TCI WEALTH ADVISORS, INC.

25 YEARS 1990 - 2015

# FOCUS

*Confidence through Education*

FALL 2015

## Snapshot Commentary

The market snapshot is almost unchanged since January 2015, but that does not mean all has been calm. The trend in market volatility in January was decreasing and, as we have experienced this summer and fall, volatility is trending higher largely due to economic events in Greece and China this spring and summer. That said, as in January, volatility still measures lower than its typical range. The two measurements that continue to be outside their typical range are the 10-year U.S. Treasury yield and inflation, both a reflection of unchanged Federal Reserve policy and slow economic growth. Purchasing power for consumers in the U.S. continues to be strong due to decreased oil prices, low interest rates, and a strong dollar.

*TCI News*

# 100-YEAR FIRM

As another year comes to a close, we are reflecting not only on 2015 but the journey TCI has enjoyed during the last 25 years. While TCI has certainly grown over the years, the values that define us today remain the same as those the firm was founded on: integrity, authenticity, independence, excellence and above all else, total client satisfaction.

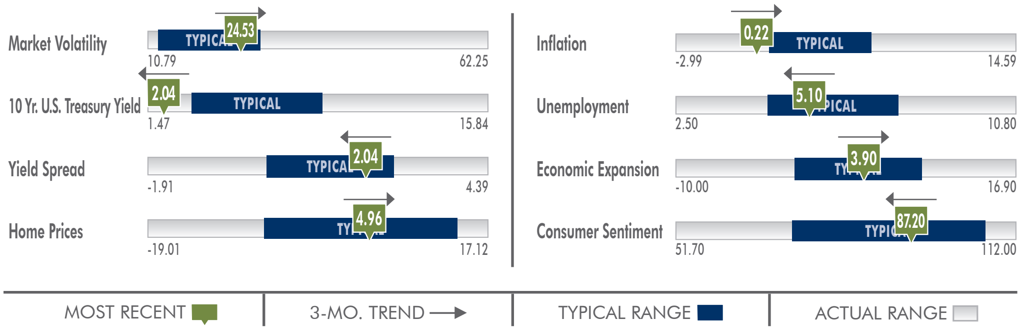
When we look ahead to the future, we are energized both for our clients and for TCI. Over the recent past we have invested a vast amount of focus into creating a firm that will continue to thrive for over 100 years; a firm that is not only committed to

*continued on page 3*



## MARKET SNAPSHOT

## ECONOMIC SNAPSHOT




# SHOULD WE CARE *About Greece OR China?*

*by Mickey Abeshaus, MD, CFP®*

*Fortune Magazine* published its annual *Fortune* 500 issue in June this year. In it, I learned this very interesting tidbit: five of the top eight best performing stocks for 2014 were airlines. That's right, airlines!!! *Fortune* failed to point out that none of these companies' stocks were up at all in the previous 10 years. Indeed, most of them did not exist for 10 years as all but one had gone through bankruptcy more recently than that. Some more than once. As the issue only focused on 2014, it also did not mention that all but one of these stocks were down significantly in 2015. I find this fascinating in itself, but perhaps even more fascinating that this "event" got virtually no media coverage.

What do the wild swings in airline stock prices and the corresponding lack of media coverage have to do with Greece or China you might ask? Both teach us a lesson about the short-term vagaries of stock markets and of the media. One never knows what will happen in the stock market in the short term. One also never knows what short-term issue the media will focus upon. The lesson is this: the short term does not matter; stop worrying about it or trying to win it. No one ever wins in the short term because the game is not over. A baseball game cannot be won in the first inning. A season cannot be won in one game. A legacy cannot be built in one season. Even more importantly, do not base actions on short-term results, especially if those actions are being affected by the media. If we paid close attention to the 2014 stock market winners and based future investing decisions on those results, we surely would have poured money into airline stocks just in time to have terrible performance in 2015. Similarly, if we base our current investing decisions on what is happening in markets today, we will just as assuredly make bad choices, costing us dearly. Greece will not be the issue a decade from now. Granted, there will be a new issue — there is always a new issue.

Almost 28 years ago, the Dow Jones Industrial Average fell nearly 23% in one day. At the time, it seemed as if the world was ending, or at least the financial part of it. For the record, we should note that the fall was from 2246 to 1738, a range roughly 1/10th what the Dow is now. Since then, we have had two World Trade Center bombings (the latter more commonly known as 9/11), two Persian Gulf wars, the popping of the tech bubble, and, most recently, the financial crisis to name a few "end of the world" events. Not surprisingly, or perhaps surprisingly to some, the world did not end, financially or otherwise.

"Yet Again, The World Did Not End" would be a boring headline. It won't sell many papers, attract many blog readers, or keep many viewers tuned to their TVs. Much better to use, "Greece Could Crash and Take Europe With It!" or "China Devaluation Creates Panic!". I can assure you, the next "crisis" will always be just around the corner. Some will scare you tremendously. With just a little effort, one can come up with many potential end of the world crises. The U.S. is going to borrow itself into bankruptcy; Social Security will be gone by the time I can get benefits; we will run out of oil; global warming will end life as we know it. Scared yet? So, if we should not worry about Greece or China or any other headline, what should we care about?

Well, the answer to that is even more boring than the world not ending. We should focus not on headlines. We should play the game for the long term. The long-term investor has won the game every single time. We should continue to focus on the things we can control: how much do we save, how long do we work, how much do we spend. These are the issues that matter in our financial lives. They may be boring, but they will always have far more to do with your financial success than will Greece, China, or even airline stocks.

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*Mickey Abeshaus, MD, CFP® is an Advisor and Shareholder in our Flagstaff office.*

## 100-Year Firm

*continued from page 1*

our clients today but to future generations and their aspirations. As we continue on this journey, we strive to find ways to further enhance our client experience and define the standard of excellence in the financial industry. The quest to deliver the best possible experience for not only our clients but also our employees has been our primary objective that has allowed us to enjoy the success and growth we have today and it will continue to be our primary objective.

We are committed to upholding the fiduciary standard and in doing so we want to ensure that we provide advice that is personalized, objective and focused on your values, goals and desires. Your financial lives are impacted by more than just your investments, and success is marked by much more than a rate of return; our role is to provide valuable insight to help you navigate through life's complexities to reach your definition of success.

As a firm, we continue to invest in technology that both enhances the client experience as well as allows our TCI team members to focus their unique talents and expertise on serving your needs. We appreciate that our most valuable assets at TCI are our people and therefore, attracting, retaining and developing our employees is key to the growth, spirit and sustainability of our firm. We continually challenge ourselves to create an environment that is positive and supportive, encouraging and rewarding honesty, integrity, innovation, teamwork and a work/life balance that compels employees to grow and evolve their careers at TCI.

We can never emphasize enough that we realize our success would not be possible without you, and the trust you place in us to serve your needs. The joy of service we experience as we walk with all of you and your families through your financial lives is what we are passionate about, and we feel very fortunate to be a part of the journey. Thank you for a wonderful 25 years; we have so much to look forward to.

# THE SIXTH LEVER: *Life Expectancy*

***by Sam Van Denburgh, CFP®***

In retirement planning, we often discuss five 'levers': savings, retirement age, spending in retirement, portfolio risk and the desire to leave a legacy. But there is actually a sixth 'lever' that significantly impacts all the others: life expectancy. Unfortunately, we do not know how long we are going to live; so when it comes to retirement planning, you have to plan for and manage longevity risk.

Most people estimate that they will live to normal life expectancy, give or take a few years. But the life expectancy numbers that we read about or hear in the news are typically based on life expectancy at birth. If your life expectancy at birth is in the 70s, by the time you are 65, your life expectancy is well into the 80s. Per Social Security, a man reaching age 65 today can expect to live, on average, until age 84.3 and a woman turning age 65 today can expect to live, on average, until age 86.6. There is a one in four chance that a 65 year old today will live past age 90, and a one in ten chance they will live past age 95. You may look at these numbers and think "well my mother and/or father lived to be a particular age so I will likely live to be around the same age." It is true that life expectancies are estimates that do not account for current health, lifestyle or family history, but overall health and heath care in the U.S. continues to improve. A particular illness that killed a parent in the past might be preventable or survivable now.

The point is you might live a lot longer than you think. For financial planning purposes, we assume clients will live into their 90s, and probably to about age 95 unless there are certain foreseeable circumstances. Life expectancy is never precise, but we want to plan to make sure you do not outlive your assets.

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*Sam Van Denburgh, CFP® is a Paraplanner in the Scottsdale office.*

*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 ASPIRE, visit www.aspirebytci.com.*

# Risk Factors in Fixed Income

*by TCI Investment Committee*

The fundamental rule of finance is that risk and return are related. An investor must take on more risk to expect more long-term return and must accept lower long-term returns if they want less risk. Fortunately, academic research has broken it down for us further and identified certain sources of risk that drive higher long-term returns. We refer to these sources as compensated risk factors — historically investors have been rewarded with higher long-term returns for accepting certain risks.

If you've received TCI educational materials over the past several years, you've likely seen a discussion of the compensated risk factors for equities. Those factors include:

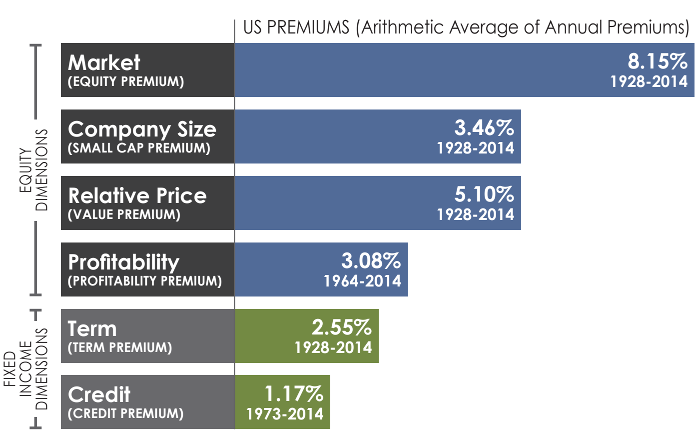
1. **Market risk** - stocks have higher risk and higher expected returns over bonds
2. **Company size** - small stocks have higher expected risk and returns over large stocks
3. **Relative price** - value stocks have higher expected risk and returns over growth stocks
4. **Profitability** - high profitability stocks have higher expected risk and returns than low profitability stocks

The more a portfolio weights those risk factors, the higher the future expected returns. While the price of those higher returns is likely higher short-term volatility, diversification amongst these factors can reduce some of that impact.

Of course, stocks are not the only component of the typical portfolio as most portfolios have some allocation to bonds. Research shows us that bonds have two compensated risk factors:

FIGURE 1

**Historical Risk Premiums for Compensated Risk Factors**




1. **Term** - longer term bonds are riskier and have higher expected returns than shorter term bonds
2. **Credit** - lower quality bonds are riskier and have higher expected returns than higher quality bonds

Before we dive into how we structure the fixed income portion of our portfolios it is helpful to review the reasons that an investor would choose to have an allocation to bonds in the first place. At TCI, we believe these objectives are listed in order of importance:

1. Controlling volatility
2. Preserving capital
3. Generating income
4. Seeking higher returns

Starting from the bottom of that list, TCI feels that "seeking higher returns" through an allocation to bonds is playing a guessing game at best. As we've covered, stocks have a much higher expected return than bonds over time and so the only way to win is to market time correctly. Academic research has proven that market timing is a losing strategy, thus "seeking higher returns" is certainly not the primary reason we include bonds in our portfolio.

"Generating income" is the traditional way of looking at fixed income because bonds pay predictable interest. However, concentrating solely on the interest an asset pays is too narrow a focus for an investor. The concept of total return allows us to generate income from many different sources — dividends, capital gains, interest, etc. In fact, in a taxable portfolio an investor should prefer that most of their income comes in the form of capital gains which are taxed at far more favorable rates. This is not to say that income generation is not important when considering a bond allocation, but that it should be a secondary concern behind "controlling volatility" and "preserving capital".

FIGURE 2

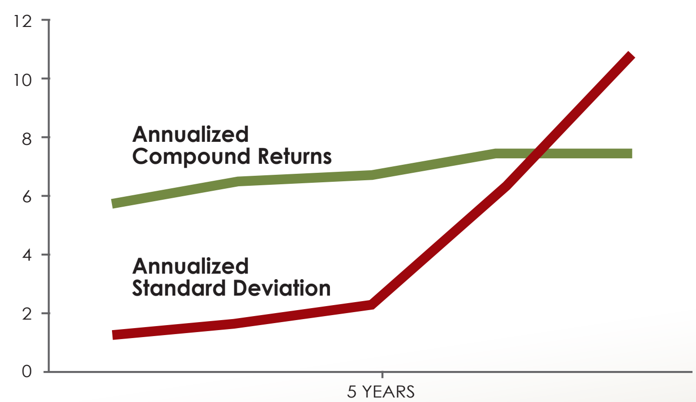
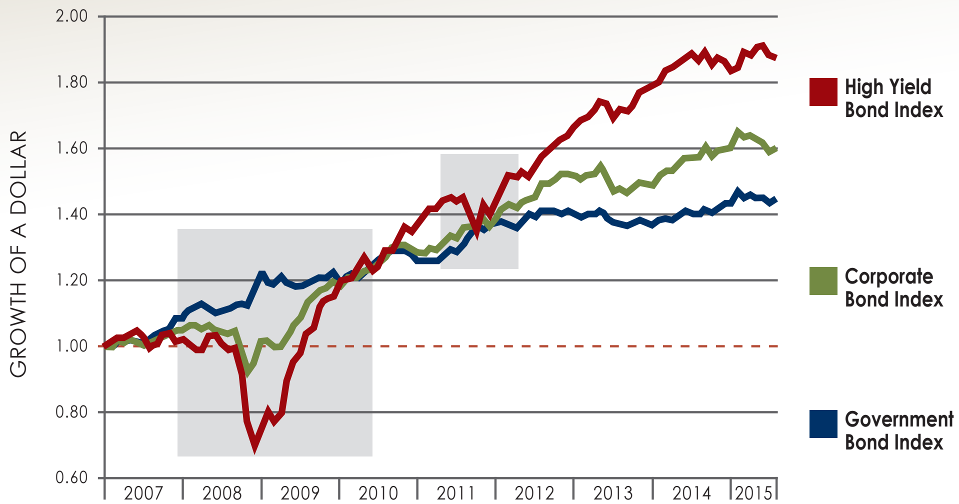


FIGURE 3




**GLOSSARY**

**Value stock** – a stock that trades at a lower price relative to its book value.

**Growth stock** – a stock that trades at a higher price relative to its book value.

**Portfolio weight** – The percentage composition of a particular holding in a portfolio.

**Total return** – interest, capital gains, dividends, and distributions realized over a given period of time.

**Book Value** – a company's assets minus its liabilities.

Bonds that are eligible for TCI portfolios are far less risky than stocks and will smooth out the overall volatility of a portfolio in addition to having a far greater likelihood of maintaining the portfolio's principle. The tradeoff for that reduced risk, of course, is lower expected long-term returns.

Once an investor establishes that the primary purpose of holding any fixed income is to control overall volatility, the next step is to decide how much emphasis should be placed on the two compensated risk premiums. Again, we return to academic research to provide us with some parameters. As Figure 2 illustrates, though longer term bonds typically result in higher long-term returns, there is a large relative jump in volatility at around five years. In other words, bonds that reach much past "intermediate-term" (5-10 years) have a diminishing risk/return profile. Thus, in regards to the term risk factor, it makes sense to target a fixed income allocation somewhere between "short-term" (less than 5 years) and "intermediate-term".

Research shows us similar parameters regarding the credit risk premium. Figure 3 shows us three different bond indices: government (blue line) which is the highest credit quality, corporate (green line) which has some more credit risk but is almost all primarily investment grade (defined as BBB rated or higher), and high yield (red line) which is primarily composed of non-investment grade bonds (below BBB rating). You can see the difference in volatility and longer term returns since the beginning of 2007.

If our primary concern is smoothing overall portfolio volatility, it is clear that the safer government bonds are much more effective during high volatility times in the stock market (that's a nice way of saying "market crash"). In fact, high yield bonds tend to act more similar to equities than fixed income and are correlated rather strongly (hence the severe drop in value at the same time stocks dropped in value). That's not to say there will not be a situation that justifies their inclusion in a portfolio, but it will not be for the primary objective of smoothing portfolio volatility.

Using this research, an investor can then decide how much to tilt a fixed income portfolio towards the compensated risk factors while keeping the parameters in mind. Being completely safe (all high quality, short-term government bonds) would certainly dampen portfolio volatility, but so does cash in the bank. Such a safely positioned portfolio is likely not maximizing the return per unit of risk. We've also shown that an aggressive fixed income portfolio (long-term, below investment grade bonds) takes on excess risk per unit of return and is too correlated with equities to accomplish our main goal of smoothing overall portfolio volatility. Thus, the optimal fixed income allocation will maximize returns within the context of primarily controlling overall portfolio risk. Not surprisingly, this leads to a globally diversified allocation that incorporates some mix of the following:

1. Short-term, highly rated government bonds
2. Investment grade corporate bonds that optimize the credit risk factor
3. Intermediate-term bonds that optimize the term risk factor

The bottom line is that an investor should seek to control overall portfolio volatility first and then look to maximize fixed income returns within that context. If an investor's needs demand more return than what the current fixed income environment offers, they are better off increasing their equity allocation where they can expect greater return bang for their risk buck.

** This article is intended to be a technical piece diving into the detailed analysis that your Advisor considers when creating your portfolio. Please reach out to your Advisor if you have any questions.*

*The TCI Investment Committee conducts on-going research and analysis that guides portfolio construction for TCI clients.*

# The Value of Simplicity

*by Bob Swift*

There are moments in our lives that cause us to stop and really reflect on where we have been and where we want to go. Unfortunately for many people, it takes a "scary" event to really focus our energy and time to do that reflecting. For me, it was just over a year ago when my wife, Lisa, and I had the scariest five seconds of our life. We were hit by a drunk driver at 70 mph on the 202 freeway in Phoenix. His car, as well as one other car, went into a major head-over-heels roll. For some reason, our car (a Toyota Avalon if you wondered) did not roll. We ended up going across traffic and hitting the concrete abutment and gradually slowing to a stop on the shoulder. Our car was totaled, but luckily neither of us were physically hurt other than a broken left wrist for me. The DUI driver survived as well as his 3 kids, which begs the question of why kids were in the car in the first place, alas I digress. However, his wife was killed and he is now in jail.

I tell this story to help frame the reason for writing about the value of simplicity. As Lisa and I had both recently turned 60, we had talked many times about gradually reducing certain activities that were no longer our passion, but like many, we had pushed it off for another day. The car accident greatly accelerated and clarified our plan for simplifying our lives.

First came our house and the property we were on. We loved it and the memories we had raising our family in it but it was now too big, too old, and had an unused swimming pool. It was amazing once we opened our hearts to moving we quickly found the right house in the right location to fit our current needs. Now, as you know, the hardest part of a move is cleaning and sorting through all the "stuff." But we were totally committed to simplifying our lives as we threw out and gave away a ton of stuff. What a wonderful and liberating experience. Dedicated to the process, we priced our home right and sold it within 29 days. Talk about the value of simplification…priceless!

Next, we took a good hard look at our schedules to determine where we were spending our time. We loved being involved in many things and organizations in our community but it was time to slow down a little and enjoy the journey more. So over the next several months, we gradually de-committed to several of our ongoing activities with the goal of having more restful time together and with our family and friends. Man, does that feel good. We also realized that one of the things that goes along with a busy schedule is the mental time spent preparing before you even go to the activity. We now have really set ourselves up with gaps in our schedule and, as it turns out, the timing could not have come at a more opportune time. Our first grandchild was born in July and he now has grandparents with a lot more time… and some energy!

Finally, I chose to simplify my business life. Nothing has been more rewarding than to be involved in many roles with TCI as it has grown. I have absolutely loved it. But the car crash made me realize that it was now time for the next generation of management and advisors to take front and center. That allows me to focus 100% of my time on how I started and how I would like to end… full-time advisor to my clients along with teaching investing and personal finance to younger and smaller investors through the TCI Foundation. Focusing there really energizes me and will likely allow me to work for a long time.

So, this fixing of house, schedule and business role has really simplified and clarified things for Lisa and I going forward. I talk to many of you all the time who wish they had the energy to simplify their life. All I can tell you is whatever it takes to get it done, you will love it. Don't wait for a drunk driver to hit you to spur you into action!

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*Bob Swift is an Advisor and Shareholder in the Tucson office. Bob is a co-founder of TCI Wealth Advisors and founder of the TCI Foundation.*

# End of the Year TAX TIPS

*by Doug Nelson, CPA, PFS*

- If you receive 1099s, consider delaying filing your return until early April because you will likely receive amended forms.
- Donate appreciated assets to charities instead of cash.
- Consider establishing a donor advised fund for charitable contributions if you can use the deduction this year but don't know where you want all the contributions to go.
- Review your income tax withholding on your paycheck and bonuses to make sure you have enough withheld.
- Check for the applicability of the Net Investment Income Tax to your particular situation.
- If you can, fully fund your company retirement, IRA and Roth IRA accounts.
- Consider a Spousal IRA contribution.
- Review your current income tax situation for potential capital gain and loss harvesting.
- Make sure you have health insurance or you may be subject to penalties under the Patient Protection and Affordable Care Act.
- Be aware of the Alternative Minimum Tax as it applies to your situation.

Consult with your Advisor and CPA should you have any questions about your specific situation.

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*Doug Nelson, CPA, PFS is an Advisor and Shareholder in our Santa Fe office.*

## TCI CLIENT PORTAL TUTORIAL WEBINAR – October 29th

**3:00 p.m. MST/PDT** (Arizona/West Coast) /
**4:00 p.m. MDT** (Colorado/New Mexico)

This webinar is being held to help clients use our Client Portal. The tutorial will cover logging in, navigating the site, accessing documents and reports and how to customize it. If you did not receive the email to register, please call 877-733-1859 to register.

## Save the Date
## TCI WEBINAR – November 11th

**3:00 p.m. MST/PDT** (Arizona/West Coast) /
**4:00 p.m. MDT** (Colorado/New Mexico)

TCI webinars are open to all clients and colleagues interested in receiving more in-depth information about the economy, as well as 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.

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## HOLIDAY office closures

TCI offices will be closed the following dates for the Holidays:

**Thursday, November 26th – Friday, November 27th   Thursday, December 24th – Friday, December 25th**
**Thursday, December 31st (at 2 p.m.) – Friday, January 1st**

*Please advise TCI as soon as possible of any end of the year business or transactions that need to take place.*

**TCI WEALTH ADVISORS, INC.**

25 YEARS 1990 - 2015

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**FOCUS** — *Confidence through Education*



**TCI NEWS**

# Life Strategy Conference

Maximizing the amount of happiness and fulfillment you experience in your life is a noble endeavor. Determining the levers that have the most meaningful impact towards reaching this objective, however, can be very challenging. So, to better assist people along this path, which we view as an increasingly important part of the work we do with clients, TCI is hosting our first annual Life Strategy Conference in Santa Monica on November 17, 2015.

The primary goal of the conference is to help attendees make a more conscious connection between the way they understand their happiness and the way they think about their money. It is a full day of top-notch speakers covering a wide range of topics including the science of happiness, how to build a financial plan that truly reflects your values and vision, and the relationship between our brain and our money.

Dr. Sonja Lyubomirsky, a renowned expert in the field of positive psychology, is the keynote speaker sharing "Why Should We Care About Happiness, and What Can We Do To Maximize It?". We will also delve into the world of brain science with Dr. Jay Kumar, who will answer the question "How Do Our Brains Understand Money, and What Can We Do About It?".

We look forward to more events like this in Santa Monica and our other offices. To learn more about the conference and to view a full agenda, visit **www.lifestrategybytci.com/2015-life-strategy-conference/**

LIFE STRATEGY by TCI WEALTH ADVISORS