Colorado Capital
MANAGEMENT

FALL NEWSLETTER / OCTOBER 2017

CCM Update

As the Colorado Capital team continues to grow we would like to remind clients and partners of our staffing structure. The faces you are most familiar with make up our Advisory Team. Steve Ellis, Lee Strongwater, Liz Jacques, Debbie Huttner and Kyle Schultz work directly with clients to identify and build the optimal portfolio and investment strategy based on each individual or family's unique circumstance, needs and goals. Portfolio Management, responsible for investment strategy, research, and trading, consists of Kirsten Roeber and Colleen Harvey. And lastly, the Operations Team, responsible for account openings, money movement and all transactions dealing directly with our clients as well as our custodian, Charles Schwab, consists of Andy Gilson and Julia Wentworth. Please feel free to reach out to individuals on these teams as questions and needs arise.

From left to right: Lee Strongwater, Debbie Huttner, Liz Jacques, Kirsten Roeber, Steve Ellis, Colleen Harvey, Julia Wentworth, Andy Gilson, Kyle Schultz

For staff bios, click here

New Team Member

Colorado Capital Management welcomed Kyle Schultz, CFP®, in July. He joins us from Minneapolis, where he was Vice President of Financial Counseling at the Ayco Company, a Goldman Sachs company. Kyle brings with him six years of experience counseling clients in taxes, investments, estate planning, risk management, employee benefits, healthcare, retirement planning, insurance and annuities. He is passionate about impact investing and looks forward to continuing his community involvement in Boulder. Further, Kyle is excited to maximize his time in the mountains and plans to participate in his first ultra-marathon in 2018.

Reports on Client Portal

Colorado Capital recently streamlined operational efficiencies by distributing all quarterly reports through the client portal, accessed through our website. In addition to viewing personal reports through the portal, we encourage clients to utilize this tool to stay up to date on account balances, asset allocation, current holdings, and performance. The portal can also be used to securely upload and exchange documents.

Contributors comprised of CCM staff members.

Investments

The third quarter of 2017 was newsworthy on many fronts. We witnessed striking natural events including a total solar eclipse, three major hurricanes, and widespread wildfires in the western U.S. Geopolitical and domestic affairs were also unsettled during the quarter with increasing antagonism between the leaders of North Korea and the U.S., political divisiveness surrounding health care and tax reform, and racial violence in Charlottesville, all of which created elevated levels of anxiety.

The most stable area to report was the stock market, which exhibited remarkably low volatility and continued to rise despite the headlines. Bonds were also relatively stable for the quarter, resulting in positive returns for most investors with exposure to these asset classes.

Stocks positive for another quarter

The major U.S. stock indices ended the quarter strong, with the S&P 500 large cap index rising 4.5% including dividends, its eighth consecutive quarterly gain, and the small cap Russell 2000 index gaining 5.7%. The S&P 500 closed the quarter at a record high and has now risen over 14% in 2017.

Stocks have continued to hit new highs in part due to positive economic growth in the U.S. (GDP rose 3.1% in the second quarter), and solid earnings growth, with U.S. companies posting their highest profit growth in six years. Persistently low interest rates, inflation and unemployment have also benefited U.S. stocks.

Market Index	Q3 Return	YTD Return
S&P 500 (with dividends)	4.5%	14.2%
Russell 2000 Small Cap	5.7%	10.9%
MSCI EAFE Int'l Markets	5.4%	20.0%
MSCI Emerging Markets	7.9%	27.8%
Barclays US Govt/Cr Inter. Bond	0.6%	2.3%
Barclay's Municipal Bond	1.1%	4.7%
Barclays US Corp High Yield	2.0%	7.0%
Key Statistics	**Current 9/30/17**	**Prior 6/30/17**
10 Year U.S. Treasury Yield	2.3%	2.3%
US GDP Growth (as of latest Quarter, annualized)	3.1%	1.2%
U.S. Unemployment Rate	4.2%	4.4%
Annual Inflation (Core CPI)	2.2%	1.7%
Brent Crude Oil ($/BBL)	$57	$50
Gold ($/oz)	$1,285	$1,242
Euro/Dollar	1.18	1.14

Source: Morningstar, Wall Street Journal, as of 9/30/2017

International Stocks reflect global growth

For the first time since the great recession, we are seeing coordinated signs of economic growth patterns around the world. According to a report from Blackrock examining global manufacturing trends, roughly ¾ of countries around the world are experiencing economic expansion, all of the economies in the euro zone are improving, and Eurozone consumer sentiment has hit a 16-year high.

International stock returns have reflected this spirit of growth, as developed and emerging markets gained 5.4% and 7.9% respectively for the third quarter, as measured by the MSCI EAFE and emerging markets indices.

International stocks have also outperformed U.S. stocks so far in 2017, with developed and emerging markets indices gaining 20% and 28% respectively for the year, versus 14% for the S&P 500. Much of that performance has been driven by global growth trends noted earlier. Additionally, an over 8% decline in the dollar this year has boosted returns on foreign assets held by U.S. investors.

We are optimistic that the benefits of international diversification will continue. As indicated in the table below, foreign stocks (as represented by the ACWI ex-US index) are trading at more attractive earnings multiples and dividend yields than both their 20-year averages and the S&P 500 Index.

	P/E	20 yr. avg.	Div. Yield	20 yr. avg.
S&P 500	17.7x	16.0x	2.1%	2.0%
ACWI ex-U.S.	14.2x	14.6x	3.1%	3.0%

Source: MSCI, Standard & Poor's, JP Morgan. Forward P/E, excluding dividends.

In terms of real assets, U.S. real estate investment trusts (REITs) were positive, up over 1% for the quarter, while global real estate gained almost 2%, reflecting strength in many overseas residential and commercial real estate markets. Commodities were also positive as energy and gold prices rose during the quarter.

Fixed Income stable

The third quarter was relatively quiet in the fixed income arena. Short term bond yields ticked up slightly as the Federal Reserve confirmed they would start to unwind their balance sheet by trimming their bond purchases, also keeping open the possibility that they would raise interest rates one more time before the end of the year. Intermediate to long term bonds were relatively unchanged.

For the quarter, investment-grade bond funds rose slightly, while high-yield fared better, gaining almost 2%. Prices on corporate and high yield debt rose with corporate earnings and economic growth as well as increased demand for higher-yielding securities.

We provide additional perspective on the following page in *Valuations and Preparing for the Unknown*.

Sources: JPM Guide to the Markets, 9/20/2017
Blackrock Investment Institute, Sept., 2017

Long-Term Care and Why You Should Care

At CCM, we help our clients with different backgrounds look for a variety of solutions. One common issue that they will need to consider is long-term care (LTC). Long-term care includes the support and services an aging individual may need to assist with basic living activities, or in response to a chronic health condition or disability. It is an important concern, as this level of care is usually not covered by traditional medical insurance.

The most common type of long-term care is custodial care, or personal assistance often provided by family members, nurses' aides, or home health care workers to support daily living activities such as bathing, eating and dressing.

LTC Planning Recommendations

+ Talk to family about your plan
+ Assess your financial situation
+ Ensure estate plans include desired health-care directives
+ Compare LTC plan options with a qualified professional

The following statistics highlight the likelihood and cost of needing long term care.

- 69% of 65 year olds today will need long-term care services or support in their remaining years.[1]
- The average annual cost for in-home care in the Denver area last year was $53,655, and is estimated to be $130,488 by 2046.[2]
- Health care costs are estimated to increase at three times the rate of overall inflation.

The need for formal long-term caregiving has also increased significantly due to several factors: an aging baby-boomer population, working women not available for caregiving, children living extended distances from their parents, and medical advances prolonging the average lifespan.

Of course, we all hope that a longer life equates to added years of enjoyment, however in reality, a long lifespan also increases the risk of age-related frailties and the need for assistance in handling daily living activities.[3]

Like a quilt, the ideal long-term care plan is often made up of many pieces. A strong plan will account for various types of care, different settings in which one might need care, and the resources available to provide care.[4]

Many individuals could become impoverished by the expense of long-term care. However, by being proactive, most people can preserve their independence and help family members avoid making difficult decisions in the future.

Valuations and Preparing for the Unknown

We have seen stocks appreciate over 270% since the bottom of the market in March of 2009. Stock valuations are on the high end (17.7 times forward earnings for the S&P 500 versus a long-term average of 16 times earnings) and many investors are wondering if U.S. stocks are overdue for a correction.

Market corrections have historically been a normal part of investing. In fact, since 1920, the S&P 500 has experienced an average of three 5% corrections each year, a 10% correction once a year, and a 20% correction every three years. The last 5% correction happened in the summer of 2016, making this the longest run without a 5% price drop since the mid-1990s.

While this may be concerning, keep in mind that many of these downturns have been followed by rebounds; over the last 35 years, the market has generated a positive annual return more than 80% of the time. Since no one knows when the next downturn may occur, there are key steps to take to be prepared.

Rebalance: We advocate reducing exposure to assets (such as U.S. stocks) that have appreciated above your long-term targets as a means of reducing risk. At the same time, we would maintain or even increase exposure to more attractively valued areas such as international stocks, and also add to underweight areas such as bonds.

Maintain Sufficient Liquidity: We also urge clients to identify how much liquidity they need from their portfolio and set it aside from riskier assets. For younger clients, the liquidity needs may cover 3-6 months, but for clients near or in retirement, it may be closer to one to two years. If and when markets do shift, this "cash reserve" will not be affected.

Discipline: Instead of reacting when markets become more volatile and experience losses, be prepared and stay focused on a well-defined investing plan tailored to your goals and your financial situation. Our team at Colorado Capital is willing to help with that process as well as the additional steps outlined above, so please do not hesitate to reach out with questions or concerns.

Source: *Fidelity Investments Viewpoints,* 2017

[1]Administration on Aging and the U.S. Department of Health and Human Services
[2]CareScout 2016 Cost of Care Survey
[3]Capstone Planning Solutions, LLC, Long-Term Care Planning Specialist
[4]CUSO Financial Services, LP

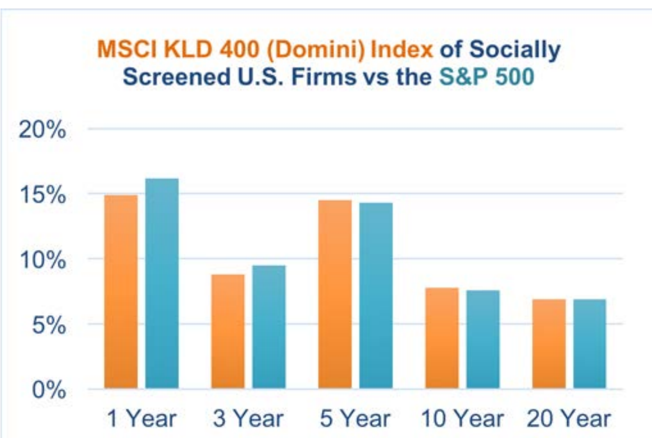
Impact

As impact investing enters the mainstream, investors are naturally curious as to whether the financial performance of these offerings can keep up with non-impact oriented investments. Good news for impact investors: studies show they can.

Impact investing and the use of socially screened investments is growing at an exponential pace. Consider the following:

- Total assets under management in the U.S. with a socially responsible investment lens are currently just under $9 trillion, about 20% of total U.S. assets under management, up from $6.5 trillion in 2014 and $3.8 trillion in 2012.[1]
- Nine out of the top 10 largest U.S. asset managers are now active in impact investing[2]

How have these assets performed? One of the oldest socially screened public equity indexes, the MSCI KLD 400, has matched and even slightly exceeded the returns of the S&P 500 index over the long term.



Source: MSCI and Standard and Poor's, as of 8/31/2017

Another valuable source of data is the Oxford University and Arabesque Asset Management meta study of more than 200 academic studies and reports on social investing. 80% to 90% of its relevant studies show that stock price performance is positively influenced by good sustainability practices; these practices also help to lower the cost of capital for corporations.[3]

Until recently, most of the data on social investing pertained to publicly traded companies. That changed with the release in 2015 of the Cambridge Associates/GIIN private equity impact investing benchmark study comparing the performance of private impact funds against a private equity benchmark. The study found that while impact investments over the entire study period slightly trailed the benchmark (by 1.2% per year), the impact funds with a longer track record met, and even outperformed, the comparative universe.[4]

The above referenced studies demonstrate that socially screened investments can, and often do, perform equal to or better than traditional investments. While the performance of the underlying investments is expected to be very competitive, there are typically additional management costs associated with social screening and shareholder activism.

While these third-party costs are likely to decline over time, we currently estimate that socially or ESG-screened funds may add about .5% per year over and above the cost of traditional index investing. *If that seems to you like a reasonable price to pay, we would be happy to speak with you about aligning your investments with your values and how you can apply your capital to the pursuit of both competitive returns and positive impact.*

[1] *US Sustainable, Responsible and Impact Investing Trends,* 2016, US SIF Foundation
[2] *Navigating Impact Investing: The Opportunity In Impact Classes*, July 2016, Tideline
[3] *From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance*, 2015, Oxford University and Arabesque Partners
[4] *Introducing the Impact Investing Benchmark,* 2015, Cambridge Associates and Global Impact Investing Partners

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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