Colorado Capital
MANAGEMENT

QUARTERLY NEWSLETTER / APRIL 2017

CCM Update

We are delighted to share our latest newsletter with you, beginning with an update on the latest developments at CCM and continuing with sections on our three services. Each year we seek to improve our office environment and advance the level of service that we provide to our clients. Almost two years ago we refreshed our CCM logo and added the tagline "*Enriching Lives"* to reflect our commitment to assist clients through thoughtful investments, meticulous planning and genuine impact. Over the last year we continued to refresh the CCM brand and from our efforts emerged the return of the client portal and our brand new website!

With each project, we aim to enhance our services by optimizing the efficiency of our team and prioritizing convenience for our clients. We look forward sharing the new things to come this year.

New Website, New Faces

We are also excited to welcome the newest member of our team – Julia Wentworth – who joins CCM as the new Client Services & Operations Associate.

Julia is a soon-to-be graduate from the Leeds School of Business at the University of Colorado Boulder. It was during her MBA program that she developed an interest in investment management and financial planning. Having also earned her bachelor's degree from CU in psychology and Spanish, Julia is drawn to wealth management because of the crossover it provides between the qualitative components of relationship building and coaching, and the quantitative components of investing and financial analysis.

Julia has an eight-year history working in the nonprofit sector. She began her career in performing arts production in Telluride, returning to Boulder in 2012 to work in the mental health sector and pursue graduate school. She is passionate about health and wellness, both mental and physical, and has devoted countless volunteer hours to causes in these areas.

In her free time Julia gets outside as much as possible. She is an avid runner, hiker, biker and skier. When not on outdoor adventures, Julia frequents as much live music as possible and enjoys time with her friends, siblings and baby niece in Boulder.

Ryan Patterson will be moving on in May and will attend Leeds School of Business in the fall – we wish him the best!

Return of the Client Portal

The ClientView portal is back! This will allow you, the clients, to view your accounts, access quarterly reports and newsletters, and have the ability to send documents to us both safely and securely. We hope you will enjoy this service again and we will send a reminder to activate your account logins.

We experienced surprises as well as milestones during the first three months of 2017. The stock market continued its ascent in spite of concerns about rich stock market valuations, a new administration in the U.S. and a changing geopolitical climate overseas. After pulling back in late 2016, bonds stabilized and generated slightly positive returns, surprising many investors as the Federal Reserve raised interest rates.

In terms of milestones, the Dow Industrial Average reached a peak of 21,000 on March 1 of this year, almost eight years to the day after it bottomed at 6,517 on March 9, 2009. While the Dow has more than tripled in value since then, other indexes have also tripled or more in the last eight years including the broad-based S&P 500 and Nasdaq Composite Indexes.

In fact, the Nasdaq Composite reached record highs 21 times during the quarter, reflecting the solid performance of the technology stocks it favors.*

Economic Growth Continues

The economy also continued to improve with GDP reaching an annualized growth rate of 2.1% as of the fourth quarter. This data suggests that our current economic expansion is also close to milestone status; since June of 2009, the U.S. economy has expanded for 93 straight months, twice as long as the average expansion and second only to the expansion from 2001-2008.**

Economic growth in the U.S. has resulted from many factors including steady consumer and government spending, manufacturing strength and a robust real estate market. The job market has also continued to strengthen – U.S. unemployment rate fell to 4.5% in March, the lowest level since May 2007. Importantly, wages increased by 2.7% in March, reflecting solid improvement as it is among the highest monthly wage growth since the recovery began eight years ago.

For expansion to march on, we will need continued contributions from manufacturing, the consumer and hiring. Additionally, we need greater clarity about the new administration's plans for enhancing economic growth via lower corporate and personal tax rates and increased infrastructure spending.

Market Returns Solid in U.S. and Overseas

Higher economic growth and improving corporate earnings drove U.S. stocks higher, with the S&P 500 Index gaining 6.1% for the quarter. Growth sectors, particularly technology, health care and consumer products, led the market while value-oriented sectors including financials, energy and utilities showed weaker performance.

Smaller company stocks took a breather this quarter after previously leading the market last quarter. However, with returns over 26% for the trailing one year period, small cap stocks led the market for the last twelve months.

We also witnessed a shift in leadership from the U.S. to international equities. Developed market stocks outperformed many U.S. indices after several quarters of underperformance, with the broad-based MSCI EAFE Index gaining over 7% and countries including Hong Kong, Australia and Spain rising over 10% for the quarter. Developed market stocks were helped by manufacturing and consumer strength as well as continued central bank accommodation in Europe and Japan. Performance was also strong for emerging markets which gained 11.5% for the quarter.

Among real assets, real estate continued to generate solid returns, particularly overseas, with U.S. and international REIT indexes rising 3-4% for the quarter. Commodity and energy-related funds were generally negative as oil prices fell during the quarter.

Market Index	Q1 Return	1 Year Return
S&P 500 (with dividends)	6.1%	17.2%
Russell 2000 Small Cap	2.5%	26.2%
MSCI EAFE Int'l Markets	7.3%	11.7%
MSCI Emerging Markets	11.5%	17.2%
Barclays US Govt/Cr Inter. Bond	0.8%	0.4%
Barclay's Municipal Bond	1.6%	0.2%
Barclays US Corp High Yield	2.7%	16.4%
Key Statistics	**Current 03/31/17**	**Prior 12/31/16**
10 Year U.S. Treasury Yield	2.4%	2.4%
US GDP Growth (Q4, annualized)	2.1%	1.7%
U.S. Unemployment Rate	4.5%	4.7%
Annual Inflation (Core CPI)	2.4%	2.1%
Brent Crude Oil ($/BBL)	$50	$54
Gold ($/oz)	$1,251	$1,152
Euro/Dollar	1.06	1.05

Date from: Morningstar, Wall Street Journal, as of 03/31/17

Resilience in the Bond Market

On the surface, prospects appeared dim for bonds during the first quarter. Many investors feared that bonds would suffer with rising inflation due to economic growth and the administration's presumed success in cutting taxes and increasing infrastructure spending.

The fact that the Fed raised interest rates again in March, marking the third hike in 16 months, also threatened bond returns. The yield on the 10-year Treasury reached a high of 2.6% briefly, bringing bond prices lower, but it has since fallen to 2.3% and remains historically low. Additionally, with rates still close to zero in major markets such as Germany and Japan, U.S. bonds are still in demand from overseas investors, helping performance.

As a result, returns were slightly positive among investment grade bonds while municipal and high-yield bond indexes were also positive, gaining 1.6% and 2.7% respectively for the quarter.

*Barron's 3/03/17 edition
**National Bureau of Economic Research 3/31/17

Health Savings Accounts: *the true trifecta of tax savings*

As we wrap up another tax season, it is important to consider ways to reduce your tax bill for next year. Incorporating tax-advantaged accounts into your financial plan can help. For example, there are pre-tax deductions for contributions to retirement accounts, interest deductions from mortgages and tax free withdrawals from 529 plans for education. Additionally, there are tax benefits to having a unique account that contributes to a very important goal – your health.

Many people are not aware of the tax benefits of Health Savings Accounts (HSAs). From a tax savings perspective, the HSA may be one of the best investment vehicles available to you because it offers the three most compelling benefits of tax-aware accounts:

Tax Savings Trifecta

+ Pre-tax deductions*
+ Tax-free growth
+ Tax-free distributions

Like many retirement accounts, HSAs enable you to take pre-tax income deductions within certain limits. They also allow you to invest the contributions into equity and fixed income funds in a flexible way.

In addition, these accounts grow tax-free, and when used for qualified medical expenses, distributions will not be taxed. You can also retroactively cover expenses incurred all the way back to when you originally opened your HSA account.

If you think about your overall living expenses, health care will become an increasingly high cost to bear as you age. According to HealthView Service, a leading producer of health care software, health care costs have been rapidly inflating, rising between 6-7% per year on average.* This is significantly higher than the annual social security cost–of-living inflation adjustment, which has averaged between 2-3% per year.

Life is expensive, especially health care. HealthView Services' forecast data show that "the average healthy 65-year-old couple retiring this year is projected to spend $288,400 in today's dollars on lifetime Medicare Parts B, D and supplemental insurance (Plan F) premiums. When dental, hearing, vision and all other out-of-pocket expenses are included, the total retirement health care bill rises to $377,412."**

While these are average numbers and retirees' expenses will vary significantly based on many factors, it is safe to say that health care costs represent a major cost of retirement – one that is only getting higher.

Next Steps

For those of you thinking about opening an HSA, or if you already have one, we would suggest making the maximum contributions to your HSA account during your earning years.

Current IRS contribution limits in 2017 are $3,400 for single filers (minimum deductible of $1,300) and $6,750 for a family (minimum deductible of $2,600). Once you hit age 55, there is also a $1,000 catch up provision that allows you to increase your contribution limit by said amount.

If you are not yet retired, you might also consider paying for all of your medical costs by relying on current cash flow. That way, you allow your HSA investment account to grow tax-free, like your retirement account, with the ability to pull the money out tax-free later in life.

There are many considerations and nuances to how HSAs work. We would be happy to help you explore if this option would be appropriate for you and your family.

CCM Investment Strategies

This quarter, we have been rebalancing back to asset allocation targets. While each portfolio is slightly different, we are seeing some common trends: the need to reduce areas that have appreciated such as equities and high-yield bonds and add to areas that have declined such as government and corporate bonds.

We are also introducing other types of investments such as bank loan funds, which are bond funds that invest in senior secured bank loans with floating rate coupons. An allocation to these types of funds may prove beneficial in the current economic environment because floating rate coupons may help defend against rising rates and inflation.

On the equity side, we are slightly trimming our real estate exposures and adding to our small cap and international allocations, which we hope would benefit from continued economic expansion in the U.S. and overseas.

Looking ahead, we see some challenges that could make for a turbulent time in the markets, including high stock market valuations, geopolitical risks and uncertain government and central bank policies. We may also see positive developments including continued economic expansion, corporate earnings growth and a more stable political environment.

The discipline of rebalancing is essential because it allows us to bring each portfolio back in line with the client's long term investment strategy so that we can be prepared for both challenges and opportunities.

**Pre-tax deductions are deductions applied to an individual's gross income, thereby decreasing the amount of wages upon which local, state and federal taxes will be owed. In addition to income tax liabilities, pre-tax deductions also decrease a worker's required contributions to Medicare and Social Security.
***Source:* http://www.hvsfinancial.com

Trump Presidency May Increase Demand for Impact Investing
By Leila Boulton

It may be too early to tell how the election of President Donald J. Trump will affect traditional investments, but some financial experts are already seeing a spike in demand for impact investments.[1]

People are becoming more interested in aligning their investment portfolios with their values—an approach often referred to as “impact investing.” Impact investing uses capital to encourage positive social and environmental change while seeking competitive financial returns. Examples include buying tax-exempt bonds that finance affordable housing and health care facilities or making loans to non-profit organizations that promote worthy causes such as alleviating poverty, furthering women’s equality and supporting sustainable farming.

Some of President Trump’s executive orders and proposed budget cuts could significantly affect government social and environmental programs. Regardless of how you view them, major shifts in policy may create investment opportunities. For example, President Trump’s proposed cuts to the Environmental Protection Agency’s budget might make investments in private sector environmental cleanup companies a compelling opportunity.[2]

Other Trump administration initiatives may boost small businesses. President Trump signaled support for start-ups led by women in his recent address to Congress. “With the help of Prime Minister Justin Trudeau, we have formed a council with our neighbors in Canada to help ensure that women entrepreneurs have access to the networks, markets and capital they need to start a business and live out their financial dreams,” said Trump. While details of the council’s plans have yet to emerge, investing in nascent companies headed by women could be another unique strategy.

No matter who occupies the White House, demand for impact investing will likely continue to grow. Between 2014 and 2016, sustainable, responsible and impact investing increased by 33 percent, from $6.57 trillion in 2014 to $8.72 trillion in 2016.[3]

And impact investing may be just as good for your wallet as it is for people and planet. In 2016, the S&P 500 ESG Index returned an average of 14.5%[4], compared with an average of 12%[5] for the S&P 500 Index. The S&P 500 ESG Index measures the performance of the companies within the S&P 500 Index, with a weighting scheme that also scores each company’s Environmental, Social and Governance practices.

While past performance does not guarantee future results, impact investors can feel good about the long-term benefits of investing in socially and environmentally responsible companies working to solve the world’s most significant challenges—regardless of which political party is currently in power.

Leila Boulton, JD, MBA, works with CCM as an independent consultant on impact investment research, analysis and due diligence. As a contributing writer at Private Wealth and Financial Advisor magazines, she writes frequently about impact, angel and alternative investing.

CCM has identified a number of impact investments supporting various social and environmental causes that we may recommend to clients. Please contact us to discuss how to incorporate impact investing into your portfolio.

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1 *What You Should Know About Impact Investing: Socially conscious investors are increasing their financial backing since Trump's presidency*, U.S.News & World Report, February 22, 2017, available at: http://money.usnews.com/investing/articles/2017-02-22/what-you-should-know-about-impact-investing
2 Impact investing in the age of President Trump, InvestmentNews, March 5, 2017, available at: http://www.investmentnews.com/article/20170305/FREE/170309968/impact-investing-in-the-age-of-president-trump?CSAuthResp=1%3A273642946941651%3A169137%3A64%3A24%3Aapproved%3A2EEBBF17F18E29649F18103A6D2E78BE
3 US Sustainable, Responsible and Impact Investing Trends 2016, US SIF Foundation, p.12, available at: http://www.ussif.org/files/SIF_Trends_16_Executive_Summary(1).pdf
4 S&P Dow Jones Indices: http://eu.spindices.com/indices/equity/sp-500-esg-index
5 Morningstar benchmark data as of 3/31/17

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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