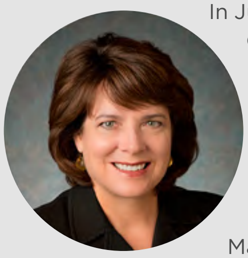
UMB

Fall 2015

Private Wealth Management

InSight

As we head into a new season, the UMB Private Wealth Management team is invigorated by the changes we've experienced in the last several months.



In June, UMB Financial Corporation acquired Marquette Financial Companies, which included Marquette Asset Management. We are thrilled to partner with Marquette in bringing its associates, clients and offerings to the UMB fold as we all grow stronger together.

We have seen tremendous growth in the 10 years I've been at UMB, even while experiencing a challenging financial climate. As we grow, we continually strategize better ways to address the needs of our customers. To that end, we have recently restructured our organization to integrate our Consumer and Private Wealth Management divisions so they are aligned to better serve our clients under our Personal Banking division. This approach will enable us to more effectively serve you through each life stage and create a seamless path for you to grow with us over time.

Just as these two changes have positioned us for continued growth and stability, we believe positive change can be a driver for our clients to reach their potential. This season's InSight covers a range of topics that can help you make informed and beneficial changes.

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Correction or Bear Market?

Stock market corrections (a decline of 10 percent) are a normal and healthy part of a bull market. We have all been concerned that we haven't seen a correction since 2011, as the markets went virtually straight up with very little volatility. And then came August 2015.

We think this is a correction: a violent reaction to four primary factors.

1. **Valuations**—Currently the market trades at a slight premium, as measured by Price-to-Earnings (P/E) multiples. Prior to to late August's trading, the market traded at approximately 17 times earnings. We think the market will trade at 16 times earnings, and if you assume the S&P 500 will earn $120 in 2016, the S&P 500 should trade at 1920.
2. **Earnings scare**—Perhaps the market is now fairly valued; however, if earnings estimates are in question, then the valuation of the market is wrong and prices may move lower.
3. **Global economic slowdown**—China and other emerging markets are clearly slowing. China represents 14.1 percent of global nominal GDP.
4. **Lack of confidence in central bankers**—Most historical bear markets have come from Federal Reserve tightening and upcoming economic recessions.

U.S. economy

The recent economic news was surprisingly good for the United States and even for Europe, perhaps suggesting that China is not the be-all and end-all of the world economy. U.S. housing data was especially strong in August with housing starts and existing-home sales reaching post-recovery highs. Those strong numbers should have a trickle-down effect on the U.S. economy as those homes are financed, furnished and remodeled.

China

China's economy has slowed throughout the past few years and clearly is not growing at a 7 percent rate, the country's official GDP growth estimate. Other variables such as electricity consumption, rail car volumes and airline traffic all

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Sheila Stokes, a senior vice president of Private Banking, provides an informative overview of how construction loans work and what you need to know to build your dream home. Spencer Kaullen, a vice president and product manager of Card Services, shares details about the U.S.'s integration of chip card technology, which will change the way in-person transactions are completed. KC Mathews, executive vice president and UMB Bank's chief investment officer, discusses recent market volatility. You can also watch KC in the latest UMB blog as he discusses the drivers of today's economy on The Street.

As the air turns crisp, we are ready to continue on our grow trajectory and take advantage of what the summer has brought. We wish you all a productive and successful season, and we remain ready to support you through life's changes, every step of the way. Enjoy the fall weather and I look forward to speaking with you again soon.

Sincerely,

Dana Abraham

Dana Abraham
President
UMB Private Wealth Management

point to a growth rate slowdown, but not a collapse. The question is how will China's slowdown affect the U.S. economy?

U.S. exports to China account for 8 percent of total exports and only 1.2 percent of GDP. Admittedly, exports to other Asian economies account for another 15 percent of exports, but the risks of a widespread Asian financial crisis resembling what happened in 1997 and 1998 are quite low.

Many have cited the Chinese stock market as an indicator of their economic outlook. The 40 percent decline in the Chinese stock market since June has nothing to do with any deterioration in the Chinese economy, just as the 58 percent surge in the first half of this year didn't reflect a genuine improvement in economic fundamentals. It's worth remembering that the Shanghai composite index is still up by 38 percent throughout the past 12 months.

Central bankers

The Federal Reserve (the Fed) has been clear that its decision to hike rates will be data-dependent. But is it also market dependent? We don't think the Fed will ignore what is happening in the financial markets. The probability of liftoff in September has been reduced significantly. Most bear markets (a decline of 20 percent) come from Fed tightening and upcoming economic recessions. The Fed doesn't want to commit a "policy mistake" and be blamed for a bear market or a recession.

Europe just initiated a quantitative easing program earlier this year. This should bolster both its economy and investor sentiment, and mitigate downside pressure on its markets.

China's policymakers also have plenty of scope for further stimulus, both monetary and fiscal. In fact, as I write this, China has lowered interest rates.

U.S. stock market

The last time we saw a correction using closing prices was in 2011, when from May to August the S&P 500 declined 11.1 percent. Last year we saw a correction in October; it was slightly less than a 10 percent correction and recovered quickly. Following are current returns as of this writing:

Benchmark	YTD Return (8/24)	From Peak
S&P 500	- 8.0%	-11.3%
Dow Jones	-11.0%	-13.5%
Russell 2000	- 7.7%	-14.3%
EAFE	- 4.4%	-13.3%
Shanghai	- 8.3%	-42.8%

Some markets, such as commodities, are in a bear market:

Benchmark	YTD Return (8/24)	From Peak
Gold	- 9.5%	-11.6%
Oil	-28.2%	-38.9%
Copper	-19.9%	-23.7%
Corn	- 7.3%	-16.2%

There is clearly a revaluation of global growth.

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Conclusion

What does this mean for equities? Based on the recent market correction, it will be difficult for the S&P 500 to reach new highs in 2015. However, the average decline of all corrections greater than 5 percent since the 1920s may indicate that we are close to the lows for this year. The average peak-to-trough decline during a 5+ percent correction is -12 percent, which implies a low of 1870 on the S&P 500 or 3 percent lower at the time of this publication. Potential positive catalysts for the market to go back to recent highs include clarity on the Fed and China.

What does this mean for interest rates? Clearly, the Federal Open Market Committee (FOMC) might use recent turbulence as a reason to postpone initiation of liftoff for rates—the risk of being accused of making a policy mistake will likely mean there is no adjustment of rates at the September meeting. However, if we are correct that recent market turbulence has merely been a valuation reset, and longer-term economic outlooks remain reasonably stable, we expect rates to begin an upward move in the near future. ■

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.

What Really Matters in Today's Economy

As investors, we only want to explore the kind of data that becomes useful information. In a world where a constant stream of economic data and commentary is the norm, it's crucial to be able to sift through what really matters to make better-informed investment decisions. Learn more about what really matters by visiting these links to the UMB Blog and watch KC as he discusses today's economy on The Street.

http://blog.umb.com/what-really-matters-the-drivers-of-todays-economy

http://blog.umb.com/what-really-matters-non-drivers-of-the-economy

Next Story ▶

Build Your Dream Home: Construction Loans Explained

As the economy picks up, Americans will likely see ground-up, single-family home builds increase as lending opportunities open and individuals gain buying confidence. ABC News reported in August that single-family home construction in 2015 rose to 12.8 percent, the highest rate since December 2007.

Considering construction

Individuals and families looking to purchase a home have many things to consider, but for those who dream of crafting their home from the ground up, the road ahead can be complicated. One of the most important aspects of a home build project is financing, and construction loans are specifically designed to meet those needs.

Construction loans are short-term loans that can be used to build a primary or secondary home. Typically, the construction loan is a temporary financing option—anywhere from six months to a year in length—that helps cover the cost of ground-up construction before the home is eligible for long-term financing.

Finding financing

Start by researching lenders who offer lending products like standalone construction loans or construction-to-permanent loans that transition to mortgages when the project is complete. Loans that transition to long-term financing can potentially save owners money with the single closing cost at the end of the loan term. However, some home builders may opt to keep the two loans separate so they are free to search for the best rates and terms for each type of loan.

Financing begins with an application process similar to that of purchasing a home. The major difference is that the project scope—comprehensive building plans, estimates, proof of a purchased lot—is required almost right away. Many lenders may require a signed contract with a builder before considering the loan application. This a good time to set up builder and/or risk insurance due to the unpredictability of build projects, which can be delayed or adjusted for a variety of reasons.

Appraisals

Once loan approval is granted, the project will be appraised. This is the most critical step of the construction loan process because it determines the final loan amount. Each lender is different, but in most cases, financing will be given for the lesser of either the cost of building the home or the appraised value of the final product. The appraised value is largely determined by reviewing all of the home's components and then comparing it to recently-sold, similar homes in the area. For example, consider the cost of building a home as $500,000 and the appraised value as $550,000. If the lender is willing to finance at least 80 percent, it would choose the lesser of the two prices - $500,000 - to reach the total loan amount of $400,000.

Down payment and draws

Another critical component of home construction financing is the equity contribution, or down payment. The equity contribution is usually a percentage of the project's cost or value, whichever is less, which the homeowner pays toward the project in cash. It's important to note that the equity contribution amount is used to pay for project costs first, with the loan money being disbursed only after the equity contribution is exhausted. Having additional cash reserves available outside of the equity contribution can help offset the expense of any unforeseen obstacles or additions during the build.

Once financing is in order and the project is underway, the next step is to become familiar with the draw process, which normally follows this system:

- The general contractor and other project vendors submit invoices to homeowner.
- The draw requests are submitted to the lender.
- The lender reviews the requests and ensures that the costs align with the project budget.
- An inspector provided by the lender is sent to the project site to check that the goods or services invoiced are either on-site as promised or completed as described.
- If all inspections and reviews are passed, the draw requests are approved and the home owner can pull those funds to pay the invoices.

Building the perfect home

Building the perfect, one-of-a-kind home can be an exhilarating experience—as long as the homeowners have patience and a good sense of the process. Construction loans feature several benefits that can help keep the project moving, including regular inspections, flexible financing, appraisals and budget management. While complex, crafting a house from scratch can be rewarding in the long term. ■

Sheila Stokes is senior vice president of Private Banking for UMB Private Wealth Management

Next Story ▶

Chip Cards: What You Need to Know

According to Forbes, 70 percent of U.S. credit cards and 41 percent of U.S. debit cards will be converted to chip cards by the end of 2015. While this may seem like a fast timeline, chip cards have actually been in use in many countries for several years. To prepare for this upcoming change to America's payment system, it's important to understand chip card technology and the associated changes to the cardholder's relationship with merchants, banks and card issuers.

What is a chip card?

Chip cards are also known as EMV cards, which stands for Europay, MasterCard and Visa - after the first companies that created the standards for this technology. These payment cards contain an embedded microchip that generates dynamic, one-time use data during an in-person card transaction.

This technology adds a new verification measure which provides greater fraud protection. Each time you make a purchase at a chip-enabled terminal, a unique transaction code is generated. This code is known as a cryptogram, or short piece of encrypted information. This one-time code process makes any stolen information useless for fraudulent activity.

Enhanced protection in a tiny chip

In the U.S., the most common and familiar type of payment card uses a magnetic stripe to transmit the payer's information during transactions. The information transmitted is the same every time, and is stored in the point-of-sale (POS) terminal that processed the transaction. This repetitive use of static magnetic stripe card details makes it more vulnerable to duplication, which can result in fraudulent charges.

While EMV chip card data is similarly stored in the POS terminal, the information transmitted is unique to each transaction, making it ineffective for re-use. With U.S.-issued chip cards, your signature is also required to authenticate your identity. This combination of chip authentication and personal verification makes card duplication and counterfeiting more difficult.

Chip cards can be produced with both the microchip and the magnetic stripe so cardholders can pay for goods at a variety of POS terminals, especially in the U.S. as it initially moves forward with this technology transition.

Tell me about the U.S. conversion

EMV cards have been used for more than a decade, and have become the preferred method for in-person transactions in countries around the world. To accommodate this growing implementation, the U.S. is now taking steps to integrate chip card technology with signature authentication. Some banks and credit unions have already begun to issue chip cards to customers in two ways:

- Generating new, replacement cards that feature the chip technology and asking customers to destroy the older magnetic-stripe-only cards
- Rolling out the chip cards gradually over time as customer cards naturally expire

U.S.-issued chip and signature cards will differ slightly from those used in European countries. Cardholders abroad have chip and PIN cards that require a PIN to be entered as authentication at each transaction, compared to the chip and signature cards issued by American financial institutions. Because of this difference, U.S. chip and signature cards may not work at non-person POS terminals in Europe. Americans traveling with U.S.-issued chip and signature cards should seek out in-person POS terminals to ensure the card can be authenticated with a signature.

As the U.S. adopts chip card technology, Americans will benefit from increased travel security, stronger fraud protection for in-person transactions and more numerous payment terminal options with the accessibility of both chip and magnetic stripe POS systems. While these changes are positive and better protect card users, cardholders should still maintain an awareness of fraud and be sure to use savvy shopping practices. ■

Spencer Kaullen is vice president and product manager for Card Services.

Economic Indicators

2015 Outlook by the Numbers

	2010	2011	2012	2013	2014	Current July	2015 (estimated)	Trend (year end)
Real GDP Growth Rate	2.50%	1.60%	2.30%	2.20%	2.40%	2.30%[1]	2.4-2.7%	↗
Housing Starts	526K	681K	780K	900K	1,006K	1,206K[2]	1,200K	↗
Unemployment Rate	9.40%	8.50%	7.80%	7.10%	5.60%	5.30%	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%	2.12%[3]	2.50%	↑
S&P 500 Price	1257	1257	1426	1848	2059	2079[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%	0.20%[4]	1.90%	↑
Core PCE Deflator (Year-over-Year)	0.90%	1.90%	1.50%	1.25%	1.30%	1.29%[5]	1.60%	↑

[1]Quarter-over-Quarter Seasonally Adjusted Annualized Rate as of 2Q 2015
[2]Monthly Seasonally Adjusted Annualized Rate as of July 2015
[3]As of August 19, 2015
[4]Year-over-Year, as of July 2015
[5]Year-over-Year, as of June 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%	1.30%	1.20%	1.80%	2.00%
U.S.	22%	2.90%	2.20%	1.50%	2.40%	2.30%
Eurozone	19%	1.90%	-0.90%	-0.40%	0.80%	1.40%
Japan	8%	1.60%	1.80%	1.60%	-0.10%	0.90%
Emerging Economies	40%	6.50%	5.10%	5.10%	4.70%	4.30%
China	10%	10.20%	7.70%	7.70%	7.40%	6.90%
Total World		3.60%	3.40%	3.40%	3.40%	3.00%

*December 31, 2012

Thomson Reuters Datastream; UMB Investment Management

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