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Focus

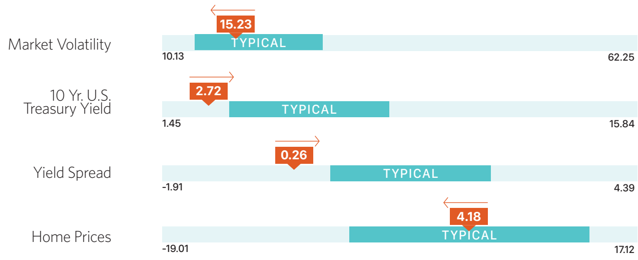
TCI WEALTH ADVISORS

Blood, Sweat and Gears

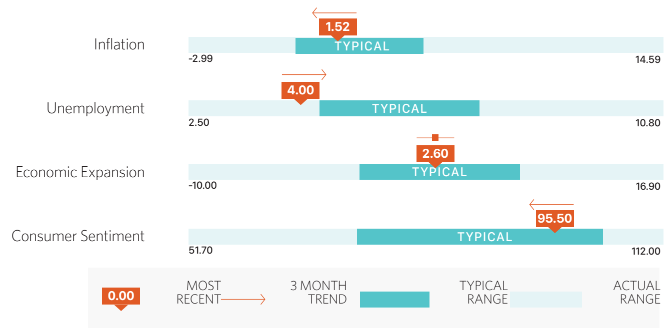
TCI's Justin Thomas applies his experience in Cyclocross to create a valuable perspective on today's fast and turbulent market. Read more on page 4.

SPRING 2019

MARKET SNAPSHOT



ECONOMIC SNAPSHOT



2018 Market Review

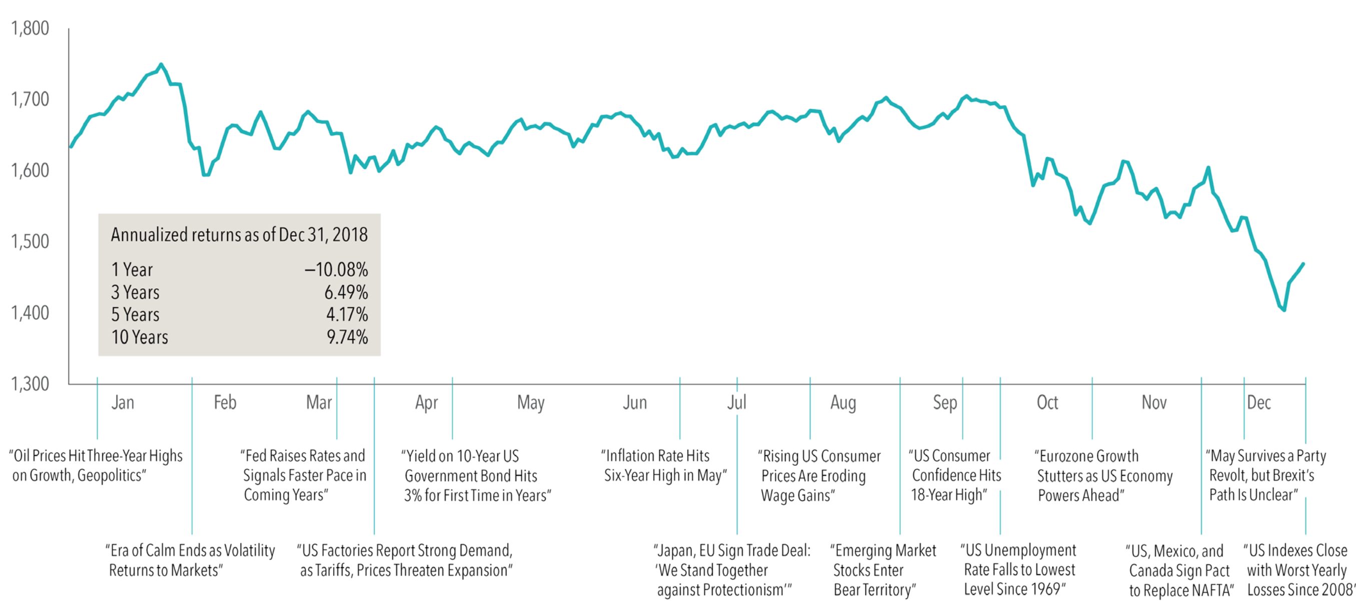
by Sam Swift, CFA, CFP®, AIF®

The fourth quarter of 2018 saw significantly negative returns for the first time in a long while. In turn, given that market returns were roughly flat prior to the fourth quarter, 2018 ended up being one of the worst years for various stock market returns since the Great Recession as the MSCI All Country World Index ended down nearly 10%. (Figure 1)

This is all completely normal given the short-term "random walk" of markets, but it begs the question of whether there is any action that one should be taking with their investments.

We think the increased market volatility in the fourth quarter of 2018 actually underscores the importance of following an investment approach based on diversification and discipline rather than prediction and timing. For investors to successfully predict markets, they must forecast future events more accurately than all other market participants and predict how other market participants will react to their forecasted events.

Figure 1 World Stock Market Performance — *MSCI All Country World Index (IMI) with selected headlines from 2018*



Source: MSCI. Past performance is not a guarantee of future results. In US dollars, net dividends. Index is not available for direct investment. Performance does not reflect the expenses associated with management of an actual portfolio.

Figure 2 Average Compound Returns for Stocks in a Following 12-Month Period

Market Decline Cutoff	US Large Caps	Non-US Developed Markets Large Caps	Emerging Markets Large Caps
10%	11.25%	11.18%	13.51%
20%	11.61%	14.44%	21.52%
30%	14.31%	19.07%	30.05%

Past performance is not a guarantee of future results. Declines are defined as points in time, measured monthly, when the market's return since the prior market maximum has declined by at least 10%, 20%, or 30%, depending on the cutoff. Declines after December 2017 are not included, but subsequent 12-month returns can include 2018 returns. Compound returns are computed for the 12 months after each decline observed and averaged across all declines for the cutoff. US Large Cap is the S&P 500 Index, from January 1926 through December 2018, provided by Standard & Poor's Index Services Group. Non-US Developed Markets Large Cap is the MSCI World ex USA Index (gross div.), from January 1970 through December 2018. Emerging Markets Large Cap is the MSCI Emerging Markets Index (gross div.) from January 1988 through December 2018. MSCI data © MSCI 2019, all rights reserved.

There is little evidence suggesting that either of these objectives can be accomplished on a consistent basis. Instead of attempting to outguess market prices, investors should take comfort that market prices quickly incorporate relevant information and that information will be reflected in expected returns.

Figure 2 shows the performance of markets subsequent to declines of 10%, 20% and 30%.

For each decline threshold, returns are shown for US Large Cap, Non-US Developed Markets Large Cap, and Emerging Markets Large Cap Stocks in the following 12-month period. While declines in equity markets may cause investor concern, the data provides evidence that markets generally have positive returns after a decline.

It is in short periods like this where we have the greatest risk to our life savings and it has nothing to do with our investments themselves—it has to do with us being our own worst enemy! We've discussed this topic many times before, but we are conditioned to be loss-averse and panic in the face of red numbers on our statements. The financial industry has been of no help traditionally and has worked hard to exploit this fear in an effort to create more action and fees for themselves. As Figure 1 to the left shows, selling after a market drop is almost always a bad idea and, of course, there's no evidence that anyone consistently knows about a market drop beforehand in a way that is profitable. To paraphrase Warren Buffett, "Be fearful when others are greedy and be greedy when others are fearful."

I'm reminded of a study Fidelity conducted in-house on their accounts about five years ago. The accounts that had the best performance were owned by two groups:

1. Those who forgot they had an account at Fidelity and
2. Those that were dead!

By staying focused on a long-term, disciplined strategy and resisting the urge to react to market movements, we give ourselves the best odds to meet our goals and grow our life savings.

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.

Reminder —

OFFICE CLOSURES

TCI offices will be closed the following dates for Holidays:

Friday, April 19th
Monday, May 27th

Blood, Sweat and Gears:

Cyclocross is Fast and Turbulent, Just Like Today's Market

by Justin Thomas, CFP®

Shoulder to shoulder with eight of the most competitive athletes in the sport, I sat astride my bike at the starting line on a raw December day in Lexington, KY, waiting for the gunshot that would unleash this testosterone-fueled tornado. Behind me was a crush of eighty or so cyclists, waiting for the race to begin. I had qualified for a front-row spot in the race. That would be a critical advantage, allowing me to lead the pack and reduce the risk of crashing into other cyclists.

However my front-row perch had one disadvantage: the view.

I could see what lay ahead; and it was a mess. Two days of freezing rain had turned the course to mud. The hilly parts were slick as ice. Between those hills were ankle-deep swamps that threatened to suck the shoes off anyone who attempted to traverse them on foot. For a guy like me, more accustomed to cycling on the hard-packed dirt trails of the high desert near my hometown of Reno, Nevada, this race would test the limits of my strength and endurance.

Of course, that pretty much sums up every race in the maniacal sport of cyclocross (or 'cross as it's called by aficionados). Racers barrel full-throttle through tight, twisting trails on courses that feature obstacles such as stairs, sand traps and barricades. That means every few minutes or so the cyclist has to leap off the bike, hoist it up on one shoulder and sprint or jump over objects, then quickly remount and resume racing. Crashes are common. All in all, these races are a strange but thrilling show. They attract all kinds of insanely competitive athletes.

Competition isn't a full-time job for me anymore. When I was in my 20s, I was a professional triathlete and a nationally ranked mountain biker. While I love the adrenaline of racing, I wanted to have a greater impact. I've been a financial advisor with TCI in Reno since 2010, but in my off-

hours I've gotten hooked on cyclocross and the disciplined training it requires. I'm usually on the bike before sunrise, six days a week. My 90-minute workout gives me the opportunity to reflect on the sport and my profession. I've come to realize that my life in sports also holds invaluable lessons about investing and managing money.

All successful athletes need to set goals and devise a detailed training plan if they hope to compete at a high level. For me to qualify for my first Nationals, I followed an aggressive program that included 15 races in 17 weeks (I came in fifth that year). I appreciate the discipline and focus that a training plan provides. When I'm not racing, I'm logging 30 miles on a stationary bike in my garage every day. Hooked up to the bike is a computer that monitors my progress throughout my daily workout, including speed, power, and heart rate.

As a financial advisor, I advise clients that they, too, need to identify clear goals for their financial future — both short-term and long-term — then together we craft a plan to help them achieve those dreams. At TCI, our financial plans are just as exquisitely detailed as the training plans of professional athletes. Typically, these plans outline the proper mix of assets for a secure retirement, the careful timing of withdrawals over time, the balancing of risk and opportunity in various classes of investment, and most importantly managing behavior. Following a financial plan provides the focus and discipline necessary to reach life goals.

Winning at 'cross isn't about brute force on the bike pedals. Speed alone won't earn you a trophy. The key to winning is strategy, finesse, and dedication. For instance, dismounting and mounting the bike quickly is critical. Even a second or two of fumbling to clip into the bike pedals can cost precious time in a race. So I practice until my technique is smoothly efficient.

Investing isn't about brute force or speed, either. Chasing hot stocks hoping for a big hit or dumping money into your brother-in-law's trendy new business shouldn't be the cornerstone of a solid financial plan. Managing financial assets efficiently is a slow and disciplined process. There isn't a lot of drama, and that's a good thing. Markets may jolt, but they won't derail a well-crafted plan.

Before a race, I survey the course. Last December in Lexington, I knew it would be a challenge. After two days of rain and a dozen races, the course had deteriorated. The trail was deeply rutted, icy in places, and pocked with gutters of mud. I'd have to sacrifice some speed for careful navigation. I'd be doing more running while carrying my bike, which if I was careless could injure my lower back.

That's what makes cyclocross so exciting, the extreme unpredictability. Racers compete in ferocious heat and blinding rain. Courses aren't groomed. More often than not, they're downright treacherous. In that respect, 'cross is a lot like investing. You must be prepared for the unexpected and embrace uncertainty. That's why a conservative and flexible financial plan is vital. As I do with my training, I monitor my clients' financial progress. Mid-race, if necessary, we can tweak the plan when there are changes in life circumstances.

One important thing to remember about sports: serious athletes are playing a long game. They don't fret over one off day of training or a disappointing result in a single event. What they care about is performance over the long run. Some athletes train for years following a program designed to help them achieve peak performance for an event a decade away.

That's how investors should approach their financial planning and retirement. It, too, is a long game. Yes, it's hard not to be triggered into panic these days by all the hand-wringing in the media about the breathtaking dips and spikes of the market. Volatility seems to be the new normal. Fear is infectious. It's difficult to quell your own anxieties when friends and family get swept up in the panic. In turbulent times like these, we caution clients against reacting impulsively. At TCI, we know that a well-structured financial plan has been built to withstand the unexpected and reward steadfast behavior.

The topic of behavior underscores another important factor in sports success. Serious athletes don't do it alone. They know good coaching is invaluable. In college, I had an excellent coach. Even from afar, he knew the subtle tells – a slight droop in my shoulders — that signaled I was struggling. Seeing that, he'd yell encouragement from the sidelines: "Run tall, Justin." His encouragement in that moment was enough to renew my resolve and boost my performance. Other coaches helped me develop a strict rule for racing — they told me, "Never look back, fearing someone might be gaining on you. Keep your eyes forward. Focus on the goal."

At TCI, I see my relationship with clients as a kind of financial coach. Once we've crafted a plan, I'm going to be watching carefully to make sure we're getting the results we expect. Part of my job is nurturing a trusting relationship with clients. When I see the subtle signs that they're facing challenges, I try to provide the encouragement they need to stay the course.

Being a financial advisor isn't just about the numbers, just as in sports it isn't just about the race time. Money has a powerful emotional component. Sometimes, my job is to allay fears and restore confidence after a financial stumble. Sometimes, it is about holding a client accountable to the plan. In sports, a good coach will press an athlete for consistent workouts, good nutrition, and proper sleep. As a financial advisor, I press for good saving habits and appropriate spending. These days especially, my job is to help clients keep their eyes on the goal, blocking out the noxious chatter and noise on the sidelines.

In cyclocross, the serious racers typically have a pit crew standing by to assist them. Mud can clog gears or blind a cyclist; crashes can damage a bike. Pit crews are prepared to handle any emergency quickly and efficiently. My clients understand that in working with me they also are getting a seasoned pit crew at TCI. Our team has the wisdom and collective experience that comes from managing wealth carefully and conservatively through the financial challenges of the last half-century.

One last bit of cyclocross wisdom: it's vital to find your balance on and off the bike. Tempting as it might be to log just a few more miles in a workout, overtraining can cause exhaustion or burnout or, worse yet, injury. All serious athletes have learned the importance of taking the time to rest and have fun with family or friends. In the same way, obsessive attention to your portfolio can cloud your judgement. That's our job. Yours is to enjoy the ride and embrace the journey.

Justin Thomas, CFP® is an Advisor in our Reno office and Shareholder for TCI Wealth Advisors.

529 may be the Top Choice *but what about a UTMA?*

by Vanessa Lee, CPA, MBA, CFP®

Over the past several years, 529 plans have become the top choice for college savings, and for good reason. In a 529 plan, money grows tax-deferred, parents (or grandparents) can retain control over the funds, and the beneficiary can be changed. These are among the top reasons why we most often recommend 529 plans to parents saving for college.

Before the arrival of the 529 plan in 1996, parents most often used UTMA accounts for college savings. A UTMA (or UGMA in some states) account is a custodial account set up under the rules of a state's Uniform Gift or Transfer to Minors Act. It is essentially a trust account managed by the parent until the child takes over the account at the age of majority, usually at age 18 or 21 depending on your state's rules. Unlike a 529 plan, UTMA funds can be used for any purpose, not just qualified college expenses.

In regard to college savings, there are three major differences between a 529 plan and a UTMA:

1. Who controls the account – A 529 account can remain under parental control, while a UTMA will transfer to the child at adulthood, usually either at age 18 or 21.

2. Taxation – A 529 grows tax-free and earnings are never taxed if used for qualified education expenses. In comparison, earnings in a UTMA account are taxed, first at the child's rate and then according to trust and estate tax rates after the first $2,100 in earnings.

3. Impact on financial aid calculation – If financial aid may be part of the equation for your family, also be aware that the two types of accounts are treated very differently in the calculation of the amount called the Expected Family Contribution. In that calculation, a 529 is treated as an asset of the parent, while the UTMA is an asset of the child. This means that in any given year, 20% of the UTMA but only 5.64% of the 529 account would be assumed to be available for use to fund college expenses. In other words, for the financial aid calculation, it is more advantageous to have funds in a 529 account.

So why use a UTMA at all? Unlike a 529 account which can only be used for tuition and room and board, UTMA funds can be used for any purpose. This could include college expenses that are NOT covered under 529 tax rules, like car repairs, travel, club dues or living expenses on a study abroad. My son recently used UTMA funds from an account set up by his great aunt to help finance a study abroad trip to Tbilisi, Georgia. Thank you, Auntie Sophia!

What if a relative has already established a UTMA for your child? Should you roll over a UTMA to a 529? While a converted 529 will have tax-free growth, some of the other advantages of a 529 plan do not apply if the funds originated from a UTMA account. The beneficiary can never be changed to another child and, most importantly, the beneficiary will still get control at a certain age, either 18 or 21 depending on your state.

We will almost always steer you toward a 529 plan as the best way to save for your child's education. However, if you already have a UTMA established, or if you're considering setting additional funds aside for your child that can be used for a down payment on a house or to start a business, a UTMA account can be a good solution. Helping your child with that down payment might just be your reward – avoiding the "boomerang" of your college graduate moving back in with mom and dad!

Vanessa Lee, CPA, MBA, CFP®, is an Associate Advisor in our Scottsdale office.

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CYBERSECURITY CONNECT

Improve Your Security Profile

by Art Tellez

In today's high-tech world, most of us have accepted the risks associated with online activity. Unfortunately, the convenience of being able to check a balance, shop, look up a college roommate or reserve a hotel room comes with a price that many of us have become too comfortable with — the potential compromise of our personal information.

One of the most common tactics used by cybercriminals is phishing — the fraudulent attempt to obtain sensitive information such as usernames, passwords, and credit card details by disguising oneself as a trustworthy entity in an electronic communication. Phishing has become an effective method for acquiring information which then allows the cybercriminal to access email, bank accounts and other internet sites you may visit.

At TCI, we realize cybersecurity is part of the daily cost of doing business and have taken steps to increase employee awareness in addition to the many technological precautions already utilized in our workplace. TCI's team is trained to combat cybercriminals and we would like to extend to our clients a version of that same training. KnowBe4 (www.knowbe4.com) is a leader in cybersecurity awareness training and provides easy to understand instruction to help improve your security profile.

A 15 minute online course is available in your client portal for your benefit. Simply log in, and on the home page scroll to the right of the reports list and click <u>Phishing Training</u> to get started.

TCI will also begin including a cybersecurity review in client meetings to provide you with insight into tools and information you can use to securely navigate your online activities.

Art Tellez is the Chief Operating Officer and a Shareholder for TCI Wealth Advisors.