

Focus

Not Your Father's Retirement

For this new generation of retirees, retirement will look very different than it did for their parents. Read about how one can navigate this adventure on page 8.

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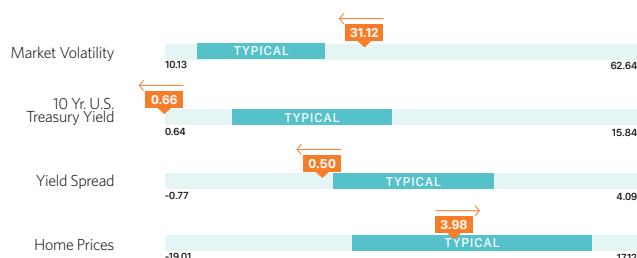
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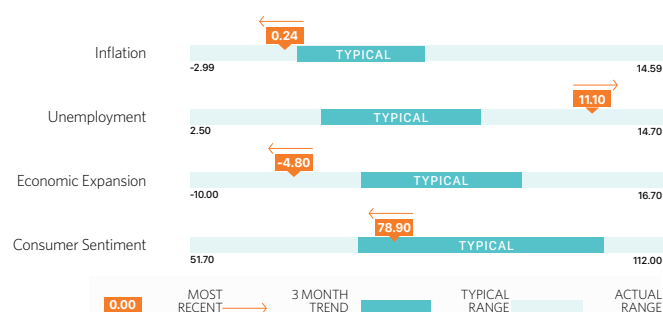
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MARKET SNAPSHOT



ECONOMIC SNAPSHOT





Diversifying Our Sources of Returns



by Sam Swift, CFA, CFP®, AIF®

There are four return “premiums” that have been identified by research over the years:

1. **The market premium**—the excess return we get for holding stocks over risk-free T-bills.
2. **The value premium**—the excess return that value stocks produce over growth stocks.
3. **The small cap premium**—the excess return that small stocks produce over large stocks.
4. **The profitability premium**—the excess return that stocks of highly profitable companies produce over the stocks of less profitable companies.

These premiums are relevant because of how robust they are—that is, they show up over different time periods

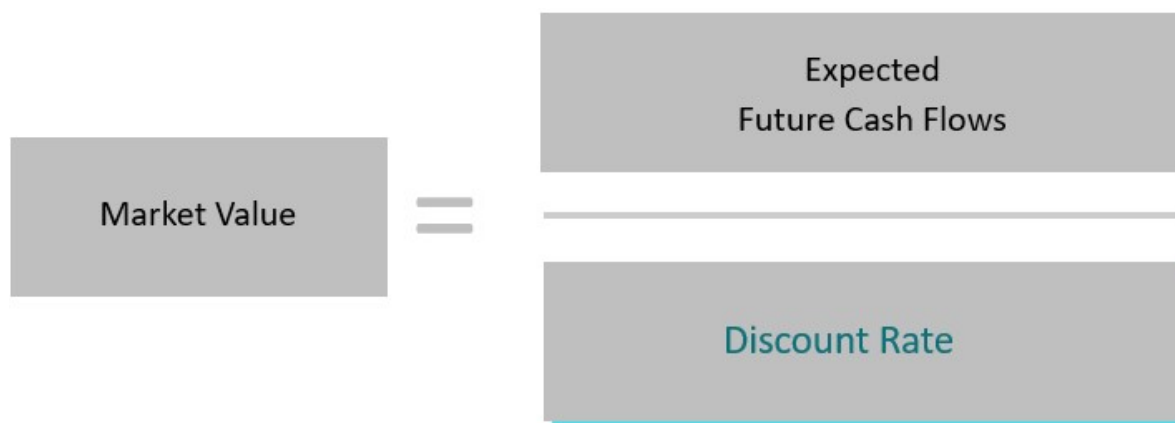
and in different parts of the world. However, each premium can still go through long periods when they are negative. In fact, we are currently in a ten-year period where the value premium has been negative. It’s worth exploring this further to determine if we should change our approach.

Expected Returns

We should first return to the fundamental question of why premiums exist in the first place. The reality is that not all securities have the same expected return. Expected returns are driven by prices investors pay and cash flows they expect to receive. This is summed up by the (very) simplified equation in Figure 1.

If I’m buying any individual stock, the price I am willing to pay (market value in Figure 1) depends on the

Figure 1 Market Price Equation



future dividends and capital appreciation I expect to receive (expected future cash flows) divided by the rate of return I want to achieve (discount rate). If I'm looking at two stocks with the same expected future cash flows, but one is trading at \$12 and the other at \$15, what is happening on a fundamental level? Investors are demanding a higher rate of return on the lower priced stock! Now, there can be all kinds of reasons for this, but the bottom line is that investors, as a collective whole, have determined that the lower priced stock is riskier. What do we know about risk and return? The

riskier an asset is in the short-term, the higher return we can expect over the long-term. If an investor can group together many of these stocks with higher discount rates, then they should expect higher returns in the future.

This framework explains each of the four premiums from a risk/return perspective. For the market, small, and value premiums, you're looking at assets that have more volatility to their expected future cash flows than their counterparts (T-bills, large stocks, and growth stocks) and

Figure 2 Percentage of 1-, 5-, and 10-Year Periods with Negative Premiums US equity market through December 31, 2019

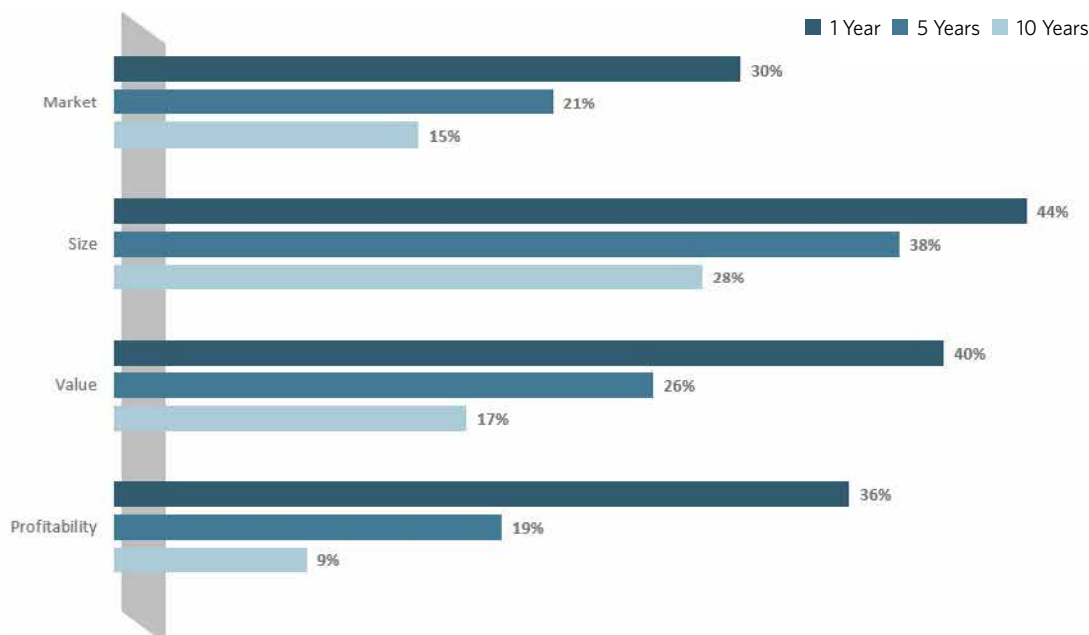
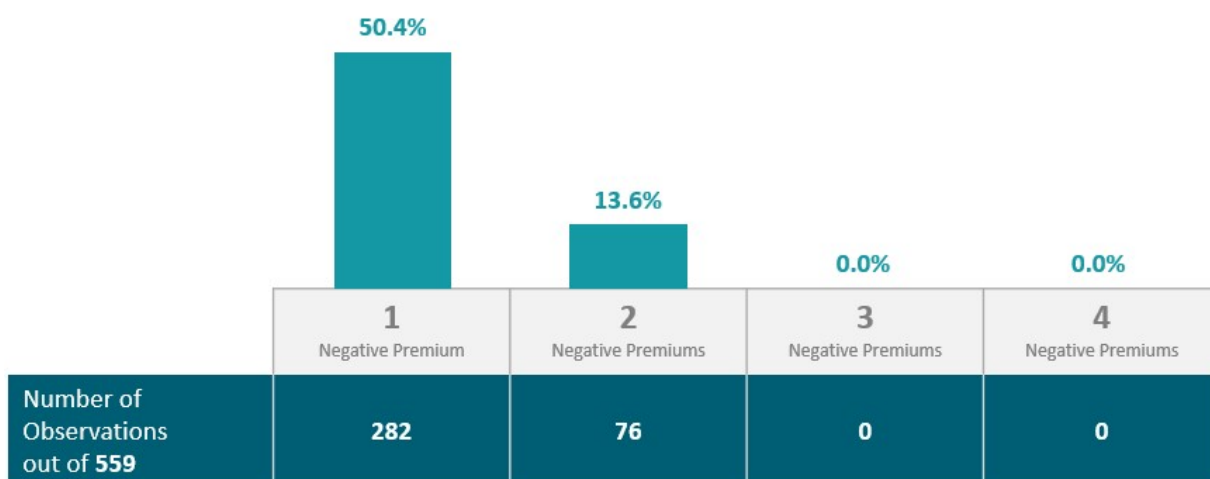


Figure 3 Number and Percentage of Rolling 10-Year Periods with Negative Premiums



demand a higher discount rate (and future return) because of it. The profitability premium is a bit more complicated, but essentially provides a way to separate certain stocks that are likely to have greater expected future cash flows than the market is pricing in (thus, you would see greater returns as those cash flows rise).

Volatility

Though it's clear we should expect positive premiums given enough time, it's also important to realize there is still significant volatility. We all understand that stocks will not always return more than bonds over shorter time horizons (the early part of this year being a good example), but what does it look like for the other premiums? Further, how long can a "short time horizon" really be? Looking at historical

results, we see that the premiums can be negative even over ten-year periods and it's not that rare. See Figure 2.

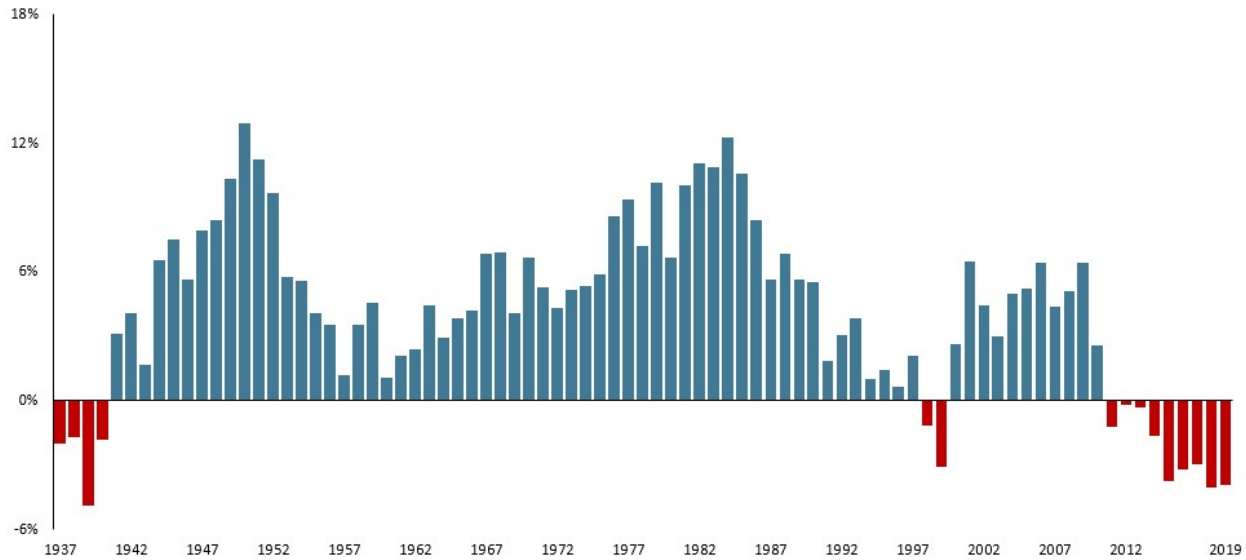
Unfortunately, we all don't have an indefinite period of time to invest. We're humans. Ten years is a long time in our lives! It's not unreasonable to think that you may not want to take on the risk, for example, of tilting towards small caps given the chance you may not live long enough to see the bet pay off.

Diversification

Here is where we get to bring another fundamental building block of investing back into the mix: diversification. Just as we diversify across markets and asset classes, it's equally important that we diversify across the premiums



Figure 4 Historical Observations of 10-Year Premiums



because they do not move in lockstep. When looked at collectively, the numbers start to look very favorable. Figure 3 shows how many times one, two, three or four of the premiums have been negative over a ten-year time period going back to 1963 (that's the furthest back good data goes for profitability).

By including all four premiums (market, value, small cap and profitability) in a diversified portfolio, you are putting the odds in your favor. Half of the time you would expect all four to be positive. Five out of six times you would expect at least three to be positive and you would almost always count on at least two being positive. Remember that choosing not to tilt towards small, value, and profitability essentially concentrates you in the market premium (this is what a pure index portfolio will do) and there's a recent time period in the US where that would have been disastrous. The ten-year periods ending in 2008/2009 saw a negative market premium. Fortunately, small, value, and profitability were all strongly positive with premiums in the range of 6-8% during that time period. Starting with a market portfolio and tilting towards small, value and profitability is your best defense against those occasional long periods where stock returns as a whole are underwhelming.

One last point I want to make is how quickly the premiums show up historically. I think most of us intrinsically understand this with the market premium. In fact, almost all of the historical market premium comes in less than 10% of the time. In other words, if you were invested 90% of the time, but just happened to miss the 10% of the time where markets rocket up, you'd be better off in T-bills. The same is

true for the other premiums. Returns are concentrated and come very quickly when they do.

Circling back to value, let's look at Figure 4 which shows the rolling ten-year returns of the value premium and explore a recent time period to demonstrate this.

As you can see, the value premium is largely positive when looked at through a ten-year lens, though we are currently in the midst of the longest negative streak we've ever observed. I will point you, however, to the last red period in 1998/1999 on the chart. At that point in time we were looking at a negative ten-year value premium on order of magnitude with what we observe today. Fast forward one more year, though, and the value premium roared back so strongly that it completely flipped the ten-year numbers back into positive territory. Much like the market bounces back out of crisis before the news starts to look very good (our latest example of this being the months of April and May!), so too have the other premiums historically.

We don't know what the future holds, but we do know that diversifying across asset classes and premiums puts the odds in our favor. It gives us our best chance of gaining the returns we seek to meet our goals and achieve purpose-filled lives.

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.

What's an Emergency Fund and Why Do I Need One?



by Lily Styrmoie, CFP®, CSRIC™

Now is a great reminder of the importance of an emergency fund. It's not only about economic uncertainty, but also for when life throws you a curve ball.

Put yourself in my best friend's shoes—we'll call him Jake.

Jake has a new girlfriend and they just moved into an apartment together. He is working as a guide for a river rafting outfitter out of Utah. He's saving money into his Roth IRA and can still afford to buy the craft beer that he loves to drink on his days off.

Then...BAM! Broken foot. Jake stepped off the boat wrong, tore some lateral ligament and he can't guide the rest of the season.

Jake still needs to pay rent, he still needs to eat and likely he has some impending medical bills on the horizon. Jake needs to tap into his emergency fund.

Because Jake listened to his friend, Lily, he has saved six months of living expenses that he can use while his foot heals.

You never know what your emergency might be—you injure your foot, your car suddenly explodes or your employer "downsized" and you're out of a job.

Having an emergency fund, typically three to six months of expenses (hopefully in a high-yield money market account), will prevent you from having to accrue credit card debt, tap into your 401(k) early or ask your new girlfriend to cover your rent for the next three months.

So, if you don't have that emergency fund tucked away, maybe hold off on going on that next trip or buying your next laptop and instead prioritize building your emergency fund.

I promise, you'll thank me later. Still waiting for yours, Jake.

Lily Styrmoie, CFP®, CSRIC™, is a Financial Planning Associate in our Tucson office.





FORM CRS



by Cody Cassidy, CFP®

Paperwork and bureaucratic oversight generally do not make people overly excited, but when it comes to compliance and client safety, we are all for it. Unfortunately, the financial services industry has been known to host a few morally corrupt characters in its time and consumer protection can be difficult given the overwhelming complexity of the landscape.

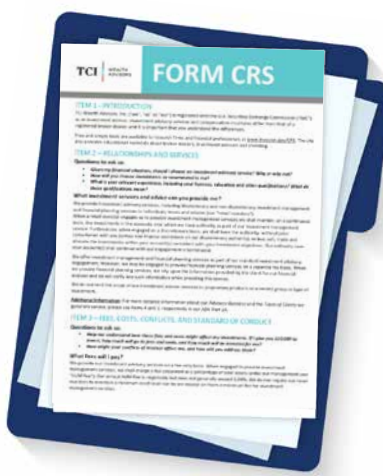
The federal government — by way of the U.S. Securities and Exchange Commission (SEC) — is stepping up its efforts to confront these challenges by making itself more accessible and user-friendly to the general public. As of June 30, 2020, all investment advisors and broker-dealers will be required to file Form CRS with the SEC and provide a copy to new and existing clients. You can expect to see Form CRS posted to your TCI Client Portal later this month.

Form CRS stands for customer or client relationship summary and is meant to be concise and easy-to-read. It will tell you about the types of services offered,

fees and costs to the consumer, conflicts of interest that may exist, the firm's standard of conduct, reportable legal or disciplinary history for the firm and its financial professionals. It will also include key questions to ask your advisor.

The SEC has also rolled out investor.gov, a user-friendly website that provides resources to help the consumer navigate the world of investment advisors and brokerage firms. All of this is meant to provide you, the consumer, with more information and power to make the best financial decisions for you and your family.

Our take on these new measures... Good. The industry and the government are slowly getting better at codifying the spirit of what it is that we do and the right way to do it. Namely, and solely, being fiduciaries for clients.



Cody Cassidy, CFP®, is a Senior Financial Planning Associate in our Tucson office.



Not Your Father's Retirement



by Mickey Abeshaus, MD, CFP®

For most of your life, retirement was probably a fuzzy concept in a faraway future. Sure, you prepared for it by diligently squirreling away money, but aside from that, the precise details of what your life might look like as a retiree got little attention. Now, retirement is here, or maybe it is looming on the near horizon, and the prospect is simultaneously thrilling and terrifying.

Suddenly, you have questions, lots of them, especially given the pandemic that erupted earlier this year. COVID-19 has changed our world in ways small and large, affecting the way we live, work, socialize and educate our children. You may have more concerns about retirement now. Some of those concerns will be pragmatic and others strangely existential. You may undertake a kind of soul-searching you

probably haven't done since your freshman year in college. Given the volatility we've all endured in the last few months, these questions are likely to tug at you with greater urgency as you enter that final lap before retirement.

Probably the most pressing of the pragmatic questions is whether the money will last as long as you live. As a client of TCI, you've likely been working with your financial advisor for some time now mapping out a financial plan for your retirement. If you stay the course, as planned, I can say with confidence that you need not fret about the money. Your plan has been stress-tested, and it is sturdy enough to withstand the markets' inevitable stumbles in the years to come.

So let's set aside any anxieties about money and take up the other issues which actually are very significant. The great paradox of retirement is that there is suddenly so much time and yet so little. So what are your hopes and dreams for this new phase of life? What will you do with your time? How will you find fulfillment once you've left your job or sold your company? Will you be lonely without the social network at the office? Will you get bored of endless rounds of golf? What will life look like five years from now?

Teamwork

As a financial advisor, I see it as my responsibility to ensure that you are both financially and emotionally prepared for retirement. So I pose a lot of questions, but I can't answer them for you. Only you can do that. Each one of us should try to define what our unique retirement will look like before we cross that threshold. Call it the retirement requirement. If you haven't spent some time pondering at least some, if not all, of those questions, you probably shouldn't retire yet.

Ideally, planning your retirement should involve your partner. There is a surprising degree of conflict that surfaces as soon-to-be retired couples try to work out the details of this next phase of life. One-half of all couples disagree on the timing of their retirement, according to a recent study by Fidelity Investments, and one-third fight over where to retire.

Baby boomers are the first generation in history in which a large proportion of couples have had two careers and, thus, two retirements to negotiate. These are necessary, but delicate, discussions. Proceed with caution, but definitely proceed.

A New Generation

One thing is certain: this won't be your father's retirement. Years ago, retirement often meant a loss of identity and purpose. Many older retirees had forged a strong single identity based on their profession. They were, for instance, doctors, airline pilots and judges who enjoyed power and prestige because of their occupations. That's less common these days, though. Younger baby boomers don't tend to define themselves as rigidly. They embrace multiple identities, professional and personal. ("I'm a CPA who runs a small wine importing business on the side." "I'm a part-time doctor and part-time skier; my office is a mountain clinic at a ski resort.")

For this new generation of retirees, retirement is less a hard exit from the workforce and more of a soft shift in how and where they spend their time. Some of my clients are considering a phased retirement, stepping away slowly from some responsibilities at work while moving towards passion projects. Others are negotiating consulting gigs or part-time work in their profession while they embrace new leisure activities.

Continued on next page





Thanks to technology, there's more flexibility about how, when and where work gets done these days. Many retirees are happily embracing all these new opportunities. A recent survey by Transamerica found that one-third of soon-to-retire folks plan to continue working for money. Some intend to stay in their current profession. Others want to launch a so-called encore career or start their own business. Have you given those options any thought?

Beekeeping or Blogging

At TCI, we define retirement as achieving a degree of financial freedom that means you no longer have to work for money. You may choose to continue working if that is fulfilling whether that means you take up beekeeping and sell your honey at a farmer's market, launch a new lifestyle blog for silver-haired vagabonds or start a nonprofit to save the sea turtles.

The bottom line: there is no playbook anymore for retirement. You're going to have to write your own. Work? Play? Work and play? It's your choice. Research consistently shows that the happiest retirees are those who remain engaged, to some degree, in their careers, their causes or their communities, and they continue to seek out challenges to learn and grow, whether they are paid or unpaid.

One of my clients, a 61-year-old businesswoman who plans to retire in 2021, is smartly thinking of retirement as a series of stages. She's had a long and lucrative career in a fast-growing business, but her industry was abruptly

upended by China in 2018. The next few years will be chaotic as her company pivots to a new strategy.

Her plan: three years of reveling in all the travel and leisure she'd scrimped on during the gold-rush years at work. Then, she plans to put her expertise to work again with a part-time consulting gig at her old company. If that doesn't work out, she has strong connections within her industry. She's confident she'll find opportunities galore when she's ready to work again.

Reframing the Question

Imagining an unstructured future can be too challenging for some, though. If that is the case for you, consider reframing the question. Forget the big picture and focus on the small stuff.

What exactly will you miss about your job? Is it the thrill of earning a big bonus? The satisfaction of meeting goals? The high-spirited energy of working with a team? Mentoring young professionals? Or the surge of electricity you get from making an impassioned presentation? Identify more precisely what it is you have treasured about your job. Then, try to structure some of those experiences into your new life outside the office.

Leaving the workplace means leaving a cast of characters with whom you've shared a common goal. Sure, some of them were cranks, busybodies, crackpots or clowns, but there were likely some warm friendships to be found there, too. One of your top priorities in retirement will be to grow a new network of friends. Yes, it may feel



awkward, like finding the right table in the cafeteria on the first day of high school, but it is absolutely necessary.

Creating a rich social life gets harder after retirement. When you retire, you'll lose about half your social network. These connections are essential to your wellbeing: friends provide support, strengthen your immune system and help lower your stress levels to name a few. Social isolation is dangerous; studies show that it ranks with obesity and smoking as a high-risk factor for poor health.

Making New Friends

How will you find and foster new friendships? The possibilities are myriad: volunteer at a nonprofit, get involved with a political campaign, join a club or a sports league or sign up for a class. You might even reach out to friends with whom you've lost touch. Class reunions often reignite long-lost friendships and romances.

As a retiree, one of your biggest challenges may be forging a new relationship with money. That may be difficult for those who have been so sharply focused on saving for retirement. Now, you must flip the switch from saving to spending – within the boundaries of your financial plan, of course.

Still, watching assets shrink over time may spark some anxiety, in part because it is a potent reminder that time is short. As a financial advisor, my job is to monitor your financial fitness and reassure you that you're still securely on track. I'll also remind you that the true measure of a successful retirement isn't simply its length but its

richness. Are you fully embracing the adventure of this phase of life?

For all my questions and your answers, though, retirement will still be uncharted territory, a voyage that only you and your partner will navigate together. We on the shore can help you map a course. We can help you load the necessary provisions. Although, we cannot hoist the anchor or set the sail for you. It's your ship, captain.

Mickey Abeshaus, MD, CFP®, is an Advisor in our Flagstaff office and Shareholder of TCI Wealth Advisors.

Reminders —

OFFICE CLOSURES

TCI offices will be closed for the holiday on
Monday, September 7th.

IMPORTANT ANNOUNCEMENT

The safety of our clients and our team is extremely important to us. We are following CDC guidelines to keep everyone safe. While our offices are open, we still strongly encourage Zoom meetings whenever possible, for both client meetings and our own internal team meetings.

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CYBERSECURITY CONNECT

Client Portal Two Factor Authentication



by Art Tellez

At TCI, we take information security seriously. We have spent time and money over the last few years to upgrade the security of our systems to protect our clients' data. We are now happy to introduce another step in improving our security profile with direct impact to you. Effective immediately, TCI now offers two-factor authentication (2FA) as an additional layer of security when you access your information via the TCI Client Portal. With two-factor



authentication, an extra layer of protection is added to your account to prevent someone from logging in, even if they have your password. To add this enhanced layer of security, please contact your Relationship Associate for assistance.

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