Spring 2016

Private Wealth Management

InSight

Spring symbolizes a fresh start and is prime time for organizing and cleaning—and that includes your finances. We encourage you to take this opportunity to review your accounts, financial plan and/or estate documents with your advisor to determine whether your current investments support your goals, to adjust your portfolio based on the current economic landscape, or to make necessary updates to your estate plan.

This spring issue of InSight covers important topics that can help you frame the financial review conversation with your wealth advisor. Chad Roberts, UMB Private Wealth senior vice president, goes over the benefits of careful preparation when planning for your business's future, and how it can impact your family and employees. Jan Leonard, UMB Private Wealth senior vice president, discusses considerations when selecting a piece of fine art as an investment and the nuances of art as an asset. And, UMB chief investment officer, KC Mathews, provides our economic forecast for 2016, which includes information on the state of the markets—from the strength of the labor market, to China's economy and what's ahead for the U.S.

As you know, the presidential campaign is in full swing and it's dominating conversation across the country. If you are interested in understanding how election years have historically affected the stock market, or how the markets differ under a Democratic or Republican president, read our latest article on umb.com.

Continued next page ▶

More InSight inside:

Economic Forecast 2016: The Tortoise Or The Hare?

We all know of Aesop's fable the Tortoise and the Hare—a story of two unequal opponents who agree to a race. The outcome appears to be obvious, but in a surprising twist the ever-so-diligent tortoise perseveres and wins the race. The moral of the story is slow and steady wins the race.

UMB's economic theme for 2016 is The Tortoise OR the Hare. We think the U.S. economy, which has grown over the past few years at a tortoise-like pace, will continue to produce mediocre growth in 2016. Given the stimulus that abounds, one might think the economy should grow at a faster pace, more "hare-like;" however, we think slow and steady will win out. We anticipate the U.S. economy will once again grow in the 2 percent to 2.2 percent range in 2016. Relative to other economies, tortoise-like growth will be a winner.

THE HARE

Historically the U.S. economy has been more hare-like. So what has changed? When did our economy go from consistently growing more than 3 percent annually, to a tortoise-like economy, with growth less than 2.5 percent? For example, from 1955 to 2005, the U.S. average real GDP was 3.4 percent. Fast-forward to the period from 2005 to 2015 and real GDP averaged a paltry 1.5 percent, leaving economists wondering what happened.

To answer this question we investigated two economic variables that drive potential GDP: labor force growth and productivity gains. In economics, potential output refers to the highest level of real GDP (output) that can be sustained over the long term. Year-to-year actual GDP may vary from potential GDP; this is called the output gap. Forecasting potential GDP should be relatively easy, as the formula is simply labor force growth plus productivity gains.

Labor force growth has changed over the years and is influenced by several factors. In the 1960s and '70s, labor force growth changed due to population growth, the baby-boomer generation reached working age and more women were working outside the home and entering the labor force. However, the significant labor force growth rate increase of the '70s will not be repeated anytime soon. One reason is that most baby-boomers have more siblings than children and labor force growth is partly a function of population growth.

The second variable is productivity, or the efficiency of production. According to the Bureau of Labor Statistics, productivity change in the non-farm business sector from 2007-2014 was only 1.3 percent. There is an ongoing debate among economists over the drivers of productivity gains. One theory

Continued ▶

Continued from cover

As always, we hope you find this information helpful and informative. We wish you all the best and look forward to talking to you soon.

Sincerely,

Dana Abraham
President
UMB Private Wealth Management

KC Mathews
Executive Vice President and
Chief Investment Officer, UMB

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.

argues that capital accumulation drives growth. Another suggests that a combination of accelerating technical progress in high-tech industries and the resulting investment in information technology drives productivity.

One common theme between both theories is that investment is critical to any growth theory. Therefore, monitoring measures of human capital and research and development expenditures is necessary. We believe we will continue to see exciting new technologies developed in the future, but caution that even though new technology is introduced, the lack of adoption to these new technologies can be limiting to productivity. Therefore, we don't see productivity gains spiking higher in the near future.

THE TORTOISE

So as the fable goes, the tortoise never gives up—it is patient and persistent, and wins the race. I think this is a great parallel to the U.S. economy in 2016 and perhaps even over a longer timeframe. Our economy has been slow growing since the Great Recession in 2009 and has continued on that path to real GDP of 1.5 percent in 2013, 2.4 percent in 2014, and 2.4 percent last year.

I expect our economy to continue to grow at a slow and steady pace in 2016 with real GDP in the range of 2 percent to 2.2 percent. This is in part due to several tailwinds and a few headwinds.

TAILWINDS

The labor market, consumer confidence and low interest rates are a few of the positive variables that support our expectation for steady, ongoing economic expansion.

The robust labor market gives us confidence that the U.S. economy will continue to grow at a steady pace. In 2015, total non-farm payrolls increased 2.65 million or 221,000 avg/month, down from 3.12 million in 2014. By the end of 2015, the number of full-time workers rose to a record high of 122.6 million. The Federal Reserve chairperson, Janet Yellen, suggested in her recent testimony that payroll growth of 100,000 per month can absorb all of the new entrants into the labor market.

For additional perspective, historically, payroll growth of 200,000 per month supports economic growth of 2.5 percent or better. Falling in line with our forecast, we expect 200,000 new jobs will be created on average per month in 2016.

Additional data supports a solid labor market. The median duration for the unemployed fell to 10.5 weeks, the lowest in seven years. Finding part-time workers is becoming more difficult and as the job market improves, we think more people will be encouraged to consider seeking employment. As the labor market tightens, wages will be on the rise as well. Average hourly earnings in December were up 2.4 percent year-over-year, the highest in 2015, and we think that trend will continue. A tightening labor market should support continued wage inflation and given very little inflation elsewhere, another bonus for consumers.

This dovetails into consumer confidence. When consumers feel good, they will support the economy by spending. Consumer confidence has been relatively flat throughout 2015, but remains at a level that supports economic growth. Confidence is primarily driven by the labor market, stock prices and home prices.

The strength in the aforementioned labor market, paired with home prices up 5.5 percent last year, should continue to support confidence. Lower oil prices also gave most consumers a good feeling as their transportation

Continued ▶

costs were reduced. The wild card here is the stock market. Investors saw mediocre returns last year, (only 1.4 percent return from the S&P 500), along with higher volatility. Weak markets and an increase in volatility may shake consumer confidence this year.

The Fed has kept interest rates low for seven years. In December 2015 the Fed started the process of normalizing rates by moving short-term rates up 0.25 percent. We think interest rates will be on rise throughout 2016, ending the year at 1 percent. However, from a historical perspective, the Fed policy remains extremely expansionary, affording consumers and businesses access to inexpensive capital.

Perhaps China is getting a bad rap; it seems to be blamed for any problem ranging from stock market volatility to global warming. However from our point of view, it's not all bad. The U.S. imports more goods from China than from any other country. As China devaluates its currency, the yuan, those everyday goods we import become cheaper, which is good for consumers. As their economy slows to a more sustainable level, the demand for energy and commodities wanes and prices are reduced. Again, this is good for the U.S. consumer. Only 7.6 percent of total U.S. exports head to China. Even if its economy slows and demand weakens for our exports, the damage China could potentially do to the U.S. economy appears relatively small. Lastly, when the yuan is devalued, fixed direct investment, or capital, heads for the doors. As this capital leaves China, it just may end up in the U.S.—which would be a good thing.

Not everything outside of the U.S. is necessarily a negative story, as some would lead consumers to believe. The Eurozone is sprouting green shoots of growth. Europe possesses a very stimulative environment. With low interest rates and a quantitative easing program, Europe could experience economic growth in the 1.5 percent to 2.0 percent range. This may not sound like much, but remember in 2014 they grew at a 0.8 percent pace and last year at 1.5 percent.

HEADWINDS

It's not all rosy. Some headwinds lead to slower growth and some may not have a significant impact on our economy directly. Rather, they may spook risk markets. Stocks are included in this category.

The recent U.S. manufacturing data is suggesting an oncoming economic contraction. For two quarters now, the ISM Purchasing Managers Index has been below 50, indicating a contraction. The good news is the non-manufacturing data is solidly in growth territory, albeit trending south. Back to the bad news, historically the manufacturing data leads the non-manufacturing data. Once again, we think the current data supports a tortoise-like economy in the U.S.

The Fed has a tough job: maximize employment, stabilize prices, support global markets, normalize interest rates. Oh, and don't send us into a recession. Many recessions have been blamed on the Fed for creating a policy error, which is typically viewed as moving too fast or too soon. This time, did they move too late? Or is a policy error on its way? At this time we don't see a policy error at hand. The Fed plans to move at a measured pace and it doesn't look like it will threaten a tortoise-like expansion.

Issues in the global economy will constrain growth in the U.S., and as we mentioned, China is slowing. It will have an impact on other emerging markets as well as the U.S. to a lesser extent. We don't believe the Chinese stock market gives us any indication of economic fundamentals due to the speculation in their markets and government intervention. However, the massive volatility of their stock markets sends a violent reaction to markets around the globe. If downward pressure continues, it could negatively impact consumer confidence in the U.S.

Energy is also an important variable. Even though low energy prices are good for the consumer's wallet, tension in the Middle East may create an uneasy global economy. No one likes uncertainty, especially the markets. The collapse in Saudi relations with Iran, North Korea testing a hydrogen bomb, Russia and Brazil in recessions, and a presidential election in the U.S. all sound like uncertainty. And while much of this won't significantly affect the U.S. economy, it may affect our markets in the short run.

A SLOW AND STEADY 2016

For all of the variables discussed above, slow and steady is a great metaphor for the economy this year.

In 2016 we anticipate GDP growth between 2 percent and 2.2 percent. We think this will be supported by the labor market once again as businesses create new jobs.

Domestic equity returns may once again be challenged, profits are in question and valuations may contract. We expect 3 percent earnings growth which should lead to total returns in the 4 percent to 6 percent range.

We also think interest rates will be on the move this year, expecting both short-term and long-term rates to increase. Fed Funds should end the year at 1 percent.

The moral of Aesop's fable is slow and steady wins the race. The moral to our economic story is slow and steady won't be all bad on a relative basis. Our economy expanding at an approximate 2.1 percent pace will allow the Fed to normalize interest rates and companies will find a way to be profitable and continue to hire workers, supporting consumption. ■

Next Story ▶

Fine Art as an Investment

Whether you are passionate about art, or are simply interested in filling the wall space in your living room, fine art is an alternative investment option that can expand your portfolio while enriching your surroundings and your life. However, the art market is complex and should be entered into only after careful consideration of long-term investment and estate planning goals.

Pre-purchase considerations

Before you begin looking for your next art purchase, understand what aspects make a piece of art valuable, outside of the aesthetic. Fine art is a subjective asset, which means its value is relative to what an individual is willing to pay for it. Nevertheless, there are some more concrete factors that help determine value, including:

- **Authenticity**—While the authenticity of an item is critical to its valuation, authenticity alone does not guarantee value. Art purchased as an investment should be accompanied by a certificate of authenticity signed, in descending order, by the artist, the art publisher, an established art dealer for the artist or a known expert on the artist's work. Also, confirm that the item is or is not print or reproduction; these are often sold at lower prices and in large quantities.
- **Rarity**—More important to a piece's worth than authenticity are its rarity and importance in the art world at the time of appraisal or sale. The fewer pieces available from that artist, the higher the demand, and thus the higher the value. An added layer of rarity is scarcity. Criteria for scarcity are met when a certain category of art has limited assets remaining. For instance, art created during a certain historical time period, or the last known piece made by a well-known artist.
- **Provenance**—Provenance is the written record of who owned the piece of art from the time of its creation to current day. A clearly documented provenance demonstrates the conditions the art was kept in and how its ownership changed over time. A detailed description of the piece should be included, as well as handwritten signatures from all parties involved. It is important that all galleries, sellers and exhibits are valid and reputable.
- **Condition and quality**—The condition of the art is another important facet to consider when selecting fine art as an investment. The piece should be well-maintained, free of any defects that substantially mar the art and have a clearly defined restoration history, if any at all.

The above considerations can help you filter through the available art for sale but you'll also need to enter the process with a practical lens. For most people, buying art is emotional and buyers choose pieces they connect with. But when purchasing for investment purposes, your art selection process must include a matter-of-fact assessment of the art's value in addition to choosing a piece that appeals to the senses.

Understanding the financial impact

Beyond understanding how or what to purchase, choosing a fine art investment should involve research into the financial impact the purchase could have for you and your portfolio. Art is considered an alternative asset; however, it may not be a diversifying one because of the subjective nature of the art market.

Art is taxed as a collectible, which means you can't claim capital loss if something happens to the piece while it's hanging in your living room. You also need to be very aware of the cost of maintenance and insurance for the long-term care of an art piece, not to mention the added costs of appraisals, advisors and other professionals you may want to consult prior to your purchase and throughout your ownership.

With the purchase of art as an investment, you'll also need to update your estate plan to include your long-term wishes for the piece: will you keep it for the foreseeable future, donate to a museum or other charitable entity, liquidate at some point or bequeath it to a loved one? Whatever the decision, make sure you understand how the art will impact your estate and your beneficiaries.

Collecting art is a passion that can provide beautiful visuals and deep emotional satisfaction to your life as well as investment opportunities, but you should approach the process with a clear idea of the pros and cons as well as a full understanding of how the item will affect your portfolio. ■

Jan Leonard is senior vice president and managing director for UMB Private Wealth Management

Next Story ▶

Building a Succession Plan for your Business

Owning a business can take up most of your time and energy. Between handling vendors, overseeing expenses, maintaining cash flow and supervising employees, it's difficult to consider adding another task to your plate. You may always do what's best for your company in the present, but it's also important to consider how the company will carry on when you are no longer leading it.

Succession planning advantages

Even though retirement may seem distant, it's best to prepare your company for a smooth transition and reduce the impact of a change in leadership at the company—whether due to retirement, death or illness. Besides setting your company on a long-term path, a business succession plan can provide several benefits that can impact you, your employees and your loved ones.

1. **Tax advantages**—Advance planning allows you to assess and prepare for taxes that can affect your business, your successor or your family during the transition. Understanding what factors may trigger additional taxes and how to structure the succession plan for minimum tax impact can help ensure a stress-free transition.
2. **Long-term control**—With a set plan, your employees and family will know exactly where they stand and what is expected of them, in addition to providing details for how you envision the business should be run long-term.
3. **Risk reduction**—Lost business, distracted employees or conflicting opinions can hurt a company's profits. With a succession plan in place, the confusion and uncertainty surrounding a business owner's departure will be less damaging to business.
4. **Retained value**—Sometimes a business is so highly-associated with its owner that when the owner leaves, confidence in the company drops, affecting stock or other investments. But when investors, customers, vendors and employees are fully informed of the succession process, you can better sustain the value of the business—even during fundamental shifts like these.
5. **Options**—Preparation also ensures you can make choices about your level of involvement in the business after retirement, whom you would like to see lead the company and much more.

Outline your goals

For many individuals, talking about business succession can be uncomfortable, and understandably so. Family and employee dynamics can be complicated with varied concerns and expectations. However, avoiding these conversations and not preparing the proper succession documents can negatively affect the business, especially if it's left without a designated leader.

The first step to creating a succession plan is to outline the goals you have for your business, including your family's long-term financial support, your income and involvement post-retirement, and key employees who will be involved in the process. Ensure that future complexities are mentioned, especially those regarding compensation and how it may be affected by business performance and cash flow. The success of the business should be proportionately balanced with the profit or compensation of its owners.

Once you have spoken with the appropriate parties and gauged expectations, you then need to consider the needs of the business. Will the company expand over time? Are there any critical upgrades that can help the company now? What are the business objectives in the years to come? The current and future needs of the company may affect your timeline and who should take over management, but understanding the bigger picture will help manage expectations. And, remember; only a small percentage of family-owned businesses succeed into the second generation, so have a contingency plan to account for non-family successors. With all of this information, you should be able to come up with a best case scenario that provides for everyone involved, is financially sustainable and keeps the business moving forward.

Talk with your wealth advisor

Connect with your wealth advisor for recommendations and guidance on all of the necessary documents—from insurance and tax forms to retirement savings and investments—to make sure you and your business are prepared for a smooth transition. An advisor will walk you through where you are now and what's needed to get you where you want to be.

Maintaining a business is an incredible achievement, and the right business succession plan can ensure your hard work pays off in the long term. Your family and loved ones will appreciate a well-prepared process, so you can rest easy knowing your company will keep adding value beyond your lifetime. ■

Chad Roberts is senior vice president and regional manager for UMB Private Wealth Management

Economic Indicators

2016 Outlook by the Numbers

	2011	2012	2013	2014	2015	Current Jan	2016 (estimated)	Trend (year end)
Real GDP Growth Rate	1.60%	2.20%	1.50%	2.40%	2.40%	1.00%[1]	2.10%	→
Housing Starts	681K	780K	900K	1,006K	1,100K	1,099K[2]	1,200K	↗
Unemployment Rate	8.50%	7.80%	7.10%	5.60%	5.10%	4.90%	4.70%	↘
Projected Fed Funds Rate (Fed Target)	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	1.00%	→
Projected 10-Year Treasury Rate	2.00%	1.76%	3.00%	2.17%	2.50%	1.92%[3]	2.50%	↗
S&P 500 Price	1257	1426	1848	2059	2125	1940[3]	2050	↗
S&P 500 Operating EPS Growth	15.10%	0.50%	7.00%	7.60%	4.00%	0.00%	4.00%	↗
Inflation – Core CPI (Year-over-Year)	2.20%	1.80%	1.75%	1.60%	1.90%	2.10%[4]	2.00%	↗
Core PCE Deflator (Year-over-Year)	1.90%	1.50%	1.25%	1.30%	1.30%	1.40%[5]	1.60%	↗

[1]Quarter-over-Quarter Seasonally Adjusted Annualized Rate as of 4Q 2015
[2]Monthly Seasonally Adjusted Annualized Rate as of January 2016
[3]As of January 31, 2016
[4]Year-over-Year, as of December 2015
[5]Year-over-Year, as of December 2015

Thomson Reuters Datastream; UMB Investment Management

2016 Global Economic Growth Forecasts

Areas	% of World Nominal GDP*	Average GDP 1990-2014	2012	2013	2014	2015	2016 (estimated)
Developed World	61%	2.10%	1.30%	1.20%	1.80%	2.00%	2.00%
U.S.	23%	2.50%	2.20%	1.50%	2.40%	2.40%	2.10%
Eurozone	24%	1.80%	-0.40%	0.30%	1.40%	1.80%	1.90%
Japan	6%	1.10%	1.80%	1.40%	0.00%	0.60%	1.00%
Emerging Economies	39%	4.60%	5.20%	5.10%	4.80%	4.00%	4.50%
China	13%	9.80%	7.70%	7.70%	7.30%	6.90%	6.50%
Total World		3.60%	3.40%	3.30%	3.40%	3.10%	3.10%

*December 31, 2014

Current and historical data are sourced from the International Monetary Fund (IMF). Estimated data reflects the Bloomberg consensus forecast.

Thomson Reuters Datastream; UMB Investment Management

Office Locations

Arizona

Phoenix
480.315.6809

Colorado

Colorado Springs
719.442.4371

Denver
303.839.2272

Kansas

Overland Park
913.967.6580

Salina
785.826.4530

Wichita
316.266.6019

Missouri

Kansas City
800.862.6670

Springfield
417.891.2103

St. Louis
314.612.8214

UMB Private Wealth Management
1010 Grand Blvd.
Kansas City, MO 64106
800.862.6670
umb.com/PrivateWealth

Disclosure and Important Considerations

UMB Private Wealth Management is a division within UMB Bank, n.a. that manages active portfolios for employee benefit plans, endowments and foundations, fiduciary accounts and individuals. UMB Financial Services, Inc.* is a wholly-owned subsidiary of UMB Financial Corporation and an affiliate of UMB Bank, n.a. UMB Bank, n.a., is a subsidiary of UMB Financial Corporation. Banking and trust services offered through UMB Private Wealth Management, a division within UMB Bank, n.a.

This report is provided for informational purposes only and contains no investment advice or recommendations to buy or sell any specific securities. Statements in this report are based on the opinions of UMB Private Wealth Management and the information available at the time this report was published.

All opinions represent our judgments as of the date of this report and are subject to change at any time without notice. You should not use this report as a substitute for your own judgment, and you should consult professional advisors before making any tax, legal, financial planning or investment decisions. This report contains no investment recommendations and you should not interpret the statements in this report as investment, tax, legal, or financial planning advice. UMB Private Wealth Management obtained information used in this report from third-party sources it believes to be reliable, but this information is not necessarily comprehensive and UMB Private Wealth Management does not guarantee that it is accurate.

All investments involve risk, including the possible loss of principal. This information is not intended to be a forecast of future events and this is no guarantee of any future results. Neither UMB Private Wealth Management nor its affiliates, directors, officers, employees or agents accepts any liability for any loss or damage arising out of your use of all or any part of this report.

*Securities offered through UMB Financial Services, Inc. member FINRA, SIPC, or the Investment Banking Division of UMB Bank, n.a.

Insurance products offered through UMB Insurance, Inc. You may not have an account with all of these entities. Contact your UMB representative if you have any questions.

Securities and Insurance products are:
NOT FDIC INSURED • NO BANK GUARANTEE • NOT A DEPOSIT • NOT INSURED BY ANY GOVERNMENT AGENCY • MAY LOSE VALUE