Confidence through Education

Focus

TCI WEALTH ADVISORS

More Is Better

Benefit from building and navigating a strong relationship with your financial advisor. Learn how on page 4.

SUMMER 2019

MARKET SNAPSHOT

	Most recent	Actual range low	Actual range high
Market Volatility	16.72	10.13	62.25
10 Yr. U.S. Treasury Yield	2.03	1.45	15.84
Yield Spread	-0.15	-1.91	4.39
Home Prices	2.68	-19.01	17.12

ECONOMIC SNAPSHOT

	Most recent	Actual range low	Actual range high
Inflation	1.80	-2.99	14.59
Unemployment	3.60	2.50	10.80
Economic Expansion	3.20	-10.00	16.90
Consumer Sentiment	97.90	51.70	112.00

0.00 MOST RECENT — 3 MONTH TREND — TYPICAL RANGE — ACTUAL RANGE

The Few and the Quick

by Sam Swift, CFA, CFP®, AIF®

Market returns are generated by a very small number of stocks in a very short window of time. Blink and you may miss it. Fortunately, there is an easy way to make sure the great engine of wealth generation does not pass you by.

We are in a key moment for investment management right now. The S&P 500, our most familiar proxy for the "market", has been the best performing asset class for a significant amount of time now. This is a good thing as it represents one of the larger pieces of our investment pie. However, because of the familiarity, it becomes tempting to wonder if diversification is even worth it. Why include unfamiliar pieces to the investment puzzle if they haven't even helped recently? There is also the question of whether or not we're at a "market high". Should we stay invested or "take profits off the table"?

We have to be careful that we don't allow recency bias to inform our investment decisions for the future. After all, past performance is not indicative of future results. Today it's been the S&P 500, but tomorrow it may be value, small, or international stocks. In fact, there are some jaw dropping numbers on the concentration of market returns that are worth exploring.

First, a very small number of stocks are responsible for most of the market return premium we see over long periods of time. In his paper "Do Stocks Outperform Treasury Bills?", Hendrik Bessembinder finds that only 4% of all stocks ever listed are responsible for the long-term outperformance of stocks over treasury bonds (what we refer to as the market premium). Four percent! Said another way, the other 96% of stocks would have failed to return more than treasuries as a group. One could certainly spin that as a reason to try and pick one of those top 4% of performers instead of diversifying amongst all stocks. Then again, do you really want to put your financial future in the hopes that the 1 in 25 chance will pay off? Of course, the evidence bears out that very few professional active

Figure 1 Market Returns

INDEX	TOTAL RETURN	AVERAGE RETURN OF BEST MONTHS
US Stocks (1,104 months)	10.1%	10.4% (92 months)
International Stocks (588 months)	9.1%	9.6% (49 months)
Emerging Stocks (372 months)	10.4%	12.5% (31 months)

Figure 2 Growth of Wealth

$1,000,000 INVESTED	**MARCH 2009**	**APRIL 2009**	**MAY 2009**	**JUNE 2009**
TOTAL DOLLARS *as of 4/30/19*	$4,081,100	$3,740,200	$3,251,300	$2,965,300
ANNUALIZED RETURN	14.84%	13.98%	12.51%	11.58%

managers can do so—less, in fact, than we would expect by random chance.

The good news is that there is a surefire way to own those 4% of stocks: own all of them! Those outperformers have been the high tide that lifts all boats, thus a diversified strategy of stocks across the world continues to be the best way to ensure we will capture long-term market premiums.

Second, positive stock market returns happen in very short bursts of time as industry columnist Larry Swedroe points out in a recent article titled "Unforseen Distribution of Stock Market Returns". Larry finds that across both the U.S. and International markets, about 8.3% of all months (1 out of every 12) are responsible for all of the market premium.

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. See Figure 1.

For a striking real world example of this, let's go back to the start of the recovery following the 2008 market crash and assume that we have $1,000,000 to invest. Figure 2 shows the returns we would have experienced through April of this year in an all-equity portfolio had we invested in different months.

That is a striking difference for each month that we weren't invested. In the real world, we saw people who had sold out and were unwilling to get back into the market until the "news looked better". Unfortunately, by the time the news looks better it's too late. Waiting 90 days would have resulted in a difference of 25% to one's net worth which is a major cut in a resource designed to help achieve purpose in life.

While it may be tempting to use concentrated market returns as a reason to concentrate your portfolio, it's actually great evidence to do just the opposite. Missing the best performing asset class or the best performing month in any year can be impossible to make up. But if you own everything at all times you will always capture the right returns at the right moment.

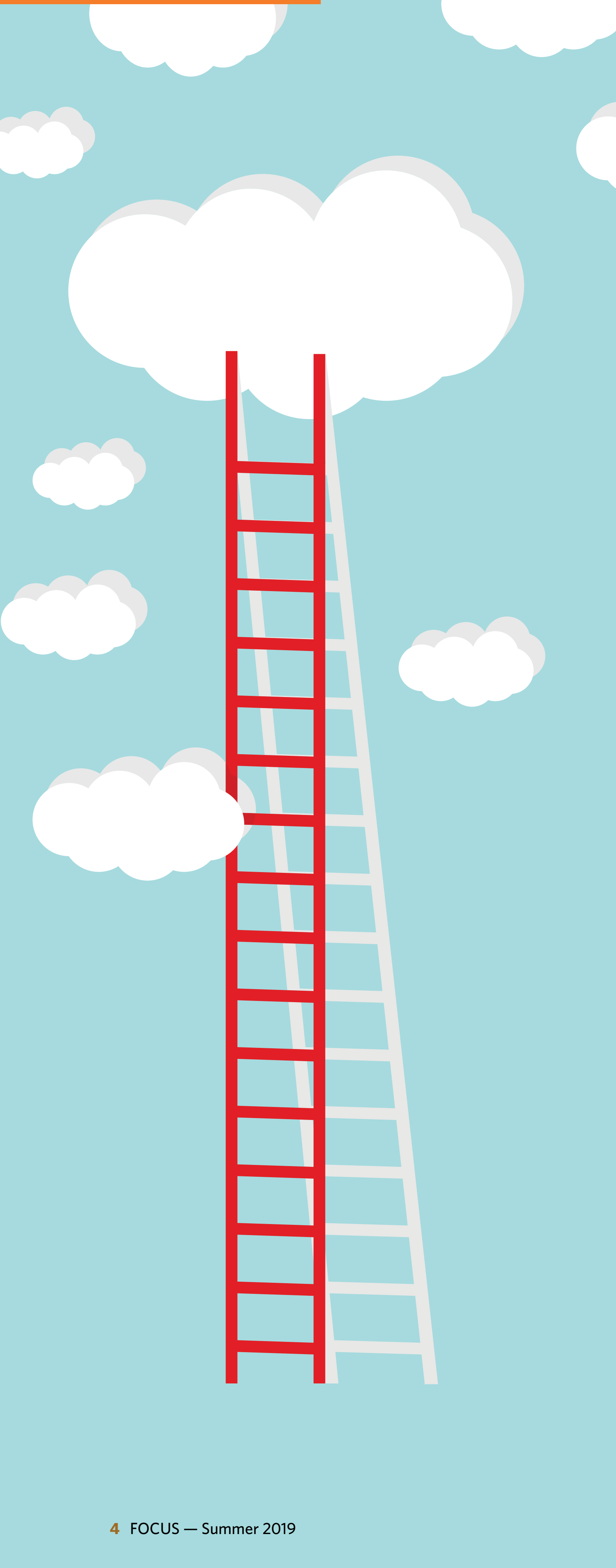
Sam Swift, CFA, CFP®, AIF®, is an Advisor in our Tucson office and Shareholder for TCI Wealth Advisors. Sam also leads TCI's Investment Committee which conducts on-going research and analysis that guides portfolio construction for TCI clients.

Reminder —

OFFICE CLOSURES

TCI offices will be closed the following date:

Monday, September 2nd in observance of Labor Day



More Is Better:

How and When to Talk to Your Financial Advisor

by Doug Nelson, CPA, PFS

Aside from your spouse and maybe your doctor, your relationship with your financial advisor will likely be one of the most important and intimate of your life. Or, at least, that's what it should be.

As a CPA and a financial advisor for nearly four decades, I've helped dozens of clients craft a financial plan that allows them to enjoy the life of their dreams. Every plan is a unique roadmap for their lives, and that's the way it should be. Don't confuse the map for the goal, though. My job – and the job of everyone at TCI – is to walk with you, map in hand, through your life's journey.

To do that successfully, you're going to need an open, honest and trusting relationship with your financial advisor. So here's my best advice on how to build and navigate that relationship:

First, be open. What are your dreams? That's one of my first questions as your financial advisor. No one is likely to have asked you that question with any sincerity since your high school graduation, and even then they mostly just wanted to know what you were planning on doing for a living. So it's okay if it takes you a while to warm up to the question. Take your time. Ponder the possibilities.

Eventually, the answers will bubble up from someplace deep inside. Maybe you want a quiet and modest life off the grid in Montana. Or maybe you want to howl into the wind as you climb the Seven Summits, the highest mountains on each of the seven continents. Or maybe you want to create a humanitarian legacy, say, a foundation to fight cancer or feed the hungry. No matter what you envision for your life now or when you leave the workaday world, you'll need a map to get there.

The more detailed the map, the easier it will be to navigate. We're not talking about making a living anymore, but rather making a rich and rewarding life. As your financial advisor, I want to hear everything from the frivolous to the more meaningful. Polka lessons? Private schools for the grandchildren? Fine by me. Let's get all the possibilities on the table first and then we'll look at the price tags.

What does money mean to you? That's another question to consider and it is an important part of the initial planning sessions at TCI. Your answers will be very telling. Does money mean security, freedom or legacy? Or maybe it is a combination of all three. Your answers may be very different from those of your spouse, and that's okay. Our goal is to create a plan that will meet both of your needs.

Secondly, be honest. Maybe you have a weakness for jumping into the latest hot stock. Or maybe you are finding it hard to resist the seductive curves of that new sailboat you saw at the boat show now that you've cut back your hours at the office. Your financial plan isn't going to be a straightjacket that strips all the fun out of your life. Instead, we're going to set aside a reasonable amount of play money so you can indulge some of those impulses without derailing your retirement. Flexibility is the key.

Several years ago, I got a call from a longtime client, a highly successful executive who had recently retired with a well-structured plan in place. "Doug," he announced. "I want to buy a ranch in Nevada." I was stunned. His retirement plan had no margin for the hundreds of thousands of dollars it would cost to buy and maintain a ranch. I tried gently to dissuade him, but he was insistent. "Come and spend some time there with me and my wife," he said. "You'll change your mind."

So I drove out to the ranch. I spent a couple of days with them, riding horses on dusty trails, crossing grassy meadows and sagebrush plains under a big bowl of blue sky. By the time I left, I'd changed my mind. I'd known my client for years. No golf game in my memory had ever given him the relaxed contentment that he'd gotten astride a sure-footed quarter horse. I realized the ranch didn't make financial sense, but it enhanced my client's quality of life immeasurably. Back in the office the following week, I worked through the numbers and crafted a new plan. If he and his wife were willing to make some sacrifices on other expenditures, their new plan would enable them to buy the ranch. Which they did, with great joy.

Your relationship with your financial advisor will require a kind of radical honesty about your life, your health, and your family. Life can be complicated. So, too, are our families. And things change over time. If you have concerns about a financially reckless or immature child, even if that child is 40, I want to know. If you have a family history of heart disease or early-onset Alzheimer's, I want to know that, too. These are difficult truths, but important to acknowledge and accommodate in your financial plan.

Our relationship is a no-judgement zone. I try to be equally open about my life, sharing some of the challenges I've faced over the years. Married at 20 while I was still in college, we were on such a tight budget that I was worriedly calculating the bill with every item we put in our cart on our weekly trip to the grocery store. I know what it means to count pennies, and I know how thrilling it is to enjoy an occasional splurge. As a young husband, mine was buying one bottle of craft beer at the grocery store. My wife got to pick out a magazine.

Over the years, I've learned that clients are pretty forthright about most issues, even the most sensitive family problems. Every now and then, though, I'm blindsided. The problem typically is hidden assets. And that's stressful for me because I know in vivid detail what few clients know: the penalties can be very high for hiding assets from an ex-spouse, a business partner or the IRS.

Years ago, I was having a beer with a client at his kitchen table. Bill was an immigrant who'd built a successful construction business over thirty years in the U.S. He was a dirty-boots kind of builder who disdained debt, sloppy work and fancy offices. Thus, the kitchen-table conference. We were reviewing his assets when he said, gruffly, "You know about the account in Switzerland, don't you?"

Continued on next page

I choked on my beer, mid-swallow. Money in Switzerland? As a CPA, I was aware of the U.S. government's ferocious crackdown on secret bank accounts. For decades, Americans could stash fortunes in certain foreign banks confident that their money was safe and hidden from the clutches of the IRS. Then, in 2008, the U.S. government went on the attack, suing banking giants in Switzerland, Israel, and the Caribbean, and winning. Scores of individuals paid dearly in the next few years for their secret stashes. Some went to jail; others lost half the value of the money hidden in their foreign account.

I could feel my chest tightening, looking at my client and his innocently trusting wife. "Bill," I said. "Times have changed. This could be a very big problem." He scoffed at my concern. I begged him to reconsider. Stubbornly, he refused. Finally, I demanded that he fire me. In writing. Two weeks passed before he conceded, and reported the money to the IRS. Under the government amnesty program, he paid a hefty penalty, but avoided jail.

Why Bill hid money from the IRS is no mystery, but hiding assets from me, his financial advisor, is dangerous. Some clients don't want to entrust all their assets to the care of a single wealth-management firm especially when new to the process. That's understandable, if impractical. Other clients don't want to admit to getting suckered into a bad deal by family or a frat buddy. But if there's a failing fro-yo shop for which you co-signed the lease with your ne'er-do-well brother-in-law, I need to know about it. Remember: TCI's aim is to create – and then tweak at every twist in the road – a financial plan that provides you with a sense of security and safety. Secrecy undermines our work. Secrecy increases the risk of a derailed retirement.

My third bit of advice is to ask the right questions. Almost every new client comes to the first meeting with the same query. What's TCI's historical rate of return on assets? That's the wrong question. Just as every plan is unique, so is every portfolio. Younger clients during peak earning years with years to go before retirement may be more heavily invested in stocks. In a bull market, their portfolios will shine; in a severe bear market, their portfolios will suffer. Older clients are likely to be invested more conservatively. Their upside is more modest, but so is the downside during periods of market fluctuation.

With so many portfolios that are designed and managed to meet the various needs of so many different clients, an average rate of return is irrelevant. What matters more is that you sleep well at night knowing your advisor is keeping a steadfast eye on your portfolio and your plan.

What are the important questions? For one, ask your financial advisor how he or she gets paid. At TCI, the answer is quite simple; you pay us a fee based on the size of your portfolio. We make no money from commissions, kickbacks, promotions or residuals. Unlike bankers, money managers or brokers, we do not make our money by selling you complicated things like annuities, individual muni bonds or limited partnerships. Ask questions, lots of questions: When I'm feeling anxious about the stock market is it okay to call you? After some health challenges, my wife (or husband) is fretting about the plan; can you walk us through it again so we feel more comfortable? The more communication between advisor and client the better. And all the answers should be plain and simple.

Like all relationships, the one you have with your financial advisor will take a while to develop. Trust is at the very core, and it is hard to earn. I know that and so does every advisor at TCI. So take your time. Ask all the questions you want. What are those dreams of yours? I really want to know.

Doug Nelson, CPA, PFS, is an Advisor in our Tucson office and Founder and Shareholder for TCI Wealth Advisors. Doug also chairs the TCI Board of Directors.

Protect Yourself
on Summer Vacation

by Art Tellez

With a title like that, I would be remiss if I didn't state the obvious — remember sunscreen when you are on the beach! With that common sense tip covered, we would like to share a few reminders to protect your information during the summer vacation season because thieves (identity or others) do not take vacations.

1. **Remember** to place a hold on your mail with the US Postal Service. There is nothing "techy" about this reminder, but it is important to note that mail theft is still a significant problem. If you have important documents, like bank or brokerage statements mailed to you, it is an inviting target.

2. **Be cautious** of public Wi-Fi. Many of us hate to be charged for extra data usage; however, that small cost may be worth it. When you log into public Wi-Fi, you potentially expose your data to others using the same open network. With the right tools, identity thieves see public Wi-Fi as an easy opportunity to access information as people do simple tasks like logging into their bank account to check balances.

3. **Wait** until after your vacation to tell everyone about it on social media. Thieves regularly review social media and if you are posting your vacation itinerary you may be giving thieves the information they need to know — times during which your home will be empty.

4. **Beware** of phone scams. Vacation is the opportunity to let our guard down... we all want to relax! Be aware of the calls you may receive. I recently read about a scam in which the thief pretends to be the front desk manager of the hotel asking their vacationing guest (victim) to provide their credit card information again because it did not register.

We hope these tips are helpful reminders and we wish you a relaxing summer.

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

TCI WEALTH ADVISORS

TCI Wealth Advisors
4011 E. Sunrise Dr.
Tucson, AZ 85718
877.733.1859
tciwealth.com

TUCSON | SCOTTSDALE | FLAGSTAFF | RENO / TAHOE | DENVER | SANTA MONICA

TCI NEWS

Celebrate Independence

As we celebrate our nation's independence, we also celebrate TCI's independence! Our independence is a core value and something that grounds all of our decisions as a firm. Independence means being owned by employees who are active in the firm, have a vested interest in empowering purpose-filled lives and fully living out our values in our actions and relationships. Independence ensures that we are always able to act as a fiduciary, putting our clients' interests first, thereby avoiding the conflicts of interest inherent with advisors offering proprietary products. As the financial industry continues to change, TCI celebrates our steadfast and uncompromising commitment to our clients and independence. Thank you for being part of our journey to demonstrate to the industry that unbiased fee-only financial advice should be the standard for all investors.