

For this quarter, in addition to our usual market and economic views, we offer a perspective on the crazy things happening in politics and economics across the planet. In the *Planners' Corner*, we share with you the satisfaction of a young woman successfully reaching financial adulthood. And, in *Albion Community*, we highlight a few things the Albion Team has been doing outside the office. We hope this note finds you happy, healthy, and looking forward to the coming months.

WHAT IN THE WORLD IS GOING ON?

Alice laughed. "There's no use trying," she said: "one can't believe impossible things."

"I daresay you haven't had much practice," said the Queen. "When I was your age, I always did it for half-an-hour a day. Why, sometimes I've believed as many as six impossible things before breakfast."

- *Lewis Carroll, Through the Looking-Glass*

Negative interest rates, driverless cars, unfathomable campaign statements, a decline in NFL viewers... Lewis Carroll foreshadowed much of what we see today in the realm of "impossible things".

Has the world gone crazy?

No. But we are in a time when the pace of change is accelerating, and when anything perceived to be offbeat and interesting – regardless of how rare (or real) it is – goes viral in moments. We're constantly reacting to crazy events and almost never have time to comprehend the repercussions before the next wave crashes.

Topping the list of big wave events for market observers are both the pending U.S. election cycle and Britain's exit from the European Union (EU). On June 23, 2016, the UK voted to leave the EU. While it was a sharp shock, markets quickly recovered as it became apparent the divorce would be a long process. Primary drivers of Brexit include security concerns (as there was no way to screen foreigners entering the country) as well as discomfort with immigrants competing for jobs. There was also a cultural element: many Brits felt like their longstanding cultural norms were being irrevocably diluted.

In recent weeks, the rest of the EU has made it clear they intend to take a hard line. They will not allow Britain to keep the parts of Brexit they like – free access to the European market – while rejecting the parts they don't like – contributing to the EU budget; being subject to the EU Court of Justice; and accepting the free movement of labor.

In the US, we have a similar dynamic at play. At risk of oversimplification, our Republican candidate speaks directly to concerns of those who believe foreign immigrants pose unfair economic competition to U.S. workers, a security threat to the nation, and a dilution of our national norms. His proposed solution harkens back to pre-World War II attitudes toward disengagement with other countries, a message that resonates for a significant portion of our population. Our Democratic candidate acknowledges these same concerns but proposes a different solution. Her path forward involves increased acceptance and cooperation among various groups both domestically and internationally.

The issues our country faces are multifaceted and rarely amenable to simplistic solutions. Nomenclature such as “free college” and “take their oil” really does not acknowledge the cost and complexity of higher education or the challenges inherent in the Middle East. Yet our political process demands simple messaging to break through. A study by Carnegie Mellon University’s Language Technology Institute finds most candidates use grammar and words typical of 6th to 8th graders. It is difficult to convey complex issues without the use of complex language.

Despite these concerns, we remain optimistic. Our government does have a series of checks and balances and while change does happen, it tends to happen at a

rate that our economic system can absorb. The “impossible” waves keep crashing on our consciousness but most will pass by harmlessly.

“Now, here, you see, it takes all the running you can do, to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that!”

– Lewis Carroll, *Through the Looking Glass*

Economy and Markets

After a sharp post-Brexit jolt at the end of the second quarter, the U.S. stock market gained its footing and marched modestly higher through the third quarter. A mix of decent economic news, improving confidence, easy monetary policy, and the prospect of emerging from the current profit recession by the end of 2016 all helped to buttress stocks. Regarding the latter, after five consecutive quarters of declining aggregate corporate earnings, the coming quarters could prove to be vital to the near-term state of the bull market. With valuations modestly rich by most common measures, earnings need to start expanding if this bull market is to advance. If oil and the U.S. dollar continue to stabilize while the economy continues to expand at the current rate, a return to aggregate earnings growth is likely.

Employers added an average of approximately 192,000 jobs during each month in the quarter, but that wasn't enough to push the Federal Reserve to raise short-term interest rates at its September policy meeting. Instead, the Fed pushed the possibility of a rate hike into the final quarter of the year. Based on current economic data, our view is that a hike of 0.25% is likely at the Fed's December 14th gathering.

One cannot discuss the economy and financial markets in 2016 without some mention of the impact of elections. Markets hate uncertainty, and this election has brought forth more than most. Additionally, the economy tends to slow a bit in election years due to uncertainty, especially when there is no incumbent running. It's not unusual to see spending and new investments slow while America's electorate chooses our next leader. Despite this, for the foreseeable future we expect modest economic growth to continue powered by growth in new jobs, rising wages, improved consumer spending, and an upturn in housing. All this is occurring in an environment of low interest rates and low inflation.

Looking beyond our shores, China continues its structural economic pivot from an export-driven economy to one based on consumption. We are neither exuberantly bullish nor overly bearish on China. In Japan, central bankers continue to tinker with new

monetary programs in an effort to revive their moribund economy. Finally, Mario Draghi continues a supportive ECB policy in an attempt to keep Europe's economies above water. All told, we continue to anticipate growth in world output to march along at a modest pace over the balance of this year.

As for U.S. stocks, from our perch we reason that the secular bull market which began in 2009 is likely to persist. But it's also true that we're at a more mature phase; a bumpier ride is likely as the Fed begins to normalize monetary policy and profits revert to longer-run averages. Trying to time these bumps is, unfortunately, a fool's errand. Instead, we encourage our clients to stick with long-term asset allocations and view pullbacks as a natural part of the investment journey. On valuation, the broad market presently sits at about 16.7 times 2017 earnings estimates. This level is not cheap; it is slightly above the 10-year average. But it is also not terribly expensive, especially in light of low inflation and low interest rates.

For nearly thirty-five years we have accepted that investment markets will be volatile with sectors and investment fads coming in and out of fashion. Yet our long-term investment approach has reinforced the time-tested concept that finding and owning a slice of first-rate American businesses with sound

fundamentals will lead to good long-term investment results.

Planners' Corner

We are fortunate to work with multiple generations of many of our client families. Recently, one of our Senior Wealth Advisors met with the young adult child of a client. Back in the first months of her life, her parents and grandparents, working with Albion, expressed their commitment to providing for their daughter's education. Extensive analysis was done and a plan was put in place.

We had the distinct pleasure of reviewing the fruits of this effort with the young woman. She was overwhelmed with all that had been done for her and, as importantly, was committed to working with Albion and being as financially responsible for her own future as her parents and grandparents were for theirs. She is now set up and established on her own course and is committed to making a lifetime of good financial decisions.

Albion Community

We continue to remain engaged in our community as we believe involvement creates richer and more meaningful lives for all of us.

Albion was pleased to sponsor and participate in Ride to Zero, a fundraising motorcycle rally created and hosted by the Combat Veterans Motorcycle Association and the University of Utah's National Center for Veterans Studies (NCVS). Over 22 veterans take their own life every day. The goal of this organization is to reduce that number to zero. All proceeds from the event are being used to fund further research and sponsor treatment for veterans through the NCVS. More information about this organization can be found at www.ridetozero.com.

In early October, we continued our multiyear commitment to volunteering at the Utah Food Bank. In addition to paid staff, the Utah Food Bank relies on active volunteers to sort, stock, and package food for their many beneficiaries. One in seven Utahns and one in five Utah children are at risk of missing a meal each day. In many cases, the Utah Food Bank is the only barrier standing between them and starvation. Last year the Food Bank distributed over 37.5 million pounds of food, the equivalent of over 31 million meals. More information about this organization can be found at www.utahfoodbank.org.

Finally, please mark your calendars: Albion will be holding an evening at the Leonardo on Tuesday, November 15th from 6:00 - 8:30 pm. In addition to an exclusive viewing of the Leonardo's new Flight exhibit, we will have virtual reality demonstrations and

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professional technicians on hand to offer support with your personal electronic devices. Watch for more detailed invitations to arrive in your mailbox in mid-October. We hope to see you there.