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# OBERMEYER WOOD **NEWS**

SPRING 2018

## MARKETPOINT

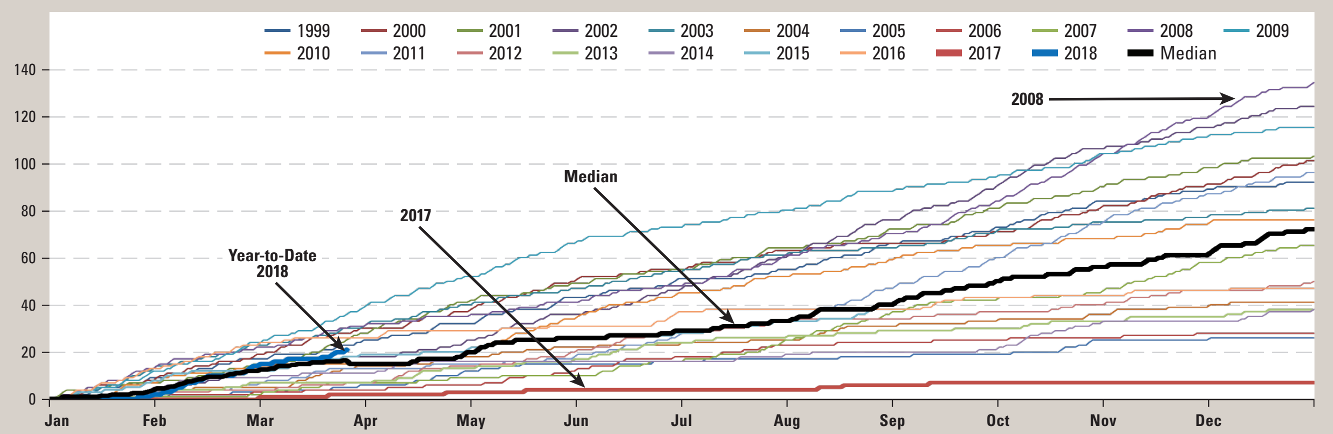
As expected, the first quarter of 2018 has seen a resurgence of volatility in the equity markets. While the overall economic backdrop and outlook for corporate earnings remain favorable, uncertainty over interest rates and inflation, headlines around Facebook, political issues, and trade disputes have predominated newspaper headlines. While the media have leaned on disquieting words such as "turbulence," "severity," and "tumultuous," market activity is simply returning to historically normal levels.

Strong market returns in 2017 captured investors' attention; however, a key attribute that was overlooked to some degree was the markets' unusual stability. The average absolute daily percentage change for the Dow Jones Industrial average was .31%, and .3% for the S&P 500 Index, the lowest percentage changes since 1964[1].

Demonstrating 2017's market stability a different way, the chart below shows the S&P 500 Index's daily percentage movement over the course of the year. 2017 (highlighted in red) is exceptionally low, significantly below the median level. Year-to-date, the daily changes in the S&P 500 Index have more closely tracked the 20-year median. While the current environment feels jolting compared to last year's relative calm, in fact the market action so far this year has not reflected an unusually volatile environment.

Adding to the sense of tranquility, as of the end of January 2018, the S&P 500 Index had increased for ten straight months. As well, the VIX Index, a measure of stock market volatility nicknamed the "fear gauge" because it increases when market concerns rise, posted record-low levels in 2017. So far this year, the VIX Index, while

**Cumulative Number of Daily S&P 500 Moves of +/-1% Over Course of Year**




Source: Willie Delwiche, R.W. Baird Investment Strategist via Twitter; chart recreated in Bloomberg

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[1] Source: WSJ Market Data Group

spiking in early February, has generally remained at or below historic levels.

The U.S. financial market backdrop remains positive, with a strong and growing economy and substantial corporate earnings growth expected this year. The economy grew just over 2% in 2017 and growth is expected to accelerate to 3% in 2018. Measures of business and consumer confidence remain strong, business investment and consumer spending are accelerating, and a weak U.S. dollar continues to benefit exports. Corporate earnings expectations for 2018 increased significantly after the new tax bill was signed into law. According to FactSet, first quarter earnings growth estimates are 17%, up nearly 6% from original estimates, and for the full year, earnings growth is expected to be 18%. Stronger revenue growth, tax reform, and corporate cost-cutting efforts are driving these upward revisions.

As the economy has grown, wage growth has been limited and as a result overall inflation has remained benign. In the first quarter, the Fed commented that the labor market is “near or a little beyond full employment.” Given the prospects for economic growth and expectations that inflation will eventually rise, the Fed has been methodically increasing short-term interest rates. It raised rates again in March and is expected to raise them three more times in 2018. Thus far the Fed has been able to slowly raise rates, as expected. However, should it be compelled to increase interest rates more rapidly to control inflation, the equity markets could be negatively impacted.

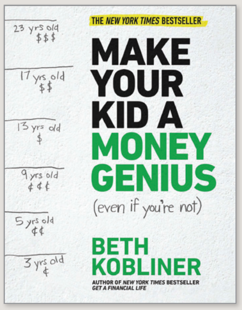
The corporate tax rate decrease from 35% to 21% had a nearly immediate positive impact on corporate earnings estimates. However, other key benefits expected from the tax reform legislation, including stock buybacks resulting from higher earnings, the repatriation of funds held overseas, and a pickup in mergers and acquisitions activity have yet to materialize meaningfully. As companies work through the complexity of the tax legislation, it is likely that these activities, which typically cause stock prices to rise, will increase and should provide support to the equity markets in the coming months.

Also impacting the financial markets this quarter was the controversy surrounding Facebook, the ubiquitous social network that has faced recent criticism over a significant misuse of data that Facebook made available to a consulting firm prior to the U.S. elections. Regulatory investigations, potential fines, and the threat of punitive legislation have negatively impacted its stock. Facebook is one of a group of momentum-driven technology and mobile telecommunications stocks that accounted for a significant portion of recent S&P 500 Index gains. Facebook’s woes contributed to the recent S&P 500 Index decline given its large market capitalization and resulting large weighting in equity indices. In addition, as the use of index fund investing strategies has proliferated, the sell-off of a company with a large index weighting may prompt a meaningful decline in the overall index, which can trigger more automatic selling of the company and index, exacerbating the decline. The combination of a concentration of large stocks comprising a meaningful portion of the index with increased ownership of index funds has a magnifying effect on the upward and downward moves in these types of stocks.

The U.S. political environment remains disorderly, with White House personnel changes and abrupt policy announcements the new normal. The recent proposal of tariffs on aluminum and steel, and the possibility that they will lead to a retaliatory trade war has created concern. This is in part due to many investors recalling the disastrous Smoot-Hawley tariff regime of the 1930s, which raised tariff rates substantially and resulted in retaliatory trade measures by foreign governments and a substantial decline in international trade. On the positive side, tariffs, or import taxes, if used to protect U.S. industry from unfair competitive practices without resorting to protectionist measures, may result in non-compliant countries being compelled to play by the rules set by the World Trade Organization. Since the initial proposal, the U.S. has moderated its position and bilateral discussions with China are taking place, reducing the risk of a harmful escalation.

Since March 2009, U.S. market indices have risen dramatically, causing some to question whether a substantial stock market decline is imminent. We have discussed previously the possibility of a market correction after a prolonged rise. The risk is magnified when a relatively narrow group of stocks have risen to fairly extreme valuations and have accounted for a disproportionate percentage of the market increase. While we recognize overall market valuations have risen, we continue to find attractively valued investments, including companies positioned to benefit from major emerging themes such as increasing interest rates and the loosening of the Dodd-Frank banking rules, the Internet of Things, and the long-term evolution towards autonomous driving. As we navigate the short-term volatility, we remain focused on our long-term value-oriented investment philosophy, which we believe will serve our clients well.

## RECOMMENDED READING: *Make Your Kid A Money Genius*




If we weren't convinced before, the past decade's financial headlines made a strong case for teaching our children financial literacy. In the context of predatory lenders, widespread identity theft, and esoteric investment products, the stakes feel high, the perils complex and shifting – an intimidating brew if ever there was. For many parents and caregivers, it's easy to accept the merits of teaching how to smartly budget, navigate credit and debt, and be a savvy consumer. The hard part is how to do it.

While a number of resources are available, one standout is Beth Kobliner's *Make Your Kid a Money Genius (Even if You're Not)*. Kobliner, a financial journalist for *The New York Times* and *Wall Street Journal* and author of *Get a Financial Life*, tackles her topic with clarity, wit, and (importantly) a superb sense of structure. The book breaks down financial literacy into comprehensible subjects, identifies the most important concepts for each subject, and then provides concrete, actionable suggestions by school level. For example, you can introduce the concept of investing (simplified as "putting in effort now for a delayed result") to your preschooler by planting seeds together. Similarly, you can help your middle schooler assimilate the idea of delayed gratification – one of the concepts underpinning saving – by insisting that she or he stick with commitments to the end. The author also tackles the thorny questions of how to structure allowances and how to position your family's finances to be better prepared for college tuition, topics that seem to come up during many client meetings.

As an introduction, Kobliner provides a helpful list of "Rules for Talking to Your Kids About Money." Here are highlights:

- **Start even earlier than you think you should.** By age three, children can start grasping basic economic ideas such as delayed gratification and value. This is the time to start introducing concepts.
- **Use anecdotes.** Unless you're herding them towards an early bedtime, avoid lectures. Instead, lean on stories and anecdotes as these are more interesting and more likely to stick in kids' memories.
- **Never fib about how much money you have on you.** Don't dodge a request to buy something by lying about not having money for it. It is better to answer honestly, as your real reasons for denying a purchase are usually better lessons. Plus, kids are good at ferreting out these lies.
- **Share the Talking.** There is a tendency for one parent – often the father – to take the lead on financial discussions. This sends the message that money is a man's turf. No matter the family configuration, all caregivers should participate in these discussions.
- **Don't try to keep up with the Joneses, because you will teach your kids to do the same.** As with so much when it comes to parenting, it pays to be mindful of the example we set.

Although some advice is timeless, there is no guarantee that the specific resources and recommendations in this (or any) book will be a perfect match for your situation. We take great pleasure meeting the next generation and welcome you to bring in your children or grandchildren for a family meeting or one-on-one consultation.

We are also happy to send you a copy of Kobliner's book – just let us know.

# TOP OF MIND

### PERIODIC REVIEW MEETINGS

An ongoing, open dialogue helps us do the best possible job for our clients. While we work to keep you informed about broad market developments through this newsletter and other communications, there is no substitute for one-on-one discussions. We recommend having a more in-depth conversation about your accounts and financial situation at least annually. Also, if anything has changed in your life (e.g., promotion or job change, change in distribution needs, inheritance, or feelings about the global markets), a brief call is an easy way to see whether any investment adjustments may be appropriate.

Our team is available to address subjects ranging from at what age to take social security, how to plan for upcoming taxes, whether to gift assets, and when to comfortably retire. We can also provide a detailed financial forecast to help confirm you are on the right track with your saving and spending habits. If you are interested, please be in touch so we can explore whether such an analysis could benefit your situation.

### OBERMEYER WOOD RECOGNIZED IN STATE RANKINGS

We are proud to share that *Forbes*' 2018 state-by-state ranking of America's top wealth advisors includes Wally Obermeyer and Ali Phillips (Colorado's no. 2 and 9 slots, respectively). The ranking, developed in conjunction with SHOOK Research, identified "top-performing advisors across the country" based on industry experience, best practices, personal interviews, and other factors.

Separately, Wally Obermeyer was listed in *Barron's* 2018 state-by-state ranking of top financial advisors. Wally earned the number 3 spot in Colorado. This is his sixth year on the list, and we are proud to be among the independent advisors featured.

While industry rankings tend to list individuals, we believe these accomplishments reflect the efforts of our entire team. A core firm value is to work collaboratively to deliver excellent service and tailored advice. We also know these recognitions wouldn't be possible without the ongoing support of our wonderful clients. Thank you for your continued partnership.

In additional to mentioning these accolades on our firm website, we broadcast these and other announcements on our newly revamped LinkedIn profile and Facebook page. We also include highlights from conferences we attend and community activities we support. We invite you to follow us.

## Our Team

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