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OBERMEYER WOOD NEWS

WINTER 2018

MARKETPOINT

Investor patience was well-rewarded in 2017, with global stock markets appreciating substantially. Accelerating global growth, higher corporate earnings, subdued inflation, and the passage of the U.S. tax bill drove the S&P 500 index to an all-time high right before year-end.

While the U.S. was the first to recover from the financial crisis, overseas economies also picked up momentum in the last two years. This synchronized global growth recently led the International Monetary Fund to increase its estimates for worldwide GDP growth to 3.6% for 2017 and 3.7% for 2018. In the U.S., GDP growth accelerated rapidly from 1.2% in 2017's first quarter to 3.2% in its third quarter—this despite the negative impacts of several devastating natural disasters, including Hurricanes Harvey, Irma, and Maria as well as severe wildfires in California. Corporate earnings have also been strong; according to Factset, estimates grew nearly 10% in 2017. This strength should continue in 2018, with earnings estimated to grow at 11.8%, which would represent the highest annual earnings growth since 2011 (12.7%).¹

Providing additional support to the financial markets this past year was a benign interest rate environment, strengthening commodity prices, and improving confidence measures. While the Fed has continued to gradually increase interest rates, these hikes have been at a measured pace and absolute rates remain low.

Continued low inflation has allowed the Fed to carefully control the pace of rate increases, despite labor market strength. Furthermore, reversing the prior year's trend, the U.S. dollar weakened substantially, particularly against the euro, which has been helped by an improving European economy and decreased concern about Brexit's negative impact. The weaker dollar helped increase exports for U.S. companies. Commodities, particularly oil, stabilized and strengthened in recent months as supply adjustments and cost reductions put into place after the significant oil price declines in late 2015 and early 2016 took effect. Consumer sentiment reached a 17-year high in November, and business confidence has also improved markedly this year.

Economic news, mostly positive and improving throughout the year, competed with a noisy political environment. President Trump gave both his supporters and detractors plenty of fodder. A seemingly endless supply of tweets served to confuse and agitate many political observers. The special counsel's investigation, North Korea, and Republicans' lack of cohesiveness exacerbated the situation. From an investment perspective, however, there were also notable developments this year, including the passage of the most significant tax code overhaul since 1986, with sweeping changes affecting both corporate and individual taxes. As well, regulatory changes benefited many sectors, including financials and telecom. >



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MARKETPOINT (CONTINUED)

While not all aspects of the tax bill were well received, the reduction in the corporate tax rate from 35% to 21% is material and will likely provide an immediate boost to earnings, creating the opportunity for companies to invest further in capital equipment, hire additional employees, and raise wages. Companies may also choose to raise the dividends they pay investors or pursue additional share buybacks. As well, the legislation encourages U.S. companies holding cash overseas to repatriate it. A recent research report by Goldman Sachs estimates that over \$900 billion of untaxed cash is currently held overseas. Of that, a substantial portion is likely to be repatriated to the U.S. and used by companies to reinvest in their businesses or to return capital to shareholders.² Also, an infrastructure program could be passed based in part on tax revenues on the repatriated earnings.

Considering the coming year, there are additional reasons for optimism as well as risk factors to observe closely. While valuations remain on the higher end of historical averages, in 2017 the U.S. economy performed better than forecast, and that momentum is expected to continue into the coming year. Improving earnings growth and a continued gradual pace of interest rate hikes should also support the financial markets. A more stable global political environment helps an improving worldwide outlook, as the likelihood for an orderly Brexit

has increased and recent elections in Germany, France and Austria supported more moderate, pro-growth candidates.

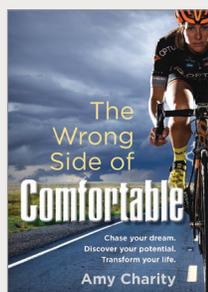
Of note, market volatility has been unusually low, and should volatility return to more normal levels, market participants may overreact as price swings occur. In particular, some fixed income securities may see heightened volatility in the coming years as interest rates continue to increase. Should higher than expected economic growth result in tighter resource markets or higher wage inflation—and hence overall inflation—the Fed may feel compelled to raise interest rates more quickly to prevent the economy from overheating, which could negatively impact markets.

We, however, remain encouraged as we have seen increased strength across a wide array of sectors throughout the year, signaling a healthier investment landscape. As a value-oriented manager, we remain disciplined and have been able to identify attractive new investment opportunities across multiple sectors, including next-generation automobile suppliers, athletic equipment and apparel, building products, and media. We continue to assess the potential risks as the investment landscape evolves, while remaining focused on providing attractive long-term returns consistent with clients' investment objectives. 

¹Source: "Double-Digit Earnings Growth, High Profit Margin Projected for S&P 500 in 2018," *Factset*, 12/22/17.

²Source: "2018 US Equity Outlook: Rational Exuberance," *Goldman Sachs*, 11/12/17.

RECOMMENDED READING: *The Wrong Side of Comfortable*

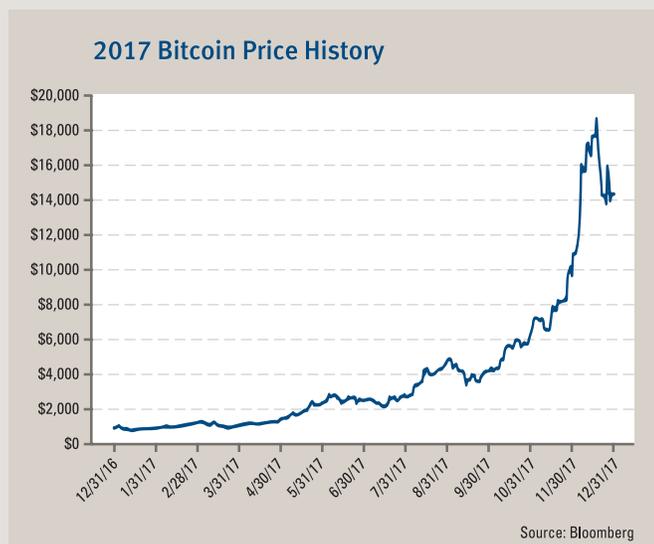


In her mid-30s, Amy Charity turned her life upside down: she quit her stable finance job, endured crazy training rides, and spent lengthy periods of time away from her husband and friends, all to become a professional cyclist. Charity shares her journey in *The Wrong Side of Comfortable: Chase your dream. Discover your potential. Transform your life*. While this book will certainly resonate with cyclists, the obstacles she surmounts and lessons she learns are applicable to

anyone who is reaching for a goal or wants to make a change, personal or professional. Charity's book inspires readers to realize their potential by venturing outside their comfort zone and embracing risks, big or small. At the same time, she provides useful advice on how to do this while maintaining integrity and character, such as surrounding oneself with the right people and a balance of perspectives. Since people often think of goals at the start of each new year, we wanted to highlight this quick read as a tool to use in following through on these resolutions. Please let us know if you would like a copy of this book. 

BITCOIN: A PRIMER

Bitcoin received a lot of press in 2017, with its recent rise being charted frequently on CNBC and Bloomberg News. This is not surprising when you consider that a chart of the bitcoin to U.S. dollar exchange rate for 2017 looks like this:



One bitcoin traded at about \$1,000 USD on January 1, 2017. The same bitcoin traded above \$19,000 on December 17, 2017.

Even before the most recent volatility captured headlines, several clients had asked what is bitcoin and why does it matter?

At its core, bitcoin is the most visible implementation of a software technology called blockchain. So, what is blockchain? Blockchain is a distributed ledger: a public, decentralized record of transactions with a copy of the ledger existing on each of many networked computers in different places throughout the world. The system has numerous benefits, including transparency, resiliency, immutability, and security. Some believe this technology has the potential to fundamentally change commerce worldwide as much as the Internet has done in the past twenty years.³

How does a transaction work? In its simplest form, if A wants to send B one bitcoin, A offers that transaction to the network for verification. The computers on the network verify the transaction, making sure that A owns a bitcoin to send to

B, and then record the transaction in a block that is added to the chain. The chain now includes a record that A owns one bitcoin fewer than before, and B owns one bitcoin more. As the computers in the network update their local copies of the ledger (chain), they maintain a consensus about all the transactions stored in the chain. Computers in the network earn bitcoins as a reward for verifying transactions. Each block in the chain includes an electronically secure marker that points to the previous block. This means that, as more blocks are added to the chain, undoing a past transaction becomes increasingly difficult.

What is driving the price? Simply put, supply and demand. The software protocol sets the maximum number of bitcoins that can ever be created at 21 million. As more people become aware of bitcoin and the potential of blockchain, more people want to buy bitcoins. Demand drives up the price of a scarce resource and is in turn fueled by exposure and momentum. Acceptance and legitimacy are also playing a role; for example, the Chicago Board of Exchange launched trading in bitcoin futures in December 2017.

Is bitcoin a viable investment? The price of bitcoin is extremely volatile; 2017 alone has seen five corrections of more than 30%, and in April 2013, prices dropped more than 70% overnight.⁴ This volatility makes bitcoin unsuitable for most investors. Bitcoin has some features of a currency, but its price swings makes it an unreliable store of value, and it is not easy to use as a medium of exchange. Bitcoin has no earnings and pays no interest or dividends, so it is difficult to value using traditional methods. While the blockchain technology underlying the bitcoin protocol is fascinating, bitcoin itself is best left to the speculators at present. We continue to monitor this area because, as use cases for blockchain develop, opportunities may arise to invest in appropriately valued companies working with this technology. 

³See, e.g., Iansiti, Marco and Lakhani, Karim R. "The Truth About Blockchain" *Harvard Business Review*, Jan.–Feb. 2017.

⁴Source: <http://fortune.com/2017/09/18/bitcoin-crash-history/>

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TOP OF MIND

TAX TIME

In the first few months of 2018, many of you will be gathering information for your annual tax filing. Please note that realized gains and losses amounts are included on 1099s, which will be mailed to you directly from the custodian of your account(s). These reports are generally issued in early February; however, you may consider delaying filing until closer to the tax deadline as amended 1099s may be issued at any time.

Please reach out to our team if you would like us to provide these reports to your tax preparer on your behalf, or if any questions arise. We can also provide income estimates and capital gain/loss updates during the course of the year to aid in calculating quarterly estimates. We believe this coordination can be helpful in keeping your financial life in order.

FIRM UPDATE

OBERMEYER WOOD TEAM RECOGNITIONS

We are honored that members of our team were recognized in several publications this past quarter.

Colorado Expression magazine profiled our firm in its December/January issue. The article, "Investing in Success," relays the story of George Wood and Wally Obermeyer joining forces in 2014, and speaks to the strength of the current team and highlights several professionals in our Denver office. We appreciate the author focusing on our collective strengths and how we collaborate to deliver thoughtful, tailored advice to each of our clients.

Separately, representing our firm, Wally Obermeyer was included in *Forbes'* list of America's Top 250 Wealth Advisors for the second year running. The ranking's rigorous selection process, developed by SHOOK Research, evaluates advisors' experience and best practices, among other criteria. Obermeyer is the second-highest ranked advisor in Colorado.

Finally, Ali Phillips and Dana Nightingale were both included among America's Top Wealth Adviser Moms, a new ranking by *Working Mother* magazine and SHOOK Research.

More information on these articles and recognitions is available on the home page of our website, obermeyerwood.com.

We are always pleased to share these types of recognitions with you. At the same time, we want to extend our sincere thanks to our clients for their continued loyalty and trust in our services. We are grateful for their ongoing partnership and support. 



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