UMB

Summer 2015

Private Wealth Management

InSight

Summer is always an event-packed season full of weddings, vacations and graduations. In the midst of celebrating, it's still important to take the time to check in on your financial plan mid-year. Whether travel has you contemplating a vacation home, or graduations have you thinking about passing down your business someday, your Private Wealth Management officer is ready for the bigger conversations. It's never too early to simply talk about your goals and perhaps get something down on paper.

As we highlighted in the last InSight issue, UMB's Private Wealth Management team has been participating in the UMB Blog. A recent blog post (blog.umb.com/avoiding-probate/) touches on estate planning and how to avoid probate, which dovetails nicely with the content of this summer's issue.

Chad Roberts, SVP and regional manager in Kansas City, outlines a phased approach to completing a succession plan for farmers and ranchers. Spencer Berndt, AVP and product analyst, shares some insight into alternative investments – reviewing how they differ from traditional equity markets, what they can bring to a portfolio, and how to get started. K.C. Mathews, UMB Bank executive vice president and chief investment officer, provides an overview on the strength of the U.S. dollar and its effect on the economy.

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The Positive Side of a Strong Dollar

Over the past few quarters, the strengthening U.S. dollar has been gaining a lot of investors' attention. An appreciating dollar can be both a blessing and a curse. I've noticed that much of the news has focused on the negative impacts of a strong dollar with many corporate CEOs citing the strength of the dollar as a headwind to their earnings growth. Consider a different perspective: the positive side of a stable to strong dollar.

What drives the U.S. dollar?

I believe the value of the dollar is a function of relative economic strength. It's not just about the Federal Reserve action or domestic economic growth; it's also a function of global growth. I believe the global economy is the primary driver of the dollar's recent strength. Historically, a strong dollar has been associated with slower global economic growth.

To watch the video on this report, visit the UMB Blog: blog.umb.com/u-s-dollar/

Pros and Cons?

Even though most of the news headlines cite a strong dollar as a negative, especially for U.S. companies that are global conglomerates that export their goods and services around the world, there are some positive effects.

First, typically with a strong dollar come lower commodity prices. This is positive for the consumer, as energy costs decline. And businesses benefit

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As you assess your financial priorities—no matter where you are in life—make sure you are planning for events both expected and unexpected. Preparation is the key to a successful wealth management plan, whether you are determining a business succession strategy, diversifying or restructuring your investment portfolio, or adjusting your estate plan.

I hope this information has been informative and helps you begin the summer season with confidence and a thoughtful plan. I look forward to speaking with you again soon.

Sincerely,

Dana Abraham
President
UMB Private Wealth Management

if commodities are an input variable. Second, The United States is a net importer; we import more goods than we export. Less expensive imported goods and services will increase consumer confidence and spending.

What does a strong dollar mean to the U.S. economy and markets?

Given our forecast of an improving global economy, whether it's actual green shoots of economic growth in Europe, or the hope of economic stimulus in China, I believe we'll see the dollar stabilize for the remainder of the year.

Unfortunately, a strong dollar will negatively impact some industries, especially those where exports represent a significant portion of their business, such as industrial conglomerates. However, other industries—particularly those focused on the domestic consumer—will benefit.

I don't believe a strong dollar will derail our market forecast. Historically domestic equity markets have performed well in periods of both a strong or weak dollar. The message here is the dollar is not the primary driver of stock prices and I would expect the S&P 500 to post returns in the 7-10 percent range in 2015. ■

KC Mathews
Executive Vice President & 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.

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Planting a Legacy: Succession Planning for Farmers and Ranchers

According to the U.S. Department of Labor, the average age of farmers and ranchers is 55.9 years, putting them among America's oldest workers. The impending retirement within this demographic leads the way for a new generation of agriculture professionals to take over a primary sector of the U.S. economy. Farming and ranching families faced with identifying who will operate the business next may want to consider working with a wealth management professional for many reasons. Among the most important is to facilitate a succession plan that preserves the legacy of the operation that has been maintained for so many years.

Considerations about the tax consequences associated with the land, livestock and equipment are unlike any other business—even down to the management style of the farm or ranch, which can have a large impact on the valuation of the entire operation. A phased and thorough approach includes an inventory of assets, identifying the vision or goals of the farm/ranch, structuring the estate plan and taking action by carrying out the established plan.

Phase 1: Inventory and assessment

The initial step to completing a succession plan is compiling an inventory of assets. To establish a net worth of the entire operation, a list of key people, equipment and livestock needs to be recorded. "Key people" includes anyone who keeps the business running, whether it is family members with management responsibilities or outside partnerships. Also, it is important to identify all potential beneficiaries who would be entitled to proceeds if the business were to be sold. It can seem daunting, but a comprehensive inventory of all equipment, livestock and relevant documentation, like deeds, should be made. Additionally, it will be necessary to include a list of personal assets, like retirement accounts, which can have an impact on the liquidity of the overall assets and tax effects.

Phase 2: Identify goals

Although sometimes difficult, an established plan to communicate the goals and vision of the operation is critical. The entire family should be included in these conversations, even those who have no intention of running the farm or ranch in the future. Answering crucial questions such as, "What do we want to see this operation look like in five, 10 or 15 years," is necessary.

It may help to call a meeting where everyone can voice his or her needs and expectations, and each can be addressed. Together, family and business goals are crafted with these needs in mind and the goals should then inform the plan's details. The succession strategy should include naming a successor or successors who lead operations, deciding which assets to liquidate, transferring value as either ownership shares or monetary settlements, and how to treat equipment. Open communication and intentional dialogue must be treated as a critical component of a successful transfer strategy.

Phase 3: Develop the tools

Proper estate planning provides clear direction on how to control property and assets during the owner's life, and extends that control if the owner is disabled. After death, the succession plan guides fulfillment of the owner's vision for the land and operation, and takes care of loved ones. It is important to consider all aspects of personal and business wealth encompassed in the estate plan, including retirement income, estate taxes, asset distribution, business funding and any potential fees or taxes related to ownership transfers. For instance, not all farm assets are appropriate for inheritance, like fully-depreciated equipment, which is stepped up to full market value once inherited. On the other hand, harvested grain can be sold at market value by heirs without incurring income tax. These intricacies are why a comprehensive and detailed succession plan is a must for agricultural business owners.

Phase 4: Follow through

Once the estate planning tools have been identified, it's much easier to carry out the succession plan when the timing is right. It will be necessary to make sure that, even if the plan is years away from being executed, assets are titled properly. When equipment is added or sold, or when beneficiaries or management change, remember to retitle the assets and consult with a wealth advisor. This can be the difference between leaving a gift and establishing a legacy. Wealth advisors can not only assist in explaining the estate plan structure, but also in facilitating the conversation about the strategy—particularly, why the plan is built the way it is.

For any business owner, inaction is an action that can hold undesired consequences. A phased and thoughtful succession plan provides long-lasting protection of the assets they have built, which can continue to grow for future generations. ■

Chad Roberts is Senior Vice President, Regional Manager of UMB Private Wealth Management in Kansas City.

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Alternative Investments: What to Know

According to Morningstar, Inc. approximately $40 billion in assets were invested in alternative mutual funds in 2013, and that figure increased to more than $59 billion in 2014. For many individual investors, alternative investments are uncharted territory, but there are good reasons to explore the benefits they may provide.

A significant barrier to including alternative investments in a portfolio is the lack of investor education around what they are and how they work. In an environment of low interest rates and stretched equity valuation, it's worthwhile to consider how alternative investments could be added to the asset mix. Alternative investment strategies have been used for years in high net worth portfolios, but are now more widely available to individual investors. Many are unaware that they have the ability to offer improved portfolio diversification, potentially higher returns and certain tax benefits, but investors need to be informed to gain these advantages.

What are they?

The term alternative investment casts a broad net. Typically, an alternative investment is any investment that is not one of the three traditional asset types traded in the securities market: stocks, bonds and cash. The variety of forms includes hedge funds, private equity, managed futures, real estate and commodities. With the range of selections available, it's important to know that alternative investment types fall into one of two categories: liquid and illiquid.

One should have a clear understanding of the differences and similarities between liquid and illiquid. Illiquid alternatives are not traded on exchanges and remain in private placements. These assets tend to be longer-term options, and generally are not easily sold or exchanged for cash. Liquid alternatives are traded on exchanges, with daily liquidity, and can quickly be converted to cash.

> Did you know that fine art is considered an alternative investment? Visit the UMB Blog to learn more about this investment option: blog.umb.com/umb-insights-fine-art-services/

Why use them?

Part of a good investment monitoring strategy includes being proactive, keeping a sharp eye on interest rates and equity valuations, and ensuring that one's portfolio is diversified and stable. Because some alternative investments have a low correlation to the traditional securities markets—especially fixed income markets—they may offer less volatility regardless of which way the market is headed. Adding alternative investments to your portfolio might reduce the impact of a market downturn. If even a small percentage of a portfolio is designated to alternative investments, volatility could potentially be reduced enough to affect cumulative performance.

What to consider

The decision to include alternative investments, whether illiquid or liquid, should be made only after careful analysis of investment goals, expectations and risk tolerance. There are an overwhelming number of choices when considering alternatives, and it can be confusing. Ask questions and perform research to understand fees, liquidity and investment horizons. Become familiar with how to choose an alternative investment, whether alternatives are a good fit for you, and why some are more recommended than others by working with a financial advisor.

Getting started

Leveraging an advisor's knowledge of the current market and economic forecasts is an ideal place to begin the research process. Knowledge of asset types and associated risks, self-awareness of individual risk/reward strategies, and established goals are the cornerstones to investing in alternative assets. An advisor can help investors determine their unique risk-tolerance and time horizons, while providing experience-based insight into asset allocations. ■

Spencer Berndt is Associate Vice President, Product Analyst for UMB Private Wealth Management in Kansas City.

Economic Indicators

2015 Outlook by the Numbers

	2010	2011	2012	2013	2014	Current May	2015 (estimated)	Trend (year end)
Real GDP Growth Rate	2.50%	1.60%	2.30%	2.20%	2.40%	-0.20%[1]	2.4-2.7%	↗
Housing Starts	526K	681K	780K	900K	1,006K	1,135K[2]	1,200K	↗
Unemployment Rate	9.40%	8.50%	7.80%	7.10%	5.60%	5.40%	5.20%	↓
Projected Fed Funds Rate (Fed Target)	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.75%	→
Projected 10-Year Treasury Rate	3.29%	2.00%	1.76%	3.00%	2.17%	2.13%[3]	2.50%	↑
S&P 500 Price	1257	1257	1426	1848	2059	2120[3]	2225	↑
S&P 500 Operating EPS Growth	47.00%	15.10%	0.50%	7.00%	7.60%	0.00%	4.00%	↑
Inflation – Core CPI (Year-over-Year)	0.80%	2.20%	1.80%	1.75%	1.60%	1.80%[4]	1.90%	↑
Core PCE Deflator (Year-over-Year)	0.90%	1.90%	1.50%	1.25%	1.30%	1.30%[5]	1.60%	↑

[1]Quarter-over-Quarter Seasonally Adjusted Annualized Rate as of Q1 2015
[2]Monthly Seasonally Adjusted Annualized Rate as of April 2015
[3]As of May 28, 2015
[4]Year-over-Year, as of April 2015
[5]Year-over-Year, as of March 2015

Thomson Reuters Datastream; UMB Investment Management

2015 Global Economic Growth Forecasts

Areas	% of World Nominal GDP*	Average GDP 1990-2007	2012	2013	2014	2015 (estimated)
Developed World	60%	2.40%	0.80%	1.10%	1.70%	2.10%
U.S.	22%	2.90%	2.30%	2.20%	2.40%	2.50%
Eurozone	19%	1.90%	-0.75%	0.00%	0.80%	1.10%
Japan	8%	1.60%	1.00%	1.50%	0.20%	1.00%
Emerging Economies	40%	6.50%	5.50%	5.00%	3.50%	3.75%
China	10%	10.20%	7.00%	7.00%	7.40%	7.00%
Total World		3.60%	2.40%	3.00%	2.40%	2.80%

*December 31, 2012

Thomson Reuters Datastream; UMB Investment Management

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