Confidence through Education

Focus

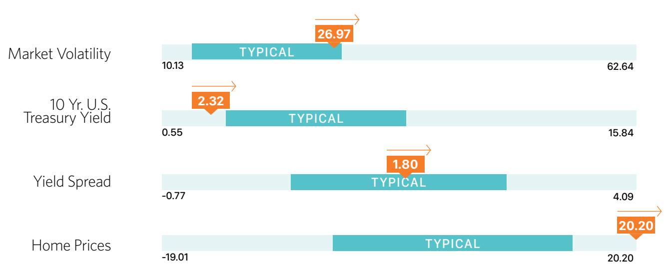
TCI WEALTH ADVISORS

The Importance of Family Meetings

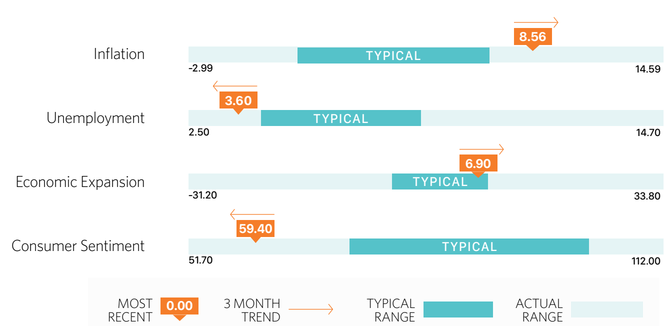
Getting the family together with open, honest communication can be beneficial for generations to come. *Read more on page 6.*

SPRING 2022

MARKET SNAPSHOT

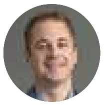


ECONOMIC SNAPSHOT



Sophia Swift (b. 2017)
Honeybee, 2022
Color pencil on paper

Risking the Sting to Get the Honey



by Sam Swift, CFA, CFP®, AIF®

Kids say the darndest things, as the old saying goes. The other night, I was putting my four-year-old daughter, Sophia, to bed and we had one of those moments where she had me cracking up. To be fair, she says funny things regularly, but I can't always print them! As I'm tucking her in she says that she needs to tell me about "her worst nightmare ever." At that point I was prepared for anything, but it turns out it was relatively simple, "getting stung by a bee," she said. After a pause, she elaborated, "I don't like bees but I do like bees…I mean, they sting us but they also make us honey." Welcome to the world of gray areas, child—unlike most of the movies you watch not everything can be neatly packaged into good or bad.

Of course, me being who I am, I immediately saw a powerful metaphor. Isn't that the same conflict we face with our investments? The reality is that we are going to get "stung" with significant downturns from time to time in order to reap the long-term rewards. To paraphrase my daughter, "I love the stock market, but I also don't love the stock market."

Figure 1 Total Months with Losses Since 1926

Number of Months Since 1926	1,153
Months that LOST at least 5%	118
Percentage of months that LOST at least 5%	10.2%
Months that LOST at least 3%	196
Percentage of months that LOST at least 3%	17%

Source: Center for Research in Security Prices (CRSP)

Figure 2 Total Months with Gains Since 1926

Number of Months Since 1926	1,153
Months that GAINED at least 5%	196
Percentage of months that GAINED at least 5%	17%
Months that GAINED at least 3%	382
Percentage of months that GAINED at least 3%	33%

Source: Center for Research in Security Prices (CRSP)

Downturn Expectations

It's been easy to get complacent over the last decade with consistently good returns, the initial COVID-19 shock and a few other brief periods notwithstanding. This year, however, started off with one of those occasional stings, so now is a good time to look back through history to reorient our expectations going forward.

For a simple starting point, January 2022 saw U.S. markets, as measured by the Center for Research in Security Prices (CRSP), lose over 5% of their value—6.1% in fact. So, how rare is that? Looking all the way back to 1926, we can see how many months hit that threshold. Over the last 96 years, U.S. markets have seen 118 months which lost 5% or more in value, as seen in Figure 1. In other words, we should expect a particularly bad month to happen at least once per year! Of course, my 5% threshold is a bit arbitrary. If we tweak our definition of a bad month to be down at least 3%, we find that we should expect about two such months every year on average. These bumps—stings, to use my daughter's parlance—are quite frequent and normal.

The flip side, depicted in Figure 2—the honey, if you will—is that positive months of these magnitudes are far more frequent. We should expect positive months exceeding 5% to happen about twice per year on average. Positive months exceeding 3% happen nearly four times per year on average!

We also know that the real prize for accepting short-term volatility with our investments comes in the long-term. For the sake of comparison, how many five-year periods have seen U.S. markets lose more than 5% of their value since the beginning of World War II? Two! That's it. So, while market pain is relatively frequent it is almost always short-lived.

Avoiding the Pain

Of course, this does beg the question of whether or not it's possible to get the reward while avoiding the pain. At the risk of stretching the analogy too far, is there an equivalent to the beekeeper's suit for us as investors?

To see if it's possible, let's run a timing experiment with two schools of thought:

1. What does it look like if we follow the crowd?
2. What does it look like if we take a contrarian approach and go against the crowd?

For **Equity Timing Strategy #1**, we'll look at stock returns each quarter. If stocks did well (better than the long-term average), we'll ride the wave and invest 100% in stocks for the next quarter. If stocks didn't do as well, we'll sit the next quarter out.

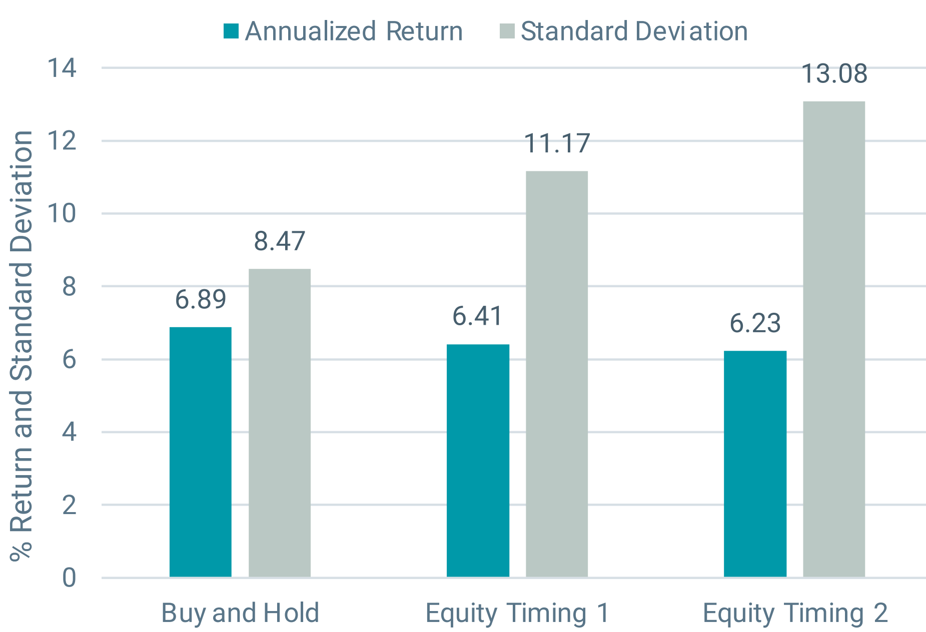
For **Equity Timing Strategy #2**, we'll take the same approach with the opposite actions. If stocks did well in the previous quarter, we'll sit out the next quarter with the thought that we're due for a correction. If stocks didn't do well in the prior quarter, we'll dive back in to "buy the dip."

For fair measurement, we'll also include a **Buy and Hold** strategy that keeps a constant allocation of 50% stocks and 50% bonds invested throughout the duration of the same time period.

The best portfolios keep returns as high as possible while keeping risk (as measured by the standard deviation) as low as possible. Unfortunately, as seen in Figure 3, our efforts to time the market in either case ended up worse on both measures compared to the strategy of picking an appropriate asset allocation, staying the course and occasionally rebalancing.

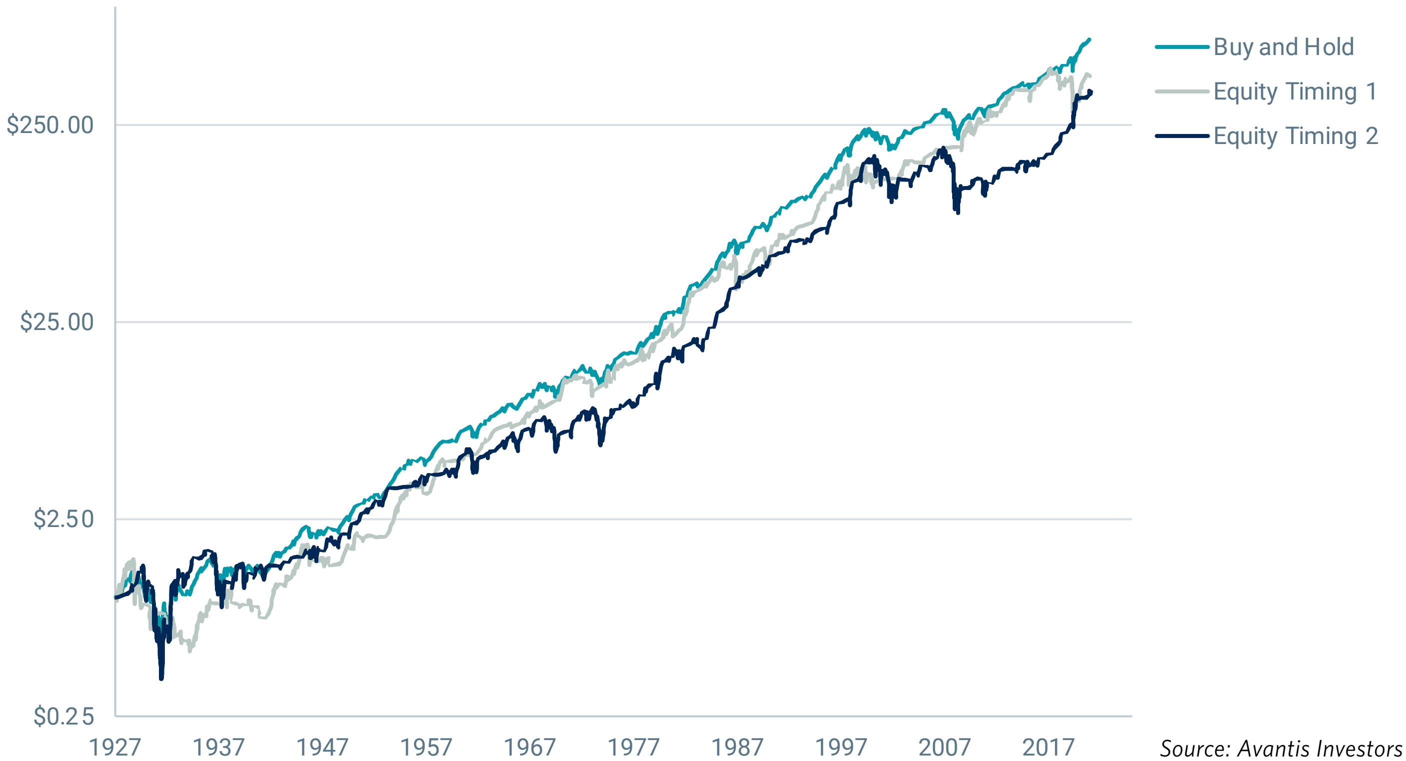
If we chart these three strategies as a graph with all available market data (Figure 4), you can see how the **Buy and Hold** strategy not only outperforms, but does so in a smoother manner. Importantly, it does not attempt to avoid the occasional pain—there are still downturns along the way—however, by acknowledging and accepting the occasional short-term pain it reaps a much greater reward in the end.

Figure 3 Buy-and-Hold vs. Volatility-Based Timing Strategies



Source: Avantis Investors

Figure 4 Growth of $1 - Buy and Hold vs. Equity-Based Timing Strategies



Source: Avantis Investors

We recently passed the two-year anniversary of the pandemic changing the world. When COVID-19 first hit, there was massive uncertainty and the market was a whipsaw for three straight weeks—in fact, those few weeks hold five of the top twenty spots for largest daily market swings of the last 70 years. Many were predicting that the pandemic was going to get worse. They were right. On top of that, we went through a historic summer of social unrest with the background of an extremely polarizing presidential election that was disputed long after voting was finished. If you had known what was to come in February of 2020, it wouldn't have seemed crazy to have cashed out your investments. Yet a year later, you'd have been much worse off for doing so. It's perhaps the greatest example yet of the folly of timing markets.

Sam and Sophia

The attempt to time markets is the attempt to avoid the occasional pain and still reap the long-term reward. Mountains of evidence shows us that is likely to backfire. It's not just markets that have this characteristic, of course. If you want to hike to the top of a mountain, it's going to require some pain in your legs to get there. If you want to lose weight, you're going to have to exercise. The pain is almost always short-term whereas the reward achieves a higher purpose and lasts much longer.

My daughter is much wiser than she realizes—you can't have the honey without the occasional sting.

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 ongoing research and analysis that guides portfolio construction for TCI clients.

Let's Talk: Why, When and How to Hold a Family Meeting

by John Stephens MD, MBA, CFA, CFP®

One of our jobs as financial advisors is to preserve and protect clients' wealth. Even more important at TCI is to help preserve and protect assets that are far more precious than money: family relationships, a treasured heritage and the hopes and dreams of family members, old and young. Secrecy around wealth can be dangerous and saying "no" can be agonizing for a parent. Having these conversations can be daunting, however, they are also important for the financial well-being of you and your loved ones.

That's why TCI is a proponent of family meetings. We encourage almost all our clients to consider it. A few clients may decide they aren't comfortable with the notion, and probably never will be. For others, it is a bold but intriguing idea, one they might warm to over time after sorting through complicated feelings about money and family dynamics. Some clients are all in and promptly circle a date on the calendar.

In my family, we have taken the concept of the family meeting to heart. We started when our daughters were very young; the oldest was around 15. Our five daughters now range in age from 17 to 28. Every year around Thanksgiving, for example, we get together specifically to discuss the importance of helping others.

Then, more pragmatically, we talk to the girls about how much money we could afford to give that year and how to divide it among deserving causes and charities. My wife, Kelly, and I made it clear everyone's opinion matters when

Family Meeting Spotlight

In July 2021, TCI Advisors Douglas L. Nelson, CPA, PFS, Jennifer Means, CFP®, FPQP™ and Josh Rennie, CFP®, AIF® joined the Barneson family meeting to review multi-generational planning and investment education. The family had not been together for quite a while and gathered to celebrate Jack Barneson's 90th birthday.

Photo Credit: Lemaire Photography

The Stephens family on vacation in Alaska during Summer 2019

it comes to our family's charity budget. Even the youngest children have a say in the decisions.

The first year, Robyn, our youngest daughter and a passionate dog-lover, expressed concern about neglected, abused or abandoned dogs. More specifically, she wanted to help golden retrievers like our family dog, Thomas. So, after that first meeting, we researched nonprofit dog rescue groups with Robyn, and the entire family later voted to approve a $2,000 donation to a local volunteer organization dedicated to taking in goldens in need.

Through the years, our family meetings have evolved as our daughters have grown. They are fully absorbed in getting ready to or going to college or building their careers. While we still involve them in discussions about charitable giving, our meetings have broadened to include other significant issues, such as planning time together because family time is a sacred, valued treasure for our family. As our girls grow, it is important to Kelly and me to be mindful about creating a place where we can gather together.

Kelly and I expect to have a lot more family meetings in years to come as our girls mature and, hopefully, start their own families. Some will be fun and lighthearted like planning our time together. Others will be more difficult like how to handle issues around health challenges or aging. We've fostered a family culture of open communication since the girls were very young and we consider ourselves fortunate to have this in our family.

The levels of communication that we experience in our family required work and have evolved over the years into what they are today. Frankly, I look forward to seeing what they're going to develop into throughout our lives. Doing this work has had a profound impact on me and I love sharing this journey with clients. As an advisor, I've seen the devastating impacts of communication breakdowns between parents and parents and their children. Unfortunately, it can get downright nasty. However, at TCI we emphasize the importance of open communication so it never gets to this point.

Your TCI Team can facilitate a series of purposeful conversation over time among your family members. These early conversations can take place in stages beginning, most commonly, when children are in their 20s. Topics might begin with basic inheritance concepts such as wills and trusts then move on to more sensitive subjects such as retirement plans and charitable donations.

Actual numbers probably aren't as imperative at this stage. More important is the philosophy behind the decisions you are making for yourself and the family. Early on, you will want to talk plainly about family values and the family history that shaped those values. It's also important to talk about how you want to spend money and, with some specificity, how you don't want to spend money.

Maybe that means you want to create a college funding plan for your grandchildren or great-grandchildren.

Maybe you want to purchase a family retreat in the mountains so that generations to come will have a place to gather and foster family closeness. Maybe you want to help your children buy their first homes by providing low-interest loans. Or it could mean that you make it clear that you are not going to financially support high-risk business ventures or extravagant hobbies.

As your children mature, typically into their 30s and 40s, the conversations may get more detailed with discussions about specific assets such as stocks, bonds and real estate and how they are being managed. Once you've built a foundation of trust and openness around money within the family, you can address thornier topics such as end-of-life planning and creating legacies. These conversations typically accelerate when clients are in their 50s or early 60s–before retirement, before the arrival of grandchildren or before any health issues arise.

We also understand that life starts to look different on the far side of 60, even more so after 70 and especially after 80. So, thoughtfully and respectfully, we'll continue to raise the question regularly about a family meeting with clients. This is also when financial planning begins to morph into something bigger and more meaningful: crafting a vision for a family mission, complete with the resources to ensure the goals and aspirations can be achieved. Ambitious? Yes, but achievable.

We emphasize the importance of the family meeting because we want to minimize opportunities where heightened emotions can lead to poor decision making and have potentially damaging effects on a family. Your money will get passed on, no doubt, but we want to avoid it carrying unhealthy baggage, mistrust and resentment at all costs. If it gets to this point, you're not leaving a gift for the generations, you're leaving a burden.

That's where your advisor can be helpful. Sometimes, it takes an outsider to discern the fine line between necessary privacy and obsessive secrecy. It's an undertaking that demands a lot of sensitivity and patience. We'll never force a family meeting or dictate an agenda. Your TCI Advisor will work with you to create an agenda and facilitate conversations that are appropriate for your family and your stage of life.

Some clients prefer an informal setting for a family meeting. Their children may be coming to town for a holiday visit so arranging a casual lunch with your advisor at a quiet restaurant might work. Clients with big or complex financial situations may opt for a more formal meeting with children and, depending on their ages, grandchildren in one of our conference rooms. That meeting might include the full wealth advisory team, that is, not only their financial advisor but also their estate planning attorney and their CPA.

Who gets to come to a family meeting? Do you invite sons- or daughters-in law? What about unmarried partners of adult children, stepchildren or step-grandchildren? Your advisor can help you decide. This, too, is likely to evolve over time. Remember, a family meeting isn't likely to be a one-time event.

We at TCI understand that family dynamics, at times, can be full of complexities. What's most important is to start the process knowing that the family dynamics will evolve as you age and your children and grandchildren mature. Your openness about your financial journey also helps the next generation learn how to set financial goals and manage their own money more skillfully. Our goal at TCI is to promote healthy conversation around potentially touchy topics with the greatest respect for your family values.

John Stephens, MD, MBA, CFA, CFP® is the CEO of TCI Wealth Advisors and an Advisor in our Tucson office. Additionally, John is a shareholder of TCI.

Reminders —

TCI offices will be closed the following dates:

Monday, June 20th
Monday, July 4th
Wednesday, July 13th
Close at 1:00 p.m. PDT market closure
Thursday, July 14th — Friday, July 15th

Establishing Healthy Money Habits for Kids

by Lauren Williams, MBA, CFP®

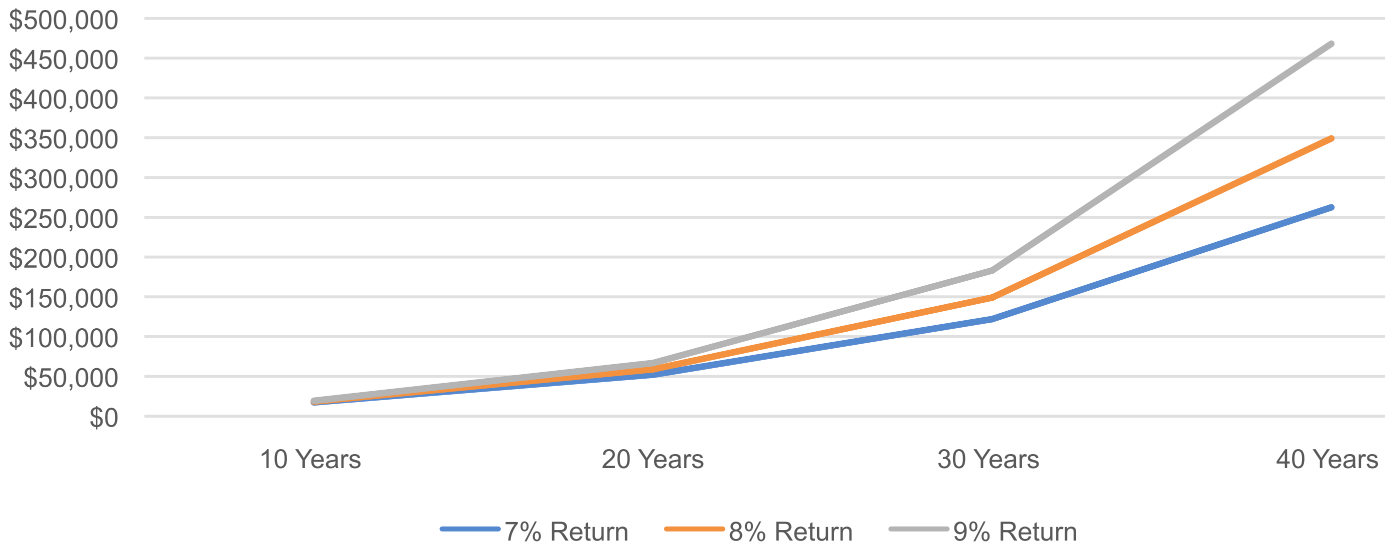
It is an unfortunate truth that most schools don't include any type of personal finance and investment management in their curricula. In fact, the first time that a large portion of young people in the U.S. are exposed to making decisions around investments comes when they are enrolling in their 401(k) plans at their first job out of college. Knowing this, it creates a great opportunity for you, as parents, to provide these foundational lessons around money, saving, and investing just as you would teach your child "right from wrong" or how to do their own laundry. Personally, I can say that having frequent discussions around money values, saving, and investing with my parents when I was younger contributed to my passion and confidence in this field today. You don't need to be a financial analyst to have an effective impact on your child's understanding of the values of saving and investing. Starting those money values lessons can begin earlier than you might think.

According to a PBS article*, many money habits are already established by age seven. This may come as a bit of a

Family Meeting Spotlight

After his bar mitzvah and some encouragement from his parents, Jax Larcom met with Advisor Sam Swift CFA, CFP®, AIF® to discuss how his recent gifts can empower his future and impact the community.

Figure 1 The Power of Compound Interest



$100 saved monthly with three different rates of return and the corresponding value the account would have every 10 years.

shock! Yet, it is never too late to start the conversation with your children about basic money values (even if they are well past seven). Now, it makes logical sense that before you talk to your kids about stocks, bonds and investing you'll need to establish the groundwork understanding of the value of money, saving and fiscal responsibility. These lessons can be imparted using everyday errands (talking through purchasing decisions while at the grocery store) or by implementing an allowance system. An allowance is a great way for kids to get early exposure to money management and budgeting–how much of my allowance will be spent versus how much will be set aside for savings. Be sure to include the concept of the time value of money and the values of starting to save early. Above is a chart that illustrates the power of compounding interest over time. Hopefully this can have a compelling impact on your child's saving habits!

What comes next after your child has basic money values under their belt? It makes sense at this point to introduce the next "bucket" to consider in addition to spending and saving–investing. So where to start?

- Make sure your child understands the differences between saving and investing, the latter is not meant for short-term money. There is greater risk associated with investing compared to a savings account. It also provides the opportunity for greater growth over time.
- Discuss what owning a stock means, purchasing a fractional ownership share of a company. We invest in stocks with the goal of seeing our investment grow in value over time with the company's growth, however, not every stock will do that. Therefore, we spread our risk across multiple companies (diversification).
- A great way to illustrate the risk associated with owning one stock is to have your child select an individual stock for a company they would be familiar with and then watch the performance over time. Follow this company in the financial news to see how different events impact stock price. Like many kids, I grew up watching Disney movies, so you can probably guess which company I followed during my first lessons about stock ownership.

Once your child starts to earn a paycheck, the investing conversation can even be expanded to longer-term retirement saving strategies such as Roth IRA and 401(k). In the end, having these conversations with your kids will give them the tools and the confidence to start planning and saving for their futures. The thing to remember is that having these conversations with your children earlier rather than later will ensure you are having a direct impact on the formation of their understanding of the value of money. Not to mention, you will have a better chance of beating out social media.

Would you like additional help and resources? Your TCI Advisor is here to help! We are always available to be a part of these conversations with your children to help ensure they are prepared for what lies ahead.

Lauren Williams, MBA, CFP® is an Advisor in our Denver office.

**pbs.org/newshour/economy/making-sense/money-habits-are-set-by-age-7-teach-your-kids-the-value-of-a-dollar-now*

Revisiting Charles Schwab's Digital Tools

by Art Tellez

The last two years have been filled with challenges and we've all had to do our fair share of adapting. For TCI, one of our biggest challenges was remaining connected with our clients during the pandemic when in-person contact was often discouraged. We leaned on technology to provide you with the same level of service you have come to expect. Although they were implemented in response to the pandemic, many of the platforms like DocuSign and Zoom will continue to be a part of our digital toolbox. We are always striving to improve our services and your digital experience at TCI is no exception.

Some additional digital services I'd like to highlight are Charles Schwab's Mobile app and website (schwab.com). Many TCI clients utilize these platforms for basic information like account balances and a convenient way to deposit checks. These platforms continue to expand the number of available services. Recent enhancements include: the ability to move money safely and easily, the capability to approve things like wire transfers and transactions and view important documents such as account statements and tax forms.

Additionally, there is one new feature that has already been particularly invaluable to me, the ability to grant "View Only access" to third parties. My parents recently had questions about their finances and needed help. With this feature I was able to gain insight into their accounts and help resolve their questions. This component may be beneficial to anyone who needs to share account information with CPAs, attorneys and other family members. It certainly gave me tremendous peace of mind knowing I could help my parents via an app on my phone when they live several states away.

These functions represent a small snapshot of Schwab's digital tools. We are excited for anyone who wants to add these services as a part of their financial journey. However, using the Schwab Mobile app and website are completely up to you! If you would like to use these tools, feel free! Of course, there is no pressure to use these platforms; we are here to help along your journey in a way that makes you the most comfortable. If you need help setting up your accounts or have questions, please contact a member of your TCI team.

We appreciate your relationship with TCI and look forward to helping enhance your digital experience.

Art Tellez is the Chief Operating Officer of TCI in our Scottsdale office and a Shareholder of TCI Wealth Advisors. Art also leads the Client Experience Committee which focuses on providing a superior client experience for everyone on their financial journey with TCI.

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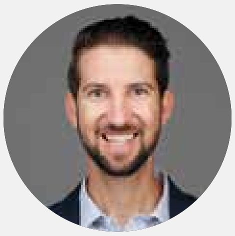
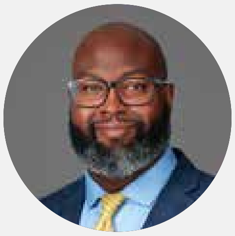
TCI NEWS

For over 30 years, TCI has been helping clients and employees lead purpose-filled lives.

What started as a handful of people is growing into a nearly 90 person team. As we've grown, we've remained committed to helping our clients balance wealth and well-being along their financial journey. One great aspect about an expanding team is that it brings new perspectives, expertise and experiences. We are excited to welcome two Advisors to our team:



Scott Bennett, CFP® brings over six years of wealth management experience and we welcome him back to TCI. He previously served as a Financial Planning Associate at TCI but transitioned from his role at TCI to be the Executive Director of 3rd Decade, a nonprofit devoted to teaching young adults financial education, which came out of the TCI Foundation. Scott received his bachelor's degree in economics from Northern Arizona. Scott and his wife, Koni, and their two daughters live in Tucson.



Shawn Best, CFP® brings more than 13 years of experience in the finance and wealth management industry. Most recently he served as Vice President and Senior Wealth Manager within the Consumer and Wealth Management Division for Goldman Sachs in Tucson. He received his undergraduate degree from the University of Arizona and his Master of Science in Finance and Financial Planning from Kansas State University. Shawn and his wife, Jessica, and their two sons live in Tucson.

In addition to Scott and Shawn, there are many new faces around TCI and we are excited for you to meet them. Thank you for continuing to grow with us and we look forward to the years to come!