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The Sensenig Capital Advisor Letter

Providing clients with peace of mind, through smart financial decisions.

Living with Volatility, Again

TOPIC
Investment Consulting

Volatility is back. Just as many people were starting to think markets only ever move in one direction (up), the pendulum has swung the other way. Anxiety is a completely natural response to these events. Acting on those emotions, though, can end up doing us more harm than good.

There are a number of tidy-sounding theories about why markets have become more volatile. Among the issues frequently splashed across newspaper front pages: global growth fears, policy uncertainty, geopolitical risk, and even the Ebola virus.

In many cases, these issues are not new. The US Federal Reserve gave notice last year it was contemplating its exit from quantitative easing (an unconventional monetary policy used by central banks to stimulate the economy when standard monetary policy has become ineffective). Much of Europe has been struggling with sluggish growth or recession for years, and there are always geopolitical tensions somewhere.

In some ways, the increase in volatility in recent weeks could be just as much a reflection of the fact that volatility has been very low for some time. Investors in aggregate were satisfied earlier this year with a low price on risk, but now they are applying a higher discount rate to risky assets.

So the increase in market volatility is an expression of uncertainty. Markets do not move in one direction. If they did, there would be no return from investing in stocks and bonds. And if volatility remained low forever, there would probably be more reason to worry.

> Anxiety is a completely natural response to increased volatility. ***Acting on this emotion, though, can end up doing you more harm than good.***

As to what happens next, no one really knows for sure. That is the nature of risk. In the meantime, investors can help manage their risk by diversifying broadly across and within various asset classes. We have seen the benefit of that in recent weeks as bond investments have rallied strongly.

For those still anxious, here are seven simple truths to help you live with volatility:

Don't make presumptions

Remember that markets are unpredictable and do not always react the way the experts predict they will. When central banks relaxed monetary policy during the crisis of 2008-09, many analysts warned of an inflation breakout. If anything, the reverse has been the case with central banks fretting about deflation.

Someone is buying

Quitting the equity market when prices are falling is like running away from a sale. While prices have been discounted to reflect higher risk, that's another way of saying expected returns are higher. And while the media headlines proclaim that "investors are dumping stocks," remember someone is buying them. Those people are often the long-term investors.

Market timing is hard

Recoveries can come just as quickly and just as violently as the prior correction. For instance, in March 2009—when market sentiment was at its worst—the S&P 500 turned and put in seven consecutive months of gains totaling almost 80%. This is not to predict that a similarly vertically shaped recovery is in the cards, but it is a reminder of the dangers for long-term investors of turning paper losses into real ones and paying for the risk without waiting around for the recovery.

Never forget the power of diversification

While equity markets have turned rocky again, highly rated government bonds have flourished. This helps limit the damage to balanced fund investors. So diversification spreads risk and can lessen the bumps in the road.

Markets & economies are different things

The world economy is forever changing, and new forces are replacing old ones. This applies both between and within economies. For instance, falling oil prices can be bad for the energy sector but good for consumers. New economic forces are emerging as global measures of poverty, education, and health improve. A recent OECD study shows how far the world has come in the past 200 years.[1]

Nothing lasts forever

Just as smart investors temper their enthusiasm in booms, they keep a reserve of optimism during busts. And just as loading up on risk when prices are high can leave you exposed to a correction, dumping risk altogether when prices are low means you can miss the turn when it comes. As always in life, moderation is a good policy.

Discipline is rewarded

The market volatility is worrisome, no doubt. The feelings being generated are completely understandable and familiar to those who have seen this before. But through discipline, diversification, and understanding how markets work, the ride can be made bearable. At some point, value re-emerges, risk appetites reawaken, and for those who acknowledged their emotions without acting on them, relief replaces anxiety. S

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1. *'How Was Life? Global Well-Being Since 1820',* OECD, Oct 2, 2014. http://www.oecd-ilibrary.org/economics/how-was-life_9789264214262-en.

About the Author: Jim Parker, a vice president in the Communications Group of Dimensional Fund Advisors presents strategies to communicate Dimensional's philosophy and process in ways that engage clients, prospects, regulators, and the media. Jim holds an economic history degree from Deakin University and a journalism degree from Auckland Technical Institute.

'Tis the Season . . . Give Wisely!

✦ TOPIC ✦
Charitable Giving

While it is important to think charitably throughout the year, the holiday season is what many people signify as a time of giving. This not only has to do with family but to the charitable organizations we desire to support. A November 2014 report published by Charities Aid Foundation (CAF), *World Giving Index 2014 – A global view of giving trends,* provides insight into the scope and nature of giving around the world. CAF is a leading international charity registered in the United Kingdom, with nine offices covering six continents and more than 160 countries. They focus their rankings on, **1) donating money to a charity, 2) volunteering your time to an organization, and 3) helping strangers or someone you didn't know who needed help.**

As the report findings state, this year the United States is the only country to be ranked in the Top 10 for all three of the charitable giving behaviors covered by the World Giving Index. It is actually ranked #1 overall, along with Myanmar, reflecting how important each country's distinctive culture is in the predilection of its people to be charitable. Interestingly, only five of the countries in this year's Index Top 20 are members of the G20, a group representing the world's largest economies. Eleven G20 countries are ranked outside the Top 50, and three are even outside the Top 100. *All this to say that giving is about more than just existing wealth.*

All three of the charitable giving behaviors mentioned above are critical in helping to meet the various needs both here and abroad. Our focus in this article will be on one popular method of donating money to a charity; donor-advised funds. Before delving into this avenue of giving we wanted to mention a word about volunteering your time. While it doesn't cost a dime, finding that free time to help someone in need can be worth so much more than just donating money. If you are looking for a way to start volunteering, or to do more of it, then consider two simple things such as identifying an organization that supports a cause you're passionate about and asking where they need the most help. This is a great step in the right direction.

What is a Donor-Advised Fund?

A straightforward way to optimize giving throughout the year is with donor-advised funds. They are tax-advantaged accounts to which donors can contribute cash, securities, real estate, art and other valuables for eventual distribution to charities. Donor-advised funds allow folks to contribute to the account at any time – and claim an immediate tax deduction – but can also be flexible in determining when and how to distribute the gifts. For example, a donor might make several tax-deductible donations to a donor-advised fund account throughout the year as part of a plan to give a large, one-time gift to an organization later in life.

> ***For additional information on donor-advised funds and how to set them up*** please give us a call.

Additionally, a considerable benefit of giving in this manner is that you have the ability to contribute appreciated securities or other assets instead of having to sell the security first, incur capital gains taxes, and then donate the cash. This can be very beneficial in avoiding capital gains taxes on those assets, meaning more money goes to the charity. In fact, Kim Laughton of Schwab Charitable says donors are increasingly sensitive to the fact that while giving is always good, giving wisely is great. “Charitable planning is becoming a natural part of financial planning and wealth management discussions”. Please see the example in the table below to understand how a donor-advised fund allows you to think strategically as a way to maximize charitable gifts over and above purely giving cash.

Lastly, aside from the manner in which you choose to give, support organizations that have touched your life in some way. Consider the following as you decide which charities are deserving of your support:

- **Specific organizations:** Reach out to organizations you are thinking of supporting. Ask questions about how they are run, how much of your donation goes to support the cause, and how they typically prefer to receive gifts. Also consider reviewing the organization’s financial statements and staff turnover as a means of due diligence.
- **Leave a legacy:** Consider speaking with your estate attorney to discuss ways in which you can weave giving into your estate plan. This can be a great way to pass down values to your heirs and ensure they know which charitable organizations to support in your memory.

In closing, for additional information on donor-advised funds and how to set them up, plus other important features not necessarily described here, please give us a call. We are happy to explain the benefits in greater detail relative to your individual financial situation. S

TAX BENEFITS OF DONATING CASH VS. STOCK

	Scenario 1 Sell appreciated stock and donate proceeds (cash) to charity	**Scenario 2** Donate appreciated stock directly to donor-advised fund
Fair market value (FMV)	**$100,000**	**$100,000**
Capital gains tax (CGT) paid	$50,000 appreciation x 15% **= $7,500**	**$0**
Total donated to charity (FMV - CGT)	$100,000 -$7,500 **= $92,500**	**$100,000**
Charitable tax deduction (CTD)	$92,500 X 28% **= $25,900**	$100,000 X 28% **= $28,000**
Net tax savings (CTD - CGT)	$25,900 -$7,500 **= $18,400**	**$28,000**

Hypothetical example for illustrative purposes only. In this example the security was held more than 12 months, donor in the 28% tax bracket, 15% capital gains tax rate, does not consider state or local taxes. For additional information relative to a donor’s particular situation please contact your tax accountant.
Source: *Giving Wisely,* Charles R. Schwab. http://www.schwab.com/public/schwab/nn/articles/Giving-Wisely

Finding the *Right* Financial Advisor

✦ TOPIC ✦
Relationship Management

Emmy nominated CBS News Business Analyst, Jill Schlesinger, recently wrote an article titled *Investors are 'confused and harmed'.* She opens the article with the following thoughts, "I pity the poor consumer of financial services … consumers who want financial planning services are unable to differentiate those who are truly competent to provide financial planning from those who are using financial planning as a marketing tool." In fact, a 2013 study by Cerulli Associates revealed that out of 166,000 financial planning practices surveyed only 38% actually practiced financial planning. As a consumer, what does this mean to you?

Ms. Schlesinger goes on to provide a great analogy by asking people who are searching for a financial advisor to think about things in a different manner. Let's say you go to a doctor for hip replacement surgery and they identify themselves as an orthopedic surgeon. Upon arriving home from your appointment you Google the doctor to conduct your own research only to find they are a primary care physician instead. Wouldn't you be relieved to discover that fact *before* going under the knife? Kevin Keller, CEO of the Certified Financial Planner Board of Standards, also states, "American consumers looking for financial planning services face an uphill battle when it comes to identifying a competent and ethical financial advisor. Just as consumers expect a medical doctor to have an M.D., a lawyer – a J.D., and accountant – a CPA, they should expect their financial planner to demonstrate expertise, experience, accountability, and be held to standards the public can understand and trust."

> ***Anyone can call themselves a financial planner*** regardless of whether they've met or uphold any sort of educational or ethical guidelines.

What's the Problem?

As consumers come across the various titles in the financial services industry, they may see many or all of them as equivalents to what they seek … ***financial planning!*** Among the tens of thousands of advisors who self-identify as financial planners, consumers have no regulator to turn to for assistance in determining if the advisor is qualified to provide comprehensive financial planning advice under a fiduciary standard of care. In addition, there is difficulty knowing if the advisor is only using the financial planner title for the purpose of selling products. Consequently, consumers who want and would benefit from financial planning services are harmed because they cannot identify a qualified and ethical professional.

As a result, anyone can call themselves a financial planner regardless of whether they have met or continuously uphold any sort of educational or ethical guidelines. Just as in the medical, legal, and accounting professions, consumers need an appropriate resource they can trust to help find a *true* financial planner. So how can you recognize a *true* financial advisor amidst all of this confusion?

What to look for in a financial advisor

The simplest and most effective way to begin your search for the right financial advisor is to turn toward specific industry associations leading the effort toward a uniform regulation for financial planners that would protect you as the consumer. Listed below are three organizations doing such work that comprises what is known as the *Financial Planning Coalition.*

Certified Financial Planner Board of Standards (CFP®). The mission of Certified Financial Planner Board of Standards is to benefit the public by granting the CFP® certification and upholding it as the recognized standard of excellence for competent and ethical personal financial planning. The CFP® certification has quickly become the gold standard for anyone serious about offering financial planning to their clients. At Sensenig Capital, we have seen increased inquiries from prospective clients asking if we have a CFP® on staff. This is great news as it indicates that consumers are becoming more informed than in the past.

National Association of Personal Financial Advisors (NAPFA). NAPFA is the country's leading professional association of Fee-Only financial advisors. Fee-only advisors help reduce the conflicts of interest inherent in how they get paid and what they recommend. NAPFA was started in 1983 by a group of advisors who simply wanted to serve their clients without muddling the relationship with commissions. NAPFA members live by three important values: To be the beacon for independent, objective financial advice for individuals and families. To be the champion of financial services delivered in the public interest. To be the standard bearer for the emerging profession of financial planning.

Financial Planning Association (FPA). The FPA is the largest membership organization for CFP® professionals in the U.S. and also includes members who support the financial planning process. FPA members adhere to the highest standards of professional competence, ethical conduct, and clear, complete disclosure to those they serve. FPA membership consists of CERTIFIED FINANCIAL PLANNERS™, educators, financial services professionals, students and more.

At Sensenig Capital, we are proud of our membership in each one of these organizations. We would encourage readers of this article who are searching for the right financial advisor to use the following resources to guide you in the proper direction:

- **Find a CFP Professional**
  http://www.letsmakeaplan.org/choose-a-cfp-professional/find-a-cfp-professional
- **NAPFA Find an Advisor**
  http://findanadvisor.napfa.org/Home.aspx
- **FPA Planner Search:**
  http://www.plannersearch.org/Pages/Home.aspx

Should you have any questions about finding a financial advisor or about the industry associations we mentioned in this article please give us a call. We would be happy to help in any way we can.

the Sensenig Capital Advisory Team

Carl B. Sensenig
President

Carl Sensenig earned his Bachelor of Science degree in Business Management from York College of Pennsylvania and his Certificate of Professional Studies in Finance from Ursinus College.

Carl served as Vice President and Portfolio Manager for nearly twenty years at Arthur E. Spellissy & Associates (Wayne, PA) before founding Sensenig Capital Advisors in April, 2007. From 1972 to 1987, he held sales and marketing management positions with two public companies. A veteran, he also served four years in the United States Air Force.

In addition to being active in church leadership, Carl currently serves on the boards of several non-profit organizations in the local community, including Advanced Living Communities, The Center for Loss and Bereavement, and The Schwenkfelder Library and Heritage Center. S

Jeremy C. Brenn, MBA, CFP®
Vice President

As Vice President, Jeremy Brenn is responsible for many of the firm's client relationships, as well as managing the strategic direction and wealth management process for Sensenig Capital. Jeremy earned his Bachelor of Arts degree from York College of Pennsylvania, as well as his MBA in Finance from Hood College, Frederick, MD.

Jeremy is an active member of the Financial Planning Assoc. and the National Assoc. of Personal Financial Advisors. He also holds the distinguished CFP® professional designation. He has been quoted in the Philadelphia Inquirer and other personal finance related sources. In addition, Jeremy currently serves on the Board of Directors at Meadowood Senior Living, a non-profit continuing care retirement community located in Worcester, PA. He lives in Montgomery County with his wife and three sons. S

TOPIC GUIDE

Genuine wealth managers use a consultative approach to construct solutions that encompass all types of financial needs. At its core, our wealth management approach is comprised of the subject matter areas listed below. We organize our newsletter around these topics and highlight each one for your benefit. Each article is tagged with the specific topic so you can relate the information to your own unique situation.

Investment Consulting
Maximizing the probability of investment success

Wealth Enhancement
Tax mitigation and cash flow planning

Wealth Transfer
Transferring wealth effectively to heirs

Wealth Protection
Transferring & mitigating risk through insurance

Charitable Giving
Maximizing the charitable impact

Relationship Management
Building deep, fulfilling relationships with our clients

HAVE YOU EVER

HAD A RISK ANALYSIS

ON YOUR PORTFOLIO?

LET US CONDUCT ONE . . . AT NO OBLIGATION

Learn more at: *sensenigcapital.com/getting-started*

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