UMB

Summer 2016

Private Wealth Management

InSight

There has been plenty to keep our eyes on this year, from market fluctuations and the presidential election, to interest rate changes and the energy situation. While we may not be able to control what's happening in the world around us, we can ensure we are aware and prepared. With that in mind, we'd like to remind you to reach out to your UMB advisor if you have any questions or need to report changes that may affect your investment or estate plan. Your advisor is actively monitoring your accounts and portfolio to ensure your strategy continues to suit your lifestyle and the current economic climate.

This edition of InSight provides a look into financial planning, start-up investment trends and the impact of the market on investors. Kevin Roberts, senior vice president and private wealth regional manager, discusses the top steps for millennials looking to build their wealth for the future. Spencer Berndt, vice president, manager of investments products, discusses some of the latest news for investing in start-up ventures, including identifying risks and understanding crowdfunding. And, K.C. Mathews, UMB Bank executive vice president and chief investment officer, presents an overview about how investors can stay calm in a volatile and changing market.

Summer, sunshine and warm weather inspire me to get active—physically and financially—and I encourage you to take inventory of your goals and set your strategy accordingly. We hope you find this information helpful and informative and we look forward to talking to you again soon.

Sincerely,

Dana Abraham

Dana Abraham
President
UMB Private Wealth Management

Military Conflict, Terrorism and the Markets: How Investors Keep Calm and Carry On

It sounds so easy: buying low and selling high—yet in practice it is very difficult. One reason this is so challenging is when stocks are low, meaning attractively valued, many times there is something happening to shake our confidence in the markets and question if we should even consider owning such risk-based assets.

Several examples that could shake investor confidence include: economic recessions, military conflicts and/or terrorist attacks. Clearly when these events happen, given so many unknowns that accompany each, investors find themselves questioning how long it will last, how it could impact economic fundamentals and ultimately, how to respond when the stock market reacts.

MILITARY CONFLICT

The difficulty in buying low always comes down to timing. World War II serves as a perfect example.

The United States entered World War II on December 7, 1941 when Japan bombed Pearl Harbor. As expected, the stock market sold off. One school of thought is to return to buying stocks when we receive the "all clear" signal, which perhaps would have been when Japan formally surrendered on September 2, 1945. But if we were looking to buy low, historical data indicates the time to buy would have actually been in April of 1942, long before the war was over.

The bottom of the market occurred on April 27, 1942 shortly after Lt. Doolittle led the famous "Tokyo Raid," the U.S. bombing raid on Tokyo. At that time, the S&P 500 was at 7.61. When the war ended in 1945, the S&P 500 stood at 15.5. This means investors had an opportunity to more than double their money in the middle of a war. It seems buying stocks was not top of mind after the U.S. bombed Tokyo.

Now let's take a look at a more recent situation: the Gulf War in 1991.

In August of 1990 Iraq invaded Kuwait. The U.S. got involved immediately by building up troops in a deployment called Operation Desert Shield. The combat phase, Desert Storm, began January 16, 1991 and the war ended shortly after that on April 6, 1991. In this conflict example, the S&P 500 bottomed in October 1990, again long before the conflict was resolved. At that time the S&P 500 was at 295, and by the end of the war it was at 378, or up 28 percent in less than six months.

You can see that buying low requires an investor to buy risk-based assets when the crowd is running away from markets and selling assets. The time

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to buy is when uncertainty is peaking and emotions are running high. However, no one knows how long military conflicts may last and what they might do to the fundamentals of the underlying economy. If you find yourself fearful of the market reaction during military conflicts in the past, I suggest you look at historical data during times of military conflict as a starting point before making any dramatic investment decisions.

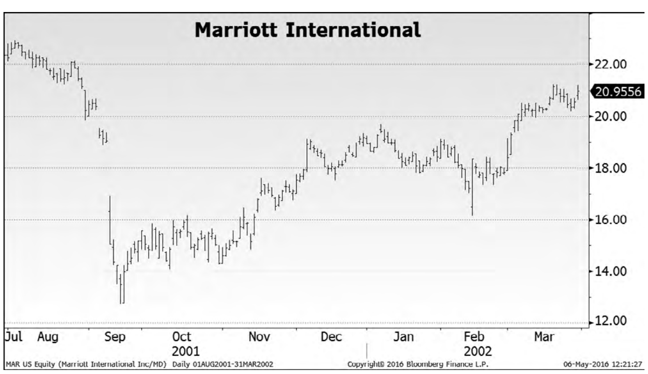
TERRORISM

Terrorism, unfortunately, has plagued the globe for many decades. One might think that terrorism would have an impact on financial markets, but in fact, terrorism has little impact on markets.

One of the worst acts of terrorism on American soil occurred on September 11, 2001 (9/11). Four hijacked airliners resulted in 2,996 fatalities and thousands injured. In addition, the twin towers of the World Trade Center, also considered the most important financial hub in the U.S., were destroyed. This caused the financial exchanges in New York to be closed for four trading days, the longest shutdown since 1933. On September 17, 2001, the first day of New York Stock Exchange trading since the attack, the S&P 500, expecting chaos, lost 684 points or 7.1 percent - the largest loss in history for one trading day. By the end of the week, the S&P 500 was down 11.6 percent.

Many expected the markets would be down and out for several months. Yet it took only 30 days for the Dow Jones, the NASDAQ and the S&P 500 to regain their pre-9/11 price levels.

As I mentioned, some industries may sustain a more material impact. The airline industry suffered significant losses after 9/11 as the fear of additional hijacks escalated. The major airlines saw their stock prices tumble approximately 40 percent at the opening of the market on September 17. Steep declines also hit the travel, tourism, hospitality, entertainment and financial services industries. Marriott International, the hotel chain, is a perfect example. On September 1, 2001 Marriott's stock traded at $20.44; the stock bottomed on September 20th at $13.50. By March 2002 the stock was back at $20.50. *See the chart below illustrating Marriott's pattern during this time:*



But even as the number of terrorist attacks rises, it appears the markets have learned that they don't change the fundamentals of the economy. The recent Bataclan Theater shooting in Paris in November 2015, which killed 137 and wounded 368, represented the most fatal event on French soil since World War II. We spent hours reviewing historic events and researching any other relevant data to see how this event would affect the market. But the market closed up, not down the Monday following the attack. Investors refocused on the prospects for growth worldwide as the Federal Reserve considered increasing interest rates. In addition, oil rallied sending the energy sector higher.

My point is not to desensitize these issues, but to strictly investigate the economic data and market action around these events. It is clear that, at least historically, terrorism does not change the fundamentals of the economy. It may have a material impact on specific industries, however much of that has proven to be temporary.

I caution you to keep in mind when analyzing these events and market reactions that other variables will always concurrently impact markets. Market action is a function of the news of the day; with the question being: what news is nothing but noise and what news changes the underlying fundamentals? While the market will react to uncertainty in the short-run, only a change in the fundamentals will cause a long-term market reaction.

Trying to time the market has been proven to be fruitless over time. Market troughs are created when bad things happen–and uncertainty is abundant–long before we get the "all clear" signal. Wars and terrorism scares have the potential to affect the fundaments of the underlying economy, depending on how long the crisis lasts, but for the most part they don't change the fundamentals. We do know, at least historically, these events have a material impact on certain industries, but again they prove to be relatively short-lived.

Buying low can be difficult, but selling low becomes easy when investors erroneously react to events without knowing what truly impacts markets and companies' fundamentals. Perhaps the most profitable strategy is to invest in great companies and continue to deploy capital into the markets when there is a high level of uncertainty. I believe it was Warren Buffet who once said, "The best time to buy a farm is in a drought." Nobody wants to buy a farm in a drought. ■

KC Mathews, CFA
EVP, Chief Investment Officer, UMB Bank

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.

Venture Investing: What to Know about New Rules

In late 2015, the Securities and Exchange Commission (SEC) approved crowdfunding for securities which opened up venture capital financing to more investors. Crowdfunding is a way to garner financing through contributing smaller amounts, or raising monetary contributions from a larger number of individuals. This new flexibility and the low thresholds of entry have made venture investing a possibility for many individual investors, creating a boom in technology companies that deal in start-up investing. But while investing in these start-ups can be quick and easy, make sure you have a solid understanding of the process before diving in.

Eligibility and safeguards

Venture investing tends to be riskier because it is a speculative investment whose ultimate success depends on a company's ability to survive and thrive after launch. To help safeguard investors, the SEC instituted some limitations along with the new rule approval. First, there are annual limits, based on your net worth and income, to how much you can invest in crowdfunded securities like start-ups. If you make less than $100,000 annually or if your net worth is less than $100,000, the SEC allows you to invest up to the greater of $2,000 or 5 percent of your net worth or income (whichever is less). If you make $100,000 or more and your net worth is $100,000 or higher, the SEC allows you to invest up to 10 percent of your net worth or income (whichever is less). However, there is still a 12-month investment amount cap of $100,000.

Online funding portals are not financial or investment advisors, and therefore do not analyze the amount you invest in consideration of your portfolio, your risk tolerance, or your lifestyle. These imposed limits are designed to help ensure individuals do not over-extend their resources when investing in start-ups through online platforms and crowdfunding campaigns.

Manage risks and expectations

In addition to understanding the eligibility rules implemented by the SEC, individuals considering venture investing should be familiar with the associated risks. According to Forbes, nine out of 10 start-up companies fail, whether due to cash flow issues, team discord, or simply because the company does not provide a product or service consumers want. With that in mind, venture capital investing can be a high risk, high reward process—if the start-up succeeds, you may be rewarded with quick gains, but if it fails, you potentially lose the funds you committed.

Beyond the operational uncertainty surrounding new teams and companies, there are specific risks investors should consider, including:

- **Overvalued shares:** New companies, new products and new technologies are difficult to valuate, especially if they are intangible. Be aware that a company may be over- or under-valued, and act accordingly.
- **Illiquidity:** In contrast to investing in a publicly traded company, where you can trade your shares whenever you'd like, start up investors are restricted from selling their shares for one year. Keep that in mind when deciding whether venture investing is right for you.
- **Disclosures:** Another critical aspect of venture investing is that disclosures are only required annually, as opposed to the quarterly basis mandated for many public companies. These disclosures contain critical information which, when shared infrequently, may prevent you from adjusting your shares or portfolio in a timely manner due to delayed receipt of operational details pertinent to your investment.
- **Diluted shares:** And, finally, due to the nature of crowdfunding, more and more investors will contribute to a company as it progresses, diluting the value of the shares. In essence, the start-up's success will be shared and divided among many, so gains may not be as fruitful as anticipated.

Due diligence

While it's exciting to see the changes in the investment landscape relative to crowdfunded securities, make sure you perform extensive due diligence before adding your name to the ranks. When choosing a start-up, research the business and the people behind it. The more you know, the better equipped you can be to evaluate risks related to product, service or people. Take your time vetting opportunities and don't discount your personal passions when narrowing it down.

Venture investing can be a great way to bolster a local company or entrepreneur to improve your local community, or support a service you believe in.

Work with your wealth, investment and tax advisors to build an entrance and exit strategy to the investment. Talk through all potential eventualities, even complete loss, to ensure the outcomes and impacts don't unravel your goals and future plans. ■

Spencer Berndt,
VP, Manager of Investments Products

Next Story ▶

Millennial Spotlight: A Guide to Building Wealth

According to information published by Pew Research in April 2016, the millennial generation is now the largest living generation in the U.S., numbering more than 75.4 million. Millennials are also the largest generation in the workforce. So, now that you have a career and steady income, what can you do to build your wealth?

Reduce expenses

Building wealth begins with the basics: income and expense. Once you are gainfully employed, the next step is to evaluate living costs to ensure you're living within your means and can allocate an appropriate amount of your incoming funds to important accounts like retirement and savings. A budget can be a powerful tool for managing your income and tracking where your money is going, and it can help you identify areas to reduce expenses. For instance, instead of buying the latest vehicle, opt for a more affordable used car, accept a hand-me-down from a family member or save until you can pay the cost of the car in full. Eliminating your car payment increases opportunities to devote more funds to other avenues that help with wealth building, like investing.

Additionally, choosing whether to buy or rent your home is a factor that should be carefully evaluated. While owning a home can help build equity, it may not be the best choice if you value flexibility in your career and location. It's better to consider purchasing if you plan to stay in the same area for at least five years. While reducing living expenses may seem punishing—especially when it feels you should be able to celebrate your success—it is one of the best ways to ensure you and your family can accumulate wealth that will sustain you in the future.

Increase earnings

Even if your career is already in a good place, the logical next step is to strategize about your professional future. Consider the trajectory of your current position and where you'd like to be in 10 years. Earning more is an obvious avenue to accumulating wealth, so focus on actions that can help you reach the next level in your organization or career path. Researching graduate degrees and certificates may be a part of that plan, or it can simply mean acquiring a professional wardrobe and working to expand your professional network.

Second jobs and freelancing are also opportunities you can leverage to increase your income, which will then provide more capital to apply toward your long-term goals. Before applying for a second job, it's always a good idea to consult with your financial and tax advisors.

Save, save, save

With your income and expenses well-managed, you should have extra to squirrel away in an emergency savings account. Plan to reach a savings amount roughly equal to six months of your combined household expenses. Once you reach your goal amount, consider adding even more to it as necessary for upcoming trips or specific purchases. Whenever possible, pay for items with cash to avoid adding to or creating debt.

Beyond an emergency savings, consider other avenues to increase your liquid assets, such as health savings accounts, flexible spending accounts, and, most importantly, individual retirement accounts and 401(k) plans.

Pay down debt

Paying down debt is one of the best ways to increase your net worth and ensure you are financially comfortable for the long haul. Carrying debt seems inevitable considering how many different types we encounter: credit card debt, student loan debt, auto and personal loans, medical debt, and more. To a certain extent, debt can help build your credit score or is necessary to acquire an asset such as a home. Yet, for those whose long-term plans are to build and establish wealth for the well-being and future of their families, debt should be closely monitored and limited to ensure it doesn't grow into an obstacle to be overcome.

There are several strategies for paying down debt. One focuses on paying extra on the loan or debt with the highest interest rate in order to reduce the amount paid on the loan over time. As soon as that debt is paid off, "snowball" its payment amount into the minimum payment for the next highest interest rate. Results may be seen quickly using this method because individual loans/debts are targeted and reduced.

Actively invest

Investing is not just for 50-something individuals who have already established their net worth. Investing can be the tool you use to build your finances over the course of decades. With the variety of investment opportunities, it's best to partner with an investment manager to review your lifestyle, goals and financial picture. Active investing is not a do-it-yourself project—your money and your goals should be managed with an advisor who can understand you and help you navigate through market complexities. You have your choice of traditional routes, like mutual funds, stock and exchange-traded funds (ETFs), or alternative options, like venture capital investing or commodity investments. With your advisor's assistance, you can choose investments that align with your needs, and ensure you are well diversified and consistently reviewing your assets. Reallocating either too infrequently or too often can negatively affect your portfolio. But, regardless of how you get started, investing is an overall important part of wealth accumulation.

Consult an expert early

According to Pew Research's generation categorization, the youngest millennial is currently 18, and the oldest only 35. These are key years to begin capitalizing on the long-term, compound effects of early investing and to ensure you make the right moves toward financial stability. Research and consult with a financial professional now, as you move through life events where you add debt, increase earnings, and need savings, like earning a degree, starting a new career, getting married and starting a family. During this time, keep in mind that the path to building wealth includes living below your means, saving for emergencies and investing appropriately. ■

Kevin Roberts
SVP, Private Wealth Regional Manager

2016 Outlook by the Numbers

		2012 (year end)	2013 (year end)	2014 (year end)	2015 (year end)	Current JUNE	2016E	Trend
ECONOMY	**Real GDP Growth SAAR**	2.20%	1.50%	2.40%	2.40%	0.80%*	1.90%	
	The preliminary estimate of Q1 GDP shows an improvement from the advanced estimate of 0.50%. Employment growth was strong in Q1, but this latest GDP release shows that real gross domestic income, an alternative measure of economic activity, increased by a healthy 2.2% annualized.							
LABOR MARKET	**Unemployment Rate**	7.8%	7.1%	5.6%	5.1%	4.7%**	4.9%	
	The decrease in the unemployment rate was due to a significant drop in the labor force, which contracted by 458k. The participation rate dropped to a five-month low of 62.6%.							
	Payroll Employment	181k	196k	235k	234k	38k**	190k	
	Payrolls in May were negatively affected by 35,000 striking Verizon workers. In addition, gains in the preceding two months were revised lower. Manufacturing lost 10k jobs, constructions shed 15k jobs and temporary help fell by 21k.							
HOUSING	**Housing Starts**	784k	928k	1,001k	1,107k	1,172k***	1,200k	
	A rise in the rate of household formations, an existing home shortage, rising rents, and aging millennials are expected to combine to continue driving steady gains in housing starts for the year.							
	Building Permits	829k	987k	1,052k	1,164	1,130k***	1,250k	
	Building permits remain at eight-year highs suggesting continuation in the housing recovery. Low inventory of existing homes will continue to support increased building permits, though rising land prices and shortages of land and labor could slow down applications.							
	Housing Prices YoY	6.9%	13.4%	4.3%	5.6%	5.4%****	5.0%	
	Housing prices continue to look favorable as inventories remain low with high demand. Housing market may continue to see support from low interest rates and ongoing job creation through 2016.							
INFLATION	**PCE Index YoY**	1.9%	1.4%	1.4%	0.3%	1.1%***	1.5%	
	A rebound in inflation has the potential to be larger than previously expected as commodities prices are beginning to rebound, the dollar has weakened somewhat, and some signs of wage growth begin to emerge.							
	Core PCE Index YoY	1.50%	1.25%	1.30%	1.30%	1.6%***	1.80%	
	The annual core PCE inflation rate remains below the Fed's 2% target. However, domestic price pressures are beginning to build as the impacts of import price deflation based on a strong dollar begin to fade, among other factors.							
	Consumer Price Index (CPI) YoY	2.1%	1.5%	1.6%	0.1%	1.1%***	1.5%	
	The 0.4% m/m increase (May) in consumer prices was the largest gain since February 2013 and reflects primarily a strong rebound in energy prices. The rebound in commodity prices suggests that the annual headline inflation rate, now at 1.1%, will snap back to 2% in the second half of the year.							
	Core CPI YoY	1.80%	1.75%	1.60%	1.90%	2.1%***	2.40%	
	Stripping out food and energy, core prices rebounded by 0.2% m/m, following a 0.1% m/m gain a month earlier. Clothing prices did fall back again in April, but the 0.3% m/m decline (May) was much more muted than the 1.1% m/m drop back a month earlier.							

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2016 Outlook by the Numbers

		2012 (year end)	2013 (year end)	2014 (year end)	2015 (year end)	Current JUNE	2016E	Trend
CONSUMER	**Consumer Spending (PCE)**	3.4%	3.1%	4.2%	3.4%	3.0%***	3.0%	
	The surge in real consumption in April was led by a 5.6% m/m rebound in motor vehicle sales. Overall durable goods spending increased by 2.2% m/m, while spending on non-durable goods increased by 0.7% m/m. In addition, real spending on household utilities rebounded by 6.2% m/m.							
	Consumer Confidence (U of MI)	72.9	82.5	93.6	92.6	94.7**	92.0	
	The usual drivers of confidence have provided mixed signals in recent weeks. Gasoline prices have continued to edge higher, the U.S. stock market has eased back from recent highs. The labor market has remained unusually strong — initial jobless claims are close to their lowest level since the early '70s.							
INTEREST RATES	**Projected Fed Funds**	0.25%	0.25%	0.25%	0.50%	0.50%**	0.75%	
	We believe the Federal Reserve will raise the Fed Funds rate one more time this year to reach 0.75% by year end 2016 as the labor market remains strong and inflation begins to firm. The Fed is currently being very dovish because of modest inflation expectations and international risks.							
	Projected 10 Year Treasury	1.76%	3.00%	2.17%	2.50%	1.75%**	2.50%	
	The 10 year Treasury yield remains below 2% as international yields are depressed due to weak economic growth trends. We expect the 10 year Treasury yield to trend higher throughout the year as economic growth and inflation trends in the U.S. warrant modestly higher rates.							
EQUITIES	**S&P 500 Price**	1,426	1,848	2,059	2,125	2097**	2,050	
	The market continues to exhibit significant volatility. Stabilization in the oil markets and increased central bank visibility have caused the market to recover from the selloff earlier in the year. We expect continued volatility and a relatively flat market (17x $120 in earnings = 2050 on the S&P 500).							
	S&P 500 Operating EPS Growth	0.50%	7.00%	7.60%	4.00%	4.0%	6.00%	
	Earnings have been negatively impacted by the energy sector due to low oil and currency (strong dollar). These factors are beginning to reverse, which should support earnings growth in 2016. We believe earnings will grow by 4% year over year in 2016.							

*Quarter over Quarter Seasonally Adjusted Annualized Rate, as of 1Q 2016
**Monthly Seasonally Adjusted Annualized Rate, as of May, 2016
***As of April, 2016
****As of Feb, 2016

Positive
Neutral
Negative

Trending Down
Trending Up
Trending Down
Trending Up

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