



To: All TCI Clients
From: Bob Swift - CEO
Date: 8/11/2011

Enclosed is our first installment of "Back to Basics." There will be at least three more sent to you over the next two months. Our goal is to bring a consistent flow of solid financial principles back into the conversation. This week's market activity can easily drive even the most rational person crazy.

Enjoy the piece as well as the following letter which was written by one of our advisors to one client. It is a very good lead-in to the "Back to Basics" conversation.

Letter from Advisor to Client

With markets dropping 1500 - 2000 points in the last 3 weeks, it's easy to say "here we go again" and flash back to late 2008 when the financial crisis was roaring down on our heads.

I say "here we go" but NOT again. This is not 2008. Although we have challenges to face, and the market is showing a very strong reaction to those challenges, we are in a very different environment than late 2008 and early 2009.

There is a huge focus right now on what is wrong with the economy (not just here but abroad), and with the government. Some of the economic data, such as unemployment, housing, and consumer spending, engages our attention strongly because this is "where we live" as employees (or employers), homeowners, and grocery shoppers. But the truth is that the "green shoots" that were noted at the beginning of the recovery have not withered; a great deal of economic data is also sending positive signals, although this recovery certainly is not progressing as rapidly as we'd like.

At this time, it is critically important to remember that we have a long-term investment plan for you, which is crucial to help you (and me) to avoid silly human behavior, emotional over-reaction to bad news, and decisions about long-term issues that are based on short-term thinking.

It is also powerful at times like this to remember that you CAN control: your own circumstances, and your ability to choose where you place your attention right now. News junkies should probably break the habit for now; there is abundant evidence that seeking more and more information does not lead to better decisions; it's more likely to simply add to stress and stress can lead to possible poor decisions along the way. The media does a great job of digging up news and information and presenting it 24/7; this does NOT oblige you to consume this information at the same rate it is being produced!

Back to Basics #1

Monday afternoon conversation- (Dow Jones – down 625 pts)

Client: "I hate this. The ups, the downs, the explanations, hang on, get out, buy more, buy gold. Why do I even need stocks?"

Ah, this is really the crux of the matter and a great opportunity for discussion. Even more amazing is that this client wanted to buy more stock as little as one month ago. Confusing, frustrating, occasional elation and sometimes downright frightening. Indeed, let's talk about why most of us need some level of stock market exposure (as well as who might not need it.) This piece should help remind you: why you own them, why the current fear, volatility, and so called market experts should be ignored, and why this is actually an opportunity to buy.

Your TCI advisors (the "gang of ten") got together on Tuesday and Wednesday through phone, email and branch office locations to create this educational and perspective piece for our clients. I was put in charge of organizing their thoughts and advice. So...let's get to it.

"Why do I even need stocks?"

(Remember that when we talk about stocks, it refers to a globally diversified portfolio of index funds... not individual equities. TCI gets you stock market exposure through an academic and very well-researched approach.)

1) Inflation/Buying Power - The most successful asset by far to keep up with and actually beat inflation is stocks. It's not real estate, bonds, commodities, or even gold. All of those have had their moments in time but none have even come close to the consistency of stocks.

Why is that true? Think about it. Inflation is defined as the increasing cost of goods and services for consumers. Stocks represent companies who sell goods and services. In the interest of shareholders and profits, they raise their prices and dividends over time. Therefore, owning stock means you collectively own everything that causes inflation with the kickers of dividends and heavy profit motivation due to public shareholders.

Bonds are debt so there is no opportunity for growth and as a result (as you'll see in #2) they barely keep up with inflation historically. Real Estate is simply one component of inflation that actually has serious liquidity and cost of maintenance issues. Commodities basically match inflation (over time) but have no ability to beat it due to no dividends. Gold has had about three spurts of anything resembling growth over the last 80 years. It is a fear based, speculative asset rather than the inflation-hedge the current conventional wisdom gives it credit for. It also has no cash flow (dividend) like a stock does to contribute to beating inflation. So, the best way to beat inflation is to own stock and get paid (dividends) while holding it.

2) Performance

U.S. Capital Markets Compounded Returns from Jan 1, 1926 to December 31, 2009

- U.S Small Cap Stocks – 11.9%
- Large Cap Stocks – 9.8%
- Long Term Government Bonds – 5.4%
- Treasury Bills/Money Markets – 3.7%
- Gold (1900 – 2010) – 4.91%
- International Stocks (1970 – July 2011) – 10.08%
- Inflation/CPI – 3.0%

These numbers are tough to argue with.

3) Personal Goals - During the initial planning process with a client we establish a required rate of return (RROR) needed to reach their goals (i.e. college education, weddings, standard of living, inheritance, etc.)

That process, for example, might come up with an RROR of 8.5%. We then might build a portfolio with 60% stock and 40% fixed income. Times like now may cause a client to question their stock allocation and consider reducing or selling it. Our response, tongue in cheek, may be “Fine, but I hope your wedding guests are ok with hot dogs and Costco water.”

The point is that you need the performance of a long-term stock allocation for the goals you set. That means living through the ups and downs of the price valuations to get the long-term benefit. You can reduce your stock allocation, but you have to reduce your goal expectation as well. (And please don’t tell me you will get back in when the market is better. I know you know that does not work.)

Your TCI advisor has built a portfolio to meet your goals. Should you choose to reduce stock exposure, you have to be willing to reduce some goals as well.

4) Building Capital/Wealth Accumulation - This is primarily for the under 50 investor. Since they have so much time before needing their assets, they are able to fully invest in stocks and actually embrace a down market. That allows them to buy more stock shares at temporarily discounted prices. Eventually, they will slowly convert that long-term accumulation to some fixed-income depending on their goals.

There has been no better wealth accumulation than stocks consistently held and added to.

5) Inheritance/Philanthropy - Many of our clients are in the fortunate position of having a lot more money than they need for their own personal goals. At this point, their goals take on building wealth for their children or favorite charitable institutions. This puts them squarely with the same objective as the wealth accumulator. Since the ultimate beneficiary is their children or a charity, a higher stock allocation is called for since the time frame is actually longer than the client’s life. Like the young wealth accumulator, they should welcome bad markets so they can buy more.

6) Because Your Fiduciary/Advisor Recommends It - In the end, folks, we wouldn’t put you through the angst of stock market volatility unless it was needed to accomplish your goals. As you know, we embrace our fiduciary role and take pride in helping to achieve client goals and peace of mind with no conflicts of interest.

Data consistently shows the #1 deterrent to overall portfolio performance is the investors own behavior. Remove that emotion and results go way up.

We frequently kid amongst ourselves how much overall portfolio performance could be improved if we could manage money in a blind trust for our clients. The idea of clients not being affected by short-term volatility is powerful to us. But we gladly accept the role of managing client behavior. Obviously, education, like this piece, should help in that management.

Finally, the following bullet points represent some remaining thoughts of our “gang of ten.”

- 99% of the recent market activity and information that scares clients has to do with speculation, traders, hedge funds and **NOT** investors. You are an investor – one who accumulates a planned amount of equities with the goal of beating inflation and maintaining standard of living. Pay attention to the one you are paying for advice....the rest is noise.
- Unanimous thinking from all TCI advisors was to ignore the financial news right now, if not on a every day basis. Their information is intended to create fear or greed. The implied expertise for personal financial management is simply not there. They are skilled and persuasive orators...not your fiduciary. Let it go... time to move on. You’ll feel better.