

Private Wealth Management

# InSight



The fourth quarter of 2013 has officially arrived and with it, a flood of activity that has pushed the financial markets to center stage.

From talks of quantitative easing to the debt ceiling to changes in healthcare legislation, it is easy to become caught in the never-ending news cycle. UMB Private Wealth Management is here to cut through the noise and provide unique perspective on how these items directly relate to your investment needs.

We are dedicated to managing more than the day's headlines. We take a long-term view of what these fluctuating circumstances reveal, and apply those findings to our economic outlook and guidance.

In this issue, UMB Chief Investment Officer, KC Mathews, explains how actions by the Federal Reserve are affecting different investing areas. Additionally, we have included best practices on how you can keep your online information secure and protect yourself against financial fraud. Finally, we have also provided details on the importance of proactive and open communication across generations during the estate planning process so that intentions and goals are fully understood.

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## The Federal Reserve's Exit Plan

**KC Mathews**

*Executive Vice President & Chief Investment Officer, UMB*

The Federal Reserve's Exit Plan and the impact it has on the financial markets has been a hot topic for quite some time now. First, let's rewind to 2008: during the Great Recession, the Federal Reserve lowered interest rates to stimulate the economy. Once short rates became zero bound, they implemented quantitative easing, or an asset purchase program, now commonly referred to as QE3.

Now fast forward to 2013. The economy has gained some traction, the employment picture has improved and inflation is under control—all factors that are prompting the Fed to contemplate an exit plan.

In May, the Fed started to talk about tapering the asset purchase program. By June the Fed had provided a date and marked the calendar, indicating that tapering would start in September and be completely terminated by mid-2014, providing the data supported this action. And there you have the most important point that was widely overlooked by media outlets: "providing the data supported this action."

As speculation of tapering signaled the markets to react, the Fed threw a curveball by announcing they would not begin tapering. Their explanation: again, the economic data did not support this action. This surprised The Street—stocks and bonds rallied and yields came down.

However, the bigger question: why the delay? Let's take a quick review of some of the primary influencing factors and how this affects timing.

**Employment**—One of the Fed's mandates is full or maximum employment. While the unemployment rate is improving, the quality of the improvement has been marred by falling participation rates. Also, Fed Chairman Ben Bernanke clearly indicated that employment has not improved within a reasonable range of the desired level.

**Inflation**—The other mandate the Fed has is price stability, or acceptable levels of inflation. Given the measures of inflation the Fed uses, this is a very low level. Therefore, the Fed feels it has room to continue QE3 to spur economic growth, and thereby employment.

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### 2014 continued from cover.

As 2014 approaches the horizon, our UMB Private Wealth Management team is also preparing to travel to many of your cities to host our annual economic outlook events. We will be announcing the event dates in the near future and look forward to answering your questions and helping you plan for the year ahead.

We hope you find the enclosed information helpful and informative, and we look forward to talking with you soon.

Sincerely,

**Dana Abraham**  
 President  
 UMB Private Wealth Management



As executive vice president and chief investment officer, KC Mathews is responsible for the development, execution and oversight of UMB's investment strategy. Mathews has more than 20 years of diverse experience in the investment industry. He earned a bachelor's degree from the University of Minnesota and a master's degree in business administration from the University of Notre Dame. He also attended the ABA National Trust School at Northwestern University and is a Chartered Financial Analyst (CFA) and member of the CFA Institute.

**Debt ceiling and government shut down?**—The Fed has said that it considers fiscal policy, such as sequestration, to be constraining economic growth. Delaying tapering is at least some insurance against the impact of fiscal restraint and another possible looming government shutdown.

**Housing recovery**—The Fed seemed to be surprised by the increase in longer-term interest rates due to anticipation of tapering in June. They have seen the impact on mortgage refinancing and the negative result on purchase applications, which may have sparked concern that tapering now would possibly send long rates higher.

Now, what does this mean from a timing perspective? When considering the Fed's economic projections, the tapering almost had to start in September in order for QE3 to be completed before rates are increased. The Fed has said it will end QE3 before raising the fed funds target rate. Assuming some time between ending QE3 and raising rates, and given the time needed for consensus among the Fed members for the target rate to increase, the implication was that they almost had to start tapering in September. All that has been pushed out now.

### What's Next?

It was widely acknowledged that unwinding unprecedented stimulus would be tricky at best, and uncontrollable at worst. The magnitude and speed of the bond market's sell off after tapering was discussed a few months ago was considered a wake up call. We anticipate that we will move sideways for awhile as the market digests this surprise—closely monitoring the data will be critical. The December meeting will be the next focus for some possible action.

### Expected Impacts

- **Long rate interest rates:** There is potential for these to lower again since tapering has been delayed, which could potentially have a positive impact on the recent dip in housing and the economy.
- **Bond market:** Range bound around 2.75 percent, with an upward bias as we get more information on the strength of jobs.
- **Fixed income, short rates:** If inflation is still stubbornly low, there is a good chance the unemployment target will be moved from 6.5 percent to six percent, pushing the liftoff date out to late 2015/early 2016.
- **New Fed Chairperson:** This should have minimal impact. Also, speculation is high that tapering was postponed so the new Chairperson won't inherit a situation in which they were not involved.
- **Equities:** The impending turnover of Fed governors and the Fed Chairperson has the potential to create additional uncertainty in the equity markets. Earnings or profit indicators are needed to carry the freight as liquidity conditions become less market friendly. Major risk remains with profit growth as QE3 was expected to add 12 percent growth, but to date has only produced six to eight percent.

### Economic Outlook

Expect some GDP growth acceleration in the second half due to improvement in the employment landscape, housing, manufacturing, stock market and solid consumer confidence. Our Policy Basin theme of low to moderate growth remains intact for all of 2013, with an overall two percent real GDP increase. ■

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# Intergenerational Wealth Transfer

Money used to be a taboo topic—one past generations would never consider discussing with their children or grandchildren. Today, however, many not only want to discuss this, but also are working with their wealth advisors to include a communication strategy within their estate plan.

Why the big change? Factors such as new wealth, complicated investing vehicles and legacy desires are a few. Additionally, many have witnessed through others the challenges that come with unexplained inheritance parameters and instructions. Forming a communication plan to help relay the strategy to the beneficiaries before death can eliminate confusion, frustration and hurt feelings.

And as people plan for a monumental wealth transfer over the next four decades, an estimated \$30 trillion in financial and non-financial assets in North America alone, communication needs to be considered a critical component in the wealth transfer strategy.

## With Money Comes Responsibility

Educating beneficiaries on the responsibilities that come with inheriting wealth is important, particularly to those who have created their wealth. As these individuals formulate strategies to bequeath assets they have personally earned, they often have a desire to structure a plan that provides financial security for not only their immediate heirs, but for future generations as well.

## Start the Conversation Early

Children need to be old enough to understand the information, but initial talks for areas like philanthropy can begin as early as grade school. For example, families who have assets earmarked for charity every year can involve children in selecting recipients by discussing causes that are important to them.

As children enter the high school years, financial advisors can help introduce fundamentals like budgeting and personal cash flow management. Then during the early to mid-twenties or later, depending on other factors, conversations about specific structure can occur.

## Share the Strategy

Currently, wealth advisors generally initiate the conversation with the older generation about how to share their estate planning details. This is one of the most significant services wealth planners provide, because they assist in explaining the estate plan structure and many times will also facilitate the conversation about the strategy.

It's common for the inheriting generation to have questions when discussing the strategy. This is often seen when trusts come up, as inheritors may misunderstand the intent. In this situation, the wealth advisor can be a neutral party who explains that securing assets until a certain age is a strategic step. Whether it's done to ensure measured wealth disbursement or to enable the inheritor to mature before accessing funds, these decisions are made from a comprehensive planning standpoint.

Intergenerational wealth transfer is an extremely complicated process, from both an execution and emotional standpoint. Working with professionals who proactively advise and assist in both the strategy as well as the communication amongst generations can be the difference between leaving a gift and establishing a legacy. ■

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# Wait a minute... who's been sending emails from my account?

Did you know every day thousands of webmail accounts (Gmail, Yahoo, AOL, etc.) are taken over by cyber criminals? Compromised webmail can be used to make purchases, transfer money from bank accounts or even trick friends and family into giving out information that allows access to their webmail – in a matter of minutes.

As your business partner, we want to help protect you from falling victim to fraudulent activities. Following are several best practices that will minimize your personal risk and help ensure your webmail accounts are as secure as possible:

## Passwords

Weak passwords can be easily hacked and used to access your account.

- Avoid using the same password on numerous accounts. This may make your email vulnerable if another site is compromised.
- Change your password often.
- Use strong passwords. For example, think of a special phrase and use the first letter of each word as your password. For more tips, visit [OnGuardOnline.gov](http://OnGuardOnline.gov).

## Security Questions

Even a strong password can be compromised if security questions are easy to guess.

- Make sure answers can't be researched on social media sites.
- Pick a question that only you can answer.
- Choose the custom security question option if available.

## Phishing Email

Phishing scams use a convincing message to trick you into clicking a link, downloading attachments or other "bait" that can be used to log your online activity, give a cyber criminal

control of your computer or even direct you to a phony website where you're asked to enter your username and password. All of these can be used to commit online crimes. To avoid phishing scams:

- Look for misspellings or grammatical errors.
- Question suspicious email; don't click questionable links or download attachments that appear out of the ordinary, even if from a friend or company with which you're familiar.
- If you aren't sure, [OnGuardOnline.gov](http://OnGuardOnline.gov) provides help for identifying phishing scams.

## Review Account(s)

- The best protection against cyber crime is staying alert.
- Check sent, trash, and other folders for suspicious incoming or outgoing mail.
- Check advanced account options for changes you didn't make. Your email may be forwarded to someone else and you didn't even know it.
- Investigate security options offered by your provider like notices for suspicious log-in attempts or two-step verification using a code that's texted to your phone.
- Regularly review financial accounts associated with your email address for suspicious activity.
- Contact your bank and all other financial institutions immediately if you think your email has been compromised.

Don't fall victim to cyber crime. Take time to secure your webmail accounts and encourage friends and family to do the same. ■

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# Private Banking International Wire Procedure Change

Due to requirements arising from the Dodd-Frank Act, the Consumer Financial Protection Bureau recently issued a new rule requiring companies that provide international wire services to give their clients certain disclosures and establish cancellation and error resolution procedures. This rule does not apply to trust accounts or business accounts, but does apply to Private Banking accounts.

In order to comply with the new rule, Private Banking associates are no longer able to provide wire instructions on the client's behalf; therefore, the next time you initiate an international wire transaction you may experience differences in our procedures. UMB now must have clients initiate the wire **from start to finish** on a recorded line with the UMB wire department. As a part of this enhanced process, the wire department will also provide the legally-required disclosures to each client. Wires will not be sent until 30 minutes after the client receives the disclosures.

Please be aware of the new rule that took effect October 28, 2013, and contact your private banker directly with any questions. ■

## Economic Indicators

<b>2013 Outlook by the Numbers</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Current (Sept)</b>	<b>2013 (Estimated)</b>	<b>2014 (Estimated)</b>
Real GDP Growth Rate	2.40%	1.80%	2.20%	2.50% <sup>1</sup>	1.80%	2.25%
Housing Starts	526K	681K	780K	891K <sup>2</sup>	900K	1,000K
Unemployment Rate	9.40%	8.50%	7.80%	7.30%	7.10%	7.10%
Projected Fed Funds Rate (Fed Target)	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
Projected 10-Year Treasury Rate	3.29%	2.00%	1.76%	2.64%	2.75%	3.50%
S&P 500 Price	1257	1257	1426	1700	1700	1920
S&P 500 Operating EPS Growth	47.00%	15.10%	0.50%	5.00%	7.00%	5.00%
Inflation - Core CPI (Year-over-Year)	0.80%	2.20%	1.80%	1.80% <sup>3</sup>	1.75%	1.65%
Core PCE Deflator (Year-over-Year)	0.90%	1.90%	1.50%	1.40% <sup>4</sup>	1.25%	1.15%

<sup>1</sup>Quarter-over-Quarter Seasonally Adjusted Annualized Rate as of 2Q 2013. <sup>2</sup>Monthly Seasonally Adjusted Annualized Rate as of August 2013. <sup>3</sup>Year-over-Year as of August 2013. <sup>4</sup>Year-over-Year as of August 2013. Thomson Reuters Datastream; UMB Investment Management

<b>2013 Global Economic Growth Forecasts</b>	<b>% of World Nominal GDP*</b>	<b>Average 1990-2007</b>	<b>2011</b>	<b>2012</b>	<b>2013 (Estimated)</b>
Developed World	62.80%	2.40%	1.10%	0.80%	1.10%
U.S.	22.70%	2.90%	1.80%	2.00%	1.80%
Eurozone	20.70%	1.90%	1.50%	-0.75%	0.00%
Japan	8.90%	1.60%	-0.50%	1.00%	1.50%
Emerging Economies	37.20%	6.50%	6.80%	5.50%	5.30%
China	10.90%	10.20%	8.50%	7.00%	7.00%
Total World		3.60%	2.90%	2.40%	3.00%

\*December 31, 2011

Thomson Reuters Datastream; UMB Investment Management

## Office Locations

### Arizona

Phoenix  
480.459.2142

### Colorado

Colorado Springs  
719.955.9339

Denver  
303.839.2224

### Kansas

Salina  
785.826.4530

Wichita  
316.266.6019

### Missouri

Kansas City  
800.862.6670

Springfield  
417.891.2103

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314.612.8023



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