

Third Quarter 2014

"Plans are nothing; planning is everything."
- Dwight D. Eisenhower

While General Eisenhower made this statement regarding the conduct of war the quote captures our thought process regarding a successful financial life. It is essential to plan, to have thought through a path forward and contingencies that might change that path. But it is even more important to have the flexibility to alter the plan as circumstances dictate, to adjust to reality. General Patton expressed a similar sentiment:

"Good tactics can save even the worst strategy. Bad tactics will destroy even the best strategy."

Generals Eisenhower and Patton's words ring true in the discipline of financial planning. We work with our clients day after day, year after year, to build plans that outline a path forward and to help clients adjust the plans to account for the unpredictable nature of our lives and the world around us.

This quarter we highlight some of the planning steps and associated actions we'd like to review with you as year-end approaches. We also review the economic and market activity and offer a view forward. Finally, we highlight points of interest where members of our team have been sought out for their perspectives by the national media.

We hope this letter finds you healthy, happy, and satisfied with the course your life is taking.

The End of the Year Approaches! Again!

The fourth quarter marks a busy time at Albion Financial Group as we work with our clients to take care of planning issues subject to end of year deadlines. Following is a list of the more common items we expect to help clients complete before year end:

- ❑ Required Minimum Distributions for 2014
- ❑ Charitable contributions for 2014
- ❑ Gifting strategies (annual exclusion, gifting partnership interests)
- ❑ Funding of retirement accounts for 2014
- ❑ Required trust distributions for 2014

- ❑ Albion will be reviewing realized gains/losses for tax year 2014 and offsetting gains and losses where possible. If you have substantial gains or losses that have occurred outside of the accounts managed by Albion please let us know.
- ❑ Year-end estimated state and federal tax payments
- ❑ Roth IRA conversion opportunity

Please do not hesitate to contact us to discuss year-end planning issues that may apply to your specific situation.

Economy and Markets

At the time of our last quarterly letter high-level economic data (GDP) suggested that the U.S. economy had cooled. In that letter we opined that while fresh Q1 GDP figures indicated a sharp downshift in the economy we believed, for a variety of reasons, that it was an anomaly and we'd see better data as the year continued. Indeed, the American economy came roaring back logging a +4.6% GDP growth rate in Q2. For Q3, a broad range of economic figures imply around a +3% GDP growth rate. These numbers are consistent with what we are seeing in U.S. manufacturing data, household consumption, various business and industry indicators, and most critically an improving jobs picture.

Meanwhile, during the quarter domestic equities charted a sideways course as bulls and bears battled it out over whose views would prevail. On one side the optimistic crowd points to the continuation of steadfast fundamentals – low interest rates, tepid inflation, sensible valuations (broadly speaking), and growth in the economy & corporate earnings. The naysayers, however, believe that a confluence of global unrest, diminishing support from the Federal Reserve, and a general sense of complacency amongst investors will likely lead to a market decline. At Albion, we continue to focus on the fact that stock prices are determined at their core by interest rates, inflation, earnings and valuation; these factors remain positive so we remain optimistic about the environment for investors. It is critical for us to stand on the foundation of these core principles in a world where information overload can quickly muddy the picture.

That is not to say there are not risks to this outlook. Tensions in the Middle East, Russia, and renewed economic challenges in Europe unquestionably frustrate global progress, which can impact risk assets. We are diligently monitoring economic and market developments in real-time. At present we do not feel these headwinds are strong enough to upend the bull market. All the same, as previously mentioned in reference to Eisenhower – it is important to have the flexibility to adjust as circumstances dictate. Our investment management style is philosophically aligned with this notion. We are reminded of what the great economist Paul Samuelson once remarked “*When facts change, I change my mind. What do you do?*” For now, we do not feel that the central reasons to own stocks have changed.

For the last several years one can hardly write about financial markets without mentioning the Federal Reserve. Janet Yellen and her cohort continue along the “tapering” path due to clear signs that the domestic economy is expanding. We expect the central bank’s quantitative easing program to end this month (October). That said, it is important to recognize that tapering is not tightening; a monetary policy maintaining interest rates at near zero remains a highly accommodative posture. We reason that the present tone within the Federal Open Market Committee (FOMC) in combination with still-evident slack in resource utilization (e.g. private sector jobs and idle fixed-assets) keeps inflation at bay and augurs for continued monetary policy support for the foreseeable future. As we have said many times before, this environment is good for stocks.

Albion in the News

American Banker Magazine recently spotlighted Federal Reserve Chairwoman Janet Yellen in their annual edition of the Most Powerful Women in Banking. As part of their due diligence, journalists at American Banker interviewed several heavy-hitters from both the financial industry and policy making fields: Barney Frank (former member of the U.S. House of Representatives from Massachusetts serving from 1981 to 2013), Shelia Bair (former FDIC and CFTC Chairwoman), Alice Rivlin (former Vice Chairwoman of the Federal Reserve, Director of the White House Office of Management and Budget for the Clinton administration), Christina Romer (former Chairwoman for the Council of Economic Advisers for President Obama), *and* Albion Financial Group’s Deputy Chief Investment Officer, Jason Ware.

Albion is proud to be included in this well-written feature article alongside such an esteemed collection of financial and economic thought-leaders. As the only investment manager selected to comment on the “Yellen Effect” we are honored to contribute to an article of such importance. We encourage you to read and share this article that can be found at <http://albionfinancial.com/proven-results/articles>. Please let us know if you would like us to send you a printed copy of the article.

While we do not send out every publication quoting Albion team members, our full collection of articles and radio interviews are accessible in our online [Press Room](#) as well as continually shared on our Twitter feed ([@AlbionFinGrp](#)). Our aim is to disseminate Albion’s market research and opinions that we believe you may find thought-provoking.