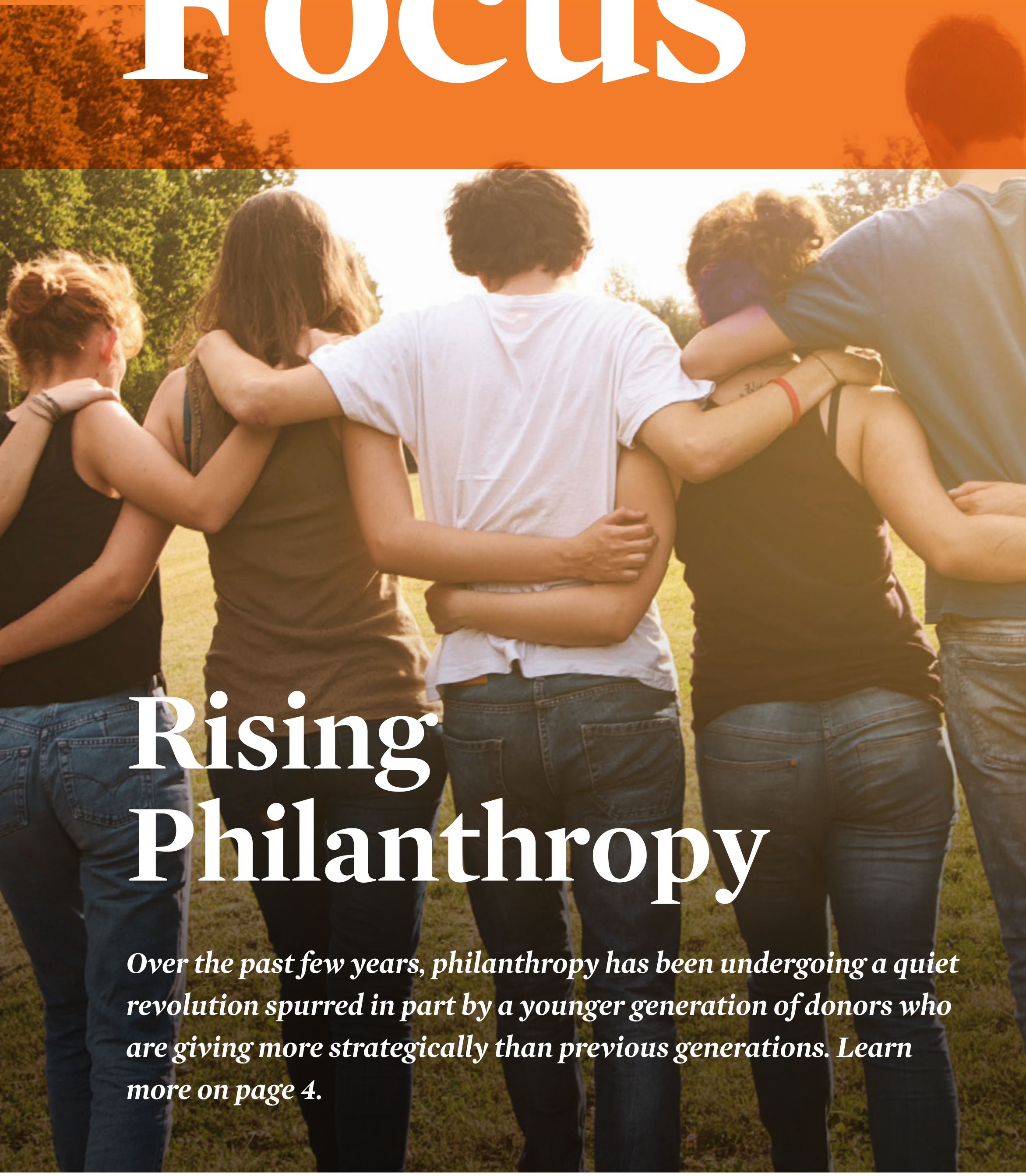
Confidence through Education

Focus

TCI WEALTH ADVISORS

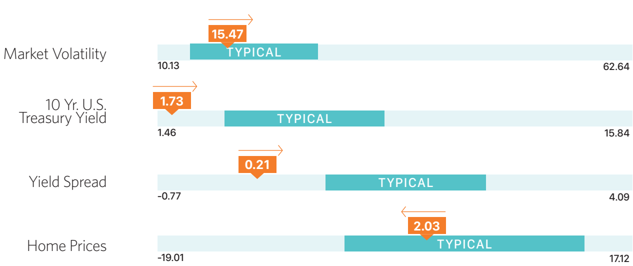


Rising Philanthropy

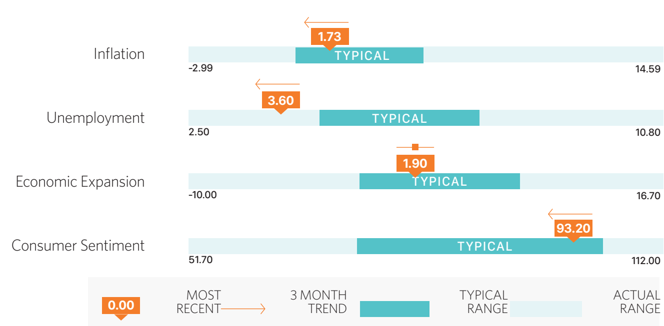
Over the past few years, philanthropy has been undergoing a quiet revolution spurred in part by a younger generation of donors who are giving more strategically than previous generations. Learn more on page 4.

FALL 2019

MARKET SNAPSHOT



ECONOMIC SNAPSHOT



Is Indexing Getting Too Big?

by Sam Swift, CFA, CFP®, AIF®

There has been a bit of press lately speculating about the potential pitfalls from the massive growth of index funds over the last several years. According to Morningstar, index funds actually held more assets than actively managed mutual funds for the first time in history as of August 31. This has led some to question the efficacy of markets if so many participants are sitting passively by, and it has led others, most notably Michael Burry of "The Big Short" fame, to warn of a "bubble". Let's address this in three parts.

At what point are "too many" people using index funds?

Evidence shows that markets are efficient. Millions of traders buy and sell stocks based on what they see as a fair price at any given moment. Remember the fundamental principle that if I sell a stock for $10 someone is also buying that stock for $10. Based on all the available information and our individual expectations, we came to an agreement on a fair price for that transaction.

The argument goes that as more people use blind indexing, markets will become less efficient. In other words, investors stop looking at the underlying fundamentals of individual stocks to determine at what price to buy or sell so prices become arbitrary.

I would argue that we do not need that many active investors to set fair prices. For an analogy, let's picture that we're having a garage sale. We put a $5 sticker on a dusty old painting that we didn't realize was a lost Picasso. If one art dealer walks into our garage sale and recognizes the painting for what it is, then she is going to be able to get a great deal. Though, what happens if two art dealers happen to walk in? Or three? Pretty soon the bidding war on that painting is going to get close to the true value (and we will have gotten very lucky that multiple art dealers stumbled into our garage sale).

Furthermore, if enough people were indexing such that there were actual profits to be made from active management then we would start to see evidence. Of course, year after year the majority of active managers continue to underperform the indices.

Can indexing really cause a "bubble"?

This is the question raised by Burry and the exception that I take is his comparison to 2008-2009. One of the huge issues in the last market crash was leverage in the mortgage market such that small errors in the underlying assumptions—some of the alleged "prime" rated loans actually wouldn't get paid back—led to a massive liquidity crisis. That is not what we are looking at with the vast majority of index funds.

Of course, markets will fall in value eventually. There are always bear markets somewhere on the horizon, but the evidence shows it is extremely difficult to time them properly and profit (think of the many headlines declaring a looming bear market over the last five years—the S&P 500 is up over 50% over that time). Whenever the next market downturn comes, indexing will not be the cause. A temporary loss in value—even a large one—is accounted for in a well thought out plan.

Am I indexing?

The short answer is no, not in the traditional sense. The very long answer is outside of the scope of this article, but essentially TCI looks for low-cost funds that provide direct exposure to the factors of long-term returns: the market premium, the small cap premium, the value stock premium, and the profitability premium. More importantly from a liquidity perspective, we favor funds that take a flexible trading approach. If there are significant market moves, the funds we use can be patient in their trading and likely even get some value out of being a provider of liquidity.

In TCI's view, the issues Burry and others have raised are overblown for the investing we do. The best proven long-term strategy is still to own a globally diversified basket of stocks and bonds that is mixed in a way to give you the best chance of achieving your goals and purpose.

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

Reminders—

OFFICE CLOSURES

TCI offices will be closed the following dates:

Thursday, November 28th – Friday, November 29th

Tuesday, December 24th – Wednesday, December 25th

Wednesday, January 1st

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

Giving with Warm Hands:
A Wise Perspective on Philanthropy

by Bob Swift

Americans have long been among the most financially generous people in the world, a virtue that has been very evident to me in the nearly three decades I've been working with clients as a financial advisor. Many of my clients have created big-hearted bequests in their wills in the hopes of using their wealth to make the world a better place after they are gone. I fully support their thoughtful generosity, but more often, I am asking them what seems to me an important question:

Why not give now?

My question may be unexpected, but it is not entirely a new idea. Over the past few years, philanthropy has been undergoing a quiet revolution spurred in part by a younger generation of donors who are giving away their fortunes more strategically than previous generations. One of the most important concepts to emerge from all this is known as "giving with warm hands".

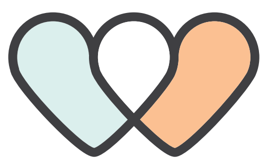
What exactly does that mean, warm hands? Essentially, it means giving money away now while you are living rather than waiting to make those gifts until after you've passed away. This new generation of donors is not interested in so-called "checkbook charity". That seems passive to them. They are determined to make a difference in the world they live in by distributing their wealth faster and more thoughtfully. In a way, they do not see it as giving; they see it as investing in a better future. They are also demanding more transparency, more accountability and real impact from the organizations they support.

As I see it, there are many benefits of giving now with warm hands. For one, you get to witness the immediate impact of your gift in bettering the lives of those in need or in promoting values that are important to you. Your gifts also mean you are still an active and vital participant in your community and beyond. Instead of complaining about the problems of our nation and the world, like many of us do, you get to change it — today. That's downright invigorating!

Consider the example of one of my longtime clients, an 86-year-old retiree who lives in Tucson, AZ. Here's how she tells the story of how she recently embraced a new philanthropic plan: "I don't have deep pockets, but I'm enjoying a comfortable retirement. I'm also a news junkie. I believe passionately in a free press and I think that good journalism has the power to save us from all sorts of dangers. In my will, I'd indicated that I wanted to donate money to certain programs and institutions including the University of Arizona School of Journalism."

"I was a little skeptical when you proposed that I make those gifts now," she told me. "But as soon as you showed me that I could afford to do that without endangering my financial security, I didn't hesitate a nanosecond. Right away, I established a scholarship for journalism students to travel so they can investigate in person what's really happening and keep us informed. Helping train young journalists is my way of ensuring that our nation's free press will last forever. That means a lot to me."

Another benefit of giving with warm hands is the ability to structure how your gift is used by the nonprofit organization or charity. Most enlightened groups will welcome and encourage your participation; they want you to see the impact of your dollars at work. After all, your joy and pride in giving can be infectious and inspire your family and friends to do the same.



That was the experience of another one of my clients, a couple in their 70s. After I approached them with the concept of giving while still living, they immediately made a significant gift to a program that provides teachers in their community with supplies for their classrooms. As former educators, they were worried because the school district, like many others across the nation, has had to cut budgets. As a result, teachers either have to do without essential supplies or use their own money to pay for them.

After donating the money for supplies, the husband exclaimed to me with obvious delight, "that was a lot more rewarding and fun than the river cruise we took last year." He continued chuckling, "I didn't have to get on a plane!"

Of course, giving while still living is a relatively new concept. Some clients take a while to warm up to the idea. Typically, their first concern is whether a program of accelerated donations will threaten their financial security especially if they live to a very old age or encounter serious health problems. The safest bet, to most of them, would be to wait to make bequests until after they have died.

As a trusted partner in prudent financial stewardship of their money, I would never suggest a program of making gifts if there was a possibility that giving generously now would derail a secure retirement later. Together, we work through their financial plan carefully. Using TCI's sophisticated programs, which weigh all the possible dangers including recession and market volatility, I can show a client their risk of running out of money is virtually nil. Once they see the numbers, they are always reassured.

That's typically the first hurdle to overcome, but there are others. Clients worry that their children or grandchildren might disapprove or resent them for giving away money that they may feel entitled to inherit. Rarely have I found that to be that the case, but those fears can be present.

Money—especially inherited family money—can be fraught with emotion and entitlement. Communication is the antidote. To allay my clients' concerns, I usually propose a family meeting. Parents have an opportunity to explain why an accelerated program of philanthropy is meaningful to them now. We'll also talk about the specific charities and causes they wish to support and why. More often than not, their children and grandchildren reassure their parents they fully support their donations. Open and honest discussions are vital.

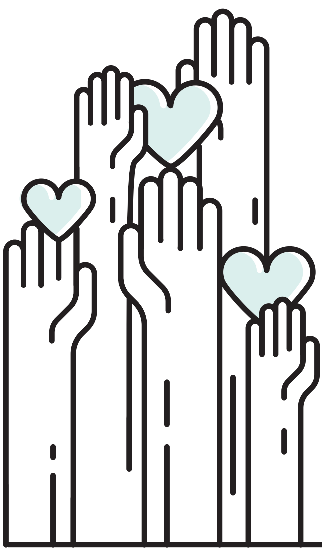
Once we've worked through those concerns, clients sometimes voice a practical hesitation, "Is this going be a hassle?", they'll ask me. After all, their wills have been drafted, signed and the pot of money has been thoughtfully divided. Not to mention, many found those tasks tiresome or stressful to begin with. Now that it is done, why tinker with the plan?

Continued on next page

From my point of view, their questions are easy to answer. Once you have made the decision to give while still living, you get the fun and the deep satisfaction of considering how and where you want to change the world today. Your lawyer, your accountant and I will tidy up the administrative details. It's worth tinkering with the plan because the effort—and the results—will be more gratifying than you could have imagined.

I believe this because I speak from experience. Several years ago, my wife Lisa and I realized that we too were able to have a secure financial plan that allowed us to give with warm hands. That was the beginning of a new philanthropic journey for us.

Throughout our marriage, we had always made donations to charities that were meaningful to us—and some to those that made a particularly appealing pitch at the end of the year when we are all thinking about peace on earth and goodwill towards all. But Lisa and I decided we wanted to learn more so we could practice more effective philanthropy and get to see the benefits of our donations in our community. After doing some soul-searching, we chose to concentrate on two areas that were close to our hearts: children and education. (Lisa had been a teacher for about ten years before leaving to raise our family; my college degree was in education though I went into business after graduation.)



Our research yielded some unexpected but important concepts. Lots of small, scattershot donations aren't as helpful as a larger, targeted gift. In fact, small donations are time-consuming and costly for charities to process; they also make it more difficult for them to do long-term planning. Ultimately, Lisa and I chose to concentrate our philanthropy on two organizations. One is the TCI Foundation and its primary program, 3rd Decade, which helps teach financial literacy to young adults who are just starting their careers and families.

The other organization close to our hearts is Casa de los Niños. This nonprofit provides innovative programs to prevent neglect and abuse of children and support at-risk families in Tucson. We've met with some board members, the staff and some of the families that have been helped by our donations and those of other generous folks. These gifts have enabled Casa de los Niños to make an important shift from rescuing children from difficult home situations to early intervention programs that foster strong families.

Seeing the results of our money at work now, especially in the lives of vulnerable children, has changed me. Seeing the impact firsthand is why I'm a vocal advocate of giving while living. I like to imagine the ripple effect of all the lives in our community that will be changed in years to come by mindful generosity now.

Bob Swift is an Advisor in the Tucson office and Shareholder of TCI Wealth Advisors. Bob is a co-founder of TCI and founder and visionary of the TCI Foundation and 3rd Decade.

Leading Sustainable Investing

Lily Styrmoe, a Financial Planning Associate at TCI, receives national recognition as a young leader advancing sustainable, responsible and impactful investing. This month, Lily will be recognized with the 30 Under 30 Award at the Socially Responsible Investing (SRI) Conference in Colorado Springs. Lily is passionate about helping others understand how their actions impact the environment and identifying opportunities to make a difference not only in our behaviors but also in our investments. Lily has also spearheaded education and positive steps to make TCI a more sustainable firm by reducing our carbon footprint. If you are interested in learning more about how to align your portfolio with funds that screen specific companies based on their environmental impacts, reach out to your Advisor and visit **tciwealth.com/sustainability**.

Market Timing

by Vanessa Lee, CPA, MBA, CFP®

Given recent market highs and volatility, you can't help but ask, "How do I protect my portfolio against a market downturn?" As an investor, you have an option to attempt to time the market (buy and sell based on expected price fluctuations) or you can stay the course, holding globally diversified stocks and bonds in a mix that gives you the best chance to reach your goals. As a client at TCI, we want you to stay the course. We believe in a disciplined diversified investment philosophy that aligns your financial strategy with your long-term goals. Think of your investments like a bar of soap. The more you handle it, the less you have of it. First, let's explore trying to time the market, because it is natural human behavior to want to take action when markets are moving up or down sharply.

So you get nervous and want to time the market while it is high and sell everything? The big challenge is that at some point, you will also have to decide when to get back in. Evidence suggests that no one can consistently guess the right time to exit and re-enter the market. Second, once you exit, the stress of being in the market is replaced with the stress of being out of the market, particularly if that market is rising rapidly. Lastly, the data indicates that you will likely miss the upside of the market, which can happen very quickly. For example, the lowest one-year return for an all equity portfolio was March of 2008-February 2009 only to be followed by the highest one-year return from March 2009-February 2010.

Let's look at the data. If you invest on any given day, you have a 53% chance the market will be up and a 47% chance the market will be down the following day. After a month, you have a 63% chance of experiencing a positive return and a 37% chance of experiencing a negative return. Three years after investing at an all-time high, the market is higher 84% of the time. So what does this mean? Over long time periods markets tend to appreciate. Every day stocks have a positive expected return regardless of whether markets are at an all-time high or not. However, there will be downturns and so to protect ourselves, we diversify internationally, rebalance regularly according to our risk profile, and stay the course.

At the end of the day, it is about your time in the market, not timing the market.

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

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TCI NEWS

Helpful Tip

There's a convenient way to share your account details with people you trust. An "Authorized View Only" function is available at Charles Schwab and TD Ameritrade to grant anyone of your choosing view only online access.

The view only function grants designated individuals access to the accounts you provide them authorization. This feature provides **restricted view only access** to reports, statements, tax information and end of year documents. No money movement or trades are permitted. Once authorized your CPA, attorney or third party representative will be able to view and print 1099s, capital gain reports and statements, freeing you up from saving, printing or requesting information be sent on your behalf.

Please reach out to your Associate to walk you through the process of adding this view only feature or if you have any questions.