IN THIS ISSUE

OBERMEYER WOOD **NEWS**

SUMMER 2019

MARKETPOINT

RED LIGHT, GREEN LIGHT

The U.S. stock market has been on a tear so far in 2019 with broad indices up over 15%, achieving its best performance for the first half of any year since 1987. In any other year, the typical investor would be overjoyed with double-digit returns, yet for some reason, this bull rally does not feel satisfying. Perhaps, it is because of ongoing trade negotiations with China; the looming tensions between the U.S. and Venezuela, Iran, and North Korea; the increasing likelihood of a "hard" Brexit; lingering concerns from 2018's market declines; or the dread of an inverted yield curve that has been weighing on everyone's minds. Whatever the reason, the market has run full speed ahead only to come to a sudden halt after a policymaker's announcement or a resurfaced geopolitical risk, and then has risen again a few days or weeks later to new highs.

With so much focus on what is going wrong, few headlines are highlighting what is working. Earlier this year, the current bull market surpassed ten years, marking one of the best decades for equity investors in a century. In part, this is due to the robust economy, demonstrated by an unemployment rate under 4 percent, a 50-year low, and solid consumer confidence. Healthy labor markets foster a strong consumer who is willing to spend, which in turn leads to businesses that are willing to invest in the future. Meanwhile, federal, state, and local governments are pushing for more spending, including a $2 trillion infrastructure package and additional military investment.

Underpinning this chain is the Federal Reserve, which has made it easy for the whole financial system to borrow money for new purchases and investments. The Fed has backed off the tightening it began last year and shows a much greater inclination to loosen monetary policy. Fed Chairman Jay Powell has offered markets new hope, stating that the Fed will set policy to meet its mandates of full employment and price stability. If the committee becomes more accommodative, the economy and markets will likely continue their upward trajectory.

Nonetheless, the market is likely to experience more red and yellow lights flashing in the upcoming months. Going into the year, investors had anticipated resolution on Brexit and expected clarity on trade negotiations with China by mid-year. Now that those deadlines have been extended, the market faces more uncertainty and will need to process new information as it surfaces. U.S. conflict with other nations has escalated, fueling anxiety over oil prices and pressurizing an already tense geopolitical system. Corporate earnings have been lackluster following a year of outsized returns due in part to the prior year's tax stimulus. Finally, the upcoming presidential campaign is likely to catch some companies flat-footed as they navigate proposed legislation or adapt to a potentially different political environment.

Such uncertainty explains why investors are tepid about their prospects for the second half of the year. In the near term, there are many reasons to be cautious, yet over the long term, we are optimistic about what the future holds. ›

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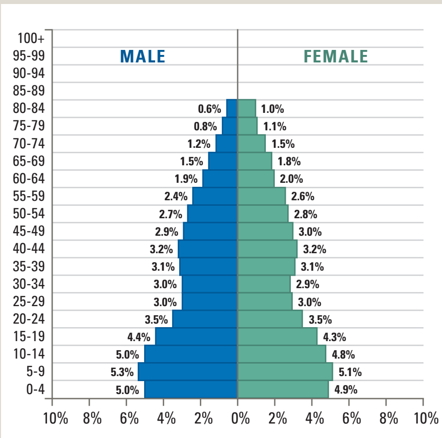
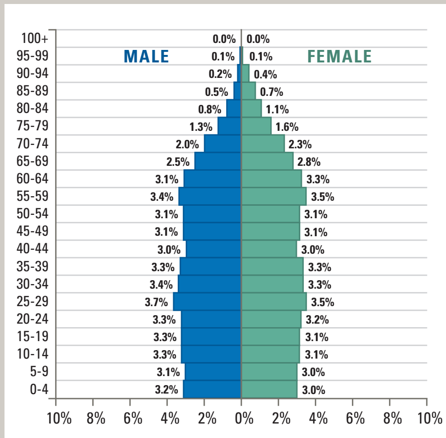
For example, for the reasons we lay out in our next article, "What Drives GDP Growth?," the U.S. is in an envious spot. Between favorable demographics and being at the center of meaningful innovation, the economy will likely continue growing and companies will benefit from these tailwinds. The most important thing for investors is to stay invested and participate in this growth—and not to overact to the yellow and red lights as they surface.

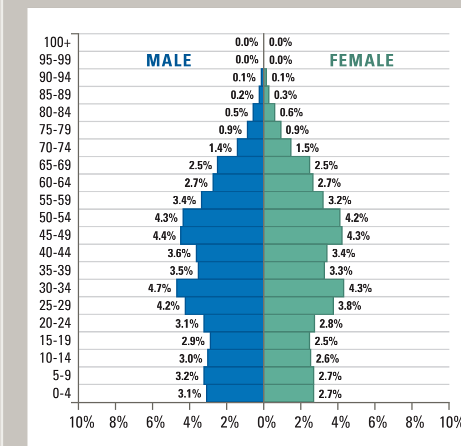
United States of America: 1965
Population: 199,403,532



United States of America: 2019
Population: 331,195,364



China: 2019
Population: 1,398,582,297



Source: PopulationPyramid.net

WHAT DRIVES U.S. GDP GROWTH?

Gross Domestic Product, or GDP, is a measure of a country's economic output. The GDP growth rate measures how fast the economy is growing by comparing one quarter's GDP to the previous quarter. While GDP is commonly discussed in the news, its components are rarely explained:

- Personal consumption: In 2018, 68% of U.S. GDP came from personal consumption, or goods and services. Goods (21% of GDP) are either long-lasting items, like computers, jewelry, and cars; or consumables, like groceries, clothing, and fuel. Services (47% of GDP) are intangible products, such as plane tickets, legal advice, and tuition payments.
- Investment: Roughly 18% of U.S. GDP is driven by purchases from businesses that invest in everything from factory equipment to software to inventory. New construction of office buildings and residential homes is also categorized as an investment for the purpose of calculating GDP.
- Government spending: 17% of U.S. GDP comes from spending by the government at both the federal (5-10%) and state (about 10-15%) levels. National defense spending is about 4% of GDP, and the remaining funds go toward things like schools, roads, and infrastructure.
- Net exports: Since we purchase more than we sell, known as a trade deficit, net exports are negative, hovering around -3%, and decrease U.S. GDP. It represents the amount of goods we sell to other countries minus the amount we purchase from them.

Population growth is a driving force behind GDP growth. Since personal consumption makes up 68% of GDP, a growing population that works and consumes is an important determinant. As the U.S. population ages, there are fewer workers and lower consumption by these individuals, which could hurt economic growth. While not as favorable as they once were, the latest data suggests that the U.S. is in a comfortable spot with respect to its population growth (see graphs above.) Ideally, the population looks like a pyramid with more young generations than old ones. However, a pillar-like shape, like the U.S. has today, shows that the number of births is slightly outpacing the number of deaths, which is most important. In contrast, countries like China and Japan have bulging, or mushroom-shaped,

Continued on last page

REPORTING FROM OMAHA

From left to right, Tod Wood, Ali Phillips, Wally Obermeyer, Maia Babbs and Brian Brady.

Continuing an Obermeyer Wood tradition, five team members traveled to Omaha in early May for Berkshire Hathaway's 55th annual shareholder weekend. The OWIC team, comprised of Wally, Ali, Maia, Tod, and Brian, woke around 4:30 am on Saturday, May 4, and made its way to the CHI Health Center Stadium to stand in line to secure prime seats for the meeting, which began at 8:30 am. Despite the fact that this event is now available for anyone to watch via live stream, attendance for this year's "Woodstock of Capitalism" was as strong as ever, with 42,000 people packing the arena. Warren Buffett, 88, and Charlie Munger, 95, held court for more than five hours, answering questions from journalists, analysts, and investors with their usual wit, wisdom, and down-to-earth style. The two business partners covered an impressive range of topics, including succession plans, share buybacks, value investing, and U.S.-China relations, to name a few. Their ability to provide detail-filled answers about Berkshire's vast businesses continues to be an awe-inspiring spectacle.

A few highlights:

- The duo was asked about whether Berkshire Hathaway's longstanding value investing philosophy was changing after the company disclosed that it recently bought a stake in Amazon – a company with a high price-to-earnings ratio. In response, Buffett stated that all investing is value investing and the price of a stock shouldn't be the only consideration. He noted that his portfolio managers who bought Amazon shares looked at a slew of financial metrics, including the company's sales, margins, tangible assets, excess cash, and excess debt. "All those things go into making a calculation as to whether they should buy A versus B versus C, and they are absolutely following the principle," said Buffett.
- Looming large over this year's meeting was the topic of share buybacks, and whether Berkshire planned to do more of them given that the company has about $100 billion of cash on hand after the first quarter of 2019. Buffett said buying back shares benefits Berkshire shareholders, but a pile of cash won't influence the timing. "We want to be sure when we repurchase shares that people who haven't sold their shares are better off than before," he said.
- An interesting question focused on the increased criticism of capitalism in the U.S. When asked to respond with his view, and whether this posed any threat to Berkshire, Buffett replied, "I'm a card-carrying capitalist." He added: "You don't have to worry about me changing in that matter. I also think capitalism does involve regulation. It involves taking care of people who are left behind … I don't think the country will go into socialism in 2020 or 2040 or 2060."
- Succession at Berkshire has become an increasingly hot topic in recent years, as Warren and Charlie near the end of their careers after running the business for nearly 55 years. In a nod to this issue, Warren asked Greg Abel, Berkshire's vice chairman for noninsurance businesses, and Ajit Jain, Berkshire's vice chairman for insurance operations, to respond to two separate questions during the meeting. Both men answered a question from their seats in the crowd, but Buffett did allude to the possibility that one or both of them would join him and Charlie on stage at future annual shareholder meetings. Buffett didn't tip his hand too much, as he had already promoted both men to leadership positions earlier this year. However, it was interesting to see the rare sight of someone not named Buffett or Munger answering questions at the annual meeting.

Our Team

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Jody Dible
Associate, Client Services and Operations

Naomi Seldin
Associate, Client Services

WHAT DRIVES U.S. GDP GROWTH? *(Continued from page 2)*

demographic profiles, demonstrating declining birthrates and an aging population.

Innovation, measured by productivity, is another key driver of GDP growth. Economists estimate that approximately 50% of U.S. annual GDP growth is attributed to increases in this productivity.[1] The U.S. has a long history of bringing to market impactful inventions that have spurred economic growth. Dental floss, hearing aids, and cardiac defibrillators are examples of necessary products that improve lives. More recent inventions like the computer, email, and the internet have been incredible drivers of economic growth and created entirely new markets. Technologies like 5G may lead to even more innovation, such as autonomous cars and breakthroughs in how Americans experience healthcare.

As long as the U.S. continues to have favorable demographics and an entrepreneurial spirit, the economy is likely to grow and the GDP growth rate will stay positive. A solid economy is the backbone of the stock market. For more information about this, please reach out to one of our team members.

[1] https://www.uschamberfoundation.org/enterprisingstates/assets/files/Executive-Summary-OL.pdf

MEETING THE NEXT GENERATION

With summer officially underway, it is a perfect time to remind you that we are always looking to take advantage of this seasonal opportunity to meet with you and your children (or visiting relatives). An intergeneration family meeting can spark insightful conversations, provide educational opportunities around financial literacy, and offer a platform to talk about money and long-term planning. We always enjoy these meetings, and they are part of our core services offered to you and your loved ones. If a family meeting isn't exactly what you are looking for, then we are also happy to help your family members individually. We can work with them on a wide variety of issues, ranging from management of accounts to providing advice on personal finance matters or other planning specific to their stage in life. Please reach out if you would like to schedule a family meeting or introduce us to a family member in person or by phone.

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