



CCM Update

CCM had a great year in 2016, thanks to the support of our clients. We made donations to various organizations as a way of expressing our gratitude. One example is our donor advised fund at the Boulder Community Foundation, which we use to assist a wide array of non-profits that are supported by our clients and staff.

Another organization we support is La Puente, a remarkable social service network serving the homeless, the hungry, and the disadvantaged in rural southern Colorado. Our history with La Puente goes back many years, with CCM founder Steve Ellis accompanying his daughter Maya there for week long work trips starting in 2009, staff member Ryan becoming involved through his work at El Pomar Foundation from 2012 – 2014, and CCM as a firm providing a range of services since 2013.

La Puente Home began as a homeless shelter and has grown to address the many facets of homelessness and poverty through a comprehensive support network of resources such as job training, emergency assistance, transitional housing, food distribution, and PALS (a childcare program for children who have experienced homelessness or trauma).

We have seen first-hand the amazing work of the volunteers and staff of this organization, and how they change lives while making every penny count. For a window in their world, take a look at this video: [La Puente – Building Bridges, Meeting the Need](#) or visit their website at www.lapuente.net.

Thank you to our clients and friends for a great 2016.



2016 CCM Highlights

Events

In October, we hosted Caroline Gaynor of Dimensional Fund Advisors to present *Guiding Principles*, a personal narrative about the parallels between guiding vision-impaired athletes and guiding investors.

Conferences Attended

- ❖ Dimensional Fund Advisors Conference
- ❖ Schwab Impact National Conference
- ❖ Junxure Advisor Conference

Speaking Engagements

- ❖ Impact Assets Lunch at the City Club (February 2016)
- ❖ Private Wealth Forum panel on impact investing (September 2016)
- ❖ Middlebury Institute for International Studies (January & June 2016)
- ❖ Institutional Investor RIA Forum (May 2016 Chicago & October 2016 San Francisco)



More to Come in 2017

- Be on the lookout for the launch of our new website in early February!
- We had over a dozen meetings with investment management and research firms in the last two quarters of 2016 and will continue nurturing these partnerships in 2017.



2016 was highlighted by surprises and shifts in leadership, both in the markets and in the political environment at home and abroad.

The year began with one of the worst six-week periods in market history, as U.S. stocks declined over 11% amid worries about falling oil prices, a slowing global economy, and threats from China and elsewhere. After bouncing back from their lows on February 11, stocks were hit again in the summer when the U.K. voted to leave the European Union. This demonstration of populist sentiment alarmed many; while stocks rebounded again, the Brexit outcome intensified concerns about the U.S. election later in the year.

The stunning victory of the unconventional Donald Trump and a shift to Republican control of Congress in November's election once again took pollsters, pundits and the general public by surprise.

Also unexpected was the response of U.S. stocks, which rallied following the election and went on to reach record highs. Bond yields also rose quickly, lowering returns for many types of bonds, while the Federal Reserve hiked interest rates for only the second time in a decade.

The chart below shows market returns for the quarter and the year as, well as other key market data.*

Market Index	Q4 Return	2016 Return
S&P 500 (with dividends)	3.8%	12.0%
Russell 2000 Small Cap	8.8%	21.3%
MSCI EAFE Int'l Markets	-0.7%	1.0%
MSCI Emerging Markets	-4.2%	11.2%
Barclays US Govt/Cr Inter. Bnd	-2.1%	2.1%
Barclay's Municipal Bond	-3.6%	0.3%
Barclays US Corp High Yield	1.8%	17.1%
Key Statistics	Current 12/31/16	Prior 9/30/16
10 Year U.S. Treasury Yield	2.4%	1.6%
US GDP Growth (Q3, annualized)	1.7%	1.4%
U.S. Unemployment Rate	4.7%	4.9%
Annual Inflation (Core CPI)	2.1%	2.3%
Brent Crude Oil (\$/BBL)	\$54	\$50
Gold (\$/oz)	\$1,152	\$1,322
Euro/Dollar	1.05	1.11

*Source: Morningstar, Wall Street Journal, as of 12/31/16

Global Stocks Mixed

Among global stock markets, the U.S. outperformed both foreign developed and emerging markets as the S&P 500 Index gained 3.8% for the fourth quarter and 12% for the year. Improving consumer confidence and rising corporate profits boosted stock performance; stocks also rose on optimism that Trump's proposals for greater infrastructure spending, reduced regulation and lower tax rates would spur U.S. economic growth.

Small company stocks performed even better, with a late year rally contributing to gains of over 21% for the year. International stocks struggled during the fourth quarter, declining in part due to uncertainty about Trump's trade and immigration policies. The rising U.S. dollar (up 7% for the quarter) also contributed to weaker returns. Developed markets ended the year relatively flat while emerging markets generated more solid results, gaining over 11% in 2016.

Bond Markets Turbulent

Unlike U.S. stocks, bonds were not perceived as beneficiaries of a pro-business Trump administration. The potential for increased government spending, higher inflation and lower taxes, all generally negative for bonds, resulted in a jump in bond yields late in the year.

The 10-year Treasury note yield climbed from its summer lows of 1.4% to 2.4% in the fourth quarter, and shorter and longer term yields also rose, resulting in negative returns for most types of bonds during the quarter. Thanks to higher returns in prior quarters, many bond investments were still positive for the year.

High yield bonds had a remarkable year, helped by strong performance of the lower-quality issues they favor. The broad-based Barclay's Corporate High Yield index gained 1.8% for the quarter and finished the year with equity-like returns of 17.1%.

Divergence in Performance

Diversified investment strategies generated mixed results in this environment – while news reports focused on gains in specific niches of the stock market such as the Dow Jones Industrial Average, other areas of the market struggled, resulting in portfolio returns that were often lower than the headline reports.

Rather than investing with a short term focus on finding the winners, we try to capture long term return patterns in our diversified portfolios. Our strategy of allocating investments across various asset classes ensures that we will participate in rebounds, which often happen unexpectedly over very short periods, while potentially limiting exposure to underperforming areas.

As a result, a diversified portfolio including a broad range of both equity and fixed income asset classes is unlikely to be the top or bottom performer in any one period. It will however, generate more consistent and predictable returns over longer periods, regardless of the headlines.



New Year's Resolutions – Happy 2017!

The New Year is a great time to strive to improve your financial fitness. An excellent place to start is by making good financial resolutions that can help get you closer to your monetary goals.

Like all resolutions, you want to make concrete, actionable and achievable goals. Here are a few ideas you might consider adding to your own personal list:

- ✓ I resolve to create a will (especially because I have children) and organize my estate planning documents.
- ✓ I resolve to make conscious choices about my spending.
- ✓ I resolve to focus on what I can control. There are many external events that will affect my situation, but the one thing I can do is have a plan for how I react and adjust to my changing circumstances in a positive and productive way.
- ✓ I resolve to stop watching daily market returns and start focusing on how my investments are positioned for me to successfully reach my longer-term goals.
- ✓ I resolve to identify the financial problem that is stressing me out the most and make a dent in fixing it.
- ✓ I resolve to give money as a random act of kindness – one of the most effective ways to realize the value of money is to be charitable. Perhaps anonymously buy a cup of coffee for someone in line, or purchase a book for that child staring at the new Harry Potter at Barnes and Noble. It is a powerful and effective way to touch a life.
- ✓ I resolve to reward myself once I have successfully achieved a goal.

While some of these ideas may not apply to your specific situation, some of them might.

Working closely with a trusted advisor can help you in the valuable process of identifying and accomplishing your financial resolutions.

Good luck in the New Year! We hope it brings good health and happiness to you and your family.



Financial Resolutions

Another common financial resolution is creating an emergency fund. Here are some tips from Fidelity Investments on how you might structure that fund: [How to Save for an Emergency](#).**

Four ways to be prepared for anything	
	Set aside at least three to six months' worth of living expenses.
	Fund your emergency savings account regularly, as you would a bill.
	Keep savings in an account that pays some interest but preserves liquidity.
	Don't forget health and disability insurance.



2017 Outlook

Investors continue to face uncertainty about the policies of the new administration, geopolitical risks, and headwinds including higher valuations for stocks and the threat of higher interest rates.

All of these make 2017 especially difficult to forecast. According to Dimensional Fund Advisors' *Quarterly Market Review*, "In the end, trying to outguess the market is incredibly difficult and expensive, and over the long run, the result will almost assuredly be inferior when compared to a market-based approach. Professor Kenneth French has been quoted as saying, 'The market is smarter than we are and no matter how smart we get, the market will always be smarter than we are.'...For an investor, we believe the lesson here is that instead of fighting the market, one should pursue an investment strategy that efficiently and effectively harnesses the extraordinary collective power of market prices."

We couldn't have said it better ourselves.

Source: Dimensional Fund Advisors, "The Power of Markets", 12/31/16



A growing number of people are interested in aligning their investment portfolio with their values – an approach often referred to as Impact Investing. For some, those values might include a deep desire to protect the environment, or concerns about economic inequality, our food supply and a host of other issues.

At Colorado Capital Management we offer different ways to explore the impact investing arena. We start by having a values conversation, which is similar to our client conversation that addresses risk tolerance, liquidity needs, time horizon and other financial concerns.

For the values conversation, we discuss what investors care about the most. Often, we ask “If you could move the needle on 1-2 key issues, what would they be?” We use a “Values Game” which forces clients to choose amongst a host of impact-oriented issue areas (including land conservation, affordable housing, microfinance, education, renewable energy and others). From our values conversation, we draft a Values Statement to guide our investment process.

Values-aligned investments can be made across asset classes including stocks, bonds, real estate and alternatives. In the public markets, for example, we often use mutual funds which either negatively screen out certain investment areas (i.e., fossil fuel companies) or positively screen for impactful companies (i.e., funds which emphasize renewable energy companies).

In addition to mutual funds, separate account sub-advisors are available with impact offerings. For instance, some clients prefer to exclude private prison industry companies, or companies producing junk food from their portfolios. Equity sub-advisors can help create these customizable stock portfolios and also engage in shareholder activism and proxy voting. Likewise, bond sub-advisors can create

Impact Investing Providers Include



customized municipal or corporate bond portfolios focused on specific impact areas.

In addition to these public market products, private debt, equity or real asset investments may be available for certain qualified investors. These direct investments may offer higher impact by targeting different issue areas such as affordable housing, climate change, aging populations, and community development in specific cities or regions. Investors may be able to target their investments to the specific issue area they care about the most.

We coordinate the impact values conversation with our portfolio management and financial planning process to create a diversified, risk appropriate investment portfolio. That may mean allocating a portion to impact investments and a portion to traditional stock, bond and real estate funds. The amount of impact investments will vary but the end goal is to enable clients to align their values with their investments in a way that is meaningful to them.

Feel free to contact us to discuss how we might incorporate impact investing into your portfolio.

INVESTMENTS / PLANNING / IMPACT

COLORADO CAPITAL MANAGEMENT provides investment management and financial planning to high-net-worth individuals and their families. As fee-only advisors, we place your interests first as we develop prudent and thoughtful financial strategies designed to both limit risk and meet specific long-term goals. We also offer sophisticated impact investing strategies for investors wishing to combine financial returns with positive social and environmental impact.

Colorado Capital Management is a Certified B Corporation (an independent certification for corporate social responsibility) and a Registered Investment Advisor (meaning we are registered with the SEC and have a fiduciary duty to always act in the best interest of our clients).



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Enriching Lives

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