever possible as there is a significant difference between the 15% tax on long term gains and the 25% to 37% tax on short term gains.

Offsetting gains and losses is another area where planning can pay off. Taking gains and losses in the same tax year can help reduce the taxes you will pay, especially if you have a stock at a loss that is a candidate for sale for other investment or cash flow needs. Reviewing your portfolio prior to year-end to look for gains and losses that could be harvested to your advantage is always a worthwhile practice.

There are times however when not offsetting a planned loss with a gain can make sense. You can deduct up to \$3,000 in either short or long term losses against ordinary income if you have no corresponding gains to offset them against. Taking a small loss this year against ordinary income, taxable for most taxpayers at between 25% and 37%, is much better than using it to reduce a future gain that would only be taxable at 15% if it is long term.

A final strategy for those who have accrued large gains through the

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years is to establish an annual capital gains tax target. In managing your portfolio, setting a target amount of net capital gains allows you to gradually reduce what might otherwise become a significant tax burden and also allows you to more accurately calculate and pay any estimate taxes due without the risk of penalties.

Each person's individual tax situation is unique and there is no one size fits all solution. Working with a Wealth Advisor that can partner with you to create comprehensive solutions that will help you meet your personal goals is always the best plan. Please feel free to contact myself or any of our team at First Merchants Private Wealth Advisors for assistance.

David Forbes



PRIVATE BANKING

2019 Private Banking



Greetings, and welcome to October, likely my favorite month of the year. With refreshing weather as a tangible bonus, the month signifies so many things in the most beautiful way. A literal bridge of seasons and time – to look back on the months that have seemingly passed so quickly, to look forward to the upcoming Holiday time with family, and plan with anticipation for the future of 2020. As an avid sports fan, you simply cannot surpass October. It offers nearly every sport to choose from to rally around - or against - teams across county and state lines. The month has also come to signify awareness of many important topics and causes which has evolved into a welcomed and refreshing way of bringing people together.

October also signifies my anniversary month of joining First Merchants, arriving with a vision to bring Private Banking services to our clients. I have much gratitude to First Merchants in sharing in this vision and to the many clients who have both welcomed and benefitted from our services. Private Banking has an excellent team across the footprint of our organization who are available to both compliment and deepen our client relationships. For individuals who have not yet experienced our team and services, I welcome you to contact me directly. I look forward to hearing from you.

It is an exciting and fulfilling experience to bring a vision to life within an already excellent organization. Thank you and my best wishes to you

and your families for the upcoming Holiday Season.

Nancy Leming



RETIREMENT PLAN

IRS Final Rule Eases 401(k) Hardship Withdrawals - Requires Plan Amendment



Making hardship withdrawals from 401(k) and 403(b) retirement plans soon will be easier for plan participants, and so will starting to save again following a hardship withdrawal.

On September 23, 2019 the IRS published in the Federal Register a final rule that relaxes several existing restrictions on taking hardship distributions from defined contribution plans. Some of these changes are mandatory, requiring employers to make the changes by January 1, 2020, while others are optional.

Unlike loans, hardship withdrawals are not repaid to the plan with interest, so they permanently reduce the employee's account balance. Hardship withdrawals also are subject to income tax. Also, if participants are younger than age 59½, they are susceptible to an additional 10% early withdrawal tax penalty. For these reasons, withdrawals should be the last option for employees facing financial hardship.

The final rules implement the following key changes:

- Eliminate the 6-month contribution suspension requirement.

Starting January 1, 2020, plans will no longer be able to suspend employee contributions following a hardship distribution. Allowing participants to continue their contributions to the plan, and receive the employer match, helps them rebuild their savings sooner. This change is mandatory.

- Eliminate the need to take a plan loan before a hardship withdrawal.

The new rule removes the requirement that participants take a plan loan first, if available, before making a hardship withdrawal. This change is optional.

- Make earnings available for withdrawal.

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Effective in 2020, earnings on 401(k) contributions can be distributed for hardships, as can profit-sharing and stock-bonus contributions. Previously, employees could only withdraw contributions, not earnings. This change is mandatory. However, a plan may limit the type of contributions available for hardship distributions and may exclude earnings on those contributions from hardship distribution eligibility.

Earnings on 403(b) contributions will remain ineligible for hardship withdrawals because of a statutory prohibition that Congress did not amend.

- Eliminate need to provide documentation of hardship need.

Under the rules currently in place, plan administrators must take into account “all relevant facts and circumstances” to determine if a hardship withdrawal is necessary. The new rule only requires that a distribution not exceed what an employee needs and that employees certify that they lack enough cash to meet their financial needs. Plan administrators can rely on that certification unless they have knowledge to the contrary. This change is mandatory.

- Provide disaster relief.

To take a hardship withdrawal, employees currently must show an immediate and heavy financial need that involves one or more of the following:

- Purchase of a primary residence.
- Expenses to repair damage or to make improvements to a primary residence that would qualify for a casualty deduction.
- Preventing eviction or foreclosure from a primary residence.
- Post-secondary education expenses for the upcoming 12 months for participants, spouses and children.
- Funeral expenses.
- Medical expenses not covered by insurance.

Among other changes, the final rule adds a seventh safe harbor category for expenses resulting from a federally declared disaster in an area designated by the Federal Emergency Management Agency (FEMA). This change is mandatory.

- Plan Amendments Are Required

The new laws take affect January 1, 2020. All plan documents must be amended to incorporate the law change. The deadline for amending individually designed plans is the end of their 2021 calendar year. The deadline for prototype plan documents is the filing date of the company's 2020 tax return (including extensions).

The regulations note that the amendment deadline for 403(b) plans is March 30, 2020.

However, the Treasury and IRS are considering extending that deadline for the adoption of amendments to conform to the final hardship regulations.

If you would like to speak with one of our Retirement Plan Advisors, please do not hesitate to contact us.

Best Regards,

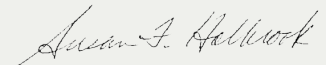
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