FCC Transition

Details about our new clearing relationship with First Clearing taken from our November 28 letter to clients

As we announced in June, Hilliard Lyons has selected First Clearing as our new clearing firm. First Clearing will assist Hilliard Lyons in processing transactions and ensure the timely execution of all market activities. In addition, First Clearing will provide the firm with state-of-the-art technology for our Financial Consultants that will allow them to meet your needs and continue to provide the personal service you have come to expect.

Based in St. Louis, First Clearing provides securities execution, settlement, operations, transaction processing, technology support, and custody services for over 70 brokerage firms across the United States. In business since 1983, it has net capital in excess of $2 billion and is a member of the Financial Industry Regulatory Authority (FINRA), the Securities Investor Protection Corporation (SIPC), the New York Stock Exchange, the NASDAQ Stock Market, and other major regional stock exchanges.

First Clearing is a trade name of Wells Fargo Clearing Services LLC, a non-bank affiliate of Wells Fargo & Company. Hilliard Lyons' relationship is directly with the First Clearing organization, focused solely on processing transactions and supporting the firm's long-term technology needs.

We are truly excited to be able to provide you with new tools and robust resources while continuing to deliver the highest level of service and support. Some key benefits will include:

- Mobile tools will let you access your account from your phone or tablet.
- You will have enhanced online account access, with 24/7 technical support.
- New account statements will provide clear account information and improved readability.
- Research capabilities will be significantly expanded, with greater access to external research resulting in broader, deeper market coverage.
- Your Financial Consultant will have access to new planning tools to help you build, manage, protect, and transition your wealth.
- Upgraded and integrated technology will enable your Financial Consultant to spend more time focused on you.

As part of this transition, some changes will affect you more directly, and you may need to work with your Financial Consultant on specific details:

- Your account number(s) will change, with new numbers being mailed to you in early February 2017.
- You may need to reestablish automatic transactions with the companies or institutions that currently make payments to or withdrawals from your account(s). Your Financial Consultant will be able to help you with this process.
- To establish or continue online access to your account(s), you will need to register it (or them) at www.hilliard.com in early February 2017. As part of the registration process, you can establish or continue electronic delivery of account-related documents such as statements, trade confirmations, and tax documents.
- As appropriate, checks and debit cards will be reissued, and any associated bill-pay relationships will need to be updated. We will supply clear guidance on these updates when they need to happen.

Neither your local Hilliard Lyons office nor your relationship with your Financial Consultant will change as a result of our new relationship with First Clearing. Rather, we believe that, by providing you with enhanced tools, improved access, expanded products, and significant improvements to our Financial Consultants' technology support, you will experience an even higher level of service in the future.

Your Financial Consultant will be directly involved in the transition to the First Clearing platform and will assist you throughout the process. Thank you for your continued trust in Hilliard Lyons. If you have any questions regarding your account, please contact your Financial Consultant.

Sincerely,
James R. Allen
Chairman & CEO

Winter 2017

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Happy New Year! We hope you and your family had a wonderful holiday season and that 2017 is off to a great start.

2016 finished with U.S. equities gaining following the election of President Donald Trump. Although the sharp gains seen in the last months of 2016 may give way to more sideways movement and/or potential pullbacks, for now, we appear to be witnessing a revival among businesses and investors. This trend could have significant legs into 2017.

The Fed raised rates in its December meeting to 0.25%, and may also raise its forecasts for economic growth and the trajectory of interest rates for the first time in this cycle.

Team Updates

Tom and Amy ventured to Nairobi, Kenya in early January where they worked with Amy's non-profit Light 8:12. Light 8:12 provides education, spiritual development and medical assistance to children in Kawangware, Nairobi, Kenya.

Chris and his family enjoyed Christmas and a break from their busy schedule. They were thankful to spend a lot of good time together. Chris also celebrated his 40th birthday with family and friends! With the start of 2017 the kids are back to it with swimming, basketball, indoor soccer and dance.

Ben and his family enjoyed their Christmas break and took the girls skiing for the first time at Perfect North. The girls loved it and were skiing with Ben and Christie by the end of the day!

We hope you enjoy this quarter's newsletter and review materials. Please call us with any questions or comments on anything you read, or to let us know what information you would like to see in the future. Thank you so much for your loyalty to our team and allowing us to serve you!

Sincerely,

The Kessinger-Lee Financial Group
Acting on Experience, Moving Forward with Financial Confidence

Trumponomics and what it means for you

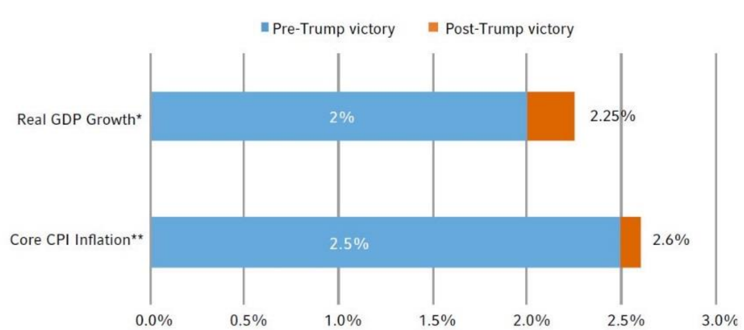
By Russell Investments 2017 Global Market Outlook

1. The U.S. Economy:

It's too early to say precisely what the Trump administration's policy mix will look like. The president-elect's budget initiatives, for example, must pass through the Republican-controlled Congress before becoming law. Directionally, that isn't a big obstacle. Trump won a mandate, and the basic tenets of the Trump and U.S. House of Representatives tax plans are quite similar. But there are legitimate questions about how to pay for these tax cuts, which add risk for markets in terms of both the size and timing of the stimulus package. Directionally, we expect the final plan to be pro-growth and pro-inflation. Our central scenario is that the net impact of Trumponomics will add about a half percentage point to real GDP growth, with the bulk of this stimulus hitting the U.S. economy between late 2017 and early 2018. With the labor market already at full capacity, the boost from fiscal policy is likely to nudge inflation even further along its gradual path higher, as shown in the chart below.

Trumponomics is directionally pro-growth, pro-inflation

Impact of the November 8, 2016 Trump election victory on our 2017 U.S. macro forecasts



Source: Russell Investments and Thomson Reuters I/B/E/S Datastream, as of Nov. 25, 2016. *Real gross domestic product (GDP) is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year, expressed in base-year prices. **The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. Core inflation represents the long run trend in the price level.

2. The Federal Reserve:

We expect Fed Chair Janet Yellen and the Federal Open Market Committee (FOMC) to hike interest rates at their final meeting of 2016. It has been a frustratingly slow hiking process through 2016 and, as former Minneapolis Fed President Narayana Kocherlakota put it, there seems to be a certain amount of "gravity" to the zero bound. The Fed has been derailed numerous times from hiking, such as when China's markets tumbled at the start of 2016, a bizarrely weak employment report in May, and Brexit all contributed to a cautious approach. And yet, when we zoom out, the economy has continued its slow road to recovery. The Fed has effectively achieved its full employment mandate, and wage and price pressures are gradually building. Fanning the flames with fiscal stimulus at this stage of the recovery in our view will make the Fed's job easier.

Our forecasts still suggest the likeliest outcome for 2017 is two additional federal funds rate hikes. But the risks to that view are now much more balanced. And we could see a more aggressive Fed if the Trump administration successfully reflates the economy in the back half of 2017. It's important to remember that global central bank divergence amplifies the amount of tightening in U.S. markets from each rate hike (i.e., yield differentials drive U.S. dollar strength, which also slows the economy). Financial conditions started to tighten towards the end of 2016 and will continue to be an important watch point in 2017 as the Fed moves forward.

3. Asset Prices:

Our outlook for the S&P 500 Index is unchanged. It's true that a short-term boost from fiscal stimulus should support corporate revenues. But there are a number of competing crosscurrents that dampen the outlook for stocks. Renewed dollar strength could pose up to a 1.5 percentage-point drag on earnings growth. The post-election "reflation trade" also brought a significantly higher discount rate. We maintain an underweight on the U.S. equity market in global portfolios due to their expensive valuations.

Trumponomics poses new cyclical challenges for the U.S. Treasury market. Upside risks to inflation and a more hawkish distribution of Fed outcomes are both headwinds for bonds. But perhaps the most impactful change from a Trump presidency is its inherent uncertainty. Investors in long-term bonds, in our view, need to be compensated for the risk that the path for monetary policy might deviate from current market pricing. We believe a president with no governance experience, sometimes erratic views, and a bold economic agenda warrants a higher risk premium. This is the primary reason why we have upgraded our 10-year U.S. Treasury yield forecast to 2.5% at the end of 2017. The post-election bond market selloff was fast and furious8. After a period of consolidation, we would look to re-establish an underweight position on the cyclical dynamics noted above.

Don't neglect tax-aware investing in light of potential tax cuts. Potential tax reform doesn't.

Russell Investments, Frank Pape December 15, 2016

The last time I wrote about tax reform was in February 2014. At the time, then House Ways & Means Committee Chairman, David Camp (R-Michigan), published a tax reform package that attempted to make some of the very tough choices needed to simplify the existing tax code. It was detailed enough to draw criticism from both sides of the aisle. The split nature of the Congress and Presidency at the time meant that Camp's proposal went nowhere.

Fast-forward 2 ½ years and the odds of tax code changes seeing the light of day in 2017 have suddenly increased. Tax cuts were an important part of President-elect Trump's campaign and his party now controls both the House and the Senate, potentially making passage of a bill easier.

Admittedly, the President-elect's tax proposal is light on specifics and the final bill, once through negotiations, will almost certainly look very different. In fact, even Trump's Treasury secretary nominee, Steven Mnuchin, has described quite a different tax plan and House Speaker Paul Ryan's (R-Wisconsin) proposal ("A Better Way") from June 2016 is still on the table, too.

Either way, it doesn't hurt to be prepared and understand the potential impact to investors of the President-elect's current proposal.

The current proposal's headline changes include:

- Only three tax rates for taxable income

At the individual taxpayer level, the Trump proposal has fewer brackets and undoubtedly appears simpler. But this "simplicity" comes with a trade-off: this tax regime would likely produce material reductions in federal revenue, which introduces other challenges. It also could increase taxes for the lowest income earnings, while reducing them for the highest earners.

Current Trump Proposal for Married Filing Jointly (MFJ) Status:

Taxable income	Proposed tax rate
$0 - $75,000	12.0%
$75,000 - $225,000	25.0%
$225,000+	33.0%

- Only three tax rates for Long Term Capital Gains and removal of Net Investment Income Tax

President Elect Trump campaigned on repealing the Affordable Care Act (aka Obamacare) and its related Net Investment Income Tax of 3.8% on certain unearned income. At the same time, though, the current proposal would actually increase the Long Term Capital Gain (LTCG) rate for many taxpayers: The top LTCG rate would remain at 20%, but the top threshold would drop from $466,950 to $225,000 (for MFJ filing status). That means for taxpayers with taxable income between $250,000[1] and $466,949, the LTCG rate would increase by 1.2%, from today's rate of 18.8% to 20%. Active, tax-aware strategies that that attempt to maximize after-tax investment returns through tax-loss harvesting, attention to holding period length, qualified versus non-qualified dividends, taxable interest income and municipal bond interest income, can help manage that potential increase in taxes due.

Meanwhile, investors with taxable income of at least $466,950 will experience a decline in their LTCG rate, from 23.8% to 20%. From a tax expense perspective, a 20% tax rate is clearly better than one at 23.8% – note the savings in the table below – but it is still not 0%. Investment taxes will continue to be a headwind for investment returns.

Current Trump Proposal:

Taxable income	Proposed long-term capital gain tax rate	Plus: NIIT* on unearned income >$250k	Total
Less Than $75k	0.0%	--	0.0%
$75k - $225k	15.0%	--	15.0%
>$225k	20.0%	--	20.0%

**NIIT = Net Investment Income Tax.*

- Changes to deductions and estate taxes (MFJ status)

President-elect Trump's current tax proposal would increase the standard deductions and cap itemized deductions. Deductions are one of the issues on which Trump's Secretary of Treasury nominee and he differ: Mnuchin stated that any reductions on the top taxpayers would be offset by fewer deductions. That is not the case as currently proposed. You can imagine the lobbying and posturing by impacted parties (e.g., housing industry, mortgage industry, charitable giving – and many more; the list is almost endless). These types of trade-offs are why proposing tax reform is much easier than actually getting it passed. Additionally, estate taxes would be entirely repealed.

	Trump Proposal	Current
Standard Deduction	$30,000	$12,600
Itemized Deductions	Capped at $200,000	3% reduction based on AGI > $112,500
Estate Tax	Repeal	Estates over $10.9 million

- Deductibility of municipal bond interest

To date, President-elect Trump has made no mention of changing the tax-free nature of municipal bond interest. Speaker Ryan's plan referred to repealing "special-interest carve outs" from the tax code but did not mention any specific detail. It will undoubtedly be up for discussion, but state/local governments and individual investors will no doubt make sure their voice is heard.