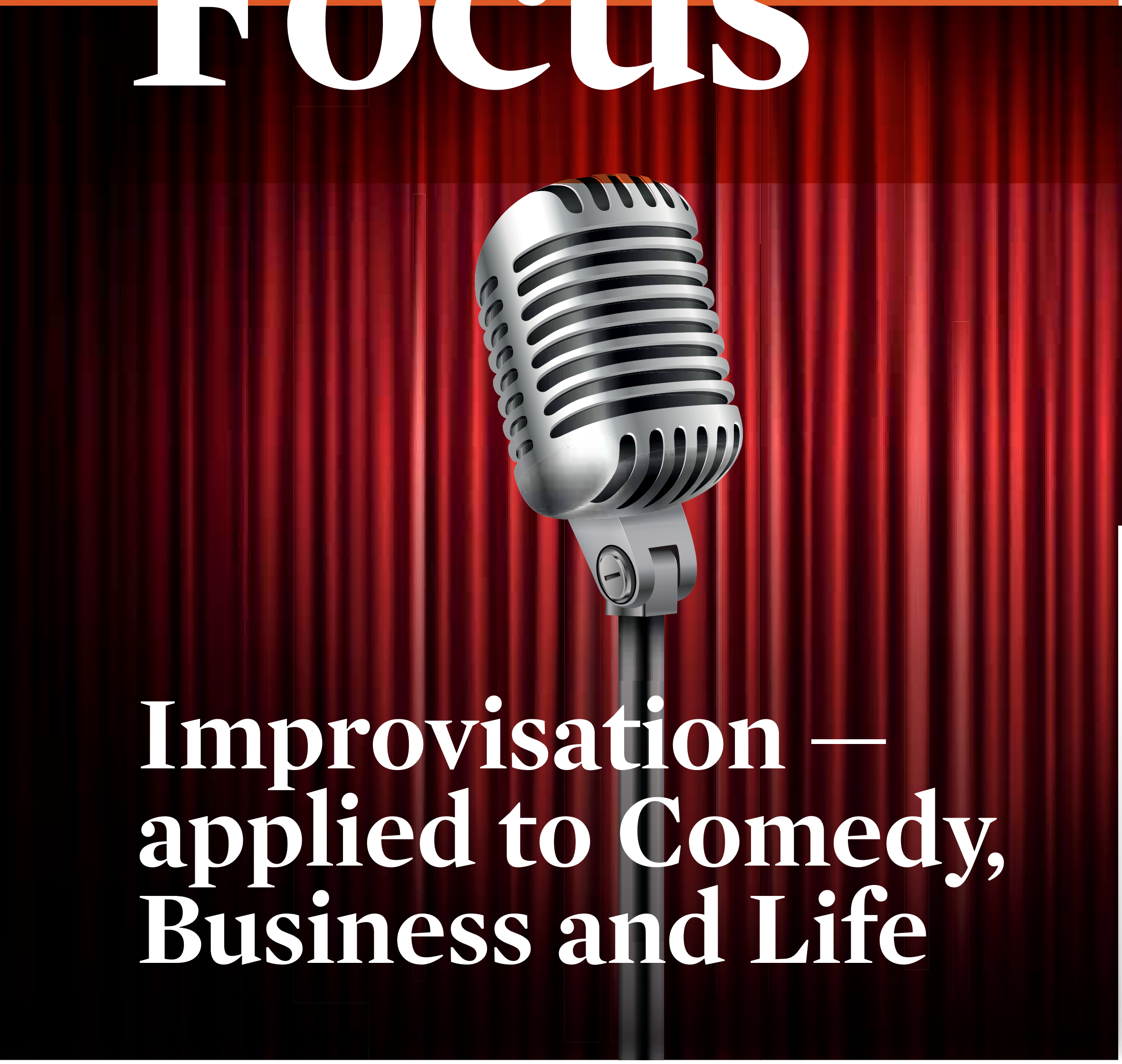
Confidence through Education

Focus

TCI WEALTH ADVISORS



Improvisation — applied to Comedy, Business and Life

TCI's Marc Campbell applies his experience in Improv Comedy to create a valuable perspective on life, business and finances. Read more on page 6.

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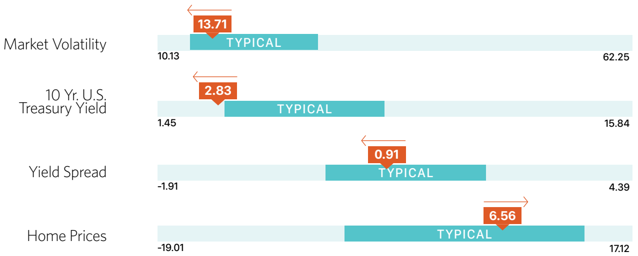

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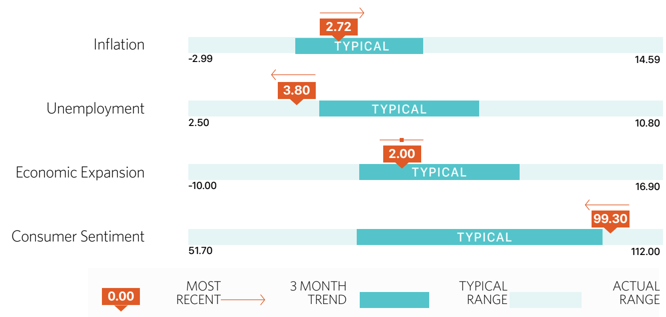


A Portfolio's Foundation

by Sam Swift, CFA, CFP®, AIF®

We have spent a good amount of time in past newsletters discussing how TCI arrives at the actual funds used in portfolios, but there is an equally important part of portfolio construction that happens prior: asset allocation.

Asset allocation helps define what makes an asset class in the first place. Simply put, an asset class is defined as a group of securities that have similar behavioral characteristics—stocks and bonds are the two largest groups that come to mind. A more nuanced look, however, reveals that those larger asset classes have smaller subsets within them. Academic evidence has shown us that stocks behave differently depending on their size, relative value, profitability, and in which country they are domiciled. Bonds behave differently depending on their time to maturity, credit quality, and whether or not a corporation or government is issuing them.

When considering portfolio construction we need to add an important qualifier to our simple definition: an asset class is both a group of securities that have similar behavioral characteristics to one another **and lack correlation to other asset classes.**

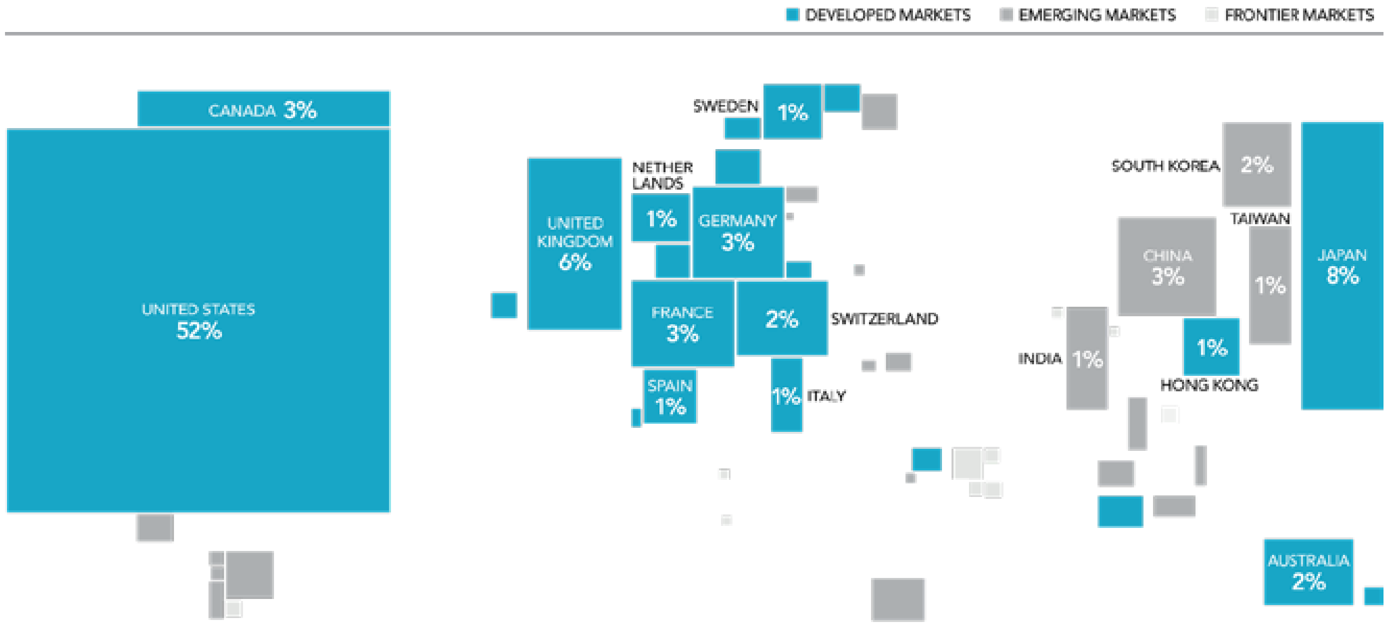
You have probably heard the phrase, "There's no such thing as a free lunch". It is not 100% true. Diversification amongst different asset classes actually does provide us a "free lunch". Take international stocks versus U.S. stocks, for example. Figure 1 below shows measures of the return and risk (standard deviation) from 1970-2017.

Why even bother adding international stocks with their relatively lower return and higher risk? Well, because they behave differently we can actually produce a portfolio that has higher return and lower risk relative to either of the individual asset classes on their own. Diversification is a free lunch! When TCI determines the asset class mix for our

Figure 1. Risk and Performance, 1970-2017

Portfolio	Return	Standard Deviation
100% U.S. Stocks	10.48%	15.04%
100% International Stocks	9.50%	16.82%
Combination (60% U.S./40% International)	10.34%	14.34%

Figure 2. World Market Capitalization



portfolios, the goal is to either raise expected returns without raising risk or reduce risk without lowering expected returns.

Given that we believe markets to be efficient—that is, investors allocate their dollars across the world in proportion to where there are opportunities—then a good starting point is the world market itself.

Figure 2 is a map of the world scaled to the size of each country's market as of the end of 2017. The U.S. makes up about half of the world's investable stock markets. Other developed markets around the globe make up around 35% and emerging markets (countries like China and India who have less market stability due to political or other circumstances) make up the rest. This is the "market portfolio" and if we are going to deviate significantly from these percentages there needs to be a good reason.

At TCI, our target allocations come very close to the "market portfolio" as far as the international to U.S. mix is concerned. There is no evidence that the U.S. has higher expected returns than any other developed country. There is evidence, however, that asset classes within these larger groups have higher expected returns. Specifically, small stocks have been shown to outperform large stocks, value stocks have been shown to outperform growth stocks, and stocks with high profitability outperform those with low profitability. TCI's portfolios tilt towards the groups with higher expected returns over time without losing the shorter-term diversification benefits of owning everything.

To be clear, we do not believe we (nor anyone) can know the exact optimal mix of a portfolio for the next twenty years. Historical data is probably one of the better guesses as to the future, but small changes to correlation, risk, or return can make massive differences in target allocations

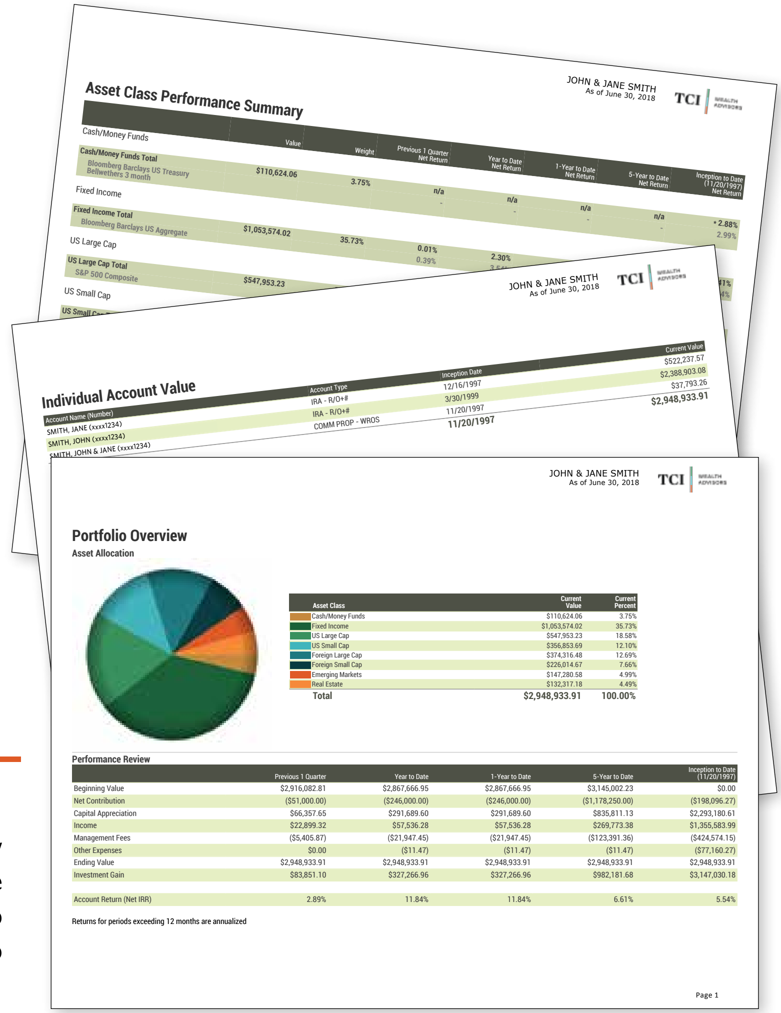
which render the exercise useless. The goal is to use the evidence we have to position a portfolio such that it has the greatest chance of meeting your goals going forward.

Sam Swift, CFA, CFP®, AIF® is an Advisor in our Tucson office and Shareholder for TCI Wealth Advisors. Sam also leads TCI's Investment Committee which conducts on-going research and analysis that guides portfolio construction for TCI clients.

How to Read Your TCI Performance Reports

... and actually understand them.

by Lea Brown, FPQP™



Even if you are a long-time client you may wonder how to decipher the information in your quarterly performance reports. There are a lot of numbers and jargon that go into a portfolio performance report so here is a handy guide to help you better understand your report.

- **Net Contribution**: The amount you have put in through the various time periods, minus withdrawals.
- **Capital Appreciation**: The change in value of your portfolio positions due to market fluctuation.
- **Income**: Your dividends and fixed income distributions.
- **Management Fees**: The fees you paid to TCI.
- **Other Expenses**: Miscellaneous expenses such as wire fees.
- **Investment Gain**: The sum of capital appreciation plus income minus fees and expenses.
- **Account Return**: Your overall return net of management fees and expenses displayed as a percentage.

It is important to be aware of your investments and periodically review them but do not over react to short term volatility in the markets. It is about time in the market, not market timing. The idea is not to constantly analyze your reports. The goal is to check in on your investments regularly but not get caught up in the highs and lows of the market when it comes to long-term investing.

Lea Brown, FPQP™ is an Associate in our Scottsdale office.

Reminder —

OFFICE CLOSURES

TCI offices will be closed the following dates:

Monday, July 23rd-Tuesday, July 24th *for an all employee training and retreat.*

Monday, September 3rd *in observance of Labor Day.*

Prescription for Less Stress: Simplify Your Life

by Sam Van Denburgh, CFP®

At TCI, our vision is to empower purpose-filled lives. Not only do we strive to do this for our clients, but also our employees. We recently invited Courtney Carver, author of *Soulful Simplicity*, to speak to our female team members about being more with less. We embrace our role in the industry and the opportunity to empower women and influence new norms in a historically male dominated industry.

Courtney's mantra is to simplify your life so you can be happier, healthier and more present in your day-to-day life. Sounds great doesn't it? More often than not we spend our time doing things that do not align with the things that actually matter to us. The lives we create for ourselves do not match the lives we want. So why not do something about it? As Courtney highlighted in her presentation, here are some ways to get started:

1. Create a meaningful morning routine. Consider waking up early so you can have time to yourself before the morning chaos begins. This can be your time to enjoy a cup of coffee, meditate, read, write or do anything you always want to do but never have time for in your day.

2. Dress with less. You can reduce stress by simply removing items from your wardrobe. We may not realize it, but clothes emotionally get the best of us when something doesn't fit or when you stare at the sale tags still hanging on an item you have never worn. Consider Project 333, a minimalist fashion challenge where you dress with 33 items or less for 3 months.

3. Unplug. We are hyper connected to our phones, constantly checking emails, social media, text messages and technology in general. Consider creating dedicated pockets in your day to check your phone or emails. Think even bigger and take a digital sabbatical for the chunk of a day or even better, an entire day.

4. Declutter. Clutter attracts clutter and calm attracts calm. Start by discarding the duplicates of items in your home and start thinking about why you are saving what you are saving. Decluttering also applies to your mind and your digital life. Do you really need to keep every picture of your dog sunbathing?

5. Say no. We frequently say yes and commit ourselves to various activities in our life out of guilt or to make other people happy. But if your immediate response is not "hell yea," then you should probably say "no." You cannot control what is happening in the world, but you can control what is on your plate. Say no because you do not want to be so busy and you want to have time for the things that matter to you. Your time is valuable and so is your energy.

Simplifying your life is not going to happen overnight. It is all about small improvements. Hopefully, over time, you can start to see the benefits of a simpler, less stressful life. To learn more about Courtney Carver and her journey making room for what matters most, read her blog at bemorewithless.com.

Sam Van Denburgh, CFP® is a Support Advisor in our Scottsdale office.

ASPIRE is a program offered by TCI Wealth Advisors that provides young professionals access to sound financial planning and education to plan for long term financial success.

"Yes, and..."

What Improv Comedy Taught Me About Business and Life.

by Marc Campbell, CFP®, MBA

Gathered around the small, scuffed stage was an audience of about 75, New Yorkers all. A late-night downtown crowd, it looked like a sleek and sophisticated pack of jackals, ravenous for a laugh. Not just a chuckle or a guffaw, but some side-splitting bang-on-the-table hilarity. A tough crowd? Yes, all the battle-scarred veterans of comedy backstage with me agreed, New Yorkers are the toughest.

A button-down young banker by day and an aspiring comedian by night, I was waiting in the wings that night at the Upright Citizens Brigade Theater, trying to calm my nerves before jumping on stage. Back in the late 1990s, we were testing the limits of improv, a kind of comedy that was new to New York City. We didn't know it at the time, but improv would prove to be wildly popular with audiences. Like jazz, it was an art form that was all-American and New York was an epicenter along with Chicago. In time, Upright Citizens Brigade Theater, a former burlesque club, would become a legendary improv stage.

Improv isn't the practiced schtick of stand-up comedy. Nor is it funny scripted sketches like Saturday Night Live. Improv is a form of comedy that is created spontaneously onstage by a group of comedians, typically based on suggestions solicited from the audience. Like jazz, it is unscripted and unpredictable. It's a high-wire performance without a net. For an introvert like me, improv was the supreme challenge: raw, feverish, witty, playful. I loved it.

I never made improv my day job, but I got some laughs in New York City, and later in LA, where I was a founder and co-owner of a comedy club for more than a decade. Still, the wisdom of improv has proven invaluable to me as a financial advisor and especially in applying the principles of TCI's Life Strategy Equation.

Life Strategy? What exactly is that? The Life Strategy Equation is a kind of map that when followed over time will assist clients on their journey toward a happier and more purpose-filled life. At TCI our goal it is to help clients take the time to develop a robust set of priorities that align with their values. Thus,

Life Strategy = Clear Priorities + Efficient Resource Allocation

As a student of improv, I learned the first and most important maxim of the craft: "Yes, and..." No matter what kind of crazy concept our fellow cast members lobbed at us on stage – "I'm in a submarine!" – our response was to hear the idea, accept it, support it, and then build on it. "I'm a little nervous being on your submarine because I can't swim." Catching an idea in mid-air on stage requires not only the ability to listen intensely but also a willingness to weave it into an entertaining narrative. Done well, improv creates a kind of electricity on stage. Like jazz, it's always a one-of-a-kind performance, impossible to replicate.

As it turns out, "Yes, and…," is a very powerful tool for communicating and collaborating with clients. "No, but…" is a torpedo that shuts down communication and blocks ideas. "Yes, and…" is the antidote. It is open and affirming, and it softens the conversation to allow for creativity.

Client: "I want to retire early and travel the world, flying first class and staying at five-star resorts!"

Advisor: "Yes! And here's how we can craft a financial plan that'll help you make that happen while also protecting your assets for a long and comfortable retirement."

As financial advisors, our role is to encourage our clients to get all their hopes and dreams out on the table. Then, we sift through them together, set some priorities and create a roadmap. Like improv, this can be a messy and intimate process. Clients need to come to terms with not only the realities of their resources but also the wants and needs of spouses, children and other important people in their lives. There's a kind of magic in this collaboration. Unlike improv, it isn't a one-time event but rather the beginning of a long conversation that deepens over time.

On that bare stage, we were keenly aware of the limits of our resources: no costumes, no props, no script, no rehearsals. All we had was our wit and our imaginations. That, and our sheer joy in performing, knit us together. From those limited resources we managed to spin imaginary gold, night after night. Similarly, resource management is a critical part of the Life Strategy Equation. We're talking about money, time and energy. With our clients, we want to make sure we have an honest understanding of all resources.

Many clients begin the process of crafting a plan overly focused on money. Our job is to widen the scope.

Time is arguably the most precious resource of all; it is the sand in the hourglass, once spent, gone forever. Energy, too, may be limited. So financial management is best thought of as one long act of improvisation; flexible enough to absorb life's unexpected detours and opportunities without going off the rails.

The Upright Citizens Brigade Theater was a cornerstone of the improv boom and I was fortunate to be one of its first students. Of all the lessons I learned there, one of the most memorable was taught by the talented Amy Poehler, an alumna of Saturday Night Live and star of the hit sitcom Parks and Recreation.

Just before going on stage, Amy urged us to stand in front of each person in our troupe, look deep into his or her eyes and say with sincere conviction, "I've got your back." Over and over in those tense moments backstage, we reassured each other – and it changed everything. Together, we admitted our vulnerability and harnessed its power. Building that trust in each other was the key to everything. It gave us the freedom and the courage to be boldly creative. Setbacks and snafus on stage weren't as terrifying anymore. Someone, we knew, would think of something.

That's what I like to think makes us very special at TCI. Our clients know: we've got their backs. There's also an extraordinary spirit of collegiality and collaboration among advisors and support staff at TCI. That is, we've got each others' backs. That's what enables us to provide you, our clients, with the trustworthy advice and exemplary service you can count on year after year for generations to come.

Marc Campbell, CFP®, MBA, is an Advisor in our Santa Monica office and Shareholder for TCI Wealth Advisors.

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DISCLOSURE

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CYBERSECURITY CONNECT

Fraudulent Emails

In June we notified all of our clients of a new wave of phishing attempts with fraudulent emails that appeared to be from Charles Schwab. It was a generic phishing attempt and not specific to TCI. There were several variations, but the most common email references E-payment and security notices. The emails typically contained a link to a legitimate-looking Schwab website and prompted the recipient to provide credentials and other personal information. Charles Schwab, nor any partners we work with, would ever ask clients to provide confidential information by email.

This phishing attempt is an essential reminder of the importance of maintaining a heightened awareness and sensitivity around online activity.

What to do if you receive a fraudulent financial email:

1. NEVER click on any links within the email or provide any personal information.
2. Delete the email immediately and let your Advisor know that you received it.
3. If you are suspicious or unsure if an email is fraudulent, call the company from the number you have on file for them, NOT a phone number provided in an email.