RAA THE COMPASS

teams | risk management | dafs | investments | APRIL 2019

INTRODUCING RAA TEAMS

By Brad Bridgewater, Chief Relationship Officer

Did you know that in the United States, there are over 300,000 individual advisors?[1] We would love to say that most of these advisors aren't very good at their jobs, but that's simply not the case. For doctors, lawyers, and other professionals seeking financial advice, many of these advisors can provide excellent investment management and financial planning services.

However, we understand that you aren't just another professional seeking financial advice. You are an airline pilot with a unique set of benefits, risks, and timelines associated with your career. Our firm is different because our entire approach to financial services is built around the needs, concerns, and desires of the airline community.

We have a team in place who understands your airline's specific challenges, health and retirement benefits, and other unique factors, to help you create a plan that is custom-tailored to fit your life.

Throughout our organization, pilots and former airline employees make up our ranks, in addition to Certified Financial Planners®, Chartered Retirement Planning Counselors®, estate planning experts, tax planners, insurance specialists, and a highly experienced investments team.

A TEAM OF EXPERTS FOCUSED ON YOUR GOALS

Early last year, we took this focus a step further and created airline-specific teams. Each team of professionals is specialized in knowing the nuances of your airline, has an expert-level knowledge of your airline's benefits, and understands the unique needs and dynamics of your community.

Whether you are just entering the airline industry or are a seasoned veteran nearing retirement, RAA is here to support your financial journey from takeoff to touchdown.

This process starts with your Relationship Manager who's supported by a team of investment managers, estate planners, tax specialists, and insurance specialists who are here to guide you, your family, and your legacy.

You deserve a specialized team of experts who understand the specifics of your airline, where you are now, and your goals for the future, and who can build a plan with those factors at its core. Between our financial expertise and our airline-industry DNA, you'll have a hard time finding a firm that knows more about what matters to you than RAA.

If you would like to know more about the new team structure, we'd love to discuss it further with you. Please visit **RAA.com/advisorcall** to request a call.

HOW DOES YOUR ADVISOR COMPARE?

The well-being of your family and the health of your finances are too important to entrust to just anyone. Are you sure that you are receiving comprehensive financial planning guidance from your current advisor? Use our Advisor Evaluation Checklist on the next page to compare services and benefits you could receive as a client of RAA.

1 Information obtained from Financial Planning's article titled "Kitces: Why the market for advisors has never been better". Financial Planning is an independent third party and is not associated with RAA.

ADVISOR EVALUATION CHECKLIST

	RAA	Your Advisor
Ongoing Features and Services:		
401(k) Professional Investment Management and/or Retirement Wealth Management	✓	
Over 50 Portfolios Available Based on Individual Needs	✓	
No Transaction Fees	✓	
Airline & Military Benefits Guidance	✓	
Estate Planning Guidance[1]	✓	
Tax Return Preparation and Planning[2]	✓	
Survivor Assistance	✓	
Insurance Guidance	✓	
Risk Tolerance Analysis	✓	
Client & Family Advisory Councils	✓	
Family Fee Advantage Program	✓	
New Hire Features and Services:		
New Contract Guidance	✓	
Benefit Selection Guidance	✓	
Mid-Career Features and Services:		
College Planning	✓	
Divorce Planning	✓	
Multi-Generational Planning	✓	
Right Seat to Left Seat Guidance	✓	
PBGC Advice	✓	
Distribution Planning	✓	
HSA and/or RHA VEBA Recommendations	✓	
Retirement Features and Services:		
Social Security Guidance	✓	
Medicare Guidance	✓	
Long-Term Care Consulting	✓	
Required Minimum Distributions	✓	

1 RAA is not a law firm and does not give legal advice. 2 RAA is not a CPA firm, meaning we cannot offer non-related tax services such as bookkeeping services, business financial statement preparation, nor auditing services.

RAA RISK MANAGEMENT

A new program to help you better manage the unknowns in life

By Sally Jilek, CLTC®, Insurance Specialist

What makes up a comprehensive financial plan? If you ask people this question, you will likely hear things like goal setting, asset allocation, estate planning, and cash flow management. While these are all correct, insurance coverage is often left out of the conversation.

As you know, the unexpected happens. It's impossible to avoid the ups and downs of life, but there are strategies to help you better manage the unknowns. The right insurance coverage can act as a safety net during times when you need it most. We want to elevate the discussion around insurance coverage because it is key to the success of your goals and is an essential component of a well-rounded financial plan. With that in mind, we are happy to introduce RAA Risk Management.

Through RAA Risk Management, we can offer quotes for three types of insurance: life insurance, long-term care insurance, and fixed annuities. As RAA's Insurance Specialist, I have served in the financial services industry for over 25 years and can work with your Relationship Manager to identify and assist you with your insurance coverage needs.

LIFE INSURANCE

While life insurance can never replace you, it can help replace the income that your family is planning on for the next 10, 20, or 30 years. For that reason, having basic life insurance coverage is a great way to ensure the financial plan you have today is built to last - even if the unthinkable happens.

LONG-TERM CARE INSURANCE (LTCI)

In 2018, the median annual cost of assisted living care was $48,000. When looking at nursing home care, it was $89,297.[1] Considering the sky-high cost of end-of-life care and the cost of at-home care, having LTCI can be a great way to protect the retirement income, assets, and inheritance you've worked hard to build. More importantly, however, LTCI protects the emotional, physical, and financial wellbeing of your family and those who would be your caregivers. While RAA does not believe LTCI is appropriate for everyone, we do believe having a plan around how long-term care costs would be funded is critical to the overall success of a financial plan.

FIXED ANNUITIES

While not always thought of as insurance, annuities are regulated just like other forms of insurance. You can think of fixed annuities much like a bank CD, with one additional, key benefit.

Like a bank CD, in exchange for a lump sum of money, a fixed annuity pays you a locked-in interest rate over the lifetime of the contract. In most cases, contracts are one, three, or five years. The added benefit to fixed annuities is that you can "annuitize" your fixed annuity, turning it into a stream of income that is guaranteed for your lifetime. Because of this, fixed annuities can be used as a substitute for a pension or for additional income on top of Social Security. Lastly, annuities are tax-deferred, so

1 Information obtained from Genworth Financial report titled "Cost of Long Term Care 2018". Genworth Financial is an independent third party and is not associated with RAA.

growth within your annuity can accumulate more rapidly. While annuities may be a fit for very specific situations, there are many pros and cons so be sure to consult with your Relationship Manager to determine the best financial vehicles for your unique situation.

WHAT'S RIGHT FOR YOU?

For many families, all three of these coverages will be the right fit. For others, none of these items are needed. The best way to know where you stand is to request a custom analysis from your Relationship Manager. As you begin thinking about the needs of your family, here are a few questions to consider:

- How much of your family's annual income do you provide?
- Do you have a mortgage, car payments, or student loans?
- Do you have children or grandchildren attending private schools? Are they planning to attend college?
- How will the rising cost of inflation affect end-of-life expenses?
- Do you have a pension or another retirement income stream?
- Do you have health care coverage, and will you require long-term care in the future?

Ensure a successful financial future for your loved ones with the right insurance coverage. The team at RAA is here to help you plan for the future, so you have more time to spend in the present with those you love. If you have any questions about RAA Risk Management or if you would like to schedule an insurance consultation, please contact your Relationship Manager to get the process started.

THE BENEFITS OF GIVING TO CHARITY THROUGH DONOR-ADVISED FUNDS (DAFs)

By Gary Krasnov, AIF®, CLTC®, Chief Compliance Officer

There are few things that feel better than donating to a cause you care passionately about and knowing that your gift has been meaningful and impactful. While we know that you give altruistically, there are benefits of charitable giving through Donor-Advised Funds of which you should be aware.

A Donor-Advised Fund (DAF) is a tax preference investment account specifically earmarked for charitable giving and is offered by most major custodians, including Fidelity, Schwab, and Vanguard. You can think of it as a personal charitable savings account. It is important to note, however, that you cannot make Qualified Charitable Distributions to a DAF.

Since all DAF deposits must ultimately flow through to a charity, there are tax incentives which allow you to deduct the entire amount deposited at the time of the contribution. Contributions to DAFs are treated as a gift to a 501(c)(3) public charity. The yearly deduction is limited to 60% of Adjusted Gross Income (AGI) for cash gifts and 30% of AGI when donating appreciated securities. If you make a donation that exceeds these limits, you can carry forward the deduction over the next five years.

Keep in mind that contributions to a DAF are irrevocable. Once you make the gift, you can never get it back. Once the contribution has been made, your assets can be invested much like a brokerage account. While the growth of the gift is not tax deductible, investing in a DAF can allow you to distribute more than you originally donated. Since gifts to charity must solely be for the benefit of the charity, the donor cannot receive any benefit in exchange. For example, grants from a DAF to purchase tickets for a charity event in which you would like to attend are not permitted.

Another benefit of using a DAF to give to charity is that it simplifies your record keeping. Instead of keeping up with written checks and receipts, all record keeping is streamlined in your DAF account. Using a DAF will also ensure that your donation goes to a qualified charity that is registered as a 501(c)(3), which will help to prevent your money from going to scams.

TAX STRATEGIES FOR USING DAFS

DAFs are designed to allow you to gift assets today, take the full tax deduction now, and distribute your gift at a future time. For example, if you gift $50,000 in 2019 to a DAF, you get to take the full $50,000 tax deduction in 2019 and distribute these funds whenever you want. Front loading your charitable giving is also a beneficial tax strategy that can have a positive impact on your taxes. Since the standard deduction has now increased to $12,200 for a single person and $24,400 for a married couple, the standard deduction will be the only tax deduction available for those under age 65 with little to no tax-deductible expenses.

For example, consider a married couple under age 65 whose itemized tax deductions, including their yearly charitable giving of $5,000, are below the standard deduction of $24,400. In their case, they receive no tax benefit for their charitable gifts. But there is a strategy they can implement to receive the full tax benefit of contributing through a DAF. If they decided to combine the next 10 years of giving into a single $50,000 contribution to a DAF instead of their yearly $5,000 gift, they will receive a large tax savings within the year the contribution is made and can disperse the funds whenever they see fit.

Now let's consider the same couple whose major earner is close to retirement and in high income years. If their current tax bracket is likely to decrease in future years in retirement, front loading their charitable giving in high-income years maximizes the value of the deduction. It is also important to note the true cost of the contribution in the year given. Assuming this couple is in a 32% tax bracket, their $50,000 gift actually only costs them $33,500 on an after-tax basis.

DONATING HIGHLY APPRECIATED HOLDINGS TO A DAF

DAFs are also a great option for highly appreciated holdings. If you have highly appreciated holdings in a non-qualified account, donating those assets to a DAF allows you to deduct the donation with a full step up to current value. To illustrate the benefits of using a DAF, let's assume you purchased Amazon at its IPO price of $18 and you bought 100 shares. If you still held those shares, your $1,800 investment would now be worth $160,700. If you sold those shares, you would owe capital gains on $158,900 plus 3.8% Medicare surtax. Instead, if you donated those shares to a DAF, you would get the full $160,700 tax deduction.

DAFs are easy to setup and simple to use and have convenient features such as the ability to set recurring gifts. Contact your Relationship Manager to discuss whether a DAF makes sense for your long-term financial plan.

2019 INVESTMENT UPDATE

By Jeremy Merchant, CIMA®, SVP & Chief Investment Officer

We understand that increased market volatility, as we have experienced lately, can cause market participants to feel anxious and fearful about their investments and possibly even second-guess their long-term financial plans.

But staying invested and committed to your long-term financial plan is imperative, especially during times of volatility. As dramatic as the drawdown was in the final quarter of last year, the "V" shaped recovery of the markets during late December through February was just as dramatic. Market participants that remained committed to their long-term financial plans and didn't pull out of the markets in late December received the benefits of last quarter's market recovery.

SLOWER ECONOMIC GROWTH IN 2019

While the economic expansion seems to have more room to run beyond its 10th anniversary this year, we expect economies to sync towards a slower growth rate in 2019. Within the U.S., growth will slow slightly as markets experience a tightening of financial conditions, fading fiscal stimulus, and the effects of slower growth in China. U.S. Gross Domestic Product (GDP) growth rates are expected to slow from around 3% in 2018 to roughly 2% in 2019. China GDP growth rates are expected to slow from the upper 6% range in 2018 to roughly 6% in 2019. In the Euro-Zone, we expect GDP growth to slow from around 2% in 2018 to roughly 1.5% in 2019.

Slower growth doesn't mean a recession is likely to occur in the near term, but as the final quarter of last year reminded investors, we do not have to experience a recession for market volatility to spike. Worries over central bank policy, slowing growth, or political topics are more than enough to cause volatility to increase within markets.

MANAGING PORTFOLIO VOLATILITY

We manage portfolio volatility through disciplined use of our stock-vs-bond valuation model and our long-term strategic asset allocation targets. Our stock-vs-bond valuation model looks at historical valuations, future growth expectations, and technical analysis within today's market. These factors are equally weighted and help us determine when to overweight/underweight stocks versus bonds. We can overweight/underweight stocks by +10%/-20% relative to risk targets.

Gross Domestic Product (GDP) Growth Rates

Country	2018 (actual)	2019 (projected)
U.S.	Around 3%	Roughly 2%
China	Upper 6% range	Roughly 6%
Euro-Zone	Around 2%	Roughly 1.5%

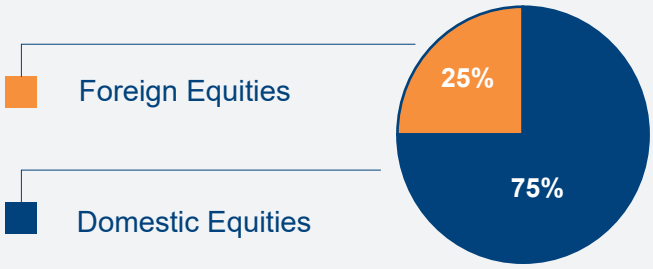
Additionally, we have diversified long-term strategic asset allocation targets to manage portfolio construction and overweight and underweight these asset classes based on market conditions. These diversified long-term strategic asset allocation targets are noted in the graphic on the next page.

While our portfolios moved into an equity underweight posture in the final quarter of last year, they returned to a neutral posture during early January 2019. The proactive nature of our stock-vs-bond model reduced volatility during the final few months of 2018 and returned to a neutral posture in 2019 as markets recovered. As we move into the second quarter of 2019, we expect to maintain a neutral stock-vs-bond posture.

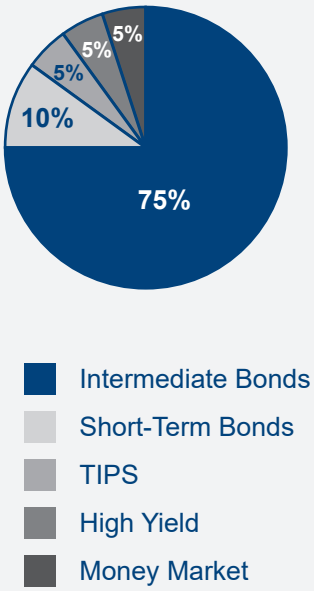
EQUITIES

Within equities, we will continue to maintain an exposure of roughly 75% in domestic equities and 25% in foreign equities. Our largest holding within equities will continue to be large-cap companies which tend to be less volatile. We plan to watch corporate earnings carefully as we progress through 2019. While earnings are still growing, corporate earnings are certainly growing less than they did in 2018. If corporate earnings start to contract in a material way, we will be proactive with portfolio adjustments on your behalf.

EQUITY ALLOCATION



FIXED INCOME



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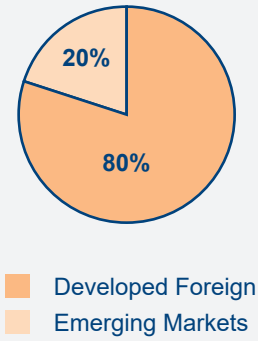
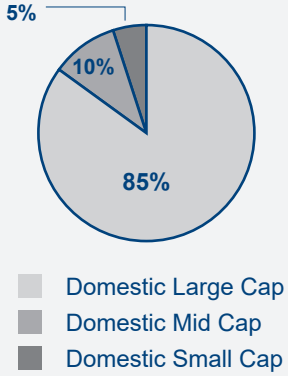


DOMESTIC EQUITIES



ACTIVE ALLOCATION VIEWS

Themes	Category	Change	Negative	Neutral	Positive
Main Asset Classes	Equities	-	○○○	●	○○○
	Bonds	-	○○○	●	○○○
	Cash	-	○○○	●	○○○
Domestic Equities	Large Value	-	○○○	○	●●○
	Large Growth	-	○○○	○	●○○
	Mid Value	-	○○○	○	●○○
	Mid Growth	-	○○○	○	●○○
	Small Value	-	○○○	○	●○○
	Small Growth	-	○○○	●	○○○
	Tactical Equity	-	●●●	○	○○○
Foreign Equities	Developed	-	○○○	○	●○○
	Emerging	-	○○○	○	●●○
Fixed Income	Intermediate	-	○○○	●	○○○
	Short Term	-	○○○	●	○○○
	High Yield	-	○○●	○	○○○
	Cash	-	○○○	●	○○○

FIXED INCOME

Within fixed income, we will remain focused on high-quality positions with above average credit ratings. In addition, we will seek to reduce volatility by managing duration and credit risk in a proactive manner. Overall, we believe fixed income will have fewer headwinds in 2019 versus 2018. This is because the Federal Reserve is now moving towards a neutral posture and should be less adamant about raising rates going forward. Overall, this should mean less volatility for fixed income in 2019.

MOVING FORWARD

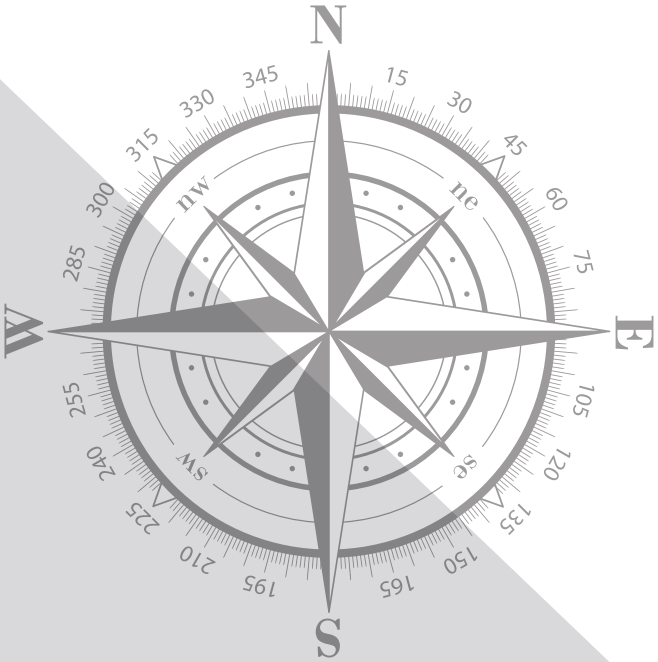
Our approach to portfolio management reduced volatility in 2018. This approach also rewarded investors during the first quarter of 2019 as markets recovered. We fully expect this approach to continue to add value as we move through 2019. While the details of how we construct portfolios and pro-actively adjust portfolios on your behalf is important, it is much more important to realize that sticking to your financial plan is ultimately the key to successful investing.

If you have any questions about the markets or our investment strategy as we move through 2019, please contact your Relationship Manager.

KEY THEMES AND THEIR IMPLICATIONS

Themes	Category	Rationale
Equities	Economic Growth	Global growth and corporate earnings remain positive but are slowing
	Business Cycle	Growth is moderating but remains slightly above 2%
	Inflation	Inflationary pressures are not a concern at this point
Bonds	Bond Yields	The Federal Reserve's policy has changed to a neutral stance
	Duration	Interest rates should be less volatile moving forward
	Quality	Higher quality credits are still preferred due to valuations

RAA
15725 Dallas Parkway, Suite 220
Addison, TX 75001



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visit us at
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or call us at
800.321.9123