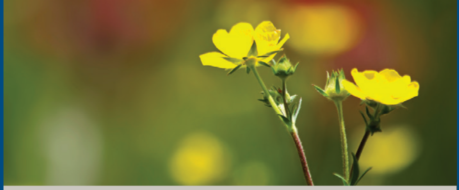

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OBERMEYER WOOD **NEWS**

SPRING 2020

MARKETPOINT

REASONS FOR HOPE IN A SICK ECONOMY

With the majority of our nation's population subject to stay-at-home orders resulting from the COVID-19 pandemic, the U.S. economy is on track to face the steepest increase in unemployment and sharpest decline in productivity ever. We are all feeling the impact as the virus starts to hit closer to home. In January, it was simply an international news story and an executive order to limit travelers entering the country from China. In February, we learned about an outbreak at a nursing home in a Seattle suburb. In March, cities across the country emerged as "hot spots" with thousands of patients needing care for respiratory illness. By this time, most of us likely know someone with the virus, or at a minimum, know a friend of a friend who is infected. We closed the quarter with the U.S. leading the world in COVID-19 cases and a presidential recommendation for social distance through the end of April.

As investors, our role is to predict a range of outcomes, and then probabilistically weigh each outcome until one emerges as the "median scenario." We need to be realistic about the downside but also position our clients for the time when this tragedy is behind us.

We start by outlining what we know and do not know. We have high confidence that scientists will develop tools and policymakers will take action to fight the pandemic, yet we have low confidence in speculating when exactly the virus will be contained. We have high confidence that fiscal and monetary stimulus will be essential to recovery, but we have low confidence in how quickly the system will absorb it. Most of the uncertainty is clustered around the timing of an outcome rather than in the outcome itself. In other words, we know the "if" but not the "when." In situations like this, it is impossible to know when the stock sell-off will bottom out but possible to get the confidence needed to stay invested and, in some cases, put new money to work.

So what gives us the confidence to stay invested? First, we are starting to see good news on the fight against the virus. Increased and improved testing may be the fastest way out of this situation, especially if the tests identify whether someone has developed immunity to the virus through previous, asymptomatic exposure. Several companies have announced COVID-19 antibody tests that provide reliable results within minutes. If we can identify the contagious and most vulnerable, we can focus our efforts on isolating and protecting this group and send the majority of Americans back to work. We are also hearing about promising treatments that reduce the severity of the virus. If the infected had access to an antiviral or the equivalent, then more patients would be able to convalesce at home, giving hospitals greater capacity to treat only the sickest of patients. Each day, we are learning more about this disease and making progress in confronting it. ›

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Second, actions by policymakers around the globe have brought much-needed stability during this time of uncertainty. On March 15, the U.S. Federal Reserve slashed interest rates to near zero and announced it would purchase $700 billion in bonds and securities to steady financial markets and support the economy. More recently, it also announced limitless asset purchases and reassured investors it would not run out of ammunition. On March 27, President Trump signed into law the CARES Act, providing $2 trillion of emergency relief to individuals, businesses, airlines, hospitals, and other entities and organizations that are impacted by the virus. The European Central Bank, Europe's equivalent to the U.S. Federal Reserve, announced a €750 billion bond-buying plan. The Group of Twenty, an international coalition of governments and central bank governors from 19 countries and the European Union that is commonly known as the G20, pledged $5 trillion to spur economic growth. China, Japan, India, Malaysia, Singapore, and other countries have also committed to adding liquidity to the global economic system. Over the past eight weeks, 253 fiscal and monetary stimulus measures have been announced around the world.[1] Based on what we know, we expect the unprecedented level of stimulus to meaningfully mitigate the economic decline the global economy faces from this pandemic.

Third, the U.S. entered this crisis from a position of strength. Before the outbreak, the U.S. unemployment rate was hovering near a 50-year low. Personal savings rates were a healthy 7-9% over the prior three years, compared with the 3–4% rate consumers maintained in the years leading up to the 2007-2008 financial crisis. Consumer financial obligations, defined as household debt payments divided by total disposable income, hovered around a manageable 15% in 2019 and significantly below the long-term average.

We are undoubtedly facing a sharp decline in economic activity. Still, there is reason to believe that the consumer will bounce back sooner than we expect, given the undisputed strength of the consumer just months before the global outbreak began. In many cases, demand for discretionary items will be deferred, rather than eliminated. Discretionary items are products and services consumers purchased out of choice as opposed to need, such as clothing, electronics, vacations, luxury items, and home improvement, to name a few. If this is true, we can expect a sharp rise in activity when Americans feel safe to leave their homes and re-engage with the storefronts and service providers that make up a large part of our economy.

Armed with this information, we have the conviction that America is on a path to recovery. We recognize that recoveries are rarely linear, and we cannot pinpoint the timing, so we plan for more volatility between now and then. We take steps to make sure our clients have an appropriate mix of high-quality stocks, low-risk bonds, and protected cash. We prepare months in advance for future cash needs and recurring distributions, so that our clients do not need to sell stocks on a "risk-off" day. We invest directly in companies with experienced and adaptable management teams, reliable cash flows, diversified customer bases, and defensible markets, believing this is the best way to protect and grow our clients' capital, and ultimately, their net worth. We manage clients' tax situations, harvesting losses when possible, and seek to upgrade portfolios during market dislocations. Most importantly, we aim to connect with clients as often as possible so that they know they are not alone and that we are safeguarding their financial well-being as we all navigate this crisis together.

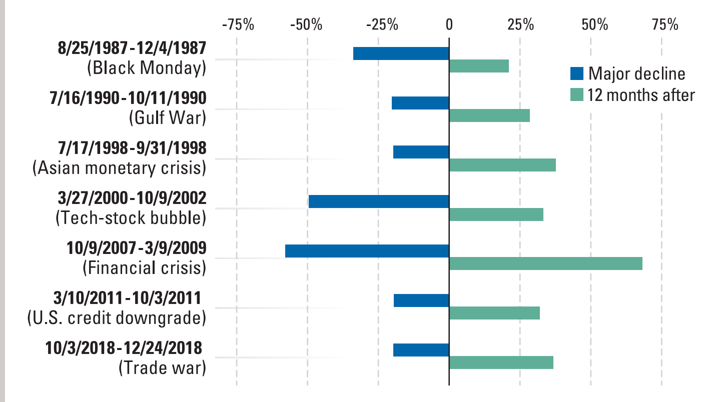
We encourage our clients to remember that their investment strategies are designed to support their long-term objectives. We also remind ourselves, and our clients, that global markets have encountered crises of different scopes and proportions in the last century—with each crisis feeling dire and insurmountable at the time, only for a recovery to take place time and time again (see graph on following page). In situations like this, it is important to have perspective and remember that stock price drops are not unusual, especially when you consider the fact that the market reached an all-time high in February 2020 after a prolonged rise. Of course, the headlines are scary and fear of the unknown is scariest of all, but the reality is that a healthy, functioning market will go up and down.

In closing, we are grateful to everyone who is part of the solution for the global pandemic. We continue to be in awe of the healthcare providers who are saving lives; the researchers developing tests, treatments, and potential cures for the infection; and the volunteers trying to help protect the vulnerable. We appreciate the tough decisions made by state and federal leadership to protect all of us and are impressed by the swift action policymakers have taken. Investors and consumers also play a role in the eventual solution to the crisis. By continuing to put money to work, investors serve as the grease to financial markets, and consumers are the engine. Our communities will get to the other side of this tragic human crisis together, using our collective courage, empathy, and resiliency.

[1] Evercore ISI, “Massive Global Stimulus,” 3/30/2020.

Stocks in Perspective

Percent change in the S&P 500 during–and in the 12 months after–major declines and their associated events.



Source: Morningstar (returns); BlackRock (analysis)

FAMILY MEETINGS: How We Can Help You Talk To Your Kids About Money

One of the most rewarding services that we offer is multi-generational family meetings, where we act as a third party in facilitating discussions about family wealth. Skip Dines, SVP and Partner, was recently featured in the *Denver Business Journal*, where he wrote about how our firm approaches this important topic. To be successful in talking to your kids about money, we recommended the following:

START SIMPLE AND EARLY

- When your children are in their early to mid-teens, you should introduce them to the reality that the family has money, and make sure that they begin their journey to financial literacy with small, incremental steps, such as asking them to help budget for groceries or vacations, and even bringing them in for a “meet and greet” with our team.

BUILD AROUND FINANCIAL EDUCATION

- As your children enter their late teens or early 20s, they should be introduced to more complex topics like investments and financial planning strategies by attending increasingly detailed meetings with our team of advisors. Giving them exposure to such meetings can help them understand the values underpinning the financial picture that you have worked so hard to paint.
- And as your children mature, you can move on to preparing to disclose more about your assets and begin the conversation on inheritance concepts like wills and trusts.

BE TRUTHFUL AND SHARE YOUR VALUES

- Secrecy surrounding finances and inheritance can create distrust and infighting in even the most harmonious families. We advise that you establish clear and approachable lines of financial communication that includes sharing the values and stories that have helped you amass your wealth.
- In these conversations, you must express your intentions regarding the future of your wealth without trying to control everything after you’re gone. We find that this step, best facilitated by a meeting with the entire family and our team, is crucial to setting up a successful generational wealth transfer.

If you would like to learn more, you can view the *Denver Business Journal* article in its entirety by visiting the “Insights” section of our website. Please reach out to our team if we can help in any way.

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HOW TO REACH US

During this unsettling time, please know you are always on our minds, and we are here to help you every step of the way. If you feel anxious, pick up the phone, send us an email, or schedule a virtual Zoom meeting with your advisor.

Despite temporarily adjusting our operations during this crisis, it is still business as usual for our team. Among the many things we can assist with are:

- Virtual portfolio review meetings and general financial guidance
- Virtual financial strategy meetings, including multi-generational family meetings
- The expertise to help you gain historical perspective and take the long-term view
- Wires, distributions, deposits, and 2019 retirement account contributions

Please reach out to any of our team members if you would like to talk about these services or anything else that is top of mind.

AWARDS

For the ninth year in a row, Obermeyer Wood has been included in *Barron's* Top 1,200 Financial Advisors ranking. Wally Obermeyer, representing our entire firm, was ranked third in Colorado.

Wally was also featured in a standalone profile in the March 16, 2020 edition of *Barron's*, **"An Advisor with a Rocky Mountain Pedigree,"** which was released alongside the rankings. The interview covers Wally's observations on a range of topics – including his early business ventures, why Colorado residents have a passion for the environment, and what flying and investing have in common. Please visit the "Insights" section of our website for a link to the profile.

Our entire team is also honored to be featured in Forbes/SHOOK Research's annual Best-In-State Wealth Advisors list again this year. Wally is ranked No. 2 in Colorado, while Ali Phillips is No. 8. Obermeyer Wood is also the only firm in the state to have two advisors included in the top 10 for a second straight year.

We believe these recognitions reflect the hard work of our entire team, and we'd like to thank our clients for their continued trust and partnership in making recognitions like these possible.

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