



9/11: TEN YEARS ON

As we wind down this year's 3rd quarter, a period that included the 10-year anniversary of that terrible day in September 2001, we pause to reflect on the impact of those tragic events and what the investment implications continue to be.

There has been much analysis, opinion, reflection and debate on the effects of 9/11. The images of that tragedy will stick in the minds of everyone old enough to remember them. Rather than treading ground already covered, we would like to tease

out the big themes to help bring an awareness of the changed paradigm since 9/11 and the differences in the risk-opportunity set for individual investors.

The magnitude of the attack was absolutely shocking and unexpected, and it dramatically changed Americans' sense of security. The realization that a superpower like the United States did not have the intelligence apparatus in place to prevent such an event made people suddenly feel vulnerable. For many, this feeling of vulnerability was exacerbated by the fact that the attack occurred in the epicenter of U.S. finance.

In the years prior to 9/11, the U.S. had enjoyed a long stock market rally, primarily fueled by tech companies' skyrocketing share prices. Tech stocks boomed, not because of the fact that the underlying companies were making a lot of money, but because of consistent injections of liquidity in the markets. In the lead-up to the new millennium, the Federal Reserve (under Alan Greenspan) primed this liquidity into the financial system because it feared adverse economic fallout if businesses were unprepared for Y2K. This liquidity fueled speculation and was not allocated

to more productive uses, so after Y2K the United States found itself without a basic economic model for progress, and the economy began to flounder.

When 9/11 happened, the Fed opened the spigot of liquidity full-bore and pushed short-term rates down to 1% for three years. President Bush lowered the tax rate, despite the high cost of the wars (somewhere between \$1–2 trillion so far), and we sent over 200,000 troops abroad to fight.

This fiscal and monetary stimulus brought on a real estate boom that fueled private-sector credit expansion and economic growth for a time, so loose lending standards during the 2003–2007 period can be partially attributed to our response to 9/11. Our purchases of discretionary

“
...we would like to tease out the big themes to help bring an awareness of the changed paradigm...and the differences in the risk-opportunity set for individual investors.”



IN THIS ISSUE

- 9/11: Ten Years On
- Barron's Top 100—5th Year in a Row
- Animal Spirits

“

...it's during bleak periods that the long-term opportunities tend to be better.”

goods increased dramatically, as did our consumption of energy and metal imports. Because the U.S. doesn't produce much of the energy and metal resources it consumes, this spending spree resulted in wealth transfers to the foreign trading partners that supplied products, resources and lending to the United States. As these developing populations experienced an attendant increase in their own living standards, they began to consume more. Consequently, the last ten years' big stock winners have been natural resource companies, including those with reserves of metals and oil and those involved in agriculture. Gold also did well during this time, as the overall health of the financial system deteriorated. This decline in financial health in large part came from overly engineered mortgage and credit derivatives (most of which were opaque, toxic and illiquid).

As the S&P chart on the opposite page indicates, despite government attempts to stimulate the economy, U.S. stocks only increased marginally over the last decade. Gold and long bonds, on the other hand, performed spectacularly as a demonstration of both risk aversion and extremely easy monetary policy. Apart

from the clear differences in the periods before and after 9/11, the less obvious but equally powerful consequence was continuous stimuli, which led to more frequent boom and bust cycles and a bigger government share of gross domestic product.

Since 9/11, the U.S. has been stuck in a paradigm of heavy government involvement and large, continuous stimulus programs. These programs were applied even during periods of economic prosperity (Fannie and Freddie buying up mortgages, rates kept low and through fiscal deficits). But then when a bust occurred we saw **extreme** forms of stimulus such as quantitative easing, jobs programs and direct capital infusions by the Treasury into banks.

As a result, debt levels are currently very high, and confidence is on the wane. Concern for the health of U.S. and European banks has increased—as has concern over the ability of governments to bail them out again. Consequently, the U.S. government—through the Federal Reserve, Congressional legislation and regulation—remains highly involved in the economy. There are indications that people are more receptive to this sort of intervention in a post-9/11 world.

The good news is that there are many constructive things that can be done to restore confidence. The political agenda could shift to be more competition-related instead of emphasizing transfers, we could embrace more sensible corporate tax rates and incentivize private sector hiring

Gold Price

\$ per oz.



Source: Bloomberg

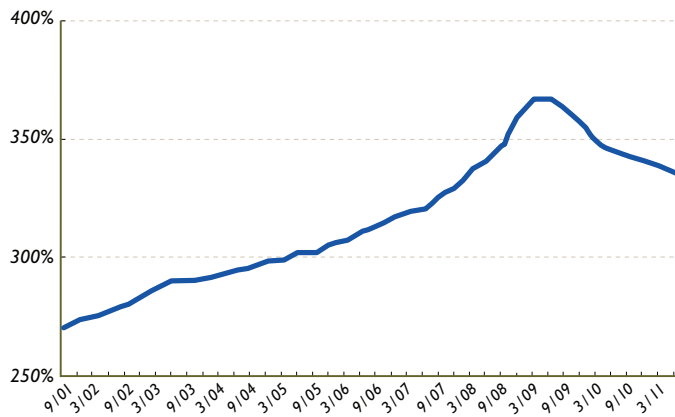
30-Year Treasury Bonds

Index: 9/11/01 = 100



Source: Bloomberg

Total Debt as a % of U.S. GDP



Source: Freelunch.com

S&P 500 Index



Source: Bloomberg

to get business going. There are also other positive factors that are currently underappreciated: mortgage rates are already incredibly low (for good credits), the U.S. has the cheapest natural gas in the world, commodity prices are coming down and there is plenty of liquidity.

As such, investors seem to be too risk-averse at the moment, although declining confidence and problems in the Eurozone are not to be denied. High levels of investor angst and political in-fighting indeed make the situation look bleak. But it's during bleak periods that the long-term opportunities tend to be better.

Because continued stimulus, significant government intervention and the hangover of excessive debt are all intertwined, it's difficult to identify exactly which features of today's economy are directly attributable to the events of 9/11. The impact on our culture, psychology and attitude toward risk was dramatic and continues to stay with us. But ultimately, it could be these same effects that lead to needed changes and reforms, and get America back on track. ■



OBERMEYER NEWS

We are excited to share the news that Obermeyer Asset Management has again been named to *Barron's* annual "Top 100 Independent Advisors" list. This is the fifth year in a row that we have received this prestigious ranking, and we are honored by the inclusion. Also of note, Wally was one of just two advisors from Colorado included in this year's survey.

Barron's 2011 list was released in the publication's August 29th edition. Considered one of Wall Street's most respected financial journals, *Barron's* publishes its rankings as a way to identify elite practitioners in the field and highlight investing practices that are protecting and growing clients' wealth. The rankings reflect the volume of assets overseen by the advisors and their teams, revenues generated for the firms and the quality of the advisors' practices.

Upon receiving the news, Wally was quick to emphasize that this honor reflects the collective efforts of our team and the ongoing—and invaluable—partnership with our clients: "I'm greatly appreciative of our clients and all the members of the Obermeyer team, who have helped us achieve this distinction. I am also incredibly humbled that we have received this honor for so many years in a row."

We extend our sincere gratitude to each of our clients. None of this would be possible without your continued loyalty and support. ■

OBERMEYER TEAM

INVESTMENT COMMITTEE

(Listed alphabetically, except for Chair)

Wally Obermeyer, President

John Goltermann, CFA, CPA
Senior Vice President
Portfolio Management and CCO

Roger Hennefeld, CFA
Vice President
Trading and Portfolio Management

Laurence J. Kandel, Vice President
Investments and Client Advisory

Ali Flynn Phillips, Vice President
Investments and Client Advisory

PROFESSIONAL STAFF

(Listed alphabetically)

Kimbo Brown-Schirato
Client Service Associate

Chris Goodendorf
Finance and Operations Associate

Danby Seldin Minor
Executive Assistant and Communications
Associate

Kendal Blue Mullins
Accounts and Compliance Associate

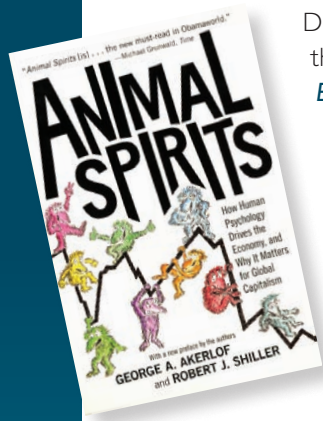


L to r, back row: Ali Phillips, Lonny Kandel, Danby Seldin Minor, Wally Obermeyer, John Goltermann. Front row: Roger Hennefeld, Kimbo Brown-Schirato, Chris Goodendorf, Kendal Blue Mullins



ASSET MANAGEMENT COMPANY

FALL READING LIST



During our client conference call in August, we briefly mentioned the book *Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism*. The book, authored by economists George Akerlof and Robert Shiller, sparked client interest. Since we didn't have time to explore this book in detail on our call, we wanted to provide more background information here.

"Animal spirits" is a term coined by John Maynard Keynes as a way to describe the visceral (i.e., **emotional** as opposed to **rational**) responses that influence human behavior. Akerlof and Shiller bring Keynes' idea forward to the present day, explaining how dramatic swings in perceptions and emotions heavily influenced recent economic environments.

These intangible factors—often overlooked by traditional economic theory—can impact how people make basic financial decisions (e.g., borrowing, spending, saving and investing). They inform confidence in institutions, feelings about the nature of money and the perception of overall fairness in society. On a macro scale, animal spirits can also have a profound impact on global economic activity. One need look no further than the recent housing euphoria and subsequent banking crisis for an example of human emotion's impact on the financial world. For Akerlof and Shiller, these events were caused "precisely by our changing confidence, temptations, envy, resentment, and illusions...."

The authors advocate for government help in managing animal spirits. Likening the role of government to parental duty, the authors write, "The proper role of the parent is to set the limits so that the child does not overindulge her animal spirits." Whether or not one agrees with their policy prescriptions, their arguments are well-formulated and worthy of consideration.

As this book was written by two practicing economists, the authors occasionally lean on technical, financial jargon. That said, the bulk of the book is relatively straight-forward and has earned broad audience appeal. Please let us know if you would be interested in adding *Animal Spirits* to your reading list. We would be happy to get you a copy. ■

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Obermeyer Asset Management Company), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from Obermeyer Asset Management Company. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. Obermeyer Asset Management Company is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of Obermeyer Asset Management Company's current written disclosure statement discussing our advisory services and fees is available for review upon request.

Rankings and/or recognition by unaffiliated rating services and/or publications should not be construed by a client or prospective client as a guarantee that he/she will experience a certain level of results if Obermeyer Asset Management Company is engaged, or continues to be engaged, to provide investment advisory services, nor should it be construed as a current or past endorsement of Obermeyer Asset Management Company by any of its clients. Rankings published by magazines, and others, generally base their selections exclusively on information prepared and/or submitted by the recognized adviser.

ASPEN HEADQUARTERS:

OBERMEYER PLACE ● 501 RIO GRANDE PLACE, SUITE 107 ● ASPEN CO 81611 ● 970.925.8747

DENVER OFFICE:

3200 CHERRY CREEK SOUTH DRIVE, SUITE 480 ● DENVER CO 80209 ● 303.733.4305

800.337.0933 ● WWW.OBERMEYERASSET.COM

COPYRIGHT 2011 OBERMEYER ASSET MANAGEMENT COMPANY | ALL RIGHTS RESERVED