IN THIS ISSUE

- Marketpoint
- Winter Reading
- Firm Update

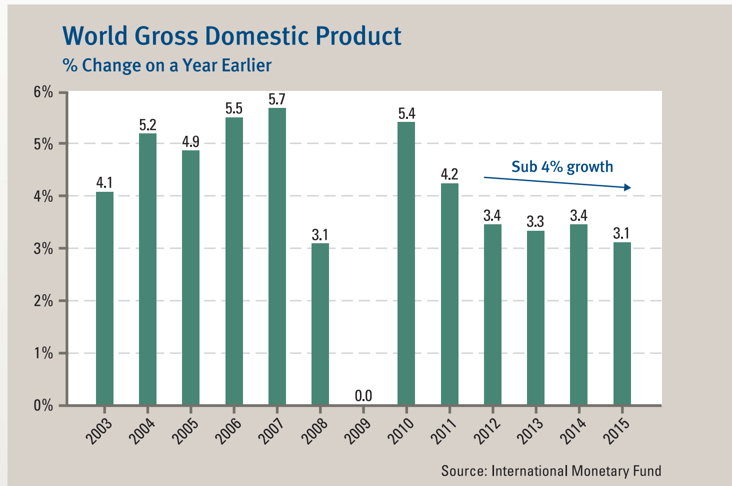
OBERMEYER WOOD **NEWS**

WINTER 2016

MARKETPOINT

Following six years of economic recovery and fairly steady increases in U.S. stock prices, 2015 was marked with a pause in the market's upward trend. In some sectors, earnings came in lower than expected and, as has occurred several times since 2009, episodes of stock market volatility developed. This volatility was prompted by issues surrounding the Chinese economy, the strength of the U.S. dollar, and the increase of short-term interest rates. Overall, the broad U.S. market was flat to down slightly for the year.

Because of generally sluggish growth world-wide since 2009, many economies are operating below their potential, especially with respect to labor (see graph at right). This situation could provide the opportunity for economic growth over the next several years, with only modest risk of a worrisome buildup of inflationary pressure. Nevertheless, with the Federal Reserve embarking on a major change in monetary policy to raise interest rates – and with various other geopolitical factors in flux – we anticipate some ongoing volatility in the financial markets. We view these conditions opportunistically as we pursue the identification of attractively valued stocks of companies with strong management, high-quality assets, and promising outlooks.



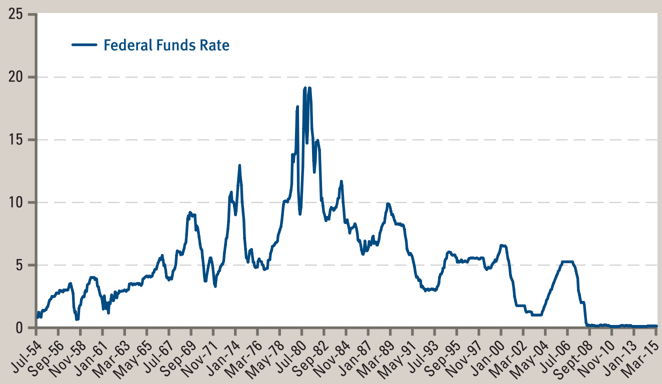
> "We view these conditions opportunistically as we pursue the identification of attractively valued stocks of companies with strong management, high-quality assets, and promising outlooks."

In December, the Federal Reserve raised its target interest rate by 0.25%. This increase was the first rate hike since before the financial crisis of 2007-08. It reflects in part the Fed's confidence in the continued modest growth in the U.S. economy as well as its longer-term wariness over inflation and a desire to normalize interest rates. For perspective, the short-term interest rate has averaged between roughly 3-5% for many years preceding 2008.

Over the past year, participants in financial markets have obsessed about the Fed's decision of when and how ›

ObermeyerWood
INVESTMENT COUNSEL, LLLP

Federal Funds Rate



Source: Federal Reserve Bank of St. Louis

much to increase rates. However, rate increases have not always accompanied market declines. Typically, it is the substantial interest rate increases that are associated with trying to suppress inflation that accompany down markets. We do not believe this situation characterizes today's environment.

While our client accounts are individually managed, we did make some broad longer-term adjustments in 2015 across the majority of portfolios. Among these changes was a reduction in the oil sector as the outlook for the supply/demand imbalance worsened. OPEC, led by Saudi Arabia, played a key role in the situation when it indicated it would continue to produce at elevated levels rather than cut back, as was widely anticipated.

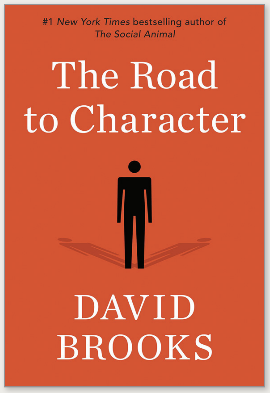
Several new investments were made in financial, technology, and consumer companies. Also acquired was a position in the senior housing market—in this case what we believe to be a top-notch operator in an industry that should enjoy a tailwind for some time with the aging of the U.S. population. All were purchased at what we believe were attractive long-term valuations.

For tax paying clients, capital gains rates have increased recently, especially for higher-income payers. Due to our long-term investment philosophy, turnover and realized gains are moderated. As gains do occur for investment reasons, we also consider harvesting losses to offset gains, endeavoring to balance investment considerations with our goal of producing attractive long-term, after-tax returns.

With the build up to a presidential election, we are often asked by clients on both sides of the political spectrum how the election results will affect the economy, the stock market, and their portfolios. It is hard to predict or attribute stock returns based on the party in power because the policies of one administration or Congress may well take effect during a subsequent administration. Additionally, it is rare to have one party dominate all branches of government. During campaigns, political rhetoric criticizing particular industries can become heated, but proposed changes are seldom enacted into legislation. Our experience has been that the able managements with which we invest will successfully navigate any changes that do occur.

As always, the investment outlook contains a variety of crosscurrents. Economic growth rates vary around the world. Developing countries that export raw materials are hurting, and China continues to engineer a slowdown in its growth as it rebalances its economy while Japan and Europe still are striving to improve their economies. Meanwhile, the U.S. has maintained moderate growth with low inflation. U.S. stock valuations in general remain at the higher end of their historic range but are not extreme. Widespread skepticism exists among investors, but from a contrarian viewpoint this type of negativity often bodes well for future returns. More importantly, even though investing has become more challenging as the market has risen, we believe we continue to identify attractively valued new investments in high-quality companies that are providing growing value for their shareholders.

RECOMMENDED READING

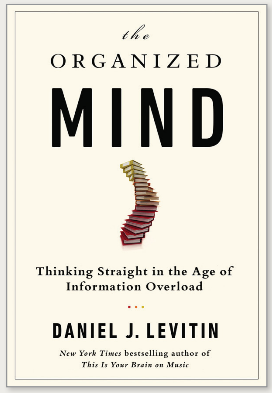


In these early days of 2016, many of us will be firming up our New Year's resolutions. This quarter, we review two books that may spark ideas for your list or help you achieve resolutions you have already set.

For those who like to pen more philosophical resolutions, we direct you towards David Brooks' ***The Road to Character***. Dana and Ali had the opportunity to hear Brooks discuss his book, which muses about the essence of a meaningful life, at a conference this winter.

Brooks proposes that each of us have two sets of virtues: our "résumé virtues" and our "eulogy virtues." Résumé virtues are external and more achievement-oriented, ranging from a student's off-the-chart test scores to a professional's highly visible (and likely lucrative) promotion. By contrast, eulogy virtues are the softer aspects of one's character – kindness, humility, honesty – that are praised when a person isn't around to hear it. Brooks argues that our society increasingly exalts the résumé virtues (think social media), and does not stop enough to appreciate the humbler, more subtle eulogy virtues. Brooks challenges the reader to abandon the "age of the selfie" and embrace a "Humility Code" (presented in chapter 10) as a path to a richer, more meaningful life.

While some of Brooks' advice may be hard to unfailingly follow, his views and portrayals of historical characters as examples are worth consideration. Though the underlying topic is serious, the book is playful and accessible – making this an excellent read as we consider our ongoing priorities and relationships in 2016.



For many, "be more organized" will top our list of 2016 resolutions. This is for good reason: most of us must receive, process, and store far more information than our minds are adapted to handle. In ***The Organized Mind***, Dr. Daniel J. Levitin, a cognitive neuroscientist, dives deep on the organizational challenges we face and provides concrete ways to surmount them.

One reason we struggle to stay organized is that our minds initially intake all information equally. As the author writes, "Every status update you read on Facebook, every tweet or text message you get…is competing for resources in your brain with important things like whether to put your savings in stocks or bonds, or where you left your passport…." Barring throwing our computer out the window and locking our doors, what is a person to do?

In a nutshell, Levitin advocates for externalizing mental processes. For example, when we maintain something as simple as an address book, we are offloading data that would otherwise hog our cognitive resources. Another way to free up mental bandwidth is by moving things out of the "rehearsal" stage and onto a physical list. The tendency to mentally worry at impending to-dos evolved as a way of remembering things before pen and paper; as such, these things are kept at the front of our minds until they can be discharged. As anyone who has missed sleep worrying over a looming obligation, this state takes up significant mental resources. By writing down the things that nag us – groceries to pick up, ideas to remember – we give ourselves permission to set them aside until they can be acted upon.

Levitin's book is too detailed and rich to fully capture here. If you would like to read his or Brooks' book, please contact us, and we will gladly give you a copy of one or both.

Our Team

ASPEN

Wally Obermeyer
Co-Chairman and President

Ali Flynn Phillips
Senior Vice President

Roger Hennefeld, CFA
Vice President, Trading and 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

Maia Babbs, CFA
Vice President, Investments and Client Advisory

Joseph S. Chin, CFA
Vice President, Investments

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

Kaitlin Ryan
Assistant, Client Services

FIRM UPDATE

NEW TEAM MEMBER: KAITLIN RYAN

We are pleased to introduce the newest member of the Obermeyer Wood team: Kaitlin Ryan. Kaitlin hit the ground running in October, helping us with client service and office administration. Kaitlin brings over ten years of administrative and operational support experience, most recently serving as an office coordinator in a Denver medical office. Kaitlin received her BA, *summa cum laude*, from Baylor University. We are thrilled to have her on board!

FOCUSED ON OUR CLIENTS AND THE FUTURE

Wally Obermeyer's favorite conference event of the year: Dining with Warren Buffett.

Our seventeen-member team recently met in Denver to recap 2015 and plan for the future. With our ongoing investments in human capital and other resources, we feel our firm is stronger than ever.

Our investment committee collectively manages client portfolios, with some members more involved in security analysis and others more focused on advising clients. To develop and monitor investment ideas, we draw on our team's wide set of experiences as they pursue in-depth research on a variety of companies and industries. Throughout the year, we attend industry conferences, investor presentations, and earnings calls. We always welcome your questions about the portfolio or other aspects of your financial life as you plan for the future.

Complementing these research and advice efforts, our operations team works closely to serve our clients' day-to-day needs while also coordinating with custodians, managing our infrastructure, and supporting overall firm activities. This highly coordinated approach enables us to be responsive and flexible as we continue to grow.

In looking forward, our overarching mission remains unchanged: to provide sound, thoughtful investment management to help protect and grow our clients' assets. We strive to provide an exceptional service to our clients, their families, and the organizations they care about. We thank you for your continued business and long-standing relationships. As always, if you have any suggestions on how we can improve, please let us know. Your input and partnership is invaluable.

ObermeyerWood
INVESTMENT COUNSEL, LLLP

Aspen: 501 Rio Grande Place, Suite 107 • Aspen, Colorado 81611 • 970 . 925 . 8747 • FAX 970 . 925 . 8723
Denver: 200 Columbine Street, Suite 600 • Denver, Colorado 80206 • 303 . 321 . 8188 • FAX 303 . 321 . 8055
www.obermeyerwood.com

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 applicability of any specific issued 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 upon request. If you are an Obermeyer Wood client, please remember to contact Obermeyer Wood in writing if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services.

Please note: Rankings and/or recognition by unaffiliated ratings 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 advisor. Rankings are generally limited to participating advisers.