KOVITZ INVESTMENT GROUP
Intrinsic Values®

Market Insights
Fall 2018

Bifurcation: (noun) the division of something into two branches or parts.

The word of the day is bifurcation. As things currently stand, many aspects of the investment and economic landscape have been separated into distinct "haves" and "have-nots." The two most apparent of these distinctions are between the economic growth in the United States and the rest of the world and between U.S. growth stocks and U.S. value stocks.

In the U.S., the economy appears to be firing on all cylinders. For the second quarter of this year, U.S. GDP posted an annualized 4.2% increase over the first quarter, which was a level achieved only four other times in the ten or so years since the 2008 Financial Crisis. Expectations are for another strong quarter in the third quarter. Unemployment has continued its decade-long decline and dipped to 3.7% as of the most recent reading, which is a level not seen since the 1960s. Meanwhile, consumer confidence[1] is clocking in at levels not seen since right before the Internet bubble popped in early 2000.

On the other side of the pond, the Eurozone is barely eking out positive GDP growth and there is further consternation over the form and effect of the quickly approaching Brexit. China's growth rates, while still north of 6%, are slowing amid government actions to slow the growth of consumer credit and the real and psychological effects of the protectionist tit-for-tat with the U.S.

Perhaps most telling is the difference in stock market returns inside and outside of the U.S. Year-to-date, U.S. equity markets[2] have returned 10.6%, while international developed markets[3] and emerging markets[4] have *lost* 1.4% and 7.7%, respectively. While there are few signs that the trajectory for either location will change in the near-term – there never are beforehand – this does not seem to be a sustainable long-term state of affairs for the global economy.

The divergence between U.S. Growth and U.S. Value has been discussed on these pages before, but both the persistence and magnitude of this phenomenon continue to surprise us. Year-to-date, U.S. Growth[5] has returned 17%, while U.S. Value[6] has returned only 4%. Even more striking is that the outperformance of growth has mainly come from what was already the most richly valued corner of

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1 *University of Michigan Consumer Sentiment Index*
2 *As represented by the S&P 500 Index*
3 *As represented by the MSCI EAFE Index*
4 *As represented by the MSCI Emerging Markets Index*
5 *As represented by the Russell 1000 Growth Index*
6 *As represented by the Russell 1000 Value Index*

the market at the beginning of the year. The Information Technology sector[7], plus Amazon and Netflix, which made up about a quarter of the overall market at the beginning of the year, returned nearly 27%, while the other three-quarters of the market logged a sub-5% return. While the latter return compares favorably to the poor returns in international markets quoted above, it lags the overall U.S. market by nearly 6%. Going back to the beginning of 2017, this same segment of the market returned a whopping 78% against a 22% return for the other three-quarters of the market and a 35% return for the overall market.

Rarely in history has the most successful investing strategy been to buy the most expensive stocks and sell the cheapest, and such a strategy has never worked over meaningfully long periods of time. There is little reason to believe this time will be any different.

Moving over to the bond markets, interest rates continued their slow and steady rise during the quarter. As was widely expected, the Federal Reserve raised the fed funds target rate another quarter of a percent in late September. This contributed to an increase in the yield on longer-dated bonds, which pushed the yield on 10-year Treasuries up to 3.05% at quarter-end from 2.85% at the beginning of July. The sell-off in bonds (and resulting increase in yields) has continued into the early days of the current quarter as the yield on the 10-year stands at 3.15% at the time of this writing. This marks a more than 30% increase since the beginning of the year when the 10-year changed hands at 2.40%.

The speed of the general rise in interest rates has led many fixed income benchmarks to turn negative on the year. The broadest indicator of the investment grade bond market, the Bloomberg Barclays Aggregate Bond Index, has posted a 1.6% decline in value, including income, thus far into the year. Conversely, we are satisfied with our clients' bond portfolios, considering their shorter average maturity in this low interest rate environment, and, for some clients, the contribution of increasing coupon payments on floating-rate non-agency mortgage-backed securities. Please see the accompanying Fixed Income commentary for additional thoughts on the state of the bond market.

Across asset classes, our client portfolios are currently positioned as follows:

1. Equities: Our typical client portfolio is close to fully invested in a collection of companies that we believe are priced, in aggregate, at levels that offer a high probability of upside relative to the overall market. Earnings and revenues have by and large met our expectations and, in many cases, portfolio companies that we already considered significantly undervalued became even cheaper. Please see the accompanying Core Equity Commentary for additional details.
2. Fixed Income: Much the same as always, client portfolios remain focused on capital preservation. Our bond laddering strategy that balances the impact of rising interest rates between stability of principal and opportunity for reinvestment at higher yields has weathered the current environment well. Additionally, the increase in short-term rates continues to benefit clients who hold non-agency mortgage-backed securities backed by

[7] *The Global Industry Classification System (GICS) was reorganized as of 9/28/18. This reference refers to what is now the former Information Technology sector.*

adjustable-rate loans. Please see the accompanying Fixed Income Commentary for additional discussion of the interest rate environment and how Kovitz is responding to it.

3. Hedged Equity: Kovitz' hedged equity strategy remains positioned defensively with significant downside hedges in place – much as it has been for the past several years. We are satisfied with the performance of the strategy's downside and upside hedges, considering the increased volatility in the first half of the year.

Best Regards,

Kovitz Investment Group

Kovitz Investment Group

Core Equity Commentary
Fall 2018

Market and Performance Summary

Despite reverberations over trade deals, emerging market weakness, and D.C. folly throughout the latest quarter, U.S. equity markets[8] posted the highest quarterly return since the fourth quarter of 2013. The Kovitz Investment Group (KIG) Equity Composite[9] (the "Composite") returned 5.3% in the 3-month period ended September 30, 2018 vs. 7.7% for the S&P 500 (the "S&P"). Year-to-date, the Composite has increased 3.0% vs. a 10.6% increase for the S&P. Since inception (January 1, 1997), the annualized compound rate of return of the Composite is 10.6%. The corresponding annualized return of the S&P is 8.5%.

In terms of stock prices, it has been a somewhat choppy year for our clients' holdings. When it comes to growth in intrinsic value, however, it is a much different story. We have invested client assets in exceptionally strong businesses with sturdy moats – many of them widening. Most generate cash flow well above their capital needs allowing for generous cash returns to shareholders in the form of dividends and stock repurchases. Eventually, the prices of the businesses in which our clients own a partial interest will catch up with the growth in their value and the improvement in long-term prospects we have observed across the Composite portfolio as we continually monitor and update our company-level assumptions.

As the share of investment assets held in passive investment vehicles (index funds/ETFs) increases, we believe engaging in forward-looking, qualitative, and quantitative analysis of business models, balance sheets, earnings, company investment cycles, and management capital allocation policies—in essence, the margin of safety assessment of upside potential and downside risks in individual stocks—becomes more valuable. Passive investors, on the other hand, primarily look to index-level movements to drive market returns, while fundamentals and valuation are merely an afterthought. Low interest rates have set the cost of capital so low that it has made it difficult for active investors to beat the indices and for value investors to outperform growth. Increased interest rates and credit spreads will likely change this dynamic. In that context, populating portfolios with highly vetted, individual stocks selected on the basis of forward-looking fundamental analysis drives the potential for strong, risk-adjusted returns across changing markets and unpredictable economic cycles.

The chart on the following page summarizes annualized performance over various standard time periods ending September 30, 2018 and cumulative performance results from January 1, 1997 through September 30, 2018 for the Composite.

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8 *As represented by the S&P 500*

9 *The returns for the equity portion of your individual account may differ from the Composite due to variations in account holdings, cash position, and other client-specific circumstances.*

KIG Composite[10]

Annualized and Cumulative Equity Performance (Net of Fees)

	Average Annual Total Returns						Cumulative
For Period Ending 9/30/18	**1 Year**	**3 Year**	**5 Year**	**10 Year**	**15 Year**	**Since Inception 1/1/97**	**Since Inception 1/1/97**
KIG Composite	8.5%	13.8%	9.3%	10.6%	9.0%	10.6%	796.6%

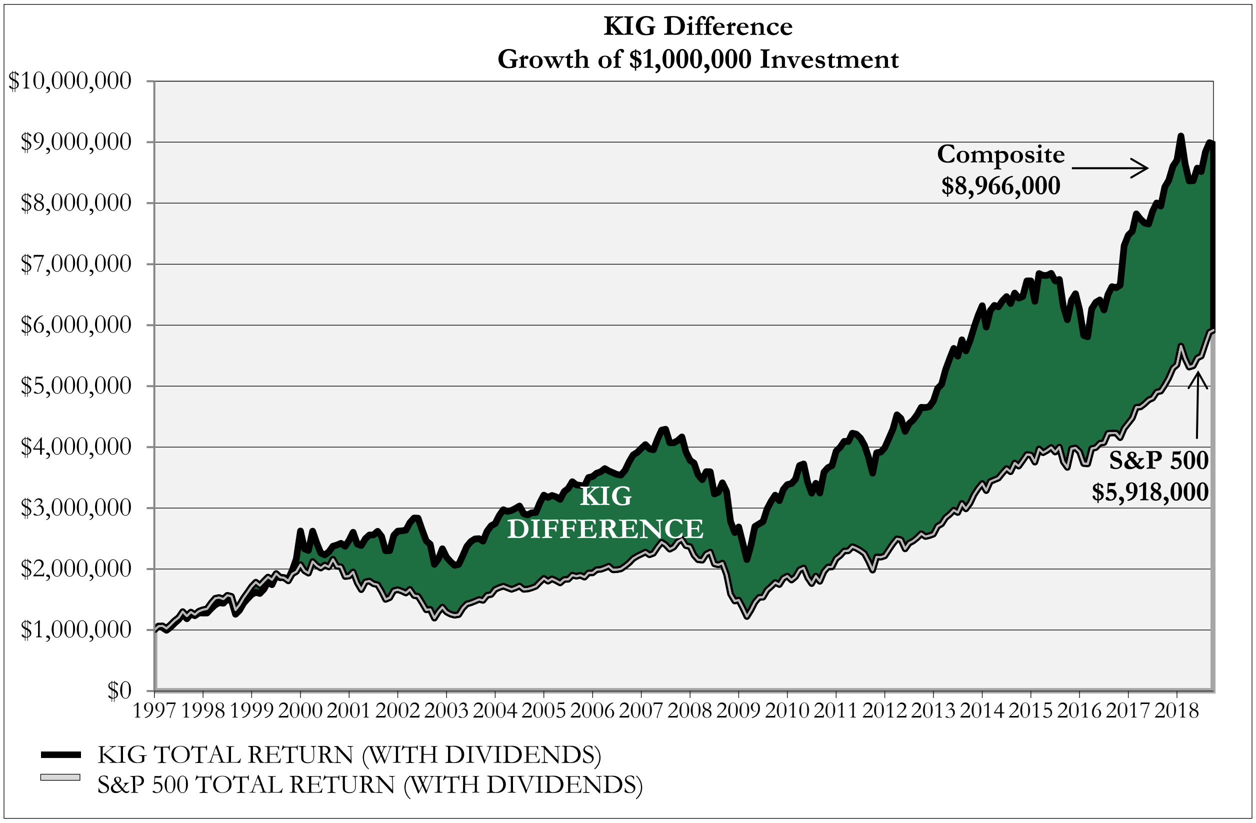
The table below lists the results for the same time periods as above for the S&P 500 and many of the other benchmarks widely held as investments via a typical diversified "style-box" approach.

Other Market Indices

Annualized and Cumulative Equity Performance

	Average Annual Total Returns						Cumulative
For Period Ending 9/30/18	**1 Year**	**3 Year**	**5 Year**	**10 Year**	**15 Year**	**Since Inception 1/1/97**	**Since Inception 1/1/97**
S&P 500	17.9%	17.3%	13.9%	12.0%	9.7%	8.5%	491.8%
Large Cap Value (Russell 1000 Value)	9.5%	13.6%	10.7%	9.8%	8.9%	8.5%	485.0%
Small Cap Equity (Russell 2000)	15.2%	17.1%	11.1%	11.1%	10.1%	8.8%	523.6%
International-Developed (MSCI- EAFE)	2.7%	9.2%	4.4%	5.4%	6.8%	4.8%	179.0%
International- Emerging (MSCI -EEM)	-0.8%	12.4%	3.6%	5.4%	9.7%	5.9%	248.0%
Gold	-7.7%	1.5%	-2.7%	2.4%	7.0%	5.2%	200.5%
Commodities (CRB)	8.4%	1.1%	-6.8%	-5.2%	0.5%	2.1%	58.4%

On the following page is a graph of the KIG Composite's cumulative return since inception relative to the cumulative return of the S&P 500 over the same time period. The shaded area represents the Composite's excess return over the benchmark.



Portfolio Activity

Today's combination of a strong U.S. economy, low interest rates, and growing cash flows due to tax reform leaves bargain priced stocks a rarity in the market. We have identified many qualified candidates, but prices would need to be lower for us to react in any significant way. We are content to be patient and wait for lower valuations. We were, however, able to find two new investments during the quarter that warranted inclusion in your portfolios.

New Positions

After trading at a significant valuation premium to the rest of the market for pretty much its entire existence as a public company, Starbucks' (SBUX) shares fell to a valuation level we feel provides us with a margin of safety against losing capital over the long term. The catalyst for the move lower was driven by a steep drop-off in same-store-sales in China and a decline in afternoon traffic in the U.S. Even though Starbucks may be close to saturation in the U.S. market, forays outside the U.S. have been well-received and provide ample runway for the future. We believe the recent poor same-store-sales report from China will ultimately prove to be a blip over the next decade. Coffee consumption in China has been growing exponentially as it wins converts from the traditionally tea-based culture. We expect Starbucks to take at least their fair share of this burgeoning market as they grow their footprint and execute on upgrading the operations at previously licensed stores that were part of a joint venture covering most of eastern China that Starbucks recently acquired. Trading at roughly a market-like multiple of earnings when we initiated the position, we welcomed the opportunity to take a position in a company with an incredibly strong consumer brand with a loyal customer base that we expect to grow earnings at an above-market rate for the foreseeable future.

Our next new purchase, **Mohawk Industries (MHK)**, manufactures and markets its own lines of flooring products, including hardwood/laminate, carpeting, and ceramic and stone tile, for residential and commercial use. Mohawk and Berkshire Hathaway-owned Shaw are the dominant domestic players in a fragmented flooring market. After declining around 80% peak-to-trough as a result of the housing bust a decade ago, the company survived, restructured its operations, and has thrived on the back of the recovery in housing. However, the shares have been hit this year due to cautious guidance surrounding increasing costs for oil-based inputs and some unexpected softness in existing home sales. At purchase, Mohawk shares were trading towards the low end of its historical earnings multiple range. This valuation implies that earnings will either decline and then level off or will barely grow from here. Neither of those scenarios seem plausible to us over the long run. Mohawk has an expansive distribution network to market its products, and efficient and improving operations that have consistently grown margins over the last decade. Importantly, Mohawk and Shaw have consistently acted rationally in their duopoly. Upgrading outdated flooring also continues to be one of the highest ROI home improvement projects in which a homeowner can engage. With a long runway for steady demand and continued commitment to finding efficiencies in its operations, we believe Mohawk should trade at a valuation at least in line with the market regardless of any short-term, transitory issues that may be facing the company.

Eliminated Positions

We exited our position in **General Electric (GE)**. Our original thesis was that GE was a leader in all of the industries it participated in, 2017 was a "kitchen sink" year, 2018 earnings per share (EPS)/free cash flow (FCF) would be approximately $1 per share, and extensive restructuring and cost-cutting and a recovery in their power business would allow the company to grow at an above-market rate off that base. As events unfolded in 2018, many of these assumptions proved faulty. We did not expect further costly reserve increases coming out of the remains of GE Capital and that the boom in construction of large gas turbines over the prior five years was more the anomaly than the significant decrease in demand recorded in 2017 and 2018. Further, the company embarked on extensive asset sales. These sales may prove to stabilize the company and ease the burden of debt and pension obligations, but none of the sales were completed at levels that we felt weren't already incorporated in a reasonable sum-of-the-parts valuation of GE as a whole. As a result, we decided to redeploy the capital into new positions we felt offered better probability-adjusted returns going forward.

Gaining an Edge

Many investors in today's market still believe that gaining an edge comes primarily from gathering information. While it is extremely important to accumulate as much information as possible on any potential investment idea, that isn't what is likely going to give you an edge. Each piece of information that you think is proprietary is, with very few exceptions, likely already embedded in market prices. Gone are the days when Warren Buffett, just paging through his trusty Moody's Manual, could find profitable, well-managed companies selling at rock bottom prices. Some of the stocks he found were almost certain winners as he was doing work that others weren't doing. Technology, a significantly larger and more sophisticated financial media, and the growth in the ranks of professional investors and analysts have leveled the playing field when it comes to gaining information. Almost always, this type of low-hanging fruit has been arbitraged away because of the breadth of information now available and the ease with which it can be accessed.

What hasn't become commoditized is the ability to gain an edge by understanding biases and acting in a way that gives you a behavioral advantage. We believe our edge is gained through thinking differently than the crowd, through thinking on a different (longer) time horizon than the crowd and taking advantage of stock price volatility. Not only have these potential advantages not gone away, but they've likely strengthened as attention spans, patience, and the time that investors are willing to wait for positive results have all gotten much shorter. This pervasive short-term thinking creates a gap between price and value as oftentimes short-term investors are selling stock because they think the next few quarters will look bad, even if they believe the next five years will look good.

Investors who focus on trying to gain an information edge are typically focused on short-term information. For instance, we have been approached by numerous "research" organizations looking to sell satellite imagery of farms in order to predict crop yields in the upcoming harvest, or data on the changing number of cars in parking lots at shopping malls and strip malls in order to predict the direction of sales trends for retailers. This type of information might be useful in predicting whether or not a company will "beat expectations" in the next quarter, but it isn't all that much of an advantage in determining the long-term value of the enterprise or its longer-term competitive position. It brings to mind a quote from sociologist William Bruce Cameron who said, "Not everything that can be counted counts, and not everything that counts can be counted." Computers can do an unmatched job dealing with the things that can be counted: things that are quantitative and objective. But many other things – qualitative, subjective things – count for a great deal more, and we doubt computers can do what the very best investors do.

We believe this creates an advantage for investors who choose to focus on longer time horizons and company fundamentals. Results may not come quickly, but, over time, gaps between market prices and our estimates of intrinsic value should close.

Bank of America (BAC) is an example of how significant gaps between price and value can exist. Going back to the end of 2015, Bank of America shares traded around $17. Just over a month later in early February 2016, the stock traded down to around $11 as fears over the bank's energy portfolio and a possible economic slowdown wiped away almost $60 billion in market value. Today, the shares trade around $30, or almost triple the 2016 lows. This roller coaster ride in market capitalization is much more pronounced than the change in its intrinsic value. How does a company as widely followed as Bank of America experience such dramatic changes in valuation? Investors sold it off in the early part of 2016 because of a potential hit to its near-term earnings outlook. In our opinion, however, what was happening at the time was unlikely to impact the long-term earning power of the franchise. Those who were able deal with the possible negative short-term results (and a potentially lower stock price) and were willing to look out three to five years saw a bank with sticky, low-cost deposits, a well-capitalized balance sheet, an improving cost structure, and durable earnings power.

Thinking long term is a commonly talked-about potential advantage in our industry, but it is one that is much less often borne out by the actions of investors. John Maynard Keynes once wrote, "Worldly wisdom teaches that it is better for [one's] reputation to fail conventionally than to succeed unconventionally." Our practices may be somewhat unconventional, but we believe they provide us with one of the last true edges available in the markets.

Fixed Income Commentary
Fall 2018

Interest rates continued their upward trajectory this quarter. The Federal Reserve ("Fed") raised the Fed Funds rate for the third time this year to the 2% to 2.25% range and projects one more rate hike this year. Fed actions are one of the greatest drivers of short-term interest rates, and Treasury Bills reacted accordingly. The yield on one-year Treasuries increased to 2.6% from 2.3% at the start of the quarter. While a 0.3% rate movement might not seem astounding, it's important to remember one-year Treasuries yielded only 0.3% less than three years ago. Longer-term Treasury bonds are influenced by short-term rates, and yields on those climbed higher this quarter as well. Ten-year Treasury bond yields rose 0.2% to 3.1%.

No one knows when the Fed will stop hiking rates, but the Federal Open Market Committee gave a new clue in their most recent policy statement by removing the word "accommodative" to describe their approach. Since the Financial Crisis, the Fed has been holding rates artificially low in attempts to fuel the economy – which they term as accommodative policy. Thus, the Fed believes we're in a neutral rate environment where current rates neither help nor hamper economic and inflationary growth. The Fed will need to start defining future rate increases as restrictive soon, which might be a tall task. The Fed's preferred measure of inflation, Consumption Expenditures Price Index, just recently ticked above their 2% target for the first time in six years. A hiccup in inflation growth, which is all-too-common, wouldn't leave the Fed much ground to stand on.

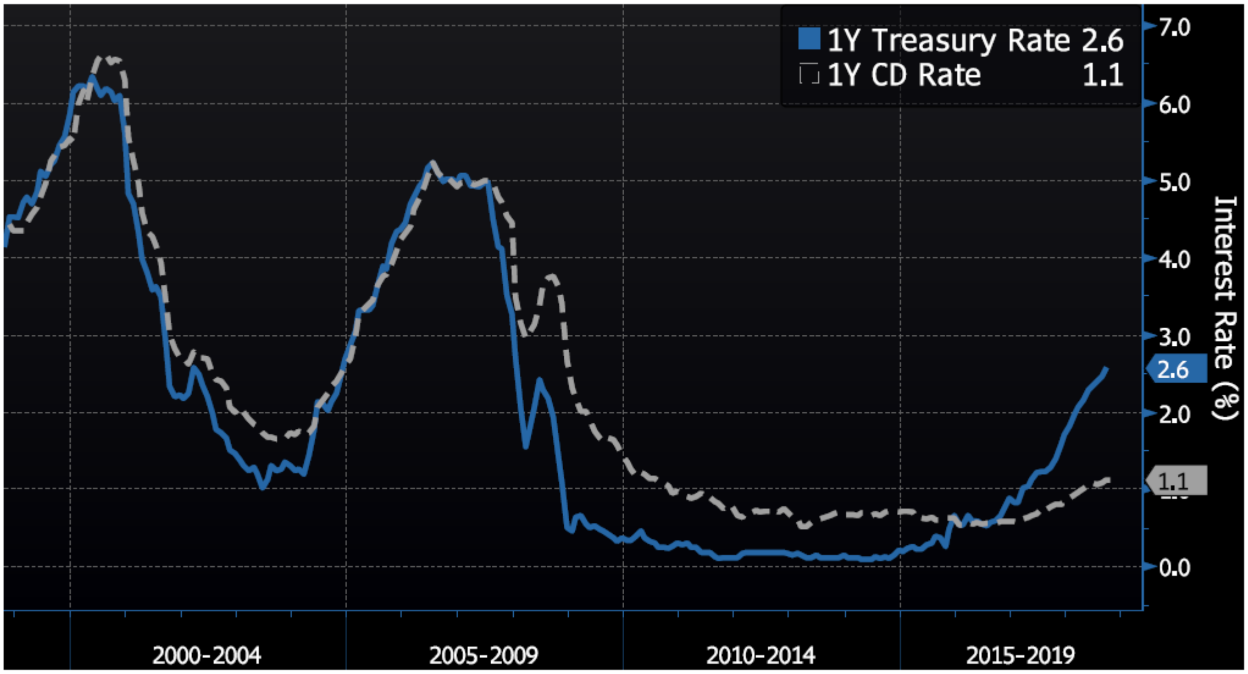
Rising rates tend to be a short-term negative for long-term bond investors. As rates rise, bond prices fall. When prices decline faster than interest income is realized, bond returns can be negative. As such, the widely quoted U.S. Aggregate Bond Index[11] is down roughly 2% year-to-date. In an environment of rising rates, our goal is primarily two-fold – to posture our clients' portfolios with less interest rate risk than the aggregate market and to focus on municipal and corporate credits which generate more interest income than Treasuries. While each clients' fixed income holdings are unique, we are satisfied with our clients' bond performance in general. Longer-term, rising rates mean upcoming bond maturities can be reinvested into higher rates – increasing the earnings power of a bond portfolio. We believe this patient approach smooths risk in a bond market with many question marks.

Banks Have Little Interest in Paying Interest

The U.S. banking system has historically offered fair compensation to investors looking for a safe and secure means to park short-term savings. Recently, though, this has not so much been the case. While interest rates are increasing across the rest of the fixed income market, deposit rates at the U.S.'s largest banks are barely budging. As illustrated by the graph on the following page, the rate on Certificates of Deposits ("CDs") have mostly matched or beat the rate on one-year Treasury bonds over the last twenty years, but over the last couple years that relationship has flipped, meaningfully. One-year Treasury rates now surpass the average national CD rate[12] by 1.5%.

[11] *The Bloomberg Barclays U.S. Aggregate Bond Index is a benchmark that broadly measures the U.S. investment grade taxable market.*
[12] *The Bankrate.com U.S. 1 Year CD National Avg Index averages the rates for new CDs offered by major U.S. banks.*

One-Year Rates – Treasuries vs. CDs



Why does a large discrepancy exist? Based solely on the investment merits, it shouldn't. CDs and Treasuries are both very high-quality investments. Treasuries are issued and backed directly by the U.S. government which is unanimously rated AAA, the highest possible credit rating. CDs are guaranteed by the Federal Deposit Insurance Corporation ("FDIC"), up to $250,000 per bank. Since the FDIC is an agency of the U.S. government, CDs are effectively backed by the same credit as Treasuries. Their interest rate risk and liquidity risk differ, slightly, but not enough to explain the yield discrepancy. Treasuries are traded in the secondary market, so prices fluctuate based on rate movements. If forced to sell a Treasury before maturity, the cost is nominal since they're the most actively traded bonds in the market. On the other hand, CDs are not traded in the secondary market, thus they don't have prices that fluctuate based on interest rates. If the owner of a CD needs to redeem it before maturity, banks will charge early withdrawal penalties, which would be equivalent to selling the CD at a discount to its market value.

Peculiarly, the reason for the large discrepancy in yields has more to do with the banking business model than these securities' investment merits. In simple terms, banks make money by borrowing from depositors at a low cost and lending out the deposits for longer periods of time at higher interest rates. The difference between a bank's borrowing costs and lending income is their profit margin. It would be easy to say banks aren't raising interest rates for savers to bolster their bottom line, but it's more simply because they don't need to. Loan-to-deposit ratios for U.S. commercial banks have declined significantly since the Financial Crisis[13]. In 2007, loan-to-deposit ratios peaked at 97% – meaning banks were loaning out $97 for every $100 in deposits – but the most recent loan-to-deposit ratio was 77%. Due to their relatively inflated deposit levels, banks have little incentive to raise rates on savings accounts and CDs to solicit more of them.

[13] *Sourced from the Federal Reserve.*

Eventually, enough depositors will catch on, move to greener pastures, and force banks into raising their rates to bring cash back in the door. Investors need to ensure they haven't fallen asleep at the wheel in the meantime. Kovitz offers an array of fixed income solutions for clients. For those with shorter-term liquidity concerns, Treasury bonds can make sense. For those with longer investment "runways" and higher risk tolerance, high-quality, short-term corporate bonds, or tax-exempt municipal bonds may be appropriate. We recommend clients work with their Kovitz Advisor to determine the best solution for their needs.

Financial Planning Corner

Fall 2018

"Bunching" Charitable Contributions

The tax reform bill (Tax Cuts & Jobs Act, or "TCJA") passed in late 2017 had far-reaching consequences that impact taxpayers in a variety of ways, some to the taxpayers' benefit and others to their detriment. Although it was presumably unintentional, a potential result of the TCJA will be a limitation on the ability of some taxpayers to realize a tax benefit for their usual charitable gifting. However, we present a potential solution to this problem.

The potential limitation is due to the combination of the standard deduction roughly doubling to $24,000 from $12,700 (for joint filers, to $10,000 from $6,350 for single filers) and the imposition of a $10,000 cap on the amount of state and local income and property taxes that can be deducted. Broadly speaking, these new parameters mean roughly two-thirds of households who have historically itemized will now claim the standard deduction in 2018 and future years. This also means a certain subset of taxpayers will find the tax benefit that rewards their generosity to be fully negated; in particular, charitably inclined high net worth households whose members are in or nearing retirement and whose home mortgage is nearly or fully paid off (a description that resembles many Kovitz clients).

For example, one such household's income tax deductions for 2018 may resemble the following:

Expense	**Amount**	**Allowable Deductions**
State Income Tax	$10,000	$10,000
Real Estate Tax	$10,000	
Mortgage Interest	$5,000	$5,000
Charitable Contributions	$5,000	$5,000
Total	**$30,000**	**$20,000**
Larger of Itemized or Standard Ded.		**$24,000**

Under the TCJA that takes effect in 2018, this former "itemizer" would claim the now-higher standard deduction since the value of the standard deduction ($24,000) exceeds the sum of their allowable itemized deductions ($20,000). In other words, in 2018, the standard deduction would be taken regardless of whether or not there were any charitable deductions during the year.

This is unfortunate, but some relatively simple advance planning can salvage this lost opportunity for tax savings. In many cases, a taxpayer can realize a tax benefit by front-loading (or "bunching") several years' worth of charitable deductions into a single year, taking a large deduction in the year of the gift, and then claiming the standard deduction in ensuing years. In the end, the taxpayer's preferred charitable organizations receive the same level of support, and the taxpayer receives up-front tax savings.

Continuing with the previous example, the taxpayer could bunch 5 years' worth of typical annual charitable contributions in 2018, which would look as follows:

Expense	2018 Deductions	2019 Deductions	2020 Deductions	2021 Deductions	2022 Deductions
State Inc. Tax Real Estate Tax	$10,000	$10,000	$10,000	$10,000	$10,000
Mortgage Interest	$5,000	$5,000	$5,000	$5,000	$5,000
Charitable Contributions	$25,000	$0	$0	$0	$0
Total	**$40,000**	**$15,000**	**$15,000**	**$15,000**	**$15,000**
Larger of Itemized or Standard Ded.	**$40,000**	**$24,000**	**$24,000**	**$24,000**	**$24,000**

Timing the donations in this manner results in an additional $16,000 worth of deductions over the 5-year period in this hypothetical scenario, which equates to several thousand dollars in tax savings that are entirely recognized in that first year.

While this approach works well in theory, there are real-world implications that might make it difficult to implement. What if you don't have cash on hand to front-load the contributions? How do you explain to your favorite charity that they won't be receiving another contribution from you for another five years? Fortunately, there are practical solutions:

1. You can work with your Kovitz advisor to make the donation using highly appreciated stock (in-lieu-of cash) and realize two-fold benefits. First, your deduction is equal to the market value of the stock at the time of donation, subject to certain limitations. Second, you permanently avoid realizing the stock's embedded capital gains and any future tax liability owed on those gains.

2. If you'd prefer to make your usual charitable gifts each year instead of all-at-once, a Donor Advised Fund ("DAF") may offer the most efficient solution. You'll receive a deduction in the year of a completed gift to the DAF, while maintaining the ability to spread out your large charitable donation over many recipients and across several years. For more information on Donor Advised Funds, please refer to our Winter 2017 newsletter, which provides more color around this charitable vehicle.

To discuss how this strategy may apply to your personal situation, please reach out to your Kovitz advisor.

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