

April 25, 2017

In our first 2017 quarterly letter we share some thoughts and pose a few questions about the current healthcare reform debate. We also provide a high-level overview of the markets and economy, highlight the importance of building a solid financial literacy base, and announce Albion's 2017 Best of State award.

### Healthcare – Right or Privilege?

Healthcare, and more specifically, the Affordable Care Act (aka: Obamacare) has been a dominant topic of conversation across the country. It is a divisive subject with political, economic, and moral implications. The crux of the current conversations revolves around reform, but before we can decide on reform, we must redefine the questions we are trying to answer.

The ACA, the proposed replacement American Health Care Act, and most analysis and discussion have focused on the structure of the insurance market that covers the lion's share of healthcare costs. Yet the real question to be answered before healthcare reform can be pursued is whether healthcare is a right or a privilege.

As of now the answer is ambiguous. The insurance markets were, pre-ACA, voluntary. Consumers without insurance had the option of paying for service directly or foregoing healthcare. The ACA created penalties to encourage all of us to remain insured as it was clear that a significant share of households would be bankrupted if forced to self-fund a major medical expense. Households under severe financial stress such as bankruptcy have difficulty supporting families, growing communities, and contributing to positive economic growth – bad for all of us. Yet under this system healthcare is viewed as a privilege. If you choose to spend your money on healthcare you have access. If not, no access.

There's more to the story. Ambulance services have a legal responsibility to respond to calls regardless of the patients' ability to pay. Hospital emergency rooms have a legal responsibility to treat patients regardless of their financial capacity. This provision does have limits and hospitals are adept at understanding those limits; to control costs they do their best to minimize unreimbursed expenses. But as a society we've created laws requiring healthcare providers to treat patients regardless of payment risk which suggests we view some level of healthcare as a right. Yet we've created these requirements without providing funding to pay for such care. Are there any other industries where the providers, compelled by law, are required to provide services potentially costing tens of thousands of dollars with no realistic hope of being paid? Apparently healthcare is a right only if someone other than the body creating such laws is responsible for the cost.

"All over the world, we're seeing access to food, clean water, education and healthcare improve; as a result, global innovation is rising as well." – Peter Diamandis

Until we as a society decide whether healthcare is a right or a privilege the evolution of our healthcare system is destined to founder. If we determine it is a right there are many questions to be asked. With rights come responsibilities. What responsibility does each of us bear toward our own health? What is included in the right to healthcare? Is it limited or open ended? If it is a privilege we also have a series of questions to be answered revolving around the core issue of whether we care what happens to those who cannot pay.

Healthcare now accounts for close to 18% of our GDP. It is a huge and complex industry. Yet regardless of the complexities of our system we'll remain stuck in neutral with regard to reform until we answer the right or privilege question.

"Nobody knew how complicated healthcare is." – Donald Trump

### Economy & Markets

Aggregate data in the first quarter remained broadly supportive of both economic expansion and further stock market gains. The labor market continues to firm up, American balance sheets are healthy, inflation and interest rates are low, and monetary and fiscal policy may finally be on similar tracks. Perhaps the biggest change we've seen in the first quarter has been an increase in overall confidence. Currently, the broadest measures of economy-wide confidence are in the 90th percentile, per Conference Board data. That is, confidence among investors, businesses, and consumers has only been higher than it is today 10% of the time over the past 30 years! While surveys of confidence represents "soft" economic data, meaning it may or may not amount to much down the road, the rapid uptick in mood is worth paying attention to.

All year market participants have had an intense and daily preoccupation on U.S. politics. However a more important event for this economic and financial market cycle – one that is often lost – is that accommodative economic policies and a pickup in real growth are finally happening around the world. Central bank balance sheets have expanded, money supplies have increased, investment and spending is re-emerging, and yields have dropped simultaneously in many corners of the globe. No longer do we have U.S. economic stimulus conflicting with Eurozone fiscal austerity, Japanese policy dispassion or China's earlier quest to restrain their recovery. This more synchronized global economic bounce is encouraging.

Perhaps most important has been a recent refresh and restart of the corporate earnings cycle. After declining for five quarters, annual S&P 500 profits returned to growth in the third quarter of 2016. Profit growth accelerated in the fourth quarter 2016, and is expected to expand further still through 2017. Over the longer-run we contend that nothing has more direct correlation to stock prices than business earnings, so profit growth is universally applauded.

Much has been made by various market handicappers of "expensive / rich / bubbly" (choose your adjective) valuations for the stock market, particularly after the post-election rally. However, we continue to assert that valuations are reasonable when viewed through the lens of very low interest rates, modest inflation, and renewed earnings growth.

Monetary policy remains accommodative even with the most recent rate hike of another 0.25% in March. Once again markets took the move in stride as the collective narrative was that Fed raised rates for the "right reason" – that is, the general economy is improving and wages are rising. If the current economic expansion continues, our position remains that the Fed is probably on the path towards further policy normalization (i.e. higher interest rates). Yet with a low fed funds rate of approximately 0.8% the Fed has room to raise without significant downside risk to the economy and markets.

### Planners' Corner

As we highlighted in the Reminders section, April is Financial Literacy Month. However, at Albion, helping our clients develop a solid financial literacy base is a year round mission. We often have the opportunity to work with multiple generations within a family and one of the topics we like to cover with members of younger generations is the power of compounding returns. If you start saving \$300 per month at the age of 25, and your money compounds at 8%, when you are 65 you'll have \$932,000. If you wait to start saving until age 50, at \$300 per month, you only have \$98,000 at age 65. By starting at age 25 you can have 9 times more money saved for retirement!

We encourage our young adult clients to open a Roth IRA and start saving early - even earlier than age 25 if possible. Earned income from jobs such as babysitting, mowing lawns, and loading ski lift

chairs all qualify for Roth IRA contributions. Not only does this establish a solid financial literacy base at an early age, but it also allows clients to benefit from decades of tax-free growth.

Please give us a call if you would like to discuss opening a Roth IRA for any member of your family, or to learn more about other ways we can provide financial literacy guidance.

### Albion Community

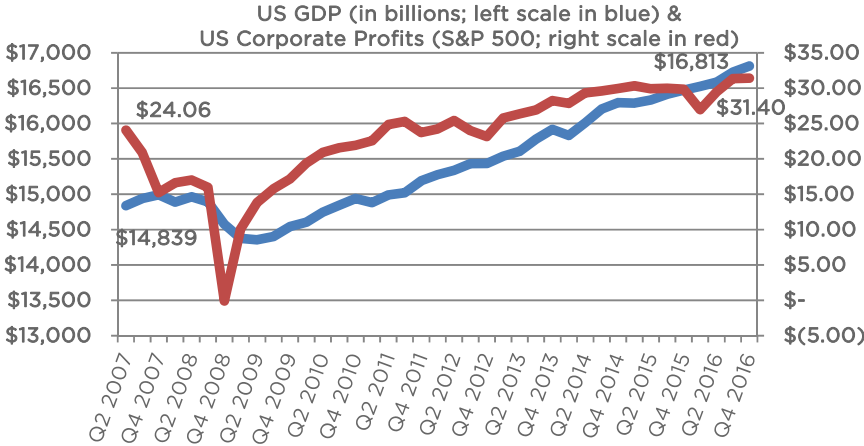
Albion Financial Group has recently been recognized as the 2017 Best of State winner in two categories: Investment Advisory Services and Retirement Planning. Albion, and the winners in each award category, will be presented with the prestigious Best of State

medallions at the black-tie awards gala on May 17th held at the Salt Palace Grand Ballroom.

The Best of State judging criteria examines overall excellence and quality of services, creative differentiation from competition, as well as accomplishments improving the quality of life in the community. Albion's unique service offering pairing investment management with financial planning, distinction through national awards received, pioneering the fee-only industry, upholding a fiduciary standard, as well as seeking to improve financial literacy in the community were all aspects of Albion considered by the Best of State judging panel.

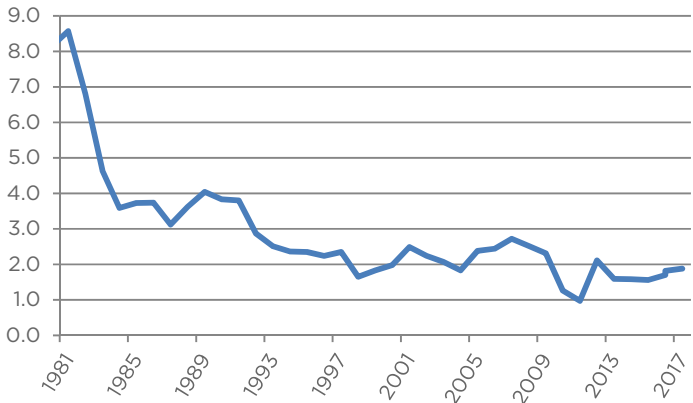


## UNITED STATES GDP ANNUAL GROWTH RATE



The economy continues to expand at a moderate pace, and S&P 500 corporate profits recently turned up after several quarters of modest declines. The general economic data are encouraging.

## UNITED STATES INFLATION RATE



Inflation, while trending softly higher, remains tame. Wage growth has begun to accelerate, which could push up inflation over time. However for now price growth seems to be in check.

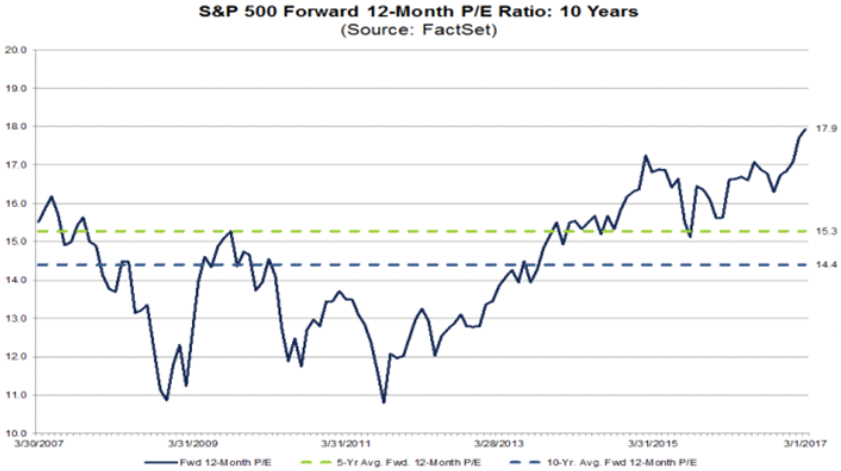


US 10 YEAR TREASURY YIELD



Post-election, interest rates have risen by a noticeable amount. And in March the Fed hiked yet again their target rate +0.25%. Nevertheless, interest rates remain very low especially in the context of history.

TRAILING 12M P/E RATIO: 10 YEAR



Valuation on the stock market (on a nominal basis) is not cheap. In fact, based on forward looking profits the S&P 500 has a +17% premium relative to its longer-run average. Yet when juxtaposed to tame inflation and very low interest rates, stock market valuation becomes much more sensible. It's also important to note that bull markets rarely end simply because stocks are deemed to be modestly overvalued.