MONTAG

NEWSLETTER THIRD QUARTER 2017

A Note of Thanks from John and Ned Montag

The end of each quarter is a natural reflection point for the folks at MONTAG, and this quarter is no different. In the twenty-two years that we have been in the business, one of the major themes we come back to is the long lasting relationships we have with all of you: our clients, supporters, and friends. We, and all the folks at MONTAG, feel fortunate to be able to serve you. You have made us what we are, and we sincerely say THANK YOU for allowing us to provide you and your families with the service you deserve!

Inside This Issue

Event Calendar

- **October 17, 2017 – Executive Breakfast**: One of our portfolio managers will detail an economic observation and take questions from a small group over breakfast.
- **November 8, 2017** – **Facts and Finance for Women** : Our latest offering in our Seminar Series for Women, featuring Henry Bowden of the Bowden Spratt Law Firm, and Joseph Bankoff, Chair of the Fulton County Arts Council. Lunch will be served.

If you are interested in learning more about these upcoming events, please email us at info@montagwealth.com or visit us at montagwealth.com

Observations on the Markets

By: John Montag, Chief Investment Officer

The domestic equity markets for the third quarter of 2017 were similar to the second quarter of 2017; that is, the market continued to experience low volatility (i.e., equity price movements in either direction) while continuing to trend upwards in both pricing and its resulting valuation. And from a performance standpoint for the quarter, the S&P 500 was up 4.48%, and the Dow Jones Industrial Average was up 5.58%.

This performance is supported by our observation of the market breadth in the latter part of the quarter. Market breadth is a measure of the overall direction of the market and looks at the number of companies that are moving higher vs companies that are moving lower. Given that the breadth has started to show some expansion in the latter stages of the third quarter, this would indicate that the momentum for our domestic markets is still somewhat bullish.

Interest rates have been raised three times since December of 2016 as we inch towards a more normalized interest rate environment. For context, at the time of this writing, the key interest rate for the Federal Reserve (the "Fed") is approximately 1.25%; before the Great Recession it was over 5%. As rates rise, all things being equal, the relative attractiveness of bonds increases vs the equity markets, as bonds are issued with (that is, they pay) a higher coupon, a tailwind for bonds, at the same time companies reassess the increased cost (i.e., a higher interest rate) to borrow money, a headwind for stocks. Still, the cost to borrow capital is at historic lows even after these rate hikes, and with the 10 year Treasury yield jumping from a low of 2.04% to 2.33% in a matter of two weeks at the end of September, there still seems to be a belief in the stock market over the fixed income market.

Given where the equity and fixed income markets are today, we pose two topics for consideration that come up often in our proprietary research and internal discussions at MONTAG.

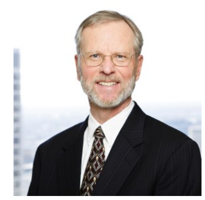
First, six months into any Presidency, the new agenda begins to be challenged and Mr. Trump's administration and agenda is no different. Investors wait to see if he and the Republican party can deliver. From an equity markets perspective, this is important due to the "pricing in" of the President's pro-business agenda. That is, a lot of the "good news" has already been absorbed into the market, and if leadership continues to experience political headwinds, the administration may not be able to deliver. This leads to our second point.

Picking stocks must be considered from several viewpoints, a key one being the potential upside for a given purchase. Here, the lengthy bull market has a variety of implications and purchasing stocks has become that much more challenging. Why? Because if a company does as expected the stock is rewarded…a little. As we mentioned earlier, valuations have been increasing and are very high right now, driven by several factors but one of them is the "good news" we described earlier. As such, stock markets have optimism priced in, and a company that performs to expectation is simply realizing that optimism.

By contrast, if a company fails to meet expectations the stock declines…a lot. Given this feeling about risk, our expectations of future returns must be amended accordingly.

Two Cents about Bitcoin

By: Tom Frisbie, CFA



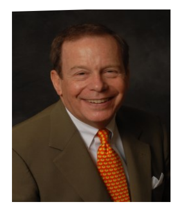
Of all of the asset classes that might have enriched investors this year, such as stocks, bonds, real estate, precious metals, and commodities, the asset that has been by far the best is still unfamiliar to most of the U.S. public. This "unheard of" asset class is "cryptocurrencies", of which the most broadly owned is "bitcoin". How well have bitcoin and other cryptocurrencies performed? Since the summer of 2016, bitcoin, has appreciated from $500 a coin to a current price of approximately $3,500. Bitcoins were created in 2009 with an initial value of $1, so a $1000 speculation in bitcoin then would now be worth approximately $3,500,000. Just since the beginning of 2017, the second largest cryptocurrency, ethereum, has appreciated from $10 to $258. Champagne for everybody! Hundreds of other cryptocurrencies also exist, sporting exotic names such as litecoin, iota, ripple, and dash.

Very basically, cryptocurrencies, including bitcoin, are a new form of money that involve no tangible form (neither bills nor coins) but only exist as numbers within digital computer files that are displayed on computer and smartphone screens. Bitcoin, the first cryptocurrency, was developed by computer network savants in 2009 to accomplish at least two basic goals. First, bitcoin's ultimate supply is finite and not determined by the policy decisions of central bankers. Remember that in 2009-2010, amid the ashes of the 2008 global economic meltdown, central bankers in the U.S., Europe and Japan all vowed to create as many dollars, euros or yen as necessary to stimulate their economies. Those pronouncements triggered deep anxiety that flooding the world in dollars, euros or yen could lead to plunges in the value of those currencies, wiping out the value of savings held in those currencies. The second goal was to create a type of money that could be stored and used without the involvement of banks or bank accounts. By storing savings in bitcoins transferrable over the internet from personally owned accounts, the value of bitcoins and their owners' access to them would be unaffected by any banking system dysfunctions. Since bitcoins only exist as numbers on a publicly available ledger (called "the blockchain"), owners of bitcoins never involve the banking system to process transactions, such as cashing checks or holding deposits. Instead, all bitcoin transactions are completed simply with the transfer of bitcoins over the internet, via smartphone or computer, from one anonymous account to another.

Bitcoin and other cryptocurrencies, which collectively have a market value of $122 billion (no misprint), represent a growing threat to the control over the supply of money exerted by central banks and the national governments that support them. If new money such as bitcoin develops outside of the banking system, monetary policy decisions by the central banks become less effective, and the ability of regulators and law enforcement to track transactions could be seriously compromised. Although "the blockchain" public ledger shows all bitcoin transactions publically, it does not reveal the owners of any of the accounts in that chain. This has made bitcoin, ethereum and other cryptocurrencies ideal forms of payment in the conduct of criminal enterprises, including the recent trend of ransomware. ("Ransomware" is the crime of hackers penetrating a business's computer network, encrypting its data so that the business cannot retrieve it and then demanding payment, often in bitcoins, to have that data returned to its business owner.)

The value of bitcoin and other "cryptos" could theoretically rise in price vastly higher; after all, the $122 billion value of all "cryptos" is still just a tiny fraction of the $8 trillion held in that other "alternative currency", gold. However, there are several good reasons to be wary of the future of bitcoin. First, since it is not held within banks, bitcoin must either be stored off the internet using a complex procedure that few would tolerate, or it can be held in an account at a bitcoin exchange. However, bitcoin exchanges have been successfully hacked, with thefts of client bitcoins totaling hundred of millions of dollars. Second, bitcoins are accepted at a few firms such as Paypal and Microsoft, but there has not been broad adoption of bitcoin as an acceptable method of payment at most major businesses or retailers. Third, as bitcoin transactions have grown exponentially, the blockchain ledger expands likewise, and the ability of the network managers to provide ever greater processing power, computer hardware, and electricity, has been strained. But probably most importantly, bitcoin and other "cryptos" represent a threat to the status quo of the current global banking system and the governments that manage them. We would expect many if not all major governments to respond in time with either restrictive regulation or outright bans. Stay tuned.

So You Think You Have A Valid Power of Attorney? By: Henry L. Bowden, Jr.



Consider the following. Your husband and you had your estate planning instruments updated last February. You signed new wills, Georgia advance directives for health care, and financial powers of attorney. You named your husband as your agent under your financial power of attorney; he named you as his agent.

About a month ago, your husband suffered a stroke. He can no longer sign his name because he has lost the use of his hand and arm, which you hope will be only temporary. But life goes on. You need to access his checking account in order to keep paying his bills, including medical bills which have been mounting up. City and county real estate taxes are owed.

You take the financial power of attorney which your husband signed in February to his bank, and the bank refuses to recognize it and will not let you write checks on his account, which is in his sole name (not a joint account), nor will the bank allow you access to your husband's account for purposes of online bill pay.
You do not have enough money in your own account to cover the medical bills that have been mounting up, nor do you have enough money to pay city and and county property taxes.

Your sister, who is a lawyer in Florida, tells you that if you cannot access your husband's bank accounts with your power of attorney, you may need to apply to the probate court to become his conservator. This will be an expensive and time consuming process, which you will choose only as a last resort.

This is a real life example of what happened to many residents of the State of Georgia until July 1 of this year, when the General Assembly enacted legislation adopting a "uniform power of attorney" for each of us to begin using.

At the MONTAG seminar "Facts & Finances for Women" on November 8, we will review in some detail the new Georgia statutory power of attorney form, and what the benefits may be if you execute such a power. The problems that you may have faced using your old power of attorney may be solved if you execute a new power of attorney under the 2017 legislation.

We will also provide a sample of the statutory power of attorney for you to review with your own legal adviser. We look forward to seeing you on November 8. For anyone who cannot join us, contact MONTAG directly to get a copy of this material.

The Equifax Breach: What does it Mean For Me and What's Next? By: Stacey Godwin

Following the massive Equifax data breach, many consumers are asking how this breach could potentially affect them and what precautions should be taken. There are a myriad of ways this information can be used by criminals. This data can allow criminals to:

1. Potentially gain access to personal credit card, bank or financial accounts
2. Apply for loans or credit cards in your name
3. Commit tax fraud (by filing fraudulent tax returns and potentially claiming a refund)
4. Impersonate you and commit medical fraud
5. Engage in criminal activity using your identity

There are ways to help consumers safeguard against these troubling threats. Everyone should assume they could be a target of this breach and act accordingly. Here are the most important and immediate steps to take:

1. Go to www.annualcreditreport.com and obtain a free copy of your credit report. Federal law allows for this free access, so get into the habit of requesting your report on a rolling annual basis. An even better way to utilize this free service is to obtain a report from each credit reporting agency separately, via this website, every four months.
2. Place a credit freeze at all three credit bureaus: Experian, Transunion and Equifax. This can be done directly on each agency's website for a $3 fee. Equifax is currently waiving this fee until November 21st.
3. Monitor all bank and credit accounts closely and report any suspicious or erroneous transactions immediately. Everyone should make this a routine task going forward.
4. Use two-factor authentication when available, particularly for financial or credit related websites.

The staff here at MONTAG takes the responsibility of protecting client assets very seriously. We monitor client accounts regularly to look for and report suspicious or irregular account activities. If you are ever a victim of identity theft of any kind, please let us know immediately so we can take extra precautions and notify your custodian.

Reminder on Required Minimum Distributions

As a reminder to our clients over 70 1/2, you will be required to take out a minimum distribution from your IRA by the end of the year. The distribution is relative to the size of your portfolio, as well as your age. We encourage you to speak with your tax professional before the end of the year to calculate the size of your withdrawal and discuss how this will impact your tax planning for 2017!

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