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OBERMEYER WOOD **NEWS**

FALL 2016

MARKETPOINT

U.S. equities rose modestly in the third quarter as investors gained more confidence and earlier worries moderated. To some degree, broad U.S. indices climbed a wall of worry, edging higher despite concerns relating to a China-led global slowdown, controversial U.S. presidential candidates, terrorism issues at home and abroad, the fallout of the Brexit vote, and the possibility of higher U.S. interest rates.

It is important to note that the gains seen this year have been accompanied by unusual amounts of volatility (as seen in the sharp decline in the first quarter and the initial response to Brexit, to cite two examples). There has also been a big difference in performance across sectors year-to-date, with double-digit gains in energy and defensive sectors such as telecom and utilities and declines in banks (down 7%) and biotech (down 10%), opening the door for the patient investor to invest at lower prices. Price declines in various sectors can sometimes be indiscriminate, which appears to be the case this year. Moreover, many securities – particularly those deemed to be "safe" – have been bid up to what appears to be fully- if not over- valued.

For some investors, it can be easy to lose sight of the positives given the concerns mentioned above. It is important to remember that the U.S. enjoys a number of geographic and structural advantages. Having oceans on each side and stable, solid trading partners to our north and south insulate us from many of the world's challenges, particularly with regards to defense and unfettered immigration. We also have rich resources in timber, agriculture, oil, and natural gas. Low oil prices and an increase in domestic production have helped reduce our trade deficit. We also have a huge amount of capital stock – both in terms of a well-educated and entrepreneurial work force (human capital) and physically productive assets such as roads, airports, factories, office buildings, hospitals, schools, and communication infrastructure. Add to these the rule of law, generally useful regulation, and our embrace of capitalism, and the U.S. is well positioned for continued growth.

The immediate concern on most people's minds is the presidential election. Both candidates have many detractors and the rhetoric is polarizing. This has created an unusually high degree of uncertainty in the minds of many investors and business decision makers, leading to a real but unquantified reduction in confidence. Conversely, it is possible that a reduction in uncertainty post-election could introduce an improvement in both consumer and investor confidence. Our responsibility is not so much to weigh in on the quality of any particular candidate, but instead to think through the investment implications and the portfolio positioning across a range of circumstances.



MARKETPOINT (CONTINUED)

Overall, we believe the best strategy is to continue to focus on making longer-term investments at reasonable prices in quality companies that have smart and nimble management. They can then intelligently navigate through changing conditions — the vast majority of which are unpredictable. Those who are seriously concerned about the election outcome can take some solace in the constitutional design of dividing power among the three branches of government, creating a system of checks and balances, including the power of impeachment and biennial elections that can replace all of the House and one third of the Senate.

Market dynamics are also influenced by the growing popularity of indexing, hyper-fast computer-automated trading, and hedge funds making big bets on short-term market direction. It appears to us that the combination of these three factors is creating larger short-term price movements (volatility) and also some disconnects between price and fundamental value. Ultimately, we believe both the volatility and the price/value disparities should benefit our clients as we pursue long-term investments on their behalf. Indexing, in particular, has a tendency to create disconnects between price and value. For example, when a stock that is a component of an index goes up dramatically on a relative basis and then new dollars are invested into the index, proportionally more money flows to the stock that has just risen. The reverse is true of a stock when, on a relative basis, it falls. This treatment can create positive or negative momentum that leads to mispricing - ultimately creating the opportunity over time to buy companies at relative bargain prices and eschew those that are overpriced.

A constant in investing is the dynamic, ever-changing nature of a free enterprise economy. The new is encouraged, and the obsolete fades away. It was encouraging to see the U.S. government proactively support and release in September the first of a Federal Automated Vehicles Policy,

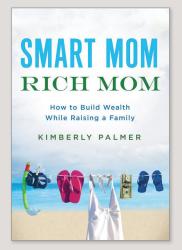
recognizing the huge potential safety improvements and savings that driverless cars can bring. In 2015, for example, over 35,000 people were killed in the U.S. in auto accidents. Driver error caused 94% of these accidents, so self-driving cars have the potential to create huge safety improvements. The annual savings from safer cars is estimated to be up to \$1.3 trillion.¹ Naturally, there are winners and losers. One could surmise that driving jobs, collision repair outfits, and the total demand for cars might be reduced. On the other hand, insurance claims would go down and a huge amount of time and capital would be freed up. We have made several investments in technologies that should benefit from these trends.

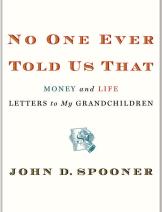
Looking forward, we would expect the U.S. economy to continue its modest growth and the Federal Reserve to raise interest rates by a quarter of a point, perhaps around yearend, with a few more increases thereafter. We do not see modest rate increases as a significant threat to economic growth as corporations, for the most part, have relatively high levels of cash. In fact, many are tending to pay dividends and buy back stock rather than redeploy cash for additional capital projects, as has been the case historically. Part of the reason for excess cash is efficiency gains brought about by technology that enables corporations to do more with less. For example, to make an airline reservation and check-in, or to hail an Uber car, increasingly we just punch our smart phones as opposed to calling expensive customer service teams. These efficiencies put downward pressure on wages for less-skilled jobs and require less investment in plants and equipment. Accordingly, we do not foresee inflationary pressure or large interest-rate increases in the next few years.

In summary, we believe the current environment is good for making carefully selected investments. We are particularly encouraged by the prospects for the companies in which we are invested and believe that time and patience will yield solid results for clients over the longer term.

¹Source: Morgan Stanley Blue Papers, *Autonomous Cars: The Future is Now* (Jan. 23, 2015).

RECOMMENDED READING





For many families, preparing the next generation for wealth creation and preservation is an important, but daunting, task. Financial education generally begins early, through discussions about allowances and debates over cell phone bills, but takes on greater significance as children, grandchildren, nieces and nephews encounter life milestones, such as their first job or child. Several clients, seeking to supplement family conversations with appropriate reading, have asked us to recommend books that they can pass along to younger family members. While there are many worthy personal finance books, some can be dense and technical. There are two books that deliver key money messages in a light-hearted, storyoriented manner: Smart Mom, Rich Mom: How to Build Wealth While Raising a Family and No One Ever Told Us That: Money and Life Letters to My Grandchildren.

In *Smart Mom, Rich Mom*, columnist and mother of two Kimberly Palmer seeks to prepare women both in and out of the workforce to make sound financial decisions for themselves and their expanding families. Palmer positions her book as an antidote to women's financial writing that overly focusses on coupon clipping and shopping allowances. Instead, she wants her readers to feel confident participating in weightier financial

decisions, including devising long-term budgets, selecting the right types of life insurance and retirement accounts, and modelling sound financial behavior for the next generation. This increased participation is a great help to one's family and – in the case of a divorce or death – positions one to take the reins solo if needed. While Palmer is ambitious in the range of topics she covers, her book is also a quick, easy read that takes on these critical issues at a high level.

Another book that provides sound advice for the younger generation is John Spooner's No One Ever Told Us That. Written as a series of letters to his grandchildren, Spooner dispenses timeless advice to young men and women starting their post-college journeys. An entertaining and folksy storyteller, Spooner engages the reader by sharing tales of his early adulthood, including accounts of greedy bosses and poorly researched investments. Each of the 50+ letters is a few pages long and concludes with snappy pieces of sage advice: "The unusual aspects of your lives can open doors... Human nature never changes... Feed and greed rule the markets... Debt can be a killer...In crucial decisions, use your brain first, heart second." Given his background as a financial advisor, Spooner's book tends to go into more detail with respect to investments, highlighting the importance of due diligence, being prepared for cyclical markets, and seeking legal, financial, and accounting advice as one's life gets more complicated. Reading the chapters, several of your own stories may come to mind, and you can use these as you talk or write notes to the next generation about how they can build their career, wealth, and family relationships.

We have copies of both books at our offices. If you are interested in receiving one, please let us know.

Our Team

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FIRM UPDATE

Our team was honored this past quarter to be recognized by two industry publications we respect: *Barron's* and *Forbes*.

Obermeyer Wood was included in a *Barron's* article titled *Teaming with Ideas* on July 16, 2016. This piece featured three advisory groups, highlighting the benefits of working with a "team of advisors, rather than lone wolves." The author, Steve Garmhausen, interviewed George, Wally and others to gain insight on how we work collectively to serve clients by hiring experienced professionals with varied backgrounds to facilitate us providing thoughtful, well-rounded advice and investment decisions. In addition, it was highlighted how the team coordinates both internally and externally to deliver highly personalized service to meet the variety of needs of our clients. As this was the first time our team was profiled in print, we were pleased to be included in this special report and appreciate *Barron's* providing this perspective on the independent RIA industry. A copy of the full article is available on our website, www.obermeyerwood.com, under the News Archive section.

Our firm was also honored to be included in two rankings this summer: *Forbes*' 2016 Top Wealth Advisors and *Barron*'s Top 100 Independent Advisors. Representing our firm, this was Wally's first appearance on the *Forbes*' list, and his 9th appearance on the *Barron*'s Indies list. In both cases, we were very proud to be the top ranked firm from Colorado. More details on both of these recognitions are also on our website under the News section.

In reflecting upon these acknowledgments, we believe that our singular fundamental goal of serving our clients' investment requirements with integrity and professionalism provides the driving force of the firm. We deeply appreciate our clients' confidence in partnering with us to serve their needs.

REQUIRED MINIMUM DISTRIBUTIONS

As we enter the 4th quarter, some clients will need to take distributions from their IRAs and other retirement accounts before the end of the year. If you have questions or need guidance on how to handle these transfers (particularly if this is your first year), please reach out to our team in Aspen or Denver; you can also contact the custodian directly. We collectively work together to make sure these are processed in a timely fashion.



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