TCI WEALTH ADVISORS, INC.

25 YEARS 1990 - 2015

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SUMMER 2015

Economic Commentary

THE INTEREST IN **INTEREST RATES**

by Trisa Summers, CFP®

It seems that over the past several years it has been almost impossible to go a day without an article in the business or financial news speaking to where interest rates are going and what impact they are going to have on the economy, the markets and the public. The interest in interest rates is understandable since they affect so many aspects of our daily lives; from the prices we pay to the savings rate we earn. With that in mind, let's look at why our recent history has been so focused on rates and what we should think about as we look to the future.

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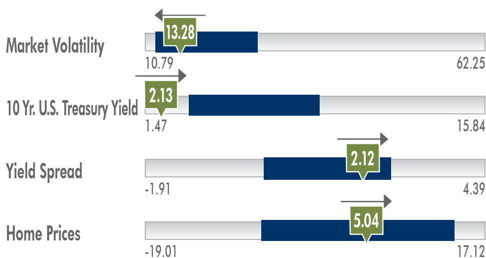
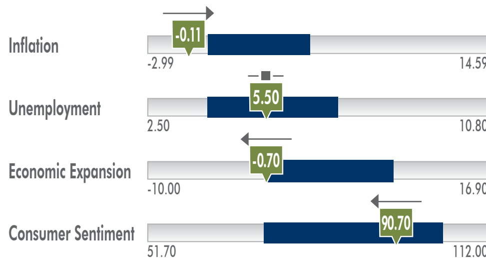
MARKET SNAPSHOT



ECONOMIC SNAPSHOT



MOST RECENT | 3-MO. TREND | TYPICAL RANGE | ACTUAL RANGE

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The Interest in Interest Rates

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Why are we seeing the sudden focus on interest rates? Throughout the recent financial crisis, the Government and the Federal Reserve used a variety of tools to try to stop and reverse the direction of the failing banking system and economy. They sharply cut interest rates, implemented an emergency lending program, bought preferred equity stakes, bailed out multiple major financial institutions, and instituted several periods of quantitative easing (QE). QE is a type of monetary policy used by central banks to stimulate the economy when standard monetary policy has become ineffective.

When the first round of QE began in November of 2008, there were a large number of experts who feared that the increased money supply and desire for increased spending might result in inflation, perhaps even hyperinflation. Since then, QE has been employed two more times, for a total of 3 rounds. Due to the QE, interest rates have remained at historically low levels as the economy has continued to improve at a very slow rate.

With October of 2014 marking the end of what seems to be the final round of QE, there is an expectation that interest rates will rise sometime in 2015. However, when interest rates might increase, and to what extent, remains to be seen. There is typically a lag of up to a year between the Fed's actions and its impact on the economy. Due to recent inflation remaining below 2%, which is the rate the Fed would like to see, the challenge for the Fed is to figure out the correct timing and speed with which to raise interest rates while not hurting the sensitive growth of the US economy.

The increase in interest rates is a two-sided coin for investors and consumers. It means that inflation will likely increase so the costs of goods and services will also rise. While paying more for those items is potentially painful for the end consumer, the broader impact can be positive for the economy in several ways including increased employment. While our stated unemployment rate is currently at 5.5%, the employee participation rate is at the lowest level since the 1970s. An increase in employment leads to economic growth which will perhaps build stronger momentum for economic recovery.

Another positive side effect of the increase in interest rates is for individuals who actively save. The interest being earned on savings in recent years has been virtually zero, yet the savings rate in the first quarter of 2015 climbed to 5.5%, the highest we have seen since 2012. Those people diligently saving would be rewarded by earning more interest on the funds they are putting away.

The other benefit would be for investors who rely on fixed income to help meet their cash flow needs. As interest rates rise, we also expect to see the yield on fixed income instruments go up. This has been a challenging time for investors, especially those who are retired. They often keep a large portion of their investments in fixed income, as a way to protect their principal and look to the yield to create an income stream. Increased interest rates will most likely be a welcome change to many of these people as they start to see yields rise in new bond issues. The price of existing bonds will see downward pressure because as rates rise and new bonds are available with higher yields, the value of the previously issued bonds will go down. If you hold the bond to maturity there is no change in the yield, but if you sell the bond during a rising interest rate environment, you may well end up selling at a loss. This is one of the reasons that we look to keep a portion of our fixed income investments short-term so that they capture a rising interest rate environment as bonds mature.

On the stock/equity side of the equation, the impact is less predictable. Some pundits say the markets will benefit, citing historical data. In addition, it is viewed as the Feds sending a strong message on the strength of the US economy. Other experts say that the increase in interest rates will slow or even reverse the strong equity performance we have seen over the last several years. Again many of those experts cite historical data, which clearly can be used to tell whatever story one wishes to narrate.

The reality is that there are many unknowns regarding when and to what degree interest rates will rise, but it does seem likely that with continued improvement in the economy we will see some continued movement by the Federal Reserve in that direction. Rather than try to guess the impact, we want to position ourselves and our investments so that no matter what the rate and speed of change, we are well-diversified to capture the benefits of a rising interest rate environment as well as to trying to insulate ourselves from feeling too much of the potential adverse impact, whether it is short-term or sustained. ⅄

Trisa Summers, CFP® is the CEO of TCI as well as an Advisor and Shareholder in the Scottsdale office.

Life Happens. *Protect Yourself.*

by Sam Oyler, CFP®

Health insurance? Check. Car insurance? Check. Home insurance? Check. Umbrella policy? Life insurance? Disability? .... Anybody there? It's easy to cover the basics, but as you accumulate wealth and more people start to rely on your income, it is important to protect yourself and your loved ones from disaster.

Damage to personal property or legal liability for injuries inflicted on others can deplete one's personal assets. This is where homeowners/renters and auto insurance come into play. But what about the legal liability component? The last thing you want is to get sued for all you're worth and legal defense can be expensive. Furthermore, assets can be seized and future wages can be garnished to satisfy a judgment. This is why you should have a personal liability umbrella policy (PLUP) that sits on top of liability coverage provided by your homeowners/renters and auto policies (which are usually limited to $300k-$500k in coverage). In addition, a PLUP can provide coverage for claims that may be excluded from your other policies such as libel or slander. Accidents happen. If you don't have a PLUP, look into getting a policy in place. Coverage starts at $1M and is roughly $25 per month.

Throughout life you also face perils that can reduce or eliminate your ability to earn, such as a premature death or disability. Life insurance is there to provide for family expenses (education, debt repayment, retirement, etc.) in your absence. There are a wide variety of life insurance options, but typically a term life policy that pays a lump sum equal to the present value of your future earnings is a good starting point. Unfortunately, as morbid as it sounds, you are more likely to become disabled than die before you reach retirement. Disability insurance is there to provide some income in the event you are unable to work due to an unexpected illness or accident. Check to see if you can get a policy through your employer. Ideally you want a policy that will pay 60-70% of your current income.

Life happens. Usually the risk of an accident is low but the financial risk is high. So protect yourself and transfer the risk to insurance companies. If you have any questions about your specific situation and insurance that you should have, contact your Advisor.

Sam Oyler, CFP® is a Paraplanner in the Scottsdale office and works with ASPIRE clients.

ASPIRE is a program offered by TCI Wealth Advisors that provides young professionals access to sound financial planning and education in order to plan for long term financial success. To learn more about the program, visit www.aspirebytci.com.

HOW WE START

by Hank Peck, CFP® and Charlie Peck

We often have discussions with clients as to when to begin or add to their portfolios. We know (based on Nobel Prize winning research) that market timing does not work. However, many clients are uncomfortable with investing large chunks of money in the equity side of their portfolio particularly during market highs, like now, for instance. This article is a study on that issue.

For more insight, we decided to test a portfolio consisting of 60% equities (stocks) and 40% fixed income (bonds) and allocated very much as we would at TCI. Each portfolio would begin with $500,000 and run for 10, 20 and 30 years (delaying investing by 10 years in each scenario). In each time period (10, 20, 30 years) we compared investing the $500,000 all at once against dollar cost averaging (DCA), buying a fixed dollar amount on a regular schedule regardless of share price, in this scenario $125,000 each quarter. To test differences in investing during equity market highs versus equity market lows, we selected time periods where the S&P 500 experienced a 30% increase within one year, marking a new market high. So, for each portfolio life (10, 20, 30 years), we started at two different times; one was at the S&P 500 market high, and the other before that high when the S&P 500 was 30% lower. Again, at each of these S&P 500 highs and lows in each portfolio life, we simulated two scenarios: investing the whole $500,000 at once and then dollar cost averaging it to see what would happen. We also included trading costs for dollar cost averaging and rebalancing*. Figure 1 shows the results**

As the chart shows, the best result is putting all of the money in this simulated portfolio at the measured market low. Of course, we really didn't need to test for that. However, the most pressing question is about investing during perceived market highs. This simulation shows some remarkable outcomes. In each portfolio life putting the entire $500,000 in at the market high out performs dollar cost averaging. One reason for this is the trading costs incurred by dollar cost averaging. We assumed $20 per trade with each portfolio consisting of seven positions. Even though this results in only $140 at each

FIGURE 1

30 YEAR	Final Market Value	Avg. Annual Return	Cumulative Return
Market High Lump Sum	3,280,000	6.47%	566.22%
Market Low Lump Sum	3,640,000	6.83%	627.36%
Market High DCA	2,890,000	6.11%	492.98%
Market Low DCA	2,970,000	6.20%	508.57%

Market Low Start: 8/12/1982 *Market High Start: 10/11/1982*

20 YEAR	Final Market Value	Avg. Annual Return	Cumulative Return
Market High Lump Sum	1,160,000	4.27%	131.01%
Market Low Lump Sum	1,390,000	5.25%	178.44%
Market High DCA	1,150,000	4.33%	133.43%
Market Low DCA	1,290,000	4.94%	162.27%

Market Low Start: 1/9/1991 *Market High Start: 12/26/1991*

10 YEAR	Final Market Value	Avg. Annual Return	Cumulative Return
Market High Lump Sum	740,768	4.01%	48.15%
Market Low Lump Sum	830,552	5.20%	66.11%
Market High DCA	696,827	3.52%	41.33%
Market Low DCA	757,668	4.43%	54.30%

Market Low Start: 10/9/2002 *Market High Start: 6/16/2003*

trade into the portfolio and at each rebalancing, these costs are a drag on the portfolio. Another reason for the 'market high lump sum' average outperformance is that while a perceived 'market high' feels like it cannot go any higher, it very well might. Because we cannot predict future short-term market movement, waiting to invest may result in a lower overall return on average. The potential benefit of holding out for a market 'drop' is likely minimal in the long run (if that 'drop' happens at all) – while the opportunity cost of missing further compounding growth is more probable.

Does this mean investors should forget about dollar cost averaging? Absolutely not. It is an excellent way to engage in the act of disciplined saving. Further, investors are less fearful to enter the market at perceived highs when investing in increments; they may sleep better and at TCI we think that is very valuable. What this information shows is that over time perceived market highs are not the final market highs for the disciplined investor.

Rebalancing – the act of bringing an investment portfolio back into balance in order to achieve stated investment goals. Example: in a portfolio of 60% stocks and 40% bonds, if the stocks grow in value so that they are 80% of the portfolio, to rebalance it is necessary to sell 20% of the stocks and buy bonds so that the portfolio is rebalanced to 60% stocks and 40% bonds. We call this selling high and buying low.

**Morningstar was used for data accumulation and research.

Hank Peck, CFP® is a Shareholder and Advisor in the Tucson office. Charlie Peck manages the trading department for TCI.

Wealth, Health *and Happiness*

by John Stephens, MD, CFA, CFP®, MBA

During the course of my professional career, as a primary care physician and now as a wealth advisor, the intersection of wealth, health and happiness has always interested me. Happiness is such a complex concept, as the pieces of the puzzle are unique to each of us. Below are a few principles I try to live by in my own pursuit of happiness.

1 Wealth does not equal happiness

As many a wise person related "Money can't buy happiness". But to take it one step further, a 2010 study by Nobel Prize winner Daniel Kahneman showed that once family income exceeds $75,000 a year there is no significant increases in happiness.

This really quantifies and confirms Maslow's hierarchy of needs. Once we humans have sufficient food, water and shelter, the next steps of love/belonging, esteem and actualization do not require money. They are much more about personal exploration.

2 Whatever you are doing, do it well... multitasking is overrated

Stanford professor Clifford Nass studied and demonstrated the human mind does not multitask well and in fact even trying to do so makes things worse.

High multitaskers have worse performance on tasks, poor memory and surprisingly even did worse at switching between tasks. Trying to do more than one thing at a time creates stress.

3 Mindfulness can be as simple as just accepting the present

John Kabat-Zinn, professor of medicine emeritus at the University of Massachusetts Medical School and internationally known for his work as a scientist, writer and meditation teacher, has researched mindfulness for decades. His research has shown mindfulness to decrease stress, lower blood pressure, decrease pain and increase overall well-being.

To quote him, "Mindfulness means paying attention in a particular way, on purpose, in the present moment and nonjudgmentally."

An interesting side effect is that living in the present (as opposed to the past which is old news, or the future which may never be) also forces me to not worry about things that I cannot change. I carve out specific times when I make plans and otherwise try to live more in the present moment. As you can imagine, this is quite a simple concept but very difficult to do. It actually becomes easier with practice.

4 Experiences are what we really cherish

We all know this intuitively. We remember kids or grandkids that play with a new toy for about 30 seconds and then spend more time playing in the box it came in. Somehow as adults we fail to realize the same is true for us. Memories of the experience are what we really retain. I found an interesting fact published in the journal Applied Research in Quality of Life: One of the happiest moments is the excitement and joy that comes from planning a vacation more so than actually going on the vacation.

5 Find your purpose in life

Many people equate their job/career with their identity and self worth. Some retirees struggle with this exact issue when they finally retire.

My artist brother shared a book with me many years ago. I have shared this book with many patients and now with retiring clients. "Your Money or Your Life" by Dominguez.

Spend time reflecting on what you enjoy and what gives you purpose. Then go find ways to do that. It may be your job, but it could be through your volunteer work, mentoring, teaching or helping family.

6 Make an effort to maintain and grow relationships

Human beings are social creatures. Many studies of elderly individuals find a strong link between the quality of relationships, health and happiness. Even just having a pet helps.

This becomes especially important as we age. During our working and family years there is a built in social network. It takes more effort to cultivate and maintain friendships as we age.

7 Just Do IT!!!

When 90 year olds are asked if they have any regrets, they almost never list something they did. Nearly without fail their regret is something they did not do.

So if you are thinking about learning something new, trying something different, meeting someone – just do it!

I want to leave you with a TED talk I enjoy by Louie Schwartzberg. My favorite quote is from an elderly man in the video: "You think this is just another day in your life? It's not just another day. It's the one day that is given to you today. It's given to you. It's a gift. It's the only gift that you have right now, and the only appropriate response is gratefulness. If you do nothing else but to cultivate that response to the great gift that this unique day is, if you learn to respond as if it were the first day in your life and the very last day, then you will have spent this day very well."

John Stephens, MD, CFA, CFP®, MBA is an Advisor and Shareholder in the Tucson office and is also the Chairman of the TCI Board of Directors.

REMINDERS

Cyber Security

TCI Wealth Advisors takes pride in our commitment to our clients and keeping their personal information confidential and secure. We have built numerous safeguards into our daily practices to ensure that client information is always protected.

Cyber security is one of the most pressing concerns for business and consumers and something we take very seriously. In today's world where much of our information transfer occurs via the computer, we want to provide you with a few ways you, as our client, can assist us in keeping your personal information secure:

- Never send sensitive information, like account numbers, social security numbers, answers to security questions, login and password information, etc. to TCI in an unsecured manner like email.
- Please use your TCI Client Portal to send us documents that contain sensitive information. If you do not have a portal established with TCI, please contact your associate or advisor to set one up.
- If you are unsure how to send us information securely, please call us and we will help you determine the most protected way.

Thank you for your continued trust in keeping your personal information protected, it is a responsibility we take very seriously.

Save the Date
TCI QUARTERLY WEBINAR – July 9th
3:00 p.m. MST/PDT (Arizona/West Coast) / **4:00 p.m. MDT** (Colorado/New Mexico)

The TCI quarterly webinars are open to all clients and colleagues interested in receiving more in-depth information about the economy and topics and issues that are impacting the markets and investors. There will be a Question & Answer session with TCI Advisors at the end of the presentation. You will receive an email to register or call 877-733-1859 to register.

Office Closures

TCI offices will be closed **Friday, July 3rd** for Independence Day and **Monday, September 7th** for Labor Day.

Mike Sullivan, CFA

Mike Sullivan, CFA Joins TCI in Tucson

Mike brings 35 years experience providing comprehensive wealth management for high net worth individuals, families, foundations and endowments. We are excited to have Mike join our team and bring his deep experience working with families and institutions in investment management, financial planning, and trust administration to the firm. We highly value Mike's commitment to his clients and extensive involvement in the community.

All Staff Retreat

TCI at the company retreat the end of April in Tubac.

TD Ameritrade

TCI has added TD Ameritrade as an additional custodian. Charles Schwab and TD Ameritrade are both great partners and we are excited to move forward with two custodians to better serve our clients needs. If you have any questions regarding the addition of TD Ameritrade as a valued partner, please contact your Advisor.

Leadership Announcement

We are excited to announce that Trisa Summers, CFP® has been appointed as CEO of TCI Wealth Advisors and Catherine Nichols has added the responsibilities of President to her role as Chief Compliance Officer.

Trisa has been with TCI for 16 years and is based in the Scottsdale office. Prior to serving as CEO, Trisa was President of TCI where she managed the day-to-day operations of the firm. In her new role, she will now be responsible for leading and guiding the strategic vision of the firm. Catherine joined TCI in 2008 as our Chief Compliance Officer in Tucson and in her new role will take on the responsibilities of President. Please join us in congratulating Trisa and Catherine on their new roles.

Trisa Summers, CFP©

Catherine Nichols, J.D.

2nd Annual Day of Service

On April 29th we joined Habitat for Humanity for the 2nd annual TCI Day of Service. Together TCI employees and their families and friends contributed more than 300 hours to build homes for Habitat families in Tucson, Phoenix, Los Angeles, Denver and Reno.

***Top row left to right**: Tucson, Flagstaff & Scottsdale.*
***Bottom row left to right**: Santa Monica, Denver, Reno.*

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