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OBERMEYER WOOD **NEWS**

FALL 2017

MARKETPOINT

Equity markets worldwide have continued to rise this year, driven by solid economic growth, good earnings results, low inflation, and low interest rates despite unsettling geopolitical developments and limited U.S. legislative progress. As we move into the last quarter of 2017, we likely will see the continuation of a prolonged, gradual tightening of monetary policy in the U.S. and other developed economies. While there may be some short-term market volatility, Federal Reserve Chairwoman Janet Yellen observed recently "we're operating in an environment where the U.S. economy is performing well."

The U.S. economy continues to grow and is expected to maintain its 2%+ rate into 2018. Hurricanes Harvey and Irma's negative impacts will temporarily reduce growth due to lower consumer spending and disruptions in the housing, tourism, and energy markets. However, growth should rebound as affected areas begin to rebuild. In addition, earnings growth has benefited this year from improved growth overseas, a more stable commodities environment, and significant cost-cutting efforts.

Further supporting the current market environment, inflation remains subdued, despite a strong labor market. Typically, tight labor market conditions drive up wage inflation and ultimately overall prices, resulting in an "overheating" of the economy. The Fed then attempts to slow the economy by raising interest rates. The Fed walks a fine line as it must balance supporting economic expansion and an expanding labor market by keeping rates relatively low, while at the same time ensuring stable prices and low inflation, which it controls by raising rates. Interest rates are an imprecise, blunt tool; the Fed has to use a sledgehammer to create a finely detailed sculpture. Adding to the complexity, interest rate and monetary policy actions have a lagged effect, and according to economists can take six months or more to impact the economy.

During the 2008–09 financial crisis, the Fed aggressively reduced interest rates to nearly zero in order to spur an economic recovery. However the lower rates did not stimulate the economy nearly as much as forecast. As a result it decided to use an additional monetary policy tool called "quantitative easing" ("QE"). While it sounds complex, the idea behind QE is quite simple: the Fed created new money (it has to right to "print" money) and used it to buy enormous amounts of existing bonds, injecting a giant wave of money into the overall economy. QE was intended to incent banks to lend individuals and businesses money for investment, aiding the recovery of the overall economy as well as the financial markets. For example, the large-scale purchases of mortgage-backed bonds helped stabilize the prices of these securities, which in turn resulted in lower mortgage rates, stimulating home purchases and a rebound in the housing market. ›

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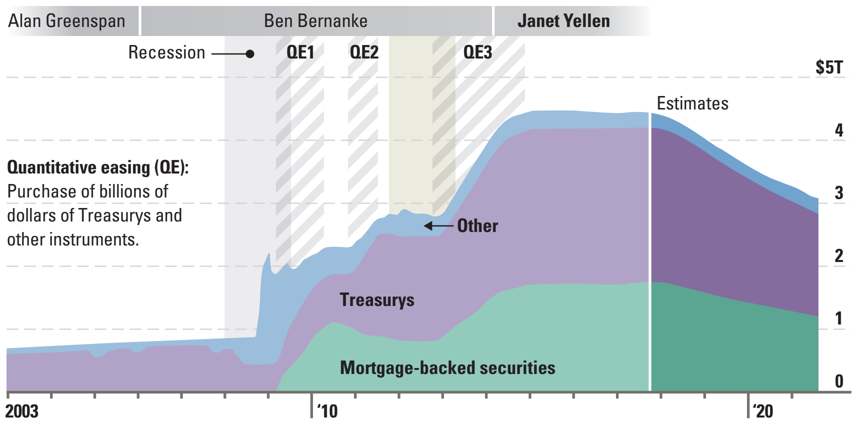
Assets held by the Federal Reserve



Note: Assuming portfolio size steadies in 2021 and interest rates don't change significantly.
Sources: WSJ, Federal Reserve, Federal Reserve Bank of New York.

In the meantime, a rationalization of some onerous regulations appears to be occurring and will benefit small businesses in particular.

With regards to the financial markets, we are encouraged by a broadening of interest beyond narrowly focused tech and mobile telecommunications stocks. Over the past year, we have seen improvement in a number of groups that had become attractively valued, including financials and pharmaceutical companies. We are reminded of Benjamin Graham's quote: "In the short run, the market is a voting machine but in the long run it is a weighing machine." A group of stocks may rise or fall in the short-term for non-fundamental reasons, which can cause an over- or under-valuation of them. However, in the long-term it is company fundamentals and valuation that will ultimately determine investment returns.

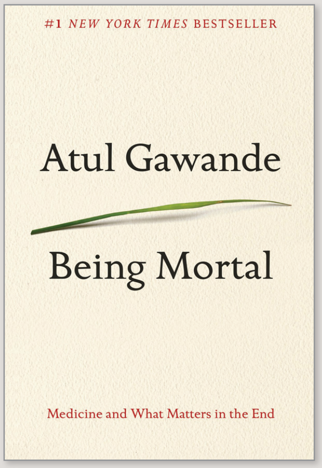
Overall, we believe there is a rational basis for the strength in stocks. Earnings growth has remained positive. As well, the financial markets have been recovering from a low base after the S&P Index's decline of nearly 60% in 2008–09. The typical predecessors of significant market declines, such as economic or asset bubbles, excessive valuations, broad public euphoria, excessive lending, or sharply rising interest rates, do not appear to be present. Of course, a 5–10% correction could happen at any time. While disconcerting, this a normal range for market fluctuations. For example, the S&P Index has declined 5–10% ten times since 2008, yet is up over 300% from the March 2009 low.

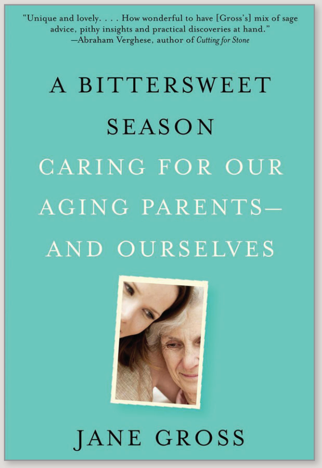
We are carefully monitoring developments with monetary policy and legislative initiatives in the U.S., and continue to believe that equity markets provide attractive investment opportunities. We are hard at work uncovering new investment ideas and have added several new equity holdings to the portfolios in the recent quarter.

Given several years of economic growth, the Fed recently announced that it will begin reversing QE this October. Its goal is to unwind QE gradually and carefully, with the intention of limiting inflation and decreasing the risk of asset bubbles, while also not triggering a recession due to a too-rapid reduction of money available to the overall economy. The reversal of QE is an unprecedented exercise, as the Fed has not exited positions of this size before. In addition to the Fed, the European Central Bank, the Bank of England, and the Bank of Japan have indicated that they will also begin to scale back their respective QE programs. While there may be an increase in market volatility during this period, this normalization of monetary policy is encouraging as it indicates that the central banks of the major global economies have determined that their economies have largely recovered from the financial crisis and, importantly, appear to be on a growth trajectory.

On the U.S. political front, given the lack of progress on numerous legislative initiatives, the financial markets have shifted focus back to the economy and company fundamentals. The third attempt at an Affordable Care Act repeal was unsuccessful, and the market is skeptical that a tax reform bill will pass in 2017. As tax reform's success is not reflected in stock prices, there is less risk should a legislative initiative fail, and upside should prospects improve.

FALL READING





Some of the toughest but most important decisions we make concern aging and death. There are practical issues to consider—what type of care is needed, what healthcare costs are covered, and the logistics of changing living environments—as well as more philosophical questions surrounding a meaningful end-of-life experience. We have found two books to be especially useful in exploring these topics: Atul Gawande's *Being Mortal: Medicine and What Matters in the End* and Jane Gross's *A Bittersweet Season: Caring for Our Aging Parents – and Ourselves.*

Being Mortal frames aging, frailty, and death not as clinical problems to be solved but as life stages to be managed with dignity and care. As Gawande details, there are troubling parallels between traditional geriatric care and prison life: reduction of personhood, rigid adherence to schedule and rule, and the near total loss of free will. While many measures are well-intended, *Being Mortal* forcefully argues that the pursuit of patient safety and order is at the untenable expense of a life worth living. Through a review of current research, myriad interviews, and his own experience as a medical doctor, Gawande takes a deep dive into what the infirm truly want and, critically, makes the case that change is within reach. In one memorable account, a nursing home in upstate New York muscled through an exemption to housing regulations and installed one hundred parakeets, two dogs, and four cats as roommates to its elderly charges. Residents were encouraged to care for the fluffy, feathery wards, reestablishing a sense of purpose and significance. The home saw remarkable improvements in both quality of life and medical outcomes. While *Being Mortal* can be a tough read, it is ultimately optimistic about the prospects for transforming "the possibilities for the last chapters of everyone's lives."

While *Being Mortal*'s focus is on broader ethical questions, *A Bittersweet Season* homes in on the nuts and bolts. In retelling the story of caring for her aging mother, Gross invites her readers to learn from her and her brother's mistakes. While many would like to "age in place," following a medical scare, Gross had to move her mother from Florida to New York, learning valuable lessons in her pursuit for the find the right place for her mom, not the most convenient place. Her family's experience also highlights the importance of maintaining a primary care doctor instead of opting for specialists, avoiding emergency room visits, which can be traumatic and expensive, and partnering with one's siblings in taking care of parents. One of Gross's key pieces of advice is for adult children to slow things down, ignoring the impulse to treat aging parents as crisis situations. Being thoughtful about moving a parent from one state to another, finding geriatric experts to advise on the right type of facility, and respecting parents' wishes will generally lead to better and less stressful outcomes for everyone. There are great lessons woven through Gross's narrative, and her story will likely resonate with one or more aspects of your family's journey.

Please contact us if you would like us to send you a copy of either or both of these compelling books. We also invite our clients to use us as a resource when navigating issues. We can help confirm your financial plans and serve as a sounding board for you and your family.

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FIRM UPDATE

OBERMEYER WOOD RECOGNIZED BY *FORBES* AND *BARRON'S*

Our firm was honored to be named in two prestigious rankings in the past few months.

Representing our firm, Wally Obermeyer was named as one of *Barron's* Top 100 Independent Financial Advisors in the magazine's September 15th edition. Published annually, this ranking evaluates advisors on a variety of factors in three general categories: assets, revenue, and quality of practice. 2017 marks Obermeyer's 10th appearance on the *Barron's* "Indies" list, and we are honored to be one of the two Colorado-based advisors named.

Earlier this summer, Dana Nightingale was listed in *Forbes*'s inaugural ranking of the nation's top 500 next-generation wealth advisors. Those listed, referred to as "the future of wealth-management," included both brokers and registered investment advisors, with Dana being ranked second in Colorado. We applaud organizations such as *Forbes* (in partnership with Shook Research) that are highlighting both the leaders of firms as well as up and coming advisors.

We are incredibly proud of our team and believe these accomplishments reflect the efforts of everyone at our firm as we work closely on each client relationship and investment idea. We also know that none of this would be possible without our clients' loyalty and support. We are humbled by our longstanding client relationships and want to extend a heartfelt thank-you for your continued partnership.

More details on these recognitions are available on our website under the News section.

TOP OF MIND

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, please reach out to our team. 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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