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Uncertainty Matters

By John Stephens, MD, CFA, CFP®, MBA

As I sit writing this article the Super Committee is holding a public meeting and the Europeans are wrapping up another summit. There is a great debate on what the Super Committee should do or about which option is best for the European crisis. Cut spending? Raise taxes? A balanced approach? Support Greece? Let it fail? Keep the Euro? Go back to separate currencies? The point I hope to make is that as far as the financial markets are concerned it is less about "What" the solution will be and more about "When/If" the solutions will be reached. The thing markets hate the most is uncertainty.

Now do not get me wrong, the markets always have uncertainty. In fact it is uncertainty that dictates the fact that junk bonds command higher rates than corporate bonds which are in turn higher than US Treasuries. On the equity side of things uncertainty leads to higher expected returns of small emerging markets versus small US companies versus large US Companies. In a very simple way uncertainty can be a proxy for and synonymous with risk.

The uncertainty to which I am referring is so much so that decision makers are unable to plan for the future. They don't even know the rules of the game. These decision makers range from corporate CEO's and Board of Directors, to charities, non-profits and even down to the individual household.

Put yourself in the position of CEO of a publically traded company. One of your goals is to execute a plan that will cause the price of your company stock to appreciate. When the recent recession started you were forced to cut costs as revenues declined very quickly. Some of this cost cutting

included laying off employees, closing plants and putting any expansion on hold. Your company has a long history and has been able to plan through periods of high corporate taxes or low taxes, higher regulation or low regulation, periods of high inflation or low inflation, monetary and fiscal tightening or loosening. When good decision makers know the rules they can develop a plan. Right now nobody knows the rules. Companies are choosing to sit on their cash (estimated to be nearly \$2 Trillion) instead of hiring new employees, buying equipment, funding R & D or opening new markets. CEO's and Boards are still charged with doing what is best for the company and many are deciding that doing nothing is the best decision right now.

Even decision makers at non-profits and charities are struggling with the uncertainty. There is talk about flat taxes or major overalls to the US Tax Code. If all deductions are eliminated, what would that mean for charitable organizations? No one knows and many organizations are choosing to sit on their endowments not hiring, not investing and not growing.

The same can be said for individuals who are the decision makers for their own household. Will there be a plan to stabilize housing prices? What is going to happen to tax rates? Medicare? Social Security? Will companies start hiring again? Can families afford holiday spending?

I do not believe there is a problem with the decision makers. I also believe the proper incentives are still in place. CEO's still want to do what is best for the company, non-profits want to maximize their organization's impact and individuals want to improve their life and that of their family.

As investors at TCI we are owners of nearly every public traded company in the world.

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**UPCOMING
EVENTS:**

**TCI Art Exhibit
January 2012**

**TCI Winter Webinar
February 16, 2012
4:00pm—5:00pm
Arizona/Mtn Time**

You can view previous TCI Webinars on our website under 'TCI Press Room' and then 'TCI Webinars'.

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We own a great asset comprised of a diversified global portfolio. We are in a position to have this good asset appreciate when the uncertainty is lifted. It is impossible to predict and foolish to make investment decision based on when this cloud may lift. In the mean time I hold onto my good asset hoping and that our leaders will make some decision soon.

Update: Since I initially wrote this piece a number of events have occurred in Europe and here in the United States. The equity markets reacted swiftly to each of the events. The market reactions both positive and negative reiterate the importance of uncertainty.

Europeans came up with a plan that appeared to be a solution to the crisis. The markets immediately went up. Later as that plan fell apart and uncertainty returned, the markets proceeded to go down. Today the central banks announced a plan to guarantee liquidity in the event of a sovereign debt default. This removes one of the major uncertainties that have been weighing on the markets: Might a default cause the system to freeze up due to lack of liquidity similar to what happened when Leh-

man Brothers failed. The world equity markets are way up as I write.

The United States "Super Committee" failed to come to any decision leading to even more uncertainty and speculation as to what will happen. The increased uncertainty led to an immediate sell off in the equity markets. I remain optimistic that the US debt uncertainty will be resolved and confident that markets will respond positively.

As Winston Churchill said:

"You can always count on the Americans to do the right thing... after they've tried everything else."



John Stephens, MD, CFA, CFP®, MBA, focuses on helping clients simplify their financial lives. He specializes in helping doctors and senior-level executives build and maintain wealth independent from their business.

Year-End Tax Considerations

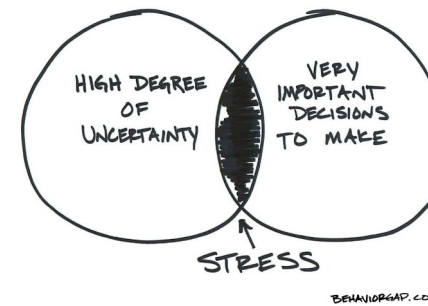
Year-end tax planning is especially challenging this year because of uncertainty over whether Congress will enact sweeping tax reform that could have a major impact in 2012 and beyond. We have compiled a list of potential actions based on current tax rules that may help you save tax dollars if you act before year-end. Not all actions will apply in your particular situation but we want to provide them for your consideration. Please consult with your CPA or tax professional to determine if any of these might be of benefit.

Year-End Tax Planning for Individuals

- Increase the amount you set aside for 2012 in your employer's health flexible spending account (FSA) if you set aside too little for this year.
- If you're eligible to make health savings account (HSA) contributions this year, make a full year's worth of deductible contributions for 2011.
- Postpone income until 2012 and accelerate deductions into 2011 to lower your 2011 tax bill, which may enable you to claim larger deductions, credits, and other tax breaks for 2011 that are phased out over varying levels of adjusted gross income (AGI).
- It may be advantageous to arrange with your employer to defer a bonus that may be coming your way until 2012.
- Consider using a credit card to prepay expenses that can generate deductions for this year.
- If you expect to owe state and local income taxes on your return next year, consider increasing your withholding of or pay estimated tax payments of state and local taxes before year-end only if doing so will not create an alternative minimum tax (AMT) problem.
- Estimate the effect of any year-end planning moves on the alternative minimum tax (AMT) for 2011.
- You may be able to save taxes by applying a bunching strategy to "miscellaneous" itemized deductions, such as medical expenses.
- If you are a homeowner, make energy saving improvements to your residence. You may qualify for a tax credit if the assets are installed in your home by December 31, 2011.
- Unless Congress extends it, the up-to-\$4,000 above-the-line deduction for qualified higher education expenses will not be available after 2011. Thus, consider prepaying eligible expenses if doing so will increase your deduction for qualified higher education expenses.
- You may want to pay contested taxes to be able to deduct them this year while continuing to contest them next year.
- You may want to settle an insurance or damage claim in order to maximize your casualty loss deduction this year.
- You can give \$13,000 in 2011 to each of an unlimited number of individuals but you cannot carry over unused exclusions from one year to the next.

Stress Created by Uncertainty

By Carl Richards, NY Times Blog Contributor



In general, I try to avoid talking about market forecasts (guess-casts) because you absolutely **CANNOT** afford to risk your financial future on someone's guess about the future of stock market returns. But I'm going to break my rule because I've had so many people ask about this recently that I think we need to talk about it.

In the last month there have been two, wildly divergent "guesses" that have received a lot of attention in the media. (If you haven't seen them, and that would be a good thing, forget you opened this newsletter and go back to what you were doing so you don't waste any time on what I am about to talk about.)

Bob Pletcher **thinks that the Dow is going to 2,000** and that guess was carried to our homes by major "news" channels. Within a few days, Jeffery Hirsch proclaimed that **we are about to enter a "super boom" that will take the Dow over 38,000**. So the question is what do we do with that kind of information? How does a rational, intelligent person consider all the available information and determine an appropriate course of action?

It doesn't make sense to simply ignore all information about the investment environment, but the real difficulty comes in trying to distinguish the signal from the noise, and when it comes to the direction of the stock market, it's almost all noise. Almost all guesses. Almost all wrong. So back to the question:

what do we do with all the information?

It's important to understand that part of investing (and maybe life in general) is making decisions in the midst of uncertainty. We will never be right all the time. The key might be in understanding that it's the process of making the decision that we have control over and not the outcome. So we have to approach investment decisions as a continual process of making a decision based on available information, watching the outcome, considering new information as it becomes available, making course corrections and repeating over and over. I have also found that when we are faced with high levels of uncertainty and extreme ranges of potential outcomes it helps to think about the impact following one path would have and then taking the more conservative path.

In other words, at times of uncertainty, chose the option that has the lowest range of outcomes. I have found the following questions helpful:

[1] If I act on this new information, and it turns out to be **RIGHT**, what impact will it have on my life?

[2] If I act on this new information, and it turns out to be **WRONG**, what impact with that have on my life?

I think you will find that just forcing yourself to consider the potential outcomes of being wrong will result in making much better investment decisions. Now with all that out of the way, please consider your investment process and determine how much it might impact your life if some of the major assumptions are wrong and make changes where necessary.

TCI Holiday Schedule

Just a reminder about the following office closures:

December 23rd & 26th for the Christmas Holiday

Afternoon of Dec 30th & January 2nd for the New Year

TCI Recent Events

The various offices of TCI have hosted a variety of events over the past few months—here's a highlight of just a few.

The Tucson office hosted their most recent art show in conjunction with the Southern Arizona Arts & Cultural Alliance on October 13, 2011. There were a variety of artists with their works on display.



In addition to the exhibit, TCI was proud to host a book signing for our advisor Doug Nelson, CPA, PFS. Doug has recently published a book titled *Art, Artists & Money* and has held book signings over the last few months in several locations with many of TCI's clients and valued partners in attendance.

