MONTAG

Viewpoints

FIRST QUARTER 2018

SPRING INTO... A WELCOME MESSAGE– *Ned & John Montag*

As the weather warms and we have one foot firmly planted in 2018 now, the time has come once again to offer our thoughts on various subjects in our quarterly newsletter, *Viewpoints*. And while "various subjects" covers the stock market, obviously, it is not the only thing we think about on a daily basis.

Our dad likes to say that we are in the financial services business, but to hear him emphasize the words, it's financial ***SERVICES***, with the bold, italics and underline all intended. And we wouldn't excel at services at all without so many of you reading this newsletter, because you've given us more than your financial assets to preserve and grow, you've also given us your biggest asset, which is your trust. And we thank you greatly for that.

Spring is not just a season, but a verb, and to say that "*hope springs eternal*" is ubiquitous with the start of the baseball season which, incidentally, begins in the spring. And we certainly feel like we've hit a homerun at MONTAG, being able to count you folks as our clients, and our friends. Enjoy the newsletter. M

"Every year, just when I start to think that life is utterly meaningless and the world is going to hell, baseball starts again."

David Sipress; © Condé Nast — Used by permission

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MARKET OBSERVATIONS – *John Montag, Chief Investment Officer*

The first quarter of 2018 brought us the return of volatility, a key element we noted in last quarter's *Viewpoints* that had been curiously missing for most of this bull market run and especially in 2017. The quarterly return for the Dow Jones Industrial Average was –1.96%, the return for the S&P 500 Index was –0.76%, and the NASDAQ return was +2.59%.

One of the key elements of the volatility surge was the economy's view on inflation, which is linked to several key elements of our economy. You can almost view these three points sequentially.

First of all, inflation is linked to wage growth. That is, as wages grow, companies must increase the price of their goods and services to maintain a profit (because now they are paying more to their workers, an increased expense), and the U.S. economy has shown signs of real wage growth for the first time in a LONG time.

Second, and as an outcome of the first point, the Federal Reserve (the Fed) views inflation vigilantly, and they will use their biggest tool in their toolbox to combat a rise in inflation: an interest rate hike. An interest rate hike will preserve the real rate of return on assets (like your savings account), or in other words match your ability to BUY a good with the PRICE of the good.

And finally, raising interest rates creates a headwind for the equity markets, in a few ways. From a financial theory standpoint, rising rates expressly increases the cost to borrow money for companies, who may now choose to bypass capital projects that would have been attractive to growing their business IF rates had continued to stay low(er). And also, if rates are going up, bonds begin to look more attractive relative to stocks, and a flow from one asset class to the other will occur at some level. That is, investor cash flows will go towards bonds and away from stocks.

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We've seen all of these elements at play in how the markets reacted over the first quarter. In January, markets continued to sprint forward, similar to how it moved for all of 2017. In February, with tax cuts realized (or to be realized) by both individuals and corporations, we saw a) investors with an increased purchasing power and b) companies willing to share more cash. That put the inflationary dynamic into play, which in turn caused volatility to move off of its historic low, which AGAIN in turn caused the Fed to step up its rate hike rhetoric and as a result the 10 year yield on treasury bonds has spiked (because more people are buying them as they look more attractive).

At MONTAG, we expect to see the equity market continue to digest how it will function in a higher interest rate environment going forward, but we express that the reason we are seeing a bit more volatile market is because the underlying economy has been strong and begun to produce positives for the consumer, like wage growth, that we haven't seen in 10 years.

John Montag is President & Chief Investment Officer

Rising interest rates create a headwind for equity markets

SANDWICH GENERATION — *Abbey Flaum, J.D., LL.M. (Taxation)*

If you're a young Baby Boomer or a Generation X-er, you fall into the "Sandwich Generation." The bottom slice of bread represents your children, who need care and/or financial support from you. The top slice of bread represents either or both of your parents, who may also require some level of care and/or financial support assistance. What does that make you? Deli meat. You're the element of this arrangement that makes the sandwich a sandwich; you make it all work.

Many sandwichers have the child element of this equation (somewhat) managed. You're the parent – you've made the rules for your household and, even if your kids are completely out of control, you (hopefully) have a handle on how things generally work. Handling parents, however, is different. They made the rules for you growing up, and balancing the care and support that you provide to them with a showing of the appropriate level of deference can be challenging.

The following are a few tips to help you manage that top slice:

1. ***Locate Estate Planning Documents.*** Hopefully, you'll never need to use a financial power of attorney or advanced directive for healthcare, but if you need to act on behalf of your parents' financial interests or make decisions for their care, safety and support, it would certainly be helpful to know where these documents are! Also, your parents may not want to discuss the content of their Wills with you, but you should at least know where their Wills are kept (and if mom and dad don't have Wills but have mental capacity to create them, now's the time).
2. ***Understand the Estate.*** Not all assets pass according to the terms of your Wills, so even if mom and dad have perfect Wills, they may not be worth the paper that they are written on if the titling and beneficiary designations for mom's and dad's assets aren't well coordinated.
3. ***Think Twice About Retitling.*** Did mom add you to the title of the house to "make things easier" after her death? This seemingly-life-simplifying move could ultimately cost you otherwise-avoidable capital gains tax. Consult with an estate planning attorney prior to helping your parents to add you to the deed.
4. ***Prevent Conflicts.*** Did dad list you as a beneficiary on his investment accounts, because you "know how he would want the account to be handled"? Chances are, this will result in the account passing to you, outside the terms of dad's Will, and – even if you handle everything on the up and up – this may foster suspicion among your siblings and cause intra-family conflict. Ensure that you're using powers of attorney to handle your parents' financial matters, that you keep

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DID YOU KNOW?

What Atlanta-area relic relating to the American Civil War's ***Battle of Atlanta*** in 1864 is in the process of being relocated to The Atlanta History Center?

(Answer on Page 4)

A. The *General* Locomotive

B. USS *Monitor*

C. The Cyclorama

D. The *Texas* Locomotive

E. *H L Hunley* Submarine

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accurate records of all financial transactions and, if appropriate for your family, you hold regular family meetings or calls to keep everyone on the same page with regard to mom's and dad's finances.

5. **Understand Healthcare Options.** As soon as possible (before an emergency/crisis situation, if possible), you should not only discuss your parents' desires for their long-term healthcare with them, but you should work with an attorney, insurance advisor and government benefits professional to understand options for long-term care insurance, disability insurance, Medicare, and Medicaid. If a parent has a chronic and/or terminal illness, it may be appropriate to assess whether a Physician's Order for Life-Sustaining Treatment (a "POLST") is appropriate with his/her primary attending physician.

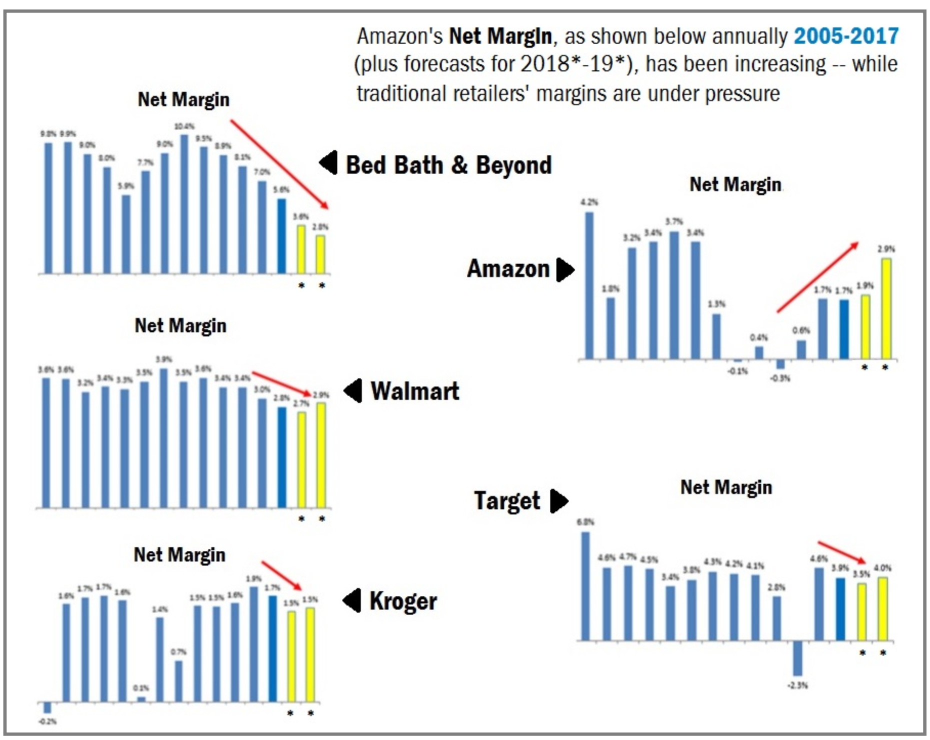
Importantly, make sure you access local resources to assist you with your parents' care (you're not alone!) so that you feel less like a slice of turkey and more like the caring family member you are. M

Abbey Flaum is a Partner in the Family Wealth Planning Group of Cohen Pollock Merlin Turner P.C.

AN UNEQUAL BATTLE — *Brendan Wagner, Portfolio Manager*

Management is going wherever the customer wants to go — Will we go along for the ride?

It is important to be customer focused, it's usually critical. But what if the manner in which the customer wants to engage with a company is not profitable for the company and shareholders? Should the company turn down this business? We see coatings companies or other industrial materials companies declining business and letting competitors go after that unprofitable revenue, and it's often the right decision for the brand and the company. In consumer-facing businesses like retailers, companies are interacting with customers who may have unrealistic expectations of the relationship between buyer and seller. In a growing number of cases, customers expect an experience that is not profitable for the retailer. The fight is largely in retail now, but watch the dynamics unfold in other areas like banking, where Amazon may let a "partner" shoulder the branch and infrastructure costs, while taking the profitable part of the customer relationship for themselves.



Amazon's mantra is "Your Margin is my opportunity." People gloss over this statement at their peril – unlike many industry battles, Amazon is not looking to *gain* profit margin, but rather to *eliminate* it. Amazon's "customer obsession" rather than profit obsession works for them because profit margins are not (currently) a large concern for their investors.

Kroger, Target, Bed Bath and Beyond and Walmart are a few retailers fighting the Amazon battle on unequal footing. These are true retailers, while Amazon is a sort of hybrid retailer/distributor/logistics provider like UPS. Fulfilled by Amazon, which is logistics for third party sellers, generates fees amounting to 20-30% of a product sale for Amazon, without the burden of return and restocking expense. Retailers

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NOTE: Securities identified were selected for illustrative purposes only. Specific securities identified and described may or may not be held in portfolios managed by MONTAG and do not represent all of the securities purchased, sold, or recommended for advisory clients. The reader should not assume that investments in the securities identified and discussed were or will be profitable.

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who have a brick and mortar presence to support are, again, on very unequal footing if trying to compete with this foe. Those retailers live and die by their retail operating margins, while Amazon's retail operating margins are something to be minimized to continue gaining share, not to mention also keeping a lid on taxes. NYU Professor Scott Galloway noted in September 2017 that "Since 2008 Walmart has paid $64B in corporate income tax, while Amazon has paid $1.4B."

Brian Cornell, Target's CEO in early March:

"*give them a number of options for fulfillment, whether it's order online and pick up in our store, now drive up to our lot and pop that trunk, and we'll put it right in there; use Shipt to provide same-day delivering in hours, if not minutes; and convenient service right to their home.* ***So we have to be agnostic, let the guest decide****.*"

While Target is agnostic about how their customer wants to shop, investors are no longer so agnostic about the results. In the above referenced quarter, Target's revenue rose 10% while pretax income dropped 16%. If management is unconcerned about the Return on Investment impact of competing on unequal footing because "*it's what the customer wants,*" then they are telling shareholders where they stand in line. The investor must decide whether to be a part of this fight or simply watch from the sidelines. M

Brendan Wagner is a Portfolio Manager

COMPLIANCE MATTERS — PROTECTING YOUR ASSETS IS A PRIORITY

At MONTAG, we take our fiduciary role seriously. We pride ourselves on providing a high level of client service, and this includes safeguarding client assets against fraudulent activities. Our compliance efforts require a thorough review and high degree of scrutiny when it comes to client asset transfer requests. Our custodians also have rigorous checks and balances in place to monitor this type of account activity. Due to these extra security measures, money movement transactions may be subject to a higher level of scrutiny than previously experienced. This is intended to serve as an extra layer of protection and not an inconvenience.

Safeguarding client assets is also a partnership between our firm and our clients. If you suspect suspicious activity has occurred in your financial accounts, with your personal private information or even something as simple as an e-mail hack, please contact us immediately so the proper precautions can be put into place. Together, we can help to mitigate these financial cybersecurity threats. M

Stacey Godwin is Chief Compliance Officer

DID YOU KNOW? *(from page 3)*

Answers: C. *and* D.

Then-Atlanta Mayor Mayor Kasim Reed announced the relocation of the ***Cyclorama painting*** *in July 2014, on the 150th anniversary of the* ***Battle of Atlanta****. The Atlanta History Center entered into a 75-year license agreement for the relocation and long-term preservation, restoration and maintenance of the painting, the* ***Texas Steam Engine****, and other artifacts.*

UPCOMING EVENT

EXECUTIVE BREAKFAST SERIES — **Tuesday, June 5, 2018** ***(7:30am — 9:30am)***

MONTAG hosts the next in our series of breakfasts when Brendan Wagner, one of our Portfolio Managers, will make a presentation titled **The Myth of Low Productivity**. For more information, contact Steve Whittington — *Business Development Director*, at 678-539-8245 or via email at stevewhittington@montagwealth.com

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