IN THIS ISSUE

- Marketpoint
- Spring Reading: *The Small Big*
- Firm Update

OBERMEYER WOOD **NEWS**

SPRING 2015

MARKETPOINT

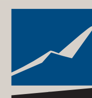
As we close out the final days of 2015's first quarter, it is interesting to consider what has transpired since the economic recovery began six years ago in the spring of 2009. While there have been periods of volatility and doubt, it is worth noting that during this time financial markets performed well, the U.S. economy grew, and the world continued on with all of its normal ups and downs and unpredictability.

The first few months of 2015 saw a furthering of this trend, albeit with a noticeable increase in equity market volatility. Market participants continue to be encouraged by improving U.S. employment and low interest rates, but are weighing these elements against the concerns of potential rate hikes and a strong rally in the U.S. dollar versus other currencies (notably the euro). Even with this backdrop, the U.S. equity market is up slightly for the year and Treasury yields remain incredibly low (as of the writing of this newsletter).

Whenever price volatility increases, industry pundits and the financial media seem to expend a disproportionate amount of energy trying to predict what may happen in the next few weeks and months. This noise can cause many investors to question how to best position themselves in the near future. We devote almost no time trying to predict what the stock market itself will do in the short term as these actions are often driven by emotions and reactions to headlines. Instead, we spend our time examining the investment case for individual companies and contemplating trends, developments, and risks that can impact our clients' investments. While risk can be defined in many ways, we believe the definition most appropriate for individual investors to consider is *the possibility of a permanent loss of capital.* Apart from investing in overvalued securities, losses can occur through a decline in the purchasing power of dollar bills (as it becomes more costly to maintain a constant standard of living).

> "We spend our time examining the investment case for individual companies and contemplating trends, developments, and risks that can impact our clients' investments."

As we all know, life seems to cost more and more every year (despite the consternation in many circles about deflation). As investors, market fluctuations and a rising cost of living are elements with which we must continuously grapple. Considering them, however, can help us with important financial decisions. One topic worth examining is asset allocation (perhaps better thought of as "risk allocation"). Today's rate environment ›

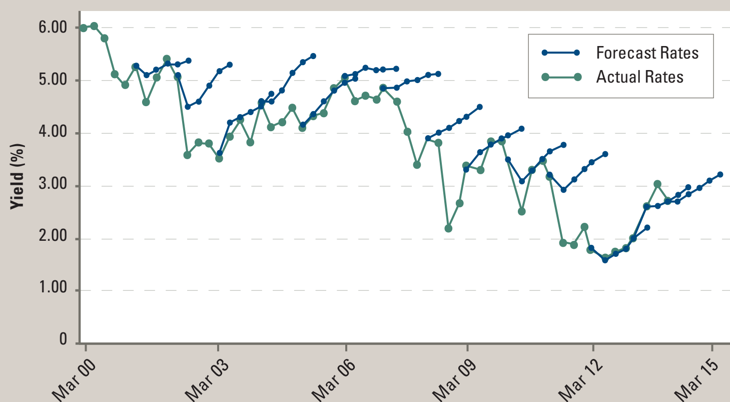


ObermeyerWood
INVESTMENT COUNSEL, LLLP

has motivated many investors to seek excess returns in stock investments as cash rates are near zero, with some taking on more risk than may be advisable. There are several measures we take to help our clients successfully navigate this situation. First, it is paramount to assess the fundamentals and valuations of the stocks in which we actually and prospectively invest. But as all clients' financial circumstances are different, we can also help determine an asset allocation appropriate to one's unique needs and risk tolerance.

In framing this discussion, it is also important to remember that predictions from so-called market experts are often wrong. Deutsche Bank economist Torsten Slok recently called out Wall Street's poor consensus forecasting record. Posting the below chart, he wrote, "As we leave 2014 behind, professional forecasters are once again predicting that long rates will go up next year…this has been a pattern for the past decade. The latest Fed Survey of Professional Forecasters predicts that ten-year rates in 2015 will go up to 3%, see the last dotted line in the chart."

Rolling 5-Quarter Median Forecasts of 10-Year Note Yields



Source: Philadelphia Fed's Quarterly Survey of Professional Forecasters: 2000-2014

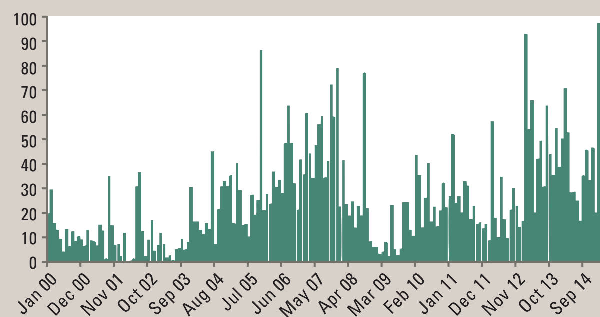
His point is that if one had relied on the above interest rate forecasts in any high-stakes activity—be it capital budgeting, financing or investment decisions, or asset allocation—it could have led to large errors with all of the attendant costs. Last year, most strategists and forecasters predicted that U.S. interest rates would rise; instead, 30-year U.S. Treasury yields dropped below 3% and the price of these bonds increased by 25%, handily beating the stock market.

Again, it has never been our *modus operandi* to try to predict near-term market movements. Instead we devote our energy to identifying attractively priced investments, while also focusing on identifying and investigating market variables that might influence one's asset allocation decision (or at least might prompt a risk reassessment).

February 2015 saw the best month for equities in over three years. At the same time, we also saw a decline in revenue and earnings guidance by corporate America to a level that suggests that 2015 could be the first year since 2008 to have a full year-over-year sales decline.

If that is the case, why did stocks perform so well?

S&P 500 Monthly Buyback Announcements ($bn)

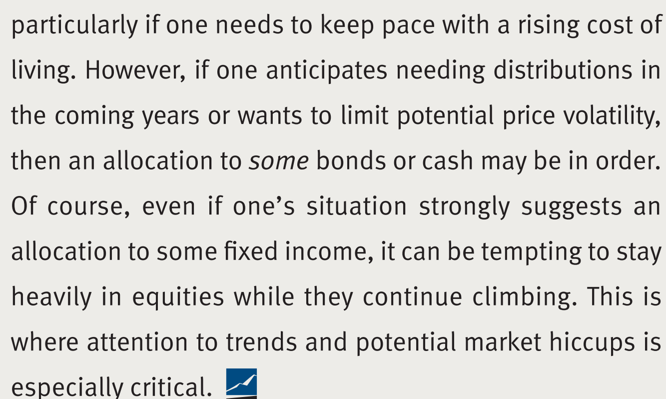


Source: Bloomberg Finance LP, Deutsche Bank

Buyback announcements surged to an all-time high of $98B in February. *Actual* buybacks tend to closely follow that of announcements, so the market discounts what companies will do and front-runs purchases. This tendency could explain why the S&P rose to a record high—despite the end of the Fed's quantitative easing program, relatively high equity valuations in certain sectors, and a stronger dollar. Furthermore, bond investors, starved for yield as interest rates in Europe turned negative, have shown a willingness to lend to any company offering even the tiniest yield over Treasurys, and they don't seem to care if that capital is immediately turned around to buy back stock. These dynamics create concern as we move to a period of potentially rising rates. As investors, we like it when undervalued companies buy back their stock with excess

cashflow or cash reserves. However, not all companies exercise this discipline, and it can be concerning when management teams overpay when buying back their own stock—and use debt to do so.

There will always be risks and market developments that can quickly lead to unanticipated price declines, and investors should always consider these potential risks within the context of one's personal finances. If an investor is focused on maximizing growth and truly doesn't anticipate needing to access capital for several years, an all-equity portfolio is likely the best strategy, particularly if one needs to keep pace with a rising cost of living. However, if one anticipates needing distributions in the coming years or wants to limit potential price volatility, then an allocation to *some* bonds or cash may be in order. Of course, even if one's situation strongly suggests an allocation to some fixed income, it can be tempting to stay heavily in equities while they continue climbing. This is where attention to trends and potential market hiccups is especially critical.

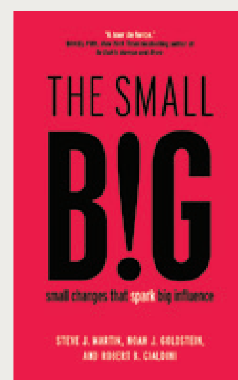


SPRING READING:
THE SMALL BIG

As many of our readers know, we are always on the hunt for engaging, topical books to share with our clients. This spring, we've moved *The Small Big: Small Changes that Spark Big Influence* to the top of our reading pile. *The Small Big* is co-authored by Steve J. Martin, Noah J. Goldstein, and Robert B. Cialdini (who also wrote the oft-cited classic, *Influence: The Psychology of Persuasion*).

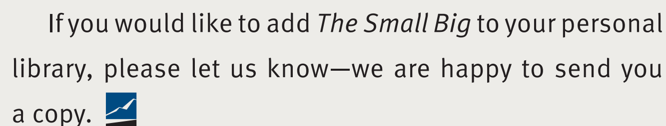
As its title suggests, this book outlines how minimal pivots in approach—or "SMALL BIGS"—can yield sizeable results. As the authors put it, "When it comes to influencing the behavior of others, it is often the smallest changes in approach that make the biggest differences." *The Small Big* is a purposefully efficient read: each of the fifty SMALL BIGS is covered in a brief chapter of several tightly packed pages. The reader is walked through the challenge, the solution, and the underlying research supporting each recommendation. The book offers suggestions on influencing a wide span of situations including business meetings, non-profit fundraising drives, medical appointments scheduling, salary negotiations, and social gatherings.

One example of a SMALL BIGS's applicability can be found in how to seat attendees during a meeting depending on the desired outcome. If you want to foster a collaborative discussion, the authors recommend sitting people at a round table so all participants feel equal, included, and critical to the project's outcome. If however you want participants to take on particular leadership roles and tasks, it is better to seat them at a rectangular or square table, as this conveys that people should take charge of specific sides or platforms to ensure the project is completed successfully.



Fans of social psychology and behavioral finance will find many familiar names in this book; Richard Thaler, Daniel Kahneman, Adam Grant, and other authors previously featured in our newsletter all make appearances. Of course, those unfamiliar with these disciplines but who are simply interested in sensible, economical ways to increase their influence will also find much of interest.

If you would like to add *The Small Big* to your personal library, please let us know—we are happy to send you a copy.



Our Team

ASPEN

Wally Obermeyer
Co-Chairman and President

Ali Flynn Phillips
Senior Vice President

Roger Hennefeld, CFA
Vice President, Trading and Investments

Wade H. King, M.D.
Vice President, Investments

Christine Goodendorf
Associate, Finance

Kimbo Brown-Schirato
Associate, Client Services

DENVER

George F. Wood, CFA
Co-Chairman

Lee (Skip) W. Dines, Jr.
Senior Vice President

John Goltermann, CFA, CPA, CGMA
Senior Vice President

Joseph S. Chin, CFA
Vice President, Investments

Laurence J. Kandel
Vice President, Client Advisory

G. Tod Wood, CFA
Vice President, Investments

Dana Gleason Nightingale, CFA
Senior Analyst, Investments and Client Advisory

Mary A. Elisberg
Vice President, Client Services

Elise I. Archer
Associate, Client Services

Danby Seldin Minor
Associate, Communications and Operations

Molly A. Phillips
Associate, Client Services

COPYRIGHT 2015
OBERMEYER WOOD INVESTMENT COUNSEL, LLLP
ALL RIGHTS RESERVED

FIRM UPDATE

OBERMEYER AMONG NATION'S TOP ADVISORS

We are delighted to announce that Wally Obermeyer has again been included in *Barron's* ranking of the nation's top investment advisors.

This annual ranking, published in the magazine's February 21, 2015, edition, evaluates advisors on a range of metrics including assets under management and overall quality of the practice. We are listed as Colorado's top-placed Registered Investment Advisor (RIA) and are in the #2 position overall for the state.

We are honored to be recognized by *Barron's* and feel the inclusion pays tribute to our firm's investment philosophy, relationship approach, and the strength of our collective team.

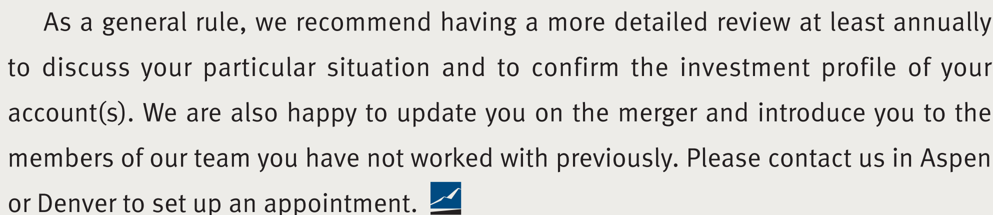
Of course, we couldn't have achieved this recognition without the support of our loyal group of clients. We want to express our sincere gratitude for your trust and partnership.

TOP OF MIND

REVIEW MEETINGS

Ongoing communication helps ensure that we are able to do the best job we possibly can for each of our clients. If you have questions about your accounts or if anything has changed in your life, there is no substitute for a one-on-one meeting or conference call.

As a general rule, we recommend having a more detailed review at least annually to discuss your particular situation and to confirm the investment profile of your account(s). We are also happy to update you on the merger and introduce you to the members of our team you have not worked with previously. Please contact us in Aspen or Denver to set up an appointment.



ObermeyerWood
INVESTMENT COUNSEL, LLLP

Aspen: 501 Rio Grande Place, Suite 107 • Aspen, Colorado 81611 • 970 . 925 . 8747 • FAX 970 . 925 . 8723
Denver: 55 Madison Street, Suite 680 • Denver, Colorado 80206 • 303 . 321 . 8188 • FAX 303 . 321 . 8055

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Obermeyer Wood Investment Counsel, LLLP ("Obermeyer Wood")), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from Obermeyer Wood. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. Obermeyer Wood is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of Obermeyer Wood's current written disclosure statement discussing our advisory services and fees is available for review upon request.

Rankings and/or recognition by unaffiliated rating services and/or publications should not be construed by a client or prospective client as a guarantee that he/she will experience a certain level of results if Obermeyer Wood is engaged, or continues to be engaged, to provide investment advisory services, nor should it be construed as a current or past endorsement of Obermeyer Wood by any of its clients. Rankings published by magazines, and others, generally base their selections exclusively on information prepared and/or submitted by the recognized adviser.